Employment Market Report

and

Viability Assessment

for

LINNEY LANE MOTORS PREMISES
LINNEY LANE
OLDHAM

Prepared by
Aherne Property Consultants Ltd

Date: January 2024

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1. Executive Summary

2. Aherne Property Consultants (APC) has been instructed by Bellway Homes Limited (North West) Ltd (Bellway) to prepare an Employment Market Report and viability assessment in regard to on the Linney Lane Motors Site. A site and context plan showing the Application Site which extends to 0.95ha (0.23 acres).

3. This report addresses Policy 14 within the Local Plan which permits, under certain circumstances, residential development on otherwise employment sites. It does this by explaining that the application site is highly unlikely to come forward in the foreseeable future as an employment development site because of its location and characteristics and that in any case it is unviable for employment development.

4. Oldham's industrial and logistics market is broad based in that it can attract more regionally based companies when prime sites become available on the M60 Motorway and where there are also limited opportunities elsewhere on the M62. There has been much to say in the specialist press and market reports about the demand for industrial and logistics land and buildings but this demand has been driven by mid and big box development in prime locations on large sites. Small scale development is much more nuanced and without third party intervention or public funding is generally unviable. The Application Site is however too small and on the wrong side of Oldham in relation to the motorway connections, to appeal to this market and is therefore considered a secondary local redevelopment opportunity.

5. There is plenty of supply in Oldham with significant new development recently completed close to the M60 providing a range of units in more desirable locations than the Application Site. A total of c 565,000 sq ft of new built space has been delivered to supplement the existing available stock in Oldham in the last 12 months, representing a significant additional new supply. Furthermore, there is over 30 acres of land where detailed or outline planning consents have been granted for employment space and which provides an additional circa 600,000 sq ft.

6. In total therefore Oldham has an existing or immediately deliverable supply of nearly 1.2 million sq ft. The Application Site can only provide an additional 4200 square feet and in any case due to the scale and secondary location is highly unlikely to be brought forward even if it was viable due to the competition from this existing space and deliverable land.

7. The Application Site is in a mixed-use location which is rapidly changing to residential. With the adjoining residential development now underway it will soon be surrounded on all sides by housing and will share an access with a new residential neighbourhood. There will be conflict between the existing use in terms of potential noise and nuisance but also conflict between commercial traffic and that of the residential which is compounded by the shared access arrangements.

8. The existing building is circa 75 years old and has not been maintained and is beyond its design life. It is obsolete in terms of layout, height and specification and has asbestos containing materials. Its Energy Performance Certificate rating is below the minimum standards required by current legislation. The age and specification of the building means that the required standard is unlikely to be able to be met without a wholesale refurbishment or reconstruction.

9. I have undertaken a robust viability appraisal by adopting top rents achievable for the location and an attractive investment yield which produces a very high capital value per square foot. These value assumptions help maximise viability. The viability appraisal does have to reflect the site specific characteristics of this site relating to the abnormal cost of development which includes site clearance and preparation. It also reflects current construction costs for small scale development. The appraisal follows the PPG viability testing requirement in assessing gross value of the completed development and deducting all assumed costs of development, including abnormal costs. The development of the site for industrial/warehouse use will only be deemed viable if the Residual Price equals or exceeds the Existing Use Value, otherwise, development for that use will not be financially viable.

10. The appraisal demonstrates that the viability test is substantially failed for employment redevelopment. In light of the scale of deficit in bringing this site forward for employment use it is possible to conclude that the likelihood of the site coming forward in both the short and longer term is extremely unlikely. The abnormal costs and scale of development achievable undermine the suitability of this site for employment development and is therefore more suited to a residential development.

11. In light of the above, I am of the view that Policy 14 has been satisfied and the most appropriate use of this site is for residential. The planning application should therefore be considered favourably.

2. Introduction, and Scope of the Report

1. Aherne Property Consultants has been instructed by Bellway Homes Limited (North West) Ltd (Bellway) to prepare an Employment Report and Viability Appraisal to support Planning Application proposing the erection of dwellings (Use Class C3) with associated access, landscaping, parking and other works following demolition of existing building at Linney Lane Motors Site. A site plan showing the Application Site which extends to 0.95ha (0.23 acres) acres together with a context plan identifying the local area is attached in Appendix 1.

2. I am Andrew Aherne and principal director of the firm Aherne Property Consultants Ltd, which was incorporated in September 2014 and is regulated by the RICS. For the previous 15 years I was a director at Matthews and Goodman and then Lambert Smith Hampton (LSH) and the five years preceding that an associate director at Fletcher King, all based in Manchester dealing with property throughout the North West of England.

3. I have specialised in commercial property and employment land since 1987. As a property consultant, I have advised and currently advise national and regionally based development/property companies and occupiers of property. Over the years I have also advised on many industrial properties in Oldham including the owners of Victoria and Oldham Trading Estates and advised investors and occupiers on the acquisition of premises on Dury Lane. All these properties are located within the same market area as the Appeal Site.

4. I have provided advice on both the acquisition and disposal of employment accommodation and employment land for its continued use and redevelopment. In addition, I have advised on the value of property, the state of the property market and supply and demand of accommodation.

