



Report for Greater Manchester Combined Authority

Strategic Viability Stage 1 - Addendum

Impact of revised planning area – June 2021

Three Dragons



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Chapter 1 A changing planning environment

Introduction

- 1.1** The Greater Manchester Combined Authority (GMCA) have asked Three Dragons to provide an overview on the impact of changing planning circumstances to the work undertaken on strategic viability testing which was set out in two reports that formed the evidence base for the Greater Manchester Spatial Framework (GMSF). The two reports were:
- Strategic Viability Report Stage 1 September 2020 (SVRS1)
 - Strategic Viability Report Stage 2 Allocated Sites Viability Report September 2020 (SVRS2)
- 1.2** This addendum report considers the Stage 1 report only. A revised Stage 2 report (Strategic Viability Report Stage 2 Allocated Sites Viability Report Amended June 2021) has also been prepared as a separate document.

The revised plan

- 1.3** Following the decision of Stockport Council on 3rd December 2020, Greater Manchester's **Plan for Homes Jobs and Environment** (GMSF) is no longer being progressed. Instead, Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Tameside, Trafford and Wigan councils have formed a new joint committee to develop a long terms plan for jobs, new homes and sustainable growth their boroughs. **Places for Everyone** (the replacement Spatial Plan) will map out where development can take place in areas connected by sustainable transport links, creating new homes and jobs for people across the city-region and laying the foundations for new investment and innovation.
- 1.4** Within this context it is clear that SVRS1 needs reviewing to ascertain the impact of Stockport no longer forming part of the plan area and whether the testing approach and assumptions are still relevant and whether there are any substantive changes within the analysis of viability across this new plan area.

Planning reform and impact of Covid-19

- 1.5** In August 2020 the Government published its White Paper 'Planning For The Future'. Whilst the government included its intention to take forward the reforms into legislation (as announced in the Queen's speech of 11th May 2021) there are no details available at this time and so this report relies on the current National Planning Policy Framework and associated Planning Practice Guidance.
- 1.6** However, this Addendum does further consider the impact of Covid-19 and whether further work is required in terms of the supporting evidence base.

Chapter 2 Value areas and impact of Covid-19

Context

- 2.1 Value areas were established in SVRS1 (section 4.2). The value areas were based on a statistical analysis across Greater Manchester, including Stockport, using new build values where available or uplifts on current stock transaction values. 5 Values Areas (VA) were identified, with each statistical ward assigned one of the value areas for the purposes of establishing GDV for typologies that were located within that ward. Further detail on the method for establishing the value areas is set out in SVRS1 and its Technical Appendices.
- 2.2 In order to check the relevance of the approach, without Stockport, it is appropriate to review whether the omission of Stockport would change either the values utilised in the study or the value areas, given they are a product of an analysis of all ten local authorities.
- 2.3 There has also been much commentary around the impacts of Covid-19 on development and therefore it is important to review this impact and consider whether it is necessary to undertake revised testing to respond.

Review of value areas

- 2.4 Stockport wards were classified as VA1 to VA4, with no VA5 – therefore by ‘removing’ Stockport from the GM wide figures there is no impact on VA5 figures used in the testing. In terms of VA3 and VA4 wards (which account for 8 of the 21 wards) there is some very minor impact at 0.5% change in dwelling values across the different types dwelling (i.e flats, terrace, semi-detached and detached). With Stockport removed from the figures there is an average increase of sales value of around £900 per unit.
- 2.5 In terms of the higher value areas there are more wards (13 of 21) and transactions, it is inevitable that the impact will be greater than in VA3 to VA5. The results are mixed with some dwelling types/VA gaining in value and others losing value, however on average there is under a 1% difference in value across the dwelling types, with an average increase of sales value of around £5,000 per unit.
- 2.6 When reviewing the wider value areas, i.e. if the Stockport figures are removed would this alter the value area averages and thus move wards from one value area to another? As with the dwelling values there would be some small alterations. Of the 194 wards, 13 would move either up or down a category, if the figures were all rerun without Stockport. At this stage as this is a relatively small change it not considered to be at such a scale to necessitate a wholesale review of the base data.

- 2.7** Whilst it is considered that there is insufficient evidence to support a change in values and value areas as a result of excluding Stockport from the analysis, it is recommended that when values are next fully reviewed e.g. when Places for Everyone is reviewed it would be appropriate to reconsider the values and value areas at that time, especially as some of the supply in Stockport was in lower value areas.

