Continuum

Trafford Council / 35 Oakfield, Sale Planning Inquiry

Viability in Planning Proof of Evidence

Ref: APP/Q4245/w/23/3325034

Mr M Lloyd

October 2023

HOLD FAST THAT WHICH IS GOOD
TRAFFORD COUNCIL

Inspiring Built Environments

Viability in Planning
Development Management
Regeneration
Planning Consultancy

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1. INTRODUCTION

1.1 INSTRUCTION

1.1.1 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').

1.1.2 I understand the proposed scheme was considered by Trafford Council to be contrary to the provisions of Policy L2 of the adopted Core Stagey (2012) given the Appellant was offering zero affordable housing (onsite or offsite through a commuted sum). The proposed scheme is considered by Trafford Council to perform differently to *"generic development"* in viability terms within Sale and as such the policy compliant affordable housing contribution should be determined by a site-specific assessment of viability and be up to 40%. I provide commentary on the application of the fourth bullet point of Policy L2.12 at section 4.

1.1.3 Should the affordable housing provision be dealt with by way of a commuted sum, the methodology of how to calculate the appropriate amount is outlined in Trafford Council's Planning Obligation SPD1 (2014).

1.1.4 The submitted Financial Viability Assessment (FVA) (December 2022) by Alder King (AK) argued that the scheme could not support any affordable housing whether onsite or offsite and remain viable. I have used this FVA as the basis of my assessment.

1.1.5 The expert acting on behalf of the Appellant, emailed on the 17th of October 2023 (the email was without prejudice) which stated that:

"the Appellants view is that the scheme can support an off-site contribution of £208,000."

1.1.6 For clarity, this is not presented as an offer and can only be considered a suggestion that is not binding at this time. To pre-empt the Appellant confirming their offer as part of the Inquiry proceeding and to assist the Inspector, commentary is provided in this proof in relation to the Appellant's potentially revised position.

1.1.7 I have engaged with the Appellants viability Expert Witness, Mr Mackay of AK, in order to prepare a Statement of Common Ground (SoCG) in relation to viability matters. The SoCG was submitted to PINS on the 24th of October 2023.

1.2 DETAILS OF AUTHORS BACKGROUND AND EXPERTISE

1.2.1 I am Murray Lloyd. My area of expertise is in land and property development and regeneration. I have acted as direct developer and consultant. I was asked by Trafford Council to act as Expert Witness in this case due to the work I have undertaken for this and other authorities over the past 8 years on matters relating to financial viability in planning. Over a period of 34 years, I have honed my skills and knowledge working in both the public and private sector, on development and regeneration. This has covered mixed-use, town centre, residential and logistics developments from inception to delivery. My CV can be found in **Appendix 2** for further information.

1.2.2 I have acted as Expert Witness on behalf of Trafford Metropolitan Borough Council, Chorley Borough Council and South Ribble Borough Council on four important planning inquiries in the North West of England. Warburton Lane (ref: APP/Q4245/W/19/3243720), which is an important case for matters pertaining to abnormal costs and application of premiums (EUV +) in the interpretation of viability in planning. Eaves Green (ref: APP/D2320/W/20/3265785) where the appellant accepted that their case for not complying with adopted planning policy regarding the provision of affordable housing was no longer the case and the scheme could provide full policy compliance. Former B&Q (ref: APP/Q4245/W/20/3258552), where the Inspector agreed with the case I put forward showing that the scheme could support 39% affordable housing compared to the Appellant's position of 6.3%. Pickering's Farm (ref: APP/F2360/W/22/3295498 & 3295502), the decision by the Sectary of State is still pending.

1.2.3 In the past 8 years, myself and Continuum have acted on over 250 viability cases. I act primarily for the public sector, and my clients include; Trafford Metropolitan Borough Council, Chorley Borough Council, Tameside Metropolitan Borough Council, Bolton Borough Council, Rossendale Borough Council, South Ribble Borough Council, Blackpool Borough Council, Westmorland & Furness Council, Teignbridge District Council, South Staffordshire District Council, North East Derbyshire District Council and Wokingham Borough Council.

1.2.4 My years of experience in development and regeneration, in addition to a detailed knowledge of Planning Gain / Land Value Capture theory gained through my PhD and involvement in over 250 viability cases, demonstrates my suitability to provide an expert assessment of matters relating to viability in planning.

1.3 NATIONAL PLANNING POLICY AND GUIDANCE

1.3.1 The National Planning Practice Guidance (PPG) provides guidance for implementing both local planning policies and those contained with the National Planning Policy Framework (2023).

1.3.2 Paragraph 10 of the PPG on Viability (2019) (ID: 10-010-20180724) defines viability for the purpose of plan and decision making as a process that seeks 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"

1.3.3 For the avoidance of doubt, it should be noted that reference to 'competitive returns' as included in the previous iteration of the PPG on Viability (2014) was removed in its revision in 2018/19.

1.3.4 The revision of the PPG on Viability (2019) introduced a number of significant changes to the recommended methodology to be used to assess financial viability. For the purposes of financial viability, the value of development land is to be assessed using the Existing Use Value plus (EUV+) a premium methodology as opposed to the comparable method that had previously been used. The impact being that residential land transactional data no longer determines benchmark land value (BLV).

1.3.5 The EUV+ method establishes benchmark land value (BLV) by assessing the value of the site in its existing use without hope value and then applying a premium to represent a reasonable incentive to a landowner to promote their land for development through change of use. The premium can only apply when a change of use to a higher land value use occurs as the increase in land value funds the premium. The EUV+ approach has been adopted partly in response to the Parkhurst v Islington (2018) High Court case to remove the circularity which previously served to increase land values and reduce affordable housing.

1.3.6 RICS have published a guidance note titled 'Assessing viability in planning under the National Planning Policy Framework 2019 for England' (2021). This document is designed to bring the RICS guidance into line with national policy and guidance. I am advised that the PPG (2019) prevails over it if and to the extent there is inconsistency between the RICS view and that of the PPG (2019).

1.3.7 The RICS also published a Professional Statement titled 'Financial Viability in Planning – Conduct and Reporting' (2019). This document sets out mandatory requirements to be followed by RICS professional s regarding to conduct and reporting in relation to viability in planning in England. Appendix 1 of Continuum's 35 Oakfield, Sale Independent Viabiltiy Assessment confirms that this review is in accordance with the requirements set out within the Professional Statement.

1.3.8 Financial viability in planning is not subject to RICS Global Valuation Standards (2021) (The Red Book) given it follows a number of different methodologies particularly in relation to the establishment of BLV. The professional standards for FVAs however echo the requirements for Red Book valuations.

