Evidence to support deliverability and viability of:

Otterpool Park New Garden Settlement

On behalf of: Folkestone & Hythe District Council (LAA)

Contact: James Brierley MRICS
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June 2020

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This assessment has been produced having regard to and abiding to the requirements of **RICS Professional Statement Financial Viability in Planning: conduct and reporting (1st edition 2019)**. **Appendix 1**, where applicable provides a guide to where in the report the requirements have been adhered to.

2.1 In preparing this viability assessment, we confirm that we have acted with reasonableness, impartiality and without interference. We have also complied with the requirements of PS2 Ethics, competency, objectivity and disclosures in the RICS Valuation – Global Standards 2017 in connection with valuation reports;

2.2 This document sets out our terms of engagement for undertaking this viability assessment (Section Terms of engagement and report procedures). We declare that to the best of our knowledge there is no conflict of interest (paragraph 1.1 of he Conflict of Interest Professional Statement of January 2018), Other than, if necessary, where stated in the report circumstances which fall under Informed Consent (as per the Conflict of Interest Professional Statement).

2.3 We confirm that our fee basis for undertaking this viability assessment is neither performance related nor involves contingent fees.

2.4 We confirm that this viability assessment has been prepared in the full knowledge that it may be made publicly at some point in the future. Where we believe there to be information, which is commercially sensitive, that we have relied upon in arriving at our opinion we have stated so in our report. We request that permission is sort by the instructing/Applicant prior to being made public to ensure commercially sensitive or personal information does not infringe other statutory regulatory requirements.

2.5 We confirm that we are in the process of reviewing a viability assessment which supports existing and future policies . We have confirmed wi h the instructing party that no conflict exists in undertaking the viability assessment, we have also highlighted to the Council where we have previously provided advice relating the site in question. Should this position change we will immediately notify the parties involved. We understand that if any of the parties iden ified in this report consider there to be a conflict that we would immediately stand down from he instruction.

2.6 In this viability assessment we have set out a full justification of the evidence and have also supported our opinions where hey differ from he supporting evidence and review with a reasoned justification. We note in due course the emphasis within the RICS Professional Statement on conduct and reporting in Financial Viability in Planning the need to see to resolve differences of opinion wherever possible.

2.7 In determining Benchmark Land Value (if required) we have followed NPG (Viability) (2019) setting out this in detail within the Benchmark Land Value section.

2.8 We make a clear distinction in our report between preparation/review of a viability assessment and subsequent negotiations. Such negotiations may be identified as part of an addendum documents and may relate to S106 agreements.

2.9 Sensitivity analysis and accompanying explanation and interpretation of the results is undertaken for the purposes of a viability assessment. This enables the reader to consider the impact on the result of changes to key variables in the appraisal having regard to the risk and return of the proposed scheme.

2.10 We confirm we have advocated transparent and appropriate engagement between the Applicant and Council's viability advisors.

2.11 This report includes a non-technical summary at the commencement of the report which includes all key figures and issues relating to the assessment.

2.12 We confirm this report has been formally reviewed and signed off by the individuals who have carried out he assessment and confirm that this review has been prepared in accordance with the need for objectivity, impartiality and without interference. Subject to the completion of any discussion and resolution or note of differences, we will be retained to then subsequently advise upon and negotiate the Section 106 Agreement.

2.13 All contributors to this report have been considered competent and are aware of the RICS requirements and understand they must comply with the mandatory requirements.

2.14 We were provided an adequate time to produce this report, proportionate to the scale of the project and degree of complexity of the project.

Fiona Kilminster BA MA MSc MRICS	James Brierley BA MSc MRICS
[redacted]	[redacted]
Date: 06 July 2020	Date: 06 July 2020

NOTE: Elements of this report may be confidential to the Council and it together with any fur her information supplied shall not be copied, reproduced or distributed to any third parties without the prior express written consent of Gerald Eve LLP. Furthermore, the information is being supplied to Folkestone and Hythe District Council ("The Council") on the express understanding that it shall be used only to assist in he financial assessment in relation to the Otterpool Park Development. The information contained within this report is believed to be correct as at June 2020, but Gerald Eve LLP gives notice that:

I. all statements contained within this report are made without acceptance of any liability in negligence, tort or otherwise by Gerald Eve LLP.

II. none of the statements contained within this report are to be relied upon as statements or representations of fact or warranty whatsoever without referring to Gerald Eve LLP in the first instance and taking appropriate legal advice;

III. references to national and local government legislation and regulations should be verified with Gerald Eve LLP and legal opinion sought as appropriate;

IV. Gerald Eve LLP do not accept any liability, nor should any of the statements or representa ions be relied upon, in respect of intending lenders or otherwise providing or raising finance to which this report as a whole or in part may be referred to;

V. any estimates of values or similar, other than specifically referred to otherwise, are subject to and for the purposes of discussion and are therefore only draft and excluded from the provisions of the RICS Valuation, Global Standards, July 2017; and

VI. request that the report should not be disclosed to any third parties (other han consultants instructed by the Council to review this report) under the Freedom of Information Act (Sections 41 and 43 (2)) or under the Environmental Informa ion Regulations.

EXECUTIVE SUMMARY (NON-TECHNICAL)

1. Gerald Eve LLP ('GE') has been instructed to undertake a review of evidence submitted to demonstrate the deliverability and viability of the proposed new garden settlement development known as Otterpool Park ('the Scheme') on behalf of Folkestone and Hythe District Council, the Local Planning Authority (LPA'). The review is being undertaken to provide greater comfort that the proposed allocation in the emerging local plan is deliverable.

2. The proposals for the Otterpool Park development ('the Scheme') are part of the emerging Otterpool Park Framework Masterplan ('the Masterplan') which allocates approximately 765 hectares for the delivery of circa 10,000 homes and other associated uses to create a Garden Community.

3. The subject of this assessment relates to the delivery of 8,500 homes within the proposed allocation and associated uses. It is anticipated that the remaining 1,500 units and other proposed uses will be delivered by the other landowners within the allocation.

4. There are a consortium of owners including Council ('FHDC') along with Homes England and a small number of others. For the purposes of this assessment, we refer to these parties as the 'Promoter'. At all stages, The Promoter has been advised by Arcadis (the 'Advisor').

5. Viability evidence ('VE1') was submitted in late 2018 on behalf of the Promoters by the Advisor. This evidence was provided to support the local plan review and therefore does not constitute the level of detailed information that would be required for a full planning application and Financial Viability Assessment if the proposals deviate from that set out in the Local Plan.

6. BPS Chartered Surveyors ('The Reviewer') provided an initial area wide assessment, including review ('FVR') of the proposals and VE1 by the Promotor at Otterpool. Their report is available to view at **Appendix 8.**

7. Subsequent viability evidence (modelling) was then submitted by the Advisor on behalf of the Promoter between April and June 2020. For the purposes of this exercise we have referred to the additional information submitted by the Advisor as ‘VE2’.

8. GE’s role is provide further commentary on the VE2 having regard to the work undertaken by the Reviewer. Where possible and appropriate we have adapted the Reviewer’s assumptions.

9. In coming to our conclusions on the viability and deliverability of the site, GE has had regard to VE1, the FVR dated January 2019, and VE2. Conclusions may require further consideration following any adjustment to the Scheme or the provision of additional information supporting the application.

10. Through our assessment and additional sensitivity, GE conclude that the proposed development of 8,500 new homes at Otterpool Park appears potentially viable and deliverable within the plan period.

Summary of Appraisal Inputs – Plot Appraisals

Units/Areas	The Advisor	GE
Total Units	8,514	8,500
Units Per Plot	Each plot has different density and allocation – therefore different mix.	75
Plot Revenue		
Market Sale Flat	£340.00 psf	£340.00 psf
Market Sale House	£340.00 psf	£340.00 psf
Shared Ownership Flat	£272.00 psf (intermediate)	£272.00 psf
Shared Ownership House	£272.00 psf (intermediate)	£272.00 psf
Affordable/Social Rent Flat	£187.00 psf	£187.00 psf
Affordable/Social Rent House	£187.00 psf	£187.00 psf
Build to Rent Flat	£272 psf	£272.00 psf
Extra Care Flat	N/A	£374.00 psf
Extra Care House	N/A	£374.00 psf
Retail A1/A2/A3 Rent	£20.00 psf	£20.00 psf
Retail A1 Yield	7.00%	7.00%
Retail A2/A3 Yield	6.50%	6.50%
Commercial B1 Rent	£21.00 psf	£21.00 psf
Commercial B2 Rent	£10.00 psf	£10.00 psf
Commercial B1/B2 Yield	6.50%	6.50%
Plot GDV	Each plot has different density and allocation – therefore different GDV	£23,800,546
CIL, Third Party Payments	£52,500,000	Excluded
Place Premium	12% Year 12 Onwards	15% Year 10 Onwards (Excluding Affordable Rent)
Plot Costs		
Build Cost All Houses	£173.00	£125.00
Build Cost All Flats	£187.00	£145.00
Build Cost Retail A1/A2/A3	£160.00	£160.00
Build Cost Commercial B1	£222.00	£222.00
Build Cost Commercial B2	£133.00	£133.00
Contingency	N/A	5.00%
On Plot Externals	N/A	15.00%
Agent Fee	Included in Build Cost	1.00%
Legal Fee	Included in Build Cost	0.50%
Sales & Marketing	2.75% + 10,285 per unit Private + 5,166 per unit Affordable	1.50%
Professional Fees	Included in Build Cost	6.00%
Finance Rate	Not provided	6.50%
Market Sale Developer's Profit	Not provided	20.00%
Affordable Developer's Profit	Not provided	6.00%
Commercial Developer's Profit	Not provided	15.00%
Blended Profit on GDV	14.89%	15.32%
Profit on Cost	17.50%	17.88%

Residual Land Value	£787m	£692m

Summary of Appraisal Inputs – Master Developer Appraisal

GDV	The Advisor	GE
Residualised Price per Plot	Each plot has different density and allocation – therefore different RLV	£4,680,585 (5 acres @ 936,117/acre)
Total Plot Sales	£787,369,192	£693,254,364
Costs		
Fixed Land Price	£95,046,467	£95,000,000
Base Infrastructure Costs	£209,739,042	£217,471,832
Social Infrastructure/S106 Costs	£127,500,000 c. 15,000 per unit	£127,500,000 c. 15,000 per unit
Risk	£40,998,397	£27,332,340
Additional Infra Risk	N/A	£4,973,050
Unrecovered Estate Costs	£6,750,000	£6,750,000
Spend to Date	£8,000,000	N/A
Master Developer Overhead	£53,725,751	N/A
Development Management Fee	Included in Master Developer Overhead	6.00%
Disposal Fees - Sales		1.00%
Disposal Fees - Marketing		1.00%
Master Developer Profit	17.5%	17.5%
Finance	4.25%	4.25%
Profit on Cost	27.56%	20.91%
Profit on GDV	21.61%	17.29%
Benchmark Land Value	£95,000,000	£95,000,000
Appraisal Results		
Residual Land Value		£102m

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1 Introduction

1.1 Gerald Eve LLP ('GE') has been instructed by Folkestone and Hythe District Council, the Local Planning Authority (LPA') to undertake a review of viability evidence submitted to support the proposed allocation of land known as Otterpool Park ('the Scheme') for a Garden Settlement in the emerging Local Plan.

1.2 The emerging Local Plan has allocated development of a garden settlement to be jointly undertaken with the community at Otterpool Park for approximately 10,000 residential units, along with commercial and ancillary uses, and in conjunction with associated infrastructure.

1.3 The evidence provided relates to the proposed delivery of 8,500 homes; and part of the site allocation. It is anticipated that the remaining 1,500 units and other proposed uses will be delivered by the remaining landowners and developers in the area.

1.4 It is understood that to support the delivery of the proposed allocation the Council ('FHDC') has become a significant landowner at Otterpool Park, along with Homes England and a small number of parties. The inclusion of FHDC as Landowner has several positive effects on delivery of this project. For the purposes of this assessment, we refer to these parties promoting to this part of the allocation that the review is relating to, as the 'Promoter'. At all stages, The Promoter has been advised by Arcadis (the 'Advisor').

1.5 Viability Evidence ('VE1') was submitted in late 2018 on behalf of the Promoter to support the inclusion of the proposed allocation in the Local Plan. The proposals do not appear to significantly deviate from that proposed by the LPA in their emerging Local Plan and are provided to provide overall comfort that the allocation is deliverable. VE1 therefore, does not constitute the level of detailed information that would be required for a full planning application and Financial Viability Assessment (FVA), particularly to justify deviation from planning policy.

1.6 Subsequent evidence (VE2) was submitted by the Advisor on behalf of the Promoter between April and June 2020.

1.7 GE's role is to provide further commentary on the VE2, having regard to the work undertaken by the Reviewer and VE1. Where possible and appropriate we have updated the Reviewer's assumptions.

1.8 GE understands that the evidence supplied on behalf of the Promoter does not reflect an FVA to support and a planning application to justify deviation from planning policy, but rather as support to the LPA that the allocation at Otterpool is reasonable and deemed deliverable.

1.9 In order to demonstrate the robustness of the planning policies, the Promoters development proposals have been used as the basis of delivery along with supplementary information provided to assess the viability of the project in the context of the Core Strategy Local Plan policies.

Confirmation of Terms of Engagement

1.10 Our instruction is to undertake an objective, impartial review of viability evidence submitted to support the allocation of development at Otterpool. Whilst doing this we will have regard to the baseline work undertaken by the Reviewer in January 2019, this work will review additional information provided (VE2) including a detailed cost review of the strategic infrastructure items set to be delivered as part of this large scale, phased development. This has been undertaken by Gardiner and Theobald (G&T).

1.11 This review has been prepared having regard to the NPPF (revised 2018 and 2019); National Planning Guidance ("**NPG**"); The Folkestone and Hythe District Council Cor Strategy Review (2020); the RICS Guidance Note: Financial Viability in Planning 2012 ("the **RICS GN**") and conduct and reporting Practice Statement 2019 ("the **RICS PS**"); and generally accepted principles of undertaking site specific viability reviews.

1.12 We declare that to the best of our knowledge there is no conflict of interest (paragraph 1.1 of the Conflict of Interest Professional Statement of January 2018); and that our fee basis for undertaking this viability assessment is neither performance related nor involves contingent fees.

1.13 GE has had enough time to complete this instruction and where necessary, has exchanged information with the Advisor in the process of reaching our conclusions.

Supporting Information

1.14 As noted above, we understand that the Promoter has instructed the following consultants to provide information applied in the assessment of deliverability and viability.

- Arcadis (House Builder and Master Developer appraisals)
- Arcadis (Quantity Surveyors - Strategic Infrastructure Cost Plan)
- Quod (Planning Consultants).

1.15 We have not undertaken a measurement of the Site and have relied on the submitted information and associated planning documentation as accurate in this regard.

1.16 Whilst we have relied on the information that has been provided, we have also had regard to our own market knowledge and research and experience. Furthermore, in completing this exercise GE and G&T engaged with the Advisors and sought clarification where necessary.

1.17 Our report is accompanied by appendices which are introduced in the text – which crucially will include the Argus Developer summaries of our appraisals.

1.18 We have included in **Appendix 2** an overview of key relevant planning policies associated at national, regional and local level. In **Appendix 4** we have included an explanation of the applied methodology and approach in assessing viability having regard to viability guidance for planning purposes.

1.19 As outlined in the RICS GN, in undertaking this exercise, GE is formulating an appropriate judgement based upon information provided by the Promoter and its Advisors as to the financial viability and long-term deliverability of the Scheme.

1.20 A risk analysis has been provided in order to test the sensitivity and robustness of the residual land value having regard to changes in the inputs. This is in accordance with RICS GN and normal practice when undertaking financial viability assessments in respect of schemes of this nature with regard to scale and programme.

1.21 This report has been prepared as at June 2020, however, in the context of the prevailing economic climate and COVID-19 we have relied upon the best available evidence at the time. Should circumstances change it may be necessary to revise and update the inputs to the financial appraisal, and therefore resulting outturns.

Material valuation uncertainty due to Novel Coronavirus (COVID – 19)

1.22 The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. In the UK, market activity is being impacted in all sectors. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a viability judgement.

1.23 Our assessment, whilst reported in accordance with the RICS Professional Statement on “Financial Viability in Planning: report and conduct” is provided on the basis of material uncertainty. Consequently, less certainty – and a higher degree of caution – should be attached to our financial viability assessment than would normally be the case.

2 Requirement for the FVA

In accordance with NPPF, this section provides the reasons for the FVA requirement.

2.1 The information submitted by the Promoter through the VE1 and VE2 assessments has been provided in order to support the Local Plan, Emerging Core Strategy review process in relation to the allocation set out for a garden town at Otterpool Park.

2.2 This review has had regard to the requirements set out under NPPF2 and NPG (2019).

2.3 Paragraph 57 of the NPPF prescribes that *"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"*.

2.4 We have reviewed the VE1 and VE2 information submitted by the Advisor, having regard to the RICS Professional Statement Financial Viability in Planning: conduct and reporting (1st edition 2019). It is mandatory practice for RICS members and firms to comply with these requirements, and is regulated by RICS.

2.5 The evidence submitted has been prepared in conjunction with the allocation of the site and therefore does not seek to deviate from what the LPA intends to achieve through the Core Strategy.

3 Background & Context

This section provides the context for the Scheme, focussing on the surrounding area, accessibility, the Site's characteristics and the existing use.

Location Overview

3.1 The Site is located within an area of c. 765 hectares earmarked for the development of 10,000 homes as part of the emerging Otterpool Park Framework Masterplan. This broader development is located in the west of the coastal district of Folkestone & Hythe, which is in the county of Kent in the extreme south-east of England. The subject of this review is evidence supporting delivery of c.8,500 units and associates used on part of the allocation.

3.2 The Site is located to the immediate south-west of junction 11 of the M20 motorway, some 3 miles to the north-west of the town of Hythe and 6 miles west of Folkestone. The north of the site is bounded by the Channel Tunnel rail link, the A20/Stone Street and Sandling Park lie to the east, Harringe Lane to the west and Aldington Road to the south.

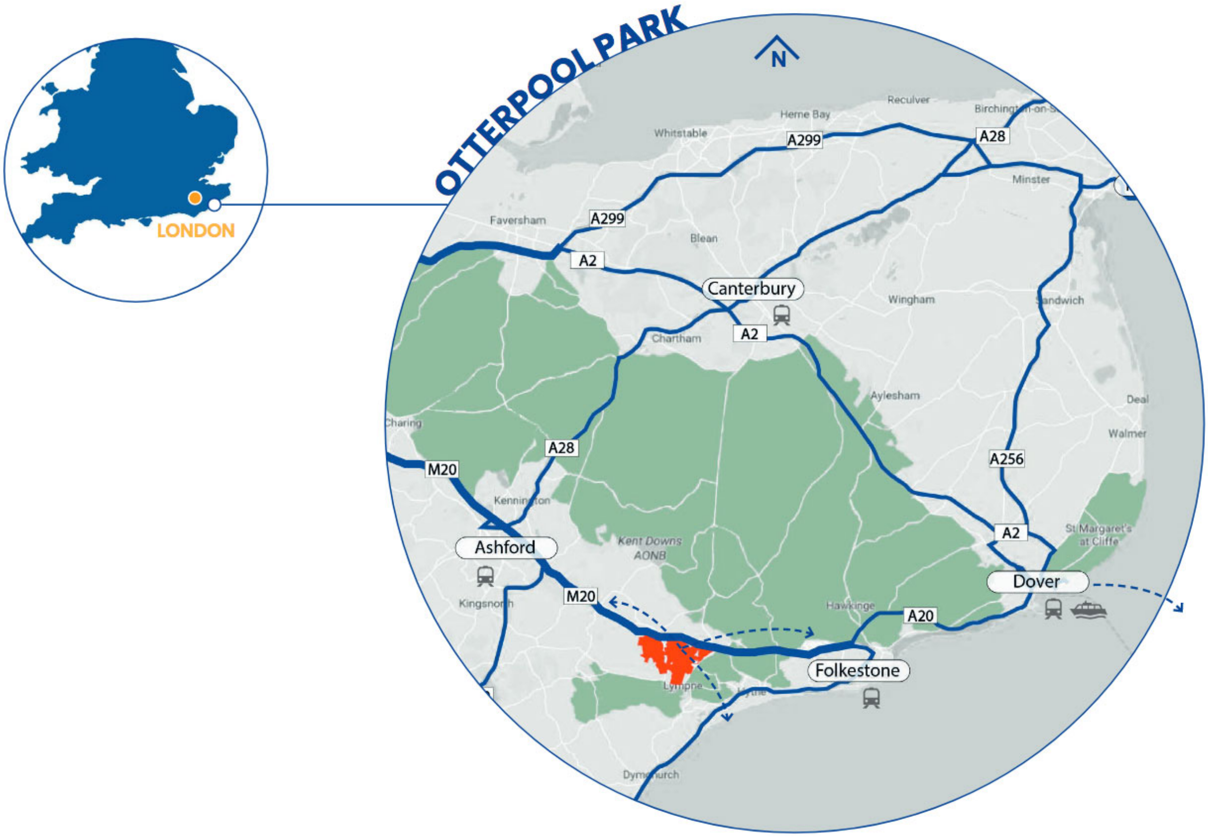
3.3 The villages of Lympne and Newingreen border the south-eastern and eastern boundaries of the site, with Sellindge on the northern boundary. Within the boundary of the site itself there are a number of land parcels excluded at Otterpool Manor, Upper Otterpool and to the south of Westenhanger.

3.4 The Site is not currently serviced by a direct train line. Westenhanger provides the closest railway station.

3.5 Trains from Westenhanger provide a direct, hourly service to and from London St Pancras, with a journey time of approximately 50 minutes. The line also provide a direct hourly service to Dover Priory with a journey time of approximately 20 minutes. The same train also services intermediate stations including; Ashford International (9 minutes), Stratford International (42 minutes) and Folkestone Central (10 minutes).

3.6 Westenhanger station is a small, unstaffed station and it's expansion and redevelopment is sought in conjunction with the wider masterplan – including an aspiration for the provision of more direct train services to London.

3.7 The location of the Site is set out for identification purposes below.



Source: Otterpoolpark.org

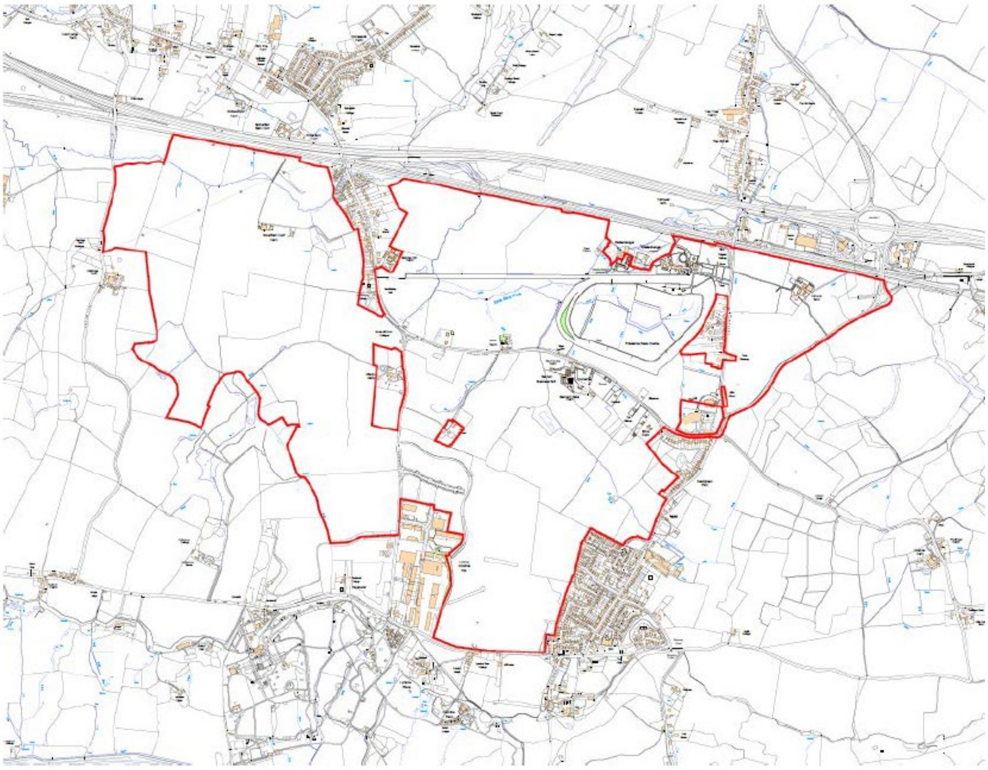
Site Description

3.8 We understand the Site comprises a gross area of circa 570 hectares (c.1,409 acres).

3.9 The Site comprises of predominantly undeveloped greenfield land, with some residential and light commercial uses throughout.

