For: Thanet District Council

Review of Applicant Submitted Viability Position

Land S of Canterbury Road West
Ramsgate
Kent
CT12 5DU
March 2023
(DSP22442AJ)

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

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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. the information supplied to DSP to inform and support this review process has been stated by the applicant's agent to be private and confidential. Potentially some of the information provided may be regarded as 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 and are involved in the review of other planning stage proposals within the Thanet area as well as strategic level/planning policy 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 'Financial Viability Assessment Report' (FVAR) supplied to the Council on behalf of the applicant, Monson Homes Limited, by ULL Property (ULL) and dated July 2022. This is in relation to a planning application, reference F/TH/21/1671 for '*Erection of 141 dwellings, with open space, landscaping, access and associated infrastructure'* at Land South of Canterbury Road West, Ramsgate, CT12 5DU.

2.1.2 Policy SP23 of the Thanet Local Plan (adopted 2020) requires 30% affordable housing on sites of more than 10 dwelling units, therefore in this case a policy compliant position would be for 42 affordable units to be provided on site, following a tenure mix set out in the Thanet Strategic Housing Market Assessment, which indicates an 80/20 split between social/affordable rent and intermediate tenure would be appropriate – therefore 34 rented homes and 8 intermediate/shared ownership homes.

2.1.3 The submitted appraisal includes 42 affordable homes, with a tenure mix of 29 Affordable Rent Homes (70% of the AH) including 8 apartments, and 13 Shared ownership homes (2 and 3 bed houses).

2.1.4 In presenting their viability position, the applicant has supplied to the Council the aforementioned 'Financial Viability Assessment Report' (FVAR) together with an electronic version of the submitted viability appraisal utilising the Argus Developer software, a build cost estimate from Baily Garner, and a schedule of accommodation with suggested market values for each of the 99 proposed market units.

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

2.1.6 We have considered the assumptions individually listed within the FVAR and provided our commentary based on those. 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 residential viability assumptions and therefore the outcomes (scope to generate land value) 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[1]'* .

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 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. Therefore, an approach has been taken that sets out to consider, in the applicant's view, the maximum supportable contribution for affordable housing.

[1] Paragraph: 10 Reference ID: 10-010-20180724

2.1.10 The FVAR states that the proposed scheme with 30% affordable housing (29 Affordable Rent and 13 shared ownership as noted above[2]) produces a negative residual land value of -£201,000 after allowing for a fixed developer's profit of 17.5% on GDV for market housing and 6% GDV for affordable housing, and when compared to the assumed benchmark land value of £2,077,000 produces a deficit of -£2,278,000. The FVAR concludes that '*the fact that the Residual Land Value Is negative indicates the project is unable to sustain the Section 106 contributions sought by the local planning authority'* and *'the proposed scheme cannot support the financial contributions being sought by the LPA under the Section 106 regime, in addition to other anticipated costs associated with the development including affordable housing'.*

2.1.11 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.

2.1.12 Accordingly, 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.

2.1.13 We have based our review on the submitted FVAR and the premise that the viability of the scheme should be considered based on the assumption of current costs and values. We then discuss any variation in terms of any deficit (or surplus) created from that base position by altering appraisal assumptions (where there is disagreement if any) utilising in this case the supplied appraisal basis as a starting point.

[2] No First Homes have been included – however these are now required by national policy.

2.1.14 This assessment has been carried out by Dixon Searle Partnership, a consultancy which has 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 20 years or so.

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

2.1.16 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 FVAR.

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 presented outcome is approximately as expected – i.e. informed by a reasonable set of assumptions and appraisal approach. In this particular case, we understand this is in the context of the proposals at appeal stage no longer including affordable housing that had previously been incorporated; so with viability now amongst the appeal scope aspects. As far as we can see from the FVAR submission, the change in position is not explained beyond the provided viability figures.

