

## VIABILITY ASSESSMENT REPORT

Anchor Works  
46 West Street  
Deal  
CT14 6AH

On Behalf of:

Dover District Council

Reference: [REDACTED]

Date: 6<sup>th</sup> September 2017

Version: 1.1

Prepared by:

[REDACTED]

Development Consultant &

RICS Registered Valuer

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## 1. Introduction & Background

- 1.1. DVS is instructed by Dover District Council to consider the applicant's Financial Viability Assessment (FVA), prepared by [REDACTED]
- 1.2. The instruction is to assess the submitted viability assessment and all of its inputs and advise on whether the applicant's proposed development scheme can support the LPA's Affordable Housing/Planning Obligations.
- 1.3. In accordance with the requirements of the RICS standards, DVS has checked that no conflict of interest arises before accepting this instruction.

## 2. Development Proposal

- 2.1. The proposal is to provide a new 3 storey apartment block, comprising 12 units including 6x1 bedroom apartments and 6x2 bedroom maisonettes.
- 2.2. In summary the development will provide the following accommodation.

	<b>Units</b>	<b>Total Net Internal Area M2</b>	<b>Total Net Internal Area ft2</b>	<b>Total GIA M2</b>	<b>Total GIA ft2</b>
1 bed apartment	6	294.5	3,167	334.4	3,599
2 bedroom maisonette	6	409	4,402	484.9	5,219
<b>Total</b>	<b>12</b>	<b>703.5</b>	<b>7,569</b>	<b>819.3</b>	<b>8,818</b>

## 3. Information Relied Upon

- 3.1. In preparing this report I have had regard to the following documents:

- Viability assessment report and appraisal completed by [REDACTED]

## 4. Residential Revenue

### Market Housing

- 4.1 The applicant has assessed a total residential revenue of £2,367,143, (private sales values and ground rents) and has been calculated as follows:

#### Private Sales Values

Type	Number	Total
1 bed apartments	6	£960,000
2 bed maisonette's	6	£1,350,000
<b>Total</b>	<b>12</b>	<b>£2,310,000</b>

- 4.2 The applicant has adopted a value of £160,000 for the one bed apartment and £225,000 for the 2 bed apartments. No allowance has been made for the different sizes or outlook that each property may benefit from. The one beds flats devalue to £303ft<sup>2</sup> whilst the 2 bed maisonettes devalue to £307ft<sup>2</sup>.
- 4.3 I have undertaken my own research and whilst the applicant has not made any differential in pricing for the different sizes of the proposed units I am in broad agreement with the overall Gross Development Value of £2,310,000 or £310ft<sup>2</sup>.

### Ground Rents

- 4.4 The applicant has included ground rents at £250 per unit per annum, and capitalised this at a gross yield of 5.25% equating to £57,143. I do not believe this to be unreasonable and have accepted this for the purpose of my assessment.

## 5 Construction Costs

### New Build Construction Costs

- 5.1 The applicant has adopted the £165 cost per sq ft calculated by [REDACTED] in relation to the previous scheme, which was refused at appeal. The applicant has assessed a total base build cost of £1,249,050 within their appraisal.

I would note that the applicant has incorrectly applied this cost per ft<sup>2</sup> to the Net Internal Area and not the Gross Internal Area. The rate adopted also includes an allowance for demolition, which the applicant has included as a separate entry within the appraisal.

If I were to deduct the demolition cost of £60,000, this would equate to a base build cost rate of £159 per sq ft, applying this to the GIA of 8,818 sq ft, equates to a potential base build cost of £1,402,062.

I have consulted The Building Cost Information Service (BCIS) which states that flats of 3-5 storeys has a median build cost of £1,469m<sup>2</sup> (£136 per sq ft). I have then added 5% allowance to reflect external works equating to a total build cost of £142.80 per sq ft. Applying this to the Gross Internal Area of 8,818 sq ft, equates to a base build cost of £1,259,210. I have adopted this figure for the purposes of my assessment.

### Contingency

- 5.2 The applicant has adopted a 5% contingency. I find a figure of 5% on the base build to be reasonable and have adopted this figure for the purposes of my assessment.

### 5.3 Demolition

The applicant has adopted a demolition cost of £60,000. I believe this to be acceptable and have accepted this for the purposes of this assessment.

5.4 Site preparation

The applicant has adopted a figure of £36,000 but has not provided any reasoning or supporting evidence to substantiate this cost. I would note that BCIS costs already include an allowance for preliminaries, I have therefore not included this allowance within my assessment.

S106

5.5 The applicant has not included an allowance for s106 costs. I understand from the LPA that the applicant has agreed to pay a library contribution of £562 which I have included within my appraisal.

**6 Additional Cost Headings**

Professional Fees

6.1 The applicant has adopted professional fees of 8.5% of costs. I believe this is reasonable and have accepted this for the purposes of our assessment.

Sales & Marketing Fees

6.2 The applicant has adopted a sales agent fee of 1.75% equating to £40,425, on the basis that this includes marketing costs I find this to be reasonable and have accepted this for the purposes of my assessment.

6.3 Legal Fees

The applicant has adopted a sales legal fee of £14,000 equating to £1,166 per property. I find this to be high and have adopted £1,000 per unit equating to a total cost of £12,000.

6.4 Finance

The applicant has adopted a finance rate of 7% I find this to be high and have therefore adopted a rate of 6.5% debit rate and 1% credit rate.

6.5 Project Programme

The applicant has assumed a 1 month acquisition and demolition period, 3 month site preparation period, 12 month construction period and 6 months sales period.

I do not find this unreasonable and have accepted this for the purposes of my assessment.

## 7 Developer Return

7.1 The applicant has adopted a profit of [REDACTED], I believe this to be reasonable and have accepted this for the purposes of my assessment.

