



Trafford Council/ Former B&Q Planning Inquiry

Financial Viability in Planning Rebuttal

Mr M Lloyd

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TRAFFORD
COUNCIL

Inspiring Built
Environments

Viability in Planning
Development Management
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1. INTRODUCTION

- 1.1 I am in receipt of two proof of evidence documents submitted by Accrue Capital (hereafter “the Appellant”) in relation to the planning inquiry pursuant to the Former B&Q, Great Stone Road, Trafford (the “site”). The two proof of evidence documents are as follows:
- Viability in Planning Proof of Evidence prepared by Stephen Miles of Cushman & Wakefield; and
 - Cost Proof of Evidence prepared by Ken Latham of Edmund Shipway.
- 1.2 I was informed via the Statement of Common Ground (SoCG) discussions between Mr Miles and I that the Financial Viability Assessment (FVA) to support the Appellants viability case would not be provided until the issuance of Proofs of Evidence (PoE) (15th December 2021). As such, the PoE prepared by Mr Miles provides the first commentary I have seen in regard of Gross Development Value (GDV) and Benchmark Land Value (BLV) and the viability case for the proposed scheme at the Former B&Q.
- 1.3 I understand that the Appellant is making an offer of 10% affordable housing (34 units) on the basis that this represents policy compliance. The conclusion reached in Mr Miles’s PoE is that the maximum number of units that can be delivered as affordable is 17 (5%). There is a direct contradiction between the outcome of Mr Miles’s viability assessment and the reality of the offer being made by the Appellant. It follows that the developer (who is representative of the market) is prepared to accept a lower profit margin than stated as a minimum return for the market units in Mr Miles’s FVA of 17.5% of GDV.
- 1.4 The majority of inputs to the viability process were agreed through the SoCG. Those outstanding were GDV and BLV (which impacts the finance calculation), which Mr Miles was not willing to discuss on the advice of the Appellants Counsel. This is set out in the email correspondence between Mr Miles and I included within the inquiry library.
- 1.5 The GDV adopted in Mr Miles’s FVA is substantially higher than adopted in the June 2020 FVA prepared by Cushman & Wakefield (CW) and subsequently supported by Mr Miles in the viability report that supported the Appellants statement of case (November 2020). The average sales value adopted by Mr Miles in his PoE is £380 per sq ft which equates to a gross value of £81,323,304 (10% AH scheme). By way of comparison, the GDV in June 2020 appraisal was £72,748,254 (£340 per sq ft). The reasoning identified by Mr Miles’s for the substantial increase in value (£8,575,050) is primarily indexation, specifically the Land Registry House Price Index (HPI).
- 1.6 In contrast to the GDV assumption, the BLV adopted by Mr Miles in his PoE is now significantly less than assumed in June 2020 and subsequently supported in November 2020 through the planning application (ref:

100400/OUT/20) and statement of case submissions. Mr Miles in his PoE has assumed the BLV lies within a range of £1,560,000 and £1,690,000. This represents a reduction in BLV of circa £2,000,000 from the position most recently held by Mr Miles in November 2020 of £3,600,000.

- 1.7 Mr Miles issued the Rev G cost estimate prepared by Edmund Shipway (ES) for the proposed scheme shortly in advance of the issuance of PoE's. No explanatory narrative was provided. I am now in receipt of the PoE to support this cost estimate prepared by Ken Latham. I have engaged a cost consultant, Mr Stephen Wright of Monaghans, to provide comment on Mr Latham's PoE. His commentary is included at **appendix 1**. As with the assumptions regarding GDV and BLV there has been a significant change in build costs since the Appellants last submission on viability in the statement of case (November 2020). Total base build costs are now £55,414,000 (£173.75 per sq ft). In November 2020 the build cost adopted were £43,600,000 (£135.82 sq ft). Base build cost have increased by £11,814,000.

