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SWALE BOROUGH COUNCIL

153 - 155 London Road, Sittingbourne

Viability Assessment

August 2017

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1.0 Introduction

1.1 CBRE has been appointed by Swale Borough Council (SBC) to provide viability advice in relation to the proposed residential development at 153 – 155 London Road, Sittingbourne. Clarity Properties Limited is the applicant and SBC is the Local Planning Authority. Strutt and Parker LLP is providing viability advice to Clarity Property Limited (the applicant) as part of the process.

1.2 CBRE is providing specialist viability advice to SBC relating to the proposed development at London Road by interrogating the issues associated with the viability of the scheme and by reviewing the development appraisals and supporting information submitted by the applicant.

1.3 The intention of CBRE's review is to analyse and critically appraise the appropriate level of affordable housing provision that the scheme can withstand when taking into account what is considered 'viable'. CBRE will critically evaluate the applicant's assertion that the development is suffering in terms of viability and cannot support any further contribution to affordable housing above the commuted sum already allowed for.

1.4 We understand the site currently benefits from a detailed planning consent (which includes a signed S106 agreement) and was granted on 8th August 2013 (planning reference SW/13/0568). The applicant submitted a modification to the S106 agreement which went to Planning Committee on 2nd February 2017, proposing the removal of on-site affordable housing, with a viability review on occupation of the 21st unit and a commuted sum payable at a minimum of £31,000. The S106 agreement allows for contributions totalling £36,191, the applicant has offered an additional £3,809 as a commuted sum towards off-site affordable housing. We understand the additional £3,809 has not yet been agreed by SBC.

1.5 SBC's policy requires 10% affordable housing provision within Sittingbourne with the tenure split being 90% rented and 10% shared ownership as set out in the recently adopted Local Plan 'Bearing Fruits 2031'.

1.6 CBRE's approach is based on undertaking a 'toolkit' development appraisal based on industry best practice[1] and considering whether there is a need for SBC to consider a reduction in its requirements (affordable housing and/or S106 obligations).

1.7 CBRE has had regard to the following reports and information in undertaking this report comprising:

- Viability Report as prepared by Strutt and Parker LLP on behalf of the applicant dated June 2017; and
- Development Appraisals prepared by Strutt and Parker LLP dated June 2017 appended to the applicant's Viability Report.

1.8 There has been an exchange of emails with Strutt and Parker to clarify some of the assumptions and inputs to the model.

1.9 Viability is at the heart of the delivery of development and this principle is embodied in the 2012 National Planning Policy Framework. This report therefore analyses and presents the viability issues affecting this site leading to a recommendation as to the appropriate affordable housing provision and level of S106 contributions that the scheme can support.

[1] Viability Testing Local Plans, Advice for Planning Practitioners – Local Housing Delivery Group Chaired by Sir John Harman, June 2012

RICS Professional Guidance England – Financial Viability in Planning 1st Edition (GN 94/2012)

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2.0 The Site

2.1 The site comprises a cleared brownfield site circa 1.6 km (1 mile) to the west of Sittingbourne town centre, on the southern side of London Road (A2). Access to the A249 is within 1.6 km (1 mile) to the west of the site which provides direct access to the M2 motorway at Junction 5. Sittingbourne railway station is 1.4 km (0.9 mile) to the east of the site, providing services to London Victoria and London St Pancras International as well as local connections.

2.2 The whole site extends to approximately 0.14 ha (0.35 acres) and we understand from the applicant's design and access statement that the site is roughly rectangular in shape. It formerly consisted of a derelict office building which had been subject to fire damage and a number of lock-up garages. These buildings have now been cleared. We understand from the applicant's viability assessment that the site has previously been occupied by Berpul Chemical Products operating as a fertiliser factory. We have not undertaken a site visit.

2.3 The site boundaries comprise London Road to the North; the access road (unnamed) to the Wickes store to the east; the rear of the Wickes store to the south; and a neighbouring property to the west.

2.4 A site plan is attached at **Appendix 1**.

2.5 The original access to the property which was taken off London Road has been stopped up and a new access has been created to the east of the site, off the newly adopted road to the Wickes DIY Store. Wickes have provided some additional land, including six car parking spaces and the area of the site has therefore been marginally extended to the east since it was purchased by the applicant. A plan showing the additional land shaded in purple is provided at **Appendix 2.** The applicant has not confirmed whether the 0.14 ha (0.35 acres) quoted above includes these two additional small parcels of land.

2.6 The immediate surrounding uses are largely residential, as well as a number of commercial uses, including a Wickes DIY Store to the south of the site and various local amenities along London Road, including a convenience store, petrol station, public house, take-away and hotel. Westlands Secondary School, Elvy Court Nursing home and Lyndhurst Nursery are also located in close proximity to the site.

SITE AND PLANNING HISTORY

2.7 As referred to in the introductory section of the report, the site benefits from a detailed planning consent for the site by virtue of application reference SW/08/1124 which comprised 'demolition of existing buildings and redevelopment of the site to provide 12 no. two bedroom apartments, 14 no. one bedroom apartments, amenity space, 26 no. car parking spaces and cycle store along with a new vehicular access.'

2.8 Application SW/08/1124 was accompanied by a S106 Agreement which required the following items:

- Education contribution of £589.95 per two bedroomed flat;
- Library contribution of £227 per dwelling;
- Adult education contribution of £180 per dwelling;
- Open space contribution of £17,940; and
- 30% of the residential units to be affordable.

