

## APPENDIX 3



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### 153-155 London Road, Sittingbourne, Kent, ME10 1PE - Viability Report

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**Prepared for Clarity Properties Limited and Swale Borough Council**

8<sup>th</sup> June 2017

Tim Mitford-Slade MLE MRICS

Planning Application Reference: SW/13/0568 which supersedes planning permission SW/08/1124.

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### 1. Executive Summary

- 1.1 I have been instructed by Clarity Properties Limited to carry out an independent financial appraisal of the proposed development scheme for which planning permission was granted under reference SW/13/0568, along with a Section 106 Agreement, for the redevelopment of 153-155 London Road, Sittingbourne, Kent, ME10 1PE (“the Property”). The planning decision notice is attached as **Appendix A**. This independent financial appraisal is required in order to assess the viability implications of proposed planning obligations in respect of affordable housing and wider Section 106 costs.
- 1.2 This Viability Report supports the planning permission for redevelopment of the Property to provide 26 flats together with new access, parking, cycle store and amenity space following demolition of the existing buildings. The site is also subject to a Section 106 Agreement, although it has already been accepted that the developer cannot provide on-site affordable housing. Instead, on a without prejudice basis the developer is willing to make a contribution towards off-site housing, as put to members of the planning committee on 2<sup>nd</sup> February 2017. The planning committee deferred the application to advise the developer to provide affordable housing, or increase the contribution. Having assessed the reasons behind this decision, this Report sets out my opinion that the planning committee has ignored the principles set out in the National Planning Policy Framework (“NPPF”) which form the basis of viability assessments, namely the entitlement of a willing landowner or willing developer to receive competitive returns to enable the development to be deliverable. Subsequently, this Viability Report seeks to address whether or not the proposed scheme can be delivered in compliance with existing policy or whether or not, on viability grounds, due regard needs to be given to the quantum, if any, of affordable housing and wider Section 106 obligations.
- 1.3 I have given due regard to the NPPF, The Royal Institution of Chartered Surveyors Guidance Note 1<sup>st</sup> Edition *Financial Viability in Planning* and the “Harman” report being *Viability Testing Local Plans* produced by the Local Government Association, The Home Builders Federation and the NHBC chaired by Sir. John Harman June 2012. The guidance contained in these documents has assisted in formulating the opinions set out in this report.
- 1.4 Having undertaken a detailed analysis of the proposed development I have reached the conclusion that the scheme remains unviable even with a Section 106 contribution in the form of a fixed commuted sum of only £40,000 (made up of £36,191 as requested, and topped up to £40,000). The developer purchased the site at a market peak in 2007, and has since weathered a severe economic downturn and incurred significant holding costs over the course of a decade. Therefore, despite the

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blatant unviability of this project, the developer is willing to build out the project as an exit strategy to recoup some of the costs outlaid. Any additional Section 106 costs would only weaken the financial ability of the developer to do so. Although I accept the council would lose out on financial contributions, there are clear benefits to this strategy, such as eradicating an eyesore on an arterial route into town which is an obvious magnet for antisocial behaviour.

- 1.5 The developer is willing to bring the site forward given their long standing involvement during a difficult period in the housing market, albeit accepting that margins are now essentially non-existent. They can only do so without the burden of further Section 106 costs over and above the £40,000 allowed for. I also note that the costs being incurred whilst being unable to develop the site, such as security and interest, are only like to erode the viability of this figure as time goes on. At committee, the developer offered a further commuted sum of £31,000 payable at pre-determined trigger points if and when the development yields an appropriate profit margin. This offer will be withdrawn if the application is again deferred or refused as this viability report clearly identifies that it cannot be justified under viability grounds.

## 2. The Site

- 2.1 The Property is located on London Road (A2) just outside Sittingbourne town centre in the County of Kent. London Road itself is characterised by Victorian terraced residential properties in a linear formation interspersed with a handful of commercial premises and a large state school. The Property itself is bound to the north by the A2 with residential dwellings and a petrol filling station beyond. To the east and south of the Property lies a Wickes DIY store with associated parking. This site is understood to have previously been occupied by Berpul Chemical Products operating as a fertiliser factory. Immediately to the west of the Property lies a detached bungalow and its associated garden with residential dwellings beyond.
- 2.2 The Property is located approximately 1 mile west of Sittingbourne town centre and 1 mile east of the A249 junction which provides a link onto Junction 5 of the M2 and Junction 10 of the M20. The M2 provides access to the coast in one direction and on towards London (46 miles) in the other. Nearby towns include Faversham (7 miles), Rainham (7 miles), Sheerness (10 miles), Maidstone (12 miles) and Canterbury (16 miles). There is a bus stop almost directly opposite the Property which provides transport to various local towns and there is a mainline station at Sittingbourne which connects to London Victoria with an estimate journey time of 60 minutes. Sittingbourne town centre provides a full range of retail, business, leisure, educational and civic amenities with a further range in nearby towns. An ESSO garage is within 50 metres of the subject Property on the opposite side of London Road along with a local newsagent.
- 2.3 The site extends to approximately 0.35 acres (0.14 hectares) and is roughly rectangular in shape and of gently sloping topography from the southern to northern boundary. It is currently occupied by a derelict building which has been subject to extensive fire damage. The rest of the site is hard surfaced, brownfield land. It should be noted that I have not seen a copy of the Title Plan and these boundaries are therefore indicative only and ought to be verified by the lender.
- 2.4 The original access to the Property off London Road has been blocked up and a new access has been created to the east over the new adopted standard road to the Wickes DIY store. This new arrangement is to satisfy the requirements of the Highways Authority and the trade-off is that Wickes

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have provided some additional land including six parking spaces. The area of the site has therefore been marginally extended to the east since it was purchased by the Borrower. At present, the Property provides the remains of a fire damaged office to the front with a number of lock-up garages to the rear.

