Financial Viability Assessment

Shottendane Road, Margate

Gladman Developments Limited

June 2020

Contents

Appendices

1 Executive Summary

This Financial Viability Assessment has been prepared by JLL on behalf of Gladman (the "Client"/ the "Applicant") in relation to the proposed outline planning application of the land at Shottendane Road, Margate, Kent also referred to as "the site". The proposed re-development of the site will provide up to 450 residential dwellings, parking, open space and a new distributor link road.

The residential development has been brought forward on open agricultural land. In accordance with the Draft Local Plan to 2031, residential development schemes for more than 10 dwelling units shall be required to provide 30% of the dwellings as affordable housing.

The purpose of this report, dated June 2020, is to consider, in an open book format, the financial viability of the proposed scheme taking into account development costs and anticipated value of the proposed development on completion. The proposed level and mix of affordable housing provision on the site and planning obligations are commented on within this report, along with supporting rationale and evidence.

The Residual Land Value derived through the detailed viability assessment is considered within the context of the appropriate Benchmark Land Value in accordance with the National Planning Practice Framework 2019 ("NPPF") and the Planning Practice Guidance (PPG) on Viability.

Costs, values and timescales associated with the delivery of the scheme have been considered in detail and supported by specialist input from third party consultants where appropriate. Values and costs are based upon current day opinions and evidence. The development appraisals pertaining to the proposed scheme have been modelled using recognised residual appraisal software - Argus Developer.

Policy SP20 of the Draft Local Plan seeks a provision of 30% of units as Affordable Housing units on sites delivering 10 or more dwellings. Although still in draft, we understand adoption is aiming for the 9th July 2020 and therefore sufficient weight is now being given to this policy and the proposed scheme will be tested against this requirement. The policy does not state a tenure mix required for developments in the most recent draft however, we understand there is a requirement for a greater proportion of Affordable Rent units.

The site is included as an allocated site within the Draft Local Plan and was subject to viability study at the evidence base stage in 2018. This however pre-dated the NPPF 2019 changes which placed an emphasis of detailed site specific viability assessments of allocations. Furthermore, this assessment was undertaken on the basis of the emerging allocation for 550 units rather than the proposed outline scheme of 450 units. Consequently we consider that an application stage viability assessment is justified.

A provision of 10% affordable housing is proposed. The affordable housing is offered in addition to the provision of mandatory financial Section 106 contribution of approximately £2,940,269 as advised by the applicant as well as significant infrastructure improvements including a new distributor line road and upgrades to Shottendane Road.

We have undertaken an appraisal to demonstrate the Residual Land Value for the proposed scheme. The Residual Land Value that results is £2,838,920 which, when compared to the Benchmark Land Value of £4,742,750, results in a current day deficit of £1,903,830. Despite this the applicant is committed to delivering the scheme as proposed.

A simplified summary of our appraisal is provided overleaf:

Appraisal Inputs	Amount	Comment
Revenue		
Gross Development Value	£115,007,877	Total revenue received from sales of student and retail investments
Less Costs		
Construction Costs	£76,675,715	Cost of construction, including contingency.
On Costs	£18,810,152	Acquisition Costs, Professional Fees, Disposal Costs, S106/CIL, and Finance Costs.
Profit / Risk Return	£19,522,010	Profit / Risk Return required to undertake the project.
=		
Residual Land Value	£2,838,920	This is the amount left after all revenue and costs (including profit requirement) are accounted for.
Compared to		
Benchmark Land Value	£4,742,750	Appropriate land cost, having regard to planning policy, reflecting the existing use and disregarding amount paid.

2 Introduction

2.1 Overview

This Financial Viability Assessment has been prepared by JLL on behalf of Gladman Developments Limited (the "Client"/ the "Applicant") in relation to the proposed scheme at Shottendane Road, Margate, also referred to as "the site".

2.2 Report Structure

The structure of this Viability Assessment is as follows:

- Section 3 provides an introduction to the site and area;
- Section 4 sets out the details of the proposed scheme;
- Section 5 outlines the affordable housing context in policy terms;
- Section 6 provides details of the methodology used to assess the viability of the proposed scheme, including details of the site benchmark value;
- Section 7 details the development programme assumed;
- Section 8 details the values associated with the private residential uses;
- Section 9 details the values associated with the affordable residential uses;
- Section 10 sets out details of the build costs and development programme;
- Section 11 sets out the appraisal assumptions; and
- Section 12 outlines the viability results and conclusions.

2.3 Key Information Relied Upon

We have been provided with, and relied upon, the following key information:

- Accommodation Schedule;
- BCIS cost estimates
- Additional cost breakdown (Gladman);
- S106 Contribution Estimate (Gladman);
- Location Plan 101 (CSA enviornmental, drawing no CSA/4430/120/B, dated April 2020); and
- Development Framework Plan (CSA Environmental, drawing no CSA/4430/104, dated July 2019).

2.4 Status

This report and its contents have been prepared specifically to support the planning application and viability discussions in respect of the proposed redevelopment of the site. The report and appraisals may be used to inform negotiations between the Council and the Applicant regarding affordable housing and financial planning contributions.

This report complies with the RICS Professional Statement *'Financial viability in planning: conduct and reporting'* (1st Edition, May 2019). We can confirm that all RICS members inputting into this assessment have acted objectivity, impartially, without interference and with reference to all appropriate available sources of information. We are not involved with area-wide assessments within the borough. Furthermore, in preparing this report, no performance related or contingent fees have been agreed.

This report does not comprise a valuation and, therefore, has not been produced in accordance with the RICS Valuation Standards – Global Standards 2020 or the RICS Valuation – Global Standards 2017 – UK national supplement (The RICS Red Book UK National Supplement): effective 14 January 2019. The advice contained herein cannot be used for purposes other than those mentioned, including loan security purposes and may not be used or duplicated without the prior written consent of JLL.

