



PATHFINDER
DEVELOPMENT CONSULTANTS

FINANCIAL VIABILITY ASSESSMENT.

for

Swale Borough Council.

At

Ham Road, Faversham.

9th November 2020.

FINANCIAL VIABILITY ASSESMENT
Ham Road, Faversham- EXECUTIVE SUMMARY:

A Financial Viability Assessment (FVA) has been carried out on a development of 35 homes on the above site which benefits from an existing planning and is allocated in the local plan.

We have considered the viability of the scheme to consider if it was possible for a viable scheme to deliver 50% energy efficiency reductions above the standard set in the Building Regulations.

We have considered the value of the development for affordable housing and subtracted the total costs in bringing the scheme forward (including construction, fees, and finance). We have also subtracted what we consider to be a suitable developers profit adjusted for the risks the scheme presents and noting the prescribed assumptions in the S106 agreement as amended. This leaves a residual land value of £798,595.

We have compared the residual land value to the Benchmark land value we consider to be appropriate. Planning guidance refers to this as *“the minimum return at which it is considered a reasonable landowner would be willing to sell...”* We consider this to be £1,800,000 for the site based on its existing use value.

As the residual land value is less than this benchmark figure, we have repeated the exercise but with an enhanced acquisition price based on the availability of grant funding for the affordable housing deducting the surplus value, so the residual value equals the benchmark. This surplus amount becomes available to deliver enhanced energy efficiency works.

A revised residual land value of £1,852,267 is generated, assuming the provision of 35 affordable homes and therefore allowing for enhanced energy efficiency works above the standard set in the Building Regulations, totaling £52,267.

It is therefore our reasonable judgment that a viable scheme is one which includes £52,267 of additional energy efficiency works above the standard set in the Building Regulations. The developers offer of a 10% reduction at a cost of £186,135 is therefore a good one.

FINANCIAL VIABILITY ASSESMENT

Ham Road, Faversham.

1.0 Introduction

1.1. Swale Borough Council have commissioned Pathfinder to provide a Financial Viability Assessment (FVA) for the development on land at Ham Road, Faversham. The developer for the scheme of 35 dwellings has submitted a viability assessment to demonstrate that the viability of the scheme isn't sufficient to trigger the request energy efficiency measures to reduce emission rates of 50% as compared to Part L1A of the 2013 Building Regulations. The viability assessment by dha is dated August 2020.

1.2. The scheme benefits from an outline consent and is subject to a pending Reserved Matters consent. The scheme is being brought forward by the original developer, Penenden Heath Developments and Registered Provider, Hyde Housing for a 100% affordable Housing scheme (the S106 requirement includes a proportion of affordable homes). The site is allocated in the local plan for up to 35 homes.

2.0 Basis of Reporting.

2.1. Our terms of engagement are to appraise and quantify the level of Residual Land Value that can be delivered by the development taking into account the planned scheme and to consider the consequent viability of the scheme. In addition, we are engaged to confirm the viability of delivering a policy compliant scheme generated by the development starting from a policy compliant approach and whether further options are required to be considered.

2.2. This report does not constitute a formal 'Red Book' valuation (RICS Valuation - Professional Standards, March 2012) or should not be relied upon as such. It is a viability study carried out in line with RICS guidance note, Financial Viability in Planning 2012. Specifically, it should be noted that viability assessments of each site and conclusions set out in this report, were carried out on the basis of a broad-based study, given the limited detailed site information available. This report is confidential to the Client and the authors accept no responsibility of whatsoever nature to third parties to whom this report or any part thereof is made known. Any such party relies upon the report at their own risk.

2.3. In carrying out the FVA we have acted:

- With objectivity
- Impartiality
- Without interference
- And with reference to all appropriate available sources of information.

2.4. We confirm no contingent fees have been agreed and we have no conflicts of interest.

2.5. Pathfinder are a consultancy offering services to house builders, landowners and promoters, assisting in the delivery of affordable housing, site identification and appraisal, land acquisition, and development consultancy within the east of England.

