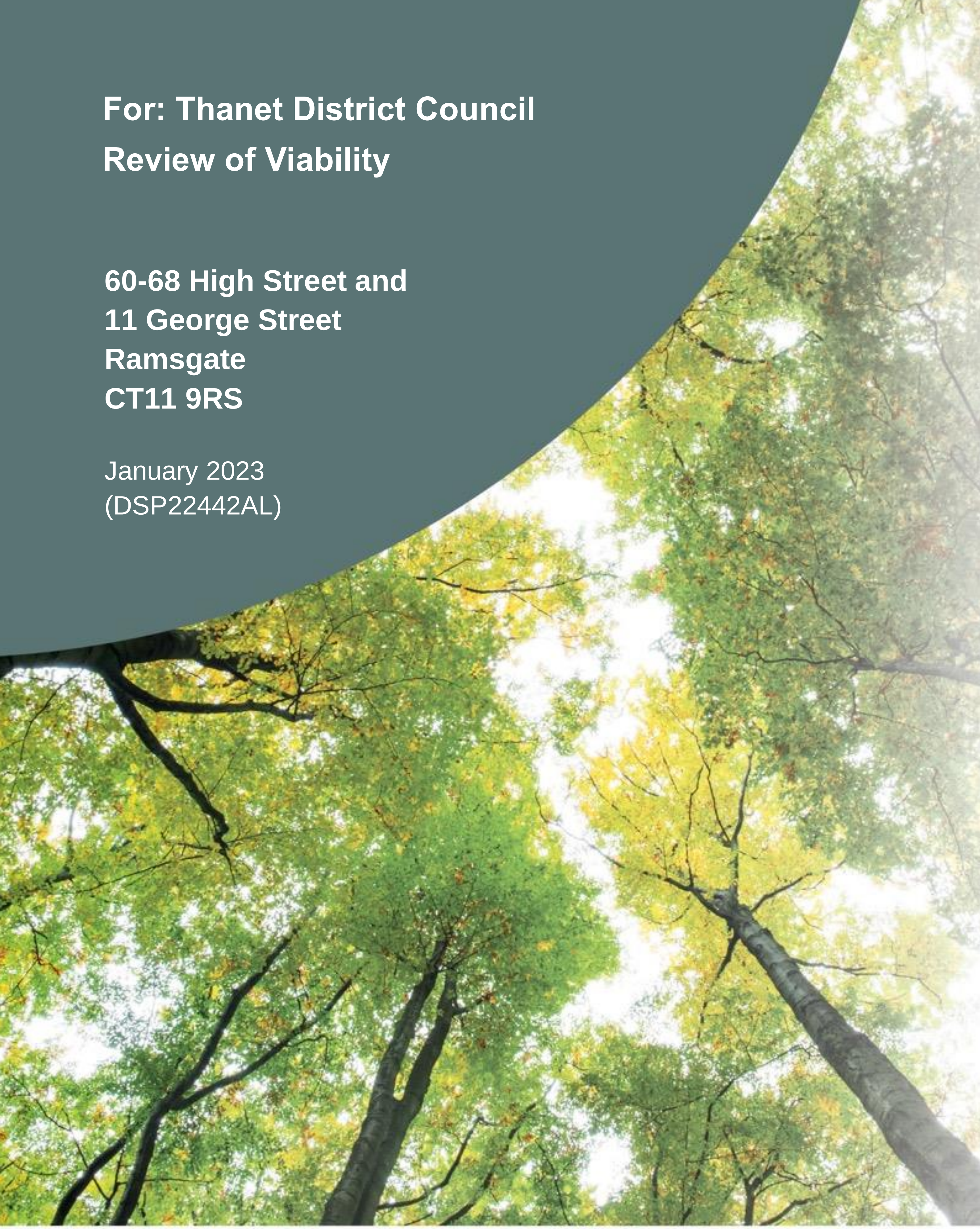
For: Thanet District Council

Review of Viability

60-68 High Street and
11 George Street
Ramsgate
CT11 9RS

January 2023
(DSP22442AL)



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

DixonSearle Partnership

Contents

1. Notes and Limitations

1.1.1. The following does not provide formal valuation advice. This review and its findings are intended purely for the purposes of providing Thanet District Council (TDC) with an independent check of, and opinion on, the planning applicant's viability information and stated position in this case.

1.1.2. This document has been prepared for this specific reason and should not be used for any other purpose without the prior written authority of Dixon Searle Partnership (DSP); we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned. To the extent that the document is based on information supplied by others, Dixon Searle Partnership accepts no liability for any loss or damage suffered by the client.

