VIABILITY REPORT

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Shorncliffe Garrison, Cheriton, Folkestone

September 2014

Prepared for Taylor Wimpey
Commercially Confidential

CONTENTS

Appendices

26 September 2014

Taylor Wimpey South East
Weald Court
Hildenborough
Tunbridge
Kent
TN11 9HL

For the Attention of: Rod Martin

Dear Sirs

Shorncliffe Garrison, Cheriton, Folkestone

In accordance with your instructions we have inspected the above property in order to provide you with an overall viability assessment to demonstrate the amount of affordable housing and Section 106 works / payments the scheme is capable of delivering.

In undertaking this exercise, we have assessed a policy compliant provision of affordable housing as well as an alternative scheme; In undertaking this exercise we have considered the current market value of the property as being representative of the actual acquisition price paid to the Defence Infrastructure Organisation (DIO) for the site which is also in line with RICS Guidance.

Our formal viability advice is based upon the RICS Guidance Note "Financial Viability in Planning". We can confirm that we do not have any conflict of interest in relation to the provision of viability advice in respect of the property. We also recommend that this report is read in conjunction with the documents associated with the planning application.

Yours faithfully

LAKIS PAVLOU
BSc (Hons) MRICS
For and on behalf of GVA

1. Confidentiality

1.1 We are submitting this viability assessment as Commercial In Confidence falling within the provisions of the Freedom of Information Act ("The Act"), Section 41 and 43, under which information is exempt from release to any other person or persons to whom it is not addressed.

1.2 It is the applicants view that the Council and its agents are under a duty of confidentiality not to disclose the information to the public. In satisfaction of Section 41 of the Act, we state that:

i. The information is provided in confidence; and

ii. Disclosure would constitute an actionable breach of that confidence

1.3 The information is provided to the Council in support of the planning application as a necessary part of seeking planning permission. However, it is clear on consideration of the information that it differs from other supporting documentation in that it contains commercially sensitive material belonging to the applicant.

1.4 In order to support the planning application, it has been decided that a financial viability assessment would be informative. The applicant has provided information including financial information that if released would:

i. Weaken its position in a competitive development market by revealing potentially useful information to competitors and potential Joint Venture Partners;

ii. Set an unfair precedent in the minds of the public and the market and add to the purchase and development cost of land by the applicant;

iii. Breach the applicant's Confidentiality Agreement signed with the vendor, DIO.

1.5 It is the applicants view that information is exempt information under Section 43 of the Freedom of Information Act as it disclosure would be highly likely to prejudice the commercial interest of the applicant. The release of the information would have a detrimental affect on the applicant's presence and expectations in the market place.

2. Introduction

2.1 Shorncliffe Garrison has a history dating back to Napoleonic times and a strong association with the citizens of Folkestone and East Kent. As a core military site it has a long term future in particular as the regimental home of the Royal Gurkha Rifles and also as Britain's largest training base for preparing soldiers prior to operational deployments.

2.2 The Shorncliffe Rationalisation Project has been running since 2009 as the DIO has assessed how to make the Garrison more sustainable by reducing its footprint, cut running costs and provide improved living and working conditions for servicemen and civilians on a cost-neutral basis.

2.3 The site was sold by the Defence Infrastructure organisation (DIO) on an unconditional basis following an open market tender process as the DIO required funds to reconfigure Shorncliffe Garrison onto a smaller more secure site using the money raised to provide new modern defence facilities on the retained areas. Replacement facilities for the Army are being built as part of a rolling programme of improvements at Shorncliffe and the nearby Lydd camp. These include more than 100 en-suite rooms for single service people, modern office space for military and civilian staff plus storage and training accommodation. Therefore, in order for the DIO to dispose of this land they not only had to achieve a minimum land sell but also a sale on an unconditional basis.

2.4 This assessment seeks to demonstrate the maximum amount of affordable housing and Section 106 payments scheme can afford. We have therefore assessed whether the scheme could afford to provide a policy compliant 30% affordable housing, whilst achieving a reasonable level of developer's profit.

