



PATHFINDER
DEVELOPMENT CONSULTANTS

FINANCIAL VIABILITY ASSESSMENT.

for

Gravesham Borough Council.

At

**113 Windmill Street,
Gravesend, DA12 1DB.**

14th June 2022.

FINANCIAL VIABILITY ASSESSMENT
133 Windmill Street, Gravesend.
EXECUTIVE SUMMARY:

A Financial Viability Assessment (FVA) has been carried out on a proposed development of 75 retirement homes on the above site.

We have considered the value of the proposed development all for market sale and subtracted the total costs in bringing the scheme forward (including construction, fees, and finance). We have also subtracted what we consider to be a suitable developer's profit adjusted for the risks the scheme presents. This leaves a residual land value as shown below:

Gross Development Value	£ 23,800,000
Less Gross Development Costs	£ 18,860,356
Less a suitable developer's profit	£ 4,284,000
Residual Land Value	£ 655,643

We have compared the residual land value to the Benchmark land value we consider to be appropriate. Planning guidance refers to this as *"the minimum return at which it is considered a reasonable landowner would be willing to sell..."* We consider this to be £655,200 for the site based on its existing use value.

As the residual land value equals the benchmark figure we consider this to be a scheme which is viable.

It is therefore our reasonable judgment that a viable scheme is one which contains 75 retirement homes for market sale and total S106 contributions of £18,000.

FINANCIAL VIABILITY ASSESSMENT

133 Windmill Street, Gravesend.

1.0 Introduction

1.1. Gravesham Borough Council have commissioned Pathfinder to provide a Financial Viability Assessment (FVA) for a proposed development at **133 Windmill Street, Gravesend.**

1.2. The site is subject to a planning application for the demolition of existing structures on site and the erection of 75 Retirement Living apartments for older people (comprising 48 no. 1-bed and 27 no. 2-beds) including communal facilities, access, car parking and landscaping at the former Police Station (20220432). The applicant's agents, Planning Issues Ltd, have submitted a Financial Viability Appraisal prepared by Alder King and dated the 6th May 2022. The report suggests a scheme with no affordable housing and S106 contributions of just £5,250 would be viable.

1.3. Adopted policy CS16 seeks to deliver 30% affordable Housing (on a tenure split of 70% affordable rent, and 30% intermediate tenures) on sites such as this of over 15 dwellings.

1.4. The site of the former police station has a long planning history including of most relevance:

- Demolition of police station and erection of four buildings, four six storey in height to provide a total of 86 self-contained flats, comprising 30x one bedroom, 48x two bedroom and 8x three bedroom flats with approximately 923 sq meters of commercial floor space at ground floor level in Blocks B,C and D; laying out of 98 car parking spaces and cycle stores to basement. A permitted consent in August 2009 (Ref: 20090409) more recently renewed.
- The proposed erection of a new four-six storey building with an additional seventh storey penthouse, to provide a total of 99 self-contained flats, comprising 41 x one bedroom flats, 50 x two bedroom flats and 8 x three bedroom flats with 816.5 sq.meters of commercial floorspace at ground floor level; the laying out of 86 parking spaces, 5 motorcycle spaces and 90 cycles spaces in the basement, and 6 additional parking spaces and a delivery bay on the Wrotham Road frontage with an additional 22 street level cycle parking spaces. (Ref: 20161205). This application is pending a decision.

2.0 Basis of Reporting.

2.1. Our terms of engagement are to appraise and quantify the level of Residual Land Value that can be delivered by the development taking into account the planned scheme and to consider the consequent viability of the scheme. In addition, we are engaged to confirm the viability of delivering a policy compliant scheme generated by the development starting from a policy compliant approach and whether further options are required to be considered.

2.2. This report does not constitute a formal 'Red Book' valuation (RICS Valuation - Professional Standards, March 2012) or should not be relied upon as such. It is a viability study carried out in line with RICS guidance note, Financial Viability in Planning 2012. Specifically, it should be noted that viability assessments of each site

and conclusions set out in this report, were carried out on the basis of a broad-based study, given the limited detailed site information available. This report is confidential to the Client and the authors accept no responsibility of whatsoever nature to third parties to whom this report or any part thereof is made known. Any such party relies upon the report at their own risk.

