



Housing & Property Market Conditions Final Report

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1 INTRODUCTION

Scope & Purpose

- 1.1 Trafford Council ('the Council') have commissioned Peter Brett Associates (PBA) to provide specialist advice in respect of the current state of the Borough's housing and commercial property development markets. The purpose of this is twofold: firstly to inform affordable housing policy requirements which are variable depending on market conditions; and secondly to help determine whether a review of the Community Infrastructure Levy (CIL) Charging Schedule is required.

Housing Market Conditions and Affordable Housing Policy

- 1.2 Trafford Council's affordable housing policy (Core Strategy Policy L2) sets differing targets for affordable housing provision for its three market areas (cold, moderate and hot), a copy of this map is included in Appendix A. These are the boundary areas used for the analysis undertaken in this section of the report. The policy targets for each market area are also variable according to whether housing market conditions are considered to be 'poor', 'normal' or 'good'. To achieve this, data in respect of two major indicators of the health of housing markets is analysed, namely house price change and the number of transactions. Data on both of these factors is freely available from the Land Registry. This data is analysed at a Borough-wide level and in respect of the cold, moderate and hot market areas.
- 1.3 A mechanism for determining the prevailing level of housing market conditions has been devised that brings together analyses of both of the measures over a 20 year period. By looking at data over this period, parameters for what can be considered 'normal' market conditions can be set. In the same way, when the parameters are breached market conditions are demonstrably either poor or good. The mechanism therefore considers market performance over the most recent year for which data is available and assesses it against the parameters established over the last 20 years.

The need to review the CIL Charging Schedule

- 1.4 The second element of this report aims to establish whether a review of Trafford's CIL Charging schedule needs to be considered. The Charging Schedule was adopted on 7 July 2014, following an examination that took place in December 2013. In turn, this examination was based on market evidence and viability assessments that were undertaken during 2012 and 2013. National Planning Policy Guidance states that:

'Charging authorities must keep their charging schedules under review and should ensure that levy charges remain appropriate over time. For example charging schedules should take account of changes in market conditions...'

- 1.5 PBA's Infrastructure and Economic Viability Report (July 2012, Section 12) set out a number of indicators of changing property market conditions which should be monitored. These indicators principally relate to build costs and development values across both residential and non-residential development types. It suggested that

where a number of these indicators change to an identified degree, a review of the adopted CIL rates may be necessary.

- 1.6 This report assesses whether those indicators have changed, and to what degree. It goes on to consider the relationship between these indicators and whether their change relative to one another provides a rationale to trigger a review of the Charging Schedule.

Structure

- 1.7 In order to meet the scope and purpose described above, the remainder of this report is structured as follows:
- Section 2 describes the approach to determining whether prevailing housing market conditions in Trafford should be considered to be poor, normal or good and sets out our findings in this respect for Trafford and its housing market sub-areas; and
 - Section 3 summarises the extent to which the indicators of property market conditions have changed since 2013, and provides analysis of them to determine whether a review of the CIL Charging Schedule is necessary.

2 HOUSING MARKET CONDITIONS

Introduction

- 2.1 Policy L2 of the Trafford Local Plan Core Strategy sets variable affordable housing targets according to whether market conditions are poor, normal or good. Residential property market conditions are best indicated by two principal measures:
- The volume of residential property transactions, indicating the level of activity in the market; and
 - House price change, reflecting the balance between supply and demand as well as the general health of the housing market.
- 2.2 These two factors are both easily measured through readily available data from the Land Registry. The data available dates back to 1995 and enables 20 years of data to inform the analyses – a period which takes in two market cycles.
- 2.3 Below we set out the data and provide an analysis of it. This enables the delineation of market conditions between ‘poor’, ‘normal’ and ‘good’ for each measure. The data is reported and analysed for Trafford as a whole, as well as for the cold, moderate and hot market sub-areas referred to in Policy L2 so that if, for example, market conditions had improved more quickly in hot market areas than elsewhere, this can be reflected in the Council’s policy approach.
- 2.4 These analyses are then brought together to form a mechanism for determining whether current market conditions should be considered poor, normal or good by considering the most recent year’s data against the 20-year average.

Volume of Sales

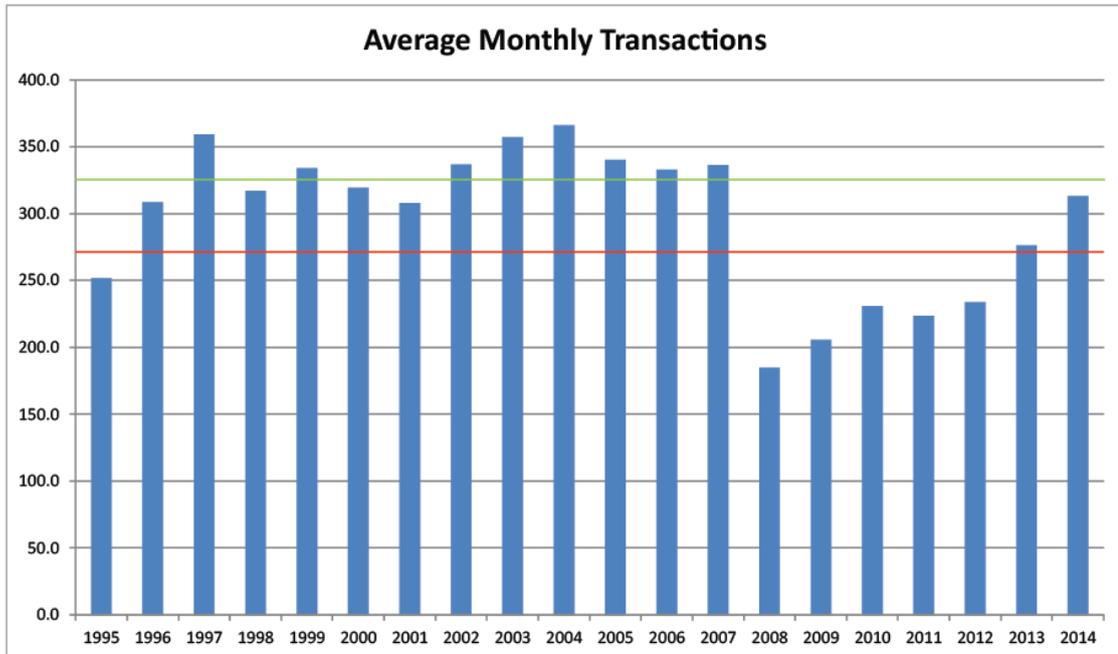
- 2.5 The number of houses transacted over a period of time shows the level of activity within a given location. The level of activity is one measure of the health of the market. By looking at the number of transactions over a long period, it is possible to define an average, and parameters around that long term average that can be used to represent ‘normal’ market conditions. By definition therefore, if the number of transactions in a given year was below the normal level, it indicates that market conditions are poor in relative terms. Similarly, if the number of transaction is above the normal level, it would indicate that market conditions are good.
- 2.6 The Land Registry provides records on every residential transaction that takes place, including the date, location and price. This data has been used to determine the average number of sales per month over each calendar year since 1995.
- 2.7 In addition, this data has been used to establish the long term average number of transactions per month and to establish parameters around that average that can be used to delineate a broadly normal level of market activity from levels of market activity that could be considered poor or good. In this case, these parameters are set

at $\pm 10\%$ either side of the long term average and are represented by red (poor – normal boundary) and green (normal – good boundary) lines in Figure 2.1 below.

