

13 July 2017

Proposed Redevelopment Scheme Princes Parade, Seabrook, Hythe, Kent

VIABILITY ASSESSMENT REPORT

STRICTLY PRIVATE AND CONFIDENTIAL

FOI EXEMPTION SECTION 41 & 43(2): PRIVATE AND CONFIDENTIAL
EIR Exemption 12 (5) (e) – (f)

Prepared for:

Shepway District Council

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For and on behalf of:

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1. Introduction

1.1. Client Instruction

We have been instructed by Shepway District Council to undertake a Viability Appraisal in respect of enabling contribution towards upgraded community facilities on residential and commercial elements of the proposed development scheme, fronting and adjacent to Princes Parade.

We have taken into account Masterplan proposals, a schedule of potential accommodation and cost analysis prepared by Messrs Betteridge and Milsom.

1.2. Confidentiality

Due to the commercially sensitive nature of some of the information provided as part of the viability assessment review, this report is provided on a strictly private and confidential basis for the purposes of presenting to your planning officers and planning committee. The report must not be recited or referred to in any document, or copied or made available (in whole or in part) to any other person without our express prior written consent.

1.3. Report Limitations

Although this report has been prepared in line with RICS guidance, as per Valuation Standards 1 of the RICS Valuations - Professional Standards, incorporating the International Valuation Standards, Global and UK 8th Edition (March 2012), advice given expressly in preparation for, or during the course of negotiations or possible litigation does not form part of a formal "Red Book" valuation and should not be relied upon as such.

1.4. Date of Liability Assessments

The date of the assessment is the date of this report. Subject to all site specific variables remaining the same and there being no fundamental market changes our review remains valid for a period of three months after which we reserve the right to review our position.

1.5. Information Provided

We have been provided with and relied upon the following information:

- Proposed Masterplan drawn up by Tibbalds, 14/6/2017
- Plans and elevations of the proposed leisure centre
- A geo-environmental carried out by Idom Merebrook Limited
- A stage 1 cost plan for the full scheme prepared by Messrs Betteridge and Milsom
- A schedule of proposed accommodation dated 24/01/17.

1.6. Background

We understand that the existing leisure centre facilities are now outdated and insufficient to serve the community and a new leisure centre is required, together with upgrading the landscape and beach facilities.

A substantial sum is required for the facilities and our viability assesses the likely revenue from commercial and residential elements of the proposed scheme in order to substantially contribute towards the new community facilities.

Our appraisals assume fully serviced development sites but some infrastructure is assumed to be provided by contractors of Shepway District Council including realignment of the road, remediation treatment for the former tip area and off-site service infrastructure, together with the provision of the linear park landscaping.

2. The Property

2.1. Location

The Property currently includes part of Princes Parade which is a road running parallel to the beach and English Channel, between Hythe and Folkestone. To the north of the concept site is the Royal Military Canal, an important heritage asset, being managed by English Heritage.

The Property is located in a generally sought after residential area on the eastern flank of Hythe, with a number of new flatted residential development schemes having taken place in the last few years to the east; and to the west is a private 9-hole golf course attached to the Imperial Hotel with a recently built residential development scheme comprising houses and apartments behind and to the west of the hotel. A footpath runs alongside the Royal Military Canal with a pedestrian bridge across the canal, but the canal itself cannot be seen from Princes Parade currently.

2.2. Description

The subject site includes a two lane highway with a metalled surface, frontage to a concrete promenade and the beach and a well-vegetated area of former tip with indications that the tip depth is up to 4m in part according to a geo-environmental assessment carried out by Idom Merebrook. There is also an area of open space adjoining the golf course. Altogether the land extends to about 7.5 ha/18.5 acres.

2.3. Proposed Development

We attach a Schedule of Accommodation for the site as **Appendix 1** and the layout is shown on the plan attached as **Appendix 2**. We have been provided with plans and proposed elevations for the leisure centre but have excluded the proposed development area for the leisure centre from our valuation.

In summary, besides the leisure centre, the development will be principally for housing with 105 private 1, 2 and 3 bedroom flats, 3 bedroom maisonettes and 3 and 4 bedroom houses; and 45 affordable dwellings being a mixture of 1, 2 and 3 bedroom flats and 2, 3 and 4 bedroom houses. We have assumed a 60:40 affordable rented/shared ownership tenure split. A number of the proposed dwellings will front the promenade with direct access to the beach; the proposed scheme will to a degree emulate the Fisherman's Beach scheme on the west side of Hythe, a development scheme that also fronts the beach.

