

For: Folkestone & Hythe DC

Review of Applicant Submitted Viability Position

Land opposite 24
Station Road
Hythe
CT21 5PW
April 2022
(DSP226060)

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1. Notes and Limitations

- 1.1.1. The following does not provide formal valuation advice. This review and its findings are intended purely for the purposes of providing Folkestone & Hythe District Council (FHDC) with an independent check of, and opinion on, the planning applicant's viability information and stated position in this case. In the preparation of this review Dixon Searle Partnership has acted with objectivity, impartiality, without interference and with reference to appropriate available sources of information.
- 1.1.2. This document has been prepared for this specific reason and should not be used for any other purpose without the prior written authority of Dixon Searle Partnership (DSP); we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned. To the extent that the document is based on information supplied by others, Dixon Searle Partnership accepts no liability for any loss or damage suffered by the client.
- 1.1.3. We have undertaken this as a desk-top exercise as is appropriate for this stage and level of review. For general familiarisation we have considered the site context from the information supplied by the Council and using available web-based material.
- 1.1.4. The information supplied to DSP to inform and support this review process has been supplied by the prospective / current planning applicant on a private and confidential basis. The FVA states *'This report contains commercially sensitive information and is private and confidential. Neither the whole nor any part of this report or any reference thereto may be included in any published document, circular or statement, nor published, reproduced or referred to any way without our prior written approval of the form and context in which it may appear'*. Therefore, we suggest that the Council and prospective / current or subsequent planning applicant may wish to consider this aspect together. DSP confirms that we are content for our review information, as contained within this report, to be used as may be considered appropriate by the Council (we assume with the applicant's agreement if necessary). In looking at 'Accountability', since July 2018 (para. 021 revised in May 2019), the published national Planning Practice Guidance (PPG) on viability says on this; *'Any viability assessment should be prepared on the basis that it will be made publicly available other than in exceptional circumstances.'*

- 1.1.5. Dixon Searle Partnership conducts its work only for Local Authorities and selected other public organisations. We do not act on behalf of any development interests. We have been involved in the review of other planning stage proposals within the Folkestone DC area.

- 1.1.6. In any event we can confirm that no conflict of interests exists, nor is likely to arise given our approach and client base. This is kept under review. Our fees are all quoted in advance and agreed with clients on a fixed or capped basis, with no element whatsoever of incentive/performance related payment.

2. Introduction

2.1.1 Dixon Searle Partnership (DSP) has been commissioned by Folkestone & Hythe District Council (FHDC) to carry out an independent review of the 'Development Viability Report' (DVR) dated 8 February 2021 and supplied to the Council on behalf of the applicant by Bespoke Property Consultants (BPC). This is in relation to the proposed redevelopment of Land to the north side of Station Road (also described as 'land opposite 24 Station road'), Hythe, CT21 5PW.

2.1.2 The DVR has been submitted in support of an outline planning application (reference 21/0553/FH) which seeks permission *"for the erection of 44no. dwellings with associated access, parking and open space (matters of landscaping reserved for future consideration)."*

2.1.3 On 30 March 2022, FHDC adopted their Core Strategy review which states the following requirement for affordable housing:

'Development proposing (or land of 0.5ha or more in size) 15 or more dwellings (net gain) at any location within the district should provide 22 per cent affordable dwellings on-site.

For development proposing 15 or more dwellings, as a starting point approximately 70 per cent of the affordable housing to be provided shall be affordable housing for rent. For sites under this threshold, the proportion of affordable housing tenures will be negotiated on a site-by-site basis.

Provision should be made on-site unless off-site provision through a financial contribution of broadly equivalent value can be robustly justified.

Where a site-specific viability assessment is provided with an individual planning application and it can be demonstrated to the reasonable satisfaction of the Council that the proposed development would not be viable with the full affordable housing requirement, the Council will give consideration to allowing an appropriate level of relaxation of the requirements.'

- 2.1.4 In this case a policy compliant approach would lead to the provision of 10 affordable dwellings.
- 2.1.5 In presenting their viability position, the applicant has supplied to the Council the aforementioned 'Development Viability Report' (DVR) together with printed and electronic versions of their development appraisals, carried out using HCA Economic Appraisal Tool (HCA EAT), market research, a RIBA Stage 2 cost plan from Betteridge and Milsom and BCIS cost data.
- 2.1.6 DSP has also had sight of the documents contained within the Council's online planning application file.
- 2.1.7 This report does not consider planning policy or the wider aspects in the background to or associated with the Council's consideration of this scenario. DSP's focus is on the submitted viability assumptions and therefore the outcomes (scope to support land value and profit) associated with that aspect of the overall proposals.
- 2.1.8 For general background, a viable development may be regarded as one which has the ability to meet its costs including the cost of planning obligations, while ensuring an appropriate site value (i.e. existing use value) for the landowner and a market risk adjusted return to the developer in delivering that project. The Government's Planning Practice Guidance (PPG) on Viability sets out the main principles for carrying out a viability assessment. It states:

'Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return...Any viability assessment should follow the government's recommended approach to assessing viability as set out in this National Planning Guidance and be proportionate, simple, transparent and publicly available. Improving transparency of data associated with viability assessment will, over time, improve the data available for future assessment as well as provide more accountability regarding how viability informs decision making...In plan making and decision making viability helps to strike a balance between the aspirations of developers and landowners, in terms of returns

against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission¹.