2. REBUTTAL OF VIABILITY EVIDENCE

2.1 Gross Development Value

- 2.1.1 Mr Miles has increased his average sales value from £340 per sq ft to £380 per sq ft from the Appellants statement of case (November 2020) to his PoE (November 2021), an increase of circa 12%. The key reason sighted for this increase by Mr Miles is sales values inflation with reference to the Land Registry HPI.
- 2.1.2 Mr Miles has relied on transactional data broadly from the same residential developments as used in the FVA submitted in support of the planning application (June 2020). Mr Miles references 9 no. residential developments, 5 no. of which are PDR office to residential developments under Class O of the GDPO (2015, as amended). Two “new” developments are referenced by Mr Miles that were not included in the viability submissions to support the planning application (June 2020), 15 Trafford Road and Arbito; though it is noted that a combined total of 3 no. sales have been provided from these developments and it is thus not possible to draw conclusions from the data referenced in regard of setting benchmark sales values.

Permitted Development Rights Conversions

- 2.1.3 When looking at the comparable evidence relied on by Mr Miles to set his sales values assumptions, I would argue there has been an over reliance on using sales data from PDR office to residential conversions. Mr Miles argues that conversion sales data produces a distorted outcome on a value per sq ft basis. There is a need to adjust the PDR sales values upwards by adding a hypothetical new build premium to known conversion gross sales values. This would then eliminate any disparity when seeking to establish an average sales value per sq ft across schemes that are not, by their nature, comparable.
- 2.1.4 To establish the appropriate level of premium for new build over conversion, it is important to source all available data relating to the new build market. As identified in my PoE there are a large number of new build apartment schemes in Old Trafford either completed, under construction, consented or in the planning system. No. 1 Old Trafford is the first of these that is providing real, live, data to determine what the new build premium in the Old Trafford apartment market is. From a review of asking prices and an interview with the developer of the scheme it is clear that the achieved prices (now 98% agreed sales) have set a new benchmark for the area.
- 2.1.5 The conversion of an existing office building will typically require the following works:
- Strip out, waste removal, electrics, plumbing, partitioning, plastering, joinery, sound proofing, window upgrades, bathrooms, kitchens, decoration, tiling, and eternal works.

In addition, conversion apartments are invariably compromised as they have been retrofitted into existing buildings. The positioning of existing windows, intended for open plan office areas, can cause major challenges when floor space is compartmentalised. Both factors are key considerations when conversion apartments are priced for market sale.

- 2.1.6 New build schemes provide a purpose built product that is able to demand a higher market value when compared to PDR schemes, as such, there is a requirement to adopt a premium over and above PDR office to residential conversions values.

Hierarchy of Evidence

- 2.1.7 RICS published a guidance note¹ which provides best practice when using comparable evidence for the purpose of valuation and development appraisal. This document is included at **appendix 2**. Section 4.6 sets out the hierarchy of evidence identifying where certain types of evidence take precedence over others. A list is provided by RICS which splits types of evidence into three categories.

- 2.1.8 Category A identifies the best and most reliable comparable evidence, direct comparables. This includes contemporary completed transactions for near-identical properties where full and accurate information is available. Also included within Category A are properties that are being marketed where offers have been made but a binding contract has not been completed, and asking price data. The data I have relied on falls into this category. I have explained why I consider limited weight can be afforded to the transactional data relied on by Mr Miles primarily sourced from PDR office to residential conversion schemes.

- 2.1.9 Category B identifies types of data that can provide guidance rather than a direct indication of value such as historic evidence and indices. Mr Miles has relied on sources of data that would be categorised as part of Category B as he relies on old transactions and then inflates by Land Registry HPI. Given that there is better evidence in the form of category A data this evidence should not be relied on. Further in the circumstances of Trafford reliance on old transactions and just HPI is misconceived because this area is well known to be undergoing transformative change which will make historic transactions no guide to present values.

2.2 Benchmark Land Value

- 2.2.1 The BLV adopted by Mr Miles has decreased by circa £2,000,000 from his position of November 2020. Mr Miles has used a different methodology. Previously he had followed an investment methodology as is

¹ Comparable evidence in real estate valuation, 1st Ed, (2019) RICS

common practice for the establishment of BLV for commercial buildings. In his PoE, Mr Miles relies on a third opinion from the CW valuation team based in their Manchester office. The assessment is based on comparable transactional data focusing on a Former Homebase on Manchester Road in Bolton, and is considered to take account of the planning use restriction at the Former B&Q. The existing use value (EUV) adopted by Mr Miles on this basis is £1,300,000. Mr Miles then assumes a premium of between 20% to 30% of the EUV to establish a range for the BLV of £1,560,000 to £1,690,000. For clarity, the overall assessment of BLV made by Mr Miles is not being rebutted, though it is considered relevant to highlight the difference in methodology and adopted BLV between the statement of case and the proof of evidence.