2.3. In carrying out the FVA we have acted:

- With objectivity
- Impartiality
- Without interference
- And with reference to all appropriate available sources of information.

2.4. We confirm no contingent fees have been agreed and we have no conflicts of interest.

2.5. Special Assumptions. At the time of writing this report England has emerged from its third national lockdown with no imminent sign of the pandemic ending. The requirements of social distancing, the impact of self-isolation and materials shortages and unprecedented price rises have had a significant impact on sites in the last year months which looks set to continue into the winter, with the BCIS reporting material price increases in excess of 20% this year so far. The impact on production and sales rates should not be underestimated. We have made the specific special assumption in our work that sales, construction, profit and interest rates are at pre pandemic levels. We have directly noted the pandemic only as it relates to increased risk. As such our assessments are more optimistic than they could be. Market analysts are now reporting a significant turndown in new homes sales and noting no expectations of the performance of the market in 2020/21 being repeated.

2.6. Pathfinder are a consultancy offering services to house builders, landowners and promoters, assisting in the delivery of affordable housing, site identification and appraisal, land acquisition, and development consultancy within the east of England.

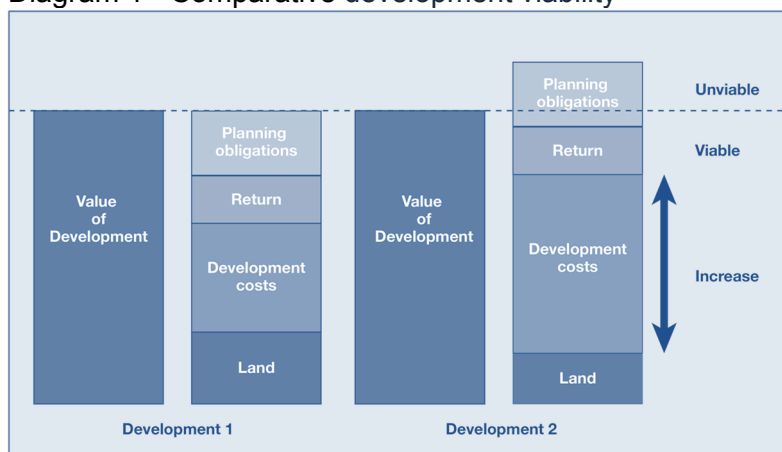
2.7. Our clients include national and regional house builders, as well as local developers, and land promotion organizations as well as individual landowners.

3.0. Standard Methodology in assessing viability

3.1. Financial Viability Assessment (FVA) is based upon a residual land value calculation, supported by a design and build cost estimate in as much detail as possible, and a scheme cash flow plotting the pattern of likely cash spend and income to generate interest on development finance.

3.2. The difference between gross development value and total cost equates to a residual land value. The model runs over a development period from the date of commencement of the project, to completion when the development has been constructed, sold and occupied. In order to assess whether a development scheme can be regarded as economically viable, it is necessary to compare residual land values produced with target land values. If the development proposal generates a residual land value that is higher than the target land value for the scheme, it can generally be regarded as economically viable and therefore deliverable. However, if the scheme generates a residual land value which is lower than the target, it should not be deemed as economically viable (as illustrated in Diagram 1 below). The standard convention of working with current values and costs is used rather than those predicted in the future.

