



Financial Viability Appraisal

Address:	Whitehouse Club, 193 Middleton Road, Manchester, M8 4JZ
LPA:	Manchester City Council
Planning reference (if any):	131045/FO/2021
Client:	Dappa Homes Ltd
Date:	16th September 2021



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Executive Summary

This report provides a Financial Viability Appraisal (FVA) of proposed development at Whitehouse Club, 193 Middleton Road, Manchester, M8 4JZ, utilising Market Comparison and Residual Methods following RICS Guidance Valuation of Development Property (2019), Assessing Viability in Planning under the NPPF 2019 Framework (2021) and National Planning Policy Guidance on Viability (NPGV 2019).

Following NPGV para 008, wherever possible this FVA utilises assumptions used in the underlying local plan evidence base. Where changes have been made, these are fully supported by market evidence demonstrating current local circumstances.

The key outputs of this FVA are summarised in the below table:

GDV	£19,620,276.00
Costs exc land and profit	£16,349,006.81
Finance	£726,186.69
BLV	£1,033,000.00
RLV	(£1,378,972.70)
RLV-BLV	(£2,411,972.70)
Target profit	20.00%
Actual profit	7.71%

Target developer return includes a risk-adjusted rate for market residential (20%). Sensitivity analysis demonstrates this is the minimum return necessary to offset a high-risk environment. This is broadly policy and precedent compliant.

Benchmark Land Value (BLV) is assessed via the EUV+ method in line with national policy. No premium has been added in this instance.

As such, this FVA demonstrates that, on a 100% open market basis, the resulting actual return to the developer following all costs including land value detracted from gross development value would be significantly below target return. Therefore, the development cannot viably provide additional s106 contributions.

Full appraisal inputs and evidence are found in the Schedules, referred to throughout.

Introduction

S106 Management is instructed by DAPPA Homes Ltd to produce a Financial Viability Appraisal (FVA) to determine the level of Affordable Housing contribution that should be expected from a proposed development at Whitehouse Club, 193 Middleton Road, Manchester, M8 4JZ.

Manchester City Council seeks an Affordable Housing contribution in accordance with Policy 3 of their Core Strategy (adopted July 2012).

The existing site is an infill site extending to approximately 1.59ha. This has previously been used as a football pitch and bowling green; however, it has remained vacant for the past 10 years.

The site holds the benefit of a hybrid planning consent 115468/OO/2017, which provided detailed planning permission for a replacement Social Club (phase 1) and outline consent for 74 dwellings (phase 2). The permission was granted subject to a S106 agreement securing the delivery of an open space contribution of £220,000, 8 x 2 bed rented affordable apartments, 4 x 2 bed shared ownership affordable apartments and 3 x 2 or 3 bed Starter Homes (delivered as houses).

Subsequent to the grant of planning permission it has become clear that the cost of constructing Phase 1 of the existing consent, along with the Open Space contribution and Affordable Housing renders the Phase 2 development uneconomic.

The Applicants are therefore submitting a new planning detailed application in respect of the Phase 2 of the outline consent, in order to secure a revised and viable planning permission.

The new planning application provides 12 x 50m² 1 bed flats, 12 x 61m² 2 bed flats, 32 x 96m² 3-bed houses (10 semi-detached and 22 terraced) and 16 x 127m² 4-bed semi-detached houses. In total the accommodation is 74 units, 5,358m² for the houses and 1,332m² for the flats.

This mix is slightly different from the indicative scheme considered by the outline planning application.

Location Plan



S106 Management

S106 Management is a viability consultancy established in 2011 by Robin Furby, retired solicitor, land promoter and property developer. Formed initially to capitalise on 35 years of specialist experience in planning law, viability assessment and development, the company has expanded over the last 10 years and now benefits from the expertise of chartered surveyors, town planners, solicitors, architects and an extensive network of planning professionals.

With over a decade of experience in creating expert financial viability appraisals, advising on complex planning obligations, and negotiating planning contributions, **S106 Management** has often been at the forefront of new statutory procedures, making one of the first Commons De-registration Applications, and one of the first S106BA viability review applications. The company is now one of the most effective viability consultancies in the UK, combining expertise from all corners of the industry to ensure a fair and balanced approach to developer contributions.

S106 Management have worked with clients on more than 1,000 developments, facilitating over 50,000 homes across LPAs countrywide. Our viability reports have been successfully used in pre-application discussions with Planning Officers and Affordable Housing Officers, supporting planning applications, written appeals, and planning appeal hearings.

Planning Policy

By virtue of section 38 (6) of the 'Planning and Compulsory Purchase Act', planning applications must be determined in accordance with the adopted plan of the Local Authority, unless material considerations indicate otherwise.

