U.L.L. Property

DEVELOPMENT | AFFORDABLE HOUSING

PRIVATE & CONFIDENTIAL

Financial Viability Assessment Report

Land South of Canterbury Road West Phase 2

Thanet District Council

Prepared for Monson Homes Limited

Updated Report - July 2023

Contents

1. Executive Summary

1.1 As part of the detailed planning application, Monson Homes Limited ('the Applicant') has instructed ULL Property ('ULL') to assess and report on, the financial viability of providing affordable housing and Section 106 financial contributions as part of the development proposal.

1.2 Thanet District Council ('the Council') has policy targets for affordable housing provision as part of new residential developments, and these targets are not intended to restrain development, based on the outcome of financial viability testing. The Council has requested Section 106 financial contributions amounting to £2,428,000 which impact the viability of the development proposals.

1.3 In July 2022 ULL Property carried out a Financial Viability Assessment ('FVA') which demonstrated that financial contributions of £2,463,000 (the slightly higher estimate made at that time) are not viable for this development, while providing the policy target of affordable housing. We have been advised that, in the Council's opinion, the Section 106 financial contributions are mandatory, and therefore the Applicant has now instructed ULL to assess the impact on the provision of affordable housing.

1.4 The site is currently in agricultural planning use and is in the ownership of Monson Homes Limited. The site measures 5.9 hectares (14.58 acres).

1.5 The proposed planning application seeks permission for "Development of 141 dwellings (including affordable housing), with open space, landscaping, access and associated infrastructure."

1.6 The Gross Development Value for the scheme is £44,257,000 (rounded) based on the residential sales value and affordable housing transfer pricing.

1.7 The total scheme cost is £44,190,000 (rounded).

1.8 The Argus Developer appraisal for the proposed development calculates a residual land value for the proposed development of £67,000.

1.9 The Benchmark Land Value is assessed as £2,077,000 (rounded), based on the existing use value plus a premium.

1.10 The net residual land value is, therefore, showing a shortfall of £2,010,000.

1.11 We conclude that the proposed scheme does not viably sustain the financial contributions being sought by the local planning authority. However we understand the developer is prepared to undertake the development on this basis, being a social business focused on providing housing.

1.12 The Council instructed Dixon Searle ('DS') to review our July 2022 report and we comment in this report on DS's findings, making amendments to our assumptions where these are agreed. Other amendments relate to the tenure mix of accommodation, and updates to the Section 106 financial contributions

2. Instructions & Report Context

2.1 Monson Homes Limited ('the Applicant') has submitted a planning application to Thanet District Council ('the Council') in respect of the site known as Land South of Canterbury Road West (Phase 2), Cliffsend, Ramsgate, Kent CT12 ('the Site').

2.2 The application seeks planning permission for "Development of 141 dwellings (including affordable housing), with open space, landscaping, access and associated infrastructure."

2.3 As part of the planning application the Applicant has instructed ULL to assess, and report on, the financial viability of providing affordable housing and Section 106 financial contributions as part of the development proposal.

ULL Property

2.4 This viability assessment has been prepared with regard to the policies and guidance available at national, regional and local levels, and carried out in accordance with the Royal Institution of Chartered Surveyors (RICS) professional statement 'Financial viability in planning: conduct and reporting" (1st edition, May 2019, effective from September 2019).

2.5 ULL is a property services company specialising in development consultancy, affordable housing, financial viability and project management. The company aims to find viable solutions, which facilitate development, while at the same time supporting the reasonable mitigation of development impact. In so doing, we operate at the centre of development economics; assisting developers and Local Planning Authorities reach effective solutions against a challenging financial background.

2.6 This report has been prepared by Richard Ashdown, who has more than 25 years' experience in residential development and consultancy. Richard held numerous senior positions in the industry before starting ULL where he is now Managing Director.

Limitations

2.7 This report does not constitute a valuation and should not be relied upon for valuation purposes.

2.8 It is provided for the sole use of the party to whom it is addressed. It is confidential to the addressee and their professional advisors. ULL accepts no responsibility whatsoever to any person other than the client themselves.

2.9 Neither the whole nor any part of the report nor any reference thereto may be included in any published document, circular, or statement, or published in any way, without the prior written approval of ULL.

Information relied upon

2.10 We have been provided with, and relied upon:

- Proposed plans and accommodation schedule prepared by PRP Architects

- A construction cost plan prepared by Baily Garner dated 1st July 2022.