2. BACKGROUND AND CONTEXT

2.1.1 The site is located 0.5 miles southwest of Sale and is a residential site extending to approximately 0.3 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.

2.1.2 Internally, the property comprises of 12 apartments, however one is uninhabitable due to structural issues.

2.1.3 It is understood that the planning application (ref: 109745/FUL/22) for the site is to demolish the existing building and erect a 25 no. retirement living scheme, with associated communal facilities, landscaping and car parking. All units will be delivered on the basis of age restriction of 55+ referred to as retirement accommodation.

2.1.4 The planning application was supported by an FVA prepared by AK. The financial viability assessment concluded that the scheme could not viably provide affordable housing.

2.1.5 AK in their FVA argued that the proposed development would be subject to 25% affordable housing (moderate market area in good conditions – SPD1 on Planning Obligations). As a hypothetical exercise, no offer for affordable housing was being made, AK modelled an off-site commuted sum in their FVA appraisal. No "exceptional circumstances" (required by SPD1 on Planning Obligations) were provided in AK's FVA as to why they have modelled an off-site commuted sum instead of onsite affordable housing. AK estimated that a 25% affordable housing off-site commuted sum would equate to £1,009,500 based on them applying the commuted sum methodology in Trafford Council's SPD1 on Planning Obligations (2014).

2.1.6 My company (Continuum) produced a response to AK's FVA. One issue identified was that the subject site triggers the 4th Bullet point of policy L2.12 (Core Strategy) and is non-generic in viability terms and is therefore subject to up to 40% affordable housing. This position is supported by Kings Counsel advice during the former B&Q appeal (Ref: APP/W/20/3258552) where the Inspector agreed with Trafford Council's arguments around interpretation of policy L2.12. Our assessment therefore analysed the proposed scheme on this basis,

2.1.7 Trafford Council requires the affordable units should be provided onsite. Therefore, the maximum adopted affordable housing policy for the proposed development is 40% onsite (10) units reflecting a tenure mix of 50% affordable rent and 50% intermediate (shared ownership).

2.1.8 Our report then analysed the following key areas where Continuum had an issue with AK's FVA and recommendations where viability could be improved, these are as follows:

- Benchmark Land Value (BLV)
- Build Costs (required further evidence)
- Guest Suite Value
- Development Period / Finance Cost
- Profit Margin
- Sales & Marketing Fees
- Empty Property Costs

2.1.9 Continuum concluding that when using revised evidence-based inputs, the proposed scheme could support 40% onsite affordable housing.

2.1.10 There were no negotiations on the viability of the scheme between Continuum and AK prior to the refusal.

2.1.11 The planning application was refused on 5th May 2023. One of the reasons cited by Trafford Council for refusal on the decisions notice was that the proposed development would not provide a development plan policy compliant level of affordable housing:

"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)." (CD-A64)

2.1.12 I understand from the Appellant's Statement of Case (CD-B2) that they are maintaining that there is no scope for the scheme to be able to provide affordable housing and remain viable.

2.1.13 As stated earlier, the Appellant has suggested (17th of October 2023) a contribution to affordable housing could be made, however, this as yet is not a confirmed offer.

2.1.14 The Appellant does not comment on their approach to providing onsite affordable housing provision or whether Policy L2.12 4th bullet point (up to 40%) is triggered in the submitted Statement of Case.

2.1.15 I have worked with Mr Mackay in the preparation of the viability SoCG. Details of what has been agreed in the SoCG are outlined in section 3 of this proof.

3. STATEMENT OF COMMON GROUND

3.1.1 I have engaged with Mr Mackay of AK to establish a SoCG on viability in planning. The SoCG will be submitted to PINS alongside this proof of evidence document.

3.2 Through the SoCG the following viability inputs have been agreed between Mr MacKay and I:

Input	Figure
1 Bed Market Value (Per Unit)	£350,000
2 Bed Market Value (Per Unit)	£480,000
Base Build	£3,889,904
External Works	8% of base build
Part L	£62,500
Demolition Costs	£98,670
Contingency	3% of total build costs
Professional Fees	8% of total build costs
Sales Legal Fees	£650 per market unit
Finance Rate	7% (with 1% credit rate)
Pre-Construction Period	4 months
Construction Period	12 months
SDLT	At prevailing rate
Site Agent & Legal Fees	1.8%

3.2.1 The *following* areas are in disagreement and will be discussed in detail in my proof:

- Sales & marketing costs;
- Sale period;
- Empty Property Costs;
- Profit margin; and
- Benchmark Land Value (BLV).

4. TRAFFORD COUNCIL AFFORDABLE HOUSING POLICY

4.1.1 Policy L2 of the Core Strategy sets out the Council's requirements for affordable housing in residential developments, alongside SPD1: Planning Obligations (2014). In the first instance, Policy L2.14 (a) states that *"…The expected method of delivery (for Affordable Housing) will be on site…"* (CD-D2). The Core Strategy goes on to clarify at paragraph 11.11 that due to *"…the high and continuing demand for affordable housing* units*, coupled with high land values and site scarcity, the Council's expected method of delivery will be for the affordable housing units to be provided on site. Only in exceptional circumstances will the Council consider an off-site payment being made."* (CD-D2).

4.1.2 Fourth bullet point of Policy L2.12 of the adopted Core Strategy (2012) states:

"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%".* (CD-D2).

4.1.3 Trafford Council, myself and AK, all agree that the proposed development (retirement living scheme) performs differently in viability terms. The logical conclusion is that the scheme is *'non-generic'*. Due to this, fourth bullet point of policy L2.12 is triggered and 40% is the upper affordable housing target for the proposed scheme subject to site-specific viability.

4.1.4 The recommended tenure split of affordable housing is set out in Revised SPD1: Planning Obligations (2014) as being 50% affordable rent and 50% intermediate (shared ownership). Following discussions with Trafford Council's housing team it is understood that this position currently meets existing demand and is supported.

4.1.5 Revised SPD1: Planning Obligations (2014) states in paragraph 3.31 that in *'exceptional circumstances'* (CD-D5), when it is not possible to provide affordable housing on site, a commuted financial contribution in lieu may be accepted. The SPD (2014) provides some 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.

4.1.6 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. It is understood that Trafford Council's position is that affordable housing should be delivered onsite.

4.1.7 The suggested sum identified in the email of the 17th of October 2023 as a contribution to affordable housing is stated as being for offsite provision. As is clear from the adopted policy, the Applicant / Appellant is required to make *"exceptional circumstances"* case for offsite provision. It is understood this has now been provided.

