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# **Greater Manchester Combined Authority**

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**Greater Manchester  
Spatial Framework**

## **Strategic Viability Report Stage 1**

**September 2020**

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This report is not a formal land valuation or scheme appraisal. It has been prepared using the Three Dragons Toolkit and is based on local authority level data supplied by GMCA, individual local authorities within Greater Manchester, consultant team inputs and quoted published data sources. The toolkit provides a review of the development economics of illustrative schemes and the results depend on the data inputs provided. This analysis should not be used for individual scheme appraisal.

No responsibility whatsoever is accepted to any third party who may seek to rely on the content of the report unless previously agreed.

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# EXECUTIVE SUMMARY

## ***Introduction***

1. In January 2019, the Greater Manchester Combined Authority (GMCA) published its draft Spatial Framework (GMSF), the Greater Manchester's Plan for Homes, Jobs and the Environment. The GMSF applies to the Greater Manchester area (GM). The Viability Assessment of the Spatial Framework (VASF) tests whether policy requirements in the GMSF threaten the development viability of the plan as a whole.
2. The VASF comprises three linked reports:
  - a) The Strategic Viability Report – plan policy testing of typologies representing site supply in Greater Manchester which are contained in this report with a supporting Technical Report providing further details of the testing undertaken;
  - b) The Allocated Sites Viability Report – testing of allocated sites identified in the GMSF;
3. The evidence underpinning all the reports was collected during 2019 and early 2020. It is too early to determine what the impact of the Covid19 pandemic will be on the construction industry, house prices, build costs and overall viability in the medium to long term period of the GMSF and the conclusions of the report reflect the pre Covid19 situation.

## ***National and local guidance***

4. The VASF was undertaken in accordance with the 2019 revised National Planning Policy Framework and the relevant sections of the Planning Practice Guidance (PPG).
5. The VASF follows the industry-standard approach of comparing the residual value of different types of development with a notional benchmark land value. Residual value is the value of the completed development (including the value of both market and affordable housing) less the costs of undertaking the development, including a return to the developer. The benchmark land value with which residual values are compared is the lowest value at which a landowner may transact land for development. Government guidance clarifies that the cost of complying with policy requirements should be taken into account in identifying the benchmark land value.

## ***Testing assumptions and testing process***

6. The VASF has employed a range of data sources to inform the values and costs used in the testing.
7. This included bespoke analysis of new house prices across Greater Manchester which identified five broad value areas with differing values ranging from £3,712 pre sqm for flats and £3,722 per sqm for terrace houses in the highest value area (VA1) to £1,803 and £1,819 respectively in the lowest value area (VA5).
8. Build costs in Greater Manchester were not found to vary geographically but do vary with development types e.g. flats compared with houses and a set of build costs for each development type was drawn up. These included an increase in build costs with the height of apartment blocks.
9. Other development costs including professional fees, marketing costs, finance rates and return to the developer were estimated using a number of sources, including information published by the local authorities, PPG guidance and evidence from viability studies submitted to the local authorities across Greater Manchester as well as the experience of the consultant team in undertaking similar

studies. Advice from housing associations was used to help inform assumptions about the types of affordable housing being developed and their values and costs.

10. The residual values of a set of notional development typologies were calculated using the Three Dragons toolkit – an excel based model designed for this type of analysis and used across a number of similar viability studies. Some 20 basic typologies, ranging from 1 to over 1,000 dwellings, were tested. The typologies were representative of the types of sites likely to be developed over the life of the GMSF and were at various densities with different mixes of flats and houses.
11. The testing undertaken took into account the policies in the draft GMSF and future policy changes announced by government. They included the costs of biodiversity net gain, adaptable and accessible dwellings, Future Homes standards, provision of electric charging points, anticipated transport costs as well as an allowance for the costs of meeting planning obligations e.g. for the provision of schools and community infrastructure where applicable.
12. The draft GMSF seeks to provide 50,000 affordable housing units but does not include a percentage target for the provision of affordable housing on housing sites. Whilst plan policies of the 10 local authorities in Greater Manchester do have policies for securing affordable housing, these do vary between authorities. Therefore it was considered important to test the potential impact on viability of on-site provision of affordable housing with a varied percentage and mix of types of affordable housing. This was tested at up to 20% of dwellings depending on the value area and site type.
13. As well as sale-led general needs residential schemes, the VASF included analysis of the viability of build to rent developments (PRS), specialist housing schemes for the elderly and student housing. The economics of non residential development was not assessed for the site typologies but non residential uses were included in the sister report, assessing the viability of the allocated sites in the GMSF.
14. Following national guidance, the overall approach to the testing and the specific assumptions to be used were discussed with the development industry. Two workshops were held, attended by 41 participants including locally active developers and housebuilders, housing associations and their agents. Further representations were received from seven workshop participants. For the analysis of the allocated sites (reported separately), a programme of individual consultations with the scheme promoters was undertaken.

## **Results**

15. **With 100% market housing, on sites of up to 1,000 dwellings** in the higher value areas (VA1 & VA2), residual values are strong, and schemes are generally viable. The exception is high-density city centre schemes when tested as standard market sale. However, when tested as PRS these typologies are viable. This reflects the longer-term view of investment that is found with PRS.
16. Similar conclusions apply in the mid-low value bands (VA3) although the picture here is more mixed and some typologies are not viable with higher cost scenarios (e.g. higher build costs associated with taller buildings), but most are still deliverable as 100% market schemes.
17. In VA4 and VA5, with the lower market values, delivering viable policy compliant development depends on the typology in question. In VA4 it is the smaller schemes (say up to c 75 dws) that are viable, with the larger schemes not as viable unless the developer return is reduced. In VA5 none of the tested schemes are viable until developer return is reduced, when smaller sites do become viable (up to c 75 dwellings), however the larger sites remain not viable even with the reduced developer return. However, the local authorities and development industry reported that schemes were proceeding despite the viability testing indicating otherwise. There can be many reasons why this occurs including where the developer and/or landowner requires a lower return than used in the

testing or with a very specific form of development with an optimum mix and sales point, targeting specific markets that enable delivery but that may differ from the standard mix assumptions assumed in the testing.

18. Nevertheless, improving the overall viability in VA4 and VA5 will require either improvements to the market, lower costs or extra public sector support. It is not the policy requirements of the GMSF that are at the root of the lack of viability, it is primarily a function of the low market values in these parts of Greater Manchester.
19. When affordable housing is introduced to the typologies tested (up to 20% as a mix of affordable rent and shared ownership) most typologies were found to be viable within VA1 -VA3. However, typologies tested in VA4 and VA5, cannot afford to deliver any affordable housing using the current assumptions.
20. The **typologies with over 1,000 dwellings** are all located within or adjacent to Manchester City Centre, where values are amongst the highest across Greater Manchester. The large site typologies were all viable at 100% market housing and, depending on the type of development, could support affordable housing; the percentage depending on value area
21. The other types of residential development including specialist provision for older persons and others needing sheltered and extra care facilities and student accommodation are generally viable and the policy requirements can be met.

### ***Study conclusion***

22. The underlying message of the viability testing is that most development types can meet the policy requirements of the draft GMSF in the medium to high value areas (VA1-3). However, in low value areas of Greater Manchester, there is a need for public sector intervention to achieve viable scheme delivery and to meet the requirements of the draft GMSF. Furthermore, only about one fifth of the GMSF target of 50,000 units of affordable housing is capable of being delivered through mixed tenure, s106, development. GMCA and its partners will need to seek alternative forms of development and additional public sector funding to meet the 50,000 affordable housing target.

# 1 Introduction

## 1.1 Objectives

- 1.1.1 In January 2019, the Greater Manchester Combined Authority (GMCA) published its draft Spatial Framework (GMSF), the Greater Manchester's Plan for Homes, Jobs and the Environment. The team of Three Dragons, Ward Williams Associates and Troy Planning and Design were commissioned to undertake a Viability Assessment of the Spatial Framework (VASF) to test whether the requirements of the National Planning Policy Framework (NPPF) are met, that is that the policy requirements in a plan should not threaten the development viability of the plan as a whole.
- 1.1.2 Within this broad aim, the GMCA sets out a number of objectives for the VASF that are summarised as being to:
- Meet the tests of soundness, using the approach to viability set out in guidance
  - Address issues identified in consultation and engage with the development industry
  - Provide a broad strategic understanding of viability, including costs and values, across Greater Manchester area based on current available information
  - Test the viability and deliverability of an appropriate range of sample sites across Greater Manchester, including allocated sites
  - Identify policies that will affect viability and examine the likely cumulative viability impact of the proposed policies and standards in the Plan.
- 1.1.3 The VASF comprises two linked reports, setting out the viability position across Greater Manchester, namely:
- c) The Strategic Viability Report – plan policy testing of typologies representing site supply in Greater Manchester (Stage 1)
  - d) The Allocated Sites Viability Report – site specific testing of allocated sites identified in the Greater Manchester Spatial Framework (Stage 2)

## 1.2 The impact of Covid19

- 1.2.1 The evidence underpinning these reports was collected during 2019 and early 2020. It is too early to determine what the impact of the Covid19 pandemic will be on the construction industry, house prices, build costs and overall viability in the medium to long term period of the GMSF. Therefore, the recommendations in the report reflect the pre Covid19 situation.

## 1.3 Implications of planning reform

- 1.3.1 In August 2020 the Government published its White Paper 'Planning For The Future'. The White Paper was accompanied by a consultation document, 'Changes to the current planning system'. Together, these documents propose radical reforms to the planning system – long and short term. Key changes include zoning of land in local plans into three types of area – Growth, Renewal and Protection and replacing the current system of planning obligations and CIL with a single development levy to fund local infrastructure. As of September 2020, these proposals are subject to a consultation period and therefore could be subject to change. It is also noted that primary legislation may be required to bring forward the proposals. There is also very little detail



as to how the proposals would be brought forward and operate in practice. For these reasons of uncertainty, this report does not include any reference to the proposals within the assumptions or testing.

## **1.4 Purpose of the Strategic Viability Report**

- 1.4.1 The Strategic Viability Report (GMSVR) sets out the impact on development viability of the strategic policies of the GMSF. It does not seek to review the viability of allocated sites (as that is dealt with in a separate report), instead concentrating on the broad policy requirements and the viability of the site supply outside the allocated sites, as identified in the GMSF.
- 1.4.2 This report sets out the national planning guidance which provides the context for the VASF and then considers the policies in the draft Spatial framework that could have an impact on development viability.
- 1.4.3 The next section of this report describes the research undertaken to inform the VASF, including a summary of the consultation with the 10 authorities of the GMCA and with the development industry.
- 1.4.4 In the light of the research and the evidence collected, the GMSVR describes the testing process that was followed and the assumptions used in the testing. The results of the testing are set out in full with a final section setting out the implications of the testing.

## **1.5 Relationship with other studies**

- 1.5.1 The VASF is a high level assessment of viability across Greater Manchester, it does not seek to test viability of local plans either adopted, or those in the process of preparation. The 10 local authorities within Greater Manchester have been consulted throughout the preparation of the VASF and as such have been made aware of the proposed assumptions to be used in this high level testing. However, it is understood that a number of local authorities are currently in the process of plan making and therefore preparing their own viability evidence base to support their local plans, for example Salford City Council published viability evidence in January 2020 to support their Regulation 19 Publication Local Plan: Development Management Policies and Designations.
- 1.5.2 The assumptions within the VASF have been prepared at a Greater Manchester level with broad applications of development typologies, values and costs, appropriate to the relative scale of the high level testing. They are not intended to be used directly for local plan making or for assessing planning applications although local authorities can draw upon the VASF to help inform their testing. However, it is likely that at a local plan or planning application level, more detailed assessments of local market conditions, specific types of development and associated costs will mean that it may be appropriate to use different assumptions from the VASF and arrive at different conclusions about viability.

## **1.6 Consultation**

- 1.6.1 A series of meetings with planning, housing and delivery officers from the 10 Greater Manchester authorities have helped inform the work. The meetings sought information about sites allocated in the GMSF as well as general background information across a range of policy and implementation issues. The information authorities provided included viability studies associated with recent planning applications and s106 agreements. This information has been particularly important in providing a 'sense-check' for the desk-based data.

- 1.6.2 In addition to the meetings with the local authority officers, meetings were also held with housing associations, particularly to help inform assumptions around affordable housing and with delivery teams to discuss the development of large sites.
- 1.6.3 Two development industry workshops were held in September 2019<sup>1</sup> with 41 participants representing a wide range of organisations including locally active developers and housebuilders, housing associations and their agents. The workshops were led by the consultant team and used the same presentation to guide discussions at both events. The purpose of the workshops was to provide a description of the proposed testing approach and initial assumptions. Following the second workshop, a combined note of the workshops was circulated to participants, inviting further comment and evidence to support any alternative assumptions put forward.
- 1.6.4 The workshop note as circulated is set out in Appendix C of the Technical Report. The note includes copies of the presentation used at the workshops.
- 1.6.5 Seven workshop participants provided comments on the notes and further views on the testing approach and/or assumptions being proposed. Some respondents provided lengthy comments of considerable detail although most added only limited additional evidence to support alternative assumptions being put forward.<sup>2</sup>
- 1.6.6 In addition to the workshops, a programme of consultation with the promoters of the allocated sites is being undertaken to ensure that the viability testing for these sites uses realistic assumptions about the scale and type of development proposed and site-specific costs to be taken into account.

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<sup>1</sup> Two workshops were undertaken to offer invitees with diary options and to ensure that numbers attending the workshop were at a number that allowed for discussion between participants.

<sup>2</sup> A fuller consultation report will be available responding to comments.

## 2 National guidance and testing principles

### 2.1 National guidance

#### *National framework*

2.1.1 For the purposes of testing the GMSF, the local plan and CIL viability testing guidance within the 2019 revised National Planning Policy Framework and associated revisions within the Planning Practice Guidance (PPG) will apply.

2.1.2 The National Planning Policy Framework (NPPF) recognises the importance of positive and aspirational planning but states that this should be done *‘in a way that is aspirational but deliverable’*<sup>3</sup>.

2.1.3 The NPPF advises that cumulative effects of policy should not combine to render plans unviable:

*‘Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.’*<sup>4</sup>

2.1.4 The government has long signaled its desire to simplify the planning process, including development contributions. The NPPF advises that:

*‘All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.’*<sup>5</sup>

2.1.5 In terms of affordable housing the government has reiterated previous policy on affordable housing thresholds and a desire to increase affordable housing products that can potentially lead to home ownership:

*‘Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer). To support the re-use of brownfield land, where vacant buildings are being reused or redeveloped, any affordable housing contribution due should be reduced by a proportionate amount’*<sup>6</sup>

*‘Where major development involving the provision of housing is proposed, planning policies and decisions should expect at least 10% of the homes to be available for affordable home ownership, unless this would exceed the level of affordable housing required in the area, or significantly prejudice the ability to meet the identified affordable housing needs of specific groups.’*<sup>7</sup>

2.1.6 With regard to non-residential development, the NPPF states that local planning authorities should:

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<sup>3</sup> MHCLG, 2019 NPPF Para 16

<sup>4</sup> MHCLG, 2019 NPPF Para 34

<sup>5</sup> MHCLG, 2019 NPPF Para 57

<sup>6</sup> MHCLG, 2019 NPPF Para 63

<sup>7</sup> MHCLG, 2019 NPPF Para 64

*‘set out a clear economic vision and strategy which positively and proactively encourages sustainable economic growth...local policies for economic development and regeneration...seek to address potential barriers to investment, such as inadequate infrastructure, services or housing, or a poor environment...be flexible enough to accommodate needs not anticipated in the plan, allow for new and flexible working practices (such as live-work accommodation), and to enable a rapid response to changes in economic circumstances.’<sup>8</sup>*

- 2.1.7 The NPPF does not state that all sites must be viable now in order to appear in the plan. Instead, the NPPF is concerned to ensure that the bulk of the development is not rendered unviable by unrealistic policy costs. It is important to recognise that economic viability will be subject to economic and market variations over the timescale of the GMSF.

### **Planning Practice Guidance**

- 2.1.8 Planning Practice Guidance<sup>9</sup> (PPG) provides further detail about how the NPPF should be applied. PPG contains general principles for understanding viability. The approach taken in the VASF reflects the version of PPG at time of writing.
- 2.1.9 The expectation is that plans should set out the contributions expected from development and that these should be informed by evidence as to their need and should be assessed in terms of the viability<sup>10</sup>. The role for viability assessment is primarily at the plan making stage and an assessment should be used to ensure that policies are realistic and will not singularly or cumulatively undermine the deliverability of the plan<sup>11</sup>. It is the responsibility of plan makers, the local community, developers and other stakeholders to create realistic and deliverable policies. Policy requirements should be set at a level that allows for sites to come forward without the need for further viability testing at the decision-making stage<sup>12</sup>. It is the responsibility of site promoters to engage in plan making, take into account any costs including their own profit and ensure proposals are policy compliant and that landowners and purchasers should consider this when agreeing land transactions<sup>13</sup>.
- 2.1.10 Viability assessments should be supported by appropriate available evidence and follow the government’s recommended approach in respect of being proportionate, simple, transparent and publicly available<sup>14</sup>. Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable. Plan makers can use site typologies to determine viability, however in some circumstances more detailed assessment maybe necessary for particular areas or key sites on which the delivery of the plan relies<sup>15</sup>.
- 2.1.11 Generally, values should be based on comparable, market information, using average figures and informed by specific local evidence. For an area wide viability assessment, a broad assessment of costs is required based on robust evidence which is reflective of local market conditions. All development costs should be taken into account, in particular para 012 within the PPG Viability section states that:

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<sup>8</sup> MHCLG, 2018 NPPF, para 81

<sup>9</sup> MHCLG, Planning Practice Guidance

<sup>10</sup> PPG Paragraph: 001 Reference ID: 10-001-20190509

<sup>11</sup> PPG Paragraph: 002 Reference ID: 10-002-20190509

<sup>12</sup> PPG Paragraph: 002 Reference ID: 10-002-20190509

<sup>13</sup> PPG Paragraph: 002 Reference ID: 10-002-20190509

<sup>14</sup> PPG Paragraph: 010 Reference ID: 10-010-20180724

<sup>15</sup> PPG Paragraph: 003 Reference ID: 10-003-20190724

*'Costs include:*

- *build costs based on appropriate data, for example that of the Building Cost Information Service*
- *abnormal costs, including those associated with treatment for contaminated sites or listed buildings, or costs associated with brownfield, phased or complex sites. These costs should be taken into account when defining benchmark land value*
- *site-specific infrastructure costs, which might include access roads, sustainable drainage systems, green infrastructure, connection to utilities and decentralised energy. These costs should be taken into account when defining benchmark land value*
- *the total cost of all relevant policy requirements including contributions towards affordable housing and infrastructure, Community Infrastructure Levy charges, and any other relevant policies or standards. These costs should be taken into account when defining benchmark land value*
- *general finance costs including those incurred through loans*
- *professional, project management, sales, marketing and legal costs incorporating organisational overheads associated with the site. Any professional site fees should also be taken into account when defining benchmark land value*
- *explicit reference to project contingency costs should be included in circumstances where scheme specific assessment is deemed necessary, with a justification for contingency relative to project risk and developers return'*

2.1.12 PPG states that developer return should be 15 – 20% of gross development value and that where affordable housing is provided a lower figure could be more appropriate<sup>16</sup>.

2.1.13 PPG identifies circumstances where contributions for affordable housing and s106 obligations can be sought<sup>17</sup>. These circumstances include major development (defined as 10 plus dwellings or 0.5 hectare site area for residential development and 1,000 sqm (GIA) or 1 hectare site area for non-residential development. If development proposed is under these thresholds s106 obligations should not be sought. The exception to this is within designated rural areas such as National Parks and AONBs where the local planning authority can set its own threshold, regardless of size of development for affordable housing contributions.

