Continuum

# Trafford Council / 35 Oakfield, Sale Planning Inquiry

Viability in Planning Rebuttal

Ref: APP/Q4245/w/23/3325034

Mr M Lloyd

October 2023

TRAFFORD COUNCIL

Inspiring Built Environments

Viability in Planning
Development Management
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## 1. INTRODUCTION

1.1 I have been instructed by Trafford Metropolitan Borough Council to act as an expert witness and to give my opinion as to the viability in planning case submitted by McCarthy & Stone (hereafter 'Appellant') pursuant to the planning application (ref: 109745/FUL/22) at 35 Oakfield, Sale, Trafford (the 'site').

1.2 I am in receipt of the Appellant's proof of evidence (CD-G10) in relation to viability in planning which was undertaken by Mr Mackay in relation to the planning inquiry in pursuant to 35 Oakfield, Sale. This rebuttal response comments on the revised information provided by Mr Mackay in his proof of evidence.

1.3 I do not address every matter on which I disagree with the Appellants analysis. The differences between us are clear from our proofs which should be read in conjunction with this Rebuttal. The areas of disagreement I address is this rebuttal include the following:

- Benchmark Land Value (BLV)
- Sales & Marketing Costs and Profit Margin
- Sale Period

1.4 At 15:35 on Wednesday 8th of November 2023, Mr Mackay emailed me directly with an updated appraisal which corrected some errors in his appraisal at appendix 12 of his proof (CD-G11). The updated appraisal corrects a cash flow error in terms of sale period not occurring 2 months after practical competition of the building as well as errors in relation to the site agent fee and site legal fee. The outcome of correcting these errors is that Mr Mackay's appraisal now outputs a higher Residual Land Value of £2,087,104 and based on this, Mr Mackay states that the surplus has now increased to £287,103 (originally at £208,000). Mr Mackay comments in his email that this is included within an updated Unilateral Undertaking, as a result I make the assumption this is a formal offer.

## 2. BENCHMARK LAND VALUE

2.1 The Existing Use Value (EUV) assessment made in the Continuum FVA review (**Appendix 1**) was based on information provided by the Appellant as well as EPC records. The assessor is reliant on the information provided by the Applicant / Appellant. What has become clear, is that the information provided in the Matthews & Goodmand (M&G now Fisher German) valuation dated July 2022 (Appendix 3 of CD-A9) has subsequently been found to not reflect the actual conditions and number of dwellings of the existing property. As a result, the Continuum assessment of EUV referred to by Mr Mackay (at para. 6.4 and 6.5 of his proof: CD-G10), no longer has relevance.

2.2 To provide clarity regarding para. 6.5 of Mr Mackay's proof (CD-G10), the two apartments included within the original July 2022 M&G valuation (Appendix 3 of CD-A9) did not exist (discovered by Continuum through EPC and Council Tax register). It has subsequently been discovered that of the 12 actual apartments (identified by Continuum in their FVA review), one is uninhabitable (and has been for a considerable amount of time).

2.3 For clarity, the October 2023 valuation (CD-B4) provided by (M&G now Fisher German) shows a fundamentally different approach to valuing the existing building. In M&G's July 2022 valuation they state:

*"We understand that there are no tenancies to which the Property is subject, and our Valuation is thus on the basis of Vacant Possession."* (Appendix 3 of CD-A9: M&G Valuation July 2022: para. 6).

2.4 This was clearly not the case. All 11 habitable units being valued were occupied in July 2022 on AST agreements (to be confirmed by the Appellant and Mr Mackay). M&G have now chosen to value the income generated by the tenancies (investment approach).

2.5 What remains unclear is how M&G were so ill informed regarding the number of units and whether those units were occupied or not, when they undertook the original valuation in July 2022.

2.6 It is important to restate my position regarding premiums. The theory behind the premium is that a landowner needs to be incentivised over and above existing use value to promote their land for development. For there to be additional money to fund the premium, there would need to be a material change of use to a higher value use for the land in question. For example, agricultural use land to residential use land. If there is no change of use to a higher value use, then there is no surplus money to fund a premium. In the case of 35 Oakfield, the planning use is remaining the same (C3). The PPG on Viability at paragraph 16 states:

*"The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner."*

2.7 If there is no change to the existing use of land to a higher value use through the planning process, then there is no second component to Benchmark Land Value (BLV). The use remains the same but the nature of development changes within that use (for example intensification). Should that intensification result in thresholds for policy contributions being met or exceeded, then the funding of these contributions needs to sit with the developer.

2.8 Mr Mackay relies upon a historic appeal decision (Cheam APP/P5870/W/16/3159137) to justify a premium. The appeal decision pre-dates the updated NPPF (2018 to 2023) and PPG on Viability (2018 to 2019), where the methodology for assessing BLV (EUV+) was adopted. The appeal relies on the now removed (from the NPPF and PPG in 2018) requirement for *"competitive returns"* to the landowner.

2.9 Mr Mackay's reference to the Warburton Lane appeal (APP/Q4245/W/19/3243720) helps support the point I have made earlier. Warburton Lane was a greenfield site where planning permission was being sought for change of use to residential use which would create a substantially higher land value. The money to fund the premium was generated through the planning process.

2.10 To clarify the point that Mr Mackay raises at para. 6.18 of his proof (CD-G10), the adopted Civic Quarter Area Action Plan Viability Assessment stated the following:

*"Should a change of use not be proposed, it is considered that a premium is not required to incentivise a landowner to release their land for development. It is the change of use to a higher value use, such as agricultural to residential or industrial to residential, that demands a premium. If there is no change of use, no premium is required. Should the use remain the same, the value for the site will incorporate any hope value for increased densification given the principle of the existing use."* (para. 3.35).

## 3. SALES & MARKETING COSTS AND PROFIT MARGIN

3.1 Mr Mackay appears to have misunderstood the point made in relation to demand at para. 7.2 of his proof (CD-G10). The point being made by Knight Frank (Appendix 4 of CD-G11), reaffirmed by Three Dragons (CD-A3) on behalf of the Appellant, is that there is higher demand and limited supply of retirement apartments in Grater Manchester and more specifically in Trafford. It stands to reason that if there is higher demand and limited supply, the marketing period and associated costs, will be less than in markets with lower demand and higher supply.

3.2 I assume in para. 7.3 (CD-G10) that Mr Mackay is referencing operating margins as appose to gross margins. Gross margins include operating costs (such as some sales and marketing activities). General business accounts identify a gross margin from which there are then deductions to get to an operating margin (the net position).

3.3 The evidence that Mr Mackay presents to support his assertions in relation to profit margin and sales & marketing costs are primarily based on appeal decisions in relation to his two main clients, McCarthy & Stone (Appellant) and Churchill. What is interesting about the evidence, is that it presents a clear picture. Every scheme, irrespective of scale, geography, location and demand / supply assessment has the same profit percentage and the same sales & marketing percentage range.

3.4 In the December 2022 FVA (CD-A9) produced to support the planning application, Mr Mackay argued that the profit margin the Appellant would achieve should they get a planning consent for the proposed scheme, based on a BLV of £2.4m and no contributions, would be circa. 14.35% on GDV. This was clearly a level at which the Appellant was prepared to proceed with the development based on their pursuit of a planning consent.

3.5 Mr Mackay at para. 9.16 (CD-G10) reference the Effingham Appeal (Appendix 15 of their proof: CD-G11). I have been clear in my proof, that a profit margin towards the upper end of the 15-20% range is justified with regards to the subject development in light of current market conditions. Due to the high demand and low supply (as evidenced by the Appellant) for the retirement scheme (which goes a long way to mitigating site specific risks) then 18.5% profit on GDV is a reasonable expectation for the developer.

## 4. SALES PERIOD

4.1 Mr Mackay at para. 8.9 / Table 2 (CD-G10) provides four schemes that they argue support their sale period. The first two schemes are located in Greater Manchester and were assessed by myself in detail at Appendix 3 of my proof (Appendix 3 of CD-G26). Mr Mackay's assessment of the two schemes is limited. Due to his extensive knowledge of the retirement living sector, I would have expected a more in-depth commentary on sales rates / periods for schemes within Greater Manchester. For example, Hampson Court had 19 sales achieved in the first month of building completion and Butterworth Grange had 16 sales achieved in the first months of building completion. These are clearly forward sales with purchasers making commitments / reservations in advance. With the subject site only being 25 units, the potential for a large proportion of the development to be pre-sold is clear and obvious (in this location of high demand and low supply). The other two schemes are located in completely different market locations, one Derbyshire and the other Shropshire.

## 5. CONCLUSION

5.1 Paragraph 10 of the PPG (CD-C2) states:

*"In plan making and decision making viability helps to strike a balance between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission."*

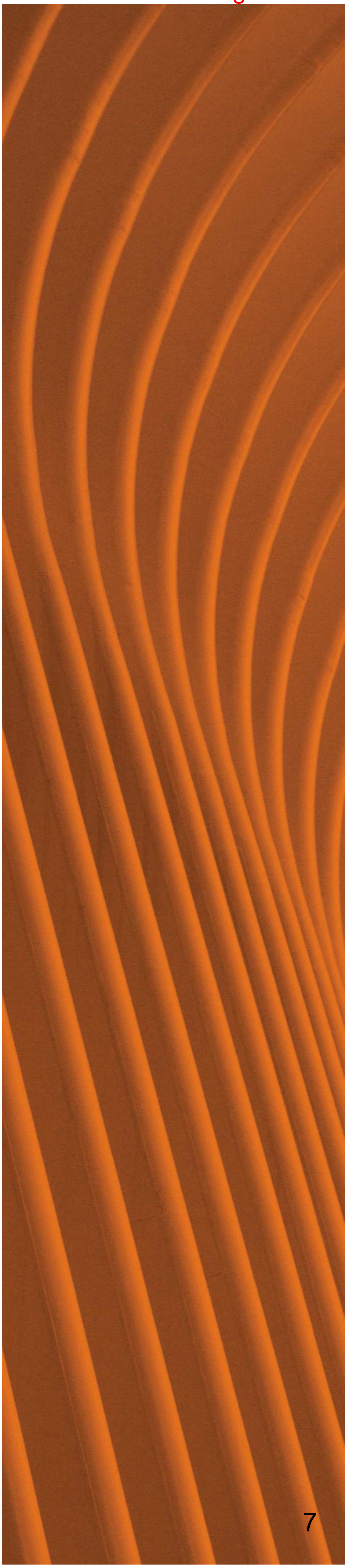
5.2 In the case of Mr Mackay's argument, his starting point is to establish a BLV through the EUV+ method. He then establishes a profit margin as a percentage of GDV. He then inputs these elements into an appraisal. The outcome of that appraisal is what he refers to as surplus (the difference between his RLV and BLV). This the amount that is available for contributions. It is unclear to me how this methodology meets the definition above. Securing maximum benefits in the public interest is reduced to the output of a financial appraisal where the interests of both landowner and developer have been prioritised. There has been not attempt made to *"strike a balance"* between the three parties.

5.3 In Mr Mackay's December 2022 FVA (CD-A9) the BLV suggested was £2.4m. The updated position for the Inquiry is that Mr Mackay's BLV is now £1.8m. In addition, an unsubstantiated abnormal cost (abnormal foundations) of circa. £222,983 (when including contingency and professional fees) has been removed. The combined positive impact is £822,983. Mr Mackay on behalf of his Client / Appellant, shortly in advance of the proof deadline, suggested a contribution towards affordable housing of £208,000. On the 8th November 2023, Mr Mackay further increased this contribution due to errors in his appraisal and the total amount is now £287,104.