2.9 An application was then submitted and approved on 8th August 2013 to 'replace an extant permission SW/08/1124 in order to extend the time limit for implementation'. The notification of the grant of permission again referred to the S106 Agreement relating to this development.

2.10 A modification of the S106 Agreement was submitted and was presented to planning committee on 2nd February 2017. The application proposed that the obligation to provide on-site affordable housing was removed and a viability assessment would be submitted upon the occupation of the 21st dwelling and a commuted sum payable at a minimum of £31,000 for off-site affordable housing. We understand the chairman moved the officer recommendation to approve and this was seconded. The resolution however referred to a deferring of the application to allow officers to advise the developer to provide affordable housing on site or to improve the offer of £31,000 at the viability review.

2.11 We understand that S106 contributions are otherwise agreed at £36,191. The applicant has offered an additional £3,809 contribution to affordable housing via a commuted sum in lieu of on-site provision. The commuted sum (minimum £31,000) to be assessed at a viability review after the occupation of the 21st unit is in addition to the £36,191 (plus potentially an additional £3,809 totalling £40,000) agreed figure.

DEVELOPMENT PROPOSALS

2.12 The scheme put forward by the applicant proposes 26 no. apartments, comprising 12 no. two bedroom apartments and 14 no. one bedroom apartments. These proposals are as per the original planning consent (SW/08/1124) and superseded consent (SW/13/0568). However, the consent also relates to amended drawings which were received on 25th February 2009 and additional information received on 17th and 23rd February 2009 which show 13 no. two bedroom apartments and 13 no. one bedroom apartments. Therefore, the applicant has assumed the wording of the consent has now been superseded by the revised drawings and has assumed this unit mix as a basis for their Viability Report.

2.13 We have set out the applicant's accommodation schedule in the table overleaf (Table 1), assuming a nil affordable housing contribution.

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Table 1: Accommodation Schedule and Floor Areas

FLAT NO/LOCATION	TYPE	FLOOR AREA (NIA)
Flat 1 Ground Floor	2 bedroom	48 sq m (520 sq ft)
Flat 2 Ground Floor	2 bedroom	50 sq m (541 sq ft)
Flat 3 Ground Floor	1 bedroom	38 sq m (408 sq ft)
Flat 4 Ground Floor	1 bedroom	38 sq m (408 sq ft)
Flat 5 Ground Floor	2 bedroom	60 sq m (643 sq ft)
Flat 6 First Floor	1 bedroom	42.4 sq m (456 sq ft)
Flat 7 First Floor	1 bedroom	41.8 sq m (450 sq ft)
Flat 8 First Floor	2 bedroom	50 sq m (537 sq ft)
Flat 9 First Floor	2 bedroom	49 sq m (530 sq ft)
Flat 10 First Floor	1 bedroom	39 sq m (422 sq ft)
Flat 11 First Floor	1 bedroom	39 sq m (422 sq ft)
Flat 12 First Floor	2 bedroom	62 sq m (666 sq ft)
Flat 13 Second Floor	1 bedroom	42.4 sq m (456 sq ft)
Flat 14 Second Floor	1 bedroom	41.8 sq m (450 sq ft)
Flat 15 Second Floor	2 bedroom	50 sq m (537 sq ft)
Flat 16 Second Floor	2 bedroom	50 sq m (541 sq ft)
Flat 17 Second Floor	1 bedroom	39 sq m (422 sq ft)
Flat 18 Second Floor	1 bedroom	39 sq m (422 sq ft)
Flat 19 Second Floor	2 bedroom	60 sq m (643 sq ft)
Flat 20 Penthouse	2 bedroom	74 sq m (801 sq ft)
Flat 21 Ground Floor	2 bedroom	46 sq m (499 sq ft)
Flat 22 First Floor	2 bedroom	46 sq m (499 sq ft)
Flat 23 First Floor	1 bedroom	43 sq m (460 sq ft)
Flat 24 First Floor	1 bedroom	43 sq m (460 sq ft)
Flat 25 Second Floor	2 bedroom	47 sq m (508 sq ft)
Flat 26 Second Floor	1 bedroom	35 sq m (373 sq ft)
Total	**26 units**	**1,214.6 sq m (13,074 sq ft)**

Source: Strutt and Parker LLP, June 2017

3.0 Key Viability Issues

3.1 The purpose of the instruction is to examine the applicant's concerns as presented to SBC in relation to the viability of the development. The applicant has suggested that the development is currently suffering in terms of viability and therefore cannot viably support any on-site affordable housing provision in addition to S106 contributions of £40,000.

3.2 CBRE has reviewed the applicant's Viability Report and appraisal dated June 2017 as prepared by Strutt and Parker LLP, as well as additional supporting information.

3.3 The applicant's appraisal assumes a nil on-site affordable housing contribution, but does include a S106 contribution of £40,000, part of which (circa £ 3,809) is allocated for an affordable housing commuted sum payment. The applicant's appraisal does not allow payment of the minimum sum of £31,000 at the viability review.

3.4 The applicant's appraisal produces the following results:

Table 2: Applicant's Appraisal Outcomes

SCENARIO	GROSS DEVELOPMENT VALUE (GDV)	TOTAL DEVELOPMENT COST (TDC) EXCLUDING LAND COST	FIXED LAND VALUE (INCLUSIVE OF SDLT/FEES)	RESIDUAL PROFIT
0% affordable housing (£40,000 S106 contribution)	£3,338,000	£2,666,383	£650,000	£21,617

Source: Strutt and Parker LLP, 2017

3.5 The applicant suggests that the development is suffering in viability terms as the outturn residual profit level is significantly below current market expectations. As such the development does not produce a reasonable profit level to incentivise the applicant to deliver the development as proposed. The appraisal does however include the historic site purchase price which reflects the acquisition costs of the site as incurred by the applicant in 2007.

