



Financial Viability Appraisal

Address: 44-46 Yorkshire Street, Rochdale, OL16 1JW

LPA: Rochdale Metropolitan Borough Council

Planning ref: N/A

Client: Cassel & Fletcher Ltd

Date: 8th August 2022



Executive Summary

This report provides a Financial Viability Appraisal (FVA) of proposed development at 44-46 Yorkshire Street, Rochdale, OL16 1JW, utilising Market Comparison and Residual Methods following RICS Guidance Valuation of Development Property (2019), Assessing Viability in Planning under the NPPF 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	£3,423,326.13
Costs exc land and profit	£2,999,068.73
Finance	£163,198.68
Return	£646,331.89
BLV	£480,000.00
RLV	(£385,273.17)
RLV-BLV	(£865,273.17)
Target profit	20.00%
Actual profit	-6.77%

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 in line with national policy. A 20% landowner 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 Cassel & Fletcher Ltd to produce a Financial Viability Appraisal (FVA) to determine the level of Affordable Housing and other S106 Contributions that should be expected from proposed development at 44-46 Yorkshire Street, Rochdale, OL16 1JW.

Rochdale Metropolitan Borough Council seeks the provision of an Affordable Housing contribution in accordance with Policy C4 of the Rochdale Adopted Core Strategy, adopted in October 2016.

The subject site comprises a currently vacant commercial property located at Nos 44-46 Yorkshire Street. The existing building is of brick construction and has a substantial size of c. 1,538m². The property is located on a split-level site, predominantly arranged over 2 storeys. and has two further basement levels.

This FVA is to be read in conjunction with a new planning application. The development proposes to convert the existing commercial building into a mixed-used property – comprising 7 x retail units located at split-level ground floor and 22 x 1-bedroom flats arranged over 3 storeys. The largest retail unit (168m²) is located at the ground floor level opening towards Baillie Street, while the remaining retail units are located at the ground floor level opening towards Yorkshire Street. In total, the development will provide 905m² of residential accommodation and 483m² of commercial accommodation.

Location Plan



S106 Management

S106 Management is a viability consultancy established in 2011 by Robin Furby, retired solicitor and 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 with LPAs, **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.

S106 Management have worked with clients on more than 1,000 developments, facilitating over 20,000 homes across the UK. Our viability reports have been successfully used at 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 C4 of the Rochdale Adopted Core Strategy (October 2016):

C4 - Providing affordable homes

We will seek affordable housing on all developments of 15 dwellings or more. We will seek a contribution to affordable housing of 7.5% of the development sales value of the overall scheme. Affordable housing should be:

- a. Provided on-site using this contribution to deliver homes of a type, size and tenure agreed by the developer and the local authority based on local evidence and, where appropriate, delivered in partnership with a Registered Provider; or
- b. Provided via an off-site financial contribution in exceptional circumstances, for example, where:
 - i. The local authority considers that the site is not an appropriate location for affordable housing e.g. poor access to local services and public transport; or
 - ii. The type of housing on the site makes it difficult to provide an element of affordable housing; or
 - iii. It is not practical to properly manage an element of affordable housing on the site e.g. on-site provision would only deliver a very small number of homes.

We will take the following factors into account when negotiating the level of affordable housing and how it is to be provided:

- i. The type of affordable housing required in the area;
- ii. The availability of Social Housing Grant or equivalent;
- iii. The need to deliver other planning objectives with a higher priority; and
- iv. The economic viability of the development.

Policy CP7 suggests that all developments delivering 15 or more dwellings, should provide a contribution to affordable housing equivalent to 7.5% of the overall scheme development sales value, or c.£270,000 in this case.

It is the purpose of this FVA to determine whether the development can support this level of contribution.

The Rochdale Adopted Core Strategy has been informed by the 'Greater Manchester Strategic Housing Market Assessment' (hereby referred to as the SHMA), published in January 2019 and the 'Rochdale Metropolitan Borough Council Economic Viability of Affordable Housing Requirements', published in November 2010. Where appropriate, information and assumptions used in these documents will be used to corroborate the assumptions made in our report.

National Guidance is a material consideration; therefore, we also consider the 'National Planning Policy Framework' (NPPF) (2021), and the 'National Planning Guidance for Viability' (NPGV) (May 2019).