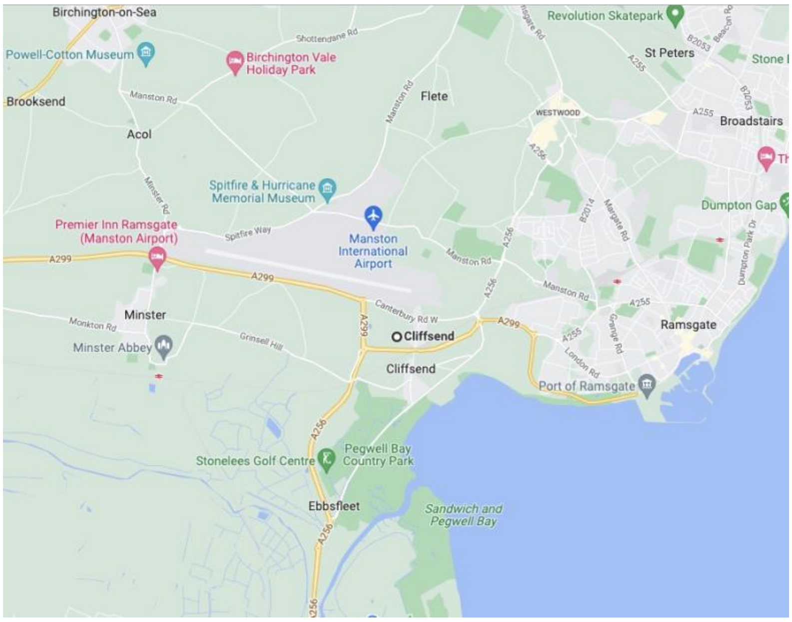
3. Project Details

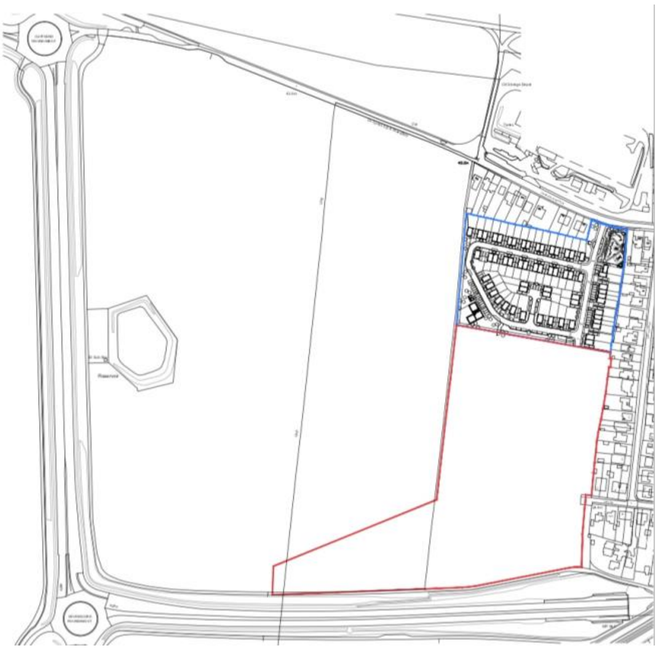
Location

3.1 This site is located at Canterbury Road West Phase 2, Cliffsend, Ramsgate, Kent CT12.

3.2 The site is positioned immediately to the north of Hengist Way (A229) as it runs East-West to the north of Cliffsend village centre. To the East of the site is a 1970s housing estate comprising mostly bungalows, and to the north of the site, beyond the Phase 1 Canterbury Road West site, is the airstrip for the disused Manston Airport. To the West is agricultural land.

3.3 The maps below show the site location (marked with 'Cliffsend' pin)





3.4 The subject property has an approximate site of 5.9 hectares (14.58 acres). It is currently in agricultural use, and we understand this is its planning designation.

3.5 We have not been provided with a report on Title, however we understand that the interest is of freehold title. For the purpose of our report, we have assumed that there are no onerous or restrictive covenants affecting Title.

Transport

The site is 2.2 miles from Ramsgate railway station; Canterbury Road West is on a bus route to Ramsgate which passes close to the railway station. Trains serve the local area (Broadstairs, Margate, Canterbury) as well as direct to London St Pancras, the fastest trains taking 1 hr 15 mins.

Scheme Proposals

3.6 The proposed development comprises 141 residential dwellings. The summary schedule of accommodation is as follows:

Type	No.
1 bed 2 person flat	8
2 bed 4 person house	60
3 bed 5 person house	59
4 bed 6 person house	14
Total	**141**

4. Planning Policy – Affordable Housing & Viability Methodology

4.1 In this section we have reviewed the policies and guidance relevant to planning obligations under the Section 106 regime.

National Planning Practice Guidance (NPPG)

4.2 The NPPG provides guidance to participants in the planning systems to assist with implementing policies and decisions in a way that is both sustainable and deliverable. In its revision dated 24 July 2018 (paragraph 10), NPPG states: "In plan making and decision making viability helps to strike a balance between the aspirations of developers and landowners, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission."

4.3 The NPPG defines the key inputs for viability assessments:

"<u>Gross Development Value</u> - Gross development value is an assessment of the value of development. For residential development, this may be total sales and/or capitalised net rental income from developments. Grant and other external sources of funding should be considered. For commercial development broad assessment of value in line with industry practice may be necessary…For viability assessment of a specific site or development, market evidence (rather than average figures) from the actual site or from existing developments can be used. Any market evidence used should be adjusted to take into account variations in use, form, scale, location, rents and yields, disregarding outliers. Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan.