3.6 The viability issues to highlight within the applicant's appraisal largely relate to the following:

- inclusion of the historic purchase price by the applicant which is £630,000 (net of SDLT and fees), equating to £4.45 million per gross ha (£1.8 million per gross acre);
- the phasing of the historic purchase price as a month one cost in the cashflow;
- cost related to an additional overage payment of £76,850 given the development will be delivering over 10,000 sq ft;
- the base build costs;
- the sales values adopted by the applicant;
- the applicant's development appraisal includes minimal abnormal costs (circa £48,000) given the previous use of the site.

3.7 The outcome of the applicant's appraisal and Viability Report is demonstrating that the scheme is unviable given that it produces a marginal developer's profit.

3.8 The applicant's Viability Report concludes by stating that the S106 offered by the applicant is in excess of what should be considered reasonable and it would be unrealistic to expect any offer over and above the £40,000 in S106 contributions, which comprises £3,809 towards affordable housing (yet to be agreed by SBC).

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3.9 The Viability Report states, however, that the applicant is willing to proceed on the basis of a nil on-site affordable housing provision and a £40,000 S106 contribution as well as committing to the additional minimum sum of £31,000 (at the viability review) as put to the committee. They do state that the offer will be withdrawn if the application is again deferred or refused.

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4.0 Development Appraisal Assumptions and Methodology

4.1 We have been provided with information from the applicant in relation to key cost and value assumptions, including build costs, sales values and sales rates. This is in the form of a Viability Report (June 2017) and development appraisals prepared by Strutt and Parker LLP.

4.2 We have also liaised with Strutt and Parker to clarify some assumptions and inputs into the model. Further information has been provided in an email dated 28th July 2017.

4.3 CBRE has undertaken a 'toolkit' residual based development appraisal (prepared in Argus Developer) using a combination of information provided by the applicant (independently verified by CBRE); CBRE assumptions where these differ from the applicant's; industry standard assumptions; and inputs which relate to SBC's assumptions (i.e. S106 contributions).

4.4 This methodology has allowed us to test the assumptions, inputs and calculations and assess the overall viability of the development. The Argus model is an industry standard development appraisal tool that utilises a residual development appraisal cashflow model as its basis. The outcome of the appraisal is a residual land value (or profit level) which can then be compared to benchmark land values in the area (or market appropriate profit levels) to establish the overall viability of the scheme.

4.5 We have tested a baseline scenario assuming:

- no affordable housing on site
- S106 contributions of £40,000 (we have not included the £31,000 minimum payment at the viability review)
- the unit mix as set out by the applicant in Table 1 Accommodation Schedule in the previous section
- a fixed profit on GDV of 18.5%
- the outturn of the appraisal is a Residual Land Value (RLV), which can then be compared to a benchmark land value based on the site and its location.

COST ASSUMPTIONS

Build Costs

4.6 The total base build cost adopted by the applicant is £1,926,486 equating to an overall rate of £1,380 per sq m (£128.23 per sq ft). This sum excludes external works, contingency allowance and professional fees.

4.7 The base build cost has been estimated by the applicant using the current RICS Building Cost Information Service (BCIS) costs (using 'mean' figures) for flats (3-5 storey) rebased to Kent. These costs have been taken as at 13th May 2017 and relate to the default period. BCIS includes preliminaries, but does not include external works and contingencies. Mean build costs for flats (3-5 storeys) equate to £1,499 per sq m (£139.26 per sq ft).

4.8 The applicant has then allowed for circulation space at 181 sq m (1,950 sq ft) and applied a much lower build cost of £603 per sq m (£56 per sq ft). The applicant has not explained how they have arrived at this assumption.

4.9 CBRE believes the use of BCIS to calculate the base build costs for the purpose of the viability assessment to be reasonable. However, we have rebased the calculation to Swale rather than Kent. We have utilised median costs for three to five storey apartments.

4.10 CBRE has therefore adopted median BCIS costs dated 19th August 2017 (rebased to Swale) over the default period which equate to £1,344 per sq m (£125 per sq ft). We have applied these costs to the net area of 1,215 sq m (13,074 sq ft).

4.11 We have also allowed for circulation space at 181 sq m (1,950 sq ft) but applied our build cost of £1,344 per sq m (£125 per sq ft).

4.12 CBRE's total base build cost equates to a capital cost of circa £1.878 million, compared to the applicant's total base build cost of £1.93 million.

Other Development Costs

4.13 The applicant has adopted a development contingency of 5% which is applied to the base build costs only. This equates to a total of £96,324. CBRE considers this to be at the top end of the range expected which is generally anticipated to be between 3% and 5%. However given the scheme comprises a brownfield site with a number of abnormal costs and risks attaching, CBRE has also adopted a development contingency of 5% and applied this to standard build costs which equates to £93,900.

4.14 The applicant has adopted professional fees at 10% (£192,649) and has applied these to all base build costs only. In CBRE's opinion this is considered to be in the range expected, which is generally anticipated between 8% and 10%. Once again given the scheme comprises a brownfield site with a number of risks attaching, CBRE has adopted the 10% allowance and has applied these to base build costs and externals which equates to £197,190.