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:

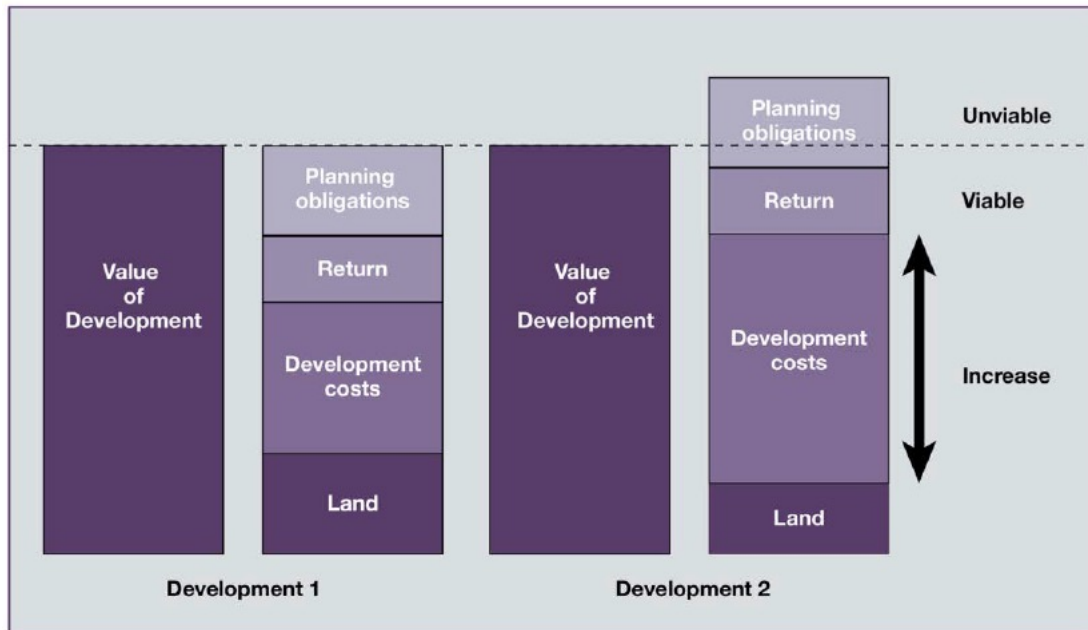
58. Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application 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 the Policy C4 at the last paragraph:

We will take the following factors into account when negotiating the level of affordable housing and how it is to be provided:

- i. The type of affordable housing required in the area;
- ii. The availability of Social Housing Grant or equivalent;
- iii. The need to deliver other planning objectives with a higher priority; and
- iv. The economic viability of the development.

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 (plans are shown at **Schedule 2** to this report):

<i>Proposed Residential</i>		
1	39.00	1-bed flat
2	39.00	1-bed flat
3	39.00	1-bed flat
4	40.00	1-bed flat
5	39.00	1-bed flat
6	39.00	1-bed flat
7	39.00	1-bed flat
8	39.00	1-bed flat
9	39.00	1-bed flat
10	39.00	1-bed flat
11	38.00	1-bed flat
12	39.00	1-bed flat
13	41.00	1-bed flat
14	39.00	1-bed flat
15	39.00	1-bed flat
16	39.00	1-bed flat
17	39.00	1-bed flat
18	50.00	1-bed flat
19	50.00	1-bed flat
20	39.00	1-bed flat
21	50.00	1-bed flat
22	50.00	1-bed flat
Total resi. area (m2)	904.00	
Avg. resi. area (m2)	41.0909091	

The development will provide 22 x 1-bedroom flats, with three of them located at the ground-floor level opening towards Baillie Street and the rest of them arranged over the first and second floor.

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 Rochdale is set out below:

Property type	Avg. current value	Avg. £ per sq. ft.	Avg. no beds	Avg. £ paid (last 12m)
Detached	£345,483	£185	3.7	£326,263
Semi-detached	£184,728	£153	3.0	£180,938
Terraced	£133,364	£129	2.6	£126,428
Flats	£144,386	£164	1.8	£102,584

The Zoopla data suggests that flats in the Rochdale area can expect to achieve an average £/m² value of £1,765, based on an average no. of 1.8 bedrooms.

Transactional Data

We have compared the data presented above to relevant comparable transactions extrapolated from Right-move, which are located in the area surrounding the site of the proposed development (see **Schedule 3**).

