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GERALDEVE

Commercially Confidential

Financial Viability Assessment in respect of The Former Lea Castle Hospital Site, Cookley, Kidderminster

On behalf of The Homes and Communities Agency (HCA)

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Appendices

1 Introduction and Instructions

1.1 Gerald Eve LLP have been instructed on behalf of the Homes and Communities Agency ('HCA') to prepare a Financial Viability Assessment ('FVA') to support an outline planning application for a residential led development at Lea Castle.

1.2 This report sets out the detail of what is being proposed and provides the financial assessment, rationale and justification for the maximum contribution towards Section 106 and affordable housing that the scheme can support. An outline planning application has been submitted for the delivery of a residential led scheme with an element of employment floorspace. The proposed development will regenerate approximately 48.7 hectares (120.4 acres) of formerly-developed land containing 17 vacant buildings.

1.3 The site was originally developed in the 1960s as a psychiatric hospital and comprises of a mix of one and two storey buildings. The hospital closed permanently in 2008 and now stands vacant and dilapidated.

1.4 The costs, values and overall viability of this site has been assessed as at April 2017 for the purpose of a Financial Viability Assessment (FVA) and certain information contained within this report is commercially sensitive and therefore will only be provided on a confidential basis.

1.5 Argus Developer Appraisal Software has been used to assess the viability of the scheme.

1.6 Following the outcome of the Referendum (to leave the European Union) and the proposals to trigger Article 50 there is a higher level of uncertainty regarding the future performance of both commercial and residential property, particularly in the short to medium term. The costs and values adopted in this FVA will be kept under review as markets continue to adjust. It may be necessary to revise and update the inputs to the financial appraisals, and therefore resulting outputs, prior to the application being determined by the Council. The report assumes that normal funding and financing sources would be available for such a development, as proposed.

1.7 In preparing this report we have had particular regard to guidance and policy contained within the following:

- The Royal Institution of Chartered Surveyors (RICS) Guidance Note: Financial Viability in Planning (published August 2012) (the RICS GN);

- RICS Valuation Information Paper (VIP) 12: Valuation of Development Land;
- The RICS Guidance Note: Valuation of Land for Affordable Housing;
- The National Planning Policy Framework (March 2012) (NPPF);
- Planning Practice Guidance produced by the DCLG;
- National Planning Policy Guidance Notes (March 2014); and
- Wyre Forest District Council's Local Development Framework and Adopted Core Strategy (December 2010).

1.8 Certain information contained within this report and its appendices is commercially sensitive and therefore will only be provided on a confidential basis. In accordance with best practice and the RICS GN (paragraph 4.5.4), we confirm that this report has not been prepared on the basis of performance related or contingent fees or similar arrangements. We further acknowledge and confirm that in undertaking this assessment, we have acted reasonably, fairly and with transparency.

1.9 A redacted copy of this report will be provided if necessary.

1.10 The planning application has been submitted against a background of uncertain economic and property market conditions. Whilst this report does have regard to present day costs and values, the sensitivity of these inputs has been tested having regard to reasonable assumptions. A sensitivity analysis has therefore been provided in order to test the sensitivity of the return having regard to changes in the output.

1.11 This is in accordance with the RICS GN best practice when undertaking financial viability assessments.

2 Background

This section provides the context for the proposed development focussing on the surrounding area, accessibility, the Sites characteristics and the existing use.

Introduction

2.1 This section provides an economic overview and a brief summary of the location of the site.

Site Location

2.2 The former Lea Castle Hospital occupies a large site with mature landscaping, located approximately 4km northeast of Kidderminster town centre and 2km from the village of Cookley. Kidderminster is located in the West Midlands, 26km (39 minute drive) south west of Birmingham and 35 km (47 minute drive) from Birmingham International Airport.

2.3 The site is located just off of Wolverhampton Road (A449) which runs through Kidderminster and connects Wolverhampton to Worcester. The nearby A456 proves access to Birmingham and the M5 motorway. The nearest train station is located approximately 5km away in Kidderminster

2.4 Lea Castle is approx. 120.4 acres (48.7 ha) and is located in an attractive semi-rural location one mile to the north of Kidderminster. The surrounding land uses are largely rural. The site was originally developed as a psychiatric hospital and comprises a mix of one and two storey buildings. The hospital buildings have an estimated footprint of approx. 270,862 sq. ft. (25,164 sq. m), with a gross floor area of approx. 329,378 sq. ft. (30,600 sq. m).