### 3. Background

- 3.1 Planning permission was granted by Swale Borough Council under application reference SW/08/1124 for “demolition of existing buildings and redevelopment of site to provide 12, two bedroom apartments, 14, one bedroom apartments, amenity space, 26 car parking spaces and cycle store and new vehicular access”. The site is also subject to a Section 106 Agreement which requires a secondary education contribution of £589.95 per 2-bedroom flat, a library contribution of £227 per dwelling, an adult education contribution of £180 per dwelling and an open space contribution of £17,940. Furthermore, the policy requires 30% of the residential units to be affordable, which is defined as “subsidised housing that will be available to persons who cannot afford to rent or buy housing generally available on the open market”. This report has been commissioned to establish exactly what quantum of affordable housing and Section 106 costs can be borne by the proposed scheme whilst remaining viable in planning terms.
- 3.2 Planning permission was granted on 8<sup>th</sup> August 2013 under the reference SW/13/0568 to “replace an extant planning permission SW/08/1124” in order to “extend the time limit for implementation”. The notification of grant of permission again referred to the Section 106 Agreement relating to this development.
- 3.3 A modification of the Section 106 agreement went to planning committee on 2<sup>nd</sup> February 2017. It proposed that on-site affordable housing was removed, with a viability re-assessment submitted upon occupation of the 21<sup>st</sup> unit and a commuted sum payable at a minimum of £31,000 for off-site affordable housing. The chairman moved the officer recommendation to approve the application and this was seconded. However, following the meeting the resolution was to defer the application ‘to allow officers to advise the developer to either provide affordable housing or more than £31,000 for off-site affordable housing, and that it cannot be dependent upon their profit margins’. Upon conclusion of this Viability Report, it is my opinion that the sum offered by the developer was in excess of what should be considered reasonable, and it would now be unrealistic to expect any offer over and above the £40,000 in Section 106 costs that is already agreed, comprising just £3,809 towards affordable housing. The developer is nevertheless prepared to commit to the additional £31,000 as put to the committee but this offer will be withdrawn if the application is again deferred or refused as this viability report clearly identifies that it cannot be justified under viability grounds.
- 3.4 I have had sight of the notes, which I feel reflect a wider sentiment of frustration towards developers which has unfairly been aimed towards this particular project. Firstly, it is unreasonable to demand a developer does not take into account their profit margin – a just reward for the risk taken in property development, and a suitable way of limiting losses in the effect of wider market conditions which are out of the developer’s control. More agreeable is the view of the Senior Planning Officer, who rightly pointed out that while affordable housing may have been viable in 2008 with the housing market at its peak, that does not mean it is now. Since then there have been huge economic consequences resulting from the recession which continue to impact interest rates, lender sentiment, house prices, building costs and developer confidence. Indeed, an attached Strutt & Parker research paper (**Appendix B**) refers to a BNP Paribas report which indicated developers were working on profit margins of 15-17% of GDV in 2007, which has resulted in banks now demanding higher profit margins

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to reflect “perceived and actual risk”. It should be expected that developers and lenders alike are much more cautious and responsible in the market now, which is reflected within my viability appraisals.

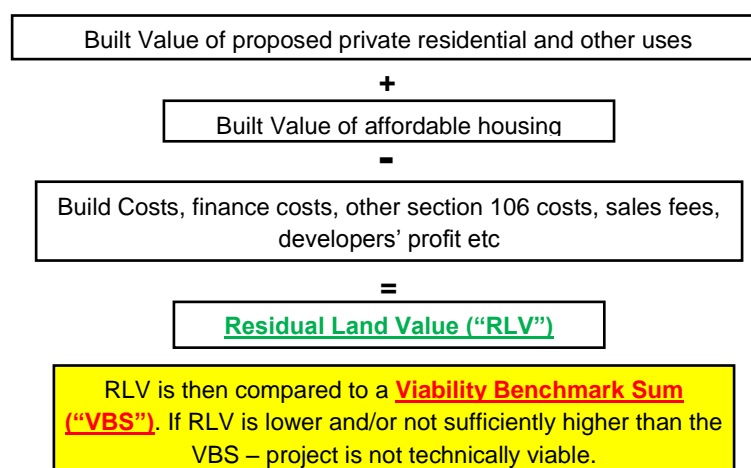
- 3.5 The NPPF refers to ensuring viability and delivery of development at Sec. 173-177 and states “to ensure viability, the costs of any requirement likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should 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”. I believe in this case, a reasonable return to the land owner would be recouping the costs of the 2007 purchase of the site, which stands at £630,000. Additionally, a willing developer would reasonably be expected to make a return in the region of 17.5% to 20%, as supported by the research paper in **Appendix B**. This return insulates the developer from risk and wider economic factors, which is particularly prevalent in this case considering the time of the site purchase.

#### 4. Basis of Appraisals

- 4.1 The appraisals and figures provided herein do not strictly speaking fall within the scope of the RICS (Royal Institution of Chartered Surveyors) “Red Book” and is not a formal valuation in that context. However, the principles of good practice have been followed and detailed justification for the indicative values and/or component valuation appraisals are provided. More to the point, the appraisal is in direct line with the RICS Guidance on Financial Viability in Planning.
- 4.2 The report is provided purely to assist planning discussions with Swale Borough Council.
- 4.3 The viability report is provided on a confidential basis and I therefore request that the report should not be disclosed to any third parties (other than Swale Borough Council and their advisers), under the Freedom of Information Act 2000 (Section 41 and 43/2) or under the Environmental Information Regulation. The report is not to be placed in the public domain. In addition, I do not offer Swale Borough Council, their advisers and/or any third parties a professional duty of care.

#### 5. Viability and Planning

- 5.1 Scheme viability is normally assessed using residual valuation methodology.
- 5.2 A summary of the residual process is:





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- 5.3 If the RLV driven by a proposed scheme is reduced to significantly below an appropriate VBS, it follows that it is commercially unviable to pursue such a scheme, and the scheme is unlikely to proceed.
- 5.4 The RLV approach (as summarised above) can be inverted so that it becomes a 'residual profit appraisal' based upon the insertion of a specific land cost/value (equivalent to the VBS) at the top. By doing this, the focus is moved onto the level of profit driven by a scheme. This is a purely presentational alternative.
- 6. VBS (or Land Cost/Value Input, also referred to as Site Viability Benchmark Sum)**
- 6.1 The Royal Institution of Chartered Surveyors ("RICS") published their long awaited Guidance Note on this subject in 2012 (Financial Viability in Planning – RICS Guidance Note – GN 94/2012 August 2012).
- 6.2 The RICS have consulted more extensively than any other body on this subject to date and I believe that their latest guidance now represents the best possible consolidated guidance on this subject. However, due regard has also been given to the Harman guidance already referred to. The fundamental difference between the two is the approach to the VBS. Harman believes the dominant driver should be Existing Use Value ("EUV") (whereupon I believe they mean Current Use Value, or "CUV" which, based upon RICS guidance, excludes all hope value for a higher value through alternative uses). On the other hand, RICS states that the dominant driver should be Market Value (assuming that any hope value accounted for has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan).
- 6.3 A few local authorities and their advisors are still trying to disregard premiums applicable to EUVs or CUVs (i.e. EUV/CUV only - which was the basis being incorrectly enforced for several years) but the reference to 'competitive returns' in the NPPF and planning precedent has now extinguished this stance.
- 6.4 There has been concern about how one can identify and logically justify what premium should be added to an EUV or CUV and what exactly EUV means. It is not as straight-forward as one might initially think.
- 6.5 There has also been some concern about Market Value potentially being influenced by land transaction comparables and/or bids for land that are excessive (thus triggering an inappropriate benchmark). However, I believe that any implied suggestion that developers deliberately (or might deliberately) over-pay for land in order to avoid having to deliver S.106 affordable housing contributions is misguided. Land buyers and developers seek to secure land for as little money as possible. They do not seek to overpay and are aware of the associated planning and financial risks should they do so. My view is that, if professional valuers disregard inappropriate land transaction comparables (e.g. where over-payments appear to have occurred accidentally or for some other legitimate but odd reason) and other inappropriate influences in deriving Market Value, both of which they should, Market Value is on-balance the more justifiable, logical, reasonable and realistic approach – albeit not perfect.