Therefore, our starting point is Policy H8 of the Manchester City Core Strategy (adopted July 2012):

Policy H 8

Affordable Housing

The following requirements for affordable housing or an equivalent financial contribution, as set out in Providing For Housing Choice, or any future published SPD and Planning Guidance, currently apply to all residential developments on sites of 0.3 hectares and above or where 15 or more units are proposed. These thresholds will be subject to amendment over the lifetime of the Core Strategy to reflect changing economic circumstances. The targets and thresholds will form part of supporting SPD and/or Planning Guidance.

1. New development will contribute to the City-wide target for 20% of new housing provision to be affordable. Developers are expected to use the 20% target as a starting point for calculating affordable housing provision. It is envisaged that 5% of new housing provision will be social or affordable rented and 15% will be intermediate housing, delivering affordable home ownership options.
2. The proportion of affordable housing units will reflect the type and size of the development as a whole; and where appropriate provision will be made within Section 106 agreements to amend the proportion of affordable housing in light of changed economic conditions, subject to a financial viability assessment.
3. Affordable housing units will be inclusively designed to reflect the character of development on the site.
4. Either an exemption from providing affordable housing, or a lower proportion of affordable housing, a variation in the proportions of socially rented and intermediate housing, or a lower commuted sum, may be permitted where either a financial viability assessment is conducted and demonstrates that it is viable to deliver only a proportion of the affordable housing target of 20%; or where material considerations indicate that

intermediate or social rented housing would be inappropriate. In the latter case, such circumstances could include:

- There is a very high level of affordable housing in the immediate area;
- There is either a high proportion of social rented (35%), or low house prices in the immediate area compared to average incomes;
- Affordable housing would be prejudicial to the diversification of the existing housing mix.
- The inclusion of affordable housing would prejudice the achievement of other important planning or regeneration objectives which are included within existing Strategic Regeneration Frameworks, planning frameworks or other Council approved programmes;

- It would financially undermine significant development proposals critical to economic growth within the City;
 - The financial impact of the provision of affordable housing, combined with other planning obligations would affect scheme viability;
 - There is a need for additional housing provision for older people or disabled people either as affordable or market housing dependent on the results of a financial viability assessment of the scheme.
5. The Council will also consider the provision of affordable housing which is delivered by taking advantage of other equity based products in addition to those options identified in PPS 3.
 6. The definition used for affordable housing is set out in Annex B of PPS 3.

Policy H8 suggests that developments providing 15 or more units or those located on sites of 0.3ha or more will be liable to provide at least 20% of the dwellings as affordable housing. The policy aspiration is therefore the delivery of 15 affordable dwellings.

The purpose of this FVA is to determine whether the development is capable of supporting such a contribution.

This policy has been informed by the Affordable Housing Assessment of Viability completed by Levvel Ltd in September 2009.

PPG Viability para 008 states:

'How should a viability assessment be treated in decision making?

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

This creates a presumption that the underlying local plan evidence base is correct until otherwise proven by any dissenting party.

As such, where appropriate the conclusions of the underlying local plan evidence base are used to inform our report and corroborate assumptions. Where we believe changes must be made, these are fully evidenced

The Levvel report is now rather old. Regrettably Manchester have not updated their viability reporting, therefore we have also cross referenced to the more recent Salford 'Draft Local Plan Assessment of Residential Viability 2019' where this is helpful because it provides an impartial and 'modern' overview of standardised NPPF compliant viability reporting.

National Guidance

National guidance on the delivery of Affordable Housing is provided by the NPPF, which replaced the previous advice in PPS3.

Paragraph 58 of the NPPF is of relevance:

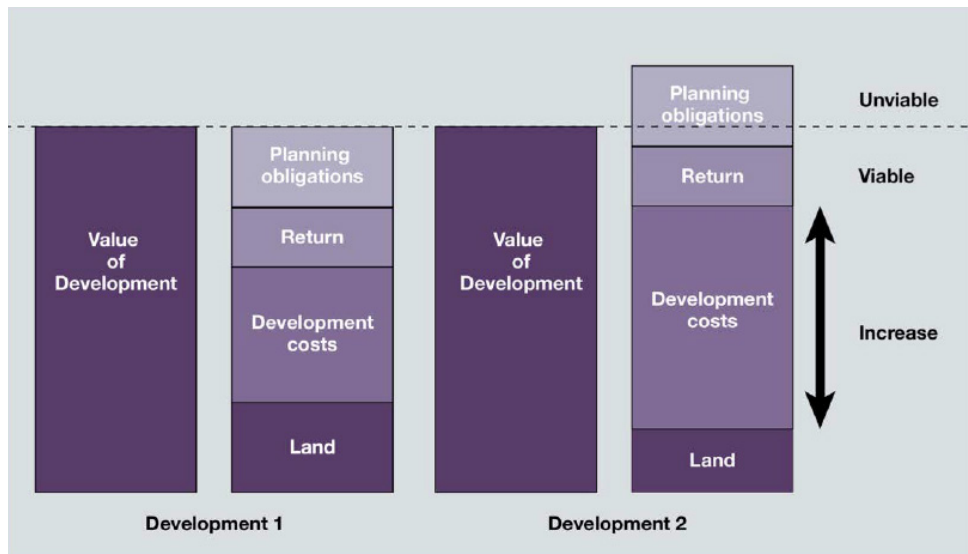
58. Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.

