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## Land Fronting Manston Road and Nash Road, Margate, Kent - Viability Report

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**Prepared on behalf of Piper Developments Limited**

27<sup>th</sup> April 2018

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## 1. Executive Summary

- 1.1 I have been instructed by Piper Developments Limited ('Piper Developments') to carry out an independent financial appraisal of the proposed development scheme ('the Scheme') currently being considered for Land Fronting Manston Road and Nash Road, Margate, Kent ('the Property') in order to assess the viability implications of proposed planning obligations in respect of affordable housing and wider Section 106 costs. Full details relating to the Property can be found in the Design and Access Statement prepared by Hume Planning Consultancy Limited dated December 2016 attached at **Appendix A**.
- 1.2 This Viability Report accompanies and supports the planning application submitted to Thanet District Council under application reference OL/TH/16/1765 for *Outline application for residential development of up to 250 dwellings and alterations to the surrounding highway network, including details of access with all matters reserved (Appearance, Landscaping, Layout, Scale, Access)*. The address given under the application is *Land adjacent to Salmestone Grange, Nash Road, Margate, Kent*.
- 1.3 This Viability Report considers the planning application from two perspectives. The first is referred to as the **Policy Compliant Scheme** which allows for the full package of policy compliant contributions including 30% affordable housing and an allowance for Section 106 costs including primary and secondary education contributions totalling £2,303,847. The Scheme includes the provision of a new link road between Manston Road and Nash Road running directly through the Property along with a new roundabout for access into the site and a new service road for properties on Manston Road. The provision of this significant highway infrastructure along with wider site assembly costs and stagnation in house price growth in this part of Thanet puts significant pressure on the viability of the Scheme. The proposed highways infrastructure has significant wider benefits to the relief of traffic congestion in the locality and serves as a major benefit to Thanet over and above servicing the 250 dwellings proposed. Indeed, the highways improvements will be felt throughout this part of Thanet and the cost implications have a direct bearing on the viability of the Scheme. As such, there needs to be adjustments to the package of Section 106 contributions in order to offset this cost burden and this Viability Report considers a **Proposed Scheme** which looks at ways that the development can be brought forward in a deliverable manner whilst retaining an acceptable return to the landowner and an appropriate margin for a developer.
- 1.4 I have given due regard to the National Planning Policy Framework ("NPPF"), The Royal Institution of Chartered Surveyors Guidance Note 1<sup>st</sup> Edition *Financial Viability in Planning* and the "Harman" report being *Viability Testing Local Plans* produced by the Local Government Association, The Home

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Builders Federation and the NHBC chaired by Sir. John Harman June 2012. The guidance contained in these documents has assisted in formulating the opinions set out in this report.

- 1.5 This report concludes that the Property has a Viability Benchmark Sum (“VBS”) of not less than £4.14 million equating to £180,000 per acre. This reflects the minimum price at which a landowner would sell an allocated development site on an unconditional basis without planning permission but with the clear prospects for short to medium term residential lead development as endorsed by an allocation of the Property for up to 250 dwellings under Policy H02B of the Thanet Preferred Options Local Plan.
- 1.6 With a VBS of £4.41 million it is necessary to run both the *Policy Compliant Scheme* appraisal and the *Proposed Scheme* appraisal to establish what surplus, or deficit, may be available for the provision of Section 106 contributions once an appropriate return is allowed for at 20% of private Gross Development Value (‘GDV’) and 6% on the sale of the affordable homes. These margins represent the minimum return for a housebuilder in order to deliver a viable development. Taking into account the GDV and total costs of the development it is clear that the *Policy Compliant Scheme* is unviable and yields a deficit of £4,189,516. As such, it is necessary to make adjustments to the wider package of affordable housing and Section 106 costs in order to find a Nil or Positive surplus. This has been done by adjusting the tenure mix of the affordable homes and removing the primary and secondary education contributions. The net result is that the scheme can then deliver a notional surplus of £4,083. This sum of money is insufficient for any material contributions, and therefore Piper Development, strictly on a **without prejudice** basis, are willing to offer a sum of **£589,750** to resolve the short term delivery of much needed additional accommodation at Ursuline College, Canterbury Road, Westgate. This is, of course, in addition to the provision of a full package of policy compliant affordable housing at 30%.
- 1.7 This Viability Report therefore concludes that the *Proposed Scheme* can be brought forward with the provision of 30% shared ownership affordable housing in compliance with current policy along with a without prejudice commuted sum of £589,750 for education contributions as well as other Section 106 costs relating to New Learners in Margate, the refurbishment of the Quarterdeck Youth Club, library provision in Margate, contributions towards the Special Protection Area and the provision of bus stops and shelters along with the significant new link road through the Property. Regardless of wider Section 106 costs, the Scheme still delivers 30% affordable housing.

