For: Thanet District Council

Review of Applicant Submitted Viability Position

Flambeau Europlast
Manston Road
Ramsgate
CT12 6HW

July 2024
(DSP24442AQ)

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DixonSearle Partnership

Contents

1. Notes and Limitations

1.1.1. The following does not provide formal valuation advice. This review and its findings are intended purely for the purposes of providing our client Thanet District Council (TDC) with an independent check of, and opinion on, the planning applicant's viability information and stated position in this case. In the preparation of this review Dixon Searle Partnership has acted with objectivity, impartiality, without interference and with reference to appropriate available sources of information.

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

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

1.1.4. So far as we have been able to see, the information supplied to DSP to inform and support this review process has not been supplied by the prospective / current planning applicant on a confidential basis. However, potentially some of the information provided may be regarded as commercially sensitive. Therefore, we suggest that the Council and 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 TDC area as well as viability assessment of the Council's Local Plan.

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

2. Introduction

2.1.1 Dixon Searle Partnership (DSP) has been commissioned by Thanet District Council (TDC) to carry out an independent review of the 'Viability Report' (VR) supplied to the Council on behalf of the applicant by Strutt & Parker (SP). This is in relation to the proposed redevelopment of the Flambeau Europlast site at Manston Road, Ramsgate, Kent, CT12 6HW.

2.1.2 The viability report has been submitted in relation to an outline planning application (reference 24/0200) which seeks permission for *'the erection of 118 dwellings including access, following demolition of existing buildings'.*

2.1.3 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 35 of the 118 proposed dwellings to be affordable housing 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 (therefore 28 no. rented units and 7 no. intermediate tenure units).

2.1.4 DSP previously reviewed viability for a similar scheme proposed on the site in 2016, following which planning permission was granted for 120 homes (ref OL/TH/15/0187) and a contribution of £49,480 was agreed in lieu of on-site provision of affordable housing. That planning permission has since expired.

2.1.5 In presenting their viability position, the applicant has supplied to the Council the aforementioned 'Viability Report' (VR) together with appendices including a letter from Kent County Council regarding planning contributions to education, and summaries of appraisals carried out using Argus Developer software, a commonly used industry tool.

2.1.6 The VR includes analysis of sales comparables and market evidence relating to the assumed Benchmark Land Value. SP have also provided 'live' working versions of the Argus Developer appraisals and we have used these as a base from which to test alternative assumptions as necessary.

2.1.7 For context, DSP has also had sight of the documents contained within the Council's online planning application files.

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

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

2.1.10 For general background, a viable development could be regarded as the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate site value (i.e. existing use value plus a reasonable premium) 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]

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

2.1.11 The submitted development appraisals have been run in a way which takes account of the benchmark land value (BLV) of the site (assumed as a fixed value of £5.434 million in the submitted appraisals) and assesses the level of residual profit after allowing for this BLV and all development costs. Therefore, an approach has been taken that sets out to consider, in the applicant's view, the maximum affordable housing contribution that can be supported alongside a reasonable level of profit.

2.1.12 The VR includes two appraisals, the first of which assumes 30% affordable housing and results in a residual profit equating to 2.10% of the assumed GDV which is below a level that would typically be considered proceedable. The second appraisal assumes 100% market housing which indicates a profit of 11.81% on GDV. SP note that this is below their expectation for a brownfield site such as this (stated to be 17.5% GDV) but note that *'our client is willing to accept this reduced figure to expedite the planning process as a commercial decision'.* The VR also notes that Flambeau Europlast, as owner-occupier of the site, would require alternative premises in order to release the site for development which would require additional investment from the company. The factory is stated to be nearing the end of its life, therefore this suggests further incentive for proceeding with the development, as part of the company's business/operational strategy.

2.1.13 This review does not seek to pre-determine any Council positions, but merely sets out our opinion on the submitted viability assumptions and outcomes to inform the Council's discussions with the applicant and its decision making; it deals only with viability matters, in accordance with our instructions.

2.1.14 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.

2.1.15 In this context, TDC 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.

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

2.1.17 This assessment has been carried out by Dixon Searle Partnership, a consultancy which has a great many years combined experience in the development industry working for Local Authorities, developers, Housing Associations and in consultancy. As consultants, we have a considerable track record of assessing the viability of schemes and the scope for Local Authority planning obligation requirements. This expertise includes viability-related work carried out for many Local Authorities nationwide over the last 20 years or so.

2.1.18 The purpose of this report is to provide our overview comments with regard to this individual scheme, on behalf of the Council - taking into account the details as presented. It will then be for the Council to consider this information in the context of the wider planning objectives in accordance with its policy positions and strategies.

