For: Thanet District Council

Review of Applicant Submitted Updated Viability Position

St Georges Garages
8-12 Harold Road
Cliftonville
Margate
CT9 2HT

March 2022
(DSP21442AC(F1))

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DixonSearle Partnership

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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. In the preparation of this review Dixon Searle Partnership has acted with objectivity, impartiality, without interference and with reference to appropriate available sources of information.

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. So far as we have been able to see, the information supplied to DSP to inform and support this review process has not been supplied by the prospective / current planning applicant on a confidential basis. However, potentially some of the information provided may be regarded as commercially sensitive. Therefore, we suggest that the Council and the planning applicant may wish to consider this aspect together. 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). In looking at '*Accountability*', since July 2018 (para. 021 revised in May 2019), the published national Planning Practice Guidance (PPG) on viability says on this; '*Any viability assessment should be prepared on the basis that it will be made publicly available other than in exceptional circumstances.'*

1.1.5. Dixon Searle Partnership conducts its work only for Local Authorities and selected other public organisations. We do not act on behalf of any development interests. We have been and are involved in the review of other planning stage proposals within the TDC area.

1.1.6. In any event we can confirm that no conflict of interests exists, nor is likely to arise given our approach and client base. This is kept under review. Our fees are all quoted in advance and agreed with clients on a fixed or capped basis, with no element whatsoever of incentive/performance related payment.

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 'Financial Viability Update' (FVU) dated February 2022 and supplied to the Council on behalf of the applicant by DHA Planning Ltd (DHA). This is in relation to the proposed redevelopment of St Georges Garages, 8 – 12 Harold Road, Margate.

2.1.2 The FVA has been submitted in support of a planning application (reference F/TH/21/0688) which seeks permission for the *"Erection of a part four-storey building containing 26 x two-bedroom apartments and 8 x three-bedroom apartments, with 3 x four-bedroom terraced houses, associated parking, access and landscaping works following the demolition of the existing commercial buildings."*

2.1.3 By way of background, the application originally sought permission for "*Erection of a part five-storey, part four-storey building containing 38.No 2-bed and 1.No 3-bed self-contained flats, with 3.No 4-bed three storey terraced houses, with associated parking, access and landscaping works following demolition of the existing commercial buildings*." DSP were commissioned by the Council to review the viability of the previous scheme iteration and we reported to the Council in September 2021 (reference DSP21442AC). Our report conclusion based on running various sensitivities was that a nil affordable housing position had not been proven to be appropriate at that stage in our view.

2.1.4 Policy SP23 of the adopted Local Plan for the area (adopted July 2020) states: "*Residential development schemes for more than 10 dwelling units, including mixed use developments incorporating residential and developments with a combined gross floor area of more than 1,000 square meters shall be required to provide 30% of the dwellings as affordable housing*."

2.1.5 In presenting their viability position, the applicant has supplied to the Council the aforementioned 'Financial Viability Update' (FVU). DSP has also been provided with the 'live' electronic version of the submitted appraisal, carried out using Argus Developer software.

2.1.6 Additionally, we have had sight of the documents contained within the Council's online planning application file.

2.1.7 We have considered the assumptions individually listed within the FVU and provided our commentary based on those whilst also carrying out sensitivity testing using the same appraisal where our opinion differs from that of the applicant's agent.

2.1.8 This report does not consider planning policy or the wider aspects in the background to or associated with the Council's consideration of this scenario. DSP's focus is on the submitted viability assumptions and therefore the outcomes (scope to support land value and profit) associated with that aspect of the overall proposals.

2.1.9 For general background, a viable development could be regarded as the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate site value (i.e. existing use value) for the landowner and a market risk adjusted return to the developer in delivering that project. The Government's Planning Practice Guidance on Viability sets out the main principles for carrying out a viability assessment. It states:

'Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return…Any viability assessment should follow the government's recommended approach to assessing viability as set out in this National Planning Guidance and be proportionate, simple, transparent and publicly available. Improving transparency of data associated with viability assessment will, over time, improve the data available for future assessment as well as provide more accountability regarding how viability informs decision making…In plan making and decision making viability helps to strike a balance between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission'

2.1.10 Previously two scheme scenarios were considered – Scenario 1 "*The Indicative Housing Scheme*" and Scenario 2 "*The Proposed Scheme*". The Indicative Housing Scheme was based on an assumption that the application site could provide 10no. 4-bedroom dwellings at 1,280 ft^2 ($119m^2$).