## 2. Background

- 2.1 The Property lies within the jurisdiction of Thanet District Council and comprises 9.3 hectares (23 acres) of farmland in an otherwise suburban location. The Property lies immediately adjacent to Salmestone Grange with residential dwellings in a linear formation on Nash Road beyond. To the east, the Property has a substantial frontage to Nash Road with residential dwellings beyond whilst to the south the Property is bound by a crematorium and allotments. To the west, the Property has a frontage to Manston Road with residential dwellings beyond. Further details relating to the location of the Property can be found in the Design and Access Statement.
- 2.2 The *Proposed Scheme* is in outline form with access to be considered at this stage but all other matters including appearance, landscaping, layout and scale reserved for future consideration. The proposed development is for a scheme comprising 250 dwellings with vehicular access from Manston Road to the west and Nash Road to the north with a series of amendments to the surrounding highway network.

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- 2.3 An Indicative Masterplan has been submitted as part of the application, a copy of which is provided in **Appendix B**. The housing mix is consistent with the findings of Thanet District Council's Strategic Housing Market Assessment 2016 with an overall density of 27 dwellings per hectare (11 dwellings per acre) along with 450 parking spaces and 50 visitor parking space with additional lay-by provision and parking for St Gregory's Primary School.
- 2.4 More importantly, the Scheme will deliver a number of changes in the road network around the Property which includes:
- Provision of a new link road between Nash Road and Manston Road, with a new roundabout on Manston Road for access into the site (a new service road for properties on Manston Road) and an alteration to Nash Road to bring this road directly through the site;
  - Closure of the Nash Road arm off Coffin House Corner, meaning Nash Road only links to Empire Terrace and not the junction with Shottendane and Heartsdown Road, with changes to the signalling;
  - The subsequent increase in capacity at the Coffin House Corner traffic lighted junction will directly facilitate the opportunity for St Gregory's Primary School to be extended in the future, which would otherwise be ruled out on highway grounds;
  - Change in road layout at Manston Road and Shottendane Road Junction.
- 2.5 The proposed highway works are an intrinsic part of this proposal and have been the subject of detailed discussions with both Thanet District Council and Kent County Council as the Local Highway Authority and form part of the strategic highway works for the District. On-site highway works include the provision of a link road between Manston Road and Nash Road with a roundabout access proposed to the west. It is intended that this roundabout would be the primary access to the scheme and would also serve as strategic transport infrastructure, taking traffic from the realigned Nash Road. The link road would provide an opportunity for traffic travelling to and from Shottendane Road and Manston Road to by-pass the Coffin House Corner Junction completely when utilising Nash Road. The access to the Scheme from the eastern end of the link road would take the form of a priority junction from Nash Road.
- 2.6 Works will be required to include the provision of improved on-street parking facilities and pedestrian access through the development to the school. This also provides the scope to introduce additional waiting restrictions on those roads to assist in improving safety and reinforce more appropriate parking on surrounding highways, which currently has an impact on road safety and the freeflow of traffic within the locality.
- 2.7 A substantial package of off-site mitigation is proposed as part of the application with the dual focus of mitigating the impact of the development whilst supporting the emerging transport strategy within the District. These come at a significant cost and include the closure of the Nash Road arm of the Coffin House Corner Junction, which in turn provides safety benefits in terms of reduced conflict at Empire Terrace and improved pedestrian connectivity to the school and destinations to the east of Nash Road. The change to the Shottendane Road and Manston Road junction facilitates improved visibility and increased junction capacity, along with revisions to signal phasing, which in turn reduces the amount of time lost between individual signal phases.
- 2.8 Concerns have been raised that the new road arrangement including the new roundabout on Manston Road and the new development itself would result in an increase in congestion surrounding the Property. KCC Highways have stated that new road arrangements, with the closure of the Nash Road access to Coffin House Corner, will collectively improve the local networks capacity to handle vehicle

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movements, actually resulting in a net benefit to the network above the projections of movements if no development occurs on the site. The roundabout to be provided on Manston Road is anticipated to operate with significant capacity, meaning that it will allow for potential increases in traffic in future years. There is no empirical evidence to suggest that on balance the development would result in network capacity issues to cause severe congestion to warrant refusal of the application on this ground, and the road network development is part of the emerging Thanet Transport Strategy, a copy of which is provided in **Appendix C**. This will not come forward without the associated housing developments to enable this provision and the proposed scheme is fundamental to delivering this. The proposed highways infrastructure works are therefore considered to mitigate the impact on the network from this development whilst contributing a key new piece of infrastructure towards the emerging Thanet Transport Strategy.