3.1.4 Should there be changes to the scheme proposals relative to the details now under review, 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 guidance note[3] effective from 1st July 2021 and which replaces a previous (RICS 2012) guidance note[4]. The 2021 RICS guidance has an emphasis which 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 latest PPG on viability and the NPPF (most recently updated in July 2021) 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 PPG 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*

[3] https://www.rics.org/globalassets/rics-website/media/upholding-professional-standards/sector-standards/land/assessing-financial-viability_final.pdf
[4] https://www.rics.org/globalassets/rics-website/media/upholding-professional-standards/sector-standards/land/financial-viability-in-planning-1st_edition-rics.pdf

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.[5]*'*

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*[6]*.'*

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*

[5] Paragraph: 015 Reference ID: 10-015-20190509
[6] Paragraph: 014 Reference ID: 10-014-20190509

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[7].)'

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[8].'*

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, the submitted BLV is stated to be based on the EUV+ of the site, which is currently an agricultural field. ULL consider the EUV of the site to be £131,000 and in order to assess the landowner premium to be added to this have considered various assumptions used in viability assessments in the South East including:

- Thanet's strategic viability analysis carried out by Adams Integra in 2012 which is stated to have assumed a value of £250,000 to £370,000 per hectare as EUV+ for farmland, depending on the 'bulk' of land required.
- Aspinall Verdi's strategic assessment for Swale Borough Council in December 2020 which suggests £247,000 per hectare for agricultural land.

[7] Paragraph: 014 Reference ID: 10-014-20190509
[8] Paragraph: 017 Reference ID: 10-017-20190509

- Site specific assessments generally, which in ULL's experience assume a BLV at 18 to 20 times agricultural land value.

3.2.12 ULL conclude that '*based on experience of other projects (details of which can be made available), and bearing in mind the approach adopted by Thanet in 2021 and other Councils more recently, we consider a reasonable benchmark land value to be £352,000/hectare, being 16x agricultural value.*

3.2.13 The site is stated to extend to a gross site area of 5.9ha (14.58 acres) therefore the submitted BLV is £2,077,000 (15.8 times the stated EUV).

3.2.14 As noted by ULL, whilst the value of the land in existing use is fairly low – estimated by ULL to be £9,000 per acre (c.£22,000/hectare), it is reasonable to assume a significant uplift on the EUV, representing the premium required to release the land for development.

3.2.15 Agricultural land value (including premium) is frequently assumed to be between 10 and 20 times EUV, with larger sites typically being closer to the lower end of that range. The submitted £352,000 per hectare represents 16 x agricultural value for this 14.58 acre (5.9 hectare site). ULL also note assumptions made in similar assessments which range from £247,000 per hectare up to £400,000 per hectare.

3.2.16 A suitable premium is difficult to pinpoint in such cases, however we consider the £247,000 per hectare mentioned here to represent a reasonable minimum BLV (therefore £1,457,300). We will consider the BLV further in our conclusions.

3.3 Acquisition Costs

3.3.1 Acquisition costs of 1.5% have been included, applied to the residualised value. These consist of 1% agents' fees and 0.5% legal fees, and are typical assumptions. In the submitted appraisal the residualised value is negative therefore no acquisition costs have been applied.

3.4 Gross Development Value

GDV – market housing

3.4.1 The submitted GDV (for a scheme including 30% affordable housing), based on a pricing schedule from JLL, is as follows:

Sales Valuation	Units	ft²	Sales Rate £/ft²	Unit Price (£)	Gross Sales (£)
Private houses	99	96,957	369.86	362,232	35,861,000
Affordable Rent	29	24,066	145.12	120,425	3,492,338
Intermediate	13	12,433	270.14	258,359	3,358,667
Totals	**141**	**133,456**			**42,712,005**

3.4.2 The submitted prices range from £320,000 for the smallest 2-bed houses to £427,000 for the largest detached houses. Typical unit types from the accommodation schedule are shown below.

Typical house types from accommodation schedule						
Beds	**Sq m**	**Sq ft**	**Type**	**Number of parking spaces**	**Assumed valu**	**£/ft²**
2 bed	79.0	850	End terrace	2	£ 375,000	£ 441.18
2 bed	79.0	850	Mid Terrace	2	£ 315,000	£ 370.59
2 bed	79.0	850	Semi-detached	2	£ 320,000	£ 376.47
3 bed	98.1	1056	Semi-detached	2	£ 380,000	£ 359.85
3 bed	94.5	1017	Semi-detached	2	£ 362,500	£ 356.44
3 bed	95.3	1026	Semi-detached	2	£ 380,000	£ 370.37
2 bed	79.0	850	Detached	2	£ 320,000	£ 376.47
3 bed	95.3	1026	Detached	2	£ 385,000	£ 375.24
4 bed	108.8	1171	Detached	3	£ 427,000	£ 364.65

3.4.3 Terraced properties are advertised at £315,000 to £375,000, Semi-detached at £320,000 to £380,000 and Detached at £320,000 to 3427,000.

