<u>Viability Assessment</u>

<u>Overview</u>

1. The purpose of the AAP wide viability appraisal here is to *<u>set</u>* the requirements for all development in the plan period for all sites and *<u>fundamentally</u>* to make site specific viability assessment on planning applications unnecessary and (almost always) inappropriate absent a fundamental change in circumstances: see NPPF and NPPG frontloading the viability assessment process.

2. Council has adopted a fully NPPG compliant process of engagement prior to and during the working up of FVA. Despite the imperative in the NPPG for developers to assist in the process and to provide relevant evidence, no evidence from any developer was provided at any stage of plan preparation.

3. The development industry which we have heard is so interested in this area has been kept totally informed about the FVA throughout. It is *highly relevant* to note that GMP, BG, Charlton House (major landowners with very large schemes); Savills; Peel; C&W etc.. do not raise here any viability concerns on the AAP. Previous concerns of e.g GMP have been overcome through discussion. It is *highly relevant* that nobody has put in any competing viability appraisal for any site or any EUV for any site or any abnormals for any site.

4. This examination has always been **<u>the chance</u>** (under statute and established procedures) for the development industry to challenge the FVA which underpins the AAP obligations and thus delivery – and the vast majority of the industry has made no comment and thus is taken to be accepting of the position set out by the Council. If they thought there was anything wrong they would have said so. The silence is deafening – it is testament to how robust the Council's FVA is that so few have challenged it and nobody provided competing information at plan making stage. Indeed, GMP has accepted that the development of its site is viable with car parking and 650 units under the AAP formulation of obligations.

5. The only dispute across the whole of the AAP is now with Derwent. It is accepted that at White City (and there alone) a site specific viability assessment may be required because of its current high EUV and the inchoate nature of how that site may be brought forward in parts.

<u>Methodology</u>:

6. No issue

<u>Valuation Date:</u>

7. No issue – Q4 2020.

8. Since then of course HPI has continued. And whilst there has been TPI the combined effect of both at today's date is that NPV has gone up faster than costs thus improving viability. TPI has increased slower than HPI: see BCIS and Arcadis.

<u>NDV:</u>

9. There is no competing evidence on NDV.

10. It is correct that the NDVs are higher than a pure mathematical exercise across 3 schemes in Old Trafford and Panoma but that is to compare apples and pears:
    a. Ponoma is an incomparably worse location and sales were agreed off plan largely for PRS overseas in 2017 with bulk buying discount;
    b. Kinetic – PDR conversion with extension
    c. West Point – PDR and poor quality;
    d. Insignia - 86 TR – built to a low spec (based on actual tender price provided by and confirmed by Domus to the Council).

11. The evidence base is strong.

12. It is important to note that:
    (1) The NDVs used are a snapshot in time – fixed at Q4 2020 – and it is not permissible to have inconsistent dates between costs and values;
    (2) these are pre – Part L values and do not include any uplift in costs for, *or* uplift in value from, the improved energy efficiency;
    (3) they are before the "transformational change" impacts on the whole area feeding through to increased values and without all the social infrastructure which will make this so attractive and a thriving Mixed used community – so the NDVs are not valuing that which will be available to be sold;
    (4) the NDVs are based on the mix of sizes (30/50/20);
    (5) they reflect the availability of balconies in ours - none of the three schemes in OT had balconies (PDR) – we include costs of balconies (see below) and thus the NDVs reflect internal space with balconies;
    (6) they do not include car parking spaces – they would be at extra cost (about £20k per space) for those that want to purchase them.

13. The NPV has increased significantly since Q4 2020 - in B&Q an agreed value of £382.50 *current* (Q4 2021) was common ground between two experts in the field.

14. As to the two issues in the SOCG:
    a. as to quality of build of 86 Talbot Road (Insignia), the tender price actually agreed there was very low reflecting a low specification and now reflected in the values. CBRE contend that it is of a high quality build (M11 par p3) – the evidence for this is not known. It plainly is not;
    b. as to height premium, we have added a height premium but CBRE contend that it is already embedded in the base figures. That is incorrect -the evidence base underpinning the base figures does not include buildings taller than 10 storeys.

