For: Thanet District Council

Review of Applicant Submitted Viability Position

Land Adjacent to Salmestone Grange, Nash Road, Margate

July 2018
(DSP18442J)

Dixon Searle Partnership
Elm House, Tanshire Park
Elstead, Surrey, GU8 6LB
www.dixonsearle.co.uk

DixonSearle Partnership

Contents

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 The information supplied to DSP to inform and support this review process has been supplied by the prospective / current planning applicant on a confidential basis. 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 Strutt & Parker. This is in relation to the proposed development at land adjacent to Salmestone Grange, Nash Road, Margate.

2.1.2 The planning application (reference OL/TH/16/1765) to which this review relates, seeks outline permission for the erection of '*up to 250 dwellings and alterations to the surrounding highway network, including details of Access with all other matters reserved (Appearance, Landscaping, Layout, Scale)'.*

2.1.3 According to the planning application, the site is stated to extend to 9.3 hectares and is located immediately adjacent to Salmestone Grange on Nash Road. The site is currently farmland.

2.1.4 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'.

2.1.5 The Policy also states that the affordable housing provision should be proportionate to the size and type of dwellings across the entire site. In this case the development would need to provide up to 75 affordable dwellings with a tenure split equivalent to 70% affordable rent and 30% intermediate housing.

2.1.6 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. In this case, the County Council have advised that the following contributions are required - £831,000 for Primary Education, £1,323,826.00 for Secondary Education, £5156.77, £14,860 for Youth Services, £14,003.95 for Libraries and £16,985 for Social Care. A contribution of £102,000 towards the protection of the Thanet Coast and Sandwich Bay Special Protection Area is also required. These requests are considered reasonable and necessary.

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

- Viability Report.
- Design & Access Statement
- Masterplan
- Thanet Transport Strategy
- Appraisals (supplemented by electronic versions provided subsequently).

2.1.8 DSP has also had sight of the Council's online planning file.

2.1.9 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 the benchmark 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.

2.1.10 In this case the development appraisal has been run in a way which produces a residual surplus / deficit having fixed both the benchmark land value and the profit level.

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

2.1.11 The submitted 250-unit policy compliant development appraisal (30% affordable housing with a mix of tenures) generates a residual deficit of -£4.1m when taking into account a fixed assumed profit of 20% on the market housing and 6% on the affordable housing (17% of GDV blended) whilst also including a fixed BLV of £4.1m and including contributions towards schools, libraries, habitat regulations, transport and youth services. In reality the scheme does not show a deficit but instead indicates a reduced blended profit of approximately 9.5% of GDV once the deficit is removed.

2.1.12 Given that the submitted policy compliant development appraisal indicates a deficit, a second development appraisal has been undertaken (the 'proposed' scheme) with the affordable housing converted to 100% shared ownership and any surplus remaining to be allocated towards other planning obligations requirements.

2.1.13 As far as we can tell from the viability report (although this is not clear when comparing the VR to the submitted development appraisals), the applicant is stating that it is only viable to provide 30% affordable housing if the tenure is converted to 100% shared ownership alongside contributions towards new learners, youth club, libraries and Special Protection Area contributions but that no (or marginal) surplus exists beyond that point. However, it appears that the applicant is offering a without prejudice sum of £589,750 towards education requirements although those do not appear within the development appraisal as far as we can see.

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:

'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 and now confirmed by updated viability guidance contained within the new NPPF and associated updated Planning Practice Guidance on Viability. It is clear that Market Value should no longer be used in order to determine the benchmark land value but that EUV+ is the method that should be used.

3.1.11 In this case the site value used within the development appraisal is based on the applicant's agent's opinion of the 'Market Value of the site; stated to be £180,000 per gross acre or £4.14m reflecting: '*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'*.

3.1.12 Latest information[3] suggests that the existing use value of agricultural land without any uplift or hope value is in the region of £7,500 - £9,000 per acre (the lower end reflecting average Grade 3 farmland and the upper end of the range reflecting prime arable land). For the subject site this equates to a value of between £172,500 and £207,000 in its existing use. Running the policy compliant development appraisal as submitted in residual land value 'mode' and assuming for the time being that the all

[3] https://www.savills.co.uk/research_articles/229130/228020-0

other assumptions are agreed provides a RLV of £1,152,835 – indicating an uplift over the existing use value of between £980,000 and £945,835 (or between a 560% and 670% uplift over agricultural value).

3.1.13 Latest Planning Practice Guidance[4] states that the BLV should be established on the basis of the existing use value plus a premium for the landowner. It goes on to state that: '*The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to comply with policy requirements*'.