1.1.3. We have undertaken this as a desk-top exercise as is appropriate for this stage and level of review. For general familiarisation we have considered the site context from the information supplied by the Council and using available web-based material.

1.1.4. It has not been stated whether the information supplied to DSP to inform and support this review process has been supplied by the prospective / current planning applicant on a private and confidential basis. Some of the information might be commercially sensitive. Therefore, we suggest that the Council and prospective / current or subsequent 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 involved in the review of other planning stage proposals within the Thanet area, in addition to working on strategic level / planning policy related projects.

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 'Viability Assessment' (VA) dated 31 May 2022 carried out by Modus Construction Consultants (Modus) and supplied to the Council by Kudos Architectural Design and Surveying (Kudos) on behalf of the applicant in conjunction with a planning application for a proposed housing and commercial development at High Street/George Street, Ramsgate, CT11 9RS.

2.1.2 The VA has been submitted in support of a full planning application (ref. F/TH/22/0979) which seeks permission for the: '*Erection of a four storey building with mansard at third floor level to accommodate 5No. retail units (Use Class E(e)) with associated shopfronts at ground floor level, together with 34No 1-bed , 4No 2-bed and 2No 3-bed self contained flats together with refuse and cycle stores and external playspace, following demolition of existing buildings'.* The original application as described here was for 40 dwellings, however revised plans are for 39 dwellings as reviewed here; this appears to be due to two of the proposed 1-bed flats on the ground floor being changed to 1 x 2-bed flat.

2.1.3 TDC's affordable housing policy H14 requires sites of 15 or more dwellings to provide 30% affordable housing on site. Therefore, to be policy compliant, this development is required to provide 12 units of affordable housing; but also factoring in the need to provide 25% of the affordable housing as First Homes as per Government policy.

2.1.4 In presenting their viability position, the applicant has supplied to the Council the aforementioned VA which is in the form of a balance sheet of development values and costs, accompanied by a cost plan for the site works/build costs and a pricing schedule. The VA does not include any supporting evidence of sales transactions. Appendices include BCIS data on build costs, and letters from Kent County Council (KCC) regarding the planning contributions requested from the development. A series of assessments have been submitted, testing different levels of affordable housing. Modus have provided 'live' electronic copies of their spreadsheets.

2.1.5 DSP has also had sight of the documents contained within the Council's online planning application file.

2.1.6 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.

2.1.7 For general background, a viable development may be regarded as one which has the ability 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 (PPG) 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' .

2.1.8 Under normal circumstances, if the residual land value (RLV) created by a scheme proposal exceeds the existing use value plus a premium (referred to as a benchmark land value (BLV) in this case) then we usually have a positive viability scenario – i.e., the scheme is much more likely to proceed (on the basis that a reasonable developer profit margin is also reached).

2.1.9 As noted above, the VA considers various scenarios with differing levels of affordable housing from 0% up to 25%. The results as presented indicate that all scenarios result in a negative residual value (before any BLV is considered). The VA concludes, therefore, that '*the project is unviable with the shared/affordable ownership offering and the project should be offered with SAMMS/Developer contributions only'*.

2.1.10 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.

2.1.11 Accordingly, Thanet 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 – information all provided below.

2.1.12 We have based our review on the submitted VA and the premise that the viability of the scheme should be considered based on the assumption of current costs and values. We then discuss any variation in terms of any deficit (or surplus) created from that base position by altering appraisal assumptions (where there is disagreement if any).

2.1.13 Given the significant deficit (as presented) in the 100% market housing scenario, we will begin our review by considering this scenario. If our review and appraisal indicates any surplus arising from this scenario, we will go on to consider the effect of including affordable housing up to an including a policy compliant level. The VA has not put forward any commentary on a suitable BLV (other than mentioning a purchase price for the site of £1,000,000, which does not appear to have been factored in to the appraisal). We will consider BLV in our report; if any surplus is identified by our review/appraisals this will have to be assessed against a suitable BLV.

2.1.14 The submitted VA does not include details of cashflow or development timings, therefore to aid our review and assess finance costs we have built an appraisal using Argus

Developer software, applying assumptions on timing based on our experience of similar schemes.

2.1.15 This assessment has been carried out by Dixon Searle Partnership, a consultancy which has over 40 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.

2.1.16 The purpose of this report is to provide our overview comments with regard to this individual scheme, on behalf of Thanet DC - 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.

