DS1441

[redacted]

Fort Halstead, Sevenoaks, Kent TN14

FINANCIAL VIABILITY ASSESSMENT

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On behalf of Merseyside Pension Fund

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RICS

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EXECUTIVE SUMMARY

This FVA has been prepared by DS2 to robustly examine the financial viability of the proposed development. The purpose of the assessment is to test the amount of affordable housing and other financial obligations that the proposed development can viably support.

The FVA is prepared to support discussions between Merseyside Pension Fund ("the Applicant") and Sevenoaks District Council ("SDC") relating to the quantum and tenure of affordable housing.

This assessment has been prepared in support of a part full, part outline planning application which has been submitted by CBRE Ltd.

Site Location and Description

Fort Halstead (the "Site") is located within the administrative area of Sevenoaks District Council, approximately 8 km north-east of Sevenoaks on the edge of the North Downs; and approximately 1 km to the west of the M25 motorway, running north to south, between junction 4 and junction 5.

The Site comprises nine series of buildings. It is currently occupied by Defence Science and Technology Laboratory ("Dstl") and QinetiQ. The functions of the Site include research and development facilities, the storing and use of high-grade explosive material and other military research activities.

The Site has an outline planning permission which was granted by SDC on 30th December 2015 under Planning Reference 15/00628/OUT. The 2015 extant planning permission includes the provision of commercial floorspace and 450 residential units, comprising 20% affordable housing.

Development Proposals

The current development proposals comprise a mixed-use scheme comprising employment space, 635 residential units, including affordable housing, a school and commercial / community floorspace ("the Proposed Development").

Site Value

The Site's Existing Use Value ("EUV") is the benchmark against which the residual value of the proposed development has been assessed. If the residual land value is lower than the benchmark land value, then the scheme is deemed to be unviable and is therefore unlikely to come forward for development, unless the level of affordable housing and / or planning obligations can be reduced. If the residual land value is higher than the benchmark then the scheme can, in theory, provide additional affordable housing and / or other planning obligations.

Appraisal Results

Viability is undertaken on a present-day basis. When comparing the benchmark land value to the residual land value of the proposed development on a present-day basis with 0% affordable housing, the results demonstrate there is a significant deficit as shown in the table below. It follows the proposed development can viably support no affordable housing on a present day basis.

1) INTRODUCTION

1.1 This FVA has been prepared to accompany the application for the redevelopment of Fort Halstead, which will provide a mixed-use scheme comprising 635 residential units, including affordable housing, business areas, development of a mixed-use village centre, development of a one form entry primary school and change of use of Fort area and bunkers to a historic interpretation centre.

1.2 The FVA is prepared to support discussions between the Applicant and SDC relating to the quantum and tenure of affordable housing.

Instructions

1.3 In accordance with the Applicant's instructions, DS2 have prepared on an independent and objective basis a viability assessment which tests the maximum reasonable level of affordable housing and additional financial obligations that the development can viably support. Our instruction is on a non-performance or contingent related basis.

1.4 The FVA has been collated in accordance with National Planning Policy Guidance paragraph 21 which states 'Any viability assessment should be prepared on the basis that it will be made publicly available other than in exceptional circumstances.'

Conflict of Interest

1.5 We can confirm that there are no conflicts of interest in accordance with the RICS Professional Statement Conflicts of Interest, 1st Edition, that came into effect on 1st January 2018.

Financial Viability in Planning: Conduct & Reporting

1.6 This FVA has been prepared by DS2 in accordance with the latest RICS Professional Statement titled 'Financial Viability in Planning: Conduct and Reporting' which became effective from 1st September 2019.

1.7 This FVA has been prepared on an objective and impartial basis, without interference, and in full accordance with the planning policy and professional best practice requirements. DS2 can also confirm that in collating this report we have complied with the RICS Professional Statement (2) Ethics, Competency, Objectivity and Disclosures.

1.8 We can confirm that in undertaking this exercise, DS2 have been reasonable, transparent, fair and objective as required by Section 4 of the Professional Statement.

1.9 ARGUS Developer has been used to model the viability of the Proposed Development. This is commercially available and widely used development appraisal software. It is considered appropriate to assess a development of this type because of its ability to accurately model development timings and cash flows.

1.10 To inform the report, information prepared by the following independent consultants has been relied upon:

be attached to our valuation than would normally be the case and the same cautionary approach is applicable to FVAs.

1.15 This FVA has been collated at today's date upon the basis that there is a normal functioning market within a reasonable period of time and that attitudes to risk, for example, are unchanged from the start of the year. However, given the unknown future impact that COVID-19 might have on the real estate market, we recommend that the values (and costs including risk return) within this FVA are kept under review.

2.5 The Site does not fall within any Conservation Area; however, the Site is within the Kent Downs Area of Outstanding Natural Beauty ("AONB"), the Green Belt and there is Ancient Woodland within the Site boundary. In addition, the Site contains some Grade II listed buildings; and the Fort is of heritage interest.