<u>Costs</u> - Assessment of costs should be based on evidence which is reflective of local market conditions. As far as possible, costs should be identified at the plan making stage. Plan makers should identify where costs are unknown and identify where further viability assessment may support a planning application. Costs include:

a) build costs based on appropriate data, for example that of the Building Cost Information Service"; (in our opinion a site-specific elemental cost breakdown should be provided for site-specific viability assessment)

b) abnormal costs, including those associated with treatment for contaminated sites or listed buildings, or costs associated with brownfield, phased or complex sites. These costs should be taken into account when defining benchmark land value;

c) site-specific infrastructure costs, which might include access roads, sustainable drainage systems, green infrastructure, connection to utilities and decentralised energy. These costs should be taken into account when defining benchmark land value;

d) the total cost of all relevant policy requirements including contributions towards affordable housing and infrastructure, Community Infrastructure Levy charges, and any other relevant policies or standards. These costs should be taken into account when defining benchmark land value;

e) general finance costs including those incurred through loans;

f) professional, project management, sales, marketing and legal costs incorporating organisational overheads associated with the site. Any professional site fees should also be taken into account when defining benchmark land value;

g) explicit reference to project contingency costs should be included in circumstances where scheme *specific assessment is deemed necessary, with a justification for contingency relative to project risk and developers return;*

Land Value - To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing used value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called 'existing use value plus' (EUV+). In order to establish benchmark land value, plan makers, landowners, developers, infrastructure and affordable housing providers should engage and provide evidence to inform this iterative and collaborative process.

Competitive Return to Developers - 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 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. 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.

Competitive Return to Landowners - The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a landowner to bring forward land for development while allowing a sufficient contribution to comply with policy requirements. Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration. For any viability assessment, data sources to inform the establishment of the landowner premium should include market evidence and can include benchmark land values from other viability assessments. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners. Local authorities can request data on the price paid for land (or the price expected to be paid through an option agreement)"

Thanet District Council Planning Policy

4.4 Thanet's local plan was adopted in July 2020. Policy SP23 states with regard to Affordable Housing:

Residential development schemes for more than 10 dwelling units, including mixed use developments incorporating residential and developments with a combined gross floor Thanet Local Plan Adopted July 2020 60 area of more than 1,000 square meters shall be required to provide 30% of the dwellings as affordable housing.

The affordable housing shall be provided in proportions set out in the Strategic Housing Market Assessment or successive documents.

The above requirements will only be reduced if meeting them would demonstrably make the proposed development unviable.

4.5 With regard to the affordable housing proportions, the Thanet Strategic Housing Market Assessment 2016 states at paragraph 9.36 that *"a 80/20 split between social/affordable rented homes and intermediate housing options would be appropriate."*

4.6 Thanet adopted its Planning Obligations Supplementary Planning Document in April 2010; this includes a section headed *"What about economic viability?"* This states:

In some instances, perhaps arising from site-specific circumstances, it may not be feasible for the proposed development to meet all the requirements set out in local, regional and national planning policies and still be economically viable.

In such cases, and where the development is needed to meet the aims of the development plan, the council will decide what is to be the balance of contributions made by developers and by the public sector infrastructure providers (e.g. Kent County Council) in the area.

Where the development is needed to meet the aims of the development plan, the decision on the level of contributions will be based on negotiation with developers over the level of contribution that can be demonstrated as reasonable whilst still allowing development to take place.

In some instances, factual information needs to be validated for negotiations to continue. In these cases a developer may wish to agree and fund an independent third party with relevant expertise (e.g. valuation) to help progress the negotiations. Responsibility for the final determination of the application remains with Thanet District Council.

4.7 In summary, the forgoing local and national policies demonstrate that Thanet District Council has policy targets for affordable housing provision as part of new residential developments, and that these targets are not intended to restrain development, based on the outcome of financial viability testing.

4.8 In compliance with policy, the level of contribution can be reduced or waived to ensure that development remains viable; however the Council adopts testing of viability to identify land value increases arising from the grant of planning permission, to meet affordable housing and other objectives.

Viability Methodology

4.9 The purpose of this report is to provide an independent assessment of the viability of proposed development, and in so doing to assess the level of obligations which can be provided to the local planning authority, while sustaining an appropriate land value to the landowner and profit to the developer. Assessing the viability of a proposed development involves comparing the residual land value of the site, based on the proposed scheme, with an appropriate benchmark.

4.10 A viable development will support a residual land value at a level sufficiently above the site's Existing Use Value (EUV) or Alternative Use Value (AUV), to support a land acquisition price acceptable to the landowner. As such, where a development proposal generates a residual value, which is higher than the appropriate benchmark value it is deemed financially viable and therefore likely to proceed. Conversely, if the residual value is lower than the benchmark, it is considered to be economically unviable and consequently unlikely to progress.

4.11 A - B = Residual Land Value, based on inputs from the attached table:

A: Revenue	B: Costs
Residential Gross Development Value	Construction Costs
	Planning and Development Professional Fees
	Planning Contributions
	Marketing Costs
	Land Purchase Costs
	Finance Costs
	Developer's Return

4.12 It need not be the land value that is the target residual. A fixed land price can be input as a cost, and a residual developer profit assessed. Alternatively, the residual target can be the planning contributions.

4.13 An explanation for all the appraisal inputs is provided at Section 5 (Income Analysis) and 6 (Cost Assumptions).

4.14 The next task is to arrive at an appropriate benchmark against which to compare the Residual Land Value of the proposed scheme, to determine whether the proposal is viable. This is assessed further in Section 7.

4.15 The purpose of our analysis has been to understand the development economics of the site and to show the results of our analysis. This incorporates appraisal of all costs and values, finance inputs and Section 106 contributions.

4.16 The assumptions made in the development appraisal are a reflection of the development's overall economics. Our assumptions are in some cases inter-related such that a change in one assumption can have an impact on other assumptions.

4.17 Appendix 1 shows the financial appraisal incorporating the costs and values of the project. We have used Argus Developer appraisal software, a standard appraisal tool used across the property industry, and recognised by local authorities in viability analysis. The model is set up as a Residual Land Value appraisal, making fixed assumptions about costs, revenues and profit.