The recommended approach referred to above is set out in the NPGV (<https://www.gov.uk/guidance/viability>).

The standard approach to viability is explained at para. 10 of the NPGV:

'Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it.'

This is summarised well in the below figure from RICS guidance:



Paragraphs 11-18 lay out the required approach to calculating gross development value (GDV), development costs, benchmark land value, landowner and developer return.

The concept of viability is well expressed by the NPGV, in particular para 12 which sets out the costs that should be included in any viability statement, and paras 13-17 which seek to ensure that the landowner should receive the Existing Use Value (EUV) of the site plus a premium, thus providing an incentive to the landowner to bring the site forward for development.

Our report has been written in accordance with the principles set out in both the NPPF, and the NPGV.

Viability

The relevance of viability is accepted in Policy H8 which states:

4. Either an exemption from providing affordable housing, or a lower proportion of affordable housing, a variation in the proportions of socially rented and intermediate housing, or a lower commuted sum, may be permitted where either a financial viability assessment is conducted and demonstrates that it is viable to deliver only a proportion of the affordable housing target of 20%; or where material considerations indicate that

This policy statement should be seen in the context of the NPPF, and indeed subsequent Government guidance.

There are several proprietary spreadsheets in use to justify viability. We use the Housing Corporation Economic Appraisal Tool (HCEAT), developed by GVA Grimley in partnership with the Housing Corporation (now HCA); it is one of the Toolkits commonly used when considering development viability.

Our report and its conclusions are based on the application of this tool.

The next section sets out the assumptions that have been made in the preparation of the HCEAT spreadsheet examining the viability of this site; the spreadsheet is shown in **Schedule 1** of this report. The comments below address the inputs to the spreadsheet sequentially and an electronic copy can be provided to the LPA on request.

Spreadsheet Inputs

Proposed Development - Input Sheet 1

The development is summarised by the table below and detailed plans are shown at **Schedule 2** to this report:

Type	Area per unit (m2)	no. of units	total area (m2)
1 bed flats	50	12	600
2 bed flats	61	12	732
3 bed semis/terraced	96	32 (10 semi, 22 terraced)	3,072
4 bed semis	127	18	2,286
Total area (m2)			6,690

Affordable Housing Values (input sheet 2)

We approach this issue by firstly modelling a scheme with no Affordable Housing; if the Residual Value of this model exceeds the Benchmark Value of the site (as described below) then we produce further modelling to illustrate the maximum level of Affordable Housing that can viably be delivered by the development.

Open Market Housing Values (input sheet 2)

The Zoopla data for the M8 Postcode is set out below:

Property type	Avg. current value	Avg. £ per sq ft.	Avg. no beds	Avg. £ paid (last 12m)
Detached	£247,443	£153	3.6	£235,000
Semi-detached	£173,086	£159	3.2	£195,800
Terraced	£125,593	£129	3.0	£132,586
Flats	£108,823	£143	1.9	£107,184

The Zoopla data suggests that the following average current values for the area:

- £1,539.25 / m2 for flats, based on 1.9 no. of beds;
- £1,388.55 / m2 for terraced houses, based on 3.0 no. of beds;
- £1,711.47 / m2 for semis, based on 3.2 no. of beds;

Transactional Data

We have compared Zoopla data to relevant recent 'sold', 'for sale' and 'new build for sale' transactions extrapolated from Rightmove. Prices are extremely sensitive to small changes in search area. However, due to a limited supply of comparable units in the vicinity of the development, we were required to extend the search area for each of the transactions below to +1 mile. We note for this reason that the prices might not necessarily be reflective for what would be achieved by the proposed units.

We have firstly looked at 'sold' transactions and properties for sale (see **Schedule 3**) that occurred in the past 1 year and within 1 mile:

SOLD FLATS - within 1 mile, last 1 year					
Address	Type	Sale Date	Area (m2)	£/m2	Price
Flat 2, Tower Grange, New Hall Road, Salford, Greater Manchester M7 4EL	2-bed flat - GF, fitted furniture, outdoor patio, communal car parking	10.03.21	54.30	£1,860.04	£101,000
Flat 2, Bristol Court, Bury Old Road, Salford, Greater Manchester M7 4QX	2-bed flat - GF, well-proportioned rooms, off-street parking	02.03.21	75.00	£2,066.67	£155,000
Flat 12, Tower Grange, New Hall Road, Salford, Greater Manchester M7 4EL	3-bed flat - 1F, master bed with balcony and en-suite, electric heating, communal gardens and parking	11.02.21	62.00	£4,048.39	£251,000
Flat 12, Grosvenor Court, Park Lane, Salford, Greater Manchester M7 4JZ	2-bed flat - in need of modernisation, off-street parking	28.01.21	72.00	£1,555.56	£112,000
102 Roch Bank, Manchester, Greater Manchester M9 8FL	2-bed flat - top floor, purpose built, en-suite shower room	25.11.20	64.60	£1,640.87	£106,000
Flat 8, Lovell Court, Middleton Road, Manchester, Greater Manchester M8 4LB	2-bed flat - top floor, gas central heating, modern fitted kitchen and bathroom, communal gardens, garage	20.11.20	55.90	£1,788.91	£100,000
Flat 2, Tall Trees, Westfield Street, Salford, Greater Manchester M7 4NG	2-bed flat - spacious, modern kitchen, private parking and separate garage, picturesque surroundings	29.10.20	73.60	£2,207.88	£162,500
Flat 23, Hilltop Court, Brooklands Road, Crumpsall, Manchester, Greater Manchester M8 4JH	2-bed flat - top floor, communal parking	05.10.20	70.00	£1,571.43	£110,000
			Avg. £/m2	£2,080.96	

The local area is predominantly housing – and therefore much better data is available, as shown by the table below.

SOLD SD HOUSES - within 1/4 mile, last 1 year					
Address	Type	Sale Date	Area (m2)	£/m2	Price
49 Craigwell Road, Prestwich, Manchester, Greater Manchester M25 0FE	5-bed semi-detached house - 3 reception rooms, home office, laundry room, beautiful gardens, double driveway, garden	06.03.21	156.90	£2,230.72	£350,000
151 Downham Crescent, Prestwich, Manchester, Greater Manchester M25 0BZ	3-bed semi-detached house - fitted kitchen, modern spacious bathroom, rear garden land with planning permission	22.03.21	78.90	£2,978.45	£235,000
155 Downham Crescent, Prestwich, Manchester, Greater Manchester M25 0BZ	3-bed semi-detached house - small interiors	05.03.21	74.40	£3,063.84	£227,950
109 Windsor Road, Prestwich, Manchester, Greater Manchester M25 0DF	3-bed semi detached house - corner plot, spacious lounge, garden to front and side,	24.02.21	79.10	£2,528.45	£200,000
132 Windsor Road, Prestwich, Manchester, Greater Manchester M25 0DF	3-bed semi detached house - driveway parking, large rear garden, immaculate condition	15.02.21	78.40	£3,150.51	£247,000
120 Windsor Road, Prestwich, Manchester, Greater Manchester M25 0DF	3-bed semi detached house - beautifully presented, modern family bathroom, large rear garden, driveway parking, sought after location	11.12.20	75.40	£3,116.71	£235,000
28 Wilton Road, Crumpsall, Manchester, Greater Manchester M8 4WQ	4-bed semi-detached house - corner plot, spacious accommodation, good sized bedrooms, great location	17.11.20	176.00	£1,789.77	£315,000
2 Northurst Drive, Manchester, Greater Manchester M8 4LS	3-bed semi-detached house - recently refurbished, fantastic location, plentiful parking, huge plot	30.10.20	97.40	£3,080.08	£300,000
			Avg. £/m2	£2,584.14	

The average achieved price extrapolated from Rightmove is higher than the average suggested by Zoopla. This occurs due to the sensitivity to small changes of search area. While the average price provided by Zoopla is taken from across the M8 area, Rightmove results are closer to the area of the proposed development.

There is also evidence of the commonly seen 'quantum' inverse correlation between unit area and £/m2 value.

Furthermore, we have looked at properties that are currently on the market within 1 mile of the subject site:

<i>FOR SALE FLATS - within 1 mile</i>					
Address	Type	Sale Date	Area (m2)	£/m2	Price
Park Lane, Sommerville Court, M7	2-bed flat - 1F, communal gardens, balcony, sought-after block, two bathrooms, dining room,	For sale	94.00	£2,552.66	£239,950
The Chancel, Grey Street, Prestwich, Manchester	2-bed flat - sought after location, communal gardens and gated parking, modern three piece bathroom	For sale	60.30	£2,736.32	£165,000
Lakeside Rise, Manchester	2-bed flat - 9th floor, electric heating, 2 baths, double beds	For sale	69.00	£1,478.26	£102,000
Tara Apartments, 12 St. Marys Hall Road, Crumpsall, Manchester	1-bed flat - communal parking, 1 bath, refurbished interiors, fitted kitchen and bathroom	For sale	54.90	£1,448.09	£79,500
Holland Road, Manchester, M8	1-bed flat - investment opportunity,	For sale	31.60	£1,677.22	£53,000
Avg. £/m2				£2,064.07	