2.1.17 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 appraisal assumptions as explained within the VA.

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 recently issued a new guidance note: 'Assessing viability in planning under the national Planning Policy Framework 2019 for England' (1st Edition, March 2021). This is 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 The 2021 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'

3.2.4 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.'

3.2.5 The revisions to the Viability PPG and the new NPPF (latter updated 19th February 2019, May 2019 and most recently in July 2021 in other respects) now 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.'

3.2.6 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 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.'

3.2.7 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.'*

3.2.8 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.)'*

3.2.9 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.'*

3.2.10 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.

3.2.11 In this case, no BLV has been put forward. The submitted appraisal includes acquisition costs relating to the stated £1,000,000 purchase price.

3.2.12 We have reviewed Land Registry records and the CoStar commercial database, both of which confirm that £1,000,000 was paid for 60-68 High Street on 4 June 2021. This however is likely to be the price paid for the purposes of development and will therefore including some 'hope value'.

3.2.13 The existing use of the site is as commercial units with storage above.

3.2.14 CoStar indicates the following leasing activity:

CoStar - Leasing Activity - 60-68 High Street						
Address	**Sign Date**	**SF Leased**	**Rent PA**	**Service type**	**Rent Type**	**£/ft²**
60-68 High Street	Feb-11	6496	£ 40,000	FRI	Achieved	£ 6.16
64 High Street	Jul-19	2056	£ 23,000	-	Achieved	£ 11.19
66-68 High Street	Mar-20	3720	£ 21,083	-	Achieved	£ 5.67
TOTAL/AVE		**12272**	**£ 84,083**			**£ 6.85**

3.2.15 The Valuation Office has attributed the following rateable values to 11 George Street and 60-68 High Street:

Valuation Office - assessment of rateable value				
Address	**m2**	**ft2**	**Rateable Value**	**£/ft²**
11 George Street	641.1	6901	£ 50,000	£ 7.25

Valuation Office - assessment of rateable value				
Address	**m2**	**ft2**	**Rateable Value**	**£/ft²**
64 High Street	191.1	2057	£ 15,750	£ 7.66
66 High Street	448.95	4832	£ 21,000	£ 4.35
68 High Street	100.9	1086	£ 12,500	£ 11.51
TOTAL/AVE	**740.95**	**7976**	**£ 49,250**	**£ 6.18**

3.2.16 Based on the above information (and on our review of commercial rents in the area, discussed in 3.5, below) and assuming that the property is in a lettable condition, we have assumed a rental income of £50,000 per annum for 60-68 High Street. After allowing for a 1 year rent free/void period and purchaser's costs and assuming a yield of 9.25% we calculate the potential capital value and therefore EUV to be £460,000.

3.2.17 In our opinion it would be appropriate in this case to apply a 15% premium to this figure, equating to £69,000, since the property has a reasonable prospect of letting and the landowner would require an incentive to dispose of the site for development. Therefore in our view the residual value of the scheme should be assessed against a BLV of £529,000.

3.3 Acquisition costs

3.3.1 The submitted appraisals include acquisition costs based on the actual purchase price of £1,000,000, as follows

- SDLT £73,750
- Surveyor and legal fees £17,500 (1.75% of purchase price)

3.3.2 We have applied costs relating to our suggested BLV of £529,000, therefore:
SDLT of £15,950 as per HMRC calculator (see below) and agent's/legal cost at 1.75%, i.e. £9,257.50.

Results based on SDLT rules from 17 March 2016

Result of SDLT calculation

Effective date	24 January 2023
Purchase price (£)	529,000
Total SDLT due (£)	15,950

3.4 Gross Development Value – Residential

3.4.1 The submitted pricing schedule is based on a policy compliant appraisal, with the market values stated to be £360/ft² average. Applied to a 100% market housing scheme, this indicates the following values[1]:

100% market sale scheme - submitted values				
Floor	**Number of bedrooms**	**NIA (ft2)**	**£/ft²**	**Price**
Ground Floor	1	527	360	£ 189,720
Ground Floor	1	506	360	£ 182,160
Ground Floor	2	887	360	£ 319,320
First Floor	1	635	360	£ 228,600
First Floor	1	527	360	£ 189,720
First Floor	1	506	360	£ 182,160
First Floor	1	517	360	£ 186,120
First Floor	1	517	360	£ 186,120
First Floor	1	506	360	£ 182,160
First Floor	1	527	360	£ 189,720
First Floor	1	797	360	£ 286,920
First Floor	1	527	360	£ 189,720
First Floor	1	592	360	£ 213,120
First Floor	1	667	360	£ 240,120
First Floor	1	710	360	£ 255,600
First Floor	2	753	360	£ 271,080
First Floor	1	678	360	£ 244,080

[1] The GDV in the submitted appraisal is slightly different, at £9,231,895, probably due to rounding.