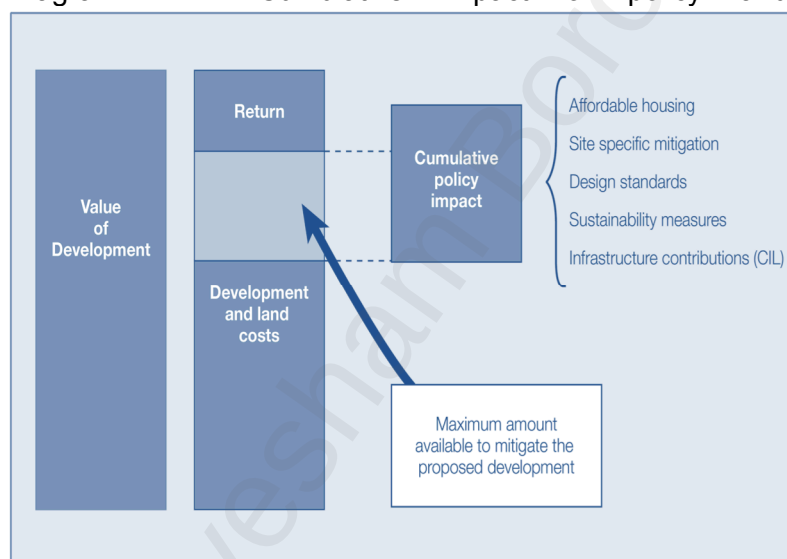
Diagram 1 - Comparative development viability



3.3. Diagram 1 illustrates the balance required to achieve a viable scheme – Development 1. It also shows how a scheme becomes unviable where there are increased development costs, due to site considerations, along with planning obligations – Development 2.

3.4. A viability assessment will have regard to not just single policy impacts but a cumulative impact of policy and planning obligations as illustrated in Diagram 2.

Diagram 2 - Cumulative impact of policy and planning obligations



4.0. Planning Guidance

4.1. There is strong policy background detailing the objectives and methodology for undertaking FVA's. This includes:

4.1.1. On the 20th July 2021 the National Planning Policy Framework was revised. It notes:

4.1.2 (1.) *The National Planning Policy Framework sets out the Government's planning policies for England and how these should be applied. It provides a*

framework within which locally-prepared plans for housing and other development can be produced. □

4.1.3 (34) Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.

4.1.4 (57.) It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. 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.

4.1.5 (63.) Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer). To support the re-use of brownfield land, where vacant buildings are being reused or redeveloped, any affordable housing contribution due should be reduced by a proportionate amount. □

4.1.6 (64.) Where major development involving the provision of housing is proposed, planning policies and decisions should expect at least 10% of the homes to be available for affordable home ownership, unless this would exceed the level of affordable housing required in the area, or significantly prejudice the ability to meet the identified affordable housing needs of specific groups.

4.2.1 Planning Practice Guidance relating to viability was updated on the same day and notes:

4.2.2 It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage.

4.2.3 Where a viability assessment is submitted to accompany a planning application this should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then.

4.2.4 Plans should set out circumstances where review mechanisms may be appropriate... over the lifetime of the development...

4.2.5 Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return.

4.2.6 In plan making and decision making viability helps to strike a balance between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission.

4.2.7 For viability assessment of a specific site or development, market evidence (rather than average figures) from the actual site or from existing developments can be used.

4.2.8 Assessment of costs should be based on evidence which is reflective of local market conditions.

4.2.9. The benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. Benchmark land value should reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees.

4.2.10 EUV should be informed by market evidence of current uses, costs and values. Market evidence can also be used as a cross check of benchmark land value. Applicants should identify and evidence any adjustments to reflect the cost of policy compliance.

4.2.11 EUV is the value of the land in its existing use. EUV can be established... by assessing the value of the specific site... using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield (excluding any hope value for development).

4.2.12 The premium is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements. A reasonable premium must be based upon the best available evidence. Market evidence can include BLV from other assessments. Land transactions can be used but only as a cross check to other evidence.

4.2.13 Potential risk is accounted for in the assumed return for developers at the plan making stage.

4.2.14 **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. 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.