2.1.14 Additionally, local authorities are, “ *required to keep a copy of any planning obligation together with details of any modification or discharge of the planning obligation and make these publicly available on their planning register.*” And that, “*Government recommends that data on each section 106 agreement is published online ..... that this data includes details of the development and site, and what is to be provided by each planning obligation, including information on any affordable housing that is to be provided, and any trigger points or deadlines for contributions.*”<sup>18</sup>

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<sup>16</sup> PPG Paragraph: 018 Reference ID: 10-018-20190509

<sup>17</sup> PPG Paragraph: 023 Reference ID: 23b-023-20190901

<sup>18</sup> PPG Paragraph 023 Reference ID: 10-023-20190509

### **Other guidance on viability testing for development**

2.1.15 Other guidance has been published to assist practitioners in undertaking viability studies for policy making purposes – “Viability Testing Local Plans - Advice for planning practitioners”<sup>19</sup>. The foreword to the Advice for planning practitioners includes support from DHCLG, the LGA, the HBF, PINS and POS. PINS and the POS<sup>20</sup> state that:

*“The Planning Inspectorate and Planning Officers Society welcome this advice on viability testing of Local Plans. The use of this approach will help enable local authorities to meet their obligations under NPPF when their plan is examined.”*

2.1.16 The approach to viability testing adopted for this study follows the principles set out in the Advice. The Advice re-iterates that:

*“The approach to assessing plan viability should recognise that it can only provide high level assurance.”*

2.1.17 The Advice also comments on how viability testing should deal with potential future changes in market conditions and other costs and values and, in line with PPG, states that:

*“The most straightforward way to assess plan policies for the first five years is to work on the basis of current costs and values”. (page 26)*

2.1.18 But that:

*“The one exception to the use of current costs and current values should be recognition of significant national regulatory changes to be implemented.....” (page 26)*

### **Guidance on Land Value Benchmarks**

2.1.19 Planning Practice Guidance sets out the principles that area wide viability studies should follow when taking land values into account:

*‘To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called ‘existing use value plus’ (EUV+).’<sup>21</sup>*

*Benchmark land value should:*

- *be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees<sup>22</sup>*

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<sup>19</sup> The guide was published in June 2012 and is the work of the Local Housing Delivery Group, chaired by Sir John Harman, which is a cross-industry group, supported by the Local Government Association and the Home Builders Federation.

<sup>20</sup> Acronyms for the following organisations - Department of Communities and Local Government, LGA Environment and Housing Board, Home Builders Federation, Planning Inspectorate, Planning Officers Society

<sup>21</sup> PPG Paragraph 013 Reference ID: 10-013-20190509

<sup>22</sup> PPG Paragraph 014 Reference ID: 10-014-20190509

2.1.20 PPG goes on to define a 'premium' for a landowner as being:

*'...reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to comply with policy requirements'<sup>23</sup>*

2.1.21 Advice for Planning Practitioners is similar to that contained within the PPG and states:

*'We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values.....'*

2.1.22 Advice for Planning Practitioners also notes that reference to market values can still provide a useful 'sense check' on the benchmark values that are being used for testing, but it is not necessarily recommended that these are used as the basis for the input to a model. Therefore, land value benchmarks used to test plan policies can be less than the value at which land is being traded in the market. This point was highlighted in the London Mayoral CIL examiner's report (also from 2012) which, sets out important principles in the treatment of benchmark land values

*'Finally the price paid for development land may be reduced. As with profit levels there may be cries that this is unrealistic, but a reduction in development land value is an inherent part of the CIL concept. It may be argued that such a reduction may be all very well in the medium to long term but it is impossible in the short term because of the price already paid/agreed for development land. The difficulty with that argument is that if accepted the prospect of raising funds for infrastructure would be forever receding into the future. In any event in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges'.*

2.1.23 Recent RICS<sup>24</sup> research also highlights the drawback in using market evidence to set land value benchmarks:

*'If market value is based on comparable evidence without proper adjustment to reflect policy compliant planning obligations, this introduces a circularity, which encourages developers to overpay for sites and try to recover some or all of this overpayment via reductions in planning obligations'.<sup>25</sup>*

2.1.24 Recent guidance in London<sup>26</sup> is also consistent with these views, stating that:

*'The Mayor considers that the 'Existing Use Value plus' (EUV+) approach is usually the most appropriate approach for planning purposes. It can be used to address the need to ensure that development is sustainable in terms of the NPPF and Development Plan requirements, and in most circumstances the Mayor will expect this approach to be used.'* Para 3.47

## **2.2 Principles of viability testing**

2.2.1 As set out in national planning guidance and is established practice in viability testing of the type undertaken in the VASF, the viability testing and study results will be based on establishing a residual land value for different land uses relevant to different parts of Greater Manchester.

2.2.2 The Advice for Planning Practitioners summarises viability as follows:

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<sup>23</sup> PPG Paragraph 016 Reference ID: 10-016-20190509

<sup>24</sup> RICS have recently consulted on an update to guidance on viability and planning

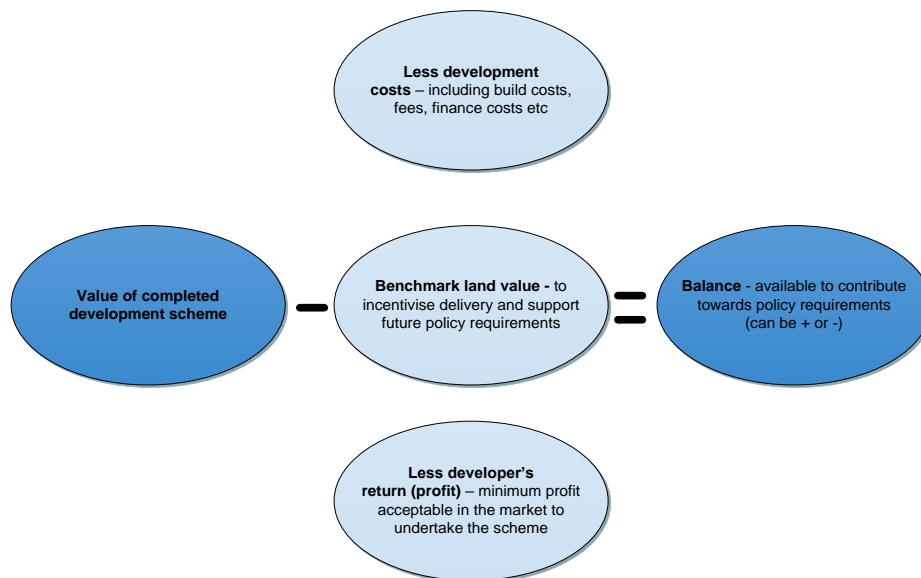
<sup>25</sup> RICS, 2015, Financial Viability Appraisal in Planning Decisions: Theory and Practice

<sup>26</sup> GLA, 2017, Affordable Housing and Viability SPD 2017

*'An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered.'* (page 14)

- 2.2.3 Reflecting this definition of viability, and as specifically recommended by the Advice for Planning Practitioners, we have adopted a residual value approach to our analysis. Residual value is the value of the completed development (known as the Gross Development Value or GDV) less the costs of undertaking the development. The residual value is then available to pay for the land. The value of residential schemes includes both the value of the market housing and affordable housing. Scheme costs include the costs of building the development, plus professional fees, scheme finance and minimum land value (benchmark land value). Scheme costs also include planning obligations (including affordable housing, direct s106 costs) and the greater the planning obligations, the less will be the residual value. Similar principles apply to non-residential uses, noting that planning obligations associated with such developments will be different.
- 2.2.4 The residual value of a scheme is then adjusted to take into account a reasonable developer return as per the PPG guidance. If the residual value is negative, then the scheme is less likely to be brought forward for development and is considered unviable for testing purposes. If the residual value is positive, then it can be considered viable in terms of policy testing.

**Figure 2.1 Approach to residual land value assessment for plan viability**



- 2.2.5 The residual land value assessments carried out in the VASF have been undertaken using the Three Dragons Toolkit. The Toolkit is a long established and well-regarded model that has been extensively used to assess viability, the findings of which have been found sound at examination. It is not necessary for any practitioner to have a copy of the toolkit to check the assumptions. The assumptions can be input into any standard model and similar results will emerge.



- 2.2.6 The range of development scenarios across Greater Manchester (GM) is extensive and therefore it is not possible to model each of these. In line with national guidance set out in the PPG, typical typologies have been developed and tested using a range of value and cost assumptions, to give a broad understanding of viability across GM and the impact of GMSF policies. The process is described in subsequent sections of the VASF.
- 2.2.7 One further point of note is the current guidance from government that plan makers can discount actual price paid for land in considering scheme viability. This is set out in the PPG as follows:

*“The cost of fully complying with policy requirements should be accounted for in benchmark land value. Under no circumstances will the price paid for land be relevant justification for failing to accord with relevant policies in the plan. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).”<sup>27</sup>*

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<sup>27</sup> PPG Paragraph: 014 Reference ID: 10-014-20190509

### 3 Review of policies in the Spatial Framework and local policy

#### 3.1 Greater Manchester Spatial Framework

- 3.1.1 A review of the policies in the Spatial Framework has been undertaken. The review was purely to identify the possible viability impact of the policies and no comment is made on any other aspect of the policies. The analysis of the viability implications of the policies in the Strategic Framework is set out in Appendix A of the Technical Report along with a commentary about how they will be taken into account in the testing.
- 3.1.2 As can be seen from Appendix A, a limited set of policies will have a direct impact on viability, in summary these include:
- GMStrat14 A Sustainable and Integrated Transport Network – an allowance needs to be included within the viability testing to provide a contribution towards the transport network;
  - GMS2 Carbon and Energy – both policy and recent government consultation require higher building standards which are not currently required and therefore not included within base build costs, therefore a separate allowance needs to be included within the viability testing to allow for improved standards;
  - GMH2 Affordability of New Housing – the GMSF does not set affordable housing requirements from new development (these are for individual city and borough local plans), instead it includes an overall all numeric target for Greater Manchester. Therefore, whilst it is appropriate to include an allowance for affordable housing when viability permits, there is no requirement within the GMSF to achieve a particular level of affordable housing.
  - GMG10 A Net Enhancement of Biodiversity – an allowance needs to be included within the viability testing to contribute to improvements in biodiversity
  - GME6 Sport and Recreation – include within the open space allowance

#### 3.2 Local policy review

- 3.2.1 We undertook an analysis of the most up to date development plan of each authority. The table in Appendix B in the Technical Report shows the date of the extant development plan and progress in updating the plan. As can be seen from the table, some of the extant plans were adopted prior to the publication in 2012 of the National Planning Policy Framework.
- 3.2.2 The table below sets out how we assimilated the available information for each policy type and the way we used this in the testing. We describe separately our approach to modelling affordable housing.

**Table 3.1 Summary analysis of development plans and use in testing approach**

Policy topic	Testing approach
Affordable housing	See specific section on affordable housing
Open space	Variable approaches – some use of standards but not consistent No direct costs identified Section 106 reviewed
Sport recreation provision	Variable approaches – some use of standards but not consistent No direct costs identified

<b>Policy topic</b>	<b>Testing approach</b>
	Section 106 reviewed
Biodiversity/habitat mitigation measures	GMSF policies and recent government consultation used to define testing assumptions
Climate change/energy reduction mitigation measures	GMSF policies and recent government consultation used to define testing assumptions
Transport requirements	Variable approaches On advice from TfGM – identified a notional allowance per dwelling for local mitigation measures and s106 reviewed Requirements for allocated sites reviewed by TfGM
Play provision	Mixed approach – s106 reviewed
Education	Variable approaches S106 reviewed
Health	Variable approaches S106 reviewed
Density of development, dwelling mix	Variable approaches SHLAA data used
Other development standards	Some references to space standards GMSF policies used in the testing
Parking	Variable approaches Density and dwelling mix assumptions implicitly reflect these – assume general provision is surface parking and an allowance for garages within development costs
Planning obligations generally	No specific guidance but through the review of local plan policies and direct discussion with the local authorities, identified a requirement for a generic allowance for local s106 payment e.g. for play provision

3.2.3 The full review of all the plans and policies that may potentially affect viability is set out in Appendix B of the Technical Report.

# 4 Residential testing approach and assumptions

## 4.1 Information reviewed

4.1.1 Values and costs collected for the viability modelling drew on analysis of national and local datasets and policy documents and local consultations (including two development industry workshops in September 2019). This chapter reviews the exercises undertaken and explains how the information has been used to inform the viability testing undertaken.

## 4.2 Residential values

### Summary

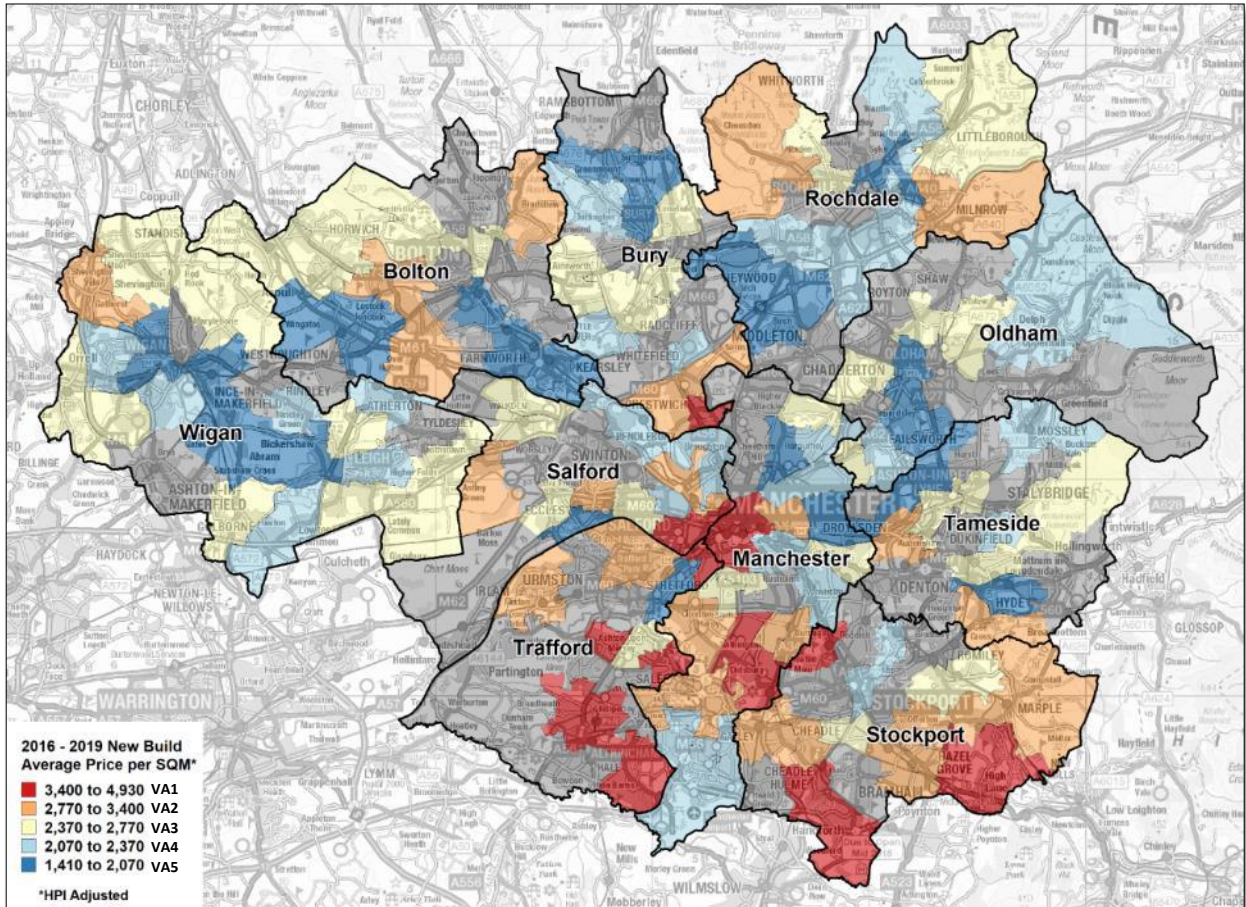
- 4.2.1 Greater Manchester has a large range of newbuild residential sales values reflecting the different levels of demand (and household spending power) in different neighbourhoods, a wide geography, and a wide range of dwelling sizes and build types.
- 4.2.2 For this study we have analysed recent prices paid by floor area to produce five value bands (VA1 to VA5) for viability testing. Market values were derived from Land Registry Price Paid data and floor areas from Energy Performance Certificates. The range of values are shown in the table below.

**Table 4.1 Value area band and range of values by £psqm**

Value Area band	Value range (£ per sqm)	Class
VA1	£3,400 - £4,930	Higher
VA2	£2,770 - £3,400	Medium high
VA3	£2,370 - £2,770	Medium
VA4	£2,070 - £2,370	Medium low
VA5	£1,410 - £2,070	Lower

4.2.3 The nature of the distribution of sales values per square metre varies significantly by sub-area as can be seen from the following map which shows the five Value Area bands by (statistical) ward average value overlain with a map of the administrative boundaries and the allocated site locations.

**Figure 4.1 Value areas by ward and new build transactions**

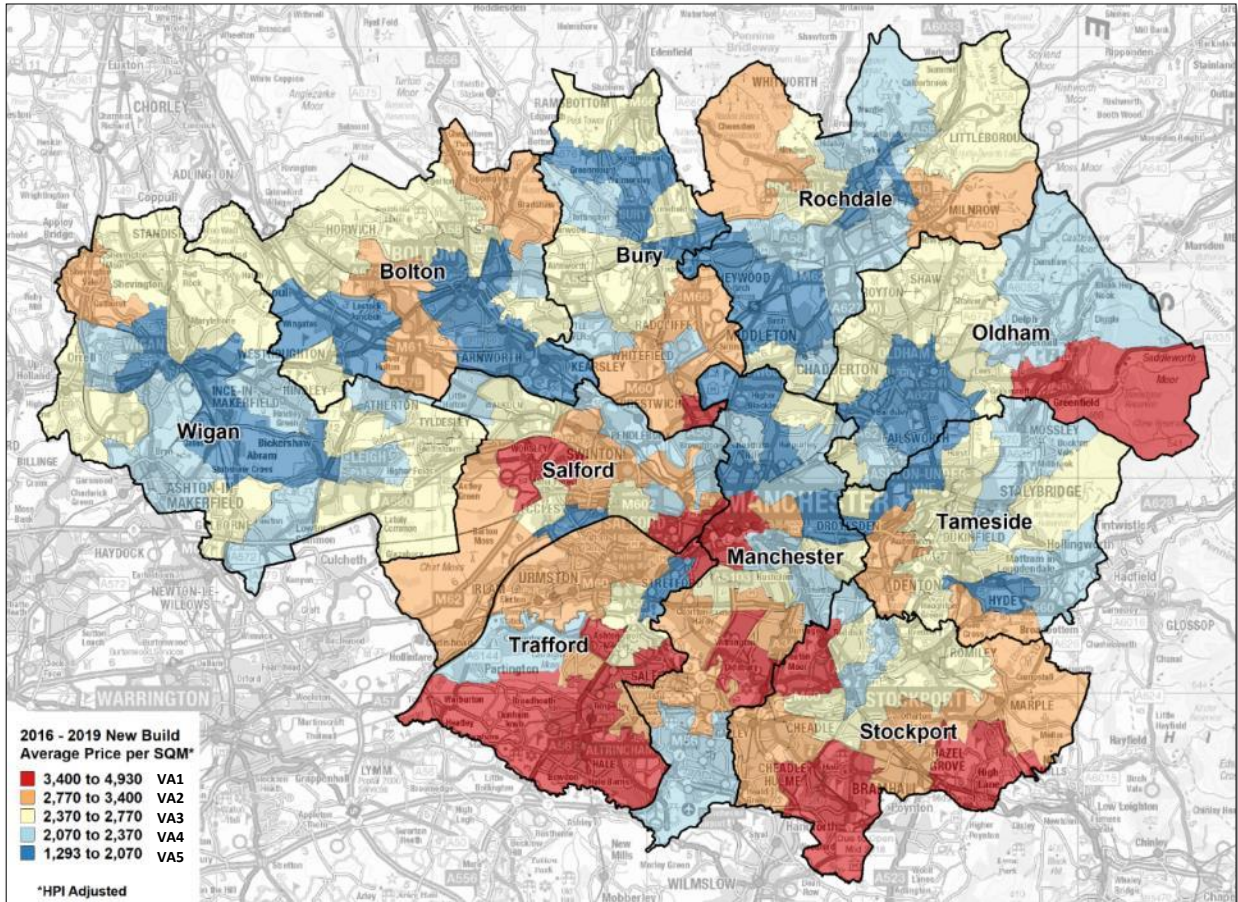


4.2.4 Some of the wards in Figure 4.2 are coloured grey, these are ‘gap’ areas to accurately measure mean sales values per square metre, with very few or no newbuild completions in the period 2016-2019. This may be for a number of reasons including:

- Areas covered by designated open space designations, e.g. local green and open space, or Green Belt;
- Areas covered by industrial land designations
- Areas which are predominantly existing housing and may not have experienced new build completions due to their built form or heritage designations including conservation areas.