2.5 Covid 19 Global Pandemic

The Covid-19 global pandemic is having significant impacts upon the UK economy and real estate market with the lockdown and social distancing requirements restricting the use of all types of property assets. Construction sites are currently permitted to continue to operate but only where possible to adhere to social distancing requirements resulting in significant numbers of sites remaining closed or operating at partial productivity. Most site sales suites and estate agents' offices have been closed until relatively recently. Individual homes can of course be occupied but completions and moves were put on hold due to the lockdown and are only returning where social distancing rules permit. Likewise viewings were banned for a period with strict measures now in place for anyone who does want to view a property internally.

In terms of the impact on values and development viability it is self-evident that the effects, both in the near and longer term, of the Covid 19 pandemic will have a significant impact on the property market and in turn development viability. Transaction values have fallen to unprecedented levels and there is a demonstrable correlation between such volumes falling and reductions in values. Notwithstanding this, at the time of writing our report, we are currently at the start of this pandemic and viability assessments are predicated on the basis of present-day values and costs - it is not possible to accurately illustrate the impact on values or costs as at today as the impacts have yet to follow through into the evidence available. Consequently, we have not tried to predict these and currently discounted the impact of Covid 19 on the viability of the proposed scheme.

As a result, our assessment is subject to "material valuation uncertainty" as defined by the RICS. The opinions set out below are undoubtably more optimistic than the reality of the situation allows for and we reserve the right to amend our opinion at a later date.

3 Background

3.1 Site Description

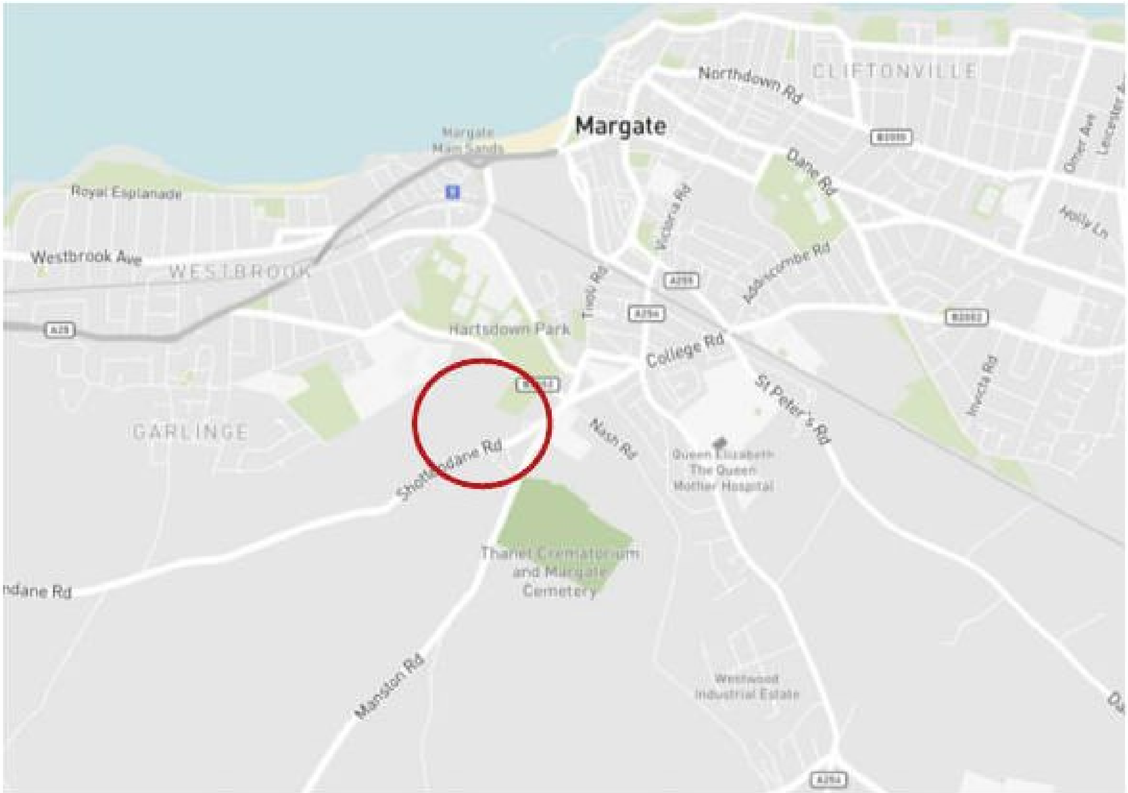
The site comprises an irregularly 'L' shaped parcel of land, divided by Shottendane Road. The north parcel of land is bordered by Shottendane Road to the south, existing residential dwellings to the east, greenfield land to the west and Hartsdown Road to the north east. The southern parcel of land is bounded by Shottendane Road to the north west, existing residential dwellings to the north east, greenfield land to the south and Manston Road to the south east.

The proposed development is located to the south west of Margate and is within the administrative boundaries of Thanet District Council. The site is located on the existing edge of Margate and as such, is relatively mixed in use with greenfield land and existing residential dwellings, with a nursing home, school and cemetery also in close proximity. Margate Station is located approximately 0.8 miles north of the site. Local amenities can be found on Ramsgate Road, although additional amenities can be found in Margate, 1 mile to the north.

The scheme is required to provide a new distributor link road from Hartsdown Road down to Shottendane Road and Manston Road. Access to the site would be from any of the aforementioned roads, including the new link road.

The development proposes up to 450 dwellings, of varying architypes, providing 2, 3 and 4 bedrooms each.

A location plan is below:



3.2 Communications

The immediate area is served by Hartsdown Road (B2052) running west to meet Canterbury Road (A28) which leads to the M2 near Broughton. The B2052 also runs east to Kingsgate and Broadstairs. Shottendane Road and Manston Road also lead south to the A299, providing a direct route into Canterbury. London Gatwick Airport is located approximately 79 miles west and London City Airport is 73 miles north west.