3.1.14 In this case the existing use value of the site is relatively straightforward (reflecting agricultural value as discussed above (although the quality of the agricultural land is unknown, we have assumed that it is of moderate to good quality reflecting the regional agricultural land classification data provided by Natural England).

3.1.15 The issue however lies with the premium to adopt in determining what constitutes a '*reasonable incentive for a landowner*'. In carrying out reviews of viability assessments submitted by applicants of large scale greenfield development we regularly have greenfield land values of between £100,000 and £200,000 per gross acre put forward and these tend to be based in turn on what are identified as minimum option agreement prices.

3.1.16 These minimum option agreements are rarely (never) provided (citing commercial sensitivity) and therefore the basis of the agreements cannot be scrutinised. Equally, the acceptance of a minimum price in the range discussed leads to those prices being embedded in land agreements (i.e. self-fulfilling) whereas the Government's clear intention through the new NPPF and PPG is to ensure that the site value complies with policy requirements (i.e. the policy requirements are taken into account when bidding for land). In theory therefore, it could be argued that the 560% uplift over agricultural value indicated above but that includes full compliance with policy should reflect how the Government intends the market to work – i.e. if the market fully takes into account the policy requirements of the local authority when assembling land, the incentive to

[4] https://www.gov.uk/guidance/viability#standardised-inputs-to-viability-assessment

hold onto land in the hope that a better deal can be struck or that policies can be negotiated away (hence the inflated land value point) will reduce.

3.1.17 The answer to the question of an appropriate land owner premium, particularly relating to agricultural / greenfield land is therefore not easy to get to. For the purposes of this review however, we have considered various documents including the HCA Transparent Viability Assumptions document referred to in the submitted VR and more importantly those values agreed between DSP and applicants for greenfield land on sites in the South East.

3.1.18 The HCA (now Homes England) Transparent Viability Assumptions document refers to an uplift of between 10 and 20 times agricultural value and the VR adopts the upper end of this range. We are aware of greenfield sites where agreement has been reached between ourselves and other viability assessors on the value of greenfield land (with premium) with values typically agreed between £100,000 and £150,000 per gross acre and in locations where residential property values are significantly higher than those of the subject site.

3.1.19 Given the above, the uncertainty around the premium to adopt, we are of the opinion that a multiplier of 15 times agricultural value (£135,000/acre) representing the half way point between the HCA document stated uplift values and a point between those benchmark values typically agreed in our experience would be a reasonable position to adopt.

3.1.20 In addition to the site value, site agent's fees of 1% (of site value) and legal fees (0.35% of site value) have also been adopted. These appear reasonable assumptions in our view. Stamp duty has been applied at the prevailing Government rate.

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

3.1.21 The VR states that the following:

'*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*.'

3.1.22 A schedule of recent sales is provided within the VA dating from between January and August 2017.

3.1.23 Based on the sales evidence from the Persimmon scheme, the VR concludes the following prices for properties for the subject site:

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

3.1.24 It then goes on to state that:

'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.'

3.1.25 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.

3.1.26 There are very few new build comparable schemes locally and in our view the use of the Westwood Cross scheme is probably the most appropriate. One issue with the data however is the lack of detail in terms of the property type or number of bedrooms for each property. We have therefore reviewed the data in terms of the overall average sales values (£/m²) and applied an uplift (or reduction) to each property in the comparables schedule to reflect changes in market conditions since the sale of the property (based on the Office of National Statistics House Price Index for Thanet

District). In our view there is potential to take a very slightly more optimistic view of values than set out in the VR and as such we have applied an *average* of £283/sq. ft (£3,046/m²) across all properties (noting that in reality there is likely to be an inverse relationship between property size and value so that property values in an absolute sense will vary from those shown in the development appraisal).

3.1.27 In terms of the comments made in relation to properties 'blighted' by the link road passing through the development. In our view there is no evidence to substantiate a reduction in values. It is equally likely that the source data informing the sales values would have similar issues given the location of the comparable site. Equally given the outline nature of the application and the fact that it cannot be known at this stage what the final site layout will be, it is inappropriate to apply any form of reduction. We have therefore applied £283,sq.ft. to all market properties without any reduction.

3.1.28 It is worth noting again that the above is based on a high level view of the type of properties that may come forward as part of this development but in reality wholly different unit types may be submitted as part of a reserved matters application in due course.

Gross Development Value (GDV) – Affordable Housing

3.1.29 The VR does not go into detail in relation to the affordable housing revenue to be expected from the scheme other than to assume that affordable rented properties will achieve 55% of market value and that shared ownership properties will achieve 70% of market value.