We start by looking at recent 'sold' transactions. As noted, values in Rochdale are extremely sensitive to small changes in search area. Nevertheless, due to a limited number of comparable transactions in the immediate vicinity, we were required to extend the limited transactional search to +1 mile.

All the transactions below occurred in the past 1 year:

SOLD Flats - within 1 mile, last 1 year					
Address	Type	Sale Date	Area m2	£/m2	Price
Flat 12, St. Clements Court, 159, Sandy Lane, Rochdale, Greater Manchester OL11 5DY	Top floor flat	14.01.2022	44.00	£1,238.64	£54,500
Flat 9, St. Clements Court, 159, Sandy Lane, Rochdale, Greater Manchester OL11 5DY	Ground floor flat	14.01.2022	44.00	£1,238.64	£54,500
Apartment 19, Falinge Manor Mews, Falinge Road, Rochdale, Greater Manchester OL12 6RU	Ground floor flat	19.11.2021	74.00	£1,486.49	£110,000
38, Pegasus Court, Rochdale, Greater Manchester OL11 4EA	Mid-floor flat	19.11.2021	51.00	£1,843.14	£94,000
15, Pegasus Court, Rochdale, Greater Manchester OL11 4EA	Ground floor flat	30.06.2021	43.00	£1,696.51	£72,950
24, Pegasus Court, Rochdale, Greater Manchester OL11 4EA	Mid-floor flat	27.08.2021	56.00	£1,696.43	£95,000
45, Pegasus Court, Rochdale, Greater Manchester OL11 4EA	Top floor flat	10.08.2021	52.00	£1,461.54	£76,000
10, Jacob Bright Mews, Rochdale, Greater Manchester OL12 6JF	2-bed flat - 0F level, secure gated parking, modern fitted kitchen and bathroom	30.09.2021	64.00	£1,718.75	£110,000
114, Park Road, Rochdale, Greater Manchester OL12 9BP	2-bed terraced - parking, double beds, three piece bathroom suite, rear yard	13.08.2021	64.00	£1,015.63	£65,000
			Avg. £/m2	£1,487.70	

The average achieved price extrapolated from Rightmove is significantly lower than the average suggested by Zoopla. This occurs since Zoopla focuses on the entire area, while the Rightmove data looks more centrally at the area surrounding the subject site. Moreover, the downwards difference might be an indication of lower values in the area immediately surrounding the site.

There is also evidence of the commonly seen 'quantum' inverse correlation between unit area and £/m2 value, meaning we would expect the smaller units to achieve higher £/m2 values than the larger.

We have also looked at flats that are currently on the market or under STC status. All the comparable units presented below are also located within 1 mile from the location of the existing site.

FOR SALE Flats - within 1 mile					
Address	Type	Sale Date	Area m2	£/m2	Price
Pegasus Court, Bury Road, Rochdale, Greater Manchester, OL11	1-bed flat - over 50s development, communal gardens, 0F level, resident parking, in need of modernisation	For sale	43.00	£1,860.47	£80,000
Falinge Road, Falinge, OL12	1-bed flat - top floor, double bedroom, 1 bath, rear parking, open plan lounge/diner	Sold STC	53.10	£1,666.67	£88,500
Scarr Drive, Rochdale, OL12	1-bed flat - 1F level, quiet location, 1 bathroom	For sale	41.00	£2,193.90	£89,950
Pegasus Court, Bury Road, Oakenrod, Rochdale, OL11	1-bed flat - over 50s development, communal gardens, 0F level, resident parking, in need of modernisation	For sale	55.00	£1,726.36	£94,950
Jacob Bright Mews, Whitworth, Rochdale, OL12 6JF	2-bed flat - 1F level, 1 bathroom, inter-com entry, secured gated entrance, modern décor, allocated parking	Sold STC	70.30	£1,706.97	£120,000
Dellar Fold, Dellar Street, Rochdale, Greater Manchester, OL12	2-bed flat - 0F level, 1 bathroom, communal gardens, allocated parking, private gated entrance, sought after location	Sold STC	56.90	£2,284.71	£130,000
FALINGE MANOR MEWS, Falinge, Rochdale OL12 6RU	2-bed flat - 1F level, double beds, 2 bathrooms, allocated & visitor parking, communal gardens	For sale	65.00	£2,153.85	£140,000
4 Pegasus Court, Rochdale	2-bed flat - over 55s luxury development, 2F level, balcony, well presented throughout	Sold STC	63.00	£2,619.05	£165,000
			Avg. £/m2	£2,030.85	

We note there are a significant number of over-50s properties included in the data which would sell at a premium over standard open market properties. In particular Pegasus Court appears to be an outlier in terms of value, being a luxury over 50s development.