- 2.9 The costs for this have been allowed for in our appraisal and, unfortunately, have an adverse impact upon the viability of the Scheme. These are therefore off-set by a change in the affordable housing mix and a reduction in the overall package of S106 costs.
- 2.10 The National Planning Policy Framework refers to ensuring viability and delivery of development at Sec. 173-177 and states “to ensure viability, the costs of any requirement likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should when taking account of the normal cost of development and mitigation provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable”.

### 3. Basis of Appraisals

- 3.1 The appraisals and figures provided herein do not strictly speaking fall within the scope of the RICS (Royal Institution of Chartered Surveyors) “Red Book” and is not a formal valuation in that context. However, the principles of good practice have been followed and detailed justification for the indicative values and/or component valuation appraisals are provided. More to the point, the appraisal is in direct line with the RICS Guidance on Financial Viability in Planning.
- 3.2 The Viability Report is prepared purely to assist planning discussions with Thanet District Council.
- 3.3 The viability report is provided on a confidential basis and we therefore request that the report should not be disclosed to any third parties (other than Thanet District Council and their advisers), under the Freedom of Information Act 2000 (Section 41 and 43/2) or under the Environmental Information Regulation. The report is not to be placed in the public domain. In addition, we do not offer Thanet District Council, their advisers and/or any third parties a professional duty of care.
- 3.4 In appraising the proposed development we have taken note of and utilised guidance on Thanet District Council’s policy as set out in:
- a) Thanet Local Plan 2006
  - b) Thanet Local Plan (Preferred Options) January 2017
  - c) KCC Guide to Development Contributions and the Provision of Community Infrastructure

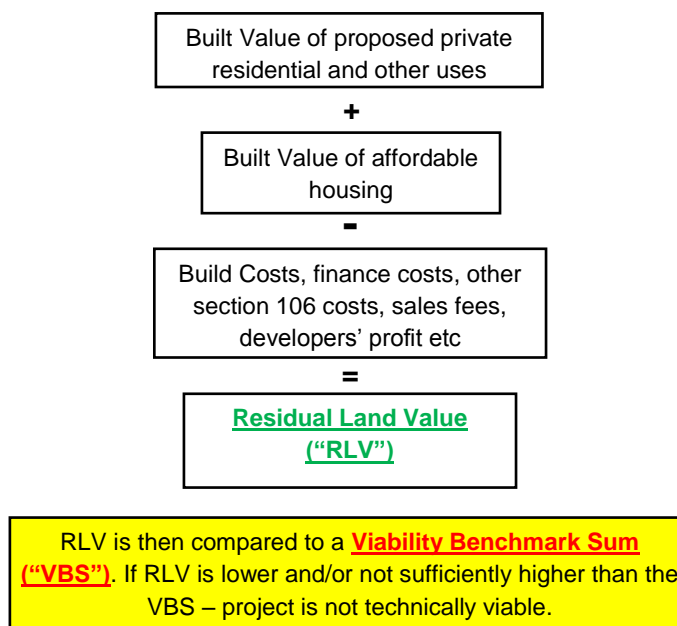
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d) The National Planning Policy Framework

## 4. Viability and Planning

4.1 Scheme viability is normally assessed using residual valuation methodology.

4.2 A summary of the residual process is:



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

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

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

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

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

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alternative uses). On the other hand, RICS states that the dominant driver should be Market Value (assuming that any hope value accounted for has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan).