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- 6.6 I believe that the premium over EUV or CUV to identify an appropriate VBS is in fact the same as the percentage difference between EUV or CUV and Market Value. In other words, both approaches should lead to the same number. However, Market Value is the logical side to approach this conundrum from.
- 6.7 As such, I have followed the latest RICS Guidance herein as well as recent Planning Inspectorate decisions including that by Clive Hughes BA (Hons) MA DMS MRTPI in Land at The Manor, Shinfield, Reading under Reference APP/X0360/A/12/2179141.
- 6.8 Of particular note, the RICS guidance says:
- a) Site Value either as an input into a scheme specific appraisal or as a benchmark is defined in the guidance note as follows, “Site Value should equate to the Market Value subject to the following assumption that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan.”
  - b) An accepted method of valuation of development sites and land is set out in RICS Valuation Information Paper (VIP) 12. This paper is shortly to be re-written as a Global Guidance Note.
  - c) Reviewing alternative uses is very much part of the process of assessing the Market Value of land and it is not unusual to consider a range of scenarios for certain properties. Where an alternative use can be readily identified as generating a higher value, the value for this alternative use would be the Market Value.
  - d) The nature of the applicant should normally be disregarded as should benefits or dis-benefits that are unique to the applicant.
  - e) The guidance provides this definition in the context of undertaking appraisals of financial viability for the purposes of town planning decisions: *An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project.*
  - f) With regard to indicative outline of what to include in a viability assessment it is up to the practitioner to submit what they believe is reasonable and appropriate in the particular circumstances and for the local authority or their advisors to agree whether this is sufficient for them to undertake an objective review.
  - g) For a development to be financially viable, any uplift from current use value to residual land value that arises when planning permission is granted must be able to meet the cost of planning obligations whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project (the NPPF refers to this as ‘competitive returns’ in paragraph 173 on page 41). The return to the landowner will be in the form of a land value in excess of current use value but it would be inappropriate to assume an uplift based upon set percentages, given the heterogeneity of individual development sites. The land value will be based upon 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 are known.



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- h)** Sale prices of comparable development sites may provide an indication of the land value that a landowner might expect but it is important to note that, depending on the planning status of the land, the market price will include risk-adjusted expectations of the nature of the permission and associated planning obligations. If these market prices are used in the negotiations of planning obligations, then account should be taken of any expectation of planning obligations that is embedded in the market price (or valuation in the absence of a price). In many cases, relevant and up to date comparable evidence may not be available or the heterogeneity of development sites requires an approach not based on direct comparison. The importance, however, of comparable evidence cannot be over-emphasised, even if the supporting evidence is very limited, as evidenced in Court and Land Tribunal decisions.
- i)** The assessment of Market Value with assumptions is not straightforward but must, by definition, be at a level which makes a landowner willing to sell, as recognised by the NPPF. Appropriate comparable evidence, even where this is limited, is important in establishing Site Value for a scheme specific as well as area wide assessments.
- j)** Viability assessments will usually be dated when an application is submitted (or when a CIL charging schedule or Local Plan is published in draft). Exceptions to this may be pre-application submissions and appeals. Viability assessments may occasionally need to be updated due to market movements or if schemes are amended during the planning process.
- k)** Site purchase price may or may not be material in arriving at a Site Value for the assessment of financial viability. In some circumstances the use of actual purchase price should be treated as a special case.
- l)** It is for the practitioner to consider the relevance or otherwise of the actual purchase price, and whether any weight should be attached to it, having regard to the date of assessment and the Site Value definition set out in the guidance.
- m)** Often in the case of development and site assembly, various interests need to be acquired or negotiated in order to be able to implement a project. These may include: buying in leases of existing occupiers or paying compensation; negotiating rights of light claims and payments; party wall agreements, over sailing rights, ransom strips/rights, agreeing arrangements with utility companies; temporary/facilitating works, etc. These are all relevant development costs that should be taken into account in viability assessments. For example, it is appropriate to include rights of light payments as it is a real cost to the developer in terms of compensation for loss of rights of light to neighbouring properties. This is often not reflected in Site Value given the different views on how a site can be developed.
- n)** It is important that viability assessments be supported by adequate comparable evidence. For this reason, it is important that the appraisal is undertaken by a suitably qualified practitioner who has experience of the type, scale and complexity of the development being reviewed or in connection with appraisals supporting the formulation of core strategies in local development frameworks. This ensures that appropriate assumptions are adopted and judgement formulated in respect of inputs such as values, yields, rents, sales periods, costs, profit levels and finance rates to be assumed in the appraisal. This should be carried out by an independent practitioner and ideally a suitably qualified surveyor.

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- o) The RICS Valuation Standards 9<sup>th</sup> Edition (“Red Book”) gives a definition of Market Value as follows:
- The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after properly marketing and where the parties had each acted knowledgeably, prudently and without compulsion.
  - The Red Book also deals with the situation where the price offered by prospective buyers generally in the market would reflect an expectation of a change in the circumstances of the property in the future. This element is often referred to as ‘hope value’ and should be reflected in Market Value. The Red Book provides two examples of where the hope of additional value being created or obtained in the future may impact on the Market Value:
    - the prospect of development where there is no current permission for that development; and
    - the prospect of synergistic value arising from merger with another property or interests within the same property at a future date.
  - The guidance seeks to provide further clarification in respect of the first of these by stating that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan.
  - The second bullet point above is particularly relevant where sites have been assembled for a particular development.
  - It should be noted that hope value is not defined in either the Valuation Standards. That is because it is not a basis of value but more a convenient way of expressing the certainty of a valuation where value reflects development for which permission is not guaranteed to be given but if it was, it would produce a value above current use.
  - To date, in the absence of any guidance, a variety of practices have evolved which benchmark land value. One of these, used by a limited number of practitioners, has been to adopt Current Use Value (“CUV”) plus a margin or a variant of this (Existing Use Value (“EUV”) plus a premium). The EUV / CUV basis is discussed below. The margin is an arbitrary figure often ranging from 10% to 40% above CUV but higher percentages have been used particularly in respect of green-field and rural land development.
  - In formulating this guidance, well understood valuation definitions have been examined as contained within the Red Book. In arriving at the definition of Site Value (being Market Value with an assumption), the Working Party / Consultant Team of this guidance have had regard to other definitions such as EUV and Alternative Use Value (“AUV”) in order to clarify the distinction necessary in a financial viability in a planning context. Existing Use Value is defined as follows:
    - “The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after properly marketing and where the parties had each acted knowledgeably, prudently and without compulsion assuming that the buyer is granted vacant possession of all parts of the property

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required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause Market Value to differ from that needed to replace the remaining service potential at least cost.”