4.2.5 However, development may come forward in these areas in the future, either through the allocations in GMSF or through other forms of supply identified by GMSF, they cannot be ignored for the purposes of identifying appropriate values for viability testing. Therefore, in these areas, a substitute value is used. These values have been derived by comparing the difference between new build values and current stock values within each local authority area and then applying the same ratio to the existing stock value within the ‘gap’ area to provide a proxy new build value. The following map shows all the value areas by ward, with the former ‘gap’ areas now attributed a value area designation.

**Figure 4.3 Value areas by ward, new build transactions and attributed values**



4.2.6 These broad value areas were then further refined to set out average values per dwelling type on a square metre basis. The full set of base values per unit type are set out in the table below:

**Table 4.2 Values per sqm by value area and dwelling type**

Value area	Flat	Detached	Semi	Terrace
VA1	£3,712	£3,951	£4,013	£3,722
VA2	£2,974	£3,079	£2,750	£2,765
VA3	£2,384	£2,636	£2,462	£2,424
VA4	£2,175	£2,329	£2,170	£2,158
VA5	£1,803	£1,999	£1,868	£1,819

4.2.7 As well as showing values per sqm it is useful to also express them as unit prices. To avoid any issues (sometimes expressed by the development industry around price points) when using the

Nationally Defined Space Standards to derive an average house size an alternative approach has been used. The average size by dwelling type is derived from the same data as the values (i.e. Land Registry/EPC records). This approach ensures that the value estimates used for the study reflect actual market behaviour.

**Table 4.3 Dwelling sizes per sqm and unit values by value area band**

Value area band	Flat (sqm/£unit)	Detached (sqm/£unit)	Semi (sqm/£unit)	Terrace (sqm/£unit)
VA1	55	147	135	99
	£204,629	£579,296	£542,683	£370,145
VA2	52	123	93	104
	£155,330	£377,293	£255,458	£286,749
VA3	65	109	84	85
	£154,231	£286,525	£206,350	£206,119
VA4	68	101	86	79
	£148,673	£234,303	£186,185	£171,352
VA5	66	93	84	86
	£119,563	£185,777	£156,112	£155,726

### 4.3 Types of sites to be tested

- 4.3.1 The testing to be undertaken in the VASF is of two types – a series of generic typologies to represent the general housing supply identified in the GMSF and the sites allocated through the GMSF. In terms of the allocations the details are set out separately in the *‘Allocated Sites Viability Report’*. The focus of this report is the remaining site supply, effectively that identified through the GM SHLAA process and any windfall sites that come forward over the life of the GMSF.
- 4.3.2 The generic typologies were identified through analysis of the SHLAA data (2018) supplied by the 10 local authorities within GM. The SHLAA<sup>28</sup> data covers a total of 4,222 sites which comprise approximately 197,300 units across a wide range of site sizes. This report does not seek to test the validity of the SHLAA data but draws on the SHLAA data to come to a view as to a suitable range of sites to test.
- 4.3.3 There are 20 sites included within the 2018 SHLAA of over 1,000 dwellings, accounting for around 38,000 units at just over 20% of the future supply. Given the contribution these sites

<sup>28</sup> The 2018 edition of the SHLAA has been used to inform the approach, it is understood that this was updated during the course of this study and that a 2019 version is now available.

make to the supply, further analysis on current planning status and site characteristics was undertaken with each of the relevant local authorities.

- 4.3.4 Following consultation with the local authorities it was found that half these very large sites benefit from planning permission, with most of these either under construction or due to start shortly. For the purpose of developing typologies the focus has therefore been on the remaining very large sites with no planning permission but with a prospect of coming forward during the GMSF timeframe.
- 4.3.5 The remaining 10 SHLAA sites are all within Manchester City. Half of the sites are within the Northern Gateway Regeneration area, which has been extensively planned and a joint venture entered into between the city council and the Far East Consortium.
- 4.3.6 The SHLAA data analysis and further analysis of very large sites has been used in a number of ways to help ensure the typologies selected are a representation in terms of both types and sizes of sites as well as location. The full analysis is set out in Appendix D of the Technical Report.

### **Typologies**

- 4.3.7 The analysis set out in Appendix D illustrates the breadth of the testing that needs to be undertaken to provide a best fit of typologies that broadly represent the site supply. Whilst it is not necessary, nor desirable to test every site type, the typologies suggested in the following table account for the majority of site types in the site size of 1 to 1000 dwellings and the very large sites of over 1000 dwellings.

**Table 4.4 SHLAA site supply – size of sites 1 to 1000 units**

Site size	Ref	Units	Site types	Mix	Frequency of testing					Number of tests
					VA1	VA2	VA3	VA4	VA5	
<b>10 and under</b>	a1	5	GF	Houses	No	No	Yes	Yes	Yes	3
	a2	5	BF	Houses	Yes	Yes	Yes	Yes	Yes	5
	a3	5	BF	Flats	Yes	Yes	No	No	No	2
<b>11 to 50 units</b>	b1	30	GF	Houses	No	No	Yes	Yes	Yes	3
	b2	30	BF	Houses	Yes	Yes	Yes	Yes	Yes	5
	b3	30	BF	Flats	Yes	Yes	No	No	No	2
<b>51 to 100 units</b>	c1	75	GF	Houses	No	No	No	Yes	Yes	2
	c2	75	BF	Houses	No	No	Yes	Yes	Yes	3
	c3	75	BF	Flats	Yes	Yes	Yes	No	No	3
<b>101 to 250 units</b>	d1	150	GF	Houses	No	No	Yes	Yes	Yes	3
	d2	150	BF	Houses	No	Yes	Yes	Yes	Yes	4
	d3	150	BF	Flats	Yes	Yes	No	No	No	2
<b>251 to 500 units</b>	e1	300	BF	Flats	Yes	Yes	No	Yes	No	3
	e2	300	BF	Mixed	Yes	Yes	No	Yes	No	3
<b>501 to 1000 units</b>	f1	800	BF	Flats	Yes	No	No	No	No	1
	f2	800	GF	Houses	No	No	No	Yes	Yes	2
<b>1001 and above</b>	g1a	1,500	BF	Mixed	Yes					1
	g2a	1,500	BF	Flats	Yes					1
	h1a	2,500	BF	Mixed	Yes					1
<b>Total</b>										49

- 4.3.8 As set out above the focus is on testing where the majority of that particular typology is likely to come forward. In all it is proposed to test nearly 50 types and locations of representative sites in addition to the testing of allocated sites. Within each of these tests there will be different



combinations of affordable housing, so the actual number of viability tests has been considerably more.

***Other sites to test***

- 4.3.9 In addition to the residential typologies set out in the above table, a number of other forms of development have been tested. These are student, older person and build to rent schemes. These forms of development are described further later in this report.

**4.4 Residential development profile**

***Residential development mix***

- 4.4.1 The typologies tested are either flatted/apartment schemes, all houses or a mixture of both according to the information supplied through the SHLAA process. However, the SHLAA work does not set out a more detailed mix and density for each of the proposed sites.
- 4.4.2 For each typology, a mix of dwellings was devised which, as discussed and requested at the development industry workshop, reflects the market mix that has been brought forward by developers in GM. Consideration of density has also influenced the proposed mix reflecting GMSF policy encouraging higher densities in well-connected places. It should be noted that the GMSF does not specify any mixes within its policies, with decision making left to a local level. However, from the review of local plans, it was clear that there was no common policy approach to mix and consultation with GM local authorities suggested that generally mixes are market led.
- 4.4.3 The proposed mixes are based on a review of Land Registry data for the past three years for new build development which indicates the mix of flats, terraced, semi and detached dwellings being developed as well as their average size.
- 4.4.4 The following table shows the mix of housing and flats (as a percentage of total dwellings). Clearly in value area VA1, which is dominated by city centre developments, there are significantly more flats than houses coming forward and this pattern is set to continue in the future supply identified within the SHLAA. In the lower value areas (VA3 – 5), the emphasis shifts to houses.

**Table 4.5 Value area band and broad mix drawn from Land Registry data**

Value area	Flat	House
VA1	77%	23%
VA2	33%	67%
VA3	5%	95%
VA4	6%	94%
VA5	8%	92%

4.4.5 For the typologies with houses only (typologies a1,a2, b1,b2, c1,c2, d1,d2, f2 as described in table 4.4), the mix proposed draws on the range of different house types shown in the Land Registry data as a percentage of total housing within each value area. It is assumed that house only schemes will be within the lower density ranges outlined in GMSF policy. The data chimes with discussion at the workshops, which was that semi-detached properties are favoured in lower value areas.

**Table 4.6 Value area band and housing mix**

Value area	Detached	Semi	Terrace
VA1/VA2	44%	31%	25%
VA3	49%	35%	16%
VA4/VA5	25%	46%	28%

4.4.6 In terms of mixed sites typologies that will have both houses and flats (typologies e2, g2, h1,h2) it is assumed that these will be across the lower to medium densities outlined in GMSF policy, broadly with lower value areas at a lower density than the higher value areas.

**Table 4.7 Value area band and mixed dwellings**

Value area	Flats	Detached	Semi	Terrace
VA1	77%	14%	4%	5%
VA 2	33%	26%	24%	18%
VA3	5%	47%	34%	15%
VA4/VA5	7%	24%	43%	26%

4.4.7 The highest density areas will be flat only schemes, (typologies a3, b3, c3, d3, e1, f1, g1), these are generally in town and city centre locations or around transport hubs as set out in the density policy.

**Table 4.8 Value area band and flat only dwellings**

Value area	Flats
VA1/VA2	100%
VA3	100%
VA4/VA5	100%

### **Unit sizes**

4.4.8 The size of dwellings affects both their market value (as sale values were assessed on a per sq m basis) and their development costs.

4.4.9 At the workshop, the use of space standards (as this is set out in policy) as the driver for testing size of units was discussed and participants requested that the size of units currently being developed should also be a consideration in terms of both testing and any future policy. Therefore, the size of units coming forward was also assessed using the same Land Registry data as referred to earlier.

4.4.10 This analysis showed the range of sizes varies according to the value area, with houses generally larger in the higher value areas and flats generally larger in the lower value areas.

4.4.11 The analysis showed that the average size for each dwelling type within each value area is within the range of space standards set out in the GMSF. Therefore, we have used the actual average dwelling sizes for testing - as set out in the following table 4.9.

4.4.12 For flatted schemes an additional allowance of 10% of floor area is included for lower storey flats (1-2) used in testing for circulation and common areas. An allowance of 15% (3-6 storeys) and 20% will be made for higher schemes (7 plus storeys) to account for the additional circulation space associated with taller properties (common areas, lift shafts etc.). The additional space is not used to inflate values but is included in the calculation of development costs.

**Table 4.9 Value area band and unit sizes**

Value area	Flat (sqm)	Detached (sqm)	Semi (sqm)	Terrace (sqm)
VA1	55	147	135	99
VA2	52	123	93	104
VA3	65	109	84	85
VA4	68	101	86	79
VA5	66	93	84	86

### **Development period and sales**

4.4.13 For smaller typologies up to and including 30 dwellings it is assumed that the development will be completed within a year. For all typologies of 75 dwellings or more the development period will increase, based on discussion with local authorities, experience elsewhere in other plan viability testing and as discussed at the development industry workshops.

**Table 4.10 Development period**

<b>Site size</b>	<b>Ref</b>	<b>Units</b>	<b>Site types</b>	<b>Mix</b>	<b>Construction period</b>	<b>Completion/sales rate</b>	<b>Completions/sales period</b>	<b>Total development period</b>
<b>10 and under</b>	a1	5	GF	Houses	<1 year	40 per year	Month 6 -12	1 year
	a2	5	BF	Houses	<1 year	40 per year	Month 6 -12	1 year
	a3	5	BF	Flats	<1 year	40 per year	Month 6 -12	1 year
<b>11 to 50 units</b>	b1	30	GF	Houses	<1 year	40 per year	Month 6 -12	1 year
	b2	30	BF	Houses	<1 year	40 per year	Month 6 -12	1 year
	b3	30	BF	Flats	<1 year	40 per year	Month 6 -12	1 year
<b>51 to 100 units</b>	c1	75	GF	Houses	Year 1 - 2	40 per year	Year 2 - 3	3 years
	c2	75	BF	Houses	Year 1 - 2	40 per year	Year 2 - 3	3 years
	c3	75	BF	Flats	Year 1 - 2	40 per year	Year 2 - 3	3 years
<b>101 to 250 units</b>	d1	150	GF	Houses	Year 1 - 3	50 per year	Year 2 - 4	4 years
	d2	150	BF	Houses	Year 1 - 3	50 per year	Year 2 - 4	4 years
	d3	150	BF	Flats	Year 1 - 3	50 per year	Year 2 - 4	4 years
<b>251 to 500 units</b>	e1	300	BF	Flats	Year 1 - 3	100 per year	Year 2 - 4	4 years
	e2	300	BF	Mixed	Year 1 - 3	100 per year	Year 2 - 4	4 years
<b>501 to 1000 units</b>	f1	800	BF	Flats	Year 1 - 6	150 per year	Year 2 - 7	7 years
	f2	800	GF	Houses	Year 1 - 6	150 per year	Year 2 - 7	7 years
<b>1001 plus</b>	g1a	1,500	BF	Mixed	Year 1 - 10	150 per year	Year 2 - 11	11 years
	g2a	1,500	BF	Flats	Year 1 - 10	150 per year	Year 2 - 11	11 years
	h1a	2,500	BF	Mixed	Year 1 - 15	250 per year	Year 2 - 11	11 years

### **Development density and site areas**

4.4.14 Site areas for the testing typologies are drawn from the SHLAA data. The SHLAA provides gross site area for each site, these have been adjusted to provide a net developable area and density. The data was then split by both average size range and value area. For each typology the appropriate average density for the development type was applied e.g. for a 5 dwelling house only typology in value area 1, the average density for sites of 1 – 10 in the SHLAA that are within value area 1 was used. From the density a net and then a gross development area was calculated.

## 4.5 Residential build and site costs

### **Base build costs**

- 4.5.1 Build costs can vary due to location, development type, storey height, and building use. While data from BCIS<sup>29</sup> can be used to provide benchmarking information for build costs, this study drew on specific estimates prepared by the team's cost consultants (WWA) using residential schemes from its in-house benchmarking data base. Where possible, schemes utilised were Greater Manchester based and varied from mixed use development to single use developments within the last three years.
- 4.5.2 Where WWA data was not available for a particular location, data from other locations was adjusted using the relevant BCIS location factors. Base dates for all data were adjusted for inflation to Q3 2019.
- 4.5.3 WWA provided a range of build costs for different dwelling types and building heights. The costs include base construction costs as well as services, preliminaries and contractor's overhead and profit if and where appropriate<sup>30</sup>. For all the residential uses (as well as student and older persons) the build costs relate to the shell and core construction and fit out.
- 4.5.4 WWA provided a table of benchmarking bands for each residential type, split by storey height. This data was gathered from a range of WWA projects and sense checked with local practices. Following the workshop discussion and subsequent comments received around lower costs for taller buildings and use of lower quartile BCIS figures, the viability assessments use the lower end of the range set out by WWA.
- 4.5.5 The information has also been cross referenced to a wide range of viability appraisals that have been submitted to and/or checked by GM local authorities. The build costs used within these appraisals are within the same ranges as those set out in the table below (4.11) adding further weight to the appropriateness of the figures. A further cross check has been done with BCIS data, for Greater Manchester and with a base date of 3<sup>rd</sup> Quarter 2019 – for houses and flats up to 6 storeys these show similar build costs to those produced by WWA.

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<sup>29</sup> BCIS or Building Cost Information Service is provided by RICS and is a cost and price information service for the construction industry

<sup>30</sup> For completeness a list of excluded costs is set out in the Appendix.

**Table 4.11 Base build costs<sup>31</sup> (excluding externals i.e. plot costs and site infrastructure)**

Flats		Houses	
Type (no of storeys)	£ per sqm	Type	£ per sqm
Flats 1- 2	£1,190	Terrace	£1,075
Flats 3-5	£1,220	Semi	£1,060
Flats 6	£1,610	Detached	£1,200
Flats 7 – 15	£2,050		
Flats 16 – 29	£2,600		
Flats 30 – 49	£2,930		

4.5.6 For this generic testing the type of housebuilder is not known, however the advice from WWA is that if major housebuilders are involved in schemes then the build costs could be lower through efficiency and procurement savings. This will be considered further within the allocated sites testing.

**Additional build costs**

4.5.7 In addition to the base build costs, various other development costs were allowed for, either for all development types or in specific circumstances.

- For **all** typologies, an allowance was made for external/site infrastructure works as follows:
  - Plot costs – plot foul & surface, water drainage, gardens, walls, fencing & turfing, on-plot parking<sup>32</sup>, paths and service trenching; expressed as a percentage of base build cost
  - Site infrastructure – site works, drainage, external services including roads and other infrastructure items; expressed as a percentage of base build cost
- For **greenfield sites** - site preparation/enabling works including site clearance of vegetation & trees, tree and hedge protection measures, topsoil strip deposited on site; expressed as a per hectare figure
- For **brownfield sites** - preparation/enabling works – including demolition, remediation, ground preparation measures; expressed as a per hectare figure

4.5.8 The allowances for site infrastructure set out above only apply to standard greenfield, brownfield and mixed sites of 100 plus dwellings. For sites of under 100 dwellings the site infrastructure

<sup>31</sup> The rates for accommodation provision above reflect a base-line level of Specification. These are similar to "Lower Quartile" rates appropriate for volume house build – outs and lower specification flats/towers. An uplift in specification to target a particular market in a given area would not be reflected, nor would building in lesser numbers. There may also be impacts from different procurement methods.

<sup>32</sup> At the development industry workshop and clarified in those notes (see Appendix C in the Technical Report) garage were identified. Along with other parking areas, these are now included within the overall plot and site infrastructure costs.

allowance will not be applied as it is anticipated that site infrastructure costs will be lower given the smaller site size and potential to use existing services, and an allowance of 15% of build costs is made to account for these external costs.

**Table 4.12 Additional build costs (externals and site preparation)**

Site types	Plot costs		Site infrastructure	Site preparation
	Applies to typologies d - h	Applies to typologies a - c		
<b>Brownfield</b>	10% build cost	15% build cost	15% build cost	£160,000 per hectare
<b>Greenfield</b>	10% build cost	15% build cost	25% build cost	£45,000 per hectare
<b>Mixed</b>	10% build cost	15% build cost	As above split 50/50	As above split 50/50
<b>High rise (6 plus storeys)</b>	WWA advise that a 'percentage' approach is not appropriate for high rise given that the external and site prep costs are more dependent on-site area and service uptake, whereas build cost will vary significantly with increases in the number of storeys. The uncertainty of what the sites will ultimately support, in terms of build-out, prevents determining a generic percentage. Proposed to use £1.5m per pair of blocks.			

