

TRAFFORD COUNCIL

Report to: Planning and Development Management Committee
Date: 22 November 2018
Report for: Decision
Report of: Head of Planning and Development

Report Title

State of the Economy - Housing market conditions and the provision of affordable housing.

Summary

This report analyses the housing market in the Borough with a view to ascertaining whether the market should be considered to be in 'poor', 'normal', or 'good' conditions for the purposes of applying relevant planning policy in relation to the provision of affordable housing in new developments. The report concludes that the Borough is now in 'good' market conditions and that this position should be a key material consideration when applying relevant planning policy and making planning decisions.

Recommendation

That Members of the Planning and Development Management Committee note the contents of this report and resolve that for the purposes of relevant planning policy, the Borough is now in 'good' market conditions and that the attached report at Appendix 1 is a key material consideration in the determination of planning applications.

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1.0 Introduction and Background

1.1 Trafford Council's affordable housing policy (Core Strategy Policy L2 and Revised SPD 1) is based on a series of sub markets. The zones identified are Hot, Moderate and Cold (as shown on the map at Appendix 2 of the attached report by Trebbi Continuum). These markets have different thresholds and percentage requirements for the provision of affordable housing on development sites. The policy targets for each market area also vary according to whether housing market conditions are considered to be 'poor', 'normal' or 'good'. The theory being that in

poor market conditions the Council will generally seek a lower percentage provision of affordable housing on a development site in order to incentivise development. The provision required, which is detailed in SPD 1, is set out in Table 1 below.

Table 1: Affordable housing targets based on sub markets and market conditions

Sub Market	Poor	Normal	Good
Cold	0%	5%	10%
Moderate	10%	20%	25%
Hot	40% or decreased as is deemed necessary on an individual site basis	40%	45%

- 1.2 Where the nature of the development is such, that in viability terms, it will perform differently to generic developments within a specific market location, Policy L2 states that the affordable housing contribution will be determined by a site-specific viability study and will not normally exceed 40%.
- 1.3 Following the economic crisis of 2008, there was a dramatic reduction in all new build activity, and consequently, since the adoption of the Core Strategy in 2012, the Borough has adopted the stance (based on professional advice) that market conditions have been 'poor'. This has restricted the Council's ability to seek affordable housing on new developments. The last State of the Economy report by Peter Brett Associates (PBA) in 2015 concluded that for Trafford as a whole, market conditions were returning to 'normal', but advised that it may be prudent to wait to see if the change had been sustained before any change to the market condition approach set out in Core Strategy Policy L2 was made.
- 1.4 Since 2012 there has been a strong recovery in the housing sector but there has been a limited supply of new dwellings, which has had an effect on the number of annual transactions. However, the planning and development activity in the Borough through 2016 and 2017 will result in a substantial number of new build properties coming to the market, which will have a significant positive impact on average yearly transactions over coming years. This new economic context is the key reason for re-analysing the housing market. It should also help the Council in its drive to deliver more affordable housing at a time when the property market appears to be buoyant and can viably do so.
- 1.5 Nevertheless it should be noted that a developer is still able to submit a viability appraisal in order to demonstrate that the affordable housing policy requirement (and / or other S106 obligations) could not be viably delivered, and that in such cases these will continue to be considered on their own merits. It should also be noted that S106 obligations for other contributions (e.g. outdoor sports) are not affected by this change as they are at a rate fixed irrespective of market conditions. There is also no impact on the charging of or a development's liability for CIL.

2.0 Approach to market analysis

- 2.1 The PBA report in 2015 used two major indicators to analyse the health of the housing markets, the volume of sales and house price change. The 2018 report by Trebbi Continuum adopts a different approach: it still looks at the market area conditions based on Land Registry data for the volume of transactions and house price change, but then looks forward to predict the number of transactions likely to take place over the three year period from 2018 – 2020. The report also looks at data on new build properties, specifically development activity and new build house price change. This data has been sourced from market knowledge of new build schemes that are currently under construction as well as planning application and pre-application data supplied by the Council. If values are growing at a stronger pace than costs, then for new projects, the market is performing better year on year. Development costs across the Borough have also been analysed in order to assess the relationship between cost and value for development projects when considering issues relating to development viability. This new approach adopted by Trebbi is considered to be more appropriate than the PBA approach given that housing policy only affects new build housing, which usually operates differently to the second hand property market. It also enables the Council to take into account that planning permissions are normally granted with a three year time limit during which development must commence. Thus planning permissions being granted now may not come to market until at least 2021. Nevertheless, should there be a sudden change in economic conditions then this report will need to be reviewed.