- 2.1.9 Under normal circumstances, if the residual land value (RLV) created by a scheme proposal exceeds the existing use value plus a premium (referred to as a benchmark land value (BLV) in this case) then we usually have a positive viability scenario – i.e. the scheme is much more likely to proceed (on the basis that a reasonable developer profit margin is also reached).
- 2.1.10 The submitted development appraisal has been run on the basis of a residual land value approach which compares the residual value of the scheme, having deducted all costs including a fixed level of developer profit (18% GDV), with the submitted view of the benchmark land value.
- 2.1.11 The DVR states that the scheme as proposed, with 44 no. open market dwellings and no affordable housing generates a (negative) residual land value of -£242,614 after allowing for a developer profit of 18% GDV and CIL of £852,898 which when compared with the assumed Benchmark Land Value (BLV) of £350,000 results in a deficit of -£592,614. The DVR concludes, therefore, that *‘the development does not generate enough surplus over the BLV to provide funding for affordable housing and any request for planning obligations in addition to CIL will worsen the viability position further’.*
- 2.1.12 This review does not seek to pre-determine any Council positions and merely sets out our opinion on the submitted viability assumptions and outcomes in order to inform the Council’s discussions with the applicant and its decision making; it deals only with viability matters, in accordance with our instructions.
- 2.1.13 DSP’s remit is to review the submitted information to assess whether the stated viability scope available to support planning obligations (for affordable housing and/or other matters) is the most that can reasonably be expected at the time of the assessment. Our brief does not go as far as confirming what should be the outcome where schemes are stated or verified as being non-viable per se, based on a viability submission or any subsequent review. It is for the applicant to decide whether there is sufficient justification to pursue a scheme, financially. While an absence of (or insufficient level of) planning obligations will be a material consideration, we are not aware that proof of positive viability is in itself a

¹ Paragraph: 010 Reference ID: 10-010-20180724

criterion for acceptable development under current national policy. The Council may wish to consider these matters further, however

- 2.1.14 Accordingly, FHDC requires our opinion as to whether the viability figures and position put forward by the applicant are reasonable. We have therefore considered the information submitted. Following our review of the key assumptions areas, this report provides our views – information all provided below.
- 2.1.15 We have based our review on the submitted FVA and the premise that the viability of the scheme should be considered based on the assumption of current costs and values. We then discuss any variation in terms of any deficit (or surplus) created from that base position by altering appraisal assumptions (where there is disagreement if any) utilising in this case the supplied appraisal basis as a starting point.
- 2.1.16 This assessment has been carried out by Dixon Searle Partnership, a consultancy which has over 40 years combined experience in the development industry working for Local Authorities, developers, Housing Associations and in consultancy. As consultants, we have a considerable track record of assessing the viability of schemes and the scope for Local Authority planning obligation requirements. This expertise includes viability-related work carried out for many Local Authorities nationwide over the last 19 years or so.
- 2.1.17 The purpose of this report is to provide our overview comments with regard to this individual scheme, on behalf of FHDC - taking into account the details as presented. It will then be for the Council to consider this information in the context of the wider planning objectives in accordance with its policy positions and strategies.
- 2.1.18 In carrying out this type of review a key theme for us is to identify whether, in our opinion, any key revenue assumptions have been under-assessed (e.g. sales value estimates) or any key cost estimates (e.g. build costs, fees, etc.) over-assessed – since both of these effects can reduce the stated viability outcome.

3. Review of Submitted Viability Assumptions

3.1 Overview of Approach

- 3.1.1 The following commentary reviews the applicant's submitted viability assumptions as explained within the DVR and accompanying development appraisal.
- 3.1.2 Primarily the review process takes into account the fact that the collective impact of the various elements of the cost and value assumptions is of greatest importance, rather than necessarily the individual detailed inputs in isolation. We have considered those figures provided, as below, and reviewed the impact of trial changes to particular submitted assumptions.
- 3.1.3 This type of audit / check is carried out so that we can give the Council a feel for whether or not the result is approximately as expected – i.e. informed by a reasonable set of assumptions and appraisal approach.
- 3.1.4 Should there be changes to the scheme proposals this would obviously impact on the appraisal outputs.

3.2 Benchmark Land Value

- 3.2.1 In all appraisals of this type, the base value (value of the site or premises – e.g. in existing use) is one of the key ingredients of scheme viability. A view needs to be taken on land value so that it is sufficient to secure the release of the site for the scheme (sale by the landowner) but is not assumed at such a level that restricts the financial capacity of the scheme to deliver suitable profits (for risk reward), cover all development costs (including any abnormals) and provide for planning obligations as a part of creating sustainable development. This can be a difficult balance to reach, both in terms of developers' dealings with landowners, and Councils' assessments of what a scheme has the capacity to bear.
- 3.2.2 The RICS (Royal Institution of Chartered Surveyors) has issued a guidance note² effective from 1st July 2021 and which replaces a previous (RICS 2012) guidance note³. The 2021 RICS

² https://www.rics.org/globalassets/rics-website/media/upholding-professional-standards/sector-standards/land/assessing-financial-viability_final.pdf

³ https://www.rics.org/globalassets/rics-website/media/upholding-professional-standards/sector-standards/land/financial-viability-in-planning-1st_edition-rics.pdf

guidance has an emphasis which reflects the Planning Practice Guidance (PPG) on Viability as noted below, and the PPG will remain the primary source of guidance in this field – viability in planning.