3.10 Westenhanger Railway station is located in the north-eastern corner of the Site and is part of the line linking Ashford and Dover operated by South-eastern. It is a small, unstaffed station and its expansion and redevelopment is sought in conjunction with the wider masterplan – including an aspiration for the provision of more direct train services to London.

3.11 A red line boundary map indicating the extent of the planning application is shown below:



Source: LPA

4 Viability Guidance and Planning Policy Summary

This section briefly identifies those national, regional and local policies that are considered relevant to this planning application. It also highlights the approach to the viability methodology undertaken for this application.

Viability Guidance

4.1 Viability in planning has its locus in the National Planning Policy Framework (NPPF) originally published in March 2012 and revised in February 2019 which sets out the Government's planning policies for England and how these are expected to be applied. The NPPF recognises the place of viability testing, in both plan-making and decision-making.

4.2 This assessment has been undertaken with regard to both NPPF2 (2019) and NPG (2019) and the RICS (2019).

4.3 Further guidance relating to interpreting the NPPF is set out in National Planning Guidance (NPG) which refers to viability both planning obligations (PPG 2016) and viability (NPG 2019) and indicates that planning viability assessments are recommended to reflect national planning guidance (NPG 2019), in determined appropriate planning obligations.

4.4 The NPG 2019 indicates that viability assessments are to be undertaken by suitably qualified Surveyors. The Royal Institute of Chartered Surveyors (RICS) published guidance in 2012 in regard to viability assessments in planning to support Qualified members of the RICS in viability assessments. The RICS produced a Professional Statement (Sept 2019) which is informed by the NPPF, NPG as well as practitioner experience. For further details see **Appendix 3.**

Planning Policy and related matters

4.5 Planning Matters in the District are guided by the Folkestone & Hythe District Council Core Strategy Review (2020) and the Places and Policies Local Plan (2018).

4.6 In the Core Strategy Review, Policy SS6 sets out the allocation of Otterpool Park and the requirement to provide a minimum of 5,925 new homes within the plan period of 2019/20 to 2036/7 and the potential for future growth to provide a total of 8,000-10,000 homes (subject to detailed planning permission).

4.7 An overview of key relevant planning policies associated at national, regional and local level is provided in **Appendix 2.**

5 Proposed Scheme

This section sets out the details of the Scheme and the assumptions used in the financial appraisal.

5.1 The Proposed Scheme sought by the Promoter includes the following:

- Up to 8,500 homes (including market and affordable homes)
- Up to 28,875sqm of retail and related uses;
- Up to 82,418sqm of employment uses comprising offices, commercial business hubs and business park;

  Open spaces and other landscaped areas (including parks, play areas, playing fields, woodlands, wildlife habitat areas, allotments and community orchards);
- Access roads into and within Otterpool Park as well as pedestrian and cycle routes;
- Vehicular and cycle parking, including electric vehicle charging points;
- Provision and/or upgrade/diversion of services; Drainage works including foul drainage infrastructure, Sustainable Drainage Systems and ground and surface water attenuation features.

5.2 It is anticipated that through Section 106 obligations, the following will also be delivered to achieve the wider vision for the garden village:

- Up to 37,161sqm of education uses, comprising 1 secondary school, 5 primary school and nurseries/crèches;
- Up to 20,00sqm of community facilities, including health centres, places of worship and community centres;
- Up to 8,250sqm of leisure floorspace, including a sports pavilion and indoor sports hall;

5.3 We note that the outline planning application also references provision for a Hotel use. The provision of a hotel use has not been included in the VE1 and VE2 information and was not discussed by the Reviewer, although it could be something to be assessed further at the full planning application stage.

5.4 It is anticipated that the remaining 1,500 units and other associated uses allocated under the plan will be delivered by the remaining landowners and developers.

Delivery methodology

5.5 The Advisor has adopted a 'Master Developer' ('MD') model for the proposed development, whereby the MD receives income from the sale of serviced land parcels to other developers following the installation of primary and associated infrastructure across the site

5.6 The Advisor has modelled the implementation of this MD model using a combination of residual and cash flow methods.

5.7 The Advisor has initially used Argus Developer to carry out the assessment of the plot developer land plots though residual appraisals of notional Housebuilder plots representing a combination of the residential and commercial land uses proposed. This residual appraisal generates land values which are applied as revenue in the master developer model.

5.8 We consider this methodology for assessing the delivery and viability of a garden community to be acceptable. The development of the site is dependent on the investment of upfront large-scale core infrastructure across the area before the land plots can be delivered for residential and commercial uses. The MD is effectively de-risking the site for the plot developers to take forward.

5.9 We have therefore adopted it within our own assessment, with some adjustments made which will be discussed in subsequent sections of this report.

Unit Mix

5.10 The Advisor has based the unit delivery on the assumption of two-unit types, a 552 sq ft flat and a 1100 sq ft house (NIA). These are considered to provide blended unit sizes across the residential provision, in line with policy requirements. A 10% provision has been included for the affordable units due to the requirement for wheelchair housing.

6 Housebuilder Plot Appraisal Revenues

This section of the report sets out both The Reviewer and the Advisor's anticipated revenue assumptions for elements of the Housebuilder plot appraisals and details GE's justification for the maintained and varied assumptions.

6.1 As outlined briefly in Section 5 above, the developer plot to be discussed in this section represents the value of a notional plot to be sold to a prospective housebuilder by the MD/ Promoter.

6.2 In this way, the value of these notional plots represents the income that will be received by the Promoter, and forms the revenue basis to both fund the S106 and infrastructure that will be installed on site, as well as the underwriting whether the scheme can exceed the Benchmark Land Value and be judged as viable.

6.3 It is therefore imperative that values within these housebuilder plots are sufficient to uphold the MD's infrastructure responsibilities.

6.4 In the first instance we have set out the original assumptions included in the VE1 and the Reviewer's assessment in the FVR. we have then referred the updated assumptions provided in the VE2 to inform the GE view.

6.5 It is important to note that the assumptions included in VE2 were not supported by significant additional detail as it was felt this had been previously provided in VE1. Our role is to review the updated assumptions. Where necessary we have had to rely on our own review and market evidence.

Private Residential Sales Values

VE1 and FVR

6.6 In VE1 the Advisor provided evidence to support private sales values in the region of £300psf. This was supported by evidence including a Sales and Marketing report undertaken by Montagu Evans in November 2017.

6.7 The Reviewer analysed the various comparables and had regard to the Caxton Property Analysis which confirmed a range of values between £275 - £400 psf for the Shepway area in 2018. They also indexed the prices included in the 2017 Montagu Evans sales values analysis by 6% up to January 2019, using the House Price Index.

6.8 Regard was also given to unit types and sizes across the analysis. The Reviewer concluded that the proposed values of £300 psf for the Otterpool Park location were considered reasonable.

VE2 and GE Update

6.9 The Advisor assumed a revised private sales value of £340psf in VE2.

6.10 GE has undertaken extensive analysis of the local market in order to ascertain whether this increased average sales value is considered reasonable. We have investigated the local markets of Ashford and Sellinge and reviewed a number of comparable transactions on the basis of unit types and sizes.

6.11 Further evidence on our review of comparable market evidence is provided in **Appendix 5.**

6.12 Overall, based on comparable evidence, we consider the revised rate of £340psf for private sales values to be reasonable and have adopted it in our appraisal.

Build-to-rent Values

VE1 and FVR

6.13 The Advisor originally proposed a total of 860 Build to Rent units would be delivered as part of the Scheme. The appraisal demonstrated that the construction would commence in 2021 with the first delivery in 2022 and the remaining aligned with the different phases throughout the 30-year programme, until 2051.

6.14 The Reviewer referred to the Montagu Evans (2017) analysis in their review which concluded that Build to Rent may struggle in the early years of the development, with the market improving towards the end of the programme with HS1 is operational at Westenhanger Station. The Reviewer agreed on this.

6.15 It was concluded by The Reviewer that the proposed £240psf was considered reasonable. A premium was not applied to the Build to Rent units and the values appeared to remain the same, regardless of the year of delivery.

6.16 The Reviewer also noted that the provision of Build to Rent could be a potential area in which planning policy flexibility could be used in favour of private sales, to help improve viability, thereby safeguarding other policy objectives such as affordable housing.

VE2 and GE Update

6.17 In VE2, the Advisor revised their Build to Rent values and suggested they should include a discount of 80% to market value, equating to £272psf. A 25% payment trigger has been applied at each milestone of the development process including start on site, during construction, sales and post completion.

6.18 As part of our review, we have considered the Build to Rent market in the area and note that it is limited. We are aware however of the wider Build to Rent and the preference for this form of housing to emerge around key hubs, for example, new and expanded station development which will be appropriate in this case.

6.19 In absence of detailed additional information, we have adopted the Reviewer's assumption that Build to Rent will account for 10% of the units being delivered across the programme. Due to the high level of infrastructure being delivered in the first five years, we are of the view that Build to Rent could be brought forward in the earlier phases. We have therefore assumed that a proportion of Build to Rent units will be delivered as part of the notional plot.

6.20 We acknowledge, however, that the Promoter could look into options whereby the Build to Rent blocks are acquired by one operator which could result in block purchases over a period of time. We recommend that this is considered further at the planning application stage as it may improve viability

6.21 It has been assumed that the units will be disposed of the basis of a block sale, that an operator would pay a deposit upfront, followed by staged payments throughout construction, with a final payment at completion.

Extra Care Housing

6.22 Under Policy SS7 of the CS, there is a requirement in section (1f) New Homes, that a minimum of 10% of homes in each substantial phase shall be built to meet the needs of the elderly, from active retired people to those requiring intensive nursing care, including specialist C2 provision.

VE1 and FVR

6.23 The Advisor originally proposed a total of 657 Extra Care units would be delivered as part of the Scheme. This equates to broadly 8% of the housing units.

VE2 and GE Update

6.24 The Advisor has referred to the provision of Extra Care accommodation in the assumptions provided, confirming that an assumed value of £340 psf has been included for these units and pegged with market value.

6.25 However, Extra Care units do not appear to have been separated out in the appraisal to account for the differing market conditions.

6.26 A 25% payment trigger has been applied at each milestone of the development process including start on site, during construction, sales and post completion. No further evidence has been provided on the justification for this value or the programming applied.

6.27 It has been assumed that the units will be disposed of the basis of a block sale, an operator would pay a deposit upfront, followed by staged payments throughout construction, with a final payment at completion.

6.28 Our analysis of comparable evidence however demonstrates that it would be reasonable to assume Extra Care accommodation is of a similar value to market, with a premium on top to reflect the niche nature of this tenure type. We have therefore assumed a premium of c.10% in our assessment.

Affordable Housing

VE1 and FVR

6.29 The Promoter assumed a level of affordable housing would be delivered across the Scheme that reflects the requirements of the local plan. The level proposed equates to 22%. Within this a tenure split of 70% Affordable/ Social Rent and 30% Intermediate in the form of Shared Ownership.

6.30 The Reviewer noted that the Advisor assumed a blended affordable housing value of 80% open market. The value adopted was £240psf.

VE2 and GE Update

6.31 In VE2 the Advisor has set out their assumptions regarding affordable housing provision across the Scheme. Provision of 22%, equating to c. 2,200 units. within this a broadly policy compliant split of 70 affordable/ social and 30% shared equity.

6.32 The Advisor has made the following assumptions regarding the affordable housing values that can be achieved in the Scheme.

6.33 The Advisors adopted affordable housing values can be seen in the table below:

Affordable Product	% of Mix	Value
Shared Ownership	30% of units	£ 272.00
Affordable Rent	35% of units	£ 221.00
Social Rent	35% of units	£ 187.00

6.34 GE has reviewed the assumptions made in line with the local area and considered the proposed values to be reasonable. Our analysis is set out below.

6.35 The Social and Affordable Rented average values have been calculated on the basis of the rental revenue stream, whereby appropriate management and maintenance deductions have been made to the gross rent, with the annual net rent capitalised on the basis of an appropriate yield. The key, high level assumptions that have been made are set out as follows:

- Weekly Social Rents derived from Pamwin, the industry standard tool;
- Weekly Affordable Rents set in line with Local Housing Allowance with a 5% service charge deduction made from the gross rent;
- Management and maintenance deduction of 22% applied and the net rent capitalised by a 4.5% yield.

6.36 The Shared Ownership average values have also been calculated using the sum of the market value of the initial sale (tranche), plus the value of the net rent charged on the unsold equity, assessed on the basis of yield. The key, high level assumptions are set out as follows:

- 50% initial equity stakes purchased on the private sales values of £340psf;
- 2.75% rent charged on the unsold equity;
- Expenditure on household costs does not exceed 40% of net income, including mortgage, rent and service charges;
- All units affordable to households on incomes below £80,000 per annum;
- Annual rent capitalised at 4.5% yield.

6.37 The GE calculated values fall with a range of c. 3-5% of those adopted by the Advisor.

6.38 The values adopted by the Advisor are considered to be within a reasonable range of those calculated by GE. These have therefore been applied in the Plot Developer appraisal.

Place Making Premium

VE1 and FVR

6.39 The Advisor applied a Place Making Premium of 15% for the units delivered after ten years of the programme.

6.40 The Reviewer questioned the timing of the Premium and was of the view that the early provision of both social and community infrastructure will provide placemaking benefits that could be derived much earlier than assumed by the Promotor in the modelling. They noted that the site is already uniquely placed as it benefits from operational rail services, including access to high speed services via Ashford.

6.41 The Reviewer also referred to the Savills Research Paper 'Spotlight: The Value of Placemaking' where in their hypothetical model, a 50% increase in infrastructure spending leads to a 20% increase in sales values and a 50% increase in sales rates per annum, in turn leading to a 25% increase in residual land values.

6.42 Similarly, The Reviewer also referred to the RICS Guidance Note 'Placemaking and Value' (1sr edition, February 2016), which considers five case study examples which have high place-making premiums of between 5% and 50%. However, the FVR review appears to be inconclusive on whether they accepted the 15% premium as reasonable.

VE2 and GE Update

6.43 In VE2 the Advisor has proposed a 12% Place Making Premium on the market sale and affordable properties after a period of 12 years. This has been reduced from the previous 15% assumed and pushed back to two years later in the programme than the original proposals.

6.44 GE requested evidence to justify this level of premium and the associated timeframes. A limited response was received from the Advisor.

6.45 We have however had regard to the evidence and research discussed by The Reviewer in their original review set out above.

6.46 Taking the above into account, there does appear to be a correlation between the establishment of new developments with large scale strategic infrastructure to support these and an increase in sales values once the area becomes a new 'destination'.

6.47 We are therefore of the view that it would be reasonable to assume that a Place Making Premium would be applicable to the later phases of Otterpool Park.

6.48 In the absence of additional evidence to support the reduction in premium, we have adopted the view of the Reviewer and maintained the 15% premium from Year 10 onwards.

6.49 It should be noted however that the premium was not applied to the Affordable Rented units. Whilst the Advisor has used a percentage of market value in the current day appraisal which appears to be in line with our own calculations, we do not consider the value of the units will increase proportionately in ten years. The value will be restricted in line with affordability requirements and government guidance on rent levels. We have therefore maintained the current position in the notional premium appraisal.

Sales Rates

VE1 and FVR

6.50 It appears that the Reviewer did not confirm their view on sales rates assumed for the Plot Developer appraisal.

GE Review and Update

6.51 The Advisor has applied a sales rate of 35% off plan sales for the flatted developments and GE consider this to be reasonable and in line with the market norms.

Commercial Values – Business and Industrial

6.52 Under Policy SS6 of the CS, there is a requirement in section (3) Employment Development that the settlement should provide 57,600 sqm net of employment floorspace in total within the site allocation areas. This equates to a total area in of 620,000 sq. ft.

6.53 It is stipulated in the policy that 36,700 sqm (net) of employment space should be provided by 2037.

VE1 and FVR

6.54 The FVR sets out a high-level summary of the non-residential floorspace, a gross total of 59,447sqm of B class uses (639,888 sq. ft).

6.55 The Reviewer commented however that a breakdown had not been provided for the value of the uses per sqm and how these separately contributed to the total revenue figure. It appears from the appraisal that a value for the commercial floorspace was not included in the Housebuilder appraisal.

VE2 and GE Update

6.56 The Advisor has included 619,328 sq. ft gross of B Class accommodation in the Housebuilder appraisal, with the following value assumptions and yields.

Table 1 : Summary of Commercial Values

Commercial Use	Sq. Ft GIA	Value £psf
Commercial B1	539,255	£21.00
Commercial B2	80,073	£10.00
	254300	

Source: Advisor

6.57 Limited evidence has been provided to support the assumed values. A premium has not been applied to the units that are delivered in the latter phases of the development.

6.58 Whilst the evidence on comparable transactions is limited in the Otterpool Park area, the analysis is nearby towns of Ashford and Hythe has demonstrated that the above values of £21psf for B1 uses and £10 psf for B2 uses are within a reasonable range.

6.59 A key Comparable include One Connect, located in Ashford which comprises of a Category A office, let in February 2019 for £65,000 per annum, equating to £22.00psf. Rents. Other comparables in the market include more lower grade office accommodation which, in recent years has been let for c.£15.00 psf.

6.60 We would expect the office and business accommodation at Otterpool Park to be of Grade A standard and located within close proximity to the main railway hub. We are therefore of the view that £20.00 psf could be achievable.

6.61 Yield evidence for the proposed site is extremely limited, and it is difficult to predict how investors will interpret the proposed commercial uses at the site.

6.62 Further information on the comparable commercial evidence that has been used in available in **Appendix 6**.

6.63 We note that the Advisor has not applied a premium to the accommodation delivered in the latter phases of the development. Based on our experience of large-scale settlements, we consider this approach to be reasonable.

6.64 When a premium is applied it is not related to the standard inflation of the market but rather the Place Making benefits of an area. The level of commercial provision across Otterpool Park will be provided in line with particular phases and will not automatically lead to a cluster hub of retail and commercial spaces where higher values could be commanded, in the early years of the programme at least.

6.65 As the phasing of the commercial accommodation has not yet been agreed, a proportion of the total floor space has been included in the notional Housebuilder appraisal to reflect the overall delivery.

Commercial Values – Retail Use

6.66 Under Policy SS7 of the CS, there is a requirement in section (2) A Vibrant Town Centre, that the following retail uses, equating to c. 15,550 sqm, are provided as part of the development:

- A1 – 10,450 sqm
- A2 – 2,600 sqm
- A3 – 2,450 sqm

6.67 This equates to a total area in of 205,592 sq. ft.

VE1 and FVR

6.68 The FVR set out a high-level summary of the non-residential floorspace, a total of 12,200 sqm (131,321 sq. ft).

6.69 The Reviewer commented however that a breakdown had not been provided for the value of the uses per sqm and how these separately contributed to the total revenue figure. It appears from the appraisal that a value for the commercial floorspace was not included in the Housebuilder appraisal.

VE2 and GE Update

6.70 The Advisor has included 254,300 sq. ft of retail accommodation in the Housebuilder appraisal, with the following value assumptions. Limited evidence has been provided to support the assumed values. A premium has not been applied to the units that are delivered in the latter phases of the development.

Table 2: Summary of Retail Accommodation

Commercial Use	Sq. Ft GIA	Value £psf
Retail A1	152,580	£20.00
Retail A2 and A3	101,720	£20.00
	254,300	

Source: Advisor

6.71 Whilst the evidence on comparable transactions is limited in the Otterpool Park area, the analysis is nearby towns of Ashford and Hythe has demonstrated that the above values of £20psf for retail accommodation are within a reasonable range.

6.72 Further information on the comparable evidence that has been used on both rental values and yield is in available in **Appendix 6.**

6.73 We note that the Advisor has not applied a premium to the units delivered in the latter phases of the development. We consider this to be reasonable.

6.74 As the phasing of the retail accommodation has not yet been agreed, a proportion of the total floor space has been included in the notional Housebuilder appraisal to reflect the overall delivery.

Ground Rents

VE1 and FVR

6.75 There is no reference to the inclusion or exclusion of Ground Rents in the FVR.

VE2 and GE Update

6.76 The Advisor has not included ground rents within the Housebuilder appraisal which GE considers to be a reasonable approach.

6.77 Upon review of a recent consultation published by the Ministry of Housing, Communities and Local Government we note the Governments proposals to restrict Ground Rent income on new build leasehold properties. The consultation response published in June 2019 states that the Government will pledge to restrict ground rents on all future leasehold properties to £0 (and not the £10 cap proposed by the consultation) and will not allow for an implementation period. These changes will, therefore, come into immediate effect as soon as the legislation is passed. The intention from Government is clear that there will be no delay in enforcing the legislation to restrict ground rents once it has been passed by government.

6.78 Based on the timescales for delivery it is prudent to conclude that a developer would not be able to gain funding based upon ground rent secured income and as such, they should not be included in a viability review; or if they are – this should be reflected in the developer's anticipated risk/return. We have therefore agreed with the Reviewer in this instance.

Other Revenue: CIL, Third Party charges to recover strategic infrastructure on 1,500 units

VE1 and FVR

6.79 We note that this was a cost included in the Master Developer appraisal in VE1. The Reviewer appears to have agreed and maintained this assumption.

VE2 and GE Update

6.80 The Advisors appraisal includes an allowance of £52m which is set to be received as revenue at the end of the programme, between January 2043 and January 2047. Equal payments of £12.3m are programmed from 2043-2046 with one final payment of £3.1m in 2047.

6.81 Further information was requested from the Advisor. They responded and suggested that the amount relates to the additional 1,500 units on land outside of the planning submission (i.e. up to 10,000) being required to contribute a sum back to the strategic infrastructure that the sites will benefit from.

6.82 This assumption was checked with the LPA who indicated that contributions from all landowners across the masterplan area will be sought to mitigate the impact of development via S.106 and will be subject to the statutory tests in regulation 122.

6.83 As a mechanism is not yet in place, we have therefore excluded it from our base assessment but have included in sensitivity, in the event that the assumptions are later found acceptable.

Plot Developer Appraisal - GDV Summary

6.84 We set out a summary of the total GDV for the notional site, for years 1-12 (without premium) and Years 10 onward (with premium) below:

Table 3: Summary of Total GDV

Notional Plot (Years 1-12)

Type	GE Total GDV
Plot Developer Appraisal	£21.7m

Source: GE

Table 4 : Summary of Total GDV

Notional Plot (Years 10+)

Type	GE Total GDV
Plot Developer Appraisal	£24.6m

Source: GE

Summary – Plot Developer

6.85 We have assessed all the assumptions in the Advisor's Plot Developer appraisal and associated justification. Where GE have disagreed with the values, we have clearly set out the differences with supporting and reasonable justification. Where inputs are agreed, this has also been clearly stated.

6.86 The following table sets out the differences overall between the Advisors appraisal and the sum of the two GE notional Plot Developer appraisals, across the whole Scheme.

Table 5 : Comparison of GDV – Plot Developer Appraisals

Type	Advisor Total GDV	GE Total GDV
Residential GDV	£2.7b	£2.6b
CIL, Recovery	£52.5m	Considered in Sensitivity
Total	**£ 2.7b**	**£2.6b**

Source: The Advisor/ GE

7 Housebuilder Plot Appraisal Costs

This section of the report sets out the Advisors cost assumptions applied to the delivery of the scheme in the VE1 and VE2. It also details the FVR and Gerald Eve's (GE's) justification for the maintained and varied assumptions for this Assessment of Deliverability and Viability.

7.1 This section considers the different costs applied within the Advisors appraisals. Costs associate with Site value and development return are addressed in later sections.

7.2 We have considered those costs set out in the Plot Developer appraisal, assuming that a housebuilder would be delivering a notional serviced plot of land which it has purchased from the Master Developer.

Residential and Commercial Construction Costs

VE1 and FVR

7.3 The Plot Developer build costs relate to the construction of the residential, commercial and other uses.

7.4 The total build costs included in the FVR were £1.58 billion, equating to £160 per sq. ft GIA, which included fees and contingency.