5. DISAGREED VIABILITY INPUTS

5.1 SALES & MARKETING COSTS

5.1.1 Mr Mackay states that sales & marketing costs for the scheme should equate to 5% of the market GDV for the following reasons:

- Retirement housing is a 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.

5.1.2 Addressing the points in turn, it is argued by Mr Mackay that the market is more limited than compared to new build apartments and it is understood that a large number of purchasers are 70+ which limits the potential market. It is unclear why a product aimed at the over 55's would be regarded as having a greater sales risk than other new housing product. This group (over 55's) makes up approximately 40% of the adult population (19+) of the UK. Data from Statista shows that in 2022 55.6% of homeowners were 55+ (35.8% were over 65) in England and of these over 55+ homeowners, 85% own their home outright.

5.1.3 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.

5.1.4 The Appellant also provided a demand assessment for retirement living produced by Three Dragons in November 2022 (CD-A3). The conclusion of the report is that there is high demand for specialist retirement housing and low local supply in Sale and Trafford. For example, at para. 2.46, Three Dragons state that local demand in Sale of 270 retirement units outstripped supply within 3 miles of Sale at 64 units for sale in October 2022. Demand is therefore over 4 times higher than supply.

5.1.5 Thus, the comment that the market for retirement living is more limited than others, a well-rehearsed argument, does not appear to be supported by data. As shown throughout this report the demand in Greater Manchester and more locally in Sale, is significantly high for this type of product, with very limited supply.

5.1.6 It is unclear why the requirement to purchase property without borrowing would lead to higher marketing costs. As seen from above, the target market is substantial and growing. It is also active. People who choose to downsize will actively be looking for options available. Housing for a first-time buyer with a mortgage, a cash buyer, a chain buyer with mortgage, should not require any additional marketing.

5.1.7 It is not understood how the localised target marketing of a small retirement scheme (25 units) would be any greater than a small market apartment scheme. For larger apartment schemes (non-retirement), 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 a large majority of units are presold to overseas investors, consultants in Greater Manchester argue sales and marketing costs of 2.5% of GDV. (see B&Q Appeal APP/Q4245/W/20/3258552 as an example (CD-F21)).

5.1.8 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.

5.1.9 Mr Mackay goes on to further state retirement purchasers do not typically buy apartments *"off plan"*. This clearly requires substantiation. In my experience, senior living facilities actively promote and are successful with reservations on their developments.

5.1.10 Mr Mackay provides historic appeals which he states supports high sales and marketing costs. However, the appeals provided are historic and situated in completely different market locations. Mr Mackay has also not provided a breakdown of the sales and marketing costs for the scheme and therefore I cannot ascertain as to which marketing activities will be viewed as overheads in the gross profit margin and not a direct marketing cost.

5.1.11 From googling McCarthy & Stone it is clear there is a plethora of information regarding their product with links to existing and new schemes throughout the country. Their product appears on Rightmove and Zoopla. They also undertake target marketing campaigns online. Indeed, I have been the recipient of a number of propositions from McCarthy & Stone! It is unclear why this approach, followed by the volume housebuilders, would cost more for senior living homes.

5.1.12 In Trafford, there have been two recent appeal decisions which have argued the following sales and marketing fees:

- B&Q (ref: APP/Q4245/W/20/3258552) (CD-F21) – 2.5% for large apartment scheme
- Old Crofts Bank (ref: APP/Q4245/W/21/3287401) (CD-F23) – 2% for a small apartment scheme

5.1.13 In my assessment I have adopted a higher sale and marketing allowance of 3% of market GDV for the retirement living scheme. This assumption is in excess of the sales and marketing costs that have been agreed between consultants in the above recent Appeals. This does not include head office marketing costs which are reflected in overheads in the gross profit margin. I believe this is a full assessment of this cost especially in relation to overseas marketing budgets of large apartment schemes.

5.2 SALE PERIOD

5.2.1 The sale period adopted by Mr Mackay in his FVA (18 months in their 100% market appraisal) was not supported by any justification or evidence base and is considered excessive with regard to comparable retirement schemes located in Greater Manchester.

5.2.2 As I mentioned earlier in my proof, the Three Dragon's demand assessment highlights that demand is over 4 times higher than local supply in Sale.

5.2.3 I have analysed the Greater Manchester retirement living market since 2015. There have been some changes to the previous analysis undertaken by my company due to Land Registry recording the ground rent sale as the new build sale. **Appendix 3** outlines the analysis of sale periods.

5.2.4 Overall, there has been limited new build market retirement living schemes in Greater Manchester, with the 12 schemes assessed only providing 511 units. There are also limited schemes in the pipeline in Greater Manchester, with the following schemes in the process of planning or having achieved planning:

Name	LA	Developer	Units	Status
Sydney Grange, Failsworth	Rochdale	McCarthy	51	Planning approved in January 2023
Jessiefield Court, Didsbury	Manchester	McCarthy	26	Planning approved

5.2.5 When comparing the new build supply that has been provided since 2015 and the supply that has planning, it is clear that there is limited supply in Greater Manchester as highlighted by Three Dragons.

5.2.6 In terms of the sale period assessment of the 12 schemes, the average number of sales in the first month was 12.5 units, when excluding Extra Care schemes this increased to 15 units. In terms of the average sales in the first year, the majority of schemes were able to sell over 25 units. In terms of retirement schemes on the market, the newest Queen's View, Bramhall scheme has sold / rented 16 units since completing in June 2023. Brideoake Court, Standish (Wigan) appears to have sold the majority of its units in the first year, though does have a couple of units remaining.

5.2.7 I would add that Stockport has seen the most schemes and units over the assessment period, with Trafford only having 1 retirement scheme over the period.

5.2.8 It should also be noted that retirement living operators such as the Appellant both sell and rent units at their schemes. This minimises the risk and allows developers to rent out units and then sell them at a later date (usually to the renter). This enables developers to mitigate against slow sale periods but still receive an income from the property.

5.2.9 When looking at the trend in sale period over the circa. 9 years as well as the demand assessment by Three Dragons, I believe 25 units would be comfortably sold within 1 year. The general trend is around 15 market units are sold within the first month for retirement living schemes. This obviously includes pre-sale reservations. I have however assumed 12.5 units will be sold which is 50%. When looking at the remaining sale rate for units sold within the year (excluding the first month sales) the average rate is around 2 market units a month. I have therefore assumed the remaining units will sell over a 6-month period which means the total sale period is 7 months for the 100% market housing scenario.