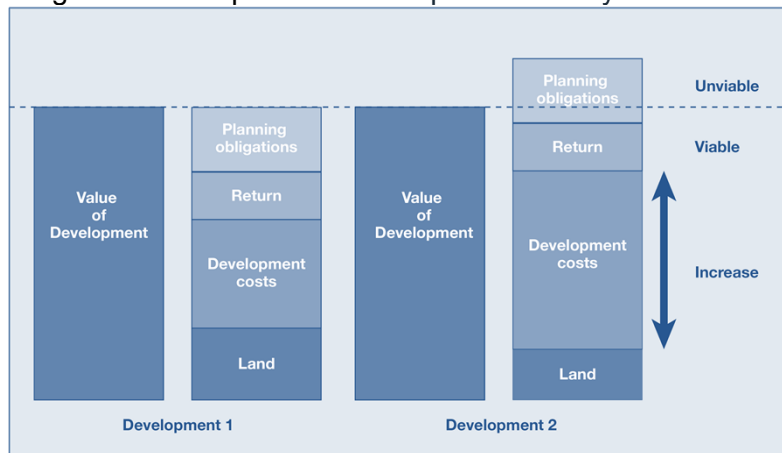
2.6. Our clients include national and regional house builders, as well as local developers, and land promotion organizations as well as individual landowners.

3.0. Standard Methodology in assessing viability

3.1. Financial Viability Assessment (FVA) is based upon a residual land value calculation, supported by a design and build cost estimate in as much detail as possible, and a scheme cash flow plotting the pattern of likely cash spend and income to generate interest on development finance.

3.2. The difference between gross development value and total cost equates to a residual land value. The model runs over a development period from the date of commencement of the project, to completion when the development has been constructed, sold and occupied. In order to assess whether a development scheme can be regarded as economically viable, it is necessary to compare residual land values produced with target land values. If the development proposal generates a residual land value that is higher than the target land value for the scheme, it can generally be regarded as economically viable and therefore deliverable. However, if the scheme generates a residual land value which is lower than the target, it should not be deemed as economically viable (as illustrated in Diagram 1 below). The standard convention of working with current values and costs is used rather than those predicted in the future.

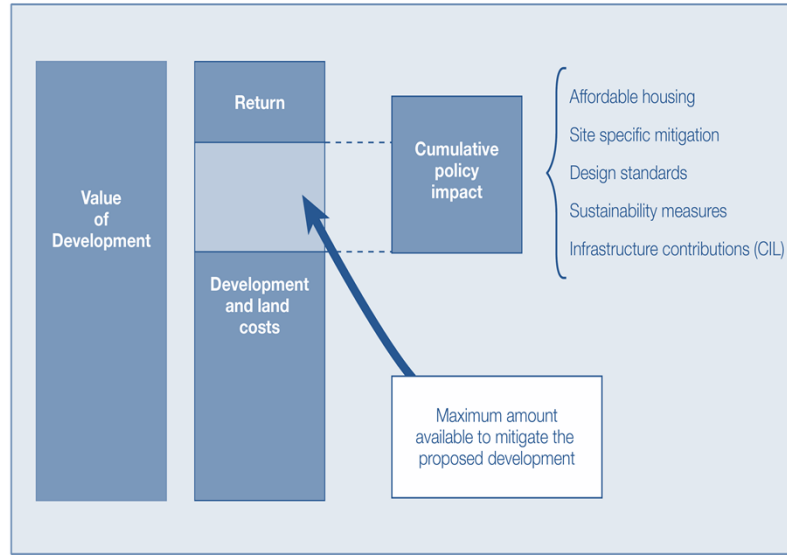
Diagram 1 - Comparative development viability



3.3. Diagram 1 illustrates the balance required to achieve a viable scheme – Development 1. It also shows how a scheme becomes unviable where there are increased development costs, due to site considerations, along with planning obligations – Development 2.

3.4. A viability assessment will have regard to not just single policy impacts but a cumulative impact of policy and planning obligations as illustrated in Diagram 2.

Diagram 2 - Cumulative impact of policy and planning obligations



4.0. Planning Guidance

4.1. There is strong policy background detailing the objectives and methodology for undertaking FVA's. This includes:

4.1.1. On the 24th July 2018 the National Planning Policy Framework was revised. It notes:

4.1.2 (1.) *The National Planning Policy Framework sets out the Government's planning policies for England and how these should be applied. It provides a framework within which locally-prepared plans for housing and other development can be produced.*

4.1.3 (34) *Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.*

4.1.4 (57.) *It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-*

making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.

