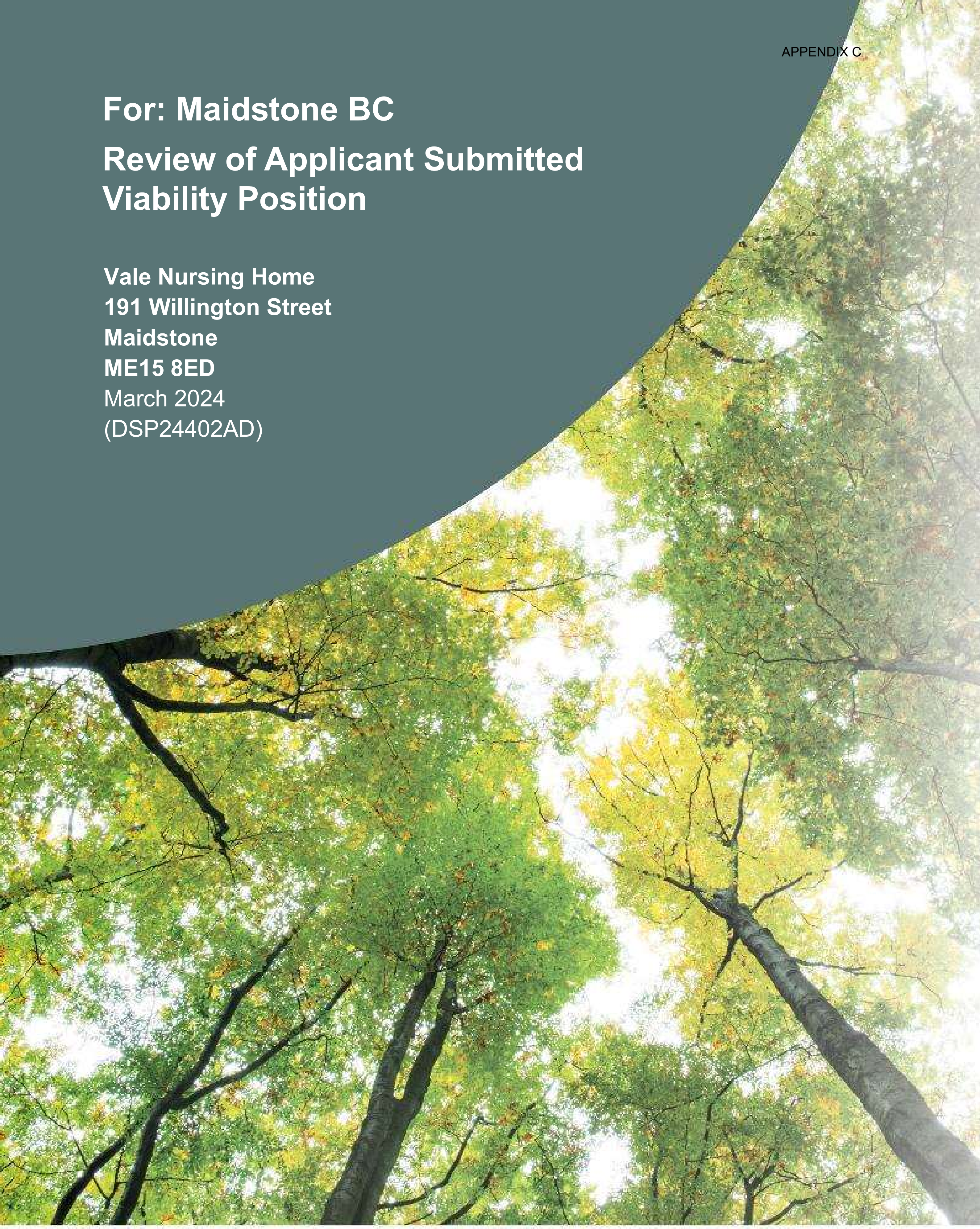
APPENDIX C

For: Maidstone BC

Review of Applicant Submitted Viability Position

Vale Nursing Home
191 Willington Street
Maidstone
ME15 8ED
March 2024
(DSP24402AD)



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Appendix I – Appraisal Summary

1. Notes and Limitations

1.1.1. The following does not provide formal valuation advice. This review and its findings are intended purely for the purposes of providing Maidstone Borough Council (MBC) with an independent check of, and opinion on, the planning applicant's viability information and stated position in this case. In the preparation of this review Dixon Searle Partnership has acted with objectivity, impartiality, without interference and with reference to appropriate available sources of information.

1.1.2. This document has been prepared for this specific reason and should not be used for any other purpose without the prior written authority of Dixon Searle Partnership (DSP); we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned. To the extent that the document is based on information supplied by others, Dixon Searle Partnership accepts no liability for any loss or damage suffered by the client.

1.1.3. We have undertaken this as a desk-top exercise as is appropriate for this stage and level of review. For general familiarisation we have considered the site context from the information supplied by the Council and using available web-based material.

1.1.4. So far as we have been able to see, the information supplied to DSP to inform and support this review process has not been supplied by the prospective / current planning applicant on a confidential basis. However, potentially some of the information provided may be regarded as commercially sensitive. Therefore, we suggest that the Council and prospective / current or subsequent planning applicant may wish to consider this aspect together. DSP confirms that we are content for our review information, as contained within this report, to be used as may be considered appropriate by the Council (we assume with the applicant's agreement if necessary). In looking at '*Accountability*', since July 2018 (para. 021 revised in May 2019), the published national Planning Practice Guidance (PPG) on viability says on this; '*Any viability assessment should be prepared on the basis that it will be made publicly available other than in exceptional circumstances.'*

1.1.5. Dixon Searle Partnership conducts its work only for Local Authorities and selected other public organisations. We do not act on behalf of any development interests. We have been and are involved in the review of other planning stage proposals within Maidstone Borough.

