

# Land Adjoining 80 Tontine Street, Folkestone

## Viability Assessment Report

**STRICTLY PRIVATE & CONFIDENTIAL**

**FOI EXEMPTION SECTION 41&42(2): PRIVATE AND CONFIDENTIAL**

**EIR Exemption 12 (5) (e) – (f)**

**This Viability Assessment has been prepared on behalf of:**

HRS Construction Services Ltd.

18 April 2019

## **Instructions**

This Viability Assessment (VA) is submitted to Folkestone & Hythe District Council to accompany a detailed planning application for the provision of forty six apartments with associated parking and landscaping. The application is made on behalf of HRS Construction Services Ltd ('the Applicant').

This VA has been prepared in accordance with Shepway's Core Strategy (adopted September 2013).

## **Confidentiality**

We understand that the report will be submitted to Folkestone & Hythe as a supporting document to the planning application. The report must not be recited or referred to in any document (save the consultants instructed by the Council to review the report) without our express prior written consent. An executive summary can be prepared should publication of a document be necessary, with this report to remain confidential.

## **Report Limitations**

Although this report has been prepared in line with RICS valuation guidance, it is first and foremost a supporting document to the planning application in order to inform negotiations surrounding parking provisions. Therefore it should be noted that, as per Professional Standards 1 of the RICS Valuation – Global Standards 2017, advice given expressly in preparation for, or during the course of, negotiations or possible litigation does not form part of a formal "Red Book" valuation and should not be relied upon as such.

## **Date of Appraisal**

The Date of Appraisal is the date of this report.

### **For and on behalf of:**

Savills (UK) Limited  
74 High Street  
Sevenoaks  
Kent TN13 1JR

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## 1. Executive Summary

- 1.1 Site-specific financial viabilities are a material consideration in determining the level of various site specific requirements in residential and mixed-use developments.
- 1.2 As such, viability appraisals can and should be used to analyse and justify planning applications to ensure these requirements do not make a scheme unviable. If a scheme is being rendered unviable because of certain requirements, it may be appropriate to look at reducing the burden of those requirements in order to facilitate delivery.
- 1.3 We have assessed the development economics of the proposed scheme in order to identify the level of affordable housing that the scheme can sustain. We have appraised the scheme using Argus Developer and have based our appraisal upon the plans provided, and the schedule of accommodation shown in **Appendix 1**.
- 1.4 We have compared the resulting Residual Land Value to our Site Value Benchmark to ascertain whether there is a deficit or surplus against our Benchmark.
- 1.5 We have appraised the proposed scheme on the bases set out in the table below. Please see **Appendix 2** for the full appraisal.

**Table 1 – Viability Appraisal Results**

Scheme	Profit on GDV	Residual Land Value	Site Value Benchmark	Surplus/Deficit Against Benchmark
100% Private Housing (no affordable housing)	17.5%	£230,000	£240,000	-£10,000

- 1.6 The scheme would only be considered commercially viable in development viability terms, if the Residual Land Value was in excess of the viability benchmark.
- 1.7 In our view, the developer return required to secure development financing on schemes of this nature in the current market is a minimum of 20% profit on GDV. However we are instructed that in this matter, the Applicant is prepared to accept 17.5% profit on GDV, given their commitment to the site thus far.
- 1.8 The development is unviable in respect of normal market-facing viability requirements, even with nil provision of affordable housing.
- 1.9 When we have allowed for a policy compliant level of affordable housing, the residual land value is substantially negative.



## 2. Introduction

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### 2.1. Client Instruction

- 2.1.1. We have been instructed by the Applicant to examine the economic viability of this scheme, to determine whether the proposed development can sustain any affordable housing provision.

