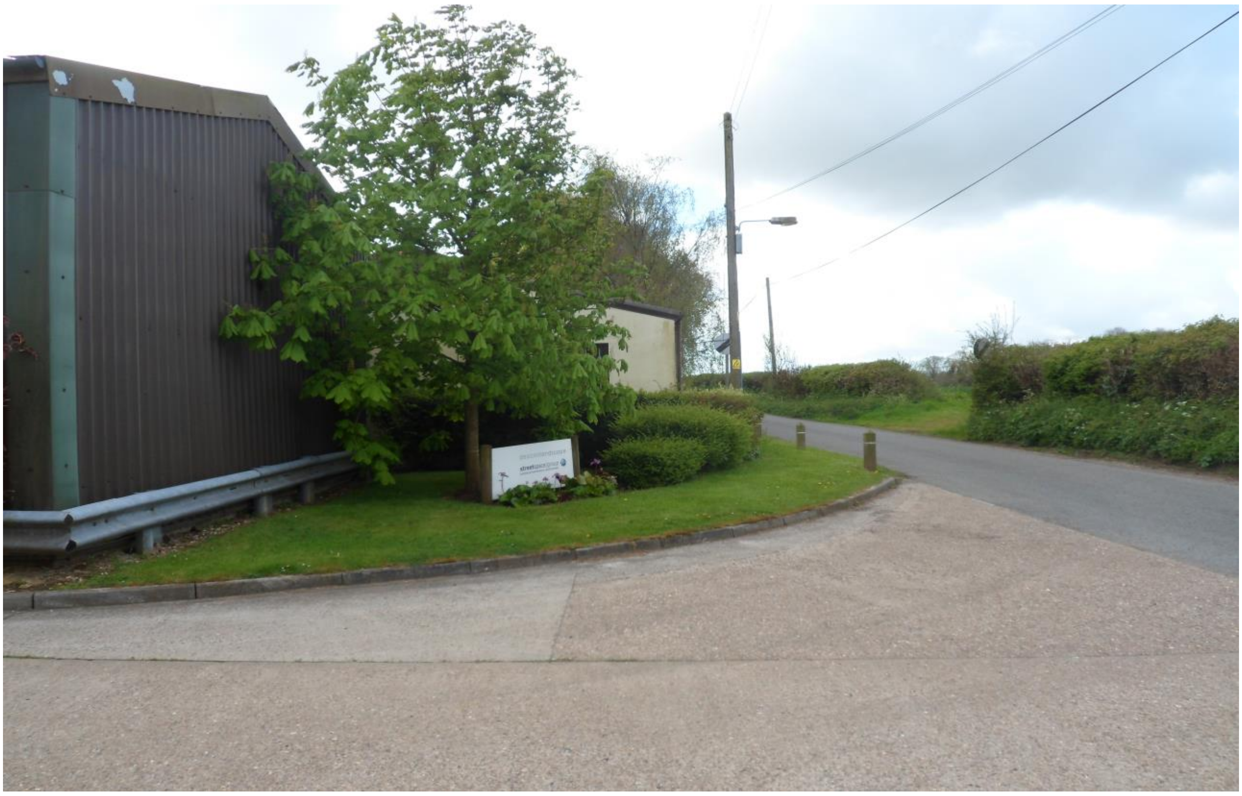

Deacon Landscape Management, Wootton, Kent – Viability and Enabling Report

Prepared for Deacon Landscape Management
28th April 2016
Ian Friend MRICS

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Report

Appendices

1. Executive Summary

1.1 I have been instructed by Deacon Landscape Management to carry out an independent financial appraisal of the proposed development scheme currently being considered for Street Farm, Wootton Lane, Kent ("the Property") in order to assess the enabling potential of the land to relocate the Deacon Landscape Management and the viability implications of proposed planning obligations in respect of possible affordable housing contribution. Further details relating to the Property can be found in the Design and Access Statement prepared by Clague LLP attached at **Appendix A**.

1.2 This Viability Report accompanies and supports an application for a residential development on the existing Deacon Landscape Management site on Wootton Lane for eight detached residential dwellings along with Section 106 contributions and an offer of community gain.

