

**APPENDIX 3**

Report to Planning Committee – 7 March 2019

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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.

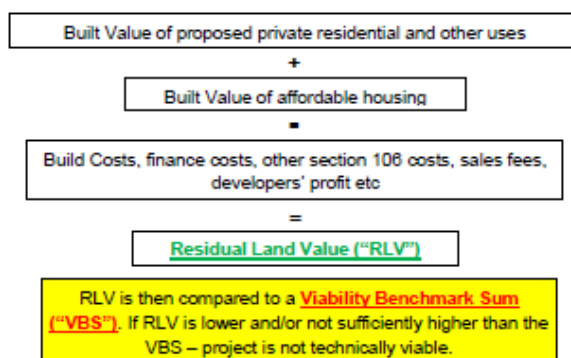
- 3.5 The NPPF refers to ensuring viability and delivery of development at Sec. 173-177 and states “to ensure viability, the costs of any requirement likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should 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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- 8.1 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.

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- 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

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# APPENDIX A

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1 \*Swale House, East Street,  
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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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TOWN AND COUNTRY PLANNING ACT 1990

Application: SW/13/0568

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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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INVESTORS  
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Making Swale a better place

TOWN AND COUNTRY PLANNING ACT 1990

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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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Making Swale a better place

Application: SW/13/0568  
Case no: 00744

TOWN AND COUNTRY PLANNING ACT 1990

- (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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TOWN AND COUNTRY PLANNING ACT 1990

Application: SW/13/0568  
Case no: 00744

**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

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South East Valuations and Development &amp; Planning



# 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 outcome 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:

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

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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.

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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 &amp; Planning

Telephone: 01227473703

Email: luke.mullaney@struttandparker.com

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**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

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

## Summary Appraisal for Phase 1

Currency in £

## REVENUE

Sales Valuation	Units	ft²	Rate ft²	Unit Price	Gross Sales
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 480 sq ft	1	480	250.00	115,000	115,000
Flat 24 FF 1 bed 480 sq ft	1	480	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	1	0	0.00	78,000	78,000
<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

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

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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 ft²	139.00 pF	58,658	
Flat 12 FF 2 bed 666 sq ft	666 ft²	139.00 pF	92,574	
Flat 13 SF 1 bed 456 sq ft	456 ft²	139.00 pF	63,384	
Flat 14 SS 1 bed 450 sq ft	450 ft²	139.00 pF	62,550	
Flat 15 SF 2 bed 537 sq ft	537 ft²	139.00 pF	74,643	
Flat 16 SF 2 bed 541 sq ft	541 ft²	139.00 pF	75,199	
Flat 17 SF 1 bed 422 sq ft	422 ft²	139.00 pF	58,658	
Flat 18 SF 1 bed 422 sq ft	422 ft²	139.00 pF	58,658	
Flat 19 SF 2 bed 643 sq ft	643 ft²	139.00 pF	89,377	
Flat 20 Pent 2 bed 801 sq ft	801 ft²	139.00 pF	111,339	
Flat 21 GF 2 bed 499 sq ft	499 ft²	139.00 pF	69,361	
Flat 22 FF 2 bed 499 sq ft	499 ft²	139.00 pF	69,361	
Flat 23 FF 1 bed 460 sq ft	460 ft²	139.00 pF	63,940	
Flat 24 FF 1 bed 460 sq ft	460 ft²	139.00 pF	63,940	
Flat 25 SF 2 bed 508 sq ft	508 ft²	139.00 pF	70,612	
Flat 26 SF 1 bed 373 sq ft	373 ft²	139.00 pF	51,847	
Communal Areas	1,950 ft²	56.00 pF	109,200	
Totals	15,024 ft²		1,926,486	1,926,486
Contingency		5.00%	96,324	
Demolition			28,000	
Section 106			36,191	
				160,515
Other Construction				
NHBC Warranties	26 un	750.00 /un	19,500	
Commuted Sum			3,809	
Remediation Contingency			20,000	
Site Security Costs			30,000	
				73,309
PROFESSIONAL FEES				
Prof Fees		10.00%	192,649	
				192,649
MARKETING & LETTING				
Marketing		1.00%	32,600	
				32,600
DISPOSAL FEES				
Sales Agent Fee		1.25%	41,725	
Sales Legal Fee		0.75%	25,035	
				66,760
FINANCE				
Debit Rate 6.250% Credit Rate 1.250% (Nominal)				
Land			42,815	
Construction			49,141	
Other			7,533	
Total Finance Cost				99,489
TOTAL COSTS				3,316,383
PROFIT				
				21,617
Performance Measures				
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		