4.1.5 (63.) Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer). To support the re-use of brownfield land, where vacant buildings are being reused or redeveloped, any affordable housing contribution due should be reduced by a proportionate amount.

4.1.6 (64.) Where major development involving the provision of housing is proposed, planning policies and decisions should expect at least 10% of the homes to be available for affordable home ownership, unless this would exceed the level of affordable housing required in the area, or significantly prejudice the ability to meet the identified affordable housing needs of specific groups.

4.2.1 Planning Practice Guidance relating to viability was updated on the same day (and more recently in September 2019) and notes:

4.2.2 It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage.

4.2.3 Where a viability assessment is submitted to accompany a planning application this should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then.

4.2.4 Plans should set out circumstances where review mechanisms may be appropriate... over the lifetime of the development...

4.2.5 Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return.

4.2.6 In plan making and decision making viability helps to strike a balance between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission.

4.2.7 For viability assessment of a specific site or development, market evidence (rather than average figures) from the actual site or from existing developments can be used.

4.2.8 Assessment of costs should be based on evidence which is reflective of local market conditions.

4.2.9. The benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a

reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. Benchmark land value should reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees.

4.2.10 EUV should be informed by market evidence of current uses, costs and values. Market evidence can also be used as a cross check of benchmark land value. Applicants should identify and evidence any adjustments to reflect the cost of policy compliance.

4.2.11 EUV is the value of the land in its existing use. EUV can be established... by assessing the value of the specific site... using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield (excluding any hope value for development).

4.2.12 The premium is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements. A reasonable premium must be based upon the best available evidence. Market evidence can include BLV from other assessments. Land transactions can be used but only as a cross check to other evidence.

4.2.13 Potential risk is accounted for in the assumed return for developers at the plan making stage.

*4.2.14 **For the purpose of plan making** an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk.*

4.3.1. The Royal Institution of Chartered Surveyors (RICS) has produced a revised draft guidance note, Assessing Financial Viability in Planning (November 2019). The RICS guidance notes that:

4.3.2. 'To achieve deliverability, plans need to contain policies that, taken as a whole in the context of the development envisaged by the plan, are not likely to make that development financially unviable. A key determinant of financial viability is the balance between housing delivery and the provision of developer contributions. If developer contributions are set too high, landowners may not release land.

4.3.3. FVAs are undertaken to determine the balance between housing delivery and developer contributions. The FVA must be supported by appropriate evidence and that evidence is informed by engagement with developers, landowners, infrastructure and affordable housing providers.

4.3.4. Given that planning policies can affect markets, planning requirements should be set at levels that enable the market to function and plan polices to be delivered.

4.3.5. Market cyclicalities are a development risk and are accounted for in the risk-adjusted return required by the developer. At the date of valuation, these risks are based on expected out-turns that may turn out to be different to the actual achieved return in the future. The development cash flows that are modelled in the FVA should be those cash flows that are expected (The risk-adjusted return has already compensated the

developer for taking on that particular risk. Therefore, inputs into the viability assessment should not be adjusted to conservative estimates; they should be the best estimate of what is expected.

4.3.6. An FVA estimates whether planned developments with policy-compliant levels of developer contributions are able to provide:

- a minimum reasonable return to the landowner (defined as the EUV plus a premium), and
- a suitable return to the developer.

If the FVA shows that the specified landowner and developer return are not enough to satisfy these benchmarks, the development typology is unviable at the level of developer contributions being tested at the plan-making stage.

4.3.7. A proper understanding of financial viability is essential in ensuring that:

- land is realistically priced and released for development by landowners to achieve plan delivery
- developers are capable of obtaining appropriate market risk-adjusted returns for delivering developments
- assumptions about the quantum of development that can be viably delivered over the course of the plan period are robust and
- CIL charging schedules are set at an appropriate level.

4.3.8. PPG paragraph 018 identifies the return to the developer in plan-making FVAs. An assumption of 15– 20% of GDV may be considered a suitable developer return. However, PPG paragraph 018 states that 'Plan-makers may choose to apply alternative figures outside of this range where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk'. Alternative figures may also be applied for different development types, such as commercial development or build to rent.

The developer return includes compensation for risk. The assessor should consider the relative level of risk attached to the development of the different strategic sites and hypothetical typologies. When estimating the appropriate return for each typology and site, the assessor should consider evidence from other stakeholders and relevant FVAs.