- 4.5.9 The additional build costs have been prepared by WWA, based on their experience of development sites across the country and, which were checked with locally active surveyors.
- 4.5.10 In addition, the GMCA commissioned a study to review the costs of bringing forward brownfield sites. The work was undertaken by the British Geological Society (BGS). BGS have mapped likely ground conditions using historic mapping and provided a broad set of costs for remediation and decontamination. Across GM, the majority of brownfield sites require some kind of intervention, however this will vary considerably both between and within sites. PPG is quite clear that these 'abnormal' costs should be met out of land value. However, for the purposes of this high level testing a small standard allowance is made on all brownfield sites (based on the lower quartile minimal costs identified by BGS).
- 4.5.11 Some sites have other costs that are exceptional, reflecting the specific development found there and which are not readily replicated for policy testing. While sites have been tested with generic onsite and offsite infrastructure requirements, scenarios with very substantial exceptional costs are atypical and lie outside the scope of this testing. Such schemes may be subject to site specific testing where the infrastructure cost is preventing delivery. It is also noted that, where there are exceptional development costs, these may enhance market values as well as increase costs and it would be expected that these would be reflected in the land value for the site. There may also be instances where public funding is available to meet exceptional development costs, but the viability testing does not take this into account.

## 4.6 Policy and mitigation costs

- 4.6.1 There are a range of other policy and mitigation costs that need to be applied when undertaking the testing and these are shown in table 4.13 below:

**Table 4.13 Policy and mitigation costs**

Item	Cost		Source
Biodiversity net gain	Brownfield	£242 per dwelling	Government Impact Assessment
	Greenfield	£1,137 per dwelling	
Adaptable and accessible dwellings (M4(2) Category 2)	All	£1,500 per unit	WWA cost benchmarking
Future homes standard (building reg changes)	Flat	£1,500 per unit	GMSF Carbon and Energy Policy Implementation Study 2019 and Government Impact Assessment
	Detached	£3,000 per unit	
	Semi/terrace	£2,000 per unit	
Electric charging points	All detached	£1,500 per unit	WWA cost benchmarking
Transport	All	£1,000 per unit	Systra
s106	All	£4,250 per unit	Local policy and past s106 agreements

- 4.6.2 The allowance for **biodiversity net gain** was originally arrived at in consultation with Natural England. A cross typology allowance is used as biodiversity net gain is site specific depending on both the existing site characteristics and the ability of development form to both mitigate and provide additional gain. The (£500 per unit) sum was arrived at as being reasonable for the purposes of strategic plan wide testing based on experience that Natural England had elsewhere for off-site net gain opportunities. Whilst this figure was presented at the workshop and broadly found acceptable, post workshop there was new guidance from the government which included an impact report<sup>33</sup>.
- 4.6.3 The impact report sets out a range of bio-diversity net gain direct costs to development within three scenarios:
- Scenario A – developer is able to avoid significant loss of habitats, so mitigates and enhances on site
  - Scenario B – developer is unable to avoid, mitigate and compensate all impacts on site but is able to secure local compensatory habitat creation
  - Scenario C – the developer is unable to avoid, mitigate and compensate on site and unable to find local compensatory habitat to invest in
- 4.6.4 The costs associated with each option increase A to C and also vary according to whether the site is greenfield or brownfield as well as regional variances. For purposes of this plan wide strategic testing the central case is used for the north west region. This also compares well with the all site types figure of £500 per dwelling originally proposed.
- 4.6.5 Whilst this cost will be included within the testing it should be noted that the government within the impact assessment is clear that “we would expect to see most of the monetisable costs (and benefits) to developers passed through to the price of land that has planning permission, thereby impacted landowners”<sup>34</sup>. Therefore, the assessments take a cautious approach at

<sup>33</sup> Biodiversity net gain and local nature recovery strategies Impact Assessment 15/10/2019  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/839610/net-gain-ia.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/839610/net-gain-ia.pdf)

<sup>34</sup> ibid



present but in time the cost of net gain should be borne by the landowner, rather than the developer.

- 4.6.6 An allowance for **adaptable and accessible housing** has been made to meet Building Regs M4(2) Category 2 as per draft policy requirements. This allowance is based on the cost consultants benchmarking exercises. However, whilst an allowance has been made this is a conservative approach as it is likely that these standards are starting to filter through general build costs prepared by BCIS.
- 4.6.7 A policy/mitigation cost has been included to account for the recently announced proposed changes to Building Regulations regarding **Future Homes Standards**. These include measures such as improvement to materials and provision of more carbon reducing power/heat opportunities. The GMCA have also undertaken their own detailed work around the cost of implementing their own proposed policies “*Carbon and Energy Policy Implementation Study*” 2019 - The proposed figures are drawn from work undertaken by GMCA and the government’s impact assessment<sup>35</sup>, both of which were prepared by Currie & Brown. The GMCA have also undertaken their own detailed work around the costs of implementing their own policies, including space heating demand, hot water demand and renewable energy generation targets from 2025 and beyond.
- 4.6.8 In terms of **electric charging points** the GMSF policy is non-specific as to what type or how many charging points should be provided. It should also be noted that this is an ever-changing technology and as popularity rises is likely to reduce in cost over time as it becomes more standard. However, it is considered that some allowance should be made, therefore the testing includes a single charging point for each detached property of £1,500.
- 4.6.9 The remaining policy/mitigation requirements are drawn from reviewing local plan policy requirements, historic **s106** and discussion with GMCA transport advisors Systra. The policy review of the local plans in place showed a range of approaches to s106 type requirements, with education and open space requirements the most clearly defined.
- 4.6.10 In terms of **open space**, seven of the GM authorities have clear guidance as to the expected level and cost of open space provision. Open space is broadly defined across those authorities but generally includes local open space, semi natural open space, childrens play, sports and leisure facilities, allotments and parks and gardens. An average figure was drawn from this work of £3,000 per dwelling and presented at the development industry workshop.
- 4.6.11 The same exercise was undertaken for **education requirements** although only three GM authorities have clear guidance in place. This showed an average of around £3,000 per dwelling and again was presented at the development industry workshop. This review was supplemented by checking with the government school places scorecard, which provides actual costs of school place provision on an individual authority basis. The figures for this were slightly lower than the proposed £3,000 per unit figure.
- 4.6.12 Other than open space and education there was limited guidance on anticipated requirements and costs for other forms of mitigation. It was considered that an allowance **for transport** should be included and in consultation with the GMCA transport consultants, a figure of £1,000 per unit was included and presented at the development industry workshop.

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<sup>35</sup> The Future Homes Standard 01/10/19  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/836925/REQUEST.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/836925/REQUEST.pdf)

4.6.13 Following the development industry workshop, a further review of past s106 agreements from a wide range of sites across all of GMCA has been undertaken. Around 50 s106 agreements were reviewed from across all the GM local authorities. These show a much wider range of contributions than the local policy analysis and include health, community and employment as well as open space, transport/travel and open space. However, whilst the range is greater the overall per dwelling costs are significantly lower (half) than the combined £7,000 per unit described at the development industry workshop. Therefore, whilst the evidence of what is being requested through s106 could be used, a more cautious approach has been included which takes the mid-point between the two approaches at £5,250 per unit.

**Table 4.14 Policy and mitigation costs**

<b>S106 item</b>	<b>Local authority guidance (£per unit)</b>	<b>Published S106 agreements (£per unit)</b>	
Education costs per unit	£3,000	£2,446	
Health costs per unit		£6	
Open space costs per unit	£3,000	£991	
Walking/cycling costs per unit		£205	
Public transport costs per unit		£219	
Highways/access costs per unit	£1,000	£674	
Community costs per unit		£1,508	
Employment Land costs per unit		£833	
Average s106 per unit	£7,000	£3,472	Mid-point: £5,250 per unit

## 4.7 Fees and finance costs

4.7.1 There is a range of other development assumptions that need to be taken into account in viability testing. For some of these variables, national guidance informs assumptions used. For other assumptions, there are standard values that are considered acceptable for use in area-wide viability studies and which have been accepted at recent plan and CIL36 examinations. The list of assumptions and the evidence relied on for their use is set out in table 4.15 below.

**Table 4.15 Other standard development costs**

<b>Variable</b>	<b>Value used</b>	<b>Measure</b>
Developer return (market housing)	17.5%	GDV (market)
Contractor return (affordable housing)	6%	Total construction cost (affordable)
Finance costs	6%	Construction and land costs
Professional fees	8%	Build cost
Marketing	3%	GDV
SDLT	Prevailing rates	
Agents and legal	1.75%	Land value

4.7.2 The toolkit used for the viability testing uses a cashflow which applies an interest charge when in debit but no interest is accumulated when in credit.

## **4.8 Very large sites of 1001 dwellings plus**

4.8.1 The testing approach and assumptions for these large sites will generally follow the rest of the residential testing. However given the site typologies and the site-specific consultation with local authorities there are some specific assumptions:

- Values – there are limited new build transactions to support values within the Northern Gateway, therefore for the typology (h1a) closest to the city centre and transport nodes VA1 values are used and average of VA1/2 used for the outer areas (g1a) for the areas. For typology g2a all the represented sites are within the Deansgate Ward, so the average flat values for this ward are used
- Mix – g2a is tested with 100% flats, however for g1a and h1a the framework plan suggests a mixed development with an average floorspace of 65sqm in h1 and 79sqm in g1a
- Land use – g2a is considered as brownfield land with existing uses and the highest benchmark land value, with acquisition split into two stages. In terms of the typologies h1a, whilst there may be areas of greenfield, is generally reclaimed previously developed land and most of the site is brownfield, given the proximity to city centre uses a relatively high benchmark land is used. The areas of g1a are also considered to be predominantly brownfield, however they are considered low value. As both g1a and h1a are generally owned by the public sector, the land value will be taken at the end of the scheme as per the JV agreement.

# 5 Alternative forms of development testing approach and assumptions

## 5.1 Affordable housing

5.1.1 Whilst policy within GMSF does not set out affordable housing targets for mixed tenure schemes, there is an expectation that the 10 local authorities will, where it is viable, continue to seek affordable housing contributions through local plan policy and secured with s106 agreements. Therefore, it is important to include affordable housing within the testing. A range of scenarios have been agreed with GMCA to test a mixed affordable housing tenure with affordable rent and shared ownership products and separately a social rent product.

### ***Affordable housing testing***

- 5.1.2 The draft GMSF sets out a requirement for a defined number of affordable homes, 50,000 (2,500pa), to be provided over the life of the SF but does not set targets for delivery of affordable housing in mixed tenure developments. Instead it is anticipated that individual local plans for each of the local authorities will continue to set policy on the level of affordable housing required from development.
- 5.1.3 Currently all the Greater Manchester local authorities seek affordable housing through planning obligations in mixed tenure development, although the amount and type of affordable housing varies considerably. The amount of affordable housing sought ranges from 5% to 40%, with a potential target of 50% in Salford's emerging Local Plan. Older plan policies in Oldham and Rochdale propose a contribution equivalent to 7.5% of GDV. Individual local authorities affordable housing policies are summarised in Appendix B of the Technical Report. There is no intention to test individual local authorities affordable housing policies in this study.
- 5.1.4 Delivery of affordable housing across GM over the past 3 years has averaged nearly 750pa, around 14% of total completions.<sup>37</sup> Consultation with affordable housing providers and local authority housing teams suggests that the majority of affordable housing delivery is direct delivery or supported, rather than secured on market led mixed tenure schemes through a s106, with lack of viability cited as the main reasoning why this form of delivery is lower.
- 5.1.5 The Greater Manchester Housing Strategy indicates in Strategic Policy B2 that at least 30,000 of the 50,000 affordable units should be social or affordable rent but does not provide a preferred split between these tenures. Respondents at the stakeholder workshops stated that it is problematic to provide affordable and social rented units on the same scheme but that rented and low-cost home ownership can be mixed on the same site.
- 5.1.6 It is clear that it would be inappropriate to test a single set of affordable housing requirements and that a nuanced approach is required. Our analysis of the plan position was augmented with direct discussion with the local authorities through a workshop held with the Housing Officers Group and the individual discussions with the authorities described earlier.
- 5.1.7 We found that the type of affordable housing sought was also an important distinction between authorities. In lower value areas intermediate sale products could have very limited uptake

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<sup>37</sup> Affordable housing delivery from returns to MHCLG, Table 253 Housebuilding: permanent dwellings started and completed, by tenure and district

because of the ready availability of low-cost market housing locally but social rented accommodation was in heavy demand.

- 5.1.8 The testing includes affordable housing at a range of different percentage target rates in the 3 higher value areas of the 5 housing markets. Initial tests are undertaken at 100% market housing and then the proportion of affordable housing is increased depending on the viability.
- AH1 - In value areas 1, 2 and 3 (the highest value areas) affordable housing is tested with 60% affordable rent and 40% shared ownership.
  - AH2 - A separate test is undertaken for social rent to illustrate the different viability of this affordable housing product.
- 5.1.9 Affordable dwellings are not tested in the lower value areas (4 and 5) because in these locations it is unviable.
- 5.1.10 All tests assume that no grant is available.

#### ***Affordable housing rents and values***

- 5.1.11 We drew on data provided by Homes England looking at recent development of housing for affordable and social rent by local authority across Greater Manchester. We also drew on nationally collected data from the annual survey of registered providers to look at regional differentials between affordable and social rents and on data from the Valuation Office at local authority and BRMA level to look at Local Housing Allowance rents which both stakeholder workshops advised were a realistic benchmark for affordable rents. We also sent a questionnaire out to Registered Providers through the Great Places Group and tested our affordable housing assumptions at the two stakeholder workshops as well as separate workshops with housing teams and Registered Providers.
- 5.1.12 **Rents used:** Affordable Rent levels are based on Local Housing Allowance Rates (as recorded in August 2019). Most local authorities in Greater Manchester are covered by more than one BRMA area and rents can vary considerably between BRMAs, with the LHA rate for a 2-bed property ranging from £98.96 in Bolton and Bury BRMA to £132.04 in Southern Greater Manchester BRMA. We have derived average Affordable Rents for low, medium and high rent areas in Greater Manchester based on LHA data and have applied these to the house price areas, assuming medium rents in the medium house price and high rents in the two highest house price areas.
- 5.1.13 Analysis of the private registered provider social housing stock in England - rents profile 2018/19 data<sup>38</sup> suggests that in the North West social rents are 82% of affordable rents (based on gross rental data all stock). We have therefore applied this ratio to our calculated Affordable Rents to produce estimated Social Rent figures. Both Affordable and Social Rents are shown in table 4.22 below. Concern was raised at the workshops that social rents may be too high – but no alternative data has been supplied.

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<sup>38</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/834457/PRP\\_social\\_housing\\_stock\\_in\\_England\\_2018-19](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/834457/PRP_social_housing_stock_in_England_2018-19)

**Table 5.1 Affordable and social rents based on averaged LHA rates**

<b>Affordable rent</b>				
House Price Value Area	<b>1 bed</b>	<b>2 bed</b>	<b>3 bed</b>	<b>4 bed</b>
1	£105.36	£132.04	£156.33	£206.09
2	£105.36	£132.04	£156.33	£206.09
3	£95.00	£123.58	£132.00	£157.61
4	£84.00	£100.00	£114.00	£152.60
5	£84.00	£100.00	£114.00	£152.60

<b>Social rent</b>				
Value area	<b>1 bed</b>	<b>2 bed</b>	<b>3 bed</b>	<b>4 bed</b>
1	£86.40	£108.27	£128.19	£168.99
2	£86.40	£108.27	£128.19	£168.99
3	£77.90	£101.34	£108.24	£129.24
4	£68.88	£82.00	£93.48	£125.13
5	£68.88	£82.00	£93.48	£125.13

5.1.14 Other key assumptions covered gross to net rental factors and information about shared ownership rents, capitalisation and the percentage share sold. These were based on national averages used by Three Dragons which have been tested at Examination. Values proposed were discussed at development industry workshops and amendments made to voids/bad debts for rented properties (increased from 3% to 4%) and percentage share purchased (reduced from 40% to 35%). The dwelling mix and unit sizes were discussed with housing teams and Registered Providers as being representative of the likely requirements. The proposed values are shown in table 5.2 below, with the affordable housing dwelling mix in table 5.3

**Table 5.2 Affordable housing key assumptions**

<b>Affordable rent</b>	
Management and maintenance	£1,000 pa
Voids/bad debts	4%
Repairs reserve	£500 pa
Capitalisation	6%
<b>Shared ownership</b>	
Rental factor	2.75% of share
Share size	35%
Capitalisation	6%

**Table 5.3 Affordable housing mix and unit sizes**

VA	%AH	Terrace sqm	Terrace SP (for SO)	Flat sqm	Flat SP (for SO)	Split between flats/ terraces (Mixed schemes)
VA1	10% & 20%	86	320,092	53	196,736	60% flats/ 40% houses
VA2	10% & 5%	86	237,790	53	157,622	60% flats/ 40% houses
VA3	5%	86	208,464	53	126,352	30% flats/ 70% houses
VA4	0%					
VA5	0%					

## 5.2 Private rented housing

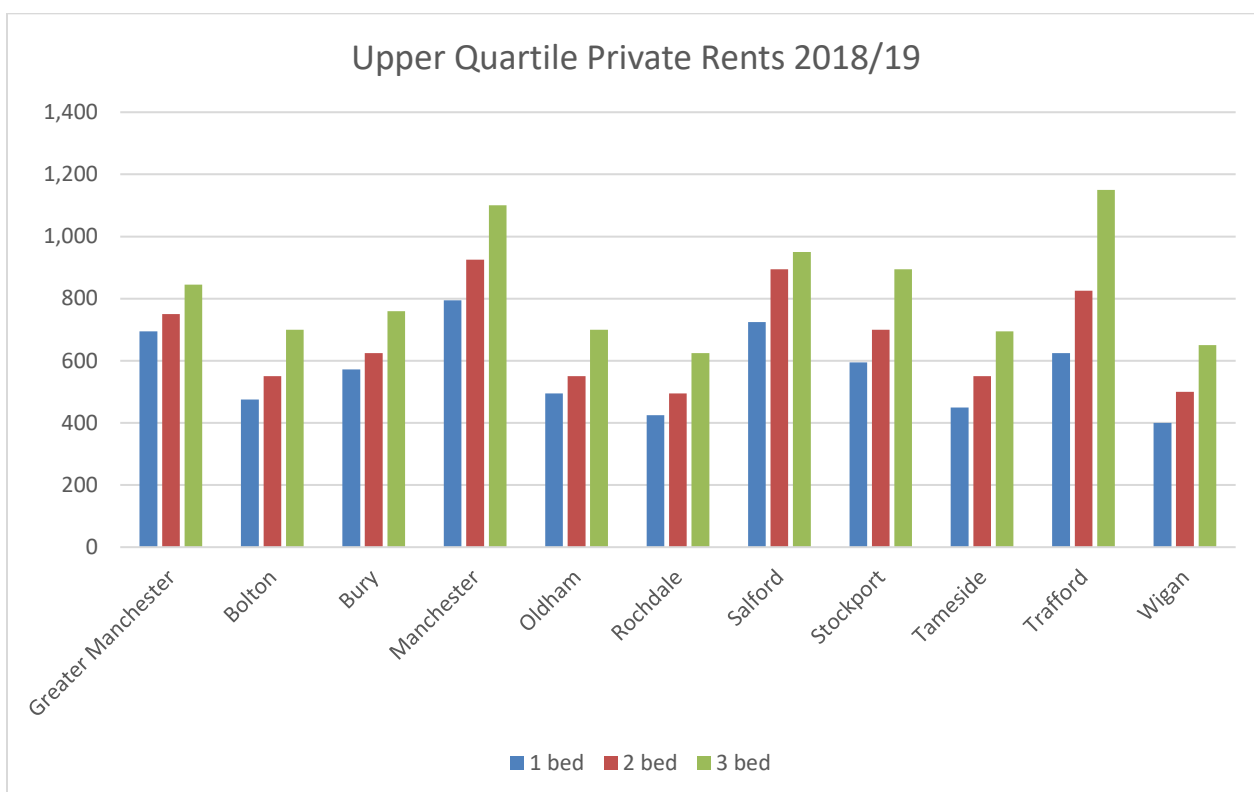
5.2.1 Consultation at the workshops and with local authorities suggested that the private rented sector is an important source of new supply, especially within the city centres. Therefore, with the GMCA it was agreed that this form of development should be tested on the high density schemes in the high value area.