Lastly, we have also looked at new build comparable units that are currently on the market. Nevertheless, there seems to be a lack of comparable new build properties currently offered in the area and hence the transactional search had to be extended to +3 miles. Given the considerable distance from the subject site as well as the proposed units being conversions as opposed to new builds, we do not consider these transactions to be relevant and applicable for the proposed development. We therefore exclude the dataset from our report.

The average £/m2 values, as well as the average areas (m2) from the datasets presented above and Zoopla are summarised in the table below:

	Zoopla	RM - Sold	RM - For Sale	RM - New Build	As Proposed
<i>Avg. £/m2</i>	£2,508	£1,488	£2,032	N/A	N/A
<i>Avg. area (m2)</i>	N/A	54.66	55.91	N/A	41.13

Taking the above research into account, we have valued the proposed flats as per the table below:

Proposed Residential				
1	39.00	1-bed flat	£2,179.49	£85,000.00
2	39.00	1-bed flat	£2,179.49	£85,000.00
3	39.00	1-bed flat	£2,179.49	£85,000.00
4	40.00	1-bed flat	£2,125.00	£85,000.00
5	39.00	1-bed flat	£2,179.49	£85,000.00
6	39.00	1-bed flat	£2,179.49	£85,000.00
7	39.00	1-bed flat	£2,179.49	£85,000.00
8	39.00	1-bed flat	£2,179.49	£85,000.00
9	39.00	1-bed flat	£2,179.49	£85,000.00
10	39.00	1-bed flat	£2,179.49	£85,000.00
11	38.00	1-bed flat	£2,236.84	£85,000.00
12	39.00	1-bed flat	£2,179.49	£85,000.00
13	41.00	1-bed flat	£2,073.17	£85,000.00
14	39.00	1-bed flat	£2,179.49	£85,000.00
15	39.00	1-bed flat	£2,179.49	£85,000.00
16	39.00	1-bed flat	£2,179.49	£85,000.00
17	39.00	1-bed flat	£2,179.49	£85,000.00
18	50.00	1-bed flat	£1,800.00	£90,000.00
19	50.00	1-bed flat	£1,800.00	£90,000.00
20	39.00	1-bed flat	£2,179.49	£85,000.00
21	50.00	1-bed flat	£1,800.00	£90,000.00
22	50.00	1-bed flat	£1,800.00	£90,000.00
		Avg £/m2 - Total GDV	£2,090.70	£1,890,000.00

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.

For the sake of clarity, we have run with the average £/m2 value of £2,090.70. This produces a total GDV of £1,890,000.

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 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 18-month period with sales between months 16 and 24.

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

Construction Costs - Input Sheet 2

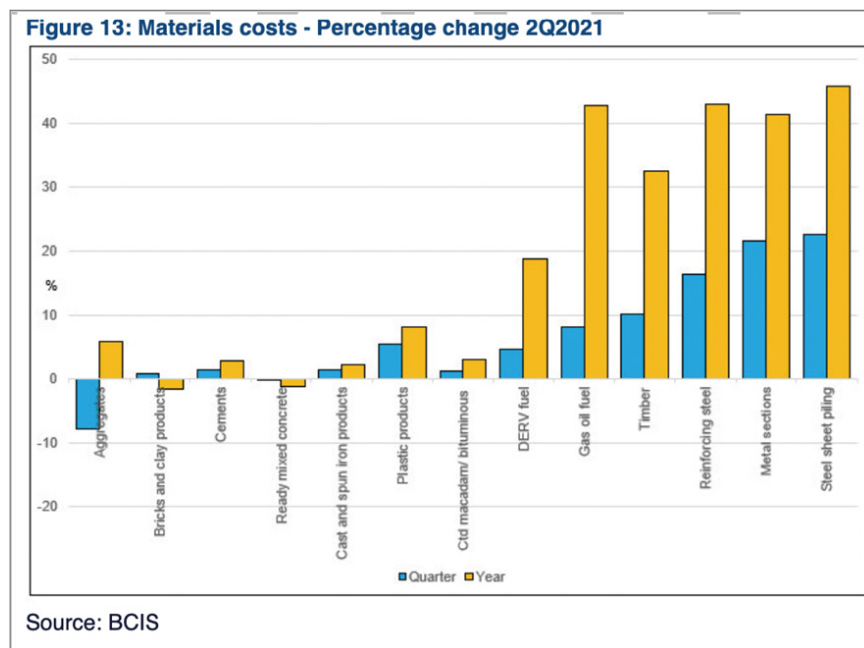
We refer to the BCIS database for average build costs rebased to Q3 2022 and the Rochdale area:

