

VIABILITY IN PLANNING STATEMENT

IN RELATION TO:

**DEPARTMENT OF WORK AND PENSIONS DCS DISTRIBUTION CENTRE,
MANCHESTER ROAD, HEYWOOD OL10 2PZ**

LOCAL PLANNING AUTHORITY: ROCHDALE BOROUGH COUNCIL

PLANNING REFERENCE: 22/01410/FUL

R JAMES MACKAY BSc (HONS) MRICS (RICS REGISTERED VALUER)

ALDER KING LLP

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1.0 QUALIFICATIONS AND EXPERIENCE

- 1.1 This evidence has been prepared by R James Mackay BSc MRICS. I am a Partner at Alder King LLP (AK). I am based in our Bristol office and I am head of the valuation and development viability services for the firm.
- 1.2 I have a degree in Real Estate from the University of the West of England, graduating in 1999 and have been a member of the Royal Institution of Chartered Surveyors (RICS) since 2002.
- 1.3 I predominately provide development valuation advice to private developers in connection with financial viability in planning but I have also provided valuation advice to local authorities, banks, and charities on a range of residential development issues including strategic land assembly, development valuation, s.106 and affordable housing valuation and secured lending.
- 1.4 I have provided expert valuation evidence at planning inquiries, examinations in public and informal hearings.

STATEMENT OF TRUTH AND DECLARATION

- 1.5 I confirm that I have made clear which facts and matters referred to in this proof of evidence are within my own knowledge and which are not. Those that are within my own knowledge I confirm are true, irrespective of by whom I am instructed. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.
- 1.6 I confirm that my proof of evidence has drawn attention to all material facts which are relevant and have affected my professional opinion.
- 1.7 I confirm that I understand and have complied with my duty as an expert witness which overrides any duty to those instructing or paying me, that I have given my evidence impartially and objectively, and that I will continue to comply with that duty as required.
- 1.8 I confirm that I am not instructed under any conditional or other success-based fee arrangement.
- 1.9 I confirm that I have no conflicts of interest.

- 1.10 I confirm that my Statement complies with the requirements of the RICS – Royal Institution of Chartered Surveyors, as set down in the RICS practice statement Surveyors Acting as Expert Witnesses.



R James Mackay BSc (Hons) MRICS
Partner
Alder King LLP

2.0 SCOPE OF EVIDENCE

2.1 I am instructed by Trammel Crow (the Appellant) to provide my expert opinion in respect of the impact of the proposed redevelopment of the former Department of Work and Pensions DCS Distribution Centre, Manchester Road upon the wider viability of the proposed Russell Homes scheme, and in particular Phase 4 ("land at Hareshill Road North"), in connection with refusal of planning application 22/01410/FUL, by Rochdale Borough Council (RBC), for the redevelopment of the site comprising the demolition of all existing units and erection of a new storage and distribution units (Use Class B8) with ancillary office space, vehicle, pedestrian and cycle access, external yards, parking, landscaping and associated works.

2.2 The application was refused on the 22 December 2023, for the following reason:

By virtue of its size, scale and form, the proposed development is not well designed and would represent an overdevelopment of the site which is not compatible with surrounding land uses due to the detrimental and unacceptable impacts on the noise environment and the visual amenity of surrounding residents, with particular regard to future residents adjacent the site. Due to this overbearing and unacceptable relationship with surrounding land uses the application fails to accord with Policy DM1 of the adopted Rochdale Core Strategy and the National Planning Policy Framework.

2.3 My report has been prepared having regard to:

- The National Planning Policy Framework ("NPPF") 2023.
- Planning Practice Guidance on Viability ("PPG").
- Royal Institution of Chartered Surveyors ("RICS") Professional Statement Financial viability in planning: conduct and reporting ("RICS PS") May 2019.
- The RICS Guidance Note ("RICS GN") Assessing viability in planning under the National Planning Policy Framework 2019 for England – 1st Edition March 2021.

2.4 My evidence also relates to the specific contention within the objection raised by Russell Homes in respect of viability/deliverability of the adjacent South Heywood scheme, a 130 hectare urban extension to South Heywood that includes 1,000 new homes, primary school, local retail centre and circa 1.45m sq ft of employment as consented by planning permission (Ref: 16/01399/HYNR). This appears to have been part of the foundation of the decision by members to reject the recommendation of officers to grant planning permission.

- 2.5 More specifically, Russell Homes argues that the proposed redevelopment of the Heywood Stores site would have a substantial detrimental impact on the delivery of housing on the Hareshill Road North (HRN) site that is allocated for housing as part of the aforementioned outline planning permission. A plan below details the proposed site and adjacent housing parcel allegedly impacted by the proposal. The blue arrow depicts the location of the Heywood Stores site and the red arrow depicts the location of the housing allocation and the black arrow identifies the employment area of the masterplan.

Plan 1 – Illustrative Masterplan (South Heywood)



- 2.6 The South Heywood Scheme obtained outline consent to deliver up to 100.5 net developable acres for residential development and 70 net developable acres of employment, together with the delivery of a link road connecting the existing employment land to the north with junction 19 of the M62 to the south west corner. Part of the employment area has also been the subject of a subsequent 'drop in' consent, which is discussed in Appendix J of the Statement of Common Ground.
- 2.7 Russell Homes argue that the redevelopment of the Heywood Stores site would impact the delivery of housing units outlined for the HRN site through an adverse impact upon sales revenue, sales rates and a reduction in the net developable area that would together impact the overall deliverability of the South Heywood Scheme. The main reasons put forward by Russell Homes for the negative impact on viability is said to be due to the increased noise impact created by the proposed scheme together with the visual impact, specifically height.

- 2.8 Russell Homes employed Knight Frank to provide a Viability Impact Statement dated November 2023¹. This report is in a somewhat unconventional format and seeks to argue that should the proposed development be granted planning permission, then the resultant impact on sales and development quantum would render the adjoining HRN development phase undeliverable and unviable whilst also putting the delivery of the remainder of entire South Heywood Scheme at risk. The report works on the presupposition that if this assertion is correct that there would be the claimed adverse effects upon the future houses from the appeal proposals.