3.4.4 2-beds range from £315,000 to £375,000 and 3-beds from £362,500 to £385,000. 4-beds are valued at £410,000 to £427,000.

3.4.5 The FVAUR reviews sales transactions close to the site. We have reviewed the FVAUR examples and commentary, and have provided our view below.

3.4.6 Bakers Field – Cliffsend. This small development of detached homes is located close to the site, however the properties are much larger than the proposed detached homes, and sold for £600,000 to £730,000 (£332/ft² average). We agree with ULL that higher £/ft² rates can be expected for the subject scheme's smaller properties.

3.4.7 Foreland Heights – Ramsgate. This development is 1.3 miles from the site and again is fairly small development of large detached houses. The average sales value was £296/ft².

3.4.8 Mannock Drive, Manston. This scheme is further from the site (3.1 miles) however the house types are more directly comparable in size to the subject properties. The FVAUR notes that values of £350,000 to £375,000 were achieved for houses at Mannock Drive in March 2021.

3.4.9 We note that applying house price inflation to the mostrecent recorded sales at Mannock Drive/Gilmour Road indicate values in the £430,000 to £490,000 range, at £420 to £430/ft².

Addre	Street	Postcode	Dwelling ty	Sale price	Sale mo	HPI index	Uplifted Sale Price	Floor area /ft²	Value /ft²
2	MANNOCK DRIVE	CT12 5DG	Detached	£348,000	01/2021	1.2454	£433,410	1012	£428.35
9	GILMOUR ROAD	CT12 5FW	Detached	£360,000	02/2021	1.2260	£441,347	1012	£436.20
29	MANNOCK DRIVE	CT12 5DG	Detached	£375,000	03/2021	1.2193	£457,228	1087	£420.57

Properties at Mannock Drive (Google Streetview)

3.4.10 We have reviewed all new build sales recorded on Land Registry in the CT12 postcode area for the past two years, which, adjusted for HPI indicate average £/ft² values as follows:

- Detached 396
- Semi-detached 398
- Terraced 355
- Flats 335
- **All 371**
- **All (houses only) 385**

3.4.11 The above results indicate that the submitted values are broadly in the expected range. Higher £/ft² values are indicated for detached and semi-detached properties, however the dataset includes a lot of properties which are much larger than those proposed, and which are on smaller more 'boutique' type developments.

3.4.12 It is difficult to find directs comparables for the proposed property types/sizes within the new build data, therefore we have also considered the data on second hand sales from Land Registry, which were as follows for CT12:

- Detached 371
- Semi-detached 320
- Terraced 343
- Flats 276
- **All 353**
- **All (houses only) 356**

3.4.13 The submitted values are c. 5% above the values being achieved for second hand properties generally, which appears potentially low, taking into account the premium attached to new build. We have therefore considered individual examples of recent sales from the second hand data, looking at two-storey properties of a similar size to those proposed:

LR Resale Data - CT12 - Past 6 months									
Address lines 1+2		**Street**	**Postcode**	**Dwelling type**	**Sale price**	**Sale month**	**Floor area /ft²**	**£/ft²**	**Distance from site (miles)**
11		SINGLETON CLOSE	CT12 4AT	Semi-detached	£400,000	09/2022	1087	£ 368	2.9
69		MONKTON ROAD	CT12 4EE	Semi-detached	£420,000	08/2022	872	£ 482	3.1
4 MANSTON COURT COTTAGES		MANSTON COURT ROAD	CT12 5AU	Terraced	£430,000	08/2022	1066	£ 404	2.4
2		CANTERBURY ROAD WEST	CT12 5EA	Semi-detached	£310,000	10/2022	883	£ 351	0.2 miles
					£390,000		**977**	**£ 399**	

3.4.14 We note that the above indicates slightly higher values than submitted, including the example closest to the site, a semi-detached property which sold for £310,000 (£351/ft²). Taking into account the premium attached to new build we would expect the proposed 850 ft² semi-detached properties to achieve a higher value than the submitted £320,000 (£376/ft²).

