Continuum

Trafford Council/ Former B&Q Planning Inquiry

Financial Viability in Planning Proof of Evidence

Mr M Lloyd

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HOLD FAST THAT WHICH IS GOOD

TRAFFORD
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Inspiring Built Environments

Viability in Planning
Development Management
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Contents

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 financial viability in planning case submitted by Accrue Capital (hereafter "the Appellant") pursuant to the planning application (ref: 100400/OUT/20) at the Former B&Q, Great Stone Road, Trafford (the "site"). For clarity, the assessment of the Appellant's viability case is required in the event that the provisions of the 4th bullet point of Policy L2.12 of the adopted Core Strategy (2012), apply.

1.1.2 I understand the proposed scheme is considered by Trafford Council to be contrary to the provisions of Policy L2 of the adopted Core Strategy (2012) given the quantum of affordable housing being offered. The scheme is considered by Trafford Council to perform differently to "generic development" in viability terms within Old Trafford and as such the policy compliant affordable housing contribution should be determined by a site specific assessment of viability. I provide commentary on the application of the fourth bullet point of Policy L2.12 in **section 4.**

1.1.3 The Appellant considers that the submitted planning application (ref: 100400/OUT/20) complies with Policy L2, however, a detailed financial viability assessment (FVA) was submitted in support of the planning application pursuant to the site.

1.1.4 The submitted FVA sought to demonstrate that a provision of 10% affordable housing alongside the Applicant's assessment of policy compliant S106 contributions was the outcome of a financial modelling exercise for the scheme. I have used this FVA as the basis of my assessment, given the Appellant relied upon this document in the viability report that supported their Statement of Case (November 2020). The key areas of contention, based on the position as of the 3rd December 2021, between experts are:

- Gross Development Value (GDV);
- Build Costs (including standards, external and abnormal); and
- Benchmark Land Value.

1.1.5 Following the instruction of the Inspector (3.11.21) I have engaged with the Appellants viability Expert Witness, Stephen Miles of Cushman & Wakefield (CW), in order to prepare a Statement of Common Ground (SoCG) in relation to viability matters. However, the Appellant failed to provide its updated FVA at this time and this has significantly impaired my preparation of this evidence. The SoCG is therefore necessarily limited and was submitted to PINS on the 29th November. It is considered in **section 3**.

1.1.6 It is understood that CW are preparing an updated FVA to be submitted as part of the Appellants financial viability in planning proof of evidence (PoE).

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 4 years on matters relating to financial viability in planning. Over a period of 30 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 13** for further information.

1.2.2 I have recently acted as Expert Witness on behalf of Trafford Metropolitan Borough Council and Chorley Borough Council on two important planning enquiries in the North West of England. Warburton Lane (ref: APP/Q4245/W/19/3243720), which has come to be regarded as a test case for matters pertaining to abnormal costs and application of premiums (EUV +) in the interpretation of viability in planning. And 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 fundamentally flawed.

1.2.3 In the past 4 years, myself and Continuum have acted on approximately 200 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 and Wokingham Borough Council. The table at **Appendix 14** sets out the viability cases that I have advised on within Trafford.

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 circa 200 viability cases acting for the public sector, 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 (2021).

1.1.1 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"*

1.3.2 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 2019.

1.3.3 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).

1.3.4 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. This 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.

1.3.5 RICS have recently published a new 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).

1.3.6 Financial viability in planning is not subject to RICS Global Valuation Standards (2020) (The Red Book) given it follows a number of different methodologies particularly in relation to the establishment of BLV. As such, it is not relevant or considered within this viability report. The professional standards for FVA however echo the requirements for Red Book valuations.

2. BACKGROUND AND CONTEXT

2.1 The initial planning application (ref: 94974/OUT/18) pursuant to the site, for 433 no. residential apartments was submitted in June 2018. The application was supported by a financial viability assessment prepared by Cushman & Wakefield (hereafter "CW"). The financial viability assessment concluded that the scheme could not viably support a provision of affordable housing or any other S106 contributions. This application was refused in March 2019. One of the reasons cited by Trafford Council for refusal on the decision notice was that the proposed development would not provide a development plan policy compliant level of planning obligations:

> *"in relation to affordable housing; spatial green infrastructure and outdoor sports provision; healthcare facilities; and site specific highways improvements to suitable and appropriately mitigate the impacts of development"*

2.2 The planning application (ref: 100400/OUT/20) to which this SOCG is pursuant was submitted in March 2020. This application reduced the density from 433 no. residential units to 333 no. dwellings (which has since been updated to 332 no. units). The application was initially considered invalid due to the lack of a financial viability assessment. The application was subsequently validated by Trafford Council without provision of a viability appraisal, following advice from Counsel.

2.3 The Appellant has maintained from the point of application (ref: 100400/OUT/20) in June 2020 that there has not been the need for an FVA as their scheme provides a policy compliant level of affordable housing. However, an FVA, prepared by CW, was submitted in June 2020 following the validation of the application. The FVA offered a level of validation to the assertion that policy compliance and the outcome of a financial modelling exercise were aligned. The FVA included the following contributions towards planning obligations:

Description	Cost
Affordable Housing	33 Units (10%) 50% affordable rent/ 50% shared ownership
Spatial Green Infrastructure	£316,558
Health	£399,307
Sports	£330,333
Highways	£23,072
CIL	£4,437
Total	**33 units & £1,073,707**

2.4 Continuum reviewed the FVA prepared by CW on behalf of Trafford Council in September 2020 based on the Councils position that Policy L2.12, bullet 4 did apply and concluded that further information was required in regard of inputs to substantiate the conclusions made by CW. Prior to CW being able to provide the required further information the Appellant submitted a non-determination appeal which removed the ability of Trafford Council to determine the application. For clarity, none of the further information requested was provided.

2.5 Trafford Council confirmed at planning committee that the proposal on the basis of the original planning contributions offer was contrary to Policies SL3, L2 and L8 of the adopted Core Strategy (2012) and have subsequently cited the provision of affordable housing as a putative reason for refusal.

2.6 The Appellant issued its Statement of Case in November 2020 and this was supported by a viability report prepared by CW. The viability report did not look to update any of the assumptions that had been made in the original FVA (June 2020) and did not include an updated financial viability appraisal.

2.7 Continuum prepared a viability report to support Trafford Council's Statement of Case that was issued in August 2021. The viability report responded to commentary made in the CW report (November 2020) citing areas where it was considered further information or improved justification was required. In addition, the report looked to address the interpretation of the fourth bullet of Policy L2.12 by reference to Counsel opinion.

2.8 Following the case management hearing on the 3rd November, I was requested by the Inspector to engage with Stephen Miles of CW to collaborate upon a statement of common ground (SoCG) once the Appellant had provided its updated information. A date of the 5th November was set by the Inspector for the Appellant to submit their viability case and supporting FVA, this deadline was missed by both the Appellant and CW.

2.9 I have worked with Stephen Miles in the preparation of the viability SoCG. During discussions he confirmed that, on advice of the Appellant's Counsel, they would not be providing their viability case until the submission of their proof of evidence. From discussion with Stephen Miles, I understand that the Appellant are maintaining their position as at planning application stage (June 2020) and through their statement of case (November 2020) that the provision of 10% affordable housing (33 no. units) represents policy compliance and that the FVA to be submitted with the proof of evidence is an academic exercise.