4.15 The applicant has not included any allowance to cover external works (i.e. internal estate roads, car parking, landscaping etc). CBRE has therefore allowed 5% of base build costs given the development is an apartment led scheme and the site is relatively small and therefore estate roads and landscaping should be kept to a minimum. This cost equates to £87,173.

4.16 The applicant has also allowed for the following costs within their development appraisal:

- Town planning - £1,000 per unit based on 28 units = **£28,000;**
- Survey = **£5,000;**
- NHBC warranties - £750 per units based on 26 units = **£19,500**
- Site security costs = **£30,000**
- **Total = £82,500**

4.17 The applicant has not provided any supporting information to justify these costs. They have stated that security costs relate to costs incurred since they purchased the property in 2007. Given our experience of undertaking development appraisals elsewhere they are considered reasonable and we have adopted these in our appraisal. However, we have adopted a slightly lower town planning fee based on 26 units rather than 28. CBRE's total cost therefore equates to £80,500.

4.18 The applicant has not included any costs associated with the access to the site which is taken from the new access road for Wickes. They also haven't included any costs associated with the additional two parcels of land that they have obtained since their initial acquisition. We consider that these would be reasonable costs to include (subject to verification), but have not included any costs given the applicant has not included costs associated with these items and they would be difficult for CBRE to estimate.

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Abnormal and Infrastructure Costs

4.19 The applicant has included other construction costs which have been applied as additional costs over and above the standard BCIS construction costs outlined above. These relate to site specific abnormal costs and comprise demolition at £28,000 and remediation contingency at £20,000. We assume the remediation contingency was in the absence of a ground investigation given at the time of the submission of the applicant's Viability Report. Given the previous use of the site we consider these costs to be reasonable. However, given the building has now been demolished and site surveys can now be undertaken the applicant should have a more accurate idea of the costs of demolition (as it has now been completed) and remediation and these costs could be reviewed in the light of up to date information.

S106 Costs

4.20 The applicant's appraisal includes S106 costs equating to £40,000, of which £36,191 is included to cover the S106 contributions allowed for in the S106 Agreement. The applicant has included an additional £3,809 as a commuted sum in lieu of on-site provision. CBRE has adopted these costs within our development appraisal.

4.21 In addition, the applicant has confirmed that they are willing to agree to an additional minimum payment of £31,000 following a viability review on occupation of the 21st unit. This cost is not allowed for in the current appraisal. We assume that this £31,000 is a guaranteed payment, but may be increased, should the viability of the scheme improve. We comment in the following section on the basis of the viability review.

Profit, Marketing and Other Assumptions

4.22 The applicant has adopted fees and marketing costs of 3% of market GDV, consisting of 1% marketing costs; 1.25% sales agency fees and 0.75% sales legal fees, which equates to £99,360. CBRE has adopted the applicant's marketing fees despite this being on the low side, however we have adopted sales agent fees of 1% and sales legal fees of 0.5% given our experience of undertaking viability assessments elsewhere. This equates to a cost of £84,316.

4.23 The applicant has adopted the approach of to residualising their profit in favour of adopting a fixed land value for the site. The applicant's residual profit equates to £21,617 (0.65% on gross development value (GDV)). CBRE has approached it based on adopting a fixed profit level and residualising the land value. We have therefore calculated profit at 18.5% of market housing GDV, which equates to a capital cost of £628,156. This is below current market expectations and our experience of undertaking viability assessments elsewhere, which are closer to 20% profit on market GDV, particularly on brownfield sites, given the additional risks to the developer. However, the applicant has stated within their Viability Report that profit levels should be between 17.5% and 20% on market GDV and therefore we have decided to adopt a profit level of circa 18.5% which represents an average figure given the range quoted by the applicant and we believe is entirely reasonable given our experience elsewhere which suggests a higher profit margin could be applicable.

4.24 Interest has been calculated by the applicant at a debit rate of 6.25% per annum with a credit rate of 1.25% also allowed. This has been applied to all build costs and land payments. We have used the rate of 6.25%, however we have not allowed for a credit rate within the appraisal. The applicant's overall cost of interest equates to £99,489, compared to CBRE's assessment of £100,449. This is due to CBRE phasing the sales values following practical completion of the apartments.

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Fixed Land Value

4.25 The applicant has included a fixed land value of £630,000, plus acquisition costs, which they state represents the 2007 purchase price, although no details have been provided to support this (i.e. Land Registry confirmation). They state that the inclusion of this figure would represent a reasonable return to the landowner (who is the applicant as the site has already been purchased) in line with the NPPF.

4.26 The applicant has also allowed for an acquisition cost of £76,850 which is to reflect an overage clause based on an uplift of £25 per sq ft over 10,000 sq ft of development. However the applicant has provided an extract from the report on title overage which shows a figure of £129,639 due to interest payments. For the purposes of CBRE's appraisal, we have ignored this payment as we are assessing the residual land value and not taking account of actual purchase costs.

4.27 The output of CBRE's appraisal is an RLV as opposed to a residual profit. We then compare the outturn RLV to a benchmark land value based on the site and its location. This commentary is provided in the following section.

4.28 SDLT has been adopted by the applicant at £13,700 however given the different RLV produced under CBRE's baseline appraisal the SDLT payment is nil.