2.1.19 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 VR and the submitted appraisal.

3.1.2 Primarily the review process takes into account the fact that the collective impact of the various elements of the cost and value assumptions is of greatest importance, rather than necessarily the individual detailed inputs in isolation. We have considered those figures provided, as below, and reviewed the impact of trial changes to particular submitted assumptions.

3.1.3 This type of audit / check is carried out so that we can give the Council a feel for whether or not the presented outcome is approximately as expected – i.e. informed by a reasonable set of assumptions and appraisal approach.

3.1.4 Should there be changes to the scheme proposals 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) Professional Standard: 'Assessing viability in planning under the national Planning Policy Framework 2019 for England' (reissued April 2023) took effect from 1st July 2021 when it was previously published as a guidance note. Its emphasis reflects the Planning Practice Guidance (PPG) on Viability as noted below, and the PPG will remain the primary source of guidance in this field – viability in planning.

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

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

3.2.5 The revisions to the Viability PPG and the new NPPF (latter updated 19th February 2019, May 2019 and most recently in December 2023 in other respects) 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 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.[2]'*

3.2.7 It states that a Benchmark Land Value should:

- *'be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*
- *be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time[3].'*

3.2.8 The guidance further states that: *'Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan.'* It goes on to state: '*Policy compliance means that the development complies fully with up to date plan policies including any policy requirements for contributions towards affordable housing requirements at the relevant levels set out in the plan. A decision maker can give appropriate weight to emerging policies. Local authorities can request data on the price paid* for *land (or the price expected to be paid through an option or promotion agreement[4].)'*

[2] Paragraph: 015 Reference ID: 10-015-20190509
[3] Paragraph: 014 Reference ID: 10-014-20190509
[4] Paragraph: 014 Reference ID: 10-014-20190509

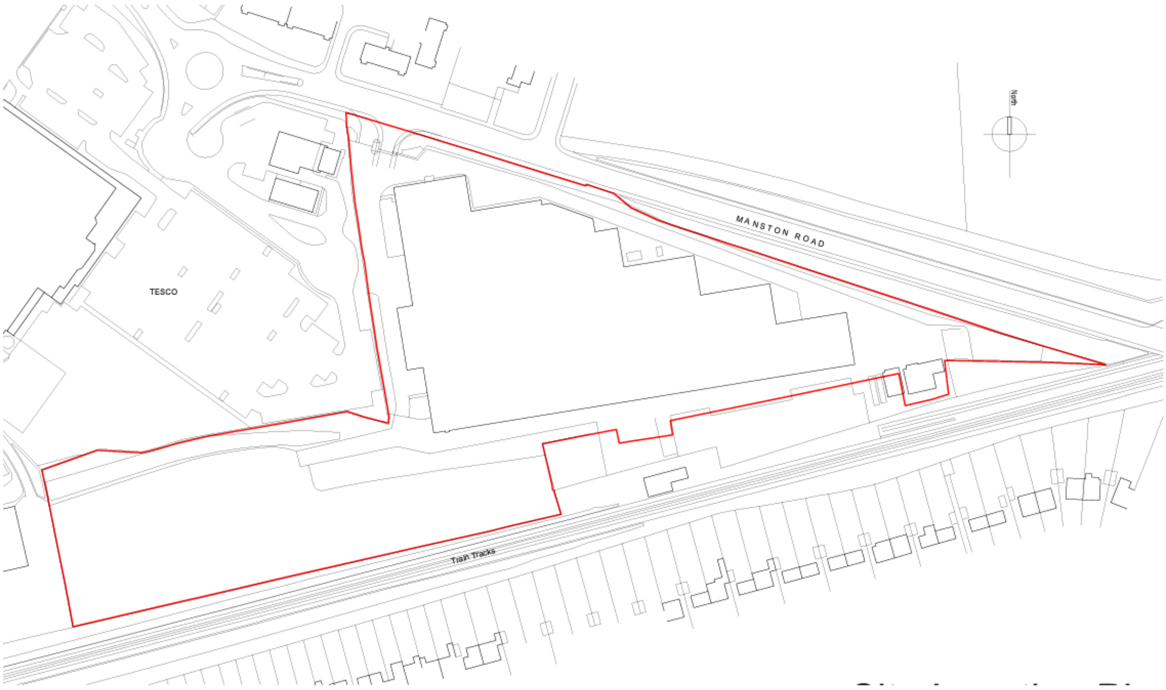
3.2.9 With regard to assuming an alternative use value to determine BLV the guidance states: *'For the* purpose *of viability assessment alternative use value (AUV) refers to the value of land for uses other than its current permitted use, and other than other potential development that requires planning 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*[5]*.'*

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 based on the existing use value of the factory which includes buildings with a total of 138,813 ft^2 in floorspace on a site of 8.65 acres (3.50 hectares). The buildings include two floors of office and meeting space at the front of the property and a manufacturing area (stated to be mainly open plan) at the rear.