5. Income Analysis

5.1 The revenue for the scheme is derived from the sale of the completed residential units.

Residential sales

5.2 JLL has carried out a pricing exercise as at July 2022 to advise the Applicant in relation to selling prices at the proposed scheme (see Appendix 3 and paragraph 5.8 below). We have carried out our own research into recent sales on new residential developments, close to the subject site, and set out our findings as follows.

Bakers Field, Cliffsend, Ramsgate CT12 5GH

5.3 This development by Millwood Homes has seen sales of houses in the previous 12 months. The site is to the South East of the subject site, just across the Hengist Way trunk road. The following prices have been achieved:

Sale Price	£/sq Ft	Sq Ft	Type	Developer	Address	Date Sold
£620,000	£341	1,819	Detached	Millwood Homes (Bakers Field)	19 Bakers Field, Cliffsend, Ramsgate	19/04/2021
£653,000	£339	1,927	Detached	Millwood Homes (Bakers Field)	21 Bakers Field, Cliffsend, Ramsgate	17/06/2021
£630,000	£316	1,991	Detached	Millwood Homes (Bakers Field)	27 Bakers Field, Cliffsend, Ramsgate	14/05/2021
£730,000	£332	2,196	Detached	Millwood Homes (Bakers Field)	29 Bakers Field, Cliffsend, Ramsgate	28/05/2021
£690,000	£305	2,260	Detahced	Millwood Homes (Bakers Field)	22 Bakers Field, Cliffsend, Ramsgate	31/03/2021
£600,000	£369	1,625	Detached	Millwood Homes (Bakers Field)	26 Bakers Field, Cliffsend, Ramsgate	31/03/2021
£3,923,000	**£332**	**11,818**				

5.4 The house sizes are larger than those proposed at the subject site, and we would therefore expect to see a higher £/sq ft price at Canterbury Road West.

Foreland Heights, Ramsgate, CT11 0FF

5.5 This development is located on the Western side of Ramsgate, approximately 1.3 miles from the subject site. A development of 14 detached houses, these too are larger than proposed at Canterbury Road West.

Sale Price	£/sq Ft	Sq Ft	Type	Agent	Address	Date Sold
£579,525	£293	1,981	Detached	Miles & Barr	14 Forelands Heights, Ramsgate	07/08/2020
£590,000	£298	1,981	Detached	Miles & Barr	13 Forelands Heights, Ramsgate	19/11/2020
£625,000	£301	2,077	Detached	Miles & Barr	12 Forelands Heights, Ramsgate	26/06/2020
£580,000	£293	1,981	Detached	Miles & Barr	10 Forelands Heights, Ramsgate	13/08/2020
£2,374,525	**£296**	**8,020**				

Mannock Drive, Manston

5.6 Coldrum Homes have developed this scheme of 22 two and three bedroom houses, launching in 2020. The site is located 3.1 miles by road from the subject site, being the other side of Manston Airport to the North-West. The most recent achieved sales prices are as follows:

Sale Price	£/sq Ft	Sq Ft	Type	Developer	Address	Date Sold
£350,000	£322	1,087	Semi-Detached	Coldrum Homes	21 Mannock Drive, Manston, Ramsgate	31/03/2021
£365,000	£336	1,087	Detached	Coldrum Homes	25 Mannock Drive, Manston, Ramsgate	11/03/2021
£375,000	£345	1,087	Detached	Coldrum Homes	29 Mannock Drive, Manston, Ramsgate	26/03/2021
£1,090,000	**£334**	**3,261**				

5.7 These homes reflect more closely the floor areas of the proposed homes at the subject site.

5.8 Regarding the advice provided by JLL, this reflects an average price of £370/sq ft. In consideration of the foregoing evidence, the site location, unit typology and floor areas we consider £370/sq ft represents an optimistic average selling price for the subject proposals.

5.9 For the purposes of this viability assessment we have adopted the private sales revenue indicated by JLL's pricing schedule, provided at Appendix 3, although we consider this should be kept under review.

5.10 We have not updated the market housing revenue assumption for the current update. We the Nationwide House Price Index indicates a reduction in house prices of 3.67% for the Outer South East since our July 2022 report, this is not yet reflected in the Land Registry Index which currently reports to March 2023 only.

Affordable Housing

5.11 In assessing the transfer value of the affordable housing, or in this case the value to the (RP) developer, we have adopted revenue and cost assumptions as shown in the remainder of this section.

Affordable Rented Tenure

5.12 The Applicant, being a Registered Provider, has advised that the rented homes will be Affordable Rented tenure, being a maximum of 80% of market rent. We have assessed local market rents for second-hand properties to be in the region of the following:

1-bedroom apartments - £725 pcm / £167 per week.
2-bedroom houses - £925 pcm / £213 per week.
3-bedroom houses - £1,200 pcm / £277 per week.

5.13 80% of the foregoing rents equates to:

1-bedroom apartments - £134 per week.
2-bedroom houses - £170 per week.
3-bedroom houses - £222 per week.

5.14 However, the rents will be capped at Local Housing Allowance rates which are:

1-bedroom apartments - £109.32 per week.
2-bedroom houses - £149.59 per week.
3-bedroom houses - £184.11 per week.