- It is clear the above definition is inappropriate when considered in a financial viability in planning context. EUV is used only for inclusion in financial statements prepared in accordance with UK accounting standards and as such, hypothetical in a market context. Property does not transact on an EUV (or CUV) basis.
- It follows that most practitioners have recognised and agreed that CUV does not reflect the workings of the market as land does not sell for its CUV, but rather at a price reflecting its potential for development. Whilst the use of CUV plus a margin does in effect recognise hope value by applying a percentage increase over CUV it is a very unsatisfactory methodology when compared to the Market Value approach set out in the Guidance and above. This is because it assumes land would be released for a fixed percentage above CUV that is arbitrary inconsistently applied and above all does not reflect the market.
- Accordingly, the guidance adopts the well understood definition of Market Value as the appropriate basis to assess Site Value, subject to an assumption. This is consistent with the NPPF, which acknowledges that “willing sellers” of land should receive “competitive returns”. Competitive returns can only be achieved in a market context (i.e. Market Value) not one which is hypothetically based with an arbitrary mark-up applied, as in the case of EUV (or CUV) plus.
- So far as alternative use value is concerned, the Valuation Standards state where it is clear that a purchaser in the market would acquire the property for an alternative use of the land because that alternative use can be readily identified as generating a higher value than the current use, and is both commercially and legally feasible, the value for this alternative use would be the Market Value and should be reported as such. In other words, hope value is also reflected and the answer is still Market Value.

## **7. The Proposed Scheme**

- 7.1 Planning permission has been granted for a scheme of 26 apartments on site. The planning consent, originally dated 18<sup>th</sup> May 2010 and superseded by SW/13/0568 dated 8<sup>th</sup> August 2013 is for “demolition of existing buildings and redevelopment of site to provide 12, two bedroom apartments, 14, one bedroom apartments, amenity space, 26, parking spaces and cycle store and new vehicular access”. However, the consent also relates to amended drawings received 25<sup>th</sup> February 2009 and additional information received 17<sup>th</sup> February and 23<sup>rd</sup> February 2009. The amended drawings clearly show 13, two bedroom apartments and 13 one bedroom apartments. As such, it is this scheme which is the subject of the Viability Report and I assume that the wording of the consent has now been superseded by the revised drawings.
- 7.2 The proposed development is in an L-shaped block with five storey accommodation on the corner of London Road and the road into the Wickes site. The roof height then falls away to three storey accommodation. The drawings appear to show a traditional brick and block concrete frame construction, and I have hence assumed this to be the preferred method of construction.

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7.3 I have been provided with a schedule of areas which is as follows:

Unit	Floor	Bedrooms	Bathrooms	Area (sq.ft)	Area (sq.m)	Comments
1	Ground	2	1	520	48.29	Small garden
2	Ground	2	1	541	50.29	Garden
3	Ground	1	1	408	37.89	Patio
4	Ground	1	1	408	37.89	Patio
5	Ground	2	1	643	59.76	Patio
6	First	1	1	456	42.37	Over vehicular entrance
7	First	1	1	450	41.83	Over vehicular entrance
8	First	2	1	537	49.91	Balconies to front and rear
9	First	2	1	530	49.24	Corner balcony
10	First	1	1	422	39.20	Balconies to front and rear
11	First	1	1	422	39.20	Balconies to front and rear
12	First	2	1	666	61.88	Balconies to front and rear
13	Second	1	1	456	42.38	Over vehicular entrance
14	Second	1	1	450	41.83	Over vehicular entrance
15	Second	2	1	537	49.91	Balconies to front and rear
16	Second	2	1	541	50.30	Corner balcony
17	Second	1	1	422	39.20	Balconies to front and rear
18	Second	1	1	422	39.20	Balconies to front and rear
19	Second	2	1	643	59.76	Balconies to front and rear
20	Third/ Fourth	2	2	801	74.42	Private lift and balcony
21	Ground	2	1	499	46.37	Patio
22	First	2	1	499	46.37	Balconies to front and rear
23	First	1	1	460	42.71	Balcony to rear
24	First	1	1	460	42.71	Balcony to rear
25	Second	2	1	508	47.18	Large balconies to front and rear
26	Second	1	1	373	34.65	Large balcony to rear

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### 8. Market Value of Existing Site (Viability Benchmark)

- 8.1 I have had sight of the Title Register for the Property, which confirms the current owner purchased the site for a sum of £630,000 in 2007 at the height of the market, reflecting good prospects for development and attractive returns. Due to the fact the original planning application was submitted in 2008, I believe this purchase price is an accurate reflection of value at the time in relation to a potential residential development site. The market subsequently collapsed, with the Land Registry figures reporting a 19.2% decrease in residential values in Kent between the top of the market in December 2007 and the bottom in April 2009. The value of flats fell even greater than the average property according to the same data. This absolutely emphasises the necessity of developers allowing for a risk adjusted return due to wider market factors.
- 8.2 Since the purchase in 2007, the existing buildings on the site have been severely damaged by fire, which had led us to consider the subsequent impact on land value. However, the buildings were to be demolished as part of the planning application, and I would therefore argue that the value of the original development opportunity did not take the existing buildings into account.
- 8.3 Finally, due regard has been given to the land value of a vacant brownfield site in an urban location with clear development potential.
- 8.4 The conclusion reached is that the Property has an Existing Use Value or Viability Benchmark Sum, in line with the original purchase price of £630,000 against which the profit margin of the proposed scheme can be tested.

### 9. Alternative Use Value (AUV) (Development Scheme)

- 9.1 In looking at the market solution for the site it is not possible to carry out full appraisals of all potential development options. This report therefore examines the scheme as detailed under planning application reference SW/13/0568.

### 10. Development Value Appraisal

- 10.1 In order to assess the viability of the proposed scheme to bear affordable housing and 106 contributions I have constructed a development appraisal using the Argus Property Software Package, a widely used and recognised appraisal tool. The appraisal is attached as **Appendix C** and can be summarised as follows:

**A. Acquisition Costs** – I have inserted the 2007 purchase price of £630,000 into the appraisal, along with the historic stamp duty paid at £13,700. Other fees bring the total acquisition costs to £687,500, whilst an additional uplift of £25 psf over 10,000 sq ft was also payable at £77,000,

**B. Revenue (Gross Development Value)** – Based upon comparable evidence in the market place, the Gross Development Value is assessed at between £225 psf and £270 psf, dependent on the size of the units. Capital values therefore range from £100,000 for the smallest one-bedroom flat, to £180,000 for the largest 2-bedroom apartment. This takes into account comparable transactions in the locality as well as the particular characteristics of this site which is located on a relatively

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busy arterial road with a mixture of surrounding uses involving petrol stations and retail warehouses amongst other residential stock. The reversionary freehold interest in the land is also included at £78,000.

**B. Construction Costs** – All construction costs are based on BCIS endorsed tender priced costings rebased for Kent as at 13<sup>th</sup> May 2017. For new build flats extending to 3 storeys, this is £139 psf.

A contingency allowance has been adopted at 5% in line with standard market practice taking into account that this is a brownfield site likely to require remediation and demolition works.

**C. Other Construction Costs** – Due regard has been given to demolition and remediation works totalling approximately £58,000 in order to prepare the site for a residential led redevelopment. Also included is £19,500 to cover the warranties associated with the completed new builds, along with £30,000 as an appropriate figure for the security costs incurred since the purchase of the Property.

**D. Fees and Finance** – Along with acquisition costs and planning fees an allowance has been made for professional fees at 10% in line with industry standards along with agents and marketing fees and legal costs.

Finance rates of 6.25% have been adopted, based on interest costs and bank fees, over a total cash activity period of 15 months comprising a 12 month phased build programme and a 6 month sales programme with the last units being sold 3 months' post construction.