3.2.3 The 2021 RICS guidance states that:

‘The BLV should not be expected to equate to market value. [...] The BLV is not a price to be paid in the marketplace; it is a mechanism by which the viability of the site to provide developers’ contributions can be assessed. It should be set at a level that provides the minimum return at which a reasonable landowner would be willing to sell’

3.2.4 It goes on to state:

‘The BLV is a benchmark value against which the developer contributions can be assessed. Once those contributions have been set, land markets should take the level of policy requirements into account, just as all markets should take all relevant factors that affect value into account. PPG paragraph 013 states that ‘Landowners and site purchasers should consider policy requirements when agreeing land transactions. This means that the actual price paid for a site cannot be used to reduce developer contributions.’

3.2.5 The latest planning practice guidance on viability and the NPPF (most recently updated in July 2021) very clearly advise that land value should be based on the value of the existing use plus an appropriate level of premium or uplift to incentivise release of the land for development from its existing use. With regard to how land value should be defined for the purpose of viability assessment it states: *‘To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner.’*

3.2.6 The PPG defines existing use value as: *‘the first component of calculating benchmark land value. EUV is the value of the land in its existing use together with the right to implement any development for which there are policy compliant extant planning consents, including realistic deemed consents, but without regard to alternative uses. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield. Sources of data can include (but*

are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence.⁴

3.2.7 It states that a Benchmark Land Value should:

- *'be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*
- *be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time⁵.'*

3.2.8 The guidance further states that: *'Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan.'* It goes on to state: *'Policy compliance means that the development complies fully with up to date plan policies including any policy requirements for contributions towards affordable housing requirements at the relevant levels set out in the plan. A decision maker can give appropriate weight to emerging policies. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement⁶.)'*

3.2.9 With regard to assuming an alternative use value to determine BLV the guidance states: *'For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its current permitted use, and other than other potential development that*

⁴ Paragraph: 015 Reference ID: 10-015-20190509

⁵ Paragraph: 014 Reference ID: 10-014-20190509

⁶ Paragraph: 014 Reference ID: 10-014-20190509

requires planning consent, technical consent or unrealistic permitted development with different associated values. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should be limited to those uses which have an existing implementable permission for that use. Where there is no existing implementable permission, plan makers can set out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued. Where AUV is used this should be supported by evidence of the costs and values of the alternative use to justify the land value. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted⁷.

- 3.2.10 It is therefore clear that the only acceptable approach to defining a benchmark land value for the purposes of a viability assessment, is the EUV+; or, exceptionally, AUV.
- 3.2.11 In this case, the BLV for the 1.43 hectare (3.53 acre) site has been placed at £350,000 based on the stated EUV of the land in its current use as agricultural land (£35,000 or £10,000 per acre), multiplied by 10 to reflect landowner premium.

⁷ Paragraph: 017 Reference ID: 10-017-20190509

Land opposite 24 Station Road (Image source: Google maps)



Site location (Source: Design and Access statement)



- 3.2.12 The land is not currently being farmed, but the planning statement indicates it has been used as a paddock in the past. We consider the submitted BLV of £350,000 (c. £250,000 per hectare) including landowner premium to be a suitable assumption for paddock type land of this nature.

Acquisition Costs

- 3.2.13 Acquisition costs have been applied to the BLV at 1% for agent's fees, and 0.8% legal fees and SDLT at 5%, applied to the scheme RLV (therefore set at zero in the submitted appraisal due to the RLV being negative). Overall these assumptions are within typical parameters and we have applied them to the BLV in our appraisal (entering the BLV of £350,000 as a fixed cost within our appraisal).

3.3 Gross Development Value

Private Residential

- 3.3.1 The site is within easy reach of the shops and is 0.5 miles from the seafront. The submitted unit mix and pricing is set out below, and results in a submitted GDV of £26,120,000 or £3,747/m² (£348/ft²).