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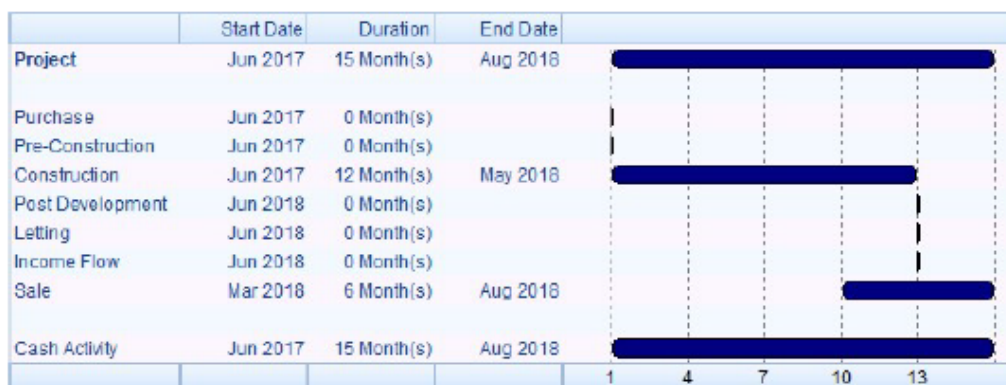
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**APPENDIX 3****TIMESCALE AND PHASING GRAPH REPORT****STRUTT & PARKER LLP**

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**

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## **SWALE BOROUGH COUNCIL**

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153 - 155 London Road, Sittingbourne

### **Viability Assessment**

August 2017

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**CBRE**

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**CBRE**

## 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 8<sup>th</sup> August 2013 (planning reference SW/13/0568). The applicant submitted a modification to the S106 agreement which went to Planning Committee on 2<sup>nd</sup> February 2017, proposing the removal of on-site affordable housing, with a viability review on occupation of the 21<sup>st</sup> 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<sup>1</sup> 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.

<sup>1</sup> 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)

## 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 bedrooomed 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 8<sup>th</sup> 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 2<sup>nd</sup> 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 21<sup>st</sup> 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 21<sup>st</sup> 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 (M <sup>2</sup> )
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)
<b>Total</b>	<b>26 units</b>	<b>1,214.6 sq m (13,074 sq ft)</b>

Source: Strutt and Parker LLP, June 2017

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THE SITE

CBRE

### 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.

## 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.

### 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.

### 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

- 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%

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- 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.

## 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

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.

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### 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 21<sup>st</sup> 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 21<sup>st</sup> 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.

## 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 21<sup>st</sup> 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 21<sup>st</sup> unit utilising an agreed baseline appraisal. We believe this should be incorporated in the S106. This should test whether a payment above the £31,000 offer can be achieved at that point in time.



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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

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# APPENDICES

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**Appendix 1 – Site Location Plan**

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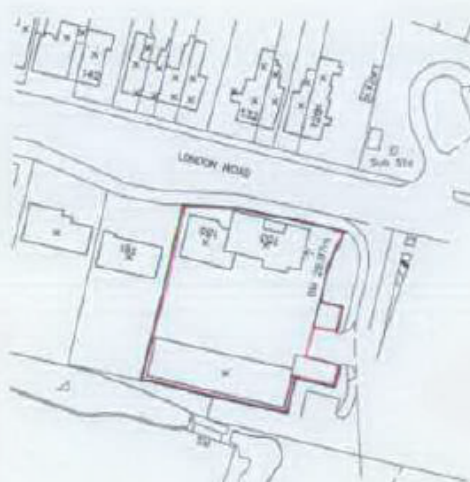
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Location Plan Scale 1:1250