3 THE SITE AND SURROUNDS

- 3.1 The site is located to the south of Rochdale in Heywood accessed from Manchester Road. The site extends to 11.1ha and comprises nine warehouse buildings (Use Class B8) and four smaller buildings that have previously been occupied by the Department of Work and Pensions for archive storage until spring 2023.
- 3.2 The site's wider surroundings include a mixture of residential, industrial estates and development parcels associated with the South Heywood Masterplan, granted outline consent in March 2020.
- 3.3 As part of the South Heywood Masterplan a new link road from junction 19 M62 has been constructed. This new road links the motorway network to the existing industrial estates to the west of the site and opens up the remaining land for a mix of residential and commercial development.
- 3.4 In September 2022, a reserved matters application was approved for the construction of a distribution centre (22/00787/REM). The permission allows a single distribution building with a footprint measuring 60,263 sq m (Gross Internal Area) together with a two-storey office building measuring 640 sq m GIA. This application forms the first part of the employment land allocation within the outline planning permission. The commercial area is known as H Park and the brochure marketing this employment area envisages at total of 1,888,556 sq ft (175,452 m²) of B2/B8 employment uses². An illustrative masterplan for the site contained within the marketing literature is shown below:

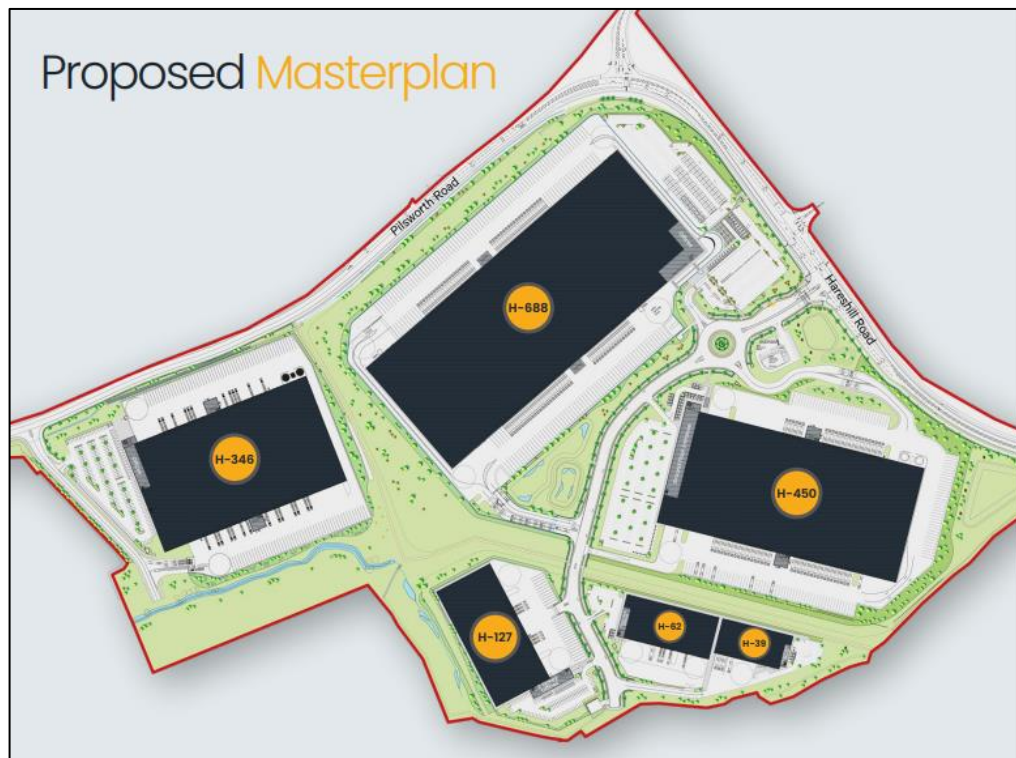
¹ Attachment A: Knight Frank Viability Impact Statement (November 2023)

² Attachment B: H Park Marketing Brochure

Plan 2 – H Park Site Aerial Location

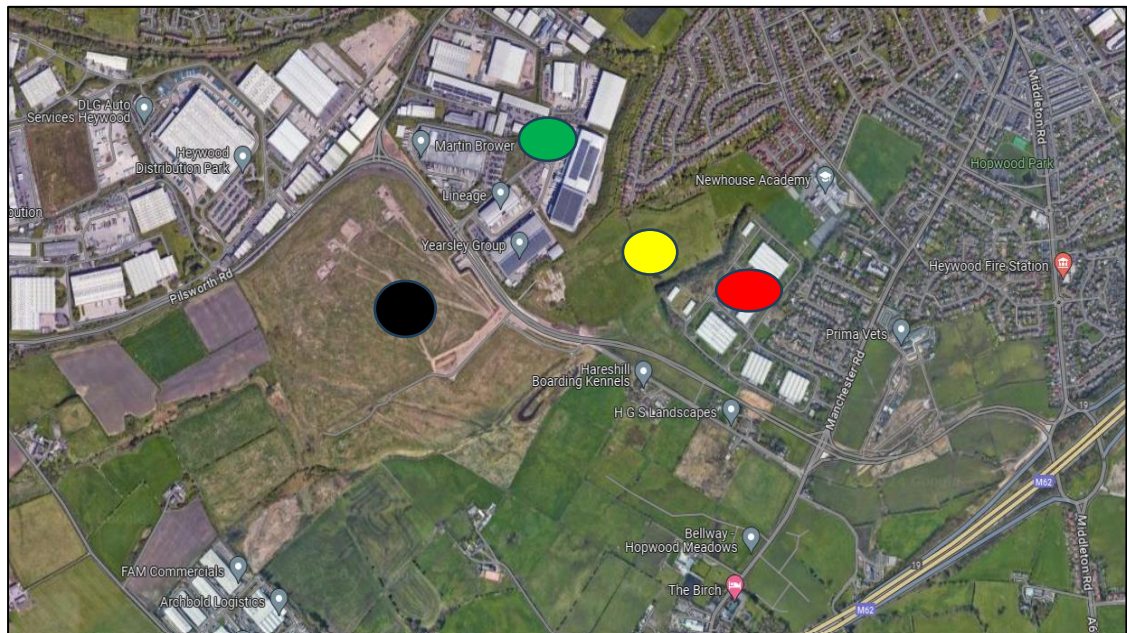


Plan 3 – H Park Masterplan:



- 3.5 H Park is a significant employment site and is located close to the wider established, Heywood Distribution Park. Located on the western boundary of the proposed residential expansion is the established employment area including a large B8 warehouse occupied by Yearsley Group. An aerial photograph of the appeal site, proposed residential site and existing employment area is shown below:

Plan 4 – Google Aerial Image



Key:

-  Appeal Site
-  Housing Allocation (Phase 4 – Land at Hareshill Road North)
-  Existing Employment Sites
-  H Park

- 3.6 Clearly the immediate location is a mixed-use urban area in nature. The recent construction of the link road has opened up the site allowing the existing employment areas to have direct access to the M62, to the obvious benefit of the local and sub-regional economy. The proposed residential site, allegedly impacted by the Appellant proposals is already located between two existing employment sites and opposite the allocated employment site that forms part of the Heywood masterplan. This would have been evident at the time of the grant of the hybrid permission that I now turn to.

