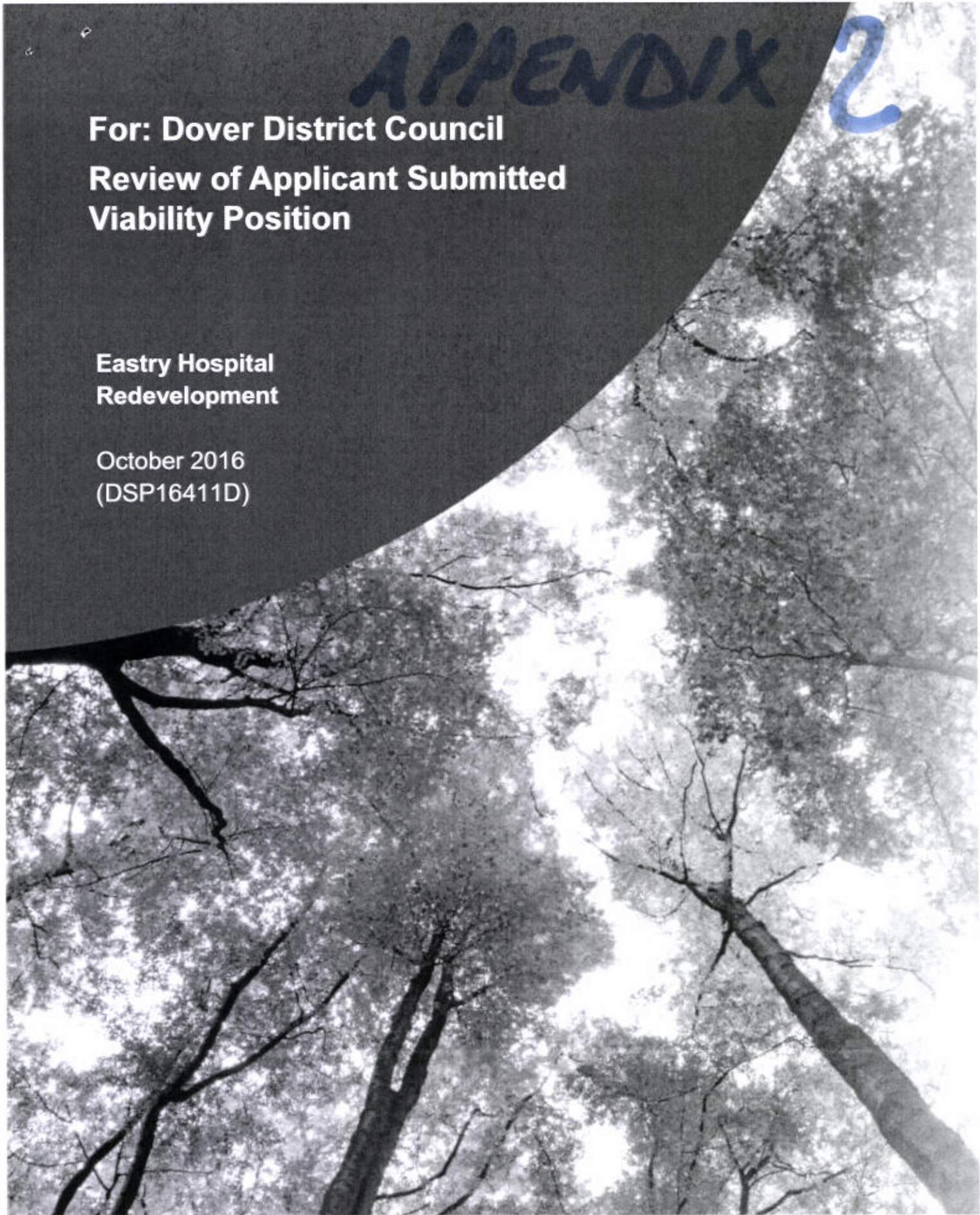


APPENDIX 2

For: Dover District Council Review of Applicant Submitted Viability Position

Eastry Hospital Redevelopment

October 2016
(DSP16411D)



