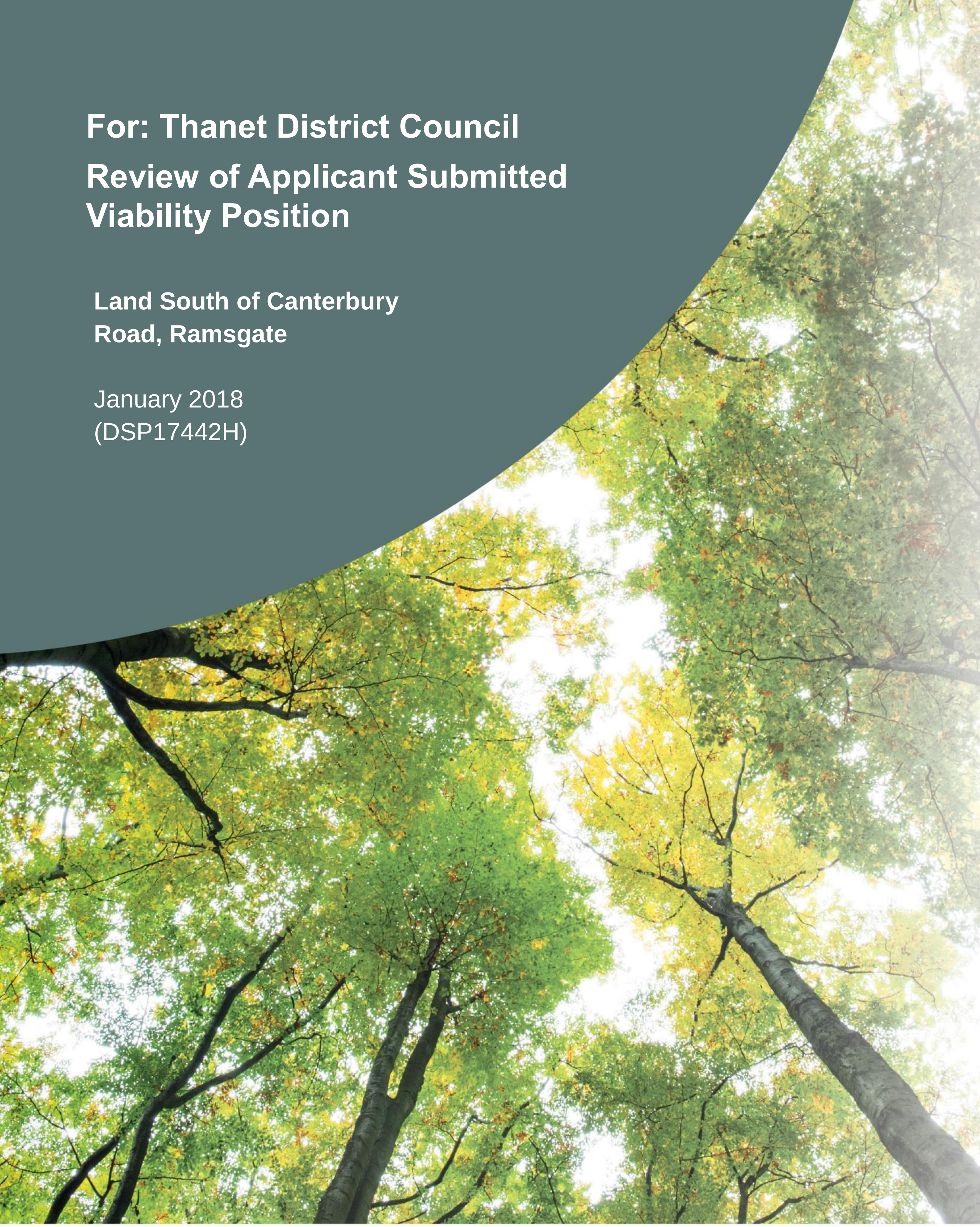
For: Thanet District Council

Review of Applicant Submitted Viability Position

Land South of Canterbury Road, Ramsgate

January 2018
(DSP17442H)



Dixon Searle Partnership
The Old Hayloft, 28C Headley Road,
Grayshott, Hindhead, GU26 6LD
www.dixonsearle.co.uk

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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.