Trafford

2.8 Figure 2.1 below shows the findings of this analysis for the Borough as a whole.

Figure 2.1: Average Monthly Transactions - Trafford



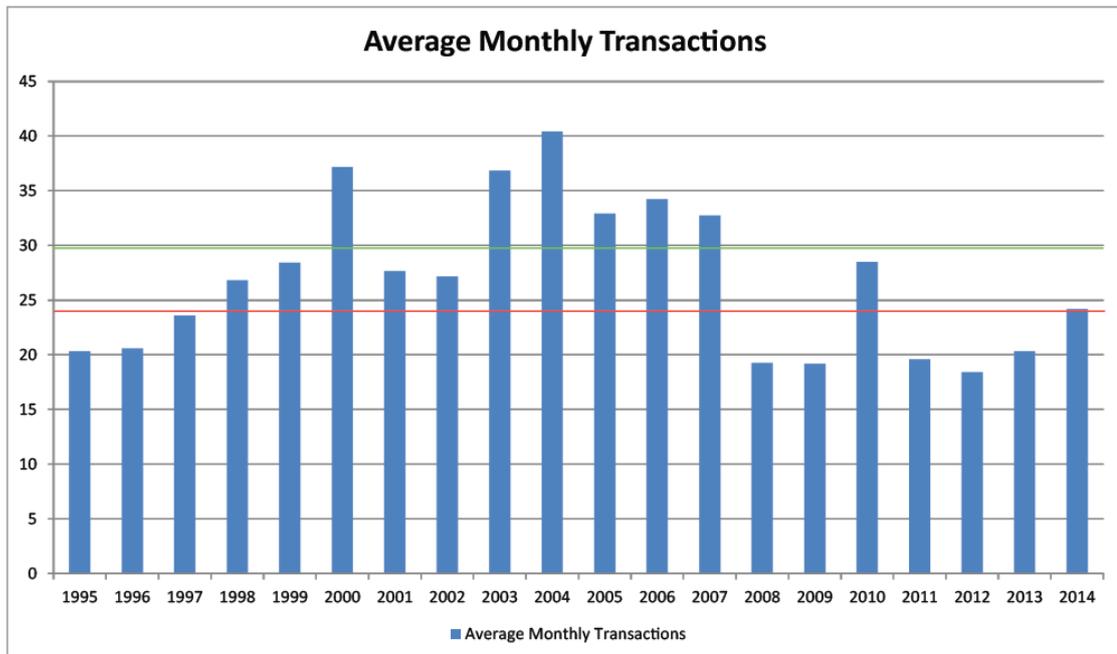
Source: Land Registry

- 2.9 The pattern shown in Figure 2.1 broadly follows what is known about the housing market over the last 20 years. The average number of transactions per month in Trafford over the 20 year period shown above is 297. In 1995 the UK economy was just beginning to emerge from the early 1990s recession with the number of transactions at 250 being relatively low and indicating relatively poor market conditions at that time.
- 2.10 Subsequently, an extended period of healthy market conditions was seen and despite some undulation between moderate and good conditions by this measure, the chart reflects the relative health in the market between 1996 and 2007. The sudden and sharp fall in the market as a result of the global financial crisis is shown in the vast contrast between activity levels in 2007 and 2008.
- 2.11 Whilst there were marginal increases in activity between 2009 and 2012, the number of transactions remained very low in comparison to the long term average and despite a significant increase in 2013, it was not until 2014 that market activity picked up to normal levels.

Cold Market Areas

- 2.12 This assessment is replicated for the 'cold' market areas in Trafford (as set out in Policy L2¹) in Figure 2.2 below. The parameters for normal market conditions are set at $\pm 10\%$ of the long term average, as with the borough-wide assessment.

Figure 2.2: Average Monthly Transactions – Cold Market Areas



Source: Land Registry

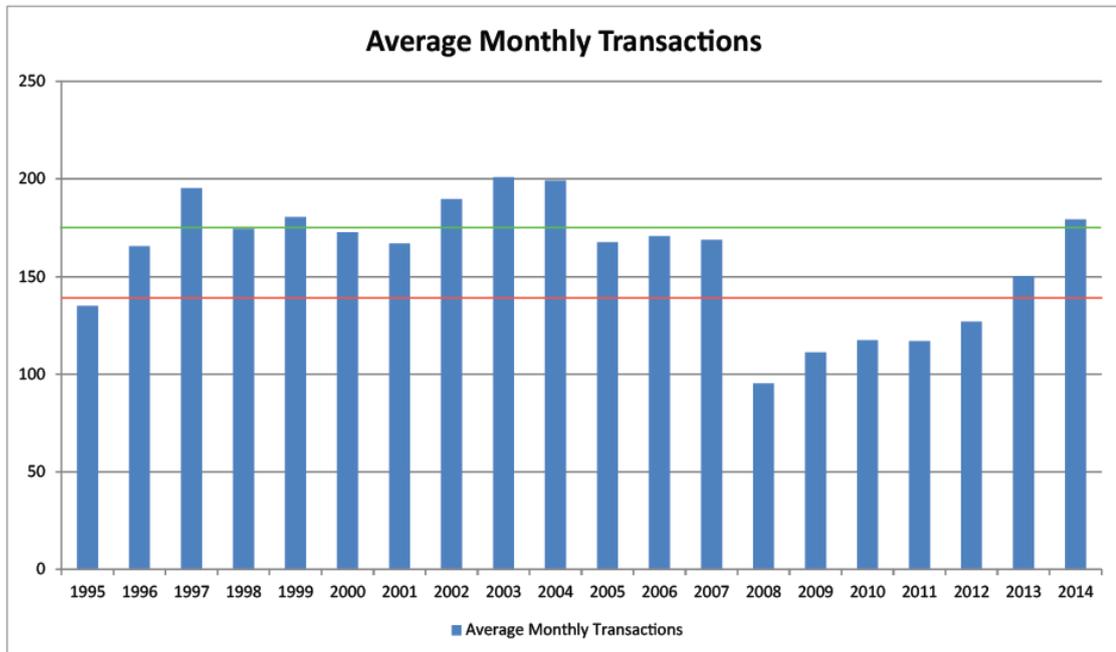
- 2.13 The number of transactions in the 'cold' market area is very low compared with the other market sub-areas, with an average across the period of just 27 transactions per month. Whilst this is to be expected given lower levels of owner occupation and less thriving markets in these areas, the smaller sample size does help to explain the slightly more erratic picture.
- 2.14 Figure 2.2 shows a pattern that varies slightly from that in the borough-wide assessment, but broadly follows the same trend of a low base in 1995, a lengthy period of buoyant market conditions and a sharp fall in 2008. That said, the recovery from the early 1990s recession takes place somewhat later in the cold market areas than shown in the borough-wide data. In addition, the pattern through the subsequent 'boom' years is somewhat more erratic, and the fall in 2008 is less marked than for Trafford as a whole.
- 2.15 There was also a clear uptick in the number of transactions in 2010, although this was short-lived, with figures for 2011 and 2012 returning to historically low levels, before picking back up towards normal levels by 2014.

¹ The cold market area covers Carrington, Old Trafford and Partington.