1.1.6. In any event we can confirm that no conflict of interests exists, nor is likely to arise given our approach and client base. This is kept under review. Our fees are all quoted in advance and agreed with clients on a fixed or capped basis, with no element whatsoever of incentive/performance related payment.

2. Introduction

2.1.1 Dixon Searle Partnership (DSP) has been commissioned by Maidstone Borough Council (MBC) to carry out an independent review of the 'Financial Viability Appraisal' (FVA) dated 12th April 2023 and supplied on behalf of the Council as applicant by S106 Management (S106M). This is in relation to the proposed development of the Vale Nursing Home, 191 Willington Street, Maidstone, ME15 8ED.

2.1.2 The FVA has been submitted in support of a full planning application (reference 23/503025/FULL) for '*Change of use of existing care home to 11no. residential apartments, including erection of 2no. first floor extensions, an additional rear dormer, alterations to fenestration, and associated parking, landscaping, amenity space and secure bin/cycle storage*.'.

2.1.3 The MBC Local Plan Policy SP20 requires 30% affordable housing to be provided on site on developments of more than 10 units. The proposed development is therefore required to provide 3.3 units of affordable housing with tenure split that includes 70% rented affordable housing.

2.1.4 In presenting their viability position, the applicant has supplied to the Council the aforementioned FVA together with an electronic version of the submitted viability appraisal carried out using the HCEAT.

2.1.5 DSP has also had sight of the documents contained within the Council's online planning application file.

2.1.6 We have considered the assumptions individually listed within the FVA and provided our commentary based on those whilst also carrying out sensitivity testing using the same appraisal where our opinion differs from that of the applicant's agent.

2.1.7 This report does not consider planning policy or the wider aspects in the background to or associated with the Council's consideration of this scenario. DSP's focus is on the submitted viability assumptions and therefore the outcomes (scope to support land value and profit) associated with that aspect of the overall proposals.

2.1.8 For general background, a viable development could be regarded as the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate site value (i.e. existing use value plus a reasonable premium) for the landowner and a market risk adjusted return to the developer in delivering that project. The Government's Planning Practice Guidance (PPG) on Viability sets out the main principles for carrying out a viability assessment. It states:

'*Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return…Any viability assessment should follow the government's recommended approach to assessing viability as set out in this National Planning Guidance and be proportionate, simple, transparent and publicly available. Improving transparency of data associated with viability assessment will, over time, improve the data available for future assessment as well as provide more accountability regarding how viability informs decision making…In plan making and decision making viability helps to strike a balance between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission* '.[1]

2.1.9 The submitted development appraisal has been run in a way which takes account of the benchmark land value (BLV) of the site (assumed at £1,300,000) and assesses the level of additional residual potentially available in excess of that after allowing for a fixed developer's profit (placed at 20% of the scheme gross development value). Therefore, an approach has been taken that sets out to consider, in the applicant's view, the maximum supportable contribution for affordable housing.

2.1.10 The FVA states that the 100% open market scheme produces a residual land value of £756,603 and when compared to the submitted BLV produces a deficit of -£543,397. The FVA calculates that when the deficit is deducted from the target profit, the scheme produces an actual profit of 1.49% on GDV.

Extracted from the FVA

GDV	**£2,935,002.13**
Costs exc land and profit	**£1,418,161.43**
Finance	**£173,237.48**

[1] Paragraph: 010 Reference ID: 10-010-20180724

Return	£587,000.43
BLV	£1,300,000.00
RLV	£756,602.80
RLV-BLV	(543,397.20)
Target profit	20.00%
Actual profit	1.49%

2.1.11 The FVA concludes that: '*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.*'

2.1.12 The FVA also provides sensitivity testing based on adjusting the sales revenue and construction costs in steps of 5% up and down. The table within the FVA (extracted below) indicates that in all scenarios, the profit level falls below the submitted target of 20% GDV with the assumptions used.

Developer profit %		Sales values				
		-10%	-5%	0%	5%	10%
Build Costs	-10%	-4.99%	0.01%	5.01%	10.01%	15.01%
	-5%	-6.75%	-1.75%	3.25%	8.25%	13.25%
	0%	-8.51%	-3.51%	1.49%	6.49%	11.49%
	5%	-10.28%	-5.28%	-0.28%	4.72%	9.72%
	10%	-12.04%	-7.04%	-2.04%	2.96%	7.96%

2.1.13 This review does not seek to pre-determine any Council positions, but merely sets out our opinion on the submitted viability assumptions and outcomes to inform the Council's discussions with the applicant and its decision making; it deals only with viability matters, in accordance with our instructions.

2.1.14 DSP's remit is to review the submitted information to assess whether the stated viability scope available to support planning obligations (for affordable housing and/or other matters) is the most that can reasonably be expected at the time of the assessment. Our brief does not go as far as confirming what should be the outcome where schemes are stated or verified as being non-viable per se, based on a viability submission or any subsequent review. It is for the applicant to decide whether there is sufficient justification to pursue a scheme financially. While an absence of (or insufficient level of) planning obligations will be a material consideration, we are not aware that proof of positive viability is in itself a criterion for acceptable development under current national policy. The Council may wish to consider these matters further, however. We note that a significant deficit, as presented prior to the inclusion of any affordable housing initially appears a counter intuitive viability indication, since according to the figure by no measure would this be a development pursued according to normal or close to normal profit criteria. On first review, the presented outcome suggests that either there is potentially an issue with the scheme selection for the site or that alternative figures within the appraisal need to be considered.