4 SOUTH HEYWOOD MASTERPLAN

- 4.1 Russell Homes, acting as the master developer, submitted a hybrid planning application in 2016 (Ref: 16/01399/HYBR) that proposed the following:

Part full/part outline planning application for the development of land at South Heywood, including the demolition of a number of existing on-site buildings and structures. Full consent sought for the construction of a new link road between Junction 19 of the M62 and Pilsworth Road, the widening of part of Pilsworth Road, together with associated junction improvements, landscaping, lighting and other works including the importation of material and engineering works in order to construct the link road. Outline consent (with all matters reserved for future approval except access) sought for a major mixed-use development comprising supporting residential uses comprising up to 1000 dwellings (Class C3); employment uses (Classes B2/B8) comprising up to 135,460m² Gross Internal Area(GIA); a new primary school (Class D1); Class A1/A2/A3/A5 uses comprising up to 2500m² GIA which includes no more than 499m² of A1 uses; together with associated landscaping, open space and sports pitches, drainage, ecological enhancements, cycleway and footpath linkages, infrastructure and other works ancillary thereto. (Application accompanied by an Environmental Statement).

- 4.2 The application was granted consent in 2018. As part of the application a viability assessment was prepared by Cushman & Wakefield³ (CW), acting on behalf of Russell Homes and reviewed by Urban Vision, acting on behalf of the LPA. It should be noted that such reports invariably are the subject of internal approval process before they are produced. That is to say, that because they involve development finance issues then such reports will be checked for accuracy before they are released into the public domain. I presume therefore that on each occasion Russell Homes have instructed consultants to produce such reports that its content has been checked and endorsed by Russell Homes.

- 4.3 I have been able to review the Cushman & Wakefield viability report dated November 2016 which appears to be the initial assessment of viability of the proposed South Heywood Site. The Urban Vision response and final agreement has not been published. We have been provided with a letter dated 7 March 2018⁴ from Urban Vision that confirms agreement of the Cushman & Wakefield approach. The letter confirms that it would be appropriate that further viability assessments should be undertaken on a phase by phase basis or at reserved matters stage to reflect the actual proposed scheme so that the specific variables can be reassessed.

³ Attachment C: Cushman & Wakefield Viability Assessment – November 2016

⁴ Attachment D: Urban Vision Letter – March 2018

- 4.4 The CW viability report details the baseline viability assessment for the mixed use development across the whole masterplan area. The viability model was based on the delivery of 1,000 dwellings across 100.5 net acres and an approximate density of 13,000 sq ft per net acre, assuming an average dwelling size of 1,300 sq ft. The density for housing represents a low to medium coverage by comparison to schemes of a similar nature. The appraisal also included 1,458,000 sq ft of industrial space across 70 acres with a site coverage of 47.8% which is considered towards the upper limits of industrial site densities.
- 4.5 At the time of the assessment, the Link Road was costed at £20.3m (£19m for the road, £1m for land acquisition and compensation and £300,000 HGV restriction cost). There was a grant of £9,045,000 towards the cost provided by Transport for Greater Manchester and Highways England. The shortfall of £11,255,000 was to be recovered from the sale of the residential land plots.
- 4.6 CW benchmarked the viability assessment against what they refer to as the 'Reasonable Landowner Expectation' (LEV). The comparison between the LEV and the residual outcome of the proposed scheme indicates the viability or lack of viability of the scheme to offer affordable housing, planning gain and additional infrastructure payments. The LEV was set at £400,000 per net developable acre (residential) and £100,000 per net developable acre for the commercial land. The overall Benchmark Land Value was therefore assessed at £47,200,000 for 170.5 net developable acres, equating to an average of £276,832 per acre overall. Interestingly, this figure included an allowance for the master developer (Russell Homes) at £50,000 per acre (£8.6m). Therefore, the master developer's return is protected in the viability assessment.
- 4.7 The conclusion of the original viability assessment prepared by CW was that the proposed scheme arrived at a residual amount of £52,170,000 indicating that the scheme is significantly above the margin of viability by £4,970,000. The key inputs to arrive at this conclusion are scheduled in the table below, taken from the CW report.

Table 1 – Key Inputs to the Master Viability Appraisal

Gross Development Value (GDV)			
Input	Rate/Cost	Total	Rationale
GDV – Residential 1,300,000 Sq Ft	£215 per sq ft	£279,500,000	Assumes 1,000 residential units.
GDV – Commercial 1,458,000 Sq Ft	£6.00 per sq ft (Rent) 6.25% Yield	£130,450,176	
TOTAL GDV		£409,950,176	

Residential Costs			
Base Construction (Including Prelims)	£80 per sq ft	£104,000,000	BCIS less 25% for quantum.
External Site Works	15% of Base Construction	£15,600,000	Typical market expectation.
Plot Connections	£2,500 per unit	£2,500,000	Typical market expectation.
Professional Fees	5% of total cost plus contingency	£6,288,150	Typical market expectation.
Contingency	3% of cost	£3,663,000	Typical market expectation.
Sales & Marketing	1.75% of GDV	£4,891,250	Typical market expectation.
Legal Fees on sales	0.50% of GDV	£1,397,500	Typical market expectation.
Finance	6.5%	£10,833,687	Typical market expectation at the time of the assessment
Developer Profit	20% of GDV	£55,900,000	Typical market expectation at the time of the assessment
TOTAL COSTS		£205,073,587	

Commercial Element			
Base Construction (Including Prelims)	£50 per sq ft	£72,900,000	BCIS less 25% for quantum.
External Site Works	10%	£7,290,000	Typical market expectation.
Professional Fees	5%	£4,129,785	Typical market expectation.
Contingency	3%	£2,405,700	Typical market expectation.
Finance	6.5%	£4,435,652	Typical market expectation at the time of the assessment.
Developer Profit	15% of Cost	£13,008,823	Typical market expectation at the time of the assessment.
TOTAL COSTS		£104,169,960	

OTHER COSTS			
Link Road (Net Cost)		£11,255,000	Shortfall after allowance of Grant.
Residential Land (Abnormal/Additional Costs)			
Gas Pipeline Diversion		£600,000	No additional details.
Gas Pipeline Upgrade		£1,900,000	No additional details
Attenuation		£1,507,000	No additional details.