5.4 Some points of clarification for the Inquiry:

- The SDLT in Mr Mackay's original December 2022 appraisal (CD-A9) was miscalculated by over £100k. The RLV should have been at circa. £1,948,000 (when applying site agent and legal fees to the RLV).
- Mr Mackay's original December 2022 appraisal (CD-A9) had a contingency of 5% instead of 3% he now uses. The impact of this is a reduction in cost (excluding abnormal foundations) of circa. £78k.
- Build cost inflation (including base build, externals, demolition and professional fees) equates to circa. £168k.
- Mr Makcay's updated cash flow (Appendix 16 of CD-G11) states that the sale period should start in January 2025, however in reality it starts in March 2025 and then runs for 18 months. This error has now been corrected by Mr Mackay's and equates to a cost saving of £79,392.
- Mr Mackay's October 2023 appraisal (Appendix 16 of CD-G11) has miscalculated the site agent and legal fees which equate to 2.04% instead of the agreed SoCG 1.8% figure. This error has now been corrected by Mr Mackay.
- Looking back at the December 2022 appraisal (CD-A9) there were some clear anomalies. Such as the contingency percentage and SDLT. If these were corrected in the 2022 appraisal, the profit margin achieved is circa. 16.4% on GDV (based on Mr Mackay's December 2022 BLV of £2.4m).

## APPENDIX 1 – CONTINUUM'S OAKFIELD SALE INDEPENDENT VIABILITY ASSESSMENT



**35 Oakfield Sale, Trafford, M33 6NB**
**Independent Viability Assessment**

for

Trafford Council (Local Planning Authority)

April 2023

TRAFFORD COUNCIL

Inspiring Built Environments

Viability in Planning
Development Management
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## Contents

**Executive Summary**

- Continuum have been instructed by Trafford Council (hereafter ''TC'') to undertake an Independent Viability Assessment (IVA) and to provide advice on the viability case put forward by McCarthy Stone (hereafter ''McCS'') (Applicant), in respect of the land at 35 Oakfield, Sale, Trafford, M33 6NB (ref: 109745/FUL/22).

- The purpose of the IVA is to review the viability appraisal put forward by McCS in the context of its claim made by Alder King (acting consultant) (hereafter ''AK'') that the proposed development at 35 Oakfield, Sale will be unable to provide any affordable housing contributions. This is based on the assertion that the value created by the development minus the costs incurred to deliver it does not provide sufficient headroom to meet AK's estimated aspirational returns to the developer and landowner should any affordable housing contributions be funded.

- The property is situated in a residential location fronting Oakfield approximately 0.5 miles southwest of Sale. Local transport links include the Sale tram stop which is located approximately 0.7 miles to the Northwest of the property. The A56 provides vehicular access to both Altrincham and Manchester City Centre. The subject site is a residential site extending to approximately 0.296 acres (0.12 ha). The site comprises of a detached three storey building (plus basement), beneath a pitched tiled roof with a separate two -storey annex building of brick construction set beneath a pitched tiled roof.

- The proposed scheme is a planning application for the demolition of the existing buildings, remediation and raising of levels to construct 25 retirement living apartments.

- The subject site is not designated by any specific policies or allocations within the existing framework of the Trafford Local Plan: Core Strategy (2012). Continuum and TC argue that the subject site triggers the 4th Bullet point of policy L2.12 and is non-generic in viability terms and is therefore subject to up to 40% affordable housing. This position is supported by KC advice during the former B&Q appeal (Ref: APP/W/20/3258552) where the inspector agreed with TC's arguments around interpretation of policy L2.12. Continuum and TC also argue that the affordable units should be onsite.

- AK have provided the *"particular circumstance"* that allow for the assessment of viability at the decision-making stage. AK state with regards to this section scheme can demonstrate the following *"particular circumstances":*

  - *Unallocated site of a wholly different site to those assessed at the time of the plan.*
  - *Particular type of development that varies from standard models of development for sale (housing for older people).*

- It is argued by AK that a market profit margin of 20% on Gross Development Value (GDV) constitutes the minimum aspirational return to a developer and a Benchmark Land Value (BLV) of £2.4m (circa £8.12m per gross acre) constitutes the minimum aspirational return to the landowner.

- To demonstrate the viability challenge, AK have produced an appraisal. The appraisal provided is for 100% market housing scheme as AK state the development is unviable with an affordable housing provision. When assuming AK's fixed profit margin assumptions of 20% on market GDV, AK's appraisal outputs a Residual Land Value (RLV) of -£575,245 for the 100% market housing scenario. AK argue that the output RLVs are significantly lower than their estimated BLV and therefore the scheme cannot viably contribute toward any affordable housing. This is based on the assertion that the value created by the development minus the costs incurred to deliver it does not provide sufficient headroom to meet AK's assertion of landowner and developer aspirational returns if any affordable housing was sought.

- One of the main areas of contention is AK's estimation of the BLV. Based on the evidence provided in a valuation report conducted by Matthew & Goodman (hereafter ''M&G'') AK have estimated the BLV at £2.4m (circa £8.12m per gross acre) which is the result of applying a premium 20% (£400,000) to the EUV (£2m). Continuum would highlight that M&G's estimation of EUV is 11.2% higher than the purchase price of £1.8m (bought by McCS in 2020). The increase equates to £200,000. Continuum would also highlight that the BLV is £600,000 higher than the 2020 purchase price. AK conclude that the BLV is a fair representation of what could be achieved given the current market, site's location, and existing use at the date of the assessment.

- The other key issues Continuum have with the viability case put forward by AK are:

    - Build Costs
    - Benchmark Land Value
    - Guest Suite
    - Development Period / Finance costs
    - Profit Margin
    - Sales & Marketing Fees
    - EPCs

- Continuum have provided a reasoned explanation for the appropriate level for these elements based on a detailed evidence base and justifications outlined in section 7 of this report.

- Continuum have undertaken a sensitivity analysis assessment of the proposed development based on their assessment on certain inputs. Continuum have first tested whether the scheme can support 40% affordable housing as per the 4th bullet point of policy L2.12. The output of this assessment shows the scheme can viably support its 40% affordable housing contributions. Continuum have undertaken a worse case sensitivity testing on the above assessment, reducing values by 1% per step and increasing base build costs by 1% per step. From the above sensitivity analysis undertaken, all scenarios output an RLV that is higher than Continuums estimation of BLV. Continuum are therefore confident that the scheme can support 40% affordable housing contribution based on this worst case scenario testing of the scheme.

- AK and the Applicant are also required to provide information and evidence in relation to the following:

- Independent cost plans and evidence to mainly support the demolition and abnormal foundation costs.
- A detailed estimation of the value of the guest suite's rental income.
- A supporting cash flow based on AK's appraisal to allow Continuum to fully assess the development profile and finance costs adopted.

## 1. Introduction

Continuum have been instructed by TC to undertake an Independent Viability Assessment (IVA) and to provide advice on the viability case put forward by McCS in respect of the land at 35 Oakfield, Sale, Trafford, M33 6NB (ref: 109745/FUL/22).

This IVA has three tasks:

1. Assess in terms of policy and professional practice guidelines whether the Applicant has made a compelling case for the identified aspirational return to the developers and landowners in their viability proposition, and the values and costs used in their appraisal are fair and evidenced.
2. To establish what further information/evidence is required from the Applicant in the event that further justification for the viability case made is required.
3. To advise the LPA, following evaluation, if there is the potential for contributions to be made by the Applicant, once evidence based aspirational returns to the developers and landowner are achieved.

The IVA has been prepared in compliance with national planning policy, namely:

- National Planning Policy Framework (updated 2021).
- National Planning Practice Guidance on Viability (updated 2019).

The PPG (2019) sets out a standard approach to assessing viability at both the plan and decision-making stage seeking to 'strike a balance' between the aspirations of developer returns, landowner returns and benefits in the public interest through policy compliance.

The emphasis has changed regarding the assessment of viability in the most recent iteration of the PPG (2019). Weight to be given to the viability assessment is now a matter for the decision maker and should be based upon the recency of the development plan and the supporting viability evidence, alongside the transparency and justification of the evidence submitted as the basis of the viability assessment.

Guidance prepared by Royal Institution of Chartered Surveyors (RICS) has been taken in account in the preparation of this report with particular reference to the following documents:

- RICS Professional Statement: Financial Viability in Planning – Conduct and Reporting (2019).
- RICS Guidance Note: Assessing viability in planning under the NPPF (2019) for England (1st Ed) (March 2021).

The RICS professional statement (2019) sets out mandatory requirements to be followed by RICS professionals regarding to conduct and reporting in relation to FVAs for planning in England. **Appendix 1** confirms that this review is in accordance with the requirements set out within the Professional Statement. The RICS Guidance Note (2021) sets out best practise on viability in planning to be followed by RICS members.

This IVA does not constitute a formal valuation, as such, the guidance included in this report is exempt from regulations set out in the RICS Valuation Professional Standards (the Red Book) (2019).

## 2. Confidentiality

This IVA report is confidential to TC as the Client, and their advisors. It has been prepared in accordance with Continuum's terms of engagement.

This IVA has been prepared on the basis that it will be made publicly available should our Client, TC, require it to be as under our terms of engagement.

No party other than the Client is entitled to rely on this report for any purpose whatsoever and we accept no responsibility or liability to any other party other than the client in respect of the contents of this report. This report must not, save as expressly provided for in our terms of engagement, be recited or referred to in any document, or copied or made available (in whole or in part) to any other person without our express prior written consent.

This IVA should not be disclosed to any third parties under either the Freedom of Information Act 2000 (sections 41 and 43 (2)) or under the Environmental Information Regulations.

## 3. Background and Documents Supplied

The property is situated in a residential location fronting Oakfield approximately 0.5 miles southwest of Sale. Local transport links include the Sale tram stop which is located approximately 0.7 miles to the Northwest of the property. The A56 provides vehicular access to both Altrincham and Manchester City centre.

The subject site is a residential site extending to approximately 0.296 acres (0.12 ha). The site comprises of a detached three storey building (plus basement), beneath a pitched tiled roof with a separate two -storey annex building of brick construction set beneath a pitched tiled roof.

Internally, the property comprises of 14 flats with 6 studios, 7 one-bedroom flats and a 2-bedroom flat. These consist of an open plan kitchen/living room (and bedroom if a studio) and one or two bedrooms. The specification is stated as “reasonable but slightly dated” reviewing the valuation report prepared by M&G (Dated: 01/07/2022).

On review of the FVA provided by AK (Dated: 05/12/2022), McCS intends to redevelop the property for a new retirement scheme comprising of 25x retirement living units, with associated communal facilities, landscaping and car parking.

The following document has been provided to support the financial viability case being made by the Applicant:

- Financial Viability Assessment, 35 Oakfield Sale, Trafford M33 6NB, Dec 2022, prepared by AK.
- Valuation Report (included in the AK FVA), 35 Oakfield Sale, Trafford M33 6NB, July 2022 prepared by M&G.

## 4. TC's Planning Policy

### 4.1 Allocation Planning Policy

The current development plan for Trafford is the Trafford Local Plan: Core Strategy adopted January 2012 and the saved policies of the Revised Trafford Unitary Development Plan 2006. The site is not designated by any specific policies or allocations within the existing planning policy framework.

### 4.2 Affordable Housing Planning Policy

Continuum have reviewed the TC Policy L2 *"meeting housing needs"* of the Local Plan which provides a tenure split preference of 60/40 split of Market & Affordable housing rent / intermediate.

Under policy L2.12 the requirement for the amount of affordable housing is dependent on the geographical strength of the market location. The market locations are graded in 3 separate categories being "cold" (5% affordable housing contribution sought), "moderate" (20% AH contribution will be sought) and "hot" (40% affordable housing contribution will be sought).

Under policy L2.12 fourth bullet states:

*"In those parts of Trafford Park identified for residential development, or in areas where the nature of the development is such that, in viability terms, it will perform differently to generic developments within a specified market location the affordable housing contribution will be determined via a site-specific viability study and will not normally exceed 40%".*

From discussions with TC it is understood that the proposed development will be seen as non-generic and therefore would be subject to up to 40% affordable housing as per the policy above. Continuum discuss this further in section 7.9.

Revised SPD1: Planning Obligations (2014) states in paragraph 3.31 that in *"exceptional circumstances"* when it is not possible to provide affordable housing on site, a commuted financial contribution in lieu may be accepted. The SPD (2014) provides examples of what would be considered *"exceptional circumstances"* as follows; bringing existing housing back into use and providing affordable housing in other areas to encourage a better social mix.