5.15 The Affordable Rents will be net of service charges, and therefore a further deduction is made of £20 per week for apartments and £5 per week for houses. Therefore the net rents to be charged are assumed to be :

1-bedroom apartments - £89.32 per week.
2-bedroom houses - £144.59 per week.
3-bedroom houses - £179.11 per week.

5.16 The following table identifies the assumptions we have made in arriving at a capital value for the Affordable Rented homes:

LHA rents CT12 Thanet BRMA

Unit type	Weekly Rent (net of s/c)	Sq Ft	M & M	Major repairs	Voids & bad debts	Net yield	Price per unit	No. of units	Total price
1 bed apt	£99.40	540	£819	£1,152	1.70%	5.00%	£62,192	8	£497,535
2 bed house	£144.59	948	£819	£1,152	1.70%	5.00%	£108,387	7	£758,712
3 bed house	£179.11	1,056	£819	£1,152	1.70%	5.00%	£143,676	5	£718,378
								20	**£1,974,624**

5.17 Changes compared with our July 2022 report are identified in blue in the above table. These are in response to Dixon Searle's query in relation to the deductions from the rents that ULL had assumed.

5.18 DSP suggested the deductions we have assumed from Local Housing Allowance Rents are excessive. DSP further suggests that ULL's assessment of the Affordable Rent value represents a percentage of market value that is a "lower proportion than typically seen." In our experience the percentage of market value of Affordable Rented housing varies so greatly as to make a comparison between market value for affordable rented units and market value for private housing difficult.

5.19 We asked the Applicant, as a Registered Provider, to provide the rents they will be charging for the Affordable Rented units, together with their assumptions for deductions for management and maintenance. These are:

Management £358pa
Maintenance £461pa
Major repairs £1,152pa
Voids and bad debts 1.7%

Rents pw
1 bed flat - £99.40 (net of service charge)
2 bed house - £144.69 (net of service charge)
3 bed house - £179.24 (net of service charge)

5.20 We have increased the yield from 4.5% to 5% to reflect increased interest costs since our July 2022 report.

<u>Intermediate (Shared Ownership) Tenure</u>

5.21 1 house has been identified as Intermediate Housing. The Intermediate Housing is assumed to be shared ownership tenure, however we would advise the Section 106 Agreement be flexible to enable this to be an intermediate rented unit in the event it is unsold.

5.22 We have assessed the pricing of the Intermediate housing according to the following table:

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	1,056	£320,000	40%	2.50%	£4,800	5.00%	£224,000	1	£224,000
								1	**£224,000**

5.23 The 'Average Market Value' is taken from JLL's pricing schedule as it relates to Shared Ownership homes. The Intermediate housing price of £224,000 has been included in the appraisal at Appendix 1.

6. Cost Assumptions

Construction Costs

6.1 In determining the construction costs for the proposed scheme, we have had regard to a Cost Plan produced by Baily Garner dated 1 July 2022, which is submitted with this report as Appendix 2 (this has not been updated since our July 2022 report, although in reality we would expect an increase over the past 6 months). The construction costs amount to £29,870,000.

6.2 The cost plan includes contractor's design fees in the sum of £1,291,854. In addition we have applied 5% planning, design and pre-contract professional fees to the appraisal at Appendix 1.

6.3 Dixon Searle pointed out that the Baily Garner cost plan included inflation for the period of construction in the sum of £595,099 which DS considered should be removed. For the purposes of this exercise we have removed this sum from our current assessment to give a cost of £29,275,000 (rounded) as at July 2022.

6.4 Build costs since July 2022, according to the All-In Tender Price Index, have increased by 3.77%. We have therefore adjusted the build cost assumption to £30,379,000 (rounded).

Other Costs

6.5 Within the Argus Developer model at Appendix 1 we have made the following cost assumptions:

Item	Value	Elements
Land		
Stamp Duty	UK SDLT Rates	Residual Land Value
Agents Fee	1.00%	Residual Land Value
Legal Fee	0.5%	Residual Land Value
Construction Costs		
Professional Fees	4.00% (adjusted to accord with DS view)	Build Cost Sum
Lettings and Disposal Costs		
Marketing (Residential)	1.00%	Residential GDV
Sales Agent Fees (Residential Units)	1.5%	Residential GDV
Legal Fees (Residential Units)	£750 per unit	Residential GDV
S.106 Costs		
The Council is seeking to require the developer to provide financial contributions with the objective of mitigating the impact of the development. The contributions are identified in the following categories, and include indexation to the current date: Community learning & skills - £2,847 Youth service - £11,355 Libraries - £9,613 Adult social care - £25,474 Waste - £9,443 Primary education - £1,111,988 Secondary education - £1,093,527 CCG - £152,907 **Total S106 contributions - £2,428,219**		

Contributions per dwelling - £17,221
Finance Costs
The finance rate is assumed to be 7.5%. This reflects the average cost of capital to include debt interest (senior and mezzanine), and arrangement, exit and valuation fees. The cost of development finance has seen significant increases in recent months impacting development funding costs, including for Registered Providers.
Developer Return
The appraisal has been set up to show profit as a cost to the project, at 17.5% of GDV for the private elements, and 6% on the affordable housing. In our opinion this represents the lower end of a range of requirements from funders in the current market.

Development Programme

6.6 We have adopted the following construction timings:

- Pre-construction – 3 months
- Construction – 24 months
- Sales – 18 months, equating to 5.5 private sales per month. Sales are assumed to commence 12 months after construction commences.