Policy 14

5. This report will address Policy 14 in Oldham's Local Plan. Policy 14 Supporting Oldham's Economy permits other uses such as residential which are outside the permitted employment and ancillary uses listed in Policy 14 under circumstances. The policy states that:

> *Uses other than those listed above will be permitted on sites currently or most recently used for employment purposes, provided the applicant can clearly demonstrate that it is no longer appropriate or viable to continue the existing use. This can be demonstrated by the developer:*
>
> *a) through a marketing exercise that there is no market for the uses listed above. The marketing exercise should be agreed with the council before commencing and be of a professional standard; or*
>
> *b) through a viability exercise that the continued use/development of the site for the uses listed above is unviable; or*
>
> *c) that the development of the site for alternative uses would benefit the regeneration areas identified by the council as being in need of investment or would benefit the community of an area.*

Scope of Report

6. The scope of the report will therefore explore the impact of the loss of this employment site in Oldham by considering the following:

    i. explain that the current market for employment space for industrial and logistics has significantly changed so that demand for industrial logistics is limited.

    ii. consider the supply of industrial logistics accommodation and in the context of take up and need.

    iii. review its existing use, deal with the current appropriateness of the exiting accommodation for the current market.

    iv. undertake Development Appraisals to determine whether the continued use or redevelopment for alternative employment uses of the site is viable.

3. Property Market

1. This section will provide an analysis of the Application Site setting out its unsuitability for continued employment use.

Economic backdrop and Property Markets

2. Notwithstanding the Covid Pandemic, Brexit and uncertainties in the UK and World economy the property markets have surprisingly remained active in prime core locations. With the general economy pre Covid the demand within industrial and logistics sector recorded unprecedented growth during this period. That said in 2020 GDP contracted by 9.9% making it the worst year for the economy for nearly 300 years but rebounded in 2021 to grow by 7.5% with a further 4.1% in 2022. The economy was feared to enter recession in 2023 but for now this prospect has faded however wider economic uncertainty persist as other G7 countries such as Germany go into recession.

3. While the pandemic has receded and supply chains improved enabling GDP to bounce back to pre-Covid levels, the scars on the economy caused by the pandemic are starting to fully express themselves and have been accelerated by the War in Ukraine. The War has also introduced additional uncertainties with regard to energy security and added to inflation which in turn has put pressure on financial markets especially interest rates. All these factors give rise to considerable uncertainty for the UK economy for the foreseeable future.

4. Since January 2022 Customs Declarations now have to be completed prior to entering the country and this is currently manifesting itself in supply chain issues. While these issues are gradually being overcome are nevertheless contributing to inflationary pressures most obvious in the energy, food and construction sector where some building materials such as timber have seen price increases of up to 80%.

National/Regional Industrial Market

5. There are three principal factors that have come together to impact the UK market.

    - The first is the rise of ecommerce which is the single most important issue driving activity in the industrial and logistics sector. The UK is Europe’s most mature ecommerce market with over 35% of UK retail sales being undertaken online during the height of the pandemic although this has now dropped back to 28% in line with longer term take-up (up from 20% in 2019). This rapid change has presented real challenges for retailer supply chain management, and while there are signs this spike in demand is starting to subside a significant proportion of this growth will remain permanently.

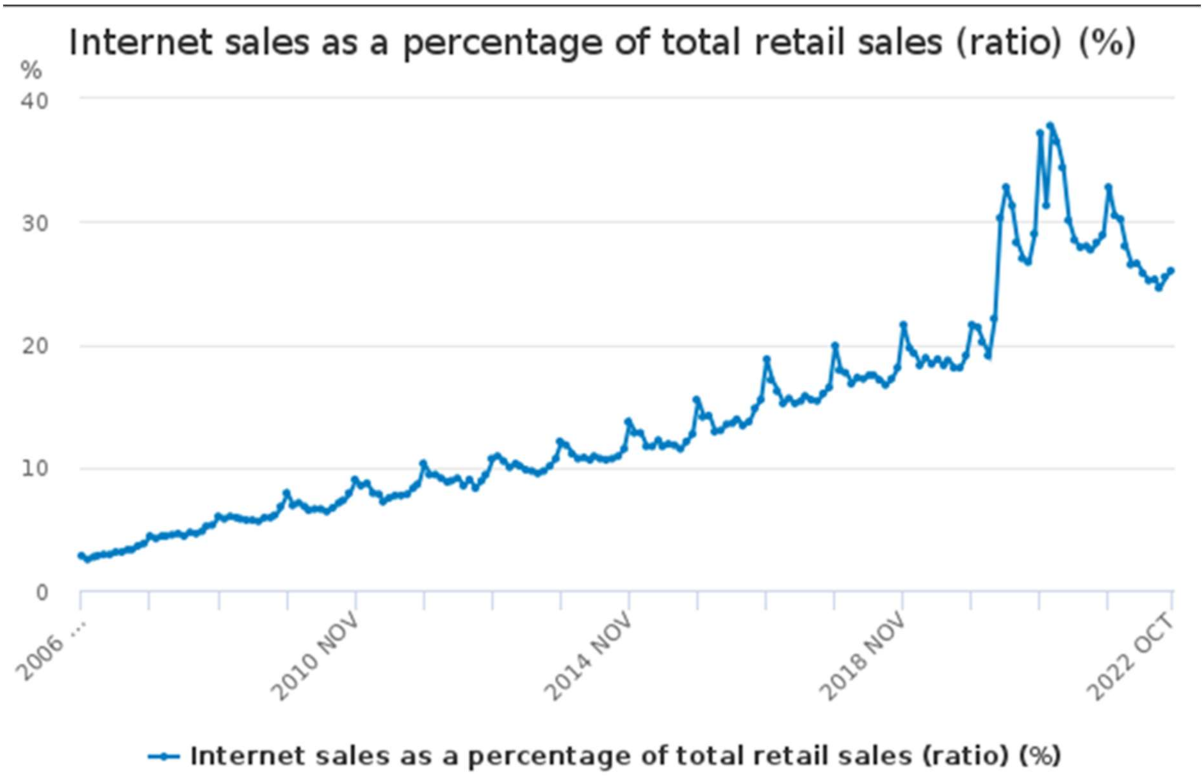
- The second is a shift from “Just in Time” to “Just in Case” logistics which is coming about as a reaction to the disruption of supply chains as a result of Brexit and the Covid Pandemic. There has been a spike in take up particularly from NHS logistics support as well as the Pharma sector generally but this is increasingly being seen throughout industry and for example especially in Automotive as this sector deals with the move to electric vehicles.