[5] Paragraph: 017 Reference ID: 10-017-20190509

Site location (Source: CPD Architecture/Planning Portal)



Aerial view of site (Source: Design and Access Statement)

View of front of site (Source: Design and Access Statement)

3.2.12 SP note that a similar scheme was proposed in 2016 and viability was assessed by DSP in 2016/2017. At the time, a BLV of £2.5 million was proposed by the applicant and agreed by DSP. The currently proposed BLV is £5.434 million therefore the BLV is considered by SP to have more than doubled in the intervening period. During this same period there have been increases in the value of industrial property (unlike for other parts of the commercial sector) with industrial values generally increasing by around 40% in the UK. In this context, whilst a significant increase in BLV from the 2016 figure can be expected, the assumed increase of over 100% appears excessive for a factory which is stated to be nearing the end of its useful life.

3.2.13 The previous review considered the Valuation Office rateable value of the property (at the time £250,000) and applied a 10.0% yield to this to reach a £2.5 million value (equating to £18/ft² capital value). The capital value was also compared to the sale of a similar factory for £20/ft²).

3.2.14 SP note that the current rateable value is £452,500 which equates to £3/ft² and is 1.8 times the 2016 VoA assessment.

3.2.15 SP also refer to yields indicated on the CoStar commercial database across Thanet of between 5.6% and 6.2%, and whilst acknowledging the age of the property have applied a yield of 7.5% leading to a higher capital value of £5.37 million after SDLT and purchaser's costs (£39/ft²). SP have also reviewed other comparables, concluding that a yield of between 4.1% and 8.4% would be achievable for the property.

3.2.16 SP conclude that the rent suggested by the VoA would be achievable and have applied a 7.5% yield, as well as a year's void and a year's rent free period, and deducted SDLT, leading to a value of £4.94 million.

3.2.17 A premium of 10% has then been applied, leading to a BLV of £5.434 million for the site. It is debatable whether a premium should apply in this case, when it is stated that the property is '*adequate for a continuation of the operational requirements of the company only in the short to medium term'.* However SP note that in any event the owner-occupiers will be unable to vacate the premises without a significant investment (estimated at £9 million) in new premises. Whilst this is an operational decision and does not directly relate to the proposed development or the existing use value it will feed into the decision to release the site now rather than at some later point.

3.2.18 We have carried out our own research into commercial values locally and note that rents of £5 to £7/ft² are being achieved for good quality warehousing. For example, 130,000 ft² of modern warehousing is currently being offered in Manston Park, CT12 5FD for circa £6/ft².

3.2.19 However it is not clear whether there would be a market for this type of accommodation at this scale. Overall, the assumption of a £3/ft² rent does not appear excessive, however in our view a higher yield assumption could be considered, leading to a lower capital value.

3.2.20 In terms of the site area, the submitted BLV equates to approximately £1.5 million per hectare. As a further point of triangulation this can be considered against DSP's Local Plan testing (although noting that this was a strategic viability study which adopted benchmarks for appraisal testing across Thanet and was concluded in 2017). The LP assessment considered a range of land values, with site typologies on previously developed land ranging from £750,000 to £1,200,000 per hectare, and also a higher value bracket of £1,200,000 to £1,750,000 for *'land already in residential use or with a higher than typical existing or alternative commercial use implementable'*. The submitted BLV is therefore at the upper end of the range tested for the Local Plan.

3.2.21 Overall we consider that the BLV in this case is potentially overestimated. The factory is stated to be at the end of its life therefore there is likely to be sufficient incentive to release the site for development, and potentially also a lack of other businesses seeking to use the site in its current form. Various alternative uses would be possible, including division of the site into smaller areas that could be let or sold separately for commercial use, however alternative uses have not been explored in the FVA; and would need to consider the cost of demolishing the existing premises and rebuilding, versus the revenue for a new building.

3.2.22 It appears counterintuitive that buildings which have had no improvement works carried out and are in a specific use – unlikely to be suitable for immediate use by another business – and which are said to be nearing the end of their life, would have more than doubled in value since the previous valuation. aWhilst the market for industrial/commercial units has improved, this is primarily for warehousing and not of the type offered here.

3.2.23 We will consider the BLV in the context of our appraisal results, and the overall profit/land value indicated, and from a starting point that in our view the uplift from the 2016 valuation of £2.5 million is unlikely to be more than 40%, therefore suggesting a BLV, including premium, of £3.5 million.