2.10 During discussion to inform the SoCG it was confirmed by Stephen Miles that their viability case would rely on an updated cost estimate being prepared by Edmund Shipway (hereafter "ES"). Continuum requested sight of this document given its importance, but it was only issued by CW on 3rd December. The contents of the ES cost estimate are considered in detail at **section 6**.

3. STATEMENT OF COMMON GROUND

3.1 As is set out above, I sought to engage with CW, namely Stephen Miles, acting as Expert Witness on behalf of the Appellant in the preparation of the viability SoCG. The agreed areas of common ground are set out in detail withi the SoCG that is included within the Core Documents List for the Inquiry.

3.2 Through the SoCG the majority of inputs to the FVA for the proposed schemes and viability methodologies were agreed between parties.

3.3 The most important progress that has been made since the Council's statement of case in August 2021 is that the Appellant has changed their position set out in their Statement of Case (Nov 2020), which was that the most practical means of delivering the development would be in one phase. Delivery over two phases has now been accepted as a practical and sensible approach to scheme delivery, as has my suggestion that the capital value of car parking spaces (98) should be increased.

3.4 It has now been agreed that the scheme will be delivered in two phases, the first 116 no. units in block 1 and the second 216 no. units in block 2. The updated, agreed, indicative phasing of delivery seeks to address concerns that had previously be raised by me about the finance costs incurred in CW's previous viability modelling which assumed all the development was completed before any was sold and occupied.

3.5 It has been agreed that car park revenue has been increased to £20,000 per space equating to a total of £1,960,000.

3.6 The three key elements of the FVA of build costs, GDV and BLV have not been discussed as the Appellant advised that they were not willing to provide detailed information until the issuance of their proof of evidence. As such, in regard of the elements set out above, no agreement can be reached. I do not understand how this is consistent with the Inspector's requests or with the effective and efficient preparation for this Inquiry. I am advised that under policy and the agreement reached by parties at the case conference of the 3rd Nov, that the onus is with the Appellant to demonstrate viability and that the Council's role is to test the Applicant's case. That has not been possible here given the failure of the Appellant to provide its viability case.

3.7 It should be noted that it was confirmed that the Appellant would be revisiting their assessment of build costs, GDV and BLV. I am now in receipt of the updated build costs. These have changed dramatically and for reasons yet to be explained. Almost all of the changes serve to increase costs; in some cases, very substantially above the costs, which were considered appropriate last year (June 2020) by Edmund Shipway (hereafter "ES") (even after adjusting for inflation). Given that I am told that the same 10% affordable housing provision remains the Appellants position, it necessarily follows that their FVA will significantly adjust GDV and/or BLV. The Appellant will not know the outcome of their FVA without undertaking the financial modelling required. Nor have I seen any evidential base for any significant change in any assumptions.

3.8 Further, it was confirmed through the SoCG that the Appellant would be maintaining their position held in the planning application and through their statement of case (November 2020) that the provision of 10%

affordable housing (33 no. units) represents policy compliance and that the FVA to be submitted with the proof of evidence will support this position. Indeed, there was a request by Stephen Miles during an SoCG discussion for the two of us to agree a provision of 10% affordable housing.

4. POLICY L2.12

4.1 There is dispute between Trafford Council and Appellant in regard of the interpretation and application of the fourth bullet point of Policy L2.12 of the adopted Core Strategy (2010). The wording of the Policy reads as follows:

> *"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%".*

4.2 Whilst the interpretation of the Policy wording is a matter of law and will be considered by Counsel at the inquiry, the application of the Policy in determining the performance of a development in viability terms should be considered by viability experts.

4.3 I contest the assertion being made by the Appellant that the proposed schemes does not perform differently to generic developments within Old Trafford, or by implication is a "generic" development for this market location. I make this comment with reference to Counsel advice that has been provided on the matter, the first from Christopher Katkowski QC and the second from Counsel acting on behalf of Trafford Council in this inquiry David Forsdick QC.

4.4 Mr Katkowski QC commented that

> *""any viability expert worth their salt should be able to give a view as to whether a proposed development would perform differently."*

4.5 The reference in the wording of the Policy is to whether a development will perform differently in "viability terms", as such it is my opinion that the performance of a scheme should be determined by integral parts of the viability assessment such as; build cost, GDV and achievable profit margin. It is also clear from the recently updated RICS guidance (page 47, para 5.7.9) that "each typology and site is unique" when considering return (profit) and planning contributions as part of the viability in planning process. The testing of viability at the decision taking stage is essential as each site has its own "unique" characteristics.

4.6 David Forsdick QC advises that the fourth bullet covers developments that depart from the standard typologies included in the viability assessment that drove the relevant Policy compliant affordable housing percentage, in this case 5% in normal conditions and 10% if the market was performing well. Essentially, generic development in Old Trafford, refers to the typologies that were tested in the viability assessment to inform the Core Strategy (2012).

4.7 Following both advice notes it is considered that that proposed scheme performs differently in viability terms to generic development in Old Trafford. It is considered that the proposed form of development is not analogous to any schemes in the immediate area given it is of far higher density and scale than the prevailing existing form of development. It clearly performs differently in viability terms, as per the advice of Mr Katkowski QC.

4.8 Looking to the advice of Mr Forsdick QC, the highest density development tested in Core Strategy (2012), for the specified market location was 140 dwellings per hectare (DpH). The proposed scheme at the Former B&Q is 332 dph over twice the density, evidently performing differently in viability terms to generic development.

4.9 In addition, to the proposed density the scale and nature of the proposed scheme being high rise apartments does not compare with generic development tested within the viability assessment that supports Policy L2. Further, given the sites "unique" location adjacent to Emirates Old Trafford cricket stadium and the Old Trafford tram stop, sales values should reflect a premium when compared to other schemes in the specified market area.

4.10 Overall, I consider that given the nature, scale, density, the proposed mix of units of the proposed scheme and the sites unique location adjacent to a world famous sports venue that in viability terms the proposed development will perform differently to "generic" development in Old Trafford. As such, in compliance with L2.12 of the adopted Core Strategy (2012) the affordable housing contribution for the proposed development should be determined via a site-specific viability study and should not normally exceed 40% of the net additional provision.

5. GROSS DEVELOPMENT VALUE

5.1 Appellant Assessment of GDV

5.1.1 I have not been provided with the Appellants assessment of the GDV in regard of the proposed scheme and understand that it will be provided as part of the PoE submission.

5.1.2 In the viability report submitted in support of the statement of case CW sought to substantiate the adopted values in their FVA submitted in June 2020. The value adopted equated to £340 per sq ft of net internal residential area. This value was based predominantly on permitted development rights (PDR) office to residential conversions under Class O of the GDPO (2015, as amended). One new build scheme was referenced, that at Celestia Court, 145 Chorlton Road, Whalley Range, a four storey apartment development of 20 no. apartments providing 14 no. 2 bedroom flats and 6 no. 3 bedroom units. For the avoidance of doubt, I am very clear that Whalley Range is not a comparable location to the subject site and the 4 storey apartment scheme of 20 units is in no way comparable to the proposed development.

5.1.3 The following table taken from CW's viability report to support the Appellant's statement of case gives a summary of the comparable evidence used to inform the adopted value of £340 per sq ft.