- Lastly stockpiling principally by manufacturers in anticipation of disruption. This together with Just in Case logistics is demonstrated in the graph below and shows that mentions of “near-shoring” in listed company reports are at their highest-ever level.

6. This has manifested itself in an increased demand particularly for the big box end of the market (being buildings over 9,290 sq m (100,000 square feet) with a strong requirement for locations on major dual carriageways and motorways. As a result in the UK the take-up of industrial and logistics space has exceeded the 15 year average of 2.79 million sq m (30 million sq ft) six out of the last 8 years. The long term average has in fact doubled in the last decade as we have entered the new internet era.

7. This trend for large units can be seen in the following graph. Whilst it does not show figures for 2021/2, according to Lambert Smith Hampton's Industrial and Logistics Market Report 2022/3, demand for the extra large warehouse sector over 23,225 sq m (250,000 sq ft) was a record in 2021 and still 8% above the 5 year average in 2022 therefore maintaining this trend.

Figure 3 – Big Box Take Up by Size



Source: Savills Research

8. Take up figures for 2022 hit 4.46 million sq m (47.99 million sq ft) but with a collapse in demand in the second half reflecting the likes of Amazon pausing their acquisition programme having only committed to a single building of 15,330 sq m (165,000 sq ft) in 2022 and also announcing that they are closing 3 warehouses in the UK in an attempt to scale back some of the expansion it undertook during the pandemic and braced for greater economic uncertainty in 2023. Take up so far this year suggests that take up levels are returning to pre pandemic levels.

9. The structural changes have had a substantial impact upon the size and pattern of take up and the shape of demand for employment land not least scale and efficiency of buildings. Users require additional accommodation with greater efficiency and modernisation focusing on strategic locations which meet the needs of e-commerce. This is having a big impact on the size and specification of buildings and the size of requirements has increased over time and the market over 9,290 sq m (100,000 sq ft) is very active. Last mile urban logistics or the mid box sector of units +/- 4,645 sq m (50,000 sq ft) has followed the big box market.

10. The key drivers that occupiers and therefore developers and investors seek are as follows:

- Accessibility - to workforce, supply chain and markets. Current and future demand is more than likely to be concentrated on the motorway corridors. This is evidenced by the recent developments along the M60/M62 corridors. The Application Site is remote from the motorways and in part reflects Littlewoods move away its distribution centre from this location

- Multi-Modal Supply Chain facilities – good access to infrastructure in addition to the motorway. This includes rail freight depots, ports and airports. Shaw is remote from any industrial infrastructure.

- Connections to Markets – While Shaw is on the fringe of Greater Manchester it is also situated on the edges of the Pennines and is a small town with corresponding convoluted access to this market and therefore does not benefit from being in a strategic location.

- Scale and Flexibility - Users require additional accommodation with greater efficiency and modernisation focusing on strategic locations which meet the needs of e-commerce and efficient supply chains. This is having a big impact on the size and specification of buildings and the size of requirements has increased over time and the market over 100,000 sq ft is very active. Last mile urban logistics or the mid box sector of units +/- 50,000 sq ft has followed the big box market. There is also a prerequisite for sites away from residential accommodation due to the requirements for excellent access, 24/7 usage, flexibility to operate with three shifts throughout the day and night and to avoid conflict and restrictions on usage whether hours of operation or noise. This requires larger flat sites remote from conflicting uses. While many of these impacts are more keenly affect big and mid box development, they are also relevant to smaller scale units. The Application Site is far from meeting these criteria.

- Deliverability – There is an existing building at the Application site which as I show alter is not currently fit for the market and any repurposing works are likely to be unviable. In regard to a wholesale redevelopment of the site it is too small to be viable.

11. The Application Site scores badly on all these criteria which means it is unsuitable for the current market and cannot therefore accommodate current demand. I shall cover this in more detail later but highlight that the age of the building on the Application site is well beyond the end of its designed life and the size of the site is limited making a very small contribution to supply.

12. Almost exclusively published commentary on the industrial and logistics markets point to the national and north west markets having peaked in 2021, then highlight economic headwinds with a emergence of markets returning to pre pandemic dynamics. It is also notable that reports published by both developers and consultants that operate in this market generally deal with the market above buildings of 4,645 sq m (50,000 sq ft) with a real lack of published information on the market below this threshold. The market over 4,645 sq m (50,000 sq ft) is not relevant to the Application Site as this sector of the market does not function in this location and due to site constraints cannot accommodate demand which is most active. While it is evident that logistics and distribution has led demand in the region and indeed across the country, this activity is not appropriate for the Application Site.

13. Demand created as a result of the structural changes in the market will therefore have passed by the Application Site which is not in the right location nor has the correct characteristics to accommodate this demand. The Application site:

    - Is not of a sufficient size to accommodate the size of industrial and logistics demand which is strongest – big box demand over 9,290 sq m (100,000 sq ft).

    - Is remote from the motorways.

    - Is situated in the small town of Shaw in a declining industrial and distribution location and is predominately residential area opposite residential housing and in front of a new housing scheme which is under construction.