3.3 Acquisition Costs

3.3.1 In addition, the submitted appraisal includes acquisition costs including 1.25% for agency fees and 0.5% for legal fees, applied to the residualised value. Stamp Duty has also been applied at the prevailing rate. £65,000 has also been included for 'Town Planning' and £10,000 for 'Survey'.

3.3.2 These costs exceed those typically allowed for however as part of the overall allowances for professional fees for the scheme (which also include £1,539,763 in total or 8.00% of construction costs – see 3.6.1, below) the amounts do not exceed those seen for similar schemes therefore we consider the overall allowances to be suitable and have not adjusted these in our appraisals.

3.4 Gross Development Value

3.4.1 The proposal is for 118 dwellings, with 76 no. terraced, semi-detached and detached houses, and 42 flats.

Proposed site plan (CDP Architecture/Planning Portal)

GDV – Market Housing

3.4.2 The VR assumes a GDV of £25,485,000 for the 83 market units in the submitted policy-compliant appraisal, equating to £346/ft².

3.4.3 We note that the unit value for flats of £265,000 is incorrect based on the stated GDV of £7,700,000 for 28 flats; a value of £275,000 per flat has been assumed.

3.4.4 The assumed values for the 100% market housing scheme are not discussed, however the appraisal assumes an average sales value of £341/ft². Applying the stated values (including a £275,000 value for flats) to a 100% market housing mix results in a higher GDV of £345/ft².

			Submitted values (100 pc market housing)				
Beds	Type	Number	Sq ft	Total Sq Ft	Assumed value/unit	£/ft2	Total
2	Flat	42	753	31626	£ 275,000	£ 365	£ 11,550,000
2	EOT	3	850	2550	£ 300,000	£ 353	£ 900,000
2	Mid Terrace	2	850	1700	£ 295,000	£ 347	£ 590,000
3	EOT	11	963	10593	£ 320,000	£ 332	£ 3,520,000
3	Mid Terrace	14	943	13202	£ 315,000	£ 334	£ 4,410,000
3	Semi	39	935	36465	£ 320,000	£ 342	£ 12,480,000
3	Detached	2	1012	2024	£ 350,000	£ 346	£ 700,000
4	Detached	5	1238	6190	£ 380,000	£ 307	£ 1,900,000
				104350		**£ 345**	**£ 36,050,000**

Review of evidence on values

3.4.5 The VR refers to developments at Spitfire Green, Marlowe Way (Barratt Homes) and Westwood Point, Starland (Linden Homes) and notes a range of asking prices and achieved values.

3.4.6 Sales of new build properties within 5 miles of the site have also been reviewed, at 'The Meadows' and 'Eden Grove, Minster'.

3.4.7 We consider the assumed market housing GDV to be appropriately placed with reference to these comparables – noting in particular the Barratt development which is nearby and in a similar setting.

3.4.8 As a further check we have carried out an updated review of all new build properties sold within the past two years close to the site, and of all resale properties sold within the past 6 months (updating each of the individual sales values by HPI, which in this case has resulted in a downward adjustment to the average values indicated; house prices in the area fell slightly in the most recent months on record with Land Registry). The average values indicated are as follows:

NEW BUILD (sales within 4 miles since July 2022) (£/ft² average)

- Flats £430/ft²
- Semi-detached £308/ft²
- Terraced Insufficient data
- Detached £332/ft²

3.4.9 The above data on the sale of apartments suggests a higher value than that assumed in the VR of £275,000 (£365/ft²) however on closer examination of the dataset, many of the examples are properties close to the seafront which command higher values than the subject area, and/or are smaller properties. Removing these properties from the dataset indicates an average value of £277,624 (£283/ft²).

RESALE VALUES (within 4 miles in the 6 months to July 2024)

Flats	£251/ft²
Semi-detached	£313/ft²
Detached	£355/ft²
Terraced	£263/ft²

3.4.10 With the exception of detached properties (of which only 5 are proposed at the subject site) the submitted values are between 10% and 30% above those achieved for similar properties on the second hand market. This places the assumed values within the expected range.