The site is located 0.8 miles south of Margate Station (a circa 15 minute walk) which is a Southeastern railway station. London Victoria can be reached with a fastest journey time of 1 hour and 51 minutes, whilst London St Pancras is 1 hour 41 minutes away. Ramsgate Road and College Road, east of the subject site, are main bus routes, providing access to Canterbury and Westwood Cross (8 Breeze), Margate (36) and Ramsgate (the Loop).

3.3 Amenities

Some local amenities can be found on Ramsgate Road to the east, including convenience stores and independent takeaway shops. Additional amenities can be found in Margate, including food supermarkets such as Morrisons and College Square Shopping Centre.

The site will be situated adjacent to Margate Cricket Club, whilst Margate Football Club is located on the other side of Hartsdown Road. Tivoli play area is the closest public open space, although Margate Beach is only 0.7 miles (a 15 minute walk) north of the site.

4 Proposed Development

4.1 Proposed Development

Gladman Developments Limited have proposed a developing the existing greenfield land into a residential development providing dwellings with associated road infrastructure. The site comprises an irregularly 'L' shaped, parcel of land, divided by Shottendane Road. The north parcel of land is bordered by Shottendane Road to the south, existing residential dwellings to the east, greenfield land to the west and Hartsdown Road to the north. The southern parcel of land is bounded by Shottendane Road to the north west, existing residential dwellings to the north east, greenfield land to the south and Manston Road to the south east.

The development proposes up 450 dwellings, predominately houses, of varying architypes, with each providing 2, 3 or 4 bedrooms. The scheme is required to provide a new link road from Hartsdown Road down to Shottendane Road and Manston Road. Access to the site would be from any of the aforementioned roads, including the new link road.

As an outline planning application exact layouts of individual housing plots, unit floor plans and elevations have not been drawn. However, we have been provided the proposed development framework plan, setting out the link and estate roads, open space, play space and hard landscaping, together with an indicative unit mix. The latter is based upon similar schemes that Gladman have undertaken and details the different typologies, unit designs, sizes, unit numbers and garages. We have assumed the houses will benefit from parking (in addition to garages where applicable) and the flats will have a form of private outside space with one car parking space per unit. We have also assumed that there are some communal gardens/public open space on site for all residents, as shown in the development plan.

A total of 45 affordable homes are proposed, which equates to 10% of the scheme on a unit basis. The affordable tenure has not been specified and the current draft Local Plan also does not specify an affordable mix. We have reviewed Thanet's 'Local Plan and CIL Viability Assessment' (December 2017), which details 80% rented tenure and 20% intermediate tenure. We have assumed the rented tenure to be Affordable Rent and the intermediate tenure as Shared Ownership.

Site local and development plans are included at Appendix 1.

4.2 Overall Residential Provision

Full details of the accommodation assumed is included at Appendix 2. Note the floor areas provided, and summarised below, exclude areas of garages.

The table below summarises details of the proposed residential units across the scheme:

Residential Units	Number of Units	NSA (sqm)	NSA (sqft)
2 Bed Flat	48	63	679
2 Bed Terrace House	88	64	690
3 Bed Terrace House	108	89	958
3 Bed Semi-detached House	119	89 - 102	958 – 1,095
3 Bed Detached House	10	86	930
4 Bed Detached House	77	97 - 130	1,045 – 1,399
Total	**450**	**39,271**	**422,704**

4.3 Private Residential Units - Sale

The table below summarises details of the proposed private residential units:

Residential Units	Number of Units	NSA (sqm)	NSA (sqft)
2 Bed Flat	24	63	679
2 Bed Terrace House	80	64	690
3 Bed Terrace House	95	89	958
3 Bed Semi-detached House	119	89 - 102	958 – 1,095
3 Bed Detached House	10	86	930
4 Bed Detached House	77	97 - 130	1,045 – 1,399
Total	**405**	**36,070**	**388,258**

4.4 Affordable Residential Units

A total of 45 affordable homes are proposed, which equates to 10% of the scheme on a unit basis. Details of how the affordable housing is split by tenure is summarised below:

Residential Units	Number of Units	NSA (sqm)	NSA (sqft)
2 Bed Flat	24	63	679
2 Bed Terrace House	8	64	690
3 Bed Terrace House	13	89	958
Total	**45**	**3,200**	**34,446**

4.5 Affordable Residential Units – Affordable Rent ("AR") tenure

The table below summarises details of the proposed AR units:

Residential Units	Number of Units	NSA (sqm)	NSA (sqft)
2 Bed Flat	20	64	690
2 Bed Terrace House	5	63	679
3 Bed Terrace House	11	89	958
Total	**36**	**2,576**	**27,733**

4.6 Affordable Residential Units – Shared Ownership ("SO") tenure

The table below summarises details of the proposed SO units:

Residential Units	Number of Units	NSA (sqm)	NSA (sqft)
2 Bed Flat	4	64	690
2 Bed Terrace House	3	63	679
3 Bed Terrace House	2	86 – 89	930 – 958

Total	**9**	**614**	**6,713**

4.7 Proposed Residential Specification

Given the nature of the planning application, we have not been provided with exact details of the proposed residential units specification. However, we have assumed that the specification will be commensurate to other new build residential developments in the wider area.

4.8 Parking Provision

We have assumed that the houses will benefit from off street parking, with the four-bedroom houses benefitting from either integral, detached or semi-detached garages. We have assumed the flats will also benefit from a parking provision.

5 Planning Policy and Affordable Housing

5.1 Relevant Documents

The following documents, set out in detail below, have informed the approach to viability and the associated affordable housing offer.