7.5 The Reviewer was of the view that that the build costs for the plot development were provided at a 'high level' although considered that this was to be expected at that stage of development. They confirmed that the costs were not supported by a detailed cost plan but considered to be a reasonable estimate.

VE2 and GE Update

7.6 The original build costs were updated by Arcadis in June 2020. A detailed cost plan was not provided but the Advisor confirmed an update using the Tender Price Index was applied to the original 2018 figure. The total costs increased to £1.67m, from the FVR equating to £179 per sq. ft GIA, including fees and contingency. The costs were split according to residential tenure and commercial uses. All contingency and professional fees were included in the costs.

7.7 During the review process, it was also confirmed that the costs also included 'tertiary roads' within the plot which hadn't been allowed for in the Infrastructure cost plan.

7.8 In order to verify the cost assumptions made, GE has undertaken a high-level analysis of the costs having regard to the BCIS data for (June 2020).

7.9 The BCIS housing construction costs have been rebased to Kent. The rate for housing has been taken from the mean average of 'Estate Housing – Generally', and the rate for flats has been taken from the mean average of 'Flats (Apartments) – Generally'.

7.10 The Commercial construction costs have also been rebased to Kent and considered on the basis of the different uses. A Median point has been adopted.

7.11 BCIS does not include costs for externals, so we have included these at 15% and 8% for houses and flats respectively.

7.12 An allowance of 5% has been made for construction contingency for all uses. This is a standard allowance and represents an amount held in reserve for the unknown risks associated with the project.

7.13 The following table sets out the differences in the cost analysis between GE and the Advisor.

Table 6 : Summary of Plot Developer Construction Costs

Type	Advisor	GE
Residential Flats	£173 psf	£125 psf
Residential Houses	£187 psf	£145 psf
Commercial - A1/2/ A3	£160 psf	£160psf
Commercial - B1/B2	£222 psf	£189psf/ £133psf
Total Base Costs	**£1.7bn**	**£1.55bn**

Source: Arcadis/ BCIS

Contingency

VE1 and FVR

7.14 An On-Cost allowance of c.£30m is included in VE2 although no explanation was provided on what it comprised of.

7.15 The Advisor did not provide further commentary on the contingency allowance included in the Plot Developer appraisal.

VE2 and GE Update

7.16 As discussed above, the Advisors costs included an allowance for Contingency. We have adopted the industry standard BCIS rates for the appraisal which provides a benchmark of schemes. As these costs do not include contingency, we have applied an additional 5%, based on base construction costs in the appraisal.

Marketing Letting and Disposal Fees

VE1 and FVR

7.17 The Advisor does not refer to specific marketing, letting and disposal fees. Instead it references a general Development Management cost which in their view covered general scheme marketing and administration costs.

7.18 The Advisor did not confirm whether they were in agreement on these costs.

VE2 and GE Update

7.19 The updated Advisor model includes the following fees associated the sale of the residential units

Table 7: Summary of Sales and Marketing Costs

Cost	The Promotor	GE
Sales and Marketing- Commercial	2.75%	1.5%
Sales and Marketing –Houses	£10.3k unit (4421 units)	
Sales and Marketing Flats	£5.2k unit (1895 units)	
Private and Affordable Sales Agent Fee	Not specified	1.5%
Legal Fees	Not specified	
Total	**£60.4m**	**£45.3m**

Source: Advisor and GE

7.20 The above table also sets out the GE cost assumptions the sales and marketing process based on standard industry norms. It can be noted that broadly the expenditure in this area is similar to the Advisor in VE2, we have just separated the costs out to reflect the processes.

Planning Obligations

7.21 It has been assumed in both the FVR and the GE review that all planning obligations will be covered by the MD through the delivery of the infrastructure

VE1 and FVR

7.22 Finance costs of 6.5%were originally included in the Plot Developer appraisal.

VE2 and GE Update

7.23 The Advisor has included finance costs of 6% within the appraisal. GE consider this to be in line with the market nom, with typical rates being between 6% and 7%.

Summary of Plot Developer Land Values

7.24 The Plot Developer appraisal has been modelled on the above assumptions adopted by The Reviewer and GE. The following table sets out the land values for both the plots delivered in the early phases and those in the latter phases, with a premium.

Table 8: Summary of Plot Developer Land Values

Type	Land Values
Plot Developer Appraisal	£692.8m

7.25 The above land values have been directly inputted into the MD appraisal and represent the land receipts that will be received for the acquisition of the serviced plots.

8 Master Developer Revenue

This section of the report sets out the Advisor's revenue assumptions adopted in the master developer model. The revenues are based upon the residual land values generates by the plot appraisals. We set out GE's justification for the maintained and varied assumptions.

Land Receipt Revenue

8.1 The Advisor has adopted a residential revenue (or GDV) in the MD model which reflects the anticipated sales of serviced residential plots, based the inputs and assumptions within the notional plot appraisals detailed in the sections above.

8.2 The following table sets out the overall land sales that have been assumed in the assessment.

Table 9 : Summary of Plot Developer Residual Appraisal (Master Developer Land Sales)

Type	Advisor	GE
Total Land Sale Revenue	£ 787.4m[1]	£692.8m

Phasing of Land Sales

8.3 A total of 113 plots of land have been assumed across the site, each delivering c.75 units.

8.4 The serviced land plots are sold in accordance with their phasing on the assumption land is available for 300 units per annum. The phase has infra structure costs so we have assumed there needs to be initial upfront investment with the last unit completed at the end of the phase.

[1] Includes £52.5m of CIL revenue

9 Master Developer Costs and Programme

This section sets out the Advisor's assumptions relating to the provision of Infrastructure and Section 106, and GE's justification for the maintained and varied assumptions.

9.1 An important part of the assessment of the viability and deliverability of the Core Strategy Policies included the review of the strategic infrastructure costs, based on the overall Masterplan for the site.

9.2 We have considered the infrastructure costs included in the Master Developer appraisal, assuming that the Promotor will be responsible for delivering all of the strategic infrastructure and planning obligations.

Strategic Infrastructure Costs

VE1 and FVR

9.3 The Applicant submitted a cost plan of c. £286m for infrastructure costs and this was reviewed by the Reviewer team.

9.4 It was concluded in the FVR that overall, the costs provided by Arcadis were a reasonable estimate at the early design stage, but concerns were raised that a high-level comparison of the total infrastructure costs compared to a broadly comparable project are at lower level of costs. Whilst it was recognised that the site already has good access to existing infrastructure, it was advised the further discussions should be undertaken with the Promoter.

VE2 and GE Update

9.5 A updated cost plan was provided by the Advisor in April 2020. This included costs of c.£440m.

9.6 GE instructed G&T to undertake a high-level review of the Strategic Infrastructure costs. A summary of the cost plan is set out in the following table.

Table 10 : Summary of Arcadis and G&T Cost Plans

Cost Item	Arcadis (April 2020)	G&T (June 2020)	Variance (G&T less Arcadis)
Direct Works	£ 209.7m	£217.4m	£7,.6m
General Overheads & Prelimiaries	£ 2.9m	£1.7m	(£1.2m)
Professional & Local Authority Fees	£ 60.6m	£46.6m	(£14m)
S106 Costs	£ 127.5m (@ £15k per unit)	£127.5m	£0
Risk/Contingency	£41m (@15% excluding s106 Costs)	£27m	(£13.6m)
Total All-in Costs	£ 442m	£420.6m	(£21.2m)
Extra allowance for foul water treatment	£[redacted]m	£[redacted]m	0

9.7 G&T confirm that Arcadis prepared a suitable feasibility level cost model for this type of development. However, there were some differences G&T highlighted which resulted in a final total cost that was reduced from that put forward by Arcadis.

9.8 A large proportion of the costs used by Arcadis are shown to have been based on assumed quantities and benchmark rates which will need ratifying as the design develops. Arcadis confirm this is a result of and being an early stage scheme, whereby as risks and overall design are clarified, so too will the cost base. G&T concur.

9.9 The S106 costs, whilst seen by G&T as acceptable, have been questioned as potentially on the lower end of expectations. G&T add that this area would also potentially form a point for further clarification as the development progresses and as early stage reports are reviewed.

9.10 G&T further question the size of the planning and Local Authority fees that Arcadis proposed, recommending that these be reviewed as being somewhat high.

9.11 The area of risk was one which G&T examined in further detail. They have noted that the cost plan includes a further 5% risk for design and development within the detailed elements. G&T have therefore reduced the contingency allowance in the Summary section of the cost plan to 10%, allowing a total of 15% contingency overall on infrastructure costs.

9.12 Overall, the G&T report has concluded that, whilst reasonable, the cost plan from Arcadis should very much be viewed as a preliminary piece of work with further clarity required and expected as the development design progresses.

9.13 The LPA also asked for our assessment to consider additional specific options in relation to both on-site and off-site wastewater treatment options. This was a result of concerns raised by Natural England during the design process. The LPA's preference is to maintain flexibility with an on-site solution. The cost of this infrastructure item was included in the original Arcadis cost report (FVR) but removed from the latest version. G&T have therefore been provided with the information on this and have included it to a cost of £[redacted]m.

9.14 We have therefore adopted the costs set out in the G&T cost plan and included the additional costing for the alternative wastewater option in as requested by the LPA.

Management Fees – Master Developer Model

VE1 and FVR

9.15 The Advisor noted that a £48m 'Development Management' Cost was included in the MD appraisal although they confirmed that no explanation had been provided. The FVR appeared to question the relevance of this cost and the appropriateness of value.

VE2 and GE Update

9.16 The Advisor has included this cost in the recent appraisal under 'Master Developer Overhead'. A total cost of £53.7m was included which equates to c.20% of base build costs (excluding LPA fees, Section 106 costs).

9.17 In our review we requested further evidence to justify this cost. In their response, the Advisor confirmed that this cost relates to early stage allowances for staff and soft costs as Master Developer i.e. will need to cover core team, office overheads, sales suite overheads, general legal costs and general marketing & branding costs over whole life of Business.

9.18 Whilst we acknowledge that the MD will incur management costs, in our view some of these items have been included elsewhere. For example, marketing costs and there is no real explanation why these would increase by £10m since 2019 review – particularly as these seem to be overheads.

9.19 We consider therefore an overhead figure of circa 6% allowing for marketing costs elsewhere appears more reasonable. This is still some £20m. Often this cost is subsumed into the profit risk therefore making some allowance has regard to the gross profit return.

9.20 Based on the allowances for fees already included within the Arcadis Cost Plan and our experience of MD delivery on other large-scale settlements, we consider a more reasonable allowance would be a 6% fee on base build costs. We have therefore applied this in our appraisal.

Contingency and Risk

VE1 and FVR

9.21 The FVR confirmed that a 15% risk allowance was included in the Master Developer appraisal.

9.22 In their analysis, The Advisor referred to the North Essex Authorities Decision at EIP which stated that a contingency allowance of at least 40% would align better with the approach taken, for example, by Highways England, when costing large infrastructure scheme. They also referred to the recommendation to sensitivity test viability with a 20-40% contingency on infrastructure costs.

VE2 and GE Update

9.23 G&T have confirmed the inclusion of a contingency allowance of 15% on the total construction cost. This is appropriate for a cost model at this stage of design. It is noted that a large proportion of the cost plan is based on assumed quantities and benchmark rates which will need ratifying as the design develops.

9.24 We agree with the Reviewers conclusion that the risk on the highway infrastructure should be further tested through sensitivity. We have therefore undertaken this assessment as part of our analysis.

Additional Costs: Acquisition Spend to Date

VE1 and FVR

9.25 We note from the FVR that these allowances were not included in the original appraisal.

VE2 and GE Update

9.26 The Advisor has included a cost of £8m within the Master Developer appraisal under 'Acquisition Costs' titled 'Spend to Date'. When questioned, the Advisor confirmed that these costs relate to the recovery of estimated costs to date on planning and masterplan development by FHDC, from the Master Developer.

9.27 We consider that such costs are reflected under the Professional Fees included in the Arcadis cost plan and do not consider historical costs are usually included on an assessment of value with planning consent, it is possible such costs are also factored into the BLV.

9.28 We have therefore excluded these costs from the appraisal and consider they are accounted for elsewhere in the model

Additional Costs: Estate Costs

VE1 and FVR

9.29 We note from the FVR that these allowances were not included in the original appraisal.

VE2 and GE Update

9.30 The Advisor has included a cost of £6.75m within the Master Developer appraisal under ‘Acquisition Costs’ titled ‘Unrecovered Estate Cost’. When questioned, the Advisor confirmed that these costs area an estimate of estate running costs that will need to be borne by the Master Developer before any homeowner recharge mechanism is in place, or homes are sold.

9.31 The estate costs are an estimate of estate management costs that will be borne by the Master Developer before any recharge mechanism is in place or housing units delivered. It is assumed that these costs are incurred on an annual basis between January 2022- 2029.

9.32 We consider this assumption to be reasonable in line with our knowledge of other large-scale settlements and the management requirements associated with them in the pre-development stages across the whole site.

9.33 We have therefore allowed this expenditure in the appraisal but have moved it to the ‘Additional Costs’ section as it is not considered to be an acquisition cost, in addition to management costs at 6%.

Finance Costs

VE1 and FVR

9.34 The Reviewer confirmed that the Master Developer appraisal did not included finance costs. They noted that the key impact of cash flow changes is on the finance cost and that they would have expected these to very substantial in this case given the large amount of 'front loaded' infrastructure. They concluded that the omission of finance costs in the appraisal, created great uncertainty over the viability of the project.

VE2 and GE Update

9.35 The Advisor has included a finance rate of 4.25% within the Master Developer appraisal. It has been assumed that the Scheme will be 100% Debt Financed.

9.36 GE has considered other Master Developer appraisals for large scale schemes that we have reviewed in the market and is of the view that 6% could be considered more reasonable in this instance. The approach and reasoning behind this are set out fully at **Appendix 7.**

9.37 However, we acknowledge that there may be a site-specific reason for the assumption of 4.25% including the status of FHDC as the Promoter. We are of the view that this can be considered further and if necessary, justified, at the planning application stage.

Table 11 : Finance Rate

Description	Advisor Allowance	GE Allowance
Finance Rate	4.25%	4.25%

Programme

9.38 The proposed development at Otterpool Park is expected to be a multi-phased extended period of development stretching over many years. As such any proposed programme can be expected to change as the development progresses.

VE1 and FVR

9.39 Within their report, The Reviewer outlined a high-level programme for the Master Developer spanning from January 2019 to January 2051, a period of 32 years to completion.

VE2 and GE Update

9.40 GE's MD programme is based on the indicative pattern of development, which is prescribed in the Planning and Delivery Statement submitted as part of the planning permission for the Otterpool Park project.

9.41 The programme reflects the 14-phase delivery timetable laid out within that document, with each phase of varying length and encompassing a varying number of units. It should be noted that these phases are not consecutive, and in many instances run concurrently.

9.42 As outlined in our discussion of the Housebuilder appraisal in previous sections, the plots to be sold reflect a notional 75 units each with accompanying commercial uses. GE divided the number of units proposed in each phase of the indicative pattern of development to give an estimated number of plots required to deliver the housing quantity for that phase. This number of plots has then been added to the MD appraisal as income – this is discussed further in the master developer revenue section below (section 10).

9.43 GE have endeavoured to adhere as closely as possible to this indicative pattern of development, as it forms a major part of the application and is also the basis of the phasing for the Advisor's cost plan – which we have also relied upon as our infrastructure cost base and unit delivery.

Table 12 : GE Development Programme

Phase	Time Period	Units	Plots
1A	2022 - 2030	1,126	15
1B	2022 - 2028	984	13
1C	2024 - 2028	282	4
2A	2028 - 2029	0	0
2B	2028 – 2031	434	6
2C	2021 – 2045	425	6
3A	2029 – 2031	340	5
3B	2030 – 2035	838	11
3C	2033 – 2034	290	4
4	2034 – 2038	995	13
5	2036 – 2037	170	2
6	2036 – 2040	823	11
7	2038 – 2042	1,410	19
8	2041 – 2043	383	5
TOTAL	**2022 – 2045 (23 years)**	**8,500**	**113**

10 Benchmark Land Value (BLV)

This section sets out the underlying basis of the adopted Benchmark Land Value (BLV). Our views are formed having regard to the NPPF, the NPG, RICS Guidance Note 'Financial Viability in Planning' published August 2012 (RICS GN) and the RICS Professional Statement 'Financial Viability in Planning: conduct and reporting' published NPG in May 2019 (effective September 2019).

10.1 NPG indicates that viability is to determine a Benchmark Land Value (BLV) which reflects the aggregate of the Site's EUV (Component 1) and a premium for the landowner to release the land for development (Component 2), or an assessment of an Alternative Use Value (AUV) which has regard to planning policy. Therefore, in accordance with NPG (2019) this section looks to establish the BLV for the Site.

BLV Assessment Method

Existing Use Value + Premium

<u>EUV (Component 1)</u>

10.2 EUV is the first component of calculating BLV. 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 appropriate capitalised rental levels at an appropriate yield. The NPG (2019) sets out sources of data that can be used and at paragraph 015 indicates that EUV can reflect the land in its existing use

10.3 NPG (2019) indicates that EUV should reflect the land and property in its existing-use, un-refurbished and excluding any hope value for redevelopment.

Premium (Component 2)

10.4 NPG (2019) indicates that the 'Premium' is the second component of BLV and is the amount above the EUV that should provide a reasonable incentive for a landowner to bring forward the land for development, while allowing a sufficient contribution to comply with policy requirements.

10.5 NPG (2019) at paragraph 016 indicates that establishing a reasonable premium to the landowner is an iterative process informed by professional judgement and must be based upon the best available adjusted market evidence or from other FVAs.

10.6 Furthermore, the RICS GN outlines that it is essential to have regard to sales prices of comparable development sites, para 3.16 states:

"The importance…of comparable evidence cannot be over-emphasised, even if the supporting evidence is very limited, as evidenced in Court and Land Tribunal decisions."

10.7 NPG (2019) at paragraph 017 provides guidance for undertaking an alternative use value (AUV) on the basis that there is a planning permission or reasonable prospect of planning permission being granted, and a demand for such a scheme can be demonstrated.

Applicant proposed BLV

10.8 The Advisor has included a BLV of c. £95,046,467.

Reasonable Incentive to release land

10.9 It should be noted that whilst the redline area of the application is circa 570 ha (c.1,410 acres), the ownership is made up of a consortium including FHDC and Homes England. At the time of the Advisor's VE2 submission it is understood that circa 186 ha (460 acres) of the Site was under control of FHDC; and as such reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements has been reduced from that of a notional landowner.

10.10 On this basis the remaining land outside current control of FHDC reflects circa 950 acres, which at £100,000 per acre would indicate this land to have a potential value of £95m. Over the entire site area (c.1,410 acres), therefore the BLV would reflect circa £67,000 per gross acre.

Reviewer's BLV assessment

10.11 In line with the guidance set out above, The Reviewer discussed the requirement to assess land value on the basis of existing use as agricultural, whilst also allowing for an appropriate premium.

10.12 Given the site is predominantly in agricultural use, the Reviewer suggested that £24,000 per hectare would be considered reasonable as a base point, in line with the Ministry of Housing, Communities & Local Government, Land Value Estimates for Policy Appraisal (2017).

10.13 The Reviewer then referenced the HCA in "Transparent Assumptions: Guidance for the Area Wide Viability Model" which states that for greenfield land, benchmarks tend to be in a range of 10 to 20 times agricultural value. Applying this at the higher rate of x20 would give £480,000. They suggested however that this is overstated given the exceptionally high level of infrastructure costs required in order to "unlock" this land. Therefore, the lower rate of x10 would be more realistic and would give £240,000 per Hectare, or c.£100,000 per acre.

VE2 and GE Update

10.14 GE has considered the Reviewers analysis and the updated assumptions provided by the Advisor.

10.15 We note the methodology of EUV+ applied by The Reviewer in their assessment is consistent with government guidance. Furthermore, it is generally accepted in other FVA assessments that for large scale residential development gross benchmark land value generally range between £60,000 and £150,000 per acre.

10.16 A valuation of c.£100,000 per gross acre does appear to be consistent with other land values applied for predominantly agricultural land on proposed large scales settlements. We have worked on numerous land scale projects including Braintree, Alconbury, Oxford, West Winch and Waterbeach Barracks, where this value per acre was considered acceptable and in line with the market.

10.17 It is however, accepted that site specific abnormals should be considered when considering the reasonable premium over EUV. Furthermore, it is also recognised that land value can be diluted by the scale of development and that site specific BLVs will therefore vary depending on the characteristics of the development and associated costs. Generally, if the residual appraisal results in a land value which enables a reasonable premium over EUV then the land should be capable of coming forward for development.

10.18 Furthermore, BLV is to reflect a reasonable incentive to release the land for development; and it is recognised that FHDC has continued to invest in the acquisition of the site, which may further reduce the required benchmark in this instance.

Determining BLV

10.19 In arriving at the BLV, we have had regard to the methodology and approach in determining BLV set out in this Section. We have also had regard to the NPPF (2019), NPG (2019), the RICS GN and mandatory requirements of the RICS Practice Statement in respect of reporting and conduct.

10.20 We have had regard to the existing use value, HCA guidance with regards to assessment of agricultural land in area wide viability and relevant market evidence to establish a premium.

10.21 Taking all the above into account, we have adopted a BLV for viability testing in planning of:

£95,000,000

Ninety-Five Million Pounds

10.22 When this figure is disaggregated between EUV (component 1) and the reasonable premium (component 2) to incentivise release of the land. The premium reflects circa 89% or x 8 agricultural value which is below other comparable schemes. This is due to FHDC investment in the project.

10.23 It is understood that FHDC are looking further into investing into the delivery of the scheme through additional land purchases which would reduce the potential BLV further.

11 Return to the Developer

This section of the report sets out The Promoters proposed return and the basis upon which a reasonable competitive return to a willing Developer has been considered and anticipated funding arrangements.

11.1 A significant factor in undertaking viability assessments for development purposes is the level of return which a developer might reasonably require from undertaking the development and in turn on what basis the Scheme could be funded and financed.

11.2 This will depend on a number of factors including the size of the development, the perceived risks involved, the degree of competition between funding and finance institutions for the Scheme, the state of the market in terms of demand for and lot size of the completed development and the anticipated timescales for development and for receiving a return.

11.3 The NPG (2019) paragraph 018 (Ref 10-018-20120724) indicates that 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 polices. This is not a direct guidance for scheme specific applications and specific development returns need to account for type, scale and risk profile of the planned development. Furthermore, it is recognised that lower returns are considered more appropriate for affordable housing where risk to receipt of income are lower. Please see the following paragraph as set out in the NPG (2019).

"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".

Paragraph: 018 Reference ID: 10-018-20190509

11.4 The Proposed Scheme is being brought forward under a MD model, and as such there are two returns to consider – that taken by the master developer and the other return required by developers acquiring and delivering serviced plots.

Plot Developer

VE1 and FVR

11.5 The Reviewer confirmed that the Plot Developer appraisal included a profit on GDV of 17.5%. It was not broken down further by use or tenure type.

11.6 The Reviewer again discussed the use of IRR in the analysis. The IRR for the original Plot Developer appraisal 3.13% (no premium) – 3.13% (with premium) was considered to below the level typically expected, with a normal range between 10-12%.

VE2 and GE Update

11.7 In the updated appraisal, the Advisor has allowed for a profit on GDV of 17.5% on the private residential including Build to Rent. A further 8% profit allowance was included for the affordable and Extra Care units. An overall Profit on Cost of 14.89% was achieved.

11.8 It is our view that 17.5% profit on private residential GDV and Build to Rent is considered reasonable and applied to the Plot Developer appraisals.

11.9 With delivery taking place through a MD, serviced land parcels being sold on to Plot Developers are de-risked in that the potential purchasers will be acquiring land parcels that are to a degree, ‘pump-primed’, with minimal planning and infrastructure obligations. As such a developer acquiring such a parcel will, in practice, be prepared to accept a reduction in return to reflect this.

11.10 Similarly, whilst we would expect a developer to require a profit level on the affordable and extra Care units. In the absence of any information to justify a higher return, we have adopted the industry standard level of 6% for affordable and 17.5% for extra care.