4.29 Agency and legal fees have been included at 1.75%, which we consider to be reasonable.

Phasing and Programme

4.30 The applicant has assumed the following:

- Construction period – 12 months
- Sales period – 6 months (commencing nine months after the start of construction)

4.31 We consider the applicant's timescales to be reasonable, however we have assumed sales of the apartments will begin on practical completion of the apartments.

SALES VALUES ASSUMPTIONS

Residential Values

4.32 The applicant has presented to CBRE its anticipated average sales values of £2,684 per sq m (£249 per sq ft). This equates to an average capital value of between £100,000 and £115,000 for the one bedroom units and £125,000 and £155,000 for the two bedroom units and £180,000 for a two bedroom penthouse apartment.

4.33 CBRE has undertaken a review of local market comparable evidence in Sittingbourne and the surrounding area, which we set out in **Appendix 3**. We comment that there is very little evidence available in the immediate area of the site, so we have considered new build developments as well as secondary evidence within five miles of the site.

4.34 The evidence presented in Appendix 3 indicates that the average new build price range for one and two bedroom apartments is £216,997. We were unable to ascertain the sizes of these properties so we cannot analyse these on a price per sq m/sq ft basis. However on a capital value basis these are significantly higher than those being adopted by the applicant.

4.35 We would however comment that these apartments are located in Rainham which is a superior location and are being developed out by Redrow as part of a larger scheme which is to a high specification. One apartment is being marketed in Faversham, which is a

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conversion of an existing property and is situated above a commercial unit, so again not directly comparable. These properties assume a 'gross asking price' and do not take into account any incentives that may be offered as part of a sale which could comprise up to a 5% deduction.

4.36 The secondary evidence presented in **Appendix 3** demonstrates an average asking price for one bedroom apartments of £2,788 per sq m (£259 per sq ft), which based on an average size of 45 sq m (483 sq ft) equates to an average capital value of £125,097.

4.37 The average asking price for two bedroom apartments equates to £2,766 per sq m (£257 per sq ft), which based on an average size of 63 sq m (678 sq ft) equates to an average capital value of £174,246.

4.38 The overall average asking price(for one and two bedroom apartments) equates to £2,766 per sq m (£257 per sq ft).

4.39 From the comparable evidence listed above, CBRE notes that the evidence is gathered from circa five miles from the subject site and some of the sites are located in superior locations to that of the subject property; they vary in unit size to those provided on site; and/or have been finished to a high specification (i.e. Redrow at Rainham). We also note that a significant amount of the comparable evidence gathered is secondary accommodation which is significantly larger than the proposed apartments at the subject site.

4.40 As a result we have increased the applicant's values of the proposed apartments by £65 per sq m (£6 per sq ft), equating to an average value of £2,749 per sq m (£255 per sq ft). We would expect new build apartments to generate a premium over secondary accommodation, however we do acknowledge that the secondary comparable accommodation is generally larger than the proposed apartments. We have therefore adopted a rate per sq m /per sq ft in line with the secondary comparable accommodation gathered.

4.41 The applicant has also assumed ground rents of £150 per unit per annum for the apartments and capitalised this income at a rate of 5%. Based on the advice from our in-house residential valuation team, the yield applied could be slightly keener. The location of the development is not entirely the determining factor, it is the security of income and terms of the ground lease. We have evidence of schemes in Derby achieving a yield in line with some apartments developments in London (circa 3%).

4.42 We have also undertaken research of ground rents which have recently been sold or are currently being marketed and have found one comparable of a block of 12 flats in Faversham:

- Ground rent investment on development of 12 flats built in 2012
- Landlord manages/insures and recovers from leaseholders
- 12 flats paying total annual ground rent of £3,000 per annum
- Ground rents double every 33 years
- Leases 999 years from 2013
- Asking price £60,000
- Yield of 5%

4.43 We have therefore adopted a rental level of £200 per unit per annum for the one bedroom apartments and £250 per unit per annum for the two bedroom apartments and have capitalised at a yield of 5%. We assume that the ground rent structure is on the basis of minimum term of 150 year with 10 yearly rent reviews based on RPI uplifts. This structure is the current institutional standard for investment purchases and ensures the properties remain in line with mortgage company standards.

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5.0 Development Appraisal Results

5.1 We have provided in the table below a summary of the RLV produced under CBRE's appraisal based on the assumptions outlined above and provide a commentary which compares the outcome of CBRE's appraisal to benchmark land values considering the site and location.

Table 3
Output of CBRE's Appraisal

SCENARIO	GROSS DEVELOPMENT VALUE (GDV)	TOTAL DEVELOPMENT COST (TDC) EXCLUDING LAND	PROFIT	RLV (NET OF SDLT AND FEES)
CBRE Appraisal (no on-site affordable housing but £40k S106)	£3,395,439	£2,585,255	£628,156 (18.5% on GDV)	£148,431 (£424,089 per gross acre)

CBRE, 2017

Benchmark Land Value

5.2 To assess whether CBRE considers the baseline scenario to be 'viable' we need to assess the reasonableness of the RLV produced when compared to a benchmark land value taking into account the site and location. We do not consider the applicant's use of the historic purchase price as relevant for the purposes of the viability assessment, given that the site was purchased in 2007.