S X10W349A

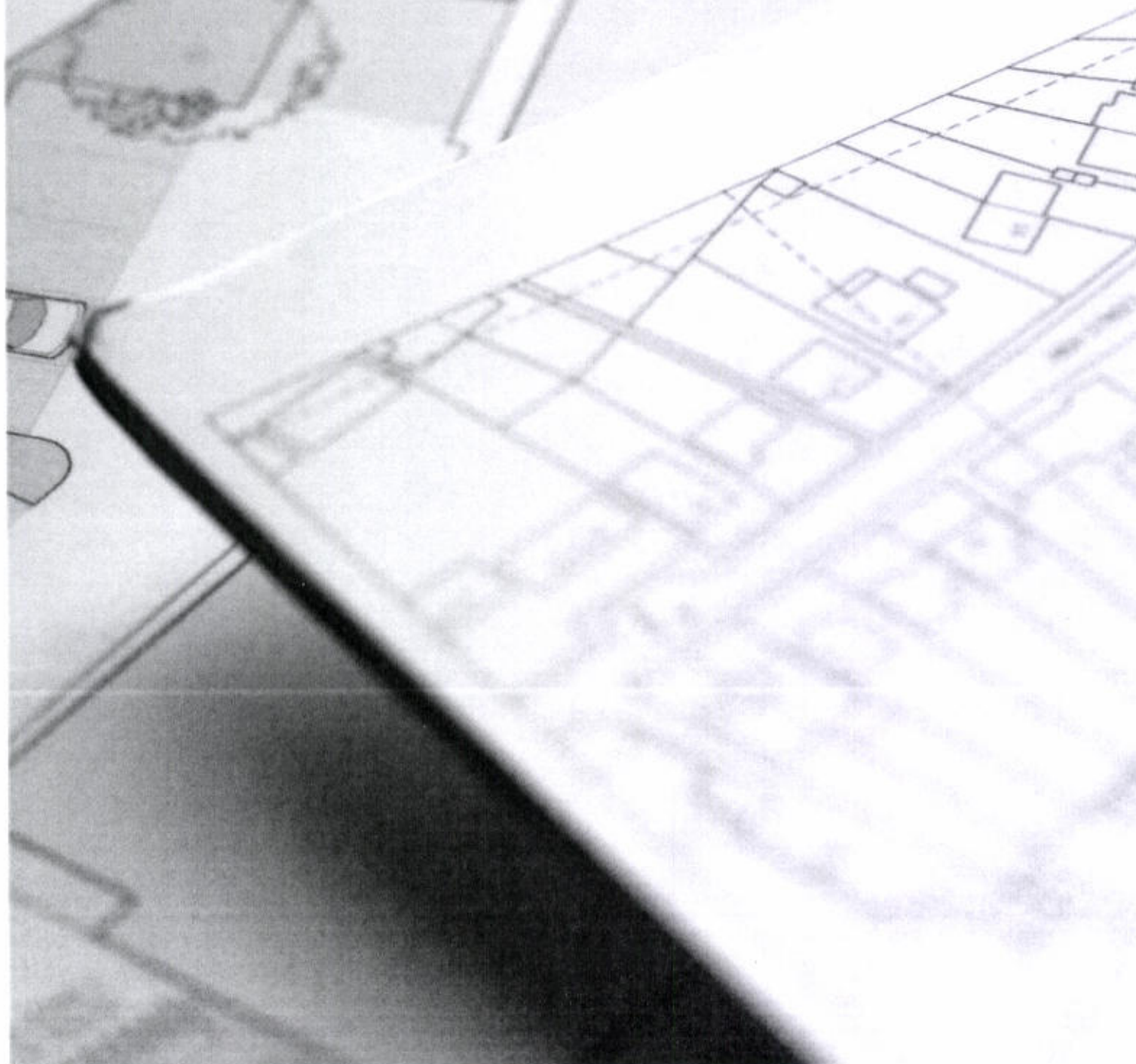
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1. Notes and Limitations

- 1.1.1 The following does not provide formal valuation advice. This review and its findings are intended purely for the purposes of providing Dover District Council (DDC) with an independent check of, and opinion on, the planning applicant's viability information and stated position in this case.
- 1.1.2 This document has been prepared for this specific reason and should not be used for any other purpose without the prior written authority of Dixon Searle Partnership (DSP); we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned. To the extent that the document is based on information supplied by others, Dixon Searle Partnership accepts no liability for any loss or damage suffered by the client.
- 1.1.3 We have undertaken this as a desk-top exercise as is appropriate for this stage and level of review. For general familiarisation we have considered the site context from the information supplied by the Council and using available web-based material. We have not visited the location; it was not considered necessary to enter the site for this current review purpose.
- 1.1.4 We have assumed that the information supplied to DSP to inform and support this review process has been supplied on a **COMMERCIALLY CONFIDENTIAL BASIS**; hence DSP's assumption is that the review detail, as contained within this report is to be treated in the same way.
- 1.1.5 It is requested that the viability information, this report and any further supporting information or similar reporting prepared by DSP will not be disclosed to any third parties under the Freedom of Information Act (Sections 41 and 43(2)) or under the Environmental Information Regulations.

2. Introduction & Background

- 2.1.1 Dixon Searle LLP (DSP) has been commissioned by Dover District Council (DDC) to carry out an independent review of the viability letter, appendices and appraisal supplied to the Council by the applicant's agent Montagu Evans on behalf of the applicant Runnymede Investments Limited. This is in respect of the proposed development comprising: two storey terrace, semi-detached and detached new build dwellings; Change of use and conversion of Tewkesbury House and the Chapel to provide 568 sq. m of community space (Use Class D1) and employment space (Use Class B1) two residential units; minor demolition, alteration and conversion of the 'Old Workhouse' to provide ten residential units; retention and reinstatement of the fire damaged Range building and erection of a two-storey terrace of ten residential units; car parking, landscaping, public open space and alteration to existing access. A total of 100 residential units are to be provided. The Council's planning reference is DOV/14/00240. The development is also subject to an application for listed building consent (DOV/14/00241).
- 2.1.2 In presenting their viability position the applicant's agent has supplied to the Council a viability letter dated 5th August 2015. In addition we were supplied with both a hard-copy and electronic versions of the applicant's appraisal (Appendix 7). This was supported by a copy of the architect's masterplan (Appendix 1); estimate of residential scheme revenue (Colebrook Sturrock (May 2015); explanatory note by Simon Greaves (July 2015) detailing rationale and comparable evidence (Appendix 3); marketing report for the hospital in its current state (Appendix 4); marketing details prepared by Caxton's in relation to the proposed refurbished office accommodation (Appendix 5) and; quotations and estimates relating to the cost of developing the scheme in the period 2011 – 2014 (Appendix 6). We have also had sight of the other documents contained on the electronic planning file.
- 2.1.3 The Council's adopted affordable housing policy (Policy DM5) of their Core Strategy requires the Council to *"seek applications for residential developments of 15 or more dwellings to provide 30% of the total homes proposed as affordable homes"* which in this case equates to 30 no. affordable units.
- 2.1.4 For general background, a viable development can be defined as *'the ability of a development project to meet its costs including the cost of planning obligations, while*

ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project...Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan... The residual land value (ignoring any planning obligations and assuming planning permission is in place) and current use value represent the parameters within which to assess the level of any planning obligations¹. Under normal circumstances, if the residual land value (RLV) created by a scheme proposal exceeds the current or alternative use value then we usually have a positive viability scenario – i.e. the scheme is much more likely to proceed.

- 2.1.5 As an alternative a development appraisal may be run as a profit residual where the land cost becomes a fixed cost to the development appraisal and the profit becomes the key output / variable. This is the case here whereby the applicant's agent has carried out the development appraisal exercise assuming a fixed level of land cost (£2.1m).

