Financial Viability Appraisal

Address:	18 Station Road, Longfield, DA3 7QD
LPA:	Dartford
Planning ref:	N/A
Client:	DCP Properties Ltd
Date:	20th December 2023

Contents

Executive Summary

This report provides a Financial Viability Appraisal (FVA) of proposed development at 18 Station Road, Longfield, DA3 7QD. The process involves utilising Market Comparison and Residual Methods following RICS Guidance *Valuation of Development Property* (2019), *Assessing Viability in Planning under the NPPF Framework* (2021), and National Planning Policy Guidance on Viability (NPGV 2019), and complies with RICS professional standards and guidance *Financial Viability in Planning: Conduct & Reporting*.

Following NPGV para 008, wherever possible this FVA utilises assumptions used in the underlying local plan evidence base. Where changes have been made, these are fully supported by market evidence demonstrating current local circumstances.

The key outputs of this FVA are summarised in the below table:

GDV	£4,121,925.06
Costs exc land and profit	£2,903,117.74
Finance	£227,232.00
Return	£802,341.71
BLV	£605,000.00
RLV	£189,233.61
RLV-BLV	(£415,766.39)
Target profit	20.00%
Actual profit	9.64%

Target developer return includes a risk-adjusted rate for market residential (20%). Sensitivity analysis demonstrates this is the minimum return necessary to offset the current risk environment.

Benchmark Land Value (BLV) is assessed via the EUV method in line with national policy. A 10% premium been added in this instance.

As such, this FVA demonstrates that, on a 100% open market basis, the benchmark land value exceeds the residual land value of the scheme. Therefore, the development cannot viably provide the targeted contributions.

Full appraisal inputs and evidence are found in the Schedules, referred to throughout.

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Introduction

S106 Management is instructed by DCP Properties Ltd to produce a Financial Viability Appraisal (FVA) to determine the level of Affordable Housing contribution that can be viably delivered on proposed development at 18 Station Road, Longfield, DA3 7QD.

Dartford Borough Council seeks an Affordable Housing contribution in accordance with Core Policy CS19 (adopted 2011).

The existing site comprises 18 and 18a Station Road.

No. 18 (156m2) is currently vacant but was previously in use as a Lloyds Pharmacy (rateable value of £26,000). The most recent lease on the pharmacy included rent of £27,025 per annum, although the property is currently vacant. To the rear of the property is a small car park with capacity for 12 cars.

This FVA is to be viewed in conjunction with a new application. The proposed development seeks to erect a block including 12 flats (671m2) with ground floor commercial accommodation extending to 231m2.

Location Plan

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S106 Management

S106 Management is a viability consultancy established in 2011. Formed initially to capitalise on 35 years of specialist experience in planning law, viability assessment and development, the company has expanded over the last 10 years and now benefits from the expertise of chartered surveyors, town planners, solicitors, architects and an extensive network of planning professionals.

With over a decade of experience in creating expert financial viability appraisals, advising on complex planning obligations, and negotiating with local authorities, **S106 Management** has often been at the forefront of planning viability matters. The company is now one of the most effective and experienced specialist viability consultancies in the UK, combining expertise from all corners of the industry and benefiting from a considerable evidence base of several thousand development appraisals countrywide.

Planning Policy

By virtue of section 38 (6) of the *Planning and Compulsory Purchase Act* 2004, planning applications must be determined in accordance with the adopted plan of the Local Authority, unless material considerations indicate otherwise.

Therefore, the policy starting point is CS19 of the Dartford Core Strategy (adopted 2011):

Policy CS 19: Affordable Housing

1. To ensure that the needs of households requiring affordable housing are met, the Council will:

a) In the urban area: require private housing development of 15 units or more(net) or site size of 0.5ha or more to deliver 30% of the units as affordable housing.

b) In the rural area (to the south of the A2): require private housing development of 2 or more units (net) to deliver 50% of the units as affordable housing.

c) Promote tenure mix which meets the needs and aspirations of residents by requiring a minimum of 50% and maximum of 80% of affordable housing developed as part of private developments to be provided as intermediate housing, with the remainder provided as social-rented housing. The amount will be determined on a site by site basis, taking into account site characteristics and development viability, and in the light of regularly reviewed assessment of local housing need.

d) Working with its partners, including Registered Social Landlords, private developers and the Homes and Communities Agency to ensure that the intermediate homes provided are at a cost which addresses local needs. This would require shared ownership levels predominantly at 25% to 50% share, as financial viability allows.

e) Require that, where possible, an element of 3 plus bedroom social-rented housing is provided as part of the affordable housing element.

f) Work with HCA to achieve public sector funding towards affordable housing, in order to make development viable.

2. Further guidance on the Council's approach to affordable housing will be contained in an Affordable Housing Supplementary Planning Document (SPD).

CS19 suggests that the 30% affordable housing requirement should not apply to the subject site.

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The draft local plan (2021) is reasonably far advanced through examination; we therefore assume the local authority currently consider this a material consideration:

5.58 Following national policy, affordable housing in the Green Belt or south of the A2 will not be sought for residential developments that are not major developments, i.e. affordable housing is required for developments of 10 or more dwellings or sites of 0.5ha or more. For sites in the urban area, the 15 dwelling previous threshold will continue to be used.

This suggests the council will seek 4 affordable dwellings on the subject scheme.

The purpose of this FVA is to determine whether the development is capable of supporting the targeted contribution.

This policy has been informed by the 'Dartford Local Plan Viability Assessment (hereafter referred to as the LPVS), completed on behalf of the council by DSP in 2021.