### ***Rent values***

5.2.2 Our main data source was “Private Rental Market Statistics 2018/19” prepared by the Valuation Office (VO). This looks at rents by number of bedrooms at local authority level for all market rented properties including both new and secondhand properties. We also drew on analysis of the costs involved in developing and managing private rented housing from a variety of published sources including “Which”, Knight Frank and Arcadis, together with examples of individual schemes currently coming to the market.

5.2.3 Analysis of “Private Rental Market Statistics” suggests that there are 3 separate private rental markets in Greater Manchester: a central urban high value market, a middle market with values very close to the median for Greater Manchester and a low value market. Rents are highest in Manchester, Salford and Trafford and lowest in Wigan and Rochdale. Number of transactions is also higher in Manchester and Salford than in other locations. Between them these two authorities account for 37% of all lettings of 1 and 2 bed properties. In 2018/19 there were 3,490 lettings of 1 bed properties, 13,490 lettings of 2 bed properties, 5,990 lettings of 3 bed properties and 1,400 lettings of 4 bed properties. Lettings of 1 and 2 bed properties account for 70% of all lettings, It is not possible to tell the split between houses and flats from the data provided by the VO.

**Figure 5.1 Private Rents**



5.2.4 We used data from Zoopla and Nuroa to look at a sample of newbuild properties for rent in Manchester, Salford, Oldham and Wigan. This indicated that newbuild rents typically fall into the upper quartile of rents recorded in Private Rental Market Statistics. We therefore test our private rented product at averaged upper quartile rents for our 3 market sectors – high, medium and low value areas. Rents used are shown in table below

**Table 5.4 Private rent levels**

	VA1 & 2 High Value	VA3 Median Value	VA4 & 5 Low Value
1 bed	£750	£695	£450
2 bed	£900	£750	£500
3 bed	£1,100	£845	£650
4 bed	£2,000	£1,500	£900

**Costs and other factors**

5.2.5 We draw on key industry data sources and our own experience from previous viability studies to derive averages for management fees, sinking fund, voids and developer return. These are shown in table below

**Table 5.5 Rental costs**

Management fees	15% of revenue
Sinking Fund	7.5% of revenue
Voids	5.75% of revenue
<b>Total</b>	<b>28.25% of revenue</b>
Developer return	Test at 10%



5.2.6 **Unit size and mix:** According to “Private Rental Market Statistics” two bed properties are the most popular form of private rented housing and outnumber one bed flats in a ratio of 4 to 1. Three bed properties also outnumber four bed properties in the same ratio. We then took soundings from estate agents and developers about the mix of housing currently coming forward and were advised that it was not always possible to build the optimum mix to meet market demand and the mixes proposed below were more typical. Dwelling sizes for private rented units are assumed to be the same as the sale equivalents.

**Table 5.6 Mix of private rented units**

	Urban High density	Suburban Low density
1bed flat	25%	20%
2 bed flat	75%	50%
3 bed house		25%
4 bed house		5%

### 5.3 Older persons

5.3.1 Whilst not a major contributor to housing supply across Greater Manchester, it is considered appropriate to test this form of development and the impact of GMSF policies. Where older person housing schemes have come forward, they are generally for ‘Retirement housing’ also called sheltered housing. The Retirement Housing Group<sup>39</sup> define this type of older person housing as:

- Retirement housing - This is often known as “Sheltered Housing” or “Retirement Living”. Retirement Housing usually provides some facilities not found in completely independent accommodation. These can include a secure main entrance, residents’ lounge, access to an emergency alarm service, a guest room. Extra facilities and services are paid for through a service charge on top of the purchase price or rent. To move into retirement housing residents are assumed to be independent enough not to need care staff permanently on site.

5.3.2 Other forms of older person housing do come forward, such as supported (extra care) housing with care facilities within their developments and retirement villages, which offer a variety of accommodation types. However, the GM local authorities have suggested that these forms of development do not come forward in this area and have therefore advised that it is not necessary to test this type of development.

5.3.3 In terms of the typologies we have tested a Retirement Housing scheme. The typology has been prepared in accordance with the RHG guidance<sup>40</sup> relating to values, extended sales periods and the relatively high proportion of common/circulation space, as well as specific build costs provided by WWA. The following identifies inputs that vary from the inputs previously identified.

#### **Size and floor areas**

<sup>39</sup> <https://retirementhousinggroup.com/advice-retirement-housing/>

<sup>40</sup> <http://www.retirementhousinggroup.com/publications.html> may 2013 updated February 2016

- 5.3.4 Consistent with the RHG guidance an allowance of 30% floor area is added to the size of each dwelling for retirement housing to allow for circulation, common and service areas.

**Table 5.7 Size and floorspace**

	Use	GIA Floorspace (sqm)	Gross site area (h)	Size
OP1	Retirement/sheltered housing	4,464	0.5	50 beds 50% 1 bed 50% 2 bed

### **Values**

- 5.3.5 The RHG guidance suggests local market values for new build retirement housing is the preferred approach to establish GDV, however where there are insufficient transactions it suggests that in medium to low value areas the price of a 1 bed sheltered property is the equivalent to 75% of the price of existing 3 bed semi detached (2 bed 100% of an existing 3 bed semi) and in higher value areas a 1 bed sheltered property is linked to price of high value flats, with a 10-15% premium.
- 5.3.6 In Greater Manchester there is very limited evidence of market transactions. Three schemes have been reviewed (Wendover Court (sold prices), Butterworth Grange and The Cottons (both advertised prices, reduced by 5% to allow for negotiation) – these averaged 1 bed at around £190,000 and 2 bed at £270,000. In comparison when looking at the value of flats in VA1 (higher value, following the guidance) and applying a 10% uplift the values are for a 1 bed £204,000 and 2 bed £306,000. Given the limited data both sets of values will be tested to see the impact of the different approaches.

### **Build cost**

- 5.3.7 Past research of BCIS data shows that build costs per sq m for retirement housing were higher than for comparable general needs housing (i.e. flatted development). As with the residential costs WWA have provided the build cost - £1,310 psqm, which is similar to a four storey costset out in BCIS figures (£1,316 psqm). As with residential development, an allowance for externals and contingency at 15% has been added to the build cost.

### **Other costs and benchmark land values for older person housing**

- 5.3.8 As with the residential testing the same allowances are made for adaptable dwellings, biodiversity, future homes standards and S106, although the latter is reduced as education requirements are not normally associated with older person housing. The residential benchmark for brownfield sites is used as a basis for the BLV – see next section on BLVs.

## **5.4 Student housing**

- 5.4.1 Greater Manchester is home to five universities<sup>41</sup>, including the University of Manchester and Manchester Metropolitan University. Greater Manchester is a popular location to attend University, with student numbers increasing to over 100,000. Nearly a third of students are housed in purpose built student accommodation, either university halls of residence or privately managed. It is currently unclear as to how much more additional net development will take place

<sup>41</sup> The four Universities are Manchester Metropolitan University, University of Bolton, University of Huddersfield, University of Manchester University of Salford. The University of Huddersfield has a campus in Oldham.

over the plan period, however there is likely to be further development to create the higher quality student accommodation that is seemingly in demand in other university locations (e.g. Canterbury and Exeter).

- 5.4.2 The type of accommodation that has come forward in recent years ranges in size from 100 bed spaces up to much larger schemes with 500 bed spaces. Typical developments have moved away from traditional cluster units, where many students would share kitchen, lounge and bathroom facilities to smaller clusters with ensuite bedrooms or studios and apartments. Many of these also come with improved communal facilities, including gyms, games rooms and cinemas. The increase of individual space and quality communal facilities has also meant higher rents for occupiers.

**Table 5.8 Student housing typologies**

	Use	Floorspace (sqm) / beds	Gross site area (h)	Storeys
ST1	Student accommodation	3,100 100 beds	0.03	12
ST2	Student accommodation	15,500 500 beds	0.25	18

- 5.4.3 Due to the differing business models these types of accommodation are tested differently than residential development, using the non-residential toolkit. Whilst it is recognised that there is university presence in Bolton and Oldham, it is anticipated that the majority of new student accommodation will be located within the cities of Manchester and Salford (currently 96% of student households are within these cities).

**Size and floor areas**

- 5.4.4 In terms of floor area we have reviewed recently developed student accommodation within Greater Manchester as well as drawing on wider agent reports regarding the student investment market. For the larger scheme whilst there will inevitably be a wide mix of provision including cluster units and apartments with a variety of options regarding shared facilities, we found that the net room sizes were up to 20 sqm for a cluster style room. When allowance for communal and circulation space are included, the gross room size is around 31 sqm for a cluster style room, this rises to 35 sqm where there are more studio style rooms.

**Values**

- 5.4.5 In common with many university cities, there is an emphasis with new build student accommodation on the higher end of the market, with individual apartments often with their own kitchen and bathroom facilities, preferred over the more traditional shared options. The testing requires a per room value to be included within the appraisal to determine scheme GDV. There are two approaches to inform this room value – review transactions for built student accommodation and dividing the price paid by the number of rooms or reviewing the rents, allowing for managing and maintenance and capitalising the value using an appropriate market yield.
- 5.4.6 In Greater Manchester we are aware of 8 transactions (1,500 bed spaces) which have published capital values and bedroom numbers. These range from 47 beds to 561 beds and capital values of £2.4m to £30m. Whilst the average room value is £51,000 these are generally older stock, in need of refurbishment and not necessarily reflective of the higher quality new build stock like to come forward in the future. More widely student developments often transact in portfolios, with several developments packaged together and sold for investment. We have

looked at nearly 40 of these deals<sup>42</sup>, which account for nearly 110,000 bed spaces – these have an average value of £95,000 per room. The rents for the 2019/2020 academic year ranged from £95 per week in basic large cluster accommodation to £290 per week at the quality and more modern end of the market – location also affects the rental values, with accommodation closest to the University achieving higher rents. Minimum terms for rent range from 43 weeks to 52 weeks, with most at the upper end of this range. The resultant capitalisation exercise produced room values in Greater Manchester ranging from around £82,000 per room for a cluster flat room to £121,000 per room for a studio. Based on this range a blended figure (assuming 80% cluster and 20% studios) of £90,000 per room is used for testing, noting that this is within the national figure of the recent transacted development (£95,000 per room).

### ***Build cost***

- 5.4.7 The WWA data shows that build costs per sq m for student housing were significantly higher than for comparable general needs housing (i.e. flatted development). As with residential development, an allowance for externals and contingency at 15% has been added to the build cost of £1,750 per gross sqm.

### ***Other costs and benchmark land values for student housing***

- 5.4.8 As with the residential testing the same allowances are made for adaptable dwellings, biodiversity, future homes standards and S106, although the latter is reduced as education requirements are not normally associated with student housing. The residential benchmark for brownfield sites is used as a basis for the BLV – see next section on BLVs.

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<sup>42</sup> These deals include student accommodation both within and outside Greater Manchester

## 6 Benchmark Land Values

### 6.1 Information reviewed

- 6.1.1 Benchmark land values are assessed on a gross area basis and are an estimate of the lowest value that a landowner may transact land for development. This estimate does not preclude circumstances where development may pay more than the benchmark if it can afford to do so, particularly if there is competition for sites.
- 6.1.2 There is no single data source for estimating benchmark land values and therefore this work draws upon a number of sources:
- Estimates of land value for different uses published by MHCLG in 2018, which provide information for some local authority areas<sup>43</sup>.
  - An analysis of 32 site specific viability appraisals undertaken to inform negotiations on specific sites across the local authority areas in Greater Manchester, noting that some of the site benchmarks in these assessments are not PPG compliant.
  - An analysis of 45 development site valuations in Bolton and Wigan undertaken in 2018 as part of a HIF bid.
  - A review of a sample of land transactions listed on EGi Radius<sup>44</sup> and development land sites listed on websites.
  - A limited number of brownfield SHLAA site reviews undertaken as part of this work.
  - Consultation with the development industry as part of two workshops in September 2019. Discussion at these workshops included some views on land values and further information was provided as part of post workshop submissions.
  - Review of two North West area-wide viability studies recommended as part of the development industry workshop discussion.
  - Consultation with GMCA officers about land values and transactions.
- 6.1.3 The benchmarks discussed below primarily relate to sites which are suitable for development and free from significant constraints. Where there are particular constraints it is anticipated that these will be reflected in the land value <sup>45</sup>.

### 6.2 Greenfield sites

- 6.2.1 MHCLG estimates that agricultural land in Greater Manchester is £22,500/ha<sup>46</sup>, and separate valuations of greenfield development sites<sup>47</sup> suggests greenfield land existing use is generally £17,300 to £22,200/ha. This is like the national average (£22,355/ha). PPG expects that there is a premium above existing use to incentivise land release for development and previous work suggests that for greenfield land, benchmarks tend to be in the range of 10-20 times agricultural

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<sup>43</sup> Manchester and Bolton

<sup>44</sup> Subscription service providing information on property transactions

<sup>45</sup> PPG Paragraph: 012 Reference ID: 10-012-20180724

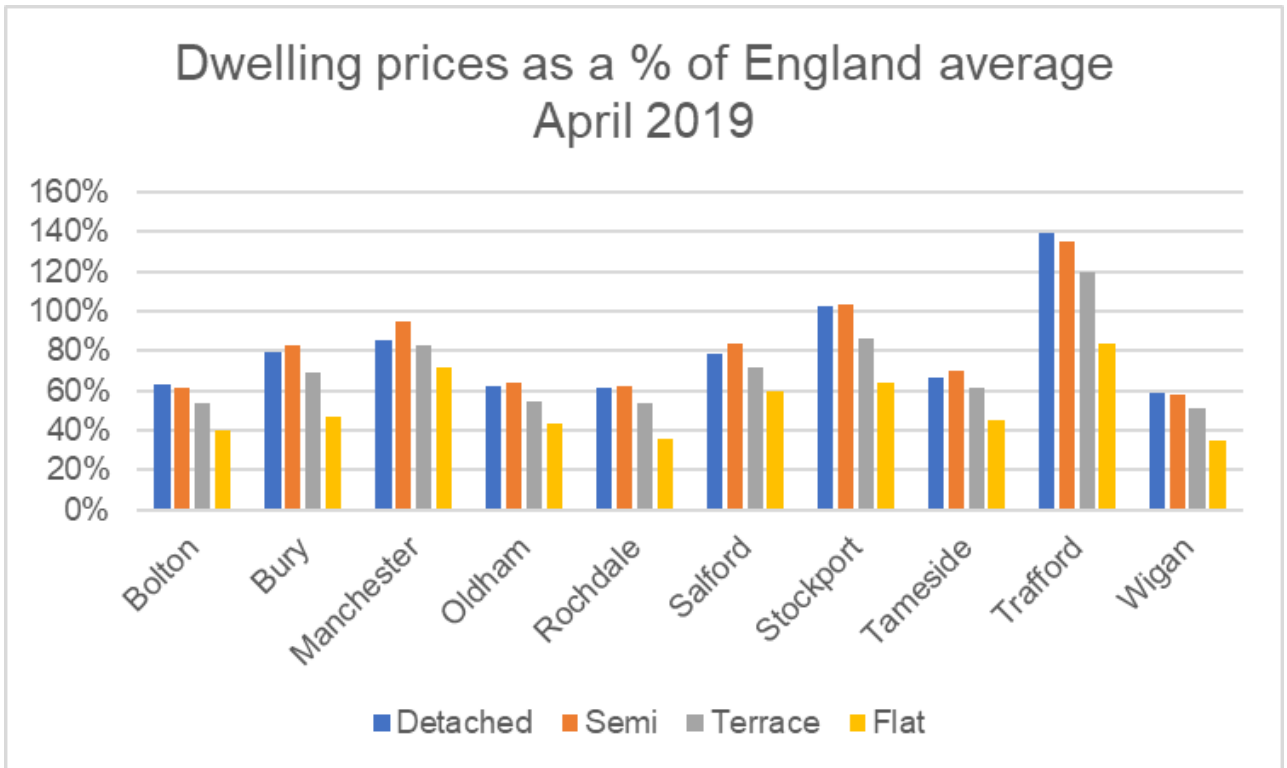
<sup>46</sup> MHCLG, 2018, Land Value estimates for policy appraisal 2017

<sup>47</sup> Valuations undertaken as part of a HIF funding bid across Wigan and Bolton, 2018. This includes sites with no consent, outline and full consent.

value<sup>48</sup>. This would suggest that a greenfield benchmark of between £173,000/ha and £450,000/ha may be appropriate.

6.2.2 In most locations in Greater Manchester, overall house prices are below the England average.

**Figure 6.1 Dwelling prices as a proportion of the England Average**



6.2.3 The ability of development to pay for land will depend on sales value, irrespective of whether there are policy constraints. Given that the residential sales values are relatively low while agricultural land is approximately average value it is appropriate to use a development land value benchmark at the lower end of the suggested range of premiums in order to test whether plan policies will have an impact.

6.2.4 Post workshop submissions from the development industry expressed concern that the £220,000/ha<sup>49</sup> originally proposed in the workshops may be too low. Suggestions included the reported minimum options threshold of £250,000/ha<sup>50</sup> as well as £500,000-£740,000/ha suggested as greenfield smaller sites benchmarks in lower and medium value areas respectively.

6.2.5 An analysis of 32 site specific viability appraisals across Greater Manchester included three greenfield sites and these appraisals suggested that the average value/ha was £365,000, which is within the range noted above. However, the basis of the appraisal benchmark estimates was

<sup>48</sup> Homes and Communities Agency, 2010, Annex 1 (Transparent Viability Assumptions) - "Benchmarks and evidence from planning appeals tend to be in a range of 10% to 30% above EUV in urban areas. For greenfield land, benchmarks tend to be in a range of 10 to 20 times agricultural value". (page 9)

<sup>49</sup> Based on 10 times existing use

<sup>50</sup> Based on £100,000/acre

not fully PPG compliant nor local plan policy compliant and included reliance on actual price paid as well as unevidenced ‘conservative assumptions’.

- 6.2.6 For the purposes of this testing the reported options minimum of £250,000/ha has been used for large scale greenfield sites. This is approximately 12.5 times existing use value and within the range suggested by the earlier HCA work.
- 6.2.7 There may be some greenfield sites on higher value land on small sites around the edge of settlements (e.g. paddock or amenity land) and taking the mid-point of the greenfield range noted above may be an appropriate response to these circumstances. This is £310,000/ha, which is slightly over 15 times agricultural use.

### 6.3 Brownfield Sites

- 6.3.1 Brownfield sites for development will include a variety of circumstances. Sites identified in the SHLAAs and the site-specific viability appraisals include former commercial buildings, car parks, filling stations, retail units and vacant plots of land. Some of the sites have current uses while others are unoccupied with the likelihood that there will need to be some investment before the consented uses can be resumed. In addition, some employment sites are in demand from commercial users (such as space for B8 development on motorway junctions) while others are in locations and configurations no longer suitable for most commercial occupiers (such as some of the poorly located former mills and other commercial buildings in Greater Manchester). All of this suggests that the range of potential circumstances for re-use of brownfield land for housing development will vary considerably and that a range of benchmarks will be needed. It also suggests that there will be some areas of employment land that will be in demand for high value employment uses and these should be disregarded in terms of residential development land benchmarks.
- 6.3.2 MHCLG land value estimates focus on Manchester and Bolton, and cover industrial, central business district office and out of town office land<sup>51</sup>.

**Table 6.1 MHCLG estimates**

£/ha	Industrial land	Office CBD	Office OoT
Manchester	£650,000	£12,320,000	£1,350,000
Bolton	£550,000	£865,000	£600,000

- 6.3.3 These values indicate the strong office market in Manchester compared to the less valuable office market in Bolton, and the smaller difference within in the industrial land market between inner and outer Greater Manchester.
- 6.3.4 Separate valuations of brownfield development sites in Bolton and Wigan<sup>52</sup> provided a range of existing use values from £51,000/ha to £988,000/ha, with an average of £470,000/ha. There is some indication of difference in value/ha by size although this is not tidy and as can be seen, includes a predominance of the higher value existing uses in the 5-50ha category.

