For: Thanet District Council

Review of Applicant Submitted Viability Position

**Flambeau EuroPlast Ltd,
Manston Road, Ramsgate,
Kent**

December 2016
(DSP16442B)

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1. Notes and Limitations

1.1.1 The following does not provide formal valuation advice. This review and its findings are intended purely for the purposes of providing Thanet District Council (TDC) with an independent check of, and opinion on, the planning applicant's viability information and stated position in this case.

1.1.2 This document has been prepared for this specific reason and should not be used for any other purpose without the prior written authority of Dixon Searle Partnership (DSP); we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned. To the extent that the document is based on information supplied by others, Dixon Searle Partnership accepts no liability for any loss or damage suffered by the client.

1.1.3 We have undertaken this as a desk-top exercise as is appropriate for this stage and level of review. For general familiarisation we have considered the site context from the information supplied by the Council and using available web-based material. We have not visited the location and did not consider it necessary for this current review purpose.

1.1.4 DSP's usual assumption is that the information provided to inform and support this review process has been supplied by the planning applicant on a COMMERCIALLY CONFIDENTIAL BASIS; hence DSP's assumption is that the review detail, as contained within this report is to be treated in the same way. The Council and applicant may need to consider the status and use of the information.

2. Introduction

2.1.1 Dixon Searle Partnership (DSP) has been commissioned by Thanet District Council (TDC) to carry out an independent review of the viability evidence supplied to the Council on behalf of the applicant Flambeau Europlast Ltd by Strutt & Parker LLP dated 25th July 2016. This is in relation to the proposed redevelopment of the existing site for up to 120 dwellings including access, following demolition of existing buildings.

2.1.2 The planning application was validated in outline with all matters reserved except Access on 2nd March 2015 under reference OL/TH/15/0187. The proposal seeks permission to redevelop the current existing factory site for up to 120 dwellings consisting in outline of 40 no. 2 bed flats, 20 no. 2-bed houses and 60 no. 3-bed houses according to the Viability Report; 122 dwellings including an additional 2 no. 3-bed houses according to the outline application form. Although it is not clear whether 120 or 122 units are proposed as part of the application, in carrying out this review we have taken account only of the scheme as presented in the Viability Report as that forms the basis of the applicant's agent's opinion of the viability of the proposals.

2.1.3 The site extends to 3.5 hectares (8.6 acres) occupied by the Flambeau Europlast industrial buildings and associated open storage and ancillary spaces. According to the Viability Report: "*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*".

2.1.4 The Council's adopted affordable housing (AH) policy (H14) states that development of 15 (fifteen) or more units shall include 30% affordable housing on-site. The affordable housing provision should be proportionate to the size and type of dwellings across the entire site.

2.1.5 Development contributions policy (CF2) requires a contribution where a proposed development would directly result in the need to provide new or upgraded community facilities (including transport, education and recreation). The priority for contributions is set out in the Council's Supplementary Planning Document – Planning Obligations and Developer Contributions.

2.1.6 The viability information provided for review consists of:

- Above mentioned base Viability Report (VR) by Strutt & Parker LLP (setting out the assumptions used);
- Associated appendices comprising development appraisal summary prints (also made available in electronic format) utilising Argus Developer software;
- the appraisal iterations include versions with and without the requested s.106 sums, since this variation goes to the centre of the submission made – more on this below.

2.1.7 In addition DSP has also had sight of the Council's online planning file with particular reference to the Design and Access Statement.

2.1.8 Development viability is a measure that may be defined as *'the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project'*[1]. Under normal circumstances where a viability appraisal is provided, if the residual land value (RLV) created by a scheme proposal exceeds the market value or existing or alternative use value then we usually have a positive viability scenario – i.e. the scheme is much more likely to proceed (on the basis that a reasonable developer profit margin is also reached).

[1] Financial Viability in planning – RICS Guidance note (August 2012)

2.1.9 In this case the land value (i.e. benchmark land value) position for the site has been included as a fixed land price within each appraisal iteration. Used in this way, the working of the appraisal calculates as its residual output the level of profit available (on the assumptions used) after all the entered development costs including that land value have been deducted from the estimated sales value total (i.e. the gross development value or 'GDV'). The site value is considered to be £2.5m based on a combination of an estimate of current use value of the site and sale of a site stated to be comparable in nature in Faversham.