2.5 This report should be read in conjunction with the supporting statement from Barton Willmore.

2.6 The property was inspected on 14 March 2014 by Lakis Pavlou (Director) in our Mixed Use Development team in our London West End office.

3. Location

3.1 Shorncliffe Garrison is located to the West of Folkestone, directly north of Sandgate Esplanade, in a well-established residential area. Shorncliffe is well located for transport links with Junction 12 of the M20 motorway located a short distance to the north. The Channel Tunnel Folkestone drive-on terminal at Cheriton is also in close proximity to the site. Folkestone West railway station is circa 1 mile from the site with direct trains to London Kings Cross St Pancras. The site is bordered to the North and East by inter/post-war housing and a primary school. The West and South beyond St John Moore Barracks (which is being retained by the MOD) opens into countryside with the villages of Sandgate and Horn Street close by.

4. Description

4.1 The Shorncliffe Garrison site is split into two distinct areas. The main body of the site consists of the Stadium, Risborough Barracks, Le Quesne, The Northern Training Area, Napier Barracks, Somerset Barracks and Burgoyne Barracks.

4.2 Napier Barracks and Somerset Barracks are separated by land which lies within third party control and includes the listed church which was previously sold off by the DIO. The Barracks are however inter-connected by the highway network which runs through the site (North Road). The Western edge of the principle development area is defined by a large area of wooded open space known as Seabrook Valley and the Back Door Training Area. The development area is made up of areas of green space, some of which are leased to Shepway District Council for sporting use but particularly part of the stadium and Le Quesne. The Barrack areas comprise large areas of hard standing and a wide range of buildings.

4.3 The John Moore statue is sited within the Somerset Barracks area and that is a Grade II Listed structure. There are also 4 other buildings which have been Grade II Listed and these comprise "Risborough Gate" sited on the Risborough Barracks, "St John Moore Library" sited on the Somerset Barracks (next to the statue), "The concrete barrack block" sited on the Burgoyne Barracks and "The racquets court" sited on the Burgoyne Barracks.

4.4 The Water Tower on Burgoyne Barracks is to be retained due to its heritage value.

4.5 Set away from the main part of the Barracks site is St Martin's Plain which lies to the West of the principle development area.

4.6 The planning application does incorporate the option land which extends to 1.6 hectares (4 acres) which is situated in the west side of Pond Hill Road. This land has not been acquired by the applicant but they do have an option to acquire it and therefore forms part of this application.

5. Site Area

5.1 The subject site has an approximate site area of circa 76 hectares (188 acres). In terms of the net developable areas for the individual phases and plots, these are set out on the plan attached at Appendix 1 and are as follows:

Phase 1

St Martins Plain	-	2.87 hectares (7.1 acres)
The Stadium	-	8.2 hectares (20.3 acres)
Nursery	-	0.84 hectares (2 acres)
Cheriton Court	-	1.47 hectares (3.6 acres)

Phase 2

Somerset	-	3.2 hectares (8 acres)
Burgoyne	-	6.7 hectares (16.6 acres)
Officers Mess	-	1.8 hectares (4.5 acres)

Phase 3

Risborough	-	5.4 hectares (13.4 acres)

Phase 4

Napier	-	3.8 hectares (9.4 acres)

Option Land	-	1.6 hectares (4 acres)

6. Planning

6.1 In September 2013 Shepway District Council adopted its Core Strategy "Local Plan". The site is allocated in the adopted Shepway Core Strategy Local Plan 2013, for a residential led mixed use development under Policy SS7. The "Local Plan" does not contain development control policies and principally sets out the special strategy for growth in the District. Furthermore, it allocates this site for development and includes an illustrative masterplan. It is the Council's intention to develop and adopt a Development Control DPD however in the meantime a number of policies continue to be saved from the 2006 "Local Plan" Review.

6.2 Policy SS7 allocates the site for a major mixed use development for a predominately residential development of around 1,000 dwellings to 2026 and up to 1,200 dwellings by 2030 together with a hub for new community facilities, associated enhancements to sport and green infrastructure and on and off site infrastructure enhancements. The Policy further sets out that the proposals should include land for a primary school and health care facility.

