PARTIAL REVIEW OF THE FYLDE LOCAL PLAN TO 2032

ECONOMIC VIABILITY ASSESSMENT REVIEW

Prepared on Behalf of

Fylde Council
The Town Hall
Lytham St Annes
FY8 1LW

FEBRUARY | 2020

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APPENDICES

PARTIAL REVIEW OF THE FYLDE LOCAL PLAN TO 2032

1.0 INTRODUCTION

1.1 The Fylde Local Plan to 2032 (the FLP32) was adopted on 22nd October 2018. It was examined in accordance with the National Planning Policy Framework 2012 (NPPF12). The Examination Hearings took place in three stages during 2017 in March, June and December.

1.2 A revised National Planning Policy Framework was published in July 2018 (NPPF18) and a further version with minor additional revisions was published in February 2019 (NPPF19). Paragraph 212 of NPPF19 states that "*Plans may need to be revised to reflect policy changes which the replacement framework has made. This should be progressed as quickly as possible, either through a partial revision or by preparing a new plan.*" In light of this, Fylde Council is carrying out a Partial Review of the FLP32. In addition FLP32 recognises that Wyre Council have identified difficulties in planning to meet its objectively assessed need for housing, and Fylde Council will undertake an early review of the FLP32 to examine this issue, working with other authorities adjoining Wyre under the Duty to Cooperate.

1.3 The Partial Review of the Local Plan is therefore defined by the changes between NPPF12 and NPPF19, as well as the Duty to Cooperate. The proposed revisions within the document are required to ensure the conformity of the FLP32 with the NPPF19, and to ensure that the Council complies with Local Plan requirements in relation to Wyre Council. The Partial Review document involves alterations to policies and text that are essential to serve the function of the Partial Review.

1.4 Keppie Massie prepared the Fylde Local Plan Economic Viability Assessment (2016) and the Fylde Local Plan – Publication Version Economic Viability Assessment Addendum Report (2016). These documents are henceforth respectively referred to as "EVA 1" and "EVA 2." These documents were used to inform the policies contained in FLP32, and to ensure that the emerging Local Plan policies were realistic and could deliver sustainable development without putting the delivery of the Plan at risk. The aim of the EVAs was to satisfy the tests of viability and deliverability laid down in the National Planning Policy Framework 2012 (NPPF12).

1.5 Following on from the preparation of EVA1 and EVA2, we have been asked to consider the proposals contained within the Partial Review document in the context of the policy changes proposed, and to identify any impact that these changes may have on viability. In addition having regard to the requirements of NPPF 18/19, and up to date guidance in relation to viability contained in the National Planning Practice Guidance (PPG) we have undertaken an assessment of EVA1 and EVA2 to determine whether they are in line with this current best practice guidance.

1.6 This report has been prepared with reference to the RICS Professional Statement *Financial Viability in Planning: Conduct and Reporting (1st edition)* dated May 2019. The document sets out mandatory requirements on conduct and reporting in relation to Financial Viability Assessments (FVAs) for planning in England to demonstrate how a reasonable, objective and impartial outcome, without interference should be arrived at and so support the statutory planning decision process.

1.7 In accordance with the requirements of this RICS Professional Statement we can confirm that this report has been undertaken by Ged Massie BSc (Hons) MRICS IRRV MCIArb and Jenny Adie BSc (Hons) MRICS who are both RICS Registered Valuers. They are also suitably qualified practitioners in accordance with the requirements of the Planning Practice Guidance (PPG), with sufficient knowledge and skills to undertake an FVA competently. In preparing the assessment they have acted with objectivity, impartiality, without interference and with reference to all appropriate available sources of information.

1.8 We have previously provided advice to the Council on site-specific FVAs in support of planning applications for residential development in the planning authority area. We are also currently dealing with two ongoing assessments. As noted we also prepared, on behalf of the Council, the Local Plan Viability Assessments and following examination the FLP32 was adopted in 2018. We do not consider that any conflict of interest, or risk of conflict of interest, arises as a result of the interests which we have disclosed.

1.9 In preparing this report, no performance-related or contingent fees have been agreed. We confirm that this assessment of the Local Plan partial review has been carried out in accordance with Section 4 – Duty of Care and Due Diligence of the RICS Professional Statement and that full consideration has been given to the matters referenced in Section 4.

2.0 BACKGROUND

2.1 Keppie Massie were appointed to prepare EVA1 during the summer of 2015. The evidence base supporting the study was compiled over the summer of 2015. The first stakeholder workshop to present the proposed methodology and assumptions took place early in September 2015. The methodology and assumptions presentation document was then circulated to all stakeholders (including those that did not attend) and everyone was asked to consider the document and to provide their comments and feedback on the methodology and assumptions. Section 7 of EVA1 contains details of the responses received and the changes that were made to the methodology and assumptions as a result.

2.2 A second stakeholder workshop was then held in October 2015 and at that workshop we explained the points that had been raised in the stakeholder responses that had been received and the adjustments that had been made to the methodology and assumptions as a result. At the workshop we also explained the outcome of the viability assessments that had been undertaken and the implications of the results for the FLP32.

2.3 A draft of EVA1 was then prepared for consultation alongside the Revised Preferred Options Version of the FLP32. This consultation took place during October to December 2015. The final version of EVA1 was published in February 2016 following consideration of the consultation responses received (two) in relation to the study. EVA1 concluded that the overall scale of obligations, standards and policy burdens contained in the emerging Local Plan were not of such a scale that cumulatively they threatened the ability of the sites and scale of development identified in FLP32 to be developed viably. It noted that in certain circumstances there would need to be a balance achieved between the requirements for affordable housing, sustainability initiatives and Community Infrastructure Levy (if introduced), however there was sufficient flexibility in the Plan policies as drafted in relation to affordable housing with a test based on economic viability to allow a relaxation of policy requirements if appropriate.

2.4 The Council then prepared the Publication Version of the FLP32. This version of the plan took in to consideration the responses to the Revised Preferred Option consultation, changes to national planning policy, legislative changes including the enactment of the Housing and Planning Act 2016 and further evidence including an update to the Gypsies, Travellers and Travelling Showpeoples Accommodation Assessment.

2.5 The Publication Version of the FLP32 contained some changes and modifications to the proposed policies, a number of which had an impact on viability. We therefore updated our viability assessments as appropriate to reflect these changes to ensure that the Publication Version of the Plan complied in viability terms with NPPF12. Our overall methodology and assumptions remained unchanged from EVA1. An Addendum Report with our conclusions was published in August 2016 (EVA2). The conclusion remained in line with our earlier assessment, in that the overall scale of obligations, standards and policy burdens contained in the emerging Local Plan were not of such a scale that cumulatively they threatened the ability of the sites and scale of development identified in the Plan to be developed viably. In certain circumstances we noted that there would need to be a balance achieved between the requirements for affordable housing, sustainability initiatives and CIL (if introduced), however there was sufficient flexibility in the Plan policies as drafted in relation to affordable housing with a test based on economic viability to allow a relaxation of policy requirements if appropriate.

2.6 There were few viability matters that arose during the Examination Process on which our input was required however on 21 June 2017 we attended a hearing session to assist the Inspector with a number of questions regarding affordable housing viability and the impact of the requirements in Policy H2 for 20% of homes in developments of 20 or more homes to achieve M4(3(2a)).

2.7 No further matters relating to EVA1 or EVA2 were raised or referred to us following this hearing session. Ultimately the Inspector, based on the evidence provided including EVA1 and EVA2, concluded in September 2018 that the plan was sound. It was then adopted by the Council.

3.0 VIABILITY TESTING OF FLP32 POLICIES

3.1 Section 2 of EVA1 contained an overview of the key policies contained in the Revised Preferred Options Version of the FLP32 that had an impact on development viability and table 3.19 in Section 3 contained as summary of these policies and how their requirements had been taken into account in preparing the viability assessment. For ease of reference we have reproduced table 3.19 below.

Table 3.19: Implications of Development Management Policies

Requirements	Viability Consideration	Policy
Compliance with National Technical Standards and National Space Standards for New Homes	WYG's construction cost assessments assume compliance with current building regulation requirements. The dwellings sizes that have been assumed for the purpose of our testing accord to the requirements of the National Space Standards.	GD7 – Achieving Good Design in Development H4 – Provision of Affordable Housing
Water Measures	The construction cost assessments prepared by WYG include a cost for surface water attenuation. In relation to the requirement for rainwater harvesting we have prepared a specific viability assessment including the cost of rainwater harvesting at £3,000 per dwelling. The form of development tested and in particular the inclusion of open spaces addresses the requirement for Sustainable Urban Drainage Systems, and the costs assessed by WYG make provision for all associated SUDs costs.	GD7 – Achieving Good Design in Development CL1 – Flood Alleviation, Water Quality and Water Efficiency CL2 – Surface Water Run-Off and Sustainable Drainage
Density and Mix of New Residential Development	We have undertaken testing based on the minimum density requirements of 30 dwellings per hectare net. In accordance with the policy higher densities at 40 dwellings per hectare net have also been considered, as well as apartments. We have assumed a broad mix of house types, and in particular have incorporated provision for 1, 2 and 3 bed house types in the typologies that have been tested.	H2 – Density, Mix and Design of New Residential Development

Requirements	Viability Consideration	Policy
Elderly Provision	We have undertaken specific testing including an additional cost of £2,650 per dwelling for specific elderly adaptations to 20% of the homes within our viability assessments.	H2 – Density, Mix and Design of New Residential Development
Affordable Housing	Testing has been undertaken at the Policy compliant threshold of 30% affordable housing. In accordance with the emerging Policy we have assumed a target of 80% social rent with the balance intermediate.	H4 – Provision of Affordable Housing
Local Infrastructure Provision and Developer Contributions	Our appraisals are inclusive of S106 contributions. We have assumed contributions ranging from £5,000 to £10,000 per dwelling. We have also undertaken specific testing with a reduced S106 contribution having regard to a potential preliminary draft CIL charging schedule.	INF1 – Service Accessibility INF2 – Developer Contributions.
Open Space Provision	The development typologies for each site reflect any relevant requirements for public open space, and therefore the construction cost assessments are reflective of this. In addition, we have undertaken specific viability testing inclusive of payments to the delivery and management of offsite provision included as part of a S106 payment.	GD7 – Achieving Good Design in Development ENV5 – Provision of Open Space (the Green Infrastructure network)

3.2 The Publication Draft of the FLP32 included a number of amended polices that had an impact on viability and further detail in relation to these changes is contained at Section 2 of EVA2. For ease of reference table 3.1 contains a summary of the changes that we identified and details of how there were dealt with in the EVA2 viability testing.

