



## Fort Halstead, Sevenoaks, Kent TN14

### FINANCIAL VIABILITY ASSESSMENT

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On behalf of **Merseyside Pension Fund**

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## GLOSSARY

<b>AONB</b>	Area of Outstanding Natural Beauty
<b>Applicant</b>	Merseyside Pension Fund
<b>AUV</b>	Alternative Use Value
<b>BLV</b>	Benchmark Land Value
<b>CIL</b>	Community Infrastructure Levy
<b>EUV</b>	Existing Use Value
<b>FVA</b>	Financial Viability Assessment
<b>GEA</b>	Gross External Area
<b>GIA</b>	Gross Internal Area
<b>NIA</b>	Net Internal Area
<b>NPPF</b>	National Planning Policy Framework
<b>NPPG</b>	National Planning Practice Guidance
<b>RLV</b>	Residual Land Value
<b>RP</b>	Registered Provider
<b>SDC</b>	Sevenoaks District Council
<b>S106</b>	Section 106
<b>Site</b>	Fort Halstead
<b>SPD</b>	Supplementary Planning Document
<b>SPG</b>	Supplementary Planning Guidance

## 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 maximum reasonable 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.

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

The Site comprises 9 series of buildings. The Site 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 extant outline planning permission which was granted by SDC on 30<sup>th</sup> 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.

The current development proposals comprise a mixed-use scheme comprising employment space, 750 residential units, including 25% affordable housing, a school and commercial / community floorspace (“the Proposed Development”).

The Site’s Existing Use Value (“EUUV”) 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.

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, the results demonstrate that there is a significant deficit. It follows the proposed development is providing more than the maximum reasonable amount of affordable housing.

The results of this FVA are summarised below:

Scheme	Residual Land Value	Benchmark Land Value	Surplus / Deficit
Proposed Development		£32,300,000	

However, when growth of residential values and inflation of construction costs is assumed, it is not unreasonable to assume the economics of the proposed development could be improved over the development programme, such that the scheme becomes deliverable and could viably provide 25% affordable housing, assuming 65% intermediate and 35% affordable rent.

The growth assumptions are at the risk of the Applicant, as costs and values could increase or decrease over the development programme and are above and beyond what viability testing shows is the maximum reasonable provision of 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 to provide a mixed-use scheme comprising 750 residential units, including 25% 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 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.
- 1.3 The following FVA has been collated in accordance with national and local planning policy and professional best practice guidance. The FVA is an objective and impartial view on the development viability of the Proposed Development using professional judgement. DS2 can confirm that its instruction is not on a contingent fee or success related basis.
- 1.4 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.
- 1.5 To inform the report, information prepared by the following independent consultants has been relied upon:
- Architect – JTP Architects
  - Planning Consultant – CBRE
  - Cost Consultant – CBRE
  - Residential Consultant – CBRE
- 1.6 This FVA has been structured as follows:
- **Site Description** – summary of the location and nature of the existing asset;
  - **The Proposed Development** – description of the development proposals;
  - **Planning Policy** – review of the key national and local planning policies concerning the delivery of affordable housing and financial viability;
  - **Viability Methodology** – description of the methodology employed within the wider context of best practice for FVAs;
  - **Development Timings** – description of the proposed programme subject to a satisfactory planning consent being obtained;

- **Development Value** – review of the residential values alongside any additional revenue streams for the Proposed Development;
- **Development Costs** – review of the development costs for the Proposed Development;
- **Site Value** – analysis in relation to the proposed benchmark land value against which the viability of the Proposed Development will be assessed;
- **Appraisal Results and Growth Modelling** – summary of the financial appraisal outputs and supplementary results of growth modelling; and
- **Conclusions** – statement including concluding rationale.

- 1.7 The appraisals and figures in this FVA do not represent formal ‘Red Book’ valuations and should not be relied upon as such.
- 1.8 This report has been prepared to accompany the application for the purposes of Section 106 (“S106”) discussions only and should only be used for the consideration of these matters.
- 1.9 This report is reliant upon market evidence. Readers should be mindful that market evidence is subject to variation over time

## 2 SITE LOCATION AND DESCRIPTION

### Site Location

- 2.1 The Site is located within the administrative area of SDC.
- 2.2 The Site is situated on Crow Drive, approximately 8 km north-east of Sevenoaks on the edge of the North Downs; and approximately 1km to the west of the M25 motorway running north to south, between junction 4 and junction 5.
- 2.3 A Site Plan, showing a red line delineating the planning application boundary for the Site and a blue line delineating the ownership and management boundary, is included below.