5.2.10 For the 40% affordable housing scenario, I have again assumed 12.5 market units will be sold in the first month with the remaining 2.5 units sold within a further 2 months meaning the sale period would be 3 months. The affordable units have been assumed to be sold on a golden brick basis to a Registered Provider as is industry standard assumption.

5.3 EMPTY PROPERTY COSTS

5.3.1 Mr Mackay have assumed that the proposed scheme will include empty property costs and argue that this is an industry standard accepted cost of retirement apartment development. The cost includes Council Tax and service charge costs.

5.3.2 With reference to apartment developments in Trafford and Greater Manchester where sale periods are over a year after completion, applicants and viability consultants do not include empty property costs in the relevant viability appraisals that have supported planning applications.

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

5.3.4 In terms of Council Tax, 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 myself, it is not considered appropriate to adopt an allowance for Council Tax payments.

5.3.5 In terms of the service charges, I 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. I believe the initial 50% would be able to cover the initial costs associated with the service charges and based on the sale period the building is fully occupied within 7 months.

5.3.6 Service charges for any apartment development will always have a stabilisation period for the management company. In build to rent schemes for example, the service charge cost is seen over the lifetime cost of the building and not the initial year. This means that operators sometimes build in small losses in service chargers over the stabilisation period which is then refunded through the profit generated from the service charges over the following periods. The service charge therefore already has a margin built-in for the operator, to cover the stabilisation period of the property.

5.3.7 Based on the above, I would argue that no empty property costs should be included.

5.4 PROFIT MARGIN

5.4.1 Mr Mackay has adopted a 20% of GDV profit margin and argues that the risk profile for retirement schemes is higher than the general needs housing. I do not support 20% of GDV profit margin for retirement living schemes in Trafford.

5.4.2 The PPG at paragraph 18 explains that potential risk is accounted for in the assumed return for developers. The paragraph explains that for plan making an assumption of 15-20% of GDV profit margin may be considered a suitable return to a developer. The PPG does not provide a range for decision making viability. The guidance goes on to state that alternative profit margin figures can be used where there is evidence to support this according to the type, sale and risk profile of the development (this is again in relation to plan making). The guidance also states that a lower figure may be appropriate for affordable housing where there is a guaranteed end sale at a known value which reduces risk and that alternative figures may be appropriate for different development types.

5.4.3 The PPG at paragraph 10 is clear that the intention of viability in planning is to reach a balance / compromise between the three constituent bodies in the process: landowner, developer and public interest. By achieving a balance between parties, schemes are able to move from unviable to viable. The approach set out by the Appellant is that the developer needs to achieve maximum outcomes (20%), should this result in no financial contribution to the public interest (as in this case) then that is acceptable. This approach is clearly at odds with the premise and requirements of the PPG.

5.4.4 The RICS Guidance (CD-F12) provides their interpretation as to how profit margins should be assessed for developments. The RICS Guidance explains that profit margins should be assessed based on a risk-adjusted return approach as highlighted in further RICS Guidance: Valuation of development property (2019).

5.4.5 Profit margins for schemes should therefore be assessed based on a risk adjusted return assessment at the decision-making stage. The below section seeks to identify an appropriate risk adjusted return for the proposed scheme based upon site and scheme specific factors such as location, desirability and the local market. This contrasts with the approach taken by Mr Mackay which seeks to benchmark the required developer's return based upon other schemes that are not located within Trafford.

5.4.6 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) (CD-F21 and CD-F23). This location specific profit margin has been used as a baseline to assess the risk adjusted profit margin for the market retirement units.

5.4.7 Mr Mackay argues the profit margin should be 20% on GDV due to the higher risk profile of retirement housing when compared to general housing. The arguments are listed as follows with my comments on each risk:

AK's Sales Risk	My Comments	Increased Sales Risk over Apartment Scheme
Retirement Housing is a specialist flatted development (blocks of apartments/flats) of units for independent communal living of older persons, usually retirees.	As explained earlier, the over 55's market is a substantial proportion of the population which is growing year-on-year. This market has access to cash and a good proportion benefit from stable well-funded pensions. In 2023 I would argue this is the market sector in the UK that has the least risk. Three Dragons demand assessment provided by the Appellant has shown that local demand is over 4 times higher than supply. In addition, the majority of sales are cash buyers and are less affected by the impact of the mortgage market on the housing sector.	No case made
Block of apartments/flats are single phase specialist housing developments.	This is a scheme of only 25 units. Risk is equivalent 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 (CD-F21)).	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 such as the two example appeals provided.	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 or reduce/increase the build-out rate dependant on market demand.	Risk is equivalent 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 (CD-F21)).	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 equivalent with apartment schemes of this scale which are usually a single phase. This appears to be referencing McCarthy & Stone and their approach to development delivery. This Inquiry is in relation to the specifics of 35 Oakfield, Sale.	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, buggy battery- recharging store, central refuse store, etc.	The gross to net of the proposed scheme is similar to other apartment schemes in Trafford which offer communal facilities such as gyms, lounges, basement car parking etc. (See appeal ref: APP/Q4245/W/20/3258552 (CD-F21), lower Gross to Net).	No
Premium sales values are expected above the general needs housing market thus adding risk because of the requirements accommodate: • Added levels of assistance for the older person and the disabled i.e. hands rails, maximising level access (60% - 70% of occupants are aged 78 years or over). • 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 Appellant 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. As shown by Three Dragons demand assessment there is more demand than supply.	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.	As explained earlier, the over 55's market is a substantial proportion of the population which is growing year-on-year. This market has access to cash and a good proportion benefit from stable well-funded pensions. In 2023 I would argue this is the market sector in the UK that has the least risk. Three Dragons demand assessment provided by the Appellant has shown that local demand is over 4 times higher than supply. In addition, the majority of sales are cash buyers and are less affected by the impact of the mortgage market on the housing sector.	No case made
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 scale (25 units) of the building so the risk is mitigated against. Apartment schemes that offer shared facilities also have a critical mass.	No. 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

5.4.8 As can been seen from the table above, the majority of identified risks are risks shared by general needs apartment schemes or have no impact on sales risk. The Appellant argues that the Sale market is substantially under supplied with retirement living product, which is clearly driving the decision to build retirement living scheme in this location (next to a successful existing retirement living scheme).

5.4.9 The size and scale of the scheme should also be taken into account when assessing the risk adjusted return. For example, the proposed scheme is only 25 units which reduces the sale risk compared to other retirement living schemes of 40 to 65 units. There is less capital outlay and less units to sell which therefore reduces the development risk to the scheme.