The guidance states that the Applicant should agree *"exceptional circumstances"* for off-site provision (commuted sum) with the Local Authority via the pre-application process. Following discussions with TC it is understood that the provision of a commuted sum has not been agreed between parties. It is further understood that it is TC's position that affordable housing should be delivered on-site.

On the basis of TC's adopted policy and supporting guidance, it is understood that the policy compliance level of affordable housing is up to 40% onsite (10 units) reflecting a tenure mix of 50% affordable rent & 50% intermediate (shared ownership).

### 4.3 CIL

TC adopted a CIL charging schedule in 2014. The subject site is located in the CIL charging zone 1 and the 2014 CIL rate was £0 per m2 for residential apartments within the *"moderate"* charging zone.

## 5. Particular Circumstances

The NPPF (2021) at paragraph 58 states that:

*"Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage."* (Continuum's emphasis).

The PPG on Viability (2019) states that:

*"Where up-to-date policies have set out the contributions expected from development, planning applications that fully comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. Policy compliant in decision making means that the development fully complies with up-to-date plan policies. A decision maker can give appropriate weight to emerging policies.*

*Such circumstances could include, for example where development is proposed on unallocated sites of a wholly different type to those used in viability assessment that informed the plan; where further information on infrastructure or site costs is required; where particular types of development are proposed which may significantly vary from standard models of development for sale (for example build to rent or housing for older people); or where a recession or similar significant economic changes have occurred since the plan was brought into force."* (para. 07).

AK states that with regards to this paragraph the proposed scheme can demonstrate the following particular circumstances:

- Unallocated site of a wholly different site to those assessed at the time of the plan.
- Particular type of development that varies from standard models of development for sale (housing for older people).

# 6. The Development Financial Appraisal

## 6.1 The Appraisal Approach

AK were responsible for the presentation of the financial appraisal data and report submitted. AK estimated the base build costs using BCIS data. In addition, AK estimated the external works and abnormal costs for the scheme. AK have provided their opinion on all other cost inputs.

The market sale values for the retirement living scheme are based on nearby apartment comparables and new build retirement schemes in Greater Manchester. The software model used by AK to run the appraisal is Argus Developer. AK have only provided the appraisal summary and no cash flow has been included.

AK input both the profit margin and the Benchmark Land Value (BLV) as a fixed input into the appraisal with the output being the residual surplus/deficit between the fixed BLV and output Residual Land Value (RLV).

AK have only assessed a 100% market appraisal. They argue that because the output of this appraisal produces a residual deficit of -£575,245, the scheme cannot viably support affordable housing.

### 6.1.1 Development Profile

The development timings estimated by AK are outlined in the table below:

| Development Period | 100% Market |
|---|---|
| Pre-construction | 6 months (Nov-22) |
| Construction | 12 months (May-23) |
| Sale Period | 18 months (May-24) |
| **Total** | **36 months** |

AK states that 30% of the units are forecasted to be sold on practical completion, 50% of the units are to be sold by the end of year 1 and the remaining 25% of the units are to be sold within the following 6 months.

No supporting cash flow has been provided by AK which means Continuum are unable to fully assess the adopted development profile for the scheme.

## 6.2 AK's Sale Values

### 6.2.1 Proposed Development

The proposed development involves the construction of 25 new build dwellings. The table below outlines the proposed dwellings:

| Type | Units | Unit m2 | Total m2 |
|---|---|---|---|
| Retirement Living Apartment (1 Bed) | 14 | 52.87 | 740.18 |
| Retirement Living Apartment (2 Bed) | 11 | 74.50 | 819.50 |
| **Total** | **25** | | **1,559.69** |

The total proposed NSA of the dwellings is 1,559.69 m2. The apartment units are assumed to have a gross to net ratio of 67% and the total GIA of the proposed dwellings is 2,327.74 m2.

### 6.2.2 Market Values

**Comparable Data**

AK explain that RHG guidance states that retirement living apartments are typically values at 75% of the value of a semi detached property for 1 bed apartments and 100% of a semi detached property for 2 bed apartments. AK argue that based on average Rightmove data for Sale of £429,186 for semi detach unit this would equate to £321,890 for 1 bed apartment and £429,186 for a 2 bed apartment.

AK have then assessed new build asking price retirement schemes in Greater Manchester and argue that there is only one comparable Woodlands, Stockport. The scheme has the following asking price:

- 1 bed (deluxe) - £278,488 (56.37 m2)
- 2 bed - £360,477 (80.18 m2)

AK argue that Stockport is a lower value area with house prices circa. 36% below prices in Sale. AK argue they have therefore applied a premium above this comparable (circa. 20%) and the RHG guidance of value on semi detached units (circa. 10%).

### 6.2.3 Proposed Gross Development Value (GDV)

AK have estimated the GDV for the 100% market housing scheme as follows:

| Type | Units | NSA (m2) | Rate m2 | Unit Price | Total £ (circa) |
|---|---|---|---|---|---|
| RL – 1 bed | 14 | 740.19 | £6,619.92 | £350,000 | £4,900,000 |
| RL – 2 bed | 11 | 819.50 | £6,442.95 | £480,000 | £5,280,000 |
| **Total** | **25** | **1,559.69** | | | **£10,180,000** |

## 6.3 AK's Costs

### 6.3.1 Base Build Costs

AK have estimated the base build costs for the proposed scheme utilising the BCIS median figure 'supported housing' rebased for Trafford. AK state they have adopted the 'supported housing' median figure of £1,617 per m2 which equates to £150.22 per sq ft.

The total base build adopted by AK equates to £3,764,207. AK and the Applicant have not provided a detailed cost plan to support the above base build cost allowance.

### 6.3.2 Part L Costs

AK state BCIS does not currently take into account the introduction of Part L of the building regulations. AK have allowed for a figure of £2,500 per unit for an uplift in costs to meet part L. AK explain that these costs are indexed and would add about 3% to the base build cost.

### 6.3.3 External Works

AK state that BCIS costs only reflect the base build itself and excludes site works and external costs. AK state they would typically apply a rate of around 8%-15% for these costs. Therefore, AK proceed to apply a lower range of 8% for general external works.

The above is a simple assessment of external works. AK have not provided a detailed cost plan to support the above external works allowance.

### 6.3.4 Abnormal Costs

Abnormal costs are those that the developer perceives to be in addition to *'normal'* costs that would be expected to be incurred in the delivery of development. The abnormal element will be a treatment over and above standard, primarily to deal with difficult ground conditions.

AK have provided a simple table which outlines the estimated *'extra-over/abnormal costs'* allowances. No detailed cost plan or site investigation reports have been provided to support the assessment. The table below outlines the estimated abnormal costs:

| **Abnormals** | **Cost £** |
|---|---|
| Site Preparation/Demolition works | £78,480 |
| Foundations – Extra Over | £197,300 |
| Part L | £62,500 |
| **Total** | **£338,280** |

The total abnormal costs equate to circa £1,142,838 per gross acre.

### 6.3.5 Contingency

AK state they have applied a contingency of 3% in section 7.1.3.2 of the FVA. However, on further investigation AK have adopted a contingency allowance of 5% of the total construction costs in their appraisal. This equates to £216,259.

Continuum agree with the figure of 3% for a scheme of this type and scale, with the contingency reflecting the construction risk at this stage of the development.

### 6.3.6 Affordable Commuted Sum Calculation

AK argue that the scheme is unable to support affordable housing policy position of 25% affordable housing as part of the S106 obligation in order for the scheme to remain viable.

AK argue that the proposed development is subject to 25% affordable housing due to it being located in the *"moderate"* market location. AK have then estimated the value of the affordable units commuted sum based on the Trafford Planning Obligations SPD (2014) which provides a calculation on how to assess the payment obligation for Affordable housing commuted sum.

AK have provided the following calculation used to estimate the commuted sum for the Affordable Housing:

| | |
|---|---|
| Total GDV (100% Market) | £10,180,000 |
| Total GDV (Policy) – 25% AH (6 Units) | £9,170,500 |
| Total | £1,009,500 |

The total estimated commuted sum is £1,009,500 which is equivalent to £168,250 per affordable housing unit.

### 6.3.7 Professional Fees

AK have adopted a professional fee allowance of 8% of the total construction costs which equates to £352,292. This includes all planning and building regulation fees as well as building design fees. Continuum agree with this figure for a scheme of this scale and nature.

### 6.3.8 Marketing and Sales Fees

AK state that they have adopted a combined marketing fee (3%) and sales fee (2%) amounting to 5% for each unit sale. AK state that due to the specialised nature of retirement housing, it limits the market to buyers with an immediate requirement for a unit and therefore no off plan is factored into the development. Consequently, AK have factored this into the marketing and sales fee percentages.

### 6.3.9 Disposal Fees

AK state they have adopted a legal fee of £650 per unit on open market sales. Continuum would agree with this figure as appropriate for a scheme of this type and scale.

### 6.3.10 S106 Costs

AK have assumed zero other S106 costs in their appraisal. Continuum take this at face value and Trafford may wish to clarify this assertion.

### 6.3.11 Finance Costs

AK have adopted an interest rate of 7%. AK states that:

*"In this instance we have adopted an all-in debit interest rate of 7% together with a credit rate of 1% with no additional allowance for fees, which we consider to be a realistic generic assumption for a development of this nature in the current market.* (pg. 24).

There has been no cashflow submitted within the viability appraisal produced by AK. Without this, Continuum are unable to fully analyse the finance costs.

The total finance costs estimated for the scheme are £518,651.

#### 6.3.12 Site Acquisition Costs

AK fixed the land value at £2.4m to reflect AK's assessment of the BLV.

AK have included in their appraisal, Stamp Duty at prevailing rate, a 1% site agent fee and a 0.8% site legal fee. Continuum agree with the site acquisition costs percentages.

#### 6.3.13 Empty Property Costs

AK argue that empty property costs (EPCs) are an industry accepted cost of retirement apartment development. They go on to argue that this cost has been accepted by other third-party reviewers as a valid cost to be included in retirement living appraisals. AK state that EPCs are costs that are borne by the developer until the scheme is fully sold. AK argue EPC cover the following:

- Background heating to empty apartments
- Maintenance and upkeep of the communal facilities
- Employment of the estate manager

AK explain that the above costs are covered by service charge once all the apartments are sold. Until all apartments are sold there is a shortfall in service charge income that must be met by the developer. In addition, AK argue that council tax payments will need to be met on empty units until they are sold.

AK have estimated EPCs for the development over the estimated 24 months sale period of £58,189.

### 6.4 AK's Assessment of Profit Margin

AK argue a typical retirement living apartment scheme built by McCS have a higher risk profile compared to general housing needs due to their specialised construction and layout of the units, restricted nature of the target market and no financial support or government scheme incentives. A full explanation of AK's reasoning can be found on page 26/27 of their FVA.

AK argue that it is their opinion that for a housing scheme of this scale, a housebuilder would seek a minimum profit margin of 20% on GDV for the specialist retirement apartments quoting various appeal decisions to confirm their position. AK provide a list of previously agreed developer returns between themselves and other consultants where 20% on GDV was agreed (see Appendix 7 of their report). All applications were taken from the last 18 months from the date of the FVA and schemes being promoted by McCarthy Stone and Churchill Retirement Living.

AK have fixed the profit amount at 20% profit on GDV.

## 6.5 AK's Assessment of Benchmark Land Value (BLV)

AK state that they have based their assessment of the BLV referencing the PPG on Viability (2019) and RICS Professional Statement (2019). AK state that guidance requires the BLV to be determined using the existing use value (EUV) plus premium to the landowner methodology. AK state that the premium should reflect a reasonable incentive for a Landowner to bring the land for development.

### 6.5.1 Existing Use Value

AK have estimated the EUV of the subject site based on the M&G valuation report.

M&G states given the property comprises of a completed block of apartments, the EUV is higher than any AUV (subject to any special assumption) and therefore the property is *'underpinned'* by its existing use.