4.3.1. The Royal Institution of Chartered Surveyors (RICS) has produced a revised draft guidance note, Assessing Financial Viability in Planning (November 2020). The RICS guidance notes that:

4.3.2. *'To achieve deliverability, plans need to contain policies that, taken as a whole in the context of the development envisaged by the plan, are not likely to make that development financially unviable. A key determinant of financial viability is the balance between housing delivery and the provision of developer contributions. If developer contributions are set too high, landowners may not release land.'*

4.3.3. *FVAs are undertaken to determine the balance between housing delivery and developer contributions. The FVA must be supported by appropriate evidence and that evidence is informed by engagement with developers, landowners, infrastructure and affordable housing providers.*

4.3.4. *Given that planning policies can affect markets, planning requirements should be set at levels that enable the market to function and plan policies to be delivered.*

4.3.5. *Market cyclicalities are a development risk and are accounted for in the risk-adjusted return required by the developer. At the date of valuation, these risks are based on expected out-turns that may turn out to be different to the actual achieved return in the future. The development cash flows that are modelled in the FVA should be those cash flows that are expected (The risk-adjusted return has already compensated the developer for taking on that particular risk. Therefore, inputs into the viability assessment should not be adjusted to conservative estimates; they should be the best estimate of what is expected.*

4.3.6. *An FVA estimates whether planned developments with policy-compliant levels of developer contributions are able to provide:*

- *a minimum reasonable return to the landowner (defined as the EUV plus a premium), and*
- *a suitable return to the developer.*

If the FVA shows that the specified landowner and developer return are not enough to satisfy these benchmarks, the development typology is unviable at the level of developer contributions being tested at the plan-making stage.

4.3.7. *A proper understanding of financial viability is essential in ensuring that:*

- *land is realistically priced and released for development by landowners to achieve plan delivery*
- *developers are capable of obtaining appropriate market risk-adjusted returns for delivering developments*
- *assumptions about the quantum of development that can be viably delivered over the course of the plan period are robust and*
- *CIL charging schedules are set at an appropriate level.*

4.3.8. *PPG paragraph 018 identifies the return to the developer in plan-making FVAs. An assumption of 15– 20% of GDV may be considered a suitable developer return. However, PPG paragraph 018 states that 'Plan-makers may choose to apply alternative figures outside of this range 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 applied for different development types, such as commercial development or build to rent.*

The developer return includes compensation for risk. The assessor should consider the relative level of risk attached to the development of the different strategic sites and hypothetical typologies. When estimating the appropriate return for each typology and site, the assessor should consider evidence from other stakeholders and relevant FVAs.

4.3.9. There are three approaches to the assessment of the BLV. All three should be calculated and reported to the decision-maker separately to counter arguments that BLVs from one method of valuation have been used as an input into another method, in order to reduce developer contributions artificially. If applied correctly, the recommended approach will nullify this possibility. The primary approach is EUV+ (or AUV where appropriate). The other two approaches are cross- checks.

- 1. a) The first cross-check is the residual BLV, found by applying the residual valuation approach set out in Valuation of development property, RICS guidance note.*
- 2. b) The market comparison approach can be used to provide a further cross-check. Where the evidence allows, land transactions can be used. The normal valuation approach to the analysis of transactions is set out in Comparable evidence in property valuation, RICS guidance note.*

In the case of the BLV in FVAs, these two methods are not the primary approach, which is the EUV plus a premium. They are therefore cross-checking mechanisms only. An important difference between market value and BLV is the weighting of the evidence base. While the evidence base for the market value is grounded in transactions, and in comparative values and costs of the developed property in a residual valuation, the PPG reduces the status of comparable land transactions to that of a cross-check of the BLV, which may be undertaken to help inform the BLV established by reference to the EUV plus a premium. Existing use value should be informed by market evidence of current uses, costs and values’).

4.3.10. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements. It is therefore a minimum return that would persuade a reasonable landowner to sell the land.

4.3.11. The PPG states that the AUV ‘of the land may be informative in establishing benchmark land value’. The AUV refers to the value of land for uses other than its existing use. The EUV of a partially implemented development could be nil. The BLV may therefore be more appropriately assessed by reference to the AUV. The RICS guidance note, defines it as ‘the market value, or any other appropriate basis, with the special assumption of an alternative use to the existing use or permitted highest and AUV - these uses may include where there is:

- an extant planning consent that can be implemented*
- an alternative development that fully complies with up-to-date plan policies*
- potential to refurbish the existing property*
- any alternative use for the property that would achieve planning consent*
- a partially implemented consent, or*
- an application under section 73 of the Town and Country Planning Act 1990 for a variation or removal of a condition on an existing planning permission.*

4.3.12. Different forms of adjusted market evidence to inform the premium include specific references to:

- BLVs from other FVAs, and
- Land transactions, but only as a cross-check to the other evidence.

