
# Flambeau EuroPlast Limited, Manston Road, Ramsgate, Kent CT12 6HW - Viability Report

**Prepared for Flambeau EuroPlast Limited and Hume Planning Consultancy Limited**

25th July 2016

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# Contents

## Report



## Appendices

## 1. Executive Summary

1.1 I have been instructed by Flambeau EuroPlast Limited and Hume Planning Consultancy Limited to carry out an independent financial appraisal of the proposed development scheme for which outline planning permission has been granted subject to resolution of a Section 106 Agreement for the redevelopment of Flambeau EuroPlast Limited, Manston Road, Ramsgate, Kent CT12 6HW ("the Property"). This independent financial appraisal is required in order to assess the viability implications of proposed planning obligations in respect of affordable housing and wider Section 106 costs. Full details relating to the Property can be found in the Design & Access Statement prepared by Hume Planning Consultancy Limited dated February 2015, attached at **Appendix A**.

1.2 This Viability Report supports the planning application for outline planning permission for redevelopment of the Property to provide 40 two bedroom flats together with 20 two bedroomed and 60 three bedroomed houses together with new access, parking and landscaping works following demolition of the existing buildings. Flambeau EuroPlast Ltd have long been considering the economic viability of retaining and operating out of the existing factory on Manston Road which is nearing the end of its economic life. Indeed, the company has a long association with Thanet and steps are being taken to acquire an alternative site for redevelopment of a purpose built factory within the District. However, in order to facilitate such a relocation and in order to retain existing employment numbers within the District, it is necessary to dispose of the existing site for maximum consideration. It is accepted that there is likely to be a substantial shortfall and therefore the company will need to heavily subsidise the relocation. This Viability Report seeks to address whether or not the proposed scheme can be delivered in compliance with existing policy or whether or not, on viability grounds, due regard needs to be given to the quantum, if any, of affordable housing and wider Section 106 obligations.

1.3 I have given due regard to the National Planning Policy Framework ("NPPF"), The Royal Institution of Chartered Surveyors Guidance Note 1st Edition *Financial Viability in Planning* and the "Harman" report being *Viability Testing Local Plans* produced by the Local Government Association, The Home Builders Federation and the NHBC chaired by Sir. John Harman June 2012. The guidance contained in these documents has assisted in formulating the opinions set out in this report.

1.4 Having undertaken a detailed analysis of the proposed development I have reached the conclusion that the scheme can be delivered with a Section 106 contribution in the form of a fixed commuted sum of £100,000 which yields a developer's return of 18.15%, marginally below the acceptable margin of 20%. However, the scheme cannot tolerate the provision of any affordable housing. Indeed, the imposition of 30% affordable housing alongside a policy compliant Section 106 contribution of £365,858 pushes the return down to just 4.92% which fails any test of reasonable economic viability. These margins have been assessed against the Market Value of the existing factory, also known as Existing Use Value or Viability Benchmark Sum, of £2.5 million based upon a land value equating to approximately £290,000 per acre (a premium on local serviced commercial land due to its urban fringe location and potential for residential development), or £18 psf capital value for the existing built structures or a multiple of 10 times rateable value. This is supported by comparable factory transactions.

1.5 The net result is that the proposed scheme, whilst delivering a Section 106 package of £100,000 cannot sustain any additional Section 106 costs or affordable housing without pushing the margin further below an acceptable level of viability.

## 2. Background

2.1 The Property lies within the jurisdiction of Thanet District Council and comprises a factory of 138,820 sq.ft (12,897 sq.m) on a site of 8.65 acres (3.50 hectares) fronting the south side of Manston Road on the outskirts of Ramsgate. To the north lies Manston Road, beyond which the character of the area is dominated by residential dwellings with a mix of house styles, designs and layout patterns including high-rise apartments. Immediately to the east the boundary tapers as the alignment of the railway line to the south and Manston Road to the north converges. The southern boundary of the Property is marked by a railway line while to the west lies a Tesco Superstore with associated car parking and petrol filling station.

2.2 The Property lies at the southern end of the Newington District of Ramsgate which is characterised by predominantly local authority housing. Indeed, Newington Community Primary School and associated playing fields are located to the north east of the Property. Manston Road itself is the B2050 providing a link into Ramsgate from the A256 to the west. Ramsgate town centre and marina are approximately 1 mile to the east and the Property is well located for both the A256 and A299. The former provides a link north to the Westwood Cross regional shopping centre while the latter provides a link to the west past Manston Airport to the Thanet Way and the Kent towns of Whitstable, Faversham and, via the A28, Canterbury and Ashford. The A256 provides a link southwards to Dover and on towards Folkestone and the M20. Ramsgate lies at the end of HS1 providing High Speed rail services from Kent to London St Pancras.