Requirements	Change	Policy
Elderly Provision	Additional requirement for at least 20% of homes within residential developments of 20 or more homes to be designed specifically to accommodate the elderly, including compliance with optional technical standard M4(3A) (wheelchair-accessible dwellings), unless it can be demonstrated that this would render the development unviable. The Revised Preferred Options version of Policy H2 required at least 20% of homes within residential developments of 15 or more homes to be designed specifically to accommodate the elderly. The viability testing in EVA1 incorporated an allowance of £2,650 per dwelling for specific elderly adaptations to 20% of the homes. WYG considered the requirements of M4(3A) and assessed an additional cost allowance to meet the requirements of the standard at £3,000 per dwelling. A total allowance of £5,650 per dwelling was therefore included to achieve compliance with M4(3A).	H2 – Density, Mix and Design of New Residential Development

Requirements	Change	Policy
Density and Mix of New Residential Development	Specific parameters in relation to housing mix were included in the policy with all developments of 10 or more dwellings required to include at least 50% of dwellings that are 1, 2 or 3 bedroom homes. Developments within or in close proximity to the Tier 1 Larger Rural Settlements or Tier 2 Smaller Rural Settlements should include at least 33% 1- or 2-bedroom homes. The testing undertaken in EVA 1 was based on a mix that accorded to the first part of this policy however for Tier 1 and 2 Rural settlements it was necessary for further testing to be undertaken which included 33% 1 and 2 bed dwellings.	H2 – Density, Mix and Design of New Residential Development
Affordable Housing	The policy was amended to take into account government requirements in relation to starter homes. The viability testing in EVA1 was based on social rent and intermediate tenures and therefore additional testing was undertaken in EVA2 based on an affordable mix of starter homes and affordable rent.	H4 – Provision of Affordable Housing

Table 3.1: Amendments to Policies Tested in EVA2

3.3 To assist the Inspector we also provided further testing results based on the affordable tenure mix and other policies in EVA1 with the requirements to achieve M4(3A) to 20% of homes.

3.4 The results for the cumulative policy viability testing in EVA1 showed that of the 216 housing typologies tested across the three value zones identified in the Borough, 25 were unviable which equated to 11.5% of the total. Of the unviable results 24 were in relation to previously developed sites, located in either value Zones 1 or 2 (the low and medium value zone), and comprised the 25 or 50 home schemes. There was one result for a 25 homes greenfield site in value Zone 1 which was unviable on the basis of a S106/S278 contribution at £10,000 per dwelling.

3.5 The results for the cumulative policy viability testing in EVA2 showed that of the 360 housing typologies tested (reflecting the additional testing for tier 1 and 2 rural locations) across the three value zones, 12 were unviable which equated to only 3.3% of the total. Of the unviable developments all were in relation to previously developed sites, located in either value Zone 1 or 2, and as with EVA1 comprised the 25 or 50 home schemes. The results for the Tier 1 and 2 rural settlements based on a greater number of 1 and 2 bed houses were slightly less viable than those based on the standard mix.

3.6 The viability testing undertaken for commercial development suggested that in most cases, save for retail, the speculative development of commercial accommodation was not viable. As a result it was not anticipated that substantive speculative development (with a full developer's profit) would take place over the plan period.

4.0 REVISIONS TO FLP32

4.1 We have undertaken a review of the proposed revisions to FLP32 to identify any policy changes that may have an impact on viability with particular reference to those requirements previously tested in EVA1 and 2 as outlined in Section 3. Table 4.1 contains a summary of the review and identifies any changes proposed to these policies which have implications for the testing in EVA1 and EVA2.

Requirements	Policy	Partial Plan Review Change	Impact on Previous Viability Testing
Compliance with National Technical Standards and National Space Standards for New Homes	GD7 – Achieving Good Design in Development H4 – Provision of Affordable Housing	No change in relation to FPL32 policy requirements. Affordable housing is to be provided in accordance with housing technical standards. The requirement in relation to market housing is for a high standard of amenity for occupiers not compromised by inadequate space, poor layout.	None. No additional testing required.
Water Measures	GD7 – Achieving Good Design in Development CL1 – Flood Alleviation, Water Quality and Water Efficiency CL2 – Surface Water Run-Off and Sustainable Drainage	Requirements in relation to attenuation, SUDs and rainwater harvesting were tested as part of EVA1 and 2. No changes are proposed to these FPL32 policy requirements in the partial review.	None. No additional testing required.
Density and Mix of New Residential Development	H2 – Density, Mix and Design of New Residential Development	Requirements in relation to density and housing mix were tested as part of EVA1 and 2. No changes are proposed to these FPL32 policy requirements in the partial review.	None. No additional testing required.

Requirements	Policy	Partial Plan Review Change	Impact on Previous Viability Testing
Elderly Provision	H2 – Density, Mix and Design of New Residential Development	The FLP32 policy requirement for at least 20% of homes within residential developments of 20 or more homes to be designed specifically to accommodate the elderly, including compliance with optional technical standard M4(3(2a)) (wheelchair-adaptable dwellings) remains unchanged in the partial review.	None. No additional testing required.
Affordable Housing	H4 – Provision of Affordable Housing	Requirements in relation to 30% affordable housing based on differing tenure mixes were tested in EVA 1 and 2. No changes are proposed to these FPL32 policy requirements in the partial review.	None. No additional testing required.
Local Infrastructure Provision and Developer Contributions	INF1 – Service Accessibility. INF2 – Developer Contributions.	EVA1 and 2 tested S106 contributions ranging from £5,000 to £10,000 per dwelling. No changes are proposed to the FPL32 developer contributions policy requirements in the partial review.	None. No additional testing required.

Requirements	Policy	Partial Plan Review Change	Impact on Previous Viability Testing
Open Space Provision	GD7 – Achieving Good Design in Development ENV4 – Provision of Open Space (the Green Infrastructure network)	Requirements in relation to open space were tested in EVA1 and 2. No changes are proposed to these FPL32 policy requirements in the partial review.	None. No additional testing required.

Table 4.1: FLP32 Partial Review Impact on Previous Viability Testing

4.2 Table 4.1 shows that the policy changes proposed in the Partial Review do not have any impact on the policies that were tested in EV1 and EV2. As a result no additional viability testing is required to assess resulting local plan viability in the context of the changes proposed in the Partial Review.

4.3 Aside from matters relating to the viability impact of changes to plan policies we have noted that the Partial Review includes an amendment to the housing requirement. The overall housing needs requirement is identified in the Housing Needs and Requirement Background Paper 2020 to be 6,895 – 8,715 for the plan period. At paragraph 9.19 of the Partial Review it is therefore noted that commitments amount to 6,111 homes at 30 September 2017. This means that 70-88% of the housing requirement for the plan period already has planning consent.

4.4 Sites included in the April 2019 trajectory not yet committed i.e. allocations and minded to approve include 4 brownfield sites in St Annes for 12, 20, 30 and 32 dwellings. There are also 7 mainly greenfield sites at the Blackpool Fylde Periphery for between 14 and 350 dwellings (853 in total). 53 dwellings are minded to approve at Warton, there are also two brownfield sites at Kirkham and Wesham for 12 and 20 dwellings and a site for 30 close to Kirkham, also brownfield. Finally, there is a range of greenfield sites adjacent to rural settlements 11 dwellings at Freckleton, 28 at Staining, 15 at Wrea Green, 30 at Clifton, 126 in total at Newton and 15 at Singleton. The sites in the trajectory that are not yet committed include both greenfield and brownfield sites which range in size from 11 up to 350 dwellings. There are sites located in each of the 3 value zones that were identified for testing in the EVA.

5.0 GUIDANCE FRAMEWORK

5.1 EVA1 and EVA2 were prepared based on NPPF12 and having regard to best practice guidance including Viability Testing Local Plans 2012 (The Local Housing Delivery Group) and Financial Viability in Planning 2012 (RICS).

5.2 A revised NPPF was published in July 2018 (NPPF18) and a further version with minor changes was published in February 2019 (NPPF19). NPPF19 states that:

"Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as the need for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the delivery of the plan." (para 34).

5.3 In addition to the above the NPPF requires that:

"*The preparation and review of all policies should be underpinned by relevant and up to date evidence. This should be adequate and proportionate, focused tightly on supporting and justifying the policies concerned, and take into account relevant market signals*." (para 31).

5.4 In comparison to the previous version (2012), the current NPPF places a greater emphasis on establishing viability at plan making stage and at paragraph 57 confirms that:

"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."

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5.5 The National Planning Practice Guidance (PPG) has also been revised to support the new NPPF. It similarly reinforces the role of Viability Assessment at plan making stage by stating the following (Paragraph: 002):

"The role for viability assessment is primarily at the plan making stage. Viability assessment should not compromise sustainable development but should be used to ensure that policies are realistic, and that the total cumulative cost of all relevant policies will not undermine deliverability of the plan."

5.6 It goes on to say that:

"Policy requirements, particularly for affordable housing, should be set at a level that takes account of affordable housing and infrastructure needs and allows for the planned types of sites and development to be deliverable, without the need for further viability assessment at the decision making stage."

5.7 The PPG confirms that:

"…..policy requirements should be informed by evidence of infrastructure and affordable housing need, and a proportionate assessment of viability that takes into account all relevant policies, and local and national standards, including the cost implications of the Community Infrastructure Levy (CIL) and section 106."
(Paragraph:001)

5.8 In the context of the NPPF19 and PPG we have assessed EVA1 and EVA2 to consider whether the approach and methodology used in preparing the Viability Assessment addresses the requirements of NPPF19 and the revised PPG. We have also reviewed the appraisal assumptions and inputs themselves to verify that the approach taken in establishing these assumptions meets the requirements contained in this most up to date guidance. Overall we have determined whether the work previously undertaken is a "proportionate assessment of viability" that takes into account all relevant policies and local and national standards and in doing so ensures that policies are realistic and that they do not undermine the deliverability of the FLP32 or the Partial Review of the FLP32.

5.9 In the following paragraphs we have identified the key aspects of the approach to Viability Assessment identified in the PPG and our assessment of how EVA1 and EVA2 address these requirements.

Consultation

5.10 The PPG states that:

"It is the responsibility of plan makers in collaboration with the local community, developers and other stakeholders, to create realistic, deliverable policies. Drafting of plan policies should be iterative and informed by engagement with developers, landowners, and infrastructure and affordable housing providers."
(Paragraph: 002)

5.11 In addition paragraph 006 states that:

"Plan makers should engage with landowners, developers, and infrastructure and affordable housing providers to secure evidence on costs and values to inform viability assessment at the plan making stage."

