



Viability Input Consultation | Civic Quarter Area Action Plan

12th July 2021

Civic Quarter Area Action Plan (CQAAP)

The Area Action Plan

The Civic Quarter Area Action Plan will be part of the statutory development plan for Trafford, sitting alongside the adopted Core Strategy and the Trafford Local Plan and Greater Manchester Spatial Framework as they emerge. It will be the starting point for determining planning applications within the Civic Quarter area.

The Site

The Civic Quarter AAP covers a 55-hectare site including:

- The Town Hall;
- Lancashire County Cricket Club;
- The former Kellogg's site including the University Academy 92 campus;
- White City Retail Park; and
- The former Greater Manchester Police (GMP) site.

The proposed regeneration will be residential led whilst including offices, improved cycle and pedestrian routes, together with a new leisure centre and improved public realm, in addition to the continued development of the new University Academy 92 campus.

Introduction & Guidance

Introduction

- Continuum are undertaking a second consultation event on behalf of Trafford Council with regard to the Civic Quarter Area Action Plan (CQ AAP) Viability Assessment.
- The PPG (2019) states:
“Plan makers should engage with landowners, developers, and infrastructure and affordable housing providers to secure evidence on costs and values to inform viability assessment at the plan making stage” (Paragraph 6)
- Feedback and comments obtained from this consultation event will help clarify the final inputs in the viability appraisals

Key Guidance

- National Planning Policy Framework (NPPF) (2019)
- Planning Practice Guidance (PPG) (2019)
- RICS guidance note, assessing viability in planning under the NPPF 2019 for England (2021)

Questions

- Following today's consultation event, we provide a further opportunity for Stakeholders to respond to requests for information on viability inputs. Please send these to the email civicquarterplan@trafford.gov.uk

National Planning Policy

The NPP) was adopted in February 2019 and sets out the government's planning policies and how they should be applied. The National Planning Policy Guidance (PPG) on viability was revised in September of the same year and provides guidance to ensure the Framework is implemented effectively.

The NPPF (2019) recommends the following approach to viability:

“All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.” (Paragraph 57)

The PPG promotes the use of standardised inputs in the preparation of viability assessments at the plan making stage, the key inputs can be summarised as follows:

- Benchmark Land Value
- Existing Use Value
- Landowner Premium
- Developer Return
- Build Costs
- Gross Development Value

National Planning Policy Guidance (2019)

Paragraph 2 – Collaboration

“It is the responsibility of plan makers in collaboration with the local community, developers and other stakeholders, to create realistic, deliverable policies. Drafting of plan policies should be iterative and informed by engagement with developers, landowners, and infrastructure and affordable housing providers.”

Paragraph 6 – Engagement

“Plan makers should engage with landowners, developers, and infrastructure and affordable housing providers to secure evidence on costs and values to inform viability assessment at the plan making stage”

Paragraph 10 – Striking a balance

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

Paragraph 12 – Costs

“Assessment of costs should be based on evidence which is reflective of local market conditions. As far as possible, costs should be identified at the plan making stage. Plan makers should identify where costs are unknown and identify where further viability assessment may support a planning application.”

National Planning Policy Guidance (2019)

Up to Date Evidence Base

Paragraph 8 of the PPG (2019) states that when establishing the viability evidence at the plan making stage that the evidence should be up to date, this evidence will underpin the Civic Quarter AAP:

“Where a viability assessment is submitted to accompany a planning application this should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then.

The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and viability evidence underpinning the plan is up to date, and site circumstances including any changes since the plan was brought into force, and the transparency of assumptions behind evidence submitted as part of the viability assessment.”

Identification of Site-Specific Costs

It is considered that the PPG (2019) (paragraph 12) places the obligation with the promoters of the individual sites within the Civic Quarter Area to identify at the plan making stage where there are potential site-specific issues such as significant potential abnormal costs, poor ground conditions, and high demolition costs. This will serve to add a further degree of precision to the viability appraisals to be undertaken to inform the CQ AAP, reducing the potential for inaccuracy on behalf of the plan maker when making assumptions.

To date, no site-specific information has been provided to inform the viability assessment. This consultation event provides another opportunity for information to be shared.

