Ms E Fibbens
Planning Department
Thanet District Council
Cecil Street
Margate
CT9 1AY

Our ref: DL/14191

Sent by Email: emma.fibbens@thanet.gov.uk

08 April 2022

Dear Ms Fibbens,

VIABILITY MATTERS RELATING TO THE PLANNING APPLICATION AT 2-12 HAROLD ROAD, MARGATE - APPLICATION REFERENCE: F/TH/21/0688

I write regarding the above application 2-12 Harold Road and in respect of the viability review carried out by Dixon Searle Partnership (DSP) in March 2022 (reference DSP21442AC(F1)).

This was DSP's second review of viability matters relating to the site, having undertaken a initial review in September 2021 (reference DSP2144AC).

Following amendments to the scheme which were submitted in February 2021, our updated Financial Viability Assessment (FVA) was submitted to respond to the areas of disagreement raised by DSP (namely benchmark land value, ground rents and developer's profit), as well as updating the appraisal in line with the amendments and following any changes to market conditions.

Having assessment DSP's latest review in detail, we are concerned about the consistency of the approach which has been applied to their assessment, particularly surrounding BCIS figures and the dataset used. We have discussed this in more detail throughout this letter but would **request urgent clarification** from DSP on this matter as this will have a considerable impact on the overall outcome of the viability.

Benchmark Land Value

As part of our February update, we assumed an existing use value (EUV) of £847,000 plus a premium of 15%, to provide a benchmark land value (BLV) of £947,050.

DSP have accepted the EUV but suggest that a premium of 10% would be more appropriate on the basis that the condition of the buildings was unknown (para 3.2.12), which would provide a BLV £931,700.

We would highlight that the Valuation Report was undertaken by Sibley Pares in February 2020 and since this time, market conditions have changed considerably, and we would expect the existing use value to have increased significantly which would have an impact on the BLV. Notwithstanding this, in the interest of expediency, we have tested the scheme at a BLV in line with DSP's submissions but reserve the right to update our position.

Gross Development Value (GDV)

DSP state at paragraph 3.4.2 that the value for the flats is within the expected range.

DSP highlight that a 4-bedroom townhouse is currently being marketed for sale in Harold Road at an asking price of £400,000 (£347 psf) – we have attached the particulars as Appendix 1 for clarification. Whilst these units are comparable, we would make the point that this is a market value - in reality, the unit could sell for less. According to Rightmove, the property was first marketed on 14th February 2022 which is one of the oldest listings for houses within a 0.25-mile radius of the application site, despite being only two months ago. The weight that can be afforded to this is therefore limited.

DSP have also referred to 2 x three-bedroom new-build properties being marketed on Dane Road approximately 0.6-miles from the application site at a value of £475,000.

We would also point out that Dane Road falls some way outside of the 'Cliftonville Renewal Area' where the Council accepts that properties have relatively low values, which would apply to Harold Road. In addition, the site is within walking distance of Dane Park Play Area and other services and amenities which would add a premium onto the price achieved. These properties area therefore of limited comparison.

We refer to paragraph 3.4.6 of DSP's September 2021 review which states the following and confirms that DSP had previously accepted the values for the houses.

"We have reviewed the submitted comparable evidence and we have carried out our own research including data from Land Registry and advertised prices on property websites. The submitted values are at a similar level to advertised new build properties in Cliftonville, excluding those with sea views and as such, we consider them to be within the expected range."

Whilst we do not agree with the extent of the increase in value for the units, in order to be as robust as possible, we have tested our appraisal with the houses at a value of £445,000 in line with DSP's recommendations. We reserve the right to update this position upon receipt of further information.

Base-Build Costs

As part of the updated FVA submitted in February 2022, DHA had assumed base build costs based upon BCIS data relocated to Thanet, which DSP had previously accepted.

At paragraph 3.6.4 of DSP's March 2022 review, they state:

"We have reviewed the latest BCIS data looking at the 5-year data set, which is appropriate in our view (the FVU adopts the default rate)."

We are extremely concerned about the approach which has been applied by DSP here, as this suggests that the assessment should consider build costs information from the last five-years.

It is clearly documented that there has been considerable impact on the construction industry as a result of Brexit and the coronavirus pandemic. These impacts will be further exacerbated as a result of the current political and economic uncertainty surrounding Eastern Europe, which are yet to be reflected in the BCIS indices.