### 2.2. Information Provided

- 2.2.1. We have been provided with, and have relied upon, the following information from the Applicant:
- Proposed Site Plan PR210 03 Rev B
  - Proposed Ground Floor Plan PR210 10 Rev B
  - Proposed First Floor Plan PR210 11 B
  - Proposed Second Floor Plan PR210 12 Rev B
  - Proposed Third Floor Plan PR210 13 Rev B
  - Proposed Fourth Floor Plan PR210 14 Rev B
  - Proposed Fifth Floor Plan PR210 15 Rev B
  - Proposed Front Elevation PR210 20 Rev B
  - Proposed Section A-A PR210 22 Rev B
  - Proposed Section PR210 23 Rev B
  - Schedule of Accommodation dated 04.04.19

### 3. Subject Site

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#### 3.1. Subject Location

- 3.1.1. The application site comprises land adjoining 80 Tontine Street within Folkestone. Vehicular access is from Tontine Street to the West while pedestrian access will also be possible to the proposed scheme from St Michael's Street to the East.
- 3.1.2. St Michaels Street comprises predominantly terraced properties ranging from 3 to 5 storeys in height. Tontine Street is a mixed used area with a vehicle repair workshop to the northern boundary and apartments to the southern boundary.

#### 3.2. Subject Description

- 3.2.1. The site is approximately 0.315 acres (0.127 hectares) in size and is predominantly flat but with a steep slope to the western boundary up to St Michaels Street. The site has been cleared and comprises mainly overgrown grassland however to the north west corner of the site there are remnants of a stone structure. Photographs taken during our inspection are set out below.







## 4. Proposed Development

### 4.1. Proposed Development

4.1.1. The proposed development provides for a five storey building comprising 50 apartments with 22 parking spaces. A summary of the accommodation within the proposed scheme is set out below.

Unit Number	Floor	Bedrooms	GIA Sqm	GIA sqft	Tenure	Assumptions as to Parking
1	First	2	60	646	Private	Parking
2	First	1	50	538	Private	
3	First	2	60	646	Private	Parking
4	First	1	50	538	Private	
5	First	Studio	37	398	Private	
6	First	1	52	560	Private	Parking
7	First	1	62	667	Private	Parking
8	First	1	50	538	Private	
9	First	1	50	538	Private	
10	Second	2	60	646	Private	Parking
11	Second	1	50	538	Private	
12	Second	2	60	646	Private	Parking
13	Second	1	50	538	Private	
14	Second	1	50	538	Private	
15	Second	1	52	560	Private	Parking
16	Second	1	62	667	Private	Parking
17	Second	1	50	538	Private	
18	Second	1	50	538	Private	
19	Third	2	60	646	Private	Parking
20	Third	1	50	538	Private	
21	Third	2	60	646	Private	Parking
22	Third	1	50	538	Private	
23	Third	1	50	538	Private	
24	Third	1	52	560	Private	
25	Third	1	62	667	Private	Parking
26	Third	1	62	667	Private	Parking
27	Third	Studio	37	398	Private	
28	Third	1	50	538	Private	Parking
29	Third	Studio	37	398	Private	
30	Third	Studio	37	398	Private	
31	Fourth	1	50	538	Private	Parking
32	Fourth	Studio	37	398	Private	Parking
33	Fourth	1	50	538	Private	
34	Fourth	1	50	538	Private	Parking
35	Fourth	Studio	40	431	Private	Parking
36	Fourth	1	50	538	Private	
37	Fourth	Studio	37	398	Private	Parking
38	Fourth	1	50	538	Private	
39	Fourth	Studio	37	398	Private	Parking
40	Fourth	1	50	538	Private	
41	Fifth	Studio	40	431	Private	Parking
42	Fifth	1	50	538	Private	
43	Fifth	Studio	41	441	Private	Parking
44	Fifth	Studio	41	441	Private	Parking
45	Fifth	1	50	538	Private	
			2235	24,057		



- 4.1.2. The apartments will be arranged in a 'U' shape around a communal south facing garden. There will be lift access on either side of the building. The ground floor will consist of 25 parking bays, including two disabled bays, a refuse area and a bike store. The remaining floors will comprise the apartments.