    - The existing building dates from the 1950's is at the end of its economic life and does not meet current specification and energy and environmental performance requirements of the market.

    - There is ample and emerging supply of better suited industrial accommodation and land.

Industrial Development

14. The development of industrial and logistics space is driven by a number of factors. A significant element of this is scale with larger requirements being more easily fundable due to economies of scale and resultant availability of institutional funding and greater viability/profitability. Small scale development

is less attractive for a number of reasons including the lack of serviced sites, identifiable need and poorer viability/profitability.

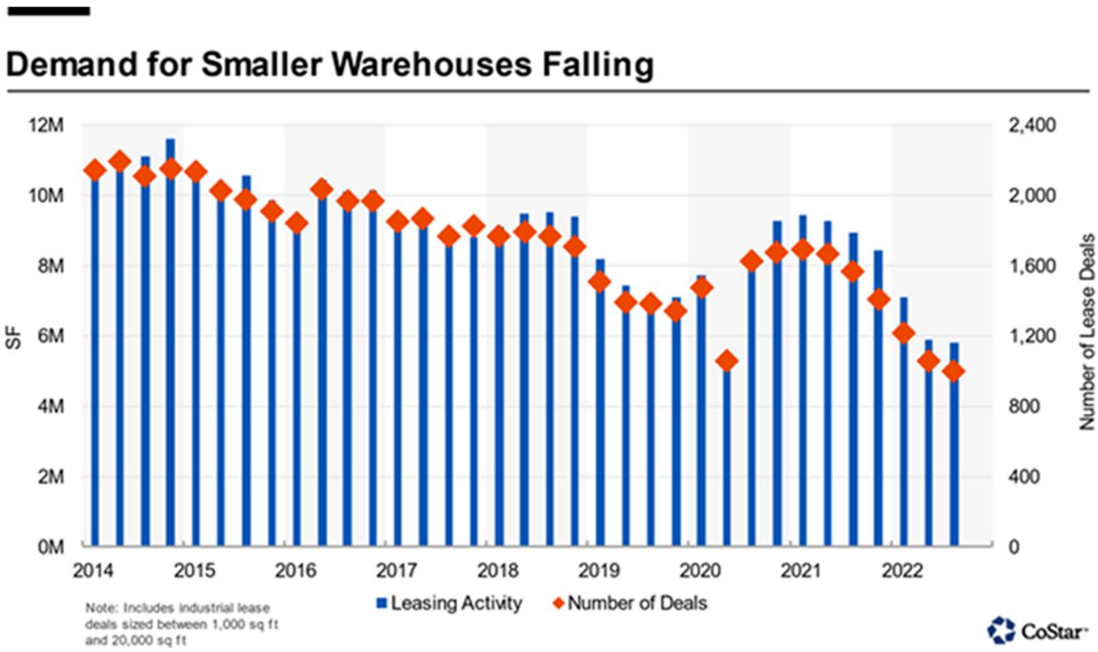
15. A single large unit development only needs one pre-let to trigger construction and developments with scale can absorb the upfront site costs of infrastructure and site preparation. Large scale development also can attract institutional funding as there is perceived to be less risk and the returns are higher, principally due to stronger national covenants being the ultimate end users and pro rata build costs being less than for small multi-unit development.

16. Small scale development is a more nuanced and complex affair than big box development and there is effectively market failure preventing starter and small unit developments coming forward. There is a dearth of such developments nationwide and which only tend to occur via specialist developers in special circumstances.

17. While evidence shows that new small unit schemes are typically taken up reasonably well as seen at Logic at Kingsway Business Park relatively close by but close to the M62 and in Rochdale (see brochure in Appendix 2) only a handful of schemes are being undertaken regionally. Despite demand, investor and developer aversion towards small unit development reflects a whole combination of factors including limited lot size, higher build costs and typically weaker occupier covenants. Where development is taking place, innovative approaches are required to enable this key segment of the market including direct investment and intervention from local authorities, planning gain through mixed use development, and "pump priming development" with higher value uses.

18. There is therefore market failure in providing for smaller scale and multi unit development. Indeed virtually none has taken place in Oldham and the last scheme Victoria Trading Estate in 2009 was taken back by the lender due to viability issues and the developer not being able to repay the loan. Such developments are generally unviable and there are limited smaller developments which have taken place in North Manchester. Logic at Kingsway is the most relevant as it is the closest to the Application Site. It provides 11 units from 3,000 to 15,000 sq ft and totals c 60,000 sq ft. This scheme was developed on land owned and brought forward by the North West Development Agency (which became Homes England) and was publicly funded. Furthermore while a development partner is delivering the big and mix box developments elsewhere on this estate Logic was bought forward directly by Rochdale Borough Council. It is notable that the vast majority of small scale developments in the wider region have required public funding to make them viable. The majority of such schemes even in established locations have benefitted from some sort of intervention mainly from local authorities as in the case of Logic where often the land is "gifted" to enable such development or providing gap funding and/or a combination of cross subsidy from higher land value uses which pump prime the development.

19. It is also notable that demand for small units up to 1,858 (20,000 sq ft) is falling. A recent CoStar press release identified that demand for smaller industrial units is falling nationally with June take up 23% down from the previous 3 months, and 45% below that recorded a year ago. This trend continued through the third quarter last year (fourth quarters figures not yet available) as identified in the table below. CoStar put this down to worries about the health of the economy. A copy of the press announcement is in Appendix 3. While I accept there is apparently good take up at Strawberry Meadows if this research is true it may not sustain.