4.3.13. Where assessors consider that the impacts of value and cost change are a significant factor in the market, these changes are taken into account in the FVA and sensitivity testing of these projections is undertaken.'

4.3.14. In their April 2012 topic paper practice note, the Homes and Community Agency (HCA) Advisory Team for Large Applications (ATLAS) Team note:

"The issue of viability is a material consideration in decision making. The weighting attached to it needs to be balanced with the circumstances of any specific project, the underlined policy basis and all the other relevant material planning considerations. In the current economic climate, when project viability is often a key barrier preventing development from proceeding and potentially hindering its ability to meet all established policy objectives, it is critical...(have a good understanding of the use of financial appraisals to test viability)".

5.0. Assumptions used in our modeling framework

5.1. Our viability assessment is based upon broad approximations, where detailed information is not available. We have modeled the delivery of a scheme of 9 homes.

5.2. Property Type and Sizes. The mix of property types, and floor areas (GIFA), are taken from the planning drawings prepared by Planning Issues.

5.3. Gross Development Value

5.3.1. The Alder King report suggests an average sales rate £4,817/m² or £447.51/ft² valuing the proposed 1 bed units at an average of £280,000 (£4,958/m²) and the 2 bed units at an average of £380,000 (£4,653/m²). These values are considered at the top end of the value range. We agree with the analysis of current sales values currently able of being achieved per sqft on average.

6.3.2. Affordable housing values are based on current market rates being achieved in the sale of homes required to be delivered by S106 agreements and sold to Registered Providers.

5.4. Gross Development Costs

5.4.1. Site Acquisition Costs

We have included site acquisition costs to cover agent and legal fees at a total of 1.5% of the benchmark land value. These assumptions are viewed as standard. Stamp duty at the prevailing rate has been allowed for, calculated on the residual value.

5.4.2. Design and Build Costs

We have assumed that all design costs (site survey, architecture, engineering planning consultant and fees), are included within the Cost Plan attached within our FVA. Our cost plan is based on the design drawings and surveys relating to the Planning Application prepared by Planning Issues (see layout plans at Appendix 1).

We have used the location adjusted *Building Cost Information Service* (BCIS) data, to generate the base construction cost. Rates used are adjusted to reflect the location factor for Gravesham and are at the Median rate as proposed by the applicant 4 story apartments. We have allowed for a 5% addition to cover all external works costs as proposed by the applicant and seen as modest in comparison to typical schemes.

The analysis generates a total design and build cost of £16,146,180 or £2,470.72m².

5.4.3. Abnormal and Contingency Costs

Abnormal and additional costs contained in the base estimate have been able to be allowed for on the basis of information available and at the same level as the Alder King report. A total allowance of £555,000 identical to the Alder King report has been made, although no verification of these amounts has been sought.

Contingency costs have been allowed for at a rate of 3% to reflect the design uncertainty contained in this project at this stage, a typical rate normally assumed where work to ascertain abnormal costs has occurred.

5.4.4. Design & Professional Fees

Allowances have been included to cover planning design and professional fees, at 8%. This is a typical allowance assumed in Financial Viability testing on projects of this size and reflects the developers likely costs, and takes into account the nature of the development, covering all surveys, enquires and design work pre and post planning, as well as statutory fees and consultants.

5.4.5. S106 Contributions

We note the CIL has not yet been introduced. We have made no allowance for S106 contributions but rather sought to see what total amount enables the residual value to equate to the bench.