**E. Section 106 Costs** – At this juncture an allowance for Section 106 costs has been made as follows:

▪ Section 106 Agreement	£36,191
▪ Additional affordable housing contribution	£3,809

In total this would provide for a total Section 106 cost of £40,000.

## 11. Conclusion

- 11.1 The appraisal yields a profit, or developer's return, of just 0.65% on GDV. It is widely accepted that, for a scheme to be technically viable in planning terms, an acceptable return for a developer is in the range of 17.5% to 20%. On complex brownfield sites, and particularly post-Brexit, it is widely accepted that returns will be at the upper end of this spectrum going forward, certainly much closer to 20%. As alluded to previously in this Report, the profit margin is crucial for absorbing unexpected shocks in the economy, along with hidden costs on brownfield sites, and is a suitable sum commuted on the risk taken by the developer. Clearly, a return of just 0.65% is significantly below any form of acceptable margin and is absolutely not viable in planning terms.
- 11.2 In my opinion, this scheme is such a long way off being viable that any Section 106 payments at all simply adds to the costs and will reduce the viability further. However, as previously mentioned the developer is keen to build the scheme and exit the site and is willing to honour the previous commitment to provide a total package of £40,000 in payments, almost double the total projected profit of this scheme.



## 153-155 London Road, Sittingbourne, Kent, ME10 1PE

- 11.3 Upon conclusion of this Viability Report, it is my opinion that the sum offered by the developer was in excess of what should be considered reasonable, and it would now be unrealistic to expect any offer over and above the £40,000 in Section 106 costs that is already agreed, comprising just £3,809 towards affordable housing. The developer is nevertheless prepared to commit to the additional £31,000 as put to the committee but this offer will be withdrawn if the application is again deferred or refused as this viability report clearly identifies that it cannot be justified under viability grounds.



**Tim Mitford-Slade MLE MRICS**

Partner & Head of Development & Valuation  
Strutt & Parker LLP

8<sup>th</sup> June 2017



# APPENDIX A

1 **Swale House, East Street,  
Sittingbourne, Kent ME10 3HT**  
DX59900 Sittingbourne 2  
Phone: 01795 417850  
Fax: 01795 417141  
www.swale.gov.uk



TOWN AND COUNTRY PLANNING ACT 1990

Application: SW/13/0568

Case no: 00744

### NOTIFICATION OF GRANT OF PERMISSION TO DEVELOP LAND

TO: Clarity Properties Ltd  
C/o Mr Keith Plumb  
Woodstock Associates  
53 Woodstock Road  
Sittingbourne  
Kent  
ME10 4HJ

TAKE NOTICE that Swale Borough Council, in exercise of its powers as a Local Authority under the Town and Country Planning Acts, **HAS GRANTED PERMISSION** for development of land situated at:

153 London Road, Sittingbourne, Kent, ME10 1PA

and being Application to replace an extant planning permission SW/08/1124 (Demolition of existing buildings and redevelopment of site to provide 12, two bedroom apartments, 14, one bedroom apartments, amenity space, 26, parking spaces and cycle store and new vehicular access) in order to extend the time limit for implementation.

referred to in your application for permission for development accepted as valid on 9<sup>th</sup> May 2013.

SUBJECT TO THE CONDITIONS specified hereunder:-

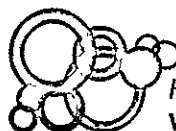
- (1) The development to which this permission relates must be begun not later than the expiration of three years beginning with the date on which the permission is granted.

Grounds: In pursuance of Section 91 of the Town and Country Planning Act 1990 as amended by the Planning and Compulsory Purchase Act 2004

- (2) The development hereby approved shall be carried out in accordance the following approved drawings:

Grounds: For the avoidance of doubt and in the interests of proper planning.

YOUR ATTENTION IS DRAWN TO THE NOTES OVERLEAF  
FOR FURTHER INFORMATION – SEE ATTACHED SHEET



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Prior to commencement

- (3) Prior to the commencement of the development hereby approved details of the materials to be used in construction shall be submitted to and approved in writing by the Local Planning Authority. Development shall be carried out in accordance with those approved details.

Grounds: In the interests of visual amenity.

- (4) Prior to the commencement of the development hereby approved, a plan indicating the position, details and materials of the boundary treatments has been submitted to and approved in writing by the Local Planning Authority. The boundary treatment shall be completed prior to the occupation of the first residential dwelling and shall thereafter be retained.

Grounds: In the interests of visual amenity.

- (5) Prior to the commencement of the development hereby approved full details of both hard and soft landscaping works shall be submitted to and approved in writing by the Local Planning Authority. These details shall include proposed finish levels of contours, means of enclosure, parking layouts, hard surfacing materials, planting plans with written specifications and heights.

Grounds: In the interests of visual amenity of the area.

- (6) Prior to the commencement of the development hereby approved, the Code for Sustainable Homes registration number, a design stage certificate and confirmation of the code level that will be achieved for dwellings as indicated in the submitted application shall be submitted to, and approved in writing by the Local Planning Authority. The development shall be carried out in accordance with the approved details unless any variation has been approved in writing by the Local Planning Authority. All dwellings within the development shall achieve a minimum of Code Level 3 of the Code for Sustainable Homes as confirmed within the submitted documents, or an equivalent rating in any subsequent replacing standard that has been agreed in writing by the Local Planning Authority.

Grounds: In the interests of promoting energy efficiency and sustainable development.

FOR FURTHER INFORMATION – SEE ATTACHED SHEET



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TOWN AND COUNTRY PLANNING ACT 1990

Application: SW/13/0568

Case no: 00744

- (7) Prior to the commencement of the development hereby approved a contaminated land assessment (and associated remediation strategy if relevant) shall be submitted to and approved in writing by the Local Planning Authority. The assessment shall comprise:
- i) An investigation, including relevant soil, soil gas, surface and groundwater sampling, carried out by a suitably qualified and accredited consultant/contractor in accordance with a Quality Assured sampling and analysis methodology.
  - ii) A site investigation report detailing all investigative works and sampling on site, together with the results of analyses, risk assessment to any receptors and a proposed remediation strategy which shall be of such a nature as to render harmless the identified contamination given the proposed end-use of the site and surrounding environment, including any controlled waters.

Grounds: To ensure any contaminated land is adequately dealt with.

- (8) The commencement of the development shall not take place until a programme for the suppression of dust during demolition of the existing buildings and construction of the development has been submitted to and approved in writing by the Local Planning Authority. The measures approved shall be employed throughout the period of works unless any variation has been approved by the Local Planning Authority.

Grounds: In the interests of visual amenity.

- (9) Notwithstanding the submitted plans and prior to the commencement of development hereby approved, details of the elevations of the southern block of development and any noise attenuation measures to be provided to the building shall be submitted to and approved in writing by the Local Planning Authority. Development shall be carried out in accordance with those approved details.

Grounds: In the interests of amenity.