National Planning Policy Framework (2019)

Paragraph 67 – Strategic Policy Making

“Strategic policy making authorities should have a clear understanding of the land available in their area through the preparation of a strategic housing land availability assessment. From this, planning policies should identify a sufficient supply and mix of sites, taking into account their availability, suitability and likely economic viability. Planning policies should identify a supply of:

- a. Specific, deliverable sites for years one to five of the plan period; and*
- b. Specific, developable sites or broad locations, for growth for years 6-10 and where possible, for years 11-15 of the plan.”*

Definition “Deliverable”

“To be considered deliverable, sites for housing should be available now, offer a suitable location for development now, and be achievable with a realistic prospect that housing will be delivered on the site within five years in particular:

- a. sites which do not involve major development and have planning permission, and all sites with detailed planning permission, should be considered deliverable until permission expires unless there is clear evidence that homes will not be delivered within five years (for example because they are no longer viable, there is no longer a demand for the type of units or sites have long term phasing plans).*
- b. where a site has outline planning permission for major development, has been allocated in a development plan, has a grant of permission in principle, or is identified on a brownfield register, it should only be considered deliverable where there is clear evidence that housing completions will begin on site within five years”*

Trafford Council Affordable Housing Policy

Core Strategy (2012)

Trafford Council's affordable housing policy is set out in policy L2 of the adopted Core Strategy (2012). The approach used is to identify three market areas "cold", "moderate" and "hot" and apply different affordable housing requirements. The assumption is that areas in Trafford perform differently in terms of achievable values and areas with higher house prices should be able to provide a greater proportion of affordable housing than those with lower prices whilst still remaining financially viable.

The Civic Quarter Area is located within Old Trafford identified as a "cold" market area. As such, the policy compliant affordable housing provision is currently 5% (rising to 10% in "good" market conditions).

The Core Strategy identifies that when proposed development will perform differently in terms of viability to "generic development" policy L2.12 is engaged which makes provision for the affordable housing contribution to be determined by a site-specific viability study up to a maximum of 40%. The majority of the Civic Quarter Area is identified as being within the strategic location as defined in Policy SL3 – LCCC Quarter.

Planning Obligations SPD (2014)

Trafford Council published a planning obligations SPD in 2014 making provision for affordable housing requirements to change dependent on market conditions.

Should "cold" markets be performing in "good" conditions the affordable housing requirement rises to 10% correspondently if the market is in "poor" conditions no affordable housing would be required from the proposed development.

State of the Economy

Trafford Council have instructed two studies into the housing market conditions in the Borough since the adoption of the SPD in 2014. The first was undertaken in 2015 by Peter Brett Associates, the most recent study produced by Continuum was adopted by the Council in 2018 and determined that the Old Trafford market was performing in "good" conditions.

Tenure Split

Planning Obligations SPD (2014)

Trafford Council require a 50:50 tenure split between affordable/ social rented units and intermediate units. It is common practice during viability in planning to estimate that value of affordable units based on a discount to Open Market Value (OMV).

From our working knowledge of the market the following discounts have been applied:

Tenure	Discount to OMV
Affordable/ Social Rented	50%
Intermediate	30%
Blended	40%

Approach & Residual Method

The Masterplan

The viability of the Civic Quarter Area has been tested based upon the assumed uses set out in the masterplan produced by Feilden Clegg Bradley Studios on 24 August 2020.

The Residual Method

The residual method is recommended by both national planning guidance and the RICS to establish the financial viability of a proposed scheme. The output when using this method is the residual land value (RLV) which will be used as a comparison metric against an evidenced based and policy compliant benchmark land value (BLV). This method assumes that the aspirational developer return (profit margin) is a fixed input.

Sensitivity Analyses

The testing of sites included within the CQ AAP area through sensitivity analyses is integral to ensuring an understanding of how changing market dynamics will impact financial viability.

Benchmark Land Value

PPG (2019)

Guidance contained with the PPG (2019) states that Benchmark Land Value (BLV) should be established using the Existing Use Value plus (EUV+) a premium methodology. The NPPG states when estimating BLV should:

- *“be based upon existing use value*
- *allow for a premium to landowners*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees.*

This evidence should be based on developments which are fully compliant with emerging or up to date plan policies, including affordable housing requirements at the relevant levels set out in the plan.”