2.1.10 The Viability Appraisal concludes that a policy compliant scheme including 30% affordable housing and a s106 financial contribution of £365,858 would produce a residual profit on Gross Development Value of 4.92% - considered unviable within the VR. The second appraisal iteration which removes the affordable housing in its entirety but retains s106 financial contributions results in a residual profit 16.88% (also considered unviable within the VR) and a third iteration provides a profit of 18.5% of GDV assuming a contribution of £100,000.

2.1.11 The VR refers to each of the above iterations producing an improved profit residual compared with the original version. In essence the thrust of the submission is the opinion that a site such as this is unlikely to trade in the market without an expectation of a profit on GDV of close to 20% being available. It is therefore stated that a compliant scheme including the full s.106 (at the above assumed level) would be unviable but that with a financial contribution of £100,000 and nil affordable housing, the proposed development achieves a viable position of 18.5% profit on GDV. It is therefore submitted that £100,000 is the maximum contribution that could be made whilst retaining the viability of the proposed outline scheme.

2.1.12 This review does not seek to pre-determine any Council positions, but merely sets out our opinion on the submitted viability assumptions and outcomes in order to inform the Council's discussions with the applicant and its decision making; it deals only with viability matters, in accordance with our instructions.

2.1.13 Thanet District Council requires our opinion as to whether the viability figures and position put forward by the applicant are reasonable. We have therefore considered the information submitted. Following our review of the key assumptions areas, this report provides our views.

2.1.14 We have based our review on the submitted Viability Appraisal and the premise that the viability of the scheme should be considered based on the assumption of current costs and values. We then discuss any variation in terms of any deficit (or surplus) created from that base position by altering appraisal assumptions (where there is disagreement, if any) utilising the applicant's appraisal as a base where considered necessary.

2.1.15 This assessment has been carried out by Rob Searle and Richard Dixon of DSP, who have many years combined experience in the development industry working for Local Authorities, developers, Housing Associations and in consultancy. As consultants we have a considerable track record of assessing the viability of schemes and assessing the scope for Local Authority planning obligation requirements. This expertise includes viability-related work carried out for many Local Authorities nationwide over the last 14 years or so.

2.1.16 The purpose of this report is to provide our overview comments with regard to this individual scheme, on behalf of the Council - taking into account the details as presented. It will then be for the Council to consider this information in the context of the wider planning objectives in accordance with its policy positions and strategies.

2.1.17 In carrying out this type of review a key theme for us is to identify whether, in our opinion, any key revenue assumptions have been under-assessed (e.g. sales value estimates) or any key cost estimates (e.g. build costs, fees, etc.) over-assessed – since both of these effects can reduce the stated viability outcome.

3 Review of Submitted Viability Assumptions

3.1.1 The following commentary reviews the applicant's submitted viability appraisal assumptions as set out in the Viability Report, carried through to the Addendum update and as used in associated development appraisals issued to DSP by the Council.

3.1.2 In summary, the appraisal works on a residual basis, with a cashflow sitting behind it in order to take account of the timing of the various current stage estimations of the revenue (receipts) and development costs (expenses). As used in this case, the calculations produce a residual profit level after all development costs including the assumed land value have been deducted from the anticipated level of sales revenue from the open market housing and land sale for the affordable homes (extra care) provision. Often we will see that a fixed level of developer's profit is included, however in this case the appraisal has been carried out and the residual approach used to portray the amount of profit achievable in both scenarios (s.106 compliant and non-s.106 compliant).

3.1.3 Primarily the review process takes into account the fact that the collective impact of the various elements of the cost and value assumptions is of greatest importance, rather than necessarily the individual detailed inputs in isolation. We have considered those figures (the appraisal assumptions) provided, as below. In the background to this we have used the working version appraisal to review the impact of trial changes to particular submitted assumptions where considered necessary.

3.1.4 This type of audit / check is carried out so that we can give the Council a feel for whether or not the indicated profit positions are approximately as expected – i.e. informed by a reasonable set of assumptions and appraisal approach.