The valuation report adopted the comparable method to produce an EUV for the building utilising the comparable data within 0.5 miles from the subject site as shown below:

| | Beds | Area (sq ft) | Price | Price per sq ft | Date sold |
|---|---|---|---|---|---|
| 6 Rusland Court, Oakfield, Sale | 2 | 705 | £220,000 | £312 | Unknown (sold subject to contract) |
| 10 Rusland Court, Oakfield, Sale | 2 | 742 | £216,000 | £291 | December 2021 |
| Flat 3, Oakfield Mews, Sale | 2 | 663 | £190,000 | £286 | May 2021 |
| Flat 8, Oakfield, Mews, Sale | 2 | 690 | £190,000 | £275 | May 2021 |
| Flat 15, 43 Oakfield, Sale (Over 60's) | 1 | 517 | £162,500 | £314 | November 2021 |
| Apt 10, 20 Benbow Street, Sale | 1 | 335 | £98,000 | £292 | August 2021 |
| Flat 12, Addison Grange, 43 Derbyshire road, Sale | 1 | 419 | £135,500 | £323 | January 2022 |
| Lindea Lea, Brooklands road, Sale | 1 | 750 | £170,000 | £226 | Unknown (sold subject to contract) |
| 32 Linden Lea, Brooklands Road, Sale | 1 | 476 | £149,950 | £315 | Unknown (sold subject to contract) |
| Apartment 4, 33 Carlyn Avenue, Sale | 1 | 471 | £149,950 | £318 | Unknown (sold subject to contract) |
| 36 Wardle Court, Sale | 1 | 471 | £140,000 | £297 | Unknown (sold subject to contract) |
| Flat 1, 6-8 Roebuck Lane, Sale | 1 | 321 | £135,000 | £420 | Unknown (sold subject to contract) |

M&G state the valuation takes into account factor including size, accommodation, condition, specification, location and transaction dates. However, M&G do not provide a detailed justification as to how they have estimated the apartment values based on the comparables, including what adjustments have been made to the comparables.

M&G comment they have applied a lower rate to the ground floor flat due to the demand for these units compared to the remaining property's units. They go on to further state a lower rate is applied to the second-floor flat to reflect its larger than average size as shown in the above market values. M&G estimation of EUV for the existing block of apartments is £2m and is outlined in the table below:

| Type | Bed/s | Unit (sq ft) | Unit Price (£) | £/ sq ft |
|---|---|---|---|---|
| Flat A- Ground | 1 | 603 | £180,000.00 | £298 |
| Flat B- Ground | 1 | 506 | £152,000.00 | £300 |
| Flat C- Ground | Studio | 377 | £120,000.00 | £318 |
| Flat D - First | Studio | 334 | £107,000.00 | £320 |
| Flat E - First | 1 | 517 | £160,000.00 | £309 |
| Flat F - First | 1 | 592 | £178,000.00 | £300 |
| Flat G - Second | 1 | 904 | £230,000.00 | £229 |
| Flat H - Lower Ground | 1 | 463 | £130,000.00 | £280 |
| Flat F - Lower Ground/Ground | 1-Duplex | 517 | £145,000.00 | £280 |
| Suite 1 - Ground | Studio | 280 | £100,000.00 | £357 |
| Suite 2- Ground | Studio | 291 | £102,000.00 | £351 |
| Suite 3 - Ground | Studio | 291 | £102,000.00 | £351 |
| Suite 4 - First | Studio | 280 | £100,000.00 | £357 |
| Suite 5 - First | 2 | 624 | £194,000.00 | £310 |

M&G do state that if the block of flats were sold in a single transaction, they would expect a discount of 5% - 10% and have estimated a 'bulk purchase' value of £1.9m. AK and M&G have however adopted £2m as the EUV.

Continuum would highlight that M&G's estimation of EUV is 11.2% higher than the purchase price of £1.8m (bought by McCS in 2020). The increase equates to £200,000.

M&G states that some of the apartments are dated internally and would benefit from a refurbishment program. However, it is unclear how M&G have taken this into account when estimating the EUV.

### 6.5.2 Premium

AK states the premium which reflects a landowner's incentive is commonly set at 20% to the EUV. AK go on to further reference *'local plan testing'* to confirm their point but it is unclear what local plan testing they are referring too, and therefore no evidence was provided to support this assertion.

AK have not explained how this premium takes into account the abnormal costs estimated for the proposed scheme.

### 6.5.3 BLV

Based on the above evidence, AK have estimated the BLV at £2.4m (circa £8.12m per gross acre) which is the result of applying a premium 20% (£400,000) to the EUV (£2m). AK conclude that the BLV is a fair representation of what could be achieved given the current market, site's location, and existing use at the date of the assessment.

AK's estimation of BLV is £600,000 higher than the purchase price.

## 6.6 Appraisal Output

As a result of deducting all the above costs (including profit and BLV) from the GDV, what remains is the residual surplus and deficit. The residual surplus/deficit outputted is presented as follows:

| | |
|---|---|
| Residual Price | £1,824,755 |
| Benchmark Land Value | £2,400,000 |
| Surplus/Deficit | -£575,245 |

AK argue that as the scheme produces a deficit of -£575,245 on a 100% market basis when including their estimation of BLV at £2.4m, the scheme cannot viably support any affordable housing.

### 6.6.1 Sensitivity Analysis

AK have undertaken a sensitivity analysis of the 100% market appraisal. AK explains the schedule shows:

*"the effect of percentage changes in gross development Value and Build Costs to the surplus /deficit that the proposed scheme produced for planning obligations, including offsite affordable housing commuted payment, based on the 100% Market Appraisal."* (pg. 28).

AK have therefore undertaken a sensitivity analysis on the effects of increasing and decreasing the unit sale prices and build costs by 5% increments. The table below outlines the results of this analysis:

**SENSITIVITY ANALYSIS REPORT** **ALDER KING LLP**

**SALE - 35 Oakfield**
**McCS Proposal (RL 25 Apartments)**
**Alder King LLP - December 2022)**

**Table of Profit on GDV% and Land Cost**

| | Construction: Rate /m² | | | | |
|---|---|---|---|---|---|
| ales: Sales / Unit | -10.000% | -5.000% | 0.000% | +5.000% | +10.000% |
| -10.000% | 20.000%<br>(£1,575,611) | 20.000%<br>(£1,361,043) | 20.000%<br>(£1,146,470) | 20.000%<br>(£931,899) | 20.000%<br>(£717,329) |
| -5.000% | 20.000%<br>(£1,914,754) | 20.000%<br>(£1,700,183) | 20.000%<br>(£1,485,613) | 20.000%<br>(£1,271,042) | 20.000%<br>(£1,056,472) |
| 0.000% | 20.000%<br>(£2,253,896) | 20.000%<br>(£2,039,326) | 20.000%<br>(£1,824,755) | 20.000%<br>(£1,610,185) | 20.000%<br>(£1,395,614) |
| +5.000% | 20.000%<br>(£2,593,039) | 20.000%<br>(£2,378,469) | 20.000%<br>(£2,163,898) | 20.000%<br>(£1,949,328) | 20.000%<br>(£1,734,757) |
| +10.000% | 20.000%<br>(£2,932,182) | 20.000%<br>(£2,717,611) | 20.000%<br>(£2,503,041) | 20.000%<br>(£2,288,470) | 20.000%<br>(£2,073,900) |

AK state they have utilised BCIS All-in tender Price Index (taking the past 5 years into account) to show that build costs have risen by 22.6%. Similarly, AK state they have obtained data from the UK House Price Index (published by land registry) to demonstrate an average house price increase of 21.4%. Taking the above into account, AK confirm they believe the figure of circa £1.82m is a fair reflection of RLV at the date of the assessment.

## 7. The Viability Case

The PPG (2019) defines viability as:

*"In plan making and decision making viability helps to strike a balance between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission."* (para. 10).

The viability case made by AK is that the proposed development cannot viably provide any affordable housing. This is based on the assertion that the value created by the development minus the costs incurred to deliver it does not provide sufficient headroom to meet AK's assertion of landowner and developer aspirational returns if affordable housing contributions were sought.

AK state the scheme is subject to a policy compliant affordable housing contribution of 25% affordable housing (6 units). There are no other S106 contributions which AK have listed.

When assuming a fixed profit margin of 20% on GDV for the total scheme, AK argue that the RLV generated from the 100% market housing appraisal is significantly lower than their estimated BLV (£2.4m). Due to this, AK argue that the scheme cannot viably support any affordable housing.

### 7.1 Area's of Difference

The key areas of difference with the assumptions made by AK are as follows:

- Build Costs
- Benchmark Land Value
- Guest Suite
- Development Period / Finance costs
- Profit Margin
- Sales & Marketing Fees
- EPCs

### 7.2 Evaluation of Build Costs

#### 7.2.1 Construction Costs

No independent costs plan has been provided to support the estimated build costs for the apartment base build, demolition, external works, abnormal foundations, and Part L costs. Continuum would request a detailed costs plan to support AK and the applicant's assertion around construction cost.

In order to assess the assumptions made by AK, Continuum have undertaken a benchmarking exercise to assess the adopted base build cost with BCIS average prices rebased to Trafford for both apartments as per the below table:

| BCIS Figure (Q4 22) | Median per M2 | Sample |
|---|---|---|
| Apartment 3-5 (15yr) | 1,615 | 573 |
| Apartment 3-5 (5yr) | 1,547 | 135 |

Reviewing the above BCIS figures, AK's supported housing base build cost is higher than apartment 3-5 (5 year) by circa 4.5%. The figure is at a similar level to the apartment 3-5 (15 year) position. Taking all of the above BCIS figures for supported housing and apartments into account, Continuum believe AK's adopted £1,617 per m2 is appropriate for a scheme of this scale and nature (small retirement living scheme).

Continuum would add that they would expect larger retirement living schemes to have a lower build cost due to economies of scale. Continuum would also add that the large retirement living housebuilders such as the applicant or Churchill build at lower rates than BCIS and generally do not provide cost information to BCIS. Moreover, they undertake the role as contractor as well as developer which means the OH&P is accounted in the gross profit margin in the appraisal. Viability in Planning inputs should be based on what the market would usually deliver, as the scheme is of small scale, the build costs should be based on a mix of small developers as well as larger developers costs.

AK have estimated a standard external works cost of 8% of the base build costs. Continuum would accept this percentage figure, however it would be helpful to have a breakdown of the costs included.

AK have adopted Part L regs costs at £62,500 which equates to £2,500 per unit. Continuum agree with this figure which reflects costs they have seen estimated in other FVA's.

AK have adopted further abnormal costs for site prep/demolition at £78,480 and abnormal foundations at £197,330. No justification or cost plan has been provided to support these figures, Continuum request this information before they can agree/disagree with these cost assumptions.

To summarise, Continuum would agree with the base build, external works and part L costs but require a further detailed evidence base before Continuum are able to accept the other abnormal costs.

#### 7.2.2 Contingency

Continuum highlight that AK have quoted a contingency figure of 3% in section 7.1.3.2 of the FVA. However, the appraisal states a percentage of 5%. Continuum request AK correct the contingency figure in their appraisal to 3% (agreed level with Continuum).

### 7.3 Evaluation of Benchmark Land Value

AK state they have estimated the BLV based on the EUV+ methodology. AK have been provided an estimation of the EUV from the M&G valuation report who argue the EUV is £2m. AK then argue that the land should have a premium of 20% but do not provide any evidence to support this assertion. AK therefore estimate the BLV at £2.4m (circa £8.12m per acre). This is the highest BLV per acre Continuum have seen in Trafford over the past 6 years.

Continuum are aware that the subject site was bought for £1.8m on 25th November 2020 by the applicant. AK's estimation of BLV is £600,000 higher than the purchase price (33%). The BLV can never be higher than the purchase price. As the BLV:

"*Should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land*." (para. 13).

In the case of the subject site, the Landowner has already been incentivised to sell their land for development at the lower land value. AK are arguing that the applicant (developer) should receive an additional £600,000 in profit for no explained reason.

The PPG is clear that the purchase price cannot be used as a relevant justification for failing to accord with the relevant policies in the plan. Therefore, the BLV could be lower than the purchase price if it can be justified that it does not meet the requirements of the EUV+ methodology in the PPG.