Policy Compliance

To follow the requirements of national planning policy it is essential to establish the cost implications of a scheme that is fully compliant. This can only be achieved if a standardised approach is taken to establishing policy compliance. Policy L2.12 sets a maximum affordable housing requirement of 40% should a proposed scheme “perform differently” in viability terms. To allow the methodology to comply with national guidance it is necessary to establish what percentage level affordable housing provision represents policy compliance for the Civic Quarter Area.

Existing Use Value (EUV)

The first component of the EUV+ a premium methodology is the existing use value (EUV). The PPG (2019) states that this is the value of land in its existing use and should disregard hope value.

The Civic Quarter Area includes the following existing uses;

- Office;
- Education;
- Residential;
- Retail;
- Surface Level Car Park.

When estimating the existing use value of each individual site in the Civic Quarter Area the EUV of each of the different uses will be established based on market evidence.

The assumption made is that the value of the land irrespective of the buildings on the site will be less than the value of land should planning permission be granted for change of use. The reason for this core principle is that should sites come forward where the existing uses (including buildings) is greater than the value established through change of use then the development by its nature will be unviable.

Residual land value (RLV) needs to be greater than existing use value (EUV) for a site to be considered deliverable (paragraph 57, NPPF) in the short term (0-5 years). Sites that are developable (5-15 years) can achieve viability as a result of changing market dynamics, buildings obsolesce amongst other factors that may lead to the value of one land use growing and the other diminishing.

Premium

PPG (2019)

The premium is the second component to be calculated when estimating BLV. The PPG (2019) states that:

“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.”

The PPG (2019) states that when estimating BLV the following costs need to be reflected (paragraph 14):

- Abnormal costs;
- Site specific infrastructure costs; and
- Cost of planning policy requirements.

Percentage Approach

On Brownfield sites it is common to see a premium expressed as a percentage of the EUV. Using a percentage range helps to create a standardised approach to assessing premium. The following are examples where a percentage approach has been promoted:

- Holborn Studios Ltd vs London Borough of Hackney (March 2020): Both parties accepted that a 15% premium was acceptable;
- Olivers Garage Appeal ref: APP/D3125/W/18/3201387 West Berkshire District Council (2018): The inspector agreed with the appellants assertion that a premium equating to 20% would be appropriate.

Continuum's Approach to BLV

Methodology

It is difficult to assess the BLV of the sites in the Civic Quarter Area on a EUV+ basis given the variance of existing uses and differing state of each of the individual sites making an area wide assessment of land value inaccurate. As such, a standardised typology approach to assessing BLV has been adopted for the purpose of the viability study.

In order to assess appropriate BLV's for the purpose of undertaking the viability study to inform the CQAAP, we have analysed FVA's submitted to Trafford Council in support of planning applications. The dataset of submitted FVA's covers the period from 2017 onwards.

When assessing the sample of FVA's submitted to Trafford Council, BLV can be expressed as a percentage of net development value (NDV) (gross development value less purchasers' costs). This approach follows the same methodology as that used to establish appropriate risk adjusted returns (profit margins).

BLV Expressed as a Percentage of Net Development Value

Following our detailed analysis and based on the methodology as explained, we have identified an acceptable BLV range reflecting 4.5% to 6.5% of NDV.

Stakeholders Assessment

The assessment of EUV and BLV is a collaborative process, in the previous consultation event stakeholders were invited to submit EUVs and BLVs to assist in establishing the BLV for the Civic Quarter Area. To date, no information has been received in this regard. This consultation event provides another opportunity for this information to be shared.

Abnormal Costs and Area-Wide Infrastructure

Abnormal Costs

In the viability assessment to inform the CQ AAP a benchmarking approach has been used to standardise the assumed abnormal costs.

The analysis of standardised abnormal costs has been informed via review of financial appraisals submitted in support of planning applications received by Trafford Council and inputs from cost consultants (quantity surveyors).

Area-Wide Infrastructure Costs

Avison Young appointed RBA (cost consultants) to estimate the area-wide infrastructure costs associated with the delivery of strategic regeneration in the Civic Quarter Area. The costs included:

- Public Realm (including processional route);
- Utilities Drainage; and
- Utilities Statutory Services.

An additional cost for hostile vehicle mitigation (HVM) has been provided by Trafford Council.