Second Floor	1	635	360	£	228,600
Second Floor	1	527	360	£	189,720
Second Floor	1	506	360	£	182,160
Second Floor	1	517	360	£	186,120
Second Floor	1	517	360	£	186,120
Second Floor	1	506	360	£	182,160
Second Floor	1	527	360	£	189,720
Second Floor	1	797	360	£	286,920
Second Floor	1	527	360	£	189,720
Second Floor	1	592	360	£	213,120
Second Floor	1	667	360	£	240,120
Second Floor	1	710	360	£	255,600
Second Floor	2	753	360	£	271,080
Second Floor	1	678	360	£	244,080
Third Floor	1	538	360	£	193,680
Third Floor	2	1141	360	£	410,760
Third Floor	2	840	360	£	302,400
Third Floor	1	710	360	£	255,600
Third Floor	1	581	360	£	209,160
Third Floor	3	990	360	£	356,400
Third Floor	3	1378	360	£	496,080
Third Floor	1	624	360	£	224,640
		25640		**£**	**9,230,400**

3.4.2 Split by bedroom size, the following average values are assumed:

Submitted values - average price per bed size				
Type	**Number**	**Average size (ft²)**	**Average price**	
1 bed flats	32	591	£	212,603
2 bed flats	5	875	£	314,928
3 bed flats	2	1184	£	426,240

3.4.3 We have carried out our own research into values, using Land Registry data on comparable transactions, and advertised prices on property websites.

3.4.4 Looking first at transactions for new build properties, we have reviewed sale prices for new build flats in Ramsgate over the past 2 years. We have removed flats with a sea view from the dataset as these command a premium and the subject site will not benefit from this. The results are included as Appendix 1 and indicate a new build sales value (adjusted for HPI) of £327/ft² average. This supports the submitted average of £360/ft².

3.4.5 The above new build transactions took place some time ago, in 2021 (although we have adjusted the results by HPI). Therefore we have also reviewed resales of flats in the immediate area over the past six months (again, excluding those properties which benefit from sea views). This indicates an average sales value of £270/ft² (adjusted for HPI). The submitted values are 33% above this average. Typically, new build flats are 20% above the average value for second hand flats, therefore again this indicates that the submitted values are not overestimated.

3.4.6 In addition, we have reviewed new build flats currently advertised for sale. This indicates an average value (for the 18 advertised flats where floor area was stated or could be measured) of £350/ft². Taking into account a likely discount from asking price, or sales incentives, again this points to the submitted £360/ft² average being a not unreasonable assumption.

3.4.7 The following flats were advertised but we were unable to obtain the floor areas. However the advertised prices are consistent with the submitted averages set out in 3.4.2, above.

Flats advertised close to site - floor area not given					
	40 Queens Road, Ramsgate	0.6	3	Apartment	£ 425,000
	40 Queens Road, Ramsgate	0.6	2	Apartment	£ 355,000
	40 Queens Road, Ramsgate	0.6	2	Apartment	£ 355,000
	40 Queens Road, Ramsgate	0.6	2	Apartment	£ 285,000
	Queens Road, Ramsgate	0.6	1	Apartment	£ 195,000

3.4.8 Based on our research and judgments we consider that the submitted market values are appropriately placed. The submitted values look fairly positive in relation to the available evidence; this is consistent with the design of the scheme – we note that the proposals include a concierge facility which suggests high quality development. We have not adjusted the submitted values in our appraisal.

3.4.9 For affordable housing, where included, Modus have assumed a value of 70% of market GDV for First Homes, 75% GDV for shared ownership and 60% OMV for Affordable Rented. These assumptions place the affordable housing GDV within the expected range and are considered to be not unreasonable.