4.3.9. There are three approaches to the assessment of the BLV. All three should be calculated and reported to the decision-maker separately to counter arguments that BLVs from one method of valuation have been used as an input into another method, in order to reduce developer contributions artificially. If applied correctly, the recommended approach will nullify this possibility. The primary approach is EUV+ (or AUV where appropriate). The other two approaches are cross- checks.

1. a) The first cross-check is the residual BLV, found by applying the residual valuation approach set out in Valuation of development property, RICS guidance note.
2. b) The market comparison approach can be used to provide a further cross-check. Where the evidence allows, land transactions can be used. The

normal valuation approach to the analysis of transactions is set out in Comparable evidence in property valuation, RICS guidance note.

In the case of the BLV in FVAs, these two methods are not the primary approach, which is the EUV plus a premium. They are therefore cross-checking mechanisms only. An important difference between market value and BLV is the weighting of the evidence base. While the evidence base for the market value is grounded in transactions, and in comparative values and costs of the developed property in a residual valuation, the PPG reduces the status of comparable land transactions to that of a cross-check of the BLV, which may be undertaken to help inform the BLV established by reference to the EUV plus a premium. Existing use value should be informed by market evidence of current uses, costs and values”.

4.3.10. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements. It is therefore a minimum return that would persuade a reasonable landowner to sell the land.

4.3.11. The PPG states that the AUV ‘of the land may be informative in establishing benchmark land value’. The AUV refers to the value of land for uses other than its existing use. The EUV of a partially implemented development could be nil. The BLV may therefore be more appropriately assessed by reference to the AUV. The RICS guidance note, defines it as ‘the market value, or any other appropriate basis, with the special assumption of an alternative use to the existing use or permitted highest and AUV - these uses may include where there is:

- an extant planning consent that can be implemented*
- an alternative development that fully complies with up-to-date plan policies*
- potential to refurbish the existing property*
- any alternative use for the property that would achieve planning consent*
- a partially implemented consent, or*
- an application under section 73 of the Town and Country Planning Act 1990 for a variation or removal of a condition on an existing planning permission.*

4.3.12. Different forms of adjusted market evidence to inform the premium include specific references to:

- BLVs from other FVAs, and*
- Land transactions, but only as a cross-check to the other evidence.*

4.3.13. Where assessors consider that the impacts of value and cost change are a significant factor in the market, these changes are taken into account in the FVA and sensitivity testing of these projections is undertaken.’

4.3.14. In their April 2012 topic paper practice note, the Homes and Community Agency (HCA) Advisory Team for Large Applications (ATLAS) Team note:

“The issue of viability is a material consideration in decision making. The weighting attached to it needs to be balanced with the circumstances of any specific project, the underlined policy basis and all the other relevant material planning considerations. In the current economic climate, when project viability is often a key barrier preventing development from proceeding and potentially hindering its ability to meet all established policy objectives, it is critical...(have a good understanding of the use of financial appraisals to test viability)”.

5.0. Assumptions used in our modeling framework

5.1. Our viability assessment is based upon broad approximations, where detailed information is not available. We have modeled the delivery of a typical developer scheme of 35 homes, see mix and GIFA's at appendix two supplied by dha.

5.2. The scheme is based on the layout plan prepared by the developer, as shown at appendix 3.

5.3. Gross Development Value

5.3.1. dha base their viability work on an analysis of house sales achieved in the locality which we do not disagree with. As the scheme is 100% affordable housing (74% Shared Ownership, 26% Affordable Rent), they apply a value of 65% of open market value to derive the GDV of the scheme.

5.3.2. Whilst we model this, and believe it to be an appropriate figure if the scheme was delivered on a grant free basis through a S106 agreement in its entirety, we assume grant funding is available to support the acquisition of what would normally constitute the market units. We therefore apply a value of 80% of market value which we see as an achievable and normal rate (less than the market value as profits are much lower reflecting the reduced risk as a land inclusive package deal has been agreed, which benefits from reduced sales and finance costs.

5.4. Gross Development Costs

5.4.1. Site Acquisition Costs

We have included site acquisition costs to cover agent and legal fees at a total of 1.75% of the benchmark land value. These assumptions are viewed as standard. Stamp duty at the prevailing rate has been allowed for, calculated on the residual value.