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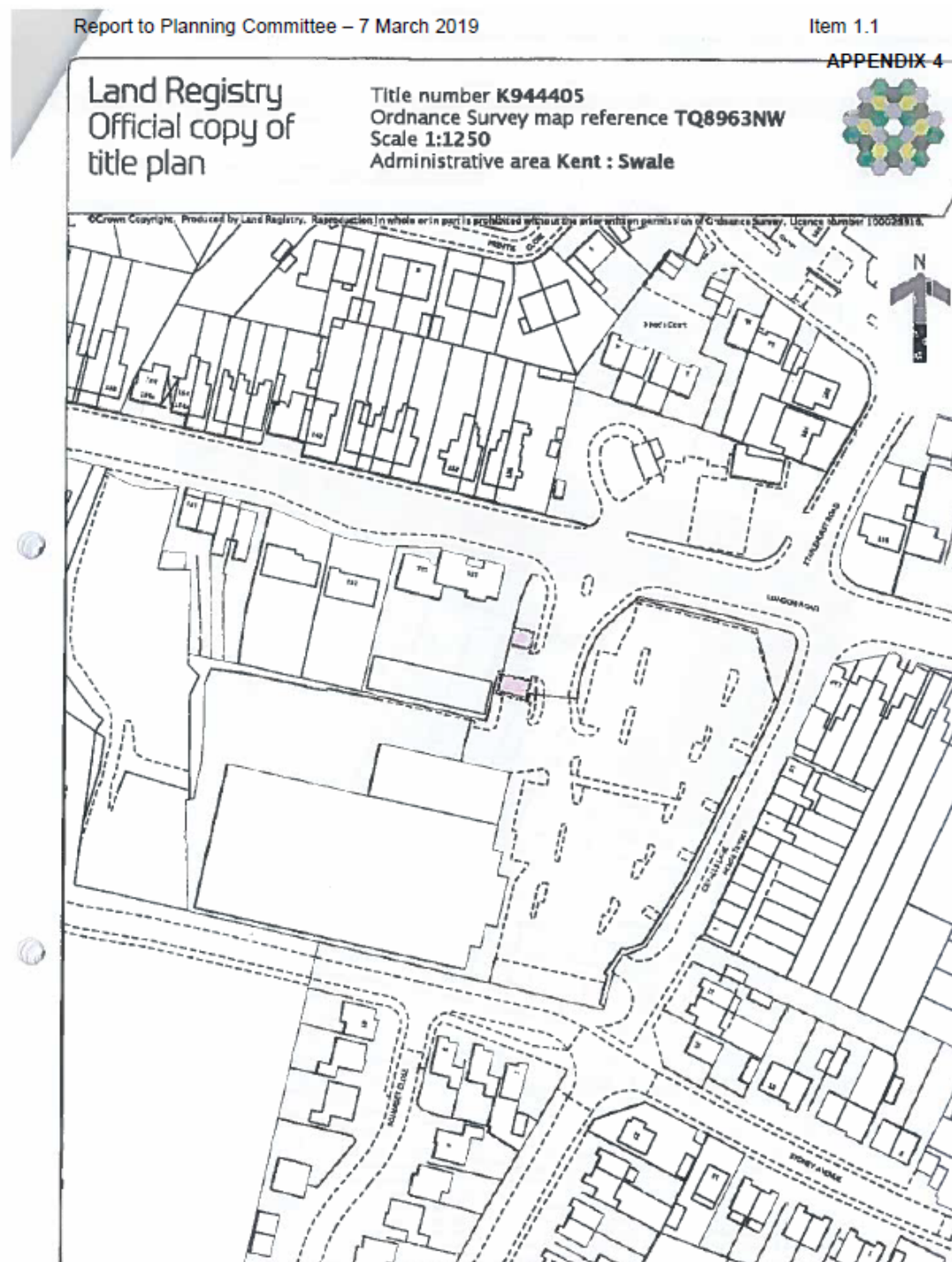
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**Appendix 2 – Additional Land**

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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!
				<b>£894,984.00</b>	<b>0</b>	<b>#DIV/0!</b>
Unknown	Thomas Road, Faversham		1 bed apartment	£190,000	506	£375.49
				<b>£190,000.00</b>	<b>506</b>	<b>£375.49</b>
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	
<b>Total</b>	<b>8227.00</b>	<b>£2,115,000</b>	<b>£257.08</b>	<b>£244</b>	<b>633</b>	

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