5.4.10 Sale risk can also be mitigated in the retirement schemes through being able to both rent out and sell units. This is commonly occurring in McCarthy and Stone developments. Rental schemes usually have lower profit margins attached due to the reduced risk of finding an occupier compared to selling units. This has been taken into account when assessing an appropriate risk adjusted return.

5.4.11 When taking into account the current market in 2023, it is considered an additional allowance of 1% of GDV above the baseline would mitigate any potential risk and is a full assessment. My assessment follows a detailed risk adjusted return approach to this development as per the RICS guidance (2021).

5.4.12 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).

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

5.4.14 If there were any onsite affordable units, I would expect a lower profit margin of 6% on GDV due to the reduced sale risk which supported by numerous appeals such as the two Trafford schemes.

5.5 BENCHMARK LAND VALUE

5.5.1 It is clear that the centrepiece of the viability case put forward by the Appellant relates to the Benchmark Land Value (BLV). From work done at the planning application stage, the Appellant clearly set out what they believed to be an appropriate BLV for the property at 35 Oakfield. The argument they promoted was that the assessed Existing Use Value (EUV) plus of £2.4m (£2m EUV plus 20% premium) was the minimum (PPG on Viability para.13) for the landowner to be incentivised to sell. This assessment of BLV was then put against the Appellant's / Mr Mackay's assessment of output residual land value (RLV). Once all the costs including the Appellant's required profit margin was deducted from the predicted value of the new scheme the remaining sum available for land was circa. £1.82m. For clarity, the assessment of cost in the Appellant's appraisal did not include affordable housing contributions. The Appellant argued that based on the difference between the BLV of £2.4m and the output RLV of circa. £1.82m the scheme was unviable. I believe it is important to state that the findings of the FVA that supported the application were not a matter relating to viability in planning. There was nothing that the Local Authority could do in relation to flexing their policy to make the scheme viable, as it was making no contributions. What the Appellant was requesting was a planning consent for a scheme that would appear to be undeliverable based on their / Mr Mackay's figures.

5.5.2 All of the above should be considered in the light of the fact that the property at 35 Oakfield was sold in November 2020 for £1.8m.

5.5.3 I am in receipt of the latest valuation (dated 9th but received 12th October 2023) of the existing property at 35 Oakfield (CD-B4) where the Appellant has now reconsidered their approach to BLV and for the same property (in the same condition) valued 12 months later by Matthew & Goodman (M&G now Fisher German), the EUV is now £1.5m. Mr Mackay has then (against PPG principles) applied a 20% premium to the EUV and estimates the BLV at £1.8m. This would show a reduction of £600k (25%) in the minimum amount a landowner would accept to sell the property.

5.5.4 The updated conclusion reached by the valuer (M&G now Fisher German), is that the property is very much a viable asset and if taken to the market as an investment sale, would achieve a full price. The valuer believes that the property requires no money spending on it to allow for an investment purchase to proceed (see section 4 of their 2023 valuation) (CD-B4). As a result, it would appear that the Appellant is inadvertently making a case for the building to be retained. I say inadvertently, because elsewhere in the planning application, the same Appellant is arguing that the building has reached the end of its natural life and is no longer a viable proposition (see Appellant's Statement of Heritage Significance report (CD-A56)). It is clear from information from the Appellant, that if the building should be retained, there is substantial financial investment required. This has to be a consideration when setting the EUV and BLV. It is clear to me that for a worthwhile assessment of EUV to be produced, a detailed building / conditions / structural survey needs to be undertaken. Should the EUV / BLV take into account the substantial cost of refurbishment and not include the inappropriately applied premium, then it would appear clear that should consent be granted, the development is eminently capable of funding its full affordable housing provision.

5.5.5 Alternatively, if the Appellant's Heritage consultant's assessment is correct, the building has reached the end of its natural life. The obvious result is that the EUV should be based on development land value.

5.5.6 Mr Mackay in his original FVA did not estimate the Existing Use Value (EUV) of 35 Oakfield. Instead, he instructed M&G to value the existing property. M&G produced a valuation report in July 2022 (CD-A9). In this report M&G argued that the property consisted of 14 apartments and that the apartments were dated internally and would benefit from a refurbishment program. This information was provided to M&G from the Appellant as they did not undertaken an internal inspection of the property.

5.5.7 M&G at page 6 of the valuation (July 2022) state:

"The Property was externally inspected on 29th June 2022 by Richard Moreton BSc (Hons) MRICS. We have relied on information provided to us by McCarthy & Stone in respect of the internal areas and specification." (CD-A9).

5.5.8 M&G state that they produced an accommodation schedule for the property based on information from the EPC certificates (desktop assessment – see section 3). In terms of the condition of the property they stated at section 4 that no structural survey has been carried out and they assume the property was in reasonable condition, although requiring some upgrading. M&G state their:

"opinion of value is based on the assumption that no major expenditure would be required to rectify any wants of repair" (July 2022: section 4) (CD-A9).

5.5.9 M&G at section 6 state that there are no tenancies and have based their assessment on vacant possession.

5.5.10 In the July 2022 valuation, M&G estimate the EUV of the 14 apartments at £2m (with vacant possession). They then explained that if the block of flats were sold in a single transaction, they would expect a discount of 5% to 10% and have estimated a *'bulk purchase'* value of £1.9m. M&G however adopt the EUV at £2m which is then used by Mr Mackay in his assessment of BLV.

5.5.11 As part of the due diligence in advance of the Inquiry, in September 2023 I requested photos from Trafford Council of the internal specification of the property as well as further advice from them in relation to how many apartments the property consisted of. On the 3rd of October 2023, Trafford Council confirmed:

- Council Tax confirmed they have Flat A-G 35 Oakfield and Suite 1-6 Oakfield, though suite 6 is not banded and Flat D is uninhabitable. Overall, there are 11 habitable apartment units which are tenanted.

5.5.12 **Appendix 4** includes photographs of the subject property in its current condition. It is clear from the photos and from discussions with Trafford that the property requires attention. It was clear in the M&G valuation in July 2022 that the valuer had relied upon information from the Appellant with the regards to the state of the property both internally and externally. There has been no building survey / condition survey undertaken.