1.1.4 So far as we have been able to see, the information supplied to DSP to inform and support this review process has not been supplied by the prospective / current planning applicant on a confidential basis. However, potentially some of the information provided may be regarded as commercially sensitive. Therefore, we suggest that the Council and prospective / current or subsequent planning applicant may wish to consider this aspect together. DSP confirms that we are content for our review information, as contained within this report, to be used as may be considered appropriate by the Council (we assume with the applicant's agreement if necessary).

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 by JJA Planning. This is in relation to the proposed development at land to the south of Canterbury Road, Ramsgate.

2.1.2 The planning application (reference OL/TH/16/1416) to which this review relates, seeks outline permission for the erection of 14 detached dwellings including access, layout and scale. We note that the Council has resolved to grant permission and depart from Thanet Local Plan Policy H1 '*subject to the receipt of a legal agreement securing the planning obligations contained within the Heads of Terms'*, The Heads of Terms are as follows:

- *30% affordable housing (shared ownership),*
- *£63,490.00 towards primary school provision in the form of phase 1 of the new Ramsgate Primary Free School,*
- *£33,037.20 towards secondary school provision in the form of Royal Harbour Secondary School phase 2 works,*
- *£672.28 towards library provision in Ramsgate,*
- *£12,250 towards play equipment at either Courtstairs or Nethercourt play area (Open Spaces Manager to confirm project details)*
- *£8,400 towards the Special Protection Area*

2.1.3 It appears that the viability information has been submitted as it appears that the applicant is of the view that the scheme cannot now support the obligations set out above.

2.1.4 According to the planning application, the site is stated to extend to 0.81 hectares and is located south of Canterbury Road East and west of Chilton Road. The site is currently greenfield, low grade agricultural land.

2.1.5 The Council's adopted affordable housing (AH) policy (H14) states that

'WHERE DEVELOPMENT IS PROPOSED WHICH, IN ITS COMPLETED FORM, WOULD AMOUNT TO FIFTEEN OR MORE RESIDENTIAL UNITS, OR WILL/MIGHT REASONABLY FORM PART OF AN ONGOING/FUTURE DEVELOPMENT, CUMULATIVELY TOTALLING FIFTEEN OR MORE SUCH UNITS, THE DISTRICT COUNCIL WILL NEGOTIATE WITH THE DEVELOPER FOR THE INCLUSION OF AN ELEMENT OF AFFORDABLE HOUSING. SUCH NEGOTIATIONS WILL ALSO BE APPLIED TO ANY SITE OF 0.5 HECTARE OR MORE IRRESPECTIVE OF THE NUMBER OF DWELLINGS PROPOSED'.

2.1.6 The Policy also states that the affordable housing provision should be proportionate to the size and type of dwellings across the entire site.

2.1.7 In this case the policy applies due to the size of the site being above the 0.5ha threshold. As such the development would need to provide 4.2 affordable dwellings (in this case shared ownership according to the Council's Heads of Terms).

2.1.8 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.

2.1.9 The viability information provided for review consists of the following:

- Viability Assessment report.
- Illustrative site layout & sections
- Indicative cost report
- Valuation appraisal with explanatory notes
- Extract from committee report
- Viability tables (two scenarios)
- Interest from Registered Providers
- Residential Allocation; extract from emerging local plan

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

2.1.11 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). It is equally valid to consider viability by reference to the output developer return or profit (in which case land value becomes a fixed component of the appraisal). Finally, a third method is to fix the land value and the development profit. The output of any development appraisal then becomes a surplus or deficit that can be considered the maximum likely level of affordable housing or other s106 requirements supportable by the scheme.

2.1.12 In this case the development appraisal has been run in a way which produces a residual land value having fixed the level of developer's profit. The RLV is then compared to the benchmark land value in order to determine the level of overall planning obligations that can be accommodated.

2.1.13 The submitted 14-unit development appraisal (100% market housing) generates a RLV of £182,505 including contributions towards schools, libraries, and habitat regulations but without any affordable housing – set against a benchmark land value of £160,000. The policy compliant appraisal returns a RLV of -£591,835 on the same basis. In both cases a profit of 17.5% of GDV (market) and 6% (affordable housing) is assumed.