Benchmark Land Value / Site Value (used here as a fixed land price)

3.1.5 In all appraisals of this type, the base value (value of the site or premises – e.g. assessed in existing use or as market value) is one of the key ingredients of scheme viability. A view needs to be taken on land value so that it is sufficient to secure the release of the site for the scheme (sale by the landowner(s) but is not assumed at such a level that restricts the financial capacity of the scheme to deliver suitable profits (for risk reward), cover all development costs (including any abnormals) and provide for planning obligations as a part of creating sustainable development. This can be a difficult balance to reach, both in terms of developers' dealings with landowners, and Councils' assessments of what a scheme has the capacity to bear.

3.1.6 The RICS Guidance 'Financial Viability in Planning'[2] states that:

'*A viability appraisal is taken at a point in time, taking account of costs and values at that date. A site may be purchased some time before a viability assessment takes place and circumstances might change.*

This is part of the developer's risk. Land values can go up or down between the date of purchase and a viability assessment taking place; in a rising market developers benefit, in a falling market they may lose out.

A developer may make unreasonable/overoptimistic assumptions regarding the type and density of development or the extent of planning obligations, which means that it has overpaid for the site'.

'Site Value' is defined in the same Guidance as the following: '*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'*. It goes on to say '*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 as set out in this guidance. Where historic costs (for example remediation works) are stated it is important that these are not reflected in the Site Value (i.e. double counted)*'.

3.1.7 In this case the benchmark land value (BLV) i.e. the land value assumption for this 8.6 acre site is based on what is considered within the VR to be an opinion on the Market Value of the site (noting that no formal valuation has been carried out as far as we are aware). In turn this is based on different approaches as set out within the VR. The VR states:

[2] RICS Professional Guidance – Financial Viability in Planning (August 2012)

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 reflects a capital value of £18.sq.ft (£193/m^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

Finally, due regard has been given to the land value of the 8.6acre 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.

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".

3.1.8 DSP have not had sight of any valuation, agent's opinion or other similar information that might help to firm-up on and further support the assumed site value in relation to the site. We have however reviewed data held within the CoStar[3] property database, Valuation Office Agency information and considered the explanations and reasoning provided within the VR. In our opinion the overall stated benchmark land value is probably not unreasonable in this case although it should be noted that any

[3] www.costar.com - commercial property database – subscription based service

remediation required to enable this site to be developed should be reflected within the site value.

Gross Development Value – Open Market Housing

3.1.9 The VR states that the open market housing has been assessed against comparable transactions in the locality, taking into account the particular characteristics of this site which is adjacent to a railway line, relatively busy arterial road and in a locality dominated by local authority built housing stock. The average values are stated to be between £225/sq.ft. and £230/sq.ft. (£2,421/m^2 - £2,475/m^2) leading to capital values of £160,000 for a 2-bed flat, £205,000 for a 2-bed house and £250,000 for a 3-bed house. It is noted that no detailed breakdown of this evidence has been supplied and that any research was undertaken prior to the report date of 25th July 2016 – relatively out of date.

3.1.10 We have carried out our own desktop research of property values using property search engines Zoopla, RightMove and similar sources to review local market indications for properties (both re-sale and new build as available) considering current / recent asking prices and where available sold prices in the locality. We reviewed based on a 1/2 mile radius of the site using postcode CT12 6HW.

3.1.11 The research indicated a tone of average marketing prices varying by dwelling type / size but with prices equating to around £215 to almost £260/sq. ft. on average across the research area. We would normally expect a sales price to be adjusted to say 5% or so beneath these levels, but on the flip-side we would also have a new-build premium level to consider here based on the offer provided by such a development.

3.1.12 Zoopla indicates a very similar tone of values, again not specifically based on new builds but on an overall market view. It suggests a range approximately £205 to £260/sq. ft. based on the CT12 postcode area again without specifically considering new-build.