5.5.13 I would also add that from review of the Appellant's Statement of Heritage Significance document (CD-A56), Mr D Beardmore states the following:

- There is varying degree of decay and structural decline (para. 2.13).
- Many of the extensions are extremely poor quality, particularly externally (para. 3.02).
- That two of the three other elevations are of extremely poor physical condition and degraded appearance (para.3.02).
- The likelihood of a viable scheme that would allow the original villar to be retained and its setting improved is negligible (para. 3.03).
- *"In those circumstances preventing redevelopment of the site would do little or nothing to secure a viable and revitalised future for this building and its wider setting, merely condemn it to suffer further decline of the sort that is already apparent from a full (as opposed to merely looking at the front elevation) inspection of the building and its extensions and outbuildings."* (para. 3.05).

5.5.14 M&G (now Fisher German) in their new October 2023 valuation state the following:

"Our valuation is reported on a partial internal inspection basis. As such, this valuation is provided on the basis of restricted information. In formulating our opinions of value, we have relied upon information in the public domain as well as, information and statements from you [Appellant] in relation to internal accommodation, size, condition and specification of the Property. Where no supplemental information/details are available, we have based our opinions of value on the assumption that the repair and condition of the Property is to a reasonable to good standard with no wants of repair or refurbishment requiring material capital expenditure." (pg. 5) (CD-B4).

"It is important to highlight and bring to your attention the limitations concerning the lack of full internal inspections of the Property and relying upon information provided to us concerning a property only partially internally inspected. Such a valuation, either in whole or in part on the basis of restricted information must be taken into account when reviewing our Report. We must be notified should any of the assumptions made in relation to the property that have not been internally inspected, or indeed, the Property generally, be incorrect, as this may have an impact on our reported values. We reserve the right to make any changes to our reported opinion in such an event." (pg. 9) (CD-B4).

"We would specifically refer you to our Letter of Engagement, where it has been agreed that we would not carry out a structural survey. However, during the course of our inspection, we noted that the Property generally appeared to be in reasonable condition however it would benefit from some modernisation. The exception to this being Flat D which is in an unhabitable condition which requires immediate capital expenditure on it." (pg. 12) (CD-B4).

5.5.15 In terms of the previous M&G valuation and current M&G valuation, I would have expected any assessment to reflect the current condition of the property and I would have expected a building /

structural survey to have been undertaken as a minimum in order for any valuer to assess the actual EUV.

5.5.16 M&G (now Fisher German) in their new valuation of the property in October 2023 have fundamentally changed their approach to valuing the EUV of the property. M&G now consider it a residential investment sold in single transaction rather than a *'break-up'* with multiple sales. They have then assessed the value of the property based on the current rental income of the 11 tenanted apartments which is £94,740 per annum (information they state has been provided by the managing agent). Flat D is not tenanted as it is uninhabitable and does not meet the minimum EPC requirements to be legally let out.

5.5.17 M&G have then applied a gross yield to the rental income in order to estimate the EUV for the property. M&G apply a 6.32% gross yield in order to estimate the EUV at £1,500,000. There is no discount to reflect the costs required to upgrade the property.

5.5.18 I would like to add that any potential purchaser will take into consideration the proposed changes to minimum EPC ratings for lettable properties. With a rating for C expected for all new rental properties by 2025, followed by all existing tenancies from 2028. This is highlighted in M&G's July 2022 and October 2023 valuation. This is a significant cost to any residential investor that would need to be incurred within 5 years. The October 2020 EPC certificates for the property provides estimated step by step costs in order to get to an EPC rating of C. I have assessed this cost for the property and indexed it to October 2023 cost using BCIS All Tender Price Index. The table below outlines the estimated costs from the EPC certificate in order for the units in the property to meet EPC C:

Flat	EPC	EPC Certificate Est. Cost to EPC C (Oct 2020)	Mid-point cost Q4 2020	Q4 2023 Cost (BCIS ATPI)
Flat A	D	£4,000 to £14,000 for internal or external wall insulation	£9,000	£10,646
Flat B	E	£4,000 to £14,000 for internal or external wall insulation, £800 to £1,200 for Floor insulation, £80 to £120 for draught proofing, £55 for low energy lighting, £200 to £400 for hot water cylinder thermostat and £2,200 to £3,000 to replace boiler with new condensing boiler	£13,000	£15,378
Flat C	E	£500 to £1,500 for cavity wall insulation, £4,000 to £14,000 for internal or external wall insulation, £4,000 to £6,000 for floor insulation, £80 to £120 for draught proofing, £3,000 to £7,000 for change room heaters to condensing boiler	£20,100	£23,777
Flat D	F	£500 to £1,500 for cavity wall insulation, £4,000 to £14,000 for internal or external wall insulation, £4,000 to £6,000 for floor insulation, £80 to £120 for draught proofing, £25 for low energy lighting, £3,000 to £7,000 for gas condensing boiler.	£20,125	£23,806
Flat E	E	£4,000 to £14,000 for internal or external wall insulation, £80 to £120 for draught proofing, £15 for low energy lighting, £200 to £400 for	£9,815	£11,610

		hot water cylinder thermostat and £350 to £450 for heating controls (room thermostat)		
Flat F	D	£4,000 to £14,000 for internal or external wall insulation	9000	£10,646
Flat G	D	£100 to £350 for increase loft insulation to 270mm and £4,000 to £14,000 for internal or external wall insulation	9225	£10,913
Suite 1	D	£4,000 to £6,000 for floor insulation, £80 to £120 for draught proofing and £400 to £600 for high heat retention storage heaters	£5,600	£6,624
Suite 2	D	£4,000 to £6,000 for floor insulation, £15 to £30 for hot water cylinder insulation, £80 to £120 for draught proofing and £400 to £600 for high heat retention storage heaters	£5,623	£6,651
Suite 3	D	£4,000 to £6,000 for floor insulation, £15 to £30 for hot water cylinder insulation, £15 for low energy lighting and £400 to £600 for high heat retention storage heaters	£5,638	£6,669
Suite 4	D	£15 to £30 for hot water cylinder insulation, £80 to £120 for draught proofing and £400 to £600 for high heat retention storage heaters	£623	£736
Suite 5	D	£15 to £30 for hot water cylinder insulation and £400 to £600 for high heat retention storage heaters	£523	£618
Total			**£108,270**	**£128,075**

5.5.19 As can be seen from the above, the total cost a potential buyer would need to spend on the property in order to future proof it is circa. £128,075. This does not take into account any structural issues with the property or the cost to make good the uninhabitable flat. Any assessment of the property's value would need to take this cost into consideration.