5.3 The RICS Financial Viability in Planning Guidance Note (2012) states at page 19, paragraph 3.6 that '*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. The following points should be considered:*

- *A viability appraisal is taken at a point in time, taking account of costs and values at that date. A site may be purchased some time before a viability assessment takes place and circumstances might change. This is part of the developer's risk. Land values can go up or down between the date of purchase and a viability assessment taking place; in a rising market developers benefit, in a falling market they may lose out.*
- *A developer may make unreasonable/overoptimistic assumptions regarding the type and density of development or the extent of planning obligations, which means that it has overpaid for the site.*
- *Where plots have been acquired to form the site of the proposed development, without the benefit of a compulsory purchase order, this should be reflected either in the level of Site Value incorporated in the appraisal or in the development return. In some instances, site assembly may result in synergistic value arising.*
- *The Site Value should always be reviewed at the date of assessment and compared with the purchase price and associated holding costs and the specific circumstances in each case.*

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 this guidance.'

5.4 Given the site was purchased ten years ago without the benefit of planning consent and therefore we cannot be sure what assumptions were made at the point of acquisition as to the type of development or extent of planning obligations we feel that the RLV produced by

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CBRE's appraisal should be compared with the sale of comparable sites in the open market at the current time.

5.5 CBRE has therefore undertaken a review of recent sales of development sites in Sittingbourne and the surrounding areas. There is a general lack of recent comparable evidence, however those sites most comparable are as follows:

- Development Site, Car park, Albany Road, Sittingbourne – sale of a 0.24 acre site in March 2013 for £130,000 (£540k per acre). The vendor was HM Courts and Tribunals Service and the buyer was Bailey Investments. The site, although in a comparable location and of a similar size was sold as an investment as the site is currently used as a car park;
- Headcorn Hall - Biddenden Rd, Headcorn, TN27 9JD - An undisclosed buyer (residential developer) purchased the freehold interest in 1.93 ha (4.83 acres) of land from joint administrators to Brackenall Properties ltd for £1,740,000 (£360,248 per gross acre) for residential development in March 2015. The site is circa 17 miles from the subject site in a better location and had planning consent for 10 luxury dwellings subject to a S106 agreement. The site was also a distressed sale;
- East Hall Lane, Sittingbourne, ME10 3TJ – sale of a 3.23 acre site in December 2015 for £575,000 (£178k per acre). The site comprises broadly level grassland. The site was sold as an investment to an undisclosed buyer. There is a lapsed consent which was granted under reserved matters from 12 July 2007. This comprises a supermarket (10,215 sq ft) and 9 further retail units (including a convenience store and veterinary surgery) ranging in size from 1,000 sq ft to 2,500 sq ft. At first and second floor levels there 11 two bed and one bed flats. There is also permission for a 4,000 sq ft public house. The location is comparable but the existing use is grassland whereas the subject site is a brownfield site. The type of development also includes commercial uses as well as residential; and
- Land at Halfway Road, Sheerness, ME12, 3AR – the 0.92 acre site was sold in February 2010 for £485,000 (£527k per acre). The site was bought by New Homes Ltd. The site is in a comparable location

5.6 The output of CBRE's development appraisal was a residual land value of circa £148,431 (equating to £1,047,923 per ha/£424,089 per gross acre). We consider the most comparable sites above to be the development site at Albany Road in Sittingbourne; Headcorn Hall; and land at Halfway Road.

5.7 The development site at Albany Road was sold as a 'development site' and therefore potentially has hope value built into the purchase price to secure change of use to residential use. The site at Headcorn Hall was sold with planning consent for 10 luxury houses subject to a S106 Agreement, but was a distressed sale. We were unable to verify at the time of the report whether the site at Halfway Road was sold with planning consent.

5.8 Based on the above and given the subject site already has planning consent for residential development (albeit assuming a policy compliant level of affordable housing) we believe the benchmark land value to be in the region of **£185,500 (£1,309,630 per ha/£530k per gross acre).**

5.9 We therefore consider the proposed development to be marginally unviable given it produces an RLV circa £37,069 below what we consider to be a benchmark land value.

APPENDIX 4

Summary

5.10 We therefore consider the applicant's offer which consists of the following items to be reasonable:

- nil on-site affordable housing provision;
- a £40,000 S106 contribution (including circa £3,809 as a commuted sum for affordable housing); and
- a viability review on the occupation of the 21st unit with a minimum additional payment of £31,000 in lieu on on-site affordable housing.

5.11 A formal viability review should be undertaken prior to the occupation of the 21st unit and this requirement should be a term of the S.106 Agreement. We would expect the viability to be reviewed in full based on an agreed baseline appraisal and should the viability of the scheme improve beyond the £31,000 offer then this would be reflected in the payment at that point in time.

APPENDIX 4

6.0 Summary and Recommendation

6.1 The purpose of this report has been to review the applicant's development appraisal and subsequently to provide development appraisal and viability advice to SBC as part of the planning application process.

6.2 The applicant has presented a Viability Report and an accompanying development appraisal dated June 2017 which tests the viability of an apartment development with nil on-site affordable housing provision and S106 contributions of £40,000 (including a £3,809 commuted sum for affordable housing).

6.3 The applicant concludes that they are willing to progress on this basis despite the appraisal producing a developer's profit of only £21,617 (or 0.65% profit on GDV), but allowing for the historic purchase price dating back to 2007 within the appraisal.

6.4 CBRE has modelled a 'toolkit' development appraisal to establish whether there are viability issues associated with the scheme and whether there is scope for negotiation on the level of affordable housing to allow scheme progression.

6.5 CBRE's 'toolkit' appraisal (assuming nil affordable housing and S106 contributions of £40,000), includes a fixed developer's profit within the appraisal and residualises the land value. We then compare the RLV to a benchmark land value given the site and its location.