<i>FOR SALE SD HOUSES - within 1 mile</i>					
Address	Type	Sale Date	Area (m2)	£/m2	Price
Parkside House, Bent Lane, Prestwich	5-bed semi-detached house - 5 baths, Victorian, double gated driveway, front and rear garden	For sale	234.00	£2,970.09	£695,000
Bishops Road, Prestwich	4-bed semi-detached house - 4 beds, 1 bath, off-street parking and garage, well proportioned	For sale	154.20	£3,112.84	£480,000
Lincoln Drive, Prestwich	5-bed semi-detached house - 2 baths, well presented throughout, popular location, large rear garden off-street parking	For sale	162.00	£2,962.65	£479,950
Wilton Road, Crumpsall M8 4NG	4-bed semi-detached house - 2 baths, off street parking, study, good sized rear garden, conservatory, stunning interiors	For sale	172.60	£2,665.12	£460,000

Tetlow Lane, Broughton	3-bed semi-detached house - 1 bath, immaculate condition, well maintained rear garden, off-street parking	For sale	97.00	£3,969.07	£385,000
Princess Avenue	4-bed semi-detached house - 2 baths, immaculate condition, double beds, 2 baths, landscaped rear yard, recently re-tiled roof	For sale	124.00	£2,903.23	£360,000
Lancaster Drive, Prestwich	3-bed semi-detached house - 1 bath, front and rear gardens, driveway, 2 reception rooms	For sale	114.50	£2,969.43	£340,000
Welford Road, Crumpsall, M8	3-bed semi-detached house - stunning kitchen, loft room, off road parking	For sale	126.90	£2,561.07	£325,000
			Avg. £/m2	£2,974.14	

The asking price data suggests that asking prices have a slightly upward trajectory. The individual asking prices vary widely having the effect of undermining the significance of the average value identified by the tables above.

We have searched for new build transactions and asking prices in the vicinity. Unfortunately, there is no directly comparable property to report.

We have therefore turned to local agents – for their expert opinion which is set out in the table below:

Type	Area per unit (m2)	No. of units	£/m2	Price
1 bed flats	50	12	£2,900.00	£145,000
2 bed flats	61	12	£2,704.92	£165,000
3 bed semis/terraced	96	32 (10 semi, 22 terrace)	£3,125.00	£300,000
4 bed semis	127	18	£2,755.91	£350,000
Total area (m2)	6,660		Total sales	£19,620,000

The proposed valuation above has been reached following extensive market research, consideration of comparable characteristics in recent transactions, new build and external amenity premiums and discussions with local agents and therefore should be considered robust. The figures represent the very top end of what can be achieved in today's market and considering current trends should be considered optimistic. It should be

noted that the 4 bed semis are built over 3 storeys and the valuation reflects a reduced £/m2 rate for the top storey of those houses.

For the sake of clarity, we have run the HCEAT with the average £/m2 values noted in the table above to produce a GDV of £19,620,000.

The capital value of the Freehold Ground Rents from the apartments is included at zero for the purposes of this viability appraisal because legislation is proposed in the next parliamentary session to limit annual rents to a peppercorn, and national and local government are currently encouraging this. See MHCLG announcement 07/01/2021 <https://www.gov.uk/government/news/government-reforms-make-it-easier-and-cheaper-for-leaseholders-to-buy-their-homes>.

Five major national housebuilders (Barratt, Bellway, Countryside, Tailor Wimpey, and Berkeley) announced in December 2020 they are abolishing ground rents on new flatted development. As such, to remain competitive, any future development is likely to need to limit ground rent to a peppercorn at maximum.

Further, the terms of government programmes such as Help to Buy and the Homebuilders Fund now preclude the charging of significant ground rents.

Timing - Input Sheet 2

This FVA is to be read in conjunction with a detailed planning application which we expect to be granted within 3 to 6 months. There will be a 3-month period following this to produce building regs. drawings and obtain all fixed price quotations.

Construction is projected over a 24-month period with sales expected between months 12 and 30.

The 6-month period before commencement of build has not been included in our calculations.

Construction Costs (input sheet 2)

RICS released advice in May 2021, suggesting material prices rose by 2.7% in the first quarter of 2021 and 5.6% compared with the previous year. The forecast for Q2 2021 is for a further 2.6% increase, with a 7.2% annual increase predicted. Further RICS' latest guidance on assessing viability under the NPPF states an elemental QS cost plan should ideally be provided for site-specific assessments, with appropriate adjustments to capture inflation.

We have obtained advice in the form of a complete QS cost report from Mr. David Parker (MRICS). The costs are summarised in the table below and the detailed cost report can be found at **Schedule 4**. The Cost of the houses is summarised in the table below:

<i>Houses</i>	
Item	Total Cost
Demolitions & Foundations	£719,000.00
External Walls	£1,400,400.00
Roofs	£617,100.00
Upper Floors	£216,100.00
Staircases	£161,000.00
Windows, doors and screens	£457,000.00
Internal partitions	£559,400.00
Internal doors	£260,000.00
Joinery	£682,800.00
Floor finishes	£226,200.00
Wall finishes	£122,500.00
Ceiling finishes	£141,500.00
Decorations	£225,000.00
Sanitary installation	£689,000.00

Plumbing installation	£954,000.00
Electrical installation	£449,000.00
Underground drainage	£200,000.00
Total costs	£8,080,000.00

The construction cost of the houses is stated at £1,508/m² (total area 5,358m²).