Moderate Market Areas

- 2.16 The 'moderate' market area as identified in Policy L2² has the highest level of transactions of the three market sub areas. The data is shown in Figure 2.3 below.

Figure 2.3: Average Monthly Transactions - Moderate Market Areas



Source: Land Registry

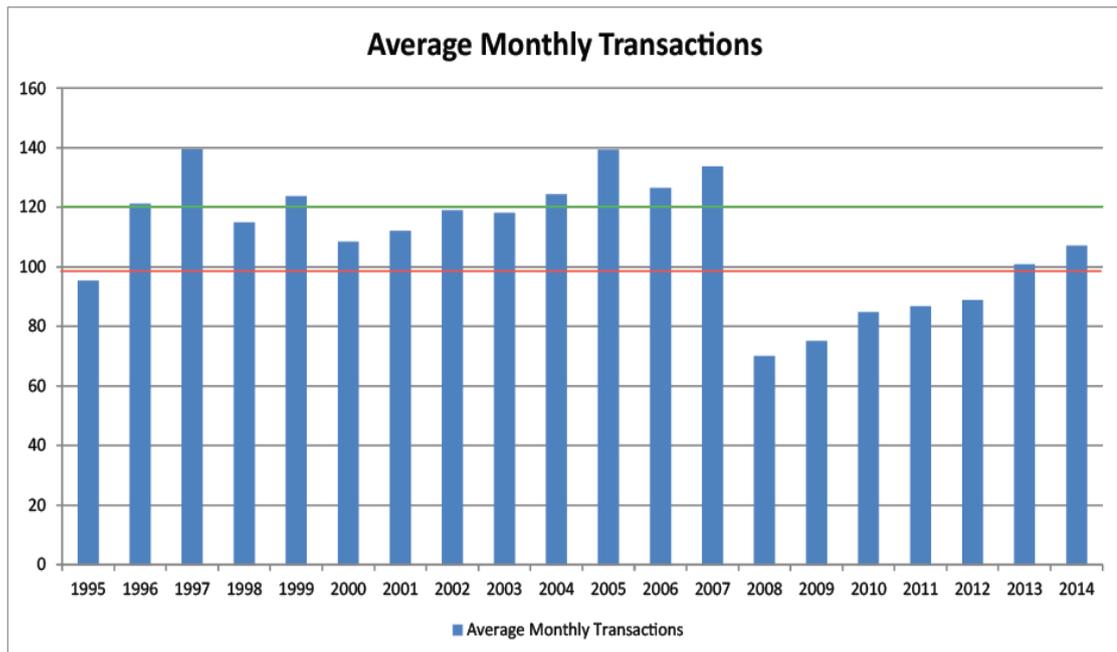
- 2.17 Figure 2.3 shows that the number of transactions in Trafford's moderate market areas is typically around six times higher than in the cold market areas at 159 per month over the 20 year period.
- 2.18 The pattern in the number of transactions is remarkably similar to that for Trafford as a whole, and contrasting slightly with that of the cold market areas. Activity was relatively low at the start of the period, but this was followed by a decade of normal or good market activity before a sharp fall in 2008. Since then, the picture has steadily improved such that by 2014 activity levels are shown to be good relative to the long term average.

Hot Market Areas

- 2.19 Figure 2.4 below shows the data on transactional activity for Trafford's hot market areas.

² The moderate market area covers Sale, Stretford and Urmston.

Figure 2.4: Average Monthly Transactions - Hot Market Areas



Source: Land Registry

- 2.20 The long term average number of transactions in hot market areas, as set out in Policy L2,³ is 109. This is substantially less than in the moderate market areas reflecting the less densely develop character of these areas, but more than in the cold market areas where the market is more muted and owner occupation is lower.
- 2.21 The pattern in the number of transactions per month in the hot market areas remains very similar to that seen in the moderate market areas and for Trafford as a whole. The data shows that hot market areas recovered more quickly from the early 1990s recession than the other sub-areas and activity levels in 1996 were above the long term norms. This high level of activity continued until 2008 when the number of transactions fell by almost half. The pattern since then has been one of steady, if unspectacular improvements back to normal levels by 2013.

House Price Change

- 2.22 To assess house price changes, Land Registry data is also used. An average house price change is calculated by averaging the monthly average house prices over a calendar year. A simple comparison between the annual average price for one year against the previous year shows the percentage uplift or drop.

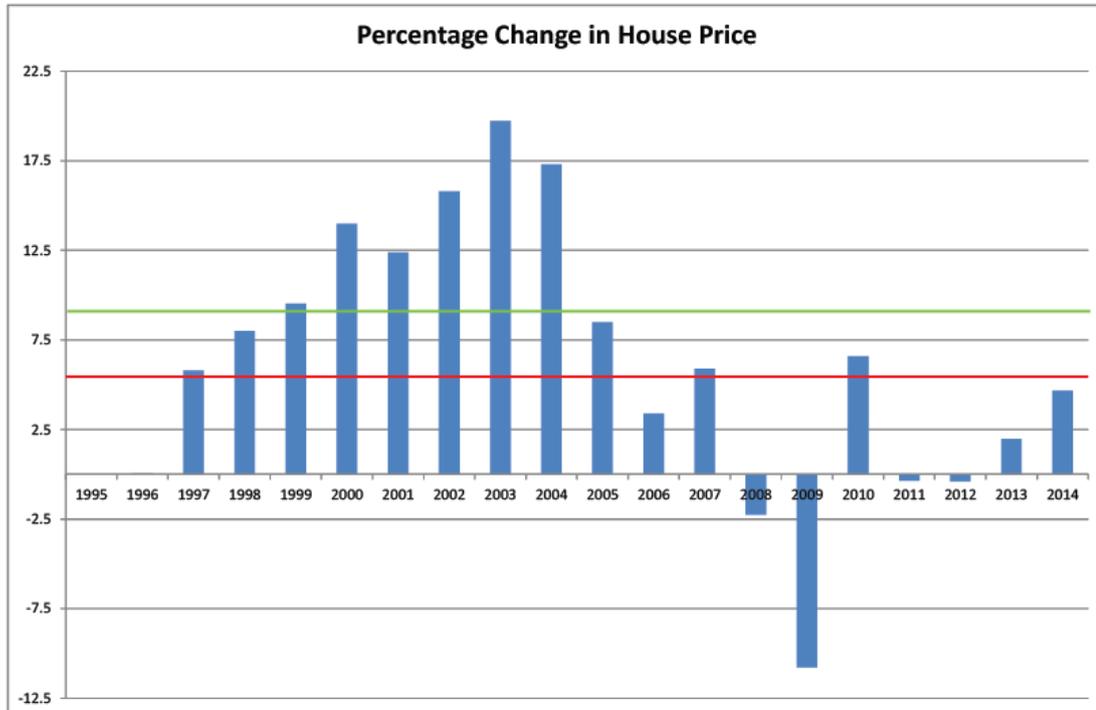
Trafford

- 2.23 The percentage annual change in house prices for Trafford as a whole are shown in figure 2.5 below. In order to delineate normal market conditions from poor or good conditions, parameters either side on the long-term average are applied, as with in the market activity assessments above. In this case, however, because the absolute

³ The hot market area covers Altrincham, the Mersey Valley and Rural Communities Places.

numbers are smaller, broader parameters in percentage terms are applied. The parameters are set at the long-term average $\pm 50\%$. House price change in 1995 cannot be calculated, because the previous year's data is not available for comparison.