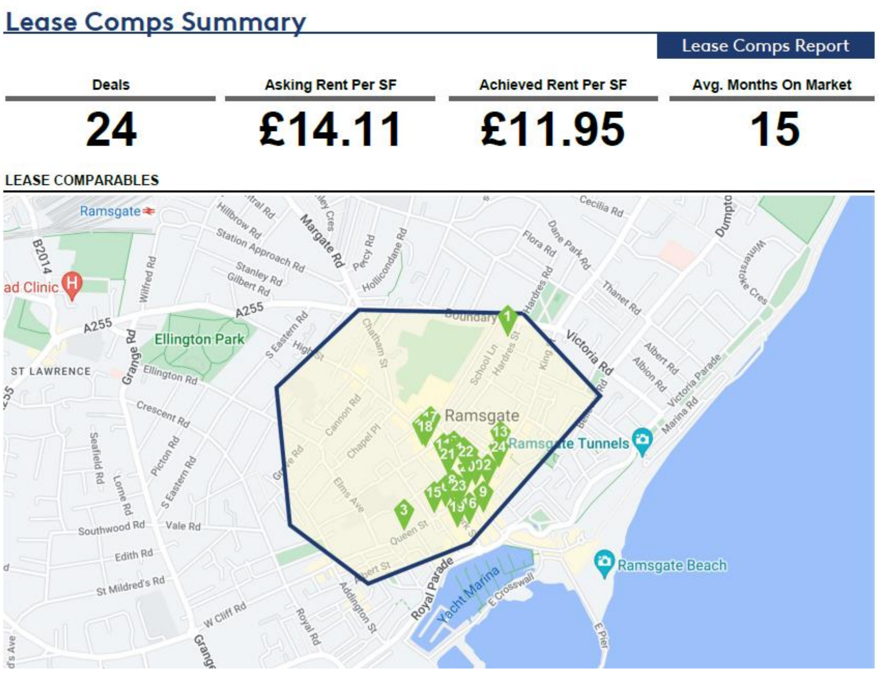
3.5 Gross Development Value - Commercial

3.5.1 The proposed commercial units have the following floor areas:

Shops		Floor area (ft²)	Floor area (m²)
1		452	42
2		969	90
3		861	80
4		1206	112
5		883	82
Shops - Floor area total		**4855**	**451**

3.5.2 The VA includes a value of £679,633 stated to be based on a 10-year lease at £14.00/ft². This equates to a yield assumption of c. 9%.

3.5.3 We have reviewed commercial rents locally. The CoStar commercial database includes 24 leases agreed in the immediate area over the past five years, ranging from £3.94/ft² to £33.56/ft². The average achieved rent was £11.95/ft².



3.5.4 We have also reviewed units advertised to let locally. There is a fairly wide range of rents, with an average advertised rent of £17/ft².

Advertised prices - Retail Rent within 1 mile of CT11 9RS - Source: Prime Location				
Image	Distance from site (miles)	Rent [per anum]	Floor area (ft²)	£/ft²
	1	£ 150,000	16917	£ 9
	1	£ 40,000	3627	£ 11
	1	£ 37,500	1248	£ 30
	1	£ 29,400	1036	£ 28
	1	£ 24,000	1360	£ 18
	1	£ 18,200	778	£ 23
	1	£ 13,000	556	£ 23
	1	£ 9,096	1000	£ 9
	1	£ 5,976	400	£ 15
	1	£ 5,500	775	£ 7
AVERAGE		**£ 33,267**	**2770**	**£ 17**

3.5.5 As noted in section 3.2, above, there is rental information available for 60-68 High Street in its existing use which indicates rents of c. £7/ft² achieved at the property.

3.5.6 Reviewing the above commentary, the submitted £14/ft² is considered a not unreasonable assumption for newly built units in this location. The submitted capital value, equating to a gross yield of c. 9% is consistent with our assumptions on BLV in 3.2, above. However overall we consider that a lower yield might be applied to newly built commercial units in a High Street location. To fully 'stress-test' the viability we have assumed a 12 month rent free/void period alongside a £14/ft² rent and 8% yield, resulting in a capital value for the commercial of £786,690 in our appraisal.

3.6 Development Timings

3.6.1 The timings assumed in the submitted appraisals have not been stated. We have run our appraisal based on timings seen on similar schemes, which are as follows:

TIMESCALE AND PHASING

60-68 High Street and 11 George Street
100% Market Housing Appraisal v002
DSP assumptions

Timescale (Duration in months)

Project commences Jan 2023
Phase 1

Stage Name	Duration	Start Date	End Date	Anchored To	Aligned
Phase Start		Jan 2023			
Pre-Construction	3	Jan 2023	Mar 2023	Purchase	End
Construction	18	Apr 2023	Sep 2024	Pre-Construction	End
Sale	12	Oct 2024	Sep 2025	Construction	End
Phase End		Sep 2025			
Phase Length	**33**				
Project Length	**33**	**(Includes Exit Period)**			

