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26.09.12 re viability.doc

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Dear Ben,

Folkestone Seafront – Outline Planning Application
Viability Analysis

A viability analysis has been provided to the Council in support of the seafront application, this analysis contains commercially sensitive information and therefore remains a confidential document between the applicant, the Council and the Council's chosen independent advisors, in this instance Peter Brett Associates.

I am asked by the applicant to reiterate the request that the final submitted affordable housing and economic viability report and associated appendices should be a confidential document between the Council, their advisors and FHC and their advisors.

The information contained within the report represents commercially sensitive information and therefore, in our view, would be under section 43 (commercial interests) of the Freedom of Information Act 2000.

This notes that information should be kept private and confidential where

(1)Information is exempt information if it constitutes a trade secret.
(2)Information is exempt information if its disclosure under this Act would, or would be likely to, prejudice the commercial interests of any person (including the public authority holding it).
(3)The duty to confirm or deny does not arise if, or to the extent that, compliance with section 1(1)(a) would, or would be likely to, prejudice the interests mentioned in subsection (2).

In this circumstance subsection 2 applies.

The viability analysis provided is to confirm the financial viability of the proposed scheme, and to financially appraise the extent of affordable housing that the scheme is capable of submitting. The report has been complied by Capita Symonds and the appraisals undertaken together with the assumptions made to support the appraisal inputs use commercially sensitive information.

We are aware that the Council has appointed an independent consultant to assess whether the assumptions we have applied in our report are robust, and within acceptable parameters. This is standard practice in such negotiations, and we consider that the stakeholders should be aware that this independent scrutiny of the report has been undertaken by a professional practice of experienced surveyors.

In our experience it is also standard practice for these reports to be made available to the Council on a confidential basis only. In order to make a thorough and robust representation of the development proposals we must draw on information which is of a commercially sensitive nature, such as projected build costs and availability and level of development finance.

The Council's adopted Local Plan Policy HO4 states that in all new housing developments of 15 dwellings or more, the District Planning Authority will seek to negotiate an element of affordable housing of 30%. Provision on individual sites should be dispersed and not be concentrated in one location. Paragraph 3.40 of the Local Plan explains that the provision of affordable housing on individual sites will be subject of negotiation.

The Councils emerging policy CSD1 states that development proposing 15 or more dwellings should provide 30% affordable dwellings on-site, subject to viability.

Adams Integra have produced a report on economic viability and affordable housing for the consideration of Shepway District Council during the formulation of their local development framework.

This report notes at paragraph 6 that;

"Maintaining the viability (in this sense meaning the financial health) of residential development scheme is crucial to ensuring the release of sites and thus a continued supply of housing of all types".

Paragraph 10 notes that *"two of the key ingredients to ensure viable development are sufficient land value created by a development (relative to existing or alternative use values, and/or perhaps to an owners' particular circumstances) and adequate developments profit in terms of risk reward and the profile of a scheme from a funders point of view."*

Adams Integra note that, in terms of the overall district, with varying values and assuming variable market conditions over the LDF period a 30% headline would be a sufficiently challenging and appropriately pitched target generally.

Paragraph 4.1.25 of Adams Integra report notes that *"the cumulative effect of increasing cost areas will need to be viewed alongside affordable housing needs and aspirations. This approach should extend to considering the collective burden place on development schemes in terms of planning obligations and potentially other costs – leading to the potential needs for prioritisation in certain situations"*.

"The report recommends that policy be clearly worded so as to set genuine targets with the approach acknowledging the role of viability and the application of flexibility where required".

The submitted analysis takes into the gross development value and all costs associated with the development, it suggests that the outline scheme as proposed could potentially support between 5% and 7.5% of the units to be provided as affordable rented units as defined by Annex 2 of the NPPF. This provision of affordable housing across the whole site is dependent on the growth value achieved as a result of regeneration uplift; this is a matter the applicant would seek to discuss further with the Council and its advisors.

This proposed provision of affordable housing is based on the assumption of an average existing land value of £7,350,000 or £306,250 per acre for the site as a whole. As you will be aware, in testing viability the key measure is the 'value' of the land when benchmarked against the residual development value of a proposed scheme.

Advice on this subject is given by the Greater London Authority and the RICS. Whilst this site is not in Greater London the guidance notes issued by the GLA provide a helpful analysis of brownfield site value and have therefore been used as one methodology to ascertain the existing value of the site.

The RICS guidance notes provide another methodology for assessing land value and suggest that site value should be based on 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 known.

In this instance no planning permission exists in respect of the seafront site. A planning application was made in May 2005 for a mixed use development comprising 671 residential units, leisure (Class D2) and food/drink uses (Class A3). This application was made in respect of land adjoining the former dome amusement arcade and the site boundary was different from that now proposed.

Whilst a resolution to grant consent was issued at committee level the legal agreement required in respect of this application was not signed and therefore planning permission has not been granted.

Whilst this application represents a material consideration the weight that this carries is considered to be negligible. It is noteworthy that this historic application it is not relied upon by any other documents submitted as part of the application. The application was made to the Council in a very different financial climate and under different planning policies; it proposed an entirely different approach to the redevelopment of the seafront site and anticipated a different quantum of residential units and non residential floor space.

In light of the above this application cannot be relied upon for the purposes of ascertaining land value of the site. In this instance it is considered that an appraisal of the site using the GLA guidance and the RICS guidance is the correct approach for assessment of land value. This approach generates the figure referred to above.

The residual development value is generated by establishing the gross development value of a proposal and deducting the total development costs for getting to that value. In this instance the anticipated gross development value is growth dependant and varies from £239 million pounds to £253 million pounds. This development value relies upon the development being built in phases as indicated on illustrative phasing plan submitted with the application and also upon a certain level of growth of sales values over the development period.

It is anticipated that each individual phase will be subject to a reserved matters application. Given the size of the site and the remedial works required the estimated timeframe for the development is 20 years. It is anticipated that the beach nourishment will be undertaken as part of a pre-phase to the scheme and that Phase 1 will be developed first to set the design standards for the development as a whole. The phasing is envisaged to commence at the western end and progress to the eastern end of the site.

The phasing of the development will be linked to the phasing of the costs towards infrastructure and improvements to road networks where required. This will ensure that as the development progresses funding is released to address the costs towards infrastructure improvements and any other relevant S106 costs including affordable housing. An indicative phasing plan has been submitted with the outline planning application (illustrative plan D, rev A).

The viability analysis submitted to the Council provides a detailed analysis of the costs associated with the development of the seafront site and with each phase as it comes forward.

This is an unusual site which attracts significant 'headline' costs in order to provide the infrastructure required. These can be broken down as follows;

Significant item	Cost
Build Costs	£153, 508,305
Abnormal costs - including harbour and sea walls and ground raising, dunes and beach replenishment	£13,299,075
Placemaking & Misc Works, including beach sports facilities, sea sports facilities, refurbishment of customs house, green walk, harbour arm works, viaduct access and resurfacing of marine parade	£12,286,722
Section 106 costs	£2,451,920
Transport contributions	£1,000,000
Debt Finance	£11,842,416
Total	**£194,388,483**

Taking into account the above, it is apparent that any higher level of affordable housing than that proposed would result in the scheme being commercially unviable and therefore undeliverable. This would be contrary to the current and emerging policies of Shepway District Council and national planning policy.

The applicant will continue discussion with Shepway District Council and their independent advisors on matters of affordable housing and section 106 payments.

Yours sincerely

Sarah Round
Associate Director