- 5.3 A few local authorities and their advisors are still trying to disregard premiums applicable to EUVs or CUVs (i.e. EUV/CUV only - which was the basis being incorrectly enforced for several years) but the reference to 'competitive returns' in the new National Planning Policy Framework and planning precedent has now extinguished this stance.
- 5.4 There has been concern about how one can identify and logically justify what premium should be added to an EUV or CUV and what exactly EUV means. It is not as straight-forward as one might initially think.
- 5.5 There has also been some concern about Market Value potentially being influenced by land transaction comparables and/or bids for land that are excessive (thus triggering an inappropriate benchmark). However, I believe that any implied suggestion that developers deliberately (or might deliberately) over-pay for land in order to avoid having to deliver S.106 affordable housing contributions is misguided. Land buyers and developers seek to secure land for as little money as possible. They do not seek to overpay and are aware of the associated planning and financial risks should they do so. My view is that, if professional valuers disregard inappropriate land transaction comparables (e.g. where over-payments appear to have occurred accidentally or for some other legitimate but odd reason) and other inappropriate influences in deriving Market Value, both of which they should, Market Value is on-balance the more justifiable, logical, reasonable and realistic approach – albeit not perfect.
- 5.6 I believe that the premium over EUV or CUV to identify an appropriate VBS is in fact the same as the percentage difference between EUV or CUV and Market Value. In other words, both approaches should lead to the same number. However, Market Value is the logical side to approach this conundrum from.
- 5.7 As such, I have followed the latest RICS Guidance herein as well as Planning Inspectorate decisions including that by Clive Hughes BA (Hons) MA DMS MRTPI in Land at The Manor, Shinfield, Reading under Reference APP/X0360/A/12/2179141.
- 5.8 Of particular note, the RICS guidance says:
- a) Site Value either as an input into a scheme specific appraisal or as a benchmark is defined in the guidance note as follows, "Site Value should equate to the Market Value subject to the following assumption that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan."
  - b) An accepted method of valuation of development sites and land is set out in RICS Valuation Information Paper (VIP) 12. This paper is shortly to be re-written as a Global Guidance Note.
  - c) Reviewing alternative uses is very much part of the process of assessing the Market Value of land and it is not unusual to consider a range of scenarios for certain properties. Where an alternative use can be readily identified as generating a higher value, the value for this alternative use would be the Market Value.



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- d) The nature of the applicant should normally be disregarded as should benefits or dis-benefits that are unique to the applicant.
- e) The guidance provides this definition in the context of undertaking appraisals of financial viability for the purposes of village planning decisions: *An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project.*
- f) With regard to indicative outline of what to include in a viability assessment it is up to the practitioner to submit what they believe is reasonable and appropriate in the particular circumstances and for the local authority or their advisors to agree whether this is sufficient for them to undertake an objective review.
- g) For a development to be financially viable, any uplift from current use value to residual land value that arises when planning permission is granted must be able to meet the cost of planning obligations whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project (the National Planning Policy Framework refers to this as 'competitive returns' in paragraph 173 on page 41). The return to the landowner will be in the form of a land value in excess of current use value but it would be inappropriate to assume an uplift based upon set percentages, given the heterogeneity of individual development sites. The land value will be based upon market value which will be risk-adjusted, so it will normally be less than current market prices for development land for which planning permission has been secured and planning obligation requirements are known.
- h) Sale prices of comparable development sites may provide an indication of the land value that a landowner might expect but it is important to note that, depending on the planning status of the land, the market price will include risk-adjusted expectations of the nature of the permission and associated planning obligations. If these market prices are used in the negotiations of planning obligations, then account should be taken of any expectation of planning obligations that is embedded in the market price (or valuation in the absence of a price). In many cases, relevant and up to date comparable evidence may not be available or the heterogeneity of development sites requires an approach not based on direct comparison. The importance, however, of comparable evidence cannot be over-emphasised, even if the supporting evidence is very limited, as evidenced in Court and Land Tribunal decisions.
- i) The assessment of Market Value with assumptions is not straightforward but must, by definition, be at a level which makes a landowner willing to sell, as recognised by the NPPF. Appropriate comparable evidence, even where this is limited, is important in establishing Site Value for a scheme specific as well as area wide assessments.
- j) Viability assessments will usually be dated when an application is submitted (or when a CIL charging schedule or Local Plan is published in draft). Exceptions to this may be pre-application submissions and appeals. Viability assessments may occasionally need to be updated due to market movements or if schemes are amended during the planning process.
- k) Site purchase price may or may not be material in arriving at a Site Value for the assessment of financial viability. In some circumstances the use of actual purchase price should be treated as a special case.

