PROOF OF EVIDENCE – VIABILITY IN PLANNING

EXECUTIVE SUMMARY

APPELLANT – McCarthy and Stone Retirement Lifestyles Ltd

35 Oakfield
SALE
M33 6NB

PLANNING INSPECTORATE REFERENCE: APP/Q4245/W/23/3325034

LOCAL PLANNING AUTHORITY: TRAFFORD COUNCIL

PLANNING REFERENCE: 109745/FUL/22

R JAMES MACKAY BSc (HONS) MRICS (RICS REGISTERED VALUER)

ALDER KING LLP

CONTENTS

1.0 BACKGROUND AND RELEVANT EXPERIENCE

1.1 This summary of my proof of evidence is intended as a summary of the detailed points within my full viability Proof of Evidence.

1.2 I, Robert James Mackay, am a Partner at Alder King LLP. I am head of Valuation and Development Viability services for Alder King LLP. A summary of my experience is contained within my main Proof of Evidence.

1.3 My evidence relates to reason for refusal 6, as set out in the LPA's Statement of Case:

The proposal would fail to provide the required affordable housing, and the submitted financial viability appraisal has not adequately demonstrated that the affordable housing contributions sought would make the scheme undeliverable on viability grounds. The development would not, therefore, contribute to affordable housing needs and would not support the creation of mixed and balanced communities. The proposal would therefore be significantly contrary to policies L2 and L8 of the Trafford Core Strategy (2012), the National Planning Policy Framework (2021), National Planning Practice Guidance and SPD1: Planning Obligations (2014).

1.4 My evidence relates solely to viability matter and the following disputed areas:

- Benchmark Land Value
- Sales & Marketing Costs
- Empty Property Costs/Development Timescale
- Appropriate Development Profit

2.0 DISPUTED INPUT - BENCHMARK LAND VALUE

2.1 The accepted methodology is Existing Use Value plus a Premium (EUV+). In this instance there is a dispute between the parties as to the Existing Use Value of the property and whether a premium should apply.

2.2 The EUV is reported at £1,500,000 allowing for a gross yield of 6.3% and a capital value of £237 per sq ft. In my professional judgement this represents the EUV under the definition of PPG and RICS guidance.

2.3 The EUV is the first element of BLV to be considered. The second element is the appropriate premium to apply to incentive the landowner to sell.

2.4 The premium is a judgement by the assessor as to the appropriate incentive for a landowner. In my view, a landowner would not dispose of the site for development at just EUV but would also seek an uplift to reflect the development potential of the site. In my professional opinion a premium at 20% of the EUV is appropriate to incentivise the landowner to dispose of the property.

2.5 RICS Guidance and PPG both state that EUV+ is the primary approach to BLV. I have therefore adopted £1,800,000 at the appropriate BLV to test the viability of the proposed development.

3.0 DISPUTED INPUT – SALES & MARKETING COSTS

3.1 The dispute relates to a difference in the percentage allowance for marketing and sales costs. I have applied a total percentage of 5% to allow for agents fees and marketing expenditure, compared with Continuum who argue that the total percentage should be 3%. The monetary difference (assuming a 100% market scheme) is £200,973.

3.2 The purchase of a retirement apartment is different to a general market scheme. Whilst we have an ageing population this does not mean that everyone over-65 will want to move into a retirement community. Generally, the decisions are made in consultation with family members and is triggered by needs based requirement. The decision is a lifestyle change and takes a considerable time, including multiple viewings and frequently including the ability to stay overnight to assist in the decision-making process. It also involves the sale of a family home to fund the purchase that requires very careful consideration and an active housing market. Sales occur following completion of the scheme as purchasers like to experience the building prior to completing their purchase.

3.3 The combined allowance of 3% marketing and 2% sales is not considered unreasonable and is consistent with the wider retirement market.

4.0 DISPUTED INPUT – EMPTY PROPERTY COSTS/SALES RATE

4.1 **Empty Property Costs:**

4.2 Empty Property Costs (EPCs) are an industry accepted cost of retirement apartment development and are widely accepted by third party reviewers as being a valid cost to be included within the appraisal. EPCs reflect the costs that have to be borne by the developer until the scheme is fully sold out. Retirement apartment developments are built in a single phase and the building is fully energised on practical completion.