3.0 Housing Market Conditions

Volume of Sales

- 3.1 The report shows that the average monthly transactions across the Borough over the period 2014 to 2017 stabilised, reflecting pre- 2008 levels and suggesting that conditions over the period were 'normal'. There were variations in the figures across the sub-markets, particularly in 'cold' market areas, but this was a result of the market being in a period of recovery.
- 3.2 By looking at recent construction and planning activity it is clear that supply of new properties and the volume of sales is set to increase over the next three years and beyond, demonstrating that conditions are 'good' at present and will continue to be so through until at least 2020.

House price change

- 3.3 The report looks at the percentage change in the average of house prices, as the PBA report did. The parameters of normal market conditions in relation to averages are between 3.44% and 10.33%. (NB this is not to say that house prices increase at 10% per annum in normal market conditions). The report found that again, whilst there were variations across the sub-market areas, the increases in the percentage change in averages demonstrated that the Borough has been operating in 'normal' market conditions between 2015 and 2017, whilst conditions are predicted to become 'good' during the period 2018 to 2020.

Market conditions summary

- 3.4 The Trebbi report confirms that the improvement in market conditions shown in the 2015 PBA report to 'normal' has been sustained through until 2018. The increase in the supply of housing is based on good levels of demand for all types of property across the Borough, and this is leading to an increase in average house prices. In March 2018 Land registry data recorded that Trafford had the highest average house price out of all 10 GMCA authorities. This can be regarded as a very strong indicator of the Borough's housing market conditions being 'good'. The level of construction and planning activity in the cold market areas of Old Trafford, Carrington and Partington demonstrates that there has been a change in perception regarding the appeal of these areas to developers and house buyers. For those seeking to promote and deliver housing development within Trafford, all the indicators are positive, including in the previously regarded underperforming areas.

4.0 New build housing market conditions

- 4.1 Trebbi assert that from the perspective of considering planning applications and the prognosis for market conditions, the best indicators for deciding whether Trafford is operating under poor, normal, or good conditions is data on new build properties. This is because affordable housing policy only affects new build products which usually operate differently to existing products in the market. Two indicators have been looked at, namely development activity; through the number of consented schemes and planning applications for residential development being progressed through the system; and new build house price change from 2013 to 2017/18.
- 4.2 Data has been analysed in relation to the number of planning applications submitted to the Council during the financial year of 2014/15 up until the first 5 months of the 2018/19 year, together with the number of residential units approved as full and outline planning permissions, consented prior approval applications (such as office to apartment conversions), and live applications which have not yet been determined. New build sales data has been assessed to calculate the average per square foot value that estate agents/developers are estimating. This was then compared to PBA's new build per square foot value estimated in 2013 and 2015, in order to calculate the percentage increase in new build sales values.

Planning application activity

- 4.3 The report finds that year on year the number of new dwellings proposed through planning is increasing, and this is considered to be the best barometer for assessing the strength of the Trafford housing market. Figures 3.1 and 3.2 from the Trebbi report are shown below.