- 2.1.6 The submitted viability report presents and the scheme as appraised by the applicant, currently produces a profit of 12.46% on cost / 11.06% on revenue. The applicant's agent states that:

"Although the Scheme is forecast to make a profit, the level of profit is significantly less than would be commercially acceptable to a third party developer. We understand that, having regard to the costs that Runneymede have already incurred (both site purchase costs and holding costs), they are prepared to proceed with the development of the Scheme at this reduced level of profit.

However, based on our analysis of the Scheme and the development appraisal that we have undertaken, we are of the opinion that having regard to the sub-optimal profitability of the Scheme, it cannot afford to provide any affordable housing, nor can it afford to make a section 106 payment".

- 2.1.7 We assume (as appears to be the case in the statement above) that in putting this proposal forward as unviable, the applicant is prepared to accept an element of commercial risk as represented by the submitted position, and accept the resultant profit level in order to progress the scheme. This could therefore be regarded as the applicant's base position. We will consider this further as the review progresses.

¹ Financial Viability in planning – RICS Guidance note (August 2012)

- 2.1.8 This review does not seek to pre-determine any Council positions, but merely sets out our opinion on the submitted residential viability assumptions and outcomes in order to inform the Council's discussions with the applicant and its decision making; it deals only with viability matters, in accordance with our instructions.
- 2.1.9 We should point out at this stage that the submission of the viability letter is dated August 2015 and the associated supporting evidence dated across a range 2011 – 2014. All appear significantly out of date and we have not had an explanation as to why an updated viability letter / report and evidence has not been submitted. We therefore have concerns over the robustness of the viability assessment put forward in that so much could have changed in the intervening period in terms of both costs and values. The Council may need to bear this in mind when reviewing our report and in the decision taking process. At this stage we have reviewed the information as factually as possible (given the passing of time) based on the instructions provided to us by Dover District Council. We have, where possible, attempted to update the assumptions (at a high level) to test the impact of those changes to see the potential impact on the currently indicated outcomes.
- 2.1.10 We also note reference to a 2010 application approved by committee – a search of the Council's planning file indicates an application for 80 residential units and associated works but no outcome is available. For the purposes of this review we have assumed that no current, implementable consent exists.
- 2.1.11 Dover District Council requires our opinion as to whether the viability figures and position put forward by the applicant are reasonable. We have therefore considered the information submitted. Following our review of the key assumptions areas, this report provides our views.
- 2.1.12 We have based our review primarily on the submitted report and appraisal to see if the viability assumptions are valid in our opinion and whether the base position put forward by the applicant is reasonable. We then discuss any variation in terms of any surplus (or deficit) created from that base position by altering appraisal assumptions (where there is disagreement) utilising the applicant's appraisal as a base.
- 2.1.13 This assessment has been carried out by Rob Searle and Richard Dixon of DSP who have 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 assessing the scope for Local Authority planning obligation requirements. This expertise includes viability-related work carried out for many Local Authorities nationwide over the last 13 years or so.

2.1.14 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.

2.1.15 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 (in this case the RLV, equating to the estimated cross-subsidy level available).

3. Review of Submitted Viability Assumptions

- 3.1.1 The following commentary reviews the applicant's submitted viability appraisal assumptions as set out in the viability letter and associated development appraisals issued to DSP by the Council.
- 3.1.2 As noted above DSP was also supplied with working versions of the appraisal used by the applicant. The applicant's agent has used Argus Developer software, a suitable tool for use in testing the viability of specific sites in our opinion. In summary the appraisal works on a residual valuation basis, with a cashflow sitting behind it in order to take account of the timing of the various current stage estimations of the revenue (receipts) and development costs (expenses). In this case the development appraisal has been run on the basis of a residual profit calculation. This produces a residual profit after all development costs have been deducted from the anticipated level of sales revenue (from the open market housing, affordable homes and capitalised ground rents) finance costs on the basis of a fixed level of land cost.
- 3.1.3 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 (the appraisal assumptions) provided, as below. In the background to this we have used the working version appraisals to review the impact of trial changes to particular submitted assumptions.
- 3.1.4 This type of audit / check is carried out so that we can give the Council a feel for whether or not the indicated profit positions are approximately as expected – i.e. informed by a reasonable set of assumptions and appraisal approach.

Site value / Benchmark Land Value

- 3.1.5 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 abnormalities) 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.

3.1.6 The RICS Guidance 'Financial Viability in Planning'² states that:

'A viability appraisal is taken at a point in time, taking account of costs and values at that date. A site may be purchased some time before a viability assessment takes place and circumstances might change.'

This is part of the developer's risk. Land values can go up or down between the date of purchase and a viability assessment taking place; in a rising market developers benefit, in a falling market they may lose out.

A developer may make unreasonable/overoptimistic assumptions regarding the type and density of development or the extent of planning obligations, which means that it has overpaid for the site'.

'Site Value' is defined in the same Guidance as the following: 'Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan'. It goes on to say 'It is for the practitioner to consider the relevance or otherwise of the actual purchase price, and whether any weight should be attached to it, having regard to the date of assessment and the Site Value definition as set out in this guidance. Where historic costs (for example remediation works) are stated it is important that these are not reflected in the Site Value (i.e. double counted)'.

3.1.7 In this case, the site value (cost) is stated to be £2.1m. This in turn is explained in some depth within the Monatgu Evans letter. This is set out again here for ease of reference:

"The Site was acquired by Runnymede in November 2007 in consideration of the sum of £1,700,000. The Site was acquired in the open market, in competition, directly from the Department of Health ("the Department") and, as such, the price paid represented market value as at the date of acquisition.

² RICS Professional Guidance – Financial Viability in Planning (August 2012)

The Site was acquired subject to an overage agreement which required Runnymede to pay an additional sum calculated by reference to a fixed price per square foot multiplied by the number of square feet for which planning permission was obtained.

Following discussions with the Department of Health, in March 2014 Runnymede entered into a supplemental agreement with the Department and negotiated the release of the overage arrangement. In consideration of the release of the overage provisions, a further sum of £400,000 was paid to the Department, who have no further interest in the Site.

