Evidence to support deliverability and viability of:

Otterpool Park New Garden Settlement

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

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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 the 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 with 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 identified in this report consider here to be a conflict that we would immediately stand down from the instruction.

2.6 In this viability assessment we have set out a full justification of the evidence and have also supported our opinions where they differ from the supporting evidence and review with a reasoned jus ification. 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 the 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	James Brierley
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 the 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 representations 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 par ies (other than consultants instructed by the Council to review this report) under the Freedom of Informa ion Act (Sections 41 and 43 (2)) or under the Environmental Information 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 10.**

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	[redacted]	[redacted]
Market Sale House	[redacted]	[redacted]
Shared Ownership Flat	[redacted]	[redacted]
Shared Ownership House	[redacted]	[redacted]
Affordable/Social Rent Flat	[redacted]	[redacted]
Affordable/Social Rent House	[redacted]	[redacted]
Build to Rent Flat	[redacted]	[redacted]
Extra Care Flat	[redacted]	[redacted]
Extra Care House	[redacted]	[redacted]
Retail A1/A2/A3 Rent	[redacted]	[redacted]
Retail A1 Yield	[redacted]	[redacted]
Retail A2/A3 Yield	[redacted]	[redacted]
Commercial B1 Rent	[redacted]	[redacted]
Commercial B2 Rent	[redacted]	[redacted]
Commercial B1/B2 Yield	[redacted]	[redacted]
Plot GDV	[redacted]	[redacted]
CIL, Third Party Payments	[redacted]	[redacted]
Place Premium	[redacted]	[redacted]
Plot Costs		
Build Cost All Houses	[redacted]	[redacted]
Build Cost All Flats	[redacted]	[redacted]
Build Cost Retail A1/A2/A3	[redacted]	[redacted]
Build Cost Commercial B1	[redacted]	[redacted]
Build Cost Commercial B2	[redacted]	[redacted]
Contingency	[redacted]	[redacted]
On Plot Externals	[redacted]	[redacted]
Agent Fee	[redacted]	[redacted]
Legal Fee	[redacted]	[redacted]
Sales & Marketing	[redacted]	[redacted]
Professional Fees	[redacted]	[redacted]
Finance Rate	[redacted]	[redacted]
Market Sale Developer's Profit	[redacted]	[redacted]
Affordable Developer's Profit	[redacted]	[redacted]
Commercial Developer's Profit	[redacted]	[redacted]
Blended Profit on GDV	[redacted]	[redacted]
Profit on Cost	[redacted]	[redacted]

Residual Land Value	[redacted]	[redacted]

Summary of Appraisal Inputs – Master Developer Appraisal

GDV	The Advisor	GE
Residualised Price per Plot	[redacted]	[redacted]
Total Plot Sales	[redacted]	[redacted]
Costs		
Fixed Land Price	[redacted]	[redacted]
Base Infrastructure Costs	[redacted]	[redacted]
Social Infrastructure/S106 Costs	[redacted]	[redacted]
Risk	[redacted]	[redacted]
Additional Infra Risk	[redacted]	[redacted]
Unrecovered Estate Costs	[redacted]	[redacted]
Spend to Date	[redacted]	[redacted]
Master Developer Overhead	[redacted]	[redacted]
Development Management Fee	[redacted]	[redacted]
Disposal Fees - Sales		[redacted]
Disposal Fees - Marketing		[redacted]
Master Developer Profit	[redacted]	[redacted]
Finance	[redacted]	[redacted]
Profit on Cost	[redacted]	[redacted]
Profit on GDV	[redacted]	[redacted]
Benchmark Land Value	[redacted]	[redacted]
Appraisal Results		
Residual Land Value		[redacted]

Contents

Appendices

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.

