**REBUTTAL TO DSP REVIEW**

**(JANUARY 2018)**

**LAND SOUTH OF**

**CANTERBURY ROAD EAST,**

**RAMSGATE**

**FEBRUARY 2018**

**JJA Planning**

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## 1. INTRODUCTION

1.1 This Rebuttal responds to the assertions made in Dixon Searle Partnership's ('DSP') 'Review of Applicant Submitted Viability Position' relating to valuation matters affecting the viability of this development scheme. These are:

a) the application of hypothetical gross development value scenarios for affordable housing

b) the finance considerations for the development of the site

c) the appropriate level of allowance for contingencies and garages in build costs

d) agents, marketing and legal fees for this development

1.2 This Rebuttal only deals with these specific issues on which we consider it helpful to provide a response at this stage. We do not repeat evidence provided in the Viability Statement. Where a matter is not dealt with in this Rebuttal, it does not mean that points are necessarily accepted and such matters may be addressed as necessary at a later stage.

1.3 Overall, the majority of valuation assumptions are agreed between DSP and JJA. These include:

a) benchmark land value,

b) open market gross development value,

c) interest rate on finance,

d) development programme,

e) base build costs,

f) professional fees,

g) developer's profit,

h) applicable s106 contributions, and

i) shared ownership format of affordable housing.

1.4 DSP conclude that the scheme's residual land value is below benchmark land value in their sensitivity scenario. The scheme is therefore recognised to be 'at the margins' even with the assertions made by DSP. These four issues therefore have a fundamental effect on whether a scheme here will be viable.

1.5 The Rebuttal firstly provides a response to these four issues and then sets out the clarifications sought from the Council and their advisors in order to facilitate agreement between the parties.

## 2. VALUATION MATTERS

**Hypothetical Affordable Housing Gross Development Value**

2.1 The gross development value of affordable housing on site, in the form of shared ownership units, fundamentally affects the viability of this small-scale development.

2.2 The DSP Review confirms that valuing affordable housing "*is very difficult to comment on*" (paragraph 3.1.22) and asserts a valuation of between £217,000 - £295,000 per unit for four policy-compliant shared ownership units. These valuations vary greatly and significantly exceed the Council's own valuations of £150,000 - £157,000[1] (inflated to reflect overall price increases since 2012).

2.3 The DSP Review does not provide "*formal valuation advice*" (paragraph 1.1.1) and therefore clarification is sought from the Council as to their position on the affordable housing value, and and should their position reflect DSP's values, the Council's justification for departing significantly from their own figures.

2.4 Most importantly, all of these valuations are based on a hypothetical situation, with no evidence that these sales values can be achieved for this small-scale development scheme. This approach is contrary to the development plan; the Council's own Policy H14 states that "*negotiations [on affordable housing] will be based on the individual circumstances of the case, the character of the area and local needs*" and guidance; "*Affordable housing values should reflect discussions with and offers made by RPs*" (paragraph 4.1, London Borough Development Viability Protocol, November 2016).

2.5 In reality, due to the size of the site none of the Council's preferred Registered Social Providers have an interest in purchasing either the units or the land. The DSP Review agrees that there are practical limitations to delivering affordable housing on this site:

> "*a Local Authority would not accept such large properties as shared ownership as they tend to be unaffordable for potential purchasers*" (paragraph 3.1.21), and
>
> "*there are practical issues in terms of getting a Registered Provider on board to take 4/5 bed shared ownership properties*" (paragraph 4.1.7)

2.6 While the practical limitation identified by the DSP Review is the scale of the unit (four/five bedrooms), the evidence from the Council's preferred Registered Providers demonstrates the

[1] Figure 3, Page 20, Economic Viability Assessment of Development in Thanet (June 2012).

practical limitation to be the number of units (i.e. four units). Therefore amending the scale of the units, as suggested by DSP, to say three bedrooms will not overcome the proven practical limitations.

2.7 There is therefore a real risk that a planning obligation requiring on-site affordable housing would fail to be deliverable. Such an obligation would not meet the requirement to be "*fairly and reasonably related in scale and kind to the development*" (paragraph 204, NPPF).

2.8 Clarification is therefore sought from the Council as to their position on the affordable housing value, and should their position reflect DSP's values, the Council's justification for departing significantly from their own figures and how such values can be justified given the evidence that no registered providers will purchase either the units or the land.

**Finance Considerations**

2.9 It is unclear how the DSP Review calculates £105,000 finance costs given the development programme and interest rates are agreed. This level of finance cost indicates a more limited amount of borrowing of c. £1.75m for a shorter period, 12 months. The scheme's build costs alone are £4m, a high proportion of which will be borrowed, and the development programme is 18 months. In addition there would be other bank charges such as facilitation fees, set up costs etc.