1.3 Deacon Landscape Management are proposing to relocate out of the village of Wootton to more suitable premises on an established industrial estate on the outskirts of Dover. As detailed in this report, there are substantial benefits to the community of Wootton, particularly in respect of significantly reduced traffic movements of HGV's and articulated lorries from the rural road infrastructure. In order to enable a relocation of Deacon Landscape Management, sufficient value would need to be extracted from the sale of the existing workshop and land on Wootton Lane as well as significant investment in the new premises near Dover funded directly by Deacon Landscape Management. This report seeks to establish what value can be extracted from the sale of the Property and whether or not there is sufficient value to provide an affordable housing contribution as well as other Section 106 contributions and a package of community gain.

1.4 I have given due regard to the National Planning Policy Framework ("NPPF"), The Royal Institution of Chartered Surveyors Guidance Note 1st Edition *Financial Viability in Planning* and the "Harman" report being *Viability Testing Local Plans* produced by the Local Government Association, The Home Builders Federation and the NHBC chaired by Sir. John Harman June 2012. The guidance contained in these documents has assisted in formulating the opinions set out in this report.

1.5 Having undertaken detailed analysis of the proposed development at the Property I have reached the conclusion that the total value which can be extracted from a sale of the Property following the grant of planning permission for 8 residential dwellings is £1,070,956. Should a policy compliant scheme be brought forward with an affordable housing contribution of 5% of Gross Development Value (GDV) then this would significantly reduce the value of the Property to £828,478. The total cost of relocating Deacon Landscape Management as well as the significant benefits to the community of Wootton is

£1,388,550. This clearly demonstrates that Deacon Landscape Management are able to fund a relocation by disposal of the Property to a developer, but will need to supplement costs out of their own resources, namely debt funding. The imposition of any affordable housing contribution, however, would result in the relocation being unviable, as the business has had to invest heavily in product development and marketing during the recession and since, in order to safeguard jobs.

1.6 Deacon Landscape Management are committing to providing an onsite community car park for the nearby Village Hall and Section 106 obligations in line with KCC contributions for Primary Education, Library Bookstock, Parks & Open Space and NHS Facilities to the tune of £65,000, as well as providing significant associated benefits to the community of Wootton by virtue of the relocation. Unfortunately, a policy compliant affordable housing contribution cannot be provided on grounds of viability.

2. Background

2.1 An opportunity has arisen for Deacon Landscape Management to relocate to a more suitable site at White Cliffs Business Park on the outskirts of Dover. This is a bare, undeveloped, light industrial site of 1 acre, which Deacon Landscape Management are looking to acquire for a price of £380,000. The site was identified after extensive efforts to secure more suitable premises for Deacon Landscape Management to ease the traffic pressures on the village of Wootton. Values for alternative premises across East Kent range from £300,000 per acre to £400,000 per acre for comparable serviced light industrial sites within well-established business parks.

2.2 It should be noted that there are significant benefits to the community of Wootton which cannot be understated. From a community perspective, one of the most welcome benefits is the removal of significant HGV movements on the rural road infrastructure which are an ugly intrusion on the village and cause noise, fumes and vibration as well as congestion at peak times. The longstanding problem of vehicle movements to and from the Deacon Landscape Management site has had a negative impact on the perception of the village. The proposed redevelopment of the Property to provide 8 residential homes is sympathetic to the surrounding dwellings within the village. Furthermore, a community gain is to be offered as part of the planning obligations in the form of a car park for use by the existing village hall, which represents both a land gift and building cost by Deacon Landscape Management. The proposals will therefore result in a significant improvement to the appearance and character of the village by removing an extensive commercial enterprise, albeit that the relocation will still ensure that there is a significant retention of employment. The proposed development will also ensure that there is a safer road network for the residents of Wootton.

2.3 The benefits to the community can only be delivered once Deacon Landscape Management have successfully relocated to White Cliffs Business Park and sufficient value extracted from the existing property. Due regard has been given to whether or not the scheme can also support rural affordable housing. However, it is with regret that other than the community gain offer and Section 106 costs there is insufficient value left in the Property to provide any further benefits such as an affordable housing contribution.

2.4 The National Planning Policy Framework refers to ensuring viability and delivery of development at Sec. 173-177 and states “to ensure viability, the costs of any requirement likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should when taking account of the normal cost of development and mitigation provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable”.

3. Basis of Appraisals

3.1 The appraisals and figures provided herein do not strictly speaking fall within the scope of the RICS (Royal Institution of Chartered Surveyors) "Red Book" and is not a formal valuation in that context. However, the principles of good practice have been followed and detailed justification for the indicative values and/or component valuation appraisals are provided. More to the point, the appraisal is in direct line with the RICS Guidance on Financial Viability in Planning.