6.6 We do not believe that the historic purchase price or the overage payment paid by the applicant should be included within the appraisal the land was acquired 10 years ago and we are not aware of the assumptions that informed the acquisition price.

6.7 CBRE's RLV equates to £148,431 (£1,047,923 per ha/£424,089 per gross acre). We have included a fixed profit of £628,156 (18.5% on GDV). The applicant's historic purchase price equated to £630k (£1.8 million per acre).

6.8 CBRE's RLV can then be compared to a benchmark land value taking into account the site and its location. CBRE has reviewed the local market and believes the benchmark land value to be £185,500 (£530k per gross acre).

6.9 As a result CBRE's baseline policy compliant appraisal is currently circa £37,069 below what we consider to be the benchmark land value.

RECOMMENDATION

6.10 In light of the review undertaken and assumptions applied, CBRE's analysis shows that the scheme cannot support the delivery of on-site affordable housing in addition to the £40,000 S106 contribution allowed for. Therefore we consider the applicant's offer of £40,000 of S106 contributions and a viability review following the occupation of the 21st unit with a minimum additional payment of £31,000 to be reasonable.

6.11 However as noted in paragraph 5.11 above we would suggest that there is a formal viability review undertaken at the point of occupation of the 21st unit utilising an agreed baseline appraisal. We believe this should be incorporated in the S.106. This should test whether a payment above the £31,000 offer can be achieved at that point in time.

APPENDIX 4

Prepared By:	Donna Pickersgill Associate Director, National Regeneration and Development Advisory For and on behalf of CBRE Ltd
Edited and finalised by:	Caroline Mitchell-Sanders Director – National Regeneration and Development Advisory For and on behalf of CBRE Ltd
Date of Issue: 31st August 2017	Status: FINAL