- National Planning Policy Framework ("NPPF") (adopted July 2018, updated February 2019);
- Viability Planning Practice Guidance (adopted July 2018, updated September 2019); and
- Thanet District Council Draft Local Plan to 2031 (July 2018, Pre-Submission publication version, regulation 19).

5.2 National Planning Policy Framework (July 2018, updated February 2019)

The NPPF sets out the Government's overarching economic, environmental and social planning policies in England and how these are expected to be applied.

Paragraph 54 states *"Local planning authorities should consider whether otherwise unacceptable development could be made acceptable through the use of conditions or planning obligations. Planning obligations should only be used where it is not possible to address unacceptable impacts through a planning condition."*

Paragraph 57 states *"All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available."*

Paragraph 64 states "Where major development involving the provision of housing is proposed, planning policies and decisions should expect at least 10% of the homes to be available for affordable home ownership, unless this would exceed the level of affordable housing required in the area, or significantly prejudice the ability to meet the identified affordable housing needs of specific groups."

5.3 National Viability Planning Practice Guidance (July 2018, updated September 2019)

The Planning Guidance sets out the government's recommended approach to viability assessment for planning.

We set out the pertinent points below:

- **Gross Development Value** - For viability assessment of a specific site or development, market evidence (rather than average figures) from the actual site or from existing developments can be used. Any market evidence used should be adjusted to consider variations in use, form, scale, location, rents and yields, disregarding outliers.
- **Development Costs** – Build costs based on appropriate date, abnormal costs, site-specific infrastructure costs, the total costs of all relevant policy requirements (including CIL), finance costs, professional fees, disposal costs (including sales, marketing and legal costs) and project contingency costs.
- **Developer Return** – An assumption of 15-20% of GDV may be considered a suitable return to developers. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk.
- **Benchmark Land Value** – A Benchmark Land Value should be established on the basis of the existing use value (EUV) of the land plus a premium for the landowner. The premium for the landowners should reflect the minimum return at which it is considered reasonable landowners would be willing to sell their land. The Benchmark Land Value may reflect Alternative Use Values and in such cases the premium should not be double counted. A Market Value approach may be appropriate in justifying an appropriate premium subject to policy compliance.

5.4 Thanet District Council Draft Local Plan to 2031 (Submission Draft including Proposed Main Modifications and Additional Modifications, December 2019)

Thanet District Council submitted the draft Local Plan to the Secretary of State for Communities and Local Government on 30th October 2018 for independent examination. The draft Local Plan has been reviewed by cabinet and proposed adoption is set for July 2020.

Policy SP20 states that Thanet District Plan seeks 30% affordable housing on schemes providing more than 10 dwellings.

The previous draft (dated July 2018) stated that affordable housing should be provided as 17% Starter Homes, 18% Affordable Rent and 65% Social Rent. These requirements would be reduced if the proposed development cannot viably meet them. Starter Homes have effectively ceased to be a deliverable affordable housing product. The most recent (December 2019) draft has removed this specific tenure split to allow for conversations during the planning process on the appropriate tenure split. Having reviewed the Local Plan viability evidence base it is apparent that a provision of 80% Affordable Rent (at Local Housing Allowance rent caps) and 20% Shared Ownership has been provided.

We are aware the subject site is recognised as a strategic site for the district. The land is part of an emerging allocation for up to 550 homes separated into two parcels of up to 300 dwellings at the land north of Shottendane Road and up to 250 dwellings at land south of Shottendane Road. In addition, the site should provide both pedestrian and cycle access between the two sites, a minimum amount of open space across both sites and a link road through the site to link Hartsdown Road and Shottendane Road.

5.5 Planning Contributions

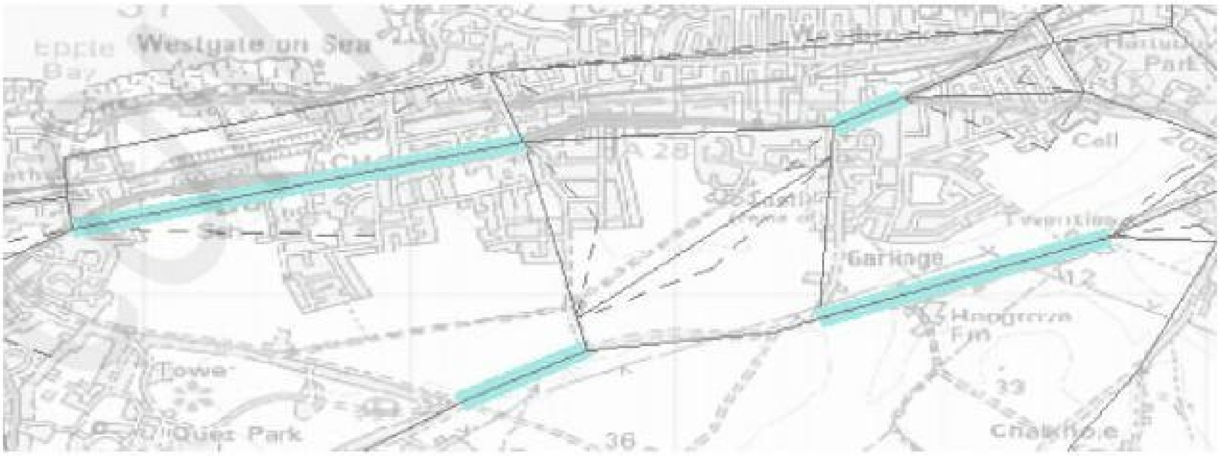
Section 106 contributions of approximately £2,940,269 have been estimated, as advised by Gladman. A breakdown is provided below:

Item	Amount	Basis	Total
Secondary Education	£5,176.00	per applicable house	£2,080,752.00
	£1,294.00	per applicable flat	£62,112.00
Secondary School Land	£1,511.00	per applicable house	£607,422.00
	£377.00	per applicable flat	£18,096.00
Community Learning	£16.42	per dwelling	£7,389.00
Youth	£65.50	per dwelling	£29,475.00
Libraries	£55.45	per dwelling	£24,952.50
Social Care	£146.88	per dwelling	£66,096.00
Waste	£97.72	per dwelling	£43,974.00
Health	£0.00	per occupant	£0.00
Sports	Unknown	-	
TOTAL			**£2,940,269**

S278 Highways contributions of approximately £3,000,000 were estimated and allocated to the site as part of the inner circuit of highway improvements proposed as part of the Thanet District Transport Strategy. This contribution was specifically allocated to provide approximately 20% of the total cost (remainder to be funded by the Westgate site) of the Shottendane Road Corridor Improvement, on the assumption that the work would be undertaken by Kent County Council (see Strategic Site Allocations Impact, Amey, July 2019).