Scheme	Description	Average Unit Size	Average Sales Per Sq Ft	Date of Sale
West Point	PDR	267	£374	February to September 2019
Kinetic	PDR	398	£322	October 2018 (pre-sales)
Celestia Court	New Build	807	£291	July to December 2019
Metropolitan House	PDR	521	£259	April to December 2018
Park Rise (Trafford Plaza)	New Build	557	£286	February to July 2018
Grove House	PDR	532	£201	January 2018
Chorlton Plaza	PDR	575	£351	May to November 2019

Source – Cushman & Wakefield

5.1.4 It was Continuum's opinion on review, and is my opinion now that the sales values adopted by CW are not reflective of the value of the proposed development and in any event are well out of date

5.1.5 On the Appellant's case, given (1) the updated ES cost estimate (Rev G) that will inform the FVA to be submitted with the viability proof of evidence; and (2) CW have confirmed that the Appellant will be maintaining their position that the provision of 10% affordable housing (33 no. units) is the policy compliant position (and they maintain they will be "policy compliant"), the sales values adopted by CW will need to substantially increase in order for the provision of 10% affordable housing to remain viable.

5.1.6 During the SoCG it was confirmed by CW that they would revisit their assumptions in regard of sales value in the FVA being prepared to support their proof of evidence.

5.2 New Build Comparable Data

5.2.1 There is a dearth of completed new build apartment schemes and as such relatively limited comparable transactional sales data from which to assess sales values.

5.2.2 No 1 Old Trafford by Cole Waterhouse, a development of 354 no. apartments across two blocks with the tallest measuring 14 storeys was completed in May 2020 and it is understood that now just 2 no. units remain available for sale. The development is situated 1 mile north of the subject site in Old Trafford and benefits from the close proximity to Salford Quays and Wharfside Metrolink Tram stops and Old Trafford Football Stadium.

5.2.3 It is considered that No 1 Old Trafford represents the most comparable development from which to assess GDV given it is the only completed new build high density apartment scheme in close proximity to the subject site. A substantial number of new apartment schemes have recently been granted planning permission or are currently under determination by Trafford Council. The below table sets out a number of the applications that have been received by Trafford Council:

Scheme Name	Stage	Ref:	Date of Application	No. of Units
Chester Road	Pre-Application Consultation	n/a	n/a	758
X1 Manchester Waters Phase 1	Completed	90799/FUL/17	March 2017	216
X1 Manchester Waters Phase 2	Under Construction	93779/FUL/18	March 2018	526
Pomona Island BTR	Pre-Application Consultation	n/a	n/a	162
86 Talbot Road	Under Construction	88792/FUL/16	June 2016	90
Former Kelloggs	Planning Permission Granted	99795/FUL/20	January 2020	750
Elisnore Road	Planning Permission Granted	100270/FUL/20	March 2020	380
Botanical Avenue	Planning Permission Granted	101044/FUL/20	June 2020	149
MKM House	Planning Appeal	101651/FUL/20	September 2020	88

Warwick Road South	Application Under Determination	104662/FUL/21	July 2021	126
Trafforrd Plaza	Under Construction	90711/FUL/17	March 2017	174

5.2.4 No. 1 Old Trafford is closer to Manchester City Centre than the subject site but is in a location with few amenities in a reasonable working distance and characterised by an urban back drop with industrial buildings and a major road interchange (A56, A5063) in close proximity. By contrast the Former B&Q site is conveniently located on the preferable side of the A56 to access both the White City Retail Park and the Tesco Extra. Old Trafford Tram Stop is short walk from the site as is Longford Park providing opportunities for exercising and dog walking. The area directly adjacent to the Former B&Q site along Great Stone Road is residential in character in contrast to No. 1 Old Trafford. The site benefits from proximity to a world famous sports ground as is the situation at No. 1 Old Trafford. Indeed, a number of the apartments have direct views over the cricket field. The design of the subject buildings seek to emphasise outdoor space with gardens for ground floor apartments, balconies for upper stories and roof terraces for apartments on 8th and 9th floors. I would argue that due to its position that the B&Q site could be considered a superior location to No. 1 Old Trafford.

5.2.5 I have engaged with the sales agents for the scheme, Reside, and they have informed me that only 2 no. units now remain and that the vast majority of units were sold at asking price. It is understood that 75% of the development has been sold to overseas investors, predominantly in the 1st block of 173 no. units which is being operated on a PRS basis, with the remaining 25%, all located in the second block left available for owner occupiers. I consider that this sales approach that could be followed for the proposed scheme at the Former B&Q reducing sales risk with institutional investors taking multiple units in one transactions prior to construction.

5.2.6 Whilst it has been confirmed that the majority of units at No. 1 Old Trafford have now been sold the sales are yet to be published on the Land Registry Open Data Source. I have sought to contact the developer directly to ascertain the sales values that are being achieved.

5.2.7 Following discussions with Cole Waterhouse it is understood that the units sold to owner occupiers achieved asking prices as set out at **appendix 1**. For the units sold on an investment basis it is understood that a large proportion were sold to international investors with launches taking place in Hong Kong, Singapore, and Kuala Lumpa. The prestige of being in proximity of the Old Trafford football stadium was seen as a key selling point and what drove the naming of the development. It is understood that investors were able to achieve preferential values for the units given multiple properties would be included in a single transaction.

5.2.8 In terms of the sale of units at No. 1 Old Trafford, it is understood that 25% were sold in bulk transactions to investors, 50% were accounted for in functional sales to investors and the final 25% were sold to owner occupiers.

5.2.9 The location of the proposed development at the Former B&Q site is the latest of in an ever increasing number of high density residential apartments schemes to be promoted for development in the Old Trafford area. As can be seen by the above table, in excess of 3,000 units have either been built, are under construction, granted planning consent or are currently in the planning system. From 2012 onwards, the area, which was formally characterised predominantly by employment uses (office and industrial) has become a new city fringe location for apartment living. This was originally in the form of permitted development rights (PDR) office to residential conversions under Class O of the GDPO (2015 as amended). With the change in the achievable sales values in of Old Trafford it has become more financially viable to develop new apartment buildings. This is evidenced by the high number of schemes in Old Trafford promoted through the planning system from 2016 onwards. One of the first to achieve planning consent was No. 1 Old Trafford. This scheme of 354 no. apartments has created a new apartment market in Old Trafford (as opposed to PDR). The market making nature of the No. 1 Old Trafford scheme is clear from the original suggested values that the apartments would achieve. Based on comparable evidence (with a premium) it was successfully argued at planning application (ref: 90738/FUL/17) in 2016 that apartments at No. 1 Old Trafford would achieve an average sales value of £260 per sq ft. It is understood following discussions with Cole Waterhouse that the actual values achieved at No. 1 Old Trafford (the scheme is now 98% sold) represent a significant premium above the values suggested in 2016 well in advance of inflation over the same period.

5.2.10 The impact of the investors in the market has served to support the setting of a new benchmark for residential sales values in Old Trafford, with the Cole Waterhouse commenting that anticipated values for No. 1 Old Trafford were established with reference to developments on the other side of the river in Media City as opposed to the PDR schemes in Old Trafford.

5.2.11 The Manchester Waters development by X1 at Pomona Island has recently been completed and provides for a range of studios, 1, 2 and 3 bedroom apartments for both private sale and in the PRS market.