7. Benchmark Land Value

7.1 As explained at Section 3, viability is typically tested by comparing the residual land value of the proposed scheme with a Benchmark Land Value (BLV). The Benchmark can be derived following an assessment of the value of the site in its Existing Use (EUV) or a reasonable Alternative Use Value (AUV).

7.2 Where the method of assessing the Benchmark is via EUV, a landowner premium is often added as a reasonable incentive for the landowner to bring the land forward for development.

Existing site

7.3 The current planning use of the existing site is agricultural. A range of commentators and market operators provide general indicators of agricultural land values, and they lie in a similar range of eachother, with relatively small variations depending in which part of the country the land resides.

7.4 Carter Jonas' Farmland Market Update Q4 2021 identifies regional variations, and suggests agricultural values for the South East in the range £7,500 - £10,500/acre (£18,500 - £26,000/hectare) . The Valuation Office Agency in its 2019 assessment concluded agricultural land values in the South East at £25,000 per hectare. We have assumed for the subject site a value of £9,000 per acre (c. 22,000/ha). The site measures 14.58 acres (5.9 hectares). This means the agricultural land value equates to £131,200.

7.5 It is recognised that agricultural land value is generally insufficient to incentive landowners to bring sites forward for development. Referring to site-specific viability assessments on projects elsewhere, we have experienced local authority advisers proposing uplifts of 18-20 times agricultural land value. This considerable uplift is based on the incentive required to sell land assets that have been in a family for generations.

7.6 Thanet commissioned Adams Integra to carry out Council-wide viability analysis to support the local plan, in 2012; although somewhat dated, Adams Integra applied the principle that higher multipliers are appropriate as incentives for agricultural landowners, the same principle that is applied today. Adams Integra state (paragraph 3.3.3, "Economic Viability Assessment of Development in Thanet District") that the incentive required might take comparative land values up to perhaps £100,000 - £400,000 per hectare. Other local authorities provide guidance in the assessment of a reasonable uplift. For example East Cambridgeshire District Council has published "Viability Assessment Information" which gives "Interim Policy Support" and is dated April 2019. In discussing land values in the District, the document states at paragraph 2.10.12:

"The figure that we consider likely to represent the minimum land value likely to incentivise release for development under any circumstances in the East Cambridgeshire context is around £250,000 to perhaps £370,000/ha based on gross developable site area and dependent on the "bulk" of land required. Land values at those levels are likely to be relevant to development on larger to smaller scale greenfield land (or enhancement to amenity land value) and therefore potentially relatively commonly occurring across the District".

7.7 Aspinall Verdi prepared a borough-wide assessment for nearby Swale Borough Council in December 2020 (paragraph 6.31), which suggests £247,100 per hectare as a reasonable benchmark land value for agricultural land in the Borough. This appears low compared with the opinion of Adams Integra, our own experience on scheme-specific viability studies and other Councils' advice.

7.8 Based on experience of other projects (details of which can be made available), and bearing in mind the approach adopted by Thanet in 2012 and other Councils more recently, we consider a reasonable benchmark land value to be £352,000/hectare, being 16x agricultural value.

7.9 We have therefore adopted a benchmark land value of £2,077,000 (rounded)

7.10 Dixon Searle commented in some detail on ULL's assessment of the benchmark land value. ULL assessed the Existing Use Value to be 22,000 per hectare, equating to £131,000. DSP has not disputed this figure. There is a difference of opinion as regards the landowner premium to be applied. DSP considers the multiplier should be 11.23x (£247,000 / £22,000/ha)

7.11 National Planning Guidance states with regard to the landowner premium, under the heading *Viability and Decision Making – How should the premium for the landowner be defined for viability assessment:*

> "Market evidence can include benchmark land values from other viability assessments."

7.12 ULL's evidence, presented in accordance with the National Planning Guidance, is as follows:

7.13 Viability assessment of strategic development of 2,500 homes, Swale BC – 20 x agricultural land value (2019). Submitted by ULL and uncontested.

7.14 Viability assessment or a scheme of 28 houses in Guildford BC – 18.5 x agricultural land value (assessed on behalf of the Local Authority by BNP Paribas) (2020).

7.15 Viability assessment in relation to 16 homes in East Cambridgeshire DC – 15.7 x agricultural land value (assessed on behalf of the Local Authority by Bespoke Property Consultants) (2022).

7.16 Council-wide viability assessment for Canterbury City Council (May 2022) identified EUV + £350,000/ha for agricultural benchmark land value. Canterbury is adjacent to Thanet.

7.17 Council-wide viability assessment for Dover Council (May 2022) identified EUV + £400,000/ha for agricultural benchmark land value. Dover is adjacent to Thanet.

7.18 We note that DSP carried out the Borough-wide viability study for Thanet District Council in 2017; this document suggests agricultural benchmark land values at £250,000/ha. We would expect DSP's review of the viability at Canterbury Road West to be consistent with the Borough-wide viability advice, albeit 6 years previously.