2.5 A location plan is attached at **Appendix A**.

Economic Overview

2.6 Kidderminster benefits from a 43-minute direct London Midland train to Birmingham Moor Street. The catchment population within a 10 mile radius of Kidderminster is 1,104,026 according to the 2011 Census.

2.7 According to Census (2011) data, an estimated 2,318 people commute to work in Birmingham from the Wyre Forest District, within which Kidderminster lies. In terms of commuter inflows to Birmingham, Wyre Forest is only ranked 15th out of 37 regions in the

UK surveyed. The vast majority of the economically active population of Kidderminster work within a 10 mile radius of the town.

2.8 The total economically active population within a 10 mile radius of Kidderminster is 224,279, of which 76.8% of people are in either full-time or part-time employment, with 6.4% of people currently unemployed (Census, 2011).

2.9 The average household income within the Wyre Forest district in which Kidderminster sits is £33,482. In contrast the average in Worcestershire is £37,000 and £36,367 in England. Furthermore, in Wyre Forest the proportion of households earning less than £10,000 a year is 14%, compared with 12.0% in Worcestershire (PayCheck, CACI, 2013).

2.10 A detailed breakdown of household incomes in 2013 in the Wyre Forest district can be seen in Table 2.1.

Table 2.1: Wyre Forest Household Income Comparison

Income Profile

	Wyre Forest	Worcestershire
Households earning less than £10,000 per year % (2013)	14	12
Households earning £10,000-£20,000 per year % (2013)	25	23
Households earning £20,000-£30,000 per year % (2013)	18	17
Households earning £30,000-£50,000 per year % (2013)	24	24
Households earning £50,000-£75,000 per year % (2013)	13	14
Households earning more than £75,000 per year (2013)	7	10
Households earning less than £20,000 per year % (2013)	39	35

Source: PayCheck, CACI

Source: PayCheck / CACI

3 Proposed Scheme

This section sets out the details of the Scheme and its density, scale and massing assumptions used in the financial appraisal. Further details can be found in the design and access statement ("DAS") which forms part of the planning application.

Introduction

3.1 The proposal is to seek outline planning permission for residential development of up to 600 dwellings and up to 37,673 sq. ft. (3,500 sq. m) of Class B1 employment uses, 1,614 sq. ft. (150 sq. m) local shop/café, public open space, and associated drainage and infrastructure. All matters apart from access will be reserved.

3.2 There are approximately 600 dwellings proposed on site equating to 12-13 dwellings per acre on a net developable basis or 4.6 dwellings per acre on a gross area basis.

3.3 The mix of units is shown in Table 3.1.

Table 3.1: Illustrative mix of units within the scheme

Unit Type	Percentage of scheme	Number of units
2 bed houses	25%	150
3 bed houses	35%	210
4 bed houses	34%	204
5 bed houses	6%	36
	100%	600

Source: GE

3.4 We have considered a number of illustrative scenarios within the sensitivity analysis which include lower levels of development, 550 and 580 units and a wider mix of tenure types.

3.5 An average size per unit has been used for the purposes of the FVA which has been calculated using a blended basis as shown in Table 3.2.

Table 3.2: Blended average size per unit (Open Market)

Unit Type	Percentage of scheme	Sq. ft. per unit	Number of units	Total sq. ft.
2 bed houses	25%	800	150	120,000
3 bed houses	35%	1000	210	210,000
4 bed houses	34%	1340	204	273,360
5 bed houses	6%	1800	36	64,800
	100%		600	668,160
			Average Size:	**1,114**

Source: GE

4 Planning Policy Update

This section provides an overview of key planning policies associated at national, regional and local level including an overview of the planning background relating to the Scheme. In addition, this section sets out the best guidance in the form of RICS GN 94/2012.