PPG Viability para 008 states:

'How should a viability assessment be treated in decision making?

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

This creates a presumption that the underlying local plan evidence base is correct until otherwise proven by dissenting parties, with the burden of proof relating to what changes have occurred since adoption of the local plan applicable to all parties.

As such, where appropriate the conclusions of the underlying local plan evidence base are used to inform our report and corroborate assumptions. Where we believe changes must be made these are fully evidenced.

National Guidance is a material consideration; therefore, we also consider the 'National Planning Policy Framework' (NPPF) (2021), and the 'National Planning Guidance for Viability' (NPGV) (May 2019).

National Guidance

National guidance on the delivery of Affordable Housing is provided by the NPPF.

Paragraphs 57, 58 and 64 of the NPPF are of particular relevance:

57. Planning obligations must only be sought where they meet all of the following tests[26]:

    a) necessary to make the development acceptable in planning terms;

    b) directly related to the development; and

    c) fairly and reasonably related in scale and kind to the development.

58. Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.

64. Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer). To support the re-use of brownfield land, where vacant buildings are being reused or redeveloped, any affordable housing contribution due should be reduced by a proportionate amount[30].

The recommended approach referred to above is set out in the NPGV (https://www.gov.uk/guidance/viability).

The standard approach to viability is explained at para. 10 of the NPGV:

> ***'Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it.'***

This is summarised well in the below figure from RICS guidance:

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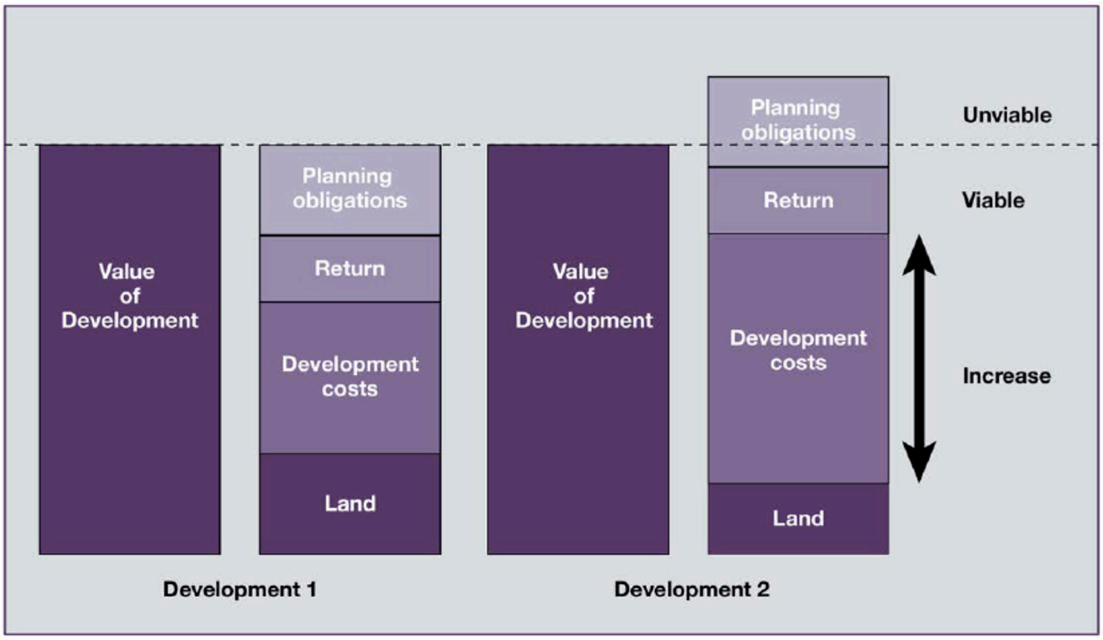


Paragraphs 11-18 lay out the required approach to calculating gross development value (GDV), development costs, benchmark land value, landowner and developer return.

The concept of viability is well expressed by the NPGV, in particular para 012 which sets out the costs that should be included in any viability statement, and paras 013-017 which seek to ensure that the landowner should receive the Existing Use Value (EUV) of the site plus a premium, thus providing an incentive to the landowner to bring the site forward for development.

Our report has been written in accordance with the principles set out in both the NPPF, and the NPGV.

Particular Circumstances

Both RICS guidance and PPG Viability note that particular circumstances must justify the need for a site-specific viability assessment. These circumstances are broad, with a non-exhaustive list provided by the PPG.

> ***'Such circumstances could include, for example where development is proposed on unallocated sites of a wholly different type to those used in viability assessment that informed the plan; where further information on infrastructure or site costs is required; where particular types of development are proposed which may significantly vary from standard models of development for sale (for example build to rent or housing for older people); or where a recession or similar significant economic changes have occurred since the plan was brought into force.'***
>
> ***PPG Viability para 007***

The particular justification for this site-specific viability assessment is that significant economic changes have occurred since the adopted plan was brought into force and the proposed type of development was not assessed as part of the local plan area wide study.

Following the RICS guidance:

3.10.3 The main differences in FVAs for decision taking, compared to for plan making, are that:

- the level of planning requirements has been determined in the plan
- the site will be identified
- the scheme will be specified in more detail
- any abnormal costs can be identified, including any remediation costs and related land remediation relief tax allowances that may be available, and any costs incurred in readying the site for development, and
- the evidence base can be more specifically related to the actual site (where the site was not assessed at the plan-making stage).