3.4.15 Reviewing the available data, shown above, and having reviewed individual examples within the datasets, we consider that the submitted values for houses are within the expected range, although a potentially cautious estimate. The proposed development is fairly large, with reduced individuality and therefore it may well be reasonable to assume that the pricing will not consistently reach some of the higher new build values achieved locally which relate more to smaller/exclusive developments, and/or properties with larger plots and more garden space or similar.

3.4.16 We also note that at the current time, house prices have just seen the first year-on-year fall for the past decade, and prices are expected to fall further this year, with the examples above having been sold at what appears to have been around the peak of the market. Therefore, taking an overall view, we have not adjusted the submitted values within our appraisal at this time.

GDV – affordable housing

3.4.17 Values for Affordable Rented homes equate to £145/ft² and have been assessed based on rents capped at LHA, with a deduction of £20 per week for service charges on apartments and £5 per week for houses. A yield of 4.5% has been applied to capitalise the net rent, resulting in values as follows (extract from FVAUR):

LHA rents CT12 Thanet BRMA

Unit type	Weekly Rent (net of £10pw s/c)	Sq Ft	M & M	Major repairs	Voids & bad debts	Net yield	Price per unit	No. of units	Total price
1 bed apt	£89.32	540	£900	£400	4.00%	4.50%	£70,181	8	£561,447
2 bed house	£144.59	896	£900	£500	4.00%	4.50%	£129,262	15	£1,938,925
3 bed house	£179.11	1,051	£900	£600	4.00%	4.50%	£165,328	6	£991,965
								29	**£3,492,338**

3.4.18 The assumed market value of the above properties has not been stated but we estimate it to be as follows based on the submitted market values and our research, discussed above.

Type	Floor area ft2	Number of units	DSP assumed market value per unit	Submitted AH value per unit
1 bf	540	8	185000	£ 70,181
2 bh	896	15	335000	£ 129,262
3bh	1051	6	370000	£ 165,328
	2487	**29**	**£ 300,862**	**£ 120,425**
			Submitted as % of MV	40%

3.4.19 This indicates that the proposed Affordable Rented homes are valued at around 40% of market value, which is a lower proportion than typically seen. The allowances for maintenance and repairs exceed the range usually seen, and overall equate to 30% of the assumed rent. This appears particularly excessive given the deductions that have already been made of £20 per week for 'service charges' on the flats which would surely cover most of the day to day maintenance on a block of flats. If the service charges are those relating to general grounds maintenance of the estate, dealing with non-adopted roads etc, these should be at the same level as proposed for the houses (£5 per week).

3.4.20 To cross-check the submitted values, we have applied the gross weekly rents in the FVAUR (based on LHA) to the Homes England Development Appraisal Tool (DAT), alongside assumptions on management, maintenance (assumed to include any service charges payable for maintenance of the wider estate), voids and bad debts as set out below based on allowances typically seen at the present time.

Annual Costs %	Manage ment %	Void & Bad Debt%	R&M inc sink Fund%	Net Yield %
Social Rented				
Shared Ownership				
Affordable Rent	12.00%	3.00%	10.00%	4.50%
Private Rent				

3.4.21 The DAT indicates a value of £3,672,700 which higher than the submitted £3,492,338, and is c.42% of our assumed market. We have adopted the DAT value of £3,672,700 in our appraisal.