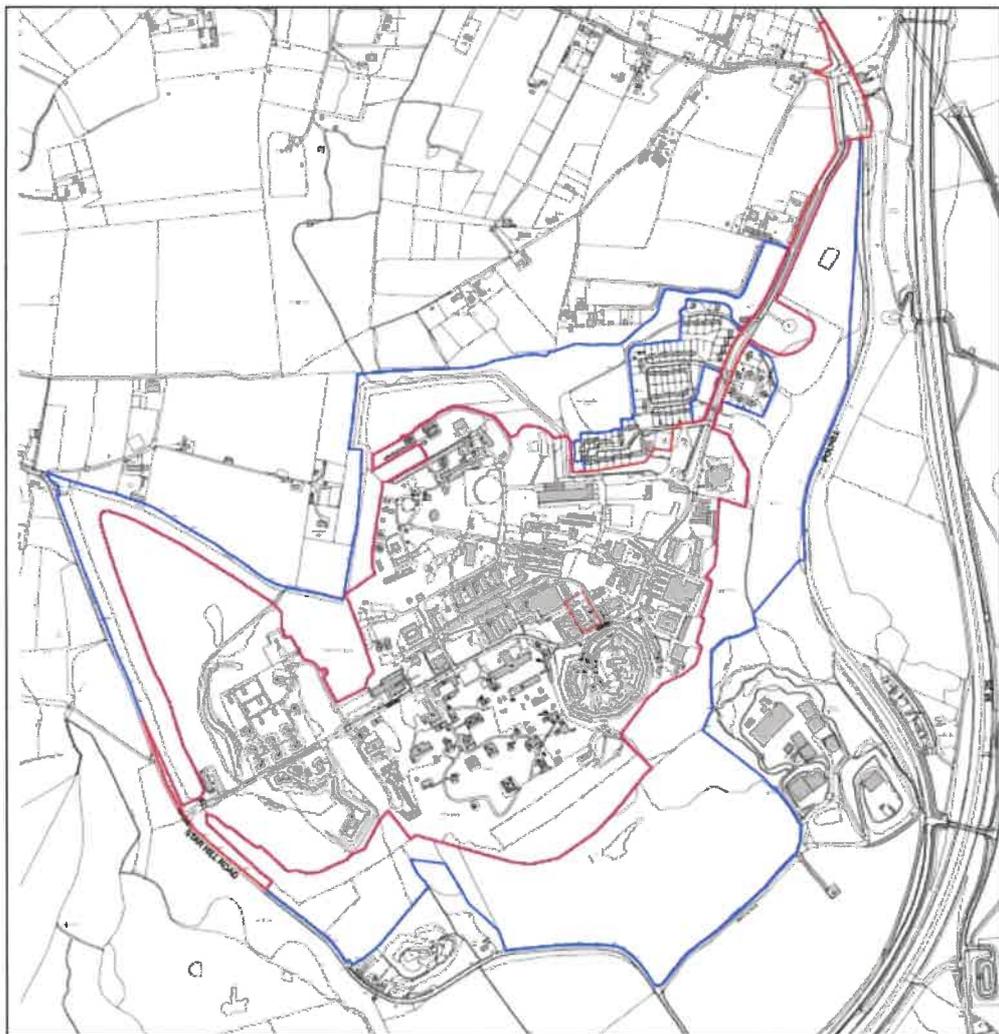


Figure 1: Site Plan (Source: CBRE)

- 2.4 The Site is located within 6km of the Knockholt, Dunton Green and Otford stations, which run Southeastern services to London Charing Cross and London Victoria in under 50 minutes. In addition, the Site is approximately 9km from Orpington station, which runs a direct service into London Bridge in 15 minutes.

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 red and blue lines. 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. The majority of buildings were built between 1890 and 1990. DS2 understand the buildings are in reasonable but declining operational condition.
- 2.9 The Fort is shown 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:

<b>TABLE 1: SITE AREAS</b>				
	<b>Building Series</b>	<b>Sqm</b>	<b>Sq ft</b>	<b>%</b>
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%
<b>Total</b>		<b>692,479</b>	<b>7,453,844</b>	<b>100%</b>

### 3 THE PROPOSED DEVELOPMENT

3.1 The submitted planning application proposes the following in detail:

- *Demolition of existing buildings;*
- *Change of use and works to buildings Q13 and Q14 (including landscaping and public realm) and*
- *Primary and secondary accesses.*

3.2 The submitted planning application proposes the following in outline:

- *Development of business space (use classes B1a/b/c) of up to 27,659 sq m GEA;*
- *Works within the 'X' enclave relating to energetic testing operations, including fencing, access, car parking;*
- *Development of up to 750 residential dwellings;*
- *Development of a mixed-use village centre (use classes A1/A3/A4/A5/B1a/D1/D2);*
- *Development of a one form entry primary school;*
- *Change of use of Fort Area and bunkers to Historic Interpretation Centre (use class D1) with workshop space;*
- *Roads, pedestrian and cycle routes, public transport infrastructure, car parking, utilities infrastructure, drainage and*
- *Landscaping, landforming and ecological mitigation works.*

#### **Development Proposals**

3.3 The current proposals for the Site envisage a mixed-use scheme comprising 750 residential units, including 25% 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 historic interpretation centre.

3.4 DS2 are provided with GEA for the scheme. To reach assumed GIA measurements across the commercial space, DS2 has adopted a 5% deduction from the GEA. To reach NIA, DS2 has adopted a 10% deduction from the GIA. This is aligned with advice received from the architect.

3.5 An area schedule is 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
<b>Total</b>			<b>4,951</b>	<b>53,293</b>

- 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
<b>Total</b>			<b>4,703</b>	<b>50,628</b>	<b>4,233</b>	<b>45,565</b>

#### Business Floorspace

- 3.10 The Proposed Development includes 283,212 sq ft GEA business / commercial floorspace, a mixture of new build and refurbished space.

TABLE 4: DEVELOPMENT PROPOSALS – COMMERCIAL – GEA – BUSINESS FLOORSPACE				
Type	Building Name	Use Class	GEA (sqm)	GEA (sq ft)
Retained				
QinetiQ	'X' series	Various	B1a/b/c/B2/B8	6,016
Innovation Hub	A1, A3	B1a/B1b	B1a	2,271
Innovation Hub	A10, A11, A13, A14	B1a/B1b/ B1c	B1a	2,203
Innovation Hub	X2, X3, X38	B1c	B1c	492
Village Centre	Q13, Q14	B1a/B1b	B1a	1,006



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New Build				
Innovation Hub	Buildings 1 & 2	B1c	2,092	22,518
Innovation Hub	Buildings C1–C4	B1a/B1b/B1c	5,784	62,259
Village Centre	Atrium	B1a/B1b/B1c	196	2,110
Village Centre	Block D	B1a/B1b	276	2,971
Village Centre	Buildings V1-V5	B1a/B1b	5,975	64,315
<b>Total</b>			<b>26,311</b>	<b>283,212</b>

3.11 Whilst the planning application is for flexible B1 uses, for the purposes of assessing financial viability only the most valuable planning use has been modelled. Therefore, within this FVA, it is assumed the proposed commercial floorspace is provided to B1a office occupiers for each type, unless the use class is explicitly stated within the area schedule provided at Appendix 2.