5.12 The preparation of EVA1 and 2 involved both informal stakeholder consultation and a number of stages of formal consultation. In particular at the outset a stakeholder workshop took place to present the methodology and assumptions proposed to be adopted for the EVA. Stakeholders were the asked to submit their comments and this information was used to finalise and refine the viability testing methodology and assumptions.

5.13 A further stakeholder workshop took place once the initial round of viability testing had been undertaken. At this session we were able to explain how the earlier comments received from stakeholders had been considered and used to formulate, adjust and amend our methodology and assumptions. Our draft report was then published for consultation and further feedback was invited in relation to this report. Two further representations were received relating to the draft report. Taking these responses into consideration the report and testing were then finalised and EVA1 was published.

5.14 The methodology, evidence and assumptions used to inform the EVA was therefore subject to scrutiny by stakeholders, and feedback was received from stakeholders at a number of points which was used to inform the final version of the EVA. In the context of requirements for consultation it is considered that the EVA was based on a realistic and proportionate consultation over a number of stages and therefore meets the requirements identified in the PPG in this respect.

Typologies and Strategic Sites

5.15 At paragraph 003 the PPG notes that assessing plan viability does not require individual testing of every site or assurance that individual sites are viable. It advocates the use of site typologies based on assessment of samples of sites. The site typologies may be based on shared characteristics such as location, whether brownfield or greenfield, size of site and current and proposed use or type of development.

5.16 Paragraph 005 deals with strategic sites and suggests that plan makers can undertake site specific viability assessment for sites that are critical to delivering the strategic priorities of the plan.

5.17 The EVA was based on a typology approach to testing. Using the Revised Preferred Options Version of the Local Plan and the sites data collated by the Council, the EVA assessed the type, size and location of sites likely to come forward during the plan period. This information was used to inform the housing and commercial typologies that were adopted for the purpose of the viability testing. In relation to housing sites this involved testing based on previously developed and greenfield sites at differing densities. Testing was undertaken based on site typologies ranging from 4 dwellings up to 1,000 dwellings for the largest greenfield sites anticipated to come forward. The testing also reflected different market areas, with testing across 3 different value zones based on the property market evidence. Testing of standalone apartment typologies was also carried out.

5.18 For the commercial viability testing a range of typologies based on different uses were established having regard to key FLP32 evidence base documents such as the Employment Land Study. The viability typologies included industrial, offices, retail, hotels and various other uses across both previously developed and greenfield sites and based on different sizes of development.

5.19 The final element of the EVA was to undertake viability assessments of those sites that are crucial to the delivery of the plan. This involved preparing a site specific viability assessment for the proposed allocations that did not yet have planning consent. These sites comprised both housing and mixed use sites.

5.20 The approach in the EVA to establishing site typologies for testing and also undertaking viability testing of strategic sites accords to the requirements of the current PPG. As outlined in paragraph 4.4 the sites contained in the April 2019 trajectory that are not yet committed are both greenfield and brownfield sites ranging in capacity from 11 to 350 dwellings. They therefore they fit well with the range of typologies that were utilised for the purpose of the viability testing.

Education Provision

5.21 The PPG at paragraph 029 states that:

"It is important that costs and land requirements for education provision are known to inform site typologies and site-specific viability assessments, with an initial assumption that development will provide both funding for construction and land for new schools required onsite, commensurate with the level of education need generated by the development."

5.22 FLP32 makes reference to indicative sites for new primary schools within the development sites at Queensway (HSS1) and Whyndyke (MUS2). These respective sites already had planning consent at the time of the EVA.

5.23 In addition the FLP32 states that the Council will work with the Education Authority to identify and deliver a site for a new secondary school once a need is demonstrated within the plan period.

5.24 Specific contribution requirements were not available from the LPA and hence to fully inform the impact of education contributions a robust approach was taken to the S106 contribution that was modelled with amounts per dwelling ranging from £5,000 to £10,000.

5.25 At the present time specific requirements for contributions vary across the Borough and as a result the approach taken in the EVA to the modelling of a range of robust contributions is considered the most realistic approach to address the requirements of PPG.

The Principles for Carrying Out a Viability Assessment

5.26 Paragraph 010 of the PPG states that:

"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 includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return."

5.27 EVA1 and 2 were based on the residual approach. This is where the value of the completed development is assessed and the cost of undertaking the development (including the cost of land, finance and planning obligations) is deducted, along with a target developer's profit return. The residual sum that is left represents the development surplus or "headroom." Consideration of this then allows an informed decision to be made about the viability of the development in general, and in particular, the ability to fund Local Plan policies involving additional costs for development such as developer contributions policies and also CIL.

5.28 Table 5.1 is taken from EVA1 and illustrates this approach:

Table 5.1: Residual Approach

Gross Development Value ***(value of the completed development scheme)***
Less
Cost of Development *(inclusive of build costs, fees, finance, land cost)*
Less
Other Costs *(planning obligations)*
Less
Developers Target Profit
= Development Surplus or "Headroom"

5.29 This approach allows plan policy requirements to be tested both individually and on a cumulative basis as outlined in EVA1. It also meets the test of financial viability outlined in the PPG as it allows the value generated by a development to be assessed alongside the cost of developing it to assess whether based on the plan policy requirements the site or typology is viable.

5.30 Paragraph 10 goes on to say that:

"Any viability assessment should be supported by appropriate available evidence informed by engagement with developers, landowners, and infrastructure and affordable housing providers."

"Any viability assessment should follow the government's recommended approach to assessing viability as set out in this National Planning Guidance and be proportionate, simple, transparent and publicly available."

5.31 The EVA1 and 2 were prepared based on appropriate available evidence at the time in relation to values, costs and other appraisal inputs. Full details of the evidence and approach to assessing the appraisal inputs are contained in Sections 4 and 5 of EVA1 together with the supporting appendices. It is considered that the approach taken was proportionate, simple and transparent and all supporting information was made publically available. In addition the preparation of the EVA was subject to various stages of stakeholder consultation.

Inputs into Viability Assessment

5.32 As well as the approach to undertaking viability assessment the PPG provides guidance on what are termed standardised inputs into a viability assessment. These are considered in the following paragraphs.

<u>Gross Development Value (GDV)</u>

5.33 Paragraph 011 deals with GDV and states that this is an assessment of the value of development.

5.34 For residential development, this may be total sales and/or capitalised net rental income from developments. Grant and other external sources of funding should be considered. For commercial development a broad assessment of value in line with industry practice may be necessary.

5.35 For area wide or site typology assessment at plan making stage average figures can be used.

5.36 The approach taken to assessing GDV in EVA1 is in line with that outlined in the PPG. For housing development sales and asking price data was collated for all new build housing schemes in the Borough. Using this data average values were calculated for each development. Details are provided in table 4.6 and 4.7 of the EVA. This average value information then allowed us to establish broad ranges of value across the Borough which in turn resulted in testing across 3 values zones.

5.37 The commercial testing undertaken was informed by evidence of rental and sales transactions taken from Co-Star. Relevant Fylde specific transactions are contained at paragraphs 4.54 to 4.67 of EVA1. The evidence allowed us to establish values for new commercial development in line with industry practice and evidence.

Costs

5.38 The PPG at paragraph 012 notes that costs should be based on evidence that is reflective of local market conditions. It provides as list of costs including:

- Build Costs
- Abnormal Costs*
- Site specific infrastructure costs*
- Total Costs of all relevant policy requirements*
- General Finance Costs
- Professional Fees*
- Sales marketing and legal costs
- Project Contingency

5.39 The PPG notes that those items marked * should be taken into account when defining benchmark land value.

5.40 The viability testing undertaken in the EVA included all of these inputs based on evidence reflective of our experience of local market conditions.

5.41 Build costs, abnormal costs, site specific infrastructure costs and a project contingency were assessed by WYG Quantity Surveyors and their report containing their methodology was included at Appendix 2 of EVA1. The base costs for the houses were based on data held by WYG relating to a large range of housing projects carried out in the local northwest region. In accordance with the PPG this was considered to be appropriate data, and also accords to the requirement of the PPG in terms of being reflective of local market conditions. Allowances were also assessed for abnormal costs for brownfield sites and "opening up costs" for greenfield sites. External works were included in the cost assessments together with drainage, service supplies, on site open space, fees and a contingency of 5%.

5.42 Given a lack of local data the build costs for commercial development were based on BCIS data and included appropriate allowances for external works, professional fees and a contingency.

5.43 Each financial appraisal was a cashflow so it reflected an assumed development and sales programme based on local evidence and the interest cost was calculated based on a typical industry rate of housing development of 7% with 6% for commercial development.

5.44 Sales, legal and marketing costs on the disposal of the dwellings where included based on a typical allowance of 3.5% of GDV. The commercial testing included standard allowances for agents and legal fees on both letting and disposal. In addition acquisition costs on land purchase were included based on HMRC Stamp Duty Land Tax (SDLT) rates and legal and agents fees of 1.75%.

5.45 As detailed in the tables at Section 3, the total cost of relevant policy requirements were assessed and the costs included in the viability assessment. Testing was undertaken inclusive of S106 contributions ranging from £5,000 to £10,000 per dwelling.

Developer's profit

5.46 Paragraph 018 of the PPG deals with developer's profit. It states that:

"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."

5.47 With reference to the above our experience is that for affordable housing a profit of 6-8% of either GDV or cost is now typically adopted in preparing viability assessments.

5.48 EVA1 and EVA2 adopted a profit return at 20% of GDV for both market and affordable housing on all housing site typologies save for the small 4 and 10 dwelling schemes, where reflecting the more limited risk, a profit of 15% was adopted. The EVA did not apply a lower rate to the affordable housing which is now advocated in the PPG. Although the profit return at 20% of GDV is within the range identified in the PPG it is at the very highest end of the range and therefore once affordable housing is taken into consideration a lower profit return could be justified based on the current PPG. Adopting a lower profit in the viability assessments would result an in improved viability position to that reported in the EVA.

5.49 For the commercial testing undertaken a profit of 20% of cost was adopted. This was in accordance with industry standards at the time of the EVA and arguably based on present circumstances could be reduced. Although this reduction in profit would not materially alter the conclusions reached regarding commercial development, which save for retail development was not generally viable.

5.50 The position taken in relation to profit in the EVA1 and 2 accords to the PPG and if anything is higher than anticipated in the PPG. With lower returns adopted this would lead to an improvement in the results and the overall viability position reported in EVA1 and EVA2.