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- l)** It is for the practitioner to consider the relevance or otherwise of the actual purchase price, and whether any weight should be attached to it, having regard to the date of assessment and the Site Value definition set out in the guidance.
- m)** Often in the case of development and site assembly, various interests need to be acquired or negotiated in order to be able to implement a project. These may include: buying in leases of existing occupiers or paying compensation; negotiating rights of light claims and payments; party wall agreements, over sailing rights, ransom strips/rights, agreeing arrangements with utility companies; temporary/facilitating works, etc. These are all relevant development costs that should be taken into account in viability assessments. For example, it is appropriate to include rights of light payments as it is a real cost to the developer in terms of compensation for loss of rights of light to neighbouring properties. This is often not reflected in Site Value given the different views on how a site can be developed.
- n)** It is important that viability assessments be supported by adequate comparable evidence. For this reason it is important that the appraisal is undertaken by a suitably qualified practitioner who has experience of the type, scale and complexity of the development being reviewed or in connection with appraisals supporting the formulation of core strategies in local development frameworks. This ensures that appropriate assumptions are adopted and judgement formulated in respect of inputs such as values, yields, rents, sales periods, costs, profit levels and finance rates to be assumed in the appraisal. This should be carried out by an independent practitioner and ideally a suitably qualified surveyor.
- o)** The RICS Valuation Standards 9<sup>th</sup> Edition (“Red Book”) gives a definition of Market Value as follows:

  - The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after properly marketing and where the parties had each acted knowledgeably, prudently and without compulsion.
  - The Red Book also deals with the situation where the price offered by prospective buyers generally in the market would reflect an expectation of a change in the circumstances of the property in the future. This element is often referred to as ‘hope value’ and should be reflected in Market Value. The Red Book provides two examples of where the hope of additional value being created or obtained in the future may impact on the Market Value:

    - the prospect of development where there is no current permission for that development; and
    - the prospect of synergistic value arising from merger with another property or interests within the same property at a future date.
  - The guidance seeks to provide further clarification in respect of the first of these by stating that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan.
  - The second bullet point above is particularly relevant where sites have been assembled for a particular development.

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- It should be noted that hope value is not defined in either the Valuation Standards. That is because it is not a basis of value but more a convenient way of expressing the certainty of a valuation where value reflects development for which permission is not guaranteed to be given but if it was, it would produce a value above current use.
- To date, in the absence of any guidance, a variety of practices have evolved which benchmark land value. One of these, used by a limited number of practitioners, has been to adopt Current Use Value (“CUV”) plus a margin or a variant of this (Existing Use Value (“EUV”) plus a premium). The EUV / CUV basis is discussed below. The margin is an arbitrary figure often ranging from 10% to 40% above CUV but higher percentages have been used particularly in respect of green-field and rural land development.
- In formulating this guidance, well understood valuation definitions have been examined as contained within the Red Book. In arriving at the definition of Site Value (being Market Value with an assumption), the Working Party / Consultant Team of this guidance have had regard to other definitions such as EUV and Alternative Use Value (“AUV”) in order to clarify the distinction necessary in a financial viability in a planning context. Existing Use Value is defined as follows:
  - “The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after properly marketing and where the parties had each acted knowledgeably, prudently and without compulsion assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause Market Value to differ from that needed to replace the remaining service potential at least cost.”
- It is clear the above definition is inappropriate when considered in a financial viability in planning context. EUV is used only for inclusion in financial statements prepared in accordance with UK accounting standards and as such, hypothetical in a market context. Property does not transact on an EUV (or CUV) basis.
- It follows that most practitioners have recognised and agreed that CUV does not reflect the workings of the market as land does not sell for its CUV, but rather at a price reflecting its potential for development. Whilst the use of CUV plus a margin does in effect recognise hope value by applying a percentage increase over CUV it is a very unsatisfactory methodology when compared to the Market Value approach set out in the Guidance and above. This is because it assumes land would be released for a fixed percentage above CUV that is arbitrary inconsistently applied and above all does not reflect the market.
- Accordingly, the guidance adopts the well understood definition of Market Value as the appropriate basis to assess Site Value, subject to an assumption. This is consistent with the NPPF, which acknowledges that “willing sellers” of land should receive “competitive returns”. Competitive returns can only be achieved in a market context (i.e. Market Value) not one which is hypothetically based with an arbitrary mark-up applied, as in the case of EUV (or CUV) plus.
- So far as alternative use value is concerned, the Valuation Standards state where it is clear that a purchaser in the market would acquire the property for an alternative use of the land

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because that alternative use can be readily identified as generating a higher value than the current use, and is both commercially and legally feasible, the value for this alternative use would be the Market Value and should be reported as such. In other words, hope value is also reflected and the answer is still Market Value.