Site Description

2.6 The application boundary within the red line measures 75 hectares (186 acres).

2.7 The development of the existing Site has taken place over a significant period. The Fort itself, which is a Scheduled Monument, was a mobilisation centre, originally constructed from c.1895 as one of a ring of Fortresses around London.

2.8 Since then, the built form of the site has come forward in phases of development, linked to the operational requirements of the site, with the main building phase linked to the Cold War. Most buildings were built between 1890 and 1990. DS2 understand the buildings are in a condition commensurate with their age.

2.9 The Fort is denoted by the 'F' series buildings. The subsequent building development is arranged by the series letter and number. In total, there are 9 building series.

2.10 **Appendix 1** labels each of the building series and labels the individual buildings within the building series.

2.11 The Site is currently occupied by Dstl and QinetiQ. The functions of the Site include research and development facilities; the storing and use of high-grade explosive material; and other military research activities. Both Dstl and QinetiQ occupy buildings across the Site.

2.12 The Site's existing planning use is B1, B2 and B8. The existing Site uses and areas, assumed to be GIA, across the building series, extracted from the passing rent schedule, provided by CBRE are as follows:

TABLE 1: SITE AREAS

Nature of Land	Building Series	Sqm	Sq ft	%
B1	A, F, H, M, N, Q, R, S, X	37,801	406,890	5%
B2	A, F, N, Q, R	8,344	89,814	1%
B8	A, F, H, M, Q, R, S, X	14,691	158,132	2%
Development Land	H, N, Q, S, X	7,636	82,198	1%
Non-Development Land	-	610,417	6,570,532	88%
Plant, Machinery etc	A, F, H, M, N, R, S, X	4,411	47,477	1%
Demolished Land	A, R	9,179	98,800	1%
Total		**692,479**	**7,453,844**	**100%**

3.5 Area schedules are provided at **Appendix 2**. The area schedule includes: A, B and D use classes. The schedule separates the commercial floor space into 'village centre / Fort floor space' and 'business floor space'.

3.6 The 'village centre / Fort' areas contain the A and D use classes, with the B use class employment space in the 'business floor space' areas.

Village Centre / Fort Floorspace

3.7 The Proposed Development includes 53,293 sq ft GEA of retail and leisure and community space, some of which are existing buildings being refurbished and some of which are new build.

TABLE 2: DEVELOPMENT PROPOSALS – COMMERCIAL – VILLAGE CENTRE

Type	Building Name	Use Class	GEA (sqm)	GEA (sq ft)
Retained				
Fort Area	'F' Series	D1	1,794	19,311
Bunkers	Various	D1	500	5,382
Community / Gym	Q14	D1/D2	282	3,035
New Build				
Shop / Café	Block C	A1 / A3	520	5,597
Community	Block B	D1	270	2,906
Nursery	Block C	D1	240	2,583
Primary School	N/a	D1	1,345	14,478
Total			**4,951**	**53,293**

3.8 Whilst the planning application is for flexible A uses at Block C, for the purposes of assessing financial viability only the most valuable planning use has been modelled, which is assumed to be A1 retail. The assumed planning uses are set out in Table 3.

3.9 DS2 has assumed the following Gross Internal Areas ("GIA"), Net Internal Areas ("NIA") and use classes:

TABLE 3: DEVELOPMENT PROPOSALS – COMMERCIAL – GIA / NIA - VILLAGE CENTRE

Type	Building Name	Use Class	GIA sqm	GIA sq ft	NIA sqm	NIA sq ft
Retained						
Fort Area	'F' Series	D1	1,704	18,345	1,534	16,511
Bunkers	Various	D1	475	5,113	428	4,602
Community / Gym	Q14	D2	268	2,884	241	2,595
New Build						
Shop / Café	Block C	A1	494	5,317	445	4,786
Community	Block B	D1	257	2,761	231	2,485
Nursery	Block C	D1	228	2,454	205	2,209
Primary School	N/a	D1	1,278	13,754	1,150	12,378
Total			**4,703**	**50,628**	**4,233**	**45,565**

Commercial Floorspace

3.10 The Proposed Development includes 284,439 sq ft GEA business / commercial floorspace, a mixture of new build and refurbished space.

3 Bed Terrace	70	87	936	6,087	65,520
3B/5P House	38	93	1,000	3,530	38,000
3 Bed Semi-detached	80	97	1,048	7,789	83,840
3 Bed Detached	64	108	1,166	6,933	74,624
4 Bed Semi-detached	48	127	1,363	6,078	65,424
4 Bed Detached	48	140	1,507	6,720	72,336
5 Bed Detached	36	180	1,941	6,492	69,876
	635			**60,538**	**651,624**

Summary

3.15 In summary, the Proposed Development adds positively to the local area by providing a high quality, mixed use sustainable development which complements and integrates with the surrounding context.