Acoustic Fence		£281,250	No additional details.
Cut & Fill (Callop Farm)		£1,200,000	No additional details.
Capping of Mineworks		£250,000	No additional details.
Electricity Connection		£675,000	No additional details.
Landscape Works		£750,000	No additional details.
Sub Total		£7,163,750	
Commercial Land (Abnormal/Additional Costs)			
Utility Connections		£1,000,000	No additional details.
Cut & Fill		£3,500,000	No additional details.
Ground Beams		£3,280,500	No additional details.
Landscape Buffer		£281,250	No additional details.
Attenuation		£1,350,000	No additional details.
Internal Highways		£3,090,000	No additional details.
Sub Total		£12,501,750	
TOTAL		£19,665,000	
Contingency	5%	£983,250	Typical market expectation at the time of the assessment.
Professional Fees	7%	£1,445,415	Typical market expectation at the time of the assessment.

4.8 The appraisal allowed for S106 Costs of £2,190,000.

4.9 The baseline appraisal arrived at a surplus of £4,970,000 based on a 100% market residential scheme i.e. no affordable housing. We have not been provided with the negotiations that took place between the parties. The S106 agreed as part of the outline planning permission confirmed the following:

- 15% onsite affordable housing per phase
- Bus Stop Services - £1,185,000
- Link Road Payment – Shortfall
- Sports Pitches - £200,000
- Education Contribution – Sum based formula up to a maximum of £4,620,003
- Primary school land (0.8 hectares). Value £800,000 to be apportioned between the residential phases (% of units per phase from the total of 1,000 units).

- 4.10 I have been provided with the signed S106 document dated 30 March 2020⁵. This document outlines the mechanism for payment of the contributions and the viability re-assessments required to consider whether an individual phase can provide the planned maximum of 15% affordable units on site (or off-site equivalent) affordable housing contribution. The S106 document stipulates that a viability report is to be submitted as part of each reserved matters application. Schedule 4 confirms:

"If the viability report does not demonstrate a Total scheme Value greater than zero then the owner shall not be required to either submit a Affordable Housing Scheme, or provide and Affordable Housing, and/or pay any Affordable Housing Contribution for the relevant phase."

The effect of this clause is that it entitles the developer to revisit the issue of the viability of affordable housing delivery at the point of each reserved matters application. It is to be noted that there has been no reserved matters application in respect of the phase of development which is claimed by Russell Homes to be affected by the appeal proposals.

- 4.11 There are a number of definitions set out in the S106 Agreement. These include to:

Build Costs: *The necessary construction costs incurred or forecast to be incurred by the Owner in the building out of the Development in accordance with the Planning Permission and/or subsequent approvals and Index Linked provided that in respect of Build costs the appropriate index will be BCIS.*

Total Scheme Value: *The result of the following calculation for any Phase comprising residential development in the Development at the Viability Review Date:*

GDV
less Development Costs
less Site Value
Less profit
= Total Scheme Value

And for the avoidance of doubt where the calculation results in a negative figure, neither Affordable Housing and/or any Affordable Housing Contribution shall be provided in relation to the Development.

⁵ Attachment E: S106 Agreement

Viability: The Development is Viable if the Total Scheme Value is greater than Zero.

Profit: a profit margin of 20% of the Gross Development Value due to the Owner in respect of the Development.

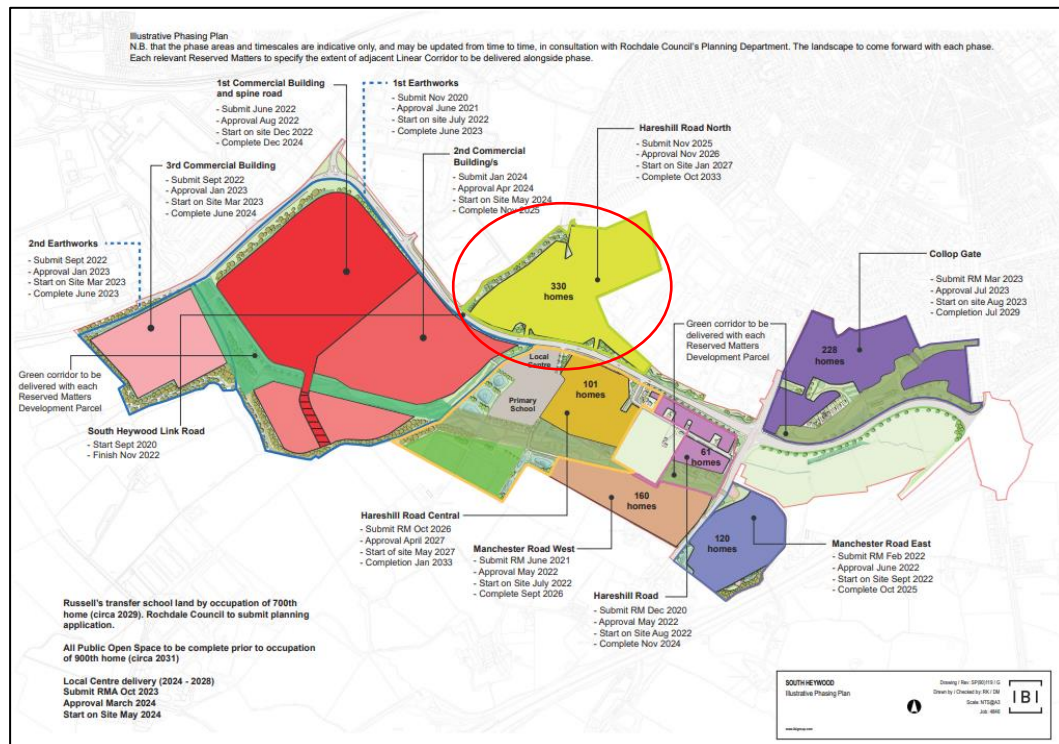
- 4.12 The viability appraisal/report submitted with the outline application envisaged significantly lower GDV at £215 per sq ft compared with the values now being reported for the site at £325 per sq ft. In addition, the illustrative phasing plan assumed the HRN site would accommodate 256 homes of the 1,000 homes. Several iterations of this phasing plan have been produced as further planning applications have been submitted. In the latest iteration that formed part of the employment site application the masterplan appears to have indicatively increased the density of the HRN to show 330 homes.
- 4.13 The overall housing numbers remain at 1,000 units with lower housing numbers shown of the Manchester Road East site (22/00130/REM) at 120 homes, the Manchester Road South site (21/00909/REM) to 160 homes (consented scheme has 164 units), the Hareshill Road site (20/01524/REM) at 61 homes, the Callop Gate reduced to 228 homes and the Haresehill Central site reduced to 101 homes. A copy of the latest illustrative masterplan is shown below with the HRN site circled Red.
- 4.14 There have been three reserved matter applications for housing in the last four years consenting a total of 337 houses. The developments have been consented with no additional affordable housing. The S106 targets 15% affordable in each housing phase. Given the affordable housing target for the entire development, it is clear that viability has continued to be an issue in each of these reserved matters applications.
- 4.15 Following a Freedom of Information request I have been sent the executive summaries of the viability reports for these reserved matter applications⁶. In each case Knight Frank acted for the developer. There is limited detail in each summary, however I table the conclusion of each assessment below:

⁶ Attachment F: Executive Summaries – Reserved Matters Viability

Application / Detail	Benchmark Land Value	Viability Information
20/01524/REM Phase 6 – 7.1 acres (net) Russell Homes 64 Residential Dwellings	£1,840,000 (£260,000 per acre)	GDV - £260 per sq ft Unviable RLV - £750,000 Deficit - (£1,090,000) 0% AH
21/00909/REM Phase 1 – 11.61 acres (net) Bellway Homes Ltd 164 Residential dwellings (Planning granted for 156 Dwellings)	£4,644,000 (£400,000 per acre)	GDV - £250 per sq ft Unviable RLV – £3,330,000 Deficit - (£1,314,000) 0% AH
22/00130/REM Manchester Rd East – 9.32 acres (net) Anwyl Homes Lancashire 120 Residential Dwellings	£3,728,000 (£400,000 per acre)	GDV - £270 per sq ft Unviable RLV – £2,590,000 Deficit – (£1,138,000) 0% AH

- 4.16 The three recent reserved matters viability assessments all demonstrate that there are inherent viability issues. In all cases, despite this deficit below the adopted Benchmark Land Value, the developer commenced development. In each case the viability testing adopted a GDV below the £300 per sq ft argued by Knight Frank in their current assessment. I have requested further information in order to understand fully the outcome of these summaries.
- 4.17 Somewhat troublingly, there are clear discrepancies between the submitted viability assessment that formed the basis of the outline application and the information provided by Russell Homes in their objection of the Appellant's scheme. I explore these issues in the next section of this evidence.

Plan 5 – Illustrative Phasing Plan



5.0 KNIGHT FRANK VIABILITY ASSESSMENT

5.1 The objection raised by Russell Homes in relation to the Appellant's proposed redevelopment of Heywood Stores is contained in a summary letter prepared by Avison Young, dated 22 November 2023 and a supporting Viability Impact Statement prepared by Knight Frank, dated 16 November 2023. The Knight Frank report is supplemented by a letter from JLL dated 26 September 2023 and a Valuation report dated November 2023⁷. In addition, a Noise Impact Assessment has been prepared by E3P dated 12 October 2023.

5.2 I note that JLL confirm that they acted for Russell Homes during the marketing of the housing phase sold to Bellway in June 2022. Knight Frank confirm that they were instructed by Russell Homes to provide Financial Viability Appraisals for the first three Reserved Matters Approvals submitted by Russell Homes, all of which confirmed a viability issue and delivered no affordable housing. However, in the last committee report for land at Manchester Road East, the officer report noted that the next residential phases of development would bring forward affordable housing.

⁷ Attachment G: JLL Valuation Report and Letter

- 5.3 The main issue put forward by Knight Frank/JLL in objecting to the appeal scheme is that the proposed development of the Heywood Stores site may cause an adverse impact upon the amenity of future residents, which would in turn effect sales values and with a diminished return on the subject phase to then impact upon wider delivery of the remaining masterplan. Specifically, the argument put forward is that the required mitigation for the alleged noise issue from the proposed scheme would require a reduction in unit numbers/net land area and suppress the achievable value of the houses. In turn, this would impact the delivery of the masterplan overall. Significant weight, it is said, should be attributed to any harm the impact of the proposed development will have on the delivery of the masterplan.
- 5.4 There are two issues raised by Russell Homes. Firstly, it is said that the visual impact of the proposed scheme would harm the marketability of the HRN site and secondly it is said that the noise impact would reduce the net developable area of any future development of the HRN site. The advice prepared by JLL and endorsed by Knight Frank is that values will be impacted by 8%, reducing the average blended sales values (across the entire phase) from £325 per sq ft to £300 per sq ft, in addition to this revenue reduction, the net deliverable acres will also reduce by 5.3 acres or 66 housing units.
- 5.5 Knight Frank have provided four scenarios based on reducing the values and/or losing units summarised in the table below:

Viability Appraisal	Land Value	Viability Deficit	Viable
Benchmark Land Value based at 26.54 Net Acres	£10,616,000	-	-
Baseline Scenario 330 units at £325 per sq ft	£10,680,000	£64,000	Yes
Scenario 2 330 units at £300 per sq ft	£5,725,000	-£4,891,000	No
Scenario 3 264 units at £325 per sq ft	£7,185,000	-£3,431,000	No
Scenario 4 264 units at £300 per sq ft	£3,215,000	-£7,401,000	No

- 5.6 Knight Frank make the following comments based on this testing:

Scenario 2: The impact of reducing the sale values by 8% from a blend of £325 per sq.ft to £300 per sq.ft reduces the residual land value to -£4,891,000.