5.4.6 Marketing and Sales Costs

We have adopted full marketing sales and disposals costs within the appraisal, including:

- Marketing costs of the private properties
- Agent's fees
- Legal fees associated with private sales

On this basis we have assumed a sales and marketing cost of 5% of the gross development value of the open market sales properties, and £600 per home legal fees. This is higher than the typical rate allowed for in viability testing but reflects the additional costs likely to be incurred in selling retirement housing schemes. This approach has been endorsed as appropriate at a number of Appeals including at Clacton-on-Sea (PINS Ref: PP/P1560/A/11/2161214), Hunstanton (PINS Ref: APP/V2635/A/14/2217840) and Redditch (PINS Ref: APP/Q1825/W/17/3166677) and Diss (PINS Ref: APP/L2630/W/21/3279754).

5.4.7. Finance Costs.

Where development finance is available, lenders are currently charging minimum rates of 6%. Arrangement (1%), monitoring (2%) and exit fees (1%) are also charged. These onerous lending terms persist due to on-going resistance to lending on residential development in the current market. We have adopted an interest rate of 6% with no additional allowance for fees, which we consider to be a standard assumption for development in the current economic climate.

It is conventional to assume finance on all costs in order to reflect the opportunity cost (or, in some cases, the actual cost) of committing equity to the project.

5.5. Development Programme

5.5.1. For the purpose on undertaking the Economic Viability Assessment only, we have assumed that a standard development of 75 retirement homes, occurs over a 70 month period with the land being acquired in month one with a three month lead in period, and construction taking 18 months.

5.5.2. We have assumed sales of open market homes occur from month 22 to month 70 on an even basis. The rate of sales directly links to the assumed sales prices of individual homes and the nature of the local market. This extended sales period and relatively low sales rate, only beginning at the end of construction is typical for retirement schemes.

5.5.3. These assumptions are particularly important in the calculation of development interest. The accounting for development interest on the land acquisition is from month one of the programme, not allowing for any historic holding costs of the site, in line with best practice.

5.6. Overhead & Profit

5.6.1. When considering the changing economic climate, financial institutions have tightened their requirements for overhead and profit returns on all schemes. Banks have raised their expectations in terms of risk and required returns that new developments offer. It is currently deemed likely that any private residential development proposals predicting an overhead and profit return of less than between 15% and 20% of gross development value would not be considered viable. We note the contents of the recently revised NPPF in this regard.

5.6.2. We have however adopted an overhead and profit rate of 18% of gross development value for the scheme, taking into account the location, and nature of the development.

5.6.3. As affordable housing contains less commercial risk, typically with a JCT Design & Build Contract or a Development Agreement being signed at the commencement of works, and monthly valuations of construction work, borrowing and risk are reduced and so lower levels of overhead and profit are the norm. We have therefore allowed an overhead and profit of 6% in relation to the delivery of affordable housing.

6.0. Methods for Assessing Land Values

6.1. Overview

6.1.1 The minimum land value judged as capable of ensuring a site is brought forward is important in our calculations of scheme viability.

6.1.2. As noted in the PPG:

“The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell...”

6.1.3. The ‘Harman Report’ (June 2012) notes that Threshold Land Value (TLV) should represent the value at which a typical willing landowner is likely to release land for development. The report notes that TLV needs to take account of the fact that future plan policy requirements will have an impact on values and landowner expectations.

6.1.4. Market values provide a useful ‘sense check’ on the TLV, but ‘Harman’ recommends an approach based on a premium over current use values and credible alternative use values.

6.1.5. The report goes on to note that if local market evidence shows that minimum price provisions are substantially in excess of initial assumptions, the TLV will require adjusting to reflect market evidence.

6.1.6. The RICS report ‘Financial Viability in Planning,’ defines Benchmark Land Values (BLV) as equating to the market value, subject to having regard to development plan policies and other material planning considerations and disregards that which is contrary to the Local Plan. It goes on to note for area wide viability testing, site value may need to be further adjusted to reflect emerging policy, at a level, which would not prejudice delivery.

6.1.7. The report also notes the BLV must be at a level which makes a landowner willing to sell. Comparable evidence is important in establishing BLV for scheme specific as well as area wide assessments.