2.1.15 In this context, Maidstone Borough Council requires our opinion as to whether the viability figures and position put forward by the applicant are reasonable. We have therefore considered the information submitted. Following our review of the key assumptions areas, this report provides our views.

2.1.16 We have based our review on the submitted FVA and the premise that the viability of the scheme should be considered based on the assumption of current costs and values. We then discuss any variation in terms of any deficit (or surplus) created from that base position by altering appraisal assumptions (where there is disagreement if any).

2.1.17 This assessment has been carried out by Dixon Searle Partnership, a consultancy which has a great many years combined experience in the development industry working for Local Authorities, developers, Housing Associations and in consultancy. As consultants, we have a considerable track record of assessing the viability of schemes and the scope for Local Authority planning obligation requirements. This expertise includes viability-related work carried out for many Local Authorities nationwide over the last 20 years or so.

2.1.18 The purpose of this report is to provide our overview comments regarding this individual scheme, on behalf of the Council - taking into account the details as presented. It will then be for the Council to consider this information in the context of the wider planning objectives in accordance with its policy positions and strategies.

2.1.19 In carrying out this type of review a key theme for us is to identify whether, in our opinion, any key revenue assumptions have been under-assessed (e.g. sales value estimates) or any key cost estimates (e.g. build costs, fees, etc.) over-assessed – since both of these effects can reduce the stated viability outcome.

3. Review of Submitted Viability Assumptions

3.1 Overview of Approach

3.1.1 The following commentary reviews the applicant's submitted viability assumptions as explained within the VR and the accompanying development appraisal.

3.1.2 Primarily the review process takes into account the fact that the collective impact of the various elements of the cost and value assumptions is of greatest importance, rather than necessarily the individual detailed inputs in isolation. We have considered those figures provided, as below, and reviewed the impact of trial changes to particular submitted assumptions.

3.1.3 This type of audit / check is carried out so that we can give the Council a feel for whether or not the presented outcome is approximately as expected – i.e. informed by a reasonable set of assumptions and appraisal approach.

3.1.4 Should there be changes to the scheme proposals relative to the details now under review, this would obviously impact on the appraisal outputs.

3.2 Benchmark Land Value

3.2.1 In all appraisals of this type, the base value (value of the site or premises – e.g. in existing use) is one of the key ingredients of scheme viability. A view needs to be taken on land value so that it is sufficient to secure the release of the site for the scheme (sale by the landowner) but is not assumed at such a level that restricts the financial capacity of the scheme to deliver suitable profits (for risk reward), cover all development costs (including any abnormals) and provide for planning obligations as a part of creating sustainable development. This can be a difficult balance to reach, both in terms of developers' dealings with landowners, and Councils' assessments of what a scheme has the capacity to bear.

3.2.2 The RICS (Royal Institution of Chartered Surveyors) Professional Standard: 'Assessing viability in planning under the national Planning Policy Framework 2019 for England' (2021, reissued April 2023) reflects and reiterates much of the Planning Practice Guidance (PPG) on Viability as noted below, and the PPG will remain the primary source of guidance in this field – viability in planning.

3.2.3 The RICS Professional Standard states that: *'The BLV should not be expected to equate to market value. […] The BLV is not a price to be paid in the marketplace; it is a mechanism by which the viability of the site to provide developers' contributions can be assessed. It should be set at a level that provides the minimum return at which a reasonable landowner would be willing to sell.'*

3.2.4 It goes on to state: *'The BLV is a benchmark value against which the developer contributions can be assessed. Once those contributions have been set, land markets should take the level of policy requirements into account, just as all markets should take all relevant factors that affect value into account.* PPG paragraph 013 states that *'Landowners and site purchasers should consider policy requirements when agreeing land transactions.'* This means that the actual price paid for a site cannot be used to reduce developer contributions.

3.2.5 The Viability PPG and the NPPF very clearly advise that land value should be based on the value of the existing use plus an appropriate level of premium or uplift to incentivise release of the land for development from its existing use. With regard to how land value should be defined for the purpose of viability assessment it states: '*To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner*.'

3.2.6 The guidance defines existing use value as: *'the first component of calculating benchmark land value. EUV is the value of the land in its existing use together with the right to implement any development for which there are policy compliant extant planning consents, including realistic deemed consents, but without regard to alternative uses. 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.'

3.2.7 It states that a Benchmark Land Value should:

- *'be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*
- *be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.'*

3.2.8 The guidance further states that: *'Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan.'* It goes on to state: '*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.)'*

3.2.9 With regard to assuming an alternative use value to determine BLV the guidance states: *'For the purpose of viability assessment alternative use value (AUV) refers to 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. 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 have an existing implementable permission for that use. Where there is no existing implementable permission, 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* *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.'*