Against this background, the total price paid by Runnymede to acquire the Site from the Department of Health was £2,100,000. As noted, this sum and the overage provisions were representative of market value and terms as at the date of the original acquisition in 2007. The amount paid to the Department in consideration of the release of the overage obligations is the lowest sum that the Department was willing to accept.

This is an important point in that Runnymede does not seek to test the viability of the Scheme against anything other than the actual cost that it has incurred in acquiring the Site. The volatility in the UK and world economy that emerged in late 2007 and culminated in the Global Financial Crisis of September 2008, had a profound effect on the UK housing market in the period 2008 to date, and whilst the terms on which Runnymede agreed to acquire the Site may not be market terms now, they were at the time that they were agreed and they form the starting point for assessing the financial viability of any development that Runnymede may propose for the Site.

In the absence of Runnymede being able to progress a financially viable scheme, the Site will not come forward for development”.

- 3.1.8 RICS Guidance makes it clear, as discussed above, that the price paid for a site does not necessarily equate to the market value of the site. Equally, the value of the site should be the Market Value at the date of the assessment (in this case it is debateable whether that should be August 2015 or at this current review point). Theoretically therefore there should be an up to date valuation of the site taking into account the current constraints and opportunities including the requirement for affordable housing and any other planning obligations.

3.1.9 Without an up to date valuation it is difficult to comment as comparable evidence, given the type of site, is very difficult to source. DSP have been involved in a viability review of development of hospital land elsewhere in the South East where the land value was put forward by the applicant's agent in that case at £2.295m (£21,650/plot) in December 2014. This was for a scheme of 106 units in a locality with significantly higher sales values than those of the subject site (approximately 30% higher than those indicated within the subject site development appraisal). Taking the figures above and discounting to take account of the difference in average sales values would suggest a site cost equivalent per plot of approximately £16,250/plot and an overall site value in the region of £1.6m. This is not significantly different from the price paid for the site previously but of course does not take into account the overage release cost. At a very high level therefore it appears that the site value included here, regardless of the price paid, is possibly too high when including the £400,000 overage release costs. The Council may therefore wish to see up to date evidence in this regard.

Gross Development Value – Private Residential & Affordable Housing

3.1.10 The viability submission indicates sales values based on advice provided by Colebrook Sturrock (May 2015) with units priced on a unit by unit basis with comprehensive supporting information provided in a note to Mark Whitfield of Montagu Evans detailing evidence for the sales values assumed. The values range from £215/sq.ft. to approximately £300/sq.ft. (£2,315/m² - £3,229/m²). This provides capital values of £115,000 - £135,000 for the flats £190,000 to £228,000 for the terraced properties, £204,500 to £258,000 for the semi-detached properties and £375,000 to £392,000 for the detached properties. The gross development value of the residential element of the scheme is stated to be £21,441,521 with an overall average sales rate of approximately £228/sq.ft. (£2,459/m²). Please note that whilst the sales value information states £230/sq.ft average, the development appraisal indicates an average of £228/sq.ft. The overall gross development value is the same and we therefore assume that the difference is caused by rounding within the sales value schedule.

3.1.11 We have carried out our own desktop research of property values using property search engine RightMove and similar sources to review local market indications for comparable properties (both re-sale and new build) considering current / recent asking prices within a 1-mile radius of Eastry. This research indicates that overall the sales values assumed are possibly low in the current market but potentially approximately valid, as assumptions, at the point the viability submission was made (May 2015). Reviewing the comparable information and the UK House Price Index for Dover District as a whole we

would expect prices now to achieve in the region of 10% more than at the date the sales advice was provided. Of course, any sales price increase in the development appraisal would also need to be accompanied by updated build cost data – please see associated Development Costs section.

3.1.12 In addition to the sales values, it is normal to include revenue associated with the capitalised ground rental income for any apartments / flats within a development. In this case not such revenue appears to have been included. Typically, we would expect ground rents at an average of £250 - £350 per unit, capitalised assuming a yield of 5% - 6%. For the purposes of this review we have assumed ground rents at £250/unit and a yield of 5.5% (applied to 22 units) and added this to the applicant's version of the development appraisal.

3.1.13 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. Whilst the opposite could also occur (the sales values could fall relative to the assumptions made), that is the developer's risk and such factors need to be kept in mind in making an overall assessment of the applicant's position.

Affordable Housing

3.1.14 No affordable housing has been included within the scheme and as such we are unable to comment further in this regard. As a general point, it is always useful if a policy compliant development appraisal can be included in order that any identified differences of opinion within the review process can be sensitivity tested against the policy compliant appraisal.

Gross Development Value – Non-Residential

3.1.15 The scheme as submitted also includes an element of non-residential space. We understand that this forms part of the Chapel & Tewkesbury Houses as converted and refurbished community and / or employment space. For the purposes of the viability assessment it appears that this space is included as office accommodation.

3.1.16 3,800sq.ft. (353m²) of office accommodation has been included in the development appraisal at an average of £10/sq.ft. (£107.64/m²) indicating a net annual rent of £38,000. A yield of 8% has been assumed leading to a capitalised value of £415,147 once a 12-month void period has been included within the appraisal. The rental value is based on advice provided by Caxton's Chartered Surveyors that suggest an asking rent of

£10/sq.ft. this figure has been included within the development appraisal and in our opinion is not an unreasonable assumption based on our own research using Co-Star property research database. The same is true of the yield assumptions.

- 3.1.17 What is very clear is that the office / non-residential accommodation is having a negative impact on development viability in that the cost of development is, as set out in the development appraisal, significantly higher than the revenue received.