3.2 The report is provided purely to assist planning discussions with Dover District Council.

3.3 The viability report is provided on a confidential basis and we therefore request that the report should not be disclosed to any third parties (other than Dover District Council and their advisers), under the Freedom of Information Act 2000 (Section 41 and 43/2) or under the Environmental Information Regulation. The report is not to be placed in the public domain. In addition, we do not offer Dover District Council, their advisers and/or any third parties a professional duty of care.

3.4 In appraising the proposed development we have taken note of and utilised guidance on Council policy as set out in:

a) Dover District Council Local Plan 2002

b) Dover District Council Affordable Housing SPD 2007

c) Dover District Council Core Strategy 2010

d) Addendum to the Affordable Housing SPD 2011

e) KCC Guide to Development Contributions and the Provision of Community Infrastructure

f) The National Planning Policy Framework ("NPPF")

4. Viability and Planning

4.1 Scheme viability is normally assessed using residual valuation methodology.

4.2 A summary of the residual process is:

Built Value of proposed private residential and other uses

+

Built Value of affordable housing

-

Build Costs, finance costs, other section 106 costs, sales fees, developers' profit etc

=

Residual Land Value ("RLV")

RLV is then compared to a **Viability Benchmark Sum ("VBS")**. If RLV is lower and/or not sufficiently higher than the VBS – project is not technically viable.

4.3 If the RLV driven by a proposed scheme is reduced to significantly below an appropriate VBS, it follows that it is commercially unviable to pursue such a scheme, and the scheme is unlikely to proceed.

4.4 The RLV approach (as summarised above) can be inverted so that it becomes a 'residual profit appraisal' based upon the insertion of a specific land cost/value (equivalent to the VBS) at the top. By doing this, the focus is moved onto the level of profit driven by a scheme. This is a purely presentational alternative.

5. VBS (or Land Cost/Value Input, also referred to as Site Viability Benchmark Sum)

5.1 The Royal Institution of Chartered Surveyors (“RICS”) published their long awaited Guidance Note on this subject in 2012 (Financial Viability in Planning – RICS Guidance Note – GN 94/2012 August 2012).

5.2 The RICS have consulted more extensively than any other body on this subject to date and I believe that their latest guidance now represents the best possible consolidated guidance on this subject. However, due regard has also been given to the Harman guidance already referred to. The fundamental difference between the two is the approach to the VBS. Harman believes the dominant driver should be Existing Use Value (“EUV”) (whereupon I believe they mean Current Use Value, or “CUV” which, based upon RICS guidance, excludes all hope value for a higher value through alternative uses). On the other hand, RICS states that the dominant driver should be Market Value (assuming that any hope value accounted for has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan).

5.3 A few local authorities and their advisors are still trying to disregard premiums applicable to EUVs or CUVs (i.e. EUV/CUV only - which was the basis being incorrectly enforced for several years) but the reference to ‘competitive returns’ in the new National Planning Policy Framework and planning precedent has now extinguished this stance.

5.4 There has been concern about how one can identify and logically justify what premium should be added to an EUV or CUV and what exactly EUV means. It is not as straight-forward as one might initially think.

5.5 There has also been some concern about Market Value potentially being influenced by land transaction comparables and/or bids for land that are excessive (thus triggering an inappropriate benchmark). However, I believe that any implied suggestion that developers deliberately (or might deliberately) over-pay for land in order to avoid having to deliver S.106 affordable housing contributions is misguided. Land buyers and developers seek to secure land for as little money as possible. They do not seek to overpay and are aware of the associated planning and financial risks should they do so. My view is that, if professional valuers disregard inappropriate land transaction comparables (e.g. where over-payments appear to have occurred accidentally or for some other legitimate but odd reason) and other inappropriate influences in deriving Market Value, both of which they should, Market Value is on-balance the more justifiable, logical, reasonable and realistic approach – albeit not perfect.

5.6 I believe that the premium over EUV or CUV to identify an appropriate VBS is in fact the same as the percentage difference between EUV or CUV and Market Value. In other words, both approaches should lead to the same number. However, Market Value is the logical side to approach this conundrum from.

5.7 As such, I have followed the latest RICS Guidance herein as well as recent Planning Inspectorate decisions including that by Clive Hughes BA (Hons) MA DMS MRTPI in Land at The Manor, Shinfield, Reading under Reference APP/X0360/A/12/2179141.