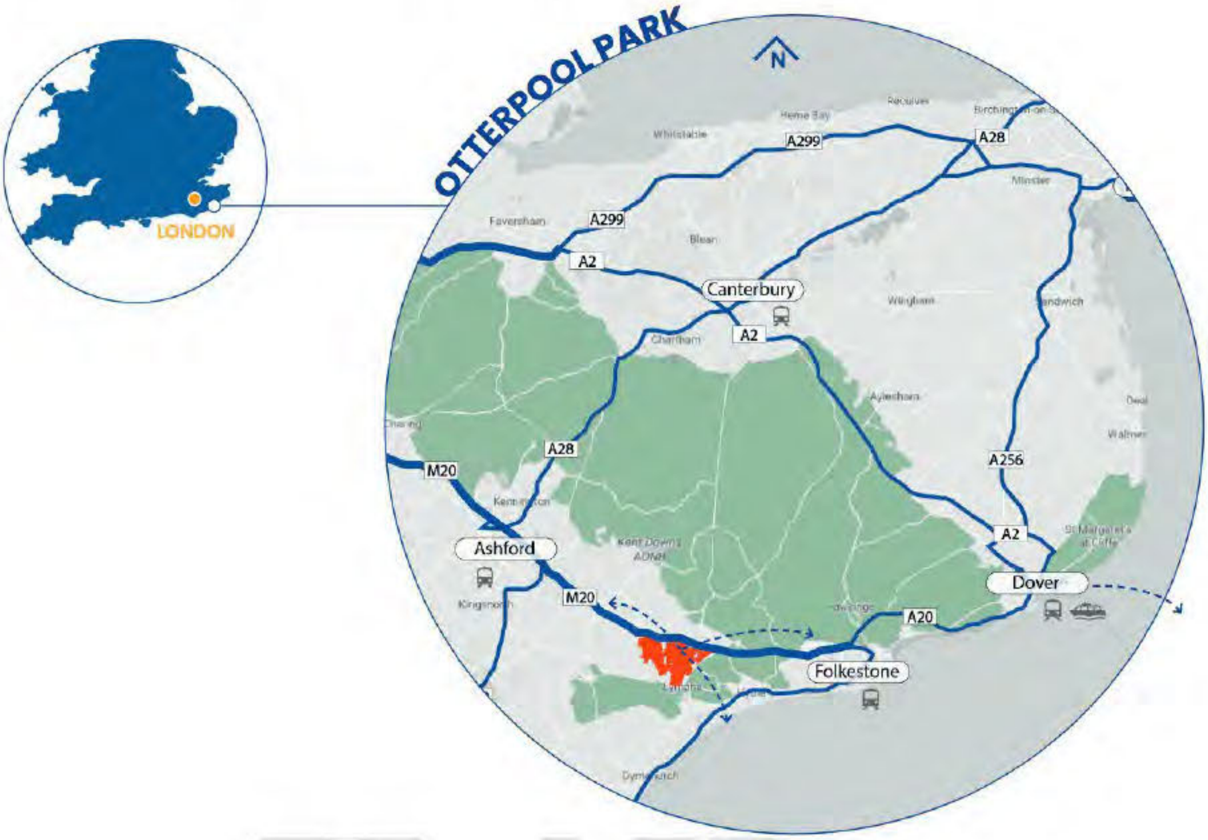
3.3 The villages of Lympne and Newingreen border the south-eastern and eastern boundaries of the site, with Sellindge on the northern boundary. Within the boundary of the site itself there are a number of land parcels excluded at Otterpool Manor, Upper Otterpool and to the south of Westenhanger.