3.4.11 There is some evidence of detached properties locally achieving higher values, for example the following resales of detached properties which suggests that values in excess of the £350,000 to £380,000 (£307 to 346 ft²) assumed for detached properties might be achieved:

LR Resale Value - Detached Dwellings - 10.2023 - 3.2024 - Up to 3.6 miles from site												
Address lines 1+2	Street	Postcode	Town	Dwelling type	Sale price	Sale month	HPI index multiplie	Sale Price Adjusted for HPI	Floor area /m²	Floor area /ft²	Value /ft²	Value/m²
8	CHILTON LANE	CT11 0LG	RAMSGATE	Detached	£420,000	03/2024	1.0000	£420,000	107	1152	£364.67	£3,925
12	PICTON ROAD	CT11 9QA	RAMSGATE	Detached	£460,000	11/2023	0.9497	£436,882	146	1572	£278.00	£2,992
25	MANNOCK DRIVE	CT12 5DG	RAMSGATE	Detached	£400,000	10/2023	0.9476	£379,031	101	1087	£348.65	£3,753
Average					£426,667			£411,971	118.00	1270	£324.35	£3,491.28

3.4.12 However, we note the most values achieved at 'The Meadows' for detached properties which align with the submitted values.

3.4.13 Finally, we have reviewed new build properties advertised for sale locally, and note that a development of 88 dwellings at Manston Road, very close to the site, is advertising properties from £240,000 for a 1-bed flat over garage up to £510,000 for a 4-bed detached house. Many of the proposed properties (planning permission F/TH/22/0573) are 3-bed semi-detached and detached properties of between 1,000 and 1,100 ft².

3.4.14 3-bed 1,403 ft² semi-detached town houses ('The Ivy') are currently advertised for £465,000 (£331/ft²). Allowing for discounts/incentives (noted by SP to be around

£16,000) and therefore deducting 5.0% (£23,250) from the asking price indicates £441,750 (£314/ft²) for a 3-bed townhouse.

New build townhouses at 'Manston Gardens'

3.4.15 3 and 4-bed detached properties 'Manston Gardens' are likely to exceed the submitted values of £350,000 to £380,000 (£307 to £346/ft²). However we note that the subject site is adjacent to both a railway line and a Tesco supermarket, and therefore values can be expected to be lower at the subject site.

3.4.16 2-bed properties are advertised at Manston Gardens as starting at £300,000 for a 762 ft² property (£393/ft²). The submitted values of £295,000 (£347/ft²) to £320,000 (£332/ft²) are broadly aligned with this once discounts/incentives are taken into account.

3.4.17 Having reviewed the evidence put forward by SP as well as our research noted above we consider that overall the submitted values are suitably placed, noting the proposed housing mix, the specific location and setting of the proposed site and the tone of values in the immediate area.

GDV – Affordable Housing

3.4.18 The FVA states that affordable housing has been assumed at 60% of market value based on a blended tenure mix. The actual values put forward on page 16 of the FVA and applied within the policy compliant appraisal equate to 58% of market value; with values ranging from £178 to £205/ft² depending on type, resulting in an overall average value of £197/ft².

3.4.19 The values align with our assessment of other sites in the area which we have valued at circa £200/ft² based on the Council's preferred tenure mix for those sites. As a further check we have run an affordable housing appraisal using the Homes England 'Development Appraisal Tool', applying some typical assumptions regarding maintenance, management and void costs, and assuming an 80/20 tenure split as per TDC policy of 28 x Affordable Rented units and 7 x Shared Ownership. We have assumed the shared ownership dwellings to be 4 x 2 bed apartments and 3 x 3 bed terraced houses.

3.4.20 The DAT appraisal indicates an average value of £191/ft². This is below the submitted £197/ft² and further confirms that the submitted AH value is not underestimated.

3.4.21 An alternative mix of affordable housing would result in different average values (for example if the Council were to agree an increased proportion of shared ownership (or of First Homes) the AH GDV would increase. At this outline planning stage we consider the submitted £197/ft² average to be a suitable assumption and we have not adjusted this in our appraisals.

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

3.5 Cost Assumptions – Construction Costs

3.5.1 The VR has assumed plot build costs of £146.51/ft², stated to be based on BCIS median costs. The specific BCIS category has not been stated but appears to be the general average rate for 'Estate Housing' which we consider to be a suitable assumption at this level of review. We have reviewed the latest BCIS rates and note that the median rate for Estate Housing has increased since SP's review to £154.49/ft² therefore we have updated our appraisals accordingly.

Submitted plot build costs

Plot build costs	As applied in submitted appraisals		
	ft²	Build Rate ft²	Cost
MARKET HOUSING	73,650	£146.51	£10,790,462
AFFORDABLE HOUSING	30,696	£146.51	£4,497,271
Totals			**£15,287,732**

DSP updated plot build costs (based on BCIS rates July 2024)

DSP updated plot build costs			
	ft²	Build Rate ft²	Cost
MARKET HOUSING	73,650	£154.49	£11,378,189
AFFORDABLE HOUSING	30,696	£154.49	£4,742,225
Totals			**£16,120,414**

3.5.2 The BCIS average rates do not include external/site works and SP have referred to the costs assessed in conjunction with the previous viability assessment of a similar scheme submitted in 2016 (with build costs assessed as at July 2016). We have also referred back to the 2016 proposals and the schemes are similar, although with some differences in the housing mix, as follows:

Type	Previous	Currently proposed
2bed flats	40	42
2 bed houses	20	5
3 bed houses	60	66
4 bed houses	0	5
Total floor area	112000	104350
Total units	**120**	**118**

3.5.3 JP have applied inflation to the 2016 works costs using the BCIS All-in Tender Price Index, therefore applying an increase of 38.79%, leading to the following assumptions:

Submitted ExternalAbnormal Cost assumptions				
ITEM		Jul-16		Apr-24
Demolition	**£**	**150,000**	**£**	**208,185**
Road/Site Works	**£**	**324,000**	**£**	**449,680**
Remediation (asbestos and site strip)	£	95,000	£	131,851
Off site works	£	100,000	£	138,790
Garages	£	300,000	£	416,370
Acoustic fence	£	85,000	£	117,972
Warranties	£	122,000	£	169,324
Utilities connection and upgrade	£	305,000	£	423,310
Scheme landscaping	£	122,000	£	169,324
			£	**1,566,939**
External/abnormal costs total			£	2,224,804

3.5.4 Based on the uplifted costs, the above works are within the expected range for these items/this type of development at the current time and we note that the external works equate to approximately 7.7% of median BCIS build costs and are not considered unreasonable in this case.

3.5.5 The application is at outline stage and once it has progressed to more detailed design and is specifically costed this figure is likely to change – we will bear this in mind when considering the overall outcomes, however the above costs do not appear excessive at this stage. Consistent with the approach taken by SP we have applied the latest BCIS All-in TPI adjustment to the previously assessed external/abnormal costs which has increased these by a further 0.5%. Therefore we have tested the following build costs in our appraisals (excluding fees & contingency):

DSP updated plot build costs (BCIS median rates as at July 2024)			
	ft²	Build Rate ft²	Cost
MARKET HOUSING	73,650	£154.49	£11,378,189
AFFORDABLE HOUSING	30,696	£154.49	£4,742,225
Totals			**£16,120,414**

DSP external/abnormal cost assumptions (adjusted to latest BCIS TPI as at July 2024)			
ITEM			Jul-24
Demolition			**£ 209,226**
Road/Site Works			**£ 451,928**
Remediation (asbestos and site strip)			£ 132,510
Off site works			£ 139,484
Garages			£ 418,452
Acoustic fence			£ 118,561
Warranties			£ 170,170
Utilities connection and upgrade			£ 425,426
Scheme landscaping			£ 170,170
			£ 1,574,774
External/abnormal costs total			£ 2,235,928
TOTAL BUILD COST			**£18,356,341**

3.6 Fees and contingencies

3.6.1 The development appraisal includes an allowance of 8.0% for professional fees. As noted in 3.3, above, a further £75,000 has been included for Town Planning and Surveys. Overall the assumed amounts do not exceed usual parameters and are not considered to be unreasonable.

3.6.2 An allowance of 5.0% of construction costs has been included for contingency which does not exceed typical allowances and is considered suitable.

3.7 Development Timings/Project Timescales

3.7.1 The appraisal assumes a 7-month lead-in followed by a 36-month build period with a sales period beginning 12 months into construction, continuing until 12 months beyond completion of the final unit and with market sales revenue spread evenly across the sales period.

3.7.2 The overall (market housing) sales rate assumed is a little over 3 units per month which is a fairly conservative estimate, and we have also referred to the BCIS duration calculator which suggests that the scheme could be built out within 2 years. Therefore we have tested a more optimistic set of assumptions, assuming a 7-month lead-in, a 24-month construction period, and sales at approximately 5 units per month (therefore a

24-month sales period), applying the sales revenue as per the submitted appraisal, spread evenly across our assumed sales period. However we note that these alternative assumptions make a relatively small difference to the finance costs and therefore profit outcomes (less than £100,000 in total, in the context of over £30 million in scheme costs).

3.7.3 Where affordable housing has been included, SP have assumed AH revenue to be received in lump sums every six months throughout the sales period. We consider this to be a suitable assumption for the purpose.

3.8 CIL / Planning Obligations

3.8.1 TDC does not charge a Community Infrastructure levy (CIL) on new development.

3.8.2 The VR states that £1,171,076 has been included for s106 obligations, and a list of planning obligations is attached at Appendix 1 of the VR. We have been unable to reconcile the amounts stated in Appendix 1 with the amount included in the appraisals. SP state that a further £45,144 is required to cover SPA contributions.