### 6. The Property

- 6.1 Extensive details relating to the Property can be found in the Design and Access Statement. Nevertheless, the Property comprises 9.3 hectares (23 acres) of relatively flat farmland on the edge of the built up settlement of Margate in Thanet, Kent. The land itself is cultivated farmland and displays narrow field boundaries which the Illustrative Plan seeks to strengthen around the perimeter of the site. There are no central trees or groups of specimens that have influenced the desired layout decisions at this illustrative stage.
- 6.2 The proposed development comprises 250 dwellings with an indicative housing mix which is consistent with the findings of the Strategic Housing Market Assessment and provides for 30% of the dwellings to be affordable. For the purposes of undertaking this Viability Report an indicative schedule of accommodation for a policy compliant scheme is as follows:

Type	Tenure	Number	Per Unit Area (sq.ft)	Total Area (sq.ft)
1b Apartment	Private	11	525	5,775
1b Apartment	Affordable Rent	3	525	1,575
1b Apartment	Shared Ownership	1	525	525
2b Apartment	Private	21	700	14,700
2b Apartment	Affordable Rent	6	700	4,200
2b Apartment	Shared Ownership	3	700	2,100
2b House	Private	45	750	33,750
2b House	Affordable Rent	14	750	10,500
2b House	Shared Ownership	6	750	4,500
3b House	Private	77	1,000	77,000
3b House	Affordable Rent	23	1,000	23,000
3b House	Shared Ownership	10	1,000	10,000
4b House	Private	21	1,250	26,250
4b House	Affordable Rent	7	1,250	8,750
4b House	Shared Ownership	2	1,250	2,500
<b>Total</b>		<b>250</b>		<b>225,125</b>

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

- 7.1 There has been, and continues to be, much debate with regards to establishing what level of land value should be available from a viability assessment in order that there is every reasonable likelihood that the landowner will be enticed to make his land available for development. With existing commercial developments where an alternative use for residential is sought, the base value lies in the existing use of the commercial buildings. However, this is not the case with agricultural land or 'greenfield' land where there is an increasing acceptance that a range of between £150,000 to £200,000 per gross acre is a minimum benchmark, above which there may at least be a reasonable likelihood that an agricultural site will be released for development. This is no doubt partly predicated on a tendency for option and promotion agreements to commonly contain minimum land price provisions which, in a current market, are typically within these parameters.
- 7.2 The Harman report of June 2012 dedicates significant commentary to the treatment of threshold land value which should "represent the value at which a typical willing landowner is likely to release land for development". The treatment of rural land is specifically discussed on page 30 which states, "it is widely recognised that [the viability] approach can be less straight-forward for non-urban sites or urban extensions, where land owners are rarely forced or distressed sellers, and generally take a much longer term view over the merits or otherwise of disposing of their asset. This is particularly the case in relation to large greenfield sites where a prospective seller is potentially making a once-in-a-lifetime decision over whether to sell an asset that may have been in the family, trust or institution's ownership for many generations. Accordingly, the uplift to current use value sought by the landowner will invariably be significantly higher than in an urban context". The Harman report, on page 31, goes on to say, "the smaller, edge of settlement greenfield sites, landowners required returns are likely to be higher than those associated with larger greenfield sites (and more in line with the threshold land values per hectare adopted within the urban area). This is because landowners will be aware of the prospects of securing a beneficial permission at some point in the future and may therefore choose to defer bringing forward such land until they perceive market conditions have improved and/or the planning system is more conducive to an improved return".
- 7.3 The Homes and Communities Agency has produced The HCA Area Wide Viability Model in August 2010 which deals, in Appendix 1, with Transparent Viability Assumptions. In respect of threshold land value, or Viability Benchmark Sum, the HCA states "the rationale of the development appraisal process is to assess the residual land value that is likely to be generated by the proposed development and to compare it with a benchmark that represents the value required for the land to come forward for development. We refer to this benchmark as threshold land value." The HCA then goes on to discuss in some detail the approach to assessing such value and under paragraph 3.5 states that for greenfield land, benchmarks tend to be up to 20 times agricultural value. Based on current farmland values of £9,000 per acre it would not be unreasonable, at the upper end of this spectrum, to have a Viability Benchmark Sum of £180,000 per acre. However, the minimum percentage to agricultural value referred to by the HCA is 10 times which equates to £90,000 per acre, albeit that this would be too low for a site already with a draft allocation in the emerging local plan. Within the South East, I have come across the North Chelmsford Area Wide Action Plan which has a benchmark land value figure for agricultural land set at £200,000 per acre gross which provides one such example of the HCA guidance in practice.
- 7.4 A research paper undertaken by Turner Morum on behalf of the DCLG in 2011 looks at the typical incentives required to bring land forward for development. On page 7, the research paper states, "despite low base values, landowners still need to be enticed to bring their land forward for