15. As to CBRE's averaging exercise that is not comparing like with like – see above.

Costs:

16. The FVA builds in a **major conservatism** from the outset. It assumes a net: gross of just 75% which is obviously far lower than would actually be secured through design engineering. The net:gross is a ratio of the size of the total envelope against the saleable space – the higher

the ratio, the more spatially efficient the building; the lower the costs and/or the greater the value. There is no evidence to dispute that 75% is very conservative.

17. Just correcting that factor increases the RLV of all the land assessed here from £74m to £112m. The developers will seek to highlight areas where costs may be higher and values lower but this major conservatism allows considerable leeway.

18. There is _now_ a dispute on costs.

19. Our base build costs – excluding externals, abnormals, professional costs, contingency, finance, marketing etc.. are as follows:
    a. For 1% of the units - town houses – 2 storey - £83.12; 3 storey £89.23 – BCIS - 10% - standard approach; adopted elsewhere in Trafford and supported by Mr Wright;
    b. 3 – 5 storey appt blocks - £117.24 – based only on BCIS median 5 year large sample Trafford rebased (as in Lambeth)
    c. 6 – 14 storey appts- £156.64 – based on Botanical House which largely has balconies, was a FVA by RLB independently reviewed by Arcadis - supported by the FVAs on other sites in the AAP and Trafford more generally; higher costs than BCIS would yield; in Lambeth BCIS was used;
    d. 14+ (just 2% of the AAP – one tower) is £166.20 - UQ BCIS for 6+. Same approach as in Lambeth

20. Note that this approach on Botanical House is more generous than Lambeth which used BCIS throughout for all its apartment blocks. BCIS is the only costs metric recommended in NPPG.

21. Derwent only provided any evidence on costs in its hearing statement - nearly two years after the process invited such inputs:
    a. we pointed out obvious flaws in the single page table immediately and those have been accepted – the headline figures from it are therefore wrong;
    b. we also asked for the information underpinning the table (the FVAs, tender prices, costs plans etc) so that we could test the summary table for example by seeing whether it was comparing like with like and was properly limited to base build costs rather than including other elements. No such information has even now been provided.

22. The inspector is thus being asked to overturn detailed information in the Council's FVA based on a mass of evidence which has been available in the public domain for more than a year and which has been open to scrutiny by the whole development industry on the back of a single page summary table at the last minute with no underlying material to justify it.

23. Further, none of the projects in that single page table are even identified by name. We have no idea what the cost column includes and there is no proper breakdown. The contrast with the Council's evidence base is stark – the Council's costs are either based on the huge BCIS database and/or actual costs plans for actual projects actually peer reviewed.

24. In any event, the figures contended for by CBRE (apparently £180 for 6+ and £200 on 19) are clearly wrong:

a. first there is no evidence even in CBRE's original uncorrected table for £200 for 19 storey – the two examples are way below that;
b. second, on the 6 – 14, in a recent case CBRE put forward an FVA just up the road at Ponoma with a costs plan attached to it for Peel (not a developer known for putting in understated costs) which has costs for tall apartment blocks (12 and 14 stories) at £164.61 which when adjusted back to Q4 2020 is £156.95 compared to our £156.64 almost exactly the same. Ponoma had balconies. Thus the Council's costs are reflective of Peel's costs for a similar sort of development just up the road a few months ago with balconies and car parking.

25. And there is ample evidence base for our figures:
    a. BCIS – the starting point in the NPPG;
    b. Cross checked against peer reviewed FVAs in CQ AAP;
    c. Costs consultant to check it – has confirmed it all.

Professional fees

26. 7% is appropriate. 8% at a stretch.10% is clearly far too high.

Profit

27. 17.5% is entirely appropriate if not generous given the benefits of transformational change which are not accounted for in NDVs.

Car Parking

28. There is already to be a podium at K to meet the housing and school needs. GMP is proposing a multistorey CP which has been tested with the AAP and is viable. Depending the amount of redevelopment at WC there will be a multi-storey or podium to meet *its* needs there. There is no reason to suppose that all other sites cannot meet their own needs with appropriate design – podiums or similar such as B&Q. It is clear from the MP and area schedule that any necessary increase in height will still keep units below the relevant height parameter[1].