The Cost of the Flats is summarised in the table below.

<i>Flats</i>	
Item	Total Cost
Demolitions & Foundations	£123,700.00
External Walls & Frame	£280,500.00
Roofs	£141,700.00
Upper Floors	£117,800.00
Staircases	£28,000.00
Windows, doors and screens	£124,000.00
Internal partitions	£177,800.00
Internal doors	£96,200.00
Joinery	£237,800.00
Floor finishes	£69,600.00
Wall finishes	£25,200.00
Ceiling finishes	£75,000.00
Decorations	£93,000.00
Sanitary installation	£149,400.00
Plumbing installation	£285,700.00

Electrical installation	£185,300.00
Acousting Testing	£12,000.00
Underground Drainage	£25,000.00
Total costs	£2,247,700

The NIA of the flats is 1,323m², which the GIA is 1,545m². The correction factor used in the spreadsheet is 85.63%.

Using the GIA the cost of construction is £1,455/m².

Non BCIS Construction Costs

We have separated the calculation of external works presented in the cost report at **Schedule 4**, as per the table below:

<i>External works</i>	
Item	Total Cost
Roofs/footpaths	£544,700.00
Car parking	£369,200.00
Patios/paths	£128,000.00
Crossover to road	£10,000.00
Topsoil & turf	£109,900.00
Tree/shrub/planting	£15,000.00
Signage	£2,000.00
Lighting	£8,000.00
Underground drainage	£55,000.00
Timber fencing	£180,000.00
extra for gates	£5,000.00

bin stores	£8,000.00
Cycle stores	£2,000.00
Extra ramped	£8,000.00
Incoming services	£200,000.00
Main drainage connection	£50,000.00
NHBC	£150,000.00
Total costs	£1,844,800.00

The corresponding total cost has been adopted in our HCEAT spreadsheet under the heading Infrastructure Costs.

White House Club – replacement costs.

The requirement for the replacement of the existing facilities arises from adopted policy EN11 which protects recreational facilities such as the White House Social Club:

Policy EN 10

Safeguarding Open Space, Sport and Recreation Facilities

The Council will seek to retain and improve existing open spaces, sport and recreation facilities to the standards set out above and provide a network of diverse, multi-functional open spaces. Proposals will be supported that:

- improve the quality and quantity of accessible open space, sport and recreation in the local area
- provide innovative solutions to improving the network of existing open spaces, increase accessibility to green corridors, and enhance biodiversity
- improve access to open space for disabled people

Proposals on existing open spaces and sport and recreation facilities will only be permitted where:

- Equivalent or better replacement open space, sport or recreation facilities will be provided in the local area;

The importance of these facilities and the requirement for their replacement is clearly set out in the Planning Officer report recommending approval of the existing outline consent. The full report is set out in **Schedule 5**. The following extract endorses the point.

The principle of a new club house at the site is considered to be acceptable. The club is well used by its membership and is available for community hire for weddings and events. The existing building is in a poor condition and as a result of this fails to contribute positively to the surrounding area, particularly Middleton Road which is a major road route connecting the north of the city with the city centre. These development proposals provide an opportunity to provide a new purpose built building which will not only provide modern and attractive internal spaces but also improve the visual appearance of the building to Middleton Road. The facilities on offer at the proposed social club are the same as the existing facility. The club's current membership has in excess of 800 members and the event space and social club element remains buoyant. The existing social club is currently used by local groups as well as other private functions.

The existing social club currently provides 787 sqm of floor space. The proposed club will provide 1046 sqm. The uplift in floor space reflects the desire to provide modern facilities at the development in terms of communal spaces and back of house facilities. In particular, snooker accommodation is popular and the scheme seeks to respond to this demand by providing additional facilities. In addition, an upper floor ancillary residential accommodation will be provided for a live in club steward as well as committee space for the club members.

There are currently no restrictions of the operating hours of the existing club house from a planning perspective. However, the licensing hours permit the existing social club to be open:

- Monday to Saturday 11:00 to 00:00
- Sundays 12:00 to 23:30

The applicant intends to operate the proposed club in line with these hours. In line with comments from Environmental Health, the premises shall be appropriately acoustically insulated to prevent the outbreak of noise. This will form part of the conditions of the planning approval.

The Outline consent creates a clear linkage between phase 1 and phase 2, we would expect that the planning application now being considered to secure an identical linkage via a planning obligation securing delivery of the new social club facilities.

The link between the two phases, and the planning policy requirement, mean that the policy cost of providing the replacement social club must be included as a cost in the context of any viability reporting.