2.1.14 This review does not seek to pre-determine any Council positions, but merely sets out our opinion on the submitted viability assumptions and outcomes to inform the Council's discussions with the applicant and its decision making; it deals only with viability matters, in accordance with our instructions. That being said, we note that the application is in outline only and the Council may wish to consider, as a general principle, whether the viability of the scheme should actually be reviewed at this stage. There is Appeal precedent to suggest that as the scheme design has not been finalised at this stage, the viability exercise may be premature. The Inspector in the particular case in question [Appeal Ref: APP/D0840/Q/13/2206580] stated:

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

'Irrespective of the detailed appraisals of viability based on the illustrative scheme accompanying the outline permission, and the suggested levels of developer profit that might derive from its implementation, the fact remains that there is no extant detailed scheme on which to base any meaningful judgement. The planning permission effectively provides a blank sheet for a prospective developer to come along with a proposal for ten market and four affordable dwelling units; there is no tie to the illustrative scheme which accompanied the approved application. The details of an alternative scheme could vary markedly from that assessed and therefore could have considerably differing outcomes in terms of the realistic viability of development.

Assessment has taken place on the false premise that viability should be based on what was solely an illustrative scheme and is, in my view, premature in advance of a detailed scheme coming forward…Therefore, regardless of the detailed debate between the appellants and the Council regarding matters such as land value, build costs and levels of developer profit, I consider it is not possible in the circumstances to conclude that a scheme for the provision of 14 dwellings, four of which should be affordable, would necessarily be unviable. As such, and notwithstanding the acknowledged national need to boost housing delivery, for the reasons given above I am not persuaded that the present obligation in relation to affordable housing would result in the development of the site, in the terms of the outline planning permission, being unviable'.

2.1.15 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.

2.1.16 We have based our review on the submitted development appraisal and cost plans 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.

2.1.17 This assessment has been carried out by Rob Searle of DSP, who has significant experience in 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 15 years or so.

2.1.18 The purpose of this report is to provide our overview comments regarding 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.

2.1.19 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 submitted development appraisal and cost plan extracts.

3.1.2 Primarily the review process considers 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 reviewed the impact of trial changes to submitted assumptions by making alterations to the submitted appraisal where a difference of opinion occurs.

3.1.3 This type of audit / check is carried out so that we can give the Council a feel for whether the indicated profit positions are approximately as expected – i.e. informed by a reasonable set of assumptions and appraisal approach.

3.1.4 Should there be changes to the scheme proposals this would obviously impact on the appraisal outputs.

Benchmark Land Value

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:

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

'*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 However, recent research by the RICS[3] indicates that the market value approach is not being applied correctly and that '*if market value is based on comparable evidence without proper adjustment to reflect policy compliant planning obligations, this introduces a circularity, which encourages developers to overpay for site and try to recover some or all of this overpayment via reductions in planning obligations'.*

3.1.8 The Mayor of London's Affordable Housing & Viability SPG states the following:

'*The process for establishing an appropriate benchmark land value for a viability assessment is key, because this indicates the threshold for determining whether a*

[3] RICS Financial Viability Appraisal in Planning Decisions: Theory and Practice. April 2015

scheme is viable or not. A development is typically deemed to be viable if the residual land value is equal to or higher than the benchmark land value, as this is the level at which it is considered that the landowner has received a 'competitive return' and will release the land for development.

The NPPF's benchmark for viability appraisal is that it should "take 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"

The NPPG is clear that "in all cases, land or site value should: reflect policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy charge"

This is a key requirement because if it is assumed that the granting of planning permission will increase the value of the site, but the costs of meeting planning requirements are not factored in, the site value will be over inflated.

It is for this reason that the Mayor does not consider it appropriate within a development appraisal to apply a fixed land value as an input which is based on price paid for land or a purely aspirational sum sought by a landowner. Land transactions reflect the specific circumstances of the developer whereas planning viability appraisals are typically undertaken on a standardised basis. Reliance on land transactions for sites that are not genuinely comparable or that are based on assumptions of low affordable housing delivery, excess densities or predicted value growth, may lead to inflated site values. This undermines the implementation of Development Plan policies and the ability of planning authorities to deliver sustainable development.