FOR FURTHER CONDITIONS & GROUNDS – SEE ATTACHED SHEET



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TOWN AND COUNTRY PLANNING ACT 1990

Application: SW/13/0568

Case no: 00744

During Construction

- (10) No impact pile driving in connection with the construction of the development shall take place on the site on any Saturday, Sunday or Bank Holiday, nor on any other day except between the following times: Monday to Friday 0900 - 1700 hours unless in association with an emergency or with the prior written approval of the Local Planning Authority.

Grounds: In the interests of residential amenity.

- (11) Construction activity in association with the development herein approved shall only take place between the hours of Monday to Friday 0730 to 1900 hours and Saturdays 0730 to 1300 and no works shall take place outside of these times including on any Sunday or Bank or national holidays.

Grounds: In the interests of residential amenity

Prior to occupation

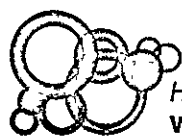
- (12) Before any part or agreed phase of the development is occupied, all remediation works identified in the contaminated land assessment and approved by the Local Planning Authority shall be carried out in full (or in phases as agreed in writing by the Local Planning Authority) on site under a quality assured scheme to demonstrate compliance with the proposed methodology and best practice guidance. If, during the works, contamination is encountered which has not previously been identified, then the additional contamination shall be fully assessed and an appropriate remediation scheme agreed with the Local Planning Authority.

Grounds: To ensure any contaminated land is adequately dealt with.

- (13) Upon completion of the works identified in the contaminated land assessment, and before any part or agreed phase of the development is occupied, a closure report shall be submitted which shall include details of the proposed remediation works with quality assurance certificates to show that the works have been carried out in accordance with the approved methodology. Details of any post-remediation sampling and analysis to show the site has reached the required clean-up criteria shall be included in the closure report together with the necessary documentation detailing what waste materials have been removed from the site.

Grounds: To ensure any contaminated land is adequately dealt with.

**FOR FURTHER CONDITIONS & GROUNDS – SEE ATTACHED SHEET**



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Application: SW/13/0568

Case no: 00744

- (14) All hard and soft landscaping plans shall be carried out in accordance with those approved details. The works shall be carried out prior to the occupation of the first dwelling in accordance with a programme agreed by the Local Planning Authority. The approved planting stock shall be maintained for a minimum period of five years following its planting and any of the stock that dies or is destroyed within this period shall be replanted in accordance with details to be submitted and approved by the Local Planning Authority.

Grounds: In the interests of visual amenity of the area.

- (15) No dwelling shall be occupied until space has been laid out within the site in accordance with the details shown on the application plans for cycles to be parked.

Grounds: To ensure that there is sufficient cycle parking at the site in the interests of sustainable development

On-going

- (16) The areas shown for vehicle parking shall be kept available for such a use and no development whether permitted by the Town and Country Planning (General Permitted Development) Order 1995 (as amended) or any Order revoking or re-enacting that Order shall be carried out on the land so as to preclude vehicular access and parking.

Grounds: In the interests of amenity and to prevent on-street parking and inconvenience to other road users.

**FOR FURTHER INFORMATION – SEE ATTACHED SHEET**



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### Council's approach to this application

The Council recognises the advice in paragraphs 186 and 187 of the National Planning Policy Framework (NPPF) and seeks to work with applicants in a positive and proactive manner by offering a pre-application advice service; having a duty planner service; and seeking to find solutions to any obstacles to approval of applications having due regard to the responses to consultation, where it can reasonably be expected that amendments to an application will result in an approval without resulting in a significant change to the nature of the application and the application can then be amended and determined in accordance with statutory timescales.

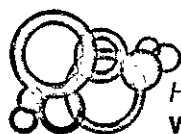
In this case the application was acceptable as submitted.

PLEASE ALSO NOTE THAT THERE IS AN AGREEMENT UNDER SECTION 106 OF THE TOWN AND COUNTRY PLANNING ACT 1990 RELATING TO THIS DEVELOPMENT

8<sup>th</sup> August 2013

Dated: .....

James Freeman  
Head of Planning



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# APPENDIX B



# Viability in Planning

## The Appropriate Level of Developers Profit in Viability Appraisals

November 2016

### Introduction

Viability assessments are considered a crucial tool in assisting with the development of plans and planning policy, and have become ever more ingrained in the planning process since the introduction of the National Planning Policy Framework in 2012. As a result, Strutt & Parker are often instructed by clients to produce viability appraisals, of which an important element is the regularly disputed developer's profit. In paragraph 015 of the NPPF it is stated that viability should consider "*competitive returns to a willing landowner and willing developer to enable the development to be deliverable*". After extensive market research, Strutt & Parker adopted a 20% profit on Gross Development Value (GDV) for use in our viability appraisals, and this paper briefly summarised some of the evidence used to reach that conclusion.

### Executive Summary

- RICS guidance dictates that for a scheme to be viable, a developer's return cannot fall below the level which is acceptable in the market for the risks involved in undertaking a scheme of that nature.
- Without viability assessments, it is conceivable that approximately half of major developments in the UK would not take place.
- Strutt & Parker use a developer's profit of 20% GDV as a cost in Residual Land Valuations when assessing whether or not a scheme is viable.
- There is evidence across the industry which supports a developer's profit of 20% on GDV being used in viability appraisals from House Builders, Local Planning Authorities, Appeal Cases and Surveying Firms.
- Strutt & Parker conclude that a developer's profit of 20% on GDV is a figure reflective of attitudes towards risk, is aligned with current market expectations and is supported by research from across the industry.

### Viability Appraisals

Guidance for the application for developer's profits in viability appraisals is outlined in Section 3.3 of the RICS Professional Guidance Note titled *Financial Viability in Planning* and is as follows:



*“3.3.1 When a developer’s return is adopted as the benchmark variable, a scheme should be considered viable, as long as the cost implications of planning obligations are not set at a level at which the developer’s return (after allowing for all development costs including Site Value) falls below that which is acceptable in the market for the risk in undertaking the development scheme. If the cost implications of the obligations erode a developer’s return below an acceptable market level for the scheme being assessed, the extent of those obligations will be deemed to make a development unviable as the developer would not proceed on that basis.*

*3.3.2 The benchmark return, which is reflected in a developer’s profit allowance, should be at a level reflective of the market at the time of the assessment being undertaken. It will include the risks attached to the specific scheme. This will include both property-specific risk, i.e. the direct development risks within the scheme being considered, and also broader market risk issues, such as the strength of the economy and occupational demand, the level of rents and capital values, the level of interest rates and availability of finance. The level of profit required will vary from scheme to scheme, given different risk profiles as well as the stage in the economic cycle. For example, a small scheme constructed over a shorter timeframe may be considered relatively less risky and therefore attract a lower profit margin, given the exit position is more certain, than a large redevelopment spanning a number of years where the outturn is considerably more uncertain. A development project will only be considered economically viable if a market risk adjusted return is met or exceeds a benchmark risk-adjusted market return.”*

## **Importance in Planning**

There are several planning obligations imposed on developers by Local Authorities which include s106, s106BC (affordable housing) and CIL among others. Viability assessments play a crucial role in ensuring these obligations are not set at a level which would make the scheme unviable for the developer, and are often the basis for negotiations with the Council. According to official Government Planning Inspectorate Statistics<sup>1</sup>, 43% of s106 Planning Obligations Appeals were allowed in 2015/2016 across the UK, with 44% of s106BC Appeals also allowed. These figures peaked in 2014/15 when 59% of s106 Planning Obligations appeals were allowed throughout the UK. This demonstrates that without these appeals, which are often supported by viability assessments, approximately half of the proposed major development in the UK would potentially fail to take place. Due to the importance of these assessments in taking development forward, there is huge scrutiny placed on the inputs which form the basis of the viability appraisals.