2.1.11 The application site is allocated for housing within the Local Plan (2020) for approximately 10 units. Policy CV3 of the Cliftonville Development Plan Document (adopted February 2010)

states: *"In new development or redevelopment flats of any size will not be permitted unless it can be clearly demonstrated that there are overriding design or townscape reasons for allowing such development and that no acceptable design solution can be found to accommodate individual family dwellings*." Therefore, while considering the viability of the proposed scheme including flats, the applicant also sought to demonstrate why a scheme of houses only was not considered to be viable. The FVU states that: "*we have not updated the appraisal for the indicative housing scheme as DSP have confirmed that this is not a viable proposition."* Our previous report conclusion confirmed that the Indicative Scheme did not appear a viable proposition.

2.1.12 On this basis, the FVU considers the Proposed Scheme only. The submitted development appraisal has been run in a way which takes account of the benchmark land value (BLV) of the site and assesses the level of additional residual potentially available in excess of that after allowing for a fixed developer's profit (assumed at 17.5% GDV). Therefore, an approach has been taken that sets out to consider, in the applicant's view, the maximum supportable financial contribution for affordable housing.

2.1.13 The FVA provides the following summary table (extracted below), which indicates a residual land value of £662,837 when using the submitted assumptions.

	DHA Submission May 2021	DSP Review (at 17.5% profit on GDV) September 2021	DHA Submission February 2022
	The proposed scheme (no affordable housing / Section 106 contributions)		
Revenue			
Apartments	£7,865,000.00	£7,865,000.00	£7,470,000.00
Houses	£1,080,000.00	£1,080,000.00	£1,080,000.00
Ground Rents	£196,000.00	£196,000.00	£0.00
Gross Development Value	**£9,181,000.00**	**£9,181,000.00**	**£8,550,000.00**
Development Costs			
Construction Costs	£5,443,316.00	£5,443,316.00	£5,369,211.00
Warranties	£15,000.00	£0.00	£0.00
SAMMS Contributions	£14,174.00	£14,174.00	£13,832.00
Professional Fees	£518,411.00	£518,411.00	£511,353.00
Marketing/Disposal Fees	£277,680.00	£215,870.00	£198,750.00
Finance Costs	£386,616.00	£270,075.00	£263,526.00
Total Costs (excl. residual land value)	£6,746,997.00	£6,517,475.00	£6,390,913.00
Residual Land Value	**£597,803.00**	**£1,056,850.00**	**£662,837.00**
Profit on GDV	**20.00%**	**17.5%**	**17.5%**

Table 6: Summary of Appraisals

2.1.14 The FVU states: "*The updated appraisal demonstrates that the scheme would produce a residual land value of £662,837 which is below the benchmark land value of £974,050. It is therefore submitted that the scheme would be unable to provide any affordable housing and has been fully justified in accordance with policy SP23 of the Local Plan (2020).*"

2.1.15 The FVU concludes: "*The outcome of the appraisal therefore clearly demonstrates that (i) the indicative housing scheme would be unviable and therefore undeliverable; and (ii) the proposed development would be unable to provide the affordable housing or Section 106 contributions being sought by the Council.*"

2.1.16 The indicative scheme as presented produces a negative profit/loss of -1.28% on GDV.

2.1.17 This review does not seek to pre-determine any Council positions, but merely sets out our opinion on the submitted viability assumptions and outcomes in order to inform the Council's discussions with the applicant and its decision making; it deals only with viability matters, in accordance with our instructions. DSP's remit is to review the submitted information to assess whether the stated viability scope available to support planning obligations (for affordable housing and/or other matters) is the most that can reasonably be expected at the time of the assessment. Our brief does not go as far as confirming what should be the outcome where schemes are stated or verified as being non-viable per se, based on a viability submission or any subsequent review. It is for the applicant to decide whether there is sufficient justification to pursue a scheme, financially. While an absence of (or insufficient level of) planning obligations will be a material consideration, we are not aware that proof of positive viability is in itself a criterion for acceptable development under current national policy. The Council may wish to consider these matters further, however.