Continuum have analysed the EUV assessment undertaken by M&G. The subject site consists of a residential dwelling that has been split into 14 apartments. M&G state that some of the apartments are dated internally and would benefit from a refurbishment program. However, it is unclear if M&G have taken this into account. M&G also state that no structural survey has been undertaken and that their opinion of value assumes no major expenditure for repairs. M&G have estimated the EUV based on 12 comparables, however they have not provided an explanation or justification as to how they have adjusted the comparables in terms of type, location and specification.

M&G estimate the total value of the 14 individual apartments at £2m. They go on to state that if all the units were sold in a single transaction, they would expect a discount of between 5%-10% for a *'bulk'* purchase of the scheme. M&G estimate a 5% discount and single transaction value of £1.9m, however, they conclude the EUV should be £2m. Continuum would argue that the EUV should be based on single transaction value with a discount for *'bulk'* purchase.

Continuum have assessed the scheme through EPC certificates in order to understand the number of units at the subject site. The flats H & F (lower ground floor) do not appear to exist on the register. Continuum also checked the property on the council tax register and again these two flats do not exist. Continuum have therefore not included these flats in their assessment of EUV and the applicant is required to provide a detailed evidence base to support these flats exist and why they should be included in the EUV assessment. Continuum would highlight that the EPC certificates were produced in 2020 which was the same time the site was purchased by the applicant.

Continuum have estimated the value of the 12 units based on a comparable analysis. Continuum have assessed nearby asking and achieved second hand apartment comparables. The nearby asking price comparables are as follows:

| Address | Bed | NSA sq ft | Unit £ | £/ sq ft | Comments |
|---|---|---|---|---|---|
| Rylatt Court | 2 | 711 | £215,000 | £302.51 | In a purpose built apartment block (good quality) with good front garden amenities and own garage. Needs updating. Overall a superior comparable. |
| Rylatt Court | 2 | 680 | £250,000 | £367.65 | In a purpose built apartment block (good quality) with good front garden amenities and own garage. Unit has been full refurbished. Overall a superior comparable. |
| 3 Ashton House | 2 | 667 | £175,000 | £262.22 | Flat over shop. Fully renovated apartment with modern fittings. Overall a superior comparable. |
| 7 Oakfield Mews | 2 | 775 | £200,000 | £258.06 | In a purpose built apartment block. Good quality inside and includes a garage. Overall a superior comparable. |
| Oakfield Sale | 2 | 705 | £265,000 | £375.89 | In a purpose built apartment block (say 80s/90s) and includes garage. Very high spec internally. |

| | | | | | |
|---|---|---|---|---|---|
| Newcombe Court | 2 | 543 | £170,000 | £313.08 | In a purpose built apartment block (say 80s/90s) and includes garage. Good quality inside but a bit dated. |

The recent achieved comparables are as follows:

| Address | Bed | NSA/ sq ft | Unit £ | £/ sq ft | Date | Comments |
|---|---|---|---|---|---|---|
| Apartment 82, 21-25 Ashton Lane | N/A | 753 | £169,950 | £225.55 | 23/09/2022 | Office to resi conversion. Modern specification inside |
| Flat 6, Rushland Court | 2 | 705 | £222,000 | £314.89 | 18/08/2022 | In a purpose built apartment block (good quality) with good front garden amenities and own garage. Needs some updating. Overall a superior comparable. |
| Flat 15, Beech Court | 1 | 517 | £140,000 | £270.96 | 27/07/2022 | In a purpose built apartment block (say 80s/90s). Ok specification inside. |
| Flat 5, The Willows | N/A | 635 | £189,950 | £299.10 | 25/07/2022 | Purpose built modern apartment (say 00's) |
| Flat 2, Ashton House | N/A | 657 | £160,000 | £243.68 | 05/05/2022 | Flat over shop |

Continuum have taken the above comparables into account, as well as market conditions and the quality of the apartments (requirement for refurbishment and modernisation). Continuum believe the above comparables are of better quality than the subject site. Continuum have estimated the value of the apartments as follows:

| Flat | sq ft | Floor | EPC | Beds | Unit £ | £/ sq ft | Reasoning |
|---|---|---|---|---|---|---|---|
| Flat A | 603 | Ground | D | 1 | £145,000 | £240.55 | Oversized 1 bed apartments - ceiling value for 1 beds in market. Value based on Beech Court with a discount for size and specification. |
| Flat B | 506 | Ground | E | 1 | £132,000 | £260.92 | Value based on Beech Court with discount for specification (Ashton House & Oakfield Mews supports this value assessment). |
| Flat C | 377 | Ground | E | Studio | £105,000 | £278.71 | Value based on Beech Court with a discount for specification. The studio value will be higher on a £ per sq ft level than a 1 bed unit and therefore an adjustment to the Beech Court comparable is made. |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Flat D | 334 | Mid | F | Studio | £93,000 | £278.71 | Value based on Beech Court with a discount for specification. The studio value will be higher on a £ per sq ft level than a 1 bed unit and therefore an adjustment to the Beech Court comparable is made. |
| Flat E | 517 | Mid | E | 1 | £135,000 | £261.29 | Value based on Beech Court with discount for specification (Ashton House & Oakfield Mews supports this value assessment). |
| Flat F | 592 | Mid | D | 1 | £145,000 | £244.92 | Oversized 1 bed apartments - ceiling value for 1 beds in market. Value based on Beech Court with a discount for size and specification. |
| Flat G | 1,410 | Top | D | 1 | £200,000 | £141.84 | This is a substantially large 1 bed unit and there will be a ceiling value for 1 beds in the market. M&G assumed the unit is 904 sq ft when valuing the unit. Value based on Beech Court with a large discount for size and a discount for specification. |
| Suite 1 | 280 | Ground | D | Studio | £80,000 | £285.85 | Value based on Beech Court with a discount for specification. The studio value will be higher on a £ per sq ft level than a 1 bed unit and therefore an adjustment to the Beech Court comparable is made. |
| Suite 2 | 291 | Ground | D | Studio | £83,000 | £285.59 | Value based on Beech Court with a discount for specification. The studio value will be higher on a £ per sq ft level than a 1 bed unit and therefore an adjustment to the Beech Court comparable is made. |
| Suite 3 | 291 | Ground | D | Studio | £83,000 | £285.59 | Value based on Beech Court with a discount for specification. The studio value will be higher on a £ per sq ft level than a 1 bed unit and therefore an adjustment to the Beech Court comparable is made. |
| Suite 4 | 280 | Top | D | Studio | £80,000 | £285.85 | Value based on Beech Court with a discount for specification. The studio value will be higher on a £ per sq ft level than a 1 bed unit and therefore an adjustment to the Beech Court comparable is made. |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Suite 5 | 624 | Top | D | 2 | 160,000 | £256.28 | Value based on Ashton House (this value assessment is supported by Beech Court & Oakfield Mews). |
| Total | 6,103 | | | | £1,441,000 | £236.11 | |

Continuum estimate the total current value of the 14 apartments at £1,441,000 if they were individually sold. However, the subject site was transacted as a bulk purchase and therefore the EUV should reflect this. M&G estimate a discount for bulk purchase between 5%-10%. Continuum have applied the midpoint discount of 7.5% and estimate the EUV at £1,332,925.

AK argue that the subject site should have a premium of 20%, but they provide zero evidence to support this figure. Continuum would argue that the site should not have a premium due to no change of use occurring. This is supported by the Civic Quarter Area Action Plan Viability Assessment for Trafford which states that if no change of use occurs, no premiums is required. This was supported through examination by the Inspector. Continuum have therefore not applied a premium to the EUV.

Continuum therefore estimate the BLV at £1,332,925 based on the subject site requiring refurbishment and modernisation.

## 7.4 Evaluation of Guest Suite

The proposed development includes a guest suite on the ground floor. This suite is available to be rented out per night and would generate an income to the applicant. Continuum therefore question why this income has not been estimated and capitalised by an appropriate yield in order the estimate the value of the guest suite. Continuum request for this to be undertaken by AK.

## 7.5 Evaluation of Development Period / Finance Costs

The sales period adopted by AK is not supported by any justification or evidence base. It is considered excessive with regard to comparable retirement schemes located in Greater Manchester and the surrounding areas. AK have assumed a sale period of 18 months for their 100% market appraisal. Continuum have analysed the Greater Manchester retirement living market since 2015. In this research 10 comparable retirement schemes have been identified.

Of these 10 retirement living schemes, the average sale rate was circa 15.76 units per month, with average sales in the first month from practical completion being 41% of the total development with 70% of the schemes fully sold in one year. It is noted that two McCarthy & Stone schemes were fully sold in the first month from practical completion. Further details can be found at **Appendix 2**.

In terms of current supply there also is a lack of new build retirement living schemes in Greater Manchester and there appears to be a large pent-up demand for this type of product which is spurred on by an ageing population. This is further supported by the applicant’s retirement living demand assessment produced by Three Dragons.

AK states that 30% of the units are forecasted to be sold on practical completion, 50% are to be sold by the end of year 1 and the remaining 25% units are to be sold within the following 6 months. On review of the 10 aforementioned retirement living scheme, Continuum would argue that the scheme could achieve 100% sales by 4 months based on 40% sold at practical completion and the remaining units sold at a sale rate of 3 units per month. There could be a strong likelihood that all 25 units are sold within the first month with many sales agreed off plan.

The development timings estimated by Continuum are outlined in the table below:

| Development Period | 100% Market | Comments |
|---|---|---|
| Pre-construction | 3 months | This reflects the small nature of the scheme. |
| Construction | 12 months | As per AK's assumption |
| Sale Period | 4 months | 40% sold on practical completion and the remaining sold at a sale rate of 3 units a month. |
| **Total** | **19 months** | |

No supporting cash flow has been provided by AK which means Continuum are unable to fully assess the development profile and finance costs adopted. Continuum request a full detailed cash flow be provided.

### 7.6 Evaluation of Profit Margin

AK have adopted a 20% of GDV profit margin and argue that the risk profile for retirement schemes is higher than for general needs housing. Continuum do not support this 20% of GDV profit margin for retirement living schemes in Trafford. The below section seeks to identify an appropriate risk adjusted return for the proposed scheme based upon site and scheme specific factors such location, desirability and the preeminent local market. This contrasts with the approach taken by AK which seeks to benchmark the required developer's return based upon other schemes that are not located within Greater Manchester.

With reference to recent Appeal decisions and FVAs submitted in support of planning applications in Trafford, it has been established that a profit margin of 17.5% of GDV is appropriate for apartment developments. This is supported by numerous Appeal decisions (ref: APP/Q4245/W/21/3279610 & ref: APP/Q4245/W/20/3258552). This benchmark has been used as a baseline to assess the risk adjusted profit margin for the market retirement units.