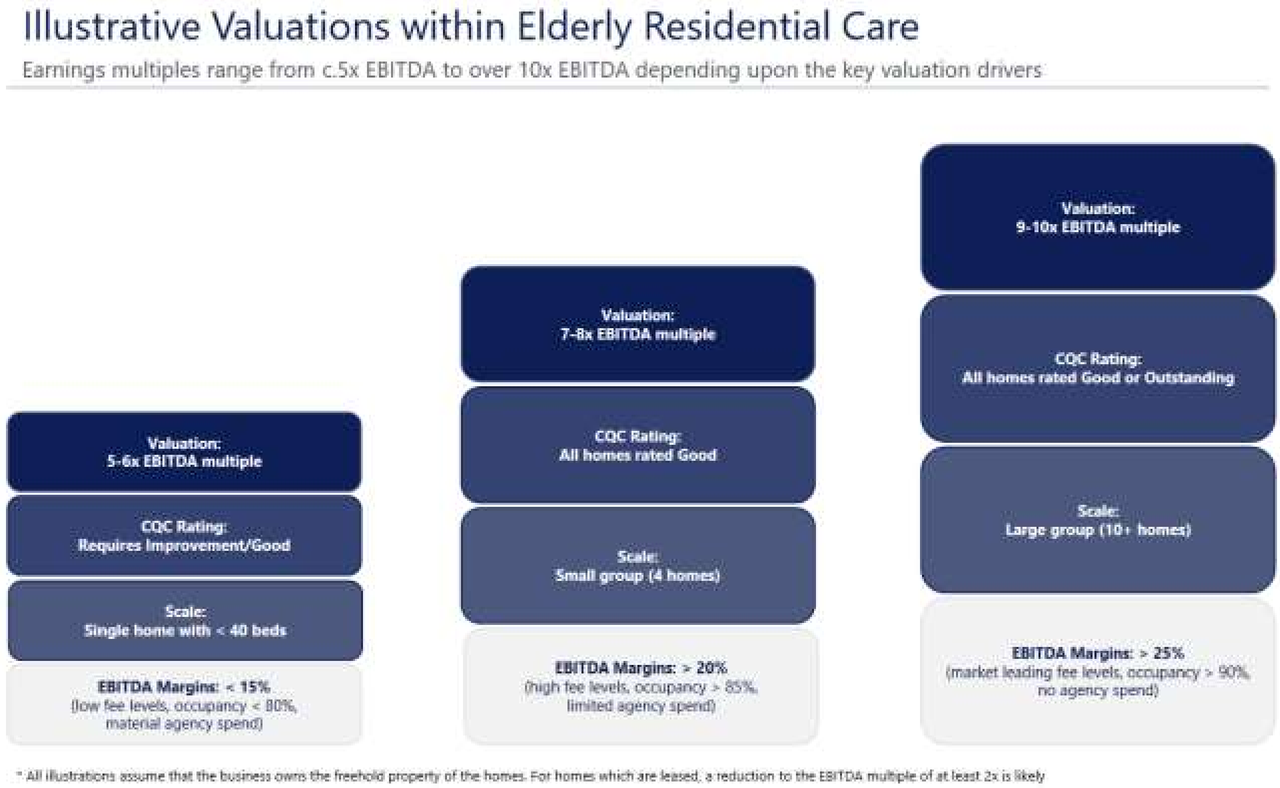
3.2.10 It is therefore clear that the only acceptable approach to defining a benchmark land value for the purposes of a viability assessment, is the EUV+; or, exceptionally, AUV.

3.2.11 The application site consists of a currently operational care home. The premises are stated to be modern, in good condition and located in a prominent position on the corner of Willington Street and Otterbourne Place.

3.2.12 To assess the BLV, the FVA states that advice has been obtained from Mr John Carter (MRICS) for the assessment of the existing use value. No report has been provided but an extract from that advice is given within the FVA and states the following:

"The premises are currently operating as a care home and I have been supplied by the current owners accountant with Adjusted Net Profit figures for the years ending 2019, 2020 and 2021. The Adjusted Net Profit for this period is in the sum of £185,516…My research into an appropriate multiplier for profits for this type of accommodation falls within a range of 6 to 8 times profit. This is confirmed by Christie and Co, agency specialists in this type of accommodation. They have a number of similar premises currently on the market incorporating the multiples referred to".

3.2.13 We have not been provided with the adjusted net profit figures referred to and therefore cannot comment on those. We do note however that it is fairly common to value a care home business on the basis of the underlying EBITDA (earnings before interest, taxes, depreciation and amortization) with a multipliers within the elderly residential care sector ranging broadly between 5 x to over 10 x depending on valuation drivers including CQC rating, scale of property (number of beds), level of fees, occupancy and spend on agency staff. A report on valuation of care homes by Eclipse Corporate Finance provides the following information (noting that these are illustrative):



3.2.14 It appears that the 'adjusted net profit' is being used as a term by Mr Carter to reflect the EBITDA but it is not clear from the information we have been provided with.

3.2.15 We have assumed for the purposes of this review that the adjusted net profit figures are equivalent to the EBITDA but the Council may wish to seek further evidence from the applicant and / or their assessor.

3.2.16 We would assume a lower multiplier than the 7x used within the FVA given the size of the property and that the property is, by the admission of the owners, deemed no longer viable due to the configuration of the building, modern care practices and the associated costs of running it. It is stated to have a limited number of rooms with step-free access and with lifts only serving part of the ground and first floors[2].

3.2.17 On the basis of a multiplier of 5, the capital value would be equivalent to £927,580 or £1,113,096 if we assume a multiplier of 6. We note however that the BLV included in the FVA does not include any landowner premium which at 20% - 30% would mean a BLV of between £1.1m - £1.45m.

[2] https://www.kentonline.co.uk/maidstone/news/dementia-patients-could-be-forced-to-move-if-apartments-plan-290878/

3.2.18 We have also considered a number of care homes advertised for sale using online care home specialist sales websites (e.g. Christies & Co.) as well as Co-Star property intelligence data (subscription-based service). This indicates that on a 'per bedroom' basis the FVA assumed value of £1.3m is probably not unreasonable.

3.2.19 We have further considered the sale of a care home on Willington Street to Oakland Maidstone Care Home Ltd in March 2020 for £2,425,000. At the time this was a 28-bedroom single-storey care home with the current owners redeveloping the site. The sale price was equivalent to £1,617/m² which when applied to the size of the subject property (stated to be 846m² within the FVA) would suggest an equivalent value of £1.37m before allowing for changes in property prices or inclusion of any landowner premium.