Accommodation schedule and pricing (as per figures in submitted appraisal)							
Plot number	Floor area (m ²)	Description	Phase	Submitted value	Submitted value (£/m ²)	Submitted value (£/ft ²)	
1	85	2 Bed Flat Low rise	Open Market Build phase 1	£ 370,000	£ 4,358	£ 405	
2	82	2 Bed Flat Low rise	Open Market Build phase 1	£ 360,000	£ 4,401	£ 409	
3	85	2 Bed Flat Low rise	Open Market Build phase 1	£ 370,000	£ 4,358	£ 405	
4	82	2 Bed Flat Low rise	Open Market Build phase 1	£ 360,000	£ 4,401	£ 409	
5	111	2 Bed Flat Low rise	Open Market Build phase 1	£ 485,000	£ 4,381	£ 407	
6	143	2 Bed Flat Low rise	Open Market Build phase 1	£ 625,000	£ 4,383	£ 407	
7	82	2 Bed Flat Low rise	Open Market Build phase 1	£ 360,000	£ 4,401	£ 409	
8	87	2 Bed Flat Low rise	Open Market Build phase 1	£ 375,000	£ 4,325	£ 402	
9	137	3 Bed House	Open Market Build phase 1	£ 485,000	£ 3,535	£ 328	
10	137	3 Bed House	Open Market Build phase 1	£ 485,000	£ 3,535	£ 328	
11	150	3 Bed House	Open Market Build phase 1	£ 530,000	£ 3,526	£ 328	
12	150	3 Bed House	Open Market Build phase 1	£ 530,000	£ 3,526	£ 328	
13	155	3 Bed House	Open Market Build phase 1	£ 540,000	£ 3,488	£ 324	
14	155	3 Bed House	Open Market Build phase 1	£ 540,000	£ 3,488	£ 324	
15	155	3 Bed House	Open Market Build phase 1	£ 540,000	£ 3,488	£ 324	
16	158	3 Bed House	Open Market Build phase 1	£ 545,000	£ 3,454	£ 321	
17	240	4 Bed + House	Open Market Build phase 2	£ 800,000	£ 3,333	£ 310	
18	240	4 Bed + House	Open Market Build phase 2	£ 775,000	£ 3,229	£ 300	
19	240	4 Bed + House	Open Market Build phase 2	£ 775,000	£ 3,229	£ 300	
20	240	4 Bed + House	Open Market Build phase 2	£ 775,000	£ 3,229	£ 300	
21	260	4 Bed + House	Open Market Build phase 2	£ 825,000	£ 3,173	£ 295	
22	260	4 Bed + House	Open Market Build phase 2	£ 825,000	£ 3,173	£ 295	
23	260	4 Bed + House	Open Market Build phase 2	£ 825,000	£ 3,173	£ 295	
24	260	4 Bed + House	Open Market Build phase 2	£ 825,000	£ 3,173	£ 295	
25	260	4 Bed + House	Open Market Build phase 2	£ 825,000	£ 3,173	£ 295	
26	172	4 Bed + House	Open Market Build phase 2	£ 630,000	£ 3,665	£ 340	
27	172	4 Bed + House	Open Market Build phase 2	£ 630,000	£ 3,665	£ 340	
28	172	4 Bed + House	Open Market Build phase 2	£ 630,000	£ 3,665	£ 340	
29	175	4 Bed + House	Open Market Build phase 2	£ 640,000	£ 3,657	£ 340	
30	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 560,000	£ 4,338	£ 403	
31	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 560,000	£ 4,338	£ 403	
32	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 560,000	£ 4,338	£ 403	
33	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 560,000	£ 4,338	£ 403	
34	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 560,000	£ 4,338	£ 403	
35	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 560,000	£ 4,338	£ 403	
36	212	3 Bed Flat Low rise	Open Market Build phase 2	£ 850,000	£ 4,013	£ 373	
37	95	3 Bed Flat Low rise	Open Market Build phase 2	£ 420,000	£ 4,444	£ 413	
38	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 560,000	£ 4,338	£ 403	
39	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 560,000	£ 4,338	£ 403	
40	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 560,000	£ 4,338	£ 403	
41	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 560,000	£ 4,338	£ 403	
42	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 560,000	£ 4,338	£ 403	
43	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 560,000	£ 4,338	£ 403	
44	212	3 Bed Flat Low rise	Open Market Build phase 2	£ 850,000	£ 4,013	£ 373	
TOTAL/AVE	158			£ 26,120,000	£ 3,747	£ 348	

- 3.3.2 BPC have undertaken an internet-based market research exercise to determine the assumed sales values of the proposed dwellings. Based upon their research, they arrived at the above values, which are summarised as follows in the DVR:
- 2 bed flats – between £360,000 and £625,000
 - 3 bed flats – between £560,000 and £850,000
 - 3 bed houses – between £485,000 and £545,000
 - 4 bed houses - between £630,000 and £640,000
 - 5 bed houses – between £775,000 and £825,000
- 3.3.3 We note that the assessment was carried out in February 2021, since when house prices generally in the FHDC area seen amongst the highest increases in the country, with sold prices increasing by 18% between February 2021 and February 2022 according to the latest Land Registry House Price index. Applying an 18% increase to the submitted values would result in an average sales value of £4,422/m² (411/ft²). It should be noted that build costs have also been increasing over the same period (as will be discussed below).
- 3.3.4 Ground rents have been included in the appraisal, taking the overall submitted GDV to £26,331,000. However, we note also that since the assessment was carried out the Leasehold reform (Ground rent) Bill has been granted Royal Assent (on 8 February 2022) and it has been stated by the Government *that 'the Act will be brought into force within six months of this date'*. The Act will restrict ground rents on the grant of new leases to a peppercorn (which some of our LPA clients have also been considering reflecting within s.106 agreements). Many practitioners are now removing capital contributions from ground rents from their appraisals, and some local authorities are accepting the removal of this income subject to a restriction on ground rents being included within the s.106 agreement. We have therefore removed ground rents from our appraisal which has reduced the GDV by £211,200.
- 3.3.5 We have carried out our own research into sales values, using land registry data and property websites.
- 3.3.6 67 new build homes were sold in Hythe over the past 2.5 years, with an average sales value (adjusted for HPI) of £4,419/m².
- 3.3.7 The new build sales values per property type were as follows

Sold over past two years in Hythe - NEW BUILD		
Type	Average size of property sold	£/m²
Flats	111	5214
Terraced houses	90	4308
Semi-detached	87	4214
Detached	111	4406

3.3.8 The flats sold were of a similar size to those proposed. The houses sold were smaller on average than the proposed properties; which typically results in a higher £/m² sales value; however the data indicates that this does not necessarily apply for houses in this area. The data for flats includes an outlier; a property at 'Imperial Gardens' which has views of the sea and sold for a significantly higher price than other new build flats in the area. Removing this comparable indicates an average value of £4,219/m² or 392/ft² for flats. Furthermore, the majority of new build sales occurred in 2019 or 2020. Therefore, the above data should be treated with caution.