11.11 The following table sets out GEs assumptions on an acceptable level of return for the different elements on GDV within the Plot Developer appraisals.

Table 13 : Plot Developer Return

Description	Allowance
Private Residential and Extra Care	17.5% Profit on GDV
Affordable and Intermediate	6% Profit on GDV
Commercial and Build to Rent	15% Profit on GDV

Source: Gerald Eve

11.12 Based on the above assumptions, GE has applied a blended rate of 15.17% (no premium) and 15.32% (with premium) in the Plot Developer appraisal. we note that whilst this considered to be a reasonable return in the market delivery of a site, in this situation the plots will be essentially de-risked at both the site inception and planning stage as a result of the master developer investment. we therefore are of the view that the level of return and therefore the amount paid for the land could increase. This will have a positive impact on the revenue to be received by the master developer and therefore the wider viability of the proposed scheme.

Master Developer

VE1 and FVR

11.13 The Reviewer confirmed that the original Master Developer appraisal included a profit on GDV of 12.30% and Profit on Cost of 10.96%. When the premium was applied, this increased to 18.85% Profit on GDV and 23.23% Profit on Cost, suggesting that the Master Developer Scheme return was considered to be within a reasonable range of return.

11.14 In considering profit return proxies, the Reviewer also discussed the merits of using Internal Rate of Return (IRR) as a method of analysis, so that the 'time value of money' is taken into account for the Master Developer appraisal. The IRR ranged from 3.85% (no premium) – 7.48% (with premium) was considered to below the level typically expected, with a normal range between 10-12%. However, The Reviewer did acknowledge that the IRR could be improved on the basis of delaying expenditure and speeding up land payment receipts, advising that further discussion over the phasing could improve the IRR considerably.

11.15 We acknowledge the use of several metrics within the industry to assess financial viability, these include GDV, Cost and IRR. In the case of plot returns we consider that return on GDV is an appropriate metric. However, for the purposes of assessing a MD appraisal, we agree with the Reviewer that an IRR approach is a more appropriate method with return on GDV/ Cost being useful cross references. We have therefore had regard to these in considering reasonable returns.

11.16 The Advisors updated Master Developer appraisal produces an IRR of 13.96% profit on GDV of 21.61% and a Profit on Cost of 27.56. Their proposal is therefore considered viable on this basis.

11.17 We consider an appropriate target rate of return to be in the order of 10-14% IRR, with a return on GDV/ Cost metric in the order of 15-20%.

12 Planning Obligations

In this section we consider the financial contribution of the planning obligations.

Summary of information provided by the Applicant

12.1 One of the requirements of the V&DR is to determine the planning obligations as an aggregated benefits package. In other words, to assess whether the Scheme can be viably delivered, whilst providing the planning obligations set out in policy.

Community Infrastructure Levy

12.2 No allowance for CIL has been included in the Master Developer appraisal.

Section 106

12.3 A total Section 106 contribution of £127.5m has been included in the Master Developer appraisal. It is assumed that this will be paid by the Promoter in relation to the serviced plots. This equates to £15k per unit.

12.4 As part of their review, G&T questioned whether this is a low allowance for Section 106 obligations, per unit.

12.5 This has been discussed and the LPA suggested that although further analysis will be required to assess obligations, modelling the Section 106 allowance at a higher level of £18k per unit, would be useful for the purposes of this assessment. We have therefore considered this in our sensitivity analysis.

12.6 GE has also sensed check this amount with large scale settlements. In contrast, the Waterbeach in Cambridge of c.4,500 units included a Section 106 obligation of c.£18k per unit although this was excluding transport infrastructure. We are of the view that this figure requires further discussion and analysis moving forward and through the planning application process.

12.7 The LPA reserves its right to amend this assumption on Section 106 costs through the full planning process and confirms that this is only an indication used for the purposes of the viability and delivery review.

Affordable Housing

12.8 A policy compliant affordable housing provision of 22% has been assumed across the Scheme. A policy compliant split of 70% Affordable/ Social Rent and 30% Intermediate has been applied within this, in line with policy CSD1.

Summary

12.9 A policy compliant level of affordable housing is being delivered across the Scheme.

12.10 Based on comparable evidence, a reasonable contribution has been included for Section 106 obligations. However, further work is required by the LPA to confirm the exact requirement. We have further tested this in the sensitivity analysis section.

12.11 The LPA has reviewed the proposed planning obligations and confirmed their acceptance of these figures to us for the purpose of this Core Strategy policy review.

13 Financial Appraisal Review – Master Developer Appraisal

Below Gerald Eve (GE) sets out and review the Scheme appraisal. In the next section GE considers the sensitivity (in accordance with RICS GN) of this and the commensurate impact upon the viability and deliverability of the Scheme.

The Advisors Proposals

13.1 In VE1 and VE2 the Advisor produced Developer appraisal of 8,500 units and other uses which included a premium on the units proposed to be delivered after a twelve-year development period.

13.2 The Advisors updated Master Developer appraisal produces a Profit on Cost of 27.56%, Profit on GDV of 21.61% and an IRR of 13.96%.

13.3 GE however instead, produced two Plot Developer appraisals to demonstrate a notional plot of 75 units and other designated uses with and without premium. The appraisals reflected a current day position and future delivery. The premium plot appraisal was introduced to the Master Appraisal at year 10. The residual land values were then linked to the Master Developer appraisal to reflect land purchases.

Comparison of Updated Appraisal Inputs

VE2 and GE Update

13.4 The Advisor has concluded that delivery of the Otterpool Park Scheme is viable, and deliverable based on the below returns which are in a reasonable target rate of return range.

13.5 A comparison of the appraisal outputs produced by the Advisor and GE are set out in the following table.

Table 14: Appraisal Summary

Proposed Scheme Element	The Advisor	GE	Review Source
Total Revenue: Plot Developer Land Receipts	£788m[2]	£692m	The Advisor/ GE
Total Revenue	**£788m**	**£692m**	
Total Infrastructure Cost (Base Build)	£209.7m	£217.5m	The Advisor/ G&T
Total Social Infrastructure Cost (S106)	£127.5m	£127.5m	The Advisor
Construction Risk	£41m (15%)	£ 27.3m (15%)	The Advisor/ G&T
Additional Water Treatment Facility	Not included	£[redacted]m	
Expenditure to Date	£8m	Excluded	
Unrecovered Estate Costs	£6.75m	£6.75m	
Master Developer Overhead	£53.7m	£15.6m (6%)	The Advisor/ GE
Marketing	Included in MD overhead	£7m	
Sales Agent		£6.5m	
Finance	4.25%	4.25%	The Advisor/ GE
Total Cost	**£617.2m**	**£589m**	
Benchmark Land Value (BLV)	**£95m**	**£95m**	The Advisor/ GE
Profit Return (on GDV)	21.61%	15.05%	The Advisor / GE
Profit on Return (Cost)	27.56%	17.71%	The Advisor / GE
Internal Rate of Return	13.96%	10.52%	The Advisor / GE
Residual Land Value (RLV)	Not provided	£102m[3]	GE

Source: GE

13.6 We note that the Advisors position reflects an outturn of 13.96% IRR. However, their appraisal assumes £52.5m worth of CIL receipts which have been excluded in our plot developer appraisals. We have addressed the inclusion of this sum in the MD appraisal through sensitivity testing.

13.7 The above table appears to suggest a return of IRR of 10.52% or on GDV of c.15% and therefore this sits within our anticipated return to justify a viable position.

[2] Inclusive of £52.5m of CIl receipts

[3] Based on profit on GDV of 17.5%

13.8 The residual land value at 17.5% return on GDV reflects surplus against the BLV thus the scheme also would appear to be viable when considered against a BLV approach.

Summary of Results

13.9 The previous and current assessment of viability by the Advisor has demonstrated that the Scheme achieves acceptable levels of profit when considered on a target rate of return basis.

13.10 Our approach, undertaken on the basis of a residual land value also supports this conclusion and demonstrates that the Scheme can be considered viable and deliverable.

13.11 In the following section, we have considered the sensitivity of the scheme. We have considered the sensitivity of the scheme on the basis of contingency, total infrastructure costs and market movements.

14 Sensitivity Analysis

The purpose of this section is to test the robustness of the Scheme from a quantitative perspective via a sensitivity analysis.

14.1 In order to assess the robustness of the viability of the Proposed Scheme, it is necessary to consider variance in the pricing and cost inputs to the financial model. Given the significant project timescales, we have also looked at testing an increased absorption rate in line with other comparable sites.

Sensitivity Analysis

14.2 A sensitivity analysis is a widely used approach for testing viability and the robustness of the Scheme. In essence, uncertainties can be identified in respect of the inputs and their effects can then be looked at in terms of the development return and viability.

Plot Developer Sensitivity

14.3 For the purposes of this assessment, we have considered sensitivity on the plot developer appraisal (without premium), i.e. the impact that changes in sales and costs could potentially have on the profit and therefore the value of the plots that could be anticipated by the MD.

14.4 We have considered a variation of ±.5% to ±10% to both the sales values and construction costs while keeping the BLV the same. The impact on the residual land value presented in the following table.

Table 15: Sensitivity Analysis – Plot Developer Appraisal

	Sales Rate/ sq. ft				
Construction Cost Rate/ sq. ft.	-10.0%	-5.0%	0.0%	5.0%	10.0%
-10.0%	£5.4m	£5.6m	£5.8m	£6m	£6.3m
-5.0%	£4.0m	£5.1m	£5.5m	£5.6m	£5.8m
0.0%	£4.4m	£4.6m	£4.9m	£5.1m	£5.3m
5.0%	£3.9m	£4.2m	£4.4m	£4.6m	£4.8m
10.0%	£3.5m	£3.7m	£3.9m	£4.1m	£4.3m

Source: GE

14.5 The above table shows that the notional development plot is sensitive to changes to private values and construction costs. It is evident that if construction costs increase by 5%, even if the sales value also increases by 5%, the residual land value will decrease below that assumed in the MD appraisal. However, to note given the scale of de-risking that the MD will undertake on the plot in advance of sale, it is felt that the return assumed by the plot developer could be modified.

Master Developer Sensitivity

14.6 For the purposes of testing sensitivity on the Md appraisal, we have considered the following potential circumstances relating to the Allocation:

- Reflection of risk allowance 40% on S78 strategic highway infrastructure works;
- Increased Section 106 contributions of c.£18k per unit;
- Inclusion of CIL and third-party contributions from the wider garden village sites (1500 units not being considered as part of this application) in the latter phases of the programme

14.7 We have assessed each of the above scenarios in one sensitivity model. we have briefly provided some commentary on each additional item below.

Increased Section 106 Obligations

14.8 As set out previously, the LPA has confirmed that the Section 106 contribution rate for the proposed site has not been determined. We have therefore included an additional allowance in the sensitivity to account for a higher figure of £18k per unit.

Additional infrastructure Risk Allowance

14.9 GE and G&T consider the included risk allowance in the cost plan and review is reasonable. However, we have had regard to recent EiP commentary in relation to Garden Communities, where it was considered a contingency up to 40% was required to deal with unknowns on strategic infrastructure.

14.10 We note that a risk allowance of c.15% has already been included in the infrastructure cost plan which was confirmed acceptable by G&T. We have therefore run a sensitivity appraisal to test the inclusion of an additional 25% contingency on the strategic infrastructure. The cost of this infrastructure is set out in the below tables.

14.11 We note that the strategic infrastructure items within the cost plan equate to c.£19.8m, as set out in the table below.

Table 16 : Summary of Primary Infrastructure Items and Expenditure

Primary Infrastructure Items	Total (£)
SECTION 278 HIGHWAYS	
Sub-Total	£19.8m

Source: G&T

14.12 This additional risk allowance against this amount equates to c.£5m.

CIL from Third Party Developers and wider garden village settlement

14.13 As set out in Section 6, the Advisor has assumed an allowance of £52.5m of CIL contributions of c.£35k per unit from the wider garden village in order to mitigate the impact of development through the statutory regulation 122 process.

14.14 As a mechanism is not yet in place, we have excluded it from our base assessment but consider it necessary to sensitivity test as it could be a potential source of revenue in the future, subject to further work and agreement with the LPA.

14.15 The inclusion for sensitivity purposes is to ensure that should this mechanism be legally agreed in the future by the LPA, it has been assessed in the potential deliverability and viability of the proposed scheme.

Summary

14.16 The sensitivity analysis reflects an IRR of c. 9.92% IRR which is below the target rate of between 10-14%. Further discussions on the phasing of the expenditure and land payments at the planning application stage could improve this moving forward.

14.17 In terms of profit of GDV and cost, however, the scheme achieves 16.09% and 19.17% respectively, which is considered to be in line with NPG (2019) viability guidance for area wide assessments.

14.18 We are therefore of the view that under these potential circumstances and potential revenue that have been modelled, the proposed scheme remains potentially viable and deliverable.

15 Concluding Financial Justification Statement

In this section we outline the conclusions of the report.

15.1 Gerald Eve LLP ('GE') has been instructed to undertake a review of the deliverability and viability of the proposed new garden settlement development known as Otterpool Park on behalf of the LPA. The review is being undertaken in order to test the emerging policies in the Core Strategy Local Plan and ensure that they will be deliverable and effective, as required by National policy.

15.2 Our role has been to evaluate and provide further commentary on the FVR and where appropriate adopt their original assumptions. We will also consider the updated appraisal information provided by the Advisor, between April and June 2020. Where appropriate we have adopted the assumptions confirmed through the FVR.

15.3 As required in RICS guidance, we confirm that our role as an Advisor to the LPA has been to provide commentary on the viability evidence submitted to support the EiP and does not constitute the assessment that is required for a Financial Viability Assessment under the requirements for a full planning application.

Master Developer

15.4 The overall deliverability and viability assessment relates to the outcome of the master development appraisal as this models the overall structure for delivery across the local plan period.

15.5 The assessment of potential revenue and receipts from Plot Developer acquisitions has been subject to a detailed assessment based on market delivery and is considered to be robust. This revenue has been programmed to be received by the master developer at realistic time periods within each of the proposed phases.

15.6 Finance costs have been included within the appraisal, creating more certainty on the viability of the Scheme, reflecting a market situation whereby the Master Developer will be required to finance the upfront infrastructure costs.

15.7 The strategic infrastructure construction costs have been provided by the Advisor. G&T have undertaken an independent review as part of this report. G&T consider the overall costs stated within the cost plan for the Scheme of £440m, including a 15% Risk allowance (on Professional and Local Authority fees) costs to be slightly overstated and have reduced these to c.£420m (£[redacted]m with the waste water facility). The Section 106 cost allowances will require further consideration at the full planning application stage. However, we have tested them through sensitivity it would appear that the scheme will remain potentially viable, should they increase.

15.8 In accordance with NPG (2019), in arriving at an opinion of a reasonable BLV, GE has applied a valuation judgement; informed by the relevant available facts, a realistic understanding of the local area and of the operation of the market. GE considers the Advisor's BLV of £95m appears to be reasonable based on knowledge of agricultural land sales.

15.9 We have undertaken a sensitivity analysis to demonstrate the viability of the scheme with potentially significant additional costs including increased Section 106 contributions and strategic infrastructure risk allowances. At the same time, we have assumed that towards the end of the programme, the LPA will have an established mechanism in place to potentially obtain planning contributions from the other landowners across Otterpool Park and included in the allocation.

15.10 Based on the evidence submitted in relation to the delivery of 8,500 units and associated uses as part of the Otterpool Park Core Strategy allocation, the Scheme is potentially capable of being viable.

15.11 We recommend however that should the Scheme deviate, then a further assessment on deliverability and viability should be undertaken

15.12 To conclude, our review has demonstrated that the proposed outline garden development of Otterpool Park is financially viable and deliverable within the plan period. We therefore consider the Core Strategy policies in relation to the garden settlement to be reasonable.

15.13 Whilst the sensitivity analysis has demonstrated that proposed Scheme can be delivered and is financially viable and robust, within an ever-changing economic climate, it is important that the viability of the scheme is kept under review and consideration throughout the delivery process.

15.14 Given the level of infrastructure proposed to be delivered as part of this garden village, we would recommend that the LPA engages with government bodies such as Homes England to explore opportunities for external funding, for example, the Housing Infrastructure Fund to further support the upfront delivery programme.

Appendix 1

Reporting Sign Off

We set out below our assessment for each of the requirements of RICS Professional Statement Financial Viability in Planning: conduct and reporting (1st edition 2019). This is a requirement of practice for RICS members and firms and is regulated by RICS.

Report and process requirements (reference paragraph from Professional Statement)	GE FVR Reference (section/ paragraph)	Sign off	
		Partner (Lead)	Partner (Review)
2.1 Objectivity, impartiality and reasonableness statement	Page 3 (Statement 2.1)	[redacted]	[redacted]
2.2 Confirmation of instructions and absence of conflicts of interest	Page 3 (Statement 2.2)	[redacted]	[redacted]
2.3 A no-contingent fee statement	Page 3 (Statement 2.3)	[redacted]	[redacted]
2.4 Transparency of information	Page 3 (Statement 2.10)	[redacted]	[redacted]
2.5 Confirmation where the practitioner is acting on area-wide and scheme-specific viability assessments	Page 3 (Statement 2.5)	[redacted]	[redacted]
2.6 Justification of evidence and differences of opinion	Every section	[redacted]	[redacted]
2.7 Site Value and supporting evidence	Section 8	[redacted]	[redacted]
2.8 FVA origination, reviews and negotiations	Section 1	[redacted]	[redacted]
2.9 Sensitivity analysis	Section 12	[redacted]	[redacted]
2.10 Engagement	Section 1	[redacted]	[redacted]
2.11 Non-technical summaries	Section 1	[redacted]	[redacted]
2.12 Author(s) sign off	Page 3	[redacted]	[redacted]
2.13 Inputs to reports supplied by other contributors	Section 7 (Cost Review)	[redacted]	[redacted]
2.14 Timeframes for carrying out assessments	Page 3 (Statement 2.14)	[redacted]	[redacted]

Appendix 2

Appendix 2 – Key Relevant Planning Policies

National

At the national level, Local Plan preparation and associated decision-making is primarily informed by a national guidance base composed of the National Planning Policy Framework (NPPF) and the Planning Practice Guidance (PPG)

National Planning Policy Framework (2019)

Originally published in July 2018, with revisions in February 2019, the NPPF lays out central government's broad planning polices for England, and the expectations informing their application.

The NPPF attempts to presume in favour of sustainable development where possible – considering three areas of sustainability: economic, social, and environmental. In its application, the framework encourages quality co-operation between applicants, Local Planning Authorities (LPAs) and communities to achieve desirable local outcomes.

With regard to planning decisions, paragraph 118 outlines the route LPAs should take by:

- encouraging multiple benefits from land through mixed use schemes and opportunities to achieve net environment gains;
- recognising the multiple functions of undeveloped land;
- giving substantial weight to the redevelopment of brownfield land within settlements for homes and other identified needs; and
- Supporting the development of under-utilised land and buildings, especially where this helps to meet identified needs for housing where land supply is constrained.

The NPPF is conscious that the supply of large numbers of homes is often best achieved through new settlements (such as Otterpool) which are planned to meet identified needs. Where this is the case it details some of the aims and expectations of this kind of development, with particular regard to sustainability and the need to meet a floor level of 10% affordable housing – although provision is made for LPAs to revise this upwards according to their own guidance.

Planning Practice Guidance (2018)

The PPG is a complimentary document to the NPPF – designed to support the policy ambitions of the NPPF with practical guidance for application. It is intended that be read as one coherent policy framework.

Key Areas of the PPG which relate to the Otterpool Park development are Design, Heritage, and Health and Wellbeing.

The PPG specifically calls for new settlements to be of high quality design, presenting a good mixture of tenures and uses to maintain the longevity of the scheme.

The PPG requires heritage assets to be conserved in a manner appropriate to their significance. This should be done in a flexible and thoughtful manner – with care taken to understand the significance of the heritage assets including, but not limited to, identifying opportunities and restrictions surrounding them at an early stage in the process.

Health and wellbeing of the future inhabitants of new settlements is a key consideration, with the health infrastructure in particular forming a key part of the PPG.

Settlement design should encourage healthy behaviours and support reductions in health inequalities. The mental and physical health of the local community should be supported at all ages.

Regional & Local

The Folkestone & Hythe District Council Core Strategy Review (2018) forms the core statment of policy relating to the Otterpool Park New Settlement.

Primarily the key polices relating specifically to Otterpool are policies SS6-SS9:

- SS6: New Garden Settlement - Development Requirements; - sets out requirements including in respect of use types and unit mixes. Requires a focus on quality landscaping and outdoor space. Requires delivery of a transport hub at Westenhanger Station. This policy identifies Otterpool Park as a suitable location for a new garden settlement and emerging Policy CSD9 has identified land to the south of Sellindge for additional housing.
- SS7: New Garden Settlement - Place Shaping Principles – this policy includes requirements for how infrastructure is to be delivered, and the level of landscaping to be provided, including buffer zones between the M20/High Speed Transport corridor and the residential areas. Requires upgrading to the M20 junction 11, Westenhanger Station updgrade, bus services network upgraded.
- SS8: New Garden Settlement - Sustainability and Healthy New Town Principles; this will have an impact on plot build costs including the sustainability requirements which affect build costs. It includes among others policies regarding SUDS and BREEAM requirements.
- SS9: New Garden Settlement - Infrastructure, Delivery and Management – sets out the general requirement in respect of infrastructure delivery and how this should be secured, via Section 106 and Section 278 Agreements. Key parts of this policy include that Otterpool should be self-sufficient in respect of education, health, community, transport and other infrastructure, and that critical infrastructure such as primary education should be provided in the first phases of development – with the provision of infrastructure being phased in a way that does not disadvantage early residents or neighbouring communities through placing pressure on existing infrastructure in the local area.

These policies will function in conjunction with policies CSD1, CSD2, and CSD4.

Policy CSD1 is on the subject of Balanced Neighbourhoods, and includes minimum requirements for affordable housing as well as addressing the housing tenure split and specialist housing needs.

According to the policy, all housing development should, subject to viability, include a broad range of tenures – incorporating market sale, shared equity, intermediate and affordable rented homes.

It's requirements for an Otterpool include the following:

- Development proposing (or land of 0.5ha or more in size) 15 or more dwellings (net gain) should provide 30% affordable dwellings on-site, subject to viability.
- Affordable provision should be made on-site, unless off-site provision or financial contribution can be robustly justified.
- Provision of affordable housing within individual sites/settlements should not be concentrated in one location, and must be designed to integrate in function and appearance with private housing and existing properties.

Policy CSD2 sets out the LPAs housing needs, which will govern the character and development of Otterpool. Policy CSD2 lays out the housing needs as follows:

- at least half of new homes by 2026 to be three bedroom (or larger) dwellings;
- developments of 10 dwellings (Class C3) or more to include 20% of market dwellings meeting Lifetime Homes standards, unless demonstrated to be unfeasible in design or viability terms; development to maintain the vitality and mix of activity in the local economy and neighbourhoods,
- or alternatively directly contribute to meeting the long-term flexible living or care requirements of residents, and;
- residential accommodation providing an element of care to; not lead to an over-concentration of socially vulnerable people in a neighbourhood; make a suitable contribution as necessary to the community and sustainable transport infrastructure needs associated with residents, and; be designed to provide a high quality of care.

Policy CSD4 includes requirements for Green Infrastructure and Open Space, including biodiversity net gain.

Improvements in green infrastructure (GI) assets in the district will be actively encouraged as will an increase in the quantity of GI delivered by Shepway District Council working with partners and developers in and around the sub-region, including through pursuing opportunities to achieve net gains in biodiversity, and positive management of areas of high landscape quality or high coastal/recreational potential.

Green infrastructure will be protected and enhanced and the loss of GI uses will not be allowed, other than where demonstrated to be in full accordance with national policy, or a significant quantitative or qualitative net GI benefit is realised or it is clearly demonstrated that the aims of this strategy are furthered and outweigh its impact on GI. Moreover:

- Development must avoid a net loss of biodiversity.
- The highest level of protection in accordance with statutory requirements will be given to protecting the integrity of sites of international nature conservation importance.
- A high level of protection will be given to nationally designated sites (SSSI and Ancient Woodland) where development will avoid any significant impact.
- Appropriate and proportionate protection will be given to habitats that support higher-level designations, and sub-national and locally designated wildlife/geological sites (including Kent BAP habitats, and other sites of nature conservation interest).
- Planning decisions will have close regard to the need for conservation and enhancement of natural beauty in the AONB and its setting, which will take priority over other planning considerations. Elsewhere development must not jeopardise the protection and enhancement of the distinctive and diverse local landscapes in Shepway (especially where these support the setting of the AONB), and must reflect the need for attractive and high-quality open spaces throughout the district.