2.1.18 In this context, 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.

2.1.19 We have based our review on the submitted FVU 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 using the provided live appraisal file (where there is disagreement if any).

2.1.20 This assessment has been carried out by Dixon Searle Partnership, a consultancy that has a great many years combined experience in the development industry working for Local Authorities, developers, Housing Associations and in consultancy. As consultants, we have a considerable track record of assessing the viability of schemes and the scope for Local Authority planning obligation requirements. This expertise includes viability-related work carried out for many Local Authorities nationwide over the last 19 years or so.

2.1.21 The purpose of this report is to provide our overview comments with regard to 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.

2.1.22 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 Overview of Approach

3.1.1 The following commentary reviews the applicant's submitted viability assumptions as explained within the FVU and the accompanying development appraisal.

3.1.2 Primarily the review process takes into account 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 provided, as below, and reviewed the impact of trial changes to particular submitted assumptions.

3.1.3 This type of audit / check is carried out so that we can give the Council a feel for whether or not the result is 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.

3.2 Benchmark Land Value

3.2.1 In all appraisals of this type, the base value (value of the site or premises – e.g. in existing use) 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) 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.

3.2.2 The RICS (Royal Institution of Chartered Surveyors) has issued a new guidance note: 'Assessing viability in planning under the national Planning Policy Framework 2019 for England' (1st Edition, March 2021). This was effective from 1st July 2021 and replaces the previous (RICS 2012) guidance note. Its emphasis reflects the Planning Practice Guidance

(PPG) on Viability as noted below, and the PPG will remain the primary source of guidance in this field – viability in planning.

3.2.3 The2021 RICS guidance states that:

'The BLV should not be expected to equate to market value. […] The BLV is not a price to be paid in the marketplace; it is a mechanism by which the viability of the site to provide developers' contributions can be assessed. It should be set at a level that provides the minimum return at which a reasonable landowner would be willing to sell.'

It goes on to state:

'The BLV is a benchmark value against which the developer contributions can be assessed. Once those contributions have been set, land markets should take the level of policy requirements in to account, just as all markets should take all relevant factors that affect value into account. PPG paragraph 013 states that 'Landowners and site purchasers should consider policy requirements when agreeing land transactions'*. This means that the actual price paid for a site cannot be used to reduce developer contributions.'*

3.2.4 The viability section of PPG and the new NPPF[1] very clearly advise that land value should be based on the value of the existing use plus an appropriate level of premium or uplift to incentivise release of the land for development from its existing use. With regard to how land value should be defined for the purpose of viability assessment it states: *'To define land value for any viability assessment, 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.'*

3.2.5 The guidance defines existing use value as: *'the first component of calculating benchmark land value. EUV is the value of the land in its existing use together with the right to implement any development for which there are policy compliant extant planning consents, including realistic deemed consents, but without regard to alternative uses. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield. Sources of data can include (but*

[1] Planning Practice Guidance (PPG) on Viability and the revised National Planning Policy Framework last updated 20th July 2021

are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence.'

3.2.6 It states that a Benchmark Land Value should:

- *'be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*
- *be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.'*

3.2.7 The guidance further states that: *'Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan.'* It goes on to state: '*Policy compliance means that the development complies fully with up to date plan policies including any policy requirements for contributions towards affordable housing requirements at the relevant levels set out in the plan. A decision maker can give appropriate weight to emerging policies. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement.)'*

3.2.8 With regard to assuming an alternative use value to determine BLV the guidance states: *'For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its current permitted use, and other than other potential development that requires planning consent, technical consent or unrealistic permitted development with different associated values. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should*

be limited to those uses which have an existing implementable permission for that use. Where there is no existing implementable permission, plan makers can set out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued. Where AUV is used this should be supported by evidence of the costs and values of the alternative use to justify the land value. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted.'

3.2.9 It is therefore clear that the only acceptable approach to defining a benchmark land value for the purposes of a viability assessment, is the EUV+; or, exceptionally, AUV.

3.2.10 The previously submitted BLV of £1,016,400 was based on an EUV of £847,000 and a landowner's premium of 20%. The FVU now adopts a 15% landowner's premium and a revised BLV of £974,050.