5.8 Of particular note, the RICS guidance says:

a) Site Value either as an input into a scheme specific appraisal or as a benchmark is defined in the guidance note 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."

b) An accepted method of valuation of development sites and land is set out in RICS Valuation Information Paper (VIP) 12. This paper is shortly to be re-written as a Global Guidance Note.

c) Reviewing alternative uses is very much part of the process of assessing the Market Value of land and it is not unusual to consider a range of scenarios for certain properties. Where an alternative use can be readily identified as generating a higher value, the value for this alternative use would be the Market Value.

d) The nature of the applicant should normally be disregarded as should benefits or dis-benefits that are unique to the applicant.

e) The guidance provides this definition in the context of undertaking appraisals of financial viability for the purposes of town planning decisions: *An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project*.

f) With regard to indicative outline of what to include in a viability assessment it is up to the practitioner to submit what they believe is reasonable and appropriate in the particular circumstances and for the local authority or their advisors to agree whether this is sufficient for them to undertake an objective review.

g) For a development to be financially viable, any uplift from current use value to residual land value that arises when planning permission is granted must be able to meet the cost of planning obligations whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project (the National Planning Policy Framework refers to this as 'competitive returns' in paragraph 173 on page 41). The return to the landowner will be in the form of a land value in excess of current use value but it would be inappropriate to assume an uplift based upon set percentages, given the heterogeneity of individual development sites. The land value will be based upon market value which will be risk-adjusted, so it will normally be less than current market prices for development land for which planning permission has been secured and planning obligation requirements are known.

h) Sale prices of comparable development sites may provide an indication of the land value that a landowner might expect but it is important to note that, depending on the planning status of the land, the market price will include risk-adjusted expectations of the nature of the permission and associated planning obligations. If these market prices are used in the negotiations of planning obligations, then account should be taken of any expectation of planning obligations that is embedded in the market price (or valuation in the absence of a price). In many cases, relevant and up to date comparable evidence may not be available or the heterogeneity of development sites requires an approach not based on direct comparison. The importance, however, of comparable evidence cannot be over-emphasised, even if the supporting evidence is very limited, as evidenced in Court and Land Tribunal decisions.

i) The assessment of Market Value with assumptions is not straightforward but must, by definition, be at a level which makes a landowner willing to sell, as recognised by the NPPF. Appropriate comparable evidence, even where this is limited, is important in establishing Site Value for a scheme specific as well as area wide assessments.

j) Viability assessments will usually be dated when an application is submitted (or when a CIL charging schedule or Local Plan is published in draft). Exceptions to this may be pre-application submissions and appeals. Viability assessments may occasionally need to be updated due to market movements or if schemes are amended during the planning process.

k) Site purchase price may or may not be material in arriving at a Site Value for the assessment of financial viability. In some circumstances the use of actual purchase price should be treated as a special case.

l) 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 set out in the guidance.

m) Often in the case of development and site assembly, various interests need to be acquired or negotiated in order to be able to implement a project. These may include: buying in leases of existing occupiers or paying compensation; negotiating rights of light claims and payments; party wall agreements, over sailing rights, ransom strips/rights, agreeing arrangements with utility companies; temporary/facilitating works, etc. These are all relevant development costs that should be taken into account in viability assessments. For example, it is appropriate to include rights of light payments as it is a real cost to the developer in terms of compensation for loss of rights of light to neighbouring properties. This is often not reflected in Site Value given the different views on how a site can be developed.

n) It is important that viability assessments be supported by adequate comparable evidence. For this reason it is important that the appraisal is undertaken by a suitably qualified practitioner who has experience of the type, scale and complexity of the development being reviewed or in connection with appraisals supporting the formulation of core strategies in local development frameworks. This ensures that appropriate assumptions are adopted and judgement formulated in respect of inputs such as values, yields, rents, sales periods, costs, profit levels and finance rates to be assumed in the appraisal. This should be carried out by an independent practitioner and ideally a suitably qualified surveyor.

o) The RICS Valuation Standards 9th Edition ("Red Book") gives a definition of Market Value as follows:

- The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after properly marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

- The Red Book also deals with the situation where the price offered by prospective buyers generally in the market would reflect an expectation of a change in the circumstances of the property in the future. This element is often referred to as 'hope value' and should be reflected in Market Value. The Red Book provides two examples of where the hope of additional value being created or obtained in the future may impact on the Market Value:

  - the prospect of development where there is no current permission for that development; and

  - the prospect of synergistic value arising from merger with another property or interests within the same property at a future date.