5.5.20 M&G have relied on three gross yield comparables in order to estimate the EUV. I would argue that the yield comparables use are not comparable when taking into consideration the property size and condition. This is outlined in the table below:

Comparable	Description	Gross Yield	My Analysis
Flat 5, 608 Roebuck Lane, Sale	1 bed flat on the market in a converted building	5.8%	This is not comparable due to being a single unit for sale which could be bought by an investor or owner occupier. The unit has also been recently renovated to a very good modern specification. This in comparison to the subject property, that is dated internally and requires modernisation. The recent Zoopla House Price Index report states that they are seeing properties selling at around 5% under the asking price which would increase the gross yield when applying a 5% deduction to the current asking price.
Langdale Mews, Levenshulme	Block of 16 flats in a purpose built apartment block sold at auction in August 2023	6.13%	This property is in superior condition to the subject property and is a modern purpose-built apartment block that appears built in the 90's. The building has an EPC rating of C so would require no upgrading works to meet new legislation.
40 Hartington Rd, Toxteth, Liverpool	Block of 5 flats in a converted block sold at auction in May 2023	7.08%	This property consisted of a converted semi-detached house into 5 self-contained flats. The Estimated Rental Value (ERV) was £36,000 which equated to a gross yield of circa. 9.55%. The property looks in good condition. Only 2 of the three units meet EPC C and some work would be required to meet new legislation.

5.5.21 I have also analysed gross yield comparables of residential investments:

Address	Units	Price	Rent	Gross Yield	Notes
6-14 Great Ancoats Street, Manchester, M4 5AZ	28	£4,600,000	£358,200	7.79%	Asking Price. Located in the Northern Quarter. Purpose built apartment block. Rent based on ERV. Superior location and quality to the proposed site.
Flat 1-24 The Slipway and Flats 7, 8 & 9 Duncan Square, Whitehaven, CA28 7LH	27	£1,850,000	£169,380	9.16%	Asking Price. Property overlooks historic harbour, purpose-built apartment block. Rent based on current rent. Property is of superior quality to the proposed site. Located in different market, though strong holiday let market.

Devonshire Buildings, Buxton Street, Barrow-in-Furness, LA14 2RW	112	£5,500,000	£585,941	10.65%	Asking Price. Grade II listed buildings. 88% let and includes two ground floor commercial units. Rent based on current. Located in a lower value location, however strong rental demand due to BAE systems located nearby. Not comparable in terms of size.
HMO Properties, Pemberton, Wigan	4	£1,200,000	£103,200	8.60%	Asking Price. 4 HMO properties consisting of 16 rooms + 3 box rooms. Rent based on ERV. EPC rating B, modern kitchens and bathrooms. superior quality inside and the property will meet new EPC legislation. Located in a lower value market.
Church Street, Eccles, Manchester	13	£1,400,000	£108,000	7.71%	Gross Yield. Recently refurbished with 13 studio rooms (let on corporate 5-year lease) and ground floor commercial space. Current rent. Superior quality insider and superior structure. Strong covenant in terms of lease which would be reflected in the yield. Located in a good market location.
Empress House, 59 Exchange Street, Blackpool	10	£800,000	£72,200	9.03%	Sold in July 2021. Newly converted from office use. Current rents at the time of purchase. Superior quality due to newly converted. Located in lower market area but strong holiday let market.
Vulcan Mill, Matta St, Pollard St, Ancoats, Manchester	53	£7,850,000	£550,740	7.02%	Sold in November 2022. Freehold residential investment of 53 apartments which forms part of a wider block of 126 units. Part Mill conversion and part new build over five floors. Based on current rent at the time of sale. Superior quality and location than the subject site.

5.5.22 All of the above gross yield comparables I have provided have a higher gross yield than that assumed by M&G. I believe when taking into account the current EPC rating and internal specification (needing modernisation) a gross yield of 6.32% does not reflect the available evidence.

5.5.23 From review of the Appellant's heritage case, their consultant is arguing that the existing property has come to the end of its natural life. If the Appellant's heritage consultant's opinions are taken at face value, then I would argue that the EUV should be based on residential development land. I have therefore assessed residential land comparables nearby to the subject site, to understand what small residential land parcels are being transacted for. The table below outlines some recent land comparables:

Address	Date	Purchase Price	Acres	£/ gross acre	Notes
Old Croft Bank, Urmston	2018	£750,000	0.67	£1,119,403	Site purchased before planning was achieved. Development for 24 apartments refused at appeal. Inspector at appeal agreed to a BLV of £701,493 per acre. Cleared site.
Network House, Sale	2021	£334,000	0.39	£867,532	Site was purchased before planning was achieved. Industrial building with offices. Planning application for 18 apartment dwellings. Applicant argued BLV should be purchase price and offered £25k towards affordable housing.
Robin Hood Court, Stretford	2018	£912,000	0.74	£1,230,769	Former public house and site was purchased before planning was achieved. Planning for 21 apartment units. Applicant argued a BLV of £877,193 per acre but offered zero affordable housing.
Mayfield House, Sale	2022	£1,375,000	0.64	£2,148,438	Bought with benefit of planning consent. Site included residential element and commercial element. Planning for 29 apartment units. 25% affordable housing was offered. BLV during viability case argued by the Applicant was circa. £703,125 per acre.
Westminster Rd, Urmston	2020	£576,000	0.30	£1,920,000	Bought with benefit of planning consent. Site had planning consent for 6 semi detached houses. Believe bought as cleared site.
84-90 Higher Rd, Urmston	2021	£515,000	0.25	£2,060,000	Bought with benefit of planning consent. Site had planning consent for 3 houses. Believe bought as cleared site.
Former Meadowside Resource Centre, Urmston	2017	£1,002,000	1.13	£886,726	Site was purchased unconditionally before it had planning. Planning approved for 17 dwellings.

5.5.24 The average (mean) purchase price was £1,461,838 per acre and the median was £1,230,769 per acre. Sites with the benefit of residential planning consent transacted for a higher amount than sites without planning. Sites that had a viability case, had BLV's that were generally lower than the residential purchase price. Overall, if I was being extremely generous, the residential land value of the existing property would not be higher than £2m per gross acre and would equate to a land value of £600,000 (subject site 0.3 acres). It could be argued that the land value should be lower, especially when considering BLV's argued by Applicant's in Trafford for small sites (Old Croft Bank Appeal for example (CD-F23)).

5.5.25 I maintain that there should be no premium applied to the EUV. This is because no change of use occurs. The PPG at para. 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. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements."

5.5.26 The PPG is clear that the premium is the amount over and above the EUV. As no change of use occurs, this means that there is no amount over and above the EUV and therefore no premium should be applied.