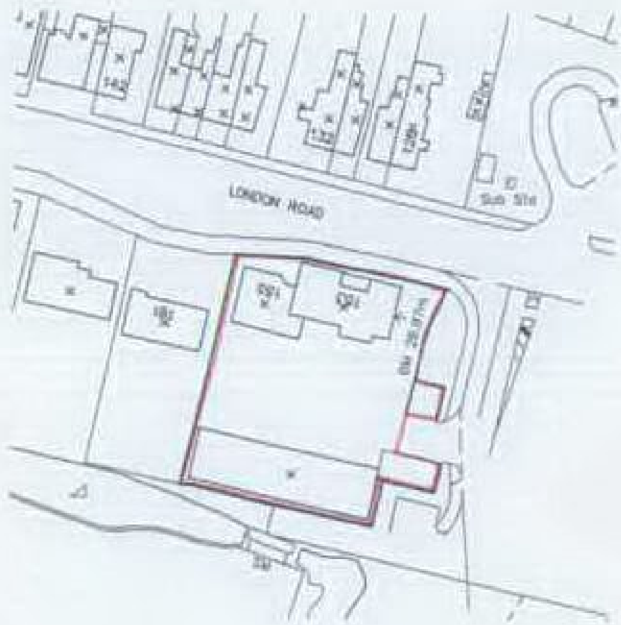
APPENDIX 4

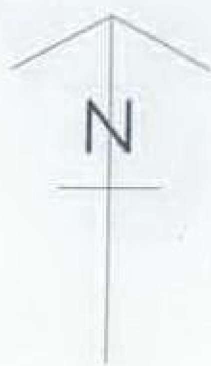
APPENDICES

Appendix 1 – Site Location Plan

APPENDIX 4

SW / 08 / 1124





Location Plan Scale 1:1250

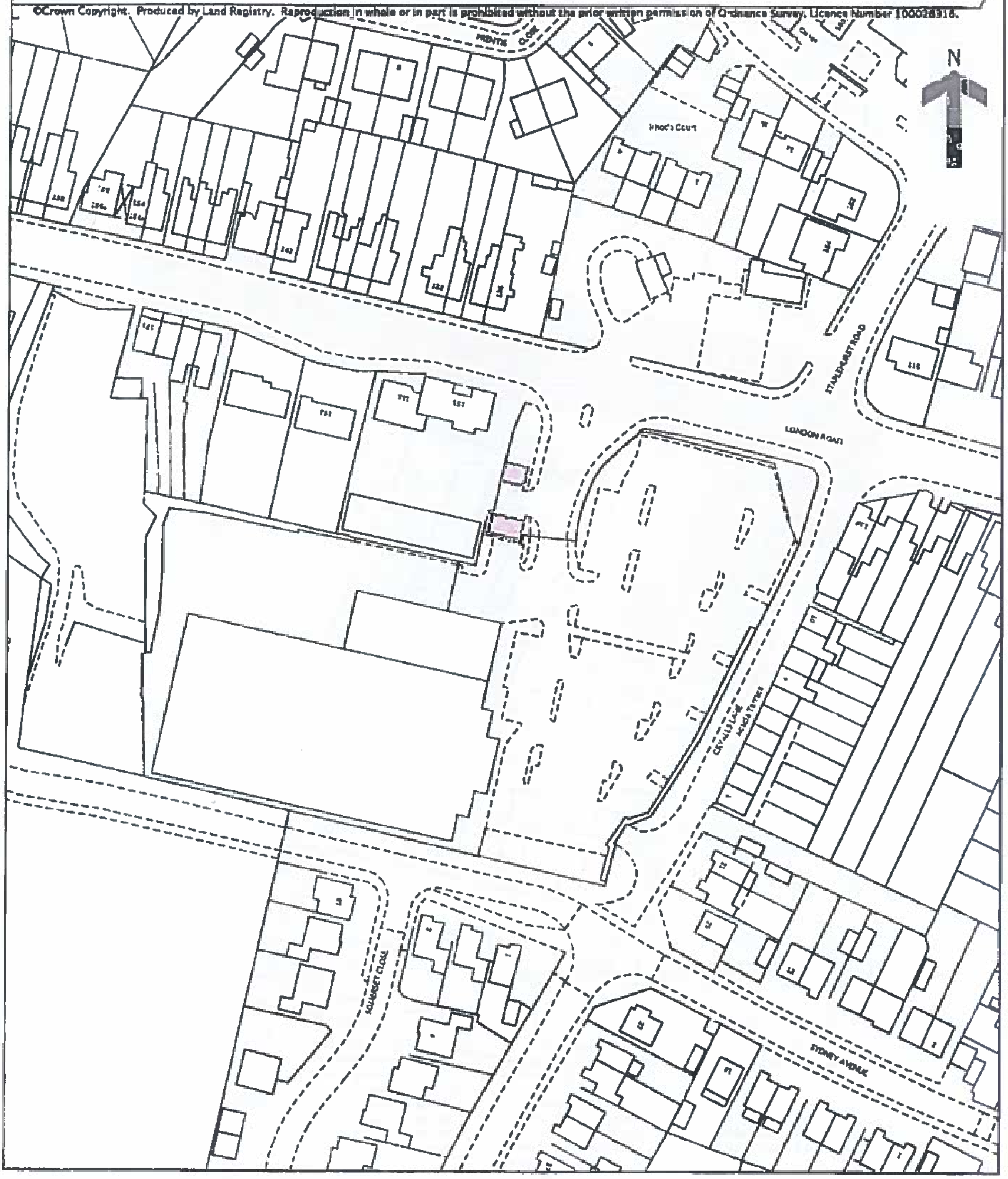
APPENDIX 4

Appendix 2 – Additional Land

APPENDIX 4

Land Registry Official copy of title plan

Title number **K944405**
Ordnance Survey map reference **TQ8963NW**
Scale **1:1250**
Administrative area **Kent : Swale**



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Appendix 3 – Sales Comparables

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153 - 155 London Road, Sittingbourne, Kent, ME10 1PE (Marketing Activity - August 2018) - within 5 miles						
New Build						
Developer	**Scheme/Address**	**Plot**	**Type**	**Gross Asking Price**	**Sq ft**	**£ per sq ft**
Redrow	Mierscourt Road,Rainham,Kent,ME8 8PH	Type A Whitbread Court (84-89)	1 bed apartment	£189,999	0	#DIV/0!
		Type D Whitbread Court (91,93,95)	2 bed apartment	£234,995	0	#DIV/0!
		Type B Whitbread Court (90, 92, 94, 97, 99 & 101)	2 bed apartment	£234,995	0	#DIV/0!
		Type C Whitbread Court (96,98,100)	2 bed apartment	£234,995	0	#DIV/0!
				£894,984.00	**0**	**#DIV/0!**
Unknown	Thomas Road, Faversham		1 bed apartment	£190,000	506	£375.49
				£190,000.00	**506**	**£375.49**
Second Hand - Sittingbourne Only						
Unknown	Vellum Drive, Sittingbourne, Kent		2 bed apartment	£180,000	596	£302.01
	Martin Court, Kemsley, Sittingbourne, Kent		2 bed apartment	£265,000	732	£362.02
	Onyx Drive, Sittingbourne, Kent		2 bed duplex	£165,000	710	£232.39
	Martin Court, Kemsley, Sittingbourne, Kent		2 bed apartment	£160,000	0	#DIV/0!
	Limehouse Court, Sittingbourne, Kent, ME10		2 bed apartment	£155,000	0	#DIV/0!
	East Hall Walk, Sittingbourne, Kent. ME10 3GA		2 bed apartment	£155,000	678	£228.61
	Fairview Road, Sittingbourne, Kent		2 bed apartment	£155,000	441	£351.47
	Reams Way, Kemsley, Sittingbourne, Kent		2 bed apartment	£150,000	0	#DIV/0!
	Abelyn Avenue, Sittingbourne		2 bed apartment	£140,000	673	£208.02
	Shortlands Road, Sittingbourne, Kent		1 bed apartment	£130,000	538	£241.64
	Onyx Drive, Sittingbourne		1 bed apartment	£110,000	331	£332.33
	Victoria Mews East Street, Sittingbourne, ME10		2 bed apartment	£180,000	872	£206.42
	Sanderling Way, Iwade, Sittingbourne, ME9		2 bed apartment	£170,000	611	£278.23
	2 bedroom Flat in Diamond Close, Sittingbourne, ME10		2 bed apartment	£165,000	721	£228.85
	2 bedroom Flat in Carnelian House, Diamond Close, Sittingbourne, ME10		2 bed apartment	£165,000	743	£222.07
	1 bedroom Flat in Trinity Court Church Street, Sittingbourne, ME10		1 bed apartment	£135,000	581	£232.36
	Sq ft	Price	Price per sq ft	Price per sq ft - 5%		
1 bed apartments	1450.00	£375,000	£258.62	£246	363	
2 bed apartments	6777.00	£1,740,000	£256.75	£244	678	
Total	8227.00	£2,115,000	£257.08	£244	633	

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