3.16 The Proposed Development provides an important opportunity to support economic development and to increase the supply of high-quality affordable homes. The provision of affordable housing is a significant benefit in the redevelopment of the Site in addition to the primary school and historic interpretation centre.

4.9 Policy H2 of the draft SDC New Local Plan - Proposed Submission Version (December 2018) sets out the expected residential mix which should be met unless an alternative mix meets an identified local need:

TABLE 7: SDC RESIDENTIAL UNIT MIX

	1 bed	2 bed	3 bed	4 bed
Market	5-10%	25-30%	40-45%	20-25%
Affordable	30-35%	30-35%	25-30%	5-10%
All	15-20%	25-30%	35-40%	15-20%

4.10 Policy H2 of the draft SDC New Local Plan - Proposed Submission Version (December 2018) stipulates that 30% affordable housing is required where there are 10 or more homes proposed on already developed sites, which is the case with the Site. Regarding tenure mix, the policy states the preference of 76% (social / affordable rented) and 24% intermediate housing, unless it can be demonstrated that an alternative mix meets an identified local need.

4.11 The policy further states that where on-site provision in accordance with the policy is not viable, SDC will consider the following options in priority order:

1. A reduced level of provision on-site plus a financial contribution in lieu of the shortfall;
2. A financial contribution in lieu of any affordable housing provision on-site;
3. Provision of the number of affordable units on an alternative site within Sevenoaks District, to be secured by the Applicant and agreed by the Council.

4.12 On 17th October 2019, the inspector examining the Sevenoaks Local Plan issued a letter recommending that the council withdraw its plan due to 'significant concerns' surrounding the Plan's legal compliance and soundness. SDC has responded to these concerns, which included a letter to Secretary of State in January 2020.

4.13 The Inspector issued a final report on 6th March 2020 which included a recommendation that the draft SDC Plan should not be adopted. As such, the adopted Core Strategy has been assumed to be the SDC's current policy on affordable housing.

Summary

4.14 National and local affordable housing policies support the delivery of the maximum reasonable amount of affordable housing, having regard to viability and other forms of planning gain such as CIL and S106.

4.15 Policy seeks to encourage rather than restrain development; therefore, NPPF, NPPG and local policy also states that development proposals must remain commercially viable, if sites are to be brought forward for development.

4.16 The Proposed Development seeks to provide a mixture of different unit types, incorporating on-site affordable housing.

Existing Use Value

5.6 The NPPG states that BLV should usually be established based on the EUV of the land, plus a premium for the landowner. It stipulates 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. This approach is often called Existing Use Value Plus ("EUV +").

5.7 Regarding the premium, the NPPG does not indicate what is considered an appropriate premium but generally between 10% and 30% is considered appropriate.

Alternative Use Value

5.8 The NPPG defines an Alternative Use Value ("AUV") as 'the value of land for uses other than its current permitted use, and other than other potential development that requires planning consent, technical consent or unrealistic permitted development with different associated values. If applying alternative uses when establishing benchmark land value these should usually be limited to those uses which have an existing implementable permission for that use. The NPPG states that valuation based on AUV includes the premium to the landowner.

5.9 DS2 has reviewed the Site's existing implementable permission and has undertaken a development appraisal using similar variables compared to those adopted in the Proposed Development appraisal. However, as the EUV generates a higher value than the extant consent, the EUV has been adopted as the BLV and AUV ignored.

Summary

5.10 Ultimately, the aim of planning policy is to strike a balance between BLV, the developer's return for risk, and the planning obligations required to meet the policy tests whilst at the same time ensuring that the scheme can be delivered.

5.11 A practitioner's judgment should therefore take a balanced approach, taking into consideration EUV and AUV approaches to BLV. The adopted BLV should be informed by site specifics; adopted and emerging policy; best practice guidance; and experience in undertaking viability assessments.

5.12 An EUV approach has been adopted as the BLV for the Site has been assumed. This approach is robust and has full regard to adopted planning policy and guidance.

7	Employment zone new build	• Village Centre (C1 - C4) • Village Centre (Building 1 & 2)
8	Residential parcel	• Say 240 Units
9	Residential parcel	• Say 151 Units
10	Fort refurbishment	• Fort refurbishment
11	Employment zone new build	• Innovation Hub (Atrium) • Innovation Hub (Block D) • Innovation Hub (Block V1-5)
12/13	Residential parcel	• Say 244 Units

6.4 A phasing map is shown below in Figure 2, which corresponds with the phasing.

Figure 2: Phasing Plan (Source: JTP)

6.5 The Site has restrictions on phasing due to the existing occupiers and care must be taken to cater for the ongoing occupation.