*Scenario 3: When applying the loss of 66 units to this specific phase principally due to the loss of developable area as a result of noise impact constraints. This does not include the loss in sales revenue and the inclusion of additional landscaping mitigation required to address the Heywood Stores proposal, this creates a deficit position against the agreed benchmark land value of **-£3,431,000**.*

*Scenario 4: When applying the loss of 66 units, and a reduction in sales revenue (from £325 per sq ft to £300 per sq ft in accordance with the 8% value impairment) and sales rates, and the conclusion of additional landscaping mitigation then the viability deficit increases further to **-£7,401,000**.*

5.7 The baseline land value (BLV) is taken from the original viability assessment and the three reserved matters approvals at £400,000 per acre. Based on the net developable area at 26.54 acres the BLV for the Phase 4 HRN site is assessed at £10,616,000.

5.8 Before I comment further on the methodology of the viability assessments it is important to highlight that the Phase 4 HRN site has not yet obtained a reserved matters permission. The nature of the proposed residential development is only an outline with an indicative number of housing units. As outlined in Section 4 of this report, the outline application assumed that the HRN site would deliver 256 housing units at a density of 9.64 units per acre. In the three reserved matters application the densities agreed have been:

- 20/01524/REM: 8.6 units/per net developable acre.
- 21/00909/REM: 13.4 units/per net developable acre.
- 22/00130/REM: 12.88 units/per net developable acre.

It is clear there is the ability to change the design and density of housing numbers on the HRN site in any future planning application for reserved matters. Thus reducing the number of houses within the phase that it is claimed would be effected by 66 units would still place the yield from this part of the site in excess of the 256 units assumed at the time that the original permission was granted.

5.9 The impact of noise on any future residents of the HRN site is robustly disputed by the Appellant. This is a matter of professional opinion between the appointed experts and is separately covered in the evidence put forward by Waterman Infrastructure & Environmental Ltd. The conclusion of the report states:

In term of absolute noise levels The absolute noise levels from the Proposals excluding acoustic character corrections would be 43dB LAeq,T based upon E3Ps worst case predicted specific sound levels, such levels are considered low given the acoustic character of the area (Section 6.1).

The predicted sound levels resultant from operational Proposals all fall below 50dB LAeq,1-hour at which level the WHO state the onset of community annoyance may arise. It is recognised that this limit applies to anonymous noise however, it does provide a good benchmark against which to consider potential noise impacts.

All noise impacts associated with the development could be adequately controlled via measures secured by way of an appropriate planning condition.

As such, on balance noise level associated with the operation of the Proposals is considered acceptable and would not give rise to detrimental or unacceptable noise impacts.

- 5.10 The Waterman report also comments on the impact of noise from the existing Yearsley site located on the western boundary of the site. In Russell Homes own assessment it states:

The sensitivity of the receptors is high and it is predicted that there would be a major impact at the closest garden areas to the commercial premises without mitigation in place or considered. Accordingly, there is predicted to be a major magnitude of impact during the night-time period.

It is also worth considering that the BS4142:2014 criteria will not be achieved at the facades during the night-time period without an extensive stand-off distance. Therefore, it may be more prudent to consider internal noise levels at night, as residents are likely to be in bedrooms, sleeping during the night-time period than outside, as described in BS4142:2014.

- 5.11 The Waterman report concludes that the predicted noise levels from the Yearsley Site are significantly higher than those predicted from the proposed redevelopment of the DWP Site. Somewhat inconsistently, Russell Homes are confident they can mitigate this impact of the existing employment site to their western boundary but argue that the lower noise generated from the proposed site cannot be mitigated from development to the East and will impact on the achievable GDV.
- 5.12 Russell Homes rely on the reports prepared by both JLL and Knight Frank to support the assertion that the proposed new employment use on a site that already has an established employment use, will have a detrimental impact on the outline residential site.

- 5.13 The JLL Valuation report, dated November 2023, provides advice on the appropriate GDV for the HRN site but is caveated. The report confirms in its 'Scope and Limitations' section that the valuation is a "desktop" appraisal and is wholly reliant on the information provided to it by the client 'Russell Homes'. JLL confirm they have not inspected the site, nor made sufficient enquiries or undertaken due diligence to enable them to provide reliable valuation advice. JLL confirm that less certainty and a high degree of caution should be attached to the valuation. I concur. Such caveats are understandable but substantially reduce the weight that can be afforded to this assessment.
- 5.14 The JLL Valuation considers the quoting prices from two of the three residential schemes consented at South Heywood. The first is Bellway Homes development known as 'Hopwood Meadows'. This development will provide a total of 156 residential units. The average prices quoted by the developer as at the date of the report is confirmed at £318 per sq ft (net of incentives). The second site is the Anwyl Homes development known as 'Whittle Brook Park'. This development will provide 120 residential units. The average price quoted by the developer as at the date of the report is confirmed at £309 per sq ft (net of incentives). Finally, JLL consider a development by Taylor Wimpey in East Hollinsfield, Middleton where average prices are £301 per sq ft and £310 per sq ft for the two sites.
- 5.15 Having reviewed the market, JLL confirm that it is their professional opinion that the GDV of the hypothetical house types at HRN on the basis they are completed and no allowance has been made in relation to the proposed commercial development at the Appellants site.
- 5.16 In an email dated 22 November 2023 from Mr John Lafferty, Director – Land & Development to Daniel Kershaw (Director at Russell Homes) attaching the desktop valuation Mr Lafferty confirmed:

I believe that the Hareshill Road North site will be impacted by the employment unit constructed under Planning Application Ref 22/01410/FUL. The visual impact, operational impact and negative perception surrounding the proximity of housing to this large unit will inevitably prejudice sales. Discounts will likely be required to ensure this phase remains competitive with the neighbouring phases, and the rate of sales will inevitably be reduced.

Based on my experience of the housing market and knowledge of sales values in this area I believe that discounts to sale values could be as much as 10% of the equivalent price on the neighbouring phases, albeit we have shown examples in the attached, with a range of reductions, specific to the house type and size and the adverse factors created by the Heywood Stores proposals. Moreover, the rate of sales of the units could feasibly be diminished to around, say, two thirds of the rate of sales of houses on the neighbouring phases.

