

Financial viability appraisal review for planning purposes

Prepared for

Dover District Council
White Cliffs Business Park, Whitfield, Dover, CT16 3PJ

Proposed redevelopment of
Land at 191 and Forge Bungalow,
London Road, Temple Ewell, Dover, CT16 3DG

Planning Reference: 15/00123

March 2016





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23 March 2016

Dover District Council
White Cliffs Business Park
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For the attention of Luke Blaskett – Principal Planner

Our Ref. SELM MQRU363380

Dear Sir

**PROPERTY: LAND AT 191 AND FORGE BUNGALOW, LONDON ROAD, TEMPLE EWELL,
DOVER, KENT, CT16 3DG**

FINANCIAL VIABILITY REVIEW

Planning Ref: 15/00123

1. INTRODUCTION

1.1 Instructions

Further to your instruction contained within an email dated 22 February 2016, we have now undertaken our review and independent financial viability assessment of the subject property, along with providing comment in relation to the planning applicant consultant's brief financial viability assessment, prepared by J.F.Spindlow, dated December 2015, along with having sight of a covering letter prepared by Messrs Lee Evans Planning, dated 1 December 2015.

Our opinion of values detailed within this document do not constitute a formal valuation.

1.2 Proposal Summary

The applicant's proposed scheme comprises demolition of an existing second-hand car garage/repair centre (with flatted accommodation above), accessed off the London Road, along with demolition of a detached bungalow at the rear, benefitting from independent access of Watersend.

The proposed scheme consists a replacement scheme of 7 x 3 bedroom terraced houses (1059sqft – 1176sqft), a pair of semi-detached houses (862sqft) and a detached house (1062sqft), all for private market tenures. The terraced houses will have frontage to the London Road, being in two rows, to be accessed off the London Road, with a pair of semi-detached houses and an individual detached house to be accessed via Watersend.

Watersend appears to be a desirable road in Temple Ewell comprising mostly 4 / 5 bedroom detached houses built approximately within the last 30 years. The property benefits from being situated in a convenient position for accessing the A2, with local convenience amenities nearby to the east. Temple Ewell Church of England Primary School is nearby to the south-east, with Kearsney railway station further beyond.

1.3 Inspection of the property

A roadside inspection by Sarah Mason MRICS has taken place. This review has been prepared by Sarah Mason MRICS who is an Associate Director with Savills, who has extensive experience in valuing and appraising development properties across the South East region. She is an RICS registered valuer.

1.4 Guidance

We have followed the RICS professional guidance publication "Financial Viability in Planning" GN94/2012 (first edition) which sets out the principle in determining financial viability.

2. VIABILITY BENCHMARK VALUE

In order to assess the financially viable level of Section 106 contributions that a proposed scheme can absorb (we note the Council are seeking £103,173), in-line with industry practice, we have considered the current use value of the property.

The planning applicant's consultant has not provided commentary on this, only in regards to the purchase price, which is stated within their appraisal as being £420,000 (no date referred to). RICS guidance advises that consideration should not be given to the purchase price.

We have not undertaken an internal inspection of the property, however, from our roadside inspection, we observed that 191 London Road comprises a second-hand car garage/repair centre (built circa 1980s), with forecourt fronting the London Road. We suspect that a 1 or 2 bedroom flat is situated above, accessed via a wrought iron external staircase on the eastern side of the building. Whilst the property appears to be 2 storeys in height from the London Road, it is in fact over 3 storeys, as the southern section of the property is situated on lower ground.

We have gathered Land Registry data in relation to this property, which states that the most recent transaction completed in June 2004 for £180,000.

Access via Watersend is a detached bungalow known as Forge bungalow, presumed to contain 2 / 3 bedrooms. It appeared unoccupied and unkempt in appearance. The bungalow benefits from a driveway, which also provides access to the rear of the second-hand car garage/repair centre and flat, beyond, leading to a hardstanding car parking area (also accessed off London Road).

We are aware from Land Registry information that Forge bungalow completed for £240,000 in May 2004.

The collective value therefore being £420,000, which tallies with the purchase price referred to within the applicant's viability assessment.

We suspect that the second-hand car garage/repair centre and flatted accommodation would now achieve around £250,000, with Forge bungalow achieving approximately £300,000 if advertised separately on the market.

We have therefore assumed an overall approximate current use value of £550,000. In order to form the Benchmark Value for which we assess the viable level of Section 106 contributions that a redevelopment scheme can support, we add an additional 20% to this value, which is recognised in the industry, thus forming a Benchmark Value of £660,000.

3. ILLUSTRATIVE RESIDUAL APPRAISAL

We have prepared our own illustrative residual appraisal (**Appendix 1**) based on the special assumption that the property benefits from planning permission for the proposed redevelopment scheme, which comprises demolition of all existing on-site buildings with a replacement residential scheme of 7 x 3 bedroom terraced houses (1059sqft – 1176sqft), a pair of semi-detached (862sqft) and a single detached house (1062sqft), all for private market tenures.

Gross Development Value

We have prepared a schedule of individual unit values (**Appendix 2**), based on the special assumption that the scheme is built and completed to a good specification. In summary, we have applied values ranging from £225,000 (£261psf) to £275,000 (£259psf).

In attributing our opinion of values, we have given consideration to the values being asked/achieved within the immediate locality for second-hand properties in Temple Ewell, along with the most relevant new build schemes within the wider area (**Appendix 3**).

Of relevance, we note that at the opposite end of Watersend (known as Riverside) a 3 bedroom detached modern second-hand house is currently on the market for £285,000. We have also included examples of a second-hand semi-detached and end of terraced house achieving between approximately £230,000 and £275,000, respectively. Both are situated in Temple Ewell.