- The guidance seeks to provide further clarification in respect of the first of these by stating 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 second bullet point above is particularly relevant where sites have been assembled for a particular development.
- It should be noted that hope value is not defined in either the Valuation Standards. That is because it is not a basis of value but more a convenient way of expressing the certainty of a valuation where value reflects development for which permission is not guaranteed to be given but if it was, it would produce a value above current use.

- To date, in the absence of any guidance, a variety of practices have evolved which benchmark land value. One of these, used by a limited number of practitioners, has been to adopt Current Use Value ("CUV") plus a margin or a variant of this (Existing Use Value ("EUV") plus a premium). The EUV / CUV basis is discussed below. The margin is an arbitrary figure often ranging from 10% to 40% above CUV but higher percentages have been used particularly in respect of green-field and rural land development.

- In formulating this guidance, well understood valuation definitions have been examined as contained within the Red Book. In arriving at the definition of Site Value (being Market Value with an assumption), the Working Party / Consultant Team of this guidance have had regard to other definitions such as EUV and Alternative Use Value ("AUV") in order to clarify the distinction necessary in a financial viability in a planning context. Existing Use Value is defined as follows:

- "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after properly marketing and where the parties had each acted knowledgeably, prudently and without compulsion assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause Market Value to differ from that needed to replace the remaining service potential at least cost."

- It is clear the above definition is inappropriate when considered in a financial viability in planning context. EUV is used only for inclusion in financial statements prepared in accordance with UK accounting standards and as such, hypothetical in a market context. Property does not transact on an EUV (or CUV) basis.

- It follows that most practitioners have recognised and agreed that CUV does not reflect the workings of the market as land does not sell for its CUV, but rather at a price reflecting its potential for development. Whilst the use of CUV plus a margin does in effect recognise hope value by applying a percentage increase over CUV it is a very unsatisfactory methodology when compared to the Market Value approach set out in the Guidance and above. This is because it assumes land would be released for a fixed percentage above CUV that is arbitrary inconsistently applied and above all does not reflect the market.

- Accordingly, the guidance adopts the well understood definition of Market Value as the appropriate basis to assess Site Value, subject to an assumption. This is consistent with the NPPF, which acknowledges that "willing sellers" of land should receive "competitive returns". Competitive returns can only be achieved in a market context (i.e. Market Value) not one which is hypothetically based with an arbitrary mark-up applied, as in the case of EUV (or CUV) plus.

- So far as alternative use value is concerned, the Valuation Standards state where it is clear that a purchaser in the market would acquire the property for an alternative use of the land because that alternative use can be readily identified as generating a higher value than the current use, and is both commercially and legally feasible, the value for this alternative use would be the Market Value and should be reported as such. In other words, hope value is also reflected and the answer is still Market Value.

6. The Site

6.1 Details relating to the Property can be found in the Design and Access Statement. Nevertheless, the existing commercial site extends to 2 ha (4.9 acres) with a total of approximately 420 sq.m (4,500 sq.ft) of buildings providing a mixture of workshop and office space together with an element of both internal and external storage and nursery land used in association with the existing business. The commercial site lies to the south of the village envelope in an otherwise entirely rural location directly off Wootton Lane; a typical country lane wholly unsuited to HGV and articulated lorry movements. Following demolition and remediation; the Property will be developed to provide eight residential detached dwellings throughout the site together with a community car park in connection with the nearby village hall.

6.2 As mentioned within the planning documents submitted the existing business is now no longer sustainable as a business proposition in its current location. The existing use of the Property is 'Sui Generis – Landscaping Business', whilst this may be changed to a B1 use (light industrial or office) we are of the opinion that there would be insufficient demand for the Property in its current condition and use/potential use.

6.3 The demand for industrial and office space in Kent is strengthening, however potential occupiers of commercial floor space are seeking very high quality, fully furnished and readily available units which can be occupied immediately, located close to motorways and major routes and with access to full services, including broadband and lorry parking. This is leading to an increase in speculative development. A developer will look for a well serviced site to develop close to good transport links. The Property is in a rural location with poor transport links and limited existing services.

6.4 In order to be wholly transparent we have looked at the Property based on two scenarios. Firstly in terms of its value to an incoming purchaser looking to utilise the Property as a going concern and secondly its value to a speculative purchaser who may look to upgrade and refurbish the existing buildings for re-letting.