Benchmark Land Value

5.51 The Planning Practice Guidance (PPG) sets out how land value should be assessed for the purpose of viability assessment. It states that:

"To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements. Landowners and site purchasers should consider policy requirements when agreeing land transactions. This approach is often called 'existing use value plus' (EUV+)." (Paragraph: 013)

5.52 Paragraph: 014 then provides details of what factors should be considered in establishing a benchmark land value. In particular it states that a benchmark land value should:

- be based upon existing use value;
- allow for a premium to landowners (including equity resulting from those building their own homes);
- reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees

5.53 It goes on to say that existing use value should be informed by market evidence of current uses, costs and values and that market evidence can be used as a cross check of benchmark land value but should not be used in place of benchmark land value. It also notes that there may be a divergence between benchmark land values and market evidence but cautions that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners. Evidence used to inform assessment of benchmark land value should be based on developments which are fully compliant with emerging or up to date plan policies, including for affordable housing requirements at the relevant levels set out in the plan.

5.54 At paragraph: 015 further information is provided about the meaning of existing use value (EUV). It is defined as being:

"the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value."
(Paragraph: 015)

5.55 The PPG acknowledges that EUVs will vary depending on the type of site and development types. It suggests that an 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. 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.

5.56 The premium (or the 'plus' in EUV+), is the amount above existing use value (EUV) that goes to the landowner. The PPG states that:

"The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements."

5.57 It goes on to say that:

"Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan."
(Paragraph: 016)

5.58 The approach to assessing benchmark land value for housing sites (or base input land cost as it was termed in the EVA) was in line with the approach identified in the document Viability Testing Local Plans to be used in establishing the 'threshold land value'. This involved establishing a threshold land value based on a premium over current use values or credible alternative use values.

5.59 In relation to greenfield sites we established an existing use value based on agricultural uses. The property market evidence contained at Appendix 1 of EVA1 contained information regarding agricultural land sales/asking prices ranging from £3,737 per acre to £15,414 per acre whilst the RICS Rural Market Survey for the North West (H1 2015) reported arable land values at £9,000 per acre and pastoral land values at £8,500 per acre. Based on this evidence we assessed the existing use values to be in the region of £10,000 to £20,000 per acre or less. We then applied a reasonable landowner premium to these figures, the level of premium reflected local market conditions and infrastructure and service requirements. Adopting an existing use value of £10,000 per acre we applied a land owner premium 19 times existing use value to incentivise a landowner to sell in the lower value areas giving a total land value benchmark of £200,000 per acre. In the higher value areas we assumed a premium equivalent to 24 times existing use value giving a total benchmark land value of £250,000. For smaller sites often used as pony paddocks we applied a further uplift of 20% to reflect the relatively higher existing use value.

5.60 As noted in EVA1 there had been limited commercial land sales in Fylde as a result of limited development activity. However drawing on our knowledge and experience elsewhere we assessed an existing use value for previously developed land in commercial use in the settlement areas in the range of £150,000 to £250,000 per acre. The exact figure dependent upon location, past use etc. We adopted a benchmark land value of £350,000 per acre in the lowest value area and £450,000 per acre in the highest value area. Taking a reasonable average position in relation to existing use value for commercial sites at £200,000 per acre, the benchmark land values adopted contained a land owner premium of £175,000 per acre or 87.5% of existing use value in the low value areas and £250,000 per acre or 125% of existing use value in the higher value areas.

5.61 For the larger previously developed sites we adopted a discount of 20% to these figures to reflect the quantum of development land.

5.62 These existing use values and levels of land owner premium/benchmark land value were considered by stakeholders and were not generally disputed save for one or two comments. They appeared to be broadly accepted as a reasonable position.

5.63 In establishing a benchmark land value the PPG notes that market evidence can include benchmark land values from other viability assessments and that land transactions can be used but only as a cross check to the other evidence. The benchmark land values that were adopted in the EVA where in line with those we had adopted in Local Plan Viability Assessments elsewhere. In addition we also undertook a sense check of the benchmark land values based on residential land sales that had taken place in the Borough although as noted in the EVA these transactions were based on pre-existing policy requirements and hence were not directly comparable for the purpose of the exercise.

5.64 In reviewing the approach taken to assessing benchmark land value, the methodology and approach accords to the requirements of the PPG, with an assessment based on EUV plus a reasonable premium to the land owner.

Summary

5.65 Although EVA1 and EVA2 were prepared prior to the NPPF19 and the updated PPG, the methodology adopted accords to the requirements of this current guidance. In terms of the approach to assessing the appraisal variables this is also in line with the current guidance. The only difference that we have noted is in relation to developer's profit. Based on the current PPG a lower profit return could be justified for the majority of residential typologies tested.

5.66 As noted in para 3.4 the results for the cumulative policy viability testing in EVA1 showed that in relation to new housing development, of the 216 housing typologies tested across the three value zones identified in the Borough, 25 were unviable which equated to 11.5% of the total. In EVA2 of the 360 housing typologies tested only 12 were unviable which equated to only 3.3% of the total. Overall therefore of the 576 housing typologies tested only 6.4% generated unviable results. This outcome demonstrates that with reference to Paragraph 002 of the PPG the policies contained in FLP32 (as amended by the proposed partial review) are realistic and the total cumulative cost of all relevant policies will not undermine delivery of the plan.

Market Signals

5.67 NPPF19 states that:

"*The preparation and review of all policies should be underpinned by relevant and up to date evidence. This should be adequate and proportionate, focused tightly on supporting and justifying the policies concerned, and take into account relevant market signals*." (para 31).

5.68 Given the passage of time since the publication of EVA1 and EVA2 we have considered relevant market data sources to identify whether there have been any changes that may impact on the viability and deliverability position reported in those documents. The evidence base for the Viability Testing was compiled during the summer of 2015 and we have considered changes to house prices and build costs that have taken place over the period since the summer of 2015.

Sales Prices

5.69 We have taken data from Land Registry relating to new build sales over the period from May 2015 until September 2019 which provides the most recent complete monthly data. The data is included at **Appendix 1** and shows that average new build sales prices have increased by around 17% over the period. We have provided at figure 5.1 a graph prepared using this house price data, which illustrates house price trends over the period.

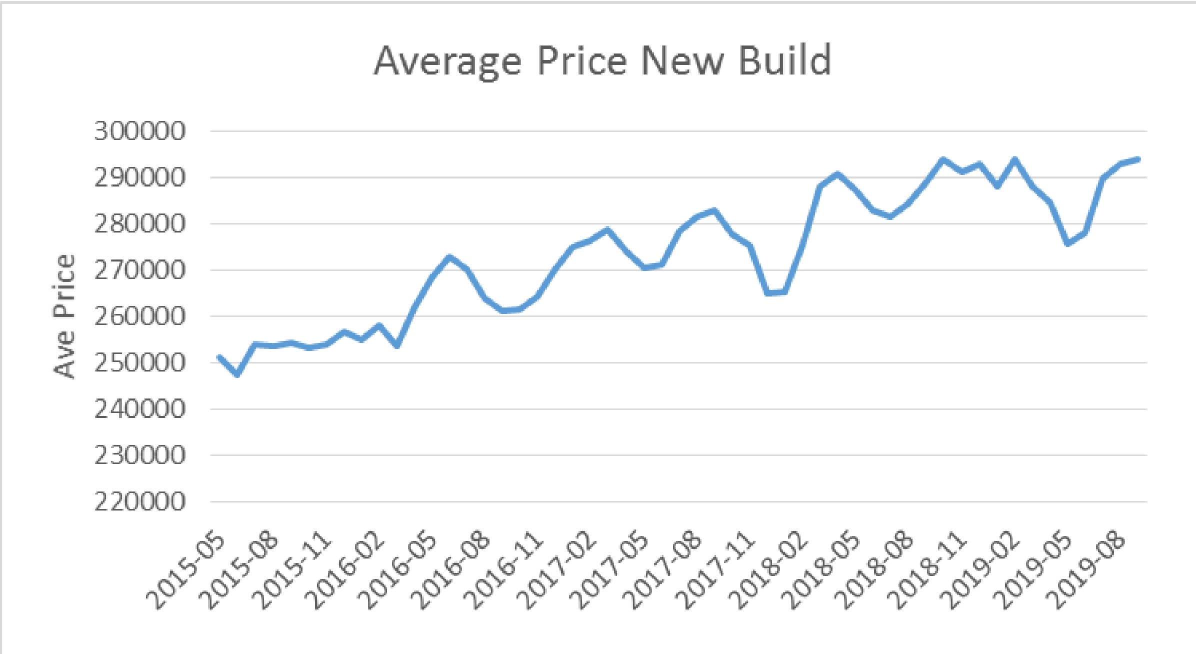


Figure 5.1: Average New Build House Prices from May 2015 (Source: Land Registry)

Build Cost Increases

5.70 Alongside house price increases we have also considered changes in construction costs over the period having regard to the BCIS tender price index (TPI). Details of the TPI over the period are included at **Appendix 2**. The data shows that over the period there has been an increase in the index of just under 17%. For illustrative purposes, figure 5.2 shows the changes in TPI over the period.

