

# LAND AT WARBURTON LANE, PARTINGTON, TRAFFORD

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## SUMMARY PROOF OF EVIDENCE OF

**DEREK RALPH NESBITT, MRICS APAEWE**

**DATED**

**SEPTEMBER 2020**

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**SPECIALIST FIELD: VIABILITY IN PLANNING**

On Behalf of: Redrow Homes North West

Prepared for: Planning Inquiry

On Instructions of: Redrow Homes North West

Subject Matter: Updated Financial Viability Assessment and Proof of Evidence

PINS Reference: APP/Q4245/W/19/3243720

Application Reference: 98031/OUT/19

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## 1. Executive Summary

- 1.1. This Summary Proof of Evidence has been prepared by Derek Ralph Nesbitt MRICS APAEWE of Cushman & Wakefield ('CW'), valuation and viability expert witness, on behalf of Redrow Homes Limited ('the appellant').
- 1.2. My Main Proof and updated financial viability assessment ('FVA') has been prepared in respect of an appeal against non-determination of a planning application for residential development on land at Warburton Lane, Trafford ('the subject site') (application ref: 98031/OUT/19).
- 1.3. The RICS Professional Statement *Financial Viability in Planning: Conduct and Reporting* (1<sup>st</sup> Edition, May 2019) states that all FVAs must be accompanied by non-technical summaries to assist non-specialists in better understanding the report.
- 1.4. The Planning Practice Guidance for Viability ('PPGV') (July 2018, updated May / September 2019) also states that an executive summary of an FVA is to be made publicly available to promote greater transparency and accountability within the viability assessment process.
- 1.5. Accordingly, an executive summary has been prepared to present the findings of the Main Proof and updated FVA in a clear and concise manner. This executive summary should however not be considered in isolation from the Main Proof. The signed Statement of Truth in my Main Proof applies equally to this summary.
- 1.6. I present my findings in the table below:

	<b>Appraisal 1 – Policy Compliant (45% Affordable Housing)</b>	<b>Appraisal 2 – 100% Market Housing</b>
<b>Site</b>	Site 1 – Eastern Parcel, Warburton Lane, Trafford Site 2 – Western Parcel, Warburton Lane, Trafford	Site 1 – Eastern Parcel, Warburton Lane, Trafford Site 2 – Western Parcel, Warburton Lane, Trafford
<b>Proposed Scheme</b>	400 Residential Units Including 45% Affordable Housing	400 Residential Units Comprising 100% Market Housing
<b>Gross Development Value</b>	£89,131,250	£104,885,000
<b>Total Development Costs (Excluding Developer's Profit)</b>	£77,771,005	£83,141,803
<b>Developer's Profit</b>	£12,892,875 (14.47%)	£18,879,300 (18%)
<b>Residual Site Value</b>	-£1,532,630	£2,863,897
<b>Benchmark Land Value</b>	£5,342,000	£5,342,000
<b>Viability Deficit (Rounded)</b>	-£6,874,630	-£2,478,103
<b>Proposed Developer Contributions</b>	CIL: £5,158,604 S106: £2,585,253 <b>Total Proposed Developer Contributions £7,743,857</b>	

- 1.7. The Main Proof explains the proposed scheme in further detail and how each of the above inputs have been determined, based on consideration of market evidence and benchmarked from a wide source of background evidence gained through land sales, Red Book valuations, FVAs, expert witness instructions and development consultancy advice.
- 1.8. As set out in Section 7 of the Main Proof, the residual methodology and numerous key inputs within the FVA have been agreed between myself and the Council's appointed viability assessor, Mr Lloyd. The agreed matters are detailed in the Viability Statement of Common Ground. The principal areas of disagreement are the sales values, the sale disposal costs, the benchmark land value and the build costs.
- 1.9. Below I provide a brief summary of the approach to the updated FVA, the proposed development, the key viability issues and the conclusions drawn from the FVA.

#### **Approach to Site-Specific FVA**

- 1.10. In preparing the Main Proof and updated FVA, I have adopted the residual approach which is an accepted methodology for assessing site viability, and a model which is used by housebuilders when preparing bids for residential development sites.
- 1.11. The residual method involves subtracting the total development costs from the GDV to arrive at a residual land value which is then compared to the benchmark land value to determine the surplus or deficit position, and thus the viability of the site.
- 1.12. My residual appraisal has been prepared using Argus Developer software which is the cashflow model extensively used by key practitioners across the industry to ensure a robust and consistent approach to the cash flow modelling.

#### **Site Location and Description of Proposed Development**

- 1.13. The subject site is located to the immediate south of Partington on the edge of the existing settlement area. Partington is a town and civil parish within the Metropolitan Borough of Trafford.
- 1.14. The subject site comprises approximately 24.97 hectares (61.7 acres) of greenfield land split over two parcels; the eastern parcel (site 1) comprising 12.3 hectares (30.39 acres) and the western parcel (site 2) comprising 12.67 hectares (31.3 acres).
- 1.15. The appellant has submitted an outline planning application (ref: 98031/OUT/19) for a large scale residential development at the subject site comprising 400 dwellings with 11.31 hectares (27.95 acres) of open space and green infrastructure. The units are apportioned as 167 to the eastern parcel and 233 to the western parcel.
- 1.16. The application is made in outline with all matters reserved except for access which is proposed from Warburton Lane for both sites. It is envisaged that the development will consist of market family homes at an average net density of 29 dwellings per hectare (c. 12 units per net acre).

#### **Affordable Housing Policy**

- 1.17. Policy L2 of the adopted Trafford Local Plan: Core Strategy (2012) sets out the Council's affordable housing policy.
- 1.18. I understand that the subject site is situated in what is described as a 'hot' market area where the policy requirement is for 40% affordable housing with a tenure split of 50% social/affordable rent and 50% intermediate.