7.19 On the basis that the Existing Use Value is agreed at £22,000/ha, we have compared the foregoing evidence as shown in the following table:

Viability report	Agreed EUV at CRW/Ha	Equivalent BLV/Ha at CRW	Total BLV Equivalent at CRW
Canterbury Borough-Wide (2022)	£22,000	£372,000	£2,194,800
Dover Borough Wide (2022)	£22,000	£422,000	£2,489,800
Thanet Borough Wide (2017)	£22,000	£250,000	£1,475,000
Guildford site-specific (2020)	£22,000	£407,000	£2,401,300
East Cambs site specific (2022)	£22,000	£345,400	£2,037,860
Average BLV/ha		**£359,280**	**£2,119,752**

7.20 Indeed, if we exclude the Thanet-wide assessment carried out by DSP, the average equivalent land value is £2,280,940, demonstrating that DSP's position appears as an outlier in the local context.

7.21 Following this further analysis we therefore maintain that ULL's Benchmark Land Value figure of £2,077,000 represents a reasonable, possibly conservative assessment in relation to the subject site.

8. Summary of the Appraisal

8.1 For ease of reference we provide here a summary of the Argus appraisals relating to this project, demonstrating the viability position:

Appraisal Summary	
Costs	
Construction Costs	£30,379,000
Professional Fees	£1,215,000
Disposal Fees	£1,141,000
S106	£2,428,000
Acquisition Costs	£1,000
Total finance costs	£1,533,000
Profit	£7,493,000
Total Costs	**£44,190,000**
Revenue	
Private Residential Sales	£39,817,000
Affordable Rent	£1,975,000
Intermediate housing	£224,000
First Homes	£2,241,000
Total Revenue	**£44,257,000**
Residual Land Value	**£67,000**
Benchmark Land Value	**£2,077,000**
Surplus/ (Deficit)	**(£2,010,000)**

8.2 The fact that the Net Residual Land Value is negative indicates the project is unable to sustain the Section 106 contributions sought by the local planning authority.

9. Summary and Conclusions

9.1 In compiling the appraisals, we have applied the site-specific construction costs and property values relating to the proposed development, alongside market assumptions concerning other development costs such as finance and profit. This is in line with the principles of a financial viability assessment of this nature.

9.2 Accounting for the inputs explained above, the Argus appraisal for the proposed development calculates a residual land value for the proposed development of £67,000. A summary of the Argus Developer appraisal is included in Appendix 1.

9.3 The benchmark land value of the existing property has been demonstrated to be £2,077,000 (as per Section 7 of this report). Having completed the viability appraisal, we conclude that the net residual is -£2,010,000 (negative).

9.4 We conclude that the proposed scheme does not 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. However we understand the developer is prepared to undertake the development on this basis, being a social business focused on providing housing.

9.5 The Council's policy makes clear that contributions are subject to viability testing, and this report has been compiled in compliance with this policy, National Planning Policy Framework and RICS Guidance.

9.6 Should the Council require further information from ULL to consider the above, we would be happy to provide it, and our contact details can be found at the end of this report.

Appendix 1 – Argus Developer Appraisal

Canterbury Road West - July '22 appraisal Updated July '23
Confidential - Not a Valuation

Development Appraisal
ULL Property
July 18, 2023

APPRAISAL SUMMARY	ULL PROPERTY

Canterbury Road West - July '22 appraisal Updated July '23
Confidential - Not a Valuation

Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
Private houses	110	107,531	370.28	361,970	39,816,666
First Homes 2 bed houses	10	8,504	263.53	224,105	2,241,054
Affordable Rent	20	16,237	121.61	98,731	1,974,624
Intermediate	1	1,056	212.12	224,000	224,000
Totals	**141**	**133,328**			**44,256,344**

NET REALISATION			**44,256,344**	
OUTLAY				
ACQUISITION COSTS				
Residualised Price		65,577		
			65,577	
Agent Fee	1.00%	656		
Legal Fee	0.50%	328		
			984	

CONSTRUCTION COSTS

Construction	**ft²**	**Build Rate ft²**	**Cost**	
Construction Costs	138,181	219.85	30,379,000	
S106: Community Learning & Skills			2,847	
S106: Youth Service			11,355	
S106: Libraries			9,613	
S106: Adult Social Care			25,474	
S106: Waste:			9,443	
S106: Primary Education			1,111,988	
S106: Secondary Education			1,093,527	
S106: CCG			152,907	
S106: NR Ticket Machine Shelters			11,066	
				32,807,220

PROFESSIONAL FEES				
Professional Fees		4.00%	1,215,160	
				1,215,160
MARKETING & LETTING				
Marketing		1.00%	420,577	
				420,577
DISPOSAL FEES				
Sales Agent Fee - Private Resi		1.50%	630,866	
Sales Legal Fee - Private Resi	120 un	750.00 /un	90,000	

APPRAISAL SUMMARY	**ULL PROPERTY**

Canterbury Road West - July '22 appraisal Updated July '23
Confidential - Not a Valuation

				720,866
TOTAL COSTS BEFORE FINANCE				**35,230,384**
FINANCE				
Timescale	**Duration**	**Commences**		
Purchase	1	Feb 2022		
Pre-Construction	3	Mar 2022		
Construction	24	Jun 2022		
Sale	18	Jun 2023		
Total Duration	34			
Debit Rate 7.50%, Credit Rate 0.00% (Nominal)				
Land			12,118	
Construction			1,450,107	
Other			71,135	
Total Finance Cost				1,533,361
TOTAL COSTS				**36,763,745**
PROFIT				
				7,492,599
Performance Measures				
Profit on GDV%		16.93%		