Extract from DAT appraisal

Affordable Rent phase 1							
Type of Unit	Rent per Week (£)	Rent per Unit per Year (£)	Number of Units	Total Rent pa (£)	Total Rent pa (£) - Costs, Voids & Repairs	Yield (%)	Capital Value (fixed stream in perpetuity) (£)
1 Bed Flat Low rise	£0	£0	0	£0	£0	4.50%	0
2 Bed Flat Low rise	£0	£0	0	£0	£0	4.50%	0
3 Bed Flat Low rise	£0	£0	0	£0	£0	4.50%	0
4 Bed + Flat Low rise	£0	£0	0	£0	£0	4.50%	0
1 Bed Flat High rise	£109	£5,704	8	£45,635	£34,226	4.50%	760,576
2 Bed Flat High rise	£0	£0	0	£0	£0	4.50%	0
3 Bed Flat High rise	£0	£0	0	£0	£0	4.50%	0
4 Bed + Flat High rise	£0	£0	0	£0	£0	4.50%	0
2 Bed House	£150	£7,806	15	£117,086	£87,814	4.50%	1,951,428
3 Bed House	£184	£9,607	6	£57,642	£43,231	4.50%	960,696
4 Bed + House	£0	£0	0	£0	£0	4.50%	0
0	£0	£0	0	£0	£0	4.50%	0
0	£0	£0	0	£0	£0	4.50%	0
			29	£220,362	£165,271		3,672,700

3.4.22 For the shared ownership properties, it has been assumed that an initial sale of 40% of the properties' stated market value (£320,000 for 2 bed houses and £380,000 for 3 bed houses) will take place with a rent on the unsold equity of 2.5% and a yield of 4.5%, resulting in values as follows (extract from FVAR):

Shared Ownership									
Unit type	Av Sq Ft	Average Market value	Share sold	Rent on unsold equity	Annual Rent	Net yield	Price per unit	No. of units	Total price
2 bed house	850	£320,000	40%	2.50%	£4,800	4.50%	£234,667	6	£1,408,000
3 bed house	1,047	£380,000	40%	2.50%	£5,700	4.50%	£278,667	7	£1,950,667
								13	£3,358,667

3.4.23 The stated market values align with the market sale values for units of a similar size, within the pricing schedule provided with the FVAR, and the capital values for the SO properties resulting from the above assumptions equates to £270/ft² or c. 73% of market value which is within the range usually seen for shared ownership.

3.4.24 Overall we consider values attributed to the shared ownership homes to be appropriately placed, however we consider the value of the AR properties to be underestimated and have applied our calculation based on the DAT, of £3,672,700 (153/ft² average or 42% of our assumed MV for the AR units) for the value of these properties.

3.5 Ground Rents

3.5.1 Additional potential income from ground rents has not been included in the submitted appraisal. The Leasehold reform (Ground rent) Bill came into force on 30 June 2022. It restricts ground rents on the grant of new leases to a peppercorn. On this basis, we consider that it is acceptable not to include a capital contribution from ground rents within the appraisal.

3.6 Cost Assumptions - Construction Costs & Fees – Private Residential

3.6.1 The submitted build costs are based on a cost estimate from Baily Garner which is included as Appendix 2 to the FVAR. The cost plan total is £29,870,000 which is stated to include 5% design fees of £1,291,854.

3.6.2 Contingency has been included in the submitted cost plan at 5% of works cost which is a fairly standard assumption not exceeding usual parameters.

3.6.3 The cost plan figure includes an uplift of 4.8753% 'as per BCIS latest indices', applied to all costs including design fees and contingency and stated to allow for *'Inflation up to 4Q 2022'*. Therefore although the cost plan was prepared in July 2022 the costs are estimated to Oct-Dec 2022.

3.6.4 DSP commissioned MWA quantity surveyors to review the cost plan on behalf of TDC. MWA's report is attached as Appendix 1 and their summary/conclusions are shown below.

4.00 Conclusion

4.01 In gross terms we arrive at a lower figure with a variance of circa 1.61% (shown in the details) resulting in an over estimate by the applicant for the Project of £481,310.00 which we consider to be not unreasonable.