Figure 2.5: Annualised House Price Change - Trafford



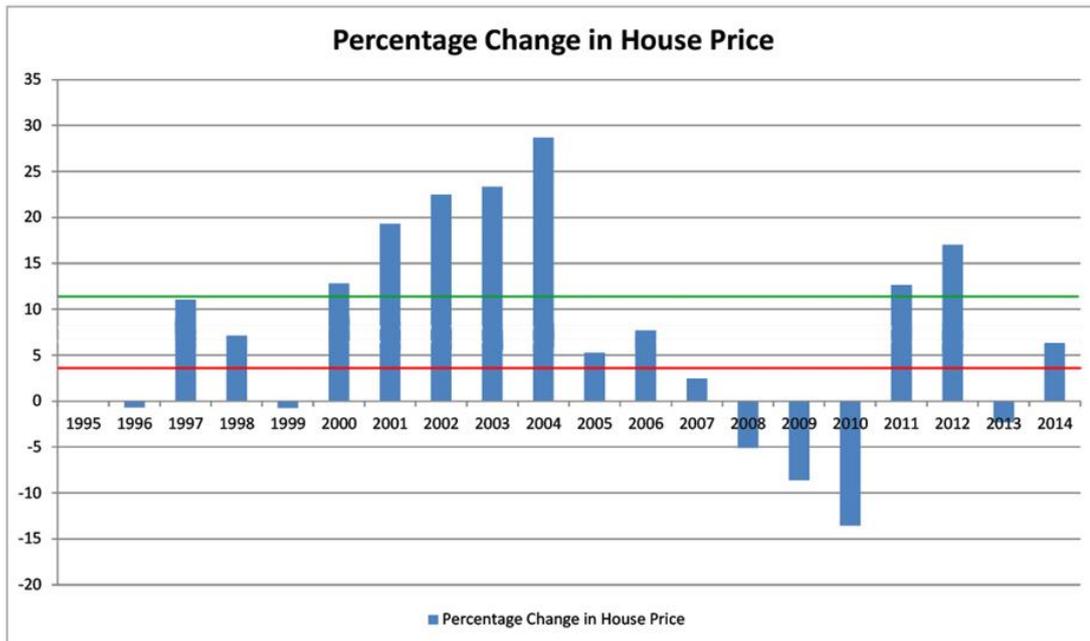
Source: Land Registry

- 2.24 The long term average annual house price across Trafford is 7.3% and therefore the parameters of 'normal' market conditions are considered to be annual increases of between 3.65% and 10.95%. House price growth that is lower than the 3.65% level or negative is considered to represent poor market conditions, whilst increases above 10.95% denote good market conditions.
- 2.25 House prices were static across Trafford in 1996, but picked up significantly in 1997 and continued to grow strongly, and at an increasing rate until 2000. Levels of growth above the long term average continued until 2006, although a slowdown in the rate of growth was already evident in 2005, perhaps giving an early warning sign of the market turbulence to come.
- 2.26 Whilst in 2007, the level of growth was within the 'normal' parameters, in 2008 house prices fell, and a large fall of over 10% was seen in 2009. In 2010, there was a brief return to house price growth, but this was followed by two years of small contractions in prices, before steady improvements in 2013 and 2014, albeit not quite to 'normal' levels.

Cold Market Areas

- 2.27 This analysis is repeated for the market sub-areas below. Figure 2.6 below shows annualised house price change for the Cold Market Areas.

Figure 2.6: Annualised House Price Change – Cold Market Areas



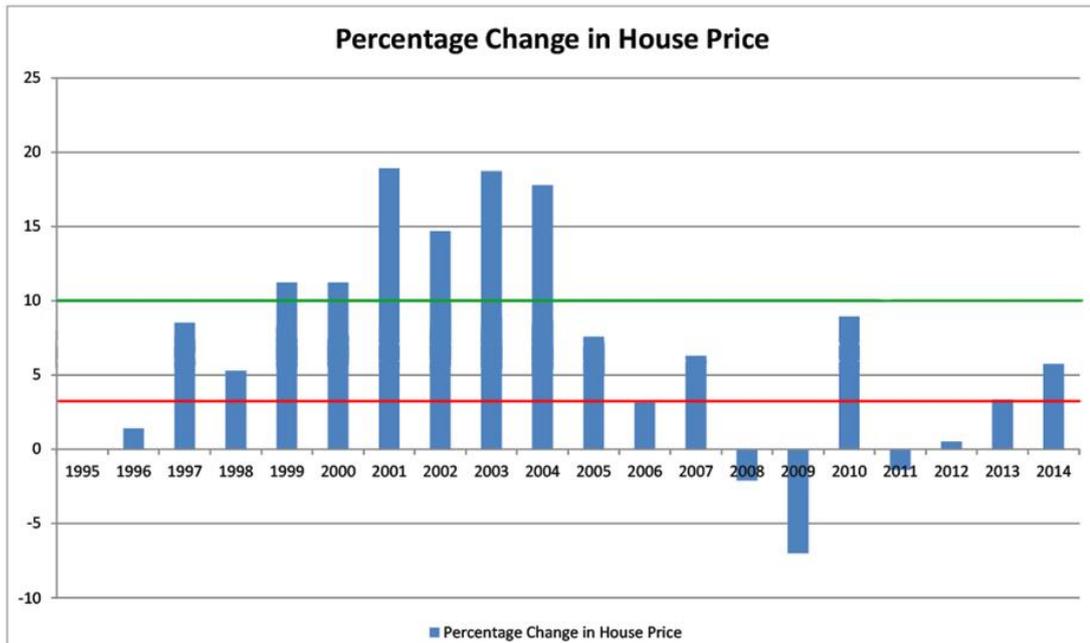
Source: Land Registry

- 2.28 The long term average of annual house price change in Trafford’s Cold Market Areas is 7.3% and therefore the parameters of ‘normal’ market conditions are considered to be annual increases of between 3.65% and 10.95%. House price growth that is lower than the 3.65% level or negative is considered to represent poor market conditions, whilst increases above 10.95% denote good market conditions.
- 2.29 Notwithstanding the above, the overall pattern of house price change over the period is broadly similar to that of Trafford as a whole, if somewhat more erratic. Flat house prices in 1996 were followed by two years of relatively strong growth. Whilst prices fell slightly in 1999, this was followed by 5 years of extremely high house price growth peaking in 2004 when prices rose by c28%. However, the next year saw a sharp fall in the rate of growth, below the long term norms.
- 2.30 After relatively modest growth in 2006 and 2007, prices began to fall in 2008 and the rate of price falls increased every year to 2010, which saw house price falls of over 13%. Since then, the pattern has been very erratic, with significant value increases in 2011 and 2012, followed by a small fall in 2013 and a moderate increase in 2014. As mentioned above, this erratic pattern could be attributable to the limited sample size in the data.

Moderate Market Areas

- 2.31 The data on average house annual house price change for the moderate market areas is shown in Figure 2.7 below.