3.3.9 Over the past 6 months, 74 properties have sold on the secondhand market in Hythe. The average sale prices are summarised below:

Sold over past six months in Hythe - RESALE				
Type	Average size of property sold	£/m²	£/ft²	Ave sale price (£)
Flats	61	£ 3,726	£ 346	£ 226,733
Terraced houses	80	£ 4,310	£ 400	£ 344,130
Semi-detached	103	£ 3,863	£ 359	£ 375,875
Detached	164	£ 5,061	£ 470	£ 827,651

3.3.10 The proposed houses are all above average size (being 120 m² to 260 m², with an average house size of 198 m²), therefore we have considered the values of houses of >110 m², of which there have been 26 sales over the past 6 months. The average size sold was 182 m² and the average sales value was £801,531, or £4,394 m² (£408/ft²). This significantly exceeds the submitted average of £313/ft² for houses, even before any premium attached to new build is considered.

3.3.11 The submitted values, by type, are as follows:

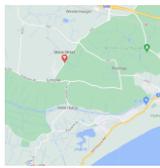
Type	Ave Floor Area (m2)	Submitted average value (£)	Submitted value (£/m ²)	Submitted value (£/ft ²)
Houses	198	£ 665,476	£ 3,369	£ 313
Flats	123	£ 528,043	£ 4,303	£ 400

Type	Ave Floor Area (m2)	Submitted average value (£)	Submitted value (£/m ²)	Submitted value (£/ft ²)
2 bed flats	94	£ 431,125	£ 4,376	£ 407
3 bed flats	138	£ 552,500	£ 4,009	£ 372
Terraced	n/a - none proposed	-	-	-
3 bed Semi	150	£ 524,375	£ 3,504	£ 326
4 and 5 bed Detached	227	£ 752,308	£ 3,314	£ 308

3.3.12 Submitted values for flats are at an average of £400/ft² which is c. 15% above average resale values, which is within the expected range taking into consideration the premium attached to new build.

3.3.13 The submitted values for houses, averaging £313/ft² appear low in comparison to resale values, particularly for large detached properties, which sold for an average of £415/ft². Details of these sales are below.

Resales in Hythe - last 6 months

Address	Street	Postcode	HPI Uplifted	Floor	Value/sq m	Value/sq	Image/map	Comments
122	NORTH ROAD	CT21 5DY	£1,100,000	220	£5,000	£465		Close to the subject site (0.6 miles away) and of a similar size and setting to the 4 and 4 bed subject properties.
50	MARINE PARADE	CT21 6AW	£1,196,571	238	£5,028	£467		Waterfront property. Will have higher values than subject site.
GARLANDS TONE	STONE STREET	CT21 4JZ	£774,144	252	£3,072	£285	 	Bungalow, much further inland than the subject site.
BEES, 15	NORTH ROAD WEST	CT21 4BD	£1,236,480	267	£4,631	£430		Close to the subject site (0.6 miles away) and of a similar size to the larger 5 bed detached subject properties.
HILLSIDE HOUSE	CLIFF ROAD	CT21 5XL	£1,421,802	289	£4,920	£457		1.1 miles from the site
SHEPMEAD	BERWICK LANE	CT21 4JX	£1,500,001	302	£4,967	£461		3.7 miles from the site. Located on the other side of the country park, and much further from the seafront.
EDGE OF BEYOND	CLIFF ROAD	CT21 5XD	£1,500,000	323	£4,644	£431		0.6 miles from the site. In a more private setting than the proposed properties, and with large garden. Larger floor area than the proposed properties.
10	SENE PARK	CT21 5XB	£1,310,500	356	£3,681	£342		0.5 miles from the subject site. Unusual flat-roofed building. Much larger floor area than the subject property.
		AVERAGE	£1,254,937	281	£4,468	£415		

3.3.14 We have also reviewed properties advertised for sale nearby. Full details of comparable properties are attached as Appendix 1, with average advertised values being as follows:

Flats – advertised prices

Average Advertised Price	Floor area	Value /m ²	Value /ft ²
£481,000	93.8	£5,128	£476

Semi-detached properties – advertised prices

Average Advertised Price	Floor area	Value /m ²	Value /ft ²
£817,500	182.5	£4,479	£416

Detached properties – advertised prices

Average Advertised Price	Floor area	Value /m ²	Value /ft ²
£783,000	161	£4,863	£452

3.3.15 Reviewing the above discussion, we consider that the submitted sales values are significantly underestimated, in particular for the proposed houses, and additionally we note that the submitted values were put forward over a year ago, since when there have been significant increases in house prices locally. Based on our research and taking into account the premium attached to new build properties (but also balancing this against some of the resale comparables which have larger gardens and/or superior views) we will test the values set out below; resulting in a GDV of £30,118,000 or £401/ft² (an increase of 15% on the GDV submitted in February 2021).

3.3.16 We note also the submitted build costs (discussed in 3.5, below) are significantly above the current average indicated by BCIS, and sit within the upper quartile, indicating a high specification which would therefore be aimed at the upper end of the market.