The £3,000,000 requirement allocated to the subject site was predicated on the basis of the site allocation for 550 units, equating to £5,454.55 per unit. Due to various site constraints, including the link road to by-pass a known traffic problem, the scheme is unable to accommodate 550 residential units and can instead only facilitate 450 units. Assuming £5,454.55 per unit, this equates to £2,454,545 across the scheme.

A proportion of the Shottendane Road Corridor Improvement works are to take place on an area of Shottendate Road located between the north and south parcels of the subject site:



(Source: Strategic Site Allocations Impact, Amey, July 2019).

The Strategic Site Allocation Impact ("SSAI") specifically states that '*An alternative approach to infrastructure delivery directly by developers through section 278 agreements (in lieu of financial contributions) may also be acceptable.*' It is now proposed as part of the application that the applicable proportion of works will be directly undertaken through such an agreement.

A breakdown of the Shottendane Road improvements being provided is summarised below (further details are set out in the Construction Costs section of this report):

Item	Amount
Re-alignment of Shottendane Road	£1,750,000
Road traffic island to Shottendane Road	£500,000
Service diversions to the island	£125,000
TOTAL	**£2,375,000**

In addition to this, the link road has been updated from a standard estate road to a wider road with footpath / cycleway, which is done at the request of the council to facilitate their transport aspirations. This is an additional £250,000 and therefore **totals £2,625,000 towards road improvements**.

It is considered that this onsite delivery meets the site allocation requirements with no further financial contributions required towards the Thanet District Transport Strategy.

6 Viability Methodology

6.1 Viability Context

In simple terms, the viability assessment process comprises a comparison of the Residual Land Value for the proposed development against an appropriate benchmark value for the existing site or property.

The viability assessment process is undertaken to establish the appropriate level of planning obligations and affordable housing in the instance where a policy compliant level is economically unviable.

Development convention and guidance on assessing the viability of schemes states that where a development proposal generates a Residual Land Value which is greater than the appropriate benchmark, it is deemed financially viable and therefore likely to proceed. Conversely, if the residual value is lower than the benchmark, it is deemed financially unviable. This is based on the accepted assumption that a developer will always seek to bring forward the highest value scheme.

In summary, the viability assessment process is as follows:

GROSS DEVELOPMENT VALUE

less

COSTS

less

PLANNING CONTRIBUTIONS

less

PROFIT / RISK REQUIREMENT

equals

RESIDUAL LAND VALUE

compared to

APPROPRIATE BENCHMARK VALUE

This assessment is fundamental in determining the level of contributions which the developer can afford to make, whilst ensuring the scheme remains viable.

6.2 Establishing the Benchmark Land Value

An appropriate Benchmark Land Value is the minimum price a landowner would accept to release a site for development. In considering the Benchmark Land Value, against which the residual value of the proposed scheme is compared, we have had regard to the Government's National Planning Policy Framework (NPPF) (2018, updated 2019) and the Viability Planning Practice Guidance (2018, updated September 2019).

6.3 Viability Planning Practice Guidance (September 2019)

Paragraph 13 of the Viability PPG states that the benchmark should be established on the basis of EUV+ approach. 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 (the '+') is added to provide the landowner as an incentive to release the site, having regard to site circumstances, other options available and policy requirements. In practice the premium can vary from a minimum of 10% to a multiple (say 10-20x) of the Existing Use Value, but this must reflect site specific circumstances and will vary.

Other methods that can be appropriate are the Alternative Use Value (AUV) and 'Market Value' (MV) approaches. An AUV reflects the RLV of the site for alternative development scenarios such as competing land uses. Such schemes must be policy compliant. An extant planning permission is often referred to as an AUV in that this requires development but also constitutes its Existing Use Value; its use and the explicit planning permission having been firmly established. In such circumstances it is not appropriate to apply a landowner's premium. A MV approach reflects the value of the site having regard to the cost of comparable development land. This is, however, subject to the requirement that this value reflects planning policy including appropriate affordable housing.

6.4 Establishing the Benchmark Land Value

Having had regard to the above and the details of the site we have adopted an EUV+ approach.

We have adopted a Benchmark Land Value of £4,742,750 which equates to £250,000 per hectare. This is inline in accordance with the values adopted in the Council's Local Plan evidence base. A full explanation of our approach, evidence and rationale is included at Appendix 3.

7 Development Programme

7.1 Development Programme

We have assumed the following development programme for the proposed scheme which we detail below:

Development Stage	Duration (months)
Purchase	1
Pre-Construction	6
Construction	58
Sale	50
Total	**69**

Currently the site is allocated and there are number of possible permutations in terms of delivery and phasing. For the purposes of our assessment, and given the number of units, we have assumed that the development would be split into two sections (of approximately 225 units each) which will be delivered concurrently by two different 'outlets' or 'flags'. These could be different housebuilders or simply different brands within the same group. The infrastructure requirements would need to be shared as a cost or delivered by the applicant with the resultant serviced plots developed by the individual outlets.