3.1.13 Looking more detail at those properties that are both closest in size and geography to the units proposed in the subject scheme, the values, on a £/sq.ft. basis correlate relatively well with those assumed within the VR submission. We also note a fairly modern development at Meridian Close in relatively close proximity to the subject site that may provide suitable properties for comparison. A sample of those sold recently (2016) at Meridian Close are shown below (note that this is just the most recent sales):

13 Meridian Close – 3-bed EOT, 83m^2: £205,000 (£2,470/m^2 / £229/sq.ft.) – July 2016
21 Meridian Close – 2-bed MT, 68m^2: £175,000 (£2,573/m^2 / £239/sq.ft.) – Jun 2016
23 Meridian Close – 3-bed SD, 83m^2: £190,000 (£2,289/m^2 / £213/sq.ft.) – Jan 2016

3.1.14 The values above have then been updated in line with the UK House Price Index for Thanet District leading to the following sales values:

13 Meridian Close – 3-bed EOT, 83m^2: £209,920 (£2,529/m^2 / £235/sq.ft.) – Updated to October 2016 (latest available UK HPI data)
21 Meridian Close – 2-bed MT, 68m^2: £182,525 (£2,684/m^2 / £249/sq.ft.) – Updated to October 2016 (latest available UK HPI data)
23 Meridian Close – 3-bed SD, 83m^2: £210,710 (£2,538/m^2 / £236/sq.ft.) – Updated to October 2016 (latest available UK HPI data)

3.1.15 The above values and those discussed in relation to our research from both RightMove and Zoopla relate to older second hand property. We would expect new build properties to attract a premium of around 10%.

3.1.16 In the context of an outline scheme in particular, both the author of the VR and ourselves are essentially guessing based on what the final detailed form of development could be. There is certainly the possibility of seeing a significant difference between the figures used in the submitted development appraisals and the values resulting from our own desktop research, based on a current view. Bearing in mind the above analysis we are of the opinion that the values assumed within the VR are possibly understated. We would suggest that, taking into account the data reviewed above that it would not be unreasonable to add 10% to the values used within the VR. We consider that this is conservative but in balance we have taken into account the proximity of the site to the railway.

3.1.17 It is worth noting that any improvement in the sales value assumptions (compared with a level set at the point of the appraisal) would most likely be reflected in an improvement in scheme viability. Whilst the opposite could also occur (the sales values could fall relative to the assumptions made), that is the developer's (applicant's) risk and such factors need to be kept in mind in making an overall assessment of the applicant's position.

Gross Development Value – Affordable Housing

3.1.18 Iterations of the development appraisals have also been provided that include a policy compliant level of affordable housing. The value of the affordable housing has been assumed to equate to 55% of market value; we assume on the basis of a policy compliant mix of tenure. Currently the Council expects delivery of 70% affordable rented and 30% shared ownership on s106 sites required to provide affordable housing.

3.1.19 Utilising the functionality built into the Homes & Communities agency Development Appraisal Tool (HCA DAT) we have run appraisals using standard assumptions in relation to management, maintenance, voids, bad debts, capitalization rates etc. The results of those appraisals correlate well with an overall general assumption of 55% of market value across the affordable housing and as such we wouldn't query those assumptions further in this case.

Development Timings

3.1.32 The Viability Appraisal indicates a 36-month construction period with sales starting at month 12 with an overall sales period of 30 months equating to a sales rate of approximately 4 units per month. In our opinion considering the nature of the site and the proposal these are not unreasonable assumptions to make. We could see some improvement in this in practice, dependent on market conditions prevailing at the time, but from experience appraisal tweaks in this respect would not generally have a significant effect on the overall outcomes given the submitted assumption is not a highly cautious one.

Cost Assumptions - Build Costs

3.1.33 The Viability Report has provided construction costs based on the RICS Building Cost Information Service (BCIS) rebased for a Kent location factor as at Quarter 2 2016. For the open market housing the Viability Appraisal adopts a figure of £111/sq. ft. (approx. £1,195/m^2) and £132/sq.ft. (£1,421/m^2) for flats.

3.1.34 From our latest download of the data based on a Thanet specific location factor, the BCIS data indicates median costs of £1,194/m^2 (£111/sq. ft.) for houses and

£1,404/m^2 (£130/sq.ft.) for flats. We have therefore adjusted the build costs marginally to bring them up to date along with the sales values discussed earlier.

3.1.35 To this, we would normally expect to add for external works (not included within BCIS data), contingencies and fees and any abnormal and / or site infrastructure costs. For development of this type, we would expect the external / infrastructure / abnormals to add around 10% to 15% to the base costs.