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development .... In this case, however, required levels of premium are routinely protected by way of minimum land price provisions, usually contained within option or collaboration agreements and long term conditional contracts. Levels vary, but typically, we expect to see figures of circa £100,000 to £150,000 per gross acre. The average net gross percentage across the five fairly typical examples used is 56%. By applying the above minimum prices and net areas, it can be seen that development proposals will normally need to support land values of £200,000 to £300,000 per net developable acre if the land is to come forward for development. Additionally, most option style agreements also provide for promoters/developers to receive a discount, typically 10% to 20%, to open market value and the above minimum land prices are after the application of such discounts (and other deductible promotional costs). Consequently, we would recommend that minimum land value requirements of at least £200,000 per acre gross are assumed for the release of greenfield land.”

- 7.5 At the time of writing the Planning Inspectors decision in respect of Strode Farm, Herne was pending although the Benchmark Sum adopted is unlikely to be less than £180,000 per acre for farmland suitable for future development. This is based upon a minimum of twenty times agricultural value with a premium for an allocation in the emerging local plan.
- 7.6 Likewise, the profit margin which is derived by applying the residual appraisal method is designed to compare the two schemes rather than to consider whether or not one or other is viable in the context of the NPPF. In this respect we would certainly expect to see a developer’s return of 20% on private GDV and 6% on affordable income.

## 8. Development Value Appraisal

- 8.1 In order to consider the *Policy Compliant Scheme* and *Proposed Scheme* on a like for like basis it is necessary to run two development appraisals using the Argus Property Software Package, a widely used and recognised appraisal tool.
- 8.2 Both appraisals are attached in **Appendix D**. The *Policy Compliant Scheme* considers the developer’s return once all of the affordable housing has been provided and the package of requested Section 106 contributions made. The *Proposed Scheme* is virtually identical but seeks to address the significant deficit in the margin by changing the mix of affordable housing yet retaining a headline figure of 30%. The package of Section 106 costs is also reduced to a point that the viability shows a Nil or Positive margin. The key inputs are summarised as follows:

- A. Revenue (GDV)** - The best comparable evidence for the Property is the Cross Quays scheme by Persimmon Homes at Westwood Cross which is within 1km of the Property and is very similar in terms of quantum, mix and density of housing. Similarly, Cross Quays has been built out by one of the few national housebuilders who have been active in Thanet in recent years and the product is similar to that which is likely to be delivered within this scheme. A summary of recent transactions is as follows:

## Nash Road, Margate, Kent

Address	Area Sq.ft	Sold Price £	Date	£ Psf
68 Castle Drive	603	£180,950	Jan 2017	£300
60 Castle Drive	721	£208,950	Jan 2017	£290
42 Castle Drive	603	£184,950	Feb 2017	£307
25 Richborough Close	1,216	£311,950	Feb 2017	£257
26 Richborough Close	1,076	£289,950	Feb 2017	£269
48 Castle Drive	603	£184,950	March 2017	£307
38 Castle Drive	721	£214,950	March 2017	£298
28 Castle Drive	990	£245,950	March 2017	£248
27 Richborough Close	1,076	£289,950	March 2017	£269
44 Castle Drive	721	£213,950	April 2017	£297
7 Richborough Close	980	£250,000	April 2017	£255
29 Richborough Close	1,012	£243,950	May 2017	£241
30 Richborough Close	1,012	£247,950	May 2017	£245
28 Richborough Close	1,012	£248,950	May 2017	£246
16 Castle Drive	721	£216,950	May 2017	£301
10 Richborough Close	743	£214,950	June 2017	£289
50 Castle Drive	603	£184,950	June 2017	£307
10 Castle Drive	721	£208,950	June 2017	£290
46 Castle Drive	721	£213,950	June 2017	£297
52 Castle Drive	721	£213,950	June 2017	£297
24 Richborough Close	1,216	£309,950	June 2017	£255
22 Richborough Close	1,421	£293,950	June 2017	£207
23 Richborough Close	1,421	£295,950	June 2017	£208
19 Richborough Close	1,421	£296,950	June 2017	£209
21 Richborough Close	1,421	£292,950	June 2017	£206
2 Castle Drive	980	£272,950	June 2017	£279
18 Richborough Close	743	£216,950	August 2017	£292
30 Castle Drive	990	£241,950	August 2017	£244
15 Richborough Close	990	£216,995	August 2017	£219