6.1.8. In this context we note the Examiner’s report in relation to Greater Norwich Development Partnership CIL charging schedule (December 2012)

“...it is necessary to establish a threshold land value i.e. the value at which a typical willing landowner is likely to release land for development. Based on market experience...a landowner would expect to receive at least 75% of the benchmark value... It is reasonable to see a 25% reduction in benchmark values as the maximum that should be used...”

6.1.9. This approach was also uncontested and accepted at the Sandwell CIL examination in July 2014. In short if land trades today at the BLV, the TLV should be no less than 75% of this.

6.2. Determining the land value

6.2.1. In assessing viability, we want to establish a **Benchmark Land Value** that is appropriate in ensuring landowners receive a competitive return. Harman and the RICS acknowledge that in order for development to come forward over the existing

use, a 'competitive return' (also referred to as a premium) is necessary.

6.2.2. There is no set rule as to how much of a premium should be applied on top of the existing use value. We can sensibly expect that a minimum uplift in value would be required in order to allow the seller to pay stamp duty, sales fees, legal costs and disruption. But that bare minimum is usually not incentive enough to persuade a landowner to sell.

6.2.3. Beyond that bare minimum, an incentive (referred to as a 'premium') is required to encourage the landowner to sell. It is difficult to say what premium a seller would require in order to sell the land. This is because there are inevitable differences in each deal. For example, the motivations of the parties involved in the transaction may vary, as might perceptions of future market prospects. Some landowners (say family trusts, or Oxbridge Colleges) take a very long-term view of land holdings and can only be persuaded to sell at a high price. We cannot know these individual circumstances, so Harman stipulates that an appropriate premium should be determined by local precedent - another way of saying market value.

6.2.4. In some instances, an alternative use may be considered over residential development, e.g. employment, retail etc. Assuming that the alternative use is realistic, then it may be prudent to consider land values for this alternative use, in addition to its existing use. This may give a more accurate view of the BLV, because a rational landowner will always seek to maximise site value.

6.2.5. Regarding existing use values, sites coming forward for development in can typically comprise green field sites. Guidance issued by the HCA in "Transparent Assumptions: Guidance for the Area Wide Viability Model" 2010 states that for green field land, benchmarks tend to be in a range of 10 to 20 times agricultural value.

6.2.6. Benchmark Land Values cannot be straightforwardly derived from current market values. The market value / BLV should be adjusted to allow for any future changes in planning policy. Furthermore, it may also be necessary to reduce the market value / BLV to allow for risk in obtaining planning permission, dependent upon comparable evidence. There is no set rule for the amount of discount that should be applied to the market value of a site.

6.2.7. This market comparable based approach considers land traded in the area. This market performance will inform landowners' 'hope values' for sites. After adjustment for various factors (such as time and various flavors of risk, such as whether the land had planning permission), we can start to make judgments about how comparable sites might trade. We have been able to obtain a number of comparables from developers and agents in the area.

6.2.8. If the residual land value shown by the appraisals is below the Benchmark Land Value, the development is not financially viable. That means that unless the circumstances change the development will not be delivered.

6.2.9. If the residual value and the Benchmark Land Value are equal, or if the residual value exceeds the Benchmark Land Value, the development is viable.

6.2.10. When considering Benchmark land values based on EUV plus a market incentivized premium the Inspector in Pinn Court Farm, Exeter (APP/U1105/A/13/2208393) noted that it was “unrealistic and inconsistent with the principals in the Planning Practice Guidance to expect a transaction to be incentivised and to occur to deliver housing at a value less than the relevant comparables.”

6.3. Benchmark Land Value used

6.3.1. In reaching a conclusion on an appropriate Benchmark Land Value we have reviewed the evidence and using our professional judgment, we believe that an appropriate Benchmark Land Value assumption for the area can be no higher than:

- £655,644
- As the site is 0.364 hectares this equates to £1,800,000 per hectare.
- We consider that the EUV Plus method of establishing the Benchmark Land Value is appropriate.