The 'Existing Use Value plus' (EUV+) approach to determining the benchmark land value is based on the current use value of a site plus an appropriate site premium. The principle of this approach is that a landowner should receive at least the value of the land in its 'pre-permission' use, which would normally be lost when bringing forward land for development. A premium is added to provide the landowner with an additional incentive to release the site, having regard to site circumstances.

The benefit of this approach is that it clearly identifies the uplift in value arising from the grant of planning permission because it enables comparison with the value of the site without planning permission.

The NPPG confirms that comparing the current use value of a site with the residual land value generated by the proposed development is an appropriate way to determine whether or not a 'competitive return' is achieved for the land owner.

When determining the EUV+ benchmark:

- *The existing use value (EUV) is independent of the proposed scheme. The EUV should be fully justified based on the income generating capacity of the existing use with reference to comparable evidence on rents, which exclude any hope value associated with development on the site or alternative uses. This evidence should relate to sites and buildings of a similar condition and quality or otherwise be appropriately adjusted. Where an existing use and its value to a landowner is due to be retained in a development (and not lost as is usually the case), a lower benchmark would be expected.*

- *Premiums above EUV should be justified, reflecting the circumstances of the site and landowner. For a site which does not meet the requirements of the landowner or creates ongoing liabilities/ costs, a lower premium would be expected compared with a site occupied by profit-making businesses that require relocation. The premium could be 20% to 30%, but this must reflect site specific circumstances and may be considerably lower.*

- *As set out in NPPG, in all cases land or site value should reflect Development Plan Policies, planning obligations and CIL. When determining a level of premium that would be sufficient to incentivise release of a site for development and ensure that a landowner receives a 'competitive return', this should take into account the overarching aim of delivering sustainable, policy compliant development and that an uplift in land value is dependent on the grant of full planning consent.*

- *If there is an extant permission on the site, this 'alternative use' can be taken into account when determining the benchmark land value. However, there is no requirement for a 'premium' above this figure. It is for the applicant to weigh* *up the different options and risk profiles of the potential policy compliant schemes for a site and decide which one to pursue.*

3.1.9 The SPG goes on to state that '*If an applicant seeks to use an 'alternative use value' (AUV) approach it must fully reflect policy requirements. In addition, the approach should only be used if the alternative use would fully comply with development plan polices and it can be demonstrated that the alternative use could be implemented on the site in question and there is market demand for that use. Where all these conditions are met and the AUV is being used, there is no requirement for an additional 'plus' element. It is for the applicant to weigh up the different options and risk profiles of the potential schemes for a site and decide which one to pursue. Generally, the Mayor will only accept the use of AUV where there is an existing implementable permission for that use*'.

3.1.10 Through recent Appeals we are beginning to see a shift towards the 'EUV plus' approach; consistent with the Mayor of London's SPG approach.

3.1.11 In reality, there may not be one easy 'correct' answer as to how to reach a benchmark land value and as with much of the viability process it is normally useful to consider various approaches where that is possible.

3.1.12 In this case the site value used within the development appraisal is £160,000 reflecting an uplift from agricultural value based on the Council's Economic Viability Assessment of Development in Thanet report. Notwithstanding the general point that strategic viability assessments for Local Plan or other policy setting requirements should not be relied upon for site specific viability analysis, in this case we are of the opinion that a value of £200,000/ha is probably not unreasonable for a site of this nature based on our experience.

<u>Gross Development Value (GDV) – Open Market Housing</u>

3.1.13 The VA states that the following:

'The gross development value (i.e. sale proceeds) of the scheme has taken account of the site's specific location. In residential terms, this might be seen as being constrained by the site's location adjacent to the main A-road (A299/A255) serving Ramsgate from the west, but the scheme's low density allows it to create its own

countryside edge setting and thus identity in the market for more aspirational larger, i.e. four and five-bed, units.

Likely sale prices have then been assessed taking account of local market evidence, i.e. up to date transactions from comparable new build properties within a reasonable distance from the site. The relevant locations include Hawthorn Grange (new build), London Road, Minster Road, Lorne Road, Millfield Road, St Mildred's Avenue and Winsterstoke Crescent. The average sale price as recorded were: four-bed - £376,899 and five-bed - £425,383.