## **4.2. Affordable Housing Contribution and the Proposed Scheme**

- 4.2.1. The proposed scheme comprises 45 units. A 30% provision of Affordable Housing would equate to 14 units.
- 4.2.2. Folkestone & Hythe's tenure split is 60% Social Rented and 40% Intermediate Housing. We have assumed that of the 14 affordable units in the proposed scheme, 8 will be affordable rented while 6 will be shared ownership.
- 4.2.3. Given that the scheme is demonstrably unviable on an all private tenure basis we have not factored in affordable housing into the appraisal.

## 5. Methodology

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### 5.1. Proposed Affordable Housing Provision

5.2. The proposed scheme comprises 45 units with 25 off-street parking spaces including two disabled bays

5.3. We have been instructed to carry out an appraisal to assess the level of Affordable Housing that the scheme can viably sustain.

### 5.4. Financial Viability Assessments

5.4.1. In line with the NPPF, site-specific financial viabilities are a material consideration in determining to what extent various site specific requirements should be sought.

5.4.2. As such, viability appraisals can and should be used to analyse and justify planning applications to ensure that these requirements do not make a scheme unviable. In this case, we are analysing the implications of enforcing a greater requirement for on-site parking provision within the proposed scheme.

5.4.3. The RICS define financial appraisals for planning purposes as:

*'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 a developer in delivering a project.'*

5.4.4. The underlying principle is that, if the residual value of a proposed scheme is reduced to significantly below an appropriate viability benchmark sum, it follows that it is commercially unviable to pursue such a scheme, and the scheme is unlikely to proceed.

5.4.5. If a scheme is being rendered unviable because of Section 106 requirements, it may be appropriate to look at reducing the burden of those requirements in order to facilitate viability.

### 5.5. Factors Affecting Viability

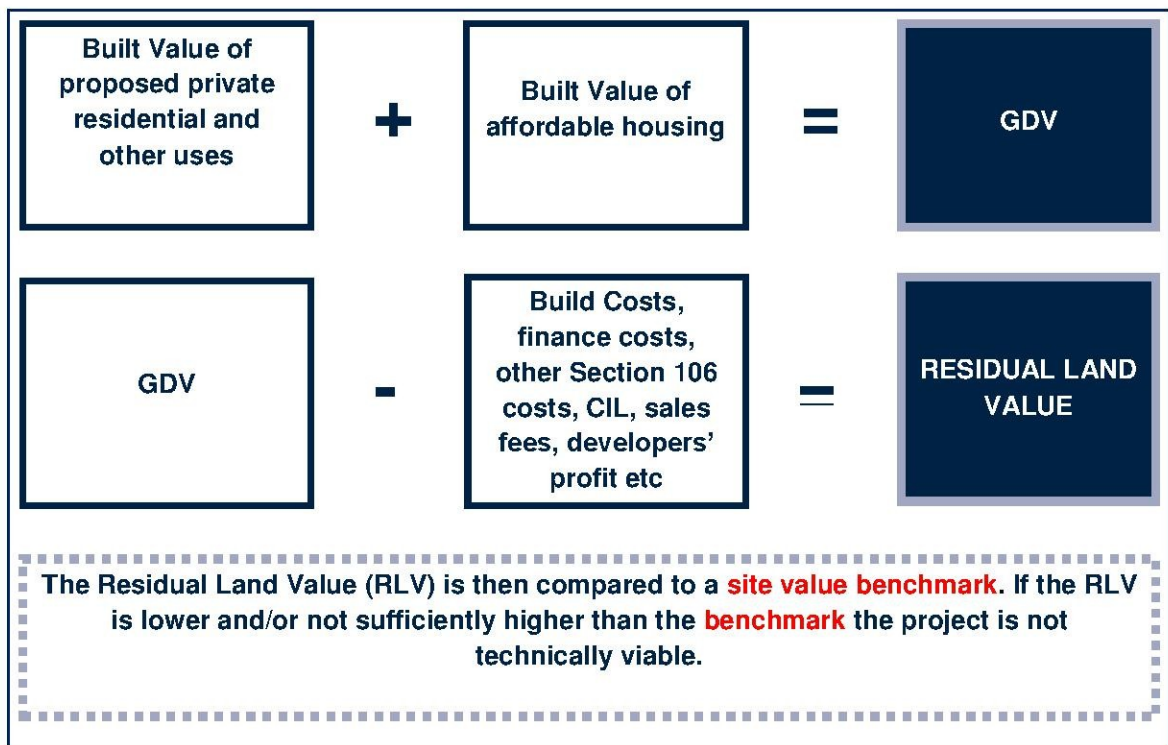
5.5.1. The following factors are particularly relevant to viability:

- Level of Community Infrastructure Levy (CIL)
- 'Other' Section 106 costs (e.g. highways, education etc);
- Off-site commuted payments;
- The quantity of Affordable Housing;
- Other particular requirements through planning policy or guidance such as parking provisions;
- The mix of Affordable Housing;

- Optimum land uses within the development;
- Market conditions;
- Timing of delivery;
- Abnormal building costs.

## 5.6. Residual Land Valuation

5.6.1. The financial viability of development proposals is determined using the residual land valuation method. A summary of this valuation process can be seen below:



## 5.7. Profit

5.7.1. The above residual land approach can be inverted so that it becomes a 'profit residual' based upon the insertion of a specific land cost (equivalent to the site value benchmark). By doing this, the focus is moved onto the level of profit driven by a scheme. This is, however, a purely presentational alternative.



## 6. Site Value Benchmark

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### 6.1. Introduction

- 6.1.1. Identifying an appropriate viability benchmark sum requires judgement bearing in mind that national planning guidance indicates that appropriate land for housing should be 'encouraged' to come forward for development. In determining an appropriate benchmark we have had regard to the guidance note prepared by the Royal Institution of Chartered Surveyors (RICS) on 'Financial Viability in Planning' (August 2012).
- 6.1.2. Given the available guidance, recent appeal decisions, and our own professional experience, our views on what constitutes an appropriate viability benchmark are summarised below.
- **Existing Use Value / Current Use Value (EUV / CUV)** – This is the value of the existing lawful use, to which a premium is typically applied (of at least 10%-40%) to reflect a competitive return to a landowner;
  - **Alternative Use Value (AUV)** – This refers to the value of the asset under an alternative planning use, either consented or for which permission might reasonably be expected to be obtained;
  - **Unconditional Purchase Price** – This is the price paid for a site, taking into account the circumstances of the transaction and with consideration given to the circumstances of the prevailing property market; and
  - **Market Value** – This is defined by the RICS as '*the estimated amount for which the asset should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion*'. National planning policy gives further guidance in this regard stating that development and mitigation should provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.

### 6.2. Adopted Site Value Benchmark

- 6.2.1. The site currently comprises a vacant parcel of land with no obvious alternative use value. We understand from the land registry that the property was purchased unconditionally by the applicant on 30 June 2017 for £400,000, though this by itself would be insufficient to indicate a Benchmark Land Value for viability purposes.
- 6.2.2. We have therefore had regard to other properties within the Folkestone area that have sold with development potential or with lapsed planning consents. Relevant examples are Land and Derelict Building at Stanley Road, Cheriton, Folkestone CT19 4LQ (Sold £235,000 / £810,000 per acre); Semi-detached house and land with lapsed planning: 289 Cheriton Road, Folkestone, Kent CT19 4AZ (sold October 2018 for £260,000); Land with Lapsed Planning Adj 69 Station Road, Lydd, Romney Marsh TN29 9LH (Sold June 2018 for £50,000 / £1.25m per acre); Five Garages and Parking Space with Potential adj 10 Clifton Crescent, Folkestone CT20 2EW (sold March 2019: £104,000).

- 6.2.3. Whilst it is difficult to find directly comparable evidence of a similar cleared site with lapsed consent, we consider that the above evidence demonstrates that, at a conservative level an appropriate site value would exceed £200,000. We use this value on a without prejudice basis as a 'low estimate' in the interests of showing that, even at a low benchmark land value, the scheme is unviable. We reserve the right to revisit the existing use value should this approach be rejected.
- 6.2.4. Applying the landowner premium of 20% (as the incentive required to encourage the landowner to release the land for sale for development) as part of the "Existing Use Value +" approach to Benchmark Land Value, the Benchmark Land Value adopted within this Viability Assessment is: **£240,000.**



## 7. Appraisal Modelling Assumptions – GDV

### 7.1. Introduction

- 7.1.1. We have assessed the proposed scheme by undertaking a Residual Land Value appraisal using Argus Developer.
- 7.1.2. The following assumptions have been adopted in assessing the value of the proposed scheme. A copy of our appraisal is attached at **Appendix 2**.