6.3 Policy CSD1 advises that subject to viability, residential developments should include a range of tenures including 30% affordable housing on major sites, such as this, with around 40% of affordable housing to be of intermediate tenure and 60% to be of affordable rented tenure.

7. Residential Market

Key Trends

7.1 Sentiment in the housing market has continued to be positive, as it continues to gather momentum, on the back of an improved economic outlook, falling unemployment, record low mortgage rates and rising confidence.

7.2 Mortgage lending has been on the increase with levels of approval reaching their highest levels since late 2007, whilst the government's Help to Buy incentive programme has continued to stimulate demand.

7.3 Demand has remained strong and has been supported by record low interest rates, improved credit availability and the constraining in housing supply, which have led to higher numbers of sales in February across all UK regions.

7.4 Demand has also created momentum behind house price growth, with growth being experienced in the south east and especially in London.

7.5 House prices increased in February, rising by 0.6%, following a rise of 0.7% in January. Overall house prices were 9.4% higher than a year earlier in February 2013, with typical house prices standing at £177,846.*(Nationwide Index, February)*

7.6 Between July and October 2013 sales volumes averaged 72,507 per month, an increase from the 59,065 sales that were transacted over the same period the previous year. *(Land Registry Index, December 2013)*

7.7 House building starts in England totalled 122,590 in the 12 months to December 2013, a 23% increase on the previous twelve months. Completions decreased by 5% in the 12 months to December 2013, totalling 109,370. *(CLG)*

Key Forecasts for 2014:

7.8 Market conditions are likely to strengthen as improvements in the lending environment continue to take effect and early indications suggest a strong 2014 for the housing market.

7.9 Sales and prices are likely to remain in the positive and affordability pressures are expected to build further as market conditions stimulate more house price gains.

7.10 Demand for rental properties is likely to continue as household incomes remain squeezed and price rises limit credit availability for first time buyers (FTBs) unable to afford a deposit in areas where house prices are rising more quickly.

7.11 Gross mortgage lending may grow to more than £200 billion by 2015, for the first time since 2008, helped by a continuing recovery in re-mortgage activity and stronger housing market conditions.

The Mortgage Market

7.12 The government has extended its Help to Buy scheme by another four years until 2020. So far over 17,300 home purchases have been made with the assistance of the Help to Buy scheme, 88% of those who used the scheme were first time buyers and 77% of the purchases were made outside London and the South East. The scheme contributed to a fall in average first time deposits by 2% in January, from December 2013, according to CML figures. It is anticipated that the extension of the scheme will assist a further 120,000 households with property purchases and that the scheme may become more pivotal in the coming months in addressing housing supply constraints. Lower mortgage pricing was a key factor that underpinned borrower demand in 2013. With funding markets in a healthier state and improved strength in the housing market, the decision to remove the Funding for Lending scheme incentives for mortgage lending is not anticipated to have a significant impact on the market.

House Building

7.13 In the 12 months to December 2013, housing starts totaled 122,590, a 23% increase on the previous 12 months to December 2012. Annual completions over the same period are estimated at 109,370, down 5% compared with the previous 12 months. On a quarterly basis, housing starts totaled 32,320 as of Q4 2013, 8% higher than the previous quarter. Completions however were 1% on a quarterly basis in Q4, with completions totaling 28,510.

7.14 The government is attempting to address the low level of house building through schemes such as Get Britain Building and the Housing Guarantee scheme which are aimed at increasing lending and unlocking development. However, the effect of such initiatives is slower to take effect outside of London and the South East which have thus far seen the greatest concentration of development. The £3.5 billion package of equity loans and mortgage guarantees, through schemes such as Help to Buy, is already increasing demand and contributing to rising house prices. There are now signs that this is beginning to stimulate an increase in house building, helped by the extended Funding for Lending Scheme (FLS) which should facilitate more lending at cheaper rates to house builders. The Chancellor also announced plans for a Builders Finance Fund to assist with unlocking sites owned by small firms for building up to 250 homes and that the government will consult on a new "Right to Build" scheme.