3.1.30 In our experience, the overall affordable housing assumptions appear to be within normal parameters but again based on a high level overview of the scheme at this Outline stage.

Cost Assumptions - Build Costs, Professional Fees & Contingencies

3.1.31 The base build costs are stated to be 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	**£130**
Apartments	£1,646	**£153**

3.1.32 In addition to the base BCIS costs further allowances have been made for road, site, infrastructure works and eternals at £15/sq. ft. (£161/m²). The VR continues that:

'Offsite 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'

3.1.33 To ascertain whether the assumed base build costs are reasonable we have reviewed BCIS data for new-build development for 'Estate Housing – Generally' and 'Flats – Generally' rebased using a Thanet location factor. These are considered to be the most appropriate datasets for the current application site.

3.1.34 We note the use of an average between 'Housing Mixed' and 'Estate Housing' within the VR but it is not clear why this is the case given that the 'Housing Mixed' category includes data for both houses and flats analysed together.

3.1.35 Latest BCIS data therefore indicates a cost of £1,312/m² for houses; £1,507/m² for flats. We have adjusted our version of the applicant's viability appraisal accordingly.

3.1.36 In relation to the off-site highways costs and link road costs, we are unable to comment as we have seen no evidence or explanation provided to corroborate these costs. At this stage however we have not adjusted those within the development appraisal. The Council may wish to seek further clarification from the applicant however.

3.1.37 A contingency allowance of 5% has been included within the development appraisal and in our view is a reasonable assumption to make.

3.1.38 In addition to the base costs, the development appraisal has allowed for professional fees equating to approximately 9% of the total build cost. Not mentioned in the report but a further £1,500 per unit planning fees, £25,000 survey fees and £337,500 of warranties and insurances are included. In our view a typical allowance for *all* fees at this stage in the process would be within the range 6% - 10%. For the purposes of this review we have adjusted the overall fees to 10% but removed the additional fees.

<u>Development Timings & Finance Costs</u>

3.1.39 The AHVR has allowed a total development period of 54 months with a 6-month lead-in, 45-month construction period with sales starting 12 months into the build period and extending 3 months following practical completion. The rate of sale is equivalent to 1.1 sales per week. Affordable housing is assumed to be sold in 'blocks' at the beginning of each sales period.

3.1.40 The overall development program appears reasonable in our view.

3.1.41 Finance costs have been included at 6.5% stated to reflect the current Bank of England base rate (0.5%) plus entry / exit fees and bank administration fees.

3.1.42 The interest rate is the cost of funds to the scheme developer; it is applied to the net cumulative negative cash balance each month on the scheme as a whole. According to the HCA in its notes to its Development Appraisal Tool (DAT) '*The rate applied will depend on the developer, the perceived scheme risk, and the state of the financial markets. There is also a credit interest rate, which is applied should the cumulative month end balance be positive. As a developer normally has other variable borrowings (such as an overdraft), or other investment opportunities, then the value of credit balances in reducing overall finance charges is generally the same as the debit interest charge. A zero rate of credit interest is not generally plausible, and will generate significantly erroneous results in a long-term scheme*'.

3.1.43 RICS also points out that it is often the case that schemes are modelled at current costs & values i.e. ignoring inflation (as is the case here). In this case RICS Financial Viability in planning paper states in appendix D 4.5 '... *current values and costs should be used* *together with a **net** of inflation finance rate. Such a net of inflation rate would be much lower than a bank rate (which naturally includes inflation expectations*)'.

3.1.44 As a package, the overall finance cost is within expected parameters for a scheme of this type.

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

3.1.45 Sales agent's and marketing fees are included at 3% of gross development value (1% agent's fees; 2% marketing fees) and legal fees at £750 per unit. Although both the agent's fees and legal fees appear reasonable, the marketing fees appear excessive in our view and compared to other schemes reviewed both locally and nationwide. We would expect marketing fees to be no more than 1% of the GDV. We have therefore altered those assumptions when carrying out sensitivity testing as part of this review.

<u>Cost Assumptions – Section 106 Payments / Planning Obligations</u>

3.1.46 The planning obligations package of requirements is 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
Total	**£2,303,847**

3.1.47 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

3.1.48 The development appraisal has been carried out on the assumption of a profit level of 20% on GDV for the market housing; 6% on the affordable housing value for affordable housing.

3.1.49 The RICS Guidance[5] 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'.*

3.1.50 Latest Guidance within the Planning Practice Guidance is silent on the level return to a developer for the purposes of viability assessments in decision taking but does indicate that for plan making an assumption of 15% - 20% of gross development value may be considered a suitable return to developers.

