

Site: Hareshill Road North, South Heywood

Client: Rochdale Council

Date: 07/12/2023

Title: Viability Briefing Note

Introduction

Continuum have been instructed by Rochdale Council to undertake an Independent Viability Assessment and to provide advice on the viability case put forward by Russell Homes in respect of how the Heywood Stores application (ref: 22/01410/FUL) affects the viability of Russell Homes adjacent South Heywood scheme (ref: 16/01399/HYNR).

The South Heywood scheme is a 130-hectare urban extension to South Heywood which includes 1,000 new homes, primary school, local retail centre and circa. 1.45m sq ft of employment area. The Hareshill Road North site is a parcel of the wider consent (ref: 16/01399/HYNR) which has outline planning to deliver 330 dwellings and has a net development area of circa. 10.74 hectares.

The Heywood Stores scheme is for the:

“Redevelopment of site comprising the demolition of all existing units and erection of new storage and distribution units (Use Class B8) with ancillary office space, vehicular, pedestrian and cycle access, external yards, parking, landscaping and associated works.”

The Heywood site currently consists of an existing employment building and the site is adjacent to the Harehill Road North site. The Heywood scheme proposes to develop a larger and taller employment building; however, this building is set further back than the existing building.

Russell Homes have instructed Knight Frank who have undertaken a Viability Impact Statement (November 2023). Knight Frank and the Applicant argue that the Heywood Stores scheme would negatively impact the viability of the Harehill Road North parcel and the wider South Heywood scheme. The Applicant argues this is due to the increased noise impact created by the new scheme and the Applicant has provided a Noise Impact Assessment by BWB (October 2023). Knight Frank also argue that the new logistics building would have an impact on sale values.

It should be noted, that without the new Heywood Stores application, the site is already ‘sandwiched’ between two employment areas, with Axis Point to the West and the existing Heywood Stores logistics buildings to the East.

This note has been prepared in compliance with national planning policy, namely:

- National Planning Policy Framework (updated 2023).
- National Planning Practice Guidance on Viability (updated 2019).

The PPG (2019) sets out a standard approach to assessing viability at both the plan and decision-making stage seeking to ‘strike a balance’ between the aspirations of developer returns, landowner returns and benefits in the public interest through policy compliance.

The emphasis has changed regarding the assessment of viability in the most recent iteration of the PPG (2019). Weight to be given to the viability assessment is now a matter for the decision maker and should be based upon the recency of the development plan and the supporting viability evidence, alongside the transparency and justification of the evidence submitted as the basis of the viability assessment.

Guidance prepared by Royal Institution of Chartered Surveyors (RICS) has been taken in account in the preparation of this report with particular reference to the following documents:

- RICS Professional Statement: Financial Viability in Planning – Conduct and Reporting (2019).
- RICS Guidance Note: Assessing viability in planning under the NPPF (2019) for England (1st Ed) (March 2021).

The RICS professional statement (2019) sets out mandatory requirements to be followed by RICS professionals regarding to conduct and reporting in relation to FVAs for planning in England. Continuum confirms that this review is in accordance with the requirements set out within the Professional Statement. The RICS Guidance Note (2021) sets out best practise on viability in planning to be followed by RICS members.

This report does not constitute a formal valuation, as such, the guidance included in this report is exempt from regulations set out in the RICS Valuation Professional Standards (the Red Book) (2019).

Continuum's Assessment of Knight Frank's Argument that the Heywood Store's New Scheme would Impact the Sales Values and Dwelling Numbers

Knight Frank argue that:

"The dominance of the building across the site; the conflicting character; and the intensity of operations directly facing the proposed housing, all means that the marketability of HRN is affected, with sales revenues being noticeably reduced. This view, is supported by an independent national agent Jones Lang LeSalle (JLL) (See Appendix 2), who confirm that the likely impact on overall open market sale values of the proposed dwellings at HRN, could be up to 10% due to the negative impact of the Trammel Crow development." (para. 2.18).

Knight Frank then argue that the Heywood Stores scheme would reduce the average blended sale values of £325 per sq ft to £300 per sq ft which is a circa. 8% impairment to values.

Knight Frank also argue that based on the BWB Noise Impact Assessment, circa. 66 units (2.14 net hectares lost) would be lost from the Harsehill Road North parcel due to noise.

Knight Frank then run a number of appraisal scenarios based on reducing values and/or losing units due to the new employment scheme. Knight Frank summaries the scenarios outputs as follows:

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

Source: Knight Frank, November 2023.

"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. (See Appendix 4)

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. (See Appendix 5).

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. (See Appendix 6).” (para. 4.3).

Knight Frank therefore conclude that the impact of the new Heywood Stores scheme would make the parcel unviable but also the wider South Heywood scheme unviable as in 2016-18 the Council’s Viability Assessor argued that the wider scheme required a minimum of 1,000 dwellings to be viable. Knight Frank argue:

“any loss of units has a significant impact on the wider South Heywood Development. Therefore, the loss of the HRN development parcel has significant implications on the viability of the wider development and significant restricting of the planning obligations approved would need to be undertaken to ensure the development remains viable.