Infrastructure and Construction

6.9 The infrastructure and construction programme commence in [redacted]. DS2 has assumed the costs are distributed via an 'S' curve over the construction period to practical completion of each phase. The exact phasing details are not known at this outline planning stage. For the purpose of this FVA, it is assumed that the residential construction equates to an average rate of circa 100 units constructed per annum across the phases.

Market Sales Timings

6.10 The residential sales programme assumes that a marketing campaign is conducted in advance of construction in the residential phases (Phases [redacted]) and will result in the pre-sales of some market sale units. Taking into consideration the proposed construction periods, the assumed sales timings results in approximately [redacted]% of homes being sold 'off-plan'.

6.11 It is assumed the remaining units sold at a rate of [redacted] per calendar month per residential phase thereafter.

Affordable Sales Timings

6.12 The affordable revenue is cash flowed as follows: [redacted] at 'golden brick' of each residential phase ([redacted]) (i.e. when the affordable provider takes a legal interest in the building at podium slab) and the remainder of the affordable payments cash flowed in a 's curve' through the construction period of each residential phase, assumed to be on certification of the RP's Employer's Agent.

Commercial Letting and Investment Timings

6.13 A [redacted] rent free / void period has been assumed for the commercial space.

6.14 The commercial rental income is capitalised at practical completion of each phase containing commercial space.

Summary of Timing Assumptions

6.15 The development programme assumes the construction of the Proposed Development extends until [redacted].

6.16 Demolition and infrastructure works are necessary before the employment and residential construction phases commence. The phasing and construction programme assumptions are in line with advice from CBRE who are acting as project managers and DS2's experience of sites of this scale.

6.17 In the phases containing residential units, the development appraisal assumes approximately [redacted] of the market residential units are sold off plan and the remaining units are sold assuming circa [redacted] per month per phase. The model assumes the affordable income is cashflowed through the construction period of the residential phases.

6.18 The commercial rental income is capitalised at practical completion of each phase containing commercial space.

associations could offer tenancies at rents of up to 80% of market rent levels within the local area. It has been assumed that rents would not be in excess of Local Housing Allowance Levels "LHA"). A value of [redacted] per sq ft has been assumed for the Affordable Rent units. If target rental levels are assumed, the value would decrease and this will affect the viability of the scheme and therefore the quantum of affordable housing.

7.7 It is proposed that the intermediate housing at the Site is delivered as Shared Ownership, which is an established intermediate product, regularly delivered to meet an identified housing need for those neither qualifying for rented affordable homes but unable to access the private home-ownership market.

7.8 As the name suggests, it is a form of housing where a buyer part-owns the property. A buyer will purchase an initial equity or stake in the property (say between 25% and 50%) from a Registered Provider ("RP") on which they take out a mortgage in the normal manner. They also however pay a rent to the RP (typically between 0.5% - 2.75%), based on the percentage of the property that the RP has retained as well as the relevant service charge.

7.9 Intermediate units delivered outside of Greater London must be affordable to households with incomes of up to a maximum of £80,000. The combination of mortgage, rent and service charge forms the purchasers 'housing costs.'

7.10 Total housing costs cannot exceed 40% of net annual income. Based on a certain level of initial sale, rent and service charge it can be calculated whether a property's housing costs are 'affordable' to those on the applicable intermediate incomes.

7.11 In summary, the value attributed to the intermediate homes equates to an average value of [redacted] per sq ft, which equates to circa [redacted]% of the value of the market sale units.

7.12 It should be noted that the residential comparable evidence was prepared predominately prior to the outbreak of the Novel Coronavirus (COVID-19), which has impacted global financial markets and the extent of the impact of the Global Pandemic is not yet known. As such, less certainty and a higher degree of caution should be attached to residential value assumptions than would normally be the case.

Car Parking Revenue

7.13 It has been assumed that the car parking revenue is included within the residential sales values.

Summary

7.14 The residential values assumed are summarised in the table below:

TABLE 11: PROPOSED DEVELOPMENT APPRAISAL INPUT ASSUMPTIONS – RESIDENTIAL

Input	Proposed Scheme
Market Sale Values	[redacted]
Affordable Rent	[redacted]
Shared Ownership	[redacted]
Car Parking Spaces	[redacted]