Figure 3.1: The Number of Residential Units in Planning Applications

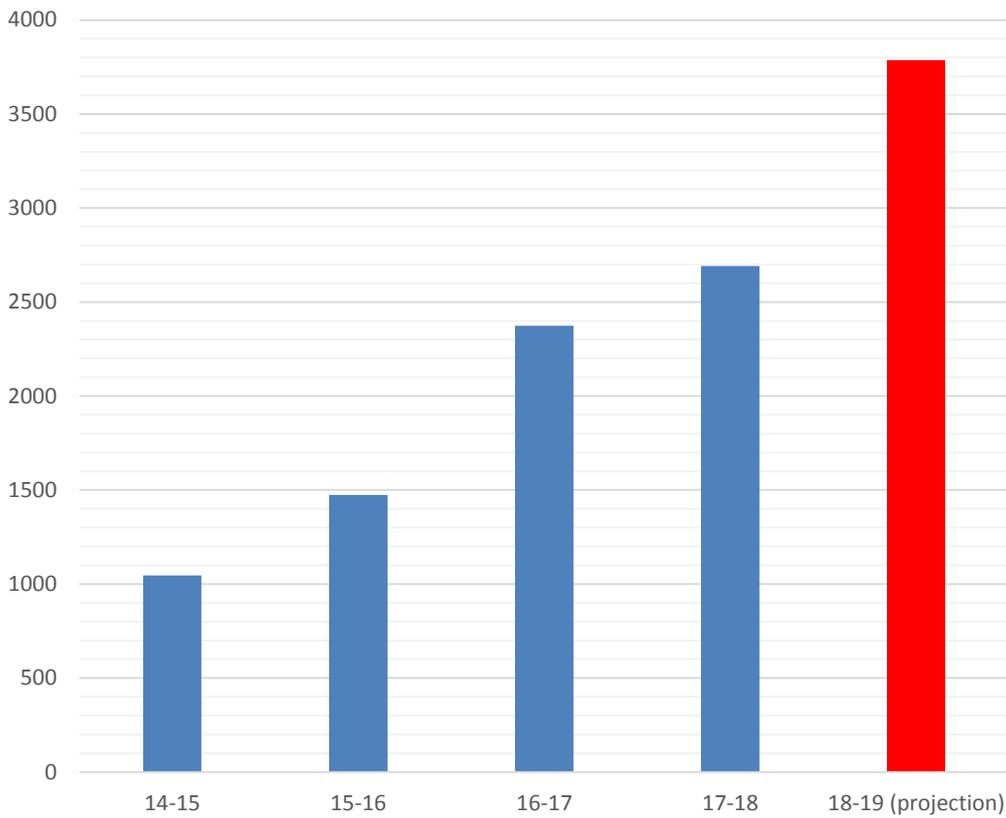
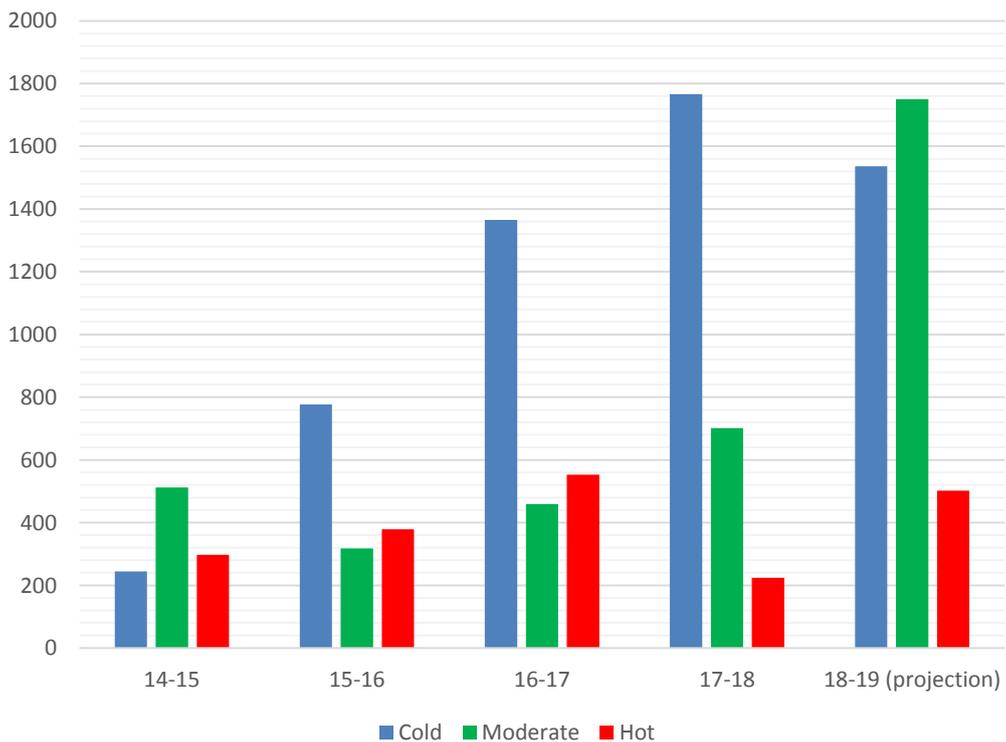


Figure 3.2: The Number of Residential Units in Planning Applications by Each Market Area



New build sales values

- 4.4 The three tables below show at a glance how sales values have risen across the three sub-market areas within the Borough since 2013. All values are shown as £ per square foot. The most marked change has been the increase in the value of new build apartments in 'cold' market areas, helped by the growing new build apartment market in Old Trafford. What this shows is that new-build apartment sale values are growing faster than second hand sale values, with the Land Registry data house price average change at 8.81% between 2015 and 2017. This shows that the new-build apartments are operating in good market conditions.