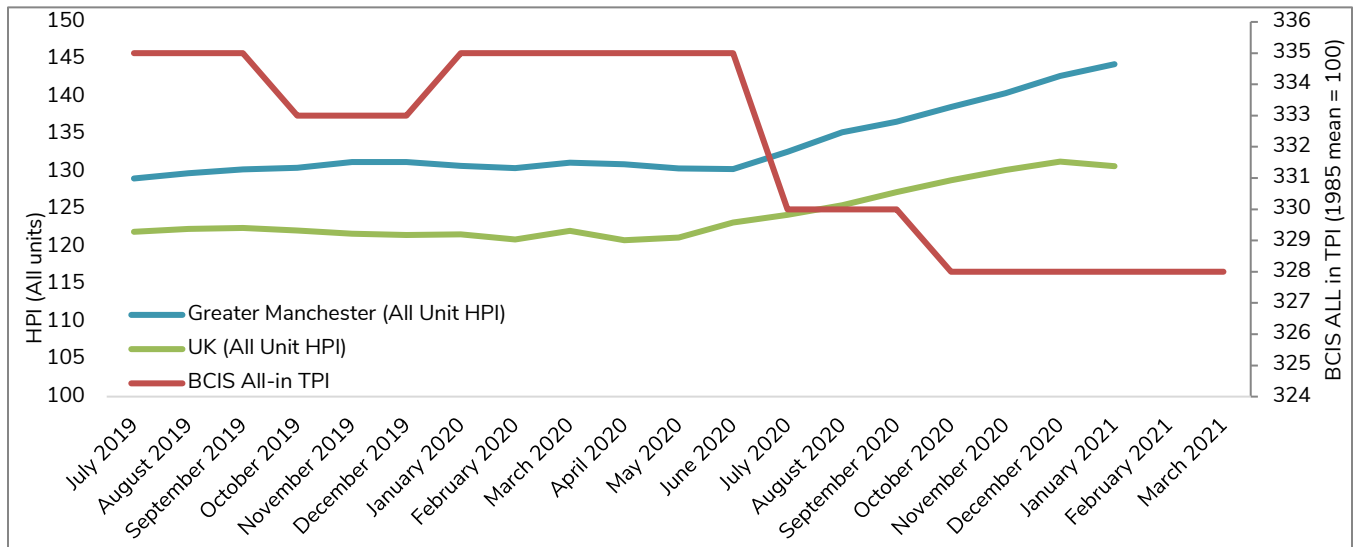
Impact of Covid-19

- 2.8** There is a range of views regarding both the short term and medium to long term impacts of Covid-19 on development, both in terms of costs and values. The government has provided short term economic stimulus to the housing market (and the wider economy) and it is difficult to assess the longer term effect on housing market values and costs. However, a review of changes in costs and values since this evidence was first collated in support of GMSF has been undertaken as well as a review of opinions about likely future trends.

Changes in costs and value

- 2.9** Data sources such as BCIS, demonstrated by the All-In Tender Price Index, are able to provide us with an indication of how build costs might have changed in recent years. A similar exercise can be shown for values by considering the House Price Index, published by Land Registry. At the time of this note, the latest estimates available for build costs is for March 2021 and for house prices, is January 2021.
- 2.10** The following figure plots the changes in house prices and build costs. The starting month is July 2019. In the period from June 2019 to the latest data, sales values in Greater Manchester increased significantly (+11.8%). It also shows that the HPI has consistently been above the UK Index, with this gap widening in the most recent data. Build costs, however, have fallen from their index of 335 in July 2019 to an index of 328 in March 2021 (representing a fall of -2.1%).

Figure 2.1 Change in build cost and HPI since July 2019



Looking forward

2.11 Table 2.1. provides a summary of house price forecasts for 2021, published since December 2020 by lenders and agencies such as Nationwide, Knight Frank, Rightmove. The forecasts show a range of predictions for 2021 from -5% to an increase of 5%, highlighting the uncertainty in the forecasts about the recovery from the pandemic. For Savills we have included two estimates, the first of 0% in December 2020 which was revised upwards to 4% in March 2021¹. Savills point towards an improvement in the outlook following the Government’s budget which announced measures such as the mortgage guarantee scheme and extending the furlough scheme and stamp duty holiday which they indicate has “significantly reduced the downside risks”.