3.12 DS2 has assumed the following areas and use classes:

TABLE 5: DEVELOPMENT PROPOSALS – COMMERCIAL – GIA / NIA - BUSINESS FLOORSPACE						
Type	Buildings	Use Class	GIA sqm	GIA sq ft	NIA sqm	NIA sq ft
Retained						
QinetiQ	'X' series	Various	5,715	61,518	5,144	55,367
Innovation Hub	A1, A3	B1a	2,157	23,223	1,942	20,901
Innovation Hub	A10, A11, A13, A14	B1a	2,093	22,527	1,884	20,275
Innovation Hub	X2, X3, X38	B1c	467	5,031	421	4,528
Village Centre	Q13, Q14	B1a	956	10,287	860	9,258
New Build						
Innovation Hub	Buildings 1 & 2	B1c	1,987	21,392	1,789	19,253
Innovation Hub	Buildings C1–C4	B1a	5,495	59,146	4,945	53,231
Village Centre	Atrium	B1a	186	2,004	168	1,804
Village Centre	Block D	B1a	262	2,822	236	2,540
Village Centre	Buildings V1-V5	B1a	5,676	61,099	5,109	54,989
<b>Total</b>			<b>24,995</b>	<b>269,051</b>	<b>22,496</b>	<b>242,146</b>

### **Residential Uses**

3.13 The Proposed Development provides 750 units which will comprise a mixture of 1 and 2 bedroom apartments and 2, 3, 4 and 5-bedroom houses.

3.14 The following unit mix and areas have been assumed for the market sale units:

TABLE 6: DEVELOPMENT PROPOSALS – MARKET SALE			
Type	Total Units	Average Unit Size	Total Sq ft
1/2BF/ FOG	12	538	6,456
1 Bed Flat	18	538	9,684
2 Bed Flat	86	753	64,758
2 Bed Terrace	116	850	98,600
3 Bed Terrace	93	936	87,048
3 Bed Semi-Detached	67	1,048	70,216
3 Bed Detached	20	1,166	23,320
4 Bed Semi-Detached	54	1,363	73,602
4 Bed Detached	54	1,507	81,378
5 Bed Detached	42	1,941	81,522
<b>Totals</b>	<b>562</b>		<b>596,584</b>

3.15 The affordable housing comprises 25% of the residential units by number, of which 65% are assumed to be intermediate and 35% are assumed to be affordable rent. The following unit mix and areas have been assumed for the affordable units:

<b>TABLE 7: DEVELOPMENT PROPOSALS – AFFORDABLE</b>			
Type	Total Units	Average unit Size	Total Sq ft
1 Bed Flat	53	538	28,514
2 Bed Flat	22	660	14,520
2 Bed Flat	15	753	11,295
2 Bed House	15	850	12,750
3 Bed House	45	1,000	45,000
2 Bed Flat	13	753	9,789
2 Bed House	13	850	11,050
3 Bed House	12	936	11,232
<b>Totals</b>	<b>188</b>		<b>144,150</b>

### **Summary**

- 3.16 In summary, the proposed scheme adds positively to the local area by providing a high quality, mixed use sustainable development, of exemplary design which complements and integrates with the surrounding context.
- 3.17 The Proposed Development provides an important opportunity to support economic development and to increase the supply of high quality affordable homes. The provision of 25% affordable housing is a significant benefit in the redevelopment of the Site in addition to the primary school and historic interpretation centre.

## 4 PLANNING POLICY

- 4.1 At the heart of planning policy is a presumption in favour of sustainable development. For decision making, this means approving development proposals that accord with an up-to-date development plan without delay; or where there are no relevant up to date development plan policies, granting permission unless any adverse impacts of doing so would significantly and demonstrably outweigh the benefits of development.

### National Policy

#### **National Planning Policy Framework (2019)**

- 4.2 Paragraph 62 of the National Planning Policy Framework (“NPPF”) states that, where there is a need identified for affordable housing, the affordable housing should be provided on-site, except in justified circumstances.
- 4.3 Paragraph 64 of the NPPF states that where major development proposes the provision of housing, at least 10% of the homes should be made available for affordable home ownership.
- 4.4 The definition of affordable housing included within the Glossary (Annex 2) of the NPPF includes social rented, affordable rented and intermediate tenure housing as affordable housing i.e. housing provided to eligible households whose needs are not otherwise met by the market.

### National Planning Practice Guidance

- 4.5 The National Planning Practice Guidance (“NPPG”) provides narrative on viability for the purposes of plan making and individual application site’s development management. The guidance covers several areas, including standardised inputs to viability assessments and approaches to benchmark land value.
- 4.6 Regarding site value, the intent of the NPPG is to ensure regard is given to planning policy whilst allowing the land owner sufficient receipt to release the land for development. More specifically, the NPPG states that 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.

### Local Policy

- 4.7 Policy SP3 of the Core Strategy (adopted in February 2011) requires the provision of 40% affordable homes for residential developments of 15 dwellings or more, subject to viability. Of the 40% affordable homes, at least 65% of the units should be social rented, unless SDC is satisfied that an alternative mix meets a proven need.
- 4.8 Policy SP3 of the adopted Core Strategy stipulates SDC will expect new housing development to contribute to a mix of different housing types in residential areas taking into account the existing pattern of housing in the area, evidence of local need and site-specific factors.
- 4.9 The submission draft SDC Local Plan will be tested at a series of examination hearings in September 2019.

- 4.10 Policy H2 of the 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:

<b>TABLE 8: SDC RESIDENTIAL UNIT MIX</b>				
	<b>1 bed</b>	<b>2 bed</b>	<b>3 bed</b>	<b>4 bed</b>
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%

- 4.11 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.
- 4.12 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.
- 4.13 The draft SDC Affordable Housing SPD (December 2018) provides further detail on how the affordable housing policies in the draft SDC New Local Plan should be implemented.

#### **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 the maximum reasonable proportion of on-site affordable housing.

## 5 VIABILITY METHODOLOGY

- 5.1 The methodology adopted in producing this FVA has been framed by national and local adopted planning policy as well as non-adopted best practice guidance.

### **Methodology**

- 5.2 The most common method for valuing development land is the Residual Valuation Method. The methodology underpinning a residual valuation is a relatively simple concept. In short, the gross value of the completed development is assessed, including, amongst others, the aggregated value of any residential properties, commercial income and ground rents. Secondly, the cost of building the development is deducted along with professional fees, finance costs and developer's profit. This is illustrated below:

<b>TABLE 9: RESIDUAL LAND VALUE METHODOLOGY</b>	
<b>Gross Development Value</b>	
	Residential sales income
	Commercial sales income
	Any additional income (e.g. ground rents)
	Less
<b>Costs</b>	
	Build costs
	Exceptional development costs (e.g. infrastructure provision)
	Professional fees
	Internal overheads
	Planning obligations (e.g. CIL, site specific S106 obligations)
	Marketing costs and disposal fees
	Finance costs
	Less
<b>Development Return</b>	
	Equals
<b>Residual Land Value</b>	

- 5.3 The output is the Residual Land Value ("RLV"). Simply, if the RLV produced by a scheme is lower than an appropriate Benchmark Land Value ("BLV"), 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. Conversely, if the RLV is higher than the benchmark then the scheme can, in theory, provide additional affordable housing and / or other planning obligations.