CASH FLOW REVENUE AND COST SUMMARY	**ULL PROPERTY**

Canterbury Road West - July '22 appraisal Updated July '23
Confidential - Not a Valuation

Heading	%	Total	At Date	To Date
Phase1				
Sale - First Homes 2 bed houses		2,241,054	Jun 2023	Jun 2023
Sale - Affordable Rent		1,974,624	Jun 2023	Nov 2024
Sale - Intermediate		224,000	Jun 2023	Nov 2024
Sale - Private houses		39,816,666	Jun 2023	Nov 2024
Sales Agent Fee - Private Resi	1.50%	(630,866)	Jun 2023	Nov 2024
Sales Legal Fee - Private Resi	0.00%	(90,000)	Jun 2023	Nov 2024
Residualised Price		(65,577)	Feb 2022	Feb 2022
Agent Fee	1.00%	(656)	Feb 2022	Feb 2022
Legal Fee	0.50%	(328)	Feb 2022	Feb 2022
Con. - Construction Costs		(30,379,000)	Jun 2022	May 2024
S106: Community Learning & Skills		(2,847)	Jun 2022	Jun 2023
S106: Youth Service		(11,355)	Jun 2022	Jun 2023
S106: Libraries		(9,613)	Jun 2022	Jun 2023
S106: Adult Social Care		(25,474)	Jun 2022	Jun 2023
S106: Waste:		(9,443)	Jun 2022	Jun 2023
S106: Primary Education		(1,111,988)	Jun 2022	Jun 2023
S106: Secondary Education		(1,093,527)	Jun 2022	Jun 2023
S106: CCG		(152,907)	Jun 2022	Jun 2022
S106: NR Ticket Machine Shelters		(11,066)	Jun 2022	Jun 2022
Professional Fees	4.00%	(1,215,160)	Jun 2022	May 2024
Marketing	1.00%	(420,577)	Jun 2023	Nov 2024

Canterbury Road West - July '22 appraisal Updated July '23
Confidential - Not a Valuation

Distribution

Single
Monthly
Monthly
Monthly
Related: Sale - Private houses to First Homes 2 bed houses
Related: 750.00/un to Selected Total Units of 120
Single
Related: Residualised Price
Related: Residualised Price
S-Curve
Annual
Annual
Annual
Annual
Annual
Annual
Annual
Single
Single
Related: : Curve Related from Con. - Construction Costs to Other Construction Costs
Related: Sale - Private houses to First Homes 2 bed houses

TIMESCALE AND PHASING CHART | ULL PROPERTY

Canterbury Road West - July '22 appraisal Updated July '23
Confidential - Not a Valuation

Project Timescale	
Project Start Date	Feb 2022
Project End Date	Nov 2024
Project Duration (Inc Exit Peric	34 months

Phase 1

	Start Date	Duration	End Date	Feb 22 Feb 23 Feb 24
Project	Feb 2022	34	Nov 2024	
Purchase	Feb 2022	1 Month(s)	Feb 2022	
Pre-Construction	Mar 2022	3 Month(s)	May 2022	
Construction	Jun 2022	24	May 2024	
Post Development	Jun 2024	0 Month(s)		
Letting	Jun 2024	0 Month(s)		
Income Flow	Jun 2024	0 Month(s)		
Sale	Jun 2023	18	Nov 2024	
Cash Activity	Feb 2022	34	Nov 2024	
				1 13 25

SENSITIVITY ANALYSIS REPORT	**ULL PROPERTY**

Canterbury Road West - July '22 appraisal Updated July '23
Confidential - Not a Valuation

Table of Land Cost and Land Cost

	Construction: Rate /ft²				
Sales: Rate /ft²	-10.000%	-5.000%	0.000%	+5.000%	+10.000%
	197.86 /ft²	208.86 /ft²	219.85 /ft²	230.84 /ft²	241.83 /ft²
-10.000%	(£202,206)	£1,258,354	£2,731,949	£4,223,699	£5,727,311
333.25 /ft²	(£202,206)	£1,258,354	£2,731,949	£4,223,699	£5,727,311
-5.000%	(£1,573,704)	(£162,070)	£1,300,114	£2,773,581	£4,264,980
351.77 /ft²	(£1,573,704)	(£162,070)	£1,300,114	£2,773,581	£4,264,980
0.000%	(£2,945,202)	(£1,533,568)	(£121,934)	£1,341,874	£2,815,212
370.28 /ft²	(£2,945,202)	(£1,533,568)	(£121,934)	£1,341,874	£2,815,212
+5.000%	(£4,316,699)	(£2,905,065)	(£1,493,431)	(£81,797)	£1,383,634
388.79 /ft²	(£4,316,699)	(£2,905,065)	(£1,493,431)	(£81,797)	£1,383,634
+10.000%	(£5,688,197)	(£4,276,563)	(£2,864,929)	(£1,453,295)	(£41,661)
407.31 /ft²	(£5,688,197)	(£4,276,563)	(£2,864,929)	(£1,453,295)	(£41,661)

Sensitivity Analysis : Assumptions for Calculation

Construction: Rate /ft²
Original Values are varied by Steps of 5.000%.

Heading	Phase	Rate	No. of Steps
Construction Costs	1	£219.85	2.00 Up & Down

Sales: Rate /ft²
Original Values are varied by Steps of 5.000%.

Heading	Phase	Rate	No. of Steps
Private houses	1	£370.28	2.00 Up & Down

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U.L.L. Property