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

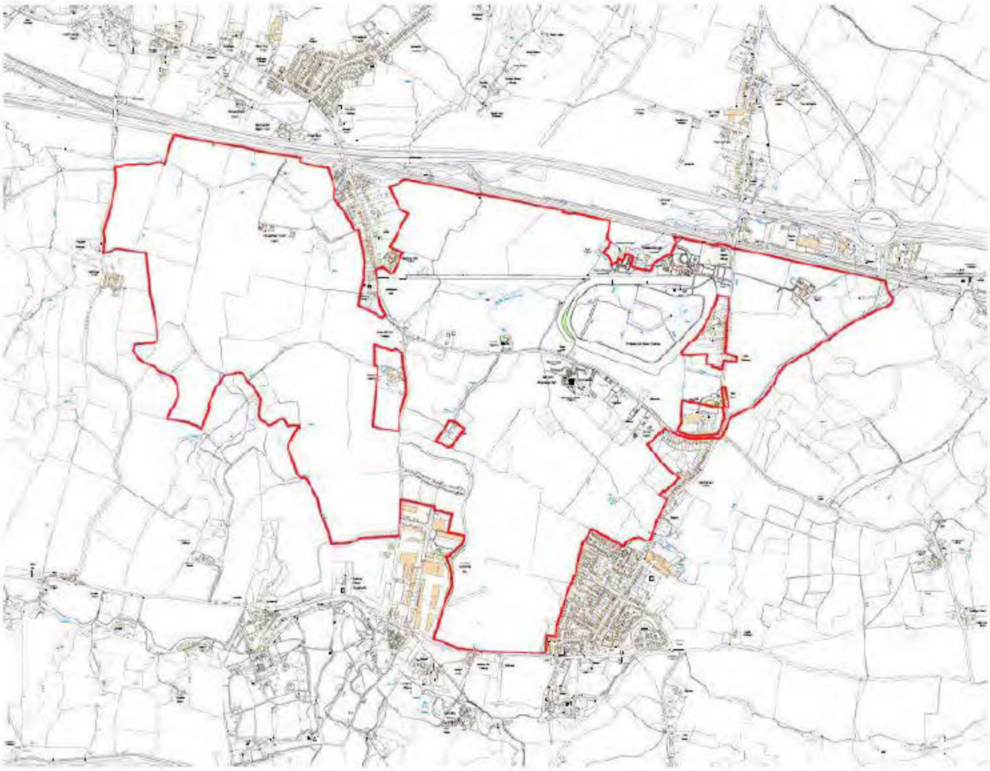
Site Description

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 [redacted]. 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 £[redacted]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 [redacted]psf for the Otterpool Park location were considered reasonable.

VE2 and GE Update

6.9 The Advisor assumed a revised private sales value of [redacted] n 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 £[redacted] 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 [redacted] 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 [redacted]. 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 [redacted] 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 £[redacted].

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	[redacted]
Affordable Rent	35% of units	[redacted]
Social Rent	35% of units	[redacted]

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 [redacted]% 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 [redacted] Place Making Premium on the market sale and affordable properties after a period of [redacted] 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 [redacted]% premium from Year [redacted] 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 [redacted] 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	[redacted]
Commercial B2	80,073	[redacted]
	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 £[redacted]psf for B1 uses and £[redacted] 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 [redacted] 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	[redacted]
Retail A2 and A3	101,720	[redacted]
	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 [redacted] psf 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 [redacted] which is set to be received as revenue at the end of the programme, between January 2043 and January 2047. Equal payments of [redacted] are programmed from 2043-2046 with one final payment of £[redacted] 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	[redacted]

Source: GE

Table 4 : Summary of Total GDV

Notional Plot (Years 10+)

Type	GE Total GDV
Plot Developer Appraisal	[redacted]

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	[redacted]	[redacted]
CIL, Recovery	[redacted]	Considered in Sensitivity
Total	[redacted]	[redacted]

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 £[redacted], equating to £[redacted] 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 [redacted], from the FVR equating to £[redacted] 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	[redacted]	[redacted]
Residential Houses	[redacted]	[redacted]
Commercial - A1/2/ A3	[redacted]	[redacted]
Commercial - B1/B2	[redacted]	[redacted]
Total Base Costs	[redacted]	[redacted]

Source: Arcadis/ BCIS

Contingency

VE1 and FVR

7.14 An On-Cost allowance of c.£[redacted] 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 [redacted]%, 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	[redacted]	
Sales and Marketing –Houses	[redacted]	[redacted]
Sales and Marketing Flats	[redacted]	
Private and Affordable Sales Agent Fee	[redacted]	[redacted]
Legal Fees	[redacted]	
Total	[redacted]	[redacted]

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 [redacted]%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%.

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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	[redacted]

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	[redacted]	[redacted]

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.