### **Benchmark Land Value / Site Value**

- 5.4 The BLV is an integral part of an FVA. The intent of national planning policy guidance is to ensure the site value should have regard to planning policy and allow the land owner sufficient receipt to release the land for development.
- 5.5 The most common approaches to assessing BLV are the Existing Use Value ("EUV") of a site plus a land owner premium or an alternative land value.

### 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 have 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.

### 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.

## 6 DEVELOPMENT TIMINGS

6.1 The following section sets out the adopted pre-construction, construction and sale timings applied within the ARGUS appraisal for the Development.

### Phasing

6.2 It is assumed the Proposed Development will be delivered in 14 phases. The phasing and construction programme assumptions are in line with advice from CBRE's cost consultant.

6.3 Details of the 14 phases, including Phase 0, are shown below in Table 10:

TABLE 10: SITE WIDE PHASING		
Phase	Fort Halstead Phasing	Dates
	Assumed Planning Granted	
0	Securing QinetiQ in X-Enclave and Fence	
1	Securing and Protecting Retained Buildings, Trees / Landscape	
	Dstl Vacate	
2	Demolition of Existing Buildings and Asbestos Removal	
3	Remediation, Cut & Fill, Landscape Management	
4	Installation of Services, Roads, Footpaths, Accesses	
5	Village Centre	
6	Refurbished Buildings in Employment Zone	
7	Employment Zone New Build	
8	Residential Parcel (Say 200 Units)	
9	Residential Parcel (Say 150 Units)	
10	Fort Refurbishment	
11	Employment Zone New Build	
12	Residential Parcel (Say 250 Units)	
13	Residential Parcel (Say 150 Units)	

6.4 Details of the items assumed to be delivered in each phase are summarised below:

TABLE 11: SITE WIDE PHASING - DETAILS		
	Fort Halstead Phasing	Assumed Delivered in Phase
0	Securing QinetiQ in X-Enclave and Fence	
1	Securing and Protecting Retained Buildings, Trees / Landscape	
2	Demolition of Existing Buildings and Asbestos Removal	
3	Remediation, Cut & Fill, Landscape Management	
4	Installation of Services, Roads, Footpaths, Accesses	
5	Village Centre	<ul style="list-style-type: none"> <li>• Shop (Block C)</li> <li>• Gym (Q14)</li> <li>• Community (Block B)</li> <li>• Nursey (Block C)</li> <li>• Primary School</li> <li>• Bunkers</li> </ul>
6	Refurbished Buildings in Employment Zone	<ul style="list-style-type: none"> <li>• Village Centre (X2, X3, X38)</li> <li>• Innov Hub (A10, A11, A13, A14)</li> <li>• Innov Hub (A1, A3)</li> <li>• Village Centre (Q13, Q14)</li> </ul>

7	Employment Zone New Build	<ul style="list-style-type: none"> <li>• Village Centre (C1 - C4)</li> <li>• Village Centre (Building 1 &amp; 2)</li> </ul>
8	Residential Parcel 1	<ul style="list-style-type: none"> <li>• Say 200 Resi Units</li> </ul>
9	Residential Parcel 2	<ul style="list-style-type: none"> <li>• Say 150 Resi Units</li> </ul>
10	Fort Refurbishment	<ul style="list-style-type: none"> <li>• Fort Refurbishment</li> </ul>
11	Employment Zone New Build	<ul style="list-style-type: none"> <li>• Innovation Hub (Atrium)</li> <li>• Innovation Hub (Block D)</li> <li>• Innovation Hub (Block V1-5)</li> </ul>
12	Residential Parcel 3	<ul style="list-style-type: none"> <li>• Say 250 Resi Units</li> </ul>
13	Residential Parcel 4	<ul style="list-style-type: none"> <li>• Say 150 Resi Units</li> </ul>

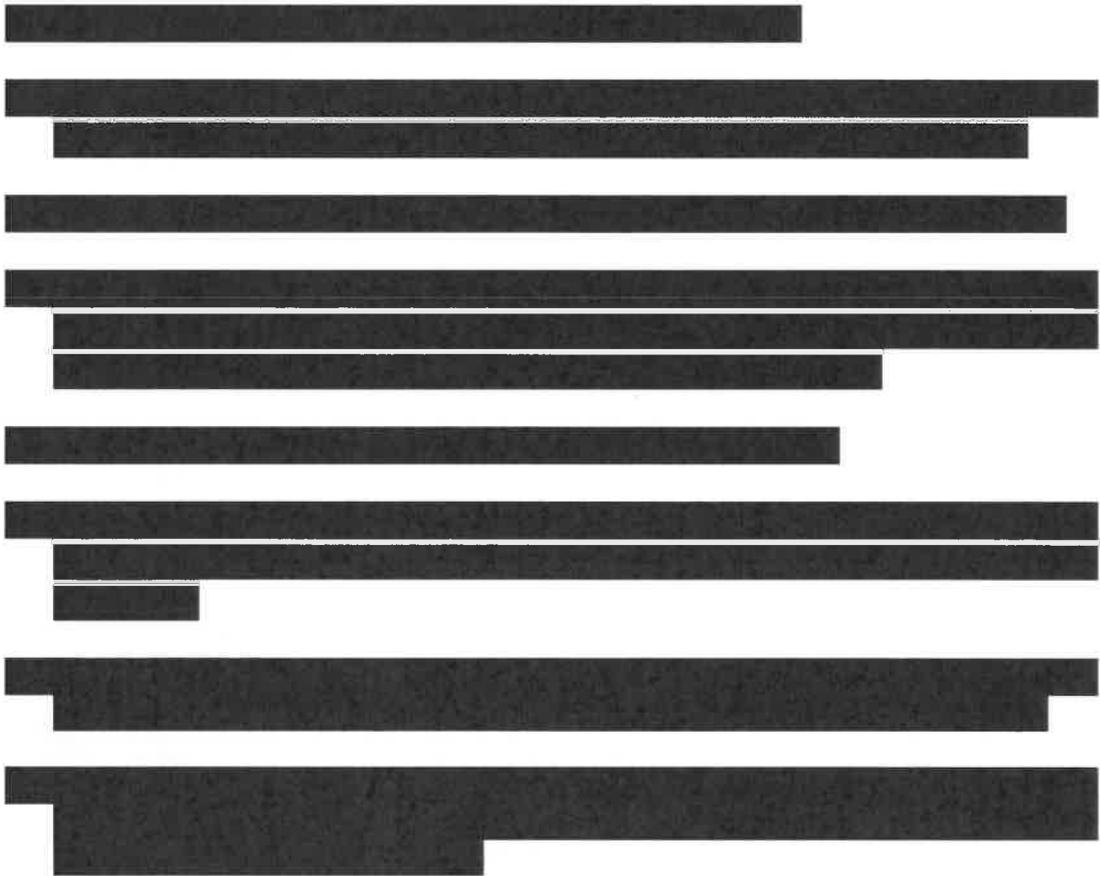
6.5 A phasing map is shown below in Figure 2, which corresponds with the phasing in Table 10 and Table 11 above.