3.2.11 As noted within the FVU, DSP did not make any adjustments to the EUV assumption, although we did adopt a lower landowner's premium of 10%.

3.2.12 In our original review report, we did note that the condition of the buildings, in particular the flat, were unknown and therefore the value could be lower than currently placed. No further information has been provided concerning the conditions of the buildings and therefore, consistent with our previous review, we have tested the scheme with a BLV of £931,700.

3.3 Acquisition Costs

3.3.1 Acquisition costs have been applied to the BLV at an assumed 1% for agent's fees, and 0.75% legal fees. This is reduced from the previous assumption of 1.5% for agent's fees, consistent with DSP's September 2021 review report.

3.3.2 SDLT (Stamp Duty Land Tax) has also been applied to the residual land value. We have checked the assumptions on the Government's online SDLT calculator and this assumption is correctly placed.

3.4 Gross Development Value

Private Residential

3.4.1 DHA adopts a total GDV of £8,550,000, equivalent to £269.14/ft^2 (£2,897/m^2) based on a total floor area of 31,768ft^2 as included within the appraisal (compared to the previously assumed average of £264.14/ft^2) based on the following sales values assumptions.

Unit type:	No. of units:	GIA (Sqft):	Sales Values:	Value psf:
Apartments:				
2B3P	1	722	£195,000	£270.08
2B3P (balcony)	2	722	£200,000	£277.01
2B4P	3	755	£200,000	£264.90
2B4P	8	758	£200,000	£263.85
2B3P	3	768	£200,000	£260.41
2B4P	3	777	£200,000	£257.40
2B4P (balcony)	2	777	£205,000	£263.84
2B4P	3	789	£200,000	£259.82
3B5P	2	997	£280,000	£280.84
3B5P (balcony)	2	997	£285,000	£285.86
3B5P	4	1,034	£280,000	£270.79
2B4P	1	753	£200,000	£265.60
Houses				
4B7P	3	119	£365,000	£281.25
Total:	**37**		**£8,550,000**	**£269.13**

3.4.2 We have updated our own research including data from Land Registry and advertised prices on property websites. We have also revisited the advertised asking prices for the new build development at Cliffe Villas.

3.4.3 Based on our updated research, we remain of the view that the assumed values for the flats is within the expected range. However, in respect of the houses we note a 4-bedroom modern town house currently being marketed for sale in Harold Road with an asking price of £400,000 (equivalent to £3,738/m^2 (£347/ft^2) based on a floor area of 107m^2). We acknowledge that this is an asking price but we would expect a premium to re-sale values.

ONLINE VIEWING

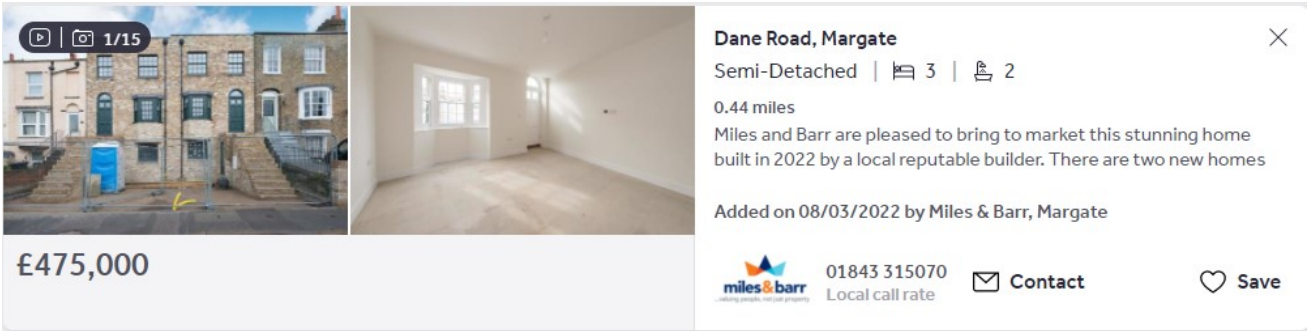
Harold Road, Cliftonville, Margate, Kent | See map

£400,000

Monthly mortgage payments

Added on 14/02/2022

3.4.4 We also note 2no. 3-bedroom new build properties currently being advertised for sale with an asking price of £475,000. We have been unable to ascertain the floor areas for these properties.