Viability

The relevance of viability is accepted in CS19 which states:

> c) Promote tenure mix which meets the needs and aspirations of residents by requiring a minimum of 50% and maximum of 80% of affordable housing developed as part of private developments to be provided as intermediate housing, with the remainder provided as social-rented housing. The amount will be determined on a site by site basis, taking into account site characteristics and development viability, and in the light of regularly reviewed assessment of local housing need.
>
> d) Working with its partners, including Registered Social Landlords, private developers and the Homes and Communities Agency to ensure that the intermediate homes provided are at a cost which addresses local needs. This would require shared ownership levels predominantly at 25% to 50% share, as financial viability allows.

This policy statement should be seen in the context of the NPPF, and indeed subsequent Government guidance.

There are several proprietary toolkits in use to justify viability. We use the Housing Corporation Economic Appraisal Tool (HCEAT); and Argus Developer.

Our report and its conclusions are based on the application of this tool.

The next section sets out the assumptions that have been made in the preparation of the viability toolkit examining the viability of this site; the toolkit is shown in **Schedule 1** of this report. The comments below address the inputs to the toolkit sequentially and an electronic copy can be provided to the LPA on request.

S106 MANAGEMENT

Toolkit Inputs

Proposed Development

The development is summarised by the table below (plans are shown at **Schedule 2** to this report):

Unit	Area m2	Type
1	50.00	1b2p flat
2	63.00	2b3p flat
3	50.00	1b2p flat
4	61.00	2b3p flat
5	50.00	1b2p flat
6	50.00	1b2p flat
7	63.00	2b3p flat
8	50.00	1b2p flat
9	61.00	2b3p flat
10	50.00	1b2p flat
11	61.00	2b3p flat
12	62.00	2b3p flat
Total Area (m2)	**671.00**	
Pharmacy NLA	**231.00**	
GIA	**256.00**	

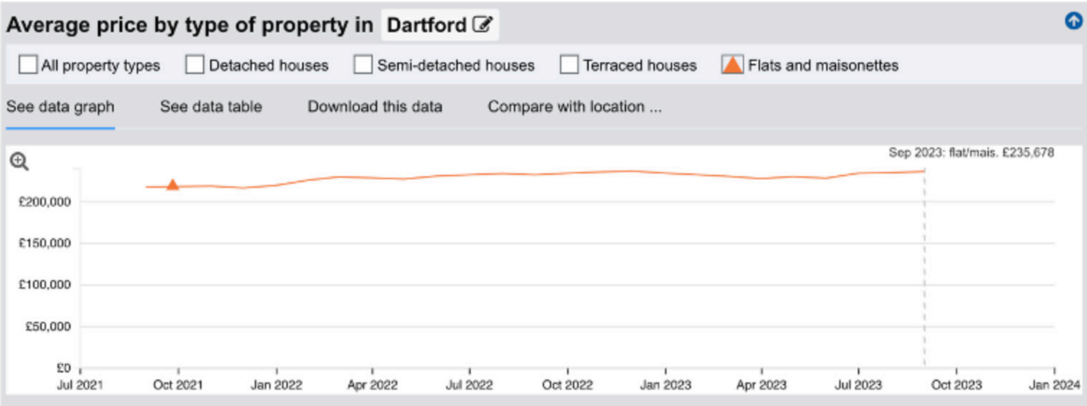
The unit mix comprises 6 No. 2b3p and 6 No. 1b2p flats, with ground floor commercial space which will house the replacement pharmacy.

Affordable Housing Values

We approach this issue by firstly modelling a scheme with no Affordable Housing; if the Residual Value of this model exceeds the Benchmark Value of the site (as described below) producing a surplus profit, then we produce a second model to illustrate the maximum level of Affordable Housing that can viably be delivered by the development.

Open Market Housing Values

Land Registry data for Dartford suggests the following average values for flats:



Nimbus suggests the following data:

This suggests an average open market value for properties in the immediate area of £4,906/m2.

However this is generic area-wide information, so we must consider transactional and asking price data for clarity.

Transactional Data

We have compared this data to relevant recent 'sold' transactions extrapolated from Rightmove (see **Schedule 3**). Values are extremely sensitive to small changes in search area; therefore, we have limited our transactional search to within 2 years and 1 mile of the scheme. However, this returned limited comparable information. We have therefore subsequently increased the search area to 3 miles:

Sold flats within 1 mile last 2 years					
Address	**Type**	**Sale Date**	**Area m2**	**£/m2**	**Price**
Gallops View, 8, Brickfield Farm Close, Longfield, Kent DA3 7AB	ground floor flat, built 2013	28/07/2023	63	£4,603.17	£290,000
Viewpoint Court, Flat 1, Brambledown, Hartley, Longfield, Kent DA3 7EY	1b gf maisonette, terraced, garden, good quality throughout	18/07/2023	39.47	£4,585.76	£181,000
Gallops View, 26, Brickfield Farm Close, Longfield, Kent DA3 7AB	top floor flat, built 2013	14/04/2023	62	£3,629.03	£225,000
Gallops View, 25, Brickfield Farm Close, Longfield, Kent DA3 7AB	top floor flat, built 2013	25/11/2022	64	£3,437.50	£220,000
Gallops View, 5, Brickfield Farm Close, Longfield, Kent DA3 7AB	ground floor maisonette, built 2013	28/10/2022	64	£4,562.50	£292,000
40, Pitfield, Hartley, Longfield, Kent DA3 7ES	ground floor maisonette, garden, reasonable condition	17/06/2022	40	£4,437.50	£177,500
32, Pitfield, Hartley, Longfield, Kent DA3 7ES	1b gf maisonette, terraced, garden, reasonable quality throughout	16/06/2022	42.9	£4,557.11	£195,500
Lucerna Court, Flat 11, Bradbrook Drive, Longfield, Kent DA3 7BN	top floor flat.	12/04/2022	47	£4,553.19	£214,000
			Avg. £/m2	**£4,249.83**	