AK argue the profit margin should be 20% due to the higher risk profile retirement housing incurs when compared to general housing needs. The arguments are listed as follows with Continuum comments on each risk:

| AK Sales Risk | Continuum Comment | Increased Sales Risk over Apartment Scheme |
|---|---|---|
| Retirement Housing is a specialist flatted development (blocks of apartments/flats) of units for independent communal living of the older persons, usually retirees. | A very small increased risk due to reduce the market, but this should also be seen in the backdrop of increasing demand due to an aging population and lack of new build supply in Greater Manchester. In addition, the majority of sales are cash buyers and are less affected by the impact of the mortgage market on the housing sector. | Yes, minor. |

| | | |
|---|---|---|
| Block of apartments/flats are single phase specialist housing developments. | Risk is considered comparable with apartment schemes of this scale which are usually a single phase and do not have the ability to stop / start incurring significant capital outlay before revenue is received (see ref: APP/Q4245/W/21/3279610). | No |
| Mostly located on and re-use Brownfield sustainable urban sites (PDL) | No impact on sales risk as this is dealt with through construction risk with contingencies and abnormal costs allowances. Most apartment schemes in Trafford are also located on Brownfield sites. | No |
| No ability to phase or /stop/start – once started each flatted development has to be completed before occupation by the older persons community. General needs market housing can stop/start ore reduce/increase the build-out rate dependant on market demand. | Risk is considered comparable with apartment schemes of this scale which are usually a single phase and do not have the ability to stop / start incurring significant capital outlay before revenue is received (see ref: APP/Q4245/W/21/3279610). | No |
| Significant capital outlay: land purchase; planning permission; construction of the entire development before revenue receipt. Funding and financing of each development therefore commits substantial resources before any return on investment. | Risk is considered comparable with apartment schemes of this scale which are usually a single phase especially when taking into account demand for retirement living in Trafford | No |
| Added to significant capital outlay is the period of time the capital is employed, i.e. longer cash-flow profile over the land purchase, planning permission, construction and sales period than general market housing. | No impact on development period as the capital outlay is the same as apartment schemes in Trafford as shown in the column above. | No |
| Significant Gross/Net floorspace ratio difference adds risk, compared to non-retirement blocks of Flats/Apartments, to account for community facilities for the elderly such as house managers office accommodation, residents lounge, guest suite (in some larger scheme), other common parts including laundry, buddy battery- recharging store, central refuse store, etc. | The gross to net of the proposed scheme is similar to other apartment schemes in Trafford which now offer communal facilities or basement car parking. (See appeal ref: APP/Q4245/W/20/3258552, lower Gross to Net) | No |

| | | |
|---|---|---|
| Premium sales values are expected above the general needs housing market thus adding risk because of the requirements accommodate:<br><br>• Added levels of assistance for the older person and the disable i.e. hands rails, maximising level access (60% - 70% of occupants are aged 78 years or over).<br>• Added levels of building and site security, including intruder alarm systems and emergency assistance alarm/help-line available to each unit. | The price set by the Applicant for these units will be set at a level to respond to the market. The additional requirements to meet certain levels are accounted for in the build costs and this risk is therefore mitigated. | No |
| High level of garden landscaping appropriately designed as sitting-out areas for residents' enjoyment. | No impact on sales risk, and this risk is already accounted for in the build costs. (Many apartment schemes in Manchester now offer garden landscaping or rooftop gardens.) | No |
| Restricted Market – over 55's age as opposed to general needs market housing available to all corners. | Very small increased risk due to reduce the market, but this should also be seen in the backdrop of increasing demand due to an aging population and lack of new build supply in Greater Manchester. | Yes but minor. |
| Carefully considered purchase by the older person. Usually involving family decision making (their offspring often play a part in the decision to move) and often downsizing from a family home. | This can actually reduce sales risk as the purchaser does not require mortgage finance contrasting with general needs homes where risk of not being able to secure mortgage finance can increase sales risk (especially in the current uncertain mortgage market). | No reduction to sales risk (could argue this reduces the risk compared to apartment schemes). |
| Critical mass of 25 units or more to spread the costs and make affordable occupational service charge. | No impact on sales risk, already accounted for in the design of the building so the risk is mitigated against. Apartment schemes that offer shared facilities also have a critical mass. | No.<br><br>No mitigation required as accounted for in design. |
| No Help-to-Buy i.e no financial market support intervention | Help-to-Buy scheme is no longer available to general needs housing and this was also the case for the two apartment schemes that have been at appeal in Trafford. | No |

| | | |
|---|---|---|
| Retirement Housing Sector Developers and their Shareholders & Lenders require adequate financial returns to carry the typical higher capital outlay and timing risks associated with specialist retirement housing. | Repetition, same risk to single phase delivery. As already stated, this is a similar risk for larger apartment schemes, with some apartment blocks taking 24 months to build. Same risk as general market housing. | No |

As can been seen from the table above, the majority of identified risks by AK are risks shared by general needs apartment schemes or have no impact on sales risk. The main increase in risk between retirement living and apartment schemes in Trafford and Greater Manchester is the restricted market for over 55's. This said, there is a critical lack of supply of this type of housing and as seen in the development profile section, this type of housing sells very well in Greater Manchester. Due to this, it is considered an additional allowance of 1% of GDV above the established benchmark would mitigate any potential increased risk for this type of product. Continuum's assessment follows a detailed risk adjusted return approach to this development as per the RICS guidance (2021).

It should also be noted that retirement accommodation can generate return from four different revenue streams. These are:

- Profit generated by selling the units.
- Profit generated from service charges.
- Profit generated through guest suite income and hairdressers/salon space rents.
- Profit generated via the agent fee for the re-sale of retirement units (through their in-house property agent).

This type of product makes large returns to retirement living developers over the operational lifecycle of the building developed.

Based on our risk adjusted return analysis of the scheme, comparing against the risk profile for apartment developments (general need) and assessing Trafford and Greater Manchester specific risk, it is considered that an allowance of 18.5% of GDV is appropriate to account for developers return pursuant to the market units.

If there were any onsite affordable units Continuum would expect a lower profit margin of 6% on GDV due to the reduced sale risk and this level is supported by numerous appeals.

## 7.7 Evaluation of Sales & Marketing Fees

AK state that sales marketing costs for the scheme should equates to 5% of the market GDV for the following reasons:

- Retirement housing is specialist product aimed at elderly homeowners. The average age of a typical purchaser is 70+ and widowed (limited market).

- Purchasers fund exclusively from savings and/or proceeds from the sale of their current home.

- Marketing involves targeting and direct contact of potential purchasers from the moment a scheme starts construction to the last sale of the scheme.

- A sales office and several furnished 'show' apartments are maintained on site with sales consultants employed full time 7 days a week.

Addressing the points in turn, it is considered that the market is more limited than compared to new build apartments and understood that a large number of purchasers are 70+ which limits the potential market. Though, the population is ageing, research shows that by 2037, 1 in 4 people in the UK will be 65+. The Knight Frank, Senior Housing Development Update (2022) states that overall supply remains constrained, as such, objectively, demand is rising significantly whilst supply is not keeping pace. Thus, the comment that the market for retirement living is more limited than others, a well-rehearsed argument, may no longer be relevant. As shown throughout this report the demand in Greater Manchester is significantly high for this type of product.

In term of the access to liquidity in the form of cash for house sales or savings requiring additional marketing, it is considered that easy access to equity would reduce the need for marketing as buyers are able to progress quicker with a purchase. Continuum are unsure as to why the process in which a buyer funds the purchase of a home would require additional marketing costs. Continuum believe a first-time buyer with a mortgage, a cash buyer and a chain buyer with mortgage, would all require the same marketing costs.

It is not understood how the targeted marketing of a small retirement schemes would be any greater than a small market apartment scheme delivered by a small to mid-sized developer. For larger schemes, particularly in Trafford/Greater Manchester, sale consultants are required to travel abroad to market schemes to overseas investors at a significant expense. For these large apartment schemes where the majority of the units are presold to overseas investors, consultants in Greater Manchester argue sales and marketing costs of 2.5% of GDV.

In terms of a sale office and show homes this is exactly the same marketing costs incurred by apartment schemes which also have a sale office and show homes with onsite sale consultants. Therefore, there is no justification for a higher marketing cost based on this point.

AK go on to further state retirement purchasers do not typically buy apartments *"off plan"* and the requirement to buy the units are due to physical needs. AK go on to provide historic appeals which they state support their high sales and marketing costs. However, the appeals provided are historic and situated in completely different market locations. AK have also not provided a breakdown in the sales and marketing costs for the scheme and therefore Continuum cannot ascertain as to which marketing activities will be viewed as overheads in the gross profit margin and not a direct marketing cost. Continuum believe a 5% sales and marketing cost means there is double counting in the appraisal with the gross profit margin.

In Trafford, through appeals such as B&Q and Old Crofts Bank (ref: APP/Q4245/W/20/3258552 and ref: APP/Q4245/W/21/3287401), it has been agreed that 2.5% reflects sales and marketing costs for apartment developments. A sales and marketing allowance of 3% of market GDV for sales and marketing costs has been adopted by Continuum for retirement living scheme. This assumption is in excess of the sales and marketing costs that have been agreed between consultants in recent Appeals for both apartment and estate housing developments in Trafford and accounts for the model of housing being proposed. This does not include head office marketing costs which are reflected in overheads in the gross profit margin. Continuum believe this is a full assessment of this cost especially in relation to overseas marketing budgets of large apartment schemes.

## 7.8 Evaluation of EPCs

AK have assumed that the proposed scheme will include EPCs and argue that this is an industry standard accepted cost of retirement apartment development.

AK have assumed the following EPCs:

- Council Tax payments at £139.44 avg per unit (per month) (due to completed units being empty before they are sold).

- Service charge costs at £258.61 avg per unit (per month) (due to completed unsold units not paying service charge for the maintenance and upkeep of communal facilities and employment of the Estate Manager).

The total allowance assumed AK is £58,189 over a 24-month sales period.

With reference to apartment developments in Trafford and Greater Manchester where sale periods are over a year after completion, no EPCs are included in the relevant viability appraisals that have supported planning applications. Advice has been sought from Trafford's Council Tax department with regard to how the proposed scheme would be considered. On the basis of the development profile adopted by Continuum it is not considered appropriate to adopt an allowance for Council Tax payments.

The EPCs stated by AK are standard costs to all residential developments including estate housing schemes and apartment schemes. These developments do not include an additional EPCs in their appraisals. It is most likely any EPCs costs incurred by apartment or estate housing developers are included in their operating costs in the gross profit margin.

In terms of the service charges, Continuum would not expect 100% of the service charges to be payable to the development at day 1, as they would expect the business to be slowly geared up and further staff hired as more units are sold. Continuum believe the initial 40% would be able to cover the initial costs associated with the service charges and based on Continuum's sale period the building is fully occupied within 4 months.

Continuum believe the appraisal should not have any costs associated with EPCs.

## 7.9 Evaluation of Affordable Housing

As stated in section 4, TC argue that the subject site's affordable housing policy is up to 40% due to the development being non-generic as per policy L2.12 (4th bullet point).

Continuum agree with TC's interpretation of the policy and that the scheme can be seen as non-generic and would perform differently than generic developments in the market location. AK's own FVA highlights many reasons as to why a retirement living scheme performs differently to a generic apartment development. For example, they argue the development has a different risk profile, different costs associated and a different approach to values (substantially higher than a normal apartment).

During the former B&Q appeal (Ref: APP/W/20/3258552) TC sought advice from two planning KCs on the interpretation of the 4th bullet point of policy L2.12 and how it would affect schemes coming forward in the Civic Quarter Area (different location to where the subject site is located). The first KC stated that the important distinction in the interpretation of policy is whether *"in viability terms"* a proposed development will *"perform differently"*. The KC stated that TC would be able to tell whether a proposed development performed differently to generic development in viability terms through advice provided by a viability expert. Should this expert conclude that the scheme performs differently this would be a sound basis that the 4th bullet point is applied to the scheme. As Continuum have highlighted above, AK outlines in their report many reasons as to why retirement living developments perform differently to the generic apartment developments in the market location. Continuum agree with AK that the proposed development does perform differently to generic apartment developments in the market location.

The second KC advice stated that the 4th bullet point of policy L2.12 covers site and developments which depart from the norm in the market location, which drove the relevant affordable housing percentage in the first place. Therefore, if a development is of a different scale, density, mix, or value from the norm or in a particular desirable location, the 4th bullet point may be triggered.

The development type that drove the percentage requirement was not reflective of retirement living schemes and only consisted of general market sale houses. As such, it is appropriate to consider that the 4th bullet point of policy L2.12 has been triggered.

Overall, as was demonstrated and agreed by the Inspector at the former B&Q appeal, Continuum believe the subject site would also be seen as non-generic in viability terms and therefore the 4th bullet point should be applied.

In section 4, Continuum stated that the TC require the affordable housing to be onsite provision. Continuum would highlight that they and TC have spoken to Registered Providers who have stated that they would purchase onsite retirement living affordable housing in Trafford. Continuum agree that there is no exceptional circumstance to justify offsite affordable housing.

## 8. Continuum's Sensitivity Analysis

Continuum have undertaken a sensitivity analysis assessment of the proposed development and have included their own estimation on many of the inputs. The analysis is based on testing whether the scheme can support up to 40% affordable housing as per the TC's policy. In the analysis, Continuum have included AK's abnormal cost assumptions, though this does not mean Continuum agree with the assessment of cost. Continuum have also undertaken a further sensitivity analysis of the estimated sale values and base build costs assumptions based on a step-down approach on values and step-up approach on costs, in order to undertake worse-case sensitivity testing on the scheme.