8. Folkestone Residential Market

8.1 The site is situated in the western part of Folkestone and is the focal point of this area of the town. The table below is taken from Q1 2014 and indicates average house prices within CT20 are markedly similar to those of Eastern Kent but lower than national trends.

Table 1: Average Residential Prices (Source: Mouseprice)

Property Type	CT20	CT	National
1 Bed	£100,200	£109,800	£155,300
2 Bed	£156,200	£163,800	£172,000
3 Bed	£195,300	£201,100	£200,200
4 Bed	£307,500	£305,000	£359,100
5 Bed	£440,500	£375,900	£612,400

8.2 The table below shows the breakdown of housing stock within the local market compared to other national trends. The key fact is that the housing stock in CT20 is predominantly made up of flats. This is not in line with Eastern Kent nor is it in line with national trends.

Table 2: Housing Stock / Average Prices up to September 2013 (Source: Mouseprice)

Property Type	CT20	CT	National
Detached	9.87%	23.16%	23.10%
Semi-Detached	12.86%	28.43%	28.49%
Terrace	21.92%	30.60%	31.23%
Flat	55.35%	17.81%	17.19%

8.3 There are no comparable, new build housing-led residential developments being considered nor currently under construction in Folkestone. Taylor Wimpey purchased the site as they were keen to replicate the success of their large new build schemes in Ashford, which include Bridgefield and Repton Park. These schemes have resulted in uplifting residential values in the surrounding areas by raising the bar and providing substantial amenity and community benefits. Taylor Wimpey are confident of being able to do the same at Shorncliffe and have purchased the site on the basis that they will achieve residential resale values in excess of what is currently being achieved in the surrounding area through their "place making".

8.4 Consequently, we have examined the sales values of their Bridgefield and Repton Park schemes to understand what could be achieved here.

8.5 **Taylor Wimpey / Persimmon Homes - Bridgefield**

8.6 This scheme has outline planning permission for 780 new homes (also known as Park Farm South & East) and is situated off Finn Farm Road in South Ashford.

8.7 We set out below a list of sales that have occurred in this development since December 2010:

Table 3: List of Sales and Sale Prices at Bridgefield Since December 2010

Bedrooms	Date of completion	Sale Price Achieved	Net Sales Area (sq ft)	Sale price (sq ft)
4	April 2011	£195,000	1196	£163
4	May 2011	£258,000	1474	£175
4	June 2011	£279,500	1478	£189
4	June 2011	£259,550	1474	£176
3	June 2011	£185,995	894	£208
4	June 2011	£201,000	1196	£168
3	July 2011	£152,695	873	£175
3	Aug 2011	£150,100	822	£183
3	Aug 2011	£152,000	822	£185
4	Aug 2011	£264,000	1474	£179
2	Sep 2011	£122,500	738	£166
4	Sep 2011	£207,995	1195	£174
4	Oct 2011	£205,000	1198	£171

3	Nov 2011	£153,994	822	£187
4	Nov 2011	£190,000	1180	£161
3	Jan 2012	£171,000	1001	£171
3	Jan 2012	£174,500	1001	£174
3	Jan 2012	£171,500	1001	£171
3	Feb 2012	£167,040	873	£191
3	Feb 2012	£154,595	754	£205
3	Mar 2012	£165,775	873	£190
3	Mar 2012	£150,250	754	£199
3	Mar 2012	£157,350	754	£209
3	Mar 2012	£174,055	1001	£174