Figure 2: Phasing Plan (Source: CBRE)

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

6.7 The key timing assumptions are summarised chronologically below:



**Pre-Construction**

6.8 The adopted development programme is estimated from a notional resolution to grant planning permission.

6.9 A [REDACTED] has been adopted within the proposed programme from the assumed date of planning consent in Q1 / Q2 2020 until after Dstl vacate and includes an allowance for the following:

- Signing of the Section 106 legal agreement;
- Expiration of the judicial review period;
- Discharging of pre-commencement conditions;
- Detailed / technical design (Stage 4 of the RIBA Plan of Work);
- Tender period for demolition and build contract package(s);
- Vacant possession of buildings currently occupied by Dstl; and
- Site mobilisation.

### **Infrastructure and Construction**

- 6.10 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.

### **Market Sales Timings**

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

### **Affordable Sales Timings**

- 6.13 The affordable revenue is cash flowed as follows: 20% at 'golden brick' of each residential phase (Phases 8, 9, 12 and 13) (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 on an '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**

- 6.14 A 12-month rent free / void period has been assumed for the commercial space.
- 6.15 The commercial rental income is capitalised at practical completion of each phase containing commercial space.

### **Summary of Timing Assumptions**

- 6.16 The development programme assumes the Proposed Development extends over 14 phases, over a period of [REDACTED]
- 6.17 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.
- 6.18 In the phases containing residential units, the development appraisal assumes approximately [REDACTED] of the market residential units are sold off plan and of the remaining units are sold assuming circa [REDACTED] units per month per phase. The model assumes the affordable income is cashflowed through the construction period of the residential phases.
- 6.19 The commercial rental income is capitalised at practical completion of each phase containing commercial space.

## 7 DEVELOPMENT VALUE – RESIDENTIAL

### Residential Values

- 7.1 In valuing the residential component of the Proposed Development, DS2 has adopted the comparable method of valuation. The market sale values have been assessed, taking into consideration evidence of recent transactions from comparable schemes from within the vicinity of the Site. The assessment of residential values reflects the location of the development and unit mix.
- 7.2 The following residential comparable evidence has been considered:
- 1) **Kingsmill** - A Countryside development comprising circa 500 homes, a mixture of 2, 3, 4 and 5-bedroom houses, and 1 and 2 bedroom apartments. Within a 10 minute walk of Dunton Green train station. Prices being achieved range from £384 to £423 per sq ft depending on the unit style, which represents an average of £397 per sq ft.
  - 2) **Ryewood** - A Berkeley Homes development comprising circa 500 homes, a mixture of 2, 3, 4- and 5-bedroom houses, and 1 and 2 bedroom apartments. Within a 10 minute walk of Dunton Green train station. Units range from £442 to £537 per sq ft, with an average of £477 per sq ft being achieved.
  - 3) **Oakley Park** - A Bellway development comprising circa 300 homes, a mixture of 1 and 2 bedroom apartments and 2, 3, 4 and 5-bedroom houses. Within a 15 minute walk of Edenbridge town centre and train station. Units range between £448 and £483 per sq ft, with an average of £462 per sq ft.
- 7.3 CBRE's Residential Comparable Market Report is provided at Appendix 3.
- 7.4 Of the comparable evidence, Ryewood is the most similar geographically, being 4.8km to the south of Fort Halstead. Ryewood is also similar in scale to the Proposed Development, comprising 500 residential units. However, Ryewood is in a more desirable location than the Site, being located on the edge of Dunton Green and the residential units are situated 0.5km from Dunton Green train station. Dunton Green benefits from being in closer proximity than the Site to the amenities in Sevenoaks and is adjacent to Sevenoaks wildlife reserve. On Ryewood, an average sales rate of £477 per sq ft is being achieved.
- 7.5 A capital value rate equivalent to [REDACTED] per sq ft has been adopted for the proposed market sale units, which is line with the comparable evidence and reflects Fort Halstead's inferior location when compared to Ryewood.

### Affordable Values

- 7.6 It is assumed that the rented affordable element will be delivered as Affordable Rent at the Site. Affordable Rent is a form of rented affordable housing that was proposed by Central Government as part of the October 2010 Spending Review. Under this model, housing

associations could offer tenancies at rents of up to 80% of market rent levels within the local area. A value of [REDACTED] per sq ft has been assumed for the Affordable Rent units.

- 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 generated by the intermediate homes equates to an average value of [REDACTED] per sq ft, which equates to circa 70% of the value of the market sale units.
- 7.12 As it has been assumed that there will be 35% Affordable Rent units and 65% Shared Ownership units, a blended rate of [REDACTED] per sq ft has been adopted in the development appraisal.