DSP pricing (as at May 2022)							
Plot number	Floor area (m ²)	Description	Phase	Price	(£/m ²)	(£/ft ²)	Type
1	85	2 Bed Flat Low rise	Open Market Build phase 1	£ 375,000	£ 4,417	£ 410	Flat
2	82	2 Bed Flat Low rise	Open Market Build phase 1	£ 365,000	£ 4,462	£ 415	Flat
3	85	2 Bed Flat Low rise	Open Market Build phase 1	£ 375,000	£ 4,417	£ 410	Flat
4	82	2 Bed Flat Low rise	Open Market Build phase 1	£ 365,000	£ 4,462	£ 415	Flat
5	111	2 Bed Flat Low rise	Open Market Build phase 1	£ 490,000	£ 4,426	£ 411	Flat
6	143	2 Bed Flat Low rise	Open Market Build phase 1	£ 630,000	£ 4,418	£ 410	Flat
7	82	2 Bed Flat Low rise	Open Market Build phase 1	£ 365,000	£ 4,462	£ 415	Flat
8	87	2 Bed Flat Low rise	Open Market Build phase 1	£ 380,000	£ 4,383	£ 407	Flat
9	137	3 Bed House	Open Market Build phase 1	£ 580,000	£ 4,227	£ 393	Semi-det
10	137	3 Bed House	Open Market Build phase 1	£ 580,000	£ 4,227	£ 393	Semi-det
11	150	3 Bed House	Open Market Build phase 1	£ 635,000	£ 4,225	£ 393	Semi-det
12	150	3 Bed House	Open Market Build phase 1	£ 635,000	£ 4,225	£ 393	Semi-det
13	155	3 Bed House	Open Market Build phase 1	£ 645,000	£ 4,167	£ 387	Semi-det
14	155	3 Bed House	Open Market Build phase 1	£ 645,000	£ 4,167	£ 387	Semi-det
15	155	3 Bed House	Open Market Build phase 1	£ 645,000	£ 4,167	£ 387	Semi-det
16	158	3 Bed House	Open Market Build phase 1	£ 650,000	£ 4,119	£ 383	Semi-det
17	240	4 Bed + House	Open Market Build phase 2	£ 1,050,000	£ 4,375	£ 406	Detached
18	240	4 Bed + House	Open Market Build phase 2	£ 1,000,000	£ 4,167	£ 387	Detached
19	240	4 Bed + House	Open Market Build phase 2	£ 1,000,000	£ 4,167	£ 387	Detached
20	240	4 Bed + House	Open Market Build phase 2	£ 1,000,000	£ 4,167	£ 387	Detached
21	260	4 Bed + House	Open Market Build phase 2	£ 1,010,000	£ 3,885	£ 361	Detached
22	260	4 Bed + House	Open Market Build phase 2	£ 1,010,000	£ 3,885	£ 361	Detached
23	260	4 Bed + House	Open Market Build phase 2	£ 1,010,000	£ 3,885	£ 361	Detached
24	260	4 Bed + House	Open Market Build phase 2	£ 1,010,000	£ 3,885	£ 361	Detached
25	260	4 Bed + House	Open Market Build phase 2	£ 1,010,000	£ 3,885	£ 361	Detached
26	172	4 Bed + House	Open Market Build phase 2	£ 840,000	£ 4,887	£ 454	Detached
27	172	4 Bed + House	Open Market Build phase 2	£ 840,000	£ 4,887	£ 454	Detached
28	172	4 Bed + House	Open Market Build phase 2	£ 840,000	£ 4,887	£ 454	Detached
29	175	4 Bed + House	Open Market Build phase 2	£ 850,000	£ 4,857	£ 451	Detached
30	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 590,000	£ 4,570	£ 425	Flat
31	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 590,000	£ 4,570	£ 425	Flat
32	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 590,000	£ 4,570	£ 425	Flat
33	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 590,000	£ 4,570	£ 425	Flat
34	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 590,000	£ 4,570	£ 425	Flat
35	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 590,000	£ 4,570	£ 425	Flat
36	212	3 Bed Flat Low rise	Open Market Build phase 2	£ 890,000	£ 4,202	£ 390	Flat
37	95	3 Bed Flat Low rise	Open Market Build phase 2	£ 440,000	£ 4,656	£ 433	Flat
38	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 588,000	£ 4,555	£ 423	Flat
39	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 588,000	£ 4,555	£ 423	Flat
40	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 588,000	£ 4,555	£ 423	Flat
41	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 588,000	£ 4,555	£ 423	Flat
42	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 588,000	£ 4,555	£ 423	Flat
43	129	3 Bed Flat Low rise	Open Market Build phase 2	£ 588,000	£ 4,555	£ 423	Flat
44	212	3 Bed Flat Low rise	Open Market Build phase 2	£ 890,000	£ 4,202	£ 390	Flat
TOTAL/AVE	158			£ 30,118,000	£ 4,321	£ 401	

3.3.17 It is worth noting that any improvement in the sales value assumptions (compared with a level set at the point of the appraisal) would most likely be reflected in an improvement in scheme viability. Whilst the opposite could also occur (the sales values could fall relative to

the assumptions made), that is the developer's (applicant's) risk and such factors need to be kept in mind in making an overall assessment of the applicant's position.

3.4 Development Timings

3.4.1 The DVR states that the development timings for the proposed development include a lead-in period of 3 months, and two phases of development (as set out in the schedule above) with the first 16 units taking 20 months and the second phase of 28 units taking 21 months. Sales are assumed in the appraisal to start 14 months into construction for each phase and end 12 months after construction finishes for each phase.

3.4.2 The timings significantly exceed those seen on similar sized schemes, and exceed the timings suggested by the BCIS duration calendar indicates that the 90% confidence interval for a project of this value is 20 to 23 months, whereas the submitted assumptions total 42 months. The cost plan estimate supplied with the DVR does not indicate a contract duration. The DVR states that the reason for the time period is '*due to the topographical conditions on site and the need for substantial ground works on site as set out in the cost plan*'. The site is sloping and will require additional ground works and retaining walls.