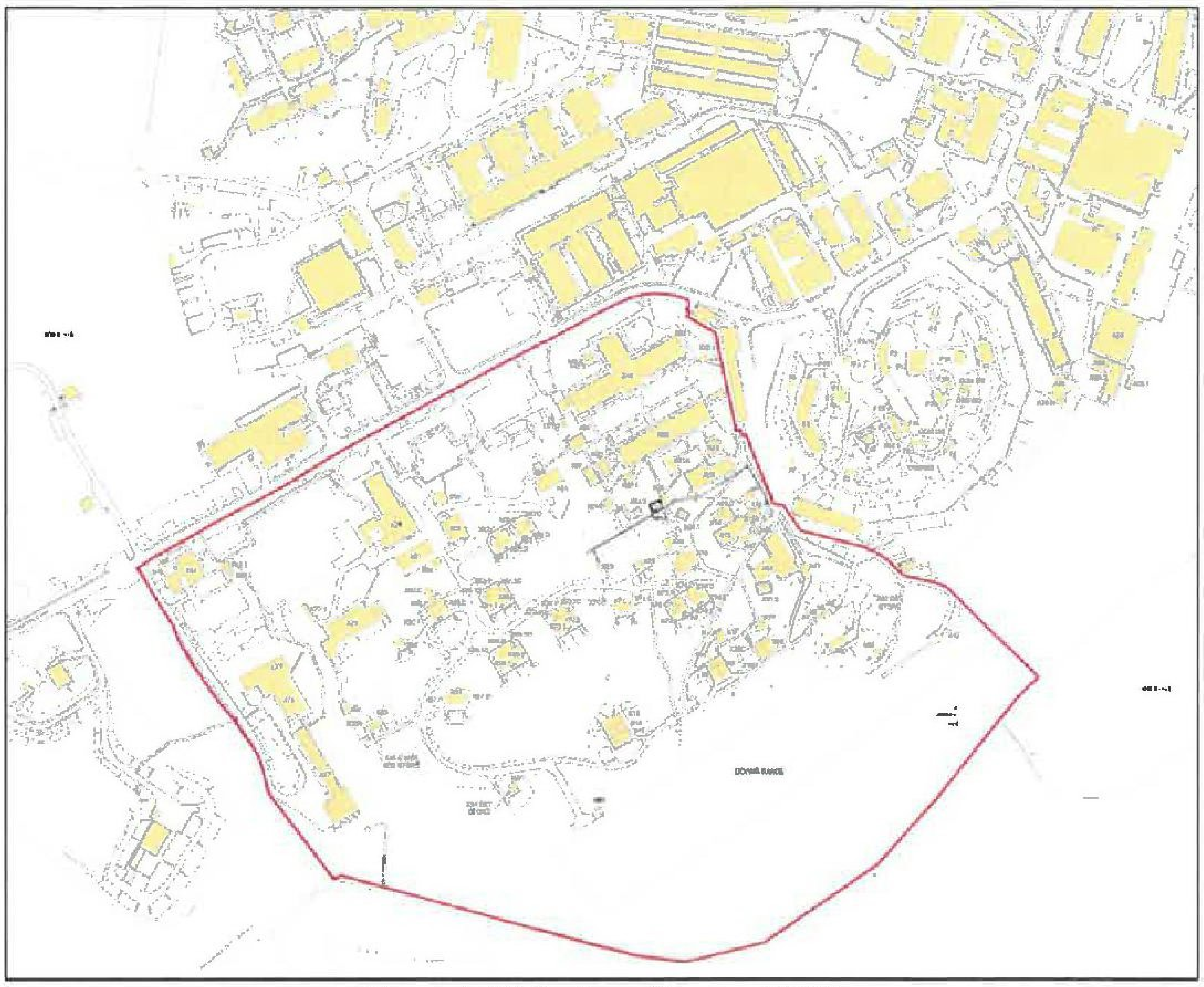

Figure 4: 'X' Enclave (Source: CBRE)

8.5 The village centre area will include community uses. More specifically, the village centre is envisaged to include: a nursery, a shop / café, community space and a gym.

8.6 The village centre will also include the primary school, the Fort and the bunkers but no commercial value has been attributed to these elements.

8.7 It is assumed for the purpose of this FVA that the business floor space, in both the innovation hub and the village centre, will include office and light industrial space.

8.8 In assessing an appropriate value for the proposed commercial space, DS2 has had discussions with commercial agents in the area and have also had regard to evidence of sales and lettings transactions obtained through the CoStar portal.

8.9 The following commercial evidence has been considered:

- Sales evidence for the commercial space let to QinetiQ / Dstl
- Office rental and sales evidence
- Industrial rental and sales evidence
- Retail rental and sales evidence
- Leisure and community rental and sales evidence

Figure 5: Q13 / Q14 (Source: CBRE)

8.20 A rent of [redacted] per sq ft at yield of [redacted]% has been assumed for Q13 and Q14, which DS2 understand are well proportioned and in reasonable condition. Before purchaser's costs are allowed for, this equates to [redacted] per sq ft.

8.21 A1 and A3 will be refurbished and let and will form part of the innovation hub of the Proposed Development. Photographs of A1 and A3 are shown below:

Figure 6: A1 / A3 (Source: CBRE)

8.22 A rent of [redacted] per sq ft at yield of [redacted]% has been assumed for A1 and A3, which DS2 understand are also reasonably proportioned and in reasonable condition. The rent reflects the distance the A1 and A3 buildings are from the amenity and convenience of the proposed village centre. Before purchaser's costs are allowed for, this equates to [redacted] per sq ft.