The road itself is proposed to be diverted as shown on the plan which will add more interest to the landscape but also act as a traffic slowdown mechanism; however, this will be constructed on the land which is a former tip and therefore will require special construction techniques which will be more costly than a traditional spine road. We understand that the road has been costed at about £2.8m by Messrs Betteridge and Milsom. An open space will connect with the Royal Military Canal, on both sides of the new road alignment, linking with the bridge across the canal to the north; flanking the open space (which will include the play areas) will be a proposed boutique hotel with at least 10 letting bedrooms, together with a restaurant. There will also be a small element of car parking adjacent. The principal car park will be adjacent to the leisure centre; we have excluded the public car park by the leisure centre, together with the leisure centre and the canoe club in terms of our calculations of costs and their impact on the development value.

Besides those dwellings with frontage to the promenade, the taller dwellings to the north of the site may have views over the canal and a linear park and open space is proposed to the north-west and west of the scheme.

We have also be asked to consider 6 self-build plots assuming floor areas up to around 280 sq m each.

3. Methodology

3.1. Financial Viability Assessments

In line with the National Planning Policy Framework (NPPF), site-specific financial viabilities are often a material consideration in determining how much and what type of affordable housing should be required in residential and mixed-use developments.

This assessment, however, specifically addresses the viability of the scheme in terms of the land revenue substantially enabling the funding of the new leisure facility.

The RICS define financial appraisals for planning purposes as '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 a developer in delivering a project.'

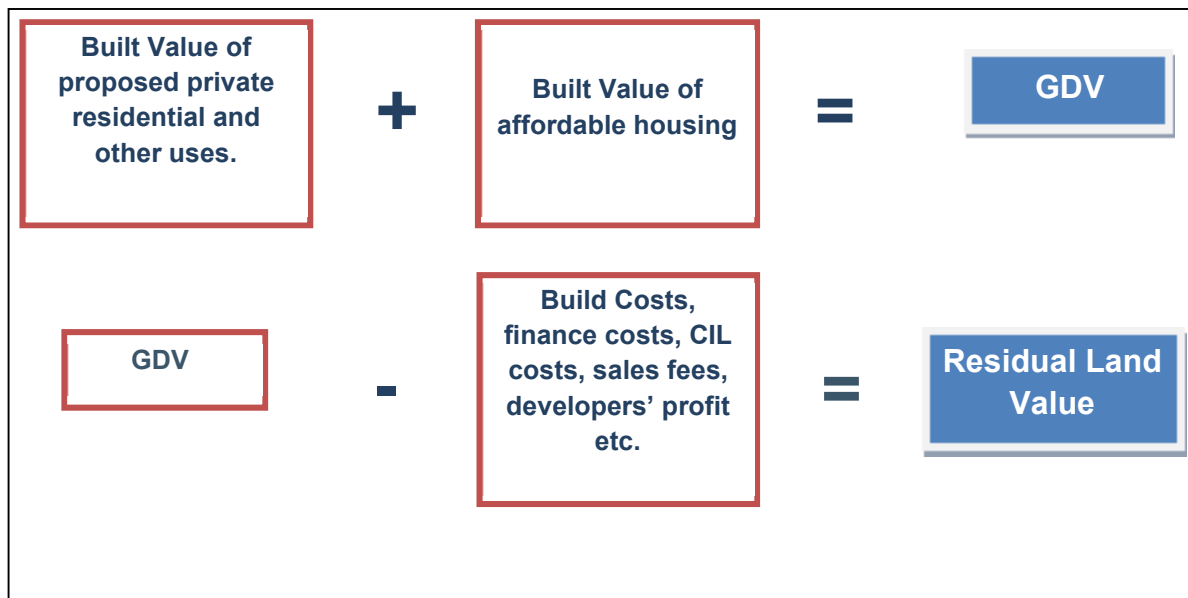
3.2. Factors affecting viability

The following factors are particularly relevant to viability:

- The quantity of affordable housing;
- The tenure split within the affordable housing between social rented and intermediate;
- Community Infrastructure Levy
- Optimum land uses within the development;
- Market conditions;
- Timing of delivery;
- Abnormal building costs; and
- Particular planning requirements.