## Nash Road, Margate, Kent

6 Bishop Close	603	£186,950	August 2017	£310
14 Bishop Close	603	£185,950	August 2017	£308
12 Bishop Close	603	£187,950	August 2017	£312
12 Castle Drive	603	£189,950	August 2017	£315
16 Bishop Close	721	£219,950	August 2017	£305
<b>Average</b>				<b>£273</b>

Based upon the comparable evidence outlined above I have adopted headline values for the private dwellings as follows:

Type	Area Sq.ft	Price £	Price Psf
1b Apartment	525	£150,000	£286
2b Apartment	700	£195,000	£279
2b House	750	£210,00	£280
3b House	1,000	£280,000	£280
4b House	1,250	£350,000	£280

There will be a number of dwellings within the Scheme which will be blighted by their close proximity to the new link road running through the Scheme. This will affect approximately 10% of the dwellings and road blight typically reduces values between 5% and 10%. As such, I have discounted 18 private units and 7 affordable units by 7.5% to take into account this particular characteristic of the Scheme.

Due regard has also been given to the affordable rent and shared ownership accommodation. The affordable rent units have been valued at approximately 55% of private values and the shared ownership units at approximately 70% of private values.

- B. Construction Costs** – All construction costs are based on the RICS Building Cost Information Service ('BCIS') Tender Price Index for Kent as at March 2018 as follows:

Building Function	Mean £ Per Sq.m	Mean £ Psf
Housing Mixed	£1,415	£131
Estate Housing	£1,387	£129
Average House	£1,401	<b>£130</b>
Apartments	£1,646	<b>£153</b>

In line with industry standards, a contingency sum has been allowed for at 5% on build and externals.



## Nash Road, Margate, Kent

- C. Other Construction Costs** – In addition to the BCIS costs detailed above a further allowance has been made for road, site, infrastructure works and externals at £15 psf. These typically range from £12.50 psf to upwards of £20 psf or a range of 10% to 15% over and above prime build costs. The allowance of £15 psf therefore falls comfortably within this range at 11.3%.

Off site highway works in respect of the roundabout on Manston Road, Nash Road/Coffins Corner works and the priority shift on Manston Road have been costed at £533,395. Due regard has also been given to the requirement to upgrade the link road between Nash Road and Manston Road. This is a significant enhancement over a standard estate road and carries an abnormal cost of £531,800 over and above a standard estate road, the cost of which is included in our appraisal under Road and Site Works.

- D. Professional Fees - Professional** fees have been allowed for at 9%, falling within the range of 8% to 10% which is typical of schemes of this nature.
- E. Finance Costs** – A total debt rate of 6.50% has been adopted which reflects the current Bank of England Base Rate of 0.5% plus interest costs, entry and exit fees and bank administration fees. A total project period has been adopted of 54 months at a sales rate of 1.1 units per week which is slightly above the industry average but suitable for a scheme with predominantly lower value housing stock and assuming a continuation of Help-to-Buy.
- F. Section 106 Costs** – The *Policy Compliant Scheme* includes the full package of Section 106 costs as follows:

Item	Cost
Secondary Education	£1,323,826
Primary Education	£831,000
Special Protection Area	£102,000
Bus Provision	£15,000
Youth	£14,860
Libraries	£12,004
New Learners	£5,157
<b>Total</b>	<b>£2,303,847</b>

# Nash Road, Margate, Kent

## 9. Conclusion

9.1 This Viability Report concludes that a *Policy Compliant Scheme* shows a deficit of £4,189,516 and cannot be considered viable. Only when the mix of affordable housing is adjusted to shared ownership accommodation (albeit retaining a headline figure of 30%) and the S106 costs reduced can the Scheme be considered viable and deliverable. This is shown within the *Proposed Scheme Appraisal* as a surplus of £4,083. This surplus is topped up on a without prejudice basis to £589,750 in order to facilitate the much needed extension to Ursuline College, and wider S106 costs to the tune of £149,021 are also to be provided. These costs effectively replace the education contributions as requested by KCC.

Therefore, it is confirmed that this Scheme can be brought forward to deliver not only much needed housing for Thanet, including 30% affordable homes, but also significant strategic infrastructure improvements forming part of the integral Thanet Transport Strategy.



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27<sup>th</sup> April 2018