8.23 A10, A11, A13 and A14 will also form part of the innovation hub. Photographs of A10 and A11 are shown below:

Figure 7: A10 / A11 (Source: CBRE)

8.24 A rent of [redacted] per sq ft at yield of [redacted]% has been assumed for A10, A11, A13 and A14 which DS2 understand are more poorly configured than the other retained 'A' buildings but are better located, closer to the village centre amenities. Before purchaser's costs are allowed for, this equates to [redacted] per sq ft.

understood these would be delivered as part of the S106 requirements and no income would be received.

8.34 The bunker area is also envisaged to form part of the heritage walking trail within the Site

Summary

8.35 It is assumed the new build commercial units will be built / refurbished to a high standard. However, the commercial values reflect the location of the Site, which is not a town centre site near a railway station.

8.36 Whilst the development will benefit from a village centre, including commercial and retail uses, the Site is in an unproven commercial location and it is unlikely that the demand will be as high as in nearby centres, such as Sevenoaks and this has been reflected in the rent and capital values adopted. Furthermore, whilst it is hoped that QinetiQ will be the kernel of something that will attract synergetic businesses, this is a hope and not a reasoned expectation.

8.37 It should be noted that the commercial comparable evidence was prepared predominately prior to the outbreak of the Novel Coronavirus (COVID-19), which has impacted global financial markets and the extent of the impact of the Global Pandemic is not yet known. As such, less certainty and a higher degree of caution should be attached to commercial value assumptions than would normally be the case.

8.38 The proposed commercial values assumed are summarised in the table overleaf.

9) DEVELOPMENT COSTS

9.1 This section provides a summary of the development costs on a present-day basis. The overall costs comprise:

- Build costs;
- Professional fees;
- Sales, letting, disposal & marketing costs;
- Planning obligations;
- Development Return; and
- Financing costs.

Build Costs

9.2 The Applicant's cost consultants, CBRE, have provided a cost estimate for the Proposed Development, a copy of which is attached at **Appendix 5.** In summary, this sets out a total present-day construction cost of [redacted] before professional fees, contingency and the security costs for the initial phases of development are included.

9.3 The high costs are necessary to bring forward the Proposed Development. The costs are broken down as follows (these costs exclude an allowance for contingency and professional fees which DS2 has accounted for separately in the development appraisal):

- Facilitating Works - [redacted]
- Combined Accommodation - [redacted]
- Work to Existing Buildings - [redacted]
- External Works - [redacted]
- 12% Prelims - [redacted]
- 7.5% OHP - [redacted]

9.4 The cost plan also includes security costs of [redacted] which have been included in the appraisal, in phases 0 – 4, to cover the charges and guarding costs.

9.5 The costs are broken down by phase are:

TABLE 13: SITE WIDE PHASING (COSTS)

Fort Halstead Phasing	Dates	Cost Assumed
Securing QinetiQ in X-Enclave and Fence	[redacted]	[redacted]
Securing and Protecting Retained Buildings, Trees / Landscape	[redacted]	[redacted]
Demolition of Existing Buildings and Asbestos Removal	[redacted]	[redacted]
Remediation, Cut & Fill, Landscape Management	[redacted]	[redacted]
Installation of Services, Roads, Footpaths, Accesses	[redacted]	[redacted]
Village Centre	[redacted]	[redacted]

9.12 The level of S106 planning obligations has not yet been agreed with SDC and therefore, in lieu of indicative figures, an amount of [redacted] has been included assuming a contribution towards a bus service.

9.13 Please note: the planning obligation figures have not been formally discussed with SDC and, should the level of contribution change, DS2 reserves the right to amend this FVA.

Development Return

9.14 The criteria to consider in arriving at an appropriate figure for developer's profit include, amongst other things: location, property use type, scale of development, weighted cost of capital and economic context.

9.15 Developers, banks, and other funding institutions will have minimum expectations in terms of financial returns that are aligned with the risk profile. Simply, there must be a reasonable prospect that the return will be commensurate with the risks being undertaken.

9.16 In light of the scale and complexity of the project as well as the risks associated with constructing a development on a former MOD Site, as well as the current economic climate and the general approach to risk it is considered that finance for the project would generally not be forthcoming at a profit expectation below certain profit levels. This is especially the case in the COVID-19 crisis and the current market uncertainty, whereby profit requirements are likely to increase in the short to medium term.

9.17 DS2 has assumed the following profit levels:

[redacted]

Finance

9.18 DS2 has assumed a 6.5% finance rate in our appraisal. This is an 'all in' rate, which includes the basic margin, commitment fees, arrangement fees and exit fees, as well as a bank management / monitoring cost.

9.19 In assessing a reasonable rate of funding costs for this project DS2 is mindful of the nature and location of the development Site and the type of developer who would bring this forward.