2.3 The factory itself is nearing the end of its economic life and steps are being taken to negotiate the acquisition of an alternative site for a purpose built factory within the District. The existing premises comprise a series of inter-connected concrete portal frame light industrial buildings dated from the 1960's with concrete asbestos sheet cladding and facing brickwork and a series of pitched concrete asbestos sheet roofs with polycarbonate translucent light panels. The condition of the Property is adequate for a continuation of the operational requirements of the company only in the short to medium term.

2.4 In order to facilitate a relocation it is necessary to maximise the capital receipt for the existing premises on Manston Road. In order to do this, an outline planning permission has been sought subject to the resolution of a Section 106 Agreement for a scheme comprising 120 residential dwellings being a mix of two bedroom flats and two and three bedroom houses. It is accepted that the cost of the relocation will significantly exceed the capital receipt from the sale of the factory with such a planning permission in place and any shortfall will be heavily subsidised. This report has been commissioned to establish exactly what quantum of affordable housing and Section 106 costs can be borne by the proposed scheme whilst retaining economic viability in planning terms.

2.5 The National Planning Policy Framework refers to ensuring viability and delivery of development at Sec. 173-177 and states "to ensure viability, the costs of any requirement likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should when taking account of the normal cost of development and mitigation provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable".

## 3. Basis of Appraisals

3.1 The appraisals and figures provided herein do not strictly speaking fall within the scope of the RICS (Royal Institution of Chartered Surveyors) "Red Book" and is not a formal valuation in that context. However, the principles of good practice have been followed and detailed justification for the indicative values and/or component valuation appraisals are provided. More to the point, the appraisal is in direct line with the RICS Guidance on Financial Viability in Planning.

3.2 The report is provided purely to assist planning discussions with Thanet District Council.

3.3 The viability report is provided on a confidential basis and we therefore request that the report should not be disclosed to any third parties (other than Thanet District Council and their advisers), under the Freedom of Information Act 2000 (Section 41 and 43/2) or under the Environmental Information Regulation. The report is not to be placed in the public domain. In addition, we do not offer Thanet District Council, their advisers and/or any third parties a professional duty of care.

3.4 In appraising the proposed development we have taken note of and utilised guidance on Council policy as set out in:

**a)** Thanet Local Plan 2006 Saved Policies

**b)** Emerging Draft Thanet Local Plan to 2031

**c)** Planning Obligations and Developer Contributions Supplementary Planning Document April 2010

**d)** Thanet Strategic Housing Market Assessment (SHMA)

**e)** Kent Design Supplementary Planning Document 2006

**f)** KCC Guide to Development Contributions and the Provision of Community Infrastructure

**g)** The National Planning Policy Framework (“NPPF”)

**h)** Planning Officer’s Report to Thanet District Council’s Planning Committee 17 June 2015

## 4. Viability and Planning

4.1 Scheme viability is normally assessed using residual valuation methodology.

4.2 A summary of the residual process is:

Built Value of proposed private residential and other uses

**+**

Built Value of affordable housing

**-**

Build Costs, finance costs, other section 106 costs, sales fees, developers’ profit etc

**=**

**Residual Land Value (“RLV”)**

RLV is then compared to a **Viability Benchmark Sum (“VBS”)**. If RLV is lower and/or not sufficiently higher than the VBS – project is not technically viable.

4.3 If the RLV driven by a proposed scheme is reduced to significantly below an appropriate VBS, it follows that it is commercially unviable to pursue such a scheme, and the scheme is unlikely to proceed.

4.4 The RLV approach (as summarised above) can be inverted so that it becomes a 'residual profit appraisal' based upon the insertion of a specific land cost/value (equivalent to the VBS) at the top. By doing this, the focus is moved onto the level of profit driven by a scheme. This is a purely presentational alternative.

## 5. VBS (or Land Cost/Value Input, also referred to as Site Viability Benchmark Sum)

5.1 The Royal Institution of Chartered Surveyors (“RICS”) published their long awaited Guidance Note on this subject in 2012 (Financial Viability in Planning – RICS Guidance Note – GN 94/2012 August 2012).