### 7.2. Residential Values

- 7.2.1. We have assessed a number of comparable transactions in the area to form an opinion of value for the proposed units at the Subject Property, taking into account the location, size, aspect, provision of outside space, proposed accommodation and parking provision for each of the units.
- 7.2.2. Based on our research (attached at **Appendix 3**) and advice from Savills Residential Development Sales team we would anticipate the proposed residential units at the Subject Property achieving the following values on a private tenure basis:

Unit Number	Floor	Bedrooms	GIA Sqm	GIA sqft	Tenure	Capital Value	£ psf	Comments
1	First	2	60	646	Private	£165,000	£255	Parking
2	First	1	50	538	Private	£145,000	£269	
3	First	2	60	646	Private	£165,000	£255	Parking
4	First	1	50	538	Private	£145,000	£269	
5	First	Studio	37	398	Private	£120,000	£301	
6	First	1	52	560	Private	£150,000	£268	Parking
7	First	1	62	667	Private	£170,000	£255	Parking
8	First	1	50	538	Private	£145,000	£269	
9	First	1	50	538	Private	£145,000	£269	
10	Second	2	60	646	Private	£165,000	£255	Parking
11	Second	1	50	538	Private	£145,000	£269	
12	Second	2	60	646	Private	£165,000	£255	Parking
13	Second	1	50	538	Private	£145,000	£269	
14	Second	1	50	538	Private	£145,000	£269	
15	Second	1	52	560	Private	£150,000	£268	Parking
16	Second	1	62	667	Private	£175,000	£262	Parking
17	Second	1	50	538	Private	£145,000	£269	
18	Second	1	50	538	Private	£145,000	£269	
19	Third	2	60	646	Private	£170,000	£263	Parking
20	Third	1	50	538	Private	£145,000	£269	
21	Third	2	60	646	Private	£170,000	£263	Parking
22	Third	1	50	538	Private	£145,000	£269	
23	Third	1	50	538	Private	£145,000	£269	
24	Third	1	52	560	Private	£150,000	£268	
25	Third	1	62	667	Private	£175,000	£262	Parking
26	Third	1	62	667	Private	£175,000	£262	Parking
27	Third	Studio	37	398	Private	£122,500	£308	
28	Third	1	50	538	Private	£150,000	£279	Parking
29	Third	Studio	37	398	Private	£122,500	£308	
30	Third	Studio	37	398	Private	£120,000	£301	
31	Fourth	1	50	538	Private	£157,500	£293	Parking
32	Fourth	Studio	37	398	Private	£125,000	£314	Parking
33	Fourth	1	50	538	Private	£150,000	£279	



Unit Number	Floor	Bedrooms	GIA Sqm	GIA sqft	Tenure	Capital Value	£ psf	Comments
34	Fourth	1	50	538	Private	£155,000	£288	Parking
35	Fourth	Studio	40	431	Private	£127,500	£296	Parking
36	Fourth	1	50	538	Private	£150,000	£279	
37	Fourth	Studio	37	398	Private	£125,000	£314	Parking
38	Fourth	1	50	538	Private	£145,000	£269	
39	Fourth	Studio	37	398	Private	£125,000	£314	Parking
40	Fourth	1	50	538	Private	£150,000	£279	
41	Fifth	Studio	40	431	Private	£127,500	£296	Parking
42	Fifth	1	50	538	Private	£150,000	£279	
43	Fifth	Studio	41	441	Private	£130,000	£295	Parking
44	Fifth	Studio	41	441	Private	£130,000	£295	Parking
45	Fifth	1	50	538	Private	£150,000	£279	
			2235	24,057		£6,617,500	£275.07	

7.2.3. For the proposed scheme, we have made an assumption as to which of the units benefit from allocated parking. This has been considered in our assessment of the GDV, with an additional allowance of £5,000.