Figure 2.7: Annualised House Price Change – Moderate Market Areas



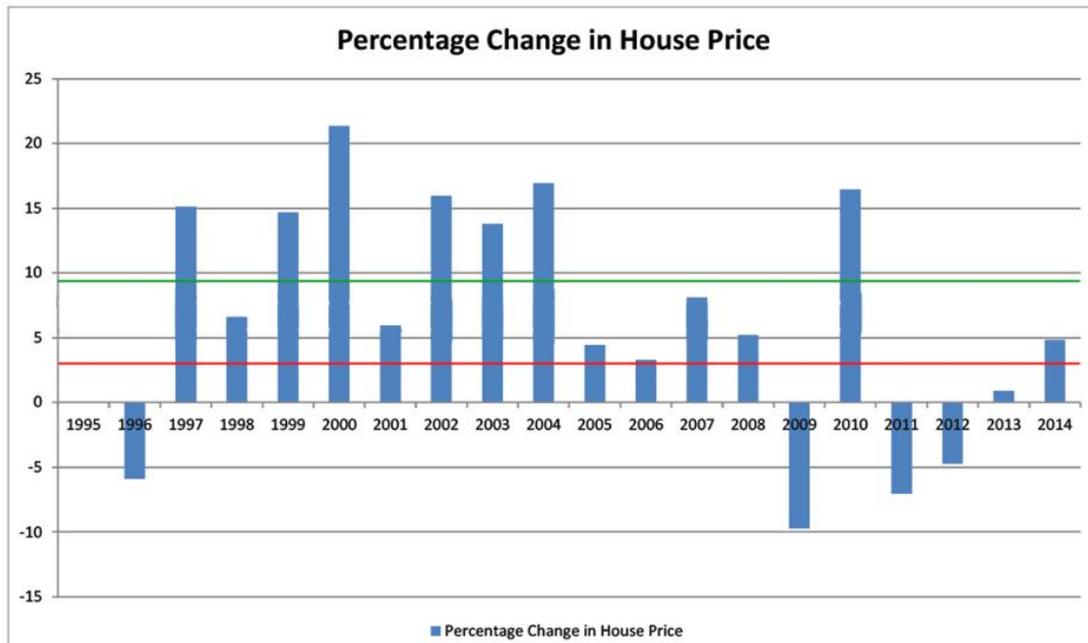
Source: Land Registry

2.32 The long term average level of house price change in Trafford’s Moderate Market Areas is 6.7% per annum, with ‘normal’ market conditions being annual increases of between 3.35% and 10.05%. The pattern in house price change in the moderate area is similar to that for Trafford as a whole with increases building steadily after the early 1990s recession and being particularly large between 1999 and 2004. From 2005, however, the rate of growth slowed significantly. By 2008, average prices had begun to fall and a larger prices decrease of over 7% was seen in 2009. Whilst the market bounced back in 2010, average prices remained broadly flat in 2011 and 2102, before increasing back to normal levels of growth by 2014.

Hot Market Areas

2.33 The data for the hot market areas is shown in Figure 2.8 below.

Figure 2.8: Annualised House Price Change – Hot Market Areas



Source: Land Registry

- 2.34 The long term average level of house price growth in Trafford’s Hot Market Areas is 6.3%, setting the parameters for normal market conditions at between 3.15% and 9.45%. Somewhat surprisingly, Trafford’s Hot Market Areas saw a significant fall in average values in 1996 that was larger than seen elsewhere in the Borough.
- 2.35 Subsequently, average prices grew for 12 consecutive years, if somewhat erratically (varying between less than 4% and over 21%). Even in 2008, when average house price change had turned negative elsewhere in Trafford, the Hot Market Areas recorded a price increase of over 5%. There was a fall in house prices in 2009, and again in 2011 and 2012, but this was balanced out by a large increase in 2010. Some of these fluctuations can be attributed to a number of transactions relating to very high value properties, in the millions of pounds. By 2014, prices appear to have stabilised within the long-term normal levels.

Approach to Determining Market Conditions

- 2.36 Drawing conclusions on the health of the housing market, and therefore affordable housing policy, by analysis of market activity or changes in values alone, risks imposing an erratic pattern on the development industry and not taking into account the range of factors that influence market conditions. It is therefore necessary to bring these analyses together to form a mechanism that balances these two critical factors in determining market conditions, but smooths out short term changes in one or other measure and remains transparent and easy for the development industry to understand and read.

The Model

- 2.37 To achieve this, PBA has designed a simple model that allows market conditions to be determined any given point in time, taking account of the classification (poor, normal or good) of each indicator, which in turn is derived from the long term average.
- 2.38 The model requires a change in the classification of both measures, or a substantial change in one measure to change the overall classification which is then used to inform affordable housing policy decisions.
- 2.39 The model operates as follows:
- If both the Sales Volume and Average Price Change columns change in classification, then the overall classification will change accordingly. For example, if both the number of transactions and house price change are classified as 'good' in the most recent year, but market conditions were assessed to be 'normal' in the previous year, the overall would move to 'good';
 - If either the Sales Volume or Average Price Change columns change by more than one level, then the overall column will change accordingly. For example, if market conditions were previously classified as 'good', but the number of sales fell from 'good' to 'poor', then the overall classification of the market would change to 'normal', even if the sales value classification remained 'hot';
 - The overall classification will only change by one level in any year. Therefore, if the current overall classification was 'poor' but both measures suggested the market was 'good', the overall classification would only move to 'moderate' in the first instance. It would only change to 'good' if the strength continued to be reflected in the following year's data.

Findings

- 2.40 Applying this approach to the data presented above, the findings in respect of Trafford and the market sub-areas are presented below. These findings show how each measure and the market overall is classified for each year since 1995.
- 2.41 The classification applies a simple 'RAG' approach with red cells signifying 'poor' classification, amber signifying 'normal' and green signifying 'good'.

Trafford

- 2.42 The outputs of the model for Trafford as a whole are shown in Figure 2.9 below.

Figure 2.9: Market Conditions Model - Trafford

Year	Sales Volumes*	Average Price Change**	Overall ***
1995	Red	Red	Red
1996	Yellow	Red	Red
1997	Green	Yellow	Yellow
1998	Yellow	Green	Yellow
1999	Green	Yellow	Yellow
2000	Yellow	Green	Yellow
2001	Yellow	Green	Yellow
2002	Green	Green	Green
2003	Green	Green	Green
2004	Green	Green	Green
2005	Green	Green	Green
2006	Green	Red	Yellow
2007	Green	Yellow	Yellow
2008	Red	Red	Red
2009	Red	Red	Red
2010	Red	Yellow	Red
2011	Red	Red	Red
2012	Red	Red	Red
2013	Yellow	Red	Red
2014	Yellow	Yellow	Yellow

* Moderate defined by long term average \pm 10%
 ** Moderate defined by long term average \pm 50%
 *** Change in level determined by both indicators being different than current level, or one indicator being two levels different to current
 NB. No 'Overall' category can move more than one level per year.

- 2.43 The model shows clearly how the overall classification smooths out the more erratic pattern of the individual measures. Coming out of the recession of the early 1990s, the model's starting position is 'poor' market conditions. By 1997, the model shows overall market conditions to have improved to 'normal', with the volume of sales being classified as good and moderate house price rises. With both house prices and market activity varying between 'normal' and 'good' levels, the overall classification remains 'normal' until 2001, which marked the start of a period of consistently good market conditions shown across both measures.
- 2.44 In 2006, the average price measure moves from good to poor, resulting in a change in the overall measure from good to moderate. As such, had this model and policy approach been in operation at that time, there is likely to have been a relaxation in affordable housing requirements well before any market commentators had seen or predicted the financial crisis that was to come.
- 2.45 By 2008, the overall market classification moves to 'poor' in line with both the sales volume and price change measure. It would have remained poor until 2013, before both sales volumes and average prices pick up to normal levels, leading to an improvement in the overall classification to 'normal' for 2014.
- 2.46 Below we provide the same assessment of the market sub-areas to determine whether this approach is applicable to smaller geographic areas and whether a different approach to affordable housing policy for each subarea is justified.