3.4.3 In our view the time allowed for construction is excessive, and as part of our trial testing of alternative assumptions, we have reduced the overall construction period to 30 months (Phase 1 taking 12 months and Phase 2 taking 18 months), and we have adjusted the sales timings in line with the description in the DVR i.e. ending 12 months after construction finishes.

3.5 Cost Assumptions

3.5.1 The assumed build costs have been based on a RIBA Stage 2 cost plan prepared by Betteridge and Milsom, which has a build cost of £16,420,000 (including site preparation, external and abnormal costs).

3.5.2 The stated GIA is

- Houses 4,031m²
- Apartments 3,340m²
- Total 7,371m²

The NIA of the flats is 2,823 m², therefore the net:gross ratio is 85% which is within typical parameters taking into account the communal (non-saleable) areas.

3.5.3 The cost plan allows 5% for contingency and 10% for professional fees (8% for consultant fees and 2% for 'other fees/surveys'), both of which are fairly standard assumptions.

3.5.4 The stated build cost is therefore £18,965,000.

3.5.5 Site preparation costs of £241,355 have been included in the above cost, described as follows in the DVR as being '*for site clearance and preparatory groundworks*'.

3.5.6 We have reviewed the latest BCIS data rebased to a Shepway location factor. Benchmarking against BCIS, the submitted scheme costs far exceed the BCIS median cost, which based on the 5-year sample size indicates a base build cost of £10,446,322 compared to the submitted £13,123,660. We have also tested a typical allowance of 15% of base build cost for external works. Against this benchmark, the submitted external costs are far above average (equating to 23% of the submitted base build cost). We note that the scheme design is not particularly efficient, and features some areas of roadway with dwellings on only one side, meaning that the per plot cost of external works is likely to be above average. The DVR also notes that '*significant allowances have been made for retaining walls with additional allowances for the need to significantly upgrade the electricity and gas service supplies to the site. In addition, allowances have been made to form the road access with a significant difference in level from Station Road to the site entrance road. Allowances have been made regarding foundation and retaining wall types to reflect the findings of the desktop geo-technical investigation report (GES Ltd). Allowances have also been made to reflect the proposed sustainable drainage system and flood compensation measures as detailed in the flood risk assessment and drainage strategy report (Alan Baxter Partnership).*'

3.5.7 A comparison of base build costs is shown below.

Submitted build costs for comparison with BCIS (based on Betteridge & Milsom cost plan)		£/m ² BCIS - 5 yr median	Rebased to: Shepway	£ total
		1508	Flats - Generally	£ 5,036,720
		1342	Estate housing - generally	£ 5,409,602
Submitted build cost (inc prelims and OHP)	£ 13,123,660		Total base build	£ 10,446,322

Submitted build costs for comparison with BCIS (based on Betteridge & Milsom cost plan)		£/m ² BCIS - 5 yr Upper Quartile	
		Rebased to: Shepway	£ total
		1830 Flats - Generally	£ 6,112,200
		1527 Estate housing - generally	£ 6,155,337
Submitted build cost (inc prelims and OHP)	£ 13,123,660	Total base build (BCIS Upper Quartile)	£ 12,267,537

3.5.8 In addition, contingency and fee allowances are applied to the base build costs adding further development cost. Overall the submitted build costs appear high, and we will consider this further in our conclusions. As noted above with regard to sales values, build costs at this level indicate a high specification which would be expected to support strong sales values.

Agent's, Marketing & Legal Fees

3.5.9 The DVR includes sales and marketing costs of 3% as well as legal fees (on sale) at £750 per unit. Overall these allowances are considered to be not unreasonable.

Development Finance

3.5.10 Finance costs have been included in the FVA appraisal using a 7% interest rate assumption.

3.5.11 The interest rate is the cost of funds to the scheme developer; it is applied to the net cumulative negative cash balance each month on the scheme as a whole. According to the HCA in its notes to its Development Appraisal Tool (DAT): *'The rate applied will depend on the developer, the perceived scheme risk, and the state of the financial markets. There is also a credit interest rate, which is applied should the cumulative month end balance be positive. As a developer normally has other variable borrowings (such as an overdraft), or other investment opportunities, then the value of credit balances in reducing overall finance charges is generally the same as the debit interest charge. A zero rate of credit interest is not generally plausible and will generate significantly erroneous results in a long-term scheme.'*

3.5.12 We typically see rates of 6.0% to 6.5% in the current market, representing finance costs inclusive of all fees. The assumed rate of 7.0% based on 100% debt finance exceeds the rates currently seen. We have adjusted this to 6.5% (the upper end of the range suggested above, noting the recently announced interest rate rise).