Table 2.1 Predicted change in average house prices for the year 2021

	Annual change in 2021
Halifax	-2% to -5%
RightMove	4%
Pantheon Economics	-2%
Savills	Dec 2020: 0%; March 2021: 4%
Knight Frank	1%

Source: Various

¹ Savills (2021) ‘Savills upgrades UK house price forecasts’ 09 March 2021 accessed via <https://www.savills.co.uk/insight-and-opinion/savills-news/311749/savills-upgrades-uk-house-price-forecasts>

2.12 The same report by Savills provides 5-year estimates for the UK, and the separate regions. Savills predict that the North West will see the strongest house price growth of any region, estimating growth of 28.8% in total over the 5-year period. This compares with a UK average of 21.1%. Table 2.2 shows that much of this growth is expected within 2022, with house price inflation of 6%.

Table 2.2 Mainstream residential capital value forecasts 2021-2025

	2021	2022	2023	2024	2025	5-year growth
UK Average	4.0%	5.0%	4.0%	3.5%	3.0%	21.1%
North West	4.5%	6.0%	5.5%	5.5%	4.5%	28.8%

Source: Savills

2.13 In terms of build costs, BCIS presents a forecast for the next 5 years. Comparing the index at the close of 2020, with figures for the following 5 years, it is estimated that build cost growth may be considerably lower than the rate of inflation predicted for the region, and for the UK as a whole. BCIS estimates that for years 2021 and 2020, build cost growth could be much lower than house price growth.

Table 2.3 Forecast change in build costs (2021-2025)

	4 th Q 2020	4 th Q 2021	4 th Q 2022	4 th Q 2023	4 th Q 2024	3 rd Q 2025 ²	5-year growth
BCIS All-in Tender Price Index	328	336	348	362	376	386	17.7%
Year on year change		2.4%	3.6%	4.0%	3.9%	2.7%	

Source: BCIS All-In TPI (as of March 2021)

The need for review

2.14 It has been shown there has been a steady rise in values and decrease in costs in the period since the base work was undertaken in 2019. This implies that viability would have improved if the typologies modelled for the original study were considered again now. However, given the uncertainty about the future, with no consistency between the available forecasts, it is considered too early to properly assess the impact of Covid-19 on the housing market and that it is prudent to continue to rely on the analysis based on the pre Covid situation. However, with time this should be revisited, when more information will be available.

² At the time of reporting there was no 4th Quarter 2025 figure reported, and the 3rd Quarter was the furthest estimate stated

Chapter 3 Policy review and supply

Policy review

- 3.1** It is understood that whilst there will be no direct references to Stockport Council (and area) in terms of planning strategy, the policies within *Places for Everyone* will replicate those already set out in *Plan for Homes, Jobs and Environment* and have substantially the same effect on the local authorities within the point plan area. Those were previously reviewed as part of the SVRS1 and therefore not revisited within this Addendum.

Supply

- 3.2** SVRS1 set out (in section 4.3) a range of generic typologies that were identified through analysis of the SHLAA data (2018) supplied by the 10 local authorities within Greater Manchester. The typologies provided the basis for testing viability as representative of the types of sites likely to come forward over the plan period. The SHLAA18 data covered over 4,000 sites and nearly 200,000 units. The same information was utilised to provide GMCA a guide to the level and types of development that were considered as viable using the assumptions and policy requirements set out in SVR1.
- 3.3** As that analysis included site supply within Stockport, it is considered appropriate to review the SHLAA data – both to exclude the Stockport sites and to update the analysis with the most recent SHLAA from 2020.
- 3.4** The SHLAA20 data, excluding Stockport, shows circa 3,400 sites and around 166,000 units, the reduction in sites and units is both a result of the smaller geographic area and also because some sites will have been completed or under construction, since the SHLAA18, and therefore removed from this analysis.
- 3.5** Whilst the numbers of sites and dwellings have reduced, it is important to understand whether the proportions of different types of sites have changed. The following tables sets out some key comparables, with the figures as set out in SVRS1 and its technical appendix compared with the revised figures taken from SHLAA20.

Site supply by value area and size

- 3.6** The spread of site supply in SHLAA20 is broadly similar to SHLAA18, with limited percentage changes in terms of the proportions of units within each value area. Likewise, the size of the sites in percentage terms is 0% to 1% different across all the site size bands, suggesting that the representative typologies used in SVRS1 are still appropriate.