Development Costs, Contingencies & Fees

- 3.1.18 Build costs for the development have been based on cost advice and quotes obtained between 2011 and 2014. As noted previously in this review report, the data is now increasingly historic and it is difficult to know how much reliance to place on it at this stage. Ideally the build cost information would have been updated to the date of the viability assessment at the very least (notwithstanding our overall comments about the timing of the viability assessment).
- 3.1.19 Budgetary advice was provided in 2011 by Coombs, presumably the principal contractor for the applicant in this case and indicates build costs of £10,603,784. A separate single page quote from Jenner building contractors provides an estimate / indicative costs for the refurbishment and conversion of the existing listed buildings and Tewkesbury House of £1,837,500 (dated March 2014).
- 3.1.20 In setting out the costs within the development appraisal, Montagu Evans state:

'In terms of build cost, the conversion of the listed buildings has been looked at in detail more recently than the remainder of the Scheme, which was considered in detail in 2011 and 2012 in relation to the 2010 application approved by committee, but unimplemented due to Section 106 requirements. We are advised that a consensus as to build cost was reached with DVS at the time, and this has been updated by Runnymede's in house construction team to current, 2015 prices.

Over the period 2011 to 2015 construction costs have increased significantly, particularly in the South-East as the property market and economy has recovered. According to BCIS, the all in Tender Price Index increased by almost 18% over the period, albeit that the level of increase in the residential sector, particularly in the South-East, has been substantially higher at some 27.50% (median cost - housing, mixed developments).

Based on these calculations, we have adopted a total cost of developing the Scheme of just under £13,850,000, which is equivalent to £141 per sq. ft. overall. In terms of a breakdown this reflects the following;

- *Listed building and Tewkesbury House - £1,930,000 (Jenner estimate plus 5% inflation derived from BCIS TPI) which is equivalent to £168.66 per sq. ft. overall, including non-recoverable VAT; and*
- *New build costs based on an average cost of £137.28 per sq. ft. totaling just over £11.90m.*

It should be noted that these costs include all estate roads and site services infrastructure'.

3.1.21 We have not been party to any discussions that the applicant may have had with the DVS during previous negotiations on the level of \$106 costs for a previous application. We note (and accept) the commentary on the build cost inflation over the period between 2011/12 and the date of the Montagu Evans (2015) letter as well as the assumed uplift in costs from the date of the Jenner indicative cost estimate. We note however that no evidence has been supplied to show the costs as updated by Runnymede's in house construction team in relation to the main new-build construction costs.

3.1.22 In order to provide a high level comparison, we have reviewed the RICS Building Cost Information Service (BCIS) database re-based for a Dover location factor and updated to current day rates. The data indicates that for housing, mixed developments median build costs are in the region of £1,236/m² (£115/sq.ft.). To allow comparison with the new build costs indicated above we would also need to make an allowance for external works (typically 10% - 20% of base build costs) and contingencies (typically 2-5% for new build; more for conversion / refurbishment). Allowing 15% for external works and 3% contingencies would lead to an overall build cost for comparison of approximately £1,464/m² (£136/sq.ft.). These are the costs as at the current time, not a comparison with May 2015. We are therefore of the opinion that along with updated sales values, the new build costs set out in the development appraisals would be broadly acceptable today.

3.1.23 For the refurbishment and conversion of the existing buildings, it is difficult to analyse the costs by unit type as the costs are not broken down in that way but at a high level,

the BCIS data indicates base build costs of £1,270/m²; £906/m² for offices. Even allowing for external works and contingencies these costs are obviously lower than those assumed within the development appraisals. However, given that they are based on a costs estimate (albeit indicative) we would need to accept those at this stage – as a current date allowance for build costs.

- 3.1.24 The viability submission and development appraisals also include an allowance of 10% for professional fees. This assumption appears within typical parameters in our experience.

Cost Assumptions – Section 106 Payments / Planning Obligations

- 3.1.25 The viability assessment allows for no affordable housing, CIL or other specifically requested s106 payments. The Council would need to be clear on the planning obligations requirements and whether those were required to mitigate the impact of the development and are compliant with CIL Regulation 122 being (a) necessary to make the development acceptable in planning terms; (b) directly related to the development; and (c) fairly and reasonably related in scale and kind to the development. We would assume, if any and regardless of the viability exercise, that without meeting those requirements the scheme would not be acceptable in planning terms? Equally, of course from the Council's perspective it must ensure that in requesting any contributions it does not fall foul of the pooling restrictions by entering into 5 or more s106 obligations for the same type of infrastructure (backdated to April 2010).

Cost Assumptions – Agent's, Marketing & Legal Fees

- 3.1.26 The viability assessment has assumed marketing costs of £44,000, agent's fees on sale of 1.5%, legal fees on sale of 0.75% and purchaser's costs on the non-residential units at 5.8%. Overall these cost additions are not untypical and we would not query those further.

Development Timings & Development Finance

- 3.1.27 Finance costs have been assumed based on debt finance rate 6.5% p.a. with no credit interest rate (assuming 100% debt funding over the whole development period). No allowance for other finance related fees has been made.
- 3.1.28 The interest rate is the cost of funds to the scheme developer; it is applied to the net cumulative negative cash balance each month on the scheme as a whole. According to the HCA in its notes to its Development Appraisal Tool (DAT) *'The rate applied will*

depend on the developer, the perceived scheme risk, and the state of the financial markets. There is also a credit interest rate, which is applied should the cumulative month end balance be positive. As a developer normally has other variable borrowings (such as an overdraft), or other investment opportunities, then the value of credit balances in reducing overall finance charges is generally the same as the debit interest charge. A zero rate of credit interest is not generally plausible, and will generate significantly erroneous results in a long term scheme'.