3.2.20 Taking into account the above and the fact that the property is currently in use albeit with a non-optimal layout, in summary, we are of the opinion that the value attributed to the current site is probably not overstated assuming that the value stated (£1.3m) is deemed to include a landowner premium.

3.3 Acquisition Costs

3.3.1 In addition, the submitted appraisal includes acquisition costs of 1% for agent's fees and 0.75% for legal fees applied to the RLV. SDLT is also included at 5% of the BLV in the FVA. We consider these assumptions to be broadly appropriate.

3.4 Gross Development Value

3.4.1 The proposed housing mix and values are as follows:

Unit	Area (m2)	Floor - Type	£/m2	Sales Price (£)
1	53.00	1F - 1B2P flat	£4,716.98	£250,000
2	59.50	2F - 1B2P flat	£4,369.75	£260,000
3	70.00	1F - 2B4P flat	£3,928.57	£275,000
4	50.20	1F - 1B2P flat	£4,980.08	£250,000
5	70.90	1F - 2B4P flat	£3,878.70	£275,000
6	71.00	1F - 2B3P flat	£3,873.24	£275,000
7	70.00	2F - 2B4P flat	£3,928.57	£275,000
8	50.00	2F - 1B2P flat	£5,000.00	£250,000
9	53.40	2F - 1B2P flat	£4,681.65	£250,000
10	53.10	2F - 1B2P flat	£4,708.10	£250,000
11	96.80	3F - 3B5P flat	£3,357.44	£325,000
Total area (m2)	697.90		Total GDV	£2,935,000
Avg. unit size (m2)	63.4455		Avg. £/m2	£4,205.4736

3.4.2 The FVA undertakes a market research exercise including reviewing Nimbus Maps (a subscription-based property database); internet property search of sold prices of flats within 12 months and ½ mile of the application site; asking prices for resale properties within ½ mile of the subject property and new build flats advertised for sale within 3 miles of the subject property. We note that the report is dated April 2023 and therefore the sold price data will be older than April 2023.

3.4.3 Having considered the data and in particular properties for sale at Sandling Road and Romney Place, the FVA suggests the values indicated in the table above.

3.4.4 We have considered the values put forward in the FVA and undertaken our own research, some of which includes more recent data from the same sales as provided in the FVA. When adjusted for date of sale to the current date, our new build analysis indicates an average sold value of £4,198/m² over the two years to December 2023 (latest available Land Registry data at the point of our research) and within 2-miles of the subject site. Data for resale properties over the same period suggests an average value for flats of around £3,340/m². New build asking prices suggest values of between £3,350/m² and £4,300/m² before any allowance for discount to asking price is assumed.

3.4.5 Overall we are therefore of the view that the values assumed within the FVA are reasonably placed at this time.

3.4.6 It is worth noting that any improvement in the sales value assumptions (compared with a level set at the point of the appraisal) would most likely be reflected in an improvement in scheme viability (for example as will be seen through our above noted sensitivity test). Whilst the opposite could also occur (the sales values could fall relative to the assumptions made), that is the developer's (applicant's) risk, and such factors need to be kept in mind in making an overall assessment of the applicant's position.

3.5 Development Timings / Project Timescales

The FVA states that development timings have been assumed with a 6-month pre-construction period, a 12-month construction period with sales taking place between months 10 and 16 (therefore assuming an element of off-plan sales). As far as we can see from the submitted development appraisal, no pre-commencement allowances have been made so that the overall development period is 16 months in total. The overall timings contained within the development appraisal appear reasonable in our view.

3.6 Cost Assumptions

3.6.1 The submitted build costs are based on the BCIS lower quartile rate for flats using the rehabilitation / conversion rate for flats 'generally'. The default BCIS time period has been selected with the data rebased using a Maidstone correction factor. This leads to a BCIS base figure of £1,185/m².

3.6.2 In our view, the choice of BCIS dataset is appropriate for the development type. We would normally use the 5-year data set but note the limited sample in this case and so, in common with the FVA, we have also considered the 'default' time period. At the point of carrying out this review the latest data indicates a figure of £1,145/m² and we have adopted this within our version of the applicant submitted development appraisal. We note that there is an element of new build within the development proposals. However, the BCIS rate for rehabilitation / conversion is lower than the BCIS new build rate. If the FVA were to apply the new build rate to that part of the proposed redevelopment, this would lead to a poorer viability outcome.

3.6.3 The FVA indicates that the internal area of the flats is 697.9m² with a gross internal area of £869,48m². This suggests that the net (saleable) floorspace is around 80% of the gross area (i.e. when using BCIS costs data we need to gross up the cost from the net to the gross site area within the development appraisal). The Council will be able to confirm the net:gross floor areas but at this stage we have maintained the same within our development appraisal.

3.6.4 In addition to the BCIS base costs an allowance has been made for external works equating to 10% of the base cost (equivalent to around £103,000). Given that a majority of the works involve the conversion of an existing building it is not clear what the external works allowance would cover. For the purposes of this review we have reduced the external works allowance to 5%.

3.6.5 An allowance for meeting BNG requirements has also been included at 0.75% of base build cost stated to allow for 'greenfield biodiversity uplift'. The Government is clear within its Guidance on BNG that: "*If a planning application for a development was made before day one of mandatory BNG on 12 February 2024, the development is exempt from BNG*". As the application was validated in July 2023, we have removed this allowance from the appraisal.

3.6.6 The FVA states that an allowance of 6% has been made for contingencies with the following explanation provided: '*Inflation is currently at 10.4%, which given the early stage of this assessment (pre-planning consent) is a material long-term risk…While general risk is accounted for in the project's target return, the lower the return assumption the higher the contingency adoption should be, ensuring an operating profit is retained in all instances.'*

3.6.7 We disagree with the use of a 6% contingency as a proxy for further hedging against potential developer risk. The risk / reward balance is inherent within the target developer return; a contingency allowance is to mitigate against potential unforeseen construction related costs. In this case the level of risk is relatively low in our view, and we would therefore include a 5% contingency reflecting the typical current approach within viability in planning. In any event and has been well reported, the rate of inflation both generally and in building costs has reduced significantly in the recent period.

