PROPERTY & DEVELOPMENT CONSULTANTS ▲ AGENTS ▲ VALUERS ▲ SURVEYORS

VIABILITY REPORT

In Respect Of

RESIDENTIAL & MEDICAL CENTRE DEVELOPMENT SITE
BELL ROAD
SITTINGBOURNE
KENT

Prepared for: Aria Group

Prepared by: Harrisons Chartered Surveyors
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S E R V I N G P R O P E R T Y I N T E R E S T S I N K E N T F O R O V E R 3 0 Y E ARS

PROPOSED RESIDENTIAL AND MEDICAL CENTRE DEVELOPMENT SITE BELL ROAD SITTINGBOURNE KENT

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PROPOSED RESIDENTIAL AND MEDICAL CENTRE DEVELOPMENT SITE BELL ROAD SITTINGBOURNE KENT

1.0 INTRODUCTION

1.1 In accordance with instructions received from Aria Group, the owners of the above site, Harrisons Chartered Surveyors have prepared this updated report setting out their opinion on the economic and market conditions that influence and justify the development of the above proposed mixed use site, including a viability appraisal of the site in relation to the provision of affordable housing and Section 106 payments.

1.2 This report is prepared in support of the planning application for the development of the site and to enable Swale Borough Council to assess the viability and sustainability of the development proposals for a mixed use scheme.

1.3 This report has been prepared by Douglas A Rogers FRICS and Jonathan Rogers MRICS, both Directors of Harrisons Chartered Surveyors. Harrisons are a Kent Regional Practice providing general professional and property consultancy and agency services to a range of private and public organisations and businesses. They have a particularly strong development consultancy influence advising landowners in relation to long term development and regeneration proposals in the region and in particular the Swale area.

1.4 This report responds to the need for the specific type of mixed use development that is proposed, the perceived timescale for delivery of the development and its market viability and comparative advantages set against other schemes within the Town Centre of Sittingbourne.

1.5 The proposed development includes the following; -

a.	Bell Road Frontage Block No. 1	47 No.	2 Bed Apartments
b.	Central Block No. 2	39 No.	1 Bed Apartments and
		67 No.	2 Bed Apartments
c.	Block No. 3		Medical / Employment Space and
		4 No.	1 Bed Apartments and
		8 No.	2 Bed Apartments

1.6 This report has been prepared following consideration of the proposed development scheme that has been prepared by OSG Architects which has formed part of a planning application to Swale Borough Council on 28th September 2016. The principle Drawings considered are OSG Architects Drawings Nos. 15-0356-02 to 15-0356-16 (Appendix 1).

1.7 Previous permissions, granted for the property, included the retention of Bell House Office Building, the construction of a Travelodge style Hotel, a Medical Centre and Pharmacy and a Sheltered Housing Scheme.

1.8 The previous owners were unable to implement the approved permission other than partial demolition of the site and the owning company was placed in administration. The administrators subsequently placed the property on the market, to be sold by private treaty.

1.9 The property was acquired for £2.55 million by Aria Group in November 2015, in competition with other prospective bidders for the site, reflecting the previous planning permissions that were granted for the site.

2.0 THE DEVELOPMENT SITE

2.1 The Bell Road site is located at the junction of the eastern end of Sittingbourne High Street and the northern end of Bell Road (Site Identification Plan – Appendix 2). The site comprises of the existing and occupied Bell House office building, the balance of the former Bell Shopping Centre and the cleared site that was a former Sainsbury's Food Store with offices on two upper floors. The balance of the site was used as a pay and display car park.

2.2 The northern part of the site has a retail frontage to the High Street and the eastern and southern boundaries are facing existing residential buildings comprising of multi – storey retirement apartment blocks and individual houses. The western boundary fronts open car parks which serve the High Street premises and a substantial Sainsbury's supermarket.

2.3 The site is within a historically mixed use location however the most recent adjacent developments have been almost entirely residential uses.