The latest BCIS update, which was published on 26th March 2022, reinforces the effect this is having on construction costs with costs rebased to Thanet for estate housing (terraced) increasing to £136.71 psf and apartments to £156.41 psf (**see Appendix 2**). Whilst we appreciate that viability assessments should be based on current market conditions, we would highlight that assuming construction can commence by September 2022 (to allow for clearance of conditions, etc.), BCIS forecasts that by Q3, construction costs for the apartment will increase to £159.85 psf and £139.77 psf for the terraced housing. This is an approximate increase of between 2.19% and 2.23% from today's BCIS figures.

Furthermore, the latest BCIS Quarterly Briefing, which was published in March 2022, states that prices rose by 1.5% compared with the previous quarter and by 6.4% an annual basis and the forecasts of building costs has been revised upwards as a result of steeply rising energy costs affecting the manufacturing costs of materials, due largely to do with the conflict in Eastern Europe. The forecast of tender prices has also been revised as a result of the sharp cost pressures resulting from steep increases in energy costs, and to pick up energy costs increases not picked up in the BCIS General Build Cost Index (GBCI) such as diesel uses in plant prices preliminaries and delivery to site.

An article published by 'Construction Enquirer' in March 2022 suggests that average tender prices will rise by a further 5.5% this year, which is driven by rising oil and gas prices alone. In addition, the Bank of England's Monetary Policy Committee (MPC) voted to increase the base rate to 0.75% on the 16th of March 2022 which will place further pressure on the cost of borrowing and construction cost.

As DSP are aware, viability assessments are intended to provide a snapshot in time. It is therefore extremely concerning that DSP are suggesting that the appraisal should consider build cost data which does not take into account the impacts of Brexit, the coronavirus pandemic and the more recent conflict in Eastern Europe. This is not an accurate representation of the current market conditions and is therefore not in accordance with Planning Practice Guidance which states that *"assessment of costs should be based on evidence which is reflective of local market conditions"* (paragraph 012).

We would also highlight that we have received reviews for other sites from DSP in the last month whereby a 'default' dataset for BCIS costs has been used and accepted by DSP, as was used in our February 2021 update. On this basis, we would argue that the suggestion to use a five-year dataset is highly inconsistent with the approach which has been used by DSP elsewhere.

In addition, DSP appear to be reliant on current market values to inform the GDV of the scheme yet are suggesting that we rely on historic data dating back five years to inform the construction costs, which we do not consider to be fair and reasonable testing. We would ask for urgent clarification from DSP on this point. I am sure the Council would not want an assessment to look at average sales values over the past 5 years when calculating the GDV.

In the meantime, we have amended the appraisal to reflect the current BCIS figures as attached to **Appendix 2**.

<u>Site Specific/External Works</u>

DSP have accepted the other construction costs at £457,450 based on the cost appraisal which was produced by PBS in May 2021.

Whilst we have not provided an update on these costs, we would highlight that similarly to the base build costs, we would expect these costs to have increased as a result of Brexit, the coronavirus pandemic and the conflict in Eastern Europe. The March 2022 BCIS Briefing states that the General Build Cost Index (GBCI) shows costs rising by 11% compared with the previous year. When applied to these costs, site specific/external works would increase to approximately £507,769.

In the interest of expediency, we have not altered the appraisal to reflect this increase but would highlight that this would inevitably worsen the viability position if applied to the scheme.

<u>Developer's Return</u>

DSP state at paragraph 3.11.3:

"The PPG, as above, although silent in terms of decision making, does set out a range of between 15% and 20% on GDV for market housing; lower for affordable housing in relation to plan making. Given that the NPPF and PPG expect planning applications to be consistent with the plan making stage, it is therefore also appropriate to assume that the range 15% - 20% on GDV (lower for affordable housing) may be considered applicable at the decision taking stage."

In this respect, we refer to the Council's adopted Local Plan and CIL Viability Assessment (2017), which was produced by DSP in 2017 whereby they state that a profit of 20% on GDV would be appropriate for open market housing.