CIL and S106 / Planning Obligations

- 3.5.13 The submitted appraisal does not include an allowance for S106 contributions but instead seeks to identify the surplus available for S106 developer contributions and affordable housing. The Council will need to confirm the S106 sums payable; the DVR notes that contributions will be required towards a health centre, a footpath link/zebra crossing, KCC education contributions, NHS contributions and landscape management.
- 3.5.14 A CIL contribution of £852,898 has been included in the submitted appraisal. The Council will need to confirm this sum or provide an alternative that can be applied in the appraisal.
- 3.5.15 It should be noted that any change in the chargeable sums would have an impact on the overall viability of the scheme as viewed through the appraisals. In all such reviews, we assume that all requirements that are necessary to make a scheme acceptable in planning terms will have to be included.
- 3.6 Developer's Risk Reward – Profit**
- 3.6.1 In this case, profit has been assumed at 18% on GDV for market sale units.
- 3.6.2 The Planning Practice Guidance (PPG) on Viability states: *'Potential risk is accounted for in the assumed return for developers at the plan making stage. It is the role of developers, not plan makers or decision makers, to mitigate these risks. The cost of fully complying with policy requirements should be accounted for in benchmark land value. Under no circumstances will the price paid for land be relevant justification for failing to accord with relevant policies in the plan'*. It goes on to state: *'For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types⁸'*.
- 3.6.3 Consistent with our other reviews for FHDC and across the country for schemes of this type we have tested a 17.5% profit allowance (a reduction of c. £150,000 from the submitted 18% position).

⁸ <https://www.gov.uk/guidance/viability#standardised-inputs-to-viability-assessment> - Paragraph: 018 Reference ID: 10-018-20190509

4. Recommendations / Summary

4.1.1 The overall approach to assessing the viability of the proposed development appears to be appropriate in our opinion.

4.1.2 We also consider many of the submitted assumptions to be suitable. There are some areas where we have a difference of opinion and we have tested alternative assumptions, as follows:

- Gross Development Value – we consider the submitted values to be underestimated and have tested a GDV of £30,119,000 as set out in 3.3, above. Translated to the appraisal, this equates to the following average values (shown alongside the submitted appraisal inputs for comparison):

Type/phase	Submitted	£/m ²	Ave size	DSP	£/m ²
2 bf phase 1	£ 413,125	£4,376.32	94.4	£ 418,125	£ 4,429.29
3 bh phase 1	£ 524,375	£3,502.84	149.7	£ 626,875	£ 4,188.94
3 bf phase 2	£ 589,333	£4,276.73	137.8	£ 619,200	£ 4,492.82
4+ bh phase 2	£ 752,308	£3,314.13	227	£ 959,231	£ 4,226.12

- Ground rents have been included in the appraisal (see 3.3.4, above), taking the overall submitted GDV to £26,331,000. However we note also that since the assessment was carried out the Leasehold reform (Ground rent) Bill has been granted Royal Assent (on 8 February 2022) and it has been stated by the Government *that 'the Act will be brought into force within six months of this date'*. The Act will restrict ground rents on the grant of new leases to a peppercorn. Therefore we have removed ground rents from our appraisal which has reduced the GDV by £211,200.
- Development Timings – we have reduced the construction period to 30 months in total for the proposed scheme (see 3.4.3, above) and adjusted sales timings accordingly.
- Build Costs – we have not adjusted the submitted build costs at this stage, however we note that the base build cost exceeds the upper quartile level suggested by BCIS at today's date and that the submitted external/abnormal costs – whilst relating to

various identified abnormal items such as retaining walls and piling – also appear high. Contingency and fees are applied to all of the build costs, which further increases the development costs from an already high basis. We note that build costs at this level are likely to reflect a high specification, which should translate into strong sales values.

- Finance – we have assumed and all-in finance cost of 6.5%, reduced from the submitted 7%.
- Profit – we have tested a profit on market sale units of 17.5% GDV.

4.1.3 The DVR states that the scheme as proposed, with 44 no. open market dwellings and no affordable housing generates a (negative) residual land value of -£242,614 after allowing for a developer profit of 18% GDV and CIL of £852,898 which when compared with the assumed Benchmark Land Value (BLV) of £350,000 results in a deficit of -£592,614.

4.1.4 When making our suggested adjustments as noted here, the proposed scheme produces a residual land value of £2,263,455 before any allowance for S106 contributions or AH.

4.1.5 In summary, we consider that the scheme viability appears to have been understated and the scheme will support a significant contribution to S106 and/or affordable housing. We note also that the submitted base build cost is high when compared to current BCIS rates and the sums allowed for external/abnormal works also appear high therefore the Council may wish to consider commissioning a QS review of the build costs.

4.1.6 We need to be clear our review is based on current day costs and values assumptions as described within our review based on the current scheme(s) as submitted. A different scheme may of course be more or less viable – we are only able to review the information provided.

4.1.7 Of course, no viability report or assessment can accurately reflect costs and values until a scheme is built and sold – this is the nature of the viability process and the reason for local authorities needing to also consider later stage review mechanisms when significant developments fall short of policy provision. In this sense, the applicant and their agents are in a similar position to us in estimating positions at this stage – it is not an exact science by any means, and we find that opinions can vary.

- 4.1.8 We need to be clear that the above is based on current day costs and values assumptions as described within our review based on the current scheme as submitted. A different scheme may of course be more or less viable – we are only able to review the information provided.
- 4.1.9 As regards the wider context including the Covid-19 pandemic and post-Brexit influenced economic situation, in accordance with the relevant viability guidance our review is based on current day costs and values – a current view is appropriate for this purpose. Whilst in the short term we may with more time see evidence of negative influences on viability, it is also possible that we may see some balance for example in terms of continued market resilience, development cost levels, Government interventions or other factors. Recently reported market trends and currently available forecasts point to significantly stronger housing market conditions than many were expecting or fearing a year or more ago.
- 4.1.10 As set out in the PPG, a balanced assessment of viability should consider the returns against risk for the developer and also the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission. DSP will continue to monitor the established appropriate information sources, as the Council will also be able to so.
- 4.1.11 DSP will be happy to advise further if/as required by FHDC.

**Review report ends
May 2022**