Sold flats within 3 miles last 2 years					
Address	**Type**	**Sale Date**	**Area m2**	**£/m2**	**Price**
The Mote, Flat 5, Meadow Lane, New Ash Green, Longfield, Kent DA3 8PW	2b apartment, purpose buiilt block, good condition throughout	20/10/2023	66.3	£3,544.49	£235,000
2, Quarry Close, Gravesend, Kent DA11 0GA	2b apartment, purpose buiilt block, good condition throughout	28/09/2023	67.26	£3,018.14	£203,000
47, Lett Lane, Castle Hill, Swanscombe, Kent DA10 1BP	ground floor flat. Nb 2017	22/09/2023	60	£4,000.00	£240,000
92, Lett Lane, Castle Hill, Swanscombe, Kent DA10 1BS	top floor penthouse, nb 2017	29/08/2023	89	£4,157.30	£370,000
209, Esparto Way, South Darenth, Dartford, Kent DA4 9LQ	ground floor flat, nb 2009	25/08/2023	63	£3,809.52	£240,000
5, Lance Croft, New Ash Green, Longfield, Kent DA3 8PP	top floor flat, purpose-built block, reasonable condition	22/08/2023	61	£3,360.66	£205,000
The Mote, Flat 10, Meadow Lane, New Ash Green, Longfield, Kent DA3 8PW	mid floor flat, purpose built block	15/08/2023	66	£3,181.82	£210,000
			Avg. £/m2	**£3,603.78**	

Gallops View provides the most useful comparable information, with a number of units built reasonably recently and providing similar sizing and location to the proposed. Values of £3400-4600/m2 are noted.

We have also studied new build properties which are currently on the market:

New Build Flats for sale within 1 mile					
Address	**Type**	**SSTC/for sale?**	**Area m2**	**£/m2**	**Price**
The Awl, Alkerden Heights, Castle Hill, Ebbsfleet, DA10 1AD	2b apartment, new build block	for sale	71	£4,225.28	£299,995
Bellflower, Alkerden Heights, Castle Hill, Ebbsfleet, DA10 1AD	1b apartment, new build block	for sale	51	£5,215.59	£265,995
Bobbin, Alkerden Heights, Castle Hill, Ebbsfleet, DA10 1AD	2b apartment, new build block	for sale	71	£4,225.28	£299,995
Plot 524 | Royal Heights | Waterside at Castle Hill, Southfleet Road, Swanscombe, DA10 1DJ	2b 2nd floor apartment, new build block	for sale	71.6	£4,092.11	£292,995
Plot 494 | Cobalt Court | Waterside at Castle Hill, Southfleet Road, Swanscombe, DA10 1DJ	2b 1f apartment, new build block, balcony	for sale	71.53	£3,858.20	£275,995
Manor Lane, Longfield, DA3	2b grade II listed conversion, high quality throughout, share of freehold, private woodland, 2 parking bays, private terrace, landscaped gardens	for sale	113	£4,380.53	£495,000
Fawkham Manor, Manor Lane, Fawkham, Longfield, Kent	2b grade II listed conversion, high quality throughout, share of freehold, private woodland, 2 parking bays, private terrace, landscaped gardens	for sale	150	£4,500.00	£675,000
			Avg. £/m2 Value	**£4,347.90**	

Alkerden Heights is a useful comparable in terms of specification and new build nature of the proposed block, as well as comparable units sizes at 51m2 and 71m2 for values ranging between £4225-5215/m2; although we note this is not located above a commercial unit.

Cobalt Court and *Royal Heights* are also useful, although suggest slightly lower values for c.70m2 units of c.£3800-4100/m2.

Manor Lane/Fawkham Manor is less comparable as providing larger, higher-quality grade II listed conversion properties set in private woodland – however broadly aligns with the £/m2 values suggested by Alkerden Heights.

Average asking prices are inflated when compared to wider achieved values and the dataset supplied by Nimbus, suggesting asking prices are unlikely to be achieved. Consultation with local agents suggests prices are often being discounted 5-10% in the current market. Halifax and Nationwide are both reporting several subsequent months of falling house prices in Q4 2022. Savills predicts an average 10% contraction in house prices UK wide, while JLL suggest a more modest 6% fall.

We have had particular regard to these transactions when valuing the proposed units.

We have valued the scheme as per the below:

Unit	Area (m2)	£/m2	Price
1	50.00	£5,000	£250,000
2	63.00	£4,603	£290,000
3	50.00	£5,000	£250,000
4	61.00	£4,754	£290,000
5	50.00	£5,000	£250,000
6	50.00	£5,000	£250,000
7	63.00	£4,603	£290,000
8	50.00	£5,000	£250,000
9	61.00	£4,754	£290,000
10	50.00	£5,000	£250,000
11	61.00	£4,754	£290,000
12	62.00	£4,677	£290,000
Total	**671.00**	**£4,829**	**£3,240,000**

The proposed valuation above has been reached following extensive market research, consideration of comparable characteristics in recent transactions, new build and external amenity premiums and advice from local agents and therefore should be considered robust. The figures represent the very top end of what can be achieved in today's market and considering current trends should be considered optimistic.

Freehold Ground Rent

The capital value of the Freehold Ground Rents from the project is therefore included at zero for the purposes of this viability appraisal. The Leasehold Reform (Ground Rent) Bill received Royal Assent on 8 February 2022 meaning it is now an Act of Parliament (law).