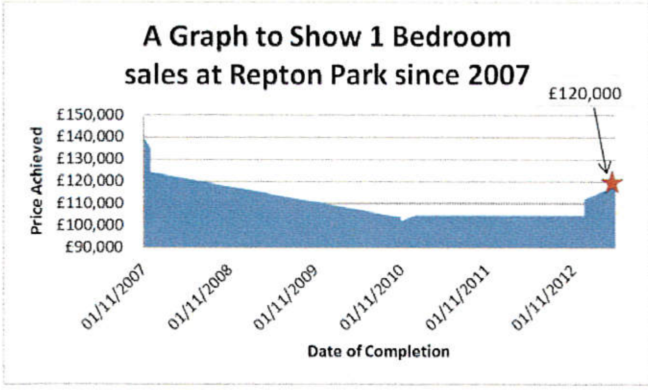
8.8 **Repton Park Residential Values**

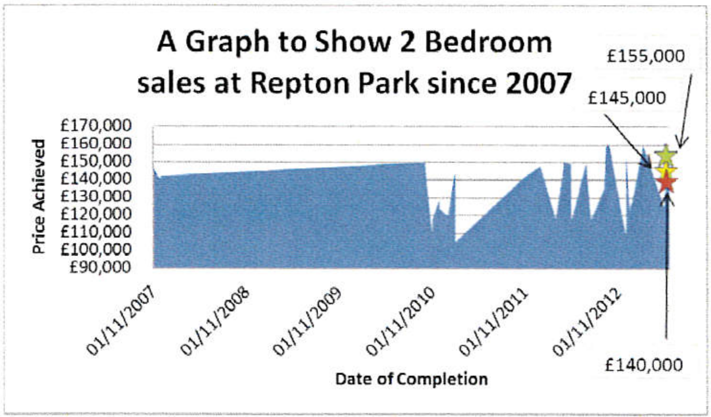
8.9 Attached in Appendix 2 is an excel depicting all residential values we have available for the site.

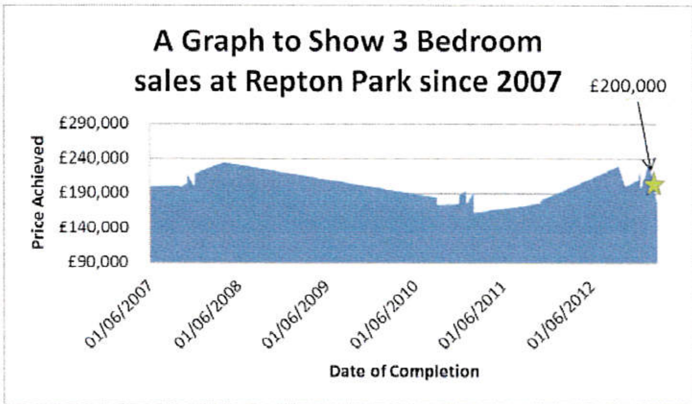
8.10 Below are the graphs which depict the value of the private residential units over the last 5 years. As you will see we assumed sales values which are above recent sales trends. Please note that each graph contains symbols indicating the value that we've inputted into our appraisals;

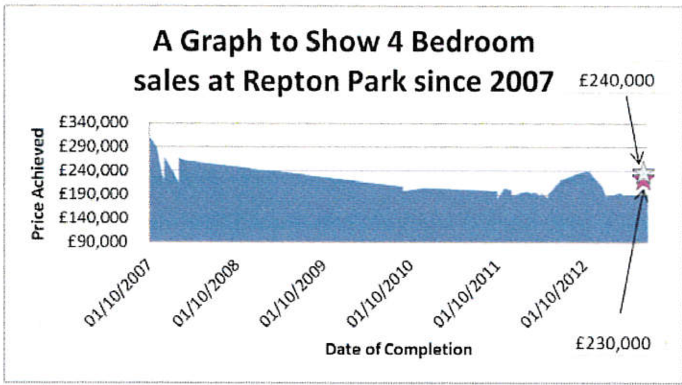
Key

★ Flat
★ FOG
★ House
★ Terrace
☆ Detached


A Graph to Show 1 Bedroom sales at Repton Park since 2007
£120,000
Price Achieved
£150,000
£140,000
£130,000
£120,000
£110,000
£100,000
£90,000
01/11/2007
01/11/2008
01/11/2009
01/11/2010
01/11/2011
01/11/2012
Date of Completion


A Graph to Show 2 Bedroom sales at Repton Park since 2007
£155,000
£145,000
Price Achieved
£170,000
£160,000
£150,000
£140,000
£130,000
£120,000
£110,000
£100,000
£90,000
01/11/2007
01/11/2008
01/11/2009
01/11/2010
01/11/2011
01/11/2012
£140,000
Date of Completion