3.6.8 Professional fees have been included at 10% of base build costs and do not exceed usual parameters and are not considered unreasonable.

3.6.9 We have not adjusted the submitted build costs and fee assumptions in our appraisal.

3.7 Agent's, Marketing & Legal Fees

3.7.1 The FVA includes sales and marketing costs for the residential units of 3% as well as legal fees (on sale) at £1,000 per unit. Given the size of the site and that it is unlikely to require any show home, these costs appear excessive. We have adopted sales and marketing costs of 2% and legal fees of £750 per unit.

3.8 Development Finance

3.8.1 Finance costs have been included in the FVA appraisal using an 8% interest rate assumption.

3.8.2 The interest rate is the cost of funds to the scheme developer; it is applied to the net cumulative negative cash balance each month on the scheme as a whole. According to the HCA in its notes to its Development Appraisal Tool (DAT): '*The rate applied will depend on the developer, the perceived scheme risk, and the state of the financial markets. There is also a credit interest rate, which is applied should the cumulative month end balance be positive. As a developer normally has other variable borrowings (such as an overdraft), or other investment opportunities, then the value of credit balances in reducing overall finance charges is generally the same as the debit interest charge. A zero rate of credit interest is not generally plausible and will generate significantly erroneous results in a long-term scheme.*'

3.8.3 Finance costs have been included within the development appraisal using an 8% interest rate. However we note that the limitations of the viability appraisal tool used appear not to allow for any impact of interest on positive cashflow balances (that in a more sophisticated model may balance out some of the finance cost). It also assumes 100% debt funding which in many cases will not be realistic. For the purposes of this review, a finance rate of 7.5% has been assumed and on the basis that this would include all ancillary fees

3.9 CIL and S106 / Planning Obligations

3.9.1 A CIL contribution of £2,611 has been included in the submitted appraisal. The Council will need to confirm this sum or provide an alternative that can be applied in the appraisal. No other S106 contributions have been allowed for.

3.9.2 It should be noted that any change in the chargeable sums would have an impact on the overall viability of the scheme as viewed through the appraisals. In all such reviews, we assume that all requirements that are necessary to make a scheme acceptable in planning terms will have to be included.

3.10 Developer's Risk Reward – Profit

3.10.1 In this case, a profit target of 20% on GDV for the market sale units has been adopted.

3.10.2 The Planning Practice Guidance (PPG) on Viability states: '*Potential risk is accounted for in the assumed return for developers at the plan making stage. It is the role of developers, not plan makers or decision makers, to mitigate these risks. The cost of fully complying with policy requirements should be accounted for in benchmark land value. Under no* circumstances *will the price paid for land be relevant justification for failing to accord with relevant policies in the plan*'. It goes on to state: '*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*[3]'.

3.10.3 The PPG, as above, although silent in terms of decision making, does set out a range of between 15% and 20% on GDV for market housing; lower for affordable housing in relation to plan making. Given that the NPPF and PPG expect planning applications to be consistent with the plan making stage, it is therefore also appropriate to assume that the range 15% - 20% on GDV (lower for affordable housing) may be considered application at the decision taking stage.

3.10.4 We consider a 17.5% profit allowance to be a suitable target in this case, and we have tested our appraisal results against that target rather than the 20% on GDV set out in the FVA.

[3] https://www.gov.uk/guidance/viability#standardised-inputs-to-viability-assessment - Paragraph: 018 Reference ID: 10-018-20190509

4. Recommendations / Summary

4.1.1 The submitted approach to assessing the viability of the proposed development appears to be appropriate overall in terms of the principles in use.

4.1.2 Although several of the assumptions appear fair at this stage, there are aspects that we have queried or where a difference of opinion exists. These include:

- Construction costs and fees (paragraph 3.6) – we have updated the development appraisal to include the latest BCIS rate; we have excluded the additional allowance relating to BNG and reduced the external works allowance from 10% to 5%.

- Contingency allowance reduced from 6% to 5%.

- Finance (paragraph 3.8) – we have applied an interest rate of 7.5% (in place of the submitted 8% assumption).

- Sales and marketing costs (paragraph 3.9) – we have made a downward adjustment from 3% to 2% and reduced legal fees from £1,000 per unit to £750 per unit.

- Reduced developer return (profit on GDV) to 17.5% from 20%.

4.1.3 Recapping on the above detail, the proposed 100% market housing scheme as presented produces a residual land value of £756,603 and when compared to the submitted BLV of £1.3m produces a deficit of -£543,397. When the deficit is deducted from the target profit the FVA calculates that the proposed scheme produces an actual profit of 1.49% GDV.

4.1.4 When creating our version of the applicant's appraisal using the assumptions discussed in this report, the results indicate the following results:

	BCIS Median
Residual Land Value	£957,380
Surplus / Deficit after Developer return and BLV	-£342,620

4.1.5 In conclusion, although more viable than presented within the FVA, the scheme does not appear sufficiently viable to support a contribution towards affordable housing. This appears to be as a result of the moderately high BLV for the site, relative to the proposed quantum of development and sales values that can be generated.

4.1.6 We need to be clear that the above is based on current-day costs and values assumptions as described within our review based on the current scheme as submitted. A different or revised scheme may of course be more or less viable – we are only able to review the information provided.