5.4.2. Design and Build Costs

We have assumed that all design costs (site survey, architecture, engineering planning consultant and fees), are included within our appraisal. Our cost plan is based on the planning drawings and limited information provided in the dha appraisal (see layout plan at Appendix 1).

Dha have provided a contractors cost estimate for the base build price of providing the homes, and compared this to the BCIS Median rates adjusted for the Swale district, demonstrating their reasonableness. We accept these costs.

Furthermore they propose infrastructure costs covering a pumping station, sewer connections, an attenuation pond, electrical connections, landscaping and an access road which we also accept.

A 10% of base build cost addition is made for plat externals which we consider as reasonable.

5.4.3. Abnormal and Contingency Costs

Abnormal and additional costs are identified in the base estimate and we have therefore been able to allow for them on the basis of information provided. Contingency costs have been allowed for at a rate of 3% in the middle of the acceptable range noting that this is the level allowed for in the contractor estimate

5.4.4. Design & Professional Fees

Allowances have been included to cover all design and professional fees, at 10%. This is a standard allowance compared to typical allowances assumed in Financial Viability testing, and takes into account the nature of the development, covering all surveys, enquires and design work pre and post planning, as well as statutory fees and consultants. It is the same rate as dha allow for.

5.4.5. S106 Contributions

We note the CIL has not yet been introduced. We have allowed for S106 contributions in line with the dha report and totalling £290,328 in total.

5.4.6 Marketing and Sales Costs

We have adopted full marketing sales and disposals costs within the appraisal, for shared ownership homes only including:

- Marketing costs of the private properties
- Agent's fees
- Legal fees associated with private sales

On this basis we have assumed a sales and marketing cost of 2% of the gross development value of the open market sales properties plus £800 per property for legal fees.

5.4.7. Finance Costs.

Where development finance is available, lenders are currently charging minimum rates of at least 7%. Arrangement (1%), monitoring (2%) and exit fees (1%) are also charged. These onerous lending terms persist due to on-going resistance to lending on residential development in the current market. We have adopted an interest rate of 7% with no additional allowance for fees.

It is conventional to assume finance on all costs in order to reflect the opportunity cost (or, in some cases, the actual cost) of committing equity to the project.

5.5. Development Programme

5.5.1. For the purpose of undertaking the Economic Viability Assessment only, we have assumed that a standard development of 35 homes takes place over a 36 month period with the land being acquired in month one, and construction taking 28 months, with three months for site set up and clearance etc.

5.5.2. We have assumed sales of open market homes occur from month 13 to month 36 on an even basis. The rate of sales directly links to the assumed sales prices of individual homes.

5.5.3. These assumptions are particularly important in the calculation of development interest. The accounting for development interest on the land acquisition is from month

one of the programme, not allowing for any historic holding costs of the site, in line with best practice.

5.6. Overhead & Profit

5.6.1. When considering the changing economic climate, financial institutions have tightened their requirements for overhead and profit returns on all schemes. Banks have raised their expectations in terms of risk and required returns that new developments offer. It is currently deemed likely that any private residential development proposals predicting an overhead and profit return of less than between 15% and 20% of gross development value would not be considered viable. We note the contents of the recently revised NPPF in this regard relating to the blended rate. However, the current uncertainty associated with the future of the UK's trade relationship with the European Union has created uncertainty which may undermine some buyers' confidence to a degree. In this context, financial institutions are likely to tighten their requirement for profit returns on developments. As a consequence, target profit levels are expected to increase back up to 20% on value in the short term.

5.6.2. We would normally adopt an overhead and profit rate of 15/20% of gross development value for the open market element of schemes.

5.6.3. As affordable housing contains less commercial risk, typically with a JCT Design & Build Contract or a Development Agreement being signed at the commencement of works, and monthly valuations of construction work, borrowing and risk are reduced, and so lower levels of overhead and profit are the norm. We have allowed an overhead and profit of 6% in relation to the delivery of affordable housing in line with the dha assumption.