Table 3.1 SHLAA site supply by value area

Site size	Total units	% within VA1	% within VA2	% within VA3	% within VA4	% within VA5
VA split – SHLAA18	181,041	33%	14%	15%	19%	18%
VA split – SHLAA20	166,514	36%	10%	18%	16%	20%

Table 3.2 SHLAA site supply by size

Site size	% total units SHLAA18	% total units SHLAA20
10 and under units	4%	4%
11 to 50 units	13%	12%
51 to 100 units	10%	9%
101 to 250 units	19%	19%
251 to 500 units	19%	19%
501 to 1,000 units	14%	15%
1,001 plus units	22%	22%

Site supply type by value area and size

- 3.7** The type of site is also a key consideration in driving the typologies and the viability assumptions used in the testing. Site types used are brownfield, greenfield and mixed and to help explore the impact of the changing supply these are reviewed on a value area basis.
- 3.8** The supply figures from SHLAA20 show that across GM there is a slight increase in brownfield and greenfield sites with a decrease in mixed sites – there is more variance within individual value areas especially in terms of mixed sites in VA1, VA4 and VA5.
- 3.9** In terms of the size of sites, again there are limited changes with the proportion of brownfield sites by site size very similar to the 2018 data. There has however been a greater shift between the greenfield and mixed use sites.

Table 3.3 Site type by value area

Data source	Site type	All	% within VA1	% within VA2	% within VA3	% within VA4	% within VA5
VA split – SHLAA18	Brownfield	74%	97%	73%	64%	55%	62%
	Greenfield	13%	1%	19%	26%	20%	14%
	Mixed	13%	2%	8%	10%	25%	24%
VA split – SHLAA20	Brownfield	75%	83%	66%	74%	60%	77%
	Greenfield	19%	9%	28%	22%	33%	20%
	Mixed	6%	8%	7%	4%	7%	3%

Table 3.4 Site type by size

Site size	Brownfield 2018	Brownfield 2020	Greenfield 2018	Greenfield 2020	Mixed 2018	Mixed 2020
10 and under units	78%	80%	17%	17%	4%	3%
11 to 50 units	73%	72%	19%	20%	8%	7%
51 to 100 units	71%	74%	18%	21%	11%	5%
101 to 250 units	76%	74%	16%	19%	8%	6%
251 to 500 units	86%	85%	10%	12%	4%	2%
501 to 1,000 units	75%	72%	12%	25%	13%	2%

Supply by mix

3.10 The final component of this comparison is the supply by proposed mix i.e. house led, flats only or mixed. As the table below shows similar to the other comparisons there has been limited change in terms of the types of sites likely to come forward for all of GM. There have been some changes within the value areas, in particular in VA3 but generally the changes are fairly limited.

Table 3.4 Site type by size

Data source	Site type	All	% within VA1	% within VA2	% within VA3	% within VA4	% within VA5
VA split – SHLAA18	House	31%	2%	13%	62%	51%	48%
	Flat	44%	85%	46%	17%	17%	21%
	Mixed	25%	13%	41%	21%	33%	31%
VA split – SHLAA20	House	26%	1%	17%	42%	53%	37%
	Flat	49%	85%	51%	27%	13%	30%
	Mixed	26%	14%	31%	31%	34%	33%

3.11 The review has found that whilst there have been some small changes in terms of proportions of different types of development within the supply, the typologies identified in SVR remain valid and broadly reflective of the types of sites likely to come forward during the plan period.

Chapter 4 Other amendments

Context

4.1 The SVRS1 was published in September 2020 as part of the evidence base accompanying the GMSF (Publication Plan 2020 Draft for Approval October 2020) as it was considered by each council for approval for consultation. Prior to the formal consultation it was intended to make a small number of changes to SVRS1. As that consultation was not undertaken, following Stockport's decision not to proceed, SVRS1 was not republished. As GMCA have requested this addendum document to be produced and to be read alongside SVRS1, with no intention at this time to replace SVRS1, it is appropriate to provide the erratum within this addendum.

Private rented housing

4.2 The data presented on values and rental costs set out in SVRS1 (published with the GMSF Publication Plan 2020 Draft for Approval October 2020) report text is to be amended. The revised data shown below was that used in the testing and subsequent results presented in SVRS1. Therefore, no revised testing or change to the results or conclusions is required as this was a drafting error in the report text, rather than the testing undertaken.

4.3 The text and tables set out in para 5.2.4 to 5.2.5 of SVRS1 should be replaced with the following:

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 (VO). However, at the time of the research there was a limited number of properties listed in these sources. A further source 'Home.co.uk' was considered, that included a wider range of data on rental values based on post code areas. The majority of high density purpose built private rented developments are located within the M3 postcode – this data showed rents as follows:

Table 5.4 Private rent levels (per month)

	M3 postcode
1 bed	£954 (73 properties)
2 bed	£1,280 (160 properties)

We therefore base our private rented tests, using the average rents for the M3 post code area, as being representative of the type of development likely to come forward over the plan period.