5.2.12 Pomona Island's location is a commensurately poorer location than the proposed scheme at the Former B&Q sandwiched as it is between the A56 and the Manchester Ship Canal with limited direct access to amenities. The Manchester Waters development does benefit from the proximity to Pomona Tram stop, a new transport terminus delivered to catalyse the regeneration of the Pomona Island site.

5.2.13 In terms of specification, the Pomona Island development does not provide the additional residential amenities such as roof terraces and gardens that are provided at the Former B&Q site, nor does it benefit from the prestigious location adjacent to a world famous sporting venue.

5.2.14 The achieved sales values at Manchester Waters are set out at **appendix 2**, it is considered that the proposed scheme at the Former B&Q will demand a substantial premium in terms of sales values.

5.3 Permitted Development Rights Conversions

5.3.1 I consider that the PDR office to residential conversions do not provide a like for like comparison given they are different products of different quality and PDR schemes are not subject to the same planning requirements as new build development. In planning terms all that is required is prior approval. For example; PDR schemes are not required to comply with design standards, amenity requirements, space standards (until recently), parking standards and energy efficiency requirements (e.g. BREEAM), all factors that can go to the quality and thus value of the units created. This does not represent an exhaustive list.

5.3.2 In terms of specification, the proposed scheme at the Former B&Q will provide communal and private roof terraces, internal amenities such as a gym and cinema room, and gardens for the ground floor units. These additional amenities will serve to drive premiums in achievable values above those achieved for PDR schemes.

5.3.3 PDR units are considered to provide a base level from which a premium can applied. Within close proximity of the Former B&Q site, is the Kinetic development by CERT. This was referenced by CW in both their original FVA (June 2020) and their Statement of Case (November 2020). The sales values from this scheme are set out **appendix 3**. In addition to Kinetic, the West Point development is also located in Old Trafford, the sales values for this scheme are included at **appendix 3** though it should be noted that the majority of these units are small in size and do not meet the Nationally Described Space Standards (NDSS) (2015) which distorts values on a per sq ft basis when compared to new build units.

5.4 Surrounding Markets

5.4.1 Given the dearth of completed new build sales within Old Trafford, I have reviewed transactional data from other market areas. I have ensured that the market areas reviewed are in proximity of the subject site. This approach follows that used by Cole Waterhouse to establish anticipated value for No. 1 Old Trafford and accounts for the emerging residential apartment market in Old Trafford driven by regeneration.

5.4.2 **Appendix 4** sets out transactional sales data that has been sourced and the following table provides a summary:

Scheme Name	Description	Distance from Subject Site	Average Sales Value psf
Affinity Riverside Living	High rise, new build block of about 16 floors. Amenities include co-working spaces, TV lounges, and discounted parking/bike storage	2 miles	£491

Local Blackfriars	2 new build blocks of 7 and 10 floors respectively. Amenities include gym, shared garden, cinema, laundrette, onsite pub, and 24-hour concierge.	2.4 miles	£402
St George's Gardens	New build building of 10 floors. Amenities include a rooftop bar and indoor amenities.	1.46 miles	£479
2 Hulme Hall Road	Industrial-style character conversion building of 8 floors with ground floor office/retail space.	1.38 miles	£380
One Regent	New-build high rise of 28 floors, consisting of 307 apartments (including 6 town houses). Amenities include 24-hour concierge.	1.60 miles	£466

5.4.3 It is understood that these developments are likely to achieve a premium to sales values at the proposed scheme given they are in established residential market locations. Though it should be considered that given the number of planning application, permissions and starts on site in Old Trafford through the last 4 years and the impact of the Civic Quarter Area Action Plan that Old Trafford is becoming and as a result of regeneration will soon be an established residential location.

5.4.4 In terms of comparability, the scheme by Salboy at Local Blackfriars is considered comparable with the Former B&Q given the scale, density, and type of the development. Though the Local Blackfriars scheme appears to of a lesser specification given it does not include roof terraces and benefit from the draw of the Emirates Old Trafford.

5.5 GDV Assessment

5.5.1 It is understood that CW will be adopting an average value to assess GDV and have not adopted a value for the individual units to be delivered as part of the scheme. It is considered that this is not an appropriate approach for the proposed scheme given there will be significant premiums in sales values that will be achievable for units that benefit from roof terraces, and views over the Emirates Old Trafford.

5.5.2 I have not been provided with a detailed accommodation schedule by the Appellant to establish values for each individual unit and as such have been unable to undertake this exercise.

5.5.3 For the purposes of the sensitivity analysis undertaken at **section 9** I have used an average sales value of £385 per sq ft, this value seeks to reflect a premium above permitted development rights schemes

6. BUILD COSTS

6.1 Appellants Assessment of Cost

6.1.1 Just a week or so prior to the completion of this proof I have been provided with a cost estimate prepared for the proposed scheme by ES, this document is included at **appendix 5**.

6.1.2 It is understood that CW will rely upon the contents of this cost estimate to inform their FVA. I have assessed this document and compared it with the previously submitted cost estimate relied on by CW for the purpose of both their June 2020 FVA and statement of case (November 2020). The Rev D cost estimate is included at **appendix 6**.

6.1.3 It should be noted that the costs adopted by CW in their FVA submitted in June 2020 were agreed by me in the Statement of Case and I was not expecting the Appellant to revisit their cost assessment to inform the assessment of viability at this inquiry (save to adjust them for inflation).

6.1.4 The following section seeks to consider the two cost plans prepared by ES and submitted in regard of the site. The below table sets out the key differences in base build costs:

Description	June 2020 Cost per sq m GIA	Nov 2021 Cost per sq m GIA	June 2020 Quantity (sq m)	Nov 2021 Quantity (sq m)	Difference in Quantity (sq m)	Difference in Total Cost*	% Increase in Cost
Basement	£149	£219	3,731	3,890	159	-£7,780	-2%
External Walls	£76	£113	9,821	9,821	0	£2,052,589	46%
Windows & External Doors	£90	£90	5,920	5,920	0	£1,065,600	47%
Internal Doors	£18	£35	1,984	1,978	-6	516,258	97%
Wall Finishes	£40	£74	78,840	78,720	-120	1,023,360	87%
Floor Finishes	£48	£77	23,708	23,539	-169	870,943	61%
Ceiling Finishes	£34	£39	22,539	22,370	-169	134,220	13%
Sanitary Installations	£20	£37	1,668	1,662	-6	526,854	90%

**Difference in total costs is based on new quants provided in November 2021.*

6.1.5 The below table sets out the key differences in external costs:

Description	June 2020 Rate	Nov 2021 Rate	June 2020 Quantity	Nov 2021 Quantity	Difference in Quantity	Difference in Total Cost*	% Increase in Cost
Tarmac access road	60	100	315	315	0	12,600	67%
Hard landscaped areas	65	75	4,200	4,200	0	42,000	15%
Soft landscaping	25	35	1,800	1,800	0	36,000	80%

Retaining wall foundations	500	750	130	130	0	32,500	50%
Retaining walls	350	500	180	180	0	27,000	43%
Boundary walls	150	255	255	255	0	6,375	11%
Boundary fence	125	175	100	100	0	5,000	40%

6.1.6 ES have also increased prelims from 12% to 15%. The disparity between the assumptions in the cost estimates is based on the difference between the Rev D cost plan rates and new quants, against the Rev G rates and quants. On the basis the allowance for prelims has increased by £8,460,719 (45%).

6.1.7 The overall difference between the Rev D and Rev G cost estimate before inflation is accounted for equates to £8,460,719 an increase of circa 19%.