Each section would be delivered on a phased basis but this would be dependent on the precise nature of the finalised proposals as per any forthcoming reserved matters application. Given the current state of the proposals and nature as a housing led development, we have assumed a rolling construction and sales programme whereby the first completions and sales take place approximately 12 months after starting on site and continue on a straight-line basis with a 'run off' period post completion. With two outlets selling from the combined site, potentially offering different product types or specification but competing with each other, we have assumed a combined sales rate of approximately 8 units per month (4 units per outlet).

We have generally applied the construction costs on a S curve basis. However, a significant proportion of the infrastructure and abnormal costs are weighted to the start of the scheme. The cashflow timings for these are set out in the cost section below.

We have modelled the affordable housing values over the construction period reflecting a likely bulk package deal with a single or number of Registered Providers. It could be that a golden brick payment could be secured but given the length of the total construction period it is unrealistic to assume that it would be received as one lump payment at the start of construction of the entire combined site. Instead it is more likely that the affordable housing would be deposed of via multiple phased tranches throughout the full development period with any goldbrick payments achieved on a phased basis also. In the absence of a detailed phasing plan we have cash-flowed the affordable sales on a straight line basis.

8 Private Residential Unit Values

8.1 Introduction

A thorough assessment of comparable evidence from schemes within the vicinity of the site has been undertaken. For ease of reference, a summary of the comparable evidence on which we have based our opinion of value for the private residential units is attached at Appendix 4.

Due to the early stage of this assessment, we have not been provided with details of specification, property layouts and scheme layout. We have therefore applied a fixed valued for all property types.

8.2 Private Residential Value

Our opinion of value for the private residential units on completion is **£109,752,500** and is summarised below:

Residential Units	Number of Units	NSA (sqm)	NSA (sqft)	Market Value Range	£psf Range	Average Market Value	Average £psf
2 Bed Flat	24	64	690	£175,000	£254	£175,000	£254
2 Bed House	80	63	679	£215,000	£317	£215,000	£317
3 Bed House	224	86 - 102	930 – 1,095	£265,000 – 280,000	£251 - £301	£270,000	£269
4 Bed House	77	97 - 130	1,045 – 1,399	£345,000 - £385,000	£275 - £330	£362,000	£301
Total	405	36,070	388,258		£283		

Please refer to Appendix 5 for a more detailed breakdown of the values.

8.3 Ground Rents

We have provided our opinion of GDV excluding the potential value of any capitalised ground rental income. This decision is based on the clear intention to legislate against such income and, more importantly, the reaction of banks etc no longer lending against such income, such that from a market perspective, it has already ceased to exist.

On 21st December 2017, the Secretary of State for Communities and Local Government announced proposals to ban developers from selling new build houses on leasehold terms (except in exceptional circumstances where it is not possible to sell the house with the benefit of a freehold interest). Additionally, it was announced that the Government will legislate as soon as is practicably possible, to prohibit developers from charging ground rents (i.e. any levy would be set to zero or a nominal amount) on leasehold apartments.

The Government also announced proposals to review the cost of, and market procedures for long leaseholders in either purchasing a freehold or extending a lease. The Department for Communities and Local Government said it will be "working with the Law Commission to make the process of purchasing a freehold or extending a lease much easier, faster and cheaper". Mr Sajid Javid MP commented that "It's unacceptable for home buyers to be exploited through unnecessary leaseholds, unjustifiable charges and onerous ground rent terms". These proposals have consistently received wide ranging, cross party support.

On 19 March 2019 the Housing, Communities and Local Government Committee called for wide ranging reforms to the leasehold system. The committee concluded that:

- It would be legally possible for the Government to introduce legislation to remove onerous ground rents in existing leases. Existing ground rents should be limited to 0.1% of the present value of a property, up to a maximum of £250 per year.

- The Government should revert to its original plan and require ground rents on newly-established leases to be set at a peppercorn (zero financial value)

On 1st June 2019 the government published its "Summary of consultation response and Government response" to the "Implementing reforms to the leasehold system" as published on the 15th October 2018. This states:-

- Ground rents will be restricted to zero/peppercorn for new leases of houses and flats; not £10 per annum as previously proposed.
- Exemptions for retirement properties, community-led developments, Financial lease products such as home reversion plans (equity release) and home purchase plans (lifetime leases and Islamic/Sharia compliant finance) where there is a non-assignable lease, and Mixed-use leases (i.e. one lease covers both commercial and residential property).
- An exemption will not be provided for charging ground rent on shared ownership properties
- There will be no transitional period after the legislation comes into force.

The knock on impact upon the value of existing ground rent portfolios has been negative, and the release of this news initially in December 2017 immediately had a negative impact upon the share prices of most major house builders reflecting the fact that the asset class will not be created in the future.

Since the announcement in December 2017, yields have softened and multipliers have decreased. On one hand, despite the attraction of an inflation hedged asset not being created anymore increasing its scarcity (putting upwards pressure on pricing where portfolios are already established) – there are concerns that retrospective legislation will have the opposite effect. Retrospective legislation could include making enfranchisement or the purchase of leases cheaper for long leaseholders (eroding reversionary value to the Freeholder), the requirement for previous developers to set up funds to compensate leaseholders affected by 'onerous' lease terms, or more unlikely retrospectively striking out terms in the long leasehold agreements (such as rental levels, provision for / frequency of rent reviews).

With respect to schemes which are yet to be developed the market has effectively assumed that the above limitations will be ineffective with bidders removing ground rent income (i.e. future portfolios) from their appraisals and banks refusing to provide development finance on such income. As a result, all leading valuation houses (including JLL) no longer include such income in secured lending valuations – accordingly while the necessary legislation has yet to be passed, the effect has been immediate. As the rents are comparatively low to both mortgages and service charges any savings are seen as de minimis and extremely unlikely to result in any upward movement in sales values. While the previous political uncertainty, and now Covid pandemic, has delayed the above it is considered that such legislation is a question of when, not if, as it carries wide ranging, cross party support and therefore ground income will be banned by whichever Government is in power.