<sup>51</sup> MHCLG, 2018, Land Value estimates for policy appraisal 2017

<sup>52</sup> 45 site valuations undertaken as part of a HIF funding bid across Wigan and Bolton, 2018.

**Table 6.2 Bolton & Wigan site valuations**

Average value £/ha	Brownfield sites
Up to 0.5ha	£485,000
0.5-1ha	£436,000
1-5ha	£439,000
5-50ha	£681,000
Over 50ha	£189,000
Total	£408,000

6.3.5 29 of the 32 site specific viability assessments reviewed as part of this study relate to brownfield sites. Here, the sites were split into the higher value areas of Greater Manchester (Stockport and Salford), prime areas (higher value sites in Salford) and super prime areas (central Manchester), and lower value areas elsewhere. The table below averages out the site values and site areas. Note that these site values include the premium over existing use.

**Table 6.3 Site specific viability assessments**

	£/ha
Higher value	£957,000
Lower value	£427,000
Prime	£5,438,000
Super prime	£15,512,000
Average	£674,000

6.3.6 Notwithstanding that the viability assessments being tested against these benchmarks are not necessarily policy compliant, the rate per ha for the lower value parts of Greater Manchester is not that dissimilar to the brownfield site valuations from the HIF bid. On a per ha basis, the value increases in the higher value areas of Greater Manchester.

6.3.7 Total site values were also set against total dwelling numbers to produce an average site cost per plot. These averages range between c.£11,000 - £17,000 per plot, although this masks significant variation on a site by site basis.

**Table 6.4 Site specific viability assessments p / plot**

	£/plot
Higher value	£16,800
Lower value	£11,200
Prime	£10,800
Super prime	£11,800
Average	£12,000

6.3.8 27 land transactions listed on EGi Radius were reviewed, dated from 2012 to 2019. These transactions covered 117 ha in total and the overall average was just under £600,000/ha. This average fits within the MHCLG industrial land figures and is between the site-specific viability assessment higher and lower value site values.



- 6.3.9 13 development sites listed on websites were reviewed. These were typically very small sites (only one was more than a hectare and only 3 were more than 0.5 ha) and the average asking price was £3.8m/ha. The only site listed with a substantial development potential was a central Manchester site consented for 415 flats at £11.7m/ha.
- 6.3.10 Following the September workshops, land transaction information was provided from two organisations:
- Information about nine industrial land transactions covering 52 ha with an average of £1.3m/ha. The sites were all drawn from logistics and business park locations strategically located with good access to the motorway network or the airport freight terminal. Many were new employment locations specifically provided to meet current business requirements. Although the comparables provide interesting information, this land is clearly in demand from high value business users and these are not the types of sites anticipated to provide housing.
  - Information about five former mill transactions covering 9 ha with an average of £858,000/ha. These are sites sold for housing although none provided policy compliant planning obligations.
- 6.3.11 High level assessments of four SHLAA sites were undertaken to produce an indication of existing use. This included two sites in Bolton, one in Bury and one in Manchester. The existing use estimates for these sites ranged between £840,000/ha and £13.3m/ha.
- 6.3.12 Consultation suggests that:
- Manchester city centre plots with no affordable housing may fetch £30,000 each. We estimate that depending on density this would equate to £1.5m/ha (50 dph) to £15m/ha (500 dph) and then to £36m/ha (1,200 dph).
  - Recent market transactions for sought after sites in south Manchester range from £0.74m/ha to £1.2m/ha.
- 6.3.13 Taking these factors into consideration, the brownfield land benchmarks are as follows:
- Brownfield industrial site lower value - £430,000/ha. This is based on the lower value area benchmarks from the site-specific viability work (which already includes a landowner premium).
  - Brownfield industrial site higher value - £660,000/ha. This is based on a 20% premium over the MHCLG Bolton industrial estimate and is close to the higher value brownfield values in the HIF bid valuations (£0.68m/ha)
  - Town centre/high value existing use brownfield - £1,038,000/ha. This is based on a 20% premium over the MHCLG Bolton CBD office estimate and is similar to the higher value brownfield land site values from the site-specific viability assessments.
  - Brownfield high density CBD site - £15m/ha. This is based on the highest value sites in the site-specific viability assessments (which already includes a landowner premium) and the high-level assessment of a city centre SHLAA site with a premium. This is a 'stretch' benchmark as the review above shows that lower benchmarks will be relevant for some of these higher density city centre schemes (e.g. £11.7m/ha). This benchmark would only be deployed for the highest density schemes.

## 6.4 Other examples

6.4.1 The development industry workshops undertaken in September 2019 cited the approaches taken in the 2019 Halton<sup>53</sup> and 2017 Cheshire East<sup>54</sup> area-wide viability studies as relevant:

- In Halton land transaction evidence was assessed but found not to be policy compliant, and instead the benchmarks relied on uplifts on existing agricultural use (EUV + 20 times EUV) and industrial use (EUV + 20%). The overall sales prices in Halton fit within the range of prices in Greater Manchester, and typologies of between 3 and 817 dwellings were tested against greenfield benchmarks of £472,000-£500,000/ha and a brownfield benchmark of £420,000/ha.
- In Cheshire East benchmarks range between £495,000-£1,605,000/ha for brownfield and £370,000-£990,000/net ha for greenfield. The brownfield land values were estimated to be twice the existing use, and the greenfield values between 15 and 40 times the existing use. Typologies range between 5 and 1,000 dwellings. Overall house prices in Cheshire East are at the upper end of the range of house prices in Greater Manchester.

6.4.2 The approach taken for benchmark land values in Greater Manchester follows the approach required in PPG and has the same principles as the two studies suggested in the development industry workshops in terms of EUV+. However, the starting existing use values and the premiums applied are different and reflect the circumstances of the different locations. The work in Greater Manchester has also been able to draw upon a range of site-specific viability assessments and useful set of data for HIF funding valuations.

6.4.3 The benchmarks for Cheshire East are per net ha. We note that the strategic sites in the Cheshire East testing are between 67% to 75% gross to net developable area. Adjusting the net area benchmarks from net to gross area gives a lower greenfield benchmark of £248,000-£277,000/gross ha, which given the difference in house prices is a comparable figure to the lower greenfield benchmark of £250,000/ha used for Greater Manchester and lower than the Greater Manchester small edge of settlement greenfield value (£310,000/ha).

6.4.4 Overall, the benchmarks adopted for the Greater Manchester viability testing are both within and in some cases higher than Halton and Cheshire East, reflecting the different circumstances. The approaches follow the same premium over existing use based on a diversity of available evidence, and the actual benchmarks used have a number of similarities.

## 6.5 Summary

6.5.1 The table below summarises the benchmark land values (BLVs) adopted for Greater Manchester.

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<sup>53</sup> <https://www3.halton.gov.uk/Pages/planning/policyguidance/pdf/evidencebase/viabilitystudy.pdf>

<sup>54</sup> <https://cheshireeast-consult.objective.co.uk/portal/planning/cs/cil/library?tab=files>

**Table 6.5 Summary of BLV**

<b>Site type</b>	<b>BLV/gross ha</b>
Strategic greenfield	£250,000
Edge of settlement greenfield	£310,000
Brownfield industrial site - lower	£430,000
Brownfield industrial site - upper	£660,000
Town centre/high value existing use brownfield	£1,038,000
Manchester City Centre high density CBD residential site	£15,000,000

# 7 Results of the residential, older person housing and student accommodation testing

## 7.1 Introduction

- 7.1.1 This chapter summarises results of the generic viability appraisals for Greater Manchester. Full details of the testing results and examples of the appraisals undertaken are set out in the Technical Report (Appendices E and F respectively). The residential results are presented as 100% market schemes and if viable they are tested with inclusion of affordable dwellings when applicable (i.e. for the typologies under 10 no affordable housing is required). The older persons housing and student accommodation testing does not include any affordable dwellings. Table 7.1 shows the range of typologies that have been tested.
- 7.1.2 The results of the residential testing, for each typology shown in figures 7.1 to 7.9 are presented here as the residual value per dwelling after land value (BLV figures in Table 6.5) and adjusted to account for development return. If this figure is positive then the scheme is viable, the closer to £0 the more marginal the typology is within the given scenario. Where affordable dwellings are included this is shown in the second and third columns for each typology. The typologies with 1,000 and fewer dwellings are presented first, by value area. Typologies over 1,000 follow, then older person housing and purpose build student accommodation.

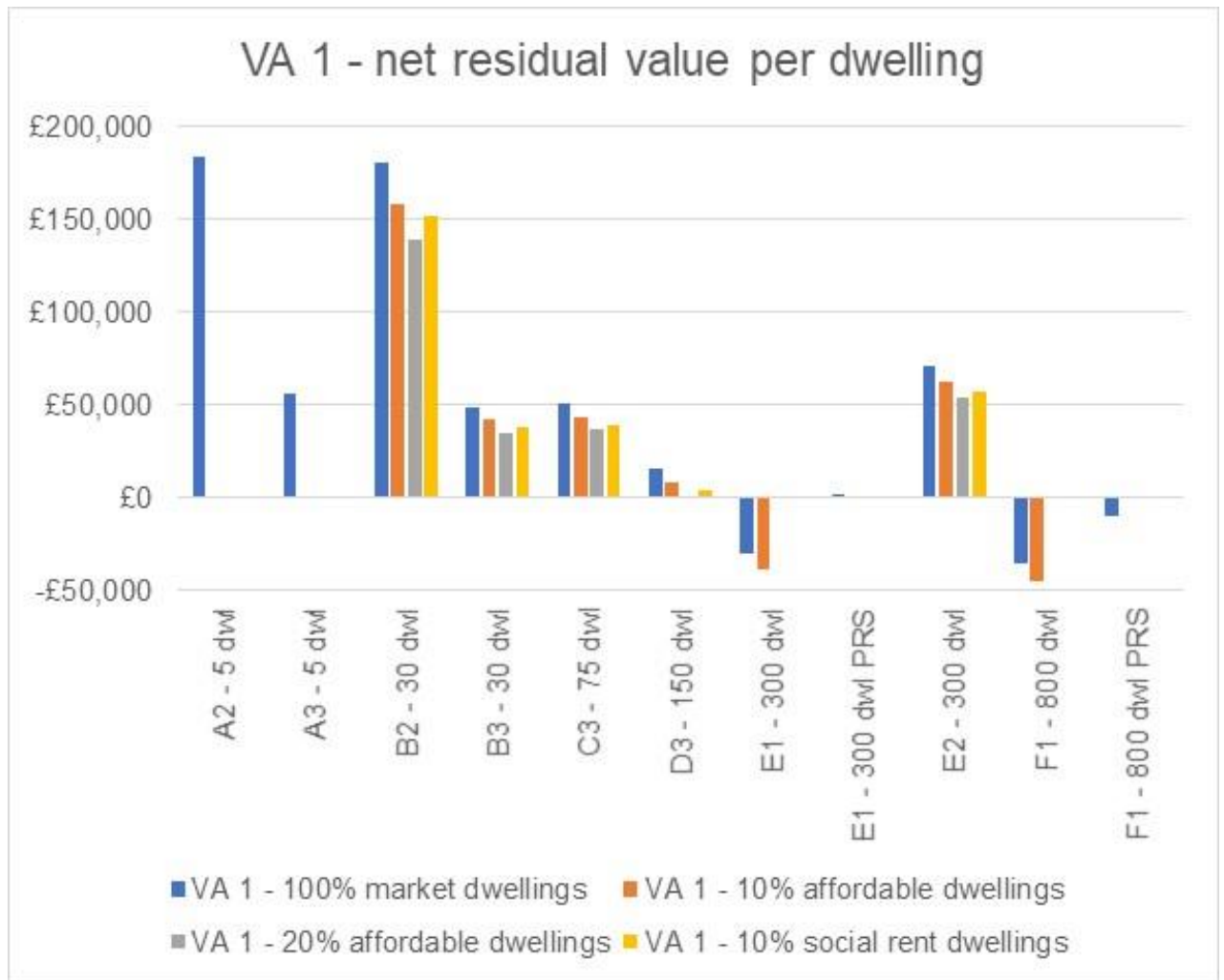
**Table 7.1 Typologies**

Site size	Ref	Units	Site types	Mix	Value area
10 and under	a1	5	GF	Houses	VA3 - 5
	a2	5	BF	Houses	VA1 - 5
	a3	5	BF	Flats	VA1 - 2
11 to 50 units	b1	30	GF	Houses	VA3 - 5
	b2	30	BF	Houses	VA1 - 5
	b3	30	BF	Flats	VA1 - 2
51 to 100 units	c1	75	GF	Houses	VA4 - 5
	c2	75	BF	Houses	VA3 - 5
	c3	75	BF	Flats	VA1 - 3
101 to 250 units	d1	150	GF	Houses	VA3 - 5
	d2	150	BF	Houses	VA2 - 5
	d3	150	BF	Flats	VA1 - 2
251 to 500 units	e1	300	BF	Flats	VA1 - 2, 4
	e2	300	BF	Mixed	VA2, 4
501 to 1000 units	f1	800	BF	Flats	VA1
	f2	800	GF	Houses	VA4 - 5
1001 plus	g1a	1,500	BF	Mixed	VA1/2
	g2a	1,500	BF	Flats	Ward based
	h1a	2,500	BF	Mixed	VA1

## 7.2 Value area 1

- 7.2.1 Value area 1 (VA1) covers large parts of Manchester and Salford City centres, and southern areas of Great Manchester. In terms of future supply the 2018 SHLAA includes around 60,000 units (around a third of future supply).
- 7.2.2 The figure below shows the results of the VA1 testing (net residual per dwelling). As A2 and A3 are under the affordable housing requirement threshold, affordable housing has not been tested for these typologies. There are two separate affordable housing tenure mixes that have been tested:
- AH1 - affordable housing (mixed affordable tenure of affordable rent (60%) and shared ownership (40%)). Where affordable housing is not viable at 10% of dwellings it has not been tested at 20%.
  - AH2 - social rent has only been tested at 10% of dwellings
- 7.2.3 PRS results are shown for the higher density schemes at E1 and F1 and do not include any affordable housing tests.

Figure 7.1 VA 1 results



#### 7.2.4 Commentary:

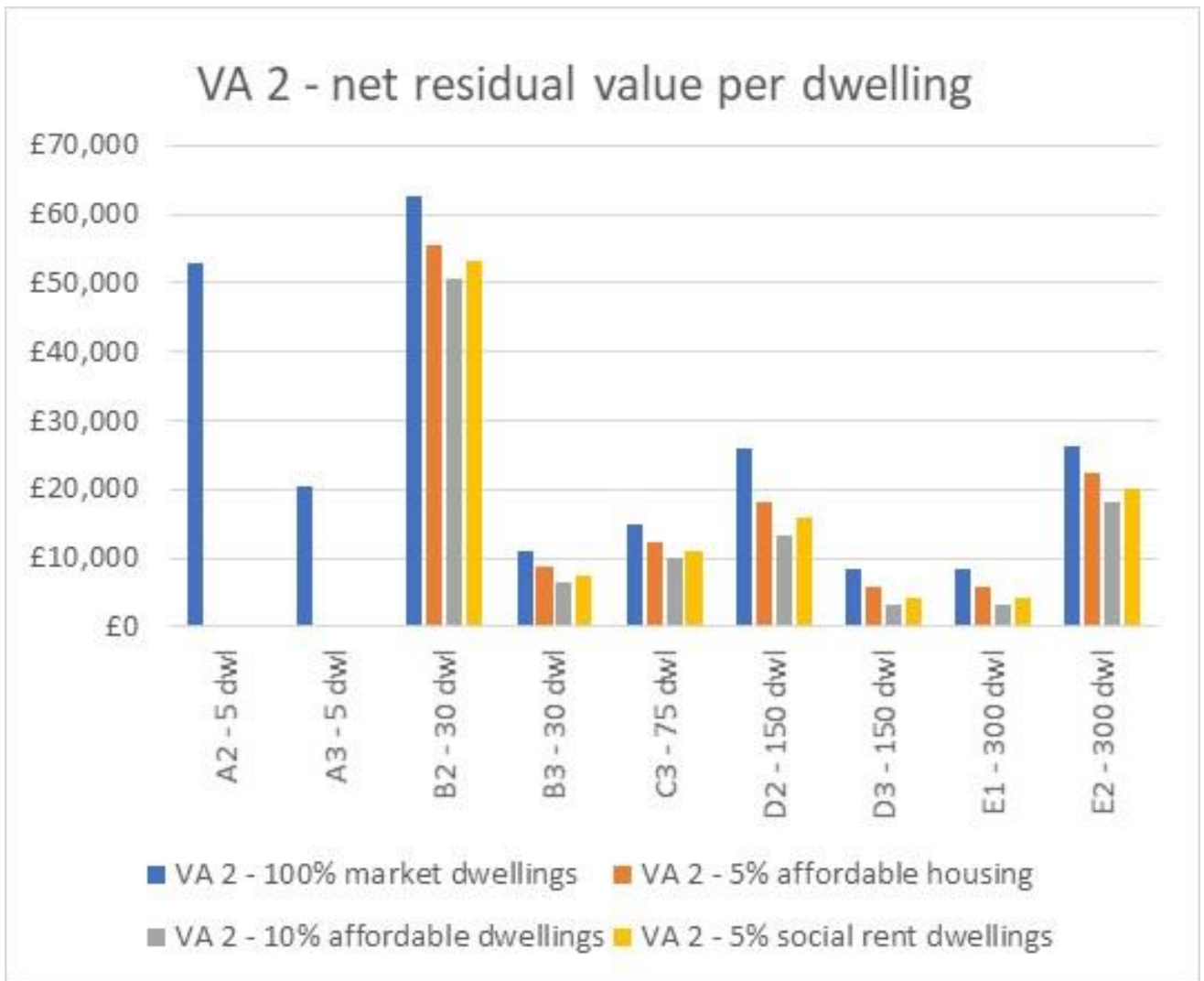
- The majority of typologies within VA 1 are viable – the exceptions are the high density schemes - E1 and F1, which are subject to relatively high build cost and land values
- If standard market sale is replaced with PRS E1 and F1 are marginally viable
- For all sites of between 11 and 250 dwellings and lower density sites above 250 dwellings, schemes are all viable with at least 20% affordable housing (affordable rent/shared ownership mixed tenure).
- Alternatively they are also viable with 10% social rent, which shows a similar pattern of viability as 20% affordable rent/shared ownership mixed tenure.
- There is potential to support a higher percentage of affordable housing (affordable rent/shared ownership) and/or a higher proportion of less viable tenures such as social rent in the small to medium sized schemes

- Although E1 and E2 are the same size in terms of units, the viability picture is different because E1 is at a higher density with taller buildings and increased build and land costs but a lower value and therefore less viable than the lower density, lower build cost and increased scheme value of E2
- The pattern in VA 1 follows what Three Dragons have been told locally that in the city centres the higher density schemes, generally come forward with PRS and have little or no affordable housing due to viability concerns.

### **7.3 Value area 2**

- 7.3.1 Value area 2, whilst concentrated in the southern areas of Greater Manchester does have representation across most of the boroughs. The 2018 SHLAA identified around 26,000 units within VA2, which is around 14% of supply.
- 7.3.2 The figure below shows the results of the VA2 testing (net residual per dwelling). As A2 and A3 are under the affordable housing requirement threshold, affordable housing has not been tested for these typologies. There are two separate affordable housing tenure mixes that have been tested - affordable housing (mixed affordable tenure of affordable rent and shared ownership) and social rent. Where affordable housing is not viable at 5% it has not been tested at 10%. Social rent has only been tested at 5%. PRS is not tested as it is not anticipated that this type of supply would be attractive in VA 2 areas and typologies.

