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3 April 2024

Dear Steve

**KESSON HOUSE, COUNCIL AVENUE, GRAVESEND, DA11 9HN
VIABILITY ASSESSMENT**

Given further changes to the above scheme requested by the Council, I have been asked to further update the Viability Assessment (VA) as part of pre-application discussions.

Whilst the scheme still consists of 30 residential flats (10 of them to be in the refurbished Kesson House, with 20 new build units in the remainder of the site), the unit areas differ from the previous iteration.

A Homes England Development Appraisal Tool (DAT) is appended to this letter. The key inputs are as follows:

- **Benchmark land value (BLV):** An offer has been made to acquire the site as it is for £1.6m so that the existing building could be converted into a Church. Being conservative, I have applied 50% of that figure (£800,000) as the BLV for now.
- **Private residential:** For the purposes of the VA, the 20 new build units will be open market sale (5 x 1 bed and 15 x 2 bed). However, the plan is for the units to be leased to Gravesend Council.

An average value of £432 per sqft has been assumed for these units, based on recent sales in the area. This average value can be considered to be ambitious given current local market circumstances.

Indeed, the market remains largely stalled since the disastrous mini-budget of September 2022 and the subsequent steep rise in interest rates that has affected the whole of south eastern England since then.

- **Affordable housing:** Although the DAT shows all 30 units being sold as private housing, in reality the 10 units in the refurbished Kesson house (10 x 1 bed) will be transferred to Look Ahead Housing for use as affordable rented accommodation for local people. I understand that the applicant will be paid £136,000 by the Council for a 10 year lease under this arrangement.

In the DAT, as with the new build units, the refurbished units have been appraised as if they were open market sale, with an average value of £449 per sqft. This average value can also be considered to be ambitious given current local market circumstances.

- **A build cost** of £4.646m is included, reflecting the lower quartile of BCIS returns for this area recently.
- **Section 106** costs are estimated to total £150,000, including Council monitoring and legals.
- **10% professional fees.**
- **8% interest rate**, reflecting the rise in the Base Rate from 0.1% in December 2021 to 5.25% now, plus entry/exit and administration fees. I have slightly reduced the interest rate since December 2023, given that rates have softened since then.
- **3% sales and marketing fees.**

The key output of the appended DAT is that the profit is 11.55% on GDV, well below the generally accepted threshold of 17.5% on GDV.

The scheme shows that 100% of the residential units will be private housing for sale, although in reality the applicant proposes to offer all of these units as affordable housing.

By producing the DAT in this way, it will be possible to optimise grant funding from Homes England and so render the scheme viable.

Yours sincerely



Dr Douglas Birt
Encs.