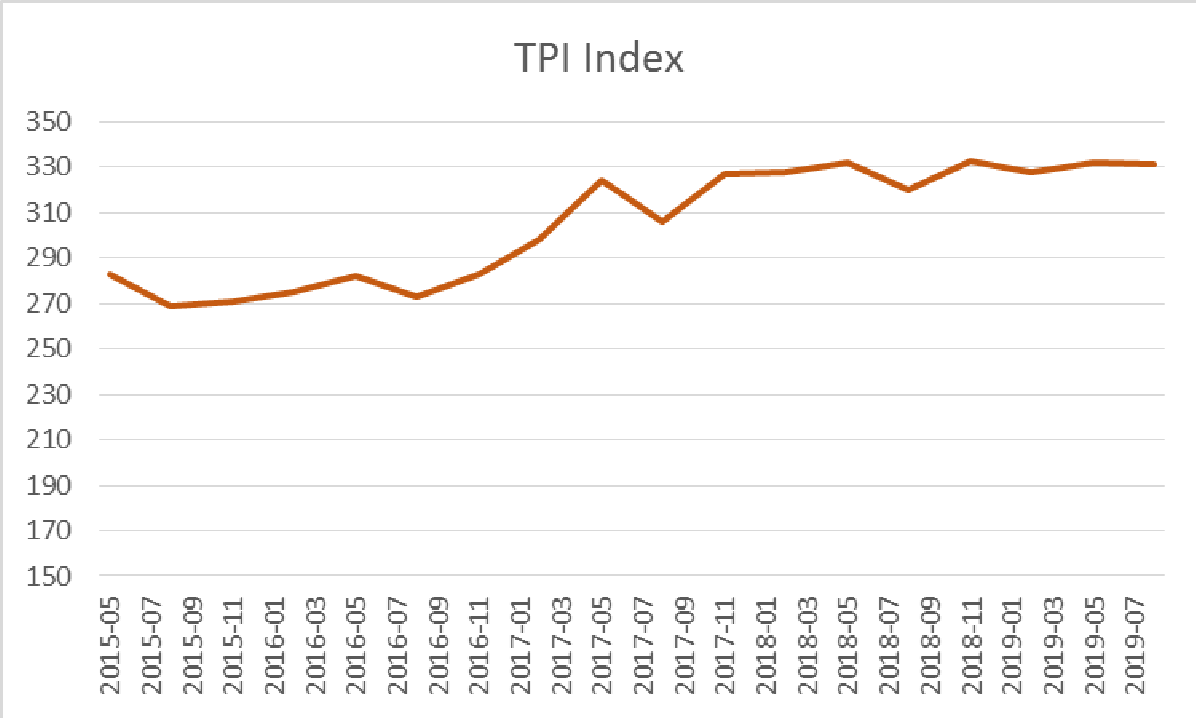


Figure 5.2: TPI Index since May 2015 (Source: BCIS)

5.71 The data suggests that construction costs and sales price increases have been broadly in line over the period. To enable a closer comparison of the respective trends we have prepared figure 5.3. We have rebased average new build sales prices to the May 2015 TPI figure at 283, the graph line then shows house price changes relative to the TPI index over the period.

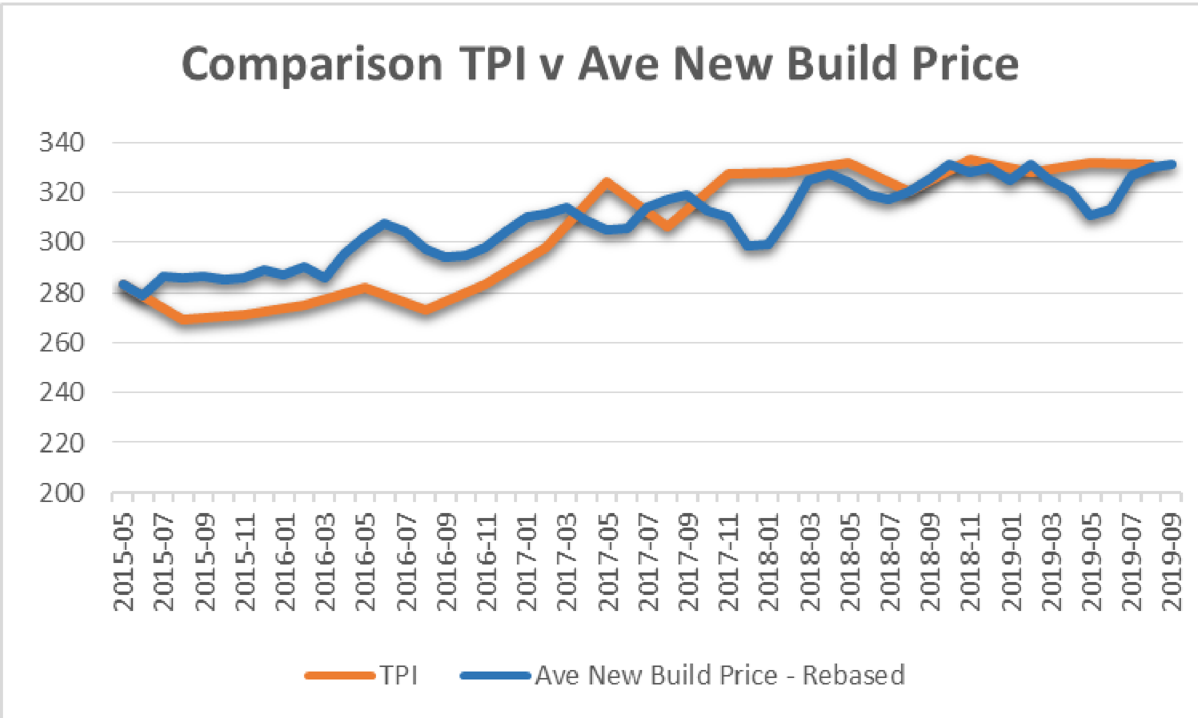


Figure 5.3: Average New Build House Prices Compared to TPI

5.72 The data shows that although there have been some fluctuations in the two measures over the period, the level of increase in the two has remained broadly similar. Since the beginning of 2019 construction costs have remained relatively stable and although there was a reduction in the average new build house prices during April and June 2019, the average prices have now recovered to earlier levels and also appear relatively stable.

5.73 The data shows that there has been no significant changes between these particular measures that would indicate that the outcome of the EVA1 and 2 had materially altered over the period.

5.74 It should also be borne in mind that changes in sales prices have a much greater impact on viability than changes in construction costs. As an example taking the appraisal for 25 dwellings on a brownfield site in the low value zone, which was one of the least viable results in EVA1, the total construction costs in the appraisal were equivalent to only around 60% of GDV. In the context of a financial appraisal, then construction cost increases would need to exceed house prices increases fairly significantly for this to begin to reduce viability.

5.75 In the present case there has been no material construction cost increase over new build house prices that would indicate a change in the viability position.

Land Values

5.76 We have also considered whether there have been any material changes to land values over the period. In terms of greenfield land the most recent RICS Rural Market Survey for the North West (H1 2018) reported arable land values at £9,375 per acre and pastoral land values at £6,375 per acre. The former is a slight increase over the figure of £9,000 per acre at the time of EVA1, whilst the latter is a significant reduction from the figure of £8,500 per acre. This does not suggest that there has been any material change in greenfield land values that would impact on the EVA 1 and 2 viability results and conclusions.

5.77 In terms of brownfield land the B8 Industrial and Logistics Update January 2020 shows at table 5 that land values for tertiary sites are in the region of £200,000 to £250,000 per acre. A copy of the report is contained in **Appendix 3**. This type of site is typical of that likely to come forward for redevelopment for residential purposes, which forms the basis of an assessment of EUV in this case. The land values noted in the B8 report accord with the EUVs that were adopted in EVA1 and again indicate that there has been no material change in brownfield land values that would alter the results and conclusions reached in the FVA.

Developer's profit

5.78 EVA 1 and 2 adopted a developer's profit of 20% of GDV for all but the smallest sites of 4 and 10 dwellings for which a return of 15% was adopted. The profit of 20% was applied to all tenures both market and affordable. As noted in paragraph 5.46 the PPG suggests a range of profits at 15% - 20% of GDV, with a lower figure for affordable housing. As a result of changes in guidance over the period, the profit adopted in the EVA is at the highest end of the range suggested. The profit used in the EVA also did not include a lower figure for the affordable housing. As a result it could be argued that the profit at 20% adopted in the EVA is high and could be reduced. Any reduction in profit would obviously lead to an improvement to the viability position reported in EVA1 and 2.

5.79 For the commercial testing a profit of 20% of cost was adopted. This was in accordance with industry standards at the time of the EVA and arguably based on present circumstances this could also be reduced. Given the extent of the deficits shown in table 6.23 of EVA1 for the majority of commercial typologies this is unlikely to result in any material change to the outcome of the testing.

Other Appraisal Variables

5.80 Other appraisal variables include costs for sales and marketing at (3.5% of GDV), land acquisition costs (SDLT, legal and agents fees) and finance costs (7%). These assumptions remain in line with present market practices and we don't consider that there is any justification for a change in the figures adopted. That said many of the financial appraisals submitted by housebuilders that we review on behalf of LPAs are based on lower interest rates at around 6.5%, and hence there is justification for adopting a slightly lower finance rate. This would obviously improve the viability position.

Planning Contributions

5.81 The viability assessments in EVA1 and EVA2 assumed planning contributions at a minimum of £5,000 per dwelling and a maximum of £10,000 per dwelling. The Council has provided the information contained at table 5.2 regarding the Section 106 contributions that have been collected since 2010.

Year	S106 amount (POS, HI, PR,BS/HI, Education)	Net Dwelling Completions	Average amount of contribution each year per dwelling (£)
2009/10	£238,813	145	£1,647
2010/11	£57,644	115	£501
2011/12	£169,660	141	£1,203
2012/13	£136,660	162	£844
2013/14	£232,922	234	£995
2014/15	£730,130	207	£3,527
2015/16	£444,205	304	£1,461
2016/17	£786,395	455	£1,728
2017/18	£872,000	470	£1,855
2018/19	£136,275	490	£278
Totals	**£3,804,703**	**2,723**	**£1,397**

Table 5.2: S106 Contributions (Source: Fylde BC)

5.82 This data shows a maximum contribution per dwelling of £3,527 in 2014/15 and in other years contributions that are significantly less, with the average over the period being £1,397. This data suggests that the S106 contributions that were built into the viability assessments in EVA1 and EVA2 may have been higher than is typically collected in the Borough. In the context of this data it is clear that the S106 contributions that were assumed in EVA1 and 2 are certainly very robust for the purpose of plan viability assessment. Had the viability testing incorporated S106 contributions at the levels shown in table 5.2, then this would obviously have led to an improvement in the viability results contained in EVA1 and 2.

Conclusions

5.83 We have considered the approach and inputs used in EVA1 and EVA2 in the context of changes to guidance and market signals. Based on this assessment we consider that the approach taken in the preparation of EVA1 and EVA2 is in line with current guidance contained in NPPF19 and the PPG. In terms of the property market we do not consider that there have been any changes over the period that would lead to a materially altered viability position and conclusion to that contained in the EVA1 and EVA2.

6.0 CONCLUSIONS

6.1 We have prepared an assessment of the Partial Review of the FLP32, to identify any revisions to FLP32 policies which may have an impact on viability. We have then considered the Local Plan policy testing undertaken in EVA1 and EVA2 and identified whether the revisions introduced by the Partial Review Document give rise to a need for adjustments to the assumptions made and as a result further viability testing. Based on the review that we have undertaken we are satisfied that the changes proposed do not result in any alterations to the policies previously tested and as a result give rise to additional costs for development not previously taken into consideration in EVA1 and EVA2.

6.2 EVA1 and EVA2 were prepared based on NPPF12 and we have therefore analysed the methodology and inputs used in the preparation of the studies in light of new guidance in the form of NPPF19 and updated PPG. Having undertaken this assessment we are content that the EVA1 and EVA2 accord to the requirements of this new best practice guidance and hence there is no need to undertake any amendments or make adjustments to the viability testing.