The Act limits ground rent to a 'peppercorn rent.'

As such all viability assessors are currently including ground rent at either a zero or nominal rate as this income will not be realised.

Timing

This FVA is to be read in conjunction with a detailed planning application which we expect to be granted within 3 months. There will be a 3-month period following this to produce building regs. drawings and obtain all fixed price quotations. We therefore allow a 6 month pre-commencement period.

Construction is projected over a 12- month period with sales expected between months 12 and 18.

Construction Costs

We have consulted the most up to date BCIS data rebased to Q1 2024 and Dartford:

Rebased to 1Q 2024 (389; forecast) and Dartford (114; sample 9) Edit

£/M2 STUDY

Description: Rate per m2 gross internal floor area for the building Cost including prelims.
Last updated: 02-Dec-2023 07:54

MAXIMUM AGE OF RESULTS: Default period

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
New build							
345. Shops							
Generally (30)	2,073	781	1,129	1,693	2,686	5,479	16
1-2 storey (30)	2,095	781	1,128	1,635	2,715	5,479	15
816. Flats (apartments)							
Generally (15)	2,026	1,006	1,679	1,905	2,280	6,892	845
1-2 storey (15)	1,908	1,184	1,615	1,818	2,132	3,977	180
3-5 storey (15)	2,001	1,006	1,671	1,902	2,256	4,212	564
6 storey or above (15)	2,391	1,462	1,940	2,245	2,603	6,892	98

Taking the above into consideration, and based on the small size of the scheme and general specification, we have adopted the Mean costs 'generally' of £2026/m2 for new build flats, and £2073/m2 for shops.

The NIA of the units themselves (671m2), represents 90% of the GIA. Our modelling has been run with a corresponding correction factor.

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Non-BCIS Costs

As mentioned previously, the BCIS data makes no allowance for all external works and associated infrastructure costs, and as it is reported in retrospect will not account for newer policy and legislation such as biodiversity and enhanced building regulations.

We have therefore referred to the local plan viability study, which suggests an appropriate allowance for external works and infrastructure to be between 5-20%, plus infrastructure costs at £500,000/Ha.
In addition the requirements of the Environment Bill will soon come into force regarding a minimum 10% biodiversity net gain on all development sites. Councils may adopt a higher target in their development plans.

The 2019 DEFRA Consultation considers the potential cost of delivery as a proportion of build costs on both greenfield and brownfield sites.

Broadly we consider an allowance of 0.75% for brownfield delivery and 2.5% for greenfield to be an appropriate assumption if the net gain is to be delivered onsite. If it cannot be delivered onsite then the statutory credit costs must be applied to the biodiversity net gain calculator conclusions

We have adopted the following inputs:

- 15% external works
- £500,000/Ha infrastructure
- 1% for brownfield biodiversity uplift.

The toolkit has been run with a corresponding figure.

Fees

Professional fees are often quoted on a range of 8-12%, with separate allowances for planning fees.

The local plan viability study adopts 10% as a broad category for professional fees – this is not differentiated by site type.

We have adopted the same

In addition we have included the recently increased planning fees of £624 per dwelling.

Contingency

PPG Viability para 012 notes:

- ***explicit reference to project contingency costs should be included in circumstances where scheme specific assessment is deemed necessary, with a justification for contingency relative to project risk and developers return***

In this case we adopt 5% on the basis of a 20% target return. If the target return is reduced then the contingency allowance must likewise be adjusted to compensate.

Planning Obligations (S106 contributions & CIL)

Dartford adopted their CIL Charging Schedule in 2014. The most recent CIL Rate Update notes £200/m2 for residential development.

We have calculated the CIL payment as below:

	LPA CIL
Following indexation (£/m2)	£200
Total proposed GIA (m2)	671
Applicable GIA (m2)	0
CIL (total)	£134,200
CIL (total)	**£134,200**

This is subject to confirmation by the charging authority.

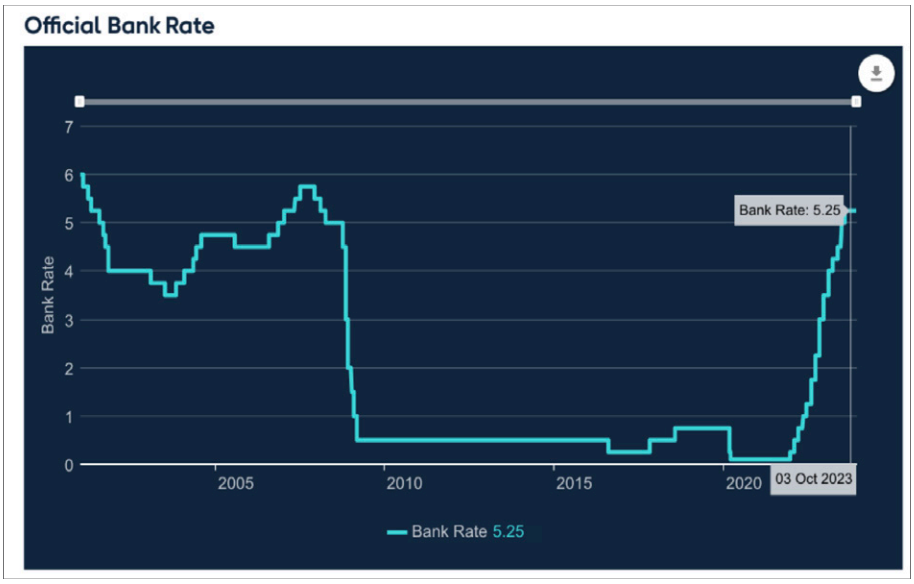
The toolkit has been run with the corresponding figure.