## 8 Residual Land Value

I have estimated the residual land value of the proposed scheme reflecting a policy compliant Affordable Housing contribution of £115,500 to be £187,884, this is slightly lower than the applicants residual land value of £192,000. If no Affordable Housing contribution was provided the residual land value would increase to £295,778.

## 9 Benchmark Land Value

9.1 There are a number of sources of guidance currently explaining how the assessment of the BLV should be determined. The GLA Three Dragons Toolkit Guidance Note advocates the use of Existing Use Value (EUV) or an Alternative Use Value (AUV), but recognises that there are a number of alternative ways of assessing the BLV, and that these may also be suitable.

9.2 In many brownfield sites this approach may be appropriate but it does not result in a reasonable “competitive return” for the landowner in all cases. For example, some cleared brownfield sites would find an EUV/ AUV approach resulting in very low Benchmark Land Values, and therefore not providing a “competitive return”. Similarly, underutilised sites or sites with special uses, such as schools, hospital and MoD sites would potentially result in unrealistic BLVs.

9.3 A key factor in assessing viability is the assessment of the appropriate Site Value against which to compare Residual Land values. The RICS Guidance Note 'Financial Viability in Planning' provides a definition as follows:

*“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.”*

(Source RICS GN FVIP)

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- 9.4 The applicant has adopted a benchmark land value of £450,000 based on the purchase of the site according to [REDACTED]. I cannot rely solely on the purchase price without having regard to additional evidence in the vicinity. If a developer has over-paid for a site, this penalises the local authority as the provision of Affordable Housing is affected. Equally, if the developer under-paid, they would be penalised and may lead to an over-provision of planning contributions.
- 9.5 The applicant was requested to provide confirmation of how the £450,000 purchase price had been calculated and provide supporting evidence in the form a separate site valuation as per RICS guidance. Unfortunately, this has not been provided.
- 9.6 I am aware that the site previously housed a vehicle repair workshop/MOT centre. From the rating assessment the building had a total area of 543m<sup>2</sup> (5,845ft<sup>2</sup>). There is limited industrial transactional evidence within this vicinity, I would however expect given the sales of other industrial units within Kent, that the subject premises could have achieved a sale price in the region of £250,000 or £40 per ft<sup>2</sup>, in order to incentivise the seller I would have added a [REDACTED] premium/incentive to reach a value of £300,000 (EUV Plus)
- 9.7 It is however noted that the building has been demolished by the applicant and therefore currently represents industrial land. I have had regards to [REDACTED] [REDACTED] [REDACTED] which indicates industrial land values of £400,000 per acre for Ashtead and £700,000 per acre for Maidstone. Both of these areas are superior locations I have therefore taken a value of £400,000 per acre (£988,420 per Hectare) which would suggest a land value of the subject site of £60,000 (i.e. £400,000 x 0.15 acres).
- 9.8 The planning authority have indicated that a residential development would be permitted on site, I have therefore considered the site value in accordance with RICS guidance. As detailed above a development of 12 residential units along with a policy compliant affordable housing contribution of £115,500, details a residual land value of £187,884. To reflect the lack of planning permission I have deducted 20% to reach a Land Value of £150,307 or £2,505,117 per Hectare.



I have also looked at land value evidence within Deal as follows:

- 1) [REDACTED] – a 0.19 hectare site currently used as a waste transfer station, planning permission was granted in 2012 for an erection of a light industrial unit of 295 sq m (now expired). The property sold at auction for £180,000 on 20<sup>th</sup> March 2017 equating to £947,386 per hectare.
- 2) [REDACTED] – a 0.121 hectare site in this low density rural setting has been earmarked for residential development and sold for £155,000 on 12<sup>th</sup> December 2016 equating to £1,280,991 per hectare.
- 3) [REDACTED] – This 0.13 residential hectare site sold for £249,950 on 8<sup>th</sup> June 2017 equating to £1,922,692 per hectare.

9.9 The evidence detailed above suggests that the purchase price of £450,000 represents an overpayment for the site. If the applicant had not demolished the existing building I believe the Benchmark Land Value would be fairly represented at £300,000 on an EUV plus basis, however, given the building has been demolished the current value would be in the region of £150,000 on a residential site value basis.

## 10 Viability

10.1 The applicant asserts that the Benchmark Land Value is fairly reflected at £450,000 and that the proposed scheme (assuming a policy compliant affordable housing contribution) produces a Residual Land Value of £192,000 and is therefore unable to provide the 5% offsite affordable housing contribution. The applicant also asserts that even with a 100% private scheme and a £450,000 land value, the developers would only achieve a 9.51% developer return on cost, which is below the expected 20% return required.

10.2 If it was deemed appropriate by the Local Planning Authority to reflect the former MOT/vehicle repair workshop on site, I am of the opinion that a Benchmark Land Value of £300,000 would be appropriate, comparing this to the my assessment of the

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residual land value of the proposed scheme of £188,894 (Policy Compliant – 5% offsite payment) and residual land value of £296,300 (proposed scheme assuming no affordable housing contribution), I would be of the opinion that the proposed scheme is unable to provide the required Affordable Housing contribution.

- 10.3 However, based on my assessment of the current value of the site at £150,000, the proposed scheme could viable provide the 5% offsite Affordable Housing contribution of £115,500.

## 11 Conclusion

- 11.1 The applicant in my view has devalued the Existing Use Value of the site by demolishing the vehicle repair workshop. If the building had been retained I do not believe that the proposed development could provide any Affordable Housing contributions. Whilst, I have commented that the current value of the site could support the required Affordable Housing contributions, the implementation of such a requirement would mean the site would not be brought forward for development. The Local Planning Authority should therefore consider the approach in order to allow the deliverability of a residential development on this site

Reviewed by

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