## 8. Appraisal Modelling Assumptions – Costs

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### 8.1. Introduction

8.1.1. The following assumptions have been adopted in assessing the costs of the proposed scheme.

### 8.2. Build Costs

8.2.1. We have adopted lower quartile BCIS build costs for apartment accommodation in the Folkestone & Hythe area (reflecting that not all of the structure will be at six storey height) at £150 psf, which comes to £3,608,550. We comment that this is a conservative 'all-in' allowance as against the Gross Internal Area of the apartments and also includes the communal areas of the building. We have not made a separate allowance for any landscaping works.

8.2.2. In respect of the undercroft parking we have allowed £25,000 per space which results in a cost of £625,000.

### 8.3. Contingencies

8.3.1. We have allowed an additional 5% for contingencies.

### 8.4. Professional Fees

8.4.1. We have adopted professional fees of 5%, which is within the standard range for a scheme of this nature.

### 8.5. Disposal Costs

- Sales Agent fee at 1.25%
- Sales Legal fee at 0.5%

### 8.6. Acquisition Costs

8.6.1. We have deducted acquisition costs at the following rates:

- Stamp duty at the Commercial Rate.
- Legal Fee of £5,000.

### 8.7. Planning Obligations

8.7.1. We have not allowed for any Section 106 contributions within our appraisal.

8.7.2. We understand that the Property is within Zone A for CIL charging purposes and that the rate payable within this zone is stated to be £0 per sq m within the adopted CIL Charging Schedule. We have therefore not allowed for a CIL budget within our appraisals.

## **8.8. Profit**

- 8.8.1. In the current market if a developer was buying a site such as the Subject Property they would normally seek a return of at least 20% Profit on GDV in order to justify the risk of delivering the scheme. However we have been instructed in this instance that the developer will accept a 17.5% Profit on GDV in order to progress their application.
- 8.8.2. We have also had regard to policy guidance and recent appeal decisions as detailed in our Profit Paper attached at **Appendix 4**.

## **8.9. Interest**

- 8.9.1. We have allowed for interest at 6.5%, which is currently the typical rate for developments of this scale.

## **8.10. Timescales**

- 8.10.1. We have not been provided with a development programme and so have made assumptions for appraising the scheme on the following basis:
- Construction: 18 months
  - Sales: 20 months.



## 9. Viability Assessment Results and Conclusions

### 9.1. Results

- 9.1.1. We have appraised the proposed scheme against our Site Value Benchmark in order to fully understand the economics of the development and to whether the scheme can reasonably support any affordable housing.
- 9.1.2. In the current market, for a developer to take forward this scheme, they would normally require a return of at least 20% Profit on Cost in order to justify the risk of delivering the scheme and secure development finance, given likely market and economic risks. However, as previously stated we have been informed by the developer that they will accept a 17.5% profit on GDV in order to progress their application.
- 9.1.3. A summary of our appraisal results is set out below. Please see **Appendix 2** for the full appraisal.

#### Viability Appraisal Results

Scheme	Profit on GDV	Residual Land Value	Site Value Benchmark	Surplus/Deficit Against Benchmark
100% Private Housing (no affordable housing)	17.5%	£230,000	£240,000	-£10,000

The table above demonstrates that the Residual Land Value of the proposed scheme as currently appraised generates a deficit against the Site Value Benchmark and so would already not be considered viable by normal commercial measures of viability. However, having carried out preparatory work at expense, the Applicant is prepared to absorb the deficit against the benchmark land value.

We would comment that the costings applied to this flatted scheme (with a mix of 5/6 storey areas, communal gardens and undercroft parking, with lifts and landscaping) have been conservatively assessed. We have also adopted a Benchmark Land Value on a conservative basis. As such the viability of this scheme is marginal on a 100% private tenure basis.

The scheme therefore cannot viably sustain any affordable housing provision.

## 10. Appendices

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# Appendices

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