6.3 The evidence base supporting EVA1 and EVA2 was compiled during the summer of 2015. The final stage of this review has therefore been to consider market signals and any potential changes to appraisal inputs that may be required as a result. Having undertaken this exercise we are satisfied that there have been no significant changes that would give rise to a different viability outcome than that reported in EVA1 and EVA2.

6.4 Overall therefore we are satisfied that the policies contained in the FLP32 and the proposed revisions arising from the Partial Review are realistic and that the total cumulative cost of all relevant policies including those subject to revision by the Partial Review will not undermine the deliverability of the Partial Review of the FLP32.

6.5 The evidence of new development within the Borough shows that for 2018/19 there were 232 affordable housing completions (186 Affordable Rent, 32 Shared Ownership and 14 Discounted Market Sales) from a total of 490 completions i.e. 47% which is a good indicator of viability and the delivery of plan policies. We are advised that for this year to December there have been 169 affordable completions. At the same time over this period application specific viability assessments have only been submitted in relation to two developments. Overall these factors are a good indicator that plan policies are viable and the Council is continuing to achieve development in line with the policies contained in FLP32.

Keppie Massie

…………………………………………………..

KEPPIE MASSIE LTD

DATE: 26 February 2020

Ref: AGM/JA/RC

APPENDIX 1

NEW BUILD AVERAGE HOUSE PRICES (LAND REGISTRY)

UK House Price Index

Average price by property status in Fylde

May 2015 – September 2019

	Reporting period	Sales volume	Average price New build
May 2015	monthly	122	£251,297
Jun 2015	monthly	142	£247,481
Jul 2015	monthly	148	£254,101
Aug 2015	monthly	144	£253,519
Sep 2015	monthly	139	£254,157
Oct 2015	monthly	162	£253,140
Nov 2015	monthly	136	£253,802
Dec 2015	monthly	133	£256,841
Jan 2016	monthly	108	£255,115
Feb 2016	monthly	118	£257,982
Mar 2016	monthly	202	£253,640
Apr 2016	monthly	105	£261,970
May 2016	monthly	120	£268,312
Jun 2016	monthly	174	£273,109
Jul 2016	monthly	149	£270,305
Aug 2016	monthly	173	£264,102
Sep 2016	monthly	144	£261,269
Oct 2016	monthly	149	£261,551
Nov 2016	monthly	159	£264,373
Dec 2016	monthly	177	£270,087
Jan 2017	monthly	107	£275,156
Feb 2017	monthly	123	£276,419
Mar 2017	monthly	142	£278,926
Apr 2017	monthly	108	£274,055
May 2017	monthly	127	£270,652
Jun 2017	monthly	194	£271,196
Jul 2017	monthly	157	£278,439
Aug 2017	monthly	164	£281,668

	Reporting period	Sales volume	Average price New build
Sep 2017	monthly	160	£282,967
Oct 2017	monthly	158	£277,723
Nov 2017	monthly	164	£275,498
Dec 2017	monthly	149	£265,027
Jan 2018	monthly	104	£265,395
Feb 2018	monthly	91	£275,193
Mar 2018	monthly	130	£288,226
Apr 2018	monthly	105	£290,793
May 2018	monthly	131	£287,511
Jun 2018	monthly	159	£282,995
Jul 2018	monthly	166	£281,560
Aug 2018	monthly	144	£284,435
Sep 2018	monthly	150	£288,850
Oct 2018	monthly	144	£294,031
Nov 2018	monthly	168	£291,104
Dec 2018	monthly	141	£293,101
Jan 2019	monthly	78	£288,276
Feb 2019	monthly	113	£294,139
Mar 2019	monthly	125	£288,240
Apr 2019	monthly	134	£284,607
May 2019	monthly	144	£275,883
Jun 2019	monthly	157	£278,299
Jul 2019	monthly	119	£289,948
Aug 2019	monthly	152	£293,117
Sep 2019	monthly	116	£294,122

Application release 1.2.10

APPENDIX 2

TPI INDEX (BCIS)

BCIS All-in TPI #101

Base date: 1985 mean = 100 | **Updated:** 14-Feb-2020 | #101

			Percentage change		
Date	**Index**	**Sample**	**On year**	**On quarter**	**On month**
2Q 2015	283	20	9.3%	4.8%	
3Q 2015	269	28	4.7%	-4.9%	
4Q 2015	271	20	4.6%	0.7%	
1Q 2016	275	24	1.9%	1.5%	
2Q 2016	282	25	-0.4%	2.5%	
3Q 2016	273	27	1.5%	-3.2%	
4Q 2016	283	25	4.4%	3.7%	
1Q 2017	298	28	8.4%	5.3%	
2Q 2017	324	23	14.9%	8.7%	
3Q 2017	306	23	12.1%	-5.6%	
4Q 2017	327	20	15.5%	6.9%	
1Q 2018	328	Forecast 13	10.1%	0.3%	
2Q 2018	332	Forecast 18	2.5%	1.2%	
3Q 2018	320	Forecast 15	4.6%	-3.6%	
4Q 2018	333	Provisional 18	1.8%	4.1%	
1Q 2019	328	Provisional 10	0.0%	-1.5%	
2Q 2019	332	Provisional 8	0.0%	1.2%	
3Q 2019	331	Provisional 6	3.4%	-0.3%	
4Q 2019	332	Provisional	-0.3%	0.3%	
1Q 2020	333	Forecast	1.5%	0.3%	

APPENDIX 3

B8 MARKET UPDATE NORTH WEST INDUSTRIAL & LOGISTICS JANUARY 2020

B8 REAL ESTATE

MARKETUPDATE

NORTH WEST INDUSTRIAL & LOGISTICS

JANUARY2020

Venus 217, Knowsley

AT A GLANCE... INVESTMENT

- Approximately £508m of NW industrial property investments transacted in 2019.
- Significantly below the £938m transacted in 2018 and the 5 year average of £719M.
- H2 2019 (£306m) has outperformed H1 2019 (£202m).
- Slowdown predominantly due to the prolonged BREXIT withdrawal and the recent General Election.
- Demand relatively healthy, but vendors holding back.
- Prime yields remain robust, albeit slightly down on the peak of Q3 2018.
- Good secondary yields remain strong, poorer secondary / tertiary assets need to be priced correctly.

FP-One, Frontier Park, Blackburn

AT A GLANCE... OCCUPATIONAL

- 2019 take-up for units > 90k sq ft totalled 3.54m sq ft (22 transactions), a 17 % decrease on 2018 albeit with the similar number of transactions.
- 2.47m sq ft of ‘Big Shed’ units currently under offer and due to complete in Q1 2020.
- Strong demand for smaller distribution units with 17 transactions (88%) involving units in the 90k sq ft – to 170k sq ft size range.
- Large scale distribution activity hampered by a lack of supply and occupier caution.
- Only 15 months of New Build & Grade A/B supply based on average take-up of equivalent stock.
- Prime ‘Big Shed’ rents now established at £6.75 per sq ft.
- Continuing demand in the SME/Multi-let market – particularly for speculative new build in the 15k sq ft to 40k sq ft size range.
- Refurbishments of 2nd hand smaller multi-lets rewarded with record low void rates and increased rentals across the region.
- Prime SME/Multi-let rents established at £7.50 - £7.75 per sq ft.

Mere Grange, St Helens

2019 INVESTMENT MARKET SUMMARY

- The total value of NW industrial transactions during 2019 stood at £508M (61 deals), which has seen a 46% reduction on the record £938m (91 deals) transacted in 2018.
- Compared to the 5-year annual average of £719M, trading in 2019 was down 29% and is broadly in line with the £505M transacted in 2016 (following the initial Brexit vote).
- Activity has been relatively subdued throughout the year with H2 outperforming H1 (£306M vs £202M transacted), due to a strong performance in Q3. On a quarterly basis, transactions (by value) were split as follows: Q1 – 23%, Q2 – 17%, Q3 – 39% and Q4 – 21%.
- Key transactions in 2019 include Movianto, Haydock (£45.30M – 4.82%), Midpoint 18, Middlewich (£15.5M – 6.33%), Parkway Industrial Estate, Trafford Park (£10.00M – 5.25%), TVS Supply Chain Solutions, Chorley (£33.90M – 4.90%), Triumph Business Park, Speke (£29.50M), Alpha LSG, Manchester Airport (£15.02M - 4.21%) and Tesco, Widnes (£58.00M – 4.63%).
- The lack of transactional activity has largely been a result of the prolonged uncertainty surrounding Brexit, which was exacerbated in Q4 as investors awaited the result of December's General Election.
- This uncertainty has had a more profound effect on supply, rather than demand, with only limited new assets coming to the market (particularly in Q4). The majority of transactions, particularly in Q3 / Q4 have been on legacy deals.
- Whilst prime yields have come in slightly since their peak in Q3 2018, pricing on prime assets has generally remained robust throughout 2019, particularly for secure income opportunities with index linked uplifts.
- The buyer pool has however been thinner than in previous years, particularly amongst UK Institutions, some of whom need to maintain a cash buffer in case of redemptions. There has been a heavy reliance on Council buyers.
- Pricing of secondary assets remains sensitive and there have been a number of secondary / compromised assets which remain unsold or were withdrawn in 2019.
- This is often due to a mismatch between vendor and purchaser aspirations, but also due to greater caution in this sector, where covenant and property fundamentals remain important.
- Like 2019, in 2020 we expect to see selective development funding, although this will be dependent on the availability of prime opportunities.
- The fundamentals of the North West industrial investment market remain strong, particularly given the constrained development pipeline coupled with strong occupier demand which is continuing to fuel ongoing rental growth in the region.
- Following the decisive result of the recent General Election, (which should provide greater certainty on the Brexit withdrawal agreement), we expect to see an uplift in transactional activity in H1 2020 in industrial.