This would mean the loss of key social infrastructure contributions towards Education, Play Space, Formal Pitches and social amenities that were due to be delivered in the Local Centre Area. It would also result in a shortfall in the link road S106 financial contributions.” (para. 5.6 and 5.7).

In terms of the question of the detrimental noise impacts from the new employment development that will be in close proximity to proposed residential development, this is a matter of professional opinion. Russell Homes appointed expert has taken a position that conflicts with both the opinion set out in the employment planning application and the view taken by the Environmental Health Officer. If the Council, performing their statutory function, is satisfied by the case made in relation to noise in the employment application, it is not then the role of the Viability in Planning Expert to disregard this finding and comment on the negative noise impacts in relation to value and quantum of development. Continuum have therefore discounted Knight Frank’s argument that the new employment development would result in a loss of 66 units.

Russell Homes also make the case that the proposed new employment use on a site that has established employment use, will detrimentally impact on the consented, but yet to be developed, residential scheme adjacent. Russell Homes do not provide any evidence to support this assertion, but instead rely on the opinion-based commentary by Knight Frank and JLL (neither consultants provided example schemes, evidence or comparables to support their opinions of values decreasing due to the new employment scheme). When viewing the section of the Russell Homes website that is dedicated to South Heywood, there is detailed commentary on the companies plans for their 130 hectare site. This includes 1.45m sq ft of commercial space. If one views the South Heywood Masterplan on their website (**Appendix 1**), this clearly shows the very close proximity between employment (Axis Point) and residential development that is planned to be delivered by Russell Homes. For example, the west of the parcel is within close proximity to employment development equally as close as the new Heywood Stores scheme.

There are numerous examples around the country where developers deliver “beds and sheds” in close proximity to each other. For example, at Kingsway in Rochdale, there is the equivalent close proximity between employment uses and new residential (**Appendix 2**). This was a scheme delivered by the Barratts Group with a David Wilson Home scheme adjacent to a large distribution hub developed by Wilson Bowden.

Another North West scheme example is Warrington’s Omega scheme where Bloor Homes & Taylor Wimpey have delivered residential dwellings adjacent to large distribution hubs operated by Amazon, Gusto and Royal Mail (**Appendix 3**).

One of the largest scale examples is at Rugby in the east midlands. Urban & Civic are acting as master developer on a scheme at Houlton that will deliver 5,952 homes when complete. There will also be 1,145,000 sq ft of employment floor space. This is all in very close proximity to DIRFT (Daventry International Rail Freight Terminal) and the M1. The latest phase of DIRFT will deliver 7,500,000 sq ft when complete.

The Continuum view is that there would need to be unequivocal evidence that proximity to employment uses has a negative impact on house prices. No evidence has been provided. There is the additional proviso that the adjoining site at South Heywood has an established employment use, 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.

Continuum’s Assessment of Knight Frank’s Appraisal Inputs

The Financial Viability Assessment (FVA) produced by Knight Frank lacks sufficient detail or evidence base to support the majority of the inputs assumed in the appraisals. The FVA only provides an evidence base to support the baseline scenario sale values (sale values without deduction due to the new neighbouring Heywood Stores industrial scheme). No evidence base has been provided to support the sale value deduction they argue the scheme would have due to the new next-door scheme. This assessment is merely Knight Frank’s and JLL’s (Independent Agent) opinion. In terms of the profit margin and Benchmark Land Value (BLV) inputs, Knight Frank state that they have used the inputs that have been approved and agreed as part of the Reserved Matters approvals. The inputs assumed are the same inputs used by Cushman and Wakefield (CW) in the 2016 FVA that supported the hybrid permission at the South Heywood site. Knight Frank have provided zero evidence to further support their profit and BLV assumptions and Knight Frank have not undertaken a PPG on Viability (2019) compliant Existing Use Value plus premium (EUV+) assessment which takes into account abnormal cost and the cost of policy compliance.

Knight Frank provides zero evidence or justification to support all of the other costs inputs (standard build, abnormal, contingency, S106, professional fees, sales and marketing, legals and finance). This would be expected of a PPG compliant FVA. Without this information, the FVA does not meet the required evidence base threshold.

Continuum would note that Knight Frank’s assessment of standard build costs and professional fees deviates from the methodology adopted by CW in the 2016 FVA. Applying the CW methodology (plus an allowance for Part L building regulations) would substantially reduce the standard build and professional fee costs by millions of pounds.

Knight Frank’s assessment of finance cost is substantial and one of the highest Continuum have seen for a scheme of this scale and nature. Knight Frank do not provide any narrative around their cash flow timings, nor do they provide a supporting cash flow. A cash flow / finance assessment of the scheme based on optimal development (as required by the RICS), where land would be drawn down in tranches, S106 costs drawn down over the development and costs cash flowed appropriately we believe would substantially reduce the finance costs by millions of pounds.

Overall, the Knight Frank FVA does not meet the evidence base threshold that would be required for a PPG compliant FVA.

Conclusion

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.

Appendix 1: Section from South Heywood Master Plan



Appendix 2: Kingsway Rochdale Google Earth Image



Appendix 3: Warrington Omega Google Earth Image