6.5 In terms of value as a going concern, we have valued the existing office, warehouse/workshop and open storage space on a per sqft basis with an additional value of the remaining land valued on a £ per acre basis. We have then capitalised the rental income (£30,700 p.a) at an all risks yield of 10% to reflect the rural location and limited servicing together with allowing a void period of 12 months. This produces a figure of £280,000 to which we add the remaining land, £18,000, generating a total of £298,000.

6.6 On the assumption that a speculative purchaser would look to upgrade the existing buildings, storage and land to re-let the Property, this produces a negligible land value due to the high upgrade costs required versus the low market rental potential. We have adopted BCIS costings for renovation/upgrade of existing office and workshop/warehouse space together with allowing a sum for infrastructure upgrade to principally bring in 3 phase power, create car parking spaces and remediate the remaining land. Furthermore we have allowed a sum for the change of use to B1 or B8. This would have the effect of increasing the potential rent to £55,500 pa, which we have capitalised at an all risk yield of 9% to reflect the upgraded accommodation together with assuming a 12 month void/rent free period. We have adopted a margin on GDV of 17.5% to remain wholly transparent, which is the minimum a speculative purchaser would look to adopt. In conclusion, following letting, marketing and sale costs together with finance costs, the appraisal produces a land value of £65,000.

6.7 These two scenarios clearly demonstrate that the Property is not a viable or sustainable business proposition and furthermore the values reported create an unviable funding gap for the relocation of Deacon Landscape Management

6.8 Therefore a viable, residential led, planning permission is sought for this rural brownfield site coupled with the significant added benefits to the community in reducing the significant HGV movements and providing a car parking area for the village hall. Such redevelopment is required as the site is no longer suitable for a growing landscaping business or any other small/medium/large scale employment led uses given its rural location, poor commercial access and limited servicing.

7. Market Value of Existing Site (Viability Benchmark)

7.1 The viability benchmark sum in this respect is the cost at which Deacon Landscape Management can relocate to White Cliffs Business Park with the associated benefits for the community of Wootton. There are also benefits to Deacon Landscape Management in relocating to an established business park on a considerably more suitable site in respect of logistics and haulage. Cost analysis has been undertaken which demonstrates that the relocation will require Deacon Landscape Management to pay a sum of £1,388,550 broken down as follows:

- Land acquisition of £380,000.
- Stamp Duty Land Tax of £8,500.
- Legal costs and Land Registry fees of £2,850 at 0.75%.
- Valuation and survey of £5,000.
- Agent's costs of £5,700 at 1.5%.
- Planning fees and consultancy costs in respect of new and relocated building structures of £55,000.
- Construction of new access road £80,000.
- Ground works, drainage and utility infrastructure of £25,000.
- Construction of 10,000 sq ft of workshop, storage and office buildings together with laying down of 5,000 sqft of new concrete for open storage area at £727,000.
- Relocation costs for existing staff and materials equating to £25,000.
- Rent for a temporary premises during relocation / building phases of £60,000.
- Further Agent and Legal costs in connection with the above mentioned building and relocation equating to £14,500.

7.2 In order to fund the £1,388,550 re-location to White Cliffs Business Park, it will be necessary to dispose of the existing commercial site and raise as much funds as possible from the sale to a house builder or residential developer following the grant of planning permission. If the value of the land is close to or in excess of £1,388,550, then it would seem logical that an element of affordable housing can be provided from any surplus. In the event that the land is sold or has a market value at less than £1,388,550 then it would not be able to sustain any affordable housing. Notwithstanding this, any shortfall below £1,388,550 will need to be funded directly from Deacon Landscape Management's existing resources as a capital expense or by way of debt funding. Separate evidence has been submitted to demonstrate that such resources are extremely limited and debt funding would be the only recourse, due to the aforementioned substantial investment in product development and marketing in recent years that has been essential for safeguarding jobs through difficult trading conditions, and to provide for continued employment growth going forward.

7.3 As such, the adoptive VBS for assessing this viability is £1,388,550.

8. Alternative Use Value (AUV) (Development Scheme)

8.1 In looking at the market solution for the site it is not possible to carry out full appraisals of all potential development options. This report therefore examines the scheme as detailed in the Design and Access Statement to support the planning application.

9. Development Value Appraisal

9.1 In order to assess what value can be extracted from the Property to facilitate the relocation of Deacon Landscape Management it is necessary to run a development appraisal using the Argus Property Software Package, a widely used and recognised appraisal tool.