Given the above we have not included any capitalised ground rent income. While the proposed legislation has not been enacted the Government's clear position has led to an immediate market effect such that any value from additional ground rent income has effectively ceased to exist. Furthermore, the Government consultation (and subsequent response), in responding to suggestions for a transitional period, clearly stated that one was not necessary as the market (and by extension planning system) had time to adjust as the intention had been clear for some time.

9 Affordable Unit Values

9.1 Proposed Scheme Values

JLL are leading specialists in the affordable housing sector. We have undertaken a valuation of the proposed affordable housing using JLL's bespoke discounted cashflow (DCF) model to arrive at a 'package price' equating to the amount a Registered Provider would pay a developer for the delivery of the S106 units.

In order to determine our estimates of the indicative current rents, we have adopted the formula set out by the Housing and Communities Agency (HCA), which applies a 70% weighting to relative average county annual earnings and a 30% weighting to relative capital values (EUV, as at January 1999), with an adjustment factor for the number of bedrooms in the respective properties. We have ensured that the adopted social rents do not exceed target rent caps.

For the Affordable Rent units, we have adopted the rents caps out set for Thanet BRMA May 2020:

Unit Type	2020 Rent per Week
1 Bedroom	£109.32
2 Bedroom	£149.59
3 Bedroom	£184.11
4 Bedroom	£218.63

The rental value of this accommodation is then capitalised at appropriate yields after deductions for major repairs, voids/bad debts, management and maintenance to arrive at a total capital value. These assumptions are supported by our experience gained through S106 disposals and valuation of affordable housing stock for our clients in similar locations.

With respect to the Shared Ownership units we have assumed an initial equity tranche based upon the unrestricted Market Value with Vacant Possession is sold with the remaining unsold equity resulting in an income stream that is capitalised at appropriate yields supported by our valuation and disposal experience. These are limited to ensure the units remain affordable. Additional income is derived from future staircasing receipts.

Based upon the above we have arrived at the following package price values:

Tenure	Value	Value (£psf)
Affordable Rent	£3,888,003	£140.19
Shared Ownership	£1,367,374	£203.69
	£5,255,377	£152.57

Alternative affordability requirements could impact upon the viability of the scheme and/or the level of affordable housing. Accordingly, any requirements in terms of rental levels or affordability secured within the S106 agreement will need to be based upon the above or more favourable assumptions.

10 Construction Costs

10.1 Build Costs

In line with standard practice we have adopted a build cost rate of £123.28 psf (£1,327 psm) in accordance with Median BCIS costs, re-based to Kent (see Appendix 6). Applied to the total Gross Internal Area of 427,677 sqft this results in construction costs of £52,724,021. This does not include the costs of garages, external works, infrastructure and abnormals.

We have also been provided with specific costs in relation to the garages, external works, infrastructure and abnormal costs. These are summarised below with a breakdown of these items are detailed in Appendix 7:

Item	Cost
Standard site works	£1,800,000
Roads and sewers	£3,850,000
Public open space	£600,000
Plot abnormals	£2,700,000
Site abnormals	£4,889,470
Link Road	£5,657,500
Garages	£803,500
Total	**£20,300,470**

Additionally, the following comments have been made in relation to the additional costs:

- Landform through the overall site area is undulating. The northern parcel has a pronounced valley running through it that has a low point of 4.4m AOD rising to a high point of 14m AOD in the northernmost corner of the parcel adjacent to Hartsdown Road. By contrast, the southern portion slopes steeply upwards from Shottendane Road to Manston Road to an overall high point of 27m AOD, which equates to a 22.6m difference in land level between high and low points of the two field parcels.

- As part of the emerging allocation there is an aspiration from the LPA to provide a link road through both parcels of the site which will form part of the highways improvements programmed for the Margate area. This comprises of 2 roundabouts (Manston Road and Shottendane Road) approximately 660m single carriageway with an adjoining footpath cycleway which will link through to the priority access on Hartsdown Road.

- Due to site topography, an extensive earthworks exercise is required to provide a platform for the road to sit at the appropriate design gradients and for development plateaux to be created.

- The earthwork exercise will have an impact on the design of both foundations and the surface water drainage solution.

- The site is located in Flood Zone 1, and holds no records of flooding by river or sea. However, the northern parcel includes a surface water flow pathway that has a low to medium risk of surface water flooding in the event that the soils were to become saturated, for example during prolonged or intense rainfall. A surface water management strategy for the site will be developed to mitigate flood risk to an acceptable and low level. Where any highway route through the surface water pathway, it will be necessary to include measures such as raised box culverts to allow free conveyance under the highway or allow overtop/spill where alternative dry access can be provided.

- From a heritage perspective, the site is located within the setting of a number of designated heritage assets that have had to be factored into design layout. The site is also located in an area of high level archaeological remains and following extensive amount of archaeological investigations, two bronze age barrows have been identified near to the south eastern corner of Area B that are to be preserved in situ as part of the proposals.

10.2 Contingency

We have applied a contingency of 5% to the build costs stated above.

10.3 Professional Fees

We have applied professional fees of 8% to the scheme's build costs.

11 Other Appraisal Assumptions

11.1 Acquisition Costs

Site acquisition costs have been included and comprise Stamp Duty Land Tax, 1.5% agency fees and 0.5% legal fees applied to positive land values.

11.2 Planning Obligations

We have included within our appraisal estimated Section 106 contributions of £2,940,269 as advised by Gladman. See Planning Policy section for a breakdown of the estimate.

11.3 Disposal Costs

The assumed disposal costs for the private residential units comprise £850 per unit sales legal fees, 1.5% sales agent & 2% marketing costs; this reflecting the need for a representative sample of completed show homes and an onsite sales presence and marketing campaign for a significant duration.