Cost Assumptions

3.7 Build Costs & Fees

3.7.1 The submitted build costs are summarised in the table below. We have added comments alongside.

Submitted build cost - SUMMARY					
		£	£/m²	£/ft²	**DSP comment**
Facilitating Works (asbestos removal and demolition)		143,925	41	4	Allowances are within expected parameters
Building Works (Shops 1,108/m² and Flats £1,727/m²)		5,853,408	1,648	153	BCIS indicates median rate (5 yr sample, Thanet) of £1,709/m² for flats and median rate (Default sample) of £1,554/m² for shops. Therefore a blended rate of £1,612/m² for the scheme
					Applying the 'Default' 15 yr sample results in a blended rate of £1,689. Therefore rates are at approximatley BCIS median at present day costs (January 2023).
Site Works (includes externals, drainage and services)		504,800	142	13	Overall these represent 9% on top of building works cost
Main Contractor Preliminaries		Incl.	Incl.	Incl.	OHP and prelims on external/abnormal works assumed at 18% total. This is within expected range.
Structural Building Warranties		58,500	16	2	Warranty costs would normally be included within overall fee alowance (included here at 10% construction costs therefore £688,574
Main Contractors Overheads & Profit		Incl.	Incl.	Incl.	As above, OHP and prelims on external/abnormal works assumed at 18% total. This is within expected range.
	6,560,633				
Contingency	5%	325,107	92	9	This is a typical assumption.
	6,888,665	**6,885,740**			

3.7.2 Based on the viability appraisal and plans on the planning portal, we calculate the relevant areas to be as follows:

Item (info taken from viabiity appraisal and plans on planning portal)		**ft2**	**m2**
NIA Flats		25640	2382
GIA Flats		33368	3100
Ratio		76.8%	76.8%
Shops			
1		452	42
2		969	90
3		861	80
4		1206	112
5		883	82
Shops - Floor area total		4855	451
Total NIA		30495	2833
Total GIA		38223	3551

3.7.3 This indicates a net:gross ratio for the flats of 77:33 which indicates an inefficient design; the proportion of communal areas is higher than typically seen. However this is consistent with the plans which indicate the following communal areas:

Communal areas (not including corridors or lift		ft2	m2
Bin stores		614	57
Bike stores		517	48
Lobby		603	56
Concierge faciliites and foyer (areas not stated on plans - DSP estimate)		269	25
First floor lobby/stairs		1238	115
Second floor lobby/stairs		1238	115
Third floor lobby/stairs		667	62
		5145	**478**

3.7.4 Further detail on costs is provided in the submitted spreadsheet, and we have summarised this below, again with DSP comments alongside.

Build cost - Breakdown					
Facilitating Works					
Allowance for removal of asbestos following survey	1	It	30,000	30,000	Within expected range.
Demolition of existing single and two-storey masonry building	1519	m2	75	113,925	Within expected range.
				143,925	
Building Works					
Shops; to ground floor (shell only); median rate	451	m2	1,108	499,708	
Flats (apartments); 3-5 storey; median rate	3100	m2	1,727	5,353,700	Overall cost is at c. BCIS median level
	3551		**1,648**	**5,853,408**	
Site Works					
8.1 - External Works					
Construction of paved footpaths; including sub-base, kerbs, etc.	58	m2	60	3,480	Rate is within parameters typically seen.
Topsoil and turfing	88	m2	15	1,320	Rate is within parameters typically seen.
Retaining wall to ramp	20	m	160	3,200	Rate is lower than seen on simlar schemes
Allowance for benches	5	Nr	350	1,750	Not unreasonable
Add. Allowance for preliminaries	10	%	9,750	975	
Add. Allowance for overheads and profit	8	%	10,725	858	OHP/Prelims total is within typical parameters
				11,583	
8.2 - External Drainage					
Building drainage; surface water	3551	m2	25	88,775	
					Drainage involves making connections from building to existing sewer. Items shown are consistent with this. Equates to £4,000 per dwelling which does not exceed allowances seen on similar schemes.
Building drainage; foul water	3551	m2	20	71,020	
Site drainage; surface water	58	m2	15	870	
Main sewer connections	2	Nr	5,000	10,000	
Add. Allowance for preliminaries	10	%	170,665	17,067	
Add. Allowance for overheads and profit	8	%	187,732	15,019	OHP/Prelims total is within typical parameters
				202,751	
8.3 - External Services					
Allowance for incoming water services	44	Nr	1,500	66,000	
Allowance for incoming electrical services	44	Nr	1,750	77,000	
Allowance for incoming gas services	44	Nr	1,750	77,000	
Allowance for incoming telecommunication services; including broadband	44	Nr	500	22,000	Services = £5,500 per property, plus 18% OHP and prelims = £6,490 per property
Allowance for street lighting	1	It	2,500	2,500	Upper end of costs seen
Add. Allowance for preliminaries	10	%	244,500	24,450	
Add. Allowance for overheads and profit	8	%	268,950	21,516	
				290,466	