We have inflated these prices to reflect overall price increases over the last year or so and increased them to the values used in the appraisal to reflect the quality of the overall development that is expected to be secured here.

We have then corroborated likely sale prices (as at 2017) with advice from a local agent. This has confirmed that we have adopted a realistic assessment of potential sale prices. For example, we have assessed four bed homes of circa 130m² (1,400 sq. ft) (GIA), as selling for an average of £400,000. For five bed homes of circa 149m² (1,600 sq. ft) (GIA) we have adopted £450,000 (agent indicating £440,000)'.

3.1.14 Two development appraisals have been carried out. The first includes a policy compliant level of affordable housing; the second assumes an all market housing scenario. In each case the value of the 5-bed market units is given as £450,000 and the 4-beds as £400,000. Based on floor areas of 1,600 sq.ft. and 1,400 sq.ft. (149m^2 and 130m^2) this leads to average sales values of £3,020/m^2 and £3,076/m^2 or an average of £3,048/m^2.

3.1.15 To assess whether these assumed sales values are reasonable, we have carried out our own desktop research of property values using property search engines Zoopla, RightMove as well as the Land Registry 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.

3.1.16 In our view the proposed sales prices for the subject properties are probably not unreasonable.

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 (GDV) – Affordable Housing

3.1.18 The draft Heads of Terms included within case officer's report appended to the VR suggests that in this case the Council expects 30% affordable housing to be provided on site but in the form of shared ownership properties.

3.1.19 The VR states that the applicant has approached the Council's Registered Providers (RPs) in order to secure potential offers for affordable housing on the site. According to the VR, all of the RPs declined to submit offers and evidence of this has been provided within the VR.

3.1.20 In light of the lack of any offers from locally active RPs, the VR adopts values for shared ownership properties used within the Council's Economic Viability Assessment (June 2012). These have then been updated to bring the figures up to date leading to an assumption of £150,000 for a 4-bed property and £157,000 for a 5-bed property.

3.1.21 Typically, in our experience, a Local Authority would not accept such large properties as shared ownership as they tend to be unaffordable for potential purchasers. It would be more normal for modest sized properties to be offered for shared ownership. Given the outline nature of this scheme, a change to the design of the affordable housing units on the site to make them smaller and therefore less costly to build and sell may be an option that the Council wish to consider.

3.1.22 Looking at this purely from a viability perspective based on the scheme as presented however, it is very difficult to comment on the validity of the assumptions used for the shared ownership properties. In our experience, shared ownership properties typically achieve between 60% - 80% of market value – this would suggest minimum values between £240,000 - £270,000 depending on the number of beds. We have carried out a calculation on the potential revenue that could be generated from the shared ownership properties using the Homes & Communities Agency Development Appraisal Toolkit (HCA DAT) that includes specific functionality for calculating affordable housing revenue. The result of this calculation corroborates our general rule of thumb above. On the basis of 40% share and 2.75% rent on the unsold equity the DAT returns values of £263,000 and £295,000 for the 4 and 5-bed units respectively. Reducing the initial share to a minimum level of 25% and reducing the rent payable on the unsold equity to 2.5% leads to values of £217,000 and £244,000 respectively. In either case, these values are significantly in excess of those assumed within the VR.

Development Timings & Finance Costs

3.1.23 An explanation of the finance costs is not provided in the VR although the notes accompanying the viability appraisals states: *'Finance calculated on the basis of 75% borrowings for build costs and planning policy costs at 6% for 18 months (development programme) on the basis all planning policy costs are payable prior to occupation'*.

3.1.24 No discounted cashflow is included with the development appraisals (they have been completed on the basis of a balance sheet type appraisal). We have therefore completed an appraisal utilising the same assumptions as set out in the VR using Argus Developer software in order to verify the finance costs and development timings.

3.1.25 An interest rate of 6% appears reasonable as an all-in finance cost and an overall development programme of 18 months (including lead-in, construction and sales) also appears to be reasonable in our view. However, when running the development appraisal using Argus Developer, an overall finance cost of approximately £105,000 is indicated – significantly below that assumed within the submitted development appraisals. This figure varies depending on the other assumptions utilised (including on affordable housing revenue and build costs).