The policy also outlines the management of strategic open space, with a focus on:

- Adapting to and managing climate change effects.
- Protecting and enhancing biodiversity and access to nature, particularly in green corridors and other GI Strategic Opportunities in Figure 5.3, with appropriate management of public access (including a Sustainable Access Strategy for Dungeness and together with a strategic approach to the international sites as detailed above); and also avoiding development which results in significant fragmentation or isolation of natural habitats.

- Identifying opportunities to expand the GI functions of greenspaces and their contribution to a positive sense of place (including enhancements to public open spaces and outdoor sports facilities).

- Tackling network and qualitative deficiencies in the most accessible, or ecologically or visually important GI elements, including improving the GI strategic fringe zones in Figure 5.3 through landscape improvements or developing corridors with the potential to better link greenspaces and settlements.

Appendix 3

Appendix 3: Professional Guidance (RICS)

Introduction

1.1 This section summarises the extracts of the RICS Guidance Note: Financial Viability in Planning ("the RICS GN") and the RICS Professional Statement: Financial Viability in Planning – Conduct and Reporting ("the RICS PS") relevant to undertaking a viability assessment.

The RICS Guidance Note: Financial Viability in Planning

1.2 The RICS GN was published in August 2012. The purpose of the guidance note is to enable all participants in the planning process to have a more objective and transparent basis for understanding and evaluating financial viability in a planning context. It provides practitioners with advice in undertaking and assessing viability appraisals for planning purposes.

1.3 The RICS GN defines financial viability for planning purposes; separates the key functions of development, being land delivery and viable development (in accordance, and consistent, with the NPPF); highlights the residual appraisal methodology; defines site value for both scheme specific and area-wide testing in a market rather than hypothetical context; what to include in viability assessments; terminology and suggested protocols; and the uses of financial viability assessments in planning.

1.4 The guidance note provides all those involved in financial viability in planning and related matters with an objective methodology framework and set of principles that can be applied for both plan making and development management.

1.5 The guidance note is grounded in the statutory and regulatory planning regime that currently operates in the UK. It is consistent with the Localism Act 2011, the NPPF, and the CIL Regulations 2010.

1.6 Financial viability for planning purposes is defined as follows: -

"An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, whilst ensuring an appropriate site value for

the landowner and a market risk adjusted return to the developer in delivering that project."

1.7 This FVA and accompanying analysis have been prepared fully in accordance with the provisions of the RICS GN.

1.8 We understand that a second edition of the RICS GN is in the course of preparation in response to recent case law and following the publication of the revised NPPF and PPG. We believe the principles set out in the 2012 RICS GN are still relevant to current viability assessments notwithstanding the revisions to the NPPF and PPG. In applying these principles, we do however take into account these revisions in undertaking our assessment.

The RICS Professional Statement: Financial Viability in Planning – Conduct and Reporting

1.9 In July 2018 a revised NPPF and National Planning Practice Guidance (NPG) were issued. The NPPF was further updated in February 2019 and the NPG updated in May 2019. This followed the earlier decision in Parkhurst Road Ltd v Secretary of State for Communities and Local Government & Anor [2018] EWHC 991. The RICS Professional Statement (May 2019) has therefore been informed by the NPPF, NPG and the High Court decision, as well as practitioner experience.

1.10 The Professional Statement sets out mandatory requirements that inform the practitioner on what must be included within financial viability assessments and how the process must be conducted. The rationale for the practice statement reflects that planning applications involve a statutory process that is subject to public scrutiny where often viability assessments are important and need to provide public confidence in a process that is inevitably complex, but nevertheless must inform the planning decision-maker.

1.11 The Professional Statement is effective from 1 September 2019 and applies to all Chartered Surveyors and regulated firms of Chartered Surveyors. It applies to both area wide (policy making) and scheme specific assessments (decision making). The Practice Statement is mandatory to originators of viability assessments as well as reviewers and in area with viability assessments.

1.12 The purpose of the Practice Statement is to demonstrate how a reasonable, objective and impartial outcome, without interference, should be arrived at, and so support the statutory planning decision process. It also aims to support and complement the government's reforms to the planning process announced in July 2018 and subsequent updates, which include an overhaul of the NPPF and NPG on viability and related matters. The new policy and practice advice prioritise the assessment of viability at the plan-making stage and identifies existing use value as the starting point for assessing the uplift in value required to incentivise the release of land.

1.13 It should be noted that the practice statement was in effect approved by both the MHCLG and GLA (it was also reviewed by the Law Society, RTPI, Planning Officers Society and other sector representatives).

1.14 The practice statement sets out 14 mandatory requirements for all RICS practitioners when undertaking viability assessments:

2.1 Objectivity, impartiality and reasonableness statement

2.2 Confirmation of instructions and absence of conflicts of interest

2.3 A no contingent fee statement

2.4 Transparency of information

2.5 Confirmation where the RICS member is acting on area-wide and scheme-specific FVAs

2.6 Justification of evidence and differences of opinion

2.7 Benchmark land value and supporting evidence

2.8 FVA origination, reviews and negotiation

2.9 Sensitivity analysis (all reports)

2.10 Engagement

2.11 Non-technical summaries (all reports)

2.12 Author(s) sign-off (all reports

2.13 Inputs to reports supplied by other contributors

2.14 Timeframes for carrying out assessments

Appendix 4

Appendix 4: Benchmark Land Value (BLV)

Introduction

1.1 This section sets out the underlying basis of the adopted Benchmark Land Value (BLV). Our views are formed having regard to the NPPF, the NPG, AH&V SPG, RICS Guidance Note 'Financial Viability in Planning' published August 2012 (RICS GN) and the RICS Professional Statement 'Financial Viability in Planning: conduct and reporting' published NPG in May 2019 (effective September 2019).

Viability Guidance

1.2 In relation to Viability Guidance as set out in Section 5 of this report and the mandatory requirements of the RICS Professional Statement, we looked to establish the following values:

i **current use value –** CUV, referred to as EUV or first component in the NPG (see paragraph 015 reference ID: 10-015-20190509).

ii **premium** – second component as set out in the NPG (see paragraph 016 reference ID: 10-016-20190509)

iii **market evidence** as adjusted in accordance with the NPG (see PPG paragraph 016 reference ID: 10-016-20190509)

iv **all supporting considerations, assumptions and justifications adopted** including valuation reports, where available (see NPG paragraphs 014 reference ID: 10-014-20190509; 015 reference ID: 10-015-20190509; and 016 reference ID: 10016-20190509)

v **alternative use value as** appropriate (market value on the special assumption of a specified alternative use; see NPG paragraph 017 reference ID: 10-017-20190509).

1.3 The BLV in accordance with the NPG, therefore comprises the EUV of the site (component 1) and an appropriate premium to the landowner to reflect the return a reasonable land owner would be willing to sell their land, whilst allowing for a sufficient contribution to comply with policy requirements (component 2). In accordance with NPG the Benchmark Land Value (BLV) or Site Value should reflect a combination of these two elements.

1.4 **Existing Use Value (EUV) (Component 1)**

1.5 NPG at paragraph 015 indicates that EUV can reflect the land in its existing use. In this instance the Site has a suis generis planning use and the Site would require planning consent for and alternative use if not used as a police station. The building has also been vacant since 2014 and the Metropolitan Police Authority identified the building as surplus to their requirements.

1.6 **Premium to the Land Owner (Component 2)**

1.7 NPG at paragraph 016 indicates that establishing a reasonable premium to the landowner is an iterative process informed by professional judgement and must be based upon the best available adjusted market evidence.

1.8 Furthermore, the RICS GN outlines that it is essential to have regard to sales prices of comparable development sites, para 3.16 states:

"The importance…of comparable evidence cannot be over-emphasised, even if the supporting evidence is very limited, as evidenced in Court and Land Tribunal decisions."

1.9 We have therefore considered a number of transactions of development land to establish Component 2 of the Site Value in the local vicinity and having regard to their policy requirements and planning obligations.

Alternative Use Value

1.10 NPG at paragraph 017 provides guidance for undertaking an alternative use value (AUV) on the basis that there is a planning permission or reasonable prospect of planning permission being granted, and a demand for such a scheme can be demonstrated.

Site Value Approach

1.11 By using a number of methods to assess Site Value, a range can be generated, and consideration can then be made to what a reasonable landowner would be willing to sell their land.

1.12 We have assumed the Site is free of any encumbrances, or restrictions on title which would adversely affect the value.

Appendix 5

Sales Values Comparable Research

Review of the Advisors Methodology

1.1 GE have reviewed the comparable evidence provided in the BPS report. We have also identified several comparable schemes which have been omitted from the BPS report. We have briefly commented on the comparability and suitability of each of the comparable schemes below.

1.2 We have also had regard to the Montagu Evans report. Limited weight has been attributed to the comparables contained within this report due to the availability of more contemporaneous evidence.

The Lees, Sellindge

1.3 The Lees, referred to as 'Sellindge' within the BPS report, is located in 2 km northwest of the Proposed Scheme. The Lees is situated in Sellindge, a small village immediately north of the M20.

1.4 Phase 1 of the scheme, delivered by Taylor Wimpey, launched in January 2019. The phase comprises 50 dwellings. We understand that as of June 2020, only 1 unit remains available.

1.5 The residential units have been finished to a moderate standard. A limited amount of placemaking has been incorporated into the scheme with the creation of 'The Village Green' and the surrounding pond and woodland.

1.6 The scheme comprises a very good comparable due to its relative proximity to the Proposed Scheme and phased delivery.

1.7 The Lees does not benefit from direct access to a train station. We note that Westenhanger Station is approximately 4km by road from The Lees. By comparison, the Subject Site benefits from immediate access to Westenhanger Station. Consequently we would anticipate the subject scheme to achieve sales values in excess of The Lees by approximately 5%.

Values

1.8 Our investigations show that as of June 2020, a total of 33 units have been sold and registered on the Land Registry. The distribution of sales volumes, broken down by number of bedrooms, is as follows:

Number of Bedrooms	Number of units sold
2	3

3	19
4	9
Total	31

1.9 The minimum and maximum house price broken down by number of bedrooms is as follows:

Bedrooms					
2		**3**		**4**	
Min	**Max**	**Min**	**Max**	**Min**	**Max**
£224,995	£229,995	£264,995	£309,995	£314,995	£319,000

1.10 Land registry data suggests that significant premiums were achieved on smaller units, with 2-bedroom houses achieving an average price per sq ft in excess of £330. The average price per sq ft, broken down by number of bedrooms, is as follows:

Bedrooms	**2**	**3**	**4**
Average Price Per Sq ft	£331	£313	£258

Shorncliffe Heights, Folkestone

1.11 Shorncliffe Heights is located 7 km east of the Proposed Scheme. Shorncliffe Heights is situated in the western city fringe of Folkestone, in close proximity to the Eurotunnel terminal.

1.12 Shorncliffe Heights, delivered by Taylor Wimpey, is located on the site of a former military base, Shorncliffe Garrison. The Site gained outline planning permission for up to 1,200 new homes in December 2015. We understand that the development will be delivered in 4 key phases.

1.13 The units have been finished to a reasonable standard, comparable to The Lees, which was also delivered by Taylor Wimpey. Shorncliffe Heights benefits from an enhanced level of placemaking, with plans for a primary school and nursery included within the master consent. Leisure facilities are comparable to the Proposed Site, with provision for football pitches and a cricket pitch.

Values

1.14 Our investigations show that between January 2018 and June 2020, a total of 96 units had been sold and registered on the Land Registry. The distribution of sales volumes, broken down by number of bedrooms, is as follows:

Number of Bedrooms	**Number of units sold**
2	23
3	53
4	18

5	2
Total	96

1 15

1.16 The minimum and maximum house price broken down by number of bedrooms is as follows:

Bedrooms							
2		**3**		**4**		**5**	
Min	**Max**	**Min**	**Max**	**Min**	**Max**	**Min**	**Max**
£168,500	£219,995	£208,500	£349,995	£298,500	£332,500	£385,000	£395,000

1.17 Land registry data suggests that significant discounts were achieved on larger units, with 4 and 5-bedroom houses achieving an average price per sq ft below £240. The average price per sq ft, broken down by number of bedrooms, is as follows:

Bedrooms	**2**	**3**	**4**	**5**
Average Price Per Sq ft	£296	£302	£232	£240

Martello Lakes, West Hythe

1.18 Martello Lakes is located 3.7 km south-east of the Proposed Scheme. The development is situated immediately south of West Hythe, a small hamlet between Hythe, to the east and Dymchurch, to the west.

1.19 Martello Lakes is located on the site of the former Nickolls Quarry. We understand that the Site gained outline planning permission for up to 1,050 new homes in May 2010. We have identified residential sales from phases 1 and 2, which have been delivered by Barratt Homes.

1.20 The units have been finished to a reasonable standard, comparable to the Proposed Scheme.

1.21 We understand that commercial space, including retail, will be delivered through future phases. As such, phases 1 and 2 suffer from a general lack of amenity offering within the immediate vicinity.

1.22 Martello Lakes does not benefit from strong transport links. The closest railway station is Westenhanger, 4.5 miles by road to the north, which provides access to the South eastern railway network.

1.23 Consequently we would anticipate the subject scheme to achieve sales values in excess of Martello Lakes by approximately 10% due to enhanced transport and amenity offering.

Values

1.24 Our investigations show that between January 2018 and June 2020, a total of 68 units had been sold and registered on the Land Registry. The distribution of sales volumes, broken down by number of bedrooms, is as follows:

Number of Bedrooms	Number of units sold
2	23
3	25
4	20
Total	68

1.25 The minimum and maximum house price broken down by number of bedrooms is as follows:

Bedrooms					
2		3		4	
Min	Max	Min	Max	Min	Max
£195,000	£314,995	£254,995	£304,995	£279,995	£409,995

1.26

1.27 The average price per sq ft, broken down by number of bedrooms, is as follows

Bedrooms	2	3	4
Average Price Per Sq ft	£325	£316	£291

<u>Westbrook Drive, Folkestone</u>

1.28 Westbrook Drive is located 9.5 km east of the Proposed Scheme. The development is set within an already well-established residential area, between Folkestone West and Folkstone Central railway stations.

1.29 The site, delivered by Bellway Homes, received full planning permission for the construction of 127 homes in 2015. We understand that the site was formerly Westbrook House school.

1.30 Westbrook Drive does not benefit from on-site amenities. However, the site benefits significantly from its proximity to existing community infrastructure, such as Folkestone College and Three Hills Sport Park.

1.31 Moreover, Westbrook Drive's proximity to South Eastern mainline stations Folkestone Central (0.4 km) and Folkestone West (0.6 km), ensures the site benefits from exceptional public transport links.

1.32 Due to Westbrook Drive's location within a more established residential neighbourhood in Folkestone, we have attributed limited weight to the residential sales comparables derived from the scheme.

Values

1.33 Nonetheless, we identified a total of 22 residential sales comparables which have been registered on the land registry between January 2018 and June 2020. The distribution of sales volumes, broken down by number of bedrooms, is as follows:

Number of Bedrooms	Number of units sold
2	9
3	12
4	1
Total	22

1.34 The minimum and maximum house price broken down by number of bedrooms is as follows:

Bedrooms					
2		3		4	
Min	Max	Min	Max	Min	Max
£235,000	£250,000	£266,500	£294,995	£408,795	£408,795

1.35 The average price per sq ft, broken down by number of bedrooms, is as follows:

Bedrooms	2	3	4
Average Price Per Sq ft	£329	£292	£292

Ashford

1.36 We have also had regard to residential sales evidence from development schemes in Ashford. Ashford is the terminus of the existing HS1 railway line, opening in 2007. Therefore we have had regard to sales values in Ashford in order to inform our opinion of the value uplift which may be derived following the upgrade works to Westenhanger station.

Conningbrook Lakes, Ashford

1.37 Conningbrook Lakes is located 11 km north-west of the Proposed Scheme. The development is situated in the Willesborough Lees area of Ashford, immediately north-east of the town centre.

1.38 Conningbrook Lakes, delivered through a Joint Venture between Clarion Housing and Latimer, is another former quarry development site. The site gained outline planning permission for up to 300 new homes in October 2017.

1.39 The units have been finished to a high specification. A small number of units benefits from frontages onto Conningbrook Lake, which offers leisure and water sports activities such as kayaking and canoeing.

1.40 The closest railway station is Ashford International (2 km), which is the terminus station for HS1.

Values

1.41 Our investigations show that between January 2018 and June 2020, a total of 32 units had been sold and registered on the Land Registry. The distribution of sales volumes, broken down by number of bedrooms, is as follows:

Number of Bedrooms	Number of units sold
2	6
3	20
4	6
Total	32

1.42 The minimum and maximum house price broken down by number of bedrooms is as follows:

Bedrooms					
2		3		4	
Min	Max	Min	Max	Min	Max
£280,000	£299,999	£319,995	£386,500	£410,000	£495,000

1.43 The sales evidence shows that comparable sales values at Conningbrook Lakes analysed on a per sq ft basis are approximately 10% in excess of comparables units at The Lees, which we consider to be the most applicable comparable to the Proposed Scheme. The average price per sq ft values, broken down by number of bedrooms, is as follows:

Bedrooms	2	3	4
Average Price Per Sq ft	£364	£349	£339

Willesborough Lees, Ashford

1.44 Further to Conningbrook Lakes, we also identified a small number of comparable residential sales the Willesborough Lees development, which is situated at the opposite end of Conningbrook Lake.

1.45 Public transport and amenity access for Willesborough Lees mirrors that of Conningbrook Lakes. However we note that the specification of the units at Willesborough Lees is inferior to Conningbrook Lakes.

1.46 Willesborough Less has been delivered by Ward Homes.

Values

1.47 Our investigations show that between January 2018 and June 2020, a total of 8 units had been sold and registered on the Land Registry. The distribution of sales volumes, broken down by number of bedrooms, is as follows:

Number of Bedrooms	Number of units sold
4	6
5	2
Total	8

1.48 The minimum and maximum house price broken down by number of bedrooms is as follows:

Bedrooms			
4		5	
Min	Max	Min	Max
£319,995	£386,500	£410,000	£495,000

1.49 The sales evidence shows that comparable sales values of 4-bedroom units at Willesborough Lees analysed on a per sq ft basis are approximately 20% in excess of comparables units at The Lees The average price per sq ft, broken down by number of bedrooms, is as follows:

Bedrooms	4	5
Average Price Per Sq ft	£349	£339

Appendix 6

Commercial Comparable Research

Retail (A1/A3)

1.1 Our investigations showed a relative scarcity of recent retail transactions in the vicinity of the proposed scheme. We have therefore drawn retail rental and transactional evidence from towns in the surrounding area, such as Hythe and Ashford.

1.2 We have identified retail rental transactions ranging from £10 per sq ft to £26 per sq ft on a headline basis. We would anticipate rents at the Proposed Scheme to be within the upper quartile of this range.

Rental transactions:

1.3 **95 County Square Shopping Centre, Ashford TN23 1YB** – this comprises ground and first floor retail accommodation extending 5,755 sq ft. It was let to Metrobank on a new 25-year lease in June 2018 at £150,000 per annum plus 12 months' rent free. The rent equates to £26.00 per sq ft on a headline basis and £24 per sq ft on a net-effective basis. The unit is located 12.5 km north-west of the Proposed Scheme in a prime shopping centre.

1.4 **33 County Square Shopping Centre, Ashford TN23 1YB** – this comprises ground and first floor retail accommodation extending 5,916 sq ft. It was let to Deichmann on a new 10-year lease in June 2018 at £80,000 per annum plus 24 months' rent free. The rent equates to £13.50 per sq ft on a headline basis and £10.15 per sq ft on a net-effective basis. The unit is located 12.5 km north-west of the Proposed Scheme in a prime shopping centre.

1.5 **38 County Square Shopping Centre, Ashford TN23 1AE** – this comprises ground and first floor retail accommodation extending 4,450 sq ft. It was let to A Simmonds on a new 10-year lease in June 2018 at £50,000 per annum plus 3 months' rent free. The rent equates to £11.20 per sq ft on a headline basis and £10.80 per sq ft on a net-effective basis. The unit is located 12.5 km north-west of the Proposed Scheme in a prime shopping centre.

1.6 **Main Road, Sellindge TN25 6EQ** – this comprises ground floor retail plus basement and mezzanine ancillary accommodation extending 459 sq ft. It was let to an independent tenant on a new 10-year lease in April 2017 at £5,000 per annum. The rent equates to £10.90 per sq ft on a headline basis. The unit is located 2.8 km north-west of the Proposed Scheme on a tertiary retail pitch.

1.7 **53 High Street, Hythe CT21 5AD** – this comprises ground floor retail accommodation extending 471 sq ft. It was let to an independent tenant on a new 9-year lease in April 2017 at £7,000 per annum. The rent equates to £14.80 per sq ft on a headline basis. The unit is located 4.2 km south-east of the Proposed Scheme on a primary retail pitch.

1.8 **112 High Street, Hythe CT21 5LE** – this comprises ground and first floor retail accommodation extending 1,150 sq ft. It was let to an independent tenant on a new 10-year lease in June 2018 at £11,500 per annum. The rent equates to £10.00 per sq ft on a headline basis. The unit is located 4.2 km south-east of the Proposed Scheme on a primary retail pitch.

1.9 **141 High Street, Hythe CT21 5JL** – this comprises ground floor retail accommodation extending 738 sq ft. It was let to an independent tenant on a new 15-year lease in January 2018 at £8,500 per annum. The rent equates to £11.50 per sq ft on a headline basis. The unit is located 4.2 km south-east of the Proposed Scheme on a primary retail pitch.

1.10 **61 High Street, Hythe CT21 5AD** – this comprises ground floor retail accommodation extending 2,228 sq ft. It was let to an independent tenant on a new 5-year lease in April 2017 with a tenant break option in year 3 at a rent of £25,000 per annum. The rent equates to £11.20 per sq ft on a headline basis. The unit is located 4.2 km south-east of the Proposed Scheme on a primary retail pitch.

<u>Yields:</u>

1.11 Yields achieved during the last year in the locality vary depending on various factors including tenant covenant strength and length of lease. We are aware of the following transactions:

1.12 **58 High Street, Ashford TN25 4AZ** – this comprises 3,788 sq ft retail accommodation arranged across a ground, first and second floors let to Specsavers from January 2019 for a term of 5 years at a passing rent of £30,000 (£7.90 per sq ft on an overall basis) per annum. The freehold interest in the property, located approximately 14.0 km north-west of the Proposed Scheme, was sold in August 2019 for £370,000. The purchase price reflected a capital value of approximately £98 per sq ft and a net initial yield of 7.55%.

1.13 **5 – 7 Castle Street, Ashford TN23 1JQ** – this comprises 1,666 sq ft retail accommodation arranged across a ground, first and second floors let to Coral from November 2013 for a term of 10 years at a passing rent of £25,000 (£15.00 per sq ft on an overall basis) per annum. The freehold interest in the property, located approximately 14.2 km north-west of the Proposed Scheme, was sold in November 2018 for £495,000. The purchase price reflected a capital value of approximately £297 per sq ft and a net initial yield of 5.00%.

Office

1.14 Our investigations showed a dearth of office transactions both in the immediate vicinity of the Proposed Scheme and in surrounding towns such as Hythe and Folkestone.

1.15 Consequently, we have collated and analysed office transactions in Ashford. Ashford benefits from the existing HS1 railway access and therefore we would anticipate values in Ashford to be comparable to the Proposed Scheme once the Westenhanger rail upgrade works are completed.

1.16 We also consider that the quantity and quality of office space delivered by the Proposed Scheme has the potential to create a highly desirable business destination, which could drive further rental uplift when compared with Ashford.

1.17 We have identified office rental transactions ranging from £12 per sq ft, for poor quality accommodation to £22 per sq ft for high-quality accommodation. We would anticipate rents at the Proposed Scheme to be within the upper quartile of this range.