3.8.3 TDC have provided us with a letter from Kent County Council (KCC) regarding education contributions which is the same as included in SP's Appendix 1, as well as a further letter regarding health contributions. The amounts stated in the letters are as follows:

Education					
Primary	None				
	Per house	Per flat	Total (Houses)	Total (Flats)	TOTAL
	76	42			
Secondary	£ 5,587.19	£ 1,396.80	£ 424,626.44	£ 58,665.60	£ 483,292.04
	£ 2,330.44	£ 582.61	£ 177,113.44	£ 24,469.62	£ 201,583.06
	£ 559.83	£ 139.96	£ 42,547.08	£ 5,878.32	£ 48,425.40
					£ 733,300.50
Community Learning					£ 4,036.78
Integrated Children's Services					£ 8,737.90
Library Service					£ 7,390.34
Social Care					£ 21,343.84
Waste					£ 6,136.00
					£ 47,644.86
					£ 780,945.36
Health					
Healthcare services					**£ 113,220.00**
				TOTAL	**£ 894,165.36**

3.8.4 There is a difference of £276,911 between the figures stated in the letters provided to DSP and the amounts included within SP's appraisal.

3.8.5 At this stage we have not adjusted SP's assumed s106 allowance, however TDC will need to confirm these figures or provide alternatives that can be included within the appraisals.

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

3.9 Development Finance

3.9.1 Finance costs have been included using a 7.5% interest rate assumption, stated by SP to be lower than they consider suitable, but utilised on a without prejudice basis *'for expediency'*.

3.9.2 The submitted 7.5% input representing all finance costs is within the range currently seen and is therefore not considered to overestimate development costs. We note that a 2.0% credit rate has been applied to positive cash balances. Overall the finance assumptions/costs are within the expected range and we have applied the same assumptions.

3.10 Sales, Marketing and Legal fees

3.10.1 Sales and marketing costs have been assumed at 2.5% (based on assumed market housing GDV). Legal costs have been assumed at 0.5%.

3.10.2 Where affordable housing has been included a disposal cost of 1.00% AH GDV has been included.

3.10.3 Overall these allowances are within expected parameters and therefore we have not adjusted them in our appraisal.

3.11 Developer's Risk Reward – Profit

3.11.1 In this case, the appraisals have been run on a residual profit basis, with a stated profit target of 20.0% of gross development value (GDV) on market housing and 6.0% on affordable housing.

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*[6]'.

3.11.3 It is worth noting again that the 100% open market scheme as presented in the VR produces a profit of 11.81% on GDV, yet it is stated that the applicant is willing to proceed on this basis. It would appear therefore that the applicant has indicated an acceptance of a profit level certainly well below the stated target profit. The purpose of viability in planning is to consider how a scheme will be delivered.

3.11.4 We have tested our results against a profit level of 17.5% GDV for market housing, being in the middle of the range suggested by the PPG and an assumption we consider appropriate as part of the context in making judgments on viability when under review – as a baseline. For affordable housing (where included) we have applied a standard 6.0% profit.

3.11.5 This leads to an overall profit target for our 30% AH appraisal of £4,823,175 or 15.29% of GDV (blended).

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

3.11.6 The profit target for our 100% market housing appraisal of £6,235,250 or 17.5% of GDV.

4. Findings Summary

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

4.1.2 We also consider the majority of the submitted assumptions to be suitably placed. In our opinion a fair view has been taken of sales values, build costs and fees.

4.1.3 We consider the assumed construction timings and sales timings to be overly cautious (See 3.7) and have reduced both the construction period and the time taken to sell all units by 12 months in our trial appraisals (although noting that this makes relatively little difference to the outcomes).

4.1.4 We consider the submitted Benchmark Land Value of £5,434,000 to be excessive, however (as discussed in 3.2, above) and we have tested a BLV of £3,500,000 (£1 million per hectare).

4.1.5 We do not agree that a 20.0% profit on market housing is necessary for a scheme of this nature, and we will consider our appraisal results against a profit target of 17.5% on market housing (and 6.0% on affordable housing where included).

4.1.6 We recommend the Council verifies the S106 contributions required from the site. The information we have been provided with so far indicates requests for £894,165, whereas our appraisals include the submitted amount of £1,171,076. There are therefore £276,911 of contributions allowed for which have not yet been explained/confirmed.

DSP appraisal results

4.1.7 Our appraisal (summary at Appendix 1a), assuming 30% affordable housing (35 units), and applying a BLV of £3.5 million as a fixed land value (reduced from the submitted £5.434 million) alongside our other assumptions indicates a profit of £1,788,028 which equates to 5.7% of GDV (blended). This falls significantly below our assumed profit target of £4,823,175 or 15.29% of GDV (blended).