BCIS®							
£/m2 study							
Description: Rate per m2 gross internal floor area for the building Cost including prelims.							
Last updated: 18-Jun-2022 05:44							
> Rebased to 3Q 2022 (369; forecast) and Rochdale (100; sample 34)							
Maximum age of results: Default period							
Building function (Maximum age of projects)	Mean	Lowest	£/m² gross internal floor area			Highest	Sample
			Lower quartiles	Median	Upper quartiles		
Rehabilitation/Conversion							
816. Flats (apartments)							
Generally (15)	1,747	510	1,031	1,376	1,737	6,029	78
1-2 storey (15)	2,276	745	1,150	1,444	2,621	6,029	17
3-5 storey (15)	1,471	510	1,042	1,305	1,582	5,581	45
6 storey or above (15)	2,031	588	945	1,379	2,808	5,053	15

Build cost inflation has been considerable rising 8-10% overall and 30-40% on some costs such as steel. The industry is currently reporting widespread inflation due to increased demand post-pandemic, Brexit-related import costs and labour shortages, and widespread materials shortages leading to surges in pricing (particularly timber and concrete). RICS released further advice in October 2021:

- 'Materials prices rose by 6.3% in 3rd quarter 2021 on a quarterly basis and by 16.9% compared with a year earlier. The materials supply situation is expected to stabilise by 3rd quarter 2022 and prices will rise by 15% over the forecast period (3Q2021 to 3Q2026). The main risks to materials prices will be difficulty in obtaining materials during the Covid-19 crisis, oil prices, tariffs on imports (from countries with no current agreement) and sterling exchange rates
- The average of wage awards will be around 3% per annum over the forecast period. However, with labour shortages expected for a while yet, site rates are expected to see higher increases

- The BCIS General Building Cost Index rose by 4.2% in 3rd quarter 2021 compared with the previous quarter, and by 9.1% compared with a year earlier. Costs will rise by 16% over the forecast period (3Q 2021 to 3Q2026).'



Taking the above into consideration, we adopt the mean quartile construction cost figure of £1,471/m² for flats conversion projects. We assume that the area of the flats represents 85% of the total area of the building, with the rest accounting for communal areas.

The HCEAT has been run with a corresponding figure.

The BCIS makes no allowance for external works and associated infrastructure which are addressed subsequently in our analysis.

External Works

As mentioned previously, the BCIS makes no allowance for all external works and associated infrastructure costs.

In our experience an allowance of 10-15% of the base build cost is adopted for external works unless there are significant abnormal costs onsite. We adopt 15% of total build costs, which we consider to be appropriate in this case.

The HCEAT has been run accordingly.

Fees - Input Sheet 2

10% for fees is the default value of the HCEAT Spreadsheet and the commonly accepted industry standard allowance. We therefore adopt this figure in the HCEAT.

Contingency - Input Sheet 2

5% for contingencies is the default value of the HCEAT Spreadsheet and is the commonly accepted industry standard allowance. Nevertheless, in this instance we have increased the figure to 10%, in order to reflect severe cost inflation (9% May 2022) and the difficulty of pricing refurbishment works.

Section 106 Payments - Input Sheet 2

The Rochdale Metropolitan Borough Council have not yet adopted a CIL Charging Schedule.

However, the LPA have adopted in February 2020 a schedule for charges towards recreational open space improvements, applicable to all proposed developments of 10 or more dwellings.