4.3 The EPCs cover the provision of background heating to the empty apartments, the maintenance and up-keep of the communal facilities and the employment of the Estate Manager, who has to be onsite from first occupation. The costs are covered by the service charge once all apartments are sold.

4.4 EPC are a cost to development and have been accepted by numerous third party assessors and at Appeal (see appendix 6). I see no reason why a scheme in Trafford would act any differently to other retirement schemes in the country.

4.6 **Sales Rate/Curve:**

4.7 The Continuum cashflow is impacted by the inclusion of on-site affordable housing. In the model provided to us they have assumed that the on-site affordable will be sold on a 'golden-brick' basis with 30% (£726,251) paid 3 months into the project (commencement of construction), 45% (£1,141,249) spread over the construction period (11 months at £103,748 per month) and a final payment of 25% (£622,500) paid at practical completion. The 15 remaining market units assume that 40% of the income is paid at practical completion and the remaining 60% in the following 3 months. The sale profile for the market units is therefore 4 months at 3.75 units per month.

4.8 My assessment assumes a 100% market scheme. I have applied an overall sales rate of 1.38 sales per month over an 18-month period. This is a more typical sales profile for a retirement scheme.

4.9 The following sales rates are taken from retirement schemes over the last 5 years:

Development	Total Units	Sales Period	Sales Curve
Hampson Court Hazel Grove	40	September 2020 – May 2022 (20 Months)	2 per month
Butterworth Grange, Rochdale	30	July 2019 – Sept 2022 (38 Months)	0.78 per month
Mortimer Lodge Bridgnorth	50	February 2022 – still selling	1.3 per month
Eliot Lodge Ashborne	38	June 2019 – June 2022 (36 Months)	1.05 per month

5.0 DISPUTED INPUT – DEVELOPMENT PROFIT

5.1 The parties dispute the required risk adjusted return for the proposed development. My position is that the risk adjusted return should be 20% on GDV, whereas Continuum argue the risk adjusted return should be 18.5% of GDV for the market units and 6% of GDV for the affordable with a blended overall profit of 14.85% of GDV.

5.2 NPPG is clear that potential risk is accounted for in the assumed return for development assumed at between 15-20% of gross development value for plan making purposes but alternative figures may be appropriate for different development types.

5.3 There are a number of inherent sector specific risks with this form of development which materially differ to that of general needs housing including an ability to phase and allow for risk reappraisal. I detail in the Proof of Evidence a number of appeals and agreements with third party assessors where 20% on GDV is found to be appropriate for retirement development.

5.6 In assessing profit at 18.5% of GDV, Continuum have not considered the characteristics of the retirement marker or the changing economic circumstances that is being faced by developers. The baseline profit figure of 17.5% on GDV for flatted development is based on market apartments and in a different economic period.

5.7 Overall, it is my professional opinion that the minimum level of profit/return for a retirement developer in the current market is no less than 20% of GDV. This level has been tested at Appeal and agreed by numerous third party assessors.

6 CONCLUSION

6.1 I have updated the financial viability assessment appraisal. The appellants position at this appeal is set out in the table below.

INPUT	Appeal Scheme (RLV)
GDV **100% Market Scheme**	1 Bed RL Apartment: £350,000 2 Bed RL Apartment: £480,000 **Total GDV: £10,180,000**
Core Build Cost	£3,889,913
Abnormal Costs	Demolition - £98,670 Part L Costs: £62,500
External Costs	8% of Core Build Cost
Contingency	3% of Core Build Cost
Professional Fees	8% of Cost
Marketing/Disposal Costs	5% of GDV (Marketing & Sales) £650 per unit (Legal)
Empty Property Costs	£59,119
Finance	7% Debit (100% finance) 1% Credit
Timings	Pre-Construction: 4 Months Construction: 12 Months Sale Period: 18 Months (1.38 per month)
Profit	20% of GDV
RLV (after Costs)	£2,008,186
BLV:	**£1,800,000**
Surplus for Sec.106	**£208,186**

6.2 This executive summary is to be read in conjunction with the Statement of Truth and Declaration included within my main Proof of Evidence.