2.4 The overall site comprises of an area of approximately 2.0 acres (0.81 Ha) and prior to the partial demolition of the site the previous buildings dating from the 1970s comprised of the following:-

a. Bell House Offices ....Approximately 14,500 sq ft (1,350 m^2)
b. Bell Shopping Centre............................Approximately 24,500 sq ft (2,280 m^2)
c. Former Sainsbury Supermarket ....Approximately 51,400 sq ft (4,800 m^2)

2.5 The significant part of the retail buildings became vacant in 2004 and the demolition of a substantial part of the retail buildings was carried out in 2011.

3.0 BACKGROUND TO VIABILITY OF THE DEVELOPMENT

3.1 This appraisal is based upon the Schedule of Accommodation, attached to Appendix 3, which reflects the detailed design drawings submitted within the recent planning application. The Budget Cost estimates prepared by Woodley Coles Quantity Surveyors have also formed part of this appraisal in additional to an estimate provided by Wilmott Dixon and commentary accompanying this.

3.2 When considering the financial viability of a development and in particular in respect of planning matters regard should be given to the Royal Institution of Chartered Surveyors (RICS) Guidance Note "Financial Viability in Planning," which provides a guidance framework for development and valuation procedures in connection with the financial appraisal of development proposals.

3.3 The guidance note specifically defines the financial viability for planning purposes as follows:

"An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project."

3.4 The guidance note refers to the financial viability of a site as being essential in ensuring that, in this instance the developer must be capable of obtaining an appropriate market risk adjusted return for delivering the proposed development. Where planning obligation liabilities either reduce the site value to the landowner and or the return to the developer below an appropriate level, then the development will unlikely take place.

3.5 The financial viability of a development is also recognised in the National Planning Policy Framework (NPPF) paragraph 173, which states:

"To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable."

3.6 The government has also recognised the importance of bringing brownfield sites forward for development, for example, by providing tax breaks for remediation and putting into legislation the ability for requiring Local Authorities to release land registers of previously developed land, thus improving the chances of developing such sites and reducing the need to identify Green Field sites to meet housing needs. They have also been consulting on how to provide approval of development, in principle, to streamline the development of brownfield sites and redundant, previously employment use buildings.

4.0 SUMMARY OF PLANNING HISTORY

4.1 The Bell Road site is an important and strategic site within the regeneration of Sittingbourne Town Centre and is defined within the latest modifications to the emerging Swale Local Plan as expecting residential and health centre uses to come forward in the near future. We have assumed therefore that the recent planning application is generally in accordance with the expectations of the most recent Local Plan modifications.

4.2 The site has in recent years been underutilised and the previous buildings have fallen into disrepair and whilst efforts have been made to refurbish and redevelop the previous buildings this has not been successful in attracting suitable occupiers to the site.

4.3 The previous owners obtained planning permission for a mixed use scheme comprising of the following four planning permissions: -

a) *Application Ref No. SW/10/1400. – Approved 2nd February 2011. 4/5 Storey Sheltered Housing Building and 4 Storey Residential Building.*

b) *Application Ref No. SW/10/1402. – Approved 21st December 2010. External alterations to Bell House Offices.*

c) *Application Ref No. SW/10/1403. – Approved 2nd February 2011. 4 Storey Hotel and Public Car park.*

d) *Application Ref No. SW/10/1404. – Approved 2nd February 2011. Medical Centre Use and Refurbishment of Shopping Arcade.*

4.4 Unfortunately, they were unable to attract occupiers and developers for the scheme that was granted planning permission. This contributed to the failure of the owning company being placed in Administration. Following partial demolition of the previous buildings the site became an eyesore to this part of the town centre.

4.5 Due to the uncertainty in respect of the future redevelopment of other sites within the town, it became difficult to attract suitable retail or other employment uses to this location. Particularly since the proposed retail / leisure offer as part of the Spirit of Sittingbourne regeneration scheme is to mostly take place on the other side of the town centre. The development of the northern and central areas of the town centre have shifted the retail centre away from this location contributing to the relative unattractiveness of this location compared to other parts of the town centre.