Overview of the Oldham Property market

20. Shaw is located 5.5km (3.5 miles) north west of Oldham Manchester and 18km (11.2 miles) north west of Manchester. The town is approximately 4.3 km (2.7 miles) from the M62 motorway Junction 21 via the A663 Milnrow Road. This is a relatively minor A road passing through predominantly residential areas.

21. Shaw is a satellite town to Oldham and is serviced by a Tram and local shopping including an ASDA Superstore. It is historically a textile centre and employment is currently dominated by Littlewoods/Yodel who are contracting and JD Williams who both have expanded from former Victorian Textile Mills.

Local Industrial Market

22. Oldham has historically been a secondary industrial location within the northwest market although has a broad base of industrial occupiers concentrated on the fringes of the Town Centre and around Salmons Fields Royton with furthermore modern concentrations close to the M60 at Oldham Broadway and Hollinswood. These latter locations have attracted significant inward investment due to the quality of the development and good to junction 21 and 22 of the M60. Principle occupiers include Airtech Advanced Materials, Great Bear Distribution and MEN Media.

23. Oldham is also in a very fortunate to have an excellent supply of accommodation currently under development and on the market. These schemes include the following with brochures attached in Appendix 4:

- Ergo 369 – Single state of the art big box logistics unit extending to 369,251 sq ft (34,304 sq m) ready for immediate occupation.

- Cobalt 2 – Two mid box units of 43,250 sq ft (4,018 sq m and 61,500 sq ft (5,713 q m) ready for occupation Q2 2024.

- Broadway Central – 8 new last mile logistics units providing a total of 108,680 sq ft (10,096 sq m) in units from 7,707 to 49,248 sq ft (716 – 4,592 sq m) ready for immediate occupation.

24. This new provision when considered in conjunction with turnover of the existing stock of buildings in Oldham will therefore provide a substantial stock with a significant range and choice of units to which cover all sectors of the market for a considerable period to come. It is notable that the Broadway Central scheme is in direct competition in that it provides similar sized units that can be provided at the Application Site.

25. It is against this background that anyone seeking to redevelop the Application Site will have to consider competition from these schemes which are in stronger locations. Notwithstanding the viability position, which I discuss later, due to this competition it is in any case highly unlikely a developer would wish to provide more stock within the market over the next few years.

26. In any case there is a considerable supply of much better located sites which are also much more deliverable. These are much more likely to come forward to the market as they are infinitely more deliverable and have the characteristics that are more aligned to the market. Furthermore, they again can provide a range of unit sizes in good quality locations not only on the M60 but also closer to the Application Site at Royton. These are summarised as follows and where available marketing brochures are in Appendix 5:

    - Leonards Way, Salmon Fields - c 12 acres site with planning consent for 180,000 sq ft. The developer has recently submitted a planning application for two units totalling 120,000 sq ft in two units.

    - Satellite Park Phase 2 – c5.5 acres with detailed planning consent for up to 120,000 sq ft. The option 1 scheme identifies a terraced scheme of 14 units with unit sizes from 969 sq ft to 3,660 sq ft.

    - Orbital Point – a small plot with detailed planning consent for 11,612 sq ft (1,079 sq m).

    - Hollinswood – c 11 acres with detailed planning permission for 192,000 sq ft in 13 units ranging from 5,000 to 42,000 sq ft.

27. All these sites are in better and more established locations and have detailed planning consent in place. Notably three of them are in direct competition with the Application Site in that they will be providing unit sizes that are capable of being accommodated.

28. Together the existing and consented sites provide a total of nearly 1.2 million sq ft in multiple unit sizes and therefore represents a substantial deliverable supply which will accommodate demand in Oldham for several years.

29. In light of current and future supply it is difficult to see the Application Site coming forward any time soon and that is without considering its current condition and appropriateness for continued use which I now consider.

4. The Linney Lane Motors Site and its Appropriateness for Continued Employment Use

1. This section will provide an analysis of the Applications Sites characteristics in terms of the suitability of the existing building and its location for continued employment use.

The Appeal Sites Characteristics

2. The Application Site is situated on the North side of Shaw in a mixed industrial and residential location. In terms of industry it is a tertiary location which is rapidly changing to residential as a result of the redevelopment of a large part of the former Shop Direct mill and distribution facility. This facility is closing down as a result of a repositioning of the companies distribution network in line with the current market as previously described.

3. The Application Site faces existing residential on the north side of Linney Lane and will be bounded to the South and West by new residential housing as a result of the Shop Direct site redevelopment. Furthermore access into the site will be shared by new access into this new housing development which will be in conflict with traffic created. The access is very close to the Junction of Linney Lane with commercial vehicles turning in a difficult position and these commercial will be a conflict with the domestic car traffic accessing the housing. The Application Site is only 16 m in depth which is not deep enough for HGV's to turn which will necessitate them reversing onto the public highway of Linney Lane. While this is acceptable now when the new housing is occupied this will be an untenable conflict.

4. While there is some industry located to the North of Linney Lane on Rutland Way this is historic development and generally does not meet current market standards. In any case the Application Site is separate from this estate and therefore does not derive any benefit of agglomeration or clustering from it.

5. The site is situated in a mixed-use location surrounded by housing which is unattractive to the industrial and distribution users due to the potential for traffic conflict, noise and nuisance with neighbouring householders.

6. I estimate the building itself was originally constructed in 1940/50's an the building is therefore at least 75 years old. It provides 3,115 sq ft of workshop space with small office and WC facility. It is site on a plot of 0.24 acres. Externally car parking is provided on a concrete apron accessed directly from Linney Lane and a unsurfaced service yard is accessed for the side road. The building provides a basic function and operates as a MOT and vehicle repair shop. It has lacked any investment over the years and is of an incredibly basic specification with the bare minimum of maintenance being undertaken.