Site Acquisition Costs

We have included acquisition costs comprised of SDLT at the prevailing rate, legal fees at 0.75% and agency fees of 1%.

Finance Costs

Given the macro-economic context, lenders have become increasingly risk adverse and therefore funding is becoming harder to acquire. The Bank of England raised the base rate to 5.25% in Q3 2023. The local plan viability study in 2021 adopted 6.5%. The base rate at that date was 0.1%. The base rate has increase 5.15% since this date.



Therefore, a minimum interest figure of 9% is appropriate, and has been used in the toolkit. In reality finance deals are now significantly exceeding this level, but as an all-in rate 9% accommodates all fees and is applied to all costs.

Sales/Marketing Costs

The local plan viability study adopts the following inputs:

Marketing Costs	3% of GDV sales agent & marketing fees
	£750/unit legal fees

We have adopted a the same.

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Developer Profit

The NPGV contains the following advice at paragraph 18:

> ***How should a return to developers be defined for the purpose of viability assessment?***
>
> *'For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.'*

The RICS guidance similarly notes the test laid out in the PPG as a starting point.

> ### Return to the developer
>
> **4.2.27** In paragraph 018, under the heading of 'Standardised inputs to viability assessment', the PPG provides some guidance on how a return to developers is defined for the purposes of the FVA. The paragraph's focus is on a suitable return for plan making, rather than individual returns for scheme-specific decision taking. It identifies a standardised input of 15% to 20% of GDV as a suitable return for the purpose of plan making, but is silent on a decision-taking developer return. However, PPG paragraph 008 states that where a site-specific FVA accompanies a specific planning application, it 'should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then'. This implies, in addition to other inputs, a similar test regarding developer's profit to that used at the plan-making stage.

The guidance further notes that timescale, uncertainty and any particular characteristics that increase risk are factors which particularly influence profit assumptions.

As previously noted, Paragraph 008 of the NPGV provides a presumption that the underlying local plan evidence base is correct until otherwise proven by dissenting parties.

The local plan viability study (2021) adopts 17.5% on GDV based on the risk environment at the time.

Our experience is that for the previously assumed finance terms to be offered by commercial lenders, a minimum of 17.5% is generally required, up to a maximum of 25% on riskier proposals. Development finance will generally therefore set the expectations for return on investment.

Recent appeal decision ref APP/Y3615/W/22/3298341 noted the following:

> 68. Although it refers expressly to plan making, I also see no good reason why the profit range of 15-20% identified in the Government's planning practice guidance (PPG) should not reasonably be applied to a scheme of this type in order to assess viability, particularly when read in the context of para 58 of the Framework. Given the fairly difficult and comparatively uncertain economic circumstances for the construction sector at present and regardless of what profit margin the appellant has worked to in the past, it is reasonable to assume developer risk is greater now than at other more economically stable times. Consequently, notwithstanding the evidence regarding house prices and demand for housing in the area, and in respect to programming and sales revenue, a profit target to the higher end of the range, up to 20% of gross development value, is reasonable.

Taking into account the risk profile of the development we consider 20% to be appropriate. This is supported by our sensitivity analysis, which further demonstrates the relative risk profile of the development (see below).

The appraisal has been run accordingly.

Commercial Assumptions - Input sheet 3

Size of Scheme

In addition to the residential dwelling the development will also provide a ground floor commercial unit with a GIA of 256m2 and NLA (net lettable area) of 231m2.

Values

The local plan viability study considers commercial rents of £50-150/m2; however the subject site typology is not studied.

No. 18 (156m2) is currently vacant but was previously in use as a Lloyds Pharmacy (rateable value of £26,000). The most recent lease on the pharmacy included rent of £27,025 per annum. This broadly equates to £15-16psf (c.£170m2). The rateable value adopts £22.45/ft for Zone A and £11.22 for Zone B space, which broadly aligns with the above aggregated value. Within 5 miles there are comparable retail properties achieving £23-30psf. The Red Book valuation of the existing property suggests a rent of £26psf.

There are unfortunately no directly comparable properties currently being marketed in the immediate area. Extending the search are to 5 miles there appear to be a range of rents for small well-appointed retail units at £23-30psf, largely in Gravesend.

Have regard to the above we have adopted an optimistic assumption of £30psf for the resulting unit.

Yield

We have assumed an 8% yield.

Purchaser's costs

We have adopted purchaser's costs of 5.75%.

Developer Profit (input sheet 2)

We adopt 17.5% to reflect the reduced risk associated with commercial development.

Benchmark Land Value

The NPGV provides a standard methodology for determining Benchmark Land Value (BLV).

Paragraph 15 requires that the EUV of the site should be identified:

> *'Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield (excluding any hope value for development).*
>
> *Sources of data can include (but are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence.'*

RICS guidance Assessing Viability in Planning under the NPPF Appendix B lays out the appropriate approach to assessing existing use value, including relevant data sources:

> 5.2.5 The assessment of the BLV requires the assessment of five components. They should be calculated and reported to the plan-maker/decision-maker **separately** to counter circularity arguments that BLVs from one method of valuation have been used as an input into another method, in order to reduce developer contributions.
>
> 5.2.6 The components that need assessing are:
>
> - EUV
> - premium
> - AUV, where appropriate
> - policy-compliant site value assessed by the residual method and
> - policy-compliant site value assessed by the comparative method.