3.3. Residual Land Valuation

The financial viability of development proposals is determined using the residual land valuation method. A summary of this valuation process can be seen below:



3.4. Profit

The above residual land approach can be inverted so that it becomes a 'profit residual' based upon the insertion of a specific land cost (equivalent to the viability benchmark sum). By doing this, the focus is moved onto the level of profit driven by a scheme. This is, however, a purely presentational alternative.

4. Viability Benchmarks

- 4.1** As this is an enabling viability assessment for help towards construction of the leisure facilities, the existing site value or its current use, which is minimal in any case, is irrelevant for the purpose of this assessment.

5. Economic Modelling

5.1. Economic Model Used

We have undertaken a financial viability analysis by way of the software package known as Prodev.

6. Residual Valuation Calculations

- 6.1. We have carried out residual calculations based on the anticipated revenue and from which have been deducted costs, profit, the net figure being the land value. We attach our appraisal as **Appendix 4**.
- 6.2. The revenue is calculated on comparable evidence to a large degree. The comparable sales in particular relate to flats and houses at Fisherman's Beach, Imperial Green (by the Imperial Hotel), Olivia Court – the new apartment scheme to the east; and The Esplanade at Sandgate. We have collated the evidence as a range of prices and in general have taken mean averages where appropriate to apply to the proposed new dwellings. Thus:

House Type	Sq m	Range of Values	Mean Value	Applied Value	Potential Realisation
1 bed flat	55	0	0	£4,000	£220,000
2 bed flat	77.5	£4,158-£5,678	£4,918	£4,903	£380,000
3 bed flat	92.5	£4,213-£8,000	£5,246	£5,246	£485,000
3 bed maisonette	110	0		£4,500	£495,000
3 bed house	110	£3,587-£3,867	£3,727	£5,000	£550,000
4 bed house	130	£3,744-£5,744	£4,744	£5,500	£715,000

- 6.3. We are aware of a number of sales of luxury apartments and penthouses generally achieving in the region of £5,376psm, although there are some exceptional sale prices where dwellings front the beach; however, we need to take into account the volume of housing available for sale; Fisherman's Beach sales have on the whole been relatively slow, although this also takes into account a relatively slow speed of construction.

- 6.4. We have applied costings based on latest BCIS sub and superstructure cost figures (see **Appendix 3**); for the private flats and houses we have taken the upper quartile figures (general) and added 15% towards the landscaping, parking and garaging (assuming a high quality design for the development); and for the affordable dwellings we have used the mean column of costing, plus 15% for external works, and the flatted accommodation takes into account communal areas and lifts, assumed to be 15% additional to the net floor areas of the individual units. Promenade works and open space works to the south of the realigned Princes parade will be at developer's cost. Within our appraisal we have specifically incorporated the piling estimate provided by Betteridge and Milsom amounting to approximately £1,426,000; and we have allowed 5% contingency as well as professional fees and marketing.
- 6.5. In terms of the boutique hotel, restaurant and convenience store, we have assumed that this would be constructed by an investor and therefore a developer would deliver a fully serviced site as most house developers would not consider the construction of commercial premises; we have assumed approximately £750,000 site value in respect of the restaurant and convenience store and £450,000 for the boutique hotel site on the basis that it is fully serviced, although the commercial developer/investor would be responsible for constructing the car park element servicing the commercial parts.
- 6.6. In our calculations we considered that the site would be developed in two parcels possibly on a side-by-side or subsequent basis and we have therefore carried out an appraisal based on 50% of the housing development site, approximately, as shown in **Appendix 4**.
- 6.7. In our assessment of potential revenue we have also allowed for ground rent capitalisation on the basis of ground rents of £300pa for the private element, with a yield of 5%; and we have assumed affordable income equivalent to approximately £190psf as the revenue payable by a Registered Provider. We have assumed a 25% equity input from owner occupiers of the shared ownership element.
- 6.8. We have allowed a CIL payment in respect of the private residential element (50% of the site) at £550,000 and have assumed interest funding at 6%. We have assumed a period of approximately 30 months as the buildout period commencing at month 4, following the lead-in period. We have allowed a profit on cost of approximately 20% bearing in mind that there is a risk element due to the volume of competing property.
- 6.9. The site value (50%) is indicated in the region of £5,642,000 – say, approximately £5,650,000 assuming a continuation of today's buoyant market and competitive bidding.