Cold Market Areas

- 2.47 The outputs of the model for Trafford's Cold Market Areas are shown in Figure 2.10 below.

Figure 2.10: Market Conditions Model - Cold Market Areas

Year	Sales Volumes*	Average Price Change**	Overall ***
1995	Red	Red	Red
1996	Red	Red	Red
1997	Red	Yellow	Red
1998	Yellow	Yellow	Yellow
1999	Yellow	Red	Yellow
2000	Green	Green	Green
2001	Yellow	Green	Green
2002	Yellow	Green	Green
2003	Green	Green	Green
2004	Green	Green	Green
2005	Green	Yellow	Green
2006	Green	Yellow	Green
2007	Green	Red	Yellow
2008	Red	Red	Red
2009	Red	Red	Red
2010	Yellow	Red	Red
2011	Red	Green	Yellow
2012	Red	Green	Yellow
2013	Red	Red	Red
2014	Yellow	Yellow	Yellow

* Moderate defined by long term average ± 10%
 ** Moderate defined by long term average ± 50%
 *** Change in level determined by both indicators being different than current level, or one indicator being two levels different to current
 NB. No 'Overall' category can move more than one level per year.

- 2.48 The cold market area outputs show a somewhat more erratic picture, reflecting the more erratic nature of the individual measures that arises from the smaller sample size in the data. Nonetheless, the results continue to reflect the key events in recent property market history including the emergence from recession to growth in 1997 and continued strong growth and high value increases through the late 1990s and early 2000s.
- 2.49 As with the Trafford-wide model above, the cold market areas model shows a slowdown in the market before the global financial crisis took hold, with the overall measure of the market changing to 'normal' in 2007 and then to 'poor' as the recession fully took hold in 2008. The picture since then has been somewhat more mixed, with conditions shown to have improved to normal in for 2011 and 2012 based on strong house price growth, before falling back to poor again in 2013 and moving back to 'normal' most recently.
- 2.50 Whether the market in Trafford's Cold Market Areas in 2011 and 2012 would properly be classified as 'normal' is clearly debatable. The individual measures show transactional activity as remaining low, but sales values increasing sharply, which is unsurprising given the large falls in the preceding years and government efforts to re-invigorate the housing market. One risk of applying this approach to a smaller geographic area is that the smaller data sample size produces potentially erroneous results and the finding for 2011 and 2012 may well be an example of this.

Moderate Market Areas

2.51 The model outputs for the moderate market area are shown in Figure 2.11 below.

Figure 2.11: Market Conditions Model - Moderate Market Areas

Year	Sales Volumes*	Average Price Change**	Overall ***
1995	Red	Red	Red
1996	Yellow	Red	Red
1997	Green	Yellow	Yellow
1998	Yellow	Yellow	Yellow
1999	Green	Green	Green
2000	Yellow	Green	Green
2001	Yellow	Green	Green
2002	Green	Green	Green
2003	Green	Green	Green
2004	Green	Green	Green
2005	Yellow	Yellow	Yellow
2006	Yellow	Red	Yellow
2007	Yellow	Yellow	Yellow
2008	Red	Red	Red
2009	Red	Red	Red
2010	Red	Yellow	Red
2011	Red	Red	Red
2012	Red	Red	Red
2013	Yellow	Red	Red
2014	Green	Yellow	Yellow

* Moderate defined by long term average $\pm 10\%$
 ** Moderate defined by long term average $\pm 50\%$
 *** Change in level determined by both indicators being different than current level, or one indicator being two levels different to current
 NB. No 'Overall' category can move more than one level per year.

- 2.52 Figure 2.11 shows that the findings for the Moderate Market Areas is broadly similar to that for Trafford as a whole. The model shows market conditions improving steadily through the latter half of the 1990s, moving from poor to normal in 1997 and then to good in 1999.
- 2.53 Market conditions are shown to have remained good until 2005 when both sales volumes and the rate of house price growth slowed markedly, indicating the further troubles to come in the housing market. In 2008, the overall classification changes to poor, where it remains until 2013, The outlook for the Moderate Market Areas is very positive, however. Both measures improved in 2104 and the overall classification in therefore moves from poor to normal.

Hot Market Areas

2.54 The model for the hot market area is shown in Figure 2.12 below:

Figure 2.12: Market Conditions Model - Hot Market Areas

Year	Sales Volumes*	Average Price Change**	Overall ***
1995	Red	White	Red
1996	Green	Red	Yellow
1997	Green	Green	Green
1998	Yellow	Yellow	Yellow
1999	Green	Green	Green
2000	Yellow	Green	Green
2001	Yellow	Yellow	Yellow
2002	Yellow	Green	Yellow
2003	Yellow	Green	Yellow
2004	Green	Green	Green
2005	Green	Yellow	Green
2006	Green	Yellow	Green
2007	Green	Yellow	Green
2008	Red	Yellow	Yellow
2009	Red	Red	Red
2010	Red	Green	Yellow
2011	Red	Red	Red
2012	Red	Red	Red
2013	Yellow	Red	Red
2014	Yellow	Yellow	Yellow

* Moderate defined by long term average $\pm 10\%$
 ** Moderate defined by long term average $\pm 50\%$
 *** Change in level determined by both indicators being different than current level, or one indicator being two levels different to current
 NB. No 'Overall' category can move more than one level per year.

- 2.55 Of the three market areas, the hot market area is the most erratic with no strong pattern emerging in the overall classification of market conditions that can be considered to reflect wider patterns in the housing market. The boom period in the late 1990s and early 2000s doesn't show through as clearly as in the other sub-areas or for Trafford as a whole, and again the recent financial crisis and recession is punctuated by a brief period of improvement that was not necessarily reflected in market sentiment on the ground.
- 2.56 The impact of the recent recession was seen later in the Hot Market Areas, relative to the other sub-areas, which may be expected given that very high value areas are often more insulated from market turbulence. Conversely however, no material pick up in market conditions was evident until 2014 and even then, the strength of the improvement is not as great as seen elsewhere.

Conclusions

- 2.57 The market conditions model, taking into account both the levels of transactional activity and levels of house price change, provides a clear and easy to understand mechanism for determining market conditions at any given time. The application of the model in practice shows that it is consistently accurate in reflecting, responding to and key market changes. Indeed, had the model been operational at the time, affordable housing policy may well have been relaxed at least one year, and perhaps two years in advance of the severe deterioration in the market in 2008. In turn this may well have help to ensure continuity in housing delivery in Trafford through the early part of the recession. In this sense, the model is shown to be accurately responsive at a time when almost all commentators were predicting continued market strength.

- 2.58 The model appears to function better with a larger data set (i.e. covering the whole Borough, rather than its sub-markets), and make for smoother and more consistent findings with steadier progressions from one classification to the next.
- 2.59 It is not clear from the analysis of the sub-areas that there is a material difference in the rate at which their markets have improved from the recent recession. The evidence does not appear to justify a different policy approach or market classification for the individual sub-areas.
- 2.60 The model suggests that for Trafford as a whole (where the size of the data set gives a more robust finding) market conditions are returning to 'normal'. However, it may be prudent to await data for 2015 showing whether this improvement has been sustained before any change in policy approach is made.