#### **Car Parking Revenue**

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

#### **Ground Rent**

- 7.14 On 21st December 2017, the former Secretary of State for Housing, Communities and Local Government, Sajid Javid, made an announcement to introduce measures to prevent the sale of new build residential units on a leasehold basis. This could, in theory, limit the ground rent chargeable on certain properties to £0. Furthermore, between October 2018 and November 2018 there was a consultation period to cap ground rents at £10 per annum. No formal policy is currently in place; however, the risk should be acknowledged as this uncertainty in the market affects (i.e. decreases) the achievable value.
- 7.15 DS2 has had conversations with several industry stakeholders who have advised that valuation teams are removing ground rent income from all valuations and PLCs are not factoring ground rent receipts into land bids.
- 7.16 Therefore, ground rents of [REDACTED] per unit per annum capitalised at [REDACTED] per annum have been assumed in the appraisal.

**Summary**

7.17 The residential values assumed are summarised in Table 12 below:

<b>Input</b>	<b>Proposed Scheme</b>
Market Sale Values	
Affordable Values	
Car Parking Spaces	
Ground Rent	

## 8 DEVELOPMENT VALUE – COMMERCIAL

### Commercial Values

- 8.1 The commercial space in the development will be delivered across the: the 'X' enclave (which will be occupied by QinetiQ after it is assumed Dstl vacate the Site [REDACTED]), the village centre and the innovation hub.
- 8.2 An indicative plan, which includes the commercial areas, is provided below:



Figure 3: Proposed Commercial Areas (Source: JTP)

- 8.3 The QinetiQ area will comprise the buildings in the 'X' enclave which will comprise a mixture of B1 and B8 uses.
- 8.4 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.
- 8.5 The village centre will also include the primary school, the Fort and the bunkers but no commercial value has been attributed to these elements.
- 8.6 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.

8.7 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.

8.8 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

8.9 Commercial comparable evidence is provided in Appendix 4.

8.10 It is assumed that the proposed commercial space is built to a high standard and this is reflected in the assumed commercial values. However, the values adopted are at the upper end of the spectrum when the Site's location, not a town centre site or near a railway station is taken into consideration.

QinetiQ / Dstl

8.11 As the QinetiQ / Dstl income will be received until the current tenants vacate, the current passing rent has been capitalised until [REDACTED] at a yield of [REDACTED] reflecting the strong covenant strengths from government backed tenants.

8.12 The passing rent is analysed in detail in Section 10 but, to summarise, it equates to £0.77 per sq ft based on the assumed lettable areas. 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.

[REDACTED]

[REDACTED]

Office (B1a)

B1a - New Build

8.15 New build commercial space, assumed to be in B1a use, is assumed to be the following:

- Innovation Hub New Build (C1, C2, C3, C4)
- Village Centre Area – New Build (Atrium)
- Village Centre Area – New Build (Block D)
- Village Centre Area – New Build (Buildings V1-V5)



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8.16 A rent of [REDACTED] per sq ft and a yield of [REDACTED] has been assumed. Before purchaser's costs are allowed for, this equates to [REDACTED] per sq ft.

B1a – Retained Buildings

8.17 For the retained buildings, the adopted rents and yields reflect the more constrained configuration compared to new, more flexible, build commercial accommodation, which are more likely to be more attractive to occupiers and investors. For example, Q14 is a Grade II Listed building,

8.18 Buildings Q13 and Q14 will be refurbished and let and will form part of the village centre within the Proposed Development. Photographs of Q13 and Q14 are shown below:



Figure 4: Q13 / Q14 (Source: CBRE)

8.19 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.

8.20 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 5: A1 / A3 (Source: CBRE)

8.21 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.

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



Figure 6: A10 / A11 (Source: CBRE)

- 8.23 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.

Light Industrial (B1c)

B1c - New Build

- 8.24 The Applicant's intention is not to provide traditional industrial sheds, rather small light industrial units. There is a dearth of such light industrial comparable evidence in the vicinity of the Site. Therefore, DS2 has assumed a rent less than the assumed office rents but greater than traditional industrial rents.

- 8.25 Assuming that the B1c space will be more similar to office rather than traditional industrial space, a rent of [REDACTED] per sq ft at yield of [REDACTED] has been assumed for Innovation Hub Area – New Build (Buildings 1 & 2). Before purchaser's costs are allowed for, this equates to [REDACTED] per sq ft.

B1c – Retained Buildings

- 8.1 Buildings X2, X3, X38 will also be refurbished and let. DS2 understand that the achievable rents and capital values for these buildings will be affected by the following:
- No private parking
  - Lie on and form part of the perimeter fence to QinetiQ
  - In close proximity to energetic testing Lab
  - The configuration and condition of the buildings are poor.

- 8.26 Considering the above, a rent of [REDACTED] per sq ft at yield of [REDACTED] has been assumed for X2, X3 and X38. Before purchaser's costs are allowed for, this equates to [REDACTED] per sq ft.

Retail

- 8.27 The retail space will be in the village centre area and is envisaged to comprise A1 / A3 space. It has been assumed that the retail space will be provided as A1 space in the form of a small supermarket.

- 8.28 A rent of [REDACTED] per sq ft at yield of [REDACTED] has been assumed for the proposed retail space. Before purchaser's costs are allowed for, this equates to [REDACTED] per sq ft.

Community Uses and Gym

- 8.29 Excluding the proposed primary school, the proposed scheme includes community led space in the village centre. It is envisaged that this will be in the form of community space, a nursery and a gym.
- 8.30 There is a dearth of sales of properties in D1 / D2 use in out of town areas in and around Sevenoaks and DS2 has, therefore, considered sales further afield.
- 8.31 A rent of ■■■ per sq ft at yield of ■■■ has been assumed for the proposed community space, nursery and gym. Before purchaser's costs are allowed for, this equates to ■■■ per sq ft, reflecting the out of town location of the Site.

Fort, Bunkers and School

- 8.32 The bunkers and the Fort will be used to provide a historic interpretation centre. The school will be a primary from entry. No commercial value has been attributed to these elements as it is understood these would be delivered as part of the S106 requirements and no income would be received.
- 8.33 The bunker area is also envisaged to form part of the heritage walking trail within the Site

Summary

- 8.34 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.
- 8.35 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.
- 8.36 The proposed commercial values assumed are summarised in the table overleaf.