For the residential uses, S106 area-wide infrastructure costs have been estimated by Trafford Council for the following:

- Health
- Public Open Space
- Education
- Sports Facilities

Continuum's Abnormal Costs (October 2020)

Viability assessments submitted in support of the following applicants have been used in order to undertake the benchmarking exercise to inform an appropriate assumption regarding abnormal costs. The abnormal costs do not include S278 or utility works which are accounted for in the Civic Quarter area wide infrastructure levy. The table outlines the abnormal costs per square foot:

Developments	Cost per sq ft
MKM House	£5.55
Botanical Avenue	£8.58
Former Kellogg's	£1.37
Former B&Q	£1.95
Median	£3.75

The median abnormal cost of £3.75 per sq ft has been adopted for the purpose of viability testing.

Residential Sales Values & Commercial Investment Values

Residential Sales Values

The residential sales values to be used in the AAP viability appraisals have been informed by the following data sources:

- New build achieved sales comparable data within proximity to the Civic Quarter Area;
- New build asking price comparable data within proximity to the Civic Quarter Area; and
- Sales values agreed in financial viability appraisals submitted in support of planning applications.

For the purposes of establishing appropriate sales value, we have disregarded office to residential permitted development rights conversions given the Civic Quarter Area will be entirely new build therefore of higher specification.

Commercial Investment Values

The commercial investment values to be used in the AAP viability appraisals have been informed by the following data sources:

- Comparable Commercial Rental Data;
- Comparable Commercial Yield Data; and
- Commercial Investment Sales Data.

Comparable Transactional Data

The assessment of residential sales values and commercial investment values is a collaborative process, in the previous consultation event we invited the submission of relevant comparable developments to assist in establishing market facing assumed sales and investment values. To date, we have not received any comparable developments and this consultation event provides another opportunity for this information to be shared.

Continuum's Residential Sale Values (Q4 2020)

The average sales value used in Continuum's viability assessment for the proposed apartments equates to £361 per sq ft based on the following assumed sales values:

Unit Type	Value per sq ft
1 Bed Apartment	£370
2 Bed Apartment	£360
3 Bed Apartment	£350
Town House	£320

Floor premiums have been included for the purpose of viability testing to reflect the increased value that properties located on the higher floors of the proposed apartment blocks in the Civic Quarter Area would demand:

Floor Level	Average Value per sq ft	Floor Premium
Floor 3-5	£361	0%
Floor 6-7	£364.61	1%
Floor 8-10	£368.22	2%
Floor 12-14	£371.38	3%
Floor 19	£379.05	5%

Continuum's Commercial Rents and Yields (Q4 2020)

The following rental values and yields for the proposed commercial space including; hotel, retail, office, leisure (assumed gym) and car park have been assumed:

Use	Storey	Value	Yield
Hotel	n/a	£110,000 per room	n/a
Retail (F&B and sui generis)	Ground Floor	£20 per sq ft	7%
Office	2	£22.50 per sq ft	6.5%
Office	6-12	£25 per sq ft	6.5%
Office	14-16	£26 per sq ft	6.5%
Leisure (gym)	n/a	£15 per sq ft	6.5%
MSCP	n/a	£15,000 per space	n/a

Incentives have been incorporated within the capitalised values for the proposed commercial units to reflect the letting and investment market.

For all the proposed office and leisure (gym) spaces, a 1 year rent free period has been included. For the proposed ground floor retail, F&B and sui generis uses (Ground Floor Class E), a rent-free period of 2 years has been included.

Construction Costs

The PPG (2019) requires that costs assumed for purposes of financial viability appraisals follow a standardised approach at the plan making stage (Paragraph 12). Following this guidance, to assess total construction costs a benchmarking exercise will be undertaken using the following data sources:

- Financial viability appraisals submitted in support of planning applications received by Trafford Council;
- Costs that are reflective of local market conditions;
- BCIS average price study (rebased to Trafford);
- Cost Consultant analysis; and
- SPONS.

The PPG provides guidance in paragraph 12 for adopting costs, stating that as far as possible they should be identified at the plan making stage. Where this is not possible plan makers should identify where costs are unknown and where further viability assessment at the decision-making stage may be appropriate.

The assessment of construction costs is a collaborative process, as such, in the previous consultation event we invited the submission of relevant comparable developments to assist in establishing appropriate applicable construction costs. To date, we have not received any comparable development costs and this consultation event provides another opportunity for this information to be shared.