TABLE 1: NORTH WEST YIELD PROFILES

→ Stable ↗ Improving ↘ Declining

CLASS	VALUE	TREND
Prime Distribution (15 year assumed term)	4.25%+	→
Good Secondary Distribution	5.75%+	→
Older Secondary Distribution	7.50%+	↘
Prime Industrial Estate	5.25%+	→
Secondary Industrial Estate	6.00%+	→
Multi-let Break Ups	9.00%+	↘

Movianto, Haydock

TABLE 2: INVESTMENT TRANSACTIONS OF NOTE 2019

ADDRESS	DATE	AREA (SQ FT) (000S)	TENANT	APPROX. TERM CERTAIN	PURCHASE PRICE	YIELD
SINGLE LET						
Movianto, Haydock Green	Q4 2019	375	Movianto UK Ltd	10.0	£45.30m	4.82%
TVS Supply Chain Solutions, Chorley	Q3 2019	302	TVS Supply Chain Solutions	15.0	£33.90m	4.90%
Alpha LSG Ltd, Manchester Airport	Q3 2019	100	Alpha LSG Ltd	15.0	£15.02m	4.21%
Royal Mail, Stakehill Industrial Estate	Q3 2019	104	Royal Mail Group Ltd	9.0	£9.11M	5.20%
Kerry Logistics, Trafford Park	Q2 2019	62	Kerry Logistics	5.0	£4.45m	6.25%
Crown Records Management, Trafford Park	Q2 2019	42	Crown Record Management	2.0	£3.08	5.58%
Eddie Stobart, Runcorn	Q1 2019	365	Eddie Stobart	17.0	£39.51m	4.80%
The Cube, Runcorn	Q1 2019	152	Movianto UK Ltd	1.5	£10.68m	8.65%
MULITI LET						
Magnum Trade Park, Rochdale	Q4 2019	40	Multi-let	5.0	£4.47m	6.45%
Midpoint 18, Middlewich	Q4 2019	182	Multi-let	4.1	£15.50m	6.45%
Parkway Industrial Estate, Trafford Park	Q3 2019	108	Multi-let	4.5	£10.00m	5.25%
Hindley Green Business Park, Wigan	Q3 2019	360	Multi-let	5.7	£11.84m	9.00%
Triumph Business Park, Speke	Q3 2019	826	Multi-let	N/A	£29.50m	N/A
Parkway Industrial Estate, Newcastle Under Lyme	Q3 2019	155	Multi-let	4.9	£11.15m	6.26%
Etherow Industrial Estate, Glossop	Q2 2019	201	Multi-let	3.0	£6.50m	9.64%
Penketh Business Park, Warrington	Q1 2019	148	Multi-let	2.5	£5.95m	8.81%
Apollo Park, Crewe	Q1 2019	125	Multi-let	8.36	£14.70m	5.35%
Bromborough Point, Bromborough	Q1 2019	131	Multi-let	3.35	£3.85m	10.52%

FIGURE 1: NORTH WEST INDUSTRIAL INVESTMENT TRANSACTIONS

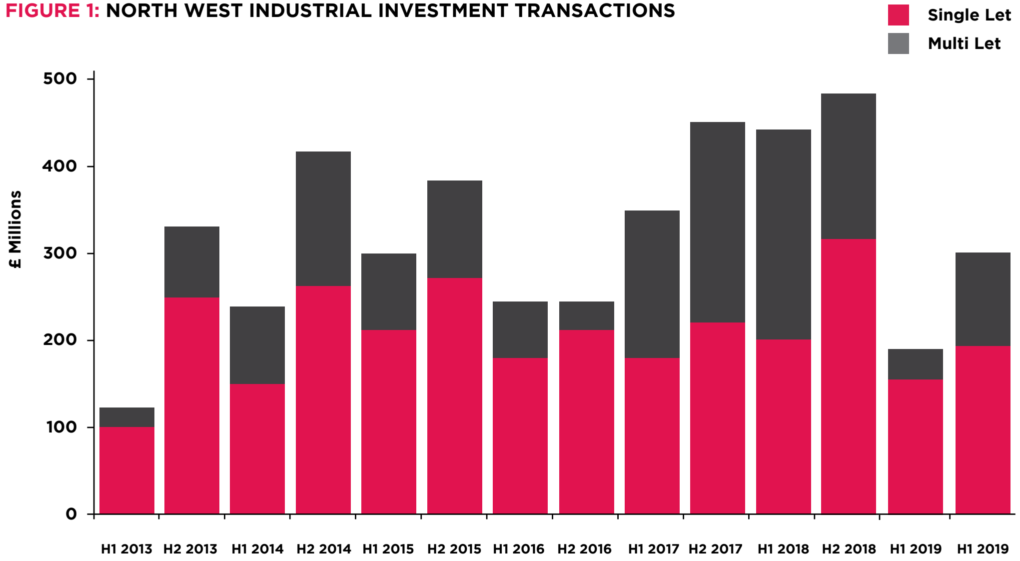
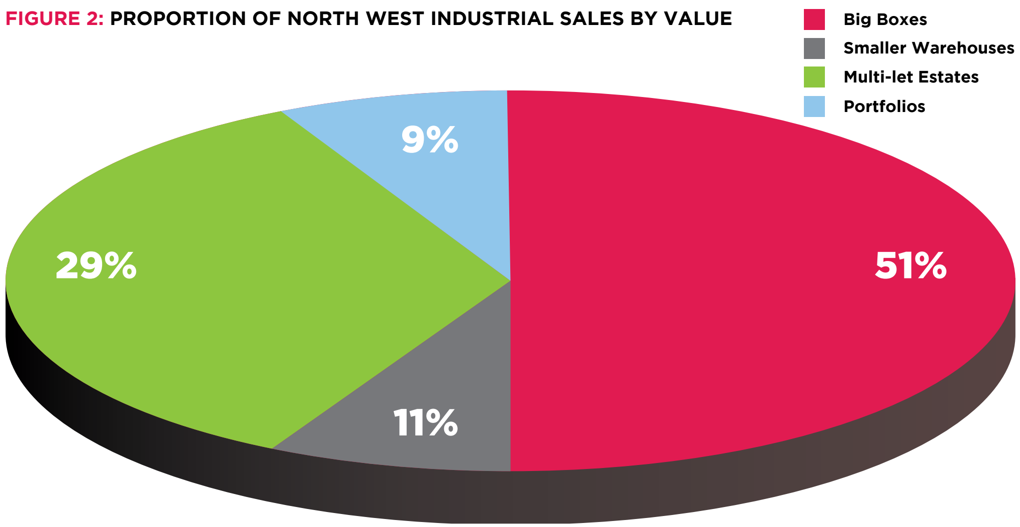


FIGURE 2: PROPORTION OF NORTH WEST INDUSTRIAL SALES BY VALUE



2019 OCCUPATIONAL MARKET SUMMARY

BIG SHEDS (OVER 90,000 SQ FT)

- 2019 take-up for units > 90k sq ft totalled 3.54M sq ft (22 transactions) down 17% on the 2018 level (4.27M sq ft – 21 transactions). Whilst the total square footage was less, the number of transactions was above the post-recession average of 20 transactions per year.

- BREXIT uncertainty was a contributing factor to a slow H1 with occupiers adopting a 'wait & see' approach. However, there was a noticeable upsurge in occupier activity after the 31st October leave date with over 1.9M sq ft of transactions occurring in Q4 (10 transactions) and a further 2.47M sq ft currently in solicitors' hands and expected to complete in Q1 2020.

- Design & build/land sales accounted for 469k sq ft (13%); speculative new build accounted for 868k sq ft (24%); Grade A 2nd hand accounted for 1.37M sq ft (39%) and Grade B 2nd hand accounting for 435k sq ft (12%). This shows clear occupier demand for high quality units with over 63% of transactions involving new build or Grade A space.

- The largest proportion of transactions again involved units between 90k – 170k sq ft (17 transactions – 88%). Notwithstanding several larger size requirements in the market, there was only 1 transaction > 300k sq ft in 2019 compared to 7 in 2018. This was mainly due to a lack of supply rather than demand and a degree of caution from occupiers at the larger end of the scale.

- The distribution/e-commerce sector again dominated the North West big shed market accounting for 90% of all take-up. This included high profile occupiers such as Secured Mail, Honeywell, Dnata and the Hut Group all acquiring space. Nevertheless, there were a number of significant manufacturing transactions such as the letting of 520k sq ft to JTI at Titan, Knowsley. We expect more activity from manufacturers in 2020 as this sector adapts to the post-Brexit supply chain.

- There was 5.15M sq ft of New Build and Grade A/B stock available as at the end of 2019. Speculative new build accounted for 2.87m sq ft (56%), Grade A - 911k sq ft (18%) and Grade B - 1.37M sq ft (26%). With over 34% of this stock currently under offer this equates to only 15 months of New Build & Grade A/B supply based on average take-up of equivalent stock.

- 2019 witnessed continued big box speculative development with 12 buildings > 90k sq ft completed providing an additional 2.53m sq ft of new build accommodation. This is the highest level of speculative development since 2015 (3.0m sq ft - 15 buildings) and the 2nd highest in the post-recession era.

- Current pipeline is extremely limited with only 4 speculative new build schemes (464k sq ft) under construction and due to complete in 2020. There are a further 7 committed schemes scheduled to commence in 2020 providing an additional 1.2m sq ft of space albeit predominantly focussed on the 100k sq ft to 200k sq ft size range. As such we believe there is a strong case for increased speculative development in 2020 with a particular emphasis on units above 250k sq ft.

- With the number of schemes currently under offer and several unsatisfied high-profile requirements still in the market demand in the North West big box market remains strong. However, the diminishing levels of existing New build/Grade A stock together with limited future pipeline could potentially lead to a supply shortage in the next 12-18 months.

- Prime new build rents are now established at £6.75 per sq ft with new build schemes now quoting in excess of £7.00 per sq ft. Prime land values are now in excess of £700k per acre.

MID-RANGE UNITS AND SMALL MULTI-LETS (BELOW 90,000 SQ FT.)

- 2019 saw continued strong demand for new build and good quality 2nd hand accommodation in the SME sector. Speculative new build demand was strong with take up of 640k sq ft (22 transactions), representing a 10% increase on 2018 figures (584k sq ft – 17 transactions). We expect this strong demand to continue into 2020 with a further 280k sq ft currently in solicitors' hands (9 transactions).

- There was notable demand for new build units within the 15k sq ft to 40k sq ft size band (75% - 15 transactions) with several deals on schemes including Withins Point, Haydock (25k sq ft - £7.00 per sq ft), Multiply at Logistics North, Bolton (25k sq ft - £7.50 per sq ft) and Mere Grange, St Helens (20k sq ft - £6.50 per sq ft).

- Demand also remains strong for good quality 2nd hand accommodation particularly in the SME/multi-let sector (5k sq ft – 20k sq ft). An historic lack of development in this size range and a number of substantial refurbishment programmes have resulted in considerably low void rates and improved rental levels across the region. Notable deals in 2019 involving 2nd hand units include Europa Trade Park, Warrington (6,500 sq ft - £7.50 per sq ft), Premier Park, Trafford Park (8,500 sq ft - £8.10 per sq ft) and Cavendish Place, Birchwood Park (15,000 sq ft - £6.95 per sq ft).