National Planning Policy

4.1 The NPPF published in March 2012 sets out the Government's economic, environmental and social planning policies for England. It summarises in a single document all current national planning policy advice. Taken together, these policies articulate the Government's vision of sustainable development, which should be interpreted and applied locally to meet local aspirations.

4.2 The NPPF sets out the Government's requirements for the planning system only to the extent that it is relevant, proportionate and necessary to do so. It provides a framework within which local people and their councils can produce their own distinctive local and neighbourhood plans, which reflect the needs and priorities of their communities.

4.3 In respect of affordable housing, paragraph 50 of the NPPF aims to boost significantly the supply of housing and states that where local planning authorities have identified that affordable housing is needed, they should set policies for meeting this need on site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified. Such policies should be sufficiently flexible to take account of changing market conditions over time.

4.4 The NPPF also recognises development should not be subject to such a scale of obligation and policy burdens that its viability is threatened. This reinforces the need for viability testing in order to allow willing landowners and developers to receive competitive returns which in turn enable the delivery of development.

4.5 In the context of achieving sustainable development the NPPF refers to ensuring viability and deliverability at sections 173-177. Section 173 in particular states:

> *"…. To ensure viability, the costs of any requirement likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking into*

account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable."

4.6 The RICS GN addresses "competitive return" as follows:

"A 'Competitive Return' in the context of land and/or premises equates to the Site Value as defined by this guidance, i.e. the Market Value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan. A 'Competitive Return' in the context of a developer bringing forward development should be in accordance with a 'market risk adjusted return' to the developer, as defined in this guidance, in viably delivering a project."

Planning Practice Guidance

4.7 The Planning Practice Guidance (PPG) provides guidance to support the National Planning Policy Framework, a further explanation of factors that should be considered and a general overview of methodology. The statements below are from Section 3 of the PPG Viability Guidance found on the Governments online planning portal.

4.8 The PPG addresses the question of when and how viability should be assessed by the District Council in respect of planning applications. The PPG states:

"Decision-taking on individual applications does not normally require consideration of viability. However, where the deliverability of the development may be compromised by the scale of planning obligations and other costs, a viability assessment may be necessary. This should be informed by the particular circumstances of the site and proposed development in question. Assessing the viability of a particular site requires more detailed analysis than at plan level."

4.9 A site is viable if the value generated by its development exceeds the costs of developing it and also provides sufficient incentive for the land to come forward and the development to be undertaken.

4.10 The PPG addresses the use of forecast modelling within viability testing as follows:

"Viability assessment in decision-taking should be based on current costs and values. Planning applications should be considered in today's circumstances. However, where a scheme requires phased delivery over the medium and longer term, changes in the value of development and changes in costs of delivery may be considered. Forecasts, based on relevant market data, should be agreed between the applicant and local planning authority wherever possible."

4.11 With regards to the consideration of planning obligations in relation to viability – including the assessment of affordable housing provision, PPG states:

"In making decisions, the local planning authority will need to understand the impact of planning obligations on the proposal. Where an applicant is able to demonstrate to the satisfaction of the local planning authority that the planning obligation would cause the development to be unviable, the local planning authority should be flexible in seeking planning obligations. This is particularly relevant for affordable housing contributions which are often the largest single item sought on housing developments. These contributions should not be sought without regard to individual scheme viability. The financial viability of the individual scheme should be carefully considered in line with the principles in this guidance."

4.12 Vacant Building Credit ('VBC') has been included within Planning Policy Guidance following the court of appeal judgement of West Berkshire and Reading Council v. Secretary State for Communities and Local Government.

4.13 PPG paragraph 022 states that VBC:

"Provides an incentive for brownfield development on sites containing vacant buildings. Where a vacant building is brought back into any lawful use, or is demolished to be replaced by a new building, the developer should be offered a financial credit equivalent to the existing gross floor space of relevant vacant buildings when the local planning authority calculates any affordable housing contribution which will be sought."

4.14 Vacant Building Credit is a mechanism to offset affordable housing contributions against the area of existing buildings on sites which are being redeveloped. Affordable housing contributions are sought only on the net increase in development floorspace only.

4.15 Gerald Eve has assessed the existing buildings on site and considers that Vacant Building Credit is applicable in this instance.