29. It is correct that (save for K) the illustrative masterplan ("the MP") does not show Car Parking. The FVA is based on the development in the MP and thus does not cost or value the car parking either.

30. That is of no concern for the following reasons:
    a. there is ample ability of sites to accommodate car parking *and* the scale of development in the trajectory. For example the northern neighbourhood is shown in the MP as accommodating 569 dwellings (it includes GMP and Audi). It does not show car parking. However, GMP are proposing 650 units just on their site still well within the heights parameter plan *with a separate MSCP.* This demonstrates that the MP and capacity assumptions are conservative. At Botanical House, appropriate car parking with a much higher number of units than originally envisaged was readily

[1] It is accepted that at the Bingo 3000 site the car parking would have to go under the NW part of the site and not the SE part - the MP shows scope for larger buildings in the NW than the SE

delivered. There is no reason to doubt that any necessary car parking can be delivered as part of well designed schemes;

b. on viability, sales prices for car parking spaces are about £20,000 per space – agreed in B&Q (see Council's closing speech at para 109d) and suggested by CBRE in Ponoma;
c. there is no evidence that car parking spaces do not broadly pay for themselves -they clearly do. At B&Q the parking was to be in a dug out basement podium under 1/3 of the development. The costs of provision were far lower than the value of provision.
d. Standing back the costs of car parking are known to be low – for obvious reasons – it involves simply providing part of one extra storey of unfitted out superstructure (just pillars and a part extra concrete floor). Even a MSCP space costs around £12,000 - £15,000 per space (BCIS/FVA in Trafford) but of course that includes foundations etc… which would be needed for the housing anyway and so overstates the costs.
e. However in the light of the focus on the costs of CP in the oral submissions of Derwent in the examination so far the Council has run some typologies with and without car parking at ground floor with the displaced accommodation being placed instead on an additional floor above. Even on very conservative assumptions (namely the costs would be as high as an MSCP) they show no impacts of any significance on viability by provision of parking.

31. Further and coming back to the starting point, the 75% Gross to Net would only be that low if it included a lot of car parking within the shell of the building – Botanical achieved 75% taking into account basement parking; B&Q was just short of 75% with a high quantum of basement parking. So one cannot have the 75% *and* further allowance for CP – it is already built in. There is a basic contradiction between having a 75% net to gross *and* then saying that one has to also add the costs of car parking. Those costs are already subsumed in the gross: net ratio.

Climate change costs

32. The exercise is required to be current costs and values. Current values do not reflect enhanced energy efficiency or zero carbon. If energy efficiency increases dramatically, energy costs will reduce dramatically, the purchasers will know they will have lower energy bills for life and this will, necessarily and inevitably (all other things being equal) *increase capital values* - as demonstrated in the earlier adoption of BREEAM in commercial and public sector buildings and by early experience. One cannot just look at one side of this equation. Further in the future it can be expected that efficient homes will become more attractive to purchasers concerned about climate change and that in itself will serve to increase capital values.

33. It is not accepted that improving efficiency and the costs thereof are a net drain on development viability and there is no evidence from Derwent before the examination that that is the case – we have mere assertion.

34. Further the plan is looking forward 15 years. We know that building standards are planned to rapidly notch up and that the government is anticipating that in turn to lead to significant changes in building practices, techniques to deliver energy efficiency, new technology and economies of scale to embed all this in the industry. Given that the industry will have to

comply with Part L (75% reduction by 2025) they have a strong vested interest to reduce costs quickly and to then benefit from the increased values consequent on the energy efficiency.

35. Part L requires 30% reduction in CO_2 for all applications post June 2022. The cost of that is said by Govt to be £2260 for flats. Looking at all unit forms, Savills in 2022 said £3-5k based on discussions with housebuilders and DLUCH. There is no assessment of energy costs savings as a result to offset increased costs and consequential increase market value.

36. In 2025 Future Homes standards will require a 75% reduction as against pre-2022 standards. There is no current accepted costing of that. Nor any assessment of energy costs savings as a result to offset increased costs and consequential increase market value.