3.1.51 Obviously, the level of profit assumed viable is often a matter of debate and certainly with no fixed rules. In our experience through both numerous site-specific cases and strategic viability review, typically a profit on GDV of between 15% - 20% for market housing (though now often as beneath 20%) and 6% for affordable housing serves as a reasonable guide. The upper end of this range was seen more commonly through and immediately following the recessionary period, where the risk of development was potentially higher than under current circumstances.

3.1.52 Profit requirements have since eased and overall in our experience a profit level not exceeding more than say 20% based on development costs is more representative of the range of scenarios that are put to us across a wide variety of sites and schemes. Indeed, within our wide experience of viability reviews such as this, a 20% profit on

[5] RICS - Financial Viability in Planning (GN/94/2012)

cost assumption is one we have also seen used by Savills elsewhere. This is usually equivalent to circa say 16 to 18.5 % GDV on the market housing.

3.1.53 With lower profit requirements or expectations now being seen frequently in our experience, a fixed view of profit at 20% GDV on market housing no longer necessarily remains appropriate. With viability under pressure and under review to secure scheme delivery, applicants are showing flexibility on this.

3.1.54 Furthermore, in a recent appeal decision ref. APP/R4408/W/17/3170851, the Inspector concluded that as there was no *"significant risks associated with developing this site for housing"* as would appear to be the case here, that *"the development could reasonably operate at a profit margin of 17.5%*". We would point the council to a recent Appeal decision (APP/B4215/W/17/3175926) where it was stated that the normal profit range would be within 15% - 20% on cost and that in that instance, as the return was within that range it would be acceptable.

3.1.55 We are therefore of the view that a 20% profit does not necessarily form a or required rate and that a lower profit should be acceptable to enable a scheme to proceed.

3.1.56 At this stage however it does not appear necessary to adjust the overall profit assumption whilst maintaining a policy compliant scheme and as such we have made no adjustments to our version of the submitted development appraisal. We reserve the right to revisit this assumption if necessary.

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 benchmark land value, sales values, BCIS base build costs and marketing costs. In addition we have mentioned that the additional highways costs included within the development appraisal have not been substantiated and that we do not agree with the level of developer return included within the development appraisal. At this stage however we have made no adjustments to the submitted development appraisal relating to highways and profit.

4.1.2 The policy compliant development appraisal submitted for review produces a deficit of £4.1m against the stated benchmark land value and developer return.

4.1.3 As part of our audit style approach, we have run a version of the applicant's policy compliant appraisal utilising Argus Developer software to explore the extent to which a more positive viability outcome should be possible. These adjustments include reducing the benchmark land value, marginally increasing the sales values assumptions, altering the BCIS base cost in line with published data, and reducing the marketing costs.

4.1.4 The result of this appraisal removes the deficit and produces a surplus of approximately £1.8m.

4.1.5 Notwithstanding our overall views on the appropriateness of reviewing viability at outline application stage, 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.

4.1.6 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 this outline application.

4.1.7 DSP will be happy to advise further as required.

Review report ends

Review completed July 2018

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

Appendix I – DSP Appraisal Summaries

Land fronting Manston Rd and Nash Rd, Margate
Viability Appraisal - Policy Compliant Scheme

70/30 Split of Affordable Housing at 30%

Development Appraisal
Prepared by DSP Version of Applicant Submitted Appraisal
Dixon Searle Partnership
25 July 2018

Land fronting Manston Rd and Nash Rd, Margate
Viability Appraisal - Policy Compliant Scheme

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft²	Rate ft²	Unit Price	Gross Sales
1b Private Apartment	11	5,775	283.00	148,575	1,634,325
1b Affordable Rent Apartment	3	1,575	155.65	81,716	245,149
1b Shared Ownership Apartment	1	525	198.10	104,003	104,003
2b Private Apartment	21	14,700	283.00	198,100	4,160,100
2b Affordable Rent Apartment	6	4,200	155.65	108,955	653,730
2b Shared Ownership Apartment	3	2,100	198.10	138,670	416,010
2b Private House	45	33,750	283.00	212,250	9,551,250
2b Affordable Rent House	14	10,500	155.65	116,738	1,634,325
2b Shared Ownership House	6	4,500	198.10	148,575	891,450
3b Private House	59	59,000	283.00	283,000	16,697,000
3b Private House Blighted	18	18,000	283.00	283,000	5,094,000
3b Affordable Rent House	18	18,000	155.65	155,650	2,801,700
3b Affordable Rent House Blighted	5	5,000	155.65	155,650	778,250
3b Shared Ownership House	8	8,000	198.10	198,100	1,584,800
3b Shared Ownership House Blighted	2	2,000	198.10	198,100	396,200
4b Private House	21	26,250	283.00	353,750	7,428,750
4b Affordable Rent House	7	8,750	155.65	194,563	1,361,938
4b Shared Ownership House	2	2,500	198.10	247,625	495,250
Freehold Ground Rent Investment	1	0	0.00	250,000	250,000
Totals	**251**	**225,125**			**56,178,229**