2.10 In light of the above, we request that DSP clarify how £105,000 of finance costs is generated and indicate their estimated finance costs arising from the JJA valuation appraisals, given the affordable housing assertions influence the finance costs.

**Allowance for Contingencies / Garages**

2.11 The DSP Review applies a 3% contingency (£111,455) on the basis that this is a greenfield site. A 10% contingency seems appropriate for a site of this scale which is not being delivered by a volume housebuilder. Moreover, the DSP Review fails to account for the build costs attributed to the individual garages for each unit. The DSP Review only assesses the residential floorspace (21,800 sq.ft / 2,205 sq.m) and not the garages (5,600 sq.ft / 520 sq.m) (see Note 1, to Indicative Cost Report at Annex 2 to Viability Appraisal), generating an additional £224,000 of build costs.

**Agents, Marketing and Legal Fees**

2.12 The DSP Review identifies legal fees amounting to £750/unit (£10,500). Further evidence from the applicant's solicitors is provided at **Annex 1**, confirming these fees to be £2,250/unit (£31,500), resulting in higher legal fees than envisage by both DSP and the Valuation Appraisal.

2.13 The DSP estimates marketing and sales fees at £76,750 (£10,000 + £66,750), which is considerably lower than the Council's £133,500 (3% of the Gross Development Value of the market units in an on site affordable delivered scheme). As with assertions above where DSP hold a fundamentally different view to the Council's own work, which forms background evidence to the prescribed level of affordable housing being sought.

## 3. WAY FORWARD

3.1 This Rebuttal responds to the assertions made in Dixon Searle Partnership's ('DSP') 'Review of Applicant Submitted Viability Position' relating to valuation matters affecting the viability of this development scheme. A number of clarifications are sought from the Council and their advisors in order to facilitate agreement between the parties.

3.2 Importantly, the DSP Review '*does not provide formal valuation advice*' (paragraph 1.1.1) and '*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*' (paragraph 2.1.18).

3.3 The identified clarifications are therefore largely sought from Council, with some technical clarifications from DSP as appropriate:

a) The Council's instruction letter to DSP and the *'information supplied by the Council'* (paragraph 1.13, DSP Review).

b) The Council's position on the affordable housing value, and should their position reflect DSP's values, the Council's justification for departing significantly from their own figures and how such values can be justified given the evidence that no registered providers will purchase either the units or the land.

c) How £105,000 of finance costs is generated and the estimated finance costs arising from the JJA valuation appraisals.

d) The Council's position on contingency fees.

e) An update to the DSP Review to account for the build costs for the garages.

f) The Council's position on legal, marketing and sales costs, and should their position reflect DSP's values, the Council's justification for departing significantly from their own figures and the evidence provided at Annex 1.

3.4 The fundamental hurdle to the viability of the development is incentivising Registered Providers to purchase the five bedroom and four bedroom units, with all providers declining the site.

3.5 These individual circumstances have been set out in the evidence supporting this Rebuttal and the Viability Assessment. In accordance with the Council's policy H14, these negotiations on affordable housing provision should be based on these individual circumstances.

Annex 1

**From:** Guy Longhurst <Guy.Longhurst@ellisonssolicitors.com>
**Date:** 6 February 2018 at 16:12:45 GMT
**To:** Rob Smith <rsmith@forelandpartnership.co.uk>
**Subject: RE: Canterbury Road. Ramsgate**

Dear Rob,

Further to our telephone conversation earlier today, I have reviewed the file and the estimate for our fees should include the following:-

| | |
|---|---|
| Plot sales £2250 x 14 = | £31,500 |
| Development Site set up (including management company) | £3,000 |
| S106 agreement | £2,750 |
| S104 agreement | £2,000 |
| S38 and s278 agreement | £2500 |
| UKPN easements | £2,500 |
| Gas easements | £2,500 |
| **Total:** | **£46,750** |

You should also budget a further £15k for the fees of the various councils and utility companies.

Other costs may include:-

Highways departments fees for supervision/inspection of the adoptable highway;
Ditto for the utility companies;
NHBC or other Bonds for the highways and utility agreements.

All of the above will be plus vat and minor disbursements.

You will also have the legal costs and disbursements in connection with completion of the purchase, to include SDLT and Land Registry fees.

There may be further costs, but the above is a summary of those we would expect to incur upon a site of this size. Please call if you have any queries.

Kind regards.
Guy

**Guy Longhurst**

**Senior Partner, Solicitor**

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