3 CIL REVIEW MONITORING

Introduction

- 3.1 This section sets out our consideration of whether wider property market conditions have materially changed such that a review of the CIL Charging Schedule may be justified. An initial suggestion as to how this could be achieved was set out in Chapter 12 of PBA's Trafford CIL Infrastructure and Economic Viability Study (July 2012) which identified a range of indicators, changes against which could trigger a review of the Charging Schedule. These were as follows:
- a 5% change in residential sales values since the date of adoption;
 - a 10% change in residential build cost since the date of adoption;
 - a 10% change in office rental values since the date of adoption;
 - a 10% change in office yields since the date of adoption;
 - a 10% change in office build costs since the date of adoption;
 - a 10% change in industrial rental values since the date of adoption;
 - a 10% change in industrial yields since the date of adoption;
 - a 10% change in industrial build costs since the date of adoption;
 - a 10% change in town centre comparison retail rental values since the date of adoption;
 - a 10% change in town centre comparison retail yields since the date of adoption;
 - a 10% change in town centre comparison retail build costs since the date of adoption;
 - a 10% change in supermarket rental values since the date of adoption;
 - a 10% change in supermarket yields since the date of adoption;
 - a 10% change in supermarket build costs since the date of adoption;
 - a 10% change in retail warehouse rental values since the date of adoption;
 - a 10% change in retail warehouse yields since the date of adoption; and
 - a 10% change in retail warehouse build costs since the date of adoption.
- 3.2 Below we review this approach and the extent to which these factors have changed. We also consider whether the changes in these factors necessarily mean that development viability has changed to an extent that a review of CIL is necessary.

Data Review

- 3.3 Initial research into the levels of change in the factors above showed that a large number of the factors identified above have changed to a greater degree than the thresholds set out at the time of writing the report in 2012. That said, however, this exercise also demonstrated that increases in build costs were often reflected in increased in development values. These factors would effectively balance one another out to a greater or lesser degree.

- 3.4 This finding leads to the conclusion that consideration of cost and value assumptions in isolation may not be the most appropriate way of determining whether viability is likely to have changed. Rather, it is the relationship between them that is likely to be far more critical in this respect.
- 3.5 Therefore, the levels of change in each of the criteria identified above have been assessed and the findings of this exercise are set out below. However, in considering the implications of these findings we have sought to analyse the findings for each type of development together, comparing the relative changes in costs and values for each. Where there is a significant divergence in the changes to build costs and development value, this may provide a rationale to undertake a review of the CIL Charging Schedule. Where changes to these factors have been broadly similar in extent, then it is unlikely that the overall viability position will have changed materially and a review of the Charging Schedule is unlikely to be necessary.
- 3.6 For the sales value information on residential properties we have revisited the same data sources and carried out the same analysis as with the CIL study. This includes an assessment of currently marketed properties as well as achieved sales values on new build properties through Land Registry data. The period covered is from the end date of the last data set to the latest available data. We have analysed the data to understand current residential property values on a per sq. m basis, broken down according to the CIL charging zones. The CIL charging zones are different from the Affordable Housing zones that were analysed earlier in this report, for clarity, the CIL charging zone map is included in Appendix B.
- 3.7 For non-residential values we have revisited transactional data for the same period as the residential data. We have used this information to understand how rents and yields have changed over time. We have accompanied this information with other pieces of research evidence, including CBRE's latest prime rent and yield monitor⁴, Colliers' research⁵ as well as the Manchester Monitor⁶. These have all been brought together to produce an updated set of assumptions.
- 3.8 For build cost data we have simply revisited the BCIS database to determine the current level of build costs and compared these findings with those assumed for the purposes of the CIL Viability Studies. The results of our assessment are shown below.

⁴ CBRE UK Prime Rent and Yield, Q4 2014

⁵ <http://www.colliers.com/en-gb/uk/services/retail/investment-deals>

⁶ <http://neweconomymanchester.com/downloads/3278-Monitor-March-Final-pdf>

Table 3.1 Residential Values and Build Cost Analysis

Development Type	2013			2015			2013-2015		2013-2015	
		per sq. m			per sq. m					
Residential Low Value	Build Cost		£740	Build Cost		£880	£ Change	£140.00	% Change	15.91
	Sales Value		£1,800	Sales Value		£1,800	£ Change	£0.00	% Change	0.00
Residential Moderate Value	Build Cost		£760	Build Cost		£900	£ Change	£140.00	% Change	15.56
	Sales Value		£2,150	Sales Value		£2,430	£ Change	£280.00	% Change	11.52
Residential High Value	Build Cost		£780	Build Cost		£920	£ Change	£140.00	% Change	15.22
	Sales Value		£2,800	Sales Value		£3,150	£ Change	£350.00	% Change	11.11
Apartment Low Value	Build Cost		£1,000	Build Cost		£1,050	£ Change	£50.00	% Change	4.76
	Sales Value		£1,900	Sales Value		£1,950	£ Change	£50.00	% Change	2.56
Apartment Moderate Value	Build Cost		£1,025	Build Cost		£1,075	£ Change	£50.00	% Change	4.65
	Sales Value		£2,300	Sales Value		£2,600	£ Change	£300.00	% Change	11.54
Apartment High Value	Build Cost		£1,075	Build Cost		£1,100	£ Change	£25.00	% Change	2.27
	Sales Value		£3,175	Sales Value		£3,500	£ Change	£325.00	% Change	9.29

Residential Findings

- 3.9 The findings summarised in Table 3.1 suggest that sales values have increased in moderate and higher value areas, with both areas showing an increase of approximately 12% over the last three years. There is little or no additional evidence in respect of new build residential developments in the lower value areas of Trafford. As such, we have not revised the sales value in this case.
- 3.10 Whilst there have been increases in the residential sales values, there has been a more significant increase in the build cost assumptions. Increases ranging from 15.22% to 15.9% depending on the value area are above the rate of growth for the sales values.
- 3.11 With the exception of the lower value areas, for which the data on sales value is inadequate, the increases in sales value in the moderate and higher value parts of Trafford are broadly in line with the increases in build costs. As such, these two factors are likely to cancel each other out in terms of their overall impact on the viability of development.
- 3.12 In terms of apartments the data suggests that low value areas have seen a very marginal change in both build cost and in sales value. The sales values for the moderate and high value areas for apartments have shown more significant increases compared to the build costs. The overall change is showing an improvement in the market, however there is not a level of change that would suggest a significant improvement in market conditions.
- 3.13 We therefore do not consider that a revision to the CIL Charging Schedule is justified by the changes to residential development viability.