As aforementioned, the impact on the construction market through further shortage and price hikes affecting material and deliveries, could bring projects to a standstill in the coming months. Furthermore, other factors such as the increase in the Bank of England base rate to 0.75% in March 2022, will place further pressure on the cost of borrowing and construction cost. As a result of this, financial institutions are likely to tighten their requirement for profit returns on schemes.

A developer's return is at the lower end of what would be considered appropriate in line with Planning Practice Guidance. In light of the risks associated with the current market uncertainty, we would argue that a return of 20% on GDV would be more appropriate. Notwithstanding this, we have tested the scheme at a return of 17.5% in line with the February 2022 update.

Summary

In light of the above, we have adjusted our appraisal accordingly. A summary of the appraisal is provided below and attached as **Appendix 3**.

	DHA Update April 2022
Private Residential Revenue:	£8,805,000.00
Affordable Residential Revenue	£0.00
Net Development Value	£8,805,000.00
Construction Costs (incl contingency/ SAMMS payment)	£5,631,999.00
Professional Fees	£535,063.00
Marketing/Disposal Costs	£203,850.00
Finance Costs	£264,989.00
Total Costs (excl. Residual land value)	£6,665,789.00
Profit	£1,540,875.00

Profit on GDV	17.5%
Residual Land Value:	£598,336.00

In summary, the revised appraisal demonstrates that the scheme would produce a residual land value of £598,336, therefore providing a deficit of £333,364 against the benchmark land value. This confirms that the scheme would be unable to provide the affordable housing contribution and Section 106 contributions as part of this application.

We would reiterate our concern that DSP have suggested that we utilise cost data from a five-year data set which does not take into account the impacts of Brexit, the coronavirus pandemic and conflict in Eastern Europe, which are currently being widely felt throughout the industry. This approach is highly inconsistent with the approach DSP have previously applied to this site and approaches DSP have used in other viability reviews we have received within the last month. This is also wholly inconsistent with advice from the RICS and Planning Practice Guidance, as well as industry accepted practice. We would therefore request urgent clarification from DSP on this point.

As aforementioned, the current economic uncertainty is having widespread impacts on the construction industry and the wider economy, which are already being evidenced through price inflation, supply shortages and an increase in interest rates. Developments such as Harold Road will play an important part in the recovering and will help to provide stimulus to what is a very fragile market.

We would welcome the opportunity to discuss the contents of this letter with you at your earliest convenience.

Yours sincerely,

Danielle Lawrence MRICS
Associate
Direct Email: danielle.lawrence@dhaplanning.co.uk

Appendices
APX 1 Harold Road Particulars
APX 2 BCIS 26/03/22
APX 3 Appraisal

APPENDIX
1

OVER 60?
You could get up to
59% off the price!*

Price

£400,000

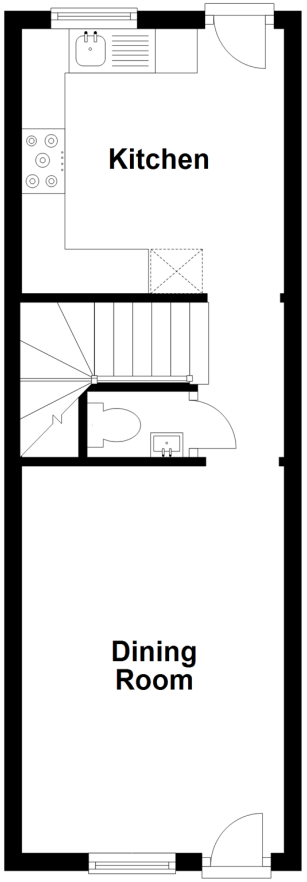
Freehold

4x 2x 2x

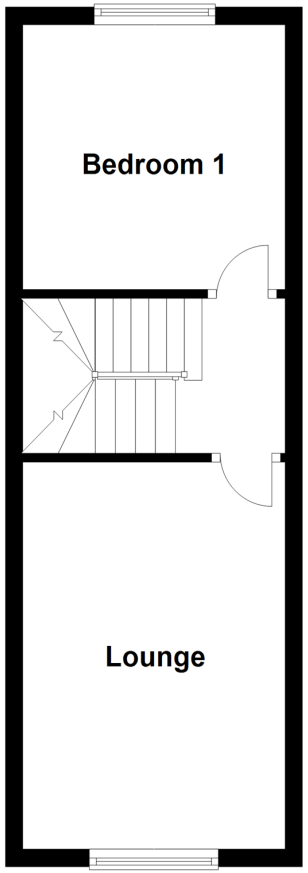
Harold Road,
Cliftonville, Margate,
Kent, CT9