- 1.19. I further understand that Trafford is currently deemed to be operating in 'good' market conditions (according to *The State of the Economy: Housing Market Conditions* (November 2018)) where the policy requirement increases to 45% affordable housing.

### **Local Plan Viability Assessment ('LPVA') and Justification for Site-Specific FVA**

- 1.20. The PPGV states that the Executive Summary of an FVA should refer back to the viability assessment that informed the Local Plan and summarise what has changed since then. The PPGV (Paragraph 6) also requires the applicant to demonstrate whether particular circumstances justify the need for an FVA at the application stage.
- 1.21. In Trafford, I understand that the LPVA comprises the *Trafford Economic Viability Study* (2011) prepared by GVA. I set out the key assumptions adopted within the LPVA in Section 11 of the Main Proof.
- 1.22. However, the LPVA is dated and was prepared before the introduction of the revised National Planning Policy Framework ('NPPF') and PPGV in July 2018, meaning that the assumptions may not be consistent with the requirements set out in the updated national policy and guidance. This justifies the need for the site-specific FVA and in accordance with Paragraph 8 of the PPGV, I explain and justify any deviation from the figures used in the LPVA.
- 1.23. Furthermore, in this case, there are substantial abnormal and extra over development costs required to deliver the proposed scheme at the subject site. Accordingly, when adopting market-facing assumptions for the cost and value inputs including the provided level of site-specific abnormal and extra over development costs, combined with the CIL charge and the S106 financial contributions, it is clear that "**viability**" is a significant issue at the subject site.
- 1.24. I also understand that Trafford Council had requested that an FVA should accompany the planning application. These circumstances therefore necessitated a site-specific FVA at the application stage.

### **Summary of Key Viability Inputs**

- 1.25. I have assessed a total GDV of **£89,131,250** for the proposed scheme including **45%** affordable housing which reflects an overall average sales value of **£222,828 / £200 psf**. The GDV has been derived by utilising up-to-date, market evidence from existing developments as well as re-sale values within the locality. I believe my assessment of GDV is robust based on the relevant market evidence.
- 1.26. I have assessed the costs to construct the proposed scheme with reference to the PPGV, the opinions of Mr Gary Bushell FRICS, MAE, QDR, APAEWE Chartered Quantity Surveyor and RICS Accredited Expert Witness, relevant market evidence, the evidence and assumptions adopted in Planning Inspectorate decisions as well as my extensive market knowledge gained over 39 years through previous viability in planning work, Red Book valuations for bank funding, expert witness instructions I have been involved with and the disposal of numerous residential development sites on behalf of both public and private sector clients in the North West.
- 1.27. I have adopted a benchmarked developer's profit (operating margin including overheads) of 18% of market housing GDV and 6% of affordable housing GDV. This equates to a blended profit of 14.47% of GDV in the policy compliant appraisal.
- 1.28. I have adopted a benchmark land value ('BLV') of **£5,342,000** which has been assessed in accordance with the requirements of the PPGV and the RICS Professional Statement *Financial Viability in Planning: Conduct and Reporting* (1<sup>st</sup> Edition, May 2019). I believe that this represents the minimum incentive required for the landowner to release their site for development whilst allowing a sufficient contribution to fully comply with policy requirements.

- 1.29. The BLV does not reflect the “full” abnormal and extra over development costs associated with the subject site. If this was the case, the BLV adopted could be a negative value and clearly would not reflect the level of value which a landowner would require to release the site for development; there has to be a balance.

### Viability and Key Conclusions

- 1.30. Based on my assessment of GDV and total scheme costs, I have prepared a viability appraisal for a policy compliant residential scheme including 45% affordable housing, S106 contributions totalling £2,585,253 and a CIL payment totalling £3,136,500. This appraisal indicates that the scheme is not viable under this scenario as the residual land value of -£1,532,630 is -**£6,874,630** below the BLV.
- 1.31. I mention that the policy compliant appraisal is based on the same market housing revenue assumptions as adopted in the 100% market scheme, however with such a high level of affordable housing, in reality the market housing values would be impaired which would exacerbate the viability position.
- 1.32. I have prepared a second appraisal where I have excluded the affordable housing but I have retained the S106 and CIL contributions. I have adjusted the CIL payment to £5,158,604 to reflect the 100% market housing provision. This appraisal indicates that viability is still a significant issue under this scenario as the residual land value of £2,863,897 is -**£2,478,103** below the BLV.
- 1.33. In summary, when adopting market-facing assumptions for the cost and value inputs, the FVA demonstrates that there are viability constraints affecting the subject site as there is a significant deficit when the residual land value is deducted from the assumed BLV.
- 1.34. This is a consequence of the **high site-specific abnormal and extra over costs** together with the CIL payment and the proposed S106 contributions which, cumulatively, result in a significant cost and land value impairment.
- 1.35. The appellant is committed to delivering the proposed scheme at the subject site which would make a clear positive contribution in meeting local housing needs in Trafford and in enhancing the quality of the residential offer in Partington.
- 1.36. However, the FVA highlights the viability constraints affecting the site and in order for development to come forward, it will be necessary for the landowner to flex their expectations of land return below that which is demonstrable as an acceptable level.
- 1.37. Whilst this does indicate that the scheme is unviable based on current costs and values, the FVA illustrates that there is no scope for any affordable housing from the subject development. I believe that any requirement for affordable housing would necessitate too great a flex in return from the landowner in order to bring development forward.
- 1.38. In conclusion, therefore, the FVA demonstrates the need for the LPA to take a balanced view and consider flexing their policy requirements in order for the proposed scheme to come forward at the subject site.