4.6 The previous development proposals also failed due to potential competition from other more favourable locations for retail, hotel and business uses. The location was not sufficiently attractive or of sufficient value to enable the principle retirement and sheltered housing developers to take up the site.

4.7 The new owners have taken account of these factors and concluded that creating a strong nucleus of private housing presence would increase the opportunity for a successful regeneration of this part of the town centre. This would also help support the existing businesses in the vicinity and help fund the introduction of a new medical centre, that would serve the local community beyond the scheme itself, or alternative commercial uses.

4.8 The continuation of office use in Bell House has for many years been threatened by recent planning policies that have encouraged the conversion of offices to residential use. The proposed adjacent development will however integrate Bell House within the scheme and assist with the retention of Bell House as a viable employment location by making it far more attractive to office users once this area has been regenerated by the proposed scheme.

5.0 THE VIABILITY APPROACH

5.1 This scheme has been assessed using two development appraisal tools. Firstly, an appraisal has been carried out using Argus Developer appraisal software, which is commonly used by valuers and developers of sites, which includes a higher degree of detail and is generally recognised as the leading appraisal tool in the propery development industry.

5.2 We have also used the April 2016 Development Appraisal Tool, Version 4.05, developed by the Homes and Community Agency (HCA). This tool is designed to appraise, in relative detail, a residential led development scheme in order to assess the viability of the site and establish the ability to fund affordable housing and other planning obligations, at an early stage of the planning process.

5.3 The data included within these appraisals has been input based on information provided by a number of different parties.

5.4 The schedule of accommodation which provides a breakdown of each unit, by floor and size, has been used to determine the size of each element within each block for the purposes of assessing the sales values. These accommodation details have been provided by OSG Architects, the designers of the proposed scheme.

5.5 The Gross Development Values (GDV's) of the proposed scheme (Scheme Revenue) reflect the expected sale values of the individual residential units, assuming they have already been fully and satisfactorily completed, and are based on comparable sales evidence, provided by Harrisons Residential, who are active Residential Estate Agents in Sittingbourne. The comparable evidence data can be found at Appendix 4.

5.6 The development costs of the site have been adopted based on the Construction Budget Estimate of the proposed scheme produced by Woodley Coles Quantity Surveyors, attached to Appendix 5. Whilst, you may note that the size of the scheme costed varies slightly with that now proposed, we have adopted the rate per Square Metre to ensure that the scheme costs are on a like for like basis.

Scheme Revenue

5.7 Appropriate adjustments have been made to the comparable evidence, as detailed in Appendix 4, to reflect the location, size, outlook and other more detailed factors that define the sale price of a property on the open market, such as the modern and energy efficient design of the proposed development. The comparable evidence shows comparable properties that have been sold, or are under offer to sell. This data also shows properties that are currently on the market, illustrating purchase prices sought for such flats in the current market.

5.8 The detailed breakdown of the estimated sale values of the proposed residential flats, assuming they have already been fully and satisfactorily completed, are as detailed in the attached Schedule of Accommodation at Appendix 3. It should be noted that the adopted values assume 1 car parking space per unit, even though some flats will not have car parking spaces, included within the purchase price.

5.9 This schedule also includes the value of the Medical Centre, which, it was anticipated would be let in shell condition. It was originally expected that the Medical Centre would be let at £12.50 per sq ft subject to an initial rent free period of 9 months. However, we understand that the Medical interest in the property has now fallen away and therefore the property could be let as offices or another use such as a children's day nursery etc, subject to consent. Since it is not known of the property would be fitted out, for the purposes of this viability report, we have continued to adopt a shell condition at the above mentioned rent. We have also adopted an investment yield of 9%, after allowance for the rent free period, equating to a capital sale value of £1.86 million.