6.1.8 The updated assessment of build costs by ES (Rev G) makes allowance for an element of build cost inflation equating to circa 6.6%, this is made up of the following assumptions. It is understood that the assumptions in regard of inflation by ES are taken from the BCIS:

- Estimate uplift 1Q2020 to 4Q2021 – 4.5%; and
- Estimate location index uplift 97 – 99 – 2.1%.

6.1.9 It will be immediately apparent that the uplift in costs assumed by ES far exceeds inflation.

6.1.10 As has been set out above it is understood that a separate proof of evidence in regard of the build costs adopted in the FVA is being prepared by ES.

6.2 ES Cost Estimate Rev D, June 2020

6.2.1 ES stated in their June 2020 cost estimate that adopted costs have been based upon the BCIS average price index dated Q1 2020. In reality, some of the costs were based on the BCIS average price index, but others were internally generated. A total build cost of £43,565,000 equating to £135.82 per sq ft (GIA) was adopted by ES and subsequently relied upon by CW in their June 2020 FVA.

6.2.2 The elements of the cost estimate can be expressed as follows:

Cost Element	Gross Cost	Cost per sq ft
Base Build (incl. prelims and OH&P)	£41,507,559	£129.41 per sq ft
Externals (incl. prelims and OH&P)	£1,889,441	£5.89 per sq ft
Demolition (incl. prelims and OH&P)	£168,000	£0.52 per sq ft
Total	**£43,565,000**	**£135.82**

6.2.3 The costs adopted in the CW FVA submitted in June 2020 were agreed in the independent viability review issued by Continuum in September 2020. Further, CW did not seek to amend their estimation of build costs in the viability report that supported the Appellants statement of case.

6.3 ES Cost Estimate Rev G, November 2021

6.3.1 During my discussions with the Stephen Miles of CW to inform the viability SoCG, I was informed that a new cost estimate was being prepared by ES and that this would be relied upon for the purpose of the Appellants FVA. I requested sight of this document given its importance to the viability discussion. It was only issued by CW on 3rd December.

6.3.2 From the information received, it would appear that an ES cost estimate produced in January 2020 is now to be relied upon. I have not been presented with any explanation (detailed or otherwise) why the cost plan that supported the June 2020 FVA is no longer relevant. As a result of this change of approach, the costs of the scheme have increased dramatically. Without ES's reasoning behind the changes, it is very difficult for me to comment. In an effort to comply with the Inspectors express wish that as many outstanding issues as possible are dealt with at the Proof stage I have attempted to provide a reasoned approach to cost analysis that relies on the previously agreed position with the Appellant (November 2020), with the application of cost inflation in the intervening period. I can confirm that the position on the level of cost inflation to be applied is now agreed.

6.3.3 ES at page 2 of the cost plan, outline all the revisions of the cost plan that have been undertaken.

- **Original: 14th January 2020** - The original cost plan was produced;
- **Rev A: 20th February 2020** – Revised based upon an updated accommodation schedule;
- **Rev B&C: 25th February 2020** – Two further revisions to account for build rates for external walls, windows, internal doors, wall finishes, floor finishes, ceiling finishes, sanitary appliances & external works were changed based on "inhouse construction management delivery";
- **Rev D: 29th June 2020** – Revised to match architects GIFA and NIA. Relied upon by CW in FVA submitted in support of planning application. CW were not instructed to prepare their FVA until April 2020, as such the revision to the cost plan appeared to have taken place on an internal basis;
- **Rev E: 5th November 2021** – Amended rates to revision B and C and reverted back to Revision A. This reversion increased the majority of the build rates. The cost plan also included the inflation to 4Q 2021;
- **Rev F: 16th November 2021** – Cost plan amended to take account of updated GIA and applied additional inflation to tender and mid-point phased construction;
- **Rev G: 18th November 2021** – Cost plan amended to take account of updated NIA and GIA reflecting the omission of a 2 bed flat and addition of further circulation/ancillary space.

6.3.4 Following review of the Rev G cost plan it is apparent that the build cost for the scheme estimated by ES have undertaken a dramatic change over a 22 month period. In their cost plan ES have reverted back to their assessment of costs in Q1 2020 (Original and Rev A) where total costs were £8,460,719 higher than the Rev D cost plan submitted with the planning application and appear to have reversed the changes in Rev B&C which was informed by ES's own "inhouse construction management delivery" process. This has resulted in a change over the period (up and down) of approximately £17,000,000 (not accounting for inflation).

6.3.5 The following table sets out the elements of the cost estimate as set out by ES Nov 2021:

Cost Element	Gross Cost	Cost per sq ft
Base Build (incl. prelims and OH&P)	£49,695,315	£155.82
Externals (incl. prelims and OH&P)	£2,125,186	£6.66
Demolition (incl. prelims and OH&P)	£172,499	£0.54
Total	**£51,993,000**	**£163.02**

6.3.6 ES have then added a further £3,421,000 to account for an inflationary uplift between Q1 2020 and Q4 2021 and a location index uplift between 97 – 99. It is understood following conversations with CW that they will be including these costs in their FVA. CW have not accounted for tender inflation to January 2023 and construction phase inflation to mid-point of construction phase within their FVA, as the appraisal assessment is undertaken on a net present value basis.

6.3.7 Once the inflation allowance is taken into account the total cost increase equates to £11,849,000 from the previous accepted position (June and November 2020). This equates to an increase of 27.92%. There have only been minor changes in the scheme, no equivalent changes in BCIS outputs (other than inflation) and no evidence of any location specific changes in costs compared to the nation as a whole.

6.3.8 The RICS guidance is clear that viability in planning should be assessed on the "most effective and efficient way to deliver the optimum *development"*[1]. ES originally reduced their build rates as a result of an "inhouse construction management delivery" in Rev D of the cost plan relied upon for the June 2020 FVA. ES have now reverted to their original January 2020 position in regard of build rates which will have a substantial impact on the viability of the scheme. Purely on a build cost basis the Rev D cost plan is a more efficient delivery model for the proposed scheme at the Former B&Q. I do not understand why the Appellant has adopted a far less efficient delivery model when the guidance requires it to adopt the optimum development.

[1] Assessing viability in planning under the National Planning Policy Framework 2019 for England, Paragraph 3.10.2, RICS, 1st Ed. (2021)

6.3.9 If you were to adopt the rates used in the Rev D cost estimate (June 2020) and apply them to the updated quants (GIA) included in the Rev G cost plan the total cost with inflation included (at agreed level of 6.6%) would equate to £46,396,900, substantially below (£9,017,100) the total cost in the Rev G cost estimate.

6.3.10 When assessing the ES Rev G cost estimate, it could be argued that a number of items identified as external works could be classified as abnormal costs. The items are as follows and for clarity exclude prelims and inflation from Q1 2020 to Q4 2021:

Description	**Cost**
Break up existing hardstanding & remove from site	£173,900
Extra excl. to reduced level; new 2m deep & remove from site	£13,750
Retaining wall foundations	£97,500
Retaining walls	£90,000
Total	**£375,150**

6.3.11 If the adopted demolition costs at £150,000 as set out in the ES Rev G cost estimate are added to the costs in the above table and prelims (15%) and inflation are taken into account the total abnormal costs estimated by ES equates to £643,655 (£250,449 per gross acre). These abnormal costs should be reflected in a lower BLV as per the PPG (2019).