Costs and other factors

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	12% of revenue
Sinking Fund	5% of revenue
Voids	6% of revenue
Total	23% of revenue
Developer return	Test at 10%

Purpose built student accommodation

- 4.4** The data presented on values set out in SVRS1 (published with the GMSF Publication Plan 2020 Draft for Approval October 2020) report text is to be amended. The revised data shown below was that used in the testing and subsequent results presented in SVRS1. Therefore, no revised testing or change to the results or conclusions is required as this was a drafting error in the report text, rather than the testing undertaken.
- 4.5** The text set out in para 5.4.6 in the SVRS1 should be replaced with the following

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 deals⁴², which account for nearly 110,000 bed spaces – these have an average value of £95,000 per room although again these will include some older stock. 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 university campuses often 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 (allowing for repairs and operational expenses at 30% of rents, capitalised at 5.5%) produced new build student room values in Greater Manchester ranging from around £95,000 per room for a cluster flat room to £140,000 per room for a studio. Based on this range a blended figure (assuming 80% cluster and 20% studios) of £103,800 per room is used for testing, noting that this is higher than the figures for recent transacted portfolios with a mix of older and newer stock).

Chapter 5 Revised viability position

SHLAA2020 supply position

- 5.1** Whilst it is not proposed to update the viability testing, on the basis of the review of the impact of Stockport no longer being included, there is a need to recast the results and analysis due to the change in proportions of different site types. This is to enable the GMCA to come to a view as to whether the plan policies are still broadly deliverable and/or what interventions maybe required to enable development to come forward to meet housing needs.
- 5.2** Table 5.1 presents the same analysis as Table 8.1 in SVRS1 – as can be seen from the table the overall rate of viability has increased slightly from 66% (based on the SHLAA18 and including Stockport) to 69% (based on SHLAA2020 and excluding Stockport).

Table 5.1 Delivery of SHLAA sites – plan period

Value area	Dwellings 1-1,000	Dwellings 1001+ ³	Total dwellings	Deliverable with 100% market housing & 17.5% return	% deliverable with 100% market housing & 17.5% return
VA1	42,234	25,086 ⁴	67,320	56,433	84%
VA2	14,510		14,510	14,510	100%
VA3	26,616		26,616	25,349	95%
VA4	22,868		22,868	9,570	42%
VA5	24,001		24,001	0	0%
Total	130,229		155,315	105,862	68%

³ The large sites identified within the SHLAA20 contributed 36,285 dwellings to the supply, however following consultation this figure has been reduced to 25,086 for the purposes of this analysis with the difference already committed and thus considered deliverable.

⁴ All the large sites without planning permission are categorised as VA1 due to their location within and adjacent to the high value area.

5.3 The small increase is due to the different spread of sites that are included within SHLAA20 as opposed to SHLAA18 – there a variety of reasons for these changes including:

- small changes to the types of sites and location in terms of value areas
- sites no longer included as they have been excluded e.g. are under construction
- new sites have been added.

5yr supply

5.4 GMCA have also requested an analysis of the viability position for the first five years of Places for People. Using the SHLAA20 data and testing results from SVRS1:

- Five year supply of sites up to and including 1,000 dwellings – c59,000.
- Of the c59,000, around 40,000 are considered to be viable (68%).
- It is assumed all the supply from large sites in the first five years (c3,300) is committed and therefore for the purposes of this assessment, is viable.
- In combination this means that anticipated supply is around 62,000 with c43,000 dwellings viable (69%).

Changes to supply

5.5 During the preparation of this addendum GMCA have been informed that additional sites have been identified by Manchester City Council to meet required increases in housing requirements. There are around 120 new sites and an increase of c5,000 units. It is understood that many of these are centrally located within the Core Growth Area. At this stage these sites have not been tested, however it is likely they will have a similar profile to typologies already considered. It is recommended that these will need to be reviewed in further detail prior to Examination.

Allocated sites

5.6 It is important to note that these supply figures and viability position do not include the allocated sites. These are subject to a separate review – set out in 'Strategic Viability Report Stage 2 Allocated Sites Viability Report Amended June 2021'.

Conclusion

5.7 Whilst the improvement set out above for the viability of the total SHLAA supply is positive, the key messages from SVRS1 remain valid and continue to be important in considering the wider delivery of Places for People. In particular GMCA report on delivery illustrates the measures that have been taken to meet housing need, especially in areas and types of sites that are difficult in terms of viability, without public sector support.