3.1.36 To the base build costs, the Viability Appraisal has included costs for demolition, road / site works, remediation works, off-site works, garages, acoustic fencing, warranties, utility connections and upgrades and scheme landscaping. As with other areas of the VR, there is no supporting information to substantiate the costs as far as we are aware. The total additional cost reported within the VR is £1,579,000. This equates to approximately 12% of the base build costs. Overall therefore, although we would query the costs as provided generally (without evidence to substantiate the costs used) at a high level the overall additional costs do not appear unreasonable set against typical costs and bearing in mind the outline nature of this scheme and lack of detail.

3.1.37 A 5% contingency has been added which we consider a reasonably typical and appropriate assumption.

<u>Cost Assumptions – Professional Fees</u>

3.1.38 In addition to the build costs, an allowance has been made for professional fees at 8% of total build costs. This is within typical parameters in our experience and does not appear unreasonable.

<u>Cost Assumptions – Agent's, Marketing & Legal Fees</u>

3.1.39 Sales agent's fees are included at 2.5% of gross development value (£606,568) and legal fees at 0.5% of GDV or £121,314 totalling £727,882. Both sets of fees assumptions here do not exceed normal parameters when viewed overall, and may be considered reasonable in our view. However, we note that both marketing and legal fees have been applied to the affordable housing within the development appraisals. It is unlikely that the developer would bear any cost for marketing of the affordable housing and as such we have removed that from the development appraisal whilst carrying out sensitivity testing on the appraisals provided.

Cost Assumptions – Finance Costs

3.1.40 A finance rate~~s~~ of 7% has been adopted over a total cash activity period of 42 months comprising 36 months of construction overlapping with the assumed 30 months of sales activity as above. Applied across the Land, Construction and Other costs this results in in a total finance cost of £766,268 based on the VR policy compliant appraisal.

3.1.41 We would comment that the use of a 7% finance interest rate is a high-end assumption now in our experience; more typically, we are seeing interest rate assumptions at 6 to 6.5%, and sometimes lower. Where a higher rate is assumed, this would often be used as a proxy to an "all-in" view of finance costs, i.e. so that it calculates overall costs including an allowance for additional fees often incurred in the arranging and monitoring of finance.

3.1.42 It is considered that a slightly lower projected interest rate is not likely to cause a significant swing in the presented outcome, and on balance in this instance the suggested approach is not considered unreasonable overall, particularly as we welcome the use of an interest assumption on positive cashflow balances ('credit interest rate').

3.1.43 Again, we are not relying on a saving made here in order to support what we think could be an improved viability scenario.

Cost Assumptions – Section 106 Payments / Planning Obligations

3.1.44 The Viability Appraisal includes several development appraisals - one which includes a s106 contribution of £365,858 alongside a policy compliant level of affordable housing; one that includes full affordable housing but with no s106 financial contributions; one that includes neither affordable housing nor s106 contributions and one that provide nil affordable housing but with a fixed contribution of £100,000. The different appraisals have been included to show the effect s106 contributions and affordable housing have on the potential developer's profit of the scheme. This is as noted above and analysed in further detail later in this report.

3.1.45 In terms of the amount of s106 contributions, we are not able to verify this figure as appropriate or otherwise. The Council would need to be satisfied that the sum allowed for within the appraisal is realistic / representative of what is required in relation to this scheme. Any change in the s106 package of requirements would have an impact on the overall viability of the scheme as viewed through the appraisal - a reduction in the s106 assumption would improve the viability outcome and an increase would pull it downwards (looking at the effect of this assumption only).

3.1.46 In particular, the Council would need to verify the financial contributions requires with a policy compliant level of affordable housing as it appears from the VR that the £365,858 assumed within all appraisals is based on an assumption of 100% market housing. It is possible therefore that a lower s106 financial contribution may be required with affordable housing included within the development appraisal.

3.1.47 In all such reviews we assume that all requirements that are necessary to make a scheme acceptable in planning terms will have to be included.

Developer's risk reward – profit

3.1.48 As previously mentioned four development appraisals were submitted to demonstrate the viability of this scheme; with and without s.106 in various combinations. The reason for this is that it is claimed that a policy compliant scheme which provides s106 contributions would support a less than sufficient developer's profit level, involving too large a risk for the return presented as available.