## **Industry Commentary**

To reach our adopted input of 20% developer’s returns on GDV, Strutt & Parker gathered extensive market commentary on the topic. This includes (but is not limited to) the opinions of industry experts, planners, house builders, planning law and official appeal cases. Some of these are included as follows:

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<sup>1</sup> Online at <https://www.gov.uk/government/statistics/planning-inspectorate-statistics>

### RICS Research

The RICS *Financial Viability Appraisal in Planning Decisions: Theory and Practice* paper researched viability and stated “*there is no evidence ... that there is a generally accepted level of profit from development*”. This is in line with the NPPF Para 024, which discourages a set figure in order to reflect current market conditions – “*A rigid approach to assumed profit levels should be avoided and comparable schemes or data sources reflected wherever possible*”. However, the report does go on to cite the Land at the Manor, Shinfield case as evidence of an appeal which explores the relevant level of developer profit to be used in viability appraisals. Recognition by the RICS makes the Shinfield case a key reference for this topic.

### Land at the Manor, Shinfield

The Inspector’s decision relating to Land at the Manor, Shinfield, deemed that a “*reasonable*” competitive return to the developer was a **20%** margin on the GDV of both market and affordable housing. This was based on evidence provided by developers – “*the national house builder’s figures are to be preferred and that is a figure of 20% of GDV*”.

### Barratt Homes

Barratt Homes outlined their policy for including profit in their appraisals during a presentation titled “*Assessing Viability – A House Builders Perspective*” given by Philip Barnes. They stated that a **20%** profit on GDV is used in their appraisals mainly to protect in the event of costs overrunning, and to avoid investors abandoning the company if there is a repeat of the pre-2007 irresponsible land buying. The evidence they used to justify their 20% figure during the presentation is as follows:

- “*My experience is that bankers will not provide funding with a profit of less than 20% of GDV*” – Planning Inspectorate Review of Stockton EVA, here discussing the levels of developer returns in Para 2.10.2.
- In the *Viability Study BNP Paribas – London Borough of Brent*, it is noted how developer profits ranged from 15% to 17% of GDV in 2007 before the financial crisis. BNP use this as their foundation to explain how “*banks currently require a scheme to show higher profits*” to “*reflect perceived and actual risk*” (Para 3.19). Consequently Barratt argue a return of **20%** on GDV is their minimum profit requirement as they do not believe banks will support the scheme otherwise.

Barratt also put emphasis on their presentation in how profit should be calculated as a % of GDV, not costs. To justify this, they refer to the Harman Report which references Page 37 of *Viability Testing Local Plans – Advice for Planning Practitioners*. Here it states “*developer margin expressed as percentage of GDV should be default methodology, with alternative modelling techniques used as the exception*”, although it gives no indication of what level of profit should be applied.





### Indications from Local Authorities

There is a common perception that developers and Local Planning Authorities are divided over the assumptions which should be used in a viability appraisal. However, there are several examples of LPA's both in London and the UK Regions citing 20% of GDV as a reasonable level of developer's profit, some of which are as follows:

- On 20<sup>th</sup> April 2015 Ashford Borough Council held a developer's workshop as part of their *Plan and CIL Viability Review*, which Strutt & Parker attended. In point 10 of their Viability Presentation, ABC included a **20%** developer return on GDV in their Build Costs schedule in their example of a suitable Residual Value Approach.
- The London Borough of Barking references a **20%** profit on GDV for developers on Page 16 of their EVA Affordable Housing and CIL publication.
- The Examiner's Report (July 2012) for the Bristol City Council Draft CIL Charging Schedule noted that "using an average figure of **20%** [profit] across the city is not unreasonable or unrealistic".

### Savills

Savills Research published a report in 2014 titled *CIL – Getting It Right*, in which they outlined the viability appraisal assumptions applied by the company's surveyors on Page 6. Savills apply a standard set of assumptions in their residual appraisals, amongst which "the appraisal should allow for a competitive return to the developer". For this return, they use a "**20%** margin on GDV across all tenures, in line with evidence that this is a minimum requirement across the cycle". This is a good indication that surveyors across the industry are using the same profit assumptions in their viability appraisals.

### **Conclusion**

We realise that the level of required profit margins in viability assessments will continue to be disputed throughout the industry. However, we are confident that the market research included in this paper has given us a strong foundation to form our opinion of 20% profit on GDV as a suitable input for developer's returns. This figure is reflective of current attitudes towards risk and lending, is aligned with current market expectations and is firmly supported by research from across the industry.

### **Prepared by:**

#### **Luke Mullaney (BSc)**

South East Valuations and Development & Planning

Telephone: 01227473703

Email: luke.mullaney@struttandparker.com

**APPENDIX 3**



# APPENDIX C

# Strutt & Parker LLP

## Development Appraisal

153-155 London Road Sittingbourne

Viability Appraisal for Swale Borough Council

SW/13/0568

Report Date: 21 June 2017

Prepared by Tim Mitford-Slade MLE MRICS

**APPRAISAL SUMMARY****STRUTT & PARKER LLP**

**153-155 London Road Sittingbourne**  
**Viability Appraisal for Swale Borough Council**

**Summary Appraisal for Phase 1**

Currency in £

**REVENUE**

<b>Sales Valuation</b>	<b>Units</b>	<b>ft²</b>	<b>Rate ft²</b>	<b>Unit Price</b>	<b>Gross Sales</b>
Flat 1 GF 2 bed 520 sq ft	1	520	250.00	130,000	130,000
Flat 2 GF 2 bed 541 sq ft	1	541	249.54	135,000	135,000
Flat 3 GF 1 bed 408 sq ft	1	408	257.35	105,000	105,000
Flat 4 GF 1 bed 408 sq ft	1	408	257.35	105,000	105,000
Flat 5 GF 2 bed 643 sq ft	1	643	241.06	155,000	155,000
Flat 6 FF 1 bed 456 sq ft	1	456	252.19	115,000	115,000
Flat 7 FF 1 bed 450 sq ft	1	450	255.56	115,000	115,000
Flat 8 FF 2 bed 537 sq ft	1	537	246.74	132,500	132,500
Flat 9 FF 2 bed 530 sq ft	1	530	245.28	130,000	130,000
Flat 10 FF 1 bed 422 sq ft	1	422	260.66	110,000	110,000
Flat 11 FF 1 bed 422 sq ft	1	422	260.66	110,000	110,000
Flat 12 FF 2 bed 666 sq ft	1	666	240.24	160,000	160,000
Flat 13 SF 1 bed 456 sq ft	1	456	252.19	115,000	115,000
Flat 14 SS 1 bed 450 sq ft	1	450	255.56	115,000	115,000
Flat 15 SF 2 bed 537 sq ft	1	537	246.74	132,500	132,500
Flat 16 SF 2 bed 541 sq ft	1	541	249.54	135,000	135,000
Flat 17 SF 1 bed 422 sq ft	1	422	260.66	110,000	110,000
Flat 18 SF 1 bed 422 sq ft	1	422	260.66	110,000	110,000
Flat 19 SF 2 bed 643 sq ft	1	643	241.06	155,000	155,000
Flat 20 Pent 2 bed 801 sq ft	1	801	224.72	180,000	180,000
Flat 21 GF 2 bed 499 sq ft	1	499	250.50	125,000	125,000
Flat 22 FF 2 bed 499 sq ft	1	499	250.50	125,000	125,000
Flat 23 FF 1 bed 460 sq ft	1	460	250.00	115,000	115,000
Flat 24 FF 1 bed 460 sq ft	1	460	250.00	115,000	115,000
Flat 25 SF 2 bed 508 sq ft	1	508	246.06	125,000	125,000
Flat 26 SF 1 bed 373 sq ft	1	373	268.10	100,000	100,000
Rev Freehold Interest	<u>1</u>	<u>0</u>	0.00	78,000	<u>78,000</u>
<b>Totals</b>	<b>27</b>	<b>13,074</b>			<b>3,338,000</b>