7. Walls are of solid brick construction without insulation, there is a steel truss roof with asbestos cement sheeting which is again uninsulated and external windows are metal frame single glazed. Lighting is via fluorescent tubes with heating provided by an oil filed space heater for the workshops areas. A gas fired space heater is also present but not connected and unserviceable.

8. The minimum clear working height is only 3.5m. Current occupier and institutional standards are a minimum of 6m to 7m.

9. The building currently has an EPC rating of G –see Appendix 6 – which is a below current Minimum Energy Efficient Standards (MEES). The Non-Domestic Private Rented Property Minimum Standard Guidance Note states that from April 2018, residential and commercial properties must be brought up to a minimum Energy Efficiency Rating of 'E'. Landlords are not permitted to market property (with limited temporary exemptions or if the building is listed) without obtaining an EPC and the required minimum standard would not be able to be achieved without a major reconstruction. The regulations are increasing this threshold to B by 2030. The building therefore falls short of current regulations and cannot therefore be marketed in its current condition without verified exceptions in place.

10. An asbestos dilapidation survey is to be undertaken but from the age of the building and from an initial inspection asbestos is present. The property has an asbestos cement sheeted roof which in part shows signs of damage. Furthermore the offices present within the building appear not to have been refurbished since the 1970's and are likely to have finishes containing asbestos. The building has many of the original services relating to electrical switch gear and duct and pipe insulation which is again likely to have asbestos containing material. There will be considerable abnormal cots therefore in stripping out these materials on a refurbishment or redevelopment for employment purposes which will cause viability issues for ongoing use.

11. The building is in poor condition and has numerous faults. There is significant cracking in the structural brickwork evidence both internally and externally as identified in the photos below:

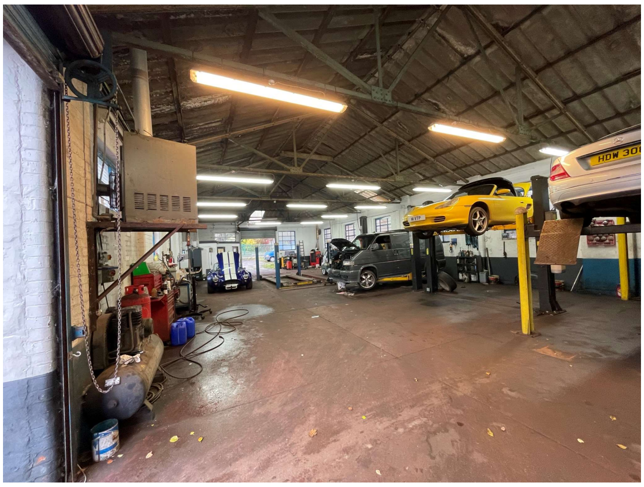
12. Both the main roof and lean to roof have leaks and are beyond repair and their design life:

13. The buildings service infrastructure is no longer fit for purpose. The main incoming power supply is in part still the original electrical installation and the workshop area is serviced by a dated oil fired space heater. A gas space heater is installed but is no longer serviceable.



14. The fabric of the building is also failing. The external yard area is breaking up and requires resurfacing. The casement windows leak and are single glazed and beyond repair.

15. The internal working height is limited and below that required by occupiers. The roof is single skin and has no insulation. Externally there is a diesel tank and oil drums are stored with no bunding or other precautions in place which is likely to have led to localised contamination.



16. As a result I do not believe there are any prospects for bringing the existing building back into meaningful use. The building is obsolete.

- It is obsolete terms of its specification imagine cannot meet current standards have minimum working heights and HGV manoeuvring.

- It is obsolete in terms of regulatory requirements in that it cannot meet current minimum standards in terms of electrical installations and thermal capacity and therefore EPC standards.

- It is office it is obsolete in terms of age and that being over 70 years old is well beyond its design life and this combined with the lack of investment and repairs during the life cycle of the building means that this situation is irrecoverable

Appropriateness for Continued Use

17. I conclude therefore that the building is not appropriate for its continued use and several counts.

18. Location – being in a tertiary employment location but also a rapidly changing one to residential for which there would be very low employment demand.

19. Situation – being surrounded on effectively 4 sides by residential housing leading to conflicts of use and incidences of nuisance.

20. Access – lack of HGV access manoeuvring and loading which would result in a conflict with domestic vehicle movements.

21. Specification – Poor working heights and poor thermal specification which do not meet current requirements.

22. Age and Obsolescence – a seventy plus year old building which is beyond its design life.

23. In light of these factors a marketing exercise for the building would be inappropriate not least marketing is not permitted by law due to the inadequate EPC rating. I have therefore considered the viability of redeveloping the site for continued use in the next section.

5. Development Appraisal

1. I have addressed the market conditions within Shaw and Oldham. This identifies that the industrial and logistics market is reasonably broad based in that it can attract more regionally based companies when prime sites become available on the M60 motorway and where there are also limited opportunities elsewhere on the M62. The Application Site is however too small and on the wrong site of Oldham to appeal to this market and is in a tertiary local redevelopment opportunity.

2. The site specific characteristics of the Application site also have to be taken into account.

3. In terms of access to the site I have assumed the existing side access road will be the principle access although appreciate this will be a conflict when the residential housing to the rear comes on stream. This is effectively dictated by the configuration of the site being long rectangular in shape.

4. Some mitigation from the housing would be recured by was of a substantial wall or fence serving as a screen and acoustic barrier.