- 5.17 There is no independent supporting evidence at all to inform this view. The discount seems to be a matter of Mr Kershaw's unexplained assertion rather than based on evidence. The proposed residential site is sandwiched between two existing commercial estates. The proposed redevelopment of the Heywood Stores site is a continuation of the existing use. The impact of the proposed redevelopment of the site is disputed. There are two specific issues raised by RH in their objection relating to noise and height of the proposed warehouse.
- 5.18 The KF report suggests that because of the noise issues there would be an impact of losing approximately 5.3 net developable acres (although how this is justified remains opaque). KF also contend that this would mean the loss of 66 residential units (based on a density of 12.4 units per acre. This analysis is taken from the E3P Noise Impact Assessment who argue that there is a buffer required between the proposed warehouse (Unit 3) and the future housing as mitigation cannot be provided. This conclusion is disputed by the Appellant, as set out in the Waterman report.
- 5.19 The second reason provided by JLL for a value discount is the visual impact of the proposed scheme. The exact nature and layout of the future housing development is not known as the allocation is only in outline. There is clearly an opportunity to design the scheme to mitigate any visual impact.
- 5.20 The closest building to the outline housing development is Unit 3. The design and visual impact of the proposed unit was specifically addressed in the officer's report to committee. To the south of the proposed unit (short elevation) is a distance of 39 metres from the site boundary. The minimum distance to any potential houses within the masterplan area is 47 metres, after allowing for rear gardens. A significant area of landscaping, including a 1:3 gradient 'batter' is proposed reducing the visual impact. The office report concluded the following:

41. In summary, it is acknowledged that the larger Storage and Distribution (B8) units proposed will result in somewhat greater impact than the existing, smaller units that exist on site and are to be demolished. To mitigate such impacts, the applicant proposed substantial landscaping, including tree planting along all boundaries, fencing on some boundaries, and hard engineering in the form of regrading of embankments and provision of batters. The proposed steps to mitigate the visual impact are considered to be acceptable on balance, contributing to appropriate mitigation to reduce the overall visual impact and reducing any overbearingness such development may have on the current and/or future occupiers of nearby dwellings and users of other buildings. On balance, the proposal is found to be consistent with adopted Rochdale Core Strategy policies DM1, P1 and P3, as well as the National Planning Policy Framework, with regards to visual impact.

- 5.21 The visual impact of the proposed development on the pricing of the future residential scheme is a subjective opinion. JLL argue that the proposed development would prejudice the sales of the future housing development. However, there is no specific evidence that justifies any reduction in value, let alone the blended average value assumed by KF.
- 5.22 The South Heywood location, and specifically the future residential site adjacent to the application site is located between two pre-existing commercial locations, this will not alter if the appeal is dismissed. In addition, a third commercial site forms part of the outline application on the opposite site of Queen Elizabeth II Way. It is my view that the sites location, surrounded by established employment uses, would always limit the residential value achievable on this site in some way, and this would not be affected by the proposed redevelopment of the existing Heywood Stores site. HPI date for Rochdale shows that house price inflation since January 2016 peaked at 17% in August 2021 and has since fallen back in 2023 (see table below). It is my view that any drop in housing values is market driven rather than as a result of its location adjacent to an established employment site.
- 5.23 Importantly, and of some concern, the viability appraisals prepared by KF notably vary from the baseline viability assessment prepared by Cushman & Wakefield. In particular, the following inputs show a significant variation from the original model:

Input	Cushman (Baseline) 2016	KF Assessment 2023	Difference
GDV	£245 psf	£330 psf	35% uplift.
Base Construction	£94.10 psf (BCIS) – General Estate Housing less 25%	£114 psf (BCIS) – 2 Storey	KF do not allow for a 25% reduction for scale. If applied this would reduce the rate to £102.36 psf (adopting 'general estate housing'). Potential saving £4.6M.
External Costs	15% of Core	20% of Core	Potential saving of £2.9M (based on lower BCIS rate).
Prof Fees	5%	8%	Potential saving £1.7M depending on what the % is applied to.
S106 Costs	£2,190,000	£12,123,210	No commentary is provided for this cost. Whilst the s.106 costs are now known the affordable housing elements for the already consented parts of the Masterplan have been reduced to zero.
Finance Costs	6.5%	8%	I acknowledge that finance costs have risen since the original assessment. However the finance total is considerable with no detail to explain why.
Profit	20% of GDV	20% of GDV	See comments below

5.24 The report prepared by KF is limited and provided no explanation as to why these variations have been applied to the proposed development. The impact is substantial on the viability of this phase. I explore the differing outcomes in the next section.

- 5.25 The KF viability testing lacks significant detail/explanation as the inputs adopted. The KF conclusion is that the only viable scheme is a development of 330 residential units (with no affordable housing) at a baseline GDV of £325 per sq ft. The outcome is a Residual Land Value that exceeds the baseline land value by £64,000. This is despite values increasing from the baseline assessment by some 35% (at £325) or 22% (at £300). Further, there is no justification as to why the whole scheme would be impacted in a price reduction. KF argue that a loss of net developable area by 5.2 acres, equivalent to 66 housing units. Even if there is an impact on value, which I dispute, this cannot sensibly be applied to the whole site as KF have argued. In effect you cannot argue that there is a loss in value and a reduction in unit numbers. It is one or the other. The value drop across the phase would be less than that suggested by KF when applied the value proportionately across the site. It is worth highlighting that the recent reserved matters viability assessments prepared by KF adopt lower GDV's (below £300 per sq ft).
- 5.26 The second largest factor impacting viability is the increase in cost. There is no detail in the KF report that explains why costs have increased substantially to the detriment of delivering the housing scheme. KF report that a drop in residential value to £300 psf (average) would show a negative land value (relative to the BLV) at (£4,891,000). However, if costs were aligned to the base appraisal methodology the scheme would still be showing a positive land value at this level. I explore this further in the next section.
- 5.27 The Knight Frank Viability Review was referred by the Local Planning Authority to an independent reviewer as part of the due diligence for the original application. Continuum provided a report dated 7 December 2023⁸. Continuum concluded:

“Continuum would conclude that there would need to be unequivocal evidence that proximity to employment uses has a negative impact on house prices. Russell Homes, Knight Frank and JLL have not provided any evidence to support this narrative. The Hareshill Road North parcel at South Heywood has an established employment use to both the east and west, which would logically have already been “priced in” when Russell Homes were assessing values for their residential development. Continuum would conclude that Russell Homes argument that the new employment scheme would impact sale values when compared to the status quo has not been robustly demonstrated.