B.1.3 The PPG paragraph 015 identifies the type of evidence base that can be used to support the determination of the EUV and the sources of that evidence. At the plan-making stage, this should be accomplished with collaboration between the plan-makers, developers and landowners, and can use published sources of information on rental and capital values of land and property, such as:

- land registry records of transactions
- real estate licensed software packages
- real estate market reports
- real estate research
- estate agent websites
- property auction results
- Valuation Office Agency data and
- public sector estate/property teams' locally held evidence.

EUV

The existing site comprises 18 and 18a Station Road.

No. 18 (156m2) was previously in use as a Lloyds Pharmacy (rateable value of £26,000). The most recent lease on the pharmacy included rent of £27,025 per annum. To the rear of the property is a small car park with capacity for 12 cars.

We note commercial retail units outlined above are being marketed for a range of values between £23-30/ft for Zone A space. This broadly aligns with the VOA listing which adopts £22.45/ft for Zone A and £11.22 for Zone B space.

We are further in receipt of a 2023 Red Book valuation of the site by Harrisons Chartered Surveyors which considers that the site was previously under-rented, and a market rental of £26/ft is achievable at the subject site, for a total £31,500. An additional £3,000 in rent has been applied for the benefit of the parking onsite for a total £34,500. Applying a 6 month void period and yield at 8% results in a value of c.£415,000.

No. 18a (50m2) above the pharmacy comprises a currently occupied 1 bed residential flat. The current lease returns a rent of £900 per month (£10,800 pa), slightly below the level specified in the Red Book valuation (£975pm). The Red Book discounts achieved rent by 25% for running costs. We have followed a similar approach, giving a net rental of £8,100. We have applied a yield at 6% given the existing lease. This returns a value of £135,000.

The total value of the site comes to £550,000. This aligns with the Red Book valuation.

The entire property was purchased in March 2023 for £550,000 according to the Land Registry record.

Premium

Paragraph 16 requires that a premium should be added to the EUV (EUV +) to incentivise the landowner to bring the site forward for development:

> *'The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a landowner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements.*
>
> *Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration.* ***Market evidence can include benchmark land values from other viability assessments****. Land transactions can be used but only as a cross check to the other evidence. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners. Policy compliance means that the development complies fully with up to date plan policies including any policy requirements for contributions towards affordable housing requirements at the relevant levels set out in the plan. A decision maker can give appropriate weight to emerging policies. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).'*

D.2.4 The circumstances underpinning the assessments of the EUV and premium, and which may require adjustment, could include:

- the date of the determination of the BLV
- landowner optionality, i.e. the range of options open to the landowner
- state of the property, obsolescence and compliance with environmental and building regulations
- site constraints such as ground conditions, contamination, ransom issues, planning factors, third-party rights and covenants
- uniqueness of opportunity, such as 'one-off' site assembly
- competition from alternative sites
- the weighting of individual BLV/premium evidence relative to the subject property, and
- adjustments made by the plan-maker in arriving at an adopted premium, if any.

D.2.5 Information on BLVs and premiums in other FVAs can be requested but, if it cannot be provided, the practitioner will need to make assumptions and this will have an impact on the quality of that evidence. It is up to the decision-maker how much weight to accord to that evidence.

D.2.6 Where the EUV part of the benchmark is a substantial element of the overall assessed value, the premium is usually stated as a percentage increase of the EUV. This is typical in urban and brownfield sites.

D.2.7 In the case of greenfield, cleared brownfield or some *sui generis* (unique) sites outside of the normal planning use classes, where the EUV is a small proportion of the BLV, the premium is more likely to be stated as a multiplier or could be stated as an actual amount.

We have made a conservative 10% assumption for landowner premium, resulting in a total benchmark of £605,000

AUV

Paragraph 17 allows the BLV to be determined by an alternative Use Value (AUV):

> *'For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its existing use. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should be limited to those uses which would fully comply with up to date development plan policies, including any policy requirements for contributions towards affordable housing at the relevant levels set out in the plan.*
> *Where it is assumed that an existing use will be refurbished or redeveloped this will be considered as an AUV when establishing BLV.*
>
> *Plan makers can set out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with up to date development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued. Where AUV is used this should be supported by evidence of the costs and values of the alternative use to justify the land value. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted.'*

There is no extant consent at the subject property; we have not therefore appraised an AUV.

In this instance we have not completed a policy-compliant residual calculation as the outcome of the 100% open market appraisal demonstrates this is not viable.

The standard approach to viability is to compare the BLV of the development site with the Residual Value calculated by the viability toolkit. It is only if the Residual Value of the development exceeds the Market Value (Benchmark), that it will be viable for a contribution to be made towards Affordable Housing.

Conclusions

The full spreadsheet appears at **Schedule 1**, and the key conclusions are set out in the summary section. They are also repeated for convenience below:

Sales	**£4,121,925.06**
Less Costs	
Construction Costs (Resi)	£1,510,585.60
Commercial Costs (Build & Fees)	£636,580.35
Other Site Costs	£649,746.00
Marketing	£106,205.79
Finance Costs	£227,232.00
Developer Return	£802,341.71
Residual Site Value	£189,233.61
Benchmark Land Value	£605,000.00
Result	**(£415,766.39)**

To determine the viability of targeted affordable housing provision, the Benchmark Value of the site as stated above, is deducted from the Residual Value calculated by the viability model. If the result is negative, as it is in this case, the development does not achieve the target return on a 100% open market basis and therefore is unlikely to be able to viably deliver the targeted contributions.