5.10 A summary of the estimated values of the proposed development is as follows: -

a.	Bell Road Frontage Block No. 1	47 No. Apartments	£10,260,000
b.	Central Block No. 2	106 No. Apartments	£21,680,000
c.	Block No. 3	12 Apartments	£2,400,000
d.	Block No. 3	Medical Centre	£1,860,000
	Total Estimated Gross Revenue		**£36,200,000**

Scheme Costs

5.11 Woodley Coles Quantity Surveyors have undertaken a detailed estimate of the proposed costs for the development of the site in accordance with the proposed scheme. The elemental summary of the estimated costs is as follows: -

Ref	Phase/Facility	BLOCK 1 sqm = £Value	BLOCK 1 4,492 £/sqm	BLOCK 2 sqm = £Value	BLOCK 2 10,156 £/sqm	BLOCK 3 sqm = £Value	BLOCK 3 2,242 £/sqm	TOTAL sqm = £Value	TOTAL 16,890 £/sqm
	Strip-Out and Alteration								
0	Facilitating Works	0	0	0	0	0	0	0	0
1	Substructure	972,860	217	2,599,765	256	554,120	247	4,126,745	244
2	Superstructure	2,505,572	558	4,597,150	453	1,752,834	782	8,855,556	524
3	Internal Finishes	513,736	114	1,098,156	108	144,538	64	1,756,430	104
4	Fittings, Furnishings and Equipment	268,000	60	608,000	60	70,000	31	946,000	56
5	Services	1,256,850	280	2,686,320	265	353,220	158	4,296,390	254
6	Prefabricated Building & Building units	0	0	0	0	0	0	0	0
7	Works to existing buildings	112,500	25	0	0	0	0	112,500	7
8	External works	181,778	40	778,349	77	57,546	26	1,017,673	60
	SUB-TOTAL: Building	**5,811,296**	**1,294**	**12,367,740**	**1,218**	**2,932,258**	**1,308**	**21,111,294**	**1,250**
9	Main Contractor Preliminaries	1,162,259	259	2,473,548	244	586,452	262	4,222,259	250
10	Main Contractor OH&P	523,017	116	1,113,097	110	263,903	118	1,900,016	112
	TOTAL: BUILDING	**7,496,572**	**1,669**	**15,954,385**	**1,571**	**3,782,612**	**1,687**	**27,233,569**	**1,612**
11	Project/Design Team Fees	562,243	125	1,196,579	118	283,696	127	2,042,518	121
12	Other Development / Project Costs	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded
	TOTAL: BASE COST	**8,058,815**	**1,794**	**17,150,964**	**1,689**	**4,066,308**	**1,814**	**29,276,087**	**1,733**
13	Risk	805,882	179	1,715,096	169	406,631	181	2,927,609	173
14	Inflation	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded
	TOTAL (Excluding VAT)	**8,864,697**	**1,973**	**18,866,060**	**1,858**	**4,472,939**	**1,995**	**32,203,696**	**1,907**

5.12 The detailed breakdown of the above budget estimate is provided in **Appendix 5**.

5.13 Willmott Dixon, one of the prospective contractors, have also provided their own costs with analysis and comparison to those provided by Woodley Coles. We also include an email setting out the differences between Willmott Dixon and Woodley Coles to provide a basis for the fairly substantial difference in cost. Both of these documents are attached to **Appendix 6** of this report.

5.14 Since the contractor, Willmott Dixon, have provided a quote for the works along with a robust analysis in comparison to Woodley Coles costs, we have adopted the costs based on the quote provided by Willmott Dixon. For each phase, the quote provides for the base costs of construction and associated development costs. Our appraisals have adopted the rate Per Sq metre for each block, as detailed within the quote to ensure consistency where design changes have taken place. The separate figures of 7.5% Professional Fees, 10% risk (Contingencies) and Contractor's Overheads and Profit have also been adopted within our appraisals.

5.15 Following the receipt of the above costings for the scheme and in a response to feedback from various stakeholders and the local community, the level of parking was reconsidered and options were presented for designing in an increased level of parking within the scheme.