Wards
Helping you move forwards

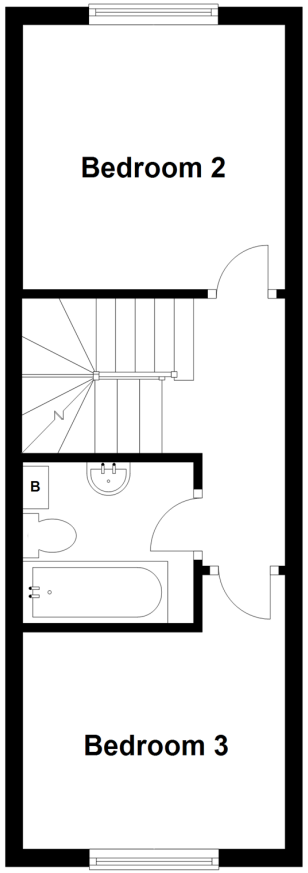
Ground Floor
Approx. 28.3 sq. metres (304.6 sq. feet)



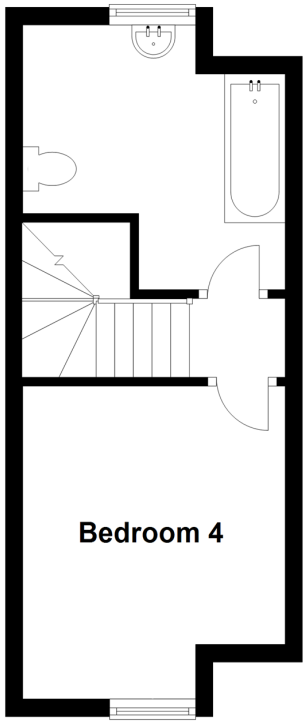
First Floor
Approx. 28.3 sq. metres (304.6 sq. feet)



Second Floor
Approx. 28.3 sq. metres (304.6 sq. feet)



Third Floor
Approx. 21.9 sq. metres (236.0 sq. feet)



Accommodation

GROUND FLOOR
Dining room: 14'3 x 10'0 (4.35m x 3.05m)
Kitchen: 10'0 x 9'9 (3.05m x 2.97m)
Cloakroom

FIRST FLOOR
Landing
Lounge: 14'3 x 10'0 (4.35m x 3.05m)
Bedroom 1: 10'1 x 9'9 (3.08m x 2.97m)

SECOND FLOOR
Landing
Bedroom 2: 10'2 x 10'0 (3.10m x 3.05m)
Bathroom 1: 6'6 x 5'11 (1.98m x 1.80m)
Bedroom 3: 10'1 x 9'10 (3.08m x 3.00m)

THIRD FLOOR
Landing
Bedroom 4: 11'7 x 10'0 (3.53m x 3.05m)
Bathroom 2

OUTSIDE
Front Garden
Off Road Parking
Rear Garden

Main features

- **Modern property situated in a very central location**
- **Close to shops, restaurants, sandy beaches and schools**
- **Set over four floors so plenty of living space for the entire family**
- **Off road parking**
- **Sunny rear garden making it ideal for entertaining friends and family**

Nearest Schools

Primary Schools: Cliftonville Primary 0.5 miles, Salmestone Primary 1.0 miles, Northdown Primary 1.1 miles

Secondary Schools: Laleham Gap School 0.7 miles, St

Transport Information

Train Stations: Margate 1.6 miles, Westgate-on-Sea 3.3 miles, Broadstairs 3.6 miles

Address

Harold Road, Cliftonville, Margate, Kent, CT9

Directions

For directions to this property please contact us.