The following table summarises the above conclusions.

Spreadsheet Residual Value	**£189,233.61**
Plus Target Developer Return	**£802,341.71**
Less Benchmark Value	**£605,000.00**
Actual Profit	**£386,575.32**
Percentage actual profit	**9.64%**

This presents a return which is significantly lower than the 20% target identified previously.

Any planning obligations would further reduce this level.

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Sensitivity Matrix

Following RICS guidance we have provided a sensitivity analysis of the assumptions in this report, demonstrating the impact on developer profit of +/-5-10% changes in build costs and sales values. This is particularly important to inform assessment of risk.

Sensitivity testing conclusions are included below.

Testing the variance associated with changes in sales and build costs of +/- 5-10% results in the below matrix:

Developer profit %		Sales values				
		-10%	-5%	0%	5%	10%
Build Costs	-10%	3.13%	8.26%	13.40%	18.54%	23.68%
	-5%	1.24%	6.38%	11.52%	16.66%	21.79%
	0%	-0.64%	4.50%	9.64%	14.77%	19.91%
	5%	-2.52%	2.62%	7.75%	12.89%	18.03%
	10%	-4.40%	0.73%	5.87%	11.01%	16.15%

This demonstrates that in 23 out of 25 scenarios the achieved return is below the targeted 20%, suggesting a high risk development.

T&Cs and Compliance

1.1 S106M has been instructed by the applicant to review the viability of the proposed development and engage with the local authority and their representatives on this matter.

1.2 Scope of instruction extends to provision of 1 report document and schedules for submission as part of a planning application.

1.3 S106M has not inspected the property.

1.4 This report is prepared as an assessment of the Planning Financial Viability of a proposed development for the purposes of agreeing appropriate Section 106 planning obligations and affordable housing contributions. It is not a valuation of the subject site or scheme. It is exempted from the RICS Red Book on the basis of the parties negotiating and agreeing the planning obligations and the authoritative requirement of the NPPF and PPG. It does not constitute a Red Book valuation report, and should under no circumstances be relied upon as such, although it may refer to the conclusions of third parties in this regard for which no liability is accepted. The date of the report can be viewed on the front page and will require updating for market uncertainty after a reasonable time period has elapsed.

1.5 The report is assumed to be made publicly available for transparency purposes unless otherwise stated. The Executive Summary can be considered a Non-Technical Summary for the purposes of the guidance.

1.6 S106M accepts responsibility only to the commissioning party named at the start of this report alone that this report has been prepared with the skill, care and diligence reasonably to be expected of a competent consultant but accept no responsibility whatsoever to any other person or entity.

1.7 S106M confirm that any RICS members involved in this reporting have complied with the mandatory requirements of RICS Professional Statement Financial Viability in Planning: Conduct and Reporting May 2019, including the following:

- We have acted with objectivity, impartially, without interference and with reference to all appropriate available sources of information (para 2.1).
- We have identified no conflicts of interest or risk of conflicts in preparing this report (para 2.2).
- We are not working under a contingent or performance related fee agreement basis (para 2.3).
- We support positive, proactive, transparent and appropriate engagement between all parties in the planning process. This report is prepared on the basis that it will be made publicly available, except in specifically agreed exceptional circumstances (para 2.4).
- We have not been involved in the preparation of the Council's Local Plan Area Wide Viability Assessment (para 2.5); however we have regard to this in line with PPG Viability para 002 and the statutory development plan.
- All inputs are reasonably justified by market and supporting evidence including but not limited to the local plan viability study which justifies the adopted planning policy in line with para 008 PPG Viability (para 2.6-2.7).
- The status of this report is Final as of the dated front page subject to any further reasonable, proactive and constructive negotiations to resolve reasonable professional differences of opinion in line with para 2.6, 2.8 and 2.10 of the Professional Statement.
- Our report includes sensitivity testing in line with the para 2.9.
- Where there are professional differences of opinion over inputs we seek to resolve these during negotiations following submission of the original report in line with para 2.8-2.10. Where differences of opinion cannot be resolved this is stated clearly.

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- The Executive Summary complies with the Non-Technical Summary requirement of para 2.11.
- Any sub-consultants contributing to this report have been made aware of the Professional Statement and its requirements, and confirm compliance with it (para 2.13).
- We have been allowed sufficient time since instruction to carry out this FVA bearing in mind the scale of the development and the status of the information as at the date of this report (para 2.14).
- Appropriate regard has also been had to RICS Guidance Note: Assessing Viability in Planning under the NPPF 2019 (2021).

Material Uncertainty

In respect of the planning and development sector as at the report date where unprecedented sets of circumstances are highlighted, including for example COVID-19, the Ukraine War and Energy Crisis, creating an absence of relevant/sufficient market evidence on which to base our judgements, our report will be reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, in respect of the report less certainty – and a higher degree of caution – should be attached to that report than would normally be the case.

For the avoidance of doubt this explanatory note, including the 'material valuation uncertainty' declaration, does not mean that the report cannot be relied upon. Rather, this explanatory note has been included to ensure transparency and to provide further insight as to the market context under which said report may have been prepared. In recognition of the potential for market conditions to move rapidly in response to changes in market conditions we highlight the importance of the valuation date and any reporting material uncertainty.

Quality Control

This report is provided for the stated purpose and for the sole use of the named clients. In line with para 2.12 the following quality control pathway has been taken, with all parties involved in the compilation of this report and history of previous viability discussions noted:

Tomas Furby MSc MRTPI AssocRICS
RICS Membership No. 0873248

Tim Wills CIHM