Cost Assumptions - Build Costs, Professional Fees & Contingencies

3.1.26 The base build costs are stated to be based on *'A figure of £135/sq. ft for the dwellings (21,880sq. ft x £135) and £40/sq. ft for the garages (5,600 sq. ft x £40) …this includes additional costs relating to laying driveways, Statutory Authority Incoming Mains, individual house boundary fencing, individual house branch SW + FW Drainage and individual house Services/Entries'.*

3.1.27 Known abnormal costs have also been applied including: '*traffic regulation orders (to include parking restrictions either side of the access road on Canterbury Road East), piling for some properties (assumption of 15% over standard foundation cost applied),* *and costs related to the adoption of the internal road. Known abnormal costs may increase, generally being 15-20% of base build costs'*.

3.1.28 Finally, further costs in relation to on-site infrastructure and utilities have been included based on a quote provided by Kent County Surfacing Ltd and the applicant's informed estimate.

3.1.29 This leads to a total cost before contingencies and fees of £3,714,819 or £1,830/m^2.

3.1.30 To ascertain whether these assumed base build costs are reasonable we have reviewed BCIS data for new-build development for 'Estate Housing – Detached', rebased using a Thanet location factor. This leads to a benchmark rate of £1,729/m^2 (new build) prior to any external works allowances, contingencies and fees. Overall therefore we are of the opinion that the build cost allowances are within reasonable parameters.

3.1.31 A contingency allowance of 10% has been included within the development appraisal. In our view this is significantly higher than typical allowances for contingencies for new build schemes, particularly on greenfield sites. Typically, we would expect a contingency allowance of between 2-5% for sites of this nature. For the purposes of this review we have therefore reduced the contingency allowance to 3% of total build costs.

3.1.32 In addition to the base costs, the development appraisal has allowed for professional fees equating to approximately 6% of the total build cost. These assumptions are within reasonable parameters in our view.

Cost Assumptions – Agent's, Marketing & Legal Fees

3.1.33 Sales agent's and marketing fees are included at 3% of gross development value and legal fees at £1,500 per unit. The fees appear excessive in our view and compared to other schemes reviewed both locally and nationwide. We would expect legal fees to be no more than £750 per unit. Agent's fees would be expected at no more than 1% – 1.5% of market GDV with marketing costs at say £10,000. We have therefore altered those assumptions when carrying out sensitivity testing as part of this review.

Cost Assumptions – Section 106 Payments / Planning Obligations

3.1.34 Planning obligations have been included as per the committee report submitted for the application. The Council would need to be clear on the planning obligations requirements and whether those were required to mitigate the impact of the development and are compliant with CIL Regulation 122 being (a) necessary to make the development acceptable in planning terms; (b) directly related to the development; and (c) fairly and reasonably related in scale and kind to the development. We would assume, if any and regardless of the viability exercise, that without meeting those requirements the scheme would not be acceptable in planning terms – particularly in relation to SPA mitigation? Equally, of course from the Council's perspective it must ensure that in requesting any contributions it does not fall foul of the pooling restrictions by entering into 5 or more s106 obligations for the same type of infrastructure (backdated to April 2010).

Developer's risk reward – profit

3.1.35 A profit allowance of 17.5% of GDV on the market housing and 6% on the affordable housing has been assumed within the development appraisals. Profit requirements vary from site to site and from one developer to another. However, in the recent period we have seen a range of profit scenarios within and outside what we would regard as the normal starting point assumptions of say 15% cost to 20% GDV.

3.1.36 Lower profit requirements or expectations are now beginning to be seen quite frequently in our experience. 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 varying views.

3.1.37 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'.*

3.1.38 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’.*

3.1.39 At this stage we would consider the assumptions to be reasonable.

4 Summary & Overview of Findings

4.1.1 Following our review of the submitted information it is our view that a number of the assumptions used in the viability submission and associated appraisals appear to be reasonable based on our understanding of the scheme. There are however aspects where a difference of opinion exists relating mainly to the value of the affordable housing, interest costs, contingency allowances and marketing and legal costs.

4.1.2 The policy compliant development appraisal submitted for review produces a residual land value of -£591,835 or £182,505 where a 100% market scheme is assumed. In both cases on the basis of a fixed 17.5% profit on market housing and 6% profit on affordable housing (where applicable).