**Figure 7.2 VA 2 results**



### 7.3.3 Commentary:

- All the typologies within VA 2 are viable but produce lower RLV per dwelling than in VA 1
- For all sites of between 11 and 500 dwellings they are all viable with at least 10% affordable housing (affordable rent/shared ownership tenure mix)
- For all sites of between 11 and 500 dwellings they are all viable with at least 5% social rent affordable housing
- Potentially some could support higher levels of affordable housing or a higher proportion of less viable tenures such as social rent

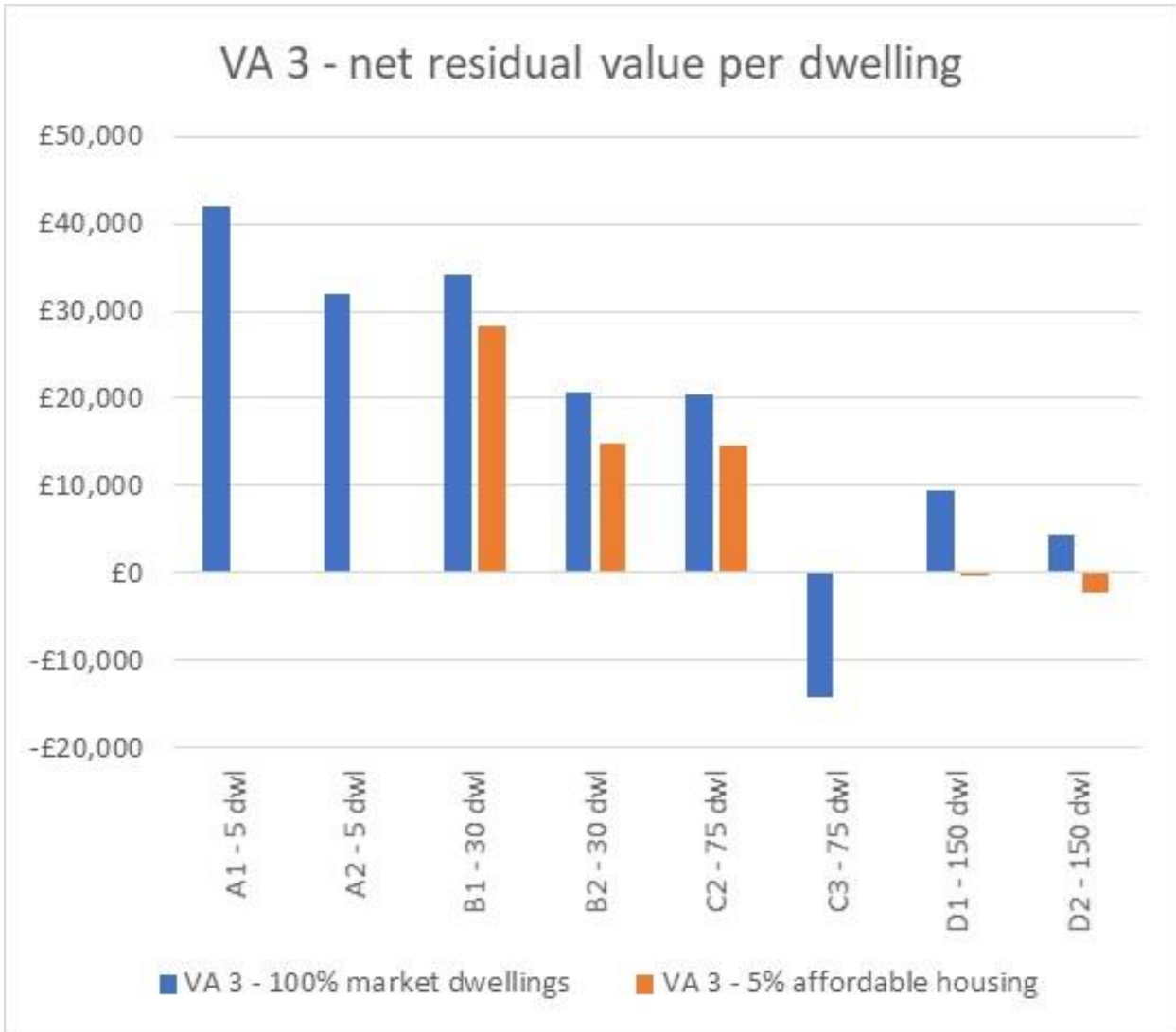
## 7.4 Value area 3

7.4.1 Value area 3 covers areas within all the cities and boroughs in Great Manchester. In terms of future supply the 2018 SHLAA includes around 28,000 units (around 15% future supply).



7.4.2 The figure below shows the results of the VA3 testing (net residual per dwelling). As A2 and A3 are under the affordable housing requirement threshold, affordable housing has not been tested for these typologies. Where a typology is not viable (e.g.C3) it has not been tested with 5% affordable dwellings. PRS is not tested as it is not anticipated that this type of supply would be attractive in VA 2 areas and typologies.

**Figure 7.3 VA 3 results**



7.4.3 Commentary:

- The majority of typologies within VA 3 are viable – the exception is the higher density scheme C3. RLV per dwelling is lower than in VA 1 and VA 2
- If s106 requirements are removed and developer return lowered by just over 5% then C3 would be viable

- For all sites of between 11 and 75 dwellings they are all viable with at least 5% affordable housing – potentially some could support higher levels of affordable housing and/or a higher proportion of less viable tenures such as social rent.
- For the larger sites at 150 dwellings the addition of affordable housing at 5% would be marginal in viability terms. However, a small reduction in developer return or s106 contributions would produce a positive residual value.

## 7.5 Value area 4

7.5.1 Value area 4, whilst concentrated in the northern areas of Greater Manchester does have representation across all of the cities/boroughs. The 2018 SHLAA identified around 34,000 units within VA4, which is around 1/5 of supply.

7.5.2 The figure below shows the results of the VA4 testing (net residual per dwelling). Affordable dwellings have not been tested within any of the typologies in VA4 as the residual values with 100% market housing are unlikely to be sufficient to support the tested affordable housing scenarios. A second set of tests was undertaken with the developer return (on GDV) reduced from 17.5% to 10% and 5%. This alternative was to assess the potential for public sector led development where a 10% to 5% return would be potentially acceptable, but this is unlikely to be the case for wholly private sector led development for market sale.

**Figure 7.4 VA 4 results – standard assumptions**

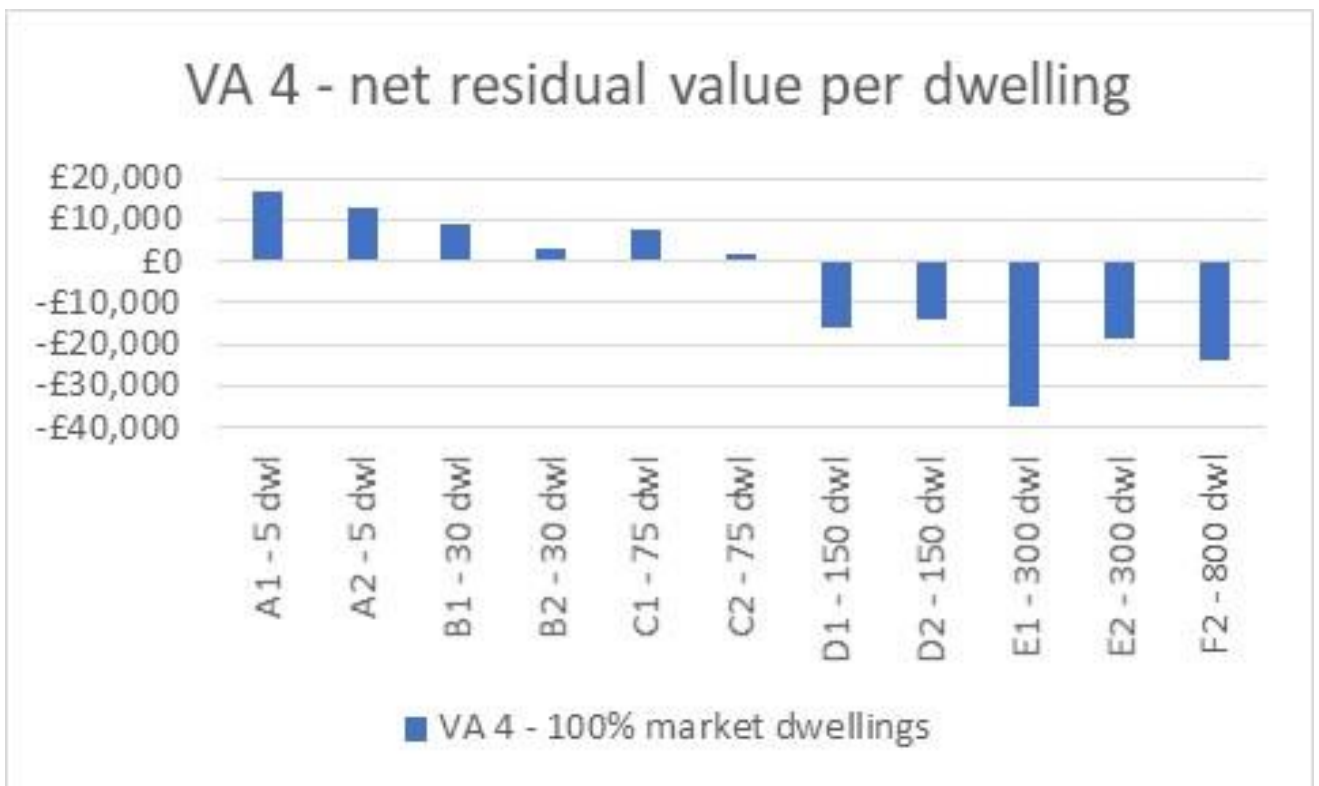


Figure 7.5 VA 4 results – developer return reduced to 10%

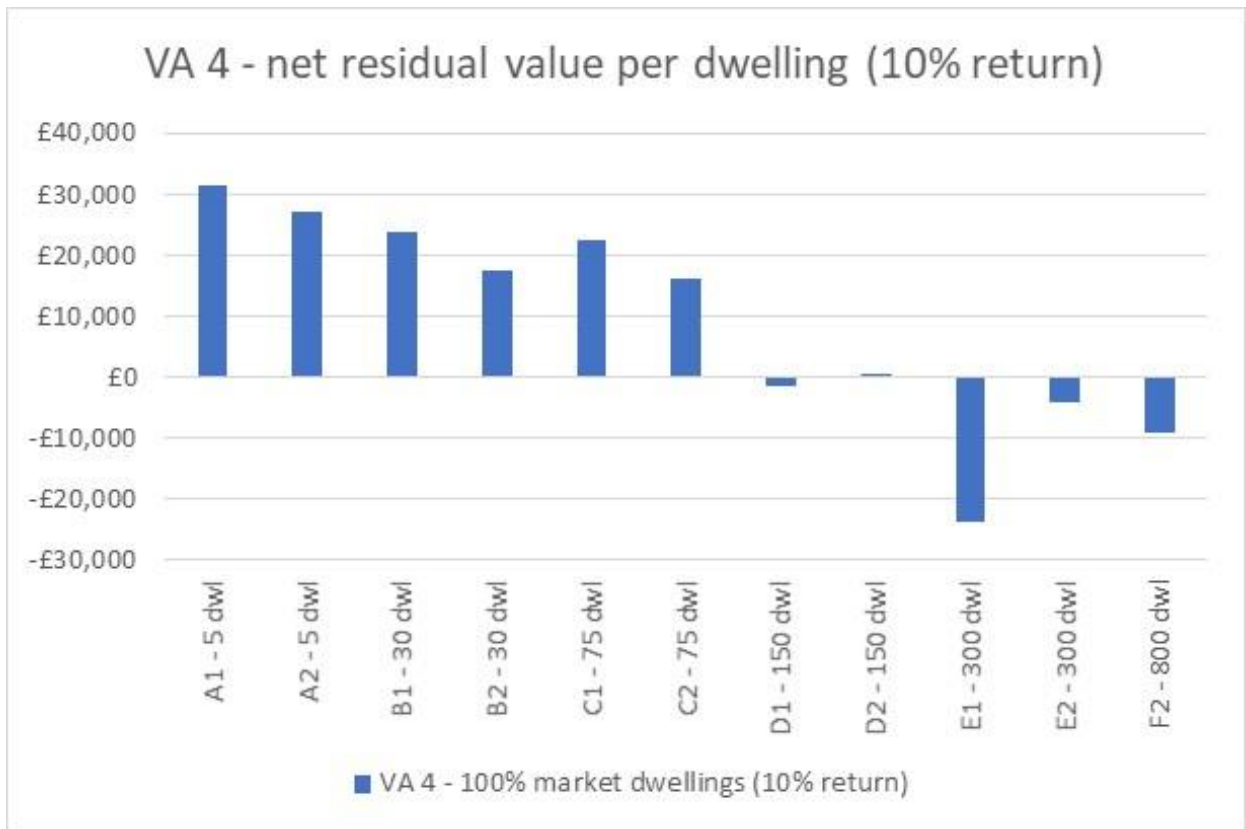
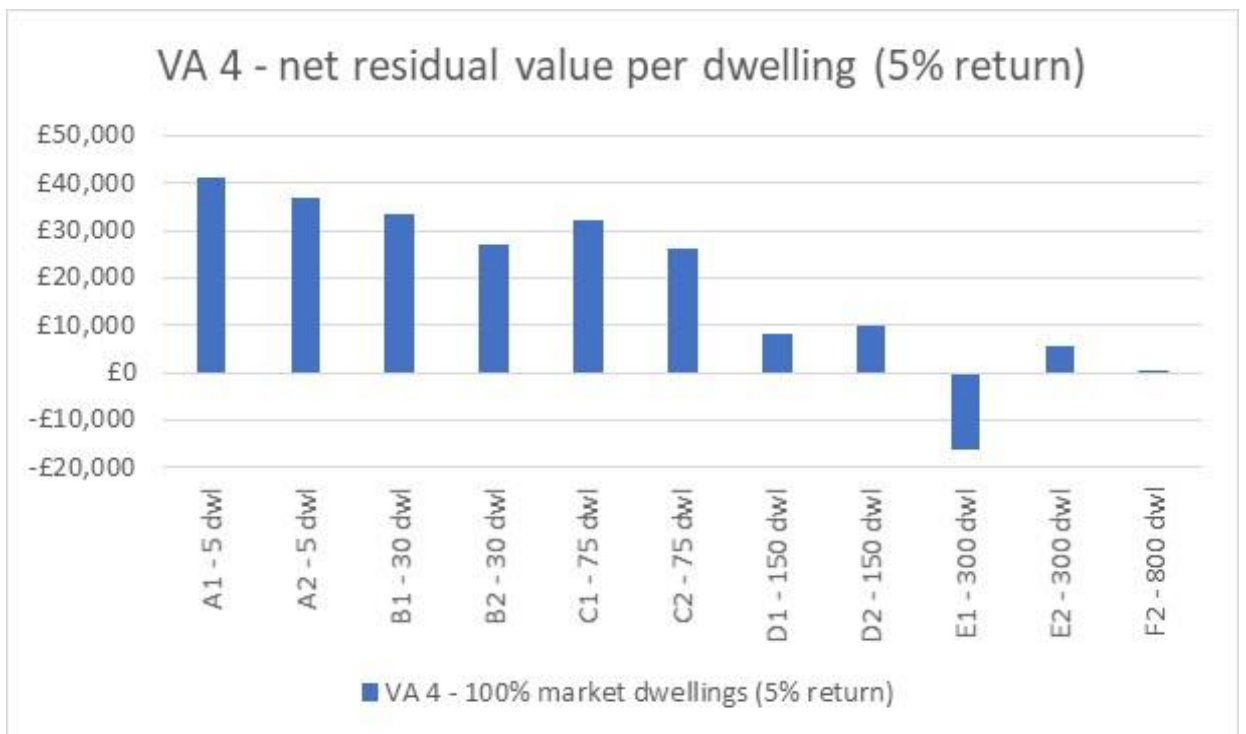


Figure 7.6 VA 4 results – developer return reduced to 5%



### 7.5.3 Commentary:

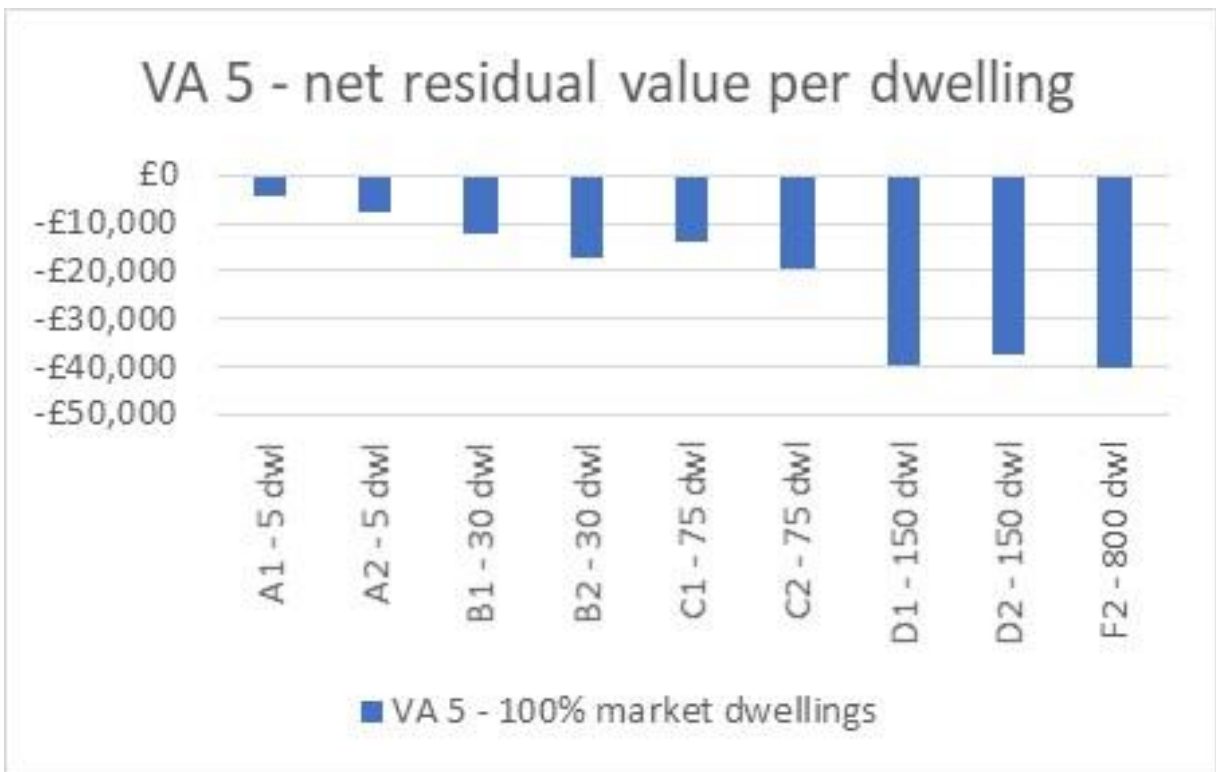
- Sites of up to 75 dwellings are viable in VA 4
- Sites from 150 to 800 dwellings are not viable using the standard assumptions set out in this report – the higher density scheme (E1) in particular is showing the lowest viability
- If sites were public sector led, with a developer return of 10% (as shown in figure 7.5) then sites of 5 to 75 dwellings would be viable. The larger sites would be marginal with the exception of the higher density scheme of E1
- If sites were public sector led, with a developer return of 5% (as shown in figure 7.6) then all sites would be viable with the exception of E1 – the reduction in developer return would also potentially allow some affordable housing to come forward

## 7.6 Value area 5

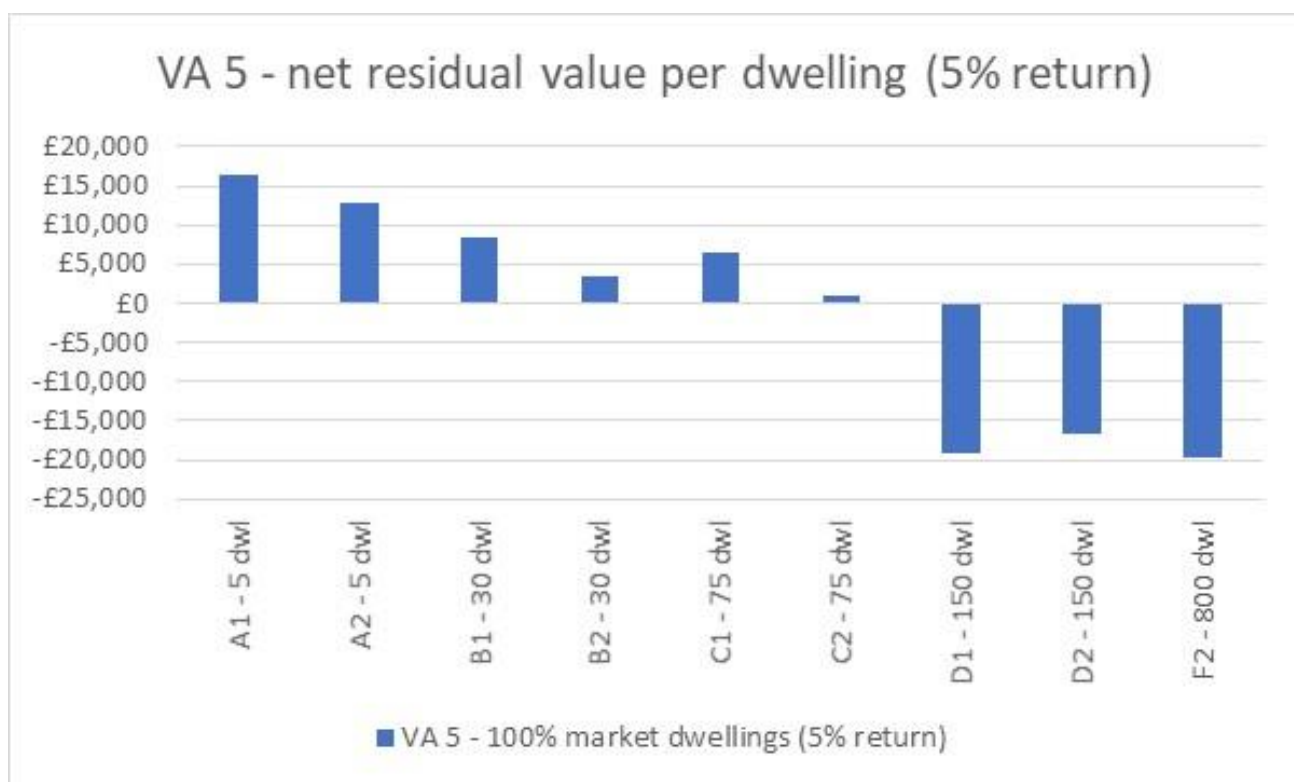
7.6.1 Value area 5, is concentrated in the northern areas of Greater Manchester but there are pockets of lower values elsewhere. In terms of future supply the 2018 SHLAA includes around 33,000 units (around 18% future supply).