	MWA Total		Variance to Applicants Total	
Substructure	£	1,667,111	£	-
Superstructure	£	6,651,672	-£	2,000
Finishes	£	2,163,572	£	496,589
Fittings, Furnishings and Equipment	£	969,020	-£	234,716
Services	£	4,111,473	£	424,663
Sub-Total Building	**£**	**15,562,848**	**£**	**684,536**
Site Works	£	5,904,414	£	-
Main Contractor's Preliminaries	£	2,576,071	£	82,144
Main contractor's overheads and profit	£	1,442,600	-£	1,117,832
Project/design team fees	£	1,274,297	-£	17,557
Risks (Client's Contingencies)	£	1,338,012	-£	18,435
Inflation allowance based 2.8% on TPI of 369 as at 4Q 2022	£	746,358		-£47,107.03
Inflation during the works	£	548,040		-£47,059.01
Total Construction Cost	**£**	**29,392,640**	**-£**	**481,310**

3.6.5 Whilst there is some variance between MWA's view of build cost and Baily Garner's, the difference is within the tolerance expected when seeking the views of two different QS's, therefore we have accepted the submitted costs which are considered a reasonable view. However, we note that both Baily Garner and MWA have included an allowance for 'inflation during the works' which it is not appropriate to include for the purposes of viability testing (with values and costs being needing to be viewed at present day rates). Therefore, we have applied the submitted costs less the £595,099 applied for 'inflation during the works', i.e. a total assumed build cost of £29,274,901.

3.6.6 In addition to the 5% design fees included in the Baily Garner cost plan (and slightly less in MWA's estimate), an allowance of 5% for professional fees (planning, design and pre-contract fees) has been included in the submitted appraisal.

3.6.7 The 5% within the appraisal has been applied to the total build cost which already included fees and contingency (and an uplift to Q4 2022), therefore results in the addition of £1,493,500 and a total fees allowance of £2,785,354 which is approximately 10.7% of the build cost (rather than the 8.00% stated in the FVAR). This exceeds the allowances typically seen, particularly for a scheme such as this which has a straightforward design with 10 or so house types that repeat across 133 dwellings.

3.6.8 We have applied a 4% fees allowance within our appraisal as an addition to the design fees already included within the build cost (reduced from the submitted 5% additional allowance), therefore total fees of £2,462,850 which equates to c. 9.7% of our assumed build cost (or 8.4% of the gross cost inc design fees/contingency).

3.7 Development Timings/Project Timescales

3.7.1 The development timings applied in the submitted appraisal include a 3-month lead-in and an 24-month construction period with sales revenue spread over a period of 18 months, beginning 12 months into construction. Overall the timescales are within expected parameters and therefore we have not adjusted them in our appraisal.

3.8 CIL / Planning Obligations

3.8.1 Thanet District Council does not charge a Community Infrastructure Levy (CIL) on new development. The FVAR has made the following allowances for S106 items within the submitted appraisal which including indexing total £2,463,448.

S106 costs included in submitted appraisal (£)	
Community Learning & Skills	2,381
Youth Service	9,498
Libraries	8,040
Adult Social Care	21,298
Waste	7,898
Primary Education	931,600
Secondary Education	916,134
Special Education	144,099
CCG	128,088
S106: indexation to 2Q2022	*294,412*
	2,463,448

3.8.2 The Council will need to confirm or otherwise, the level of planning obligations required. It should be noted that any change in the chargeable sum(s) assumed would have an impact on the overall viability of the scheme as viewed through the appraisal - a reduction in the CIL/s106 cost assumptions would improve the presented viability outcome and an increase 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 development proposal acceptable in respect of sustainability or other usual criteria will have to be included.

3.9 Development Finance

3.9.1 Finance costs have been included in the FVAR appraisal using a 6.5% interest rate assumption.

3.9.2 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.*'

3.9.3 We typically see rates of 6.0% to 8.0% in the current market, representing finance costs inclusive of all fees. The submitted cost of 6.5% including all ancillary fees therefore does not exceed the range currently seen. We have not adjusted this assumption in our appraisal.

3.10 Agent's, Marketing and legal costs

3.10.1 The development appraisal accompanying the FVAR assumes sales and marketing costs of 2.5% total. Legal costs of £750 per unit have also been assumed. These costs are within the range typically seen and therefore we have applied the same in our appraisals.

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) on market housing. Profit on affordable housing has been assumed at 6%.

3.11.2 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*[9]'.

3.11.3 We consider that the assumption of 17.5% on market housing is an appropriately pitched level for these specific proposals and have not adjusted this assumption in our appraisal. Likewise, the affordable housing profit assumption does not exceed typical parameters.