- There were also several significant deals in the 40k sq ft to 75k sq ft 'Mid-Box' size range including Royal Sanders at Frontier Park, Blackburn (78k sq ft - £5.50 per sq ft), Green Group at Merlin Park, Trafford Park (62k sq ft - £6.50 per sq ft) and 3P Logistics at M6Epic 50, Wigan (55k sq ft - £6.75 per sq ft). Several units in this size range are currently under offer and with limited development pipeline, there is a potential supply shortage of 'Mid box' units in the North West.
- Strong owner occupier demand together with limited freehold opportunities has helped to strengthen freehold values with new build values firmly established in excess of £100 per sq ft. Notable sales include Novus Business Park, Knutsford to Oliver Valves (21k sq ft - £100+ per sq ft) Park 66, Bury to Ibex Marina (22k sq ft - £110 per sq ft) Eclipse 42, Irlam to Newship Group (42k sq ft - £115 per sq ft) and Riverview Business Park, Bromborough to Oh Polly (61k sq ft - £85 per sq ft).
- Over a third of all SME/Multi-let speculative development under construction comprises units/schemes of below 15k sq ft as developers look to satisfy demand in this size range. However, increasing land values and high build costs remain barriers to developers and as such we expect the majority of demand to continue to be met by the dwindling supply of good quality refurbished accommodation.
- Prime new build rents are now established at £7.50 - £7.75 per sq ft.

TABLE 3: NORTH WEST RENTAL LEVELS

RENTS (PSF)	CURRENT	QUOTING
Prime >90,000 sq ft (10 year assumed term)	£6.75	£6.95 - £7.25
Secondary >90,000 sq ft	£5.00 - £5.75	£5.50 - £6.00
New Build 40 – 90,000 sq ft	£6.50 - £6.75	£6.95 - £7.25
Modern 40 – 90,000 sq ft	£5.50 - £5.95	£5.75 - £6.00
New Build 15 – 40,000 sq ft	£7.50 - £7.75	£7.50 - £7.95
Modern 15 – 40,000 sq ft	£6.75 - £6.95	£6.75 - £7.25

TABLE 4: LAND VALUES

LAND VALUES	VALUE
Prime Site	£700,000 – 750,000
Secondary Site	£350,000 - £400,000
Tertiary Site	£200,000 - £250,000

TABLE 5: H2 OCCUPATIONAL TRANSACTIONS OF NOTE (BUILDINGS ABOVE 90,000 SQ. FT.)

SCHEME	DATE	SPECIFICATION	AREA (SQ FT)	TENANT	ACHIEVED RENT (PER SQ FT)
ICON Manchester Airport	Q2 2019	Speculative new build	102,500	ALPHA LSG	£6.75
Unit 2 Mountpark, Omega, Warrington	Q3 2019	Speculative new build	136,963	Delivery Group	£6.50
Pioneer 210, Ellesmere Port	Q4 2019	Modern second-hand	211,921	Honeywell	£5.35 B8 advised
Titan, Knowsley	Q4 2019	2nd hand refurbished	520,000	JTI	£5.00 B8 advised
Crewe 240, Crewe	Q4 2019	Speculative new build	237,764	Boughey Distribution	£5.75
Dnata North Manchester Airport	Q4 2019	Design & build	145,000	Dnata	Undisc.
Frontier Park Blackburn	Q4 2019	Speculative new build	185,500	MDA	£5.65 B8 advised
Whitehouse 97, Runcorn	Q4 2019	Speculative new build	97,050	APS Group	£5.75 B8 advised

TABLE 6: H2 OCCUPATIONAL TRANSACTIONS OF NOTE (BUILDINGS BELOW 90,000 SQ FT)

SCHEME	DATE	SPECIFICATION	AREA (SQ FT)	TENANT	ACHIEVED RENT (PER SQ FT)
203 Cavendish Place, Birchwood Park	Q1 2019	Grade A refurbished	15,000	Allied London	£6.95 B8 advised
Unit 1 Kiwi Park, Trafford Park	Q2 2019	Grade A refurbished	37,302	Sanzoom International Ltd	£6.95 B8 advised
Unit 11 Premier Park, Trafford Park	Q2 2019	Grade A refurbished	8,486	NRI Europe	£8.10 B8 advised
212 Europa Trade Park, Warrington	Q3 2019	Modern refurbished	6,546	Dante	£7.50 B8 advised
Unit K Aurora, Stockport	Q3 2019	Speculative New-Build	9,309	HDL Ltd	£7.75
Phase 3 Mere Grange, St Helens	Q4 2019	Design & Build	20,000	EPDL Ormazabal	£6.50 B8 advised
Unit 1 Withins Point, Haydock	Q4 2019	Speculative New-Build	25,100	Specialised Welding Products	£7.00 B8 advised
F2/D Multiply Logistics North, Bolton	Q4 2019	Speculative New-Build	25,497	Solus (London) Limited	£7.50 B8 advised
Eclipse 42 Irlam	Q4 2019	Design & Build	42,000	Newship	FH - £115.00 B8 advised
M6 EPIC 50 Wigan	Q4 2019	Speculative New-Build	55,531	3P Logistics	£6.75 B8 advised
Frontier Park, Blackburn	Q4 2019	Speculative New-Build	55,531	Royal Sanders	£5.50 B8 advised


F2G Multiply, Logistics North, Bolton

TABLE 7: SPECULATIVE NEW BUILD AVAILABILTIY ABOVE 90,000 SQ FT

LOCATION	NO. OF COMPLETED BUILDINGS / SCHEMES	TOTAL SIZE (SQ FT)	NO. OF BUILDINGS / SCHEMES UNDER CONSTRUCTION	TOTAL SIZE (SQ FT)
Greater Manchester	5	1,016,295	2	241,968
M6 Corridor (Lancashire to Cheshire)	5	999,327	0	0
Merseyside / North Wales	3	435,856	2	222,000
Potteries	2	415,840	0	0
TOTAL	**15**	**2,867,318**	**4**	**463,968**

FIGURE 3: NORTH WEST INDUSTRIAL TAKE UP - BUILDINGS OVER 90,000 SQ. FT.

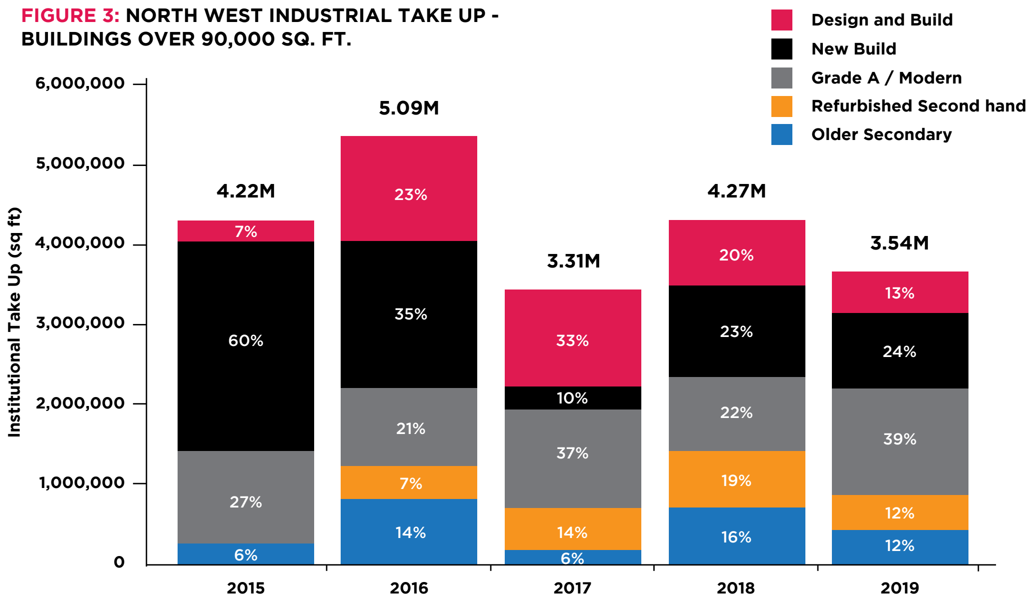
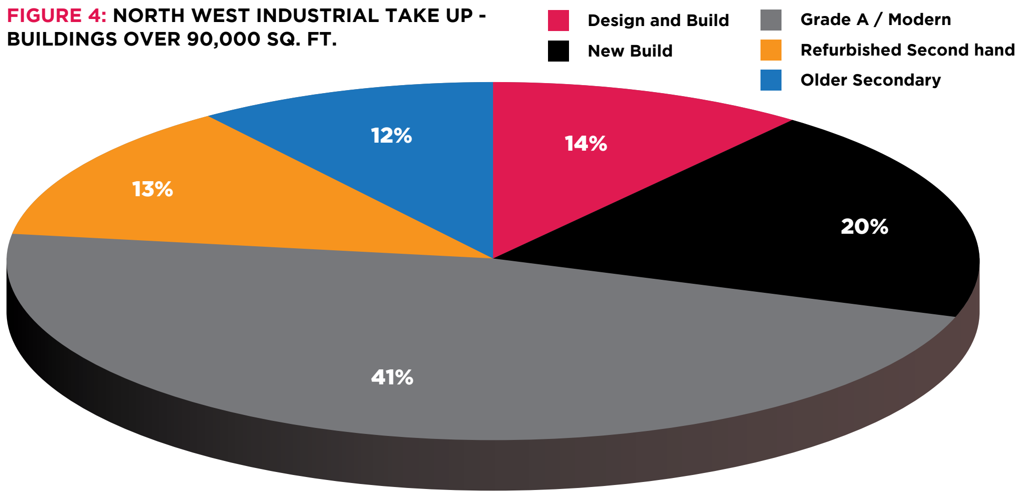


TABLE 8: SPECULATIVE NEW BUILD DEVELOPMENT - AVAILABILITY OF SME UNITS BELOW 90,000 SQ FT

LOCATION	NO. OF COMPLETED BUILDINGS / SCHEMES	TOTAL SIZE (SQ FT)	NO. OF BUILDINGS / SCHEMES UNDER CONSTRUCTION	TOTAL SIZE (SQ FT)
Greater Manchester	12	683,397	3	280,161
M6 Corridor (Lancashire to Cheshire)	1	88,200	5	558,505
Merseyside / North Wales	6	341,674	4	275,667
TOTAL	**19**	**1,113,271**	**12**	**1,114,333**

FIGURE 4: NORTH WEST INDUSTRIAL TAKE UP - BUILDINGS OVER 90,000 SQ. FT.



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