5.5.27 This approach is further supported by appeal decisions such as the Site of Former Ministry of Defence Offices, Warminster Road (ref: APP/F0114/W/20/3256285 and APP/F0114/W/20/3256292). In this appeal decision the Inspector states:

"The Appellant invites me to fund that the BLV should incorporate a premium, an incentive to bring the land forward for development. However, the appeal sites already benefit from extant permissions for housing and form part of a wider development that is currently being built out. Therefore, <u>I find that the land should not be treated as involving a material change of use, and having considered the Framework and PPG, such a premium should not be applied</u>." (my emphasis; para. 15.)

5.5.28 The appeal decision is attached at **Appendix 5**.

5.5.29 Overall, it is clear that the subject site is remaining in its existing use as a residential site (C3). Therefore, no premium should be applied to the EUV.

5.5.30 I am reliant on the information provided by experts, valuers and the Appellant regarding the subject property. I am not in a position to provide advice on the general state of 35 Oakfield as I am an assessor of information provided rather than the creator of that information. My strong recommendation, to deal with the inconsistencies set out above, is that a full building survey should be undertaken so as to provide much needed clarity on the current state of the building. With that in mind, I am required to provide a view based on available information. I conclude that either the building has reached the end of its natural life and the EUV should be based on residential development land, or the building can be retained but a substantial amount of investment is required. This would need to be reflected in any assessment of value. I thus suggest a range of between £600,000 (optimistic development land value) to £1,000,000 (circa. 9.5% gross yield).

6. MY APPRAISAL ASSESSMENT

6.1 The table below outlines the inputs assumed in my 100% market appraisal assessment of the scheme:

Input	Figure	Reason
Market Value	£10,180,000	Agreed figure between Parties
Base Build	£3,889,904	Agreed figure between Parties
External Works	8% of base build	Agreed figure between Parties
Part L	£62,500	Agreed figure between Parties
Demolition Costs	£98,670	Agreed figure between Parties
Contingency	3% of total build costs	Agreed figure between Parties
Professional Fees	8% of total build costs	Agreed figure between Parties
Sales and Marketing	3% of market GDV	My figure based on my analysis
Sales Legal Fees	£650 per market unit	Agreed figure between Parties
Finance	7% (with 1% credit rate)	Agreed figure between Parties
Pre-Construction Period	4 months	Agreed figure between Parties
Construction Period	12 months	Agreed figure between Parties
Sale Period	7 months (12.5 unit pre-sales)	My figure based on my analysis
SDLT	At prevailing rate	Agreed figure between Parties
Site Agent & Legal Fees	1.8%	Agreed figure between Parties
Profit Margin	18.5% market	My figure based on a full risk adjusted return assessment for the scheme.

6.2 The output Residual Land Value (RLV) from my 100% market appraisal is £2,533,990. It is clear from this RLV that the scheme can viably support affordable housing, whether that is on or offsite. See **Appendix 6** for the appraisal.

6.3 I have also run a policy complaint 40% affordable housing appraisal and adopted the following inputs:

Input	Figure	Reason
Market Value	£6,030,000 (9 no. 1 beds and 6 no. 2 beds)	Agreed figure between Parties
Affordable Value (40%)	£2,490,000 (5 no. 1 beds and 5 no. 2 beds)	50:50 affordable rent: shared ownership with affordable rent value at 50% of OMV and shared ownership at 70% of OMV.
Base Build	£3,889,904	Agreed figure between Parties
External Works	8% of base build	Agreed figure between Parties

Part L	£62,500	Agreed figure between Parties
Demolition Costs	£98,670	Agreed figure between Parties
Contingency	3% of total build costs	Agreed figure between Parties
Professional Fees	8% of total build costs	Agreed figure between Parties
Sales and Marketing	3% of market GDV	My figure based on my analysis
Sales Legal Fees	£650 per unit	Agreed figure between Parties
Finance	7% (with 1% credit rate)	Agreed figure between Parties
Pre-Construction Period	4 months	Agreed figure between Parties
Construction Period	12 months	Agreed figure between Parties
Market Sale Period	3 months (12.5 unit pre-sales)	My figure based on my analysis
Affordable Sale Period	Golden brick with 25% at of construction, 50% over build and 25% at practical completion	My figure based on my analysis
SDLT	At prevailing rate	Agreed figure between Parties
Site Agent & Legal Fees	1.8%	Agreed figure between Parties
Profit Margin	18.5% market 6% affordable 14.85% blended	My figure based on a full risk adjusted return assessment for the scheme.

6.4 The output Residual Land Value (RLV) from my 40% affordable housing appraisal is £1,850,752. It is clear from this RLV that the scheme can viably support its policy compliant 40% affordable housing onsite. See **Appendix 7** for the appraisal.

6.5 Based on my appraisal assessment of the scheme, I am confident that the proposed scheme can support affordable housing. My 40% policy compliant appraisal shows that the scheme can viably support this level of affordable housing and therefore comply with the 4th bullet point of policy L2.12.

7. CONCLUSIONS

7.1.1 Much of this viability case revolves around a single issue, the EUV of the subject property. This issue could clearly have been dealt with by the production of a detailed building / condition survey, clarifying the state of the subject property. From the available evidence, it is clear to me that the property either requires substantial investment or it can no longer viably be retained in its existing form. Without clarity on which of these scenarios should be financially assessed, I have provided a range for my assessment of EUV. I have made my position clear that the application of a premium in this instance is not appropriate as there is no change of use which would fund it.

7.1.2 The approach taken by the Appellant / Mr Mackay regarding profit levels, sales and marketing costs and sale period (incl. Empty Property Costs) is to accentuate the negatives. The profit margin required is at the very top of the range as are the sales and marketing costs. The sales period assumes an elongated period to dispose of all the units. All these elements relate to an assessment of sales risk, i.e., will the apartments sell at the predicted price within the predicted sales period? The Appellant in their planning application provide a demand assessment for their product by Three Dragons which states that in Sale, current demand outstrips supply by circa. 4:1. Three Dragons accentuate the positive when describing why senior living should be delivered within Sale, demand hugely outstripping supply.

7.1.3 In my attempt to reflect these competing positions in my assessment, I have sort to utilise inputs for profit levels, sales and marketing costs and sale period (incl. Empty Property Costs) that relate closer to the risk profile of the proposed development.

7.1.4 Based on my appraisal assessment of the scheme, I am confident that the proposed scheme can support affordable housing. My 40% policy compliant appraisal shows that the scheme can viably support this level of affordable housing and therefore comply with the 4th bullet point of policy L2.12.