Wards
Helping you move forwards

Call Cliftonville Branch 01843 227447 ■ wardsofkent.co.uk

The Property Ombudsman

INVESTORS IN PEOPLE

- A private rental licensing scheme applies to some properties in this area, please contact us before proceeding
- Appliances & services are untested, dimensions are approximate and floor plans are not to scale
- Legal advice should be taken to verify fixtures/fittings, planning, alterations and/or lease details
- Our Homewise partnership offer a 'Home for Life' plan to buyers over 60, granting a lifetime lease for your protection and reducing the purchase price by up to 59%

EPC RATING | CURRENT: C(75) | POTENTIAL: B(85)

15110334/20220221/DM/NF

APPENDIX
2

BCIS® RICS®

£/m2 study

Description: Rate per m2 gross internal floor area for the building Cost including prelims.

Last updated: 26-Mar-2022 00:40

› Rebased to Thanet (109; sample 15)

Maximum age of results: Default period

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
New build							
810.13 Estate housing terraced							
Generally (15)	1,556	943	1,282	1,466	1,714	4,704	275
Single storey (15)	1,751	1,147	1,503	1,648	2,010	2,474	25
2-storey (15)	1,498	949	1,265	1,441	1,647	3,172	205
3-storey (15)	1,586	943	1,244	1,471	1,786	3,103	43
816. Flats (apartments)							
Generally (15)	1,778	880	1,482	1,683	2,007	6,115	858
1-2 storey (15)	1,687	1,033	1,429	1,607	1,888	3,118	195
3-5 storey (15)	1,753	880	1,479	1,674	1,984	3,712	563
6 storey or above (15)	2,113	1,289	1,722	1,995	2,247	6,115	97

APPENDIX
3

Harold Road, Margate
Updated Appraisal 08 04 22

Currency in £

REVENUE

Sales Valuation	**Units**	**ft² ıles**	**Rate ft²**	**Unit Price**	**Gross Sales**
Houses	3	3,840	347.66	445,000	1,335,000
2B3P	1	722	270.08	195,000	195,000
2B3P (balcony)	2	1,444	277.01	200,000	400,000
2B4P	3	2,265	264.90	200,000	600,000
2B4P	8	6,064	263.85	200,000	1,600,000
2B4P	3	2,304	260.42	200,000	600,000
2B4P	3	2,331	257.40	200,000	600,000
2B4P (balcony)	2	1,554	263.84	205,000	410,000
2B4P	3	2,367	259.82	205,000	615,000
3B5P	2	1,994	280.84	280,000	560,000
3B5P (balcony)	2	1,994	285.86	285,000	570,000
3B5P	4	4,136	270.79	280,000	1,120,000
2B4P	1	753	265.60	200,000	200,000
Totals	**37**	**31,768**			**8,805,000**

NET REALISATION		**8,805,000**

OUTLAY

ACQUISITION COSTS

Residualised Price		598,336	
			598,336
Stamp Duty		19,417	
Effective Stamp Duty Rate	3.25%		
Agent Fee	1.00%	5,983	
Legal Fee	0.75%	4,488	
			29,888

CONSTRUCTION COSTS

Construction	**ft² uild**	**Rate ft²**	**Cost**	
Houses	3,840	136.71	524,966	
Apartment Block	27,928	156.41	4,368,218	
Totals	**59,696 ft²**		**4,893,185**	
Contingency		5.00%	267,532	
Demolition			97,550	
Disposal of Contaminated Soil			49,600	
External Works / Landscaping			98,950	
External Drainage			21,200	
Bike Spaces			14,875	
Bin Store			7,500	
Car Parking			75,250	
Utilities/Services			85,000	
EV Charging Points			7,525	
SAMMS			13,832	
				5,631,999

PROFESSIONAL FEES

All Professional Fees		10.00%	535,063	
				535,063

DISPOSAL FEES

Sales Agent Fee		2.00%	176,100	
Sales Legal Fee	37 un	750.00 /un	27,750	

			203,850
TOTAL COSTS BEFORE FINANCE			**6,999,136**
FINANCE			
Debit Rate 6.000%, Credit Rate 0.000% (Nominal)			
Land		75,979	
Construction		161,654	
Other		27,356	
Total Finance Cost			264,989
TOTAL COSTS			**7,264,125**
PROFIT			
			1,540,875
Performance Measures			
Profit on Cost%	21.21%		
Profit on GDV%	17.50%		
Profit on NDV%	17.50%		
IRR% (without Interest)	31.71%		
Profit Erosion (finance rate 6.000)	3 yrs 3 mths		