5. Due to the size and configuration of the site I have assumed a single workshop storage unit would be constructed and moved to the boundaries in order to maximise development area and increase lettable space. Institutional development densities are c40% and this also should allow sufficient parking and commercial vehicle access.

6. Having taken the market and site specific factors into consideration I have assumed a new building of 4,200 sq ft can be accommodated. I have further assumed this would be a single unit development which helps minimise developments costs.

Methodology

7. I have therefore provided a residual appraisal to establish the viability of developing this site for the a single unit employment use based upon the market within Oldham and the specific characteristics and constraints of the Application Site. The appraisal is intended to be market facing but also in line with PPG, NPPG and the RICS Guidance Note "Financial Viability in Planning". It is accepted practice that this approach is used to assess the impact of planning obligations on the viability of the development process.

8. This approach uses various inputs to establish the Gross Development Value (GDV) from which a Gross Development Cost (GDC) is deducted. The output represents the developer's residual profit (return) the output.

   A scheme is considered to be viable where the developer's return, after allowing for all development costs including site value, is acceptable in the market for the risk in undertaking the development. PPG guidance recognises that generally the required range of profitability is in the range of 15 to 20%. In the prevailing market of higher inflation and interest rates it is likely a minimum developer's profit would be the higher of these is required for the scale and risks associated with the subject development.

9. I have provided robust assumptions which are based on the best rent and yields achievable in the market area and therefore reflect optimistic values and competitive costs with the intention of trying to maximize the land value also at the expense of the developers return which in my commentary have kept to a minimum.

Appraisal Assumptions

10. The development appraisals provided are based upon a standard residual approach (revenues less costs less developers profit = the residual sum/land value) and are undertaken in an Exel format using industry-standard methodology that is based on commercially available software packages such as Argus.

11. A list of standardised inputs to a viability assessment are set out in the PPG which includes:

    - Value of completed development (gross development value – GDV)
    - Development costs including site specific infrastructure costs
    - Obtaining planning permission and associated matters
    - Build costs including abnormal costs
    - Fees and expenses
    - Interest and financing costs

12. These headings provide the structure for the analysis of the appraisal assumptions that will be tested as part of this report.

Value of the Completed Development

13. For the purpose of viability assessment gross development value is a function of the rent received for the property capitalised by and all risks investment yield. To take a robust approach I have assumed that the scheme is 100% let on institutional lease terms in order that the best possible investment yield can be achieved thereby creating the highest gross development value. Alternatively due to the current strong freehold market my assumption also allows for a immediately on completion of the construction.

14. As required by Policy 14 I have looked at comparables in the market place relevant to the Application Site to determine the gross development value of the site. I have listed transactions of similar sized buildings in Appendix 7. Due to the dearth of new small development the comparables at Logic are somewhat dated and there has been rental growth since this scheme was developed. I have also therefore used comparables on fully refurbished but second hand space. I have also highlighted the latest new small unit development in Greater Manchester which is at Stanley Green in Cheadle which is in a prime location and adjacent to retail parks.

15. The Logic comparables show a rental tone of £7.50 psf although newly refurbished but similar units are achieving £10 psf al be it in better locations. The Stanley Green scheme has achieved £15 psf but in a far superior location. I have adopted a rental of £12.50 psf which is higher than the refurbished space

but a discount from Stanley Green on location terms. It also reflects the asking terms on Broadway Central although this rent has not yet been achieved and this scheme is in a far stronger location than the Application site which I believe would struggle to achieve this rent. It nevertheless makes for a robust appraisal.

16. I have adopted average market rent free periods which for smaller units tend to be between 3 to 6 months. I have used three months in the appraisal which would assist viability.

17. Investors currently find the industrial sector attractive and therefore require lower returns than for offices and indeed most other uses. All risk returns for new multi unit industrial schemes are in the order of 5.75 to 6.75% and I have therefore adopted the lower end of this yield profile in the appraisal which again would assist viability.

Development Costs

18. In line with PPG we have looked at the site specific costs involved in bringing forward an employment development on this site. I expand on the largest items in the following sections.

ii. <u>Developers Return</u>

The required developers return is effectively a cost item. Typically, for a new build speculative scheme a developer would require a minimum return on cost of 20% in the current market for multi- unit speculative development of this nature. I have nevertheless undertaken viability assessments to show a lower 15% return to accord with PPG but also to make the appraisals as robust as possible.

ii. <u>Site Infrastructure Costs and Constraints</u>

The Application Site is of course brownfield with a redundant building and next to residential development I believe there are c £57,500 of abnormal costs with this site. I highlight the main cost items as follows:

- Demolition - £30,000. I have assumed what I believe is a competitive cost which is also intended to reflect the removal of asbestos.

- Decontamination – £15,000. There is a oil storage tank on site and localised hotspots of decontamination have been allowed for the removal of THP contaminants. Please see the last photograph in section 6 above of the oil storage tank and chemical/oil drums stored externally and not bunded.

- Boundary Treatment - £5,000. I have allowed for the reconstruction/repair of the brick wall to the southern boundary which will be required for mitigation form the adjoining residential development taking place.

- Piled Foundations and CS3 Gas Protection – £35,000. Any industrial use will have a higher floor loading whether it be for machinery or point loading for racking and will therefore demand a robust foundation requirement. I have therefore allowed for piled foundations as an abnormal cost. Piled foundations were recommended in the IGE Site Remediation Strategy report dated

December 2023 for the adjoining site currently being prepared for development. An extract of the report is in Appendix 8 and page 7 and 11 identifies poor ground conditions in the North East Corner of that site which is closest to the Application Site. The report recommends that piled foundations are required for housing units to be constructed here even though they have much lower loading requirement. Gas Protection is deemed to be CS3 based on Site Investigation work.