NET REALISATION			**56,178,229**	
OUTLAY				
ACQUISITION COSTS				
Fixed Price (23.00 Acres 135,000.00 pAcre)		3,105,000		
			3,105,000	
Stamp Duty		146,250		
Agent Fee	1.00%	31,050		
Legal Fee	0.35%	10,867		
			188,167	

This appraisal report does not constitute a formal valuation.

Land fronting Manston Rd and Nash Rd, Margate
Viability Appraisal - Policy Compliant Scheme

CONSTRUCTION COSTS

Construction	ft²	Rate ft²	Cost	
1b Private Apartment	5,775 ft²	140.00 pf²	808,500	
1b Affordable Rent Apartment	1,575 ft²	140.00 pf²	220,500	
1b Shared Ownership Apartment	525 ft²	140.00 pf²	73,500	
2b Private Apartment	14,700 ft²	140.00 pf²	2,058,000	
2b Affordable Rent Apartment	4,200 ft²	140.00 pf²	588,000	
2b Shared Ownership Apartment	2,100 ft²	140.00 pf²	294,000	
2b Private House	33,750 ft²	121.90 pf²	4,114,125	
2b Affordable Rent House	10,500 ft²	121.90 pf²	1,279,950	
2b Shared Ownership House	4,500 ft²	121.90 pf²	548,550	
3b Private House	59,000 ft²	121.90 pf²	7,192,100	
3b Private House Blighted	18,000 ft²	121.90 pf²	2,194,200	
3b Affordable Rent House	18,000 ft²	121.90 pf²	2,194,200	
3b Affordable Rent House Blighted	5,000 ft²	121.90 pf²	609,500	
3b Shared Ownership House	8,000 ft²	121.90 pf²	975,200	
3b Shared Ownership House Blighted	2,000 ft²	121.90 pf²	243,800	
4b Private House	26,250 ft²	121.90 pf²	3,199,875	
4b Affordable Rent House	8,750 ft²	121.90 pf²	1,066,625	
4b Shared Ownership House	2,500 ft²	121.90 pf²	304,750	
Totals	**225,125 ft²**		**27,965,375**	**27,965,375**
Contingency		5.00%	1,611,072	
Road/Site Works	225,125 ft²	15.00 pf²	3,376,875	
S106 Secondary Education			1,323,826	
S106 Primary Education			831,000	
S106 SPA			102,000	
S106 Youth			14,860	
S106 Libraries			14,004	
S106 New Learners			5,157	
S106 Social Care			16,985	
				7,295,779
Other Construction				
Manston Road Roundabout			347,395	
Nash Road Highways Works			157,000	
Manston Road Priority Shift			29,000	
Abnormal Link Road Upgrade			531,800	
				1,065,195

This appraisal report does not constitute a formal valuation.

Land fronting Manston Rd and Nash Rd, Margate
Viability Appraisal - Policy Compliant Scheme

PROFESSIONAL FEES				
All Fees		10.00%	3,240,744	
				3,240,744
MARKETING & LETTING				
Marketing		1.00%	445,654	
				445,654
DISPOSAL FEES				
Sales Agent Fee		1.00%	445,654	
Affordable Housing Sales Package			15,000	
Sales Legal Fee	175 un	750.00 /un	131,250	
				591,904
MISCELLANEOUS FEES				
Profit on Private Units		20.00%	8,913,085	
Profit on Affordable Units		6.00%	681,768	
				9,594,853
FINANCE				
Debit Rate 6.500%, Credit Rate 1.500% (Nominal)				
Land			770,100	
Construction			134,168	
Other			(1,224)	
Total Finance Cost				903,044
TOTAL COSTS				**54,395,717**
PROFIT				
				1,782,512
Performance Measures				
IRR		12.86%		

This appraisal report does not constitute a formal valuation.

Land fronting Manston Rd and Nash Rd, Margate
Viability Appraisal - Policy Compliant Scheme

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

This appraisal report does not constitute a formal valuation.