Starter Homes

4.16 According to the Department for Communities and Local Government (DCLG February 2017) starter homes will enable more first-time buyers between 23 and 40 years old to buy a brand new home at a discount of at least 20% below market value. After discount each starter home will cost no more than £250,000 outside London. As announced in the Housing White Paper Fixing Our Broken Housing Market, the Government has decided not to implement a compulsory starter homes requirement at this point in time. They will commence the general duty on Councils to promote the supply of starter homes and bring forward regulations to finalise the starter homes definition and monitoring provisions. They will support the development of starter homes as a mainstream home ownership product. They are also consulting their intention to make clear through the National Planning Policy Framework (NPPF) that starter homes should be available to households with an income of less than £80,000.

4.17 Planning Policy Guidance (PPG) refers to the details of the government's Starter Homes policy.

4.18 Paragraph 2 states that Starter Homes are aimed at first time buyers under the age of 40, and are to be sold at a minimum discount of 20% of market value. It is at the discretion of local authorities and developers the size and type of Starter Homes on specific sites.

4.19 Paragraph 1 set out the Starter Homes exception sites policy, which enables applications for the development of Starter Homes on under-used or unviable industrial and commercial land that has not been currently identified for housing. On such sites, S.106 affordable housing obligation would not apply.

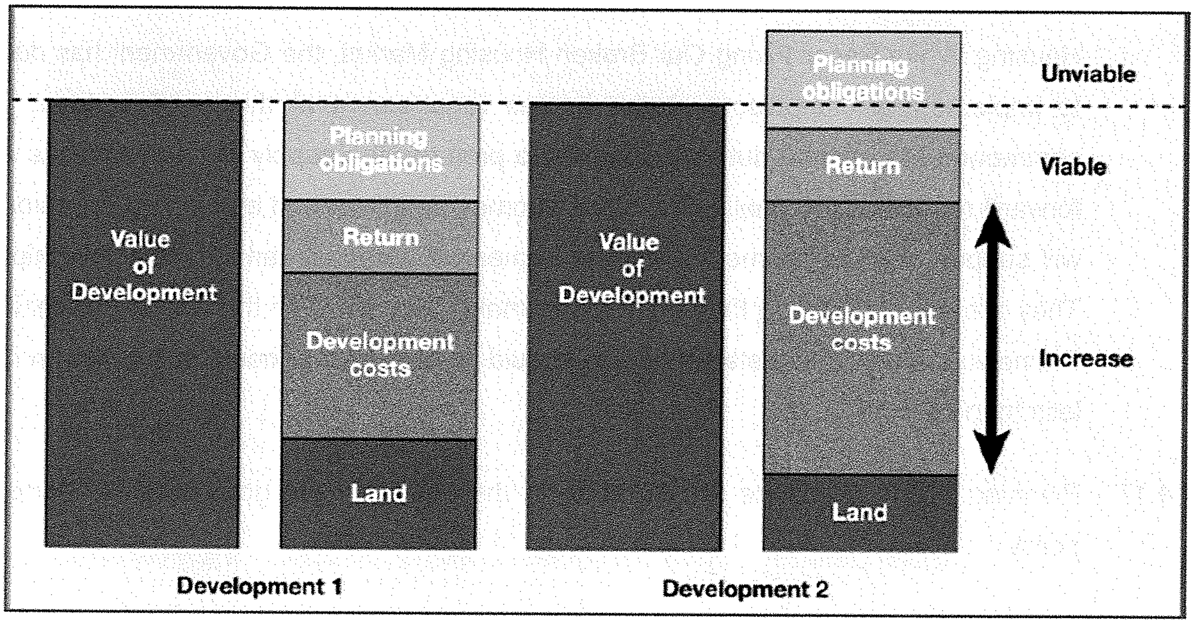
4.20 It is likely that Local Authorities may begin to consider the provision of Starter Homes on sites allocated for residential use as part of overall affordable housing contributions sought from developers, however specific national planning guidance on this remains unclear.

4.21 As part of our viability work, we have provided options which include Starter Homes as part of the overall affordable housing package.