7. Market Conditions

- 7.1. Market demand for residential development sites is relatively strong, although with the recent call for sites throughout the UK, for development, many developers have secured enough conditional contract or option land in their principally desired areas. Demand is always less for the eastern part of Kent mainly due to its distance from London, although the HS1 has led to an increased demand particularly to commuters working in north central London. Hythe is a fashionable coastal town attracting specialist niche developers.

8. Valuation

- 8.1. We consider that the residential element of the site is approximately £11,300,000 assuming it can be sold in two or more serviced parcels – that is the access road constructed together with service infrastructure. It is assumed that the developers will carry out landscaping around the residential elements, together with promenade improvement works. In addition we have allowed approximately £1.2m in respect of revenue from the sale of the boutique hotel and convenience store/restaurant site; and as a further addition we consider that six prime self-build plots with consent for up to around 280 sq m dwellings would attract bids of around £300,000 each. Thus, the total site value over time would be **£14,300,000 (Fourteen Million Three Hundred Thousand Pounds)**; however, we emphasise that the costs of the road and linear park opposite need to be taken into account in order to show the net benefit to the Local Authority. As an alternative, a single developer could be asked to tender for the construction of the road and linear park.

9. Conclusion

The scheme is sited in a prestigious location directly overlooking the English Channel and fronting the beach itself. The success of the Fisherman's Beach scheme on the west side of Hythe shows that there is a good demand for high quality well designed dwellings which encourages specialist developers to the area. Provided market conditions continue in a reasonably buoyant economy, the sale of the residential development site will attract competing bids particularly if offered in two or three lots. It is important to note that to carry this through, relatively expensive infrastructure required to service the land is funded by Shepway District Council; if a residential developer had to construct this infrastructure (realigned road, remediation and off-site services) then the cost of this would be deducted from the land value and would impact upon the profit return together with the cost of finance.



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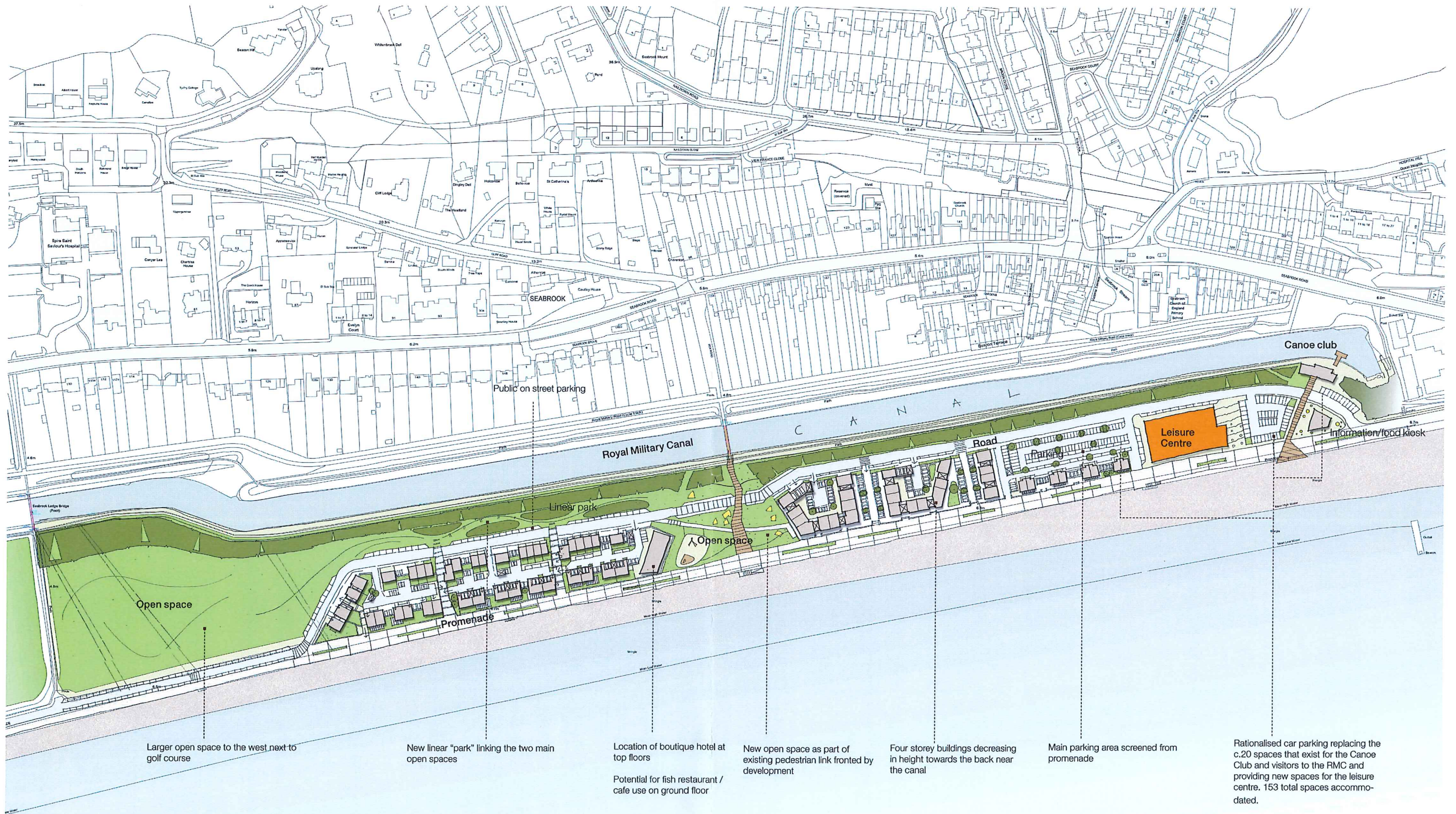
Appendix 1 – Accommodation Schedule