3. RETBUTTAL OF COST EVIDENCE

- 3.1.1 Mr Miles includes a table at section 4.1 of his PoE. This table sets out the agreed elements of the FVA when the Appellant issued their statement of case in November 2020. It is stated that base build costs were agreed at a level of £43,600,000 (£135.82 per sq ft) based a cost estimate provided by ES (Rev D). In his PoE in regard of base build costs, Mr Latham does not comment on the Rev D cost estimate, nor does he provide a reasoned justification for why costs have increased £11,814,000 in the space of a year between November 2020 and November 2021. I consider this to be an important omission.
- 3.1.2 I have reviewed Mr Latham's PoE in regard of the cost estimate that has been relied upon by Mr Miles in his FVA. Appendix C of Mr Latham's PoE is referenced as "BCIS average prices/m2 available at 1Q 2020 - AC/10/C" however, it appears that there has been an issue when uploading the document into the appendices which has distorted the information. Mr Latham has been asked to provide an updated appendix setting out the relevant and correct data.

3.2 Edmund Shipway Cost Estimate Rev G, November 2021

- 3.2.1 ES have produced multiple costs estimates over time. Rev D was relied on and agreed in viability discussions at the planning application stage and in the statement of case. Rev G has now been provided and is being relied upon in Mr Miles's FVA. The Rev G cost estimate reverts to costs previously included in the original cost estimate (January 2020) which are significantly higher than those in Rev D. Given my speciality is not cost consultancy I have sought expert advice from Steve Wright of Monaghans (**appendix 1**). Mr Wright has already prepared an initial comment on the Rev G cost plan, that was included within my PoE. The overall conclusion made was that there was insufficient information to make a reasoned assessment of the new assumptions made by ES and the differences from the previously agreed cost estimate (Rev D). Given the omission of reference to the Rev D cost plan this conclusion remains unchanged and it is difficult for Mr Wright to form an opinion given the lack of information provided by Mr Latham in his PoE.
- 3.2.2 Mr Latham states within his PoE that the adopted base build cost falls within the mean and median BCIS average price index for apartments over six storeys rebased to Trafford at November 2021. On this basis he considers his assessment appropriate. Mr Wright provides a detailed assessment of this assumption in his letter. Though it should be commented that the comparison made by Mr Latham when cross referring with the BCIS average price data is not like for like. The basement car park, residential amenity space, and commercial space all have lower average costs on the BCIS than for apartments. When accounting for the differential in costs and adopting a blended rate for the four elements it is evident that the Rev G cost estimate prepared by Mr Latham is ahead of the BCIS average price index at November 2021.

3.3 Sensitivity Analysis

- 3.3.1 Given Mr Latham has focused upon his original cost estimate (January 2020), as opposed to Rev D, within his PoE I have undertaken a sensitivity analysis which adopts the total build cost as adopted in Mr Latham's original cost estimate (January 2020) and compared this with Mr Miles adopted sales values at June 2020 before indexation (£340 per sq ft).
- 3.3.2 There is a differential in the total GIA adopted in Mr Latham's original cost estimate and Rev D. Given Rev D is not referenced in Mr Latham's PoE I have not been provided with an explanation as to the reasoning for this. As such, I have undertaken two sensitivity analyses, the first based on the original cost estimate GIA (January 2020) and the second on the Rev D GIA (June 2020). The full appraisals are set out at **appendix 3** and **appendix 4**. The following table sets out the residual output of both analyses. For clarity, the total cost has been used.