5.16 The developer has opted for an option to provide underground car parking, with the long term aim of this being self-financing by selling or renting these spaces at additional cost, separate to the value of the flats. It is therefore proposed that any additional cost for constructing this car parking area will be paid for by future car parking receipts. Since this is a recent and cost neutral change with no impact on viability, we have not incorporated this within our viability assessments.

5.17 As you will note within our conclusions section of this report, as a result of the questionable viability, our client is therefore considering undertaking the project management of the scheme since they have the required expertise within the family and which will result in a significant cost saving. In order to reflect this, we have undertaken a second appraisal, where we have removed the Contractor's Overheads and Profit to effectively extract the contractors profit from the figures. Further details and the results of this assessment are set out within the conclusion section of this report.

5.18 The current value of the site included within these assessments is the actual purchase price, adjusted to reflect the apportionment of the total acquisition price between the development site itself and Bell House Office Building, which was also included within the acquisition by the current owners.

5.19 The site, along with the neighbouring Bell House, were marketed over a period of 1 year from January 2015. A number of bidders came forward and the eventual purchasers were chosen, partly due to the bid level and the availability of funds to complete the transaction.

5.20 The total purchase price of the property was £2,550,000 of which part of the value is apportioned to Bell House office building; the net cost for the development site being £1,550,000 excluding costs of acquisition and VAT. Since higher bids were also received, we have assumed that this figure fairly represents the purchase price for the site having regard to the existing uses and planning permissions previously granted for the site.

5.21 Also, included within the appraisal are additional allowances that are required including disposal agency costs, legal costs and associated marketing costs.

5.22 Any developer of the site is expected to receive a reasonable return against risks and costs of developing the site and we have assumed a developer's risk of 15% of GDV. It is our experience that many developers would normally require a higher percentage of circa 20% or more for a scheme of this type, given the very substantial development cost outlay prior to any return from sales being achieved. Our conclusions are therefore modest in this regard.

5.23 Our appraisals have been undertaken utilising the estimated sale values of properties within the completed development and the construction and other associated costs of development, developer's profit, and disposal costs.

6.0 AFFORDABLE HOUSING

6.1 This viability assessment has been prepared in order to assess whether the inclusion of affordable housing within the scheme would materially affect the viability of the overall scheme and reference to this is included within the conclusion of this report.

6.2 Notwithstanding the result of the viability assessment, the owners have discussed the opportunity of including affordable housing within the scheme and offers received from RSLs were too low to enable the scheme to be financially viable. Whilst the level of bid may change during the planning period, depending on changes in government policy and funding of RSL development, our conclusions provide more detail on what effect this may have.

7.0 SECTION 106 CONTRIBUTIONS

7.1 The previous planning permissions were linked to section 106 agreement contributions totalling in the region of £60,600. The proposed new scheme is materially different and we assume section 106 costs may need to be reconsidered but will have regard to the viability of the scheme and the significant increase in housing for local people and associated council tax receipts.

8.0 CONCLUSIONS

8.1 Our conclusions to this report assess what, if any, affordable housing and S106 developer contributions could be viably included within the proposed scheme, in context to the proposed and expected costs and revenues.

8.2 There are two ways of assessing a development site's viability, by considering whether the profit level is at or above the level that any developer would normally deem acceptable having regard to the complexity of the scheme or by comparing the site value in relation to it's Market Value.

8.3 In this instance, the existing land owner acquired the site on a competitive basis following a marketing campaign and there is nothing to suggest that the apportioned purchase price is above or below the Market Value. Given that the Market Value of the site is known, our appraisals have therefore assessed whether an acceptable level of developer's profit is achievable from the proposed scheme.

8.4 Firstly, we have carried out an appraisal of the site using Argus Developer to assess the developer's profit having regard to all the scheme's revenue, development costs including the purchase price of £1.55m as set out within this report. Our appraisal has made no allowance for S106 contributions or affordable housing, which would result in additional development costs.

8.5 Our appraisal results using Argus Developer, as attached to **Appendix 7** of this report, shows a negative profit level of -£6,330,947, compared to a normal developers profit level of +£5,430,000, representing 15% of GDV. This suggests that the scheme on this basis is significantly unviable by the tune of £11,760,947.