3.4.5 At an assumed value of £365,000 for the houses, we consider that the values could be understated when looking at values for modern/new-build properties in the vicinity of the application site. We have therefore tested the scheme adopting a value of £347/ft^2 (as per the Harold Road property shown above) for the proposed houses - £445,000 per dwelling (rounded).

3.4.6 It is worth noting that any improvement in the sales value assumptions (compared with a level set at the point of the appraisal) would most likely be reflected in an improvement in scheme viability. Whilst the opposite could also occur (the sales values could fall relative to the assumptions made), that is the developer's (applicant's) risk and such factors need to be kept in mind in making an overall assessment of the applicant's position.

3.5 Ground Rents

3.5.1 Ground rents have not been included in the submitted appraisal. On 8 February 2022, the Leasehold Reform (Ground Rent) Act 2022 received Royal Assent. It restricts ground rents on the grant of new leases to a peppercorn. We therefore agree that it is no longer appropriate to include a capital contribution within the appraisal.

3.6 Development Timings

3.6.1 In our previous review report (September 2021), DSP reduced the construction period from 24 months to 15 months. The FVU argues that a construction period of 15 months is optimistic in light of market uncertainty and on this basis, adopts a construction period of 18 months.

3.6.2 We have once again reviewed the BCIS duration calculator, and on this basis, we are able to agree with an 18-month construction period.

3.6.3 The pre-construction period remains at 6 months and sales are once again assumed to take place over 16 months commencing 8-months prior to construction completion. Consistent with our previous review, we have not made any adjustments to these assumptions.

3.7 Cost Assumptions – Build Costs and Fees – Proposed Scheme

3.7.1 The assumed build costs were previously based on a cost appraisal prepared by Project & Building Consultancy (PBC). As noted within the FVU, DSP considered the submitted build costs to be reasonably placed. The PBC cost plan indicated base build costs of £4,664,360 for a floor area of 33,772ft^2.

(extract from the cost plan)

2.0	CONSTRUCTION WORKS		sqft	£/sqft	
1	Cost allowance - Flats (incl. communal areas)		28,852	£140	
2	Cost allowance - Penthouse Flat:		1,080	£145	
3	Cost allowance - Houses		3,840	£122	
	Dwellings Sub-total				**£4,664,360**

3.7.2 The assumed build costs are now based upon BCIS data relocated to Thanet. The following rates have been adopted (extracted from the FVU), which equate to a total base build cost of £4,656,084 for a floor area of 31,768ft^2. The FVU sets out the total floor area as 31,133ft^2, however, upon querying, DHA have confirmed that the floor area is as set out within the development appraisal (31,768ft^2).

	Median Build Cost	
	£ psm:	£ psf:
Apartments (Generally)	£1,602	£148.88
Estate Housing terraced (3-storey)	£1,396	£129.73

3.7.3 The build costs have therefore reduced by £8,276 for a circa 2,000ft^2 (186m^2) reduction in the floor area for the flats and houses.

3.7.4 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). The data is included below and we have therefore adopted the following rates within our trial appraisal (shown highlighted in the BCIS data below), equivalent to a total base build cost of £4,398,574.

BCIS median build rate		
	£/m2	**£/ft2**
Apartments (generally)	1,511	140.38
Estated Housing Terraced (generally)	1,340	124.49

3.7.5 The previously submitted PBS cost appraisal also included an allowance of £457,450 for external works. The same allowance has been included again and consistent with our previous review, we have not made any adjustments to these cost allowances.

Results

› Rebased to Thanet (109; sample 15) Edit

£/m2 study

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

Last updated: 12-Mar-2022 00:41

Maximum age of results: 5 years

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 (5)	1,435	951	1,191	1,340	1,577	2,119	15
2-storey (5)	1,386	951	1,186	1,328	1,526	1,991	14
816. Flats (apartments)							
Generally (5)	1,618	919	1,341	1,511	1,818	3,609	207
1-2 storey (5)	1,562	1,005	1,303	1,466	1,647	2,326	46
3-5 storey (5)	1,610	919	1,344	1,503	1,797	3,609	134
6 storey or above (5)	1,746	1,253	1,497	1,758	1,900	2,548	27

3.7.6 Professional fees have once again been included at 10% of the total construction costs and contingency fees at 5% (applied to all construction costs). Consistent with our previous review, we do not consider these assumptions to be unreasonable - they are within the range typically seen for the scheme type.