6.4 Cost Sensitivity Analysis

6.4.1 I have undertaken a sensitivity analysis based upon the quants adopted in the ES Rev G cost plan. The estimate makes an assessment of cost with reference to the BCIS average price index elemental cost (for median builds consistent with the ES approach) and includes an equivalent allowance for inflation as adopted by Edmund Shipway and CW.

6.4.2 I have utilised the BCIS element cost rate based on the 5-year position as it is considered more reflective of the current market, recent projects and specifications when compared to the default 15-year position. This approach has been supported in two recent Appeal Decisions[2].

6.4.3 For comparison purposes I have reviewed past BCIS data to establish price per sq m (when calculated against the total GIA) for the subject property. This data was generated in January 2020 and thus is directly comparable with the ES cost estimate (Rev A).

6.4.4 The table below outlines the BCIS elemental cost index median figures (price per sq m) for each cost where there is variation between the two ES cost estimates that we are in receipt of (Rev D and Rev G).

[2] APP/B1740/W/18/3209706 and Warburton Lane Appeal Decision (APP/Q4245/W/19/3243720).

Base Build Cost Item	BCIS Element Cost per sq m of GIA (5 year)	ES Rate Assumed Q1 Jan PSM	ES Rate Q2 2020 PSM	ES Rate Q4 2021 PSM
External Walls	£149.00	£219.00	£149.00	£219.00
Windows & External Doors	£70.00	£113.00	£76.00	£113.00
Internal Doors	£42.00	£35.00	£18.00	£35.00
Wall Finishes	£58.00	£74.00	£40.00	£74.00
Floor Finishes	£52.00	£77.00	£48.00	£77.00
Ceiling Finishes	£34.00	£39.00	£34.00	£39.00
Sanitary Installations	£24.00	£37.00	£20.00	£37.00

6.4.5 Included at **appendix 7** is a copy of the BCIS elemental cost plan rebased to Trafford at January 2020.

6.4.6 For external works, BCIS does not provide a cost breakdown for the cost items. As such for the purposes of the sensitivity analysis included at **section 9** where ES have updated their assumptions of external works I have adopted the midpoint between the Rev D and Rev G cost plan.

6.4.7 I have adopted the rate used by ES in the Rev D cost estimate in regard of prelims equating to 12%. This compares with other cost plans that I have reviewed for apartment schemes in Old Trafford:

Scheme	Ref	Rate %	Date
Botanical Avenue	101044/FUL/20	12	June 2020
MKM House	101651/FUL/20	10	August 2020
Stretford Mall	103844/HYB/21	10	June 2021

6.4.8 The sensitivity analysis based upon BCIS data, including inflation from Q1 2020 to Q4 2021, generates a outturn of £48,029,100 which is broken down as follows:

Cost Element	Gross Cost	Cost per sq ft
Base Build (incl. prelims and OH&P)	£45,740,312	£143.42
Externals (incl. prelims and OH&P)	£1,697,432	£5.32
Demolition (incl. prelims and OH&P)	£591,356	£1.85
Total	**£48,029,100**	**£150.59**

6.4.9 I have compared the total cost per sq m with the BCIS average price study for 6+ storey flats based on the 5-year position rebased to Trafford at Q4 2021 (this includes inflation). The table below outlines the BCIS figures:

6+ Storey Apartment (5 yr)	Lower Quartile (LQ)	Median	Upper Quartile (UQ)
£/ m2	£1,366	£1,608	£1,788
£/ sq ft	£126.90	£149.39	£166.11

6.4.10 The base build used in the sensitivity analysis is comparable with the BCIS median 6+ storey figure. The inclusion of a basement car park and ground floor commercial units can have the impact of reducing the overall average build cost (per sq m) when compared to other schemes because the costs associated with the delivery of those elements are generally lower than residential units. Based on discussion with Stephen Miles, the assumption is made that the basement car parking is included in the total GIA.

6.4.11 The total costs adopted are £7,384,900 less than adopted by ES in the Rev G cost estimate.

6.4.12 I reserve my position in relation to issues pertaining to costs and should an independent cost review be required for the purposes of the inquiry a qualified cost consultant should be instructed. The exercise that has been undertaken is a sensitivity analysis with reference to the previously agreed cost plan (Rev D) and historic and up to date BCIS data compared against the Appellants newly revised position (Rev G).

6.4.13 Given I am not a qualified cost consultant I have sought opinion from Steve Wright MRICS, a director at Monaghans who has provided his opinion with regard the comparisons that have been made between cost estimate Rev D and Rev G. His advice is provided at **appendix 8**.

7. GROSS TO NET RATIO

7.1 I have been provided with a phasing schedule prepared by O'Connell East Architects for the proposed scheme which sets out the areas for the proposed development. Following analysis, it is apparent that the relation between gross and net area for the proposed scheme is inefficient when compared to other apartment schemes in Old Trafford – with the result that the amount of "valuable" (sellable) space is low and the total cost (including non-valuable and no sellable space) is high. I cannot conceive that any developer would actually build out so inefficiently. [Get QS to confirm]

7.2 The below table sets out my analysis of the gross to net of the proposed scheme:

Area (sq ft)	All Phases	Phase 1	Phase 2
Total GIA	318,927	100,557	218,369
Resi NIA	217,799	80,095	137,704
Retail GIA (Use Class E)	3,584	0	3,584
Resi Amenity Space GIA	1,432	0	1,432
Basement Car Parking GIA	29,278	0	29,278
Plant and Refuse GIA	4,715	0	4,715
Cycle Store GIA	3,509	1,948	1,561
Circulation, Lifts etc. GIA	58,610	18,514	40,096
Gross to Net (Apts Only)	68.29%	79.65%	63.06%
Gross to Net (Apts & Retail)	69.42%	79.65%	64.70%
Gross to Net (excl. Car Park)	76.43%	79.65%	74.72%
Gross to Net (excl. Car Park, Retail, Plant & Refuse, Amenity & Cycle)	78.80%	81.22%	77.45%

7.3 I have assessed the gross to net ratio of the scheme when excluding the basement car park, ground floor commercial uses, plant & refuse, residential amenity and cycle store from the GIA. This enables the analysis of the gross to net of the apartments NIA compared to the remaining circulation, lifts and stair space. I have compared the gross to net of Phase 1 and Phase 2. It would be expected for these ratios to be equivalent, however Phase 1 is 81.22% and Phase 2 is 77.45% (both phases together is 78.80%). There is differential between the two phases.