Rental transactions:

1.18 **One Connect, Station Road, Ashford TN23 1PJ** – this comprises office accommodation extending 2,953 sq ft. It was let to Towergate Insurance Limited on a new 10-year lease with a tenant break option at year 5 in February 2019 at £64,966 per annum. The rent equates to £22.00 per sq ft on a headline basis. The Category-A office is located 12.0 km north-west of the Proposed Scheme in central Ashford.

1.19 **Unit 3, Highpoint Business Village, Ashford TN24 8DH** – this comprises first floor office accommodation extending 1,626 sq ft. It was let to Hilton Nursing Partners on a new 5-year lease in June 2018 at £21,600 per annum. The rent equates to £13.30 per sq ft on a headline basis. The unit is located 12.0 km north-west of the Proposed Scheme in outer Ashford. We would anticipate the quality of office accommodation provided at the Proposed Scheme to exceed H

1.20 **Unit 5, Highpoint Business Village, Ashford TN24 8DH** – this comprises first floor office accommodation extending 1,506 sq ft. It was let to Voyage Care on a new 6-year lease in May 2018 at £18,000 per annum. The rent equates to £12.00 per sq ft on a headline basis. The unit is located 12.0 km north-west of the Proposed Scheme in outer Ashford.

1.21 **Kent House, 81 Station Road, Ashford TN23 1PP** – this comprises second and third floor office accommodation extending 17,632 sq ft. It was let to Eurostar on a new 15-year lease in October 2017 at £ 274,700 per annum. The rent equates to £15.60 per sq ft on a headline basis. The unit is located 12.3 km north-west of the Proposed Scheme in central Ashford.

1.22 **International House, Dover Place, Ashford TN23 1HU** – this comprises second floor office accommodation extending 748 sq ft. It was let to H&B Medical on a new 3-year lease in September 2017 at £12,000 per annum. The rent equates to £16.00 per sq ft on a headline basis. The unit is located 12.2 km north-west of the Proposed Scheme in central Ashford, adjacent to Ashford International station.

Yields:

1.23 Yields achieved during the last year in the locality vary depending on various factors including tenant covenant strength and length of lease. We are aware of the following transactions:

1.24 **1,500 Lower Pemberton, Eureka Park, Trinity Road, Ashford TN25 4BF** – this comprises 35,700 sq ft office accommodation arranged across a ground, first and second floors let to Smith's Medical Group Limited from March 2009 for a term of 15 years at a passing rent of £471,354 (£19.50 per sq ft) per annum. The freehold interest in the property, located approximately 14.5 km north-west of the Proposed Scheme, was sold in February 2019 for £9,310,000. The purchase price reflected a capital value of approximately £260 per sq ft and a net initial yield of 4.75%. We note that at the date of sale, the ground floor (30% of total floor-space) of the Property was vacant, which has acted to compress the net-initial yield. The property is located in Eureka Park, an out of town business park immediately north of Junction 9 of the M20. Eureka Park comprises a good comparable to the Proposed scheme due to its comparable access to high-quality road links.

1.25 **200 Eureka Park, Trinity Road, Ashford TN25 4AZ** – this comprises 10,300 sq ft office accommodation arranged across a ground and first floors let to RIFT International from November 2012 for a term of 15 years at a passing rent of £192,000 (£18.60 per sq ft) per annum. The freehold interest in the property, located approximately 14.5 km north-west of the Proposed Scheme, was sold in August 2019 for £2,300,000. The purchase price reflected a capital value of approximately £223 per sq ft and a net initial yield of 7.80%. The property is also located in Eureka Park and is therefore highly comparable with the Proposed Scheme.

1.26 **Unit J Concept Court, Sheraway Business Park, Folkestone CT19 4RH** – this comprises 4,010 sq ft office accommodation arranged across a ground and first floors let to The Kent Community Health NHS Foundation Trust from July 2016 2009 for a term of 10 years at a passing rent of £32,000 (£7.90 per sq ft) per annum. The freehold interest in the property, located approximately 8.5 km east of the Proposed Scheme, was sold at auction in March 2018 for £440,000. The purchase price reflected a capital value of approximately £36.60 per sq ft and a net initial yield of 7.25%. Sheraway Business Park is located in close proximity to the Eurotunnel terminus. The specification of the office is poor, we would anticipate the Proposed Scheme to be of significantly improved specification. We have therefore attributed limited weight to this comparable transaction.

Appendix 7

Appendix 7: Finance Costs

1.1 The interest rate applied in the appraisals represents a total cost of capital in financing the Scheme. This reflects both debt and equity financing with the banks requiring a larger element of the latter relative to the former following the economic crisis. The debt element reflects both a margin and risk premium above 5-year swap rates. The equity element should in theory reflect an equity return which may be calculated by reference to the weighted average cost of capital (WACC). However, this would also need to have regard to the level of development return, which is reflected in the amount of profit a scheme is producing. It follows that to avoid double-counting, the equity element should broadly follow the level of debt interest plus a margin to reflect the more costly equity.

1.2 De Montfort University's The UK Commercial Property Lending Market Research Findings Mid-Year 2017 collates a sample of the conditions under which lenders offer development finance.

1.3 The survey highlighted that development loans terms by all surveyed lenders entailed (including UK lenders and building societies, German lenders, North American lenders and other international lenders) comprised of the following:

i Residential for sale: Average loan to cost ratios of 55% to 85%; average interest rate margins of 490 bps; average arrangement fees of 130 bps.

ii Pre-let commercial: Average loan to cost ratios of 60% to 85%; average interest rate margins of 445 bps; average arrangement fees of 135 bps.

iii Speculative commercial: Average loan to cost ratios of 64%; average interest rate margins of 602 bps; average arrangement fees of 163 bps.

iv 50% speculative / 50% pre-let commercial: Average loan to cost ratios of up to 68%; average interest rate margins of 526 bps; average arrangement fees of 148 bps.

1.4 Most lenders active in development financing note that they were no longer financing speculative or partial speculative development.

1.5 At mid-year 2017 finance of fully pre-let development demonstrated average interest rate margins of 449bps, which was an increase from 401bps reported at year-end 2016 and an even higher increase from 336bps at year-end 2015. The average LTC based on GDV ratio was 69% and the average arrangement fee 134bps at mid-year 2017.

1.6 This reflects an increased finance risk premium with regard to speculative commercial development which saw margins widen significantly since the beginning of 2016. Whilst debt markets remain active lenders are increasingly reticent to lend to schemes in what has become an increasingly uncertain occupier market.

1.7 The residential development finance market has, according to De Montfort University, attracted particular lender interest. Average interest rate margins declined to 490bps from 528bps at year-end 2016, having previously increased from 400 bps at mid-year 2016, whilst the average arrangement fee is 130bps with an exit fee of 116bps. The LTC ratio ranged from 55% - 85%.

1.8 Despite a slowdown in new origination volume, market liquidity did not suffer in terms of competitive pricing and lending terms. This is especially the case in the core and prime markets and in particular for the London market.

1.9 LTV ratios for newly originated loans have remained low and stable. While 12 months ago lenders were still comfortable lending at 60-65% LTV, there is more caution regarding property values especially for prime property in London. Average LTV's were 58% at mid-year 2017. There is general willingness from lenders to improve on other terms and structure loans around business plans and improve speed of transaction closing.

1.10 Given that senior debt is generally offered at 50% to 80% of cost of development projects, the remainder of project financing will, in most cases, be comprised of equity and in some cases varying levels of junior debt, mezzanine debt.

1.11 Junior debt and particularly mezzanine debt are typically provided by specialist platforms, and a lack of available research exists as to average lending criteria. The IPF, for example, states that "mezzanine finance is not a product that many banks provide" and "this type of finance is typically associated with projects funded on a profit share basis".

1.12 Given the lack of available research and idiosyncratic nature of subordinate debt arrangements for real estate development funding, we have omitted this from our assessment of the market rate for development finance. The remaining project cost not provided by senior debt is therefore assumed to be equity financed.

1.13 The UK development market as a whole now bears a greater perception of risk on behalf of lenders; and given negative growth perceptions in a selection of sub-markets we expect lenders to increase margins in order to compensate for additional lending risk. Thus far this has been particularly prevalent in increased fees across most development types and increased margins for higher risk speculative development.

1.14 Until the UK development finance markets finds equilibrium, it is likely that on average loan to cost ratios will be lower, and margins will be higher than the 2016 figures stated in the IPF and De Montfort University reports, although it should be stipulated that this current scenario is changeable.

1.15 Despite the Bank of England raising interest rates from the historic low of 0.25% to 0.5%, the market sentiment is that any further rises will be small and gradual.

1.16 That said at present finance remains largely available, and total borrowing costs continue to be tempered by relatively low UK government bond yields and a base interest rate of 0.5%, both of which partially underpin development finance margins and loan availability.

1.17 As far as financing is concerned, we are of the view that a total cost of capital for financing the Scheme of 6.5% is reasonable. The total cost also takes into account arrangement, monitoring and related fees. Due to the ongoing Brexit negotiations and continued uncertainty around the impact on bank lending rates, we would anticipate that finance rates are unlikely to decrease from this level.

Appendix 8

Otterpool Park

Assessment of Deliverability & Viability:

BPS - 22ND JANUARY REPORT

BPS Chartered Surveyors
215a High Street, Dorking, RH4 2HD
www.bps-surveyors.co.uk
[redacted]

CONTENTS

1.0 INTRODUCTION

1.1 We have been instructed by the Local Planning Authority of Folkestone & Hythe District Council (FHDC) to assess the deliverability and viability of the proposed new garden settlement development known as Otterpool Park, and in conjunction to review those policies in the Core Strategy Local Plan Review which relate to the Otterpool Park proposal.

1.2 **This BPS report has been prepared on the basis it is publically available to inform preparation of the Partial Core Strategy Review. However, the assessment includes some assumptions that are commercially confidential. Where this is the case the inputs have been redacted and the planning authority has satisfied itself that the information to be excluded is commercially sensitive as it relates to ongoing negotiations over land purchase.**

1.3 This BPS report provides a review of the Promoter's viability assessment, in the context of the deliverability of the Otterpool Park project and taking into account those policies in the Core Strategy Local Plan Review. It has been produced as part of supporting documentation to inform preparation of the Partial Core Strategy Review and to ensure the emerging policies will be deliverable and effective, as required by national policy.

1.4 Key documents that we have had reference to include (among others):

- Folkestone and Hythe District Council Core Strategy Review 2018 – we have considered the policies in this document
- Places and Policies Local Plan. This is the 'lower-tier' policy document, being below the upper-tier Core Strategy cited above.
- Viability evidence provided by the Promoter of the Otterpool Park new settlement

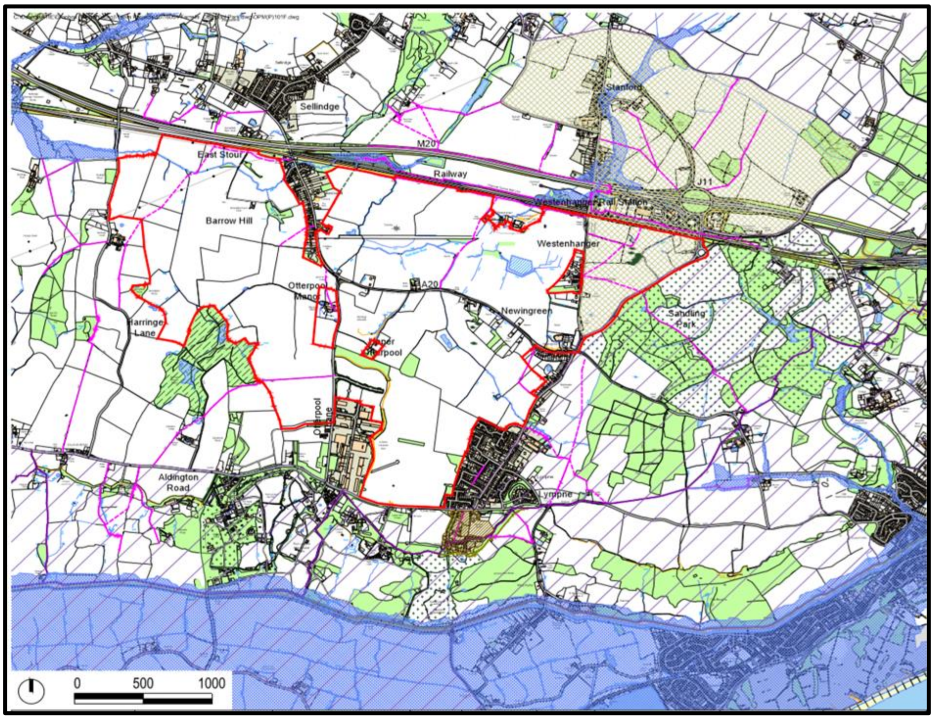
1.5 The major landowners within the Otterpool site are FHDC and Cozumel Estates, and they are jointly proposing the Otterpool Park development; we refer to them collectively as 'the Promoter'. A Framework Masterplan has been provided by Farrells and Arcadis, with Arcadis leading on this project on behalf of the Promoter. We have undertaken a review of the viability assessment that has been provided by the Promoter's advisers, including a review of the infrastructure list, the 'plot-developer appraisal', and the 'master-developer appraisal'. The plot-developer appraisal relates the delivery/construction of the housing and other uses (mostly by housebuilders), whereas the master-developer appraisal deals with the delivery of infrastructure, preparation of sites and then sales of land to housebuilders. A master-developer delivery model is to be adopted, whereby housebuilders undertake most or all of the plot-development while the master-developer focusses upon infrastructure delivery and overall scheme design.

1.6 We have considered the Market Analysis that Montagu Evans has provided on behalf of the Promoter. We have also considered the Otterpool Park Garden Town Employment Evidence Base (NLP), by Nathaniel Lichfield and Partners (NLP). Quod have undertaken a review of the Core Strategy Local Plan Review, in particular those policies relating to Otterpool, on behalf of the Promoter.

2.0 DESCRIPTION OF SITE & PROPOSED DEVELOPMENT

2.1 As set out in the emerging Otterpool Park Framework Masterplan, the Otterpool Park development ('Otterpool') will be within an area of circa 765 Hectares, earmarked for 10,000 homes; the red line application scheme, for 8,500 homes, has a total area of 580 hectares. It is located in the west of the district of Folkestone & Hythe, on land directly south-west of Junction 11 of the M20 motorway, and south of the Channel Tunnel Rail Link. It is centred on the general area of Otterpool Manor buildings. It is mostly greenfield (agricultural) land, with some residential and light commercial land uses.

2.2 The site is linked off-site to the north-west and south-east via the A20 Ashford Road that traverses the central part of the site. It is bounded by a section of Harringe Lane and farmland to the west and Harringe Brooks Woods and more farmland to the south-west. The southern boundary wraps around Lympne industrial estate and either side is surrounded by farmland. The south-eastern and eastern boundary is bordered by the settlements of Lympne and Newingreen and further north the eastern boundary runs parallel with the A20 before terminating at the intersection of the A20 (Ashford Rd) with the Channel Tunnel railway line. The northern site boundary runs largely parallel with and adjacent to the Channel Tunnel line, and borders the grounds of Westenhanger Castle, and the settlement of Sellindge. Within the main site area the site boundary excludes parcels of land at Otterpool Manor, Upper Otterpool and south of Westenhanger.



2.3 The development proposals are to be submitted in outline for a new garden settlement of up to 8,500 dwellings and other uses including commercial, retail, education, health, community and leisure facilities, parking, landscaping, and public open space. It will be delivered in 8 phases, over a 30 year period (the indicative phasing is summarised in Section 4, below).

2.4 The emerging site allocation for Otterpool Park relates to a wider Masterplan area which includes land beyond the red line. The site allocation is approximately 765 hectares for up to 10,000 homes and includes:

- An area for development of approximately 640 hectares.
- Development including roads of approximately 305 hectares.
- Green infrastructure of approximately 335 hectares.
- The remaining 125Ha is existing communities and commercial occupiers, woodland and some retained farmland.

2.5 It will comprise a mixture of higher, medium and lower densities of residential provision throughout the new settlement, reflecting a range of housing types. The more urban parts of the development located to the north of the A20 within the proposed town centre will be more dense and taller. In contrast, the rural parts of the settlement lying in the south and western parts of the site will mainly consist of lower density, predominantly two storey housing.

2.6 Otterpool is under the ownership of a number of different landowners. The largest landowners are FHDC and Cozumel.

2.7 F&HDC and Cozumel own the freehold on some of the key parcels of land including those parcels on which the earliest phases will take place: Phase 1A (largely on Folkestone Race Course which is owned by Cozumel) and Phase 1B (on land owned by F&HDC). The other parts of the site are mostly: under an option in favour of F&H DC or Cozumel; or under discussion to be purchased/'optioned'. The site is broadly split between the Cozumel-controlled land (via subsidiaries including Arena) in the north section of the site, and the F&HDC-controlled land in the south section of the site (with 'controlled' encompassing those parcels which they have options on or are under discussion to secure options).

2.8 Westenhanger Railway Station is located in the north-eastern corner of the Otterpool Park area. The station is strategically located on the South-Eastern Railway Line connecting Ashford and Dover. All trains serving Westenhanger are operated by Southeastern railway operator. The station is unstaffed and facilities at the station are limited. There is no waiting room or cycle parking facilities and there is limited accessibility for the mobility impaired. There is no waiting room or cycle parking facilities and there is limited accessibility for the mobility impaired. An upgrade to the passenger facilities at Westenhanger Station is being sought in conjunction with key stakeholders. The station is intended to provide a major hub of activity within the settlement, enhanced transport interchange, an identity for commercial, social and residential land uses and improved linkages for visitors to Westenhanger Castle. The potential to enhance rail services with additional direct services to London is also being explored with the aspiration of at least hourly direct services of less than 60 minutes journey time.

3.0 POLICY CONTEXT (LOCAL & NATIONAL)

National Policy

3.1 The National Planning Policy Framework (NPPF) is the overarching policy governing the new developments including garden community developments. The NPPF identifies the need for new garden settlements (para 72). It states that the supply of large numbers of new homes can often be best achieved through planning for larger scale development, such as new settlements or significant extensions to existing villages and towns, provided they are well located and designed, and supported by the necessary infrastructure and facilities. It goes on to state that policies should, amongst other factors: set clear expectations for the quality of the development and how this can be maintained (such as by following Garden City principles), and ensure that a variety of homes to meet the needs of different groups in the community will be provided; make a realistic assessment of likely rates of delivery, given the lead-in times for large scale sites, and identify opportunities for supporting rapid implementation (such as through joint ventures or locally-led development corporations).

3.2 There is an important footnote to paragraph 72, which states that *"the delivery of large scale developments may need to extend beyond an individual plan period, and the associated infrastructure requirements may not be capable of being identified fully at the outset. Anticipated rates of delivery and infrastructure requirements should, therefore, be kept under review and reflected as policies are updated."* This is important acknowledgement of the unique nature, scale and complexity of new standalone settlements and the need for an ongoing process of review.

3.3 In addition, the Planning Practice Guidance (PPG) includes a section on viability and plan making, which governs the way in which the Local Authorities should incorporate garden community proposals into their local plan policies – such as those policies in the *Folkestone and Hythe District Council Core Strategy Review 2018* relating to Otterpool Park. The principal PPG requirement of relevance is the need that, *"Viability assessment should not compromise sustainable development but should be used to ensure that policies are realistic, and that the total cumulative cost of all relevant policies will not undermine deliverability of the plan (para 002)"*. It also requires that policy requirements (such as affordable housing) should take account of infrastructure needs and allow schemes to be deliverable.

3.4 The guidance goes on to state that plans should set out circumstances where review mechanisms may be appropriate, as well as clear process and terms of engagement regarding how and when viability will be reassessed over the lifetime of the development to ensure policy compliance and optimal public benefits through economic cycles.

3.5 It is therefore important at an early stage to identify the level of need for infrastructure so that realistic level of infrastructure costs can be incorporated into the viability assessment. In paragraph 006, PPG states that, *"Plan makers should engage with landowners, developers, and infrastructure and affordable housing* *providers to secure evidence on costs and values to inform viability assessment at the plan making stage…It is the responsibility of site promoters to engage in plan making, take into account any costs including their own profit expectations and risks, and ensure that proposals for development are policy compliant. It is important for developers and other parties buying (or interested in buying) land to have regard to the total cumulative cost of all relevant policies when agreeing a price for the land. Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan…..”* The Promoter, in collaboration with the Local Planning Authority, has sought to follow PPG's required approach.

Local Policies

3.6 Otterpool sits within the North Downs Area, but outside the Area of Outstanding Natural Beauty.

3.7 The emerging local plan document is the *Folkestone and Hythe District Council Core Strategy* Review 2018. It sets out, in Policy SS6, that the Otterpool settlement shall provide a minimum of 5,500 new homes, and is allocated to deliver at 8,000-10,000 new homes. The appraisal provided by the Promoter includes 8,500 homes, and is of sufficient quantum to test the overall viability of the allocation, given that this number falls within the 8,000-10,000 range. The 8,500 homes relate to all those within the planning application currently being prepared by the Promoter. Other Core Strategy policies specifically relating to Otterpool are outlined below:

- ***SS6: New Garden Settlement - Development Requirements;*** - sets out requirements including in respect of use types and unit mixes. Requires a focus on quality landscaping and outdoor space. Requires delivery of a transport hub at Westenhanger Station. This policy identifies Otterpool Park as a suitable location for a new garden settlement and emerging Policy CSD9 has identified land to the south of Sellindge for additional housing.

- ***SS7: New Garden Settlement - Place Shaping Principles*** – this policy includes requirements for how infrastructure is to be delivered, and the level of landscaping to be provided, including buffer zones between the M20/High Speed Transport corridor and the residential areas. *Requires upgrading to the M20 junction 11, Westenhanger Station upgrade, bus services network upgraded.*

- ***SS8: New Garden Settlement - Sustainability and Healthy New Town Principles;*** this will have an impact on plot build costs including the sustainability requirements which affect build costs. It includes among others policies regarding SUDS and BREEAM requirements.

- ***SS9: New Garden Settlement - Infrastructure, Delivery and Management*** - sets out the general requirement in respect of infrastructure delivery and how this should be secured, via Section 106 and Section 278 Agreements. Key parts of this policy include that Otterpool should be self-sufficient in respect of education, health, community, transport and other infrastructure, and that critical infrastructure such as primary education should be provided in the first phases of development – with the provision of infrastructure being phased in a way that does not disadvantage early residents or neighbouring communities through placing pressure on existing infrastructure in the local area.

3.8 There is also a document titled *"A Charter for Otterpool Park' (November 2017)"*, and the relevant development management policies in the emerging Places and Policies Local Plan.

3.9 The Core Strategy is the subject of Review, which will lead to an Examination in Public of these emerging Local Plan policies, including those policies relating to Otterpool Park. Public consultation on the draft Partial Core Strategy Review (Regulation 18) took place in April/May 2018. A revised version of the plan (Regulation 19) is about to begin, with submission to the Secretary of State following in early 2019.

3.10 The potential need for new housing in the area has been the subject of a Strategic Housing Market Assessment (SHMA, 2017) prepared for the Council by consultants. This assesses the likely need for housing in Shepway (now Folkestone & Hythe District Council) in the period 2014 to 2037. This document concludes that the objectively assessed housing need for Shepway is some 633 dwellings per annum within the defined period resulting in a housing requirement of some 12,030 over the plan period 2018/19 to 2036/37 (14,600 for the period 2014 to 2037). The 300 units per annum forecast to be delivered by Otterpool would therefore be absorbed by this housing requirement.

<u>Appraisal inputs – policy context</u>

3.11 The latest NPPF (July 2018) states in paragraph 57: "*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*". This links it directly to the MHCLG's *Planning Practice Guidance (*PPG*)*, which means that the main guidance on viability for plan-testing purposes is PPG as there is little direct reference to viability in the latest version of the NPPF.

3.12 Paragraph 64 of the NPPF (July 2018) states that, "*Where major development involving the provision of housing is proposed, planning policies and decisions should expect at least 10% of the homes to be available for affordable housing ownership."* This is a new policy, but will not have a significant impact on this Otterpool viability assessment as the Promoter has assumed 22% affordable housing delivery.

3.13 The latest version of PPG is an update made in July 2018. The *previous* version stated that, *"Plan makers should not plan to the margin of viability but should allow for a buffer to respond to changing markets and to avoid the need for frequent plan updating."* The current version has a similar sentiment but now emphasises that the plan-making stage should take a key role in viability testing rather than the application stage:

The role for viability assessment is primarily at the plan making stage. Viability assessment should not compromise sustainable development but should be used to ensure that policies are realistic, and that the total cumulative cost of all relevant policies will not undermine deliverability of the plan.