6.3.2. In setting an appropriate benchmark land value the following evidence has been taken into account:

- The GVA CIL and Affordable Housing Viability Testing Report of January 2016 undertaken by GVA for the council notes:

*‘As there have been few transactions in Gravesham, we have considered evidence in comparable areas. We have adopted a threshold land value of £400,000 per acre as the Existing Use Value (EUV) for commercial land, plus 20% uplift, which equates to **£480,000 per acre (£1,185,000 per ha)**.*

VOA’s Property Market (2011) report suggests a value of c. £340,000 / ha for cleared site. Recent comparable data of sold and marketed sites in the vicinity suggest a range of £250,000 for open storage land to £500,000 + for cleared, serviced land.

We have assumed that a majority of sites will come forward on former employment land. To establish a TLV for employment land in Area A, we have reviewed recent transactions and current asking prices from areas considered comparable or operating within the same market, detailed below.

Table 13 – Employment Land Currently Marketed

Site	Acres	Price	£ / Acre	Description
Land at Brielle Way, Sheerness, ME12 1YW	n/a (various plots)	n/a (various plots)	£240,000	Planning Permission for B1 and B8 uses
Neats Court Business Park, Queensborough, ME11 5JS	n/a (various plots)	n/a (various plots)	£375,000	Freehold serviced plots
Dering Road, Gravesend, DA12 2JH	2 plots – total 15.5 acres	£5,425,000	£350,000	Potential commercial, industrial land

Dolphin Park, Sittingbourne, ME103US	0.8	£437,500	£350,000	Suitable for industrial and warehouse use (subject to planning)
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We have consulted with local land agents to seek advice on the Gravesham market together with an opinion of achievable values. Local agents report few recent deals and a large price variation across the Borough, with prices increasing further west closer to Dartford and the A2 west connections. In more undesirable locations land values can be as low as £175,000 / acre, but a general range of £350,000 - £600,000 / acre was provided, depending on location.'

- DCLG Land Value Estimates for Policy Appraisal report of August 2020, suggests a land value per hectare for market housing only with planning consent of £3,850,000 per hectare. Adjusted for policy compliance this would equate to circa £1,795,000 per hectare.
- Redvers Centre, Glencoe Road, Chatham, which sold for £1,580,000 per hectare.
- Chatham Waterfront a car park redevelopment into residential accommodation with an agreed benchmark land value of £1,217,000 per hectare.

6.3.3 We note that in the recent High Court decision relating to Parkhurst Road, Holgate J noted that Benchmark land values 'should reflect and not buck relevant planning policies.

7.0 Analysis of FVA Outputs and appropriate Sensitivity Analysis.

7.1. We have considered:

7.2. The proposed scheme of 75 homes all for market sale and S106 contributions totalling £18,000, generates a residual land value of **£655,643** (which equates to 100% of the benchmark value). This is considered to be an economically viable level of land value as required by the National Planning Policy Framework. It notes sites need to deliver '*a minimum return at which it is considered a reasonable landowner would be willing to sell.*' We further note in the recently published Viability Testing Local Plans document it is necessary "*for the scheme to provide a competitive return to the developer to ensure the development takes place and generates a land value sufficient to persuade the landowner to sell the land.*"

7.3. As we would expect affordable housing to typically sell for circa 50% of market value when for Affordable Rent, and 75% for Shared Ownership the inclusion of affordable housing would significantly harm viability.

7.4. We have undertaken the following economic sensitivity scenario tests of the appraisal at 7.2 above: as follows, considering reasonable changes to assumptions but only this that positively improve viability:

- +2.5% GDV (open market) = Residual value 170% BLV
- 2.5% GDV (open market) = Residual value 30% BLV
- +2.5% design and build cost = Residual value 35% BLV
- 2.5% design and build cost = Residual value 166% BLV

8.0 Conclusions

8.1. The FVA indicates the scheme as proposed, based on current known costs and values generates a residual land value of £655,643 assuming the provision of 75 retirement homes for market sale and total S106 contributions of £18,000.

8.2. This is a level, which can be considered to deliver a *minimum return* to the landowner, in comparison with the established convention of consideration of current benchmark values.

8.3. It is therefore our reasonable judgment that a viable scheme is one which contains 75 retirement homes for market sale and total S106 contributions of £18,000.

Signed:

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14th June 2022