7.6.2 The figure below shows the results of the VA5 testing (net residual per dwelling). Affordable dwellings have not been tested within any of the typologies in VA5 as the residual values for 100% market housing are negative. As with VA4, the schemes have been retested with a 5% return of GDV to mimic potential public sector led schemes.

**Figure 7.7 VA 5 results – standard assumptions**



**Figure 7.8 VA 5 results – developer return reduced to 5%**



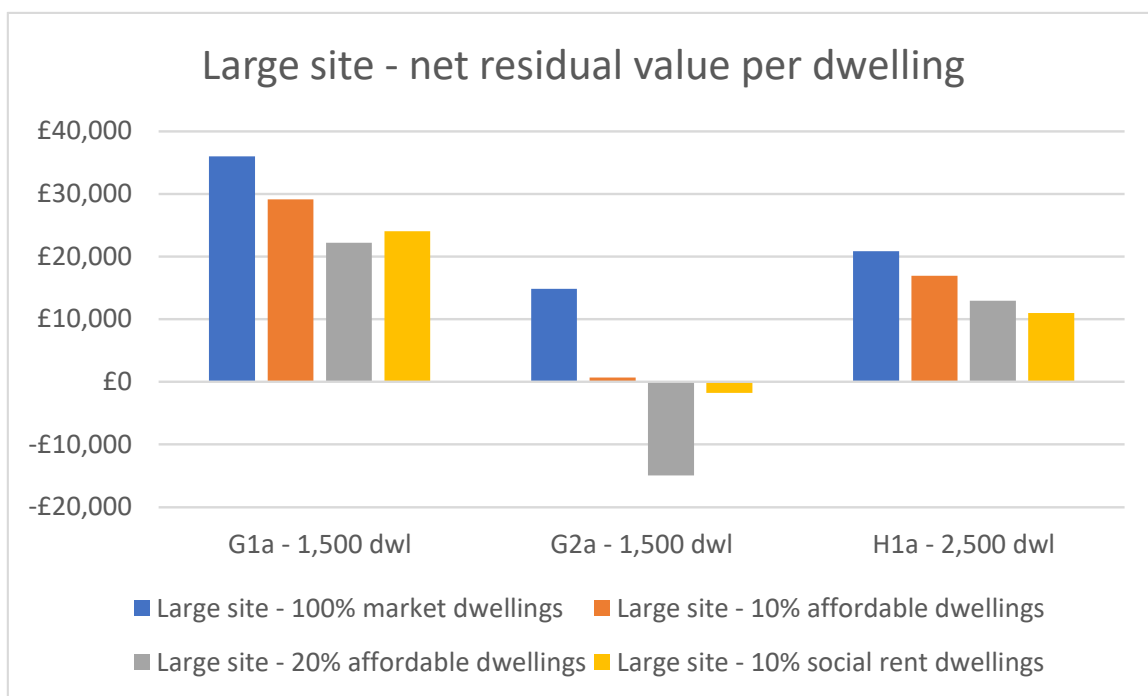
### 7.6.3 Commentary:

- None of the typologies are viable using the standard assumptions set out in this report – the larger sites of 150 dwellings plus are the least viable
- If sites were public sector led, with the standard developer return lowered to 5% GDV (as shown in figure 7.8) then all the smaller schemes, up to 75 dwellings, would be viable, however viability headroom remains very limited and there is little potential to deliver affordable housing. The larger sites of 150 dwellings plus are still unviable

## 7.7 Larger sites over 1,000 dwellings

7.7.1 The larger sites include three typologies, representing over 20,000 units of future supply, all located within and adjacent to Manchester City Centre. The figure below shows the results of the large site testing (net residual per dwelling). There are two separate affordable housing tenure mixes that have been tested - affordable housing (mixed affordable tenure of affordable rent and shared ownership) and social rent. Social rent has only been tested at 10%.

**Figure 7.9 Large site results**



**7.7.2 Commentary:**

- All the large site typologies are viable
- For G1a and H1a (Northern Gateway) the sites are viable across all the mixed tenure affordable housing schemes (both affordable rent/shared ownership and social rent tenure mix), and potentially some could support higher levels of affordable housing or a higher proportion of less viable tenures such as social rent
- The city centre sites represented by G2a are viable with 10% affordable housing but not able to support 20% affordable housing or social rent at 10%.

**7.8 Older person dwellings**

7.8.1 The testing focused on a sheltered (retirement) standalone scheme as the local authorities considered this was the most likely over the GMSF plan period. The results of the testing, indicating the headroom are set out below:

**Table 7.2 Older person dwellings**

	Use	Value assumption	Net residual value	Net residual value per unit
OP1	Retirement/sheltered housing	Based on the market and sold – average price	-£62,568	-£1,251
OP2	Retirement/sheltered housing	Based on VA 1 average flat value plus 10%	£945,113	£18,902

7.8.2 The results suggest that older person dwellings can come forward and meet policy requirements set out in GMSF. However, they do need to achieve either a slightly higher value than OP1 or a reduced level of either developer return or S106 allowance.

## 7.9 Student dwellings

7.9.1 Two typologies were tested in respect of student housing, with 100 bed spaces and 500 bed spaces. These reflect the types of development the council consider could come forward in Greater Manchester over the plan period. Each typology has been tested with 17.5% and 15% developer return. The results of the testing, indicating net residual values are set out below:

**Table 7.3 Student dwellings**

	Use	Floorspace (sqm) / beds	Developer return	Net residual value	Net residual value per unit
ST1a	Student accommodation	3,100 100 beds	17.5%	£238,796	£2,388
ST1b	Student accommodation	3,100 100 beds	15%	£484,109	£4,841
ST2a	Student accommodation	15,500 500 beds	17.5%	-£972,835	-£1,946
ST2b	Student accommodation	15,500 500 beds	15%	£253,729	£507

7.9.2 Purpose built student accommodation is viable for both typologies at 15% developer return. However, if the expectation on return is higher at 17.5%, the larger typologies become marginal in respect of viability. Reflecting the active market in Greater Manchester and the testing results, it suggests that this form of development, whilst marginal, is viable with the policy requirements and can contribute to the housing supply.

## 8 The viability position

### 8.1 Overview

- 8.1.1 The study sought to provide a robust evidence base to support the Greater Manchester Strategic Framework and will supplement GMCA's Strategic Housing Land Availability Assessment (SHLAA) by providing a more detailed understanding of the viability of sites across Greater Manchester.
- 8.1.2 The approach taken to the viability testing closely followed national guidance for area-wide viability assessments, with proportionate evidence to ensure the GMSF is underpinned with a broad understanding of viability. The residual value of a series of typologies has been compared with a set of notional land value benchmarks. While the testing undertaken reflects the main types of development likely to be found in GM over the life of the GMSF, given the complexities of the GM market, it is acknowledged that there may be some development types that will fall outside the scope of the testing undertaken but we do not anticipate that any major development types have been missed. It is recognised that different densities and types of built form may come forward informed by location-specific cost/value assessments, and this may produce more viable schemes than the case studies in this report.
- 8.1.3 In accordance with general practice, current costs and values have been used for the testing (as at 3rdQ 2019) with land value benchmarks as representing a competitive return for a landowner. All reasonably anticipated development costs have been taken into account, including infrastructure and other standard development costs. We have identified and provided indicative costs of those policies which might be expected to impact on development viability and therefore provide a thorough review of the impact on development viability of the draft GMSF. Important in this respect are the policies for delivery of affordable housing, carbon reduction standards, housing accessibility and standards for biodiversity net gain.
- 8.1.4 Costs and values employed in the study have been drawn from the most appropriate data available and tended to err on the side of caution. The overall effect of this is to understate the true viability of the typologies modelled.
- 8.1.5 The GMSVR has tested the viability of private sector led residential development. However, it is important to note that registered providers (RPs) can play a role in affordable housing delivery across Greater Manchester. RP and public sector led developments typically have different viability characteristics and can benefit directly from funding arrangements and other support from Homes England.

### 8.2 Results of the viability testing

#### *Residential development*

- 8.2.1 Our analysis of market values in Greater Manchester highlighted a significant variation in values and this has shaped the way we have undertaken our testing – identifying five value areas. The range of values across the five value areas has important implications for the viability of the GMSF.
- 8.2.2 **On sites of up to 1,000 dwellings** in the higher value areas (VA1 & VA2), residual values are strong, and schemes are generally viable. The exception is the high-density city centre schemes when tested as standard market sale. However, when tested as PRS these typologies are viable. This reflects the longer-term view of investment that is found with PRS.



- 8.2.3 Similar conclusions apply in mid-low value bands (VA3) although the picture here is more mixed and some typologies are not viable with higher cost scenarios (e.g. higher build costs associated with taller buildings), but most are still deliverable as 100% market schemes.
- 8.2.4 However, when average market values are lower (as in VA4 and VA5) delivering viable policy compliant development depends on the typology in question. In VA4 it is the smaller schemes (say up to c 75 dws) that are viable, with the larger schemes not as viable unless developer return is reduced. In VA5 none of the tested schemes are viable until developer return is reduced, when smaller sites do become viable (up to c 75), however the larger sites remain not viable even with the reduced developer return. To improve viability in VA4 and VA5 it will require either improvements to the market, lower costs or extra public sector support.
- 8.2.5 The **largest SHLAA typologies** are all located within or adjacent to Manchester City Centre, where values are amongst the highest across Greater Manchester. Whilst the build costs are greater with high density schemes, many of the sites are being jointly pursued through public/private partnership and therefore are less influenced by returns on land value.
- 8.2.6 Policies in the plan have been tested including accessibility and building standards, transport, biodiversity and green infrastructure requirements and S106. These represent modest costs as a proportion of development value and typically have limited impact on overall viability. For example, typology D2 150 dwellings within VA2, the policy costs are just over £1.5m. The GDV for the scheme is nearly £48m, therefore the policy costs account for 3.2% of the value of the scheme. For the same scheme in VA3, policy costs represent 4.1%, in VA4 -5.0% and VA5 - 5.9%. Typology D2 was not tested in VA1, but with a higher value in VA1 the percentage would be lower than VA2. By way of comparison Examiner's reports on community infrastructure levy have considered CIL rates of around 5% of GDV to have limited and acceptable impact. So even in the lowest value area the impact of policy costs whilst greater are not considered enough to significantly alter the viability position.
- 8.2.7 Whilst there are no direct GMSF targets seeking affordable housing through s106 as part of a mixed tenure schemes, there is an expectation within local plans that affordable housing should be sought, although the proportion, tenure and success varies considerably. A range of affordable housing scenarios (up to 20% as a mix of affordable rent and shared ownership) have been tested and found to be viable in most cases within VA1 - VA3. However, typologies tested in VA4 and VA5, cannot deliver any affordable housing under the assumptions used for the testing.

#### ***Other residential development types***

- 8.2.8 This group of uses includes specialist provision for the older persons and others needing sheltered facilities and also includes student accommodation. Generally, all these types of uses are viable and the GMSF policy requirements can be met.

### **8.3 Delivery of the Plan**

#### ***Residential***

- 8.3.1 Given the diversity of the Greater Manchester market, it can be no surprise that development viability varies across the two cities and eight boroughs. The underlying message of the viability testing is that most development types can meet the policy requirements of the draft GMSF in the medium to high value areas (VA1-3).
- 8.3.2 The study also highlights that individual schemes in lower value areas VA4-5 face viability challenges. Although as set out above, the policy requirements in GMSF are only a small proportion of the scheme value and therefore not the main determining factor as to whether a

typology is viable. Generally, as schemes get larger and/or denser with increased building height, in these areas the viability worsens.

8.3.3 We have used the results of the viability testing to assess the deliverability (in viability terms) of the future land supply identified in the 2018 SHLAA<sup>55</sup>. The table below sets this out. We recognise that some sites in the SHLAA may already have been started and so the table may already be out of date, but the range of sites expected over the GMSF period will remain similar and therefore the table provides a reasonable overview of likely future delivery.

**Table 8.1 Delivery of SHLAA sites**

Value area	Dwellings		Total dwellings	Deliverable with 100% market housing <sup>56</sup> & 17.5% return	% deliverable 100% market dwellings in VA
	SHLAA sites 1-1,000	Large sites <sup>57</sup> 1001+			
VA1	46,230	20,501 <sup>58</sup>	66,731	53,297	80%
VA2	18,497		18,497	18,497	100%
VA3	26,327		26,327	25,193	97%
VA4	26,057		26,057	10,687	41%
VA5	25,727		25,727	0	0%
<b>Total</b>	142,838	20,501	163,339	107,674	<b>66%</b>

8.3.4 Assuming the standard set of assumptions on values, development costs, land value and developer return at 17.5% the viability testing suggests that 66% of the future supply identified in the 2018 SHLAA is viable with 100% market housing.

8.3.5 It is understood through consultation with local authorities that development is happening in the lower value areas. The testing undertaken for this report is necessarily strategic, applying a set of standard assumptions across a range of typologies reflecting future supply in Greater Manchester but has not sought to specifically test every identified site. Where sites are coming forward that the typology testing suggests may not be viable, our research with the relevant local authorities has identified a wide range of reasons including:

- Sites are public sector led or being bought forward by a registered provider – in these instances land values and developer return expectation will be much lower than the schemes tested in our work – for example in the results for VA4 it could be seen that reduced developer return brought previously unviable sites to become viable.
- Philanthropic owners – similar to public sector led sites, the owners of these sites are more concerned with legacy rather than meeting the normal profit expectations.
- Localised forms of development – very specific forms of development with an optimum mix and sales point, targeting specific markets that enable delivery but that may differ from the standard mix assumptions assumed in the testing.

<sup>55</sup> Adjusted to take account of the analysis of larger sites (1001 plus) undertaken for this study

<sup>56</sup> It is assumed that if standard market sales are not viable then sites could come forward as PRS which is currently being delivered on similar schemes in Greater Manchester.

<sup>57</sup> The large sites identified within the 2018 SHLAA contributed 38,203 dwellings to the supply, however following consultation this figure has been reduced to 20,501 for the purposes of this testing with the difference already committed and thus considered deliverable.

<sup>58</sup> For ease of reference all the large sites are categorised as VA1 due to their location within and adjacent to the high value area

- Heritage and high quality developments – there will be pockets of better quality development that are able to attract higher values in an area synonymous with lower values more generally, as they have specific qualities such as heritage or natural features or build quality.
- Infrastructure funding – some sites come forward as they have had access to either grant or repayable funding that has assisted in reducing development costs, improving cashflow and reducing finance costs all of which will assist viability.

8.3.6 If these forms of development continue then they will help in the delivery of supply within the lower value areas, but delivery of the GMSF in such areas cannot rely on this. Indeed, there may equally be sites within the higher value areas where local conditions result in non-viable schemes, which the testing for this study has indicated would be viable. Therefore, the analysis undertaken for this study indicates that there will likely still be a significant shortfall in the supply. It is not the role of this study to identify how the shortfall might be addressed but the study results do imply the need for greater public sector intervention. These could be achieved in a number of ways:

- More direct delivery either through individual councils or in partnership with registered providers or through joint ventures with developers and landowners
- Use of existing central government funding such as the Housing Infrastructure Fund to forward fund infrastructure
- Provision of improved transport networks and other public works to improve quality and accessibility of areas to help improve values and therefore viability
- Area based regeneration programmes that raise the quality of an area and achieve increases in values to strengthen viability.

8.3.7 GMCA and local authorities are already pursuing many of these options and can evidence success, but the study indicates that these efforts will need to be ramped up to meet the forecast shortfall.

### ***Affordable housing***

8.3.8 Whilst the GMSF does not include specific affordable housing requirements from development it does set out a general target of 50,000 new affordable housing units within its operating period to 2036. The delivery of these units is expected from a range of sources, including directly by registered providers in 100% affordable housing schemes and with the benefit of central government grant funding via Homes England.

8.3.9 The viability testing included a range of affordable housing scenarios. Through the testing it can be seen that affordable housing, with 60% affordable rent and 40% shared ownership, can be achieved without grant in the higher value areas in developer led schemes. - up to 20% in VA1, up to 10% in VA2 and up to 5% AH in VA3). The table below uses these findings to estimate the amount of affordable housing that can be provided through the GMSF in mixed tenure schemes. These figures should be treated as broad estimates of likely future trends.

**Table 8.2 Affordable housing delivery from mixed tenure (affordable rent/shared ownership)**

<b>Value area (including large sites)</b>	<b>Total units</b>	<b>Affordable housing units from s106</b>	<b>% of affordable housing</b>
VA1	66,731	7,400	11%
VA2	18,497	1,700	9%
VA3	26,327	1,100	4%
VA4 & VA5	51,784	0	0%
Total	163,339	10,200	6.3%

8.3.10 The testing shows that just over a fifth of the required affordable housing units (assuming the 60/40 split between affordable rent and shared ownership) could potentially be delivered through s106 on mixed tenure schemes. Therefore, in order to meet the target 50,000 units GMCA and its partners will need to seek alternative forms of delivery. This could include funding to boost affordable housing achieved in mixed tenure schemes in lower value areas. If social rent rather than affordable rent were sought – the level of delivery through mixed tenure schemes would be below the amounts illustrated in the above table.

**Appendices –see accompanying Technical Report.**