New Build Apartment Sale Values Analysis

Market Areas	2013	2015	2017/18	£ Change		% Change	
				2013-2015	2015-2017/18	2013-2015	2015-2017/18
Cold	£177	£181	£309	£4	£128	2%	71%
Moderate	£214	£242	£305	£28	£63	13%	26%
Hot	£295	£325	£388	£30	£63	10%	19%

New Build House Sale Values Analysis

Market Areas	2013	2015	2017/18	£ Change		% Change	
				2013-2015	2015-2017/18	2013-2015	2015-2017/18
Cold	£167	£167	£244	£0	£77	0%	46%
Moderate	£200	£226	£328	£26	£102	13%	45%
Hot	£260	£293	£351	£33	£58	13%	20%

Average Sale Values Compared to New Build Sale Values

Market Area	Zoopla 2018	New Build 2017/18	£ Difference	% Difference
Cold Apartments	£250	£309	£59	24%
Moderate Apartments	£247	£305	£58	23%
Hot Apartments	£296	£388	£93	31%
Cold Houses	£197	£244	£47	24%
Moderate Houses	£254	£328	£74	29%
Hot Houses	£336	£351	£16	5%

New build housing market conditions summary

- 4.5 From the perspective of considering planning applications, the prognosis for areas of the Borough previously considered as 'normal', is now 'good'. Housing markets in areas such as Old Trafford are experiencing dynamic change. For new schemes being promoted through the planning system, the comparators are

now new and recently completed schemes, whilst earlier in the decade the evidence base used for assessing the value of new housing was existing stock. Values for new and recently completed schemes are appreciably higher than that of existing stock of pre-2005 construction.

- 4.6 For the purpose of considering planning applications, the level of development activity across the borough is at a high, as can be seen from the considerable increase in planning applications submitted from 2014/15 to date. There is an expectation that new build (apartments and housing) will achieve the required sales values to fund all costs, including developer profit – an indicator to developers that market conditions are ‘good’.

5.0 Development Costs

- 5.1 The Trebbi report also looks at new build costs between 2015 and 2018 and concludes that they have not increased as much as new build sale values in both percentage terms and in pound change per square foot. New build house sale values have increased on average by £79.00 per square foot and 37% in Trafford as a whole. This is considerably higher than the build cost increase of £10.59 per square foot and 10.96% for houses. New build apartment sale values have increase on average by £84.67 per square foot and 38.67% in Trafford as a whole. This is again considerably higher than the build cost increase of £12.36 and 10.98% for apartments. This analysis shows that new build sales value increases have far outstripped build cost increases. This means that developers profit headroom has increased meaning that developer schemes should be able to fund more towards affordable housing.

6.0 Conclusion

- 6.1 Evidence and analysis within the Trebbi report concludes that from the perspective of considering planning applications, the prognosis is that the housing market is now operating in ‘good’ conditions, with housing markets in areas such as Old Trafford experiencing dynamic change. For the purpose of considering planning applications, the level of development activity across the borough is at a high, whilst developers no longer consider any location as performing ‘poorly’. There is an expectation that new build developments, both apartments and houses, will achieve the required values to fund all developer costs (which should include an appropriate allowance for affordable housing provision and other planning obligations such as open space provision to enable a policy compliant scheme to be delivered), including developer profit. It is therefore considered that not only is there is no longer any need for the Council to intervene in the normal workings of the market to incentivise developers to invest in the property market as was the case when market conditions were poor, but conditions have improved to the extent that the Council should now be able seek the level of contributions associated with ‘good’ market conditions as set out in the Revised SPD 1 and Table 1 of this report.

7.0 Recommendation

That Members of the Planning and Development Management Committee note the contents of this report and resolve that for the purposes of relevant planning policy, the Borough is now in ‘good’ market conditions and that the attached

report at Appendix 1 is a key material consideration in the determination of planning applications.