5.6.4. At the planning appeal for Shinfield, Reading (APP/X0360/A/12/2179141) the inspector deemed that "the usual target being in the range 20-25%" of gross development value. This is in line with the recent appeal decision Chapel St Leonards APP/D2510/Q/14/2228037 noting that this level of return is reasonable. At (Appeal Ref: APP/W1145/Q/13/2204429, Former Holsworthy Showground, Holsworthy) the inspector felt a blended rate including the affordable housing of, 18% was appropriate rejecting the council's argument for 17.5% on open market housing (not dissimilar to the blended rate of 18.5% in APP/N4720/A/14/2227584, Roundhay Leeds).

6.0. Methods for Assessing Land Values

6.1. Overview

6.1.1 The minimum land value judged as capable of ensuring a site is brought forward is important in our calculations of scheme viability.

6.1.2. As noted in the PPG:

"The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell..."

6.1.3. The 'Harman Report' (June 2012) notes that Threshold Land Value (TLV) should represent the value at which a typical willing landowner is likely to release land for development. The report notes that TLV needs to take account of the fact that future plan policy requirements will have an impact on values and landowner expectations.

6.1.4. Market values provide a useful 'sense check' on the TLV, but 'Harman' recommends an approach based on a premium over current use values and credible alternative use values.

6.1.5. The report goes on to note that if local market evidence shows that minimum price provisions are substantially in excess of initial assumptions, the TLV will require adjusting to reflect market evidence.

6.1.6. The RICS report 'Financial Viability in Planning,' defines Benchmark Land Values (BLV) as equating to the market value, subject to having regard to development plan policies and other material planning considerations and disregards that which is contrary to the Local Plan. It goes on to note for area wide viability testing, site value may need to be further adjusted to reflect emerging policy, at a level, which would not prejudice delivery.

6.1.7. The report also notes the BLV must be at a level which makes a landowner willing to sell. Comparable evidence is important in establishing BLV for scheme specific as well as area wide assessments.

6.1.8. In this context we note the Examiner's report in relation to Greater Norwich Development Partnership CIL charging schedule (December 2012)

"...it is necessary to establish a threshold land value i.e. the value at which a typical willing landowner is likely to release land for development. Based on market experience...a landowner would expect to receive at least 75% of the benchmark value... It is reasonable to see a 25% reduction in benchmark values as the maximum that should be used..."

6.1.9. This approach was also uncontested and accepted at the Sandwell CIL examination in July 2014. In short if land trades today at the BLV, the TLV should be no less than 75% of this.

6.2. Determining the land value

6.2.1. In assessing viability we want to establish a **Benchmark Land Value** that is appropriate in ensuring landowners receive a competitive return. Harman and the RICS acknowledge that in order for development to come forward over the existing use, a 'competitive return' (also referred to as a premium) is necessary.

6.2.2. There is no set rule as to how much of a premium should be applied on top of the existing use value. We can sensibly expect that a minimum uplift in value would be required in order to allow the seller to pay stamp duty, sales fees, legal costs and disruption. But that bare minimum is usually not incentive enough to persuade a landowner to sell.

6.2.3. Beyond that bare minimum, an incentive (referred to as a 'premium') is required to encourage the landowner to sell. It is difficult to say what premium a seller would require in order to sell the land. This is because there are inevitable differences in each

deal. For example, the motivations of the parties involved in the transaction may vary, as might perceptions of future market prospects. Some landowners (say family trusts, or Oxbridge Colleges) take a very long-term view of land holdings and can only be persuaded to sell at a high price. We cannot know these individual circumstances, so Harman stipulates that an appropriate premium should be determined by local precedent - another way of saying market value.

6.2.4. In some instances, an alternative use may be considered over residential development, e.g. employment, retail etc. Assuming that the alternative use is realistic, then it may be prudent to consider land values for this alternative use, in addition to its existing use. This may give a more accurate view of the BLV, because a rational landowner will always seek to maximise site value.

6.2.5. Regarding existing use values, for sites coming forward for development comprising green field sites guidance issued by the HCA is relevant. In "Transparent Assumptions: Guidance for the Area Wide Viability Model" 2010 states that for green field land, benchmarks tend to be in a range of 10 to 20 times agricultural value. In Knight Frank's report, *The Rural Report*, Winter 2014, typical agricultural land value per hectare are noted as being £25,946. This would give a benchmark land value of between £259,460 per hectare and £518,920 per hectare.