A Graph to Show 3 Bedroom sales at Repton Park since 2007
£200,000
Price Achieved
£290,000
£240,000
£190,000
£140,000
£90,000
01/06/2007
01/06/2008
01/06/2009
01/06/2010
01/06/2011
01/06/2012
Date of Completion



8.11 The table below details our view of the current values at Repton Park for comparison purposes:

Table 4: Current residential sales values for Repton Park

Unit Type	Value
1 bed flat	£120,000
2 bed flat	£140,000
2 bed FOG	£145,000
2 bed house	£155,000
3 bed house	£200,000
4 bed T	£230,000
4 bed D	£240,000
5 bed T	£275,000
5 bed D	£285,000

8.12 As we can see from the graphs the values that we've inserted are based on current sales figures and in some cases we've inserted values which are higher than the current trends.

9. The Approach to Assessing Viability

9.1 Viability assessments are used for a number of purposes in the planning process but probably most commonly in relation to assessing the amount of affordable housing and Section 106 / CIL contributions a specific development can accommodate whilst still providing an appropriate return to the developer.

9.2 Our approach to assessing the viability of the proposed scheme is based on the RICS guidance on the subject "Financial Viability in Planning".

Viability for planning purposes is defined in this document as follows:

'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.'

9.3 This is consistent with the requirement of the National Planning Policy Framework's (NPPF) requirement for a competitive return to a willing land owner and willing developer to enable the development to be deliverable, which the guidance interprets as Market Value, as clearly if sites are not willingly delivered at competitive returns to the market, development will not take place. This viability assessment has also been prepared having had regard to the advice set out in the National Planning Practice Guidance, at paragraphs 0.21-0.24 of the Viability section of the guidance.

9.4 The principle of viability is well established in that a site will not be released for development if it is not possible to achieve an appropriate land value and adequate developer's profit. However, what constitutes an appropriate land value is the key issue the guidance seeks to address.

9.5 It is recognised that a site with development potential will not be released for development at current use value. However, it is also not appropriate to adopt a land value based on a purchase price where the purchaser may not have assumed the payment of full planning obligations. Therefore, the viability guidance recommends that the benchmark land value is based on the Market Value of the site. Where redevelopment of the site is viable, this should be reflected in the market value, however, the uplift relating to any proposed development potential must be on a policy compliant basis.

9.6 Therefore, the approach to assessing the benchmark land value is to consider the level at which the site would be released to the market. A viability assessment is a form of residual appraisal. An appraisal calculates the total revenue of the proposed scheme, including the sales values of the private residential units, and any additional income items from the commercial elements and ground rents. This provides the Gross Development Value (GDV) of the scheme. The total cost of the scheme, including build costs, infrastructure costs, professional fees, planning obligations, sales and letting fees and finance costs, are deducted from the GDV. If the land value is taken as the value at which the site would be released for development, the remainder is available for developer's profit.

9.7 The Developer requires a return for investing and bringing forward a scheme. The level of profit required varies from scheme to scheme and depending upon the stage of the economic cycle, and the risk inherent in a project. Therefore the level of developer's profit should take account of the risk in bringing forward the scheme as well as providing an appropriate return. A realistic profit margin is not only required to ensure the developer appropriate cover, but is now more than ever, a requirement of any bank looking to fund a scheme. It is our view that a developer's profit for this scheme should equate to circa 20% of the Gross Development Value for the private / commercial elements and 6% for the affordable element.

9.8 If the costs of development and land are deducted from the GDV and the amount remaining for developer's profit equates to a level that is reasonable for that particular scheme, then the scheme is viable. However, if this is not the case and a lower level of profit is generated, the scheme is not viable. In this situation, if there is a large planning obligation or high level of affordable housing included in the scheme, it may be necessary to negotiate to reduce this, in order to improve the viability of the scheme.

9.9 Residual appraisals are very sensitive to changes in inputs and therefore there must be sufficient tolerance to allow for market fluctuations. A small change in sales values or build