3.7.5 Although some items are at the upper end of the range typically seen, overall we consider that the submitted build costs are within the expected parameters, with reference to BCIS median rates (rebased to a Thanet location factor) at the time of writing (January 2023) and rates seen on similar schemes. We have applied the submitted build costs within our appraisal.

3.8 Professional fees and contingency

3.8.1 The submitted appraisals include an allowance of 10.0% for professional fees. This allowance is within the typical range and we have applied the same in our appraisals.

3.8.2 As noted in the build costs summary above, a contingency allowance of 5% has been assumed. This is a fairly typical assumption, which we have included in our appraisal as a separate allowance.

3.9 s.106 Planning Obligations

3.9.1 The submitted appraisals include £75,607 in total for s106 obligations. Some of the costs are supported by evidence of requests from KCC.

3.9.2 TDC have provided an updated schedule of s106 requirements, which totals £79,576.80. We have applied this amount in our appraisals.

3.9.3 It should be noted that any change in the chargeable sum(s) would have an impact on the overall viability of the scheme as viewed through the appraisal – the inclusion of CIL or S106 payments would pull it downwards (looking at the effect of these assumptions 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.

3.10 Development Finance

3.10.1 Finance costs have been included in the submitted appraisal at 6.0% including all fees. This appears to have been applied as a straight percentage of the total costs rather than on a cashflow basis.

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

3.10.3 The cost of finance has increased recently. We are currently seeing a range of rates submitted, with most assumptions falling within the range of 6.0% to 7.0% based on 100% debt finance. The submitted assumption of 6.0% is at the lower end of the range and not considered to be overestimated. We have applied the same rate in our appraisal, applying finance cost across the project timings as set out in 3.6, above.

3.11 Agent's, Marketing & Legal fees

3.11.1 The VA includes marketing fees of 1% GDV, agents' fees of 1% GDV and and legal fees of 0.5% GDV, applied to the residential and commercial GDV (including affordable housing where included). These are within expected parameters for the type of development and we have applied the same.

3.12 Developer's Risk Reward – Profit

3.12.1 In this case, a profit allowance of 15% GDV has been made across all scheme elements (including affordable housing where included).

3.12.2 The Planning Practice Guidance (PPG) 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]'.

3.12.3 The submitted profit assumption of 15% GDV is at the lower end of the above-noted 15% - 20% range, and is considered to be a suitable assumption applied to the GDV of the 100% market scheme. Affordable housing should in our view (and as per industry practice) have a lower profit allowance, however for the time being we are considering the 100% market appraisal. We note that whilst a 15% profit assumption is fairly typical on commercial units, a higher profit assumption is often seen on residential units, particularly on flatted developments where the market risk is seen to be greater – with no revenue received until construction of all units is complete. Therefore we consider that a fairly positive assumption has been made on profit within the 100% market appraisal. We have applied the same within our appraisal.

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

4. Summary - Overview

4.1.1 The submitted approach to assessing the viability of the proposed development appears to be appropriate overall in terms of the principles in use, in our opinion; however a benchmark value (BLV) has not been considered (presumably because the appraisal outcomes as presented are negative, therefore inclusion of a land value would only worsen the stated viability position). We have assumed a BLV of £529,000 based on our assessment of the existing use value of the site.

4.1.2 In addition, a cashflow appraisal has not been provided therefore we have built our own appraisal using Argus Developer software to enable us to sensitivity test assumptions on costs and values.

4.1.3 That aside, we are in agreement with the submitted assumptions and consider that a fair view has been taken of values and costs.

4.1.4 We have tested the submitted assumptions in an Argus Developer appraisal (summary attached as Appendix 2) based on a 100% market scheme which indicates a residual land value of £260,497. Compared with our assumed BLV of £529,000 this indicates a deficit of -£268,503.