3.7.7 Previously, the development appraisal included an allowance of £1,500 per unit for warranty insurance cover. DSP removed this assumption from our trial appraisal and DHA have not sought to include this allowance in the current appraisal.

3.8 Agent's, Marketing & Legal Fees

3.8.1 The FVU includes an allowance of 2% GDV for sales and marketing costs, consistent with DSP's previous review report.

3.8.2 Legal fees (on sale) are once again included at £750 per unit. Our view remains unchanged that this assumption is not unreasonable.

3.9 Development Finance

3.9.1 Consistent with our previous review report, we consider the submitted overall finance cost represented by the use of the 6% interest rate to be a suitable assumption; again, it is within the appropriate range.

3.10 S106 / Planning Obligations

3.10.1 The submitted appraisal includes an allowance of £13,832 for SAMMS.

3.10.2 The FVU states that the following further contributions have been requested as part of the proposed application, however, they have not been included within the development appraisal.

Contribution:	Per flat (x39):	Per house (x3):	Total:
Secondary Education	£1,294.00	£5,176.00	£65,994.00
Secondary Education Land	£377.78	£1,511.11	£19,266.75

Contribution:	Per dwelling (x42):	Total:
Community Learning	£16.42	£689.64
Youth Service	£65.50	£2,751.00
Library Bookstock	£55.45	£2,328.90
Social Care	£146.88	£6,168.96
Waste	£54.47	£2,287.74

3.10.3 We recommend that the Council confirms these figures or provides alternatives that can be reflected within the appraisal.

3.10.4 It should be noted that any change in the chargeable sum would have an impact on the overall viability of the scheme as viewed through the appraisals. A reduction in the cost assumption would improve the viability outcome and an increase would pull it downwards (looking at the effect of this assumption only). In all such reviews, we assume that all requirements that are necessary to make a scheme acceptable in planning terms will have to be included.

3.11 Developer's Risk Reward – Profit

3.11.1 In this case, the level of profit has been included as a fixed input at 17.5% of gross development value (GDV).

3.11.2 The Planning Practice Guidance on Viability states: '*Potential risk is accounted for in the assumed return for developers at the plan making stage. It is the role of developers, not plan* makers *or decision makers, to mitigate these risks. The cost of fully complying with policy*

requirements should be accounted for in benchmark land value. Under no circumstances will the price paid for land be relevant justification for failing to accord with relevant policies in the plan'. It goes on to state: '*For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. 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. Alternative figures may also be appropriate for different development types*[2]'.

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.

3.11.4 The proposed scheme as presented is shown within the development appraisal to produce a residual land value of £662,837 and when comparing it to the assumed BLV of £974,050 results in a deficit of -£311,213. DSP calculates that when the deficit is deducted from the target profit, the scheme produces an actual profit of 14% GDV.

3.11.5 Consistent with our previous review, we have tested using a developer return of both 15% and 17.5% GDV within our trial appraisal.

[2] https://www.gov.uk/guidance/viability#standardised-inputs-to-viability-assessment - Paragraph: 018 Reference ID: 10-018-20190509

4. Recommendations / Summary

4.1.1 The overall approach to assessing the viability of the proposed development appears to be appropriate in our opinion.

4.1.2 We also consider a number of the submitted assumptions to be suitable. There are some areas we have continued to query or where we continue to have a difference of opinion and have therefore tested the viability using alternative assumptions, as follows:

- Benchmark Land Value (see discussion in 3.2) – consistent with our previous review, we have tested the scheme against a lower BLV of £931,700 compared to the now submitted £974,050.
- Gross Development Value (paragraph 3.4) – we have increased the assumed sales values of the proposed houses from £365,000 to £445,000.
- Costs assumptions (3.7) – we have reduced the build rate assumption in line with the latest available BCIS data 5 year data set.
- Profit (see 3.11) – consistent with our previous review, we have tested applying a profit level of both 15% and 17.5% GDV.

4.1.3 The FVU states that the proposed scheme now produces a residual value of £662,837, which when DSP compares against the submitted BLV of £974,050 produces a deficit of -£311,213. When the deficit is deducted from the target profit, the scheme as presented produces an actual profit of circa 14% GDV.