4.1.7 Of course, no viability report or assessment can accurately reflect costs and values until a scheme is built and sold – this is the nature of the viability process and the reason for local authorities needing to also consider later stage review mechanisms when significant developments fall short of policy provision. In this sense, the applicant and their advisors are in a similar position to us in estimating positions at this stage – it is not an exact science by any means, and we find that opinions can vary.

4.1.8 As regards the wider context including the challenging economic situation, in accordance with the relevant viability guidance our review is based on current day costs and values – a current view is appropriate for this purpose. The most recent (national) reporting suggests that the housing market generally is showing signs of improving somewhat following month-on-month falls seen in the autumn; prices have increased overall in the most recent months, partly as a result of mortgage rates beginning to ease. Knight Frank state in their most recent assessment of the housing market 'We now expect UK mainstream prices to rise by 3% in 2024, which compares to a decline of 4% predicted in October. With low-level single-digit growth in subsequent years, we expect cumulative growth of 20.5% in the five years to 2028'.

4.1.9 Regarding construction costs, the still relatively weak sales market is mitigated to some extent by an apparent slowdown in build cost inflation, following a period of rapid increases in construction costs.

4.1.10 The RICS Professional Standard notes that 'Development risk' reflects: '*The risk associated with carrying out, implementing and completing a development, including site assembly, planning, construction, post-construction letting and sales*' and that '*The return for the risk is included in the developer return and the PPG makes it clear that it is the developer's job* *to mitigate this risk, not plan makers and decision takers'*. This is all part of the usual development process. Furthermore, in reflecting the PPG the RICS Professional Standard notes: '*PPG paragraphs 007 and 009 reflect on the impact of market cyclicality during the life of the plan. Paragraph 007 gives market downturns as one example of the justification for a site-specific FVA, but it is restricted to "a recession or similar significant economic change". This implies the exclusion of normal market cyclicality, which is embedded in the level of developer return'*.

4.1.11 DSP will be happy to advise further as required.

Review report ends
March 2024

Appendix 1 – DSP Appraisal Summary

GVA GRIMLEY & BESPOKE PROPERTY GROUP
THE HOUSING CORPORATION ECONOMIC APPRAISAL TOOL

SUMMARY

Site Address	The Vale Nursing Home, 191 Willmington Street, Maidstone, ME15 8ED
Site Reference	
Scheme Description	Convert care home to 11 flats
Date	10/03/2023
Site Area (hectares)	
Author & Organisation	S106 Management Ltd
Housing Corporation Officer	

Housing Mix (Affordable + Open Market)

Total Number of Units	11	*units*
Total Number of Open Market Units	11	*units*
Total Number of Affordable Units	0	*units*
Total Net Internal Area (sq m)	698	*sq m*
Total Habitable Rooms	0	*habitable rooms*
% Affordable by Unit	0.0%	
% Affordable by Area	0.0%	
% Affordable by Habitable Rooms	-	
% Social Rented within the Affordable Housing	-	*by number of units*
% Social Rented within the Affordable Housing	#DIV/0!	*by area*
% Social Rented within the Affordable Housing	-	*by habitable rooms*
Total Number of A/H Persons	0	*Persons*
Total Number of Social Rented Persons	0	*Persons*
Total Number of Intermediate Persons	0	*Persons*
Total Number of Open Market Persons	0	*Persons*
Total Number of Persons	0	*Persons*
Site Area	0.00	*hectares*
Net Internal Housing Area / Hectare	-	*sq m / hectare*

Residential Values

Affordable Housing Tenure 1: **Social Rented**

Type of Unit	Total Rent pa (£)	Yield (%)	Capital Value (£)
Studio	-	-	-
1 Bed	-	-	-
2 Bed	-	-	-
3 Bed	-	-	-
4 Bed	-	-	-
Other	-	-	-
Other	-	-	-
Total	**-**	**-**	**-**

Total Capital Value of Affordable Housing Tenure 1 **£0**

Affordable Housing Tenure 2: **Intermediate - Shared Ownership**

Type of Unit	Capital Value (£ psm)	Total Floorspace (sq m)	Total Capital Value (£)
Studio	-	-	-
1 Bed	-	-	-
2 Bed	-	-	-
3 Bed	-	-	-
4 Bed	-	-	-
Other	-	-	-
Other	-	-	-
Total	**-**	**-**	**-**

Owner-occupied / rented % share -

Capital Value of owner-occupied part -

Type of Unit	Total Rent pa (£)	Yield (%)	Capital Value (£)
Studio	-	-	-
1 Bed	-	-	-
2 Bed	-	-	-
3 Bed	-	-	-
4 Bed	-	-	-
Other	-	-	-
Other	-	-	-
Total	**-**	**-**	**-**

Total Capital Value of Affordable Housing Tenure 2 **£0**

Affordable Housing Tenure 3: **Intermediate - Discounted Market Sale**

Type of Unit	Capital Value (£ psm)	Total Floorspace (sq m)	Total Capital Value (£)
Studio	-	-	-
1 Bed	-	-	-
2 Bed	-	-	-
3 Bed	-	-	-
4 Bed	-	-	-
Other	-	-	-
Other	-	-	-
Total	**-**	**-**	**-**

% of Open Market Value 100%

Total Capital Value of Affordable Housing Tenure 3 **£0**

Affordable Housing Tenure 4: **Intermediate - Other Type of Shared Ownership / Shared Equity**

Type of Unit	Capital Value (£ psm)	Total Floorspace (sq m)	Total Capital Value (£)
Studio	-	-	-
1 Bed	-	-	-
2 Bed	-	-	-
3 Bed	-	-	-
4 Bed	-	-	-
Other	-	-	-
Other	-	-	-
Total	-	**-**	**-**