7.4 The following table sets out the gross to net ratio for comparable development schemes within Old Trafford.

Scheme	Ref:	Units	GIA	NIA	Gross to Net	Notes
Former MKM House	101651/FUL/20	88	72,019	55,469	77.02%	Gym, amenity co/workspace and undercroft car park 6 spaces
Botancial Avenue	101044/FUL/20	149	121,192	90,610	74.77%	Large entrance lounge and basement car park 17 spaces
Former Kellogg's Site	99795/FUL/20	556	490,066	395,704	80.75%	
86 Talbot Rd	88792/FUL/16	90	73,098	57,070	78.07%	Part undercroft car parking
X1 Manchester Waters Phase 1	90799/FUL/17	216	171,955	138,985	80.83%	Basement car park 97 spaces
X1 Manchester Waters Phase 2	93779/FUL/18	526	421,755	331,316	78.56%	Basement car park 238 spaces
The Square, Sale	00805/FUL/16	202	193,718	146,412	75.58%	Part of wider mix used development so might be why gross to net appears inefficient
Regent Road	93171/FUL/17	70	52,852	42,643	80.68%	
Bridgewater Road	93143/FUL/17	48	24,467	20,731	84.73%	
Wharf Road, Altrincham	93153/FUL/17	49	40,387	32,345	80.09%	Undercroft car park 57 spaces
Trafford Plaza	90711/FUL/17	174	151,428	119,949	79.21%	Large entrance lounge and undercroft car park over 2 levels
39 Talbot Road	94483/FUL/18	156	121,690	97,807	80.37%	
Stretford Mall (Apts only)	Pre-Application	737	633,324	492,580	77.78%	
Average					**79.22%**	

7.5 Each scheme set out above provides for a cycle store, plant rooms and bin stores as it is understood that these are standard requirements of planning permission.

7.6 There is a significant differential between the average gross to net from the comparable schemes in Old Trafford when compared to proposed development at the Former B&Q being circa 10% below the overall average.

7.7 The impact of a small change to gross to net has a marked impact on the viability of the proposed scheme with an improvement in the ratio of 1% improving the viability of the scheme by circa £850,000 based on the ES Rev G cost estimate and 5% contingency and 8% professional fees that have been agreed.

7.8 The ES Rev G cost estimate makes amendments to the GIA to account for the removal 1 no. 2 bedroom flat by increasing circulation space. This has had the impact of making the scheme less efficient and will negatively impact its viability.

7.9 The RICS Guidance Note on Viability in Planning (2021) states[3] that when assessing the viability of a scheme the proposed development should be based on the optimum and a less-optimal development should not be used to reduce developer contributions. By having a less efficient building in terms of gross to net, this less-optimal scheme is causing developer contributions to be reduced.

[3] Assessing viability in planning under the National Planning Policy Framework 2019 for England, Paragraph 4.2.6, RICS, 1st Ed. (2021)

8. BENCHMARK LAND VALUE

8.1.1 In their previous assessment CW sought to follow two methodologies when establishing the appropriate BLV for the site at the former B&Q. In the first instance following the requirements if the PPG on Viability (2019) the existing use value plus (EUV+) a premium method was used, the alternate use value (AUV) method was also followed ultimately with CW adopted the BLV established through the AUV method

8.1.2 A key conclusion to take from CW's previous viability submissions is that the land value would be greater if the existing retail warehouse were refurbished and sold on an investment basis as a DIY store than if a development of 333 no. units were permitted at the site. It is evident that this is not a credible assumption given the emerging market for apartments in Old Trafford, the fact the building has sat vacant for 5 years and lack of activity in the DIY home and garden occupier market.

8.1.3 Through the SoCG discussions it is now understood that CW will be disregarding the AUV methodology previously used to establish BLV and will focus on the EUV+ approach. This change of approach appears to have been made in light of the basic fact that the building's planning permission (ref: H/04717) restricts its use in Condition 2 to a "DIY Homes and Garden centre".

8.1.4 I understand that the Appellant purchased the site as part of a portfolio investment referred to as the "Forum Portfolio". The portfolio comprised 10 properties and was acquired for £19,000,000 in 2016. With reference to the Land Registry Open Price Data it can be ascertained that the Former B&Q accounted for £3,250,000 of the portfolio value. The purchase price is not a reason for reducing planning contributions; and hope value is to be excluded. The Appellant's analysis however appears to be driven by this sum. It is considered that that most appropriate approach to establishing BLV is to assess the value of the existing site as a DIY Homes and Garden Centre and add a premium. I note that at no stage has any evidence of any market for the site for a DIY Homes and Garden Centre been provided and it is frankly inconceivable that there is any significant market for the premises for that use in their current state. Of course any value based on a DIY Homes and Garden Centre would require the premises first to be refurbishment to the requisite standard thus reducing achievable capital value. I have seen no assessment by the developer of any attempt to evaluate the costs of bringing the premises back into their lawful use. Martin Willis Partnership provided an estimate in 2015 which stated a cost of £417,219.62 would be required to bring the building back into viable use. This cost estimate is set out within the CW FVA submitted alongside the planning application in June 2020.

8.2 Background

8.2.1 The subject property traded as a B&Q store until early 2016. The design and layout of the building is not a typical bespoke B&Q that you find on a retail park, with good eaves hight for racking to allow the storage of goods and substantial secure external space for garden related plants and equipment. The building is low rise, probably dating from the 1970's and does not have the features that a modern DIY/Garden Centre operator would typically require.

8.2.2 The property was purchased by the current owner in the summer of 2016. Since this time, it has remained vacant. In 2016 the owner/developer instructed Martin Willis Partnership to produce a cost estimate for works required to refurbish the building and bring it up to an occupiable standard. This was for works required to a recently vacated building and much of the planned activity was cosmetic. The building has now been vacant for in excess of five years and has been subject to vandalism. It is understood there has been weather damage with water ingress into the building. There appears to have been no ongoing maintenance programme.

8.2.3 The intention (as stated on the Appellants web site) when purchasing the property was to pursue a residential re-development of the site. As a result, no attempt has been made to maintain the building as it will be demolished.

8.2.4 When assessing the EUV of the site (and buildings), there are some key considerations. Is the property capable of again being occupied for retail purposes and if yes, what would the cost be of bringing it back into operational use? As stated earlier the property is subject to a planning restriction. Clearly when assessing EUV this is an important consideration, as the restriction requires that only DIY Home & Garden Centres users can operate from the site. This is a very narrow market and as stated earlier the building is not a modern retail warehouse.

8.2.5 To establish EUV, all works and associated costs need to be understood. All we have been provided by the Appellant is the cost estimate produced for cosmetic works required following the vacation of B&Q in 2016. The costs associated with bringing the building back into operational use 5 years after it was last occupied, with no ongoing maintenance programme over that period, have not been provided or may not be known.

8.2.6 The PPG on viability (2019) is clear that the establishment of EUV for the purposes of viability in planning assumes no hope value. From research we know that the Appellant purchased the site in 2016 for £3,250,000. This price reflected the intention to pursue a residential planning consent, so I believe it reasonable to surmise included a substantial element of hope value.

8.2.7 Stephen Miles of CW has not been in a position to discuss the approach he will be taking to EUV + during our SoCG conversations.

8.3 Approach

8.3.1 I provide a detailed explanation of my current view below as to the establishment of BLV.

8.3.2 The subject building is not a modern retail warehouse. It is subject to a planning restriction that only permits a DIY Home & Garden Centre to operate from the facility. When the building was vacated by B&Q it was identified that works were required to bring it up to occupational standard. In the intervening 5 years there has been no planned maintenance and the building has suffered both vandalism and weather related damage. There are two approaches to establishing EUV, one would be to seek evidence of other transactions where buildings of a similar type have been sold to operators/owner occupiers. Due to all the reasons listed above identifying comparable evidence excluding hope value for the Former B&Q building is an impossible task.