4.1.5 The above result indicates that the proposed development, without any affordable housing provision, fails to reach the stated profit target of 15% GDV whilst supporting a suitable land value. This is due to sales values being low in relation to build costs.

4.1.6 We note that the submitted assumption of 15% GDV profit on both residential market dwellings and commercial units is a fairly positive assumption in today’s market. Nonetheless we have carried out sensitivity testing to indicate the effect of changes in costs/values. The table below shows the residual value of the scheme (after allowing for a 15% profit but before any allowance for land value) and the effect of increasing/decreasing sales values in 2.5% increments, as well as the effect of increasing/decreasing build costs in 2.5% increments.

Sensitivity Analysis Report					
Scheme Residual Land Value (£)					
	Sales: Gross Sales				
Construction: Gross Cost	**-5.000%**	**-2.500%**	**0.000%**	**2.500%**	**5.000%**
	8,768,880	8,999,640	9,230,400	9,461,160	9,691,920
-5.000% **6,095,873**	263,522	435,906	608,290	780,674	953,058
-2.500% **6,256,290**	89,625	262,009	434,393	606,777	779,161
0.000% **6,416,708**	-85,157	88,113	**260,497**	432,880	605,264
2.500% **6,577,126**	-261,662	-86,693	86,600	258,984	431,368
5.000% **6,737,543**	-438,584	-263,198	-88,228	85,087	257,471

4.1.7 The following table shows the above results compared against our suggested BLV of £529,000. Green shaded cells show a surplus against this land value, and red cells show a deficit.

Sensitivity Analysis Report					
Table of Residual Land Value against £529,000 BLV					
	Sales: Gross Sales				
Construction: Gross Cost	**-5.000%**	**-2.500%**	**0.000%**	**2.500%**	**5.000%**
	8,768,880	8,999,640	9,230,400	9,461,160	9,691,920
-5.000% **6,095,873**	-265,478	-93,094	79,290	251,674	424,058
-2.500% **6,256,290**	-439,375	-266,991	-94,607	77,777	250,161
0.000% **6,416,708**	-614,157	-440,887	**-268,503**	-96,120	76,264
2.500% **6,577,126**	-790,662	-615,693	-442,400	-270,016	-97,632
5.000% **6,737,543**	-967,584	-792,198	-617,228	-443,913	-271,529

4.1.8 The above testing indicates that even with a profit allowance at the lower end of the range suggested by the PPG, an increase of 5% in the estimated sales values would have to be achieved, or a decrease of 5% in build costs, before a surplus is shown that would allow for a contribution to affordable housing. (Or some combination of the two). At the time of writing, there is considerable uncertainty around property prices, and most commentators are predicting falls in prices in 2023, with recovery not taking place until 2025. The recent rapid rate of increases in build costs appears to be levelling off, however it is unlikely that build costs will decrease in the coming year.

4.1.9 Stepping back, and taking an overall view of the scheme, we are in agreement with the submitted position that the development will not support a contribution to affordable housing.

4.1.10 It can be assumed that if the applicant is willing to proceed they must be confident of finding significant efficiencies within the scheme costs as well as achieving positive sales values – through the usual "value engineering" type processes, and therefore eliminating the deficit shown in our base appraisal and achieving a profit in the 15 to 20% range.

4.1.11 Of course, no viability report or assessment can accurately reflect costs and values until a scheme is built and sold – this is the nature of the viability process and the reason for local authorities needing to also consider later stage review mechanisms when significant developments fall short of policy provision. In this sense, the applicant and their agents are in a similar position to us in estimating positions at this stage – it is not an exact science by any means, and we find that opinions can vary. It should also be noted that in testing alternative scenarios, the accuracy of assessment is reduced because in practice changing the unit mix would result in a redesign of the scheme, with a potential effect on values and costs. (We have had to make assumptions within our appraisal about how external/abnormal costs would be affected by the removal of one or more units).

4.1.12 As additional information for the Council, it should also be noted that Paragraph 64 of the revised NPPF and recent Appeal precedent indicates that that major developments (i.e. of 10+ dwellings) are expected to provide at least 10% of the proposed homes as 'affordable home ownership' units. The Council may wish to consider the implications for this scheme / application.

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

4.1.14 As regards the wider economic context, 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.

4.1.15 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, as the Council will also be able to do.

4.1.16 DSP will be happy to advise further if/as required by TDC.

Review report ends, January 2023

Appendix 1 – New Build Transactions - Ramsgate

Appendix 2 – Summary of DSP development appraisal