9.20 Although the model assumes that the development is 100% debt financed, the reality of the current lending environment is that many of the more traditional lenders are generally only lending senior debt at a maximum of 60% loan to cost ratio. Developers therefore must revert to equity or mezzanine finance to secure the remainder of their development funding, both of which are considerably more expensive than senior debt, typically at 10-15%. Alternatively, developers can source debt from niche operators, who are by their nature, more expensive than the traditional lenders.

10) SITE VALUE BENCHMARK

10.1 In arriving at a Site Value Benchmark for the subject Site, regard has been given to the approach set out in Section 5 of this FVA. The approach accords with national planning policy and best practice guidance.

Alternative Land Value Approach

10.2 DS2 has reviewed the Site's existing implementable permission, using the same residential and commercial value assumptions as per the Proposed Development, except for the hotel in the extant consent as there is no hotel proposed in the Proposed Development.

10.3 DS2 also adopted a similar approach to phasing and build costs in the Proposed Development and the extant consent.

10.4 DS2 has reviewed the Site's existing implementable permission. However, as the EUV generates a higher value than the extant consent, the EUV has been adopted as the BLV.

Existing Use Value Approach

10.5 The EUV is the value of the land to the landowner(s) in its existing planning use.

Commercial Uses

10.6 The Site currently comprises a secured employment site occupied by Dstl and QinetiQ. Both organisations were formerly part of the UK government agency, Defence Evaluation and Research Agency, which was formerly part of the Ministry of Defence.

10.7 The functions of the Site include research and development facilities; the storing and use of high-grade explosive material; and other military research activities.

10.8 As outlined in Section 2 of this FVA, buildings on the Site are arranged by a series letter and number, for example Q14, is one of the buildings which is being retained and is situated in the 'Q' building series.

10.9 The table below shows the uses of the building series and a plan of the building series is provided at **Appendix 1**.

TABLE 14: SITE SERIES

Use / Type	Series
B1 (Business)	A, F, H, M, N, Q, R, S, X
B2 (General Industrial)	A, F, N, Q, R
B8 (Storage and Distribution)	A, F, H, M, Q, R, S, X
Development Land	H, N, Q, S, X
Non-Development Land	-
Plant, Machinery etc	A, F, H, M, N, R, S, X
Demolished Land (Building Has Been Demolished)	A, R

<u>Rental Values Assumptions</u>

10.18 The passing rent is £3,111,150 per annum which is based on the rent schedule for 2018-2019, provided by the CBRE. DS2 has been advised by CBRE that the 2019-2020 passing rent is aligned with the 2018-19 rent schedule.

10.19 The passing rent reflects a slight reduction on the rent at the 2012 rent review as QinetiQ and Dstl have an unusual arrangement in their lease that if they demolish a building during their tenancy, rent is no longer payable for the demolished buildings.

10.20 For the purpose of the EUV, it has been assumed that no more buildings will be demolished, and the passing rent is received until Dstl vacate the site in [redacted], which equates to £0.77 per sq ft on the assumed lettable area of 4,037,518 sq ft. When the passing rent is divided solely by the assumed area of the existing buildings in B1 / B2 and B8 use the rent equates to £5.28 per sq ft.

10.21 The passing rent has been capitalised until [redacted] at a yield of [redacted] This yield is consistent with the assumption in the Proposed Development appraisal.

10.22 For the purpose of the EUV, it has been assumed that QinetiQ will also vacate in [redacted].

10.23 Once the site has been vacated, it has been assumed the commercial space will be re-let as industrial / storage space.

10.24 The rent and yields assumed after Dstl and QinetiQ vacate are based on comparable evidence provided in **Appendix 6**. The rents and yields are summarised below:

TABLE 17: EUV RENT AND YIELDS

Use / Type	Rent	NIA Sq ft	Rent Per Sq ft	Yield
		Passing Rent– [redacted]		
QinetiQ / Dstl	£3,111,150	4,037,518	[redacted]	4.50%
		Rent After QinetiQ / Dstl Vacate [redacted]		
B1	£1,831,005	366,201	[redacted]	7.50%
B2 / B8	£278,940	223,152	[redacted]	7.50%
Other*	£2,586,124	3,448,165	[redacted]	10.00%
Total	**£4,696,069**	**4,037,518**	[redacted]	-

** Includes: Development Land, Non-Development Land and Demolished Land*

10.25 The EUV also makes an allowance for an [redacted]-month period which has been adopted for assumed rent free and voids.

10.26 In the first year, 10% of the rent has been deducted in the first year for letting agent fees and an additional 5% has been deducted for letting legal fees. An additional 10% has been deducted from the rent to account for the service charge shortfall and empty rates charges.

10.27 In addition, a cost of [redacted] has been deducted from the EUV to account for security costs when it is assumed the site is vacant, after Dstl and QinetiQ have vacated in [redacted].