- 3.1.29 RICS also points out that it is often the case that schemes are modelled at current costs & values i.e. ignoring inflation (as is the case here). In this case RICS Financial Viability in planning paper states in appendix D 4.5 '*... current values and costs should be used together with a net of inflation finance rate. Such a net of inflation rate would be much lower than a bank rate (which naturally includes inflation expectations)*'.
- 3.1.30 As a package, the overall finance cost does not look unreasonable in our experience given that other finance costs are not included separately.
- 3.1.31 Development timings indicate an overall project timescale of 30 months to develop and sell the scheme with an 18-month construction and overlapping 18 month sales period.
- 3.1.32 The overall scheme period does not appear unreasonable in our opinion however we have noticed that the land payment is included at September 2007 (£1.7m) with the 'overage' release payment included at March 2014. This is effectively attributing a holding cost to the appraisal and would not normally be included (i.e. it increases the period over which interest is charged and as such leads to a worsening viability picture). RICS Guidance (Financial Viability in Planning) makes it clear that '*The site will be valued at the date of assessment. Holding costs attributable to the purchase of the site should, therefore, not normally be allowed, as the Site Value will be updated*'. It is therefore our opinion that whatever site values is attributed, this should be included at the date of the appraisal. In the case of the appraisal submitted that would be May 2015 with all other construction / sales dates following on from that including a reasonable allowance for pre-commencement planning. As we have updated both sales values and build costs to the current date in carrying out this review we have also adjusted the project timings to include bringing the land cost payment to the current date, allowing a 6-month lead-in period, 18-month construction and 18 month sales period. We note that in the submitted appraisal the sales appear to occur in one lump sum at the start of the sales period with construction continuing beyond the sales period. This does not appear

correct and again we have made alterations in our version of the applicant's development appraisal. Making the timing changes alone (before any adjustment to sales values / ground rents or land value assumption) leads to an improved output of 15.79% on cost and above the stated minimum benchmark profit level (see discussion below).

Developer's risk reward – profit

3.1.33 In this case the level of developer profit is indicated as an output of the appraisal process. The Montagu Evans letter states

'In the case of residential development schemes, the market generally considers that a "viable" scheme is one that generates a profit as a return on all cost of at least 15%. This minimum benchmark applies to what the market perceives as relatively straightforward developments, notably greenfield. In respect of more complicated development situations; for example, involving the refurbishment of listed buildings (where the costs of conversion are difficult to estimate); brownfield developments (where there may be additional costs associated with the previous use of the site); or in locations where the scheme is of a significant size in a limited market; the level of profit required would be in excess of the minimum level of 15% profit on cost.

Based on these industry "typical" benchmarks if a scheme is likely to generate a profit that is below a benchmark of 15% of overall development costs, then that scheme is considered by the market to be financially unviable on any basis and is unlikely to be brought forward. On the contrary, where the viability of a scheme is in excess of these benchmark levels the surplus "additional" profit is notionally available to fund Section 106 and affordable housing obligations up to a policy compliant level.

However, for a scheme such as the development of Eastry Hospital to be considered viable, I am of the opinion that the minimum profit that the market would require would be higher in order to reflect the various additional construction and market risks to which the project is subject (listed building, brownfield site and limited local market with an extended sales period). To reflect these risks I consider that the minimum level of profit that would be required to render the development of the site viable is of the order of 17.50% to 20.00% return on cost'.

3.1.34 The level of profit assumed viable is a matter of debate and there are no rules about what can be considered acceptable; case law as well as our own significant experience of recent site specific schemes suggests a significant range. We would however comment that the overall approach to the profit level does not appear unreasonable in our opinion in relation to this particular site and location. For the purposes of carrying out this review and associated sensitivity testing we have assumed a benchmark of 15% - 17.5% on cost.

4. Summary & Overview of Findings

- 4.1.1 Our review of the submitted information leads us to conclude that a number of the assumptions used in the submitted viability information and associated appraisals appear reasonable.
- 4.1.2 There are we think difficulties in being asked to review a viability submission that is historic both in terms of the date of the submission and even more so in terms of the evidence used to support the submission. We have however attempted to review as factually as possible and updated the submitted development appraisal both in terms of timings and assumptions where we feel those should be updated / altered.
- 4.1.3 In summary, the areas that have been updated include the overall development programme and in particular the timing of the land payment and subsequent overage release payment. In our opinion, the site value, where an input assumption (rather than a residual output) should equate to the site value at the date of the appraisal for reasons explained above. Equally we are of the opinion that the sales values and development costs should be updated to the current date and so have increased sales values by 10% in line with average house price inflation within Dover and suggested that the build costs utilised could, at this stage, be considered current for the purposes of this exercise. We have also included an allowance for ground rental income for the 22 flats included within the scheme.
- 4.1.4 The net result of those changes is to increase the profit on cost to 27.9% compared to a profit on cost of 12.82% as presented within the submitted viability assessment.
- 4.1.5 In order to test the impact of the additional profit we have run a further test appraisal that, through iteration, includes a sum representative of the affordable housing / S106 package that could potentially be secured whilst maintaining either 15% profit on cost or 17.5% profit on cost. The development appraisals (DSPv1 – base updated; DSPv2 15% profit on cost and DSPv3 17.5% profit on cost) are appended to the rear of this review report.
- 4.1.6 Assuming a 15% profit on cost, a surplus of approximately £1.85m is created. Assuming a 17.5% profit on cost benchmark, a surplus of approximately £1.485m is

created. This sum could theoretically be diverted into providing on-site affordable housing and / or other s106 requirements.

- 4.1.7 Of course, 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 moving forward – it is not an exact science by any means, and we find that opinions will usually vary.
- 4.1.8 We also need to be clear that the above is based on making adjustments to key assumptions, as described within this report and also subject to any views the applicant may have on this. Any agreed affordable housing either via a financial contribution or on-site will need to be agreed based on updated full appraisals.
- 4.1.9 DSP will be happy to advise further as required.