3.14 There is a requirement that the plan does not have such a scale of policy burdens that it threatens delivery of the majority of sites.

3.15 One key change of focus in the NPPF (2018 version) compared to the earlier version, is the requirement, in respect of setting land value, for direct consultation with landowners to take place prior to benchmark land value being fixed. This refers to benchmark land value used for viability testing for plan-making purposes. We therefore advise that the Council considers undertaking consultation with major landowners.

3.16 The key paragraph of the previous NPPF was paragraph 174. This text has been removed and there is no direct equivalent to this paragraph in the latest NPPF.

3.17 The latest PPG explicitly supports EUV-plus as being the key basis for determining benchmark land value. Regarding landowner premium, the updated version of PPG states:

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. For any viability assessment data sources to inform the establishment the landowner premium should include market evidence and can include benchmark land values from other viability assessments. 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. Local authorities can request data on the price paid for land (or the price expected to be paid through an option agreement).

3.18 The latest PPG version states that for plan making and setting the level of obligations, there should be a *"proportionate assessment of viability"*, which is in essence the same as the previous NPPF requirement that "*the cumulative impact of these standards and policies should not put implementation of the plan at serious risk*". And this is echoed in another part of the latest PPG which states:

"Viability assessment should not compromise sustainable development but should be used to ensure that policies are realistic, and that the total cumulative cost of all relevant policies will not undermine deliverability of the plan.

"It is the responsibility of plan makers in collaboration with the local community, developers and other stakeholders, to create realistic, deliverable policies. Drafting of plan policies should be iterative and informed by engagement with developers, landowners, and infrastructure and affordable housing providers."

3.19 The above indicates that these policies should be realistic and deliverable and not undermine delivery of the Plan. Thus this is broadly in line with the previous guidance, but with added emphasis on the need for engagement with developers and other parties involved in development.

4.0 OVERVIEW OF PROMOTER'S VIABILITY TESTING APPROACH

4.1 The approach to viability modelling by the promoter reflects the proposed delivery model for Otterpool Park. The exact nature and detail of the proposed delivery vehicle is being worked through but in January 2018[1] the Council (as landowner) identified its preferred option to be a corporate joint venture – either limited liability company (limited by shares) ("Ltd") or a limited liability partnership ("LLP"). This option would result in the costs and risks being shared with joint control over delivery of development and a flexible constitution. BPS understands this includes the Joint Venture acting as a single master-developer in delivering serviced parcels for development, maintaining design standards and quality and providing overall management of Otterpool Park.

4.2 This approach as master-developer helps ensure that the phases of delivery can be brought to the market when required. Thus the site is not constrained by the abilities of a specific number of builders and can ensure that once land parcels are marketed they can quickly start delivering houses due to already having the necessary services installed.

4.3 A financial appraisal of the proposed development has been prepared using the Argus Developer software. This is a bespoke appraisal package is widely used throughout the development industry and is considered a reasonable and robust tool to present the viability position on a development of this scale, type and nature.

4.4 The viability assessment by Arcadis tests two scenarios, each of which comprises two appraisal (a plot-developer appraisal, and master-developer appraisal):

1) Scenario One: excluding place premium and recovery of infrastructure costs from future home delivery
2) Scenario Two: including place premium and recovery of infrastructure costs from future home delivery

4.5 For Scenario One, the result of the plot-developer appraisal is a residual land value, which is then linked to the master-developer appraisal; the residual land value is inputted into the master-developer appraisal as a revenue (titled 'receipts from plot sales'). The master-developer appraisal has a profit output of 10.96% on Cost (12.31% on GDV). This is in addition to the profit of 17.5% on GDV for the plot-developers, which is included as an input within the plot-developers' residual valuation. The master-developer appraisal includes as an input the land receipts from selling land to the plot-developers (which is the residual land value generated by the plot-developer appraisal). We are satisfied with this general appraisal methodology, which is a common approach for long-term, 'garden settlement' schemes which cannot realistically be represented by a single-appraisal approach.

4.6 The key inputs/assumptions, as provided by the Promoter, are detailed in the table below:

[1] http://www.folkestone-hythe.gov.uk/moderngov/mgListPlanItems.aspx?PlanId=237&RP=142

Application size (red line application)	8,500 new homes 580 Hectare site in total (270 net developable Hectares, including road development)
Private residential sales values	£300 per sq ft + 15% placemaking premium (after year 10 of project)
Affordable housing values	£240 per sq ft
Build out rate (residential)	300 units per annum
Build to rent values	£240 per sq ft
Plot developers' profit allowance	17.5% on GDV
Residential unit mix	8% one-beds 24.5% two-beds 41% three-beds 24% four-beds 2.5% five-beds
Affordable housing	Overall 22% (up to 80% of Open Market Value)
Capital value of non-residential uses	£[REDACTED]
Benchmark Land Value (cost to Promoter to purchase land)	£[REDACTED]
Residual land value - i.e. land receipts received by the Promoter from plot-developers	£[REDACTED]
Density of residential development	Average net density around 30 per hectare. Average *gross* density 12.5 per hectare
Total build cost in plot-developer appraisal	£[REDACTED]
Total infrastructure costs incurred by Promoter	£[REDACTED]
Development Management Costs to the Promoter	£[REDACTED]
Promoter's profit target	IRR target of 10-15% for Promoter in role of master-developer. Profit allowance of 17.5% on GDV made for plot-developers

4.7 A breakdown is provided by Farrells of the Land Use in each Phase of the development. A detailed cashflow of the development is provided, which shows among other things the timing of all the infrastructure works.

Place Premium

4.8 There is wide-ranging and growing evidence that place-making in the early stages of a development encourages people to want to live there and therefore can help increase demand. This allows housebuilders to build at a faster rate as they then know they are more likely to sell them due to this demand. Place-making includes the upfront delivery of infrastructure including community facilities and schools. For Otterpool Park in particular, unique heritage assets, access to the countryside, high design quality and proximity to an existing rail station will help place-making and could boost delivery rates.

4.9 Recent evidence includes Savills' Research Paper (*Spotlight: The Value of Placemaking*) which suggests place-making premiums can be generated via increases to infrastructure spending. In their hypothetical model, a 50% increase in infrastructure spending leads to a 20% increase in sales values and a 50% increase in sales rates per annum – in turn resulting in a 25% increase in residual land values. This research paper highlights the importance of taking a patient approach, and the importance of early and sufficient spending on infrastructure, local amenities and public spaces – thus high levels of place-making would require a sufficient level of expenditure on these. It does appear from the Promoter's phasing plan that Otterpool does hold the potential to deliver a substantial level of place-making early on (via retail delivery, open space, community facilities, etc.) – subject to it being confirmed by our cost consultant that a sufficient level of infrastructure spending has been earmarked in the appraisal and it being secured through negotiations with the Local Planning Authority.

4.10 The RICS Guidance Note *Placemaking and Value* (1st Edition, February 2016) discusses five case studies, which have place-making premiums of between 5% and 50%. High quality external finishes, high quality landscaping and maintenance, all on the early phases, is key to generating a place premium as these phases act as the 'shop window' for the subsequent phases. One of their case studies is Kings Hill in Kent, a comparable scheme to Otterpool as it is a new standalone self-supporting settlement where place-making has been a priority. The developer took over maintenance of the public areas (with a service charge levied) to ensure a high standard – which is an approach that we suggest should be considered by the Promoter as part of proposals for long-term stewardship.

4.11 The RICS report cites the increased sales values at Kings Hill above the district average. The report states that, relatively speaking, Kings Hill still outperforms the wider area across all property types which can be partly attributed to the value of placemaking in new settlements.

4.12 In the modelling work provided for Otterpool the Promoter has attributed the place premium in part to the commencement of high speed rail services after ten years (but also to provision of early provision of social and community infrastructure and amenities at a high standard). It is notable from the published evidence cited in relation to Kings Hill that across most property types, the premium took effect after three years. The evidence suggests that a more typical profile in new settlements is that values rise with early investment in infrastructure and rises further once a sense of place engrained rather than being tied to a particular event or point in time.

Phasing & Infrastructure

4.13 The phasing plans illustrate which elements of the Otterpool Park garden town will come forward in five year time periods over 30 years. The first phases will be broadly located in two areas to establish two distinct characters:

A) To the north and east establishing the Gateway and Town Centre character areas providing a new alignment of the A20 connecting to the streets linking town centre and railway station, and a mix of uses including housing, retail, small business, school, nurseries, health centre and community space. Sports pitches hotel and fitness centre will be included in this phase along with a landscape park around Westenhanger Castle to encourage healthy lifestyles.

B) To the west in the Otterpool Slopes character area with housing and a local centre, accessed from A20 and Otterpool Lane. This area will have a lower density and more rural character.

4.14 The subsequent phases will firstly complete the character areas established in early phases of the Gateway, Town Centre and Otterpool Slopes (extending to south and providing a connecting road that links both parts of the town). Later phases (from year 15 onwards) will complete the Riverside, Hillside and Woodlands and Edges character areas.

4.15 We outline below the indicative phasing of the development provided by the Promoter and how this ties in with delivery of key infrastructure:

- Much of Phase One is near Westenhanger (P1A and P1C), but there is also an early sub-phase (P1B) near Barrow Hill which adjoins the A20. And these phases will coincide with major infrastructure delivery including: realignment of the A20, primary access off A20 and upgrade works to station approach, provision of new primary and secondary roads, and dualling of the A20 (south of M20 junction 11 roundabout). This early stage will see the delivery of a 'town centre' (in P1A) which will help with the place-making objectives of the project.

- The remainder of Phase 2 (P2B) adjoins the southern border of P1B. And the P1A development then 'spreads' southwards (by P2A) and westwards (by P2C) so that the central area of the new town is completed.

- Phase 3 serves to 'join up' the two original neighbourhoods of development (i.e. around Westenhanger, and Otterpool Manor). It involves 'on-site' highways works (including primary and secondary roads) but no major, 'off-site' ('Section 278') infrastructure works.

- Phases 4 and 5 extend out from the previous phases in the Barrow Hill area (P1B), expanding the developed land northward and westward, and its highways works are largely confined to on-site primary and secondary roads.

- Phases 6 and 7 extend out from the early Westenhanger development (P1A). Its highways works are largely confined to on-site primary and secondary roads, but do also include the cost of bridges over flood zones.

- Phase 8 is the southernmost section of the Otterpool development and extends from the P3A & P3B.

4.16 Green infrastructure is generally distributed across the whole project on a subphase-by-subphase basis – as is the case for most of the utilities. There are, however, some key utilities works that are concentrated at the beginning of the project, such as the 'Electricity – reinforcement' works in P1A. Further detailed technical work is ongoing, as part of the Promoter's preparation of a planning application, to better understand the costs associated with individual items of infrastructure and utilities. As guided by the NPPF, it is not always possible to know the full costs at the outset of a multi-phase project spanning 30 years and therefore costs will need to be reviewed regularly. In particular, further discussions will be required regarding the timing and delivery of all site-wide infrastructure, such as on-site water treatment and education.

4.17 Commercial uses are delivered throughout the project's delivery, including in the earliest phases which will deliver business space, community space, schools and green infrastructure – which are all important for the purposes of 'place-making'.

5.0 KEY VIABILITY ASSESSMENT INPUTS & ASSUMPTIONS – PLOT-DEVELOPER APPRAISAL

Density

5.1 For comparison with other new standalone settlements, the proposed urban density for the Otterpool Masterplan would be approximately 13 homes per hectare, assuming approximately 10,000 homes on approximately 765 hectares.

Sales Values – Private Residential Sales

5.2 The sales values are shown as £300 per sq ft in the Scenario One appraisal. We have been provided with a report from Montagu Evans. For scenario 2, there is a Place Premium of 15% applicable to 4,315 residential units sold after year 10 of the development.

5.3 One key factor is the projected population growth for the District which is predicted at 17% up to 2037, which has given Montagu Evans confidence that the sales per month and the unit pricing can both be achieved and maintained. They estimate £250-£300 per sq ft.

5.4 Nearby developments that we have taken into account include Sellindge and Shorncliffe. The Sellindge development is by Taylor Wimpey and includes the following availabilities:

- The Easedale - Plot 38, detached 3-bed available at £309,995
- The Gosford - Plot 13 – semi-detached three-beds available at £270,500

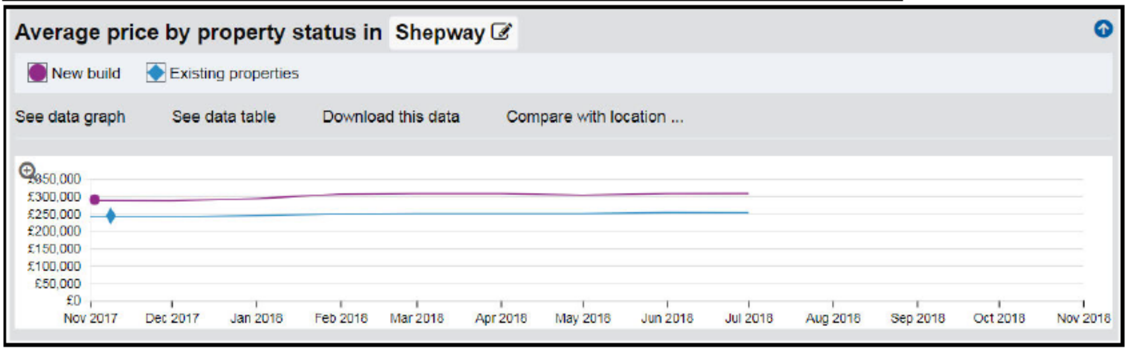
5.5 The Shorncliffe development is shown in the Montagu Evans report as having an average value of £252 per sq ft for the phase known as The Stadium, and £285 per sq ft for the phase known as St Martin's Place. Making allowance for house price growth since then, this is marginally below the price applied by Arcadis (£300 per sq ft). Shorncliffe, sits in between higher and lower value parts of Folkestone (the lower-value parts being to the west of it and the higher value part to the east). Further comparable evidence and sales analysis is detailed in **appendix one**, below.

5.6 Based on the above, the overall price of £294,000 per unit appears reasonable in Arcadis's appraisal, given that this takes account of all unit types including a substantial proportion of apartments. It is difficult to assess at this stage whether the Otterpool housing will be more attractive than (and have higher values than) Shorncliffe which is on the outskirts of Folkestone. Otterpool has greater long-term growth potential given the place-making impact of the amenities and infrastructure that will be delivered.

5.7 In **appendix one**, other scheme are discussed including Conningbrook Lakes where current availabilities include a semi-detached 3-bed at £319,000 (£344 per sq ft). Other units include a £299,999 two-bed which is 767 sq ft and therefore £391 per sq ft. Another is a 3-bed at £360,000 asking price which is 990 sq ft thus £363 per sq ft. One other key comparable cited is Finberry Village, where 3-bed semi-detached houses are available at £330,000-£335,000.

5.8 The overall price being achieved in the Shepway (now Folkestone & Hythe) district is £307,616 for new-build units. This is overall which includes all unit types (including apartments). The overall unit price is £292,200. The level of price achievable for new-build homes in the Otterpool scheme may struggle to compete with the average for new-builds across the District - at least in the early stages due to the lack of place making delivered at this stage.

Land Registry: average prices in Shepway (now Folkestone & Hythe)



5.9 As shown in the Masterplan drawings, for the 8,500 residential units the mix is 72%:28% between houses and flats respectively. The average price achieved for the District as a whole is £156,400 for apartments/maisonettes. There is no data available on the proportion of sales in the District that are flats/apartments. However, there is data on average prices for apartments (below).

5.10 The land registry data that we have viewed shows the following averages for (for second-hand and new-build) as of September 2018 which is the latest month for which data is available:

Detached house	£424,412
Semi-detached house	£284,654
Terraced house	£216,894
Flats & maisonettes	£156,400

5.11 The average unit size in Arcadis's appraisal is 974 sq ft for the private residential. We have no breakdown of the prices applied to each unit type to make up this average. The disparity between detached and semi-detached housing is considerable.

5.12 The Montagu Evans report is from November 2017. The prices have increased by 6.0% overall the last year from November 2017 based on the House Price Index. Thus some increase to the Montagu Evans figures can be justified.

5.13 We have had regard to the Caxton's Property Market Analysis which gives a value of £275-£400 per sq ft for Shepway, for 2018. This is a wide range of prices per sq ft and does not give a great deal of certainty over achievable values at the Otterpool development; at £300 per sq ft, it is towards the lower end of the Shepway market based on this range, although we have not seen much evidence of prices in the region of £400 per sq ft thus expect these are for exceptional properties and/or ones in highly desirable locations.

5.14 Based on the evidence that we have analysed including the sales evidence detailed in appendix one, we suggest that the price of £300 per sq ft is realistic in this location.

Private Rented Sector development

5.15 Montagu Evans are of the view that PRS may struggle in the early years of the development, and may then pick up towards the end especially when HS1 is operational at Westenhanger Station. We broadly agree with this analysis. Based on our consideration of the rental market including the analysis provided by Montagu Evans, it is clear that the £240 per sq ft value adopted in the appraisal is realistic and that the PRS element (due to being apartments, which are relatively expensive to build) does not appear to be making much of a positive contribution to deliverability of the project. This is therefore a potential area in which planning policy flexibility could be used to help improve viability (and thereby safeguard other policy objectives such as affordable housing).

Plot Build Costs

5.16 The total build cost in the Scenario One plot developer appraisal is £[REDACTED], which gives a blended rate overall of £160 per sq ft GIA. The NIA is at 97.7% of GIA, which appears to be an unrealistically high level of NIA. The build costs should be calculated based on the Gross Internal Area, whereas sales values are typically calculated on the Net Sales Area as defined by the RICS Code of Measuring Practice. With respect to houses, Net Sales Area is very similar to GIA.

Residential Unit mix

5.17 As shown in the Masterplan drawings, for the 8,500 residential units the mix is 72%:28% between houses and flats respectively. For the first phase the mix is, "*3 bed dwellings are the most popular, with 56% in 1a and 49% in 1b. Very few 1 bed dwellings are provided, with just 6 or 2% in total*." The unit mix adopted by the Promoter is detailed below:

<u>Promoter's unit mix compared to F&HDC's policy target</u>

Unit type	Proportion of total homes to be delivered by	Council's policy target

	Promoter	
1-bed	8%	5-15%
2-bed	24.5%	15-30%
3-bed	41%	35-50%
4-bed	24%	15-30%
5-bed	2.5%	0-10%

5.18 The level of provision of one-beds does appear to meet policy CSD2 which requires 5% one-beds in respect of owner-occupied units, and 20-24% for PRS and affordable tenures as detailed in the table below from CSD2. The blended rates for other unit types do appear to be close to the targets, based on the table below, although the Promoter has not provided a schedule showing the unit mix individual for each tenure type thus we cannot fully confirm this at this stage.

F&HDC's target unit mix for each tenure type

	One-bed	Two-bed	Three-bed	Four-bed or more
Owner-occupied	5%	28.5%	39%	27.5%
Private rented	20%	32%	31%	17%
Shared ownership	22%	29%	28%	21%
Social rent/affordable rent	24%	16%	36%	24%

Affordable housing assumptions

5.19 The draft Local Plan requires 22% affordable housing delivery. This is included in the appraisal at "80% of Open Market Value". The assumptions in respect tenure mix and tenure type are not provided. The levels of rent and the assumptions regarding initial equity share/rent on unsold equity will need to be discussed with and confirmed by planning officers before it is possible to reach a firm conclusion regarding the affordable housing valuation.

5.20 The Council's policy is of 30 per cent of the affordable housing provision to be shared equity and 70 per cent to be affordable rent/social rent. The blended affordable housing value adopted in the appraisal equates to 80% of equivalent open market values which would not meet full policy requirements. Further work is needed to assess the affordability and mix of affordable housing as design progresses.

Non-residential uses

5.21 The total non-residential GDV is comprised of the mix of floor areas detailed in the Table below, but no breakdown is provided for the value of these uses per sq m and how these has been built up to give the total revenue figure. Thus further details are required to enable us to review these values, including among others the capital values per sq ft applied to each use type. The Promoter is also aware of the 'option value' of being able to make additional returns, for example through undertaking vertical development and retention of commercial freehold(s).

Commercial uses for proposed application (i.e. 8,500 home development)

Non Residential Uses				GEA m2	GIA m2	NIA m2	Notes		
B1 Commercial business in hubs		0.7	0.7%	5896	5360	3752	40% coverage 1 storey	313	1 per 12m2 NIA
B1 Commercial business park		0.6	0.6%	3300	3000	2400	30% coverage 2 storey	200	1 per 12m2 NIA
B2 Light Industrial business park		0.0	0.0%	0	0	0	30% coverage 1 storey	0	1 per 36m2 GIA
B 8 Storage business park		0.0	0.0%	0	0	0	40% coverage 1 storey	0	1 per 81m2 GIA
Total B1, Business		**1.3**	1.2%	9196	8360	6152		**513**	
A2 business, A3 café restaurant,A4 pub,takeway		**0.5**	0.5%	5775	5250	4200	50% coverage 1 storey	247	1 per 17m2 NIA
A1 Retail		1.4	1.3%	7645	6950	5560	50% coverage 1 storey	309	1 per 18m2 NIA
Total A1 to A3 Retail/Leisure		**1.9**	1.8%	13420	12200	9760		**556**	
D2 Sports pavilion		0.0	0.0%	0	0	0	50% coverage 1 storey	0	1 per 100m2 NIA
D2 Indoor sports hall		0.6	0.6%	3300	3000	2400	50% coverage 1 storey	24	1 per 100m2 NIA
Total D2 indoor sports		**0.6**	0.6%	3300	3000	2400		**24**	
D1 secondary schools exc GI	0.0	0.0	0.0%	0	0	0	30% coverage 1 storey	0	70 per school
D1 Primary School	2.0	2.1	1.9%	5038	4580	3664	25% coverage 1 storey	80	40 per school
D1 Nursery	3.0	0.5	0.5%	1155	1050	840	20% coverage 1 storey	60	20 per school
D1 Community Centre		0.2	0.2%	1320	1200	960	50% coverage 2 storey	10	1 per 100m2 NIA
D1 Health		0.5	0.5%	5500	5000	4000	50% coverage 2 storey	133	1 per 30m2
Total D1 Community		**3.3**	**3.1%**	13013	11830	10264	**35% coverage 1 storey**	**283**	
Proposed Infrastructure/Roads/Transport/parking		**8.1**	**7.6%**	inc energy centres, primary sub stations					
Total Proposed Development		106	100%		38890			1914	

6.0 KEY VIABILITY ASSESSMENT INPUTS & ASSUMPTIONS - MASTER-DEVELOPER APPRAISAL

Introduction

6.1 The Scenario 2 master-developer appraisal shows a profit output of 18.85% to the Promoter (i.e. to the master-developers). It incorporates a global affordable housing figure of 22% but further discussions would be required in respect of mix and tenure to ensure full policy compliance. Thus if this is an acceptable level of profit output then this indicates that the Promoter is willing to proceed without any reductions to overall affordable housing requirements. However, the key issue of Promoter finance costs will need to be addressed in order to reach clarity regarding this issue. It is common for this type of project to be managed via conditional sale agreements with the developer not paying for the site(s) until certain milestones are reached (e.g. outline planning consent) thus we will need to discuss with the Promoter what its plans are regarding site ownership and timing of purchases, so that the appraisal as much as possible reflect the realities of the promoter’s plans – otherwise the finance costs could prove to be unrealistic.

Cashflow/Development Period

6.2 The development period in the cashflow is largely a function of the residential sales rate per annum (300). Arcadis have provided us with the detailed cashflow for each of the appraisals. The project runs from January 2019 up to January 2051.

6.3 One of the key factors on the viability of master-developer appraisals is the timing of the works, especially the timing of the infrastructure costs.

6.4 There are finance costs in the plot-developer appraisal but not in the master-developer appraisal, which makes consideration of cashflow somewhat irrelevant in the context of this appraisal. The key impact of cashflow changes is on finance cost, and we would expect these costs to be very substantial in this case given the large amount of ‘front-loaded’ infrastructure costs.