Princes Parade

Schedule of Accommodation 24.01.17 - DRAFT

Use	Units	Area (Approximate)	Comments
Leisure			
ARC		see GT3 drawings	Dedicated 142 (incl 8 disable spaces) spaces
Canoe Club		As per application	(11 parking spaces)
Fish restaurant / Cafe / Retail Space		300 sqm (GIA)	On ground floor of boutique hotel
Boutique Hotel	10+ bedrooms	780 sqm (GIA)	
Open spaces		x.0 ha	This includes main open spaces, green buffer and footpath along canal
Public parking		130 on street spaces	
Housing	45	Per unit (Approximate GIA)	
Affordable			
1 bed flats	8	50 sqm	Parking located in parking courts
2 bed flats	10	70 sqm	
3 bed Flats	8	80 sqm	
2 bed houses	8	75 sqm	
3 bed houses	8	85/100 sqm	
4 bed house	3	98/110 sqm	
Market	105		
1 bed flats	6	55 sqm	*Most houses have parking located in parking courts with some houses having integral parking or garages
2 bed flats	60	70-85 sqm	
3 bed flats	13	88-97 sqm	
3 bed maisonette	8	100-120 sqm	
3 bed house	8	100-120 sqm	
4 bed houses	10	110-150 sqm	
Total number of units	150		

Appendix 2 – Masterplan



Larger open space to the west next to golf course

New linear "park" linking the two main open spaces

Location of boutique hotel at top floors
Potential for fish restaurant / cafe use on ground floor

New open space as part of existing pedestrian link fronted by development

Four storey buildings decreasing in height towards the back near the canal

Main parking area screened from promenade

Rationalised car parking replacing the c.20 spaces that exist for the Canoe Club and visitors to the RMC and providing new spaces for the leisure centre. 153 total spaces accommodated.

Illustrative layout



Princes Parade

Masterplan

scale 1: 2,000 @ A2
date 27-01-2017



Appendix 3 – BCIS Costings



£/m² study

Description: Rate per m² gross internal floor area for the building Cost including prelims.