8.3.3 The second approach is to seek to establish an investment value, where an investor will purchase the building based on the income stream (in rent) from an occupier. Clearly there a number of key factors with this approach that need to be considered. Firstly, for an occupier to want to take a lease on the property the building will need to be in an occupiable state. As identified there will be considerable cost involved, these costs would need to be discounted from any assessment of value. Secondly, the planning restriction on the site means there is a very narrow market from which to identify an occupier. As the building is not a modern retail warehouse, chances of securing a regional or national operator are highly limited. In addition, the building is stand alone, not benefitting from a retail park location. There will be no agglomeration benefits from linked trips or impulse visits. It is reasonable to assume that should an occupier be identified they are likely to be local operator with limited covenant strength, as such, their ability to pay their quarterly rent bills will not be supported by a wider business. I am also clear that changes in the retail market over the past 5 years are likely to result in any occupier requiring a turnover rent deal. The result being that the investor would not have a guarantee of rent as it is tied to the turnover the retail operation. There is then the challenge of assessing what length of time it would take to secure an operator and gauging what level of incentive by way of rent free and capital contribution they would require to enter into a lease that is likely to be subject to none penalty break clauses.

8.3.4 Taking all the above into account is it reasonable to assume that an investor would purchase the B&Q building in its current state without the enticement of hope value? I would argue that the cost of returning the building to an occupational state will be the equivalent or more than any EUV that can be attributed once refurbished.

8.3.5 The question then is what would be a reasonable incentive (premium) for the developer who owns the site to promote it for development? If that premium is a percentage of a nominal value, then the answer is self evident.

8.3.6 I have attempted to take a reasoned approach to establishing the BLV for the B&Q site, which seeks to achieve a balance as required by the PPG. As outlined above, I could have come to a very different conclusion.

8.4 BLV Methodology

8.4.1 The approach to the establishment of BLV is considered to be an area of common ground between parties.

8.4.2 The methodology to be followed to assess EUV will be to use an investment valuation approach capitalising an assumed passing rent by an appropriate investment yield.

8.4.3 The building has been vacant for circa 5 years and has been subject to deterioration and damage during that time. As such, when assessing BLV the cost of minor refurbishment to bring the site back into functional use needs to be reflected.

8.4.4 Following the PPG on Viability (2019) a premium should be adopted which reflects the minimum return at which it is considered a reasonable landowner would be willing to promote their land for development. There is no guidance as to the appropriate quantum of this premium and it is considered a matter of professional judgement.

8.5 Assessment of BLV

8.5.1 Passing rent has been assumed by both parties to date based upon the Valuation Office Agency (VOA) rateable value effective of April 2017 (**appendix 9**) which accounts for ground floor sales area of the unit less the associated glasshouse and outdoor seating area equating to £163,523 (£4.82 per sq ft). It could be argued that the passing rent would need to be discounted from this rate given the obsolescence that has occurred in regard of the building. The previous tenants B&Q passing rent for the unit equated £6.64 per sq ft.

8.5.2 There is a dearth of comparable transactional data from which to assess a yield given the sites situation. The Knight Frank Prime Yield Guide states that at September 2021 the prime yield for secondary bulky good parks was 7.5% which had reduced from 8.5% in September 2020.

8.5.3 Adjustments need to be made to adopted yield to account for the specific situation of the site. The unit has been vacant for circa 5 years, is located in sub-prime area, it not situated on a retail park, and is subject to a planning condition which restricts the operation to DIY home and garden operators. There is no evidence of any market demand.

8.5.4 On this basis it is considered appropriate to adopt a premium above the Knight Frank Prime Yield Guide. As set out in the statement of case a yield of 10-15% is considered more representative of the existing buildings situation. This range is supported by retail warehouse sales in the north west (**appendix 10**).

8.5.5 It is understood that the building will require a programme of refurbishment to bring it back to functional, operational use and a lettable standard. The BCIS average price index sets out the average costs for refurbishing a retail warehouse equating to a mean of 60.85 per sq ft. In addition, in the original FVA an estimate of the cost of refurbishment was provided by the Appellant equating to a cost of £417,219.62 (circa £12 per sq ft). It is considered that given the length of time that the building has been vacant the refurbishment costs will have increased since the 2015 estimate.

8.5.6 Given the lack of activity in the DIY retailer market and the length of time the building has been vacant it is considered that an allowance will need to be made for rent frees and voids. In addition, purchaser's costs will then need to be accounted for at 6.8%

8.5.7 The GLA Homes for Londoners planning obligations SPD (2017) set out a range for premium for brownfield land of between 10-30% that has been considered appropriate and has been supported at numerous planning appeals, Local Plan examinations and High Court cases. Given the sites situation within a strategic development location it is considered that a premium should be applied to the EUV reflecting an incentive to a reasonable landowner to promote the site for development.

8.5.8 For the purpose of the sensitivity analysis at **section 9** the BLV as assessed in the viability report that supported Trafford Council's statement of case has been adopted.

8.5.9 I reserve my final position in regard of BLV until I am in receipt of the Appellants viability case.

9. SENSITIVTY ANALYSIS

9.1 10% Affordable Housing

9.1.1 I have prepared a sensitivity analysis based on the BCIS elemental cost plan (**appendix 11**) rebased to Trafford. The appraisal follows the residual valuation methodology. The residual output is the land value once total costs (including profit) have been subtracted from GDV. The appraisal identifies a surplus above BLV when delivering a provision of 10% affordable housing (33 units) and S106 contributions equating to £1,865,362.

9.1.2 The sensitivity analysis has been prepared using Argus Developer an industry standard appraisal software.

9.1.3 I have adopted an average market sales value for the market units of £385 per sq ft. The assumptions made in regard of the proposed affordable housing refer to Trafford Council's Planning Obligations SPD (2014), which recommends a tenure split of 50/50 between affordable rent and shared ownership, and the discount of 60% of open market value (OMV) as set out in the SoCG.

9.1.4 All inputs to the appraisal have been agreed in the SoCG save for GDV, build cost and BLV as is set out at **section 3**. The agreed assumptions have been included within this assessment.

9.1.5 The residual land value output of the appraisal is £7,043,320. This is substantially in advance of the BLV established in the viability report to support Trafford Council's statement of case in August 2021 generating a surplus of £5,457,3565.

9.2 40% Affordable Housing

9.2.1 I have undertaken an appraisal assuming the provision of 40% affordable housing (134 no. units). The appraisal makes the same assumptions in regard of build costs, sales values whilst adopting the agreed phasing strategy and assumptions as set out in the SoCG.

9.2.2 The appraisal generates a residual land value of £2,844,615. This is advance of the BLV adopted in the viability report to support Trafford Council's statement of case of £1,585,965. The appraisal is included at **appendix 12**.

Appendices

Appendix 1 – No. 1 Old Trafford Asking Price Data

Appendix 2 – X1 Manchester Waters Sales Value Data

Appendix 3 – Permitted Development Right Sales Value Data

Appendix 4 – Castlefield Market Sales Value Data

Appendix 5 – Edmund Shipway Rev D Cost Estimate

Appendix 6 – Edmund Shipway Rev G Cost Estimate

Appendix 7 – BCIS Elemental Cost per m2

Appendix 8 – Steve Wright MRICS Cost Letter

Appendix 9 – Valuation Office Agency Rateable Value: B&Q, Great Stone Road

Appendix 10 – North West Comparable Retail Warehouse Yield Data

Appendix 11 – Sensitivity Analysis 10% Affordable Housing

Appendix 12 – Sensitivity Analysis 40% Affordable Housing

Appendix 13 – Murray Lloyd Curriculum Vitae

Appendix 14 – Continuum Viability Experience: Trafford