Review report ends

October 2016

Carried out by: Rob Searle BSc (Hons) MSc CIHM
Checked by: Richard Dixon BSc (Hons) MRICS CIHM

Appendix I

DSP Versions of Applicant Submitted Development Appraisal

Eastry Hospital - Revised June 2015
Runnymede Scheme (0% affordable)
Fixed Land Cost plus Overage @ £400k

Development Appraisal
Dixon Searle Partnership
October 16, 2016

APPRAISAL SUMMARY**DIXON SEARLE PARTNERSHIP**

Eastry Hospital - Revised June 2015
 Runnymede Scheme (0% affordable)
 Fixed Land Cost plus Overage @ £400k

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft ²	Rate ft ²	Unit Price	Gross Sales
Private Units	90	86,779	256.21	247,041	22,233,648
Listed Building	10	<u>7,065</u>	191.35	135,189	<u>1,351,889</u>
Totals	100	<u>93,844</u>			<u>23,585,535</u>

Rental Area Summary

	Units	ft ²	Rate ft ²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Commercial	1	3,800	10.00	38,000	38,000	38,000

Investment Valuation

Commercial						
Market Rent	38,000	YP @	8.0000%	12.5000		
		PV 9yrs @	8.0000%	0.5002	237,618	

GROSS DEVELOPMENT VALUE

23,823,154

Purchaser's Costs

(13,782)

(13,782)

NET DEVELOPMENT VALUE

23,809,372

Additional Revenue

Ground Rent Income

100,000

100,000

NET REALISATION

23,909,372

OUTLAY

This appraisal report does not constitute a formal valuation.

APPRAISAL SUMMARY**DIXON SEARLE PARTNERSHIP****Eassey Hospital - Revised June 2015****Runnymede Scheme (0% affordable)****Fixed Land Cost plus Overage @ £400k****ACQUISITION COSTS**

Fixed Price		1,700,000	
			1,700,000
Stamp Duty	4.00%	68,000	
Town Planning		25,000	
			93,000

Other Acquisition

Other Acquisition		400,000	
			400,000

CONSTRUCTION COSTS

	ft²	Rate ft²	Cost	
Construction				
Commercial	4,378 ft²	168.66 pP	738,393	
Private Units	66,779 ft²	137.28 pP	11,913,021	
Letted Building	7,065 ft²	168.66 pP	1,191,593	
Totals	98,222 ft²		13,842,998	13,842,998

PROFESSIONAL FEES

Architect	10.00%	1,384,300	
			1,384,300

MARKETING & LETTING

Marketing		44,000	
			44,000

DISPOSAL FEES

Sales Agent Fee	1.50%	333,298	
Sales Legal Fee	0.75%	166,649	
			499,947

FINANCE

Debt Rate 6.500%, Credit Rate 0.000% (Nominal)			
Land		345,480	
Construction		367,838	
Total Finance Cost			728,316

TOTAL COSTS			18,692,561
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This appraisal report does not constitute a formal valuation.

Project: 16411D - Eassey Hospital redevelopment\16411E -Eassey (No affordable units PROFIT) - OSP v1 wdx
 ARGUS Developer Version: 7.50.001

Date: 16-Oct-15

APPRAISAL SUMMARY**DIXON SEARLE PARTNERSHIP**

Eastry Hospital - Revised June 2015

Runnymede Scheme (0% affordable)

Fixed Land Cost plus Overage @ £400k

PROFIT

5,216,811

Performance Measures

Profit on Cost% 27.91%

Profit on GDV% 21.90%

IRR 38.43%

This appraisal report does not constitute a formal valuation.

SENSITIVITY ANALYSIS REPORT**DIXON SEARLE PARTNERSHIP**

Eastry Hospital - Revised June 2015
Runnymede Scheme (0% affordable)
Fixed Land Cost plus Overage @ £400k

Sensitivity Analysis results are not available.
Click the Analysis Results tab, then print the report.

This appraisal report does not constitute a formal valuation.

Project 16411E - Eastry (No affordable units PROFIT) - DSP v1.wcf
ARGUS Developer Version: 7 \$0.001

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Report Date: 16-Oct-15

Eastry Hospital - Revised June 2015
Runnymede Scheme (0% affordable)
Fixed Land Cost plus Overage @ £400k

Development Appraisal
Dixon Searle Partnership
October 16, 2016

APPRAISAL SUMMARY**DIXON SEARLE PARTNERSHIP**

Eassey Hospital - Revised June 2015
 Runnymede Scheme (0% affordable)
 Fixed Land Cost plus Coverage @ £400k

Summary Appraisal for Phase 1

Currency in £

REVENUE						
Sales Valuation	Units	ft²	Rate ft²	Unit Price	Gross Sales	
Private Units	90	86,779	296.21	247,041	22,233,548	
Listed Building	10	7,065	191.35	135,189	1,351,848	
Totals	100	93,844			23,585,396	
Rental Area Summary						
	Units	ft²	Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Commercial	1	3,800	10.00	38,000	38,000	38,000
Investment Valuation						
Commercial						
Market Rent	38,000	YP @	8.0000%	12.5000		
		PV 5yrs @	8.0000%	0.5002		237,618
GROSS DEVELOPMENT VALUE				23,823,154		
Purchaser's Costs			(13,782)	(13,782)		
NET DEVELOPMENT VALUE				23,809,372		
Additional Revenue						
Ground Rent Income			100,000	100,000		
NET REALISATION				23,909,372		
OUTLAY						

This appraisal report does not constitute a formal valuation.

Project: 16411D - Eassey Hospital redevelopment\16411E - Eassey (No affordable units PROFIT) - DSP v2 15% PoC.worx
 ARG\JS Developer Version: 7.50.001

Date: 16-Oct-16

APPRAISAL SUMMARY**DIXON SEARLE PARTNERSHIP**

Easry Hospital - Revised June 2015
Runnymede Scheme (0% affordable)
Fixed Land Cost plus Overage @ £400k

ACQUISITION COSTS

Fixed Price		1,700,000	
Stamp Duty	4.00%	68,000	1,700,000
Town Planning		25,000	
			93,000
Other Acquisition			
Other Acquisition		400,000	
			400,000

CONSTRUCTION COSTS

Construction	ft ²	Rate ft ²	Cost
Commercial	4,378 ft ²	168.66 p ²	738,393
Private Units	86,779 ft ²	137.28 p ²	11,913,021
Listed Building	7,065 ft ²	168.66 p ²	1,191,563
Totals	98,222 ft²		13,842,998

Statutory/LA		1,850,000	
			1,850,000

PROFESSIONAL FEES

Architect	10.00%	1,384,300	1,384,300
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MARKETING & LETTING

Marketing		44,000	
			44,000

DISPOSAL FEES

Sales Agent Fee	1.50%	333,298	
Sales Legal Fee	0.75%	166,649	
			499,947

FINANCE

Debt Rate 5.500%, Credit Rate 0.000% (Nominal)			
Land		367,105	
Construction		580,692	
Total Finance Cost			947,797

This appraisal report does not constitute a formal valuation.