Synopsis of Development Viability

4.22 The National Planning Policy Framework (NPPF March 2012) states that development should not be subject to a level of obligations (including affordable housing) that threatens the ability for a site to be developed. This is reflected by the RICS 2012 Guidance Note on Financial Viability in Planning and summarised in Figure 4.1.

Figure 4.1: Comparative Development Viability



Source: RICS Guidance Note – Financial Viability in Planning 2012

The RICS Guidance Note: Financial Viability in Planning

4.23 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.

4.24 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.

4.25 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.

4.26 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.

4.27 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."*

4.28 This FVA and accompanying analysis have been prepared fully in accordance with the provisions of the RICS GN.

4.29 In arriving at a Site Value, in accordance with the PPG, we would highlight the need to consider the common principles of the three limbs: the policy requirements, the competitive return to the land owner in the context of the make-up of value and testing this through comparative, market based evidence. In this respect this RICS GN provides guidance on the use of comparable evidence.

4.30 In addition the RICS GN notes that where sites have been assembled to enable a comprehensive development, this should be reflected in the site value. The RICS GN also states that it may result in synergistic value arising.

4.31 Development valuation is carried out in accordance with RICS Valuation Information Paper 12 using a residual methodology. Due to the sensitivity of this method to minor variations in values and costs, consideration has also been given to market comparable evidence where available to 'sense check' the outputs.

Local Policy

4.32 The District Council is currently in the early stages of undertaking a Local Plan Review. The new Local Plan will replace the current Adopted Core Strategy, Site Allocations and Policies Local Plan and Kidderminster Central Area Action Plan. It is anticipated that the new Local Plan will be adopted in late 2017.

4.33 The previous Core Strategy (2006 – 2026) which was adopted in 2010 as part of the Wyre Forest Local Development Framework. This Core Strategy has fully considered National Planning Policy and advice as set out in Planning Policy Statements (PPSs) and current Planning Policy Guidance (PPGs).

4.34 The Core Strategy was prepared in accordance with the then emerging West Midlands Regional Spatial Strategy (WMRSS). The emerging WMRSS provided the regional context in relation to future residential, employment, office and retail development. The Secretary of State revoked Regional Strategies on 6th July 2010. The Council has demonstrated that the Core Strategy is based on robust local evidence and support, however, a number of consequential amendments have been made to the Core Strategy wording to reflect the revocation of the RSS.

4.35 The objectives of the Core Strategy will help to address the key challenges facing future development and to deliver the vision. One of the development objectives is to:

> *"..provide a range of high-quality, highly energy efficient, market and affordable housing options for residents of all ages and needs to achieve sustainable communities."*

4.36 It states in the Wyre Forest District Local Development Framework that new development will be concentrated on brownfield sites within the urban areas of Kidderminster[1].

4.37 Under DS05[2] Phasing and Implementation the housing targets are to deliver 4,000 net additional dwellings for the period covering 2006 – 2026, a five year supply of deliverable sites will be maintained and monitored in accordance with the Annual Monitoring Report.

4.38 The Local Development Framework will deliver the following average annual net additions of dwellings within the District across the five year phasing periods:

- 2006/07 - 2010/11 – 240 dwellings per annum
- 2011/12 - 2015/16 – 326 dwellings per annum
- 2016/17 - 2020/21 – 196 dwellings per annum
- 2021/22 - 2025/26 – 94 dwellings per annum

[1] Wyre Forest District Local Development Framework – Adopted Core Strategy (DS01)

[2] Wyre Forest District Local Development Framework – Adopted Core Strategy (DS05)

4.39 The Kidderminster Central Area Action Plan and Site Allocations and Policies DPDs will phase and manage the release of allocated sites to reflect the District's regeneration agenda. This will ensure that a ten year provision of sites suitable for residential development is maintained.

CP04: Providing Affordable Housing

4.40 The Wyre Forest Matters Sustainable Community Strategy includes the provision of more affordable housing across the District as a priority under CP04[3]. The scale of need for affordable housing is one of the key challenges facing the District for the future and is evidenced by the Strategic Housing Market Assessment (SHMA). The Core Strategy identifies the Council's strategic aims for the provision of affordable housing across the District in the policy as the following:

- An annual average of at least 60 units of affordable housing will be delivered during the plan period until 2026. In accordance with the Council's adopted definition of affordable housing this will include an indicative tenure split of 70% social-rented housing and 30% intermediate (shared ownership) housing;
- The District Council will generally seek to secure affordable housing provision of 30% on sites of ten or more dwellings within Kidderminster.