5.2 The RICS have consulted more extensively than any other body on this subject to date and I believe that their latest guidance now represents the best possible consolidated guidance on this subject. However, due regard has also been given to the Harman guidance already referred to. The fundamental difference between the two is the approach to the VBS. Harman believes the dominant driver should be Existing Use Value ("EUV") (whereupon I believe they mean Current Use Value, or "CUV" which, based upon RICS guidance, excludes all hope value for a higher value through alternative uses). On the other hand, RICS states that the dominant driver should be Market Value (assuming that any hope value accounted for has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan).

5.3 A few local authorities and their advisors are still trying to disregard premiums applicable to EUVs or CUVs (i.e. EUV/CUV only - which was the basis being incorrectly enforced for several years) but the reference to 'competitive returns' in the National Planning Policy Framework and planning precedent has now extinguished this stance.

5.4 There has been concern about how one can identify and logically justify what premium should be added to an EUV or CUV and what exactly EUV means. It is not as straight-forward as one might initially think.

5.5 There has also been some concern about Market Value potentially being influenced by land transaction comparables and/or bids for land that are excessive (thus triggering an inappropriate benchmark). However, I believe that any implied suggestion that developers deliberately (or might deliberately) over-pay for land in order to avoid having to deliver S.106 affordable housing contributions is misguided. Land buyers and developers seek to secure land for as little money as possible. They do not seek to overpay and are aware of the associated planning and financial risks should they do so. My view is that, if professional valuers disregard inappropriate land transaction comparables (e.g. where over-payments appear to have occurred accidentally or for some other legitimate but odd reason) and other inappropriate influences in deriving Market Value, <u>both of which they should</u>, Market Value is on-balance the more justifiable, logical, reasonable and realistic approach – albeit not perfect.

5.6 I believe that the premium over EUV or CUV to identify an appropriate VBS is in fact the same as the percentage difference between EUV or CUV and Market Value. <u>In other words, both approaches should lead to the same number</u>. However, Market Value is the logical side to approach this conundrum from.

5.7 As such, I have followed the latest RICS Guidance herein as well as recent Planning Inspectorate decisions including that by Clive Hughes BA (Hons) MA DMS MRTPI in Land at The Manor, Shinfield, Reading under Reference APP/X0360/A/12/2179141.

5.8 Of particular note, the RICS guidance says:

**a)** Site Value either as an input into a scheme specific appraisal or as a benchmark is defined in the guidance note as follows, "Site Value should equate to the Market Value subject to the following assumption that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan."

**b)** An accepted method of valuation of development sites and land is set out in RICS Valuation Information Paper (VIP) 12. This paper is shortly to be re-written as a Global Guidance Note.

**c)** Reviewing alternative uses is very much part of the process of assessing the Market Value of land and it is not unusual to consider a range of scenarios for certain properties. Where an alternative use can be readily identified as generating a higher value, the value for this alternative use would be the Market Value.

**d)** The nature of the applicant should normally be disregarded as should benefits or dis-benefits that are unique to the applicant.

**e)** The guidance provides this definition in the context of undertaking appraisals of financial viability for the purposes of town planning decisions: *An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project*.

**f)** With regard to indicative outline of what to include in a viability assessment it is up to the practitioner to submit what they believe is reasonable and appropriate in the particular circumstances and for the local authority or their advisors to agree whether this is sufficient for them to undertake an objective review.

**g)** For a development to be financially viable, any uplift from current use value to residual land value that arises when planning permission is granted must be able to meet the cost of planning obligations whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project (the National Planning Policy Framework refers to this as 'competitive returns' in paragraph 173 on page 41). The return to the landowner will be in the form of a land value in excess of current use value but it would be inappropriate to assume an uplift based upon set percentages, given the heterogeneity of individual development sites. The land value will be based upon market value which will be risk-adjusted, so it will normally be less than current market prices for development land for which planning permission has been secured and planning obligation requirements are known.

**h)** Sale prices of comparable development sites may provide an indication of the land value that a landowner might expect but it is important to note that, depending on the planning status of the land, the market price will include risk-adjusted expectations of the nature of the permission and associated planning obligations. If these market prices are used in the negotiations of planning obligations, then account should be taken of any expectation of planning obligations that is embedded in the market price (or valuation in the absence of a price). In many cases, relevant and up to date comparable evidence may not be available or the heterogeneity of development sites requires an approach not based on direct comparison. The importance, however, of comparable evidence cannot be over-emphasised, even if the supporting evidence is very limited, as evidenced in Court and Land Tribunal decisions.