Continuum have adopted the following inputs in their sensitivity analysis assessment:

| Input | Figure | Reason |
|---|---|---|
| **Market Value** | £6,030,000 | Agreed AK's per unit figure |
| **Affordable Values** | £2,490,000 | Based on a 50/50 tenure split with Affordable Rent values at 50% of OMV and Shared Ownership at 70% of OMV. |
| **Base Build** | £3,764,206 | Agreed AK's figure for a scheme of this scale and nature. |
| **External Works** | 8% of base build | Agreed AK's figure for a scheme of this scale and nature. |
| **Part L** | £62,500 | Agreed AK's figure for a scheme of this scale and nature. |
| **Abnormal Foundations** | £197,330 | Do not agree with AK's assumption due to lack of evidence, but for this exercise have included it in the appraisal. |
| **Demolition Costs** | £78,480 | Do not agree with AK's assumption due to lack of evidence, but for this exercise have included it in the appraisal. |
| **Contingency** | 3% of total build costs | Used the figure AK argue in their report, though they use a higher figure in their appraisal. |
| **Professional Fees** | 8% of total build costs | Agreed AK's figure for a scheme of this scale and nature. |
| **Sales and Marketing** | 3% of market GDV | Based on Continuums detailed assessment in section 7.7. |
| **Sales Legal Fees** | £650 per unit | Agreed AK's figure for a scheme of this scale and nature. |

| | | |
|---|---|---|
| **Finance** | 7% (with 1% credit rate)<br>Pre-Construction – 3 months<br>Construction – 12 months<br>Market Sale Period – 4 months (40% pre sale)<br>Affordable Sale Period – Based on Golden Brick with 25% at start of construction, 50% over construction and 25% at practical completion. | Agree with AK's finance rate assumption. Adopted Continuum's assessment of development profile as outlined in section 7.5. |
| **SDLT** | At prevailing rate | Agree with AK's assumption. |
| **Site Agent & Legal Fees** | 1.8% | Agree with AK's assumption. |
| **Profit Margin** | 18.5% market<br><br>6% Affordable | Continuum have undertaken a full risk adjusted return assessment for the scheme as outlined in section 7.6. |

Applying the above inputs into the 40% affordable housing appraisal, the RLV output from Continuum's assessment before any sensitivity analysis on sale values and base build costs is £1,808,490. The Argus appraisal and cash flow can be found at **Appendix 3**. The appraisal is based on a December 2022 assessment. The RLV outputted is similar to AK's 100% market RLV, this is driven mainly by the lower profit margin and sales & marketing costs. Continuum in their assessment have included AK's estimation of abnormal foundations and demolition, though without a detailed evidence base to support these figures, Continuum do not currently agree with this assessment of costs. Overall, as the RLV is greater than Continuum's assessment of BLV, the scheme is viable with 40% affordable housing.

Continuum have undertaken a worse case sensitivity testing on the above assessment, reducing values by 1% per step and increasing base build costs by 1% per step. The table below outlines the output RLVs for the scenarios:

| | Base Build: Rate /m² | | | | |
|---|---|---|---|---|---|
| **Sales: Rate /m²** | 0.000% | 1.000% | 2.000% | 3.000% | 4.000% |
| -4.000% | £1,561,601 | £1,521,440 | £1,481,278 | £1,441,117 | £1,400,956 |
| -3.000% | £1,623,323 | £1,583,162 | £1,543,000 | £1,502,839 | £1,462,678 |
| -2.000% | £1,685,046 | £1,644,884 | £1,604,723 | £1,564,560 | £1,524,400 |
| -1.000% | £1,746,768 | £1,706,607 | £1,666,445 | £1,626,284 | £1,586,121 |
| 0.000% | £1,808,490 | £1,768,329 | £1,728,168 | £1,688,007 | £1,647,845 |

From the above sensitivity analysis undertaken, all scenarios output an RLV that is higher than Continuum's estimation of BLV. Continuum are therefore confident that the scheme can support 40% affordable housing based on this worst case scenario testing of the scheme.

## 9. Conclusion

AK have produced a viability assessment of the proposed scheme which concludes that the development cannot afford to viably contribute toward any affordable housing.

Continuum have independently assessed the viability case made by AK and would highlight a number of areas they take issue with and believe viability can be improved; these are:

- Build Costs
- Profit Margin
- BLV
- Development Period / Finance costs
- Sales & Marketing Fees
- EPCs
- Guest Suite Value

Continuum and TC argue that the subject site triggers the 4th Bullet point of policy L2.12 and is non-generic in viability terms and is therefore subject to up to 40% affordable housing. This position is supported by KC advice during the former B&Q appeal where the inspector agreed to TC's arguments around interpretation of policy L2.12. Continuum and TC also argue that the affordable units should be onsite.

Continuum have undertaken a sensitivity analysis assessment of the proposed development based on their assessment on certain inputs. Continuum have first tested whether the scheme can support 40% affordable housing as per the 4th bullet point of policy L2.12. The output of this assessment shows the scheme can viably support its 40% affordable housing contributions.

This report follows the mandatory requirements of the RICS Conduction and Report (2019) and this report has been produced by Chris Gardner MRICS & Alex Noteman MRICS on the 17th April 2023.

## Appendix 1: RICS Professional Statement

This report has been prepared in accordance with the RICS Professional Statement: Financial viability in planning: conduct and reporting, 1st Edition published May 2019. The aim of the RICS Professional Statement (section 1.2) is to:

- Set out mandatory requirements on conduct and reporting in relation to FVAs for planning in England;
- Recognises the importance of impartiality, objectivity and transparency when reporting on such matters;
- Support and complement the government's reforms to the planning process announced in July 2018 and subsequent updates, which include an overhaul of the NPPF and PPG on viability and related matters.

The RICS Professional Statement explains that:

> *"The primary policy and guidance on assessing viability in a planning context is provided in the NPPF 2019 and the PPG 2019. These have sought to change the emphasis on how viability should be approached in the planning system and the weight that should be given to viability assessments at the plan-making and development management stages."* (section 1.4).

This report has been set out in accordance with the government guidance on assessing viability in a planning which is provided in the NPPF (2021) and PPG (2019).

Sections 2.1 to 2.14 of the RICS Professional Statement set out the fourteen mandatory reporting and process requirements for all FVAs prepared on behalf of, or by applicants, reviewers, decisionmakers and plan-makers. Continuum confirm that this Independent Viability Assessment has been carried out in accordance with sections 2.1 to 2.14. The mandatory reporting requirements are set out under the headings below and expanded on where relevant in this Independent Viability Assessment report.

**Section 2.1: Objectivity, Impartiality and Reasonableness Statement**

Continuum confirm that this Independent Viability Assessment (IVA) has been carried out by a suitably qualified practitioner who has acted with:

- with objectivity;
- impartially;
- without interference and;
- with reference to all appropriate available sources of information.

**Section 2.2: Confirmation of Instructions and Absence of Conflicts of Interest**

Continuum have been instructed by Trafford District Council (hereafter ''TC'') to undertake an Independent Viability Assessment (IVA) and to provide advice on the viability case put forward by McCarthy Stone (hereafter ''McCS'') (Applicant), in respect of the land at 35 Oakfield, Sale, Trafford, M33 6NB (ref: 109745/FUL/22).

Continuum can confirm that there is an absence of conflict of interest as they only act for the public sector, in the North West, in matters to do with financial viability in planning.

**Section 2.3: A No Contingent Fee Statement**

Continuum can confirm that they have no performance-related or contingent fees agreed with the Client, TC.

**Section 2.4: Transparency of Information**

The PPG (2019) states that

> *"Any viability assessment should be prepared on the basis that it will be made publicly available other than in exceptional circumstances."* (para. 21).

Continuum can confirm that this viability assessment has been prepared on the basis that it will be made publicly available should our Client, TC, require it to be as under our terms of engagement.

**Section 2.5: Confirmation Where the Practitioner is Acting on Area-Wide and Scheme-Specific FVAs**

As stated above, Continuum only act for the public sector, in the North West, in matters to do with financial viability in planning. Continuum are currently working for a number of Local Planning Authorities in the North West, South East and South West on site-specific FVAs, which Continuum do not consider is a conflict of interest.

**Section 2.6: Justification of Evidence**

In this IVA, Continuum have provided a detail response to the viability case set out by the Applicant and have outlined areas where the Applicant is requested to provide more detail, evidence, justification and explanation. Continuum also highlighted areas where they believed the Applicant has deviated from the government national guidance PPG on Viability (2019) as well as the RICS Guidance, Financial Viability in Planning: Conduct and Reporting (2019). Each of the queries in this IVA are clearly set out and supported by justifications as to why more detail of these inputs are needed.

**Section 2.7 Benchmark Land Value**

Continuum have assessed the Applicant's Benchmark Land Value in accordance with the requirements of section 2.7 of the RICS Professional Statement. The RICS Professional Statement is clear that when estimating the Benchmark Land Value, practitioners must follow the PPG on Viability (2019). The PPG defines Benchmark Land Value as:

> *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 fully comply with policy requirements. Landowners and site purchasers should consider policy requirements when agreeing land transactions. This approach is often called 'existing use value plus' (EUV+).* (para. 13).

And;

*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…*
- *This evidence should be based on developments which are fully compliant with emerging or up to date plan policies, including affordable housing requirements at the relevant levels set out in the plan."* (para. 14).

Where Continuum believe the Applicant has not followed the PPG (2019) and RICS Professional Statement when assessing the Benchmark Land Value, they have clearly explained and justified why.

**Section 2.8: FVA Origination, Reviews and Negotiations**

This document is an independent review of an FVA. It is clear from the RICS Professional Statement (2019) that negotiations occur subsequent to the production of a viability case review. If the reviewer/assessor is unable to form an opinion due to limited information being provided by the Applicant, then it is not possible to get to the negotiation phase. If the requirements of the PPG (and thus the RICS Professional Statement) have not been followed, then the viability case does not meet the required criteria.

**Section 2.9: Sensitivity Analysis**

Although Continuum have not produced their own viability appraisal for the subject scheme, they have undertaken a sensitivity analysis (based on the Applicant's figures/appraisal) of certain inputs where they believe the position could be improved. This can be found in section 8 of this report.

**Section 2.10: Engagement**

Continuum can confirm that they advocated, and will advocate reasonable, transparent, and appropriate engagement between the parties at all stages of the viability process.

**Section 2.11: Non-technical Summaries**

The executive summary of this report has been provided as a non-technical summary, which outlines the key figures and issues that support the conclusion of the IVA.

**Section 2.12: Author(s) Sign-off**

This report has been produced by Chris Gardner MRICS & Alex Noteman MRICS on the 17th April 2023.

Chris Gardner MRICS & Alex Noteman MRICS has extensive experience undertaken Independent Viability Assessments on behalf of LPAs and currently work with 10 LPAs on their viability cases.

**Section 2.13: Inputs to Reports Supplied by Other Contributors**

Continuum can confirm that all contributions to this report relating to assessments of viability comply with the mandatory requirements as set out in the RICS Professional Statement.

**Section 2.14: Timeframes for Carrying out Assessments**

Continuum can confirm that adequate time has been allowed to produce this Independent Viability Assessment having regards to the scale and complexities of this particular project.