4.1.3 As part of our audit style approach, we have run a version of the applicant's appraisal utilising Argus Developer software to explore the extent to which a more positive viability outcome should be possible. These adjustments include altering the affordable housing revenue, reducing the contingency allowance and reducing the marketing and legal costs on sale. The interest costs are calculated automatically by the software based on an 18-month development programmes as set out in the VR.

4.1.4 We have run two versions of the policy compliant appraisal. The first is on the assumption, that the shared ownership property disposal is based on the sale of a 40% initial share with 2.75% rent payable on the remaining equity. The second assumes a more affordable 25% initial share and 2.5% rent payable on the remaining equity.

4.1.5 The result of the first appraisal (v1) leads to a positive residual land value of £305,000. In the second appraisal this reduces to £143,000; in both cases affordable housing and other planning obligations are included in full.

4.1.6 The result of our review and the sensitivity testing carried out on the development appraisals as submitted leads to the conclusion that evidence has not been provided that would support a requirement to waive the affordable housing or other planning obligations in this case. In our view this outline application scheme has the potential to comply fully with the Council's policy requirements.

4.1.7 We have noted (as have the authors of the VR) in this report that there may be practical (rather than wholly viability based) issues in terms of getting a Registered Provider on board to take 4/5 bed shared ownership properties. The Council's housing officer may of course have a view on this.

4.1.8 We have also noted that as an outline application, irrespective of viability, the Council may wish to consider, as a general principle, whether the viability of the scheme should actually be reviewed at this stage. There is Appeal precedent to suggest that as the scheme design has not been finalised at this stage, the viability exercise may be premature.

4.1.9 We need to be clear that the above is based on current day costs and values assumptions as described within our review based on the current scheme as submitted. A different scheme may of course be more or less viable – we are only able to review the information provided – this is particularly relevant here in terms of design of affordable housing units.

4.1.10 DSP will be happy to advise further as required.

Review report ends

Review completed January 2018

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

Appendix I – DSP Appraisal Summaries

Land South of Canterbury Road
DSP Version of Applicant Development Appraisal

Ramsgate
Shared Ownership - 40% Share / 2.75% Rent

Development Appraisal
Dixon Searle Partnership
21 January 2018

Land South of Canterbury Road
DSP Version of Applicant Development Appraisal

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	m²	Rate m²	Unit Price	Gross Sales
4-bed house - Market	1	130.00	3,076.92	400,000	400,000
5-bed house - Market	9	1,341.00	3,020.13	450,000	4,050,000
4-bed house - SO	2	260.00	2,023.08	263,000	526,000
5-bed house - SO	2	298.00	1,979.87	295,000	590,000
Totals	**14**	**2,029.00**			**5,566,000**

NET REALISATION			**5,566,000**	
OUTLAY				
ACQUISITION COSTS				
Residualised Price		304,135		
			304,135	
Stamp Duty		4,707		
Agent Fee	1.50%	4,562		
Legal Fee	0.50%	1,521		
			10,789	

CONSTRUCTION COSTS

Construction	m²	Rate m²	Cost	
4-bed house - Market	130.00 m²	1,566.19 pm²	203,605	
5-bed house - Market	1,341.00 m²	1,566.19 pm²	2,100,261	
4-bed house - SO	260.00 m²	1,566.19 pm²	407,209	
5-bed house - SO	298.00 m²	1,566.19 pm²	466,725	
Totals	**2,029.00 m²**		**3,177,800**	**3,177,800**
Contingency		3.00%	111,445	
Site Clearance			45,000	
Site Prep			35,000	
Traffic Regulation Orders			4,000	
Piling			90,000	
Adoption of onsite road			10,000	
Roadways & utility trenches			132,020	

This appraisal report does not constitute a formal valuation.