TABLE 13: INDICATIVE COMMERCIAL VALUES AND AREAS					
Area	Use Class	NIA sqm	NIA Sq ft	Rent	Yield
<b>QinetiQ - (X series)</b>	B1/B2/B8	5,144	55,367		
<b>B1a – New</b>					
<b>Innovation Hub Area (Buildings C1–C4)</b>	B1a	4,945	53,231		
<b>Village Centre Area (Atrium)</b>	B1a	168	1,804		
<b>Village Centre Area (Block D)</b>	B1a	236	2,540		
<b>Village Centre Area (Buildings V1-V5)</b>	B1a	5,109	54,989		
<b>B1a – Retained</b>					
<b>Village Centre Area (Q13, Q14)</b>	B1a	860	9,258		
<b>Innovation Hub Area (A1, A3)</b>	B1a	1,942	20,901		
<b>Innovation Hub Area (A10, A11, A13, A14)</b>	B1a	1,884	20,275		
<b>B1c – New</b>					
<b>Innovation Hub Area (Buildings 1 &amp; 2)</b>	B1c	1,789	19,253		
<b>B1c – Retained</b>					
<b>Innovation Hub Area (X2, X3, X38)</b>	B1c	421	4,528		
<b>A1 – New</b>					
<b>Village Centre Area (Block C) – Shop and Café</b>	A1	445	4,786		
<b>D1 – New</b>					
<b>Village Centre Area (Block B) - Community</b>	D1	231	2,485		
<b>Village Centre Area (Block C) - Nursery</b>	D1	205	2,209		
<b>Primary School</b>	D1	1,150	12,378		
<b>D2 – Retained</b>					
<b>Fort Area – (F series) - Community</b>	D1	1,534	16,511		
<b>Bunkers - Community</b>	D1	428	4,602		
<b>Village Centre Area M1 – (Q14) – Community / Gym</b>	D2	241	2,595		

## 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 have accounted for separately in the development appraisal):

- Facilitating Works - [REDACTED]
- Combined Residential Accommodation - [REDACTED]
- Work to Existing Building(s) - [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 [REDACTED], to cover the charges and guarding costs.

9.5 The costs are broken down by phase are:

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



assuming a contribution towards a bus service within the ARGUS appraisal of the Proposed Development.

- 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.
- 9.17 DS2 has assumed the following profit levels:
- 20% profit on GDV for the market sale element
  - 6% profit on GDV for the affordable element
  - 15% profit on GDV for the commercial element
- 9.18 This equates to a blended profit target of 17.70%.

#### **Finance**

- 9.19 DS2 has assumed a 6.5% finance rate in our appraisal. This is an 'all in' rate, which includes the basic margin (4.5-5%), commitment fees, arrangement fees (2-3%) and exit fees (0.5-1%), as well as a bank management/monitoring cost.
- 9.20 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.
- 9.21 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 benchmark Site Value 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 have 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 have 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.

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

### Condition

10.10 Given the nature of the existing occupiers, access into the buildings has not been possible. Whilst DS2 understand that some of the existing buildings contain asbestos, the buildings on the Site are assumed to be in declining operational condition.

### Site Areas

10.11 The existing gross site areas, taken from the 2018-19 rental area schedule provided by CBRE, are broken down below:

<b>TABLE 16: EXISTING SITE AREAS</b>			
<b>Use / Type</b>	<b>Sqm</b>	<b>Sq ft</b>	<b>%</b>
B1 (Business)	37,801	406,890	5%
B2 (General Industrial)	8,344	89,814	1%
B8 (Storage and Distribution)	14,691	158,132	2%
Development Land	7,636	82,198	1%
Non-Development Land	610,417	6,570,532	88%
Plant, Machinery etc	4,411	47,477	1%
Demolished Land (Buildings That Have Been Demolished)	9,179	98,800	1%
<b>Total</b>	<b>692,479</b>	<b>7,453,844</b>	<b>100%</b>

10.12 It has been assumed that the areas above are GIA and DS2 has therefore assumed that 90% of the B1, B2, B8 areas are lettable. This assumption is consistent with the gross to net area ratio assumed for commercial space in the Proposed Development. It has also been assumed that 90% of the development land and demolished land areas are lettable.

10.13 Given the quantum of non-development land, it has been assumed that approximately 75% of the Non-Development Land is suitable for open storage. This also allows for internal circulation and access across the Site.

10.14 The 'plant' areas have been removed from the assumed lettable area as it has been assumed that a rent would not be received for this space.

10.15 In total the assumed lettable space equates to 54% of the overall gross space.

10.16 Assuming 4,037,518 sq ft of lettable space, this equates to 37.51 ha which equates to 49.9% of the site area of 75.20 ha, which is a reasonable site coverage for an industrial site.

10.17 The adopted net existing site areas are summarised below:

<b>TABLE 17: EXISTING SITE AREAS – ASSUMED LETTABLE AREAS</b>			
<b>Use / Type</b>	<b>Sqm</b>	<b>Sq ft</b>	<b>%</b>
B1	34,021	366,201	9%
B2	7,510	80,832	2%
B8	13,222	142,319	4%
Development Land	6,873	73,978	2%
Non-Development Land	305,209	3,285,266	81%
Plant, Machinery etc*	-	-	0%
Demolished Land	8,261	88,920	2%
<b>Total</b>	<b>375,095</b>	<b>4,037,518</b>	<b>100%</b>

\* Excluded plant areas from lettable areas

Rental Values Assumptions

- 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.
- 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 [REDACTED], which equates to £0.77 per sq ft on the assumed lettable area of 4,037,518. 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 [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 18: EUV RENT AND YIELDS				
Use / Type	Rent	NIA Sq ft	Rent Per Sq ft	Yield
Passing Rent Sept 2019 [REDACTED]				
QinetiQ / Dstl	£3,111,150	4,037,518	£0.77	[REDACTED]
Rent After QinetiQ / Dstl Vacate [REDACTED]				
B1	£1,831,005	366,201	£5.00	7.50%
B2 / B8	£278,940	223,152	£1.25	7.50%
Other*	£2,586,124	3,448,165	£0.75	10.00%
<b>Total</b>	<b>£4,696,069</b>	<b>4,037,518</b>	-	-