Table 3.2 Non-Residential Values and Build Cost Analysis

Development Type	2013				2015				2013-2015		2013-2015	
	per sq. m				per sq. m							
TC Offices	Build cost			£1,100	Build cost			£1,250	£ Change	£150.00	% Change	12.00
	Rent	£170	Capital Value	£2,000	Rent	£170	Capital Value	£2,125	£ Change	£125.00	% Change	5.88
	Yield	8.50%			Yield	8%						
BP Offices	Build cost			£1,000	Build cost			£1,175	£ Change	£175.00	% Change	14.89
	Rent	£160	Capital Value	£1,940	Rent	£160	Capital Value	£2,065	£ Change	£125.00	% Change	6.05
	Yield	8.25%			Yield	7.75%						
Industrial	Build cost			£520	Build cost			£545	£ Change	£25.00	% Change	4.59
	Rent	£65	Capital Value	£895	Rent	£65	Capital Value	£965	£ Change	£70.00	% Change	7.25
	Yield	7.25%			Yield	6.75%						
High St Comp	Build cost			£730	Build cost			£850	£ Change	£120.00	% Change	14.12
	Rent	£250	Capital Value	£3,335	Rent	£250	Capital Value	£3,570	£ Change	£235.00	% Change	6.58
	Yield	7.50%			Yield	7%						
Retail W'house	Build cost			£600	Build cost			£625	£ Change	£25.00	% Change	4.00
	Rent	£180	Capital Value	£2,250	Rent	£180	Capital Value	£2,400	£ Change	£150.00	% Change	6.25
	Yield	8.00%			Yield	7.50%						
Supermarket	Build cost			£1,000	Build cost			£1,150	£ Change	£150.00	% Change	13.04
	Rent	£200	Capital Value	£3,635	Rent	£210	Capital Value	£3,818	£ Change	£183.00	% Change	4.79
	Yield	5.50%			Yield	5.50%						
Conv. Retail	Build cost			£600	Build cost			£760	£ Change	£160.00	% Change	21.05
	Rent	£135	Capital Value	£1,590	Rent	£140	Capital Value	£2,000	£ Change	£410.00	% Change	9.29
	Yield	8.50%			Yield	7.0%						

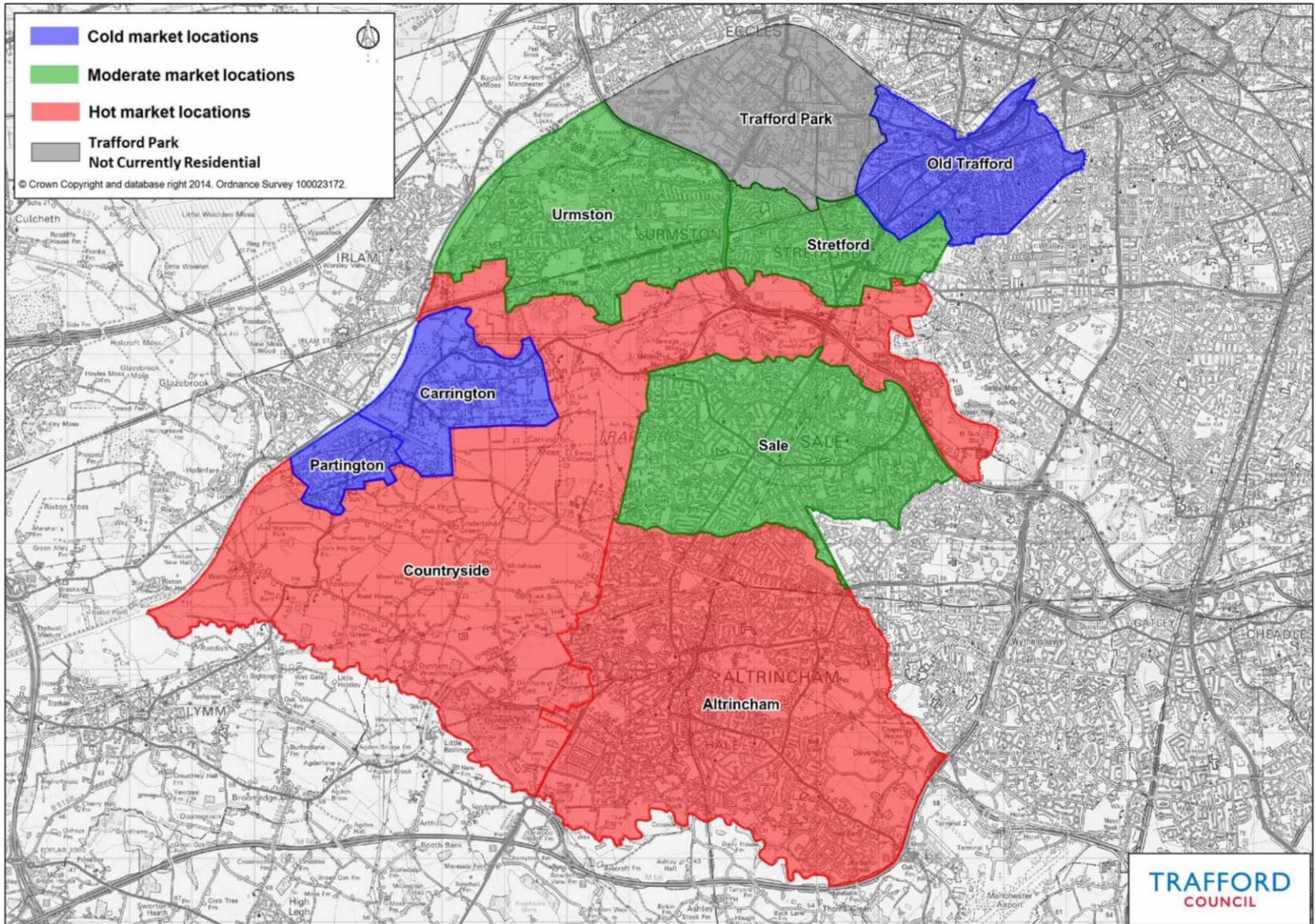
Non-Residential Findings

- 3.14 For the purposes of this assessment, we have calculated the capital value per sq. m from assumed rental values and yields, which have each been updated, as appropriate. This capital value is the basis for the comparison on the original data used for the adoption of CIL.
- 3.15 It is clear from table 3.2 that there has been relatively little movement in rental values. There have, however, been a larger number of changes in respect of yields, with the economy having improved and increased confidence in commercial property, there has been noticeable downward pressure on yields across a number of development types. These changes have a significant positive impact on the capital value of development.
- 3.16 As shown in the table, the capital values have increased by between 5% and 9%. However, as with the residential sector, non-residential build costs have also gone up significantly. These increases in build costs have cancelled out the value uplift shown with the improving yield figures. This is with the exception of industrial developments and retail warehouses where the increase has not been as significant. The balance has therefore shifted the position of these two development types to an improved position.
- 3.17 The information gathered suggests that whilst the viability of industrial development has improved somewhat, it is unlikely to have improved to such a degree as to justify a review of the charging schedule to introduce a charge for this use. Similarly, whilst it is likely that the viability of supermarket development has deteriorated, it is unlikely to be to such a degree that would necessitate a review of the charging schedule, given the levels of 'draw down' from the previously assessed theoretical maximum charges in setting the rates included in the adopted schedule. On the basis that in all other cases, changes in build costs have been broadly in line with changes in development value, a revision to the CIL Charging Schedule is not justified by the changes to non-residential development viability.

Recommendation

- 3.18 Based on the information and data gathered for the analysis of residential and non-residential development viability, we do not suggest a review of the CIL rates is necessary at this time. However the evidence that has been gathered does indicate some initial signs of changes, which should therefore be kept under review and monitored on an annual basis.

APPENDIX A AFFORDABLE HOUSING MARKET ZONES



APPENDIX B CIL CHARGE ZONES