**NET REALISATION**

**3,338,000**

**OUTLAY****ACQUISITION COSTS**

Fixed Price			630,000	
Stamp Duty			13,700	
Agent Fee		1.00%	6,300	
Legal Fee		0.75%	4,725	
Town Planning	28 un	1,000.00 /un	28,000	
Survey			5,000	
				687,725

**Other Acquisition**

Uplift of £25 psf over 10,000 sq ft			76,850	
				76,850

**CONSTRUCTION COSTS**

<b>Construction</b>	<b>ft²</b>	<b>Rate ft²</b>	<b>Cost</b>
Flat 1 GF 2 bed 520 sq ft	520 ft²	139.00 pf²	72,280
Flat 2 GF 2 bed 541 sq ft	541 ft²	139.00 pf²	75,199
Flat 3 GF 1 bed 408 sq ft	408 ft²	139.00 pf²	56,712
Flat 4 GF 1 bed 408 sq ft	408 ft²	139.00 pf²	56,712
Flat 5 GF 2 bed 643 sq ft	643 ft²	139.00 pf²	89,377
Flat 6 FF 1 bed 456 sq ft	456 ft²	139.00 pf²	63,384
Flat 7 FF 1 bed 450 sq ft	450 ft²	139.00 pf²	62,550
Flat 8 FF 2 bed 537 sq ft	537 ft²	139.00 pf²	74,643
Flat 9 FF 2 bed 530 sq ft	530 ft²	139.00 pf²	73,670
Flat 10 FF 1 bed 422 sq ft	422 ft²	139.00 pf²	58,658

**APPRAISAL SUMMARY****STRUTT & PARKER LLP****153-155 London Road Sittingbourne****Viability Appraisal for Swale Borough Council**

Flat 11 FF 1 bed 422 sq ft	422 ft <sup>2</sup>	139.00 pf <sup>2</sup>	58,658	
Flat 12 FF 2 bed 666 sq ft	666 ft <sup>2</sup>	139.00 pf <sup>2</sup>	92,574	
Flat 13 SF 1 bed 456 sq ft	456 ft <sup>2</sup>	139.00 pf <sup>2</sup>	63,384	
Flat 14 SS 1 bed 450 sq ft	450 ft <sup>2</sup>	139.00 pf <sup>2</sup>	62,550	
Flat 15 SF 2 bed 537 sq ft	537 ft <sup>2</sup>	139.00 pf <sup>2</sup>	74,643	
Flat 16 SF 2 bed 541 sq ft	541 ft <sup>2</sup>	139.00 pf <sup>2</sup>	75,199	
Flat 17 SF 1 bed 422 sq ft	422 ft <sup>2</sup>	139.00 pf <sup>2</sup>	58,658	
Flat 18 SF 1 bed 422 sq ft	422 ft <sup>2</sup>	139.00 pf <sup>2</sup>	58,658	
Flat 19 SF 2 bed 643 sq ft	643 ft <sup>2</sup>	139.00 pf <sup>2</sup>	89,377	
Flat 20 Pent 2 bed 801 sq ft	801 ft <sup>2</sup>	139.00 pf <sup>2</sup>	111,339	
Flat 21 GF 2 bed 499 sq ft	499 ft <sup>2</sup>	139.00 pf <sup>2</sup>	69,361	
Flat 22 FF 2 bed 499 sq ft	499 ft <sup>2</sup>	139.00 pf <sup>2</sup>	69,361	
Flat 23 FF 1 bed 460 sq ft	460 ft <sup>2</sup>	139.00 pf <sup>2</sup>	63,940	
Flat 24 FF 1 bed 460 sq ft	460 ft <sup>2</sup>	139.00 pf <sup>2</sup>	63,940	
Flat 25 SF 2 bed 508 sq ft	508 ft <sup>2</sup>	139.00 pf <sup>2</sup>	70,612	
Flat 26 SF 1 bed 373 sq ft	373 ft <sup>2</sup>	139.00 pf <sup>2</sup>	51,847	
Communal Areas	<u>1,950 ft<sup>2</sup></u>	56.00 pf <sup>2</sup>	<u>109,200</u>	
<b>Totals</b>	<b>15,024 ft<sup>2</sup></b>		<b>1,926,486</b>	<b>1,926,486</b>
Contingency		5.00%	96,324	
Demolition			28,000	
Section 106			36,191	
				160,515
<b>Other Construction</b>				
NHBC Warranties	26 un	750.00 /un	19,500	
Commuted Sum			3,809	
Remediation Contingency			20,000	
Site Security Costs			30,000	
				73,309
<b>PROFESSIONAL FEES</b>				
Prof Fees		10.00%	192,649	
				192,649
<b>MARKETING &amp; LETTING</b>				
Marketing		1.00%	32,600	
				32,600
<b>DISPOSAL FEES</b>				
Sales Agent Fee		1.25%	41,725	
Sales Legal Fee		0.75%	25,035	
				66,760
<b>FINANCE</b>				
Debit Rate 6.250% Credit Rate 1.250% (Nominal)				
Land			42,815	
Construction			49,141	
Other			7,533	
Total Finance Cost				99,489
<b>TOTAL COSTS</b>				<b>3,316,383</b>
<b>PROFIT</b>				<b>21,617</b>
<b>Performance Measures</b>				
Profit on Cost%		0.65%		
Profit on GDV%		0.65%		
Profit on NDV%		0.65%		
IRR		6.63%		
Profit Erosion (finance rate 6.250%)		0 yrs 1 mths		

**TIMESCALE AND PHASING GRAPH REPORT****STRUTT & PARKER LLP**

153-155 London Road Sittingbourne  
Viability Appraisal for Swale Borough Council

**Project Timescale Summary**

Project Start Date	Jun 2017
Project End Date	Aug 2018
Project Duration (Inc Exit Period)	15 months

Phase Phase 1