Description	Appendix	Residual Land Value
January 2020 GIA	3	-£2,608,849
June 2020 GIA	4	-£1,418,974

- 3.3.3 Both of the analyses assumed that all units were delivered on a market basis (i.e. zero affordable housing). The Appellant made an offer of 10% affordable housing in addition to £1,073,707 in other S106 contributions at June 2020 as part of initial planning application. Based on the original cost estimate that I now have sight of following Mr Latham's PoE the proposed scheme would have had a substantial viability challenge at the planning application stage which would call into question its deliverability.

3.4 Gross to Net Ratio

- 3.4.1 Mr Miles provides an explanation as to why the Gross to Net ratio of the proposed scheme is inefficient in comparison to other apartment schemes within Trafford Borough. It is stated in paragraph 5.5² that a typical Gross to Net is around 80% for an apartment scheme, this assumption corresponds with my experience and knowledge of apartment developments. The Gross to Net ratio assesses the Net Saleable Area (NSA) or Net Internal Area (NIA) of a proposed scheme against its Gross Internal Area (GIA) including all circulation space. For large apartment schemes, a Gross to Net ratio of 80% is considered to represent the industry standard. As per the RICS Code of Measuring Practice, the NSA or NIA should not include; circulation space, services risers, smoke vents, plant rooms, cycle stores and refuse stores.

² Proof of Evidence of Stephen Miles, (December 2021)

3.4.2 Mr Miles considers that the Gross to Net ratio I referenced in the viability report³ that supported Trafford Council’s statement of case (August 2021) does not consider “other saleable space such as the retail and café area”. I have considered the inclusion of other saleable space as recommended by Mr Miles in my proof of evidence and the Gross to Net ratio does not increase significantly, moving from circa 68% to circa 69% when accounting for the retail and café area. This ratio remains substantially below what is considered by Mr Miles to be an efficient ratio of 80%.

3.4.3 Mr Miles has estimated the Gross to Net ratio of the proposed scheme by including additional areas within his estimated NSA/ NIA. The additional areas included are; the basement car parking, and ancillary space such as refuse, cycle store and amenity space. Mr Miles states that when these elements are included in the NSA/ NIA for the proposed scheme, the resultant Gross to Net is 81.6% which he considers efficient. When measuring the NSA/ NIA of a building it is best practice to follow the RICS Code of Measuring Practice (2015). The Code states that there is no single accepted practice for measurement of residential property for valuation or marketing purposes, but that in new residential developments NSA is the predominant method used. The below table sets out the guidance in regard of inclusion and exclusion when measuring:

Net Sales Area

26.0 Net Sales Area [NSA]		Net Sales Area is the GIA of a new or existing residential dwelling, subject to the following conditions	
Including		Excluding	
26.1	Basements	26.5	Areas with headroom less than 1.5m where the dwelling does not have usable space vertically above
26.2	Mezzanines	26.6	Garages
26.3	Galleries	26.7	Conservatories [state separately]
26.4	Hallways	26.8	External open-sided balconies
		26.9	Greenhouses, garden stores, fuel stores and the like in residential property
		26.10	Terraces

Source – RICS Code of Measuring Practice (2015)

3.4.4 The guidance is evidently suited to estate residential dwellings rather than apartment schemes given the reference to garages, galleries, basements, mezzanines, and hallways that would not be a feature of an apartment scheme. On this basis I have reviewed the guidance contained within the Code for measuring the Net Internal Area (NIA) for buildings in business use. Section 3 of the Code provides the general inclusions and exclusions when measuring to assess NIA. Of particular interest in regard of the areas that Mr Miles includes in NIA is that the Code recommends the following areas excluded:

³ Former B&Q Appeal Hearing Viability Report, (2021) Continuum

- *Those parts of entrance halls, atria, landings and balconies used in common parts (Part 3.11);*
- *plant rooms, tank rooms and the like** (Part 3.13); and
- *vehicle parking areas (Part 3.21).*

*refuse and cycle stores assumed to be covered by “the like”.

3.4.5 Mr Miles states that the basement car park is the main contributor to the reduction in the efficiency of the building given its inclusion in the GIA. Given the basement car park is included in the GIA, it would be expected that base build costs adopted for the scheme would be lower when compared with the BCIS average price index for apartments as car park spaces are far less costly to construct than apartments.