Continuum's Adopted Base Build Costs (October 2020)

The table below outlines the base build costs adopted in the viability assessment:

Use Type	Base Build Cost (per sq ft)
2 Storey House	£83.12
3 Storey House	£89.23
3-5 Storey Apartment	£117.24
6-14 Storey Apartment	£156.64
19 Storey Apartment	£166.20
2 Storey Office	£128.11
6-12 Storey Office	£177.54
14-16 Storey Office	£184.55
Ground Floor Retail (F&B and sui generis)	£94.76
1-3 Storey Leisure	£123.84
6 Storey Hotel	£177.81
3 Storey MSCP (cost per space)	£12,000

Continuum's Adopted External Works (October 2020)

The table below outlines the external works percentages adopted in the viability assessment:

Use Type	External Works (%)
2 Storey House	15
3 Storey House	15
3-5 Storey Apartment	5
6-14 Storey Apartment	5
19 Storey Apartment	3.5
2 Storey Office	5
6-12 Storey Office	3.5
14-16 Storey Office	3.5
Ground Floor Retail (F&B and sui generis)	3.5
1-3 Storey Leisure	10
6 Storey Hotel	5
3 Storey MSCP (cost per space)	3.5

Developer Return

The PPG (2019) sets out a range of 15-20% of GDV which can be considered to reflect a “suitable” return for the purposes of plan making in order to establish the viability of plan policies. This approach serves to standardise the approach to estimating risk adjusted return within viability appraisals. The PPG (2019) goes onto state that a lower figure may be appropriate in consideration of the delivery of affordable housing in circumstances where end sale is guaranteed, thus the risk is reduced.

For the purposes of undertaking the viability appraisals to inform the CQ AAP the following percentage return margins have been used. The percentages proposed have been tested a numerous appeal decisions and broadly reflect profit margins assumed in site specific financial viability appraisals submitted in support of planning applications received by Trafford Council.

Use	% Return	
Market Housing	17.5%	GDV
Affordable Housing	6%	GDV
Commercial (Use Class E)	15%	Cost

Other Cost Inputs

The table below outlines the proposed input assumptions for the proposed development mix outlined by FCBS in the Civic Quarter masterplan (August 2020). These have been included within the financial viability appraisals undertaken to inform the Civic Quarter AAP:

Input	% Cost	
Professional Fees	7%	Total Build Costs
Contingency (Standard Build)	3%	Standard Build
Contingency (Abnormal Costs & Infrastructure)	5%	Abnormal Costs and Infrastructure
Finance Cost	6.5%	Per Annum (Cash Flowed)
Residential Sales Marketing & Sales Costs	2.5%	Residential GDV
Residential Sales Legal Fees	£500	Per Unit
Commercial Sales Agency Fees	1.5%	Commercial GDV
Commercial Sales Legal Fees	0.5%	Commercial GDV
Commercial Letting Fees	15%	Rental Income
Stamp Duty Land Tax	Prevailing Rate	Land Value
Land Disposal Agent & Legal Fees	1.5%	Land Value

Equalisation & Area Wide Contributions

Equalisation

There will be major costs that are required to be incurred that are not specific to an individual development but are required for comprehensive regeneration to be delivered (e.g. should capacity be reached in the local power network at the midpoint of the delivery of then the responsibility for funding the increase in capacity needs to be shared amongst all land promoters and developers so that those sites that come forward towards the end of AAP lifecycle are not required to fund 100% of capacity related costs).

Area Wide Contributions

An area wide infrastructure levy (S106 contribution) has been estimated for the Civic Quarter Area on an equalisation basis. It has been demonstrated that the Civic Quarter Area can viability support the proposed area wide infrastructure levy as follows (per sq m):

Use Type	Infrastructure Levy
Residential	£145.81
Office	£66.89
Hotel	£66.89
Ground Floor Retail (F&B and Sui Generis)	£66.89

Questions & Comments

Should there be any questions or comments arising following this presentation please direct them to the following email address civicquarterplan@trafford.gov.uk. Continuum will be responding to any questions received for a period of one week following today's presentation. Continuum would also ask that stakeholders seek to complete the excel viability input sheet that was circulated in June.