4.1.4 The FVU states that: "*The Applicant is aware of the Council's need for high quality residential development and due to the time and financial investment to date, they are willing to accept a lower profit level in order to recover the costs which have been incurred.*"

4.1.5 We have carried out sensitivity testing based on making our suggested amendments to the development appraisal. When making the amendments as referred to throughout this report and as summarised in paragraph 4.1.2 above, the proposed scheme (using an input 15% GDV profit level) produces a residual value of £1,272,646. When compared to DSP's revised BLV of £931,700, it produces a surplus of £340,946, which could be put towards affordable housing.

4.1.6 When using an input 17.5% GDV profit level, the proposed scheme produces a residual value of £1,093,180 and when compared to DSP's revised BLV of £931,700, produces a surplus of £161,480.

4.1.7 In conclusion, our view remains unchanged from our previous review report that we are unable to support the submitted position of a nil S.106 or affordable housing contribution for the proposed scheme.

4.1.8 We need to be clear our review is based on current day costs and values assumptions as described within our review based on the current scheme(s) as submitted. A different scheme may of course be more or less viable – we are only able to review the information provided.

4.1.9 No viability appraisal or review can accurately reflect costs and values until a scheme is built and sold - this is the nature of the viability review process. In this sense, the applicant and their agents are in a similar position to us in estimating positions – it is not an exact science by any means, and we find that opinions will usually vary.

4.1.10 As regards the wider context including the economic situation, in accordance with the relevant viability guidance our review is based on current day costs and values – a current view is appropriate for this purpose. At the time of writing, we continue to see positive reporting in terms of the property market; the expected slowdown of the market as a result of Brexit/Covid-19 has not occurred, and significant price increases are being reported across the country. As set out in the PPG, a balanced assessment of viability should consider the returns against risk for the developer and also the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission. DSP will continue to monitor the established appropriate information sources.

4.1.11 DSP will be happy to advise further as required.

Review report ends

March 2022

15% GDV profit

15% GDV profit

Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales 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		1,272,646	
			1,272,646
Stamp Duty		53,132	
Effective Stamp Duty Rate	4.17%		
Agent Fee	1.00%	12,726	
Legal Fee	0.75%	9,545	
			75,404

CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost	
Houses	3,840	124.49	478,042	
Apartment Block	27,928	140.38	3,920,533	
Totals	**59,696 ft²**		**4,398,574**	
Contingency		5.00%	242,801	
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	
				5,112,657

PROFESSIONAL FEES

All Professional Fees		10.00%	485,602	
				485,602

DISPOSAL FEES

Sales Agent Fee		2.00%	176,100	
Sales Legal Fee	37 un	750.00 /un	27,750	
				203,850

FINANCE

Debit Rate 6.000%, Credit Rate 0.000% (Nominal)	
Total Finance Cost	334,090

TOTAL COSTS	**7,484,250**
PROFIT	
	1,320,750

Performance Measures

Profit on Cost%	17.65%
Profit on GDV%	15.00%
IRR% (without Interest)	24.12%

17.5% GDV profit

17.5% GDV profit

Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales 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
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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		1,093,180	
			1,093,180
Stamp Duty		44,159	
Effective Stamp Duty Rate	4.04%		
Agent Fee	1.00%	10,932	
Legal Fee	0.75%	8,199	
			63,290

CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost	
Houses	3,840	124.49	478,042	
Apartment Block	27,928	140.38	3,920,533	
Totals	**59,696 ft²**		**4,398,574**	
Contingency		5.00%	242,801	
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	
				5,112,657

PROFESSIONAL FEES

All Professional Fees		10.00%	485,602	
				485,602

DISPOSAL FEES

Sales Agent Fee		2.00%	176,100	
Sales Legal Fee	37 un	750.00 /un	27,750	
				203,850

FINANCE

Debit Rate 6.000%, Credit Rate 0.000% (Nominal)	
Total Finance Cost	305,546

TOTAL COSTS	**7,264,125**
PROFIT	
	1,540,875

Performance Measures

Profit on Cost%	21.21%
Profit on GDV%	17.50%
IRR% (without Interest)	28.55%