8.6 Revising the scheme costs, taking into account the personal circumstances of the Developer, where they will Project Manage the build rather than employing an independent contractor provides some cost savings that could potentially be achieved. The appraisal on this basis, as attached to **Appendix 8** of this report, shows a developer's profit of approximately nil, which is still circa £5,400,000 less than the market would normally seek to obtain for such a development.

8.7 Notwithstanding the unviability of the scheme on this basis, our client is content to proceed since they are confident that by adjusting phasing and providing a mix of private rented and sale units, the flats can be occupied quicker than would be the case if all units were simply sold, therefore resulting in a faster income stream than would otherwise be the case. This results in a potential notional profit on GDV of circa 5% and therefore remains very marginal and is specific to the client who would need to refinance the property as part of holding some units as an investment.

8.8 On the basis of these figures, the scheme is unable to fund any affordable housing or Section 106 developer contributions, as a result of the high scheme costs in relation to the expected values of completed units.

8.9 As a result of the above, the developer has a choice to either do nothing and hope for more favourable conditions in the future, sell the site at less than the purchase price or build out the scheme which will result in a loss. Clearly, in order for the scheme to proceed as proposed, it will already be dependent on some cost savings or additional revenue.

8.10 In addition to using the Argus Developer software, we have also used the appraisal tool produced by the Homes & Communities Agency (HCA). The HCA Development Appraisal tool also assesses the relationship between the Total Scheme Revenue against the Total Costs of Development, including the land purchase price, finance costs and developers profit.

8.11 As can be seen from the HCA appraisal Scheme Results, set out in **Appendix 9**, the total value of the scheme £36,273,031 is lower than the total scheme costs of £48,421,288 excluding developers profit, resulting in a deficit of £10,465,052 rendering the scheme unviable on the basis of a Developer's Profit of 15%. This is consistent with the Argus Developer results.

8.12 This further emphasises that the development is not therefore likely to generate sufficient surplus funds to meet the normal developers return that would be expected for a scheme of this type and scale, particularly given the scheme is already supporting a commercial element as part of the proposal.

8.13 Whilst the developer may choose to proceed on this basis given the limited options, having already purchased the site, any additional costs would jeopardise the development going ahead particularly where bank finance is required to fund the construction. The bank would unlikely advance funds where there is a loss or it could cost more to reflect the heightened bank's risk, which would be closely linked to the viability of the development scheme.

8.14 Issues with viability are not unusual in certain circumstances and this arises due to a number of reasons including the increased costs of developing brownfield sites, the general increasing costs of construction, limited demand for flats in Sittingbourne, lack of car parking and the depression of property values in this location.

8.15 Summing up, inclusion of affordable housing or Section 106 contributions would very likely increase the cost of the development beyond the current already questionable viability, rendering the scheme unlikely to proceed.

8.16 It is therefore requested that, on this occasion, the Local Authority instead consider the benefits of this scheme, including; the regeneration of a site that has been in decline for a number of years, the continued use of Bell House as an employment hub, provision towards the much needed housing for the borough particularly at the lower end of the pricing range, the provision of additional employment space and the significant job creation opportunities during the construction phase and knock on effect to the local community.

9.0 GENERALLY

9.1 This report and any related documentation is prepared on behalf of Harrisons Chartered Surveyors, a trading name of Harrisons Property Surveyors Limited.

9.2 This Report is confidential to the Client for the specific purpose to which it refers. It is for the use only to the party to whom it is addressed together with others assisting in respect of that purpose. No responsibility is accepted to any third party for the whole or any part of its contents. 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 in any way without our prior written approval of the form and context in which it may appear.

9.3 We trust that we have provided you with sufficient information for your present purposes, but if there are any aspects you wish to discuss or if we can provide you with any further information at this time, please do not hesitate to contact us again.

Yours faithfully

Douglas Rogers FRICS
Director

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Director