We have obtained a report from David Parker QS. In order to determine the cost of providing the replacement Social Club. The report is found in **Schedule 4** and summarized below:

<i>Social Club</i>	
Item	Total Cost
Demolitions & Foundations	£177,800.00
External Walls	£179,900.00
Steel frame	£60,000.00
Roofs	£219,000.00
Upper Floors	£60,600.00
Staircases & lift	£120,000.00
Windows	£114,800.00
Internal partitions & walls	£87,200.00
Internal doors	£60,500.00
Joinery	£113,800.00
Floor finishes	£65,200.00
Wall finishes	£10,200.00
Ceiling finishes	£67,600.00
Decorations	£24,000.00
Sanitary installation	£77,700.00
Plumbing and mechanical installation	£156,100.00
Electrical installation	£123,700.00
Underground drainage	£23,000.00
Total cost	£1,741,100

We therefore Include the figure of £1,741,100 In our HCEAT spreadsheet under the heading 'Other' costs.

NB. The Developer has entered into a contract with the owners of the White House Club whereby the Club Owners have sold the land which forms the site of this planning application, in consideration of the developers paying the Club Owners £600,000 and constructing replacement premises as described above. A copy of the relevant contract will confidentially be made available to the Council on request.

Fees - Input Sheet 2

10% for fees is the default value of the HCEAT Spreadsheet and the commonly accepted industry standard allowance.

Contingency - Input Sheet 2

5% for contingencies is the default value of the HCEAT Spreadsheet and is the commonly accepted industry standard allowance.

Section 106 Payments - Input Sheet 2

The previous outline planning permission included an open space contribution of £201,121 and this has been included in our spreadsheet.

Site Acquisition Costs - Input Sheet 2

The developers will pay SDLT upon both the value of the contract to replace the Whitehouse Club (£1.741m) and the purchase price of the land (£0.6m) as explained below. We therefore include purchase costs of £120,000 as a lump sum figure, including £106,900 in SDLT. Our modelling has been run with a corresponding figure.

Finance Costs - Input Sheet 2

While base rates are at a historic low level, cost of funding expressed as a percentage above LIBOR is at historically high figures. Further, given the macro-economic context, lenders have become increasingly risk adverse and therefore funding is becoming harder to acquire. Therefore, an interest figure of 7% is used in the spreadsheet.

Marketing Costs - Input Sheet 2

We have adopted a marketing cost of 3% and legal fees of £1,000 per unit.

Developer Profit - Input Sheet 2

The NPGV contains the following advice at paragraph 18:

How should a return to developers be defined for the purpose of viability assessment?

'For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale, and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.'

We have referred to the Salford Draft Local Plan Viability Assessment, which identifies an 18% of GDV profit level at Table 10 para E1; this can be seen as the floor of appropriate profit margin.

We have further considered the risk profile of the development and developer in the below table:

	Risk level
Developer size / ability to mitigate risk (smaller = higher risk)	High
Development size / multi-phase (larger = higher risk)	Medium
Number of storeys (taller = higher risk)	Low
Macroeconomic environment (unemployment, inflation, outside risk factors such as Covid lockdowns)	High
Sales value reduction risk (current trends and predictions)	High
Delay to start risk (e.g. from lockdowns, planning delay etc)	High
Finance availability risk (tighter lender criteria = higher risk)	High
Build cost increase risk (based on TPI all-in index and materials cost reporting)	High

Taking into account the risk profile of the development identified in the table above we consider that the assumption adopted in the Salford Viability Study is inappropriate (18%), and we have adopted a profit margin of 20% in order to compensate the developer for the increased risks inherent in the construction industry, particularly build cost inflation, the relative size of the scheme to the developer, and the multi-phased nature of the scheme, as well as the cost of the replacement club. This is supported by our sensitivity analysis, which further demonstrates the relative risk profile of the development (see below).

The HCEAT appraisal has been run accordingly.

Benchmark Value

The NPGV provides a standard methodology for determining Benchmark Land Value (BLV). Paragraph 15 requires that the EUV of the site should be identified:

‘Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield (excluding any hope value for development).

Sources of data can include (but are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams’ locally held evidence.’

The existing site comprises the Whitehouse Club Building which provides c. 745m² of F2(b) community use accommodation, which sits in a larger site of 1.95ha.

The site plan below illustrates that the existing building obstructs access to the western part of the site (1.59ha), which forms the subject of this planning application for 74 dwellings.



In order to bring the site forward for development it is necessary to demolish the existing club building; accordingly the existing premises has the effect of ransoming the 'back land' that forms the subject of the present application. These particular circumstances invite a number of different approaches to valuation (including the calculation of Ransom value in accordance with *Stokes v Cambridge*); however, we follow the process through as required by the guidance.

It will be apparent from the commentary above that the requirement to replace the existing social club arises from Planning Policy. The Trustees of the White House Club will remain the owners of the land that forms the site of the replacement facility (0.36 ha) and the new buildings erected thereon. We therefore disregard both the value of the land and replacement buildings in the context of the existing use value of the site as a whole and only consider the site of this standalone planning application (1.59Ha).