APPRAISAL SUMMARY**DIXON SEARLE PARTNERSHIP**

Eastry Hospital - Revised June 2015
Runnymede Scheme (0% affordable)
Fixed Land Cost plus Overage @ £400k

TOTAL COSTS	20,762,031
PROFIT	3,147,341

Performance Measures	
Profit on Cost%	15.16%
Profit on GDV%	13.21%
IRR	22.85%

This appraisal report does not constitute a formal valuation.

Project: 16411D - Eastry Hospital redevelopment16411E -Eastry (No affordable units PROFIT) - DSP v2 15% PoC.wctx
ARGUS Developer Version: 7.50.001

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Date: 16-Oct-16

SENSITIVITY ANALYSIS REPORT

DIXON SEARLE PARTNERSHIP

Easry Hospital - Revised June 2015
Runnymede Scheme (0% affordable)
Fixed Land Cost plus Overage @ £400k

Sensitivity Analysis results are not available.
Click the Analysis Results tab, then print the report.

This appraisal report does not constitute a formal valuation.

Project: 16411E -Easry (No affordable units PROFIT) - DSP v2 15% PoC.wph
ARGUS Developer Version: 7.50 001

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Report Date: 16-Oct-16

Eastry Hospital - Revised June 2015
Runnymede Scheme (0% affordable)
Fixed Land Cost plus Overage @ £400k

Development Appraisal
Dixon Searle Partnership
October 16, 2016

APPRAISAL SUMMARY**DIXON SEARLE PARTNERSHIP**

Eastry Hospital - Revised June 2015
 Runnymede Scheme (0% affordable)
 Fixed Land Cost plus Overage @ £400k

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	R*	Rate ft*	Unit Price	Gross Sales
Private Units	90	80,779	256.21	247,041	22,233,646
Listed Building	10	7,065	194.35	135,189	1,351,898
Totals	100	87,844			23,585,539

Rental Area Summary

	Units	R*	Rate ft*	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Commercial	1	3,800	10.00	38,000	38,000	38,000

Investment Valuation

Commercial						
Market Rent	38,000	YP @	8.0000%	12.5000		
		PV 5yrs @	8.0000%	0.5002	237,616	

GROSS DEVELOPMENT VALUE

23,823,154

Purchaser's Costs

(13,782)

(13,782)

NET DEVELOPMENT VALUE

23,809,372

Additional Revenue

Ground Rent Income	100,000			100,000		
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NET REALISATION

23,909,372

OUTLAY

This appraisal report does not constitute a formal valuation.

Project: t64110 - Eastry Hospital redevelopment\164111E -Eastry (No affordable units PROFIT) - DSP v3 17.5% PoC.wdx
 ARGUS Developer Version: 7.50.001

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Date: 16-Oct-16

APPRAISAL SUMMARY**DIXON SEARLE PARTNERSHIP**

Eastry Hospital - Revised June 2015
Runnymede Scheme (0% affordable)
Fixed Land Cost plus Overage @ £400k

ACQUISITION COSTS

Fixed Price		1,700,000		1,700,000
Stamp Duty	4.00%	68,000		
Town Planning		25,000		93,000

Other Acquisition

Other Acquisition		400,000		400,000
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CONSTRUCTION COSTS

Construction	IP	Rate ft²	Cost	
Commercial	4,378 ft²	169.66 p²	738,393	
Private Units	86,779 ft²	137.28 p²	11,915,021	
Listed Building	7,065 ft²	169.66 p²	1,191,583	
Totals	98,222 ft²		13,842,996	13,842,996

Statutory/LA		1,480,000		1,480,000
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PROFESSIONAL FEES

Architect	10.00%	1,384,300		1,384,300
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MARKETING & LETTING

Marketing		44,000		44,000
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DISPOSAL FEES

Sales Agent Fee	1.50%	383,296		
Sales Legal Fee	0.75%	168,849		499,947

FINANCE

Debt Rate 6.500%, Credit Rate 0.000% (Nominal)				
Land		362,665		
Construction		639,783		
Total Finance Cost				902,448

This appraisal report does not constitute a formal valuation.

Project: 16411D - Eastry Hospital redevelopment\16411E -Eastry (No affordable units PROFIT) - DSP v3.17.5% PoC.wdx
 ARGUS Developer Version: 7.50.001

Date: 16-Oct-16

APPRAISAL SUMMARY**DIXON SEARLE PARTNERSHIP**

Easry Hospital - Revised June 2015
Runnymede Scheme (0% affordable)
Fixed Land Cost plus Overage @ £400k

TOTAL COSTS 20,348,693

PROFIT 3,582,873

Performance Measures

Profit on Cost% 17.51%
Profit on GDV% 14.95%

IRR 25.61%

This appraisal report does not constitute a formal valuation.

Project: 16411D - Easry Hospital redevelopment\16411E -Easry (No affordable units PROFIT) - DSP v3 17.5% PoC.worx
ARGUS Developer Version: 7.50.001

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Date: 16-Oct-16

SENSITIVITY ANALYSIS REPORT

DIXON SEARLE PARTNERSHIP

Eassey Hospital - Revised June 2015
Runnymede Scheme (0% affordable)
Fixed Land Cost plus Overage @ £400k

Sensitivity Analysis results are not available.
Click the Analysis Results tab, then print the report.

This appraisal report does not constitute a formal valuation.

Project: 16411E -Eassey (No affordable units PROFIT) - DSP v3 17.5% PoC.wpk
ARGUS Developer Version: 7.50.001

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Report Date: 16-Oct-16