Land South of Canterbury Road
DSP Version of Applicant Development Appraisal

Footpaths			37,000	
Street lighting			30,000	
Street signage			3,000	
Surface water sewer works			51,000	
Foul water sewer works			25,000	
Soft landscaping to communal areas			15,000	
Perimiter boundary fencing			30,000	
Highway works to Canterbury Road We			30,000	
Primary school contribution			63,490	
Secondary school contribution			33,037	
Library contribution			672	
Play equipment			12,250	
Habitat regs			8,400	
				766,314
PROFESSIONAL FEES				
Professional Fees		6.00%	222,889	
				222,889
MARKETING & LETTING				
Marketing			10,000	
				10,000
DISPOSAL FEES				
Sales Agent Fee		1.50%	66,750	
Sales Legal Fee	14.00 un	750.00 /un	10,500	
				77,250
MISCELLANEOUS FEES				
Market Profit		17.50%	778,750	
AH Profit		6.00%	66,960	
				845,710
FINANCE				
Debit Rate 6.000%, Credit Rate 0.000% (Nominal)				
Land			27,731	
Construction			118,917	
Other			4,465	
Total Finance Cost				151,113
TOTAL COSTS				**5,566,000**

This appraisal report does not constitute a formal valuation.

Land South of Canterbury Road
DSP Version of Applicant Development Appraisal

PROFIT

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Performance Measures

This appraisal report does not constitute a formal valuation.

Land South of Canterbury Road
DSP Version of Applicant Development Appraisal

Ramsgate
Shared Ownership = 25% share / 2.5% rent

Development Appraisal
Dixon Searle Partnership
21 January 2018

Land South of Canterbury Road
DSP Version of Applicant Development Appraisal

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	**Units**	**m²**	**Rate m²**	**Unit Price**	**Gross Sales**
4-bed house - Market	1	130.00	3,076.92	400,000	400,000
5-bed house - Market	9	1,341.00	3,020.13	450,000	4,050,000
4-bed house - SO	2	260.00	1,669.23	217,000	434,000
5-bed house - SO	2	298.00	1,637.58	244,000	488,000
Totals	**14**	**2,029.00**			**5,372,000**

NET REALISATION				**5,372,000**
OUTLAY				
ACQUISITION COSTS				
Residualised Price			143,065	
				143,065
Stamp Duty			400	
Agent Fee		1.50%	2,146	
Legal Fee		0.50%	715	
				3,261

CONSTRUCTION COSTS

Construction	**m²**	**Rate m²**	**Cost**	
4-bed house - Market	130.00 m²	1,566.19 pm²	203,605	
5-bed house - Market	1,341.00 m²	1,566.19 pm²	2,100,261	
4-bed house - SO	260.00 m²	1,566.19 pm²	407,209	
5-bed house - SO	298.00 m²	1,566.19 pm²	466,725	
Totals	**2,029.00 m²**		**3,177,800**	**3,177,800**
Contingency		3.00%	111,445	
Site Clearance			45,000	
Site Prep			35,000	
Traffic Regulation Orders			4,000	
Piling			90,000	
Adoption of onsite road			10,000	
Roadways & utility trenches			132,020	

This appraisal report does not constitute a formal valuation.

Land South of Canterbury Road
DSP Version of Applicant Development Appraisal

Footpaths			37,000	
Street lighting			30,000	
Street signage			3,000	
Surface water sewer works			51,000	
Foul water sewer works			25,000	
Soft landscaping to communal areas			15,000	
Perimiter boundary fencing			30,000	
Highway works to Canterbury Road We			30,000	
Primary school contribution			63,490	
Secondary school contribution			33,037	
Library contribution			672	
Play equipment			12,250	
Habitat regs			8,400	
				766,314
PROFESSIONAL FEES				
Professional Fees		6.00%	222,889	
				222,889
MARKETING & LETTING				
Marketing			10,000	
				10,000
DISPOSAL FEES				
Sales Agent Fee		1.50%	66,750	
Sales Legal Fee	14.00 un	750.00 /un	10,500	
				77,250
MISCELLANEOUS FEES				
Market Profit		17.50%	778,750	
AH Profit		6.00%	55,320	
				834,070
FINANCE				
Debit Rate 6.000%, Credit Rate 0.000% (Nominal)				
Land			12,885	
Construction			119,887	
Other			4,580	
Total Finance Cost				137,352
TOTAL COSTS				**5,372,000**

This appraisal report does not constitute a formal valuation.

Land South of Canterbury Road
DSP Version of Applicant Development Appraisal

PROFIT

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Performance Measures

This appraisal report does not constitute a formal valuation.