## Appendix 2: Greater Manchester Retirement Living Sale Period Analysis

| Scheme | Developer | Location | LA | Units | PC | Sale Length | Sale Rate | Sales in Month 1 | Sales in First Year |
|---|---|---|---|---|---|---|---|---|---|
| St Johns Lodge | Churchill | Timperley | Trafford | 44 | 2016 | 25 | 1.76 | 18% | 75% |
| Oakfield Court | McCarthy | Urmston | Trafford | 51 | 2015 | 4 | 12.75 | 25% | 100% |
| Hampson Court | McCarthy | Hazel Grove | Stockport | 41 | 2020 | 2 months to sell 39 units, two final units still have not been sold | 19.5 per month for the 39 units but 2 units are still to be sold | 34% | 95% |
| Woodgrove Court | McCarthy | Hazel Grove | Stockport | 27 | 2017 | 1 | 27 | 100% | 100% |
| Butterworth Grange | McCarthy | Bamford | Roachdale | 30 | 2019 | 4 | 7.5 | 53% | 100% |
| Valley Court | McCarthy | Ramsbottom | Bury | 50 | 2016 | 1 | 50 | 100% | 100% |
| Lawn Court | McCarthy | Harwood | Bolton | 28 | 2016 | 3 | 9.33 | 25% | 100% |
| Park Lodge | Melrose Living | Over Hulton | Bolton | 14 | 2015 | 30 month when excl. anomaly | 0.467 when excl. anomaly | 14% | 50% |
| Wendover Court | McCarthy | Eccles | Salford | 42 | 2015 | 3 | 14 | 38% | 100% |
| Broadfield Court | McCarthy | Prestwich | Salford | 61 | 2016 | 4 | 15.25 | 13% | 100% |
| Eliot Lodge | Churchill | Ashbourne | Derbyshire Dales | 38 | 2019 | | | 32% | 66% |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Brideoake Court | McCarthy | Standish | Wigan | 31 | 2022 | 19 have been sold, 11 are available and 1 have not be released | | 35% | N/A |

## Appendix 3: Appraisal & Cashflow

**APPRAISAL SUMMARY** **TREBBI LTD**

**35 Oakfield, Sale - Continuum Mirror Appraisal**
**40% Affordable**

**Summary Appraisal for Phase 1**

**Currency in £**

| | | | | | |
|---|---|---|---|---|---|
| **REVENUE** | | | | | |
| **Sales Valuation** | **Units** | **m²** | **Sales Rate m²** | **Unit Price** | **Gross Sales** |
| RL - Market | 15 | 922.84 | 6,534.18 | 402,000 | 6,030,000 |
| RL - Affordable | 10 | 636.85 | 3,909.87 | 249,000 | 2,490,000 |
| **Totals** | **25** | **1,559.69** | | | **8,520,000** |
| **NET REALISATION** | | | | **8,520,000** | |
| **OUTLAY** | | | | | |
| **ACQUISITION COSTS** | | | | | |
| Residualised Price | | | 1,808,490 | | |
| | | | | 1,808,490 | |
| Stamp Duty | | | 79,924 | | |
| Agent Fee | | 1.00% | 18,085 | | |
| Legal Fee | | 0.80% | 14,468 | | |
| | | | | 112,477 | |
| **CONSTRUCTION COSTS** | | | | | |
| **Construction** | **m²** | **Build Rate m²** | **Cost** | | |
| RL - Market | 1,377.37 | 1,617.00 | 2,227,210 | | |
| RL - Affordable | 950.52 | 1,617.01 | 1,536,996 | | |
| **Totals** | **2,327.89** | | **3,764,206** | **3,764,206** | |
| Contingency | | 3.00% | 132,110 | | |
| | | | | 132,110 | |
| **Other Construction** | | | | | |
| Demolition | | | 78,480 | | |
| External Costs | | 8.00% | 301,136 | | |
| Foundations extra over | | | 197,330 | | |
| Part L | 25.00 un | 2,500.00 /un | 62,500 | | |
| | | | | 639,446 | |
| **PROFESSIONAL FEES** | | | | | |
| Professional Fees | | 8.00% | 352,292 | | |
| | | | | 352,292 | |
| **DISPOSAL FEES** | | | | | |
| Sales & Marketing | | 3.00% | 180,900 | | |
| Sales Legal Fee | 15.00 un | 650.00 /un | 9,750 | | |
| Affordable Sales Legal Fee | 10.00 un | 650.00 /un | 6,500 | | |
| | | | | 197,150 | |
| **FINANCE** | | | | | |
| Debit Rate 7.000%, Credit Rate 0.000% (Nominal) | | | | | |
| Land | | | 152,084 | | |
| Construction | | | 78,104 | | |
| Other | | | 18,420 | | |
| Total Finance Cost | | | | 248,608 | |
| **TOTAL COSTS** | | | | **7,254,780** | |
| **PROFIT** | | | | | |
| | | | | **1,265,220** | |

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**APPRAISAL SUMMARY** **TREBBI LTD**

**35 Oakfield, Sale - Continuum Mirror Appraisal**
**40% Affordable**

**Performance Measures**

| | |
|---|---|
| Profit on Cost% | 17.44% |
| Profit on GDV% | 14.85% |
| Profit on NDV% | 14.85% |
| IRR | 35.53% |
| Profit Erosion (finance rate 7.000) | 2 yrs 4 mths |

## DETAILED CASH FLOW — TREBBI LTD

**35 Oakfield, Sale - Continuum Mirror Appraisal**
**40% Affordable**

**Detailed Cash flow Phase 1** — **Page A 1**

| | 001:Dec 2022 | 002:Jan 2023 | 003:Feb 2023 | 004:Mar 2023 |
|---|---|---|---|---|
| Monthly B/F | 0 | (1,942,007) | (1,981,234) | (2,030,966) |
| **Revenue** | | | | |
| Sale - RL - Market | 0 | 0 | 0 | 0 |
| Sale - RL - Affordable | 0 | 0 | 0 | 726,251 |
| **Disposal Costs** | | | | |
| Sales & Marketing | 0 | 0 | 0 | 0 |
| Sales Legal Fee | 0 | 0 | 0 | 0 |
| Affordable Sales Legal Fee | 0 | 0 | 0 | (6,500) |
| **Unit Information** | | | | |
| **RL - Market** | | | | |
| **RL - Affordable** | | | | |
| **Acquisition Costs** | | | | |
| Residualised Price | (1,808,490) | 0 | 0 | 0 |
| Stamp Duty | (79,924) | 0 | 0 | 0 |
| Agent Fee | (18,085) | 0 | 0 | 0 |
| Legal Fee | (14,468) | 0 | 0 | 0 |
| **Construction Costs** | | | | |
| Con. - RL - Market | 0 | 0 | 0 | (48,150) |
| Con. - RL - Affordable | 0 | 0 | 0 | (33,229) |
| Demolition | (18,955) | (35,339) | (24,187) | 0 |
| External Costs | 0 | 0 | 0 | (6,510) |
| Foundations extra over | 0 | 0 | 0 | (47,659) |
| Part L | 0 | 0 | 0 | (1,351) |
| Contingency | (569) | (1,060) | (726) | (4,107) |
| **Professional Fees** | | | | |
| Professional Fees | (1,516) | (2,827) | (1,935) | (10,952) |
| **Net Cash Flow Before Finance** | **(1,942,007)** | **(39,226)** | **(26,847)** | **567,792** |
| Debit Rate 7.000% | 7.000% | 7.000% | 7.000% | 7.000% |
| Credit Rate 0.000% | 0.000% | 0.000% | 0.000% | 0.000% |
| Finance Costs (All Sets) | 0 | (11,328) | (11,557) | (7,611) |
| **Net Cash Flow After Finance** | **(1,942,007)** | **(50,555)** | **(38,404)** | **560,181** |
| Cumulative Net Cash Flow Monthly | (1,942,007) | (1,992,562) | (2,030,966) | (1,470,785) |

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# DETAILED CASH FLOW TREBBI LTD

**35 Oakfield, Sale - Continuum Mirror Appraisal**
**40% Affordable**

**Detailed Cash flow Phase 1** **Page A 2**

| 005:Apr 2023 | 006:May 2023 | 007:Jun 2023 | 008:Jul 2023 | 009:Aug 2023 | 010:Sep 2023 |
|---|---|---|---|---|---|
| (1,463,174) | (1,692,257) | (2,025,046) | (2,350,430) | (2,735,600) | (3,195,101) |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 103,751 | 103,751 | 103,751 | 103,751 | 103,751 | 103,751 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| (113,843) | (167,326) | (208,597) | (237,659) | (254,509) | (259,149) |
| (78,563) | (115,471) | (143,953) | (164,008) | (175,637) | (178,839) |
| 0 | 0 | 0 | 0 | 0 | 0 |
| (15,393) | (22,624) | (28,204) | (32,133) | (34,412) | (35,039) |
| (88,856) | (60,815) | 0 | 0 | 0 | 0 |
| (3,195) | (4,695) | (5,854) | (6,669) | (7,142) | (7,272) |
| (8,995) | (11,128) | (11,598) | (13,214) | (14,151) | (14,409) |
| (23,988) | (29,674) | (30,929) | (35,238) | (37,736) | (38,424) |
| **(229,083)** | **(307,982)** | **(325,384)** | **(385,170)** | **(419,836)** | **(429,381)** |
| 7.000% | 7.000% | 7.000% | 7.000% | 7.000% | 7.000% |
| 0.000% | 0.000% | 0.000% | 0.000% | 0.000% | 0.000% |
| (7,930) | (9,266) | (11,208) | (13,106) | (15,352) | (18,033) |
| **(237,013)** | **(317,249)** | **(336,592)** | **(398,276)** | **(435,188)** | **(447,414)** |
| (1,707,797) | (2,025,046) | (2,361,638) | (2,759,913) | (3,195,101) | (3,642,515) |

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**DETAILED CASH FLOW** **TREBBI LTD**

**35 Oakfield, Sale - Continuum Mirror Appraisal**
**40% Affordable**

**Detailed Cash flow Phase 1** **Page A 3**

| 011:Oct 2023 | 012:Nov 2023 | 013:Dec 2023 | 014:Jan 2024 | 015:Feb 2024 | 016:Mar 2024 |
|---|---|---|---|---|---|
| (3,624,483) | (4,038,289) | (4,472,926) | (4,780,226) | (4,996,592) | (5,178,210) |
| 0 | 0 | 0 | 0 | 0 | 2,412,000 |
| 103,751 | 103,748 | 103,748 | 103,748 | 103,748 | 622,500 |
| 0 | 0 | 0 | 0 | 0 | (72,360) |
| 0 | 0 | 0 | 0 | 0 | (3,900) |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| (251,579) | (231,798) | (199,806) | (155,603) | (99,191) | 0 |
| (173,614) | (159,963) | (137,886) | (107,382) | (68,451) | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| (34,015) | (31,341) | (27,015) | (21,039) | (13,411) | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| (7,060) | (6,505) | (5,607) | (4,367) | (2,783) | 0 |
| (13,988) | (12,888) | (11,109) | (8,652) | (5,515) | 0 |
| (37,301) | (34,369) | (29,625) | (23,071) | (14,707) | 0 |
| **(413,807)** | **(373,115)** | **(307,300)** | **(216,365)** | **(100,311)** | **2,958,240** |
| 7.000% | 7.000% | 7.000% | 7.000% | 7.000% | 7.000% |
| 0.000% | 0.000% | 0.000% | 0.000% | 0.000% | 0.000% |
| (20,538) | (22,951) | (25,487) | (27,279) | (28,542) | (12,505) |
| **(434,344)** | **(396,066)** | **(332,787)** | **(243,645)** | **(128,852)** | **2,945,735** |
| (4,076,860) | (4,472,926) | (4,805,713) | (5,049,358) | (5,178,210) | (2,232,475) |

## DETAILED CASH FLOW — TREBBI LTD

**35 Oakfield, Sale - Continuum Mirror Appraisal**
**40% Affordable**

**Detailed Cash flow Phase 1** **Page A 4**

| | | |
|---|---|---|
| 017:Apr 2024 | 018:May 2024 | 019:Jun 2024 |
| (2,219,970) | (1,052,100) | 97,350 |
| 1,206,000 | 1,206,000 | 1,206,000 |
| 0 | 0 | 0 |
| (36,180) | (36,180) | (36,180) |
| (1,950) | (1,950) | (1,950) |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| **1,167,870** | **1,167,870** | **1,167,870** |
| 7.000% | 7.000% | 7.000% |
| 0.000% | 0.000% | 0.000% |
| (5,915) | 0 | 0 |
| **1,161,955** | **1,167,870** | **1,167,870** |
| (1,070,520) | 97,350 | 1,265,220 |

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