**i)** The assessment of Market Value with assumptions is not straightforward but must, by definition, be at a level which makes a landowner willing to sell, as recognised by the NPPF. Appropriate comparable evidence, even where this is limited, is important in establishing Site Value for a scheme specific as well as area wide assessments.

**j)** Viability assessments will usually be dated when an application is submitted (or when a CIL charging schedule or Local Plan is published in draft). Exceptions to this may be pre-application submissions and appeals. Viability assessments may occasionally need to be updated due to market movements or if schemes are amended during the planning process.

**k)** Site purchase price may or may not be material in arriving at a Site Value for the assessment of financial viability. In some circumstances the use of actual purchase price should be treated as a special case.

**l)** It is for the practitioner to consider the relevance or otherwise of the actual purchase price, and whether any weight should be attached to it, having regard to the date of assessment and the Site Value definition set out in the guidance.

**m)** Often in the case of development and site assembly, various interests need to be acquired or negotiated in order to be able to implement a project. These may include: buying in leases of existing occupiers or paying compensation; negotiating rights of light claims and payments; party wall agreements, over sailing rights, ransom strips/rights, agreeing arrangements with utility companies; temporary/facilitating works, etc. These are all relevant development costs that should be taken into account in viability assessments. For example, it is appropriate to include rights of light payments as it is a real cost to the developer in terms of compensation for loss of rights of light to neighbouring properties. This is often not reflected in Site Value given the different views on how a site can be developed.

**n)** It is important that viability assessments be supported by adequate comparable evidence. For this reason it is important that the appraisal is undertaken by a suitably qualified practitioner who has experience of the type, scale and complexity of the development being reviewed or in connection with appraisals supporting the formulation of core strategies in local development frameworks. This ensures that appropriate assumptions are adopted and judgement formulated in respect of inputs such as values, yields, rents, sales periods, costs, profit levels and finance rates to be assumed in the appraisal. This should be carried out by an independent practitioner and ideally a suitably qualified surveyor.

**o)** The RICS Valuation Standards 9th Edition (“Red Book”) gives a definition of Market Value as follows:

- The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after properly marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

- The Red Book also deals with the situation where the price offered by prospective buyers generally in the market would reflect an expectation of a change in the circumstances of the property in the future. This element is often referred to as ‘hope value’ and should be reflected in Market Value. The Red Book provides two examples of where the hope of additional value being created or obtained in the future may impact on the Market Value:

    - the prospect of development where there is no current permission for that development; and

    - the prospect of synergistic value arising from merger with another property or interests within the same property at a future date.

- The guidance seeks to provide further clarification in respect of the first of these by stating that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan.

- The second bullet point above is particularly relevant where sites have been assembled for a particular development.

- It should be noted that hope value is not defined in either the Valuation Standards. That is because it is not a basis of value but more a convenient way of expressing the certainty of a valuation where value reflects development for which permission is not guaranteed to be given but if it was, it would produce a value above current use.

- To date, in the absence of any guidance, a variety of practices have evolved which benchmark land value. One of these, used by a limited number of practitioners, has been to adopt Current Use Value ("CUV") plus a margin or a variant of this (Existing Use Value ("EUV") plus a premium). The EUV / CUV basis is discussed below. The margin is an arbitrary figure often ranging from 10% to 40% above CUV but higher percentages have been used particularly in respect of green-field and rural land development.

- In formulating this guidance, well understood valuation definitions have been examined as contained within the Red Book. In arriving at the definition of Site Value (being Market Value with an assumption), the Working Party / Consultant Team of this guidance have had regard to other definitions such as EUV and Alternative Use Value ("AUV") in order to clarify the distinction necessary in a financial viability in a planning context. Existing Use Value is defined as follows:

- "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after properly marketing and where the parties had each acted knowledgeably, prudently and without compulsion assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause Market Value to differ from that needed to replace the remaining service potential at least cost."

- It is clear the above definition is inappropriate when considered in a financial viability in planning context. EUV is used only for inclusion in financial statements prepared in accordance with UK accounting standards and as such, hypothetical in a market context. Property does not transact on an EUV (or CUV) basis.