In terms of new build comparable examples, we have given consideration to the prices that Pentland Homes have been achieving at Elysium Park (Old Park Hill, Dover), where we are aware that for their contemporary designed 3 bedroom semi-detached townhouses have achieved £280,000 (£185psf). We have included within our comparable schedule a greater number of sales examples achieved by Abbey New Homes at Bowman's Place (Whitfield, Dover), where they have been achieving between £240,000 - £260,000 (£265psf - £261psf) for their 3 bedroom semi-detached houses.

Acquisition Costs

We have made an allowance of £6,000 in relation current Stamp Duty charges, with legal fees at £3,500.

Build Costs

We have allowed for demolition and site clearance at £70,000 with allows for potential remediation.

For sub and super structure costs (with an element for preliminaries), we have had regard to current BCIS tender prices for Dover (**Appendix 4**). We have applied the mean figures for general estate housing at £1,227psm / £114psf.

In addition, we have made an allowance for services, building regulations/warranties, landscaping, car parking and the provision of the access roads/driveways. We have allowed for contingencies at 5.00% and project management at 6.50%.

Total build costs equate to around £1,595,000, equivalent to £151psf.

Disposal Fees

We have allowed for estate agency fees of 1.25% in relation to the disposal of the residential properties, along with £1,000 per property for legal fees.

Finance

We accounted for this at 6.50% based on 100% debt finance.

Profit Return

This has been allowed for at 20% profit-on-cost, which in our opinion is appropriate for a scheme of this type in this location.

Land Value

Our opinion of the land value reflecting that planning permission is in place for the proposed scheme is £335,000.

This opinion of the land value falls below our opinion of the Benchmark Value (£660,000). Therefore in our opinion the proposed scheme cannot viably support the inclusion of any Section 106 contributions.

4. APPLICANT'S CONSULTANT'S VIABILITY ASSESSMENT

We have given consideration to the planning applicant's consultant's brief assessment prepared by J.F.Spindlow (mostly comprising an itemised cost plan), dated December 2015 and covering letter compiled by Messrs Lee Evans Planning, dated 1 December 2015 and we tabulated the principal differences and similarities, as follows:-

Variable	J.F Spindlow	Savills	Difference / Comment
Proposed Scheme – Gross Development Value	£2,015,000	£2,440,000	£425,000 (Savills higher) The applicant's consultant has referred to marketing prices given by Messrs Miles and Barr estate agents based in Dover (November 2015) Inconsistent and wide ranging £/sqft applied £159psf - £264psf.
Construction Costs	£1,351,750 (£128psf). Savills have deducted the costs allowed within the applicant's consultants cost plan relating to the land purchase sum, Section 106 contributions and fees in relation to obtaining a planning permission.	Approximately £1,595,000 (£151psf)	£242,250 (Savills higher).
Acquisition / Disposal Fees	Stamp Duty = £0 Acquisition Legals = £0 Marketing/Agent's Fees = £38,188 Direct Sale Legals = £24,600. Total = £62,788.	Stamp Duty = £6,000 Acquisition Legals = £3,500 Direct Sale Agents = 1.25% (£30,500) Direct Sale Legals = £10,000. Total = £50,000	Minor difference.
Developer's Finance	£57,343.	Interest Rate = 6.50%. Total = £54,924	Minor difference.
Construction / Sales period	Not referred to.	Construction = 14 months Sales = 2 months post completion.	
Developer's profit return	2% gross profit based on purchase land price at £420,000.	20% on-costs = £406,673	The applicant's approach has been to demonstrate profit return against the purchase price.
Residual Land Value	Purchase Price = £420,000	Residual Land Value = £335,000.	£85,000. Savills opinion of the redevelopment land value falls below the purchase price.

5. CONCLUSION

The planning applicant's consultant's approach to their viability case has been to assess profit return against the purchase price, which they have stated as being a gross profit of 2%, reducing to 0% when factoring in the Section 106 contributions sought by the Council.

Our approach has been slightly different, in that we have undertaken our own independent illustrative land appraisal assuming that planning permission is in place for the proposed scheme. Our appraisal indicates a land value of £335,000.

We have given consideration to the current use value of the existing second-hand car garage/repair centre (with flat above) and the bungalow to the rear, which in our opinion is in the region of £550,000. By allowing an incentivised uplift percentage of 20%, our opinion of the Benchmark Value is £660,000.

In undertaking our independent assessment and review, our opinion of the redevelopment land value with the benefit of planning permission falls substantially below our opinion of the Benchmark Value and therefore the proposed scheme cannot viably support the inclusion of any Section 106 contributions.

On paper, one might question the reasoning for pursuing a planning application for redevelopment of a property, whereby the current use value exceeds the redevelopment land value. In this instance, we assume that the opportunity of redeveloping the property by the current owner(s), presents an opportunity of achieving a favourable profit return.

6. CONFIDENTIALITY AND RESPONSIBILITY

Finally, in accordance with the recommendations of the RICS, we would state that this report is provided solely for the purpose stated above. It is confidential to and for the use only of the party to whom it is addressed only, and no responsibility is accepted to any third party for the whole or any part of its contents. Any such parties rely upon this report at their own risk. Neither the whole nor any part of this report or any reference to it may be included now, or at any time in the future, in any published document, circular or statement, nor published, referred to or used in any way without our written approval of the form and context in which it may appear.

Yours faithfully,

For and on behalf of Savills

A handwritten signature in blue ink, appearing to read "SMA", is written over a horizontal line.

Sarah Mason MRICS
RICS Registered Valuer
Associate Director, Savills