Last updated: 08-Jul-2017 12:20

› Rebased to Shepway

Maximum age of results: Default period

Building function (Maximum age of projects)	£/m ² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
New build							
810.1 Estate housing							
Generally (15)	1,174	578	1,004	1,145	1,292	3,773	1851
Single storey (15)	1,304	672	1,126	1,263	1,476	2,205	310
2-storey (15)	1,144	578	993	1,121	1,258	2,285	1402
3-storey (15)	1,158	743	948	1,097	1,296	2,407	136
4-storey or above (20)	2,407	1,256	-	2,193	-	3,773	3
810.11 Estate housing detached (15)	1,369	898	1,094	1,340	1,540	2,193	21
810.12 Estate housing semi detached							
Generally (15)	1,174	594	1,009	1,149	1,301	2,205	435
Single storey (15)	1,336	821	1,159	1,311	1,494	2,205	78
2-storey (15)	1,141	594	1,003	1,118	1,258	2,035	338
3-storey (15)	1,086	798	900	1,065	1,171	1,725	19
810.13 Estate housing terraced							
Generally (15)	1,195	578	1,000	1,152	1,325	3,773	396
Single storey (15)	1,305	879	1,095	1,199	1,535	2,014	51
2-storey (15)	1,173	578	1,000	1,147	1,300	2,285	285
3-storey (15)	1,160	760	943	1,092	1,237	2,407	59
4-storey or above (5)	3,773	-	-	-	-	-	1
816. Flats (apartments)							
Generally (15)	1,399	675	1,167	1,336	1,581	4,734	943
1-2 storey (15)	1,328	775	1,140	1,280	1,467	2,529	227
3-5 storey (15)	1,378	675	1,162	1,324	1,573	2,736	636
6+ storey (15)	1,775	1,022	1,459	1,708	1,870	4,734	76

Appendix 4 – Illustrative Appraisal



REVENUE		File: Half Site 10 07 17	
Let	40 units at 300.00 ea./pa	12,000	
Inv.Value-A	Net annual income	12,000	
	Capitalised at 5% Yield	240,000	240,000
Affordable Units	-E		3,478,500
1 Bed Flats	3 units at 220,000.00 ea.		660,000
2 Bed Flats	30 units at 380,000.00 ea.		11,400,000
3 Bed Flats	7 units at 485,000.00 ea.		3,395,000
3 Bed Maisonettes	4 units at 495,000.00 ea.		1,980,000
3 Bed House	4 units at 550,000.00 ea.		2,200,000
4 Bed House	5 units at 715,000.00 ea.		3,575,000
(Net Income: 12,000) (Inv.Sales: 240,000) (Dir.Sales: 26,688,500)		REVENUE	26,928,500
(Revenue Totals labelled -E do not attract Fees)			
COSTS			
Site Value		5,642,000	
Site Stamp Duty		271,600	
Site Legal Fees		25,000	
		Site Costs	5,938,600
Cil		550,000	
		Initial Payments	550,000
Affordable Flats	10,770.00 sq-ft at 150.00 psf	1,615,500	
Affordable Houses	8,870.00 sq-ft at 126.00 psf	1,117,620	
Private Flats	38,267.00 sq-ft at 169.00 psf	6,467,123	
Private Houses	16,470.00 sq-ft at 138.00 psf	2,272,860	
Piling		1,426,000	
Contingency	at 5.00%	644,955	
Professional Fees	at 8.00%	1,031,928	
		Build Costs	14,575,986
Direct Sale Marketing	at 3.50%	812,350	
		Disposal Fees	812,350
EQUITY FINANCE	5,469,234 / 25.00% of Net Cost Side by Side method		
INTEREST	(See CASHFLOW)		563,519
6.00% pa	on Debt charged Quarterly and compounded Quarterly		
Site Costs	Month 1 (Jul 17)		
Cil	Month 1 to 15 (Jul 17 - Sep 18)		
Affordable Flats (bld.)	Month 4 to 23 (Oct 17 - May 19)		
Affordable Houses (bld.)	Month 4 to 23 (Oct 17 - May 19)		
Private Flats (bld.)	Month 4 to 33 (Oct 17 - Mar 20)		
Private Houses (bld.)	Month 4 to 33 (Oct 17 - Mar 20)		
Piling	Month 4 to 13 (Oct 17 - Jul 18)		
Inv.Value-A 5%	Month 37 (Jul 20)		
Affordable Units (sale)	Month 6 to 25 (Dec 17 - Jul 19)		
1 Bed Flats (sale)	Month 13 to 37 (Jul 18 - Jul 20)		
2 Bed Flats (sale)	Month 13 to 37 (Jul 18 - Jul 20)		
3 Bed Flats (sale)	Month 13 to 37 (Jul 18 - Jul 20)		
3 Bed Maisonettes (sale)	Month 10 to 37 (Apr 18 - Jul 20)		
3 Bed House (sale)	Month 10 to 37 (Apr 18 - Jul 20)		
4 Bed House (sale)	Month 10 to 37 (Apr 18 - Jul 20)		
PROFIT	4,488,045	COSTS	22,440,455
PROFIT/SALE	16.67%	PROFIT/COST	20.00%
IRR	N/A	RoE as PROFIT	82.06%