- It follows that most practitioners have recognised and agreed that CUV does not reflect the workings of the market as land does not sell for its CUV, but rather at a price reflecting its potential for development. Whilst the use of CUV plus a margin does in effect recognise hope value by applying a percentage increase over CUV it is a very unsatisfactory methodology when compared to the Market Value approach set out in the Guidance and above. This is because it assumes land would be released for a fixed percentage above CUV that is arbitrary inconsistently applied and above all does not reflect the market.

- Accordingly, the guidance adopts the well understood definition of Market Value as the appropriate basis to assess Site Value, subject to an assumption. This is consistent with the

NPPF, which acknowledges that "willing sellers" of land should receive "competitive returns". Competitive returns can only be achieved in a market context (i.e. Market Value) not one which is hypothetically based with an arbitrary mark-up applied, as in the case of EUV (or CUV) plus.

- So far as alternative use value is concerned, the Valuation Standards state where it is clear that a purchaser in the market would acquire the property for an alternative use of the land because that alternative use can be readily identified as generating a higher value than the current use, and is both commercially and legally feasible, the value for this alternative use would be the Market Value and should be reported as such. In other words, hope value is also reflected and the answer is still Market Value.

## 6. The Site

6.1 Extensive details relating to the Property can be found in both the Design and Access Statement and Planning Statement, both prepared on behalf of Flambeau EuroPlast Ltd by Hume Planning Consultancy Ltd dated February 2015. Needless to say, outline planning permission has been sought for a scheme providing 120 residential dwellings and certain assumptions have been made in respect of the size of these dwellings as follows:

| Type | Bedrooms | No | Unit Size | Total Sq.ft |
|---|---|---|---|---|
| Flat | 2 | 40 | 700 | 28,000 |
| House | 2 | 20 | 900 | 18,000 |
| House | 3 | 60 | 1,100 | 66,000 |
| **TOTAL** | | **120** | | **112,000** |

6.2 The proposal includes the provision of a new access and crossing point to Manston Road with the detail being designed following a speed survey and pre-app discussions with Kent Highway Services.

6.3 It is anticipated that the two bedroom flats and houses will have an element of parking provision while the three bedroom houses will have the benefit of garages. Extensive landscaping and an acoustic fence adjacent to the railway line are also proposed.

## 7. Market Value of Existing Site (Viability Benchmark)

7.1 There are a number of different approaches in assessing the Market Value of the existing premises. The first would be an investment approach, capitalising the Market Rent at an appropriate yield. Clearly, the Property is owner occupied but nevertheless has a rateable value of £250,000 equating to an indicative rent of £1.80 psf. It would not be unreasonable to capitalise this at an investment yield of 9% to 10% and taking into account purchase costs would indicate a capital value in the order of £2.5 million. Arguably the Market Rent might be higher than the rateable value at £2.00 to £2.50 psf but, equally, the yield could be pushed out and therefore it is considered that a Capital Value of £2.5 million is appropriate. This Capital Value reflects £18 psf.

7.2 This can be looked at on a comparable basis as well as an investment basis and in this regard due regard has been given to the sale of a not too dissimilar 1960's factory on Graveney Road in Faversham extending to 142,500 sq.ft on a site of 6.7 acres. The sale at £2.85 million reflects a Capital Value of approximately £20.00 psf which compares directly to the subject Property at £18.00 psf.

7.3 Finally, due regard has been given to the land value of the 8.65 acre brownfield site in an urban fringe location with clear development potential. Commercial land on the outskirts of the Thanet towns is typically traded at between £150,000 and £175,000 per acre but unserviced allocated residential land is upwards of £450,000 per acre. A Capital Value of £2.5 million breaks back to approximately £290,000 per acre which we consider appropriate, falling between the two extremes.

7.4 The conclusion reached is that the Property has an Existing Use Value or Viability Benchmark Sum, of £2.5 million against which the profit margin of the proposed scheme can be tested. It should be noted that this value is significantly less than the estimated cost of relocation at a minimum estimate of £6.733 million which would require an injection of capital in any event by Flambeau EuroPlast Ltd to the tune of £4.233 million in order to subsidise the relocation.

## 8. Alternative Use Value (AUV) (Development Scheme)

8.1 In looking at the market solution for the site it is not possible to carry out full appraisals of all potential development options. This report therefore examines the scheme as detailed in the Design and Access Statement to support the outline planning application.