10.32 No landowner premium has been assumed but DS2 reserve the right to apply a landowner premium at a later date.

10.33 DS2 attach a copy of the EUV Valuation as **Appendix 7**.

Summary

10.34 In conclusion, a total Site Value of £32.2m has been adopted. The EUV assumes no landowner premium.

TABLE 20: FVA APPRAISAL RESULTS – 17% AFFORDABLE (35% SHARED OWNERSHIP: 65% RENTED)				
Scheme	Details	Residual Land Value	Benchmark Land Value	Surplus / Deficit
17% Affordable 35% Shared Ownership 65% Rented	Current Day	[redacted]	£32,200,000	[redacted]
	Growth	[redacted]	£32,200,000	[redacted]

11.8 A summary of the Proposed Development appraisal reflecting a policy compliant tenure mix on a current day basis is provided at **Appendix 11** and the appraisal assuming growth and inflation is provided at **Appendix 12.**

11.9 DS2 has also undertaken further sensitivity where the affordable housing tenures have been inverted, reflecting 65% Shared Ownership and 35% rented. Again, on a current day basis, no affordable housing is viable. However, when DS2's growth and inflation assumptions are adopted, the development can provide circa 21% affordable housing.

TABLE 21: FVA APPRAISAL RESULTS – 21% AFFORDABLE (35% RENTED: 65% SHARED OWNERSHIP)				
Scheme	Details	Residual Land Value	Benchmark Land Value	Surplus / Deficit
21% Affordable 65% Shared Ownership 35% Rented	Current Day	[redacted]	£32,200,000	[redacted]
	Growth	[redacted]	£32,200,000	[redacted]

11.10 A summary of the Proposed Development appraisal reflecting a tenure mix reflecting 65% Shared Ownership and 35% rented on a current day basis is provided at **Appendix 13** and the appraisal assuming growth and inflation is provided **at Appendix 14.**

11.11 Any sensitivity analysis assuming value growth and construction cost inflation is undertaken at the risk of the Applicant but is prudent considering the scale and multi phased programme of the development.

11.12 Furthermore, the risks and developer return should not be considered in isolation. Given the risks associated with the Proposed Development, a sufficient developer return needs to be assumed. This re-enforces the suitability of DS2's assumption of [redacted]% profit on GDV for the market sale, [redacted]% on GDV for the commercial and [redacted]% for the affordable.

11.13 Finally, the outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a Global Pandemic on 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries and market activity is being impacted in many sectors. As at the FVA date, DS2 consider less weight can be attached to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means the market is faced with an unprecedented set of circumstances on which to base a judgement. The general market uncertainty, negative impact on earnings and restrictions on the ability of potential buyers to view properties are very likely to negatively impact on sales vales and transaction levels. This market uncertainty is likely to erode viability even further.

12) CONCLUSIONS

12.1 The purpose of this FVA is to robustly examine the financial viability of the Proposed Development at Fort Halstead.

12.2 The FVA is an objective and impartial view on the development viability of the Proposed Development using professional judgement.

12.3 The Site is currently occupied by Dstl and QinetiQ. The functions of the Site include research and development facilities; the storing and use of high-grade explosive material; and other military research activities.

12.4 The Site has an extant outline planning permission which was granted by SDC on 30th December 2015. The 2015 OPP development proposals include the provision of commercial floorspace and 450 residential units, comprising 20% affordable housing,

12.5 The current development proposals comprise a mixed-use scheme comprising 635 residential units, including affordable housing, commercial floorspace, including community space. In addition, the Proposed Development will open the 19th Century Fort open to the public and Retention of the bunker area to form part of the heritage walking trail within the Site.

12.6 The appraisals have been modelled on a present-day basis, with values as evidenced by DS2 and CBRE and construction costs as provided by CBRE. The cost estimate reflects the high infrastructure costs that will be necessary to bring the Proposed Development forward.

12.7 No value has been attributed to the primary school or the historic Fort and bunkers as it is understood these would be delivered as part of the S106 requirements and no income would be received. The absence of a value for these elements of the Proposed Development has a negative impact on the viability of the scheme.

12.8 A reasonable development return is included as a cost within the appraisal, in line with market practice, to determine the Residual Land Value of the Proposed Development.

12.9 The EUV of the Site is examined. This considers the existing commercial uses within the Site. The Site Value equates to circa £32.2m. The RLV is benchmarked against this EUV to determine the viability of the Proposed Development.

12.10 National policy guidance allows a premium above the existing land value to be incorporated to reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. Whilst a premium could be applied to the EUV, a premium has not been assumed in this instance, in part due to the specific nature of the existing property.

12.11 Viability is assessed on a current day basis. The results of the appraisal demonstrate that the Proposed Development RLV is significantly below the BLV on a current day basis. If a premium is assumed above the EUV, the Proposed Development becomes even less viable.

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