When assessing Knight Frank’s FVA, there is a lack of a detailed evidence base that would be required for a PPG compliant FVA.”

⁸ Attachment H: Continuum Review

6.0 ALDER KING SENSITIVITY TESTING

- 6.1 The KF viability report makes some significant changes to the baseline assessment and changes the methodology when calculating the base construction cost. There are a number of costs that are simply not explained. These costs include:

Statutory Section 106 Costs - £12,123,210 (£36,737 per unit)

Site Abnormal Costs - £4,000,000 (£12,121 per unit)

Garages - £1,000,000

Finance Costs - £9,479,452

- 6.2 In order to consider the KF viability report, I have produced a 'baseline' assessment which attempts to arrive at a broadly consistent conclusion (i.e. an RLV of £10,678,554) for a 330 unit open market scheme achieving values of c. £325 per sq ft. Whilst the KF viability report does not provide a detailed cashflow or information concerning the timings associated with the delivery of the scheme, in producing the assessment and arriving at broadly consistent finance costs and RLV conclusions, I have assumed the following:-

- Pre-construction (1 month)
- Construction (47 months)
- Sales Period (72 months)

- 6.3 In addition to the above timing assumptions, allowances for S106 costs and site abnormal costs are also consistent with the KF appraisal. The AK 'baseline' assessment arrives at an RLV of £10,696,301 with finance costs of £9,478,493. By comparison, the equivalent KF scenario arrives at an RLV of £10,678,554 with finance costs of £9,497,452. As above, it is impossible to entirely replicate the KF assessment due to the lack of detail concerning development programme however for the purposes of this assessment, the conclusions of the AK and KF baseline appraisals are considered broadly consistent.

- 6.4 In undertaking this sensitivity analysis I have adopted benchmark appraisal inputs which are consistent with the viability assessment which supported the outline planning application. As outlined previously, the latest KF assessment lacks any evidence concerning why benchmark inputs for the relevant phase would differ from the initial outline and therefore I have considered a number of scenarios which adopt a consistent approach to this initial assessment. Furthermore, as any relevant reserved matters applications are subject to a viability review as per the requirements of the S106, based upon my experience the starting point for any reserved matters viability assessment would be the initial assessment for the outline scheme.

- 6.5 In order to consider the viability of the scheme, I have produced the following scenarios:-
- 6.6 **Sensitivity 1** reflecting the baseline scheme however benchmark appraisal inputs are consistent with the outline viability assessment. This includes open market revenues equating to £325 per sq ft and the following adjustments:-
- Base Construction Costs – BCIS allowances subject to a 25% discount for quantum
 - External Allowances – 20% of core
 - Professional Fees – 5%
- 6.7 **Sensitivity 2** reflects the above amendments to benchmark inputs in addition to a reduction in GDV for the relevant 66 units proposedly impacted by the adjoining commercial development. A reduced GDV of £300 per ft2 is applied to the 66-units (as suggested by KF) with the remaining 264 units continuing to achieve a GDV equating to £330 per ft2.
- 6.8 **Sensitivity 3** reflects a reduction overall unit numbers (264) however revenues are retained at £320 per ft2 across the scheme.
- 6.9 The conclusions of these assessments, when compared to the BLV at £10,616,000 are as follows:-

Appraisal	Units	GDV (£ft2)	RLV	Surplus/ Deficit	Viable/ Non-Viable
Baseline	330	£325	£10,696,301	£80,301	Viable
Scenario 1	330	£325	£18,539,402	£7,923,402	Viable
Scenario 2	330	£320	£17,416,364	£6,800,364	Viable
Scenario 3	264	£320	£13,103,360	£2,487,360	Viable

Sensitivity Conclusions

- 6.10 The sensitivity testing demonstrates that the proposed redevelopment of the Heywood Stores site has no meaningful impact on the viability or deliverability of the future housing site adjacent. I strongly disagree there is an impact on either the GDV of the site or density due to the redevelopment of the existing employment site. However, even adopting the discounts applied by KF when the cost assumptions are adjusted to be in line with the baseline viability assessment, all scenarios are viable and produce a significant surplus.
- 6.11 The scenarios do not adjust other inputs including development finance. It remains unexplained in the KF report why the financing of this phase is so substantial. The only way I have been able to replicate these finance costs is to adopt the phasing plan timescale and “S-Curve” the costs throughout the development period. A ‘S-Curve’ is widely used as a generic timing assumption allowing for the natural curve in costs over the development period. Further information will need to be provided by KF on this specific assumption before I am agreeable to this methodology.
- 6.12 I have at this time adopted KF costs relating to abnormal costs and S106 costs. However, there is no detailed provided on these costs and further information will need to be provided by KF before I formally agree these costs.

7.0 CONCLUSION

- 7.1 The case put forward on behalf of RH by KF is that the redevelopment of an existing employment site would harm the delivery of future housing on the adjacent land to the west. This land is within the outline planning consent for what is known as Heywood South and is planned to deliver 1,000 homes along with infrastructure (new link road constructed) a school and employment site.
- 7.2 KF and JLL argue that the harm caused by the alleged noise and setting of the proposed scheme will both reduce house prices and sterilise approximately 5 net acres putting in jeopardy the delivery of the whole masterplan. The only empirical evidence produced is a noise report prepared by E3P. The conclusion of this report is disputed and rebutted by the Appellant's noise consultant. No other evidence has been produced to support their narrative.
- 7.3 In reviewing the KF viability assessment and benchmarking against the agreed baseline viability assessment prepared at the outline application stage it is my view that no scenario would prevent the delivery even if there was a proved link to reduce GDV and/or density.
- 7.4 It is my opinion that the proposed redevelopment of the Heywood Stores site will have no impact on the wider redevelopment of the South Heywood masterplan. The location of the whole site is changing from a semi-rural setting to an urban setting by opening up junction 19 M62 to serve the wider employment sites located to the east. In addition, the allocated residential site is sandwiched between two pre-existing commercial estates and now intersected by a major relief road. I am of the view that the pricing achieved at the site already reflects the issues raised by KF and would not change following the redevelopment of the Heywood Stores site and therefore not have a material impact on the deliverability of the wider masterplan.
- 7.5 In short, the KF report is methodologically problematic and there is not a robust evidential basis to conclude that the effect of the appeal proposals will adversely affect the viability of the Russell Homes schemes, let alone to the extent which has been contended for.