## 9. Development Value Appraisal

9.1 In order to assess the impact of affordable housing and 106 contributions on the viability of the proposed scheme it is necessary to run three development appraisals using the Argus Property Software Package, a widely used and recognised appraisal tool. In the first instance, two appraisals have been run and are attached in **Appendix B**. The first looks at the margin which is derived by an entirely policy compliant scheme ("Viability Appraisal Policy Compliant") based on the fixed Viability Benchmark Sum of £2.5 million. The second then looks to see what impact the removal of affordable housing has developer's return ("Viability Appraisal – No Affordable Housing"). Finally, the viability is tested against a fixed commuted sum of £100,000 on a without prejudice basis ("Viability Appraisal – Fixed Commuted Sum"). The inputs are summarised as follows:

A. **Revenue (Gross Development Value)** – Based upon comparable evidence in the market place, the Gross Development Value is assessed at between £225 psf and £230 psf. Capital values therefore range from £160,000 for a two bedroom flat, a value of £205,000 for a two bedroom house and £250,000 for a three bedroom house. This takes into account comparable transactions in the locality as well as the particular characteristics of this site which is adjacent to a railway line, a relatively busy arterial road and in a locality dominated by local authority built housing stock. The affordable housing has been assessed at 30% of the total number of units and at a Capital Value equivalent to £125 psf or 55% of open market value. This assumes a blended mix of shared equity and social rented units.

**B. Construction Costs** – All construction costs are based on BCIS endorsed tender priced costings rebased for Kent as at Quarter 2 2016. For the houses, this is £111 psf and for the flats the cost is £132 psf.

A contingency allowance has been adopted at 5% in line with standard market practice taking into account that this is an industrial brownfield site likely to require significant remediation and demolition costs.

**C. Other Construction Costs** – Due regard has been given to demolition and remediation works totalling approximately £245,000 which takes into account the significant history of industrial works on the site, known asbestos and a requirement to strip the site fully in order to prepare it for a residential led redevelopment. On site road infrastructure is allowed for at £324,000 (£5psf less demolition and remediation costs already allowed for) and there is additional off-site works in respect of highway modifications and a new entrance at £100,000. Due regard has also been given to garages for the three bedroom houses, an acoustic fence, utility connections and upgrades, scheme landscaping and build warranties.

**D. Fees and Finance** – Along with acquisition costs and planning fees an allowance has been made for professional fees at 8% in line with industry standards along with agents and marketing fees and legal costs.

Finance rates of 7% have been adopted, based on interest costs and bank fees, over a total cash activity period of 42 months comprising a 36 month phased build programme and a 30 month sales programme with the last units being sold 6 months post construction. Where affordable housing units have been allowed for, these are sold immediately upon practical completion of the first phase within 12 months.

**E. Section 106 Costs** – At this juncture an allowance for Section 106 costs has been made as follows:

- Primary Schools £360,000
- Library Bookstock £5,858

Assuming all of the properties were open market dwellings then this would provide for a total Section 106 cost of £365,858

## 10. Conclusion

10.1 The first appraisal, Policy Compliant, allows for 30% of the dwellings to be affordable units being a blended mix of shared equity and social rented along with a Section 106 contribution of £365,858. This yields a profit, or developer's return, of just 4.92% on GDV. It is widely accepted that, for a scheme to be technically viable in planning terms, an acceptable return for a developer is in the range of 17.5% to 20%. On complex brownfield sites, in tertiary locations and, particularly, post-Brexit, it is widely accepted that returns will be at the upper end of this spectrum going forward, certainly much closer to 20%. Clearly, a return of just 4.92% is significantly below any form of acceptable margin and is not viable in planning terms.

10.2 Therefore, a second appraisal, No Affordable Housing, has been run which keeps the Section 106 costs of £365,858 but removes in its entirety any provision of affordable housing. This second appraisal shows a return of 16.88% which is also below an acceptable margin of closer to 20% and cannot be considered viable. As such, a final appraisal is run, Fixed Commuted Sum, with a single commuted sum of £100,000 which yields a return of **18.15%**. Whilst still not technically viable, this sum is consider to be marginally tolerable in the wider scheme of things and is therefore offered on a without prejudice basis. A summary of the appraisals is as follows:

- Policy Compliant 4.92% Unviable
- Policy Compliant less Affordable Housing 16.88% Unviable
- Policy Compliant with Fixed Commuted Sum 18.15% Unviable but deliverable

10.3 Notwithstanding the significant relocation costs which will need to be subsidised by Flambeau EuroPlast Ltd, it is accepted that the proposed scheme can deliver a package of Section 106 contributions up to £100,000 but, unfortunately, cannot deliver any affordable housing.

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25th July 2016