Benchmark Land Value

6.5 There is fixed input for land purchase in the master-developer appraisal, which is the cost of purchasing land not already in the ownership of the Promoter. The cost of the land *already* in the Promoter’s ownership is not included in the appraisal as this will be treated as equity. This includes: land between Sellindge and Lympne which was purchased by Folkestone & Hythe D.C. for £5.2m; and land owned by Arena Racing Company, which forms part of the former Folkestone Racecourse.

6.6 The total area of Otterpool Park for the planning application red line is 580 Ha, of which 270 Ha will be residential development. We would not expect the non-residential elements of the development to be a positive driver of land receipts as these uses are unlikely to generate substantially positive residual land values on their own. Therefore the key driver of residual land values is the residential. At 270 Ha, this would give £[REDACTED] per residential Hectare, which appears to be a very substantial figure for land without planning consent and which is not served by major infrastructure – i.e. not serviced land.

6.7 The VOA (*Land value estimates for policy appraisal*) gives £1.38m per Ha for sites sold post-permission in Shepway. This would not be suitable for the master-developer appraisal, given the land is not serviced/not provided with infrastructure and does not have consent.

6.8 In accordance with the latest Guidance including the Government's planning practice guidance, we consider it suitable to assess land value on an existing use value basis, while also allowing for a sufficient level of landowner premium incentivize the landowner to sell. This could be based on a typical existing use value of £24,000 per Hectare for agricultural land. We have had reference to the HCA in *"Transparent Assumptions: Guidance for the Area Wide Viability Model"* which states that for greenfield land, benchmarks tend to be in a range of 10 to 20 times agricultural value. Applying this at the higher rate of x20 would give £480,000, although this is arguably overstated given the exceptionally high level of infrastructure costs required in order to "unlock" this land. Thus the lower rate of x10 would be more realistic and would give £240,000 per Hectare.

Other Costs

6.9 Development Management Costs are £[REDACTED] in the appraisal. These are estimated over the whole project life at circa £[REDACTED] per annum. This would cover a Master Developer role with say a core team of circa 12 individuals from director to administrator level and in addition general scheme marketing costs and administration costs.

Infrastructure Costs

6.10 The infrastructure costs have been estimated by Arcadis, based on the Masterplan that has been created by Farrells. This work has been created on behalf of the two major landowners who we understand are Cozumel Estates and Folkestone District Council.

6.11 Our Cost Consultant, Neil Powling, has undertaken a review of the Infrastructure Cost Plan. His full report is in **appendix two** [REPORT REDACTED], and his conclusions are:

In general the information we have received appears to summarise the costs of the study of the infrastructure with very little detail on the investigative and supporting information on which the conclusions are based. We are not therefore in a position to comment on the accuracy of the detail or the concluded costs; our comments are as a result at a high (as opposed to detailed) level review.

The requirement for new infrastructure to service the 8500 new residential units and other functional building types has considered electricity, gas, water and telecoms. It is apparent that the investigations regarding water (including waste water, surface water and sewers) are more advanced than the other utilities. We *suggest investigations should be progressed in particular on the other utilities to reduce the level of uncertainty.*

*The detailed estimates have been provided for £**[REDACTED]** (before additions) which amounts to 52.3% of the works. We suggest that investigation and costing of the estimated sums without a detailed back-up should be progressed to provide more certainty and reduced risk.*

We have prepared an estimated cost of the 8,500 units. There is no GIA in the information provided to us so the figs used are our own assumptions. There is little detail on the accommodation of the units – the purpose of the calculation is to provide a basis to calculate the % cost of the infrastructure planned to service the residential accommodation.

*The total of the infrastructure is £**[REDACTED]** and the cost of the 8500 units including an allowance for plot externals and local infrastructure within each phase is £**[REDACTED]**. This amounts to 23% which is less than the infrastructure costs for a similarly phased major residential development.*

In conclusion where we have been able to check the estimated costs provided by Arcadis we are satisfied that they appear to be a reasonable estimate at this early design stage with limited design information. We are concerned that a high level comparison of the total infrastructure costs compared to a broadly comparable project are at a lower level of cost.

6.12 Further discussion will therefore be required with the Promoter regarding the points Neil Powling has raised above. Particular issues to test further as technical work emerges include the assumptions regarding site wide education and other community provision taking into account the latest population modelling and costings prepared by Kent County Council and the site-wide wastewater options being explored with utility companies. The relatively low infrastructure costs may in part be explained by the fact that this site already has good access to some major infrastructure including the presence of good pre-existing major roads which run close to (and in the case of the A20, through) the site, and the nearby railway line. We understand that the Promoter is exploring potentially sources of forward funding in respect of the infrastructure works, which would have the effect of improving the cash-flow of the development, and thereby lowering finance costs incurred by the Promoter and improving the Internal Rate of Return achieved by the Promoter.

Profit & Internal Rate of Return

6.13 The plot-developer appraisal is a residual valuation which includes a profit of 17.5% on GDV.

6.14 In respect of developments that take place over a very long period, it is common to assess these in an Internal Rate of Return basis so that the 'time value of money' is taken into account. The plot developer appraisal shows an IRR of 3.13% which is below what would typically be expected. In our experience IRR targets of 10-12% are realistic. An IRR target of 10-15% is stated by the Promoter as being a reasonable target. There is therefore broad agreement about the level of profit required. The Promoter has alluded to the potential for IRR growth as a result of improving viability over time; the land values would increase and thereby land to high land sale receipts for the master-developer appraisal. Thus some degree of growth expectation is being taken into account.

6.15 Given the prolonged period of the development, which is anticipated to be approximately 30 years the associated risks will differ throughout the development and therefore the benchmark return may vary depending on the stage of the development. In addition, the economic outlook of the market will fluctuate considerably over this period. For the latter stages of the development, it follows that less associated risk will be involved as the majority of the core infrastructure and Section 106 contributions will already be in place and the respective neighbourhoods and sales values will already have been established.

6.16 The master-developer appraisal has an IRR of 7.48% which is lower than a typical target IRR, but given the long-term outlook of the Promoter a lower IRR target may be suitable, relative to typical plot-developer targets. There is the potential to improve the IRR by delaying the timing of expenditures (including land payments) and speeding up receipts (especially the sales to plot-developers of the most valuable plots). Thus further discussion and negotiation over the phasing and timings could serve to improve the IRR output considerably.

Growth modelling

6.17 It is common for some expectation of sales growth and improvement in viability to be taken into account in viability assessments. Thus whilst the viability on a present-day basis may fall short of a typical target rate, over time this could improve. For example, by the time that the parcels of land are sold to plot-developers they could be worth substantially more than the present-day models indicate. It is common practice of some level of growth to be factor in when assessing viability of long-term, multi-phased schemes, thus the potential for improved viability over time should at the very least be acknowledged.

6.18 As stated about, the Promoter has alluded to the potential for IRR growth as a result of improving viability over time; the land values would increase and thereby land to high land sale receipts for the master-developer appraisal. Thus some degree of growth expectation is being taken into account.

7.0 APPRAISAL OUTPUTS & BPS PRELIMINARY CONCLUSIONS

7.1 In our view the Otterpool Park proposal is thus far in accordance with the requirements of the NPPF:

a) It seeks to meet the area's objectively assessed need for housing;

b) it has a 'proportionate' level of evidence in respect of viability to demonstrate the project is deliverable – meaning the level of detail and information provided by the Promoter is suitable for this stage taking into explicit recognition in the NPPF that infrastructure requirements of large scale residential developments may not be capable of being identified fully at the outset and that infrastructure requirements should, therefore, be kept under review.

c) We have identified key areas where further discussion is required between BPS, the Local Planning Authority (LPA) and the Promoter as the planning application progresses and further technical evidence emerges.

d) We have at this stage no reason to doubt that the Project is deliverable over and beyond the plan period.

7.2 The Argus appraisals created by Arcadis are relatively high-level but are nevertheless adequate in our view for representing the potential viability of the Otterpool project. In terms of the overall methodology applied, this can be considered fit for purpose. The level of detail provided by the Promoter in support of its viability assessment is reasonable for this plan-making stage of the process; it is a 'high level' assessment which is to be expected for a multi-phase scheme over 30 years.

7.3 As part of this initial stage of viability testing, BPS has reviewed the inputs proposed by the Promoter and concluded whilst a number of inputs appear reasonable, further consideration may be needed to better understand a number of inputs at a granular level including costings of the identified infrastructure and Section 106 obligations.

7.4 The area for which the most detail is provided is in respect of infrastructure costs and infrastructure timing, which is appropriate at this stage as this is one of the key areas which need to be discussed and negotiated early on in the process. It is recognised that as further details surrounding the delivery vehicle are worked up and discussion regarding specific infrastructure items is further advanced, more detailed technical detail will emerge through an ongoing process of review and refinement.

7.5 As stated above, we consider the appraisal methodology to be appropriate. We have independently assessed the financial model and supporting information provided by consultants on behalf of the promoter of Otterpool Park to assist with the Council's understanding of the viability and deliverability of the new settlement. The financial model is based on an investment model whereby a Joint Venture will operate as a master developer over the whole life of the project. This recognises that due to the scale, nature, type and timescale of the development it is inappropriate to rely wholly on a traditional housebuilder model alone and enables a longer-term view to be taken on whole scheme delivery and critically developer return.

7.6 The omission of finance costs in respect of the master-developer appraisal creates some uncertainty over viability, as these costs are typically very substantial for this type of project, given the large 'up-front' expenditure on infrastructure and the long period before these cost outlays are recouped via land sales. One option to explore is to secure cheap borrowing via the District Council's access to public works loans. BPS is aware further consideration is being given to the financing strategy as the details of the delivery vehicle are worked through. It is reasonable at this early stage for financing to remain an unknown factor in the master-developer's viability assessment. We understand that the Promoter is exploring other external sources of forward funding in respect of the infrastructure works, which would have the effect of improving the cash-flow of the development, and thereby lowering finance costs. One potential option to be explored is forward funding from Homes England, which owns a significant landholding in the masterplan area.

7.7 The Promoter has provided a detailed cashflow for the scheme. Further discussion will be required regarding the timing of each individual element of the scheme, such as the different use and housing types and timing of transport mitigation. Some flexibility on the LPA's behalf in respect of the timing of certain parts of the development can have a major impact on viability, and this is a work in progress as these discussions are ongoing.

7.8 We understand the Local Planning Authority and Promoter have agreed in principle to follow a three-tier approach to the planning application process meaning further detailed design would come forward at a phase level, which sits between Outline and Reserved Matters. This is a reflection of the scale, complexity and multi-phase nature of the project. Taking into account the unique nature of the project and specific advice in NPPG, BPS recommends viability is reassessed again at this middle tier stage and secured through the development management process. This is to ensure policy compliance and optimal public benefits through economic cycles and at a stage when technical evidence at a granular level is available.

7.9 The Promoter has adopted a build out rate of 300 units per annum for the residential. However, given that no finance costs are included in the master-developer appraisal, this is not a viability issue in the master-developer appraisal. The speed of build-out of the project is driven by the sales rate per annum. The potential need for new housing in the area has been the subject of a Strategic Housing Market Assessment (SHMA, 2017) prepared for the Council by consultants. This document concludes that the objectively assessed housing need for Shepway is some 633 dwellings per annum within the plan period 2018/19 to 2036. The 300 units per annum forecast to be delivered by Otterpool would therefore be absorbed by this housing requirement.

7.10 This report has referred to research showing that place-making in the early stages of a development encourages people to want to live there and therefore can help increase demand potentially allowing housebuilders to build at a faster rate. Allied to this, a master-developer approach can reduce the reliance on a small number of housebuilders. Otterpool Park holds the potential for significant diversification in housing delivery and mix through alternatives forms of supply such as self-build and custom-build, direct delivery by Registered Providers, and housing for older people. However, further testing will be required in respect of the sales rate per annum as the finer details of the delivery vehicle are defined and in order to further substantiate this estimate and ensure it is realistic.

7.11 With respect to the residential sales values, these appear to be reasonable, at £300 per sq ft, based on our consideration of the wider market including other new-build schemes. In addition to this, a place-making premium has been added, which is 15% applied after the 10th year of the period. We have questioned the timing of this. Notwithstanding this assumption, our research has highlighted how value is derived from a wider range of placemaking factors rather than one determinant. It has underlined the importance of taking a patient approach, delivering early and sufficient spending on infrastructure, local amenities and public spaces. Subject to the early provision of social and community infrastructure at a high standard, it is reasonable to assume place making benefits can be derived much earlier than currently assumed by the Promoter in the modelling.

7.12 Subject to the early provision of social and community infrastructure at a high standard, the assumption that applying this premium after 10 years may be later than expected as place making benefits are likely be generated earlier than this. Another factor is the impact on values of the HS1 railway service which could make a substantial difference to values. Whilst it is not possible to be certain of the timing of these services the site is already uniquely placed as it already benefits from operational rail services, including access to high speed services via Ashford.

7.13 Savills's Research Paper (*Spotlight: The Value of Placemaking*) suggests placemaking premium can be generated via increases to infrastructure spending. In their hypothetical model, a 50% increase in infrastructure spending leads to a 20% increase in sales values and a 50% increase in sales rates per annum – in turn resulting in a 25% increase in residual land values. This research paper highlights the importance of taking a patient approach, and the importance of early and sufficient spending on infrastructure, local amenities and public spaces – thus high levels of place-making would require a sufficient level of expenditure on these. It does appear from the Promoter's phasing plan for Otterpool does deliver a substantial level of place-making early on (via retail delivery, open space, community facilities, etc.) – subject to it being confirmed by our cost consultant that a sufficient level of infrastructure spending has been earmarked in the appraisal.

7.14 In the RICS Guidance Note *Placemaking and Value* (1st Edition, February 2016) five case studies are discussed, which have place-making premiums of between 5% and 50%. High quality external finishes, high quality landscaping and maintenance, all on the early phases, is key to generating a place premium as these phases act as the 'shop window' for the subsequent phases. One of their Case Studies is Kings Hill in Kent, where there has been an emphasis on place-making. The developer took over maintenance of the public areas (with a service charge levied) to ensure a high standard – which is an approach that we suggest should be considered by the Promoter.

7.15 Our cost consultant, Neil Powling, has concluded that the infrastructure costs appear to be lower than would be expected for a similarly sized self-supporting new Garden Town settlement and further work is required as the design is worked up. For some aspects of the infrastructure costs, additional information/detail would be welcome, together with further discussion – as noted in Neil Powling's report (see **appendix two**, below **[REDACTED]**).

7.16 The build costs for the plot development is at a 'high level' and is not supported by a detailed cost plan. This is, however, to be expected at this stage of the development. Our Cost Consultant has reviewed this breakdown and has concluded that "*we have been able to check the estimated costs provided by Arcadis we are satisfied that they appear to be a reasonable estimate at this early design stage with limited design information*".

7.17 The plot-developer appraisal is a residual valuation which includes a profit of 17.5% on GDV for the plot-developer (which is a realistic blended profit target), and generates a residual of £**[REDACTED]**.

7.18 The Scenario 2 master-developer appraisal shows a profit output of 18.85% to the Promoter (i.e. to the master-developers). It incorporates a global affordable housing outturn in line with policy. Further discussions with planning officers will be required in respect of the affordable housing mix, tenure and affordability levels. Thus if this is an acceptable level of profit output then this indicates that the Promoter is willing to proceed without any reductions to overall affordable housing requirements – and the issue of Promoter finance costs will need to be addressed in the modelling in order to reach clarity regarding this issue.

7.19 There remains an element of uncertainty in relation to the Benchmark Land Value which is the cost to the master-developer of purchasing the land. Further discussion is therefore required with the Promoter in order to understand the input. Specific points for discussion include: the total area of land to which this Benchmark relates; and the methodology used to estimate the adopted price per Hectare/per plot. We have had reference to the Inspector decision for the North Essex Authorities' (Colchester, Braintree, Tendring) which states, *"For reliance to be placed on the outcome of the assessment, well-founded assumptions need to have been made about both the likely costs and value of the development, and about the cost of acquiring the land."* In this context, it is important that detailed discussions are had with the Promoter regarding the site value to ensure that this is fully justifiable. This Essex Decision also referred to land finance costs associated with site purchase, and the need for these to be fully justified.

7.20 The contingency on the infrastructure works is 15% in the master-developer appraisal. This could potential be viewed as an insufficient allowance, as suggested by the aforementioned North Essex Authorities Decision which stated that, *"20% or 24% is a low contingency figure for major capital projects. A contingency allowance of at least 40% would align better with the approach taken, for example, by Highways England when costing large-scale infrastructure schemes."*

It recommended sensitivity testing viability with a 20-40% contingency on infrastructure costs". Whilst it is arguable that this North Essex project has more major infrastructure works than Otterpool Park, with higher overall risk (new BRT bus system, realignment of a major dual carriageway and new rail station), this Decision does still emphasise the need for the Otterpool Promoter to justify their contingency level and demonstrate that it is in line with market practice for major capital projects. In addition the required profit target is a key viability measure and will need to be stated and fully justified.

7.21 The preliminary conclusions reached within this report have been based on a significant number of assumptions presented by the promoter which may vary over time including costs. Any adjustment in the timing of the requirements of these obligations will have a significant impact upon viability and therefore the cost savings either through reductions in actual costs or timing of delivery of items. It will be necessary for all parties to continue to work together to review assumptions as further technical evidence comes to light particularly the costings of the identified infrastructure and timings of S106 obligations.

APPENDIX ONE

BPS COMPARABLE RESIDENTIAL EVIDENCE

We have undertaken research into the local market, including recent sales/availability of new-build units. We have also taken into account the 'place-making' premium that could be generated by the Otterpool project which may lead to high pricing than recent local sales – as we have discussed above in Section 4.

The sited listed in the table below are all new builds, currently on the market, that are within 5 miles of the subject site. However, these sold units do not have the benefit of the major infrastructure that the proposed scheme's units will have, including Need to be clear that these are not examples with self-supporting infrastructure and not reflective of policy position – potential for higher values, in later stages of development.

Address	Description	Asking price
Park Road, Cheriton, Folkestone	2 bedroom, first floor flat. In Cheriton, Western area of Folkestone. Within half a mile (10 minute walk) of Folkestone West train station and M20, and within walking distance of large Tesco. Single bathroom with modern, basic interior.	£145,000
Miltary Road, Folkestone, Kent	3 bedroom semi-detached house in Western Folkestone, very close to the beach. 3 toilets, 2 bathrooms and a private rear garden. 2 parking spaces. Within walking distance of basic amenities, slightly further from M20 and train station. Very stylish interior.	£290,000
Stade Street, Hythe, Kent, CT21	3 bedroom house in a small 3 dwelling terrace in Hythe, within walking distance of the town centre. Modern interior spread over 3 floors, parking space included.	£390,000

Conningbrook Lakes

This development is in an excellent setting with surrounding woodland and lakes. It is, however, a fairly substantial distance (1.5 miles) from Ashford Station which will limit its appeal to commuters. But Ashford Station does at present have better connections to London (faster, more frequent trains). The local amenities are somewhat limited, thus the Otterpool scheme may be able to exceed value at this location (at least for those dwellings that are near the high street and close to the train station). However, the good setting of Conningbrook development needs to be taken into account.

The availabilities include a 3-bed at £319,000. This is semi-detached. The Effective Floor Area is 632 sq ft, and we have scaled the NSA from the plans at 927 sq ft. This gives £344 per sq ft. Other units include a £299,999 two-bed which is 767 sq ft and therefore £391 per sq ft. Another is a 3-bed at £360,000 asking price which is 990 sq ft thus £363 per sq ft. It is typical for some discount to be incurred from asking prices to achieved prices, which would push these prices down (by 5-10%).

With the addition of the placemaking premium (15%) the Otterpool estimate is £345 per sq ft overall, which appears reasonable in the context of the comparable evidence from Conningbrook Lakes. This does strengthen our confidence in the Promoter's sales estimate, as Otterpool will in some respect have advantages over Conningbrook.

Finberry Village, Ashford, TN25 7FR, Finberry Village

This is in a reasonably attractive setting but arguably less desirable than Conningbrook. It is 2 miles from the Ashford Station which limits its appeal to commuters. It has poor access to local amenities and is somewhat cut off from nearby areas. We would expect marginally higher pricing for the better-connected parts of the Otterpool development.

- *Plot 361 The Elmstead, semi-detached, 3-bed, £335,000, five other semis are available at £330,000-£335,000. Higher pricing is available at Conningbrook. We would expect Otterpool to exceed, overall, the pricing at Finberry Village. We do not have the floor areas available for Finberry.*

Martello lakes, Y06/1079/SH

Located on the outskirts of Palmarsh, approximately 2.5 miles south of the subject and 2 miles South West of Hythe, where the nearest shops and train station are. Not within walking distance of any amenities other than a primary school and opposite a military range. Approximately a 10-minute drive from the M20 motorway. A station will supposedly be added on the historical RHD railway to provide access to Dungeness and New Romney, however the railway is seasonal and more of a tourist attraction.
The development offers lakeside and sea views and will provide 1,050 new home, consisting of 2 bed flats and 3 or 4 bed houses. Construction for the first 190 is nearly completed.

Address	Description (and Floor Area)	Date	Sale Price	Price psf / psm
4 Admiral Drive, Hythe, Kent CT21 4AX	1,206 sq ft / 112 sq m. 4/5 bedroom detached property with off street parking for 2 cars. Very modern interior, small garden with patio.	25/11/2016	£367,000	£304 / £3,277
10 Quarry Way, Hythe, Kent CT21 4AW	1,154 sq ft / 107 sq m. 4 bedroom semi detached house over 3 floors. Modern interior, no off street parking advertised.	16/12/2016	£315,000	£273 / £2,944
14 Quarry Way, Hythe, Kent CT21 4AW	1141 sq ft / 106 sq m. 4 bedroom end of terrace house, modern interior with small garden.	28/04/2017	£280,000	£245 / £2,642
Martello House at Martello Lakes, Dymchurch Road,	Unspecified GIA. 2 bed second floor apartment. Very stylish interior, select apartments in block may have lakeside views, 2 bathrooms.	On the market	£216,000	-
Morpeth I at Martello Lakes, Dymchurch Road, CT21	Unspecified GIA. 3 bed end of terrace house over 2 floors. Very stylish interior, 3 bathrooms.	On the Market	£280,000	-

Shorncliffe Garrison

The former military site lies on the Western outskirts of Folkestone, close to the m20 and approximately a mile (dependant on location in the development) from Folkestone West train station, on the same line as Westenhanger station for the subject. Approximately 4 miles east of the Otterpool site, it involves the demolition of military buildings and the relocation of military units.
The development surrounds an existing primary school, sports field and includes plans to build a new school, nursery, doctors' surgery and community hub. The plans include 1,200 dwellings in a range of sizes.

No detailed recent sales or market information is available for this development.

New Romney, Mulberry place

The town is approximately 11 miles South of Otterpool and is one mile from the sea. It has worse transport links, with no mainline train station (although a stop on the historic RHD railway) and the nearest motorway junction approximately a 25 minute drive from the town.
Mulberry Place in New Romney is a development of 52 brand new 2, 3 & 4 bed properties. The properties released appear to have sold well. The development is on the Northern edge of the town, within walking distance of schools and shops. All units appear to include private gardens and off-street parking provision. Several are still listed on the market, and two previously sold 2 bed properties in the development are noted.

Address	Description (and Floor Area)	Date	Sale Price	Price psf / psm
11 Pippin Close, New Romney, Kent TN28 8FH	Unspecified GIA. 2 bedroom semidetached bungalow with a medium sized garden. Modern interior.	29/09/2017	£580,000	-
17 Pippin Close, New Romney, Kent TN28 8FH	775 sq ft / 72 sq m. 2 bedroom detached bungalow. Modern interior, shed included.	31/01/2018	£675,000	£871 / £9375
Plot 3	1,302 sq ft / 121 sq m. 3 bedroom detached house. 2 bathroom (master with en-suite), garage included, very stylish interior.	On the market	£425,000 (asking)	£326 / £3,512
Plot 36	1,776 sq ft / 165 sq m. 4 bedroom "town house" over 3 floors. 3 bathrooms, garage included, very stylish interior.	On the market	£457,000 (asking)	£257 / £2,770
The Woburn	2,196 sq ft / 204 sq m. 4 bedroom detached house. 3 bathrooms, garage, very stylish interior.	On the market	£616,000	£281 / £3020