9.2 The appraisal summary for the proposed scheme is attached as **Appendix B**. A further appraisal is attached in **Appendix C** which is a policy compliant scheme with a full affordable housing contribution at 5% of GDV. These are summarised as follows:

A. **Revenue (Gross Development Value)** – detailed analysis has been undertaken in respect of the marketing and sale of comparable houses in this part of Kent. The tone of values for new build and second hand stock is typically in the range of £250 psf to £310 psf, albeit for house sizes which are typically in the bracket of 1,500 sq.ft to 2,500 sq.ft. Above this level, £ per sq.ft drops as there will always be a ceiling on capital values for houses in rural locations and I am of the view that these completed dwellings would not be able to tolerate prices in excess of £800,000 given the nature of the plot sizes and comparable houses with larger landholdings at a similar or higher value in the market. Based on comparable transactional evidence for residential dwellings in Wootton and the surrounding areas a rate of £254 psf to £290 psf (average of £278 psf) has been adopted.

   The affordable housing policy compliant scheme includes a contribution of 5% of GDV as required by Dover District Council's Addendum to the Affordable Housing Supplementary Planning Document July 2011.

B. **Construction Costs** – All construction costs are based on BCIS endorsed tender priced costings rebased for the South East and as at Quarter 4 2015. For detached estate housing the average is £108 psf and the median figure is £113 psf with detached "one off" (3 units of less) housing between £174 psf and £153 psf in the same respect. Due to the quality and quantum of the proposed scheme it is anticipated that prime build costs are likely to fall between the figures as mentioned. However, a lower rate figure of £120 psf is adopted in order to be wholly transparent from a viability perspective. Clearly, if a higher figure is used then this would have the net result of depressing the land value further, making the enabling opportunity even less likely.

C. **Other Construction Costs** – As with edge of settlement brownfield sites such as this, there will always be a considerable remediation and infrastructure upgrade cost. Not only is a contingency sum being allowed for at 5% but other construction costs are clearly outlined in the appraisal and have been separately cost estimated.

D. **Fees and Finance** – professional fees have been allowed for at 6% to take into account separate planning costs; along with marketing costs at less than 1% of GDV, agent's fees and legal costs. A finance rate of 7% has been adopted over a construction period of 15 months and a sales period of 12 months with cash activity over a 27 month period. Finance rate includes all bank charges and arrangement fees and is in line with the better rates for development finance in the marketplace to date.

9.3 In addition to the significant costs already outlined above, it is nevertheless the desire of Deacon Landscape Management to provide a Section 106 contribution and a separate community gain offer of a village hall car park in order to ensure that the community of Wootton gains sufficiently from the proposed development, notwithstanding the wider benefits already outlined in this report.

9.4 Finally, a profit margin of 17.5% of GDV has been allowed for which is what a house builder or developer would require as a profit margin for taking on the risks of such a development. Whilst we would typically maintain that the threshold ought to be a profit margin of 20% it is being argued by some that the market has improved over the last 18 months and the likes of the District Valuer Service are insisting that developers are able to acquire sites on a reduced profit margin of just 17.5%. We reserve our position on this point, but in order to be entirely transparent, we have adopted a threshold for the viability at 17.5% on a without prejudice basis. This is a sum of money that will accrue to the house builder for undertaking the scheme and is not a sum of money that is available to Deacon Landscape Management.

9.5 By way of a cross-check, as previously mentioned light industrial land of a similar rural nature trades at approximately £175,000 - £185,000 per acre, if we add a hope value factor of 20% to reflect the potential planning gain we reach a figure of £210,000 - £222,000 per acre. This compares in close relation with the residual land value put forward of £1,070,956, which itself breaks back to £218,562 per acre.

10. Affordable Housing Values, Analysis and Commentary

10.1 Having run a detailed analysis of the proposed scheme, this generates a land value of £1,070,956 which is below the cost of relocation at £1,388,550. This shortfall will need to be entirely funded by Deacon Landscape Management. More to the point, once an affordable housing contribution is added in line with current planning policy this reduces the land value even further to £828,478. While Deacon Landscape Management is able to absorb a certain amount of additional cost, they are unable to absorb the sort of cost that would enable any affordable housing to be included as a planning obligation. Nevertheless, they are committed to the Section 106 contribution and community gain offer as already outlined.

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28th April 2016