The EUV of 1.59Ha of back land can be considered by reference to the Salford Viability study, which (at para 5.34) recommends the use of Industrial land values of £550-650,000 per hectare (in 2017 values) as a proxy for developments on brownfield land such as this.

If we take the higher figure to avoid the need for index linking an EUV of £1.033m is predicated for the land alone.

Paragraph 16 requires that a premium should be added to the EUV (EUV +) to incentivise the landowner to bring the site forward for development:

'The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a landowner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements.

Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration. Market evidence can include benchmark land values from other viability assessments. Land transactions can be used but only as a cross check to the other evidence. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners. Policy compliance means that the development complies fully with up to date plan policies including any policy requirements for contributions towards affordable housing requirements at the relevant levels set out in the plan. A decision maker can give appropriate weight to emerging policies. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).'

The Salford Viability Study advocates a premium of 20% at Para 4.37, this appears a conservative, however in the particular circumstances of this case we consider the use of the industrial land value includes a premium and therefore the EUV figure of £1.033m is adopted.

Paragraph 17 allows the BLV to be determined by an alternative Use Value (AUV):

'For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its existing use. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should be limited to those uses which would fully comply with up to date development plan policies, including any policy requirements for contributions towards affordable housing at the relevant levels set out in the plan. Where it is assumed that an existing use will be refurbished or redeveloped this will be considered as an AUV when establishing BLV.'

'Plan makers can set out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with up to date development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued. Where AUV is used this should be supported by evidence of the costs and values of the alternative use to justify the land value. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted.'

In this case given the clarity of the EUV it is unnecessary to consider the AUV of the site, although we reserve the right to do so if necessary.

The standard approach to viability is to compare the BLV of the development site with the Residual Value calculated by the (HCEAT) viability spreadsheet. It is only if the Residual Value of the development exceeds the Market Value (Benchmark), that it will be viable for a contribution to be made towards Affordable Housing.

HCEAT Spreadsheet Conclusions (Spreadsheet Summary)

The full spreadsheet appears at **Schedule 1**, and the key conclusions are set out in the summary section. They are also repeated for convenience below:

Sales	£19,620,276.00
<i>Less Costs</i>	
Construction Costs (Resi)	£10,197,036.82
Commercial Costs (Build & Fees)	£0.00
Other Site Costs	£5,489,361.71
Marketing	£662,608.28
Finance Costs	£726,186.69
Developer Return	£3,924,055.20
Residual Site Value	(£1,378,972.70)
Benchmark Land Value	£1,033,000.00
Result	(£2,411,972.70)

To determine the viability of the provision of Affordable Housing, the Benchmark Value of the site as stated above (**£1,033,000**), is deducted from the Residual Value calculated by the HCEAT spreadsheet. If the result is negative, as it is in this case (**£2,411,972**) the development cannot viably provide a contribution towards Affordable Housing.

Conclusion

The following table has been compiled using data from the HCEAT spreadsheet to reveal the return that the developers will earn from this project:

Spreadsheet Residual Value	(£1,378,972.70)
Plus Target Developer Return	£3,924,055.20
Less Benchmark Value	£1,033,000.00
Actual Profit	£1,512,082.50
 Percentage actual profit	 7.71%

This presents a return of 7.71 % which is lower than the 20% target identified previously.

Any contribution towards Affordable Housing would further reduce this level.

This report demonstrates that the scheme can be considered policy compliant without the provision of any Affordable Homes or S106 contributions towards Affordable Housing.

Sensitivity Matrix

Following RICS guidance we have provided a sensitivity analysis of the assumptions in this report, demonstrating the impact on developer profit of +/-5-10% changes in build costs and sales values. This is particularly important given current material valuation uncertainty resulting from the Covid-19 pandemic and Brexit. As advised by RICS build costs, and in particular materials costs, have already been subject to considerable fluctuation which is not reflected in the current BCIS average data. Further, the negative trend already identified in recent flatted sales values due to changing homeowner preferences may be further compounded following the end of the current stamp duty holiday.

Sensitivity testing conclusions are included below.

Testing the variance associated with changes in sales and build costs of +/- 5-10% results in the below matrix:

Developer profit %	Sales Values					
		-10%	-5%	0%	5%	10%
Build Costs	-10%	2.90%	7.90%	12.90%	17.90%	22.90%
	-5%	0.31%	5.31%	10.31%	15.31%	20.31%
	0%	-2.29%	2.71%	7.71%	12.71%	17.71%
	5%	-4.89%	0.11%	5.11%	10.11%	15.11%
	10%	-7.49%	-2.49%	2.51%	7.51%	12.51%

This demonstrates that the maximum profit likely to be achieved is below the 20% target identified except in scenarios a 10% increase in sales values coincides with a 5-10% fall in build costs.

Given the previously noted macroeconomic environment, this appears highly unlikely. Based on the distribution of values, this is a high-risk development and therefore a minimum 20% target developer profit is fully justified.