3.1.49 To recap, the Viability Appraisal states that a policy compliant scheme would result in a projected developer's profit of 4.92% on GDV and as such the risk would be too high for the developer and the scheme would be unviable. The Viability Appraisal states it is for this reason that a further development appraisals were carried out as follows:

Policy compliant	4.92% profit (GDV)
Full AH but nil s106 financial contribution	7% profit (GDV)
Nil AH but full s106 Financial Contribution	16.88% (GDV)
Nil AH but fixed £100,000 financial contribution	18.15% (GDV)

3.1.50 The level of profit assumed viable is a matter of debate but in our experience through both numerous site specific cases and strategic viability review, typically a profit on GDV of between 15% - 20% for market housing and 6% for affordable housing serves as a reasonable guide, with the upper end seen more commonly through and immediately flowing the recessionary period of a few years ago, where the risk of development was potentially higher than under current circumstances.

3.1.53 Lower profit requirements or expectations are now beginning to be seen quite frequently in our experience. Indeed, we are now seeing day to day in our viability assessment and review work a range of submissions with profits also at 15% to not more than 20% based on *cost*. However, there are no "rules" about what can be considered acceptable, and appeal case examples as well as our own significant experience of recent site specific schemes suggest alternative views.

3.1.54 The RICS Guidance states that: *'When a developer's return is adopted as the benchmark variable, a scheme should be considered viable, as long as the cost implications of planning obligations are not set at a level at which the developer's return (after allowing for all development costs including site value) falls below that which is acceptable in the market for the risk in undertaking the development scheme. If the cost implications of the obligations erode a developer's return below an acceptable market level for the scheme being assessed, the extent of those obligations will be deemed to make a development unviable as the developer would not proceed on that basis'.*

3.1.55 It goes on to state: *'The benchmark return, which is reflected in a developer's profit allowance, should be at a level reflective of the market at the time of the assessment being undertaken. It will include the risks attached to the specific scheme. This will include both property-specific risk, i.e. the direct development risks within the scheme being considered, and also broader market risk issues, such as the strength of the economy and occupational demand, the level of rents and capital values, the level of interest rates and availability of finance. The level of profit required will vary from scheme to scheme, given different risk profiles as well as the stage in the economic cycle. For example, a small scheme constructed over a shorter timeframe may be considered relatively less risky and therefore attract a lower profit margin, given the exit position is more certain, than a large redevelopment spanning a number of years where the outturn is considerably more uncertain. A development project will only be considered economically viable if a market risk adjusted return is met or exceeds a benchmark risk-adjusted market return'.*

3.1.56 In the circumstances, given the requirement to produce a viable and deliverable scheme we would suggest that a profit that exceeds 15% of GDV (approximately 17.5% of cost) would be acceptable in this case.

4 Summary & Overview of Findings

4.1.1 The approach to assessing the viability of the proposed development is appropriate and uses the well recognised methodology of residual valuation. Although a number of the assumptions appear fair at this stage, there are however, aspects that we have queried or have a difference of opinion on. These relate to significant areas of the appraisal and in particular to the projected GDV which will have an impact upon the potential developer's profit that is being used here as the key measure of viability after allowing for a fixed land cost.

4.1.2 In our view the GDV of the site appears to have been understated to some degree requires upward adjustment. Other minor adjustments are discussed within this report and have a more marginal impact on the viability of the potential scheme.

4.1.3 Although we are of the opinion that the land value benchmark is not unreasonable, in the circumstances of a viability discussion where a request is made to reduce the level of affordable housing and other necessary planning obligations, this should perhaps not be regarded as absolutely fixed – compromise may still be needed all round.

4.1.4 Potentially there are also remediation costs included within the development appraisal whose responsibility ultimately lies with the landowner to remediate, whether a scheme for its reuse is progressed or not – i.e. the costs should be taken into account in forming an option on the site value. The viability review principles on land value are such that all constraints should be taken into account.

4.1.5 Having run sensitivity testing on the development appraisals as provided within the VR based primarily on an uplift in stated values and adjustment in build costs to bring both up to date, it is not possible for us to agree with presented positions set out in the various development appraisals.

4.1.6 Running the policy compliant development appraisal with the updated costs and values leads to a profit (15% of GDV / 17.5% cost) that, in our opinion, what could be considered appropriate given that this is an outline planning application with all matters reserved except access with details of the scheme (including the final mix and size of dwellings) potentially considerably different from that set out in the VR.