Owner-occupied / rented % share -

Capital Value of owner-occupied part -

Type of Unit	Total Rent pa (£)	Yield (%)	Capital Value (£)
Studio	-	-	-
1 Bed	-	-	-
2 Bed	-	-	-
3 Bed	-	-	-
4 Bed	-	-	-
Other	-	-	-
Other	-	-	-
Total	**-**	**-**	**-**

Total Capital Value of Affordable Housing Tenure 4 **£0**

Affordable Housing Tenure 5: **Intermediate - Discounted Market Rented**

Type of Unit	Total Rent pa (£)	Yield (%)	Capital Value (£)
Studio	-	-	-
1 Bed	-	-	-
2 Bed	-	-	-
3 Bed	-	-	-
4 Bed	-	-	-
Other	-	-	-
Other	-	-	-
Total	**-**	**-**	-

Total Capital Value of Affordable Housing Tenure 5	**£0**
TOTAL CAPITAL VALUE OF ALL AFFORDABLE HOUSING (EXCLUDING SHG & OTHER FUNDING)	**£0**

Social Housing Grant

	Grant per unit (£)	Number of Units	Grant (£)
Social Rented	£0	0	£0
Intermediate - Shared Ownership	£0	0	£0
Intermediate - Discounted Market Sale	£0	0	£0
Intermediate - Other Type of Shared Ownership /	£0	0	£0
Intermediate - Discounted Market Rented	£0	0	£0
SHG Total	**-**	**0**	**£0**

Social Housing Grant per Affordable Housing Person	-
Social Housing Grant per Social Rented Person	-
Social Housing Grant per Intermediate Person	-

TOTAL VALUE OF SOCIAL HOUSING GRANT	**£0**
OTHER SOURCES OF AFFORDABLE HOUSING FUNDING	**£0**
OTHER SUBSIDIES SUCH AS EP GAP FUNDING	**£0**
TOTAL CAPITAL VALUE OF ALL AFFORDABLE HOUSING (INCLUDING SHG & OTHER FUNDING)	**£0**

Open Market Housing

Type of Open Market Housing	Net Area (sq m)	Revenue (£ / sq m)	Total Revenue (£)
Flats	698	£4,205	£2,935,002
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
Total	**698**	-	**£2,935,002**

TOTAL CAPITAL VALUE OF OPEN MARKET HOUSING	**£2,935,002**

Car Parking

No. of Spaces	Price per Space (£)	Value
-	-	-

TOTAL VALUE OF CAR PARKING	**£0**
TOTAL CAPITAL VALUE OF RESIDENTIAL SCHEME	**£2,935,002**

Non-Residential Values

Office	£0	
Retail	£0	
Industrial	£0	
Leisure	£0	
Community-use	£0	**£0**

TOTAL CAPITAL VALUE OF NON-RESIDENTIAL SCHEME	**£0**

TOTAL VALUE OF SCHEME	**£2,935,002**

Residential Building, Marketing & Section 106 Costs

Affordable Housing Build Costs		£0	
Open Market Housing Build Costs		£998,870	**£998,870**
Cost Multipliers			
Site Specific Sustainability Initiatives (%)**		0.0%	**£0**
Wheelchair provision (%)		0.0%	**£0**
Code for Sustainable Homes (%)		0.0%	**£0**
Other (%)		0.0%	**£0**
Residential Car Parking Build Costs			**£0**
Total Building Costs			**£998,870**
OTHER SITE COSTS			
Building Contingencies		5.0%	£49,944
Building Cost Fees (Architects, QS etc):		10.0%	£104,881
Other Acquisition Costs (£)			£0
Section 106 Costs (£)			
Externals (10%)			£49,944
	0		£0
Biodiversity (0.75%)			£0
	0		£0
CIL			£2,611
Site Abnormals			
Infrastructure Costs			£0
Contamination Costs			£0
Demolition Costs			£0
Other Costs			£0
Sustainability Initiatives			£0
Total Other Site Costs			**£207,379**
Marketing (Open Market Housing ONLY)			
Sales Fees:		2.0%	£58,700
Legal Fees (per Open Market unit):		£750	£8,250
Marketing (Affordable Housing)			
Developer cost of sale to RSL (£)			£0
RSL on-costs (£)			£0
Intermediate Housing Sales and Marketing (£)			£0
Total Marketing Costs			**£66,950**

Non-Residential Building & Marketing Costs

Building Costs		
Office	£0	
Retail	£0	
Industrial	£0	
Leisure	£0	
Community-use	£0	**£0**
Professional Fees (Building, Letting & Sales)		
Office	£0	
Retail	£0	
Industrial	£0	
Leisure	£0	
Community-use	£0	**£0**
Total Non-Residential Costs		**£0**
TOTAL DIRECT COSTS:		**£1,273,199.50**

Finance (finance costs are only displayed if there is a positive residual site value)

Arrangement Fee	£0
Misc Fees (Surveyors etc)	£0
Agents Fees	£9,574
Legal Fees	£7,180
Stamp Duty	£47,869
Total Interest Paid	£126,174
Total Finance Costs	**£190,798**

Developer 'Profit'

Residential		
Open Market Housing Operating 'Profit'		£513,625
Affordable Housing 'Profit'		£0
Non-residential		
Office	£0	
Retail	£0	
Industrial	£0	
Leisure	£0	
Community-use	£0	**£0**
Total Operating Profit		**£513,625**

Residual Site Value

SITE VALUE TODAY	**£957,380**
EXISTING USE VALUE	**£1,300,000**
DIFFERENCE BETWEEN SITE VALUE AND EXISTING USE VALUE	-£342,620

Checks:

Site Value as a Percentage of Total Scheme Value	32.6%
Site Value per hectare	#VALUE!