4.1.8 The scheme is at outline stage and we have therefore sensitivity-tested movements in sales values and build costs up and down of up to 10.0%, with results shown in the table below:

Sensitivity Test +/- 10.0% in sales values and construction costs 30% affordable housing (35 unit of AH) Showing profit amount and profit as % of GDV (blended)					
	Sales: Gross Sales				
Construction: Gross Cost	-10.000%	-5.000%	0.000%	5.000%	10.000%
	22,936,500	24,210,750	25,485,000	26,759,250	28,033,500
-10.000%	1,339,172	2,658,817	3,972,139	5,279,773	6,582,585
	4.6%	8.8%	12.6%	16.1%	19.3%
-5.000%	237,718	1,563,600	2,882,688	4,195,689	5,503,235
	0.8%	5.2%	9.1%	12.8%	16.1%
0.000%	-865,807	462,939	1,788,028	3,106,558	4,419,238
	-3.0%	1.5%	5.7%	9.5%	13.0%
5.000%	-1,969,333	-640,586	688,160	2,012,456	3,330,429
	-6.8%	-2.1%	2.2%	6.1%	9.8%
10.000%	-3,072,858	-1,744,112	-415,366	913,380	2,236,833
	-10.6%	-5.8%	-1.3%	2.8%	6.6%

4.1.9 The above table indicates that for a policy-compliant scheme to be viable, an increase in sales values of 5.0% would be required alongside a decrease of 10.0% in build costs.

4.1.10 Following SP's approach, we have also tested a 100% market housing scenario (see appraisal summary at Appendix 1b). Applying a BLV of £3.5 million as a fixed land value (reduced from the submitted £5.434 million) alongside our other assumptions indicates a profit of £6,217,473 which equates to 17.25% of GDV. This falls just below our profit target of £6,235,250 or 17.5% of GDV.

4.1.11 Having tested alternative assumptions including a lower land value than the submitted BLV, based on present day costs and values a 100% market housing scheme is shown to be deliverable with a reasonable level of profit. However the scheme shows limited scope to support a contribution to affordable housing. We note that if the figures supplied to us on S106 contributions are applied (alongside the stated SPA contribution) a surplus of circa £300,000 is indicated against our BLV/profit target. Therefore subject to confirmation of the S106 contributions there might be potential for a contribution to affordable housing.

4.1.12 We have also sensitivity-tested the 100% market housing scenario. Clearly from a position of being close to our profit target, any improvement in the assumptions (including the above-noted s106 contributions) could potentially lead to some surplus being shown which could contribute to affordable housing. From our base position (and with the stated 1.17 million S106 contributions), an improvement of 5.0% in sales values alongside a 5.0% decrease in build costs indicates capacity to support our assumed BLV of £3.5 million plus a 17.5% profit on market housing *and* a further £1.83 million (therefore, for example, supporting the submitted BLV of £5.434 million plus a circa £900,000 contribution to affordable housing).

4.1.13 In any event, the scheme is at outline stage and might be subject to change at reserved matters. There could also be significant movements in the market (both up and down) between the present time and the completion/sale of the proposed dwellings. Therefore whilst the viability position appears marginal once affordable housing contributions are introduced, in the absence of a suitable offer from the applicant at this stage the Council may wish to consider a review mechanism to revisit viability at a suitable point.

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

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

4.1.16 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. The most recent (national) reporting suggests that the housing market generally is showing signs of improving somewhat following month-on-month falls seen in the autumn; although experience and reporting is mixed, reports are of prices having increased in the most recent months, with more properties being listed and a cautious optimism around future house price movements. Knight Frank state in their most recent assessment of the housing market 'We now expect UK mainstream prices to rise by 3% in 2024, which compares to a decline of 4% predicted at the end of 2023. With low-level single-digit growth in subsequent years, we expect cumulative growth of 20.5% in the five years to 2028'.

4.1.17 Regarding construction costs, the still relatively uncertain sales market is mitigated to some extent by an apparent slowdown in build cost inflation, following a period of rapid increases in construction costs.

4.1.18 The RICS guidance notes that *'Development risk'* reflects: *'The risk associated with carrying out, implementing and completing a development, including site assembly, planning, construction, post-construction letting and sales'* and 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.'* This is all part of the usual development process. Furthermore, in reflecting the PPG the RICS guidance notes: *'PPG paragraphs 007 and 009 reflect on the impact of market cyclicality during the life of the plan. Paragraph 007 gives market downturns as one example of the justification for a site-specific VR, but it is restricted to "a recession or similar significant economic change". This implies the exclusion of normal market cyclicality, which is embedded in the level of developer return'.*

Review report ends
July 2024

Appendices 1a and 1b – DSP appraisal summaries