4.1.7 A minor reduction in the affordable housing numbers would see that profit increase further but certainly not to the point of a scheme producing nil affordable housing and reduced s106 financial contribution.

4.1.8 We need to be clear that this is based on current day costs and values assumptions as described within our review, and based on the current scheme and viability information as submitted – we are only able to review the information provided. Any change to the proposals noted here would usually alter the assumptions and the viability view presented.

4.1.9 No viability appraisal or review can accurately reflect costs and values until a scheme is built and sold - this is the nature of the viability review process. In this sense the applicant and their agents are in a similar position to DSP in estimating positions – it is not an exact science by any means, and we find that opinions will usually vary.

4.1.10 DSP will be happy to advise further as required.

Review report ends

Review completed December 2016

Carried out by: Rob Searle BSc (Hons) MSc CIHM
Reviewed by: Richard Dixon BSc (Hons) MRICS CIHM

Appendix I – DSP Version of Applicant Submitted Development Apprasial

Flambeau Europlast, Ramsgate
Viability Appraisal - Policy Compliant

Flambeau Europlast Ltd
Manston Road
Ramsgate
CT12 6HW
DSP Version of Applicant Submitted Appraisal v1

Development Appraisal
Prepared by DSP based on S&P Development Appraisal
Dixon Searle Partnership
04 January 2017

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft²	Rate ft²	Unit Price	Gross Sales
2 Bed Flats	28	19,600	251.00	175,700	4,919,600
2 Bed Houses	14	12,600	250.50	225,450	3,156,300
3 Bed Houses	42	46,200	250.00	275,000	11,550,000
2 bed Flats Affordable	12	8,400	138.00	96,600	1,159,200
2 Bed Houses Affordable	6	5,400	138.00	124,200	745,200
3 Bed Houses Affordable	18	19,800	138.00	151,800	2,732,400
Totals	**120**	**112,000**			**24,262,700**

NET REALISATION				**24,262,700**
OUTLAY				
ACQUISITION COSTS				
Fixed Price (8.65 Acres 289,017.34 pAcre)			2,500,000	
				2,500,000
Stamp Duty		5.00%	125,000	
Agent Fee		1.00%	25,000	
Legal Fee		0.50%	12,500	
Town Planning			65,000	
Survey			10,000	
				237,500

CONSTRUCTION COSTS

Construction	ft²	Rate ft²	Cost
2 Bed Flats	19,600 ft²	130.00 pf²	2,548,000
2 Bed Houses	12,600 ft²	111.00 pf²	1,398,600
3 Bed Houses	46,200 ft²	111.00 pf²	5,128,200
2 bed Flats Affordable	8,400 ft²	130.00 pf²	1,092,000
2 Bed Houses Affordable	5,400 ft²	111.00 pf²	599,400
3 Bed Houses Affordable	19,800 ft²	111.00 pf²	2,197,800

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Totals	**112,000 ft²**		**12,964,000**	**12,964,000**
Contingency		5.00%	648,200	
Demolition			150,000	
Road/Site Works			324,000	
Statutory/LA Primary Schools			360,000	
Statutory/LA Library Bookstock			5,858	
				1,488,058
Other Construction				
Remediation Works			95,000	
Off site works			100,000	
Garages			300,000	
Acoustic Fence			85,000	
Warranties			122,000	
Utility Connections & Upgrade			305,000	
Scheme landscaping			122,000	
				1,129,000
PROFESSIONAL FEES				
Professional Fees		8.00%	1,155,600	
				1,155,600
DISPOSAL FEES				
Sales Agent & Marketing Fees		2.50%	490,648	
Sales Legal Fee		0.50%	121,314	
				611,961
FINANCE				
Debit Rate 7.000%, Credit Rate 0.500% (Nominal)				
Land			427,281	
Construction			132,058	
Other			(4,179)	
Total Finance Cost				555,160
TOTAL COSTS				**20,641,279**
PROFIT				
				3,621,421

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Performance Measures

Profit on Cost%	17.54%
Profit on GDV%	14.93%
IRR	30.89%

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Sensitivity Analysis results are not available.
Click the Analysis Results tab, then print the report.