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

- 10.25 The EUV also makes an allowance for an 18-month period which has been adopted for assumed rent free and voids.
- 10.26 In the first year, 15% of the rent has been deducted in the first year for letting fees and an additional 15% has been deducted from the rent to account for the service charge shortfall and empty rates charges.
- 10.27 In addition, a cost of £500,000 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 [REDACTED]

### Valuation Summary

10.28 Set out below is a summary of the valuation assumptions adopted for the EUV valuation:

- The passing rent of circa £3.1m is valued until [REDACTED]
- The passing rent has been capitalised at [REDACTED] to reflect the strong covenant strengths from government backed tenants.
- The yield is consistent with the yield assumed for the space let by QinetiQ / Dstl in the Proposed Development appraisal.
- Once Dstl vacate, it has been assumed that QinetiQ will also vacate and the existing buildings in B1 / B2 and B8 use will be re-let.
- An 18-month period has been assumed for rent free and voids.
- 15% of the rent has been deducted in the first year for letting fees.
- 10% of the rent has been deducted in the first year for empty rates and an assumed service charge shortfall.
- A security cost of £500,000 has been assumed while the buildings are vacant, after Dstl and QinetiQ have vacated the Site.
- The following rents and yields have been assumed:
  - B1 - £5.00 per sq ft at 7.5%
  - B2 / B8 - £1.25 per sq ft at 7.5%
  - Other (includes development land etc, which could be used for open storage but excludes the buildings and area used for storing plant equipment) - £0.75 per sq ft @ 10%.

10.29 The EUV equates to £34,483,345. Once purchaser's costs of 6.8% are deducted, the rounded EUV is circa £32m. When this is divided by the assumed net lettable area of 4,037,518 sq ft, this equates to £8.00 per sq ft, which is low. The industrial sales comparables in Appendix 6 reflect £47.03 - £82.62 per sq ft.

10.30 DS2 has adopted values at the lower end of the value spectrum, reflecting the anticipated level of covenant strength for the Site, the understood condition and location of the units. In addition, the Site's assumed net area is 4,037,518 sq ft, which is significantly larger than the industrial comparables and it is expected that there would be a discount to the capital value of the Site to account for this. Nevertheless, when compared to the comparables, the capital value of the Site is low.

10.31 The EUV equates to £860,000 per hectare based on the lettable space on-site. DS2 note from DSP's CIL and Viability Study (November 2018) that industrial land values are assumed as £1,500,000 per hectare and greenfield land values are assumed as £250,000 - £500,000 per hectare. DS2 acknowledge that the land values in the CIL and Viability Study are high level and are not to be relied upon. Nevertheless, as the EUV is between DSP's greenfield and industrial land values and is, therefore, not overstated.



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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 £32.3m, has been adopted. The EUV assumes no landowner premium.

## 11 APPRAISAL RESULTS

- 11.1 A summary of the Argus appraisal of the Proposed Development is attached at Appendix 8.
- 11.2 As noted in Section 10 of this report, the Site's EUV is used as the BLV against which the viability of the development will be assessed.
- 11.3 The results of the financial appraisal are provided below:

Proposed Development	Residual Land Value	Benchmark Land Value	Deficit
25% Affordable		£32,300,000	

- 11.4 The RLV of the Proposed Development falls below that of the BLV, demonstrating that the Proposed Development is not technically viable at the current levels of planning obligations. If a premium is assumed above the EUV, to reflect a reasonable landowner would be willing to sell their land, the Proposed Development becomes even less viable.
- 11.5 As the Proposed Development is unviable assuming 25% affordable housing, adopted as 65% intermediate housing and 35% affordable rented housing, it follows that if the emerging policy compliant affordable housing level of 30% affordable housing, comprising 76% as affordable rented and 24% intermediate is assumed, this results in an even more negative residual land value.
- 11.6 Whilst development viability should be prepared on a current day basis, considering the above, a growth model has been run, assuming residential growth of 3.75% and cost inflation of 2.5%. Residential growth and cost forecasts are provided at Appendix 9.
- 11.7 The results of the growth model are summarised below:

Proposed Development	Residual Land Value	Benchmark Land Value	Surplus
25% Affordable		£32,300,000	

- 11.8 The results demonstrate that, with the growth model, it is possible to achieve a RLV with 25% affordable housing that is broadly aligned with the BLV. The development appraisal assuming growth and inflation is provided at Appendix 10. Therefore, within this context, it is not unreasonable to assume the economics of the Proposed Development could be enhanced over the development programme, under the right market conditions.
- 11.9 However, the residential values may not grow as much as has been assumed in the growth model and the cost inflation could also be greater than has been assumed. Therefore, it should be acknowledged that the assumptions in the growth model are at the risk of the Applicant are included as a sensitivity analysis to the scheme.

## 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 30<sup>th</sup> 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 750 residential units, including 25% affordable housing, commercial floorspace, including community space. In addition, the Proposed Development will open the 19<sup>th</sup> 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 £32m. 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 The results of the appraisal demonstrate that, with the current levels of planning obligations, the Proposed Development RLV is significantly below the BLV. If a premium is assumed above the EUV, the Proposed Development becomes even less viable.

- 12.12 In addition, assuming a policy compliant quantum of affordable housing results in an even more unviable proposed scheme.
- 12.13 However, when growth of residential values, as well as inflation of construction costs are assumed, it is not unreasonable to assume the economics of the Proposed Development could be improved over the development programme, such that the scheme becomes deliverable assuming 25% affordable housing of which 65% is intermediate and 35% is affordable rent.
- 12.14 It should be acknowledged that the assumptions in the growth model are at the Applicant's risk and the Proposed Development represents beyond what viability testing shows is the maximum reasonable provision of affordable housing on a present-day basis.
- 12.15 The Applicant's affordable housing offer is being made alongside a contribution towards CIL payments; Section 106 planning obligations; and significant investment in community uses, nature conservation and the public realm.
- 12.16 DS2 would welcome the opportunity to meet with SDC and their appointed advisors, to discuss any points contained within this submission.

**Prepared by:**

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**For and on behalf of:**

Merseyside Pension Fund

**Date: September 2019**



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