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

4. Findings Summary

4.1.1 The overall approach taken within the submitted FVAR to assessing the viability of the proposed development is considered appropriate in terms of general principles. However, the proposed affordable housing mix does not follow the Government's requirement to include First Homes.

4.1.2 Similarly, the majority of the submitted assumptions are considered suitable for the review purpose and circumstances. There are some areas where we have a difference of opinion or have tested alternative assumptions, as follows:

- We consider the submitted market sale values to be potentially cautious in relation to examples of recent sales. However, seen alongside the profit assumption which is in the middle of the range suggested by the PPG, and bearing in mind the current market which has a negative forecast at least in the short term, we consider these to be a not unreasonable view at the present time and have not adjusted the market values in our appraisal.

- We have tested a higher GDV for the Affordable Rented units of £3,672,700 (153/ft²) (see 3.4.17 onwards), as follows:

Type	Floor area ft2	Number of units	DSP assumed AR value per unit	Submitted AR value per unit
1 bf	540	8	£ 95,072	£ 70,181
2 bh	896	15	£ 130,095	£ 129,262
3bh	1051	6	£ 160,116	£ 165,328
	2487	**29**	**£ 126,645**	**£ 120,425**

- We have reduced the additional fees allowance within the appraisal from 5% to 4% (see 3.6.6 onwards), resulting in total design fees/professional fees of £2,462,850. This equates to c. 9.7% of the build costs, or 8.4% of the gross build cost (inc design fees and contingency).

4.1.3 Making the above adjustments to the submitted appraisal indicates a residual value for the scheme (with 42 affordable units and having allowed for all stated S106 contributions plus a 17.5% profit on market housing and 6% profit on affordable housing) indicates a residual value of £794,397.

4.1.4 This falls below our suggested minimum BLV for the site of £1,457,300. Against this lower BLV the appraisal indicates a deficit of -£662,903, and therefore an 'actual' adjusted profit of £6,034,654 which equates to 15.7% on market housing and 6% on affordable housing. Whilst not reaching the assumed profit target of 17.5% GDV (market) and 6% (affordable) this falls within the 15% to 20% range suggested in the PPG.

4.1.5 Against the submitted BLV of £2,077,000, the appraisal indicates a deficit of -£1,282,603 and therefore an 'actual' adjusted profit of £5,414,954, which equates to 13.9% GDV (market) and 6% (affordable).

4.1.6 We note also that MWA surveyors' view of the build costs was £481,310 lower than the applicant's QS. We have not applied MWA's lower estimate in our appraisal, but doing so would increase the profit position in either scenario by over 1%.

4.1.7 Stepping back, and considering the viability outcomes and BLV, the scheme fails to reach the stated 17.5% profit target for market housing, however indicates a profit of c.15% on market housing, with a policy compliant contribution to affordable housing and all stated S106 contributions included. The scheme is shown to be proceedable, albeit at a profit level that is towards the lower end of the range stated within the PPG for market housing Timed as this is during an ongoing period of market difficulty and uncertainty, therefore with the possibility of an improvement in the medium to long term, we recommend that if any concession on S106 contributions or affordable housing is granted at application stage (i.e. any reduction from what is included within the submitted appraisal), this should be accompanied by a review mechanism to ensure that any improvement in the relationship between values and costs can be captured by the Council at an appropriate point during the development.

4.1.8 We need to be clear that 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 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.

4.1.10 As regards the wider context including the challenging 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. There is evidence of month-on-month falls in house prices currently, with the RICS predicting a c. 8% fall in house prices nationally over the coming year. However it is also possible that we may see some balance for example in terms of continued market resilience, development cost levels, Government interventions or other factors.

4.1.11 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. The RICS guidance note[10] on viability notes that *'The return for the risk is included in the developer return and the PPG makes it clear that it is the developer's job to mitigate this risk, not plan makers and decision takers'.* DSP will continue to monitor the established appropriate information sources; as the Council will also be able to do.

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

Review report ends

March 2023

[10] https://www.rics.org/globalassets/rics-website/media/upholding-professional-standards/sector-standards/land/assessing-financial-viability_final.pdf