6.2.6. Benchmark Land Values cannot be straightforwardly derived from current market values. The market value / BLV should be adjusted to allow for any future changes in planning policy. Furthermore, it may also be necessary to reduce the market value / BLV to allow for risk in obtaining planning permission, dependent upon comparable evidence. There is no set rule for the amount of discount that should be applied to the market value of a site.

6.2.7. This market comparable based approach considers land traded in the area. This market performance will inform landowners' 'hope values' for sites. After adjustment for various factors (such as time and various flavors of risk, such as whether the land had planning permission), we can start to make judgments about how comparable sites might trade. We have been able to obtain a number of comparables from developers and agents in the area.

6.2.8. If the residual land value shown by the appraisals is below the Benchmark Land Value, the development is not financially viable. That means that unless the circumstances change the development will not be delivered.

6.2.9. If the residual value and the Benchmark Land Value are equal, or if the residual value exceeds the Benchmark Land Value, the development is viable.

6.2.10. When considering Benchmark land values based on EUV plus a market incentivized premium the Inspector in Pinn Court Farm, Exeter (APP/U1105/A/13/2208393) noted that it was "unrealistic and inconsistent with the principals in the Planning Practice Guidance to expect a transaction to be incentivized and to occur to deliver housing at a value less than the relevant comparables."

6.3. Benchmark Land Value used

6.3.1. In reaching a conclusion on an appropriate Benchmark Land Value we have reviewed the evidence and using our professional judgement, we believe that an appropriate Benchmark Land Value assumption for the area cannot be lower than:

- £1,146,487 per gross developable hectare.
- As the site is 1.57 hectares this equates to £1,800,000.
- The site is allocated in the Local Plan and benefits from an OPC
- The planning history informs the Existing Use Value.

6.3.2. In setting an appropriate benchmark land value the following evidence has been taken into account:

The Local Plan viability report of 2014 assumes values of £850,000 per hectare in Faversham.

The former Mailing Centre, Staplehurst Road, Sittingbourne has an agreed benchmark land value of £1,322,957 per hectare.

In High Street, Rainham an agreed benchmark land value of £2,232,848 per gross developable hectare was agreed on a scheme for 55 homes.

A site in Glencoe Road, Chatham sold for £1,303,000 per gross developable hectare for 24 homes.

A site at St Bartholomews Hospital, Rochester sold for a value of £1,241,000 per hectare

6.3.3 We note that in the recent High Court decision relating to Parkhurst Road, Holgate J noted that Benchmark land values 'should reflect and not buck relevant planning policies.

7.0 Analysis of FVA Outputs and appropriate Sensitivity Analysis.

7.1. We have considered:

7.2. The proposed scheme of 35 affordable homes without enhanced energy efficiency works, generates a residual land value of **£798,595**, (which equates to 44% of the benchmark value). This is not considered to be an economically viable level of land value as required by the National Planning Policy Framework. It notes sites need to deliver a "minimum return." We further note in the recently published Viability Testing Local Plans document it is necessary "*for the scheme to provide a competitive return to the developer to ensure the development takes place and generates a land value sufficient to persuade the land owner to sell the land.*"

7.3. We have appraised an identical scheme but with greater values (benefiting from grant funding) as outlined above. The proposed scheme of 35 affordable homes without enhanced energy efficiency works, generates a residual land value of **£1,852,267**, (which equates to 103% of the benchmark value). This is considered to be an economically viable level of land value as required by the National Planning Policy Framework.

7.3. A balance of £52,267 is therefore available for enhanced energy efficiency works above the standard set in the Building Regulations. This will not achieve a 50% reduction. Indeed dha offer a 10% reduction in there at a cost of £186,135 which therefore represents a substantially better outcome than our viability report justifies.

8.0 Conclusions

8.1. The FVA indicates the scheme as proposed, based on current known costs and values generates a residual land value of £1,852,267 assuming the provision of 35 affordable homes and therefore allowing for enhanced energy efficiency works totaling £52,267.

8.2. This is a level, which can be considered to deliver a *minimum return* to the landowner, in comparison with the established convention of consideration of current benchmark values.

8.3. It is therefore our reasonable judgment that a viable scheme is one which includes £52,267 of additional energy efficiency works above the standard set in the Building Regulations. The developers offer of a 10% reduction at a cost of £186,135 is therefore a good one.

Signed:

**Martin Aust BSc (Hons) DMS MRICS CMCIH CEnv
9th November 2020**