<u>Strategic Infrastructure Costs</u>

VE1 and FVR

9.3 The Applicant submitted a cost plan of c. £[redacted]m 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 [redacted]

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, with their full report attached at **Appendix 8.**

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	[redacted]	[redacted]	[redacted]
General Overheads & Prelimiaries	[redacted]	[redacted]	[redacted]
Professional & Local Authority Fees	[redacted]	[redacted]	[redacted]
S106 Costs	[redacted] [redacted]	[redacted]	[redacted]
Risk/Contingency	[redacted] [redacted]	[redacted]	[redacted]
Total All-in Costs	[redacted]	[redacted]	[redacted]
Extra allowance for foul water treatment	[redacted]	[redacted]	[redacted]

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]

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 [redacted] '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 £[redacted] 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 £[redacted] 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 £[redacted]. 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 £[redacted] 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 [redacted]% 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 [redacted] 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	[redacted]	[redacted]

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. £[redacted]

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 £[redacted] per acre would indicate this land to have a potential value of £[redacted]. Over the entire site area (c.1,410 acres), therefore the BLV would reflect circa £[redacted] 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.£[redacted] 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:

[redacted]

[redacted]

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 [redacted] 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 [redacted] (no premium) – [redacted]% (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 [redacted]% on the private residential including Build to Rent. A further [redacted]% 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 [redacted]% 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 [redacted]% for affordable and [redacted]% 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	[redacted]
Affordable and Intermediate	[redacted]
Commercial and Build to Rent	[redacted]

Source: Gerald Eve

11.12 Based on the above assumptions, GE has applied a blended rate of [redacted]% (no premium) and [redacted]% (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 [redacted]% and Profit on Cost of [redacted]%. When the premium was applied, this increased to [redacted]% Profit on GDV and [redacted]% 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 [redacted]% (no premium) – [redacted]% (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 [redacted] profit on GDV of [redacted]% and a Profit on Cost of [redacted]. 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 £[redacted] 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 £[redacted]k 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 [redacted] 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 [redacted]%, Profit on GDV of [redacted]% and an IRR of [redacted]%.

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. Copies of these appraisals are included at **Appendix 11.**

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	[redacted]	[redacted]	The Advisor/ GE
Total Revenue	[redacted]	[redacted]	
Total Infrastructure Cost (Base Build)	[redacted]	[redacted]	The Advisor/ G&T
Total Social Infrastructure Cost (S106)	[redacted]	[redacted]	The Advisor
Construction Risk	[redacted]	[redacted]	The Advisor/ G&T
Additional Water Treatment Facility	[redacted]	[redacted]	
Expenditure to Date	[redacted]	[redacted]	
Unrecovered Estate Costs	[redacted]	[redacted]	
Master Developer Overhead	[redacted]	[redacted]	The Advisor/ GE
Marketing	[redacted]	[redacted]	
Sales Agent	[redacted]	[redacted]	
Finance	[redacted]	[redacted]	The Advisor/ GE
Total Cost	[redacted]	[redacted]	
Benchmark Land Value (BLV)	[redacted]	[redacted]	The Advisor/ GE
Profit Return (on GDV)	[redacted]	[redacted]	The Advisor / GE
Profit on Return (Cost)	[redacted]	[redacted]	The Advisor / GE
Internal Rate of Return	[redacted]	[redacted]	The Advisor / GE
Residual Land Value (RLV)	[redacted]	[redacted]	GE

Source: GE

13.6 We note that the Advisors position reflects an outturn of [redacted] IRR. However, their appraisal assumes [redacted] 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 [redacted] or on GDV of c. [redacted] 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 [redacted]% 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%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
-5.0%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
0.0%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
5.0%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
10.0%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

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.£[redacted] 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 £[redacted] 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	[redacted]

Source: G&T

14.12 This additional risk allowance against this amount equates to c.£[redacted]

<u>CIL from Third Party Developers and wider garden village settlement</u>

14.13 As set out in Section 6, the Advisor has assumed an allowance of £[redacted] of CIL contributions of c.[redacted] 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.

14.16 The sensitivity appraisal is available to view in **Appendix 12.**

Summary

14.17 The sensitivity analysis reflects an IRR of c. [redacted]% 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.

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

14.19 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 £[redacted], including a 15% Risk allowance (on Professional and Local Authority fees) costs to be slightly overstated and have reduced these to c.£[redacted]m (£[redacted] 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 £[redacted] 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

Westbrook Drive, Folkestone

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.

Yields:

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.