EXPECTED FINANCIAL CONTRIBUTIONS FROM NEW RESIDENTIAL DEVELOPMENTS OF MORE THAN TEN DWELLINGS TOWARDS RECREATIONAL OPEN SPACE IMPROVEMENTS (PER DWELLING)* (EFFECTIVE FROM DATE 1 st FEBRUARY 2020)								
Size of dwelling	Local Open Space: Laying Out Cost (£)	Local Open Space: Cost for 20-year maintenance (£)	Amount required for Local Open Space if not provided on site (£)*	Outdoor Sports Provision: Laying Out Cost (£)	Outdoor Sports Provision: Cost for 20-year maintenance (£)	Amount required for Outdoor Sports Provision (£)	TOTAL (Local Open Space + Outdoor Sports Provision)	TOTAL + 5% admin charge
1 bed	234.87	240.55	475.43	258.36	264.61	522.97	998.39	1048.31
2 bed	469.74	481.11	950.85	516.72	529.22	1045.94	1996.79	2096.63
3 bed	704.61	721.66	1426.28	775.07	793.83	1568.91	2995.18	3144.94
4 bed	939.48	962.22	1901.70	1033.43	1058.44	2091.87	3993.58	4193.26
5 bed plus	1174.35	1202.76	2377.11	1291.79	1323.05	2614.84	4991.96	5241.56

According to the adopted schedule, the LPA will expect a total provision per dwelling of £1,048.31 from 1-bedroom units. In this case, the development will provide 22 x 1-bedroom flats, hence attracting a total contribution of £23,062.82.

This figure is not included in our modelling as it is clearly unaffordable to the proposed development.

Site Acquisition Costs - Input Sheet 2

The EUV of the site is £400,000, as explained in the Benchmark Land Value section of the report. We therefore include acquisition costs of £15,000, incorporating £9,500 in SDLT.

Finance Costs - Input Sheet 2

While base rates have recently risen with further increases expected, 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 8% 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, values commonly accepted as industry standard.

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.'

Considering the risk profile of the development we have adopted the assumption adopted in the Viability Study as appropriate (20%). 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.

Commercial Assumptions - Input Sheet 3

Size of Scheme

The commercial element of the scheme is summarised below, and detailed plans are shown at **Schedule 2**:

<i>Proposed Commercial</i>		
Unit	Area (m2)	Type
1	168.00	Retail unit
2	39.00	Retail unit
3	64.00	Retail unit
4	52.00	Retail unit
5	48.00	Retail unit
6	54.00	Retail unit
7	58.00	Retail unit
Total commercial area (m2)	483.00	
Avg. commercial area (m2)	69.00	

Values

In order to assess the average rent per square metre achievable by the proposed commercial units, we have conducted further Rightmove research, looking at retail premises currently offered for rent. All the units presented below are located within 1 mile of the subject site:

Address	Type	Area m2	£/m2	Rent (P.A.)	Price
61-61 Market Way, Rochdale Exchange Shopping Centre, Rochdale, Greater Manchester, OL16	High street retail property	258.55	£174.05	£45,000	£54,500
12-13 Rochdale Exchange Shopping Centre, Newgate, Rochdale, Greater Manchester, OL16	High street retail property	92.00	£413.04	£38,000	£54,500
Unit 17 Market Place, Rochdale Exchange Shopping Centre, Rochdale OL16 1YL	High street retail property	123.00	£325.20	£40,000	£110,000

Address	Type	Area m2	£/m2	Rent (P.A.)	Price
Market Way, Exchange Shopping Centre, Greater Manchester, OL16	High street retail property	128.00	£273.44	£35,000	£94,000
20-22 Newgate, Rochdale Exchange Shopping Centre, Newgate, Rochdale, Greater Manchester, OL16	High street retail property	155.00	£77.42	£12,000	£72,950
		Avg. £/m2	£224.70		£95,000

The average proposed rent p.a. per m2 is £224.7. The valuation report on which the EUV is based notes rents of £6-22psf. At the same time, both the proposed units and the comparable unit shown above are located in city centre locations and the proposed will benefit from a more modern design, which will command a price premium.

Taking the above into consideration, we consider that the proposed commercial units will achieve a passing rent of £235/m2 p.a. which we adopt in our HCEAT spreadsheet.

The valuation report notes yields of 7-10%. We have adopted 7%.

Purchasers costs are adopted at 5.75%.