For the affordable units we have assumed a 1% sales agent and 0.5% sales legal fees reflecting bulk disposals to a single RP purchaser for each tranche/phase.

11.4 Finance

We have assumed finance rates of 6.5% debit and 1% credit inclusive of entry and exit fees, monitoring costs, surveys and valuations.

11.5 Developer Return

For a commercially acceptable development to proceed an acceptable level of developer's return is required from the project (as is explicitly detailed with the NPPF). Profit requirements extended significantly following the 2008 global downturn. Since the revival in the development market these margins narrowed but have more recently extended against as risk appetite worsens given the political uncertainty following the EU Referendum and the slowing London residential market.

Any expected return reflects the risks to the developer and their funder's capital together with their liabilities. Accordingly, it should reflect the proposed uses, scale of development, site issues and market (both macro and micro). Currently adopted profit requirements have been under pressure from viability assessors who have sought to impose a fixed profit assumption irrespective of the market and, importantly, the scheme being considered. Notwithstanding this, the PPG on viability sets out a guide of between 15% and 20% of GDV though alternative figures can be applied 'according to the type, scale and risk profile of planned development.'

With respect to the subject development we have had regard to a number of matters in our consideration of an appropriate profit requirement. The site has a higher degree of abnormal / infrastructure requirements than other non-strategic development plots, will be competing against other developments by the same applicant and therefore a similar product type, whilst multiple agents, developers and RPs report increasing levels of unsold stock. The recent election result will almost certainly ensure that the Government's current Brexit position is 'unfettered' by Parliament and thus the UK should shortly enter the Transition Phase with the EU. This should hopefully unlock some of the immediate uncertainty affecting the market. However, a new trade deal will be required with the EU before we fully depart and with less than a year to achieve this the risk of a 'no-deal' Brexit has been increased (albeit delayed for some months). Recent reports illustrate the discussions with the EU on a substantive trade deal have not been progressing as well as expect, undoubtedly due to both parties being preoccupied with responding to the Covid pandemic. As a result, there is an increased likelihood of a 'no-deal' Brexit within the next year.

With respect to the subject development we have had regard to a number of matters in our consideration of an appropriate profit requirement. The scheme is of an appropriate scale with a good mix of unit sizes in an area showing positive demand for new build housing. On the other hand, the site requires significant infrastructure including a new link road through the site, two new roundabouts and improvement works to Shottendane Road. Both land parcels have significant variations in land level which have an impact on costs and, therefore, risk. Following extensive archaeological investigations, two bronze age barrows have been identified near to the south eastern corner of the site which have to be carefully preserved. With respect to the affordable element this will be forward sold to a registered provider with the associated reduction in development risk.

On balance we have adopted a 17.5% return on the private residential and 6% return on affordable revenue respectively.

Clearly the recent impact of Covid-19 will have significant ramifications, both in the short and longer terms, on the development market. In line with our position on values and costs it is currently too early to explicitly detail the impact on profit requirements but we expect that these will extend over the next few months from the position outlined above and we reserve the right to re-evaluate this assumption at a later date.

11.6 Appraisal

The appraisal has been undertaken using Argus Developer. Please refer to Appendix 8 for a copy of the appraisal summary.

12 Viability Results and Conclusion

12.1 Results

An appraisal summary and sensitivity analysis for the proposed scheme is appended to this report at Appendix 8. A summary of the results and inputs is provided below:

Appraisal Inputs	Inputs	Amount
Revenue		
Private Units	Individual unit prices equating to £283 per sqft	£109,752,500
Affordable Rent	Equating to £140 per sqft	£3,888,003
Shared Ownership	Equating to £204 per sqft	£1,367,374
Costs		
Acquisition Costs	Stamp Duty Agent Fee – 1.5% Legal Fee – 0.5%	-£326,980
Construction Costs	Residential Construction Costs - £123.24 per sqft (on total GIA) Garages (77) - £803,500 Construction Cost (Initial 25%) - £4,389,470 Construction Cost (Initial 50%) - £4,407,500 Construction Cost (On going) - £10,700,000	-£73,024,490
Contingency	5% (on construction costs)	-£3,651,225
Professional Fees	8% (on construction costs)	-£5,841,959
Financial Planning Contributions	Section.106 contributions	-£2,940,269
Disposal Costs	Private Resi Sales Marketing – 2% Private Resi Sales Agents – 1.5% Private Resi Sales Legals - £800 per unit Affordable Agents – 1% Affordable Legal – 0.5%	-£4,264,418
Finance	6.5% debit / 1% credit	-£2,735,862
Profit / Risk Return	Private: 17.5% on GDV Affordable: 6% on GDV	-£19,522,010
=		
Residual Land Value		£2,838,920
Benchmark Land Value		£4,742,750
Difference (Surplus/Deficit)		-£1,903,830

It is evident that the Residual Land Value produced by the proposed scheme, whilst adopting an acceptable developer return, is below the Benchmark Land Value arrived at in accordance with planning policy and viability guidance.

12.2 Conclusion

As can be seen in the table above the scheme as proposed by the applicant returns a Residual Land Value which is below the Benchmark Land Value. On this basis the scheme could be deemed unviable. Notwithstanding this, the applicant is committed to bringing the scheme forward on this basis as it balances the need for affordable housing and local infrastructure improvements. A commercial decision has been made to proceed with the scheme on this basis in the hope that the economics of the scheme will improve over the life time of the development. However, any increase in affordable housing or contributions to the local transport infrastructure could significantly impact upon the delivery of the site.

As set out earlier in this report we have not made any assessment as to the impact of Covid-19 on these assumptions. It should be expected that the viability of the project is unlikely to improve once the detailed effects are known.

[redacted]

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