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Otterpool Park

Assessment of Deliverability & Viability:

BPS - 22ND JANUARY REPORT

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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

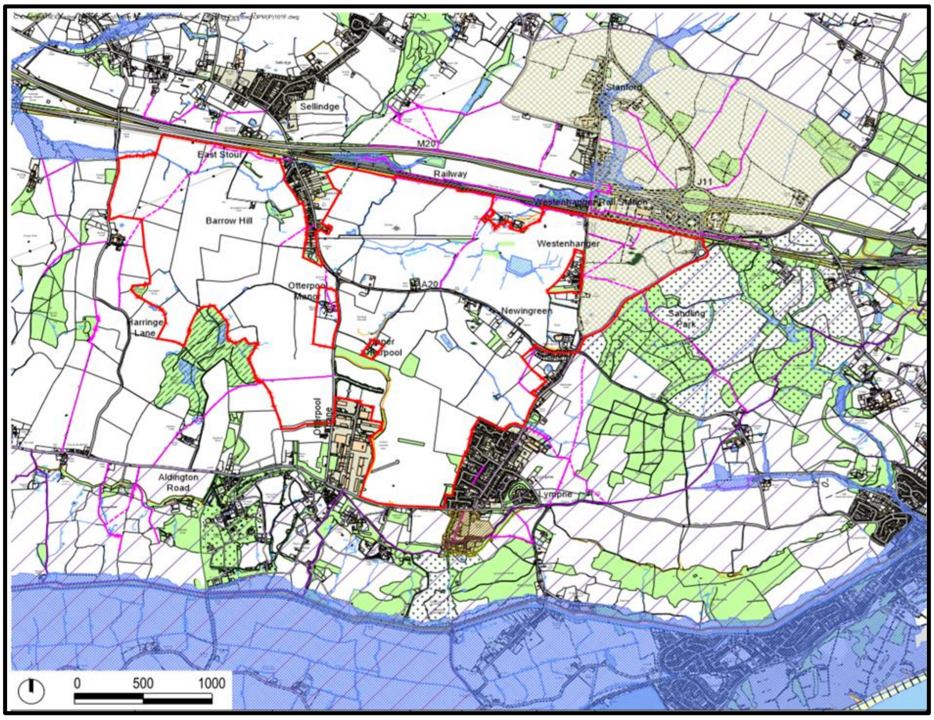
1.5 The major landowners within the Otterpool site are FHDC and Cozumel Estates, and they are jointly proposing the Otterpool Park development; we refer to them collectively as 'the Promoter'. A Framework Masterplan has been provided by Farrells and Arcadis, with Arcadis leading on this project on behalf 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

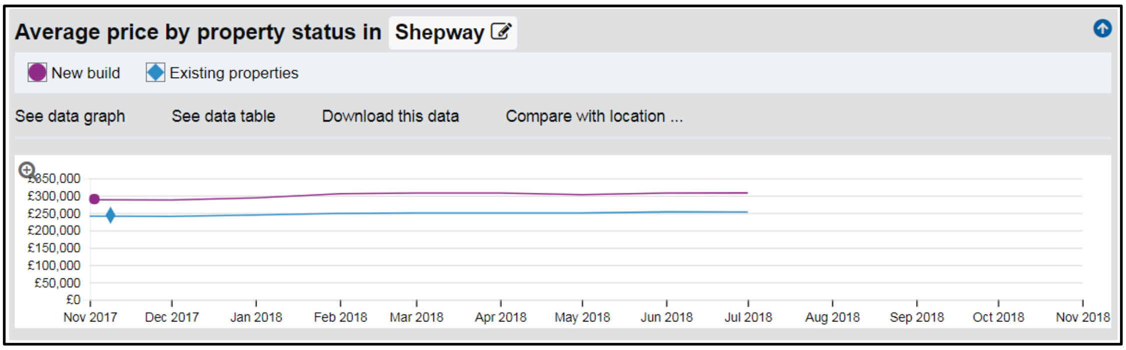
5.5 The Shorncliffe development is shown in the Montagu Evans report as having an average value of £252 per sq ft for the phase known as The Stadium, and £285 per sq ft for the phase known as St Martin’s Place. Making allowance for house price growth since then, this is marginally below the price applied 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:

Promoter's unit mix compared to F&HDC's policy target

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

APPENDIX TWO

[REDACTED]