Building Costs

We refer to the BCIS database for average commercial build costs rebased to Q3 2022 and the Rochdale area:

BCIS® £/m2 study Description: Rate per m2 gross internal floor area for the building Cost including prelims. Last updated: 18-Jun-2022 05:44 > Rebased to 3Q 2022 (369; forecast) and Rochdale (100; sample 34)							
Maximum age of results: Default period							
Building function (Maximum age of projects)	Mean	Lowest	£/m² gross internal floor area			Highest	Sample
			Lower quartiles	Median	Upper quartiles		
Rehabilitation/Conversion							
345. Shops (15)	1,254	295	-	531	-	3,658	4

We have adopted mean quartile costs of £1,254/m2.

Fees

Professional fees (10%) and contingencies (10%) have been included as per the residential element of the scheme.

Timing

This is identical to the 'residential' section of the report, namely construction taking place between months 1 and 18 a sale at completion.

Letting Fees

We have adopted the default values of the spreadsheet, thus letting fees at 10%, advertising at 1%, and sales fees at 1.75%.

Developer Profit

We have run with a developer profit for the commercial section at 17.5%, which is commonly accepted as industry standard.

Benchmark Land 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 subject site comprises a currently vacant commercial property located at Nos 44-46 Yorkshire Street. The existing building is of brick construction and has a substantial size of c. 1,538m². The property is located on a split-level site, predominantly arranged over 2-storeys. and has two further basement levels.

We have asked for assistance from Mr John Carter (MRICS Valuer) for the assessment of the site's EUV:

'I've been asked to Carry out a Benchmark Valuation of a premises at 44 to 46 Yorkshire Street Rochdale OX16 1JW.

The property comprises a shop unit with ancillary accommodation having 5467 ft.² on the ground floor ,5467 ft.² on the first floor, 1537 ft.² in the basement, and 639 ft.² in the lower basement. The total area of the premises is therefore 13,111 ft.².

I have been advised that the premises was originally let to Poundland but is currently unoccupied although an existing 5-year lease is in place, granted in 2020 incorporating a rising rent set at a peppercorn from 2020 to 2022 , rising to £37,500 per annum from March 2022 to September 2022, £50,000 per annum from September 2022 to September 2023 and £60,000 per annum from September 2023 to September 2025.

I have had a sight of the detailed existing use valuation carried out by the Landwood Group Chartered Surveyors, asset managers and auctioneers based in Manchester. Their opinion of the current market value of the premises is based on a rental value of £32,000 per annum which they have capitalised at the sum of

£400,000.

My estimate of the Benchmark Value of the premises is at the sum of £400,000.'

We have also studied in detail the Valuation Report mentioned in Mr Carter's assessment, which is also shown at **Schedule 4**.

We have therefore adopted the proposed figure of £400,000 as our EUV.

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 existing commercial building is of substantial size and moreover is located in a central and well-circulated city location. Considering these factors, we consider appropriate that the site would attract a 20% landowner premium.

We have applied this to our EUV figure, to produce a BLV of £480,000, adopted in the HCEAT spreadsheet.

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 it is not necessary to consider the AUV of the site, although we reserve the right to re-visit this should it prove necessary and note that a number of permitted development rights could apply.

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	£3,423,326.13
<i>Less Costs</i>	
Construction Costs (Resi)	£1,568,511.44
Commercial Costs (Build & Fees)	£772,194.10
Other Site Costs	£579,663.40
Marketing	£78,699.78
Finance Costs	£163,198.68
Developer Return	£646,331.89
Residual Site Value	(£385,273.17)
Benchmark Land Value	£480,000.00
Result	(£865,273.17)

To determine the viability of the provision of Affordable Housing, the Benchmark Value of the site as stated above (**£480,000**), is deducted from the Residual Value calculated by the HCEAT spreadsheet. If the result is negative, as it is in this case (**£865,273**), 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	(£385,273.17)
Plus Target Developer Return	£646,331.89
Less Benchmark Value	£480,000.00
Actual Profit	(£218,941.28)
Percentage actual profit	-6.77%

This presents a negative return of -6.77%, which is clearly 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.

Sensitivity testing conclusions are included below:

Developer profit %		Sales values				
		-10%	-5%	0%	5%	10%
Build Costs	-10%	-12.07%	-6.78%	-1.48%	3.81%	9.11%
	-5%	-14.50%	-9.21%	-3.91%	1.39%	6.68%
	0%	-16.93%	-11.63%	-6.34%	-1.04%	4.26%
	5%	-19.36%	-14.06%	-8.76%	-3.47%	1.83%
	10%	-21.78%	-16.49%	-11.19%	-5.89%	-0.60%