4.41 The draft policy for Affordable Housing highlights that the provision may vary on a site-by-site basis taking into account evidence of local need, residual land values and where appropriate, the economic viability of the development. Any relaxation of the above affordable housing requirement will only be considered if fully justified by an independent site-specific viability appraisal.

Allocation for Previously Developed Sites in the Green Belt

4.42 Under Policy SAL.PDS1 the Lea Castle Hospital Site is within the Previously Developed Land (PDL) boundary and the following development is acceptable in principle:

- C3 (Dwelling Houses)*
- C2 (Residential Institutions)
- B1 (Business)
- Health and Sport Facilities

[3] Wyre Forest District Local Development Framework – Adopted Core Strategy (CP04)

4.43 The Site specific policy in the Site Allocations Local Plan (Adopted July 2013) states any application for C3 (Dwelling Houses) must be accompanied by a viability assessment that supports the case for the proposed mix, tenure and overall quantum/density of housing on site.

4.44 It is also noted that planning permission for the development/redevelopment of any part of the site will not be granted in isolation unless the application is accompanied by a comprehensive masterplan for the whole site, which has been prepared in consultation with the local community and the District Council.

Employment Land Allocation

4.45 Under Policy SAL.GPB1[4] of the Council's Site Allocations and Policies, the subject site has an allocation for new economic development use over the plan period.

Section 106 Contributions

4.46 S106 agreements can:

- Secure financial contributions to provide infrastructure or affordable housing;
- Secure affordable housing and to specify the type and timing of this housing;
- Restrict the development or use of the land in any specified way;
- Require specified operations or activities to be carried out in, on, under or over the land; and
- Require the land to be used in any specified way.

4.47 This FVA will therefore provide sensitivity analysis on the financial capabilities of the Scheme in providing financial contributions towards Section 106 contributions.

[4] Wyre Forest District Council - Site Allocations and Policies Local Plan - Adopted July 2013

Community Infrastructure Levy

4.48 Wyre Forest District Council has yet to adopt a CIL Charging Schedule, in October 2013 Councillors decided not to progress further work on CIL for at least 12 months due to viability concerns. Instead the Council will progress CIL alongside its Local Plan Review which commenced with an Issues and Options consultation in Summer 2015.

Vacant Building Credit ('VBC')

4.49 The Minister of State for Housing and Planning, Brandon Lewis provided a written statement (28 November 2014) that sets out to support small scale developers, custom and self-builders where:

> "A financial credit, equivalent to the existing gross floorspace of any vacant buildings brought back into any lawful use or demolished for re-development, should be deducted from the calculation of any affordable housing contributions sought from relevant development schemes. This will not however apply to vacant buildings which have been abandoned."

4.50 Vacant Building Credit ('VBC') has therefore subsequently been included within Planning Policy Guidance and following the court of appeal judgement of West Berkshire and Reading Council v. Secretary State for Communities and Local Government.

4.51 PPG paragraph 022 states that VBC "provides an incentive for brownfield development on sites containing vacant buildings. Where a vacant building is brought back into any lawful use, or is demolished to be replaced by a new building, the developer should be offered a financial credit equivalent to the existing gross floor space of relevant vacant buildings when the local planning authority calculates any affordable housing contribution which will be sought."

4.52 VBC is a mechanism to offset affordable housing contributions against the area of existing buildings on sites which are being redeveloped. Affordable housing contributions are sought only on the net increase in development floorspace only.

4.53 There is currently no established method as to how to apply VBC and is open to interpretation by respective local authorities. Gerald Eve has assessed the existing buildings on site and considers that VBC is applicable in this instance. We have had regard to previous experience in establishing a methodology to assess the VBC.

5 Sales and Market Data

This section sets out the market research that has been undertaken to justify the sales values and sales rates used within the viability assessment.

Introduction

5.1 This section will provide market information to support the values used for the scheme.