- Disposal of Spoil - £19,000.00. The Contractor shall also undertake the cut and fill of the site, to predetermined levels, this will include importation of fill, capping and all validation reporting. All excess material will be tested and removed from site as if necessary.

- The site preparation and abnormal costs therefore total c £104,000 which are stated as other construction costs within the Viability Appraisal.

Build Costs

19. I have adopted build costs from the BCIS Index. I have used the index for the North West Region from January 2024 which provides the most up to date construction cots based on recent tenders. I have adopted the rate for new build warehouse stores of £1,412 per square meter (£131 psf) for buildings up to 500 sq m. The BCIS index is in Appendix 9.

20. The Industrial costs are also based on and institutional specification broadly in line with the following:

    - Steel Frame fully Clad construction
    - Concrete floor loading 35 KN/m
    - Eaves heights 6m
    - Minimal office contents and WC and kitchen point facilities only
    - Emergency and high bay lighting
    - Heating to offices only
    - Electric loading doors
    - BREEAM – Very Good
    - EPC – B

Land Acquisition Costs

21. Land acquisition costs have been allowed for:

    - Land Cost – This is a function of the residual viability appraisal. Employment land values historically have ranged from c £300,000 to £1 million per acre although for the very best sites well in excess of £1 million per acre has been achieved. This is a tertiary site so the land value is at the lower end of this scale and £400,000 has been adopted as the target value to be achieved.

- Developers Return - In order to achieve the 15% to 20% return on costs required to enable the various employment schemes to take place the appraisals produce a negative land value meaning reuse for employment is unviable.

- Fees - I have assumed competitive fees of only £3,000 to cover the land agents and solicitors costs on the acquisition of the land.

- Stamp Duty Land Tax – This is a function of the value of the land but as a negative value no SDLT has been allowed for.

- Planning Permission and Associated Matters - Planning Costs are allowed for and a notional £3,000 plus a further £2250 for associated surveys and professional fees.

Fees and Expenses

22. Professional fees for construction - Professional fees which account for works undertaken by architects, engineers, quantity surveyors, mechanical and electrical engineers and project managing. I have adopted a minimum standard fee basis of 10%.

23. Developers Contingency – I have allowed a 5% contingency although in current inflationary markets developers have been allowing up to 10%.

24. Professional fees for transaction - Legal fees on the investment disposal have been based on 0.5% and agent's fees are based on 1% of the freehold sale price.

25. Marketing fees -Marketing costs are an essential element to a successful scheme and comprise two elements which we have included in our appraisal as follows:

    - Marketing agent's fees are based on 10% of the headline rental.
    - Marketing collateral will be required to promote the scheme to the marketplace and multi-channel marketing initiatives employed for which I have allowed a small budget of £500 which is appropriate for a scheme of this size.

26. Interest and Financing Costs -Finance has been applied using a basic interest set of 10% reflecting current higher risk borrowing rates together with a development finance arrangement fee of £1,000.

27. Tax Relief, Grants and VAT - I understand no grants are available for undertaking an employment development at this site. No VAT has been applied to the scheme.

Appraisal Findings

28. I have used an optimistic Gross Development Value by virtue of adopting the very best rents and investment yields which have been achieved in the market. Otherwise, I have also assumed a scheme with maximum lettable floorspace. The aim of these assumptions has been to maximise value and make the scheme as viable as possible. A summary of the assumptions and outputs is in the table below:

Item	Assumption
Rent per square Foot	£12.50
Investment Yield	5.75%
Capital Value psf	£213
Abnormal costs	£104,000
Build Costs psf	£131
Construction fees	10%
Letting Fees: Agent/Solicitor	10%/5%
Sales Fees: Agent Solicitor	1%/0.5%
Finance Costs	8%

29. Based on these assumptions and adopting and a nil site value a development for employment use is only able to produce a profit of less than 5%. The Appraisal is in Appendix 10. This level of profitability is significantly below the profit required to stimulate development. The site therefore has a negative value for employment use.

30. In the right market conditions typically you would expect site value of the Application Site for existing employment uses being in the new order of £100,000. This value is based on a typical market value for employment land in the area of c £400,000 per acre.

31. The appraisals follow the PPG viability testing requirement in assessing gross value of the completed development and deducting all assumed costs of development other than land value and SDLT costs. The development of the site for industrial/warehouse use will be deemed viable if the Residualised Price equals or exceeds the Existing Use Value of £100,000. Otherwise, development for that use will not be financially viable. As such the viability test fails.

32. In light of the scale of deficit in bringing this site forward for employment use it is possible to conclude that the likelihood of the site coming forward in the short or even longer term is very unlikely. The tertiary location site configuration and scale of the development that is possible undermine the suitability of this site for employment development and is therefore more suited to a residential development.

6. Conclusion

1. Due to the existing buildings obsolescence in terms of age specification and regulatory requirements the marketing of the property is inappropriate. The site is therefore needs to be considered as a redevelopment opportunity.

2. The development appraisal demonstrates that the viability test is substantially failed for employment redevelopment. In light of the scale of deficit in bringing this site forward for employment use it is possible to conclude that the likelihood of the site coming forward in both the short and longer term is extremely unlikely.

3. The site will continue to decline and create additional conflicts as the residential hounding to the rear is developed and occupied. The Site is therefore more suited to a residential development.

4. In light of the above, I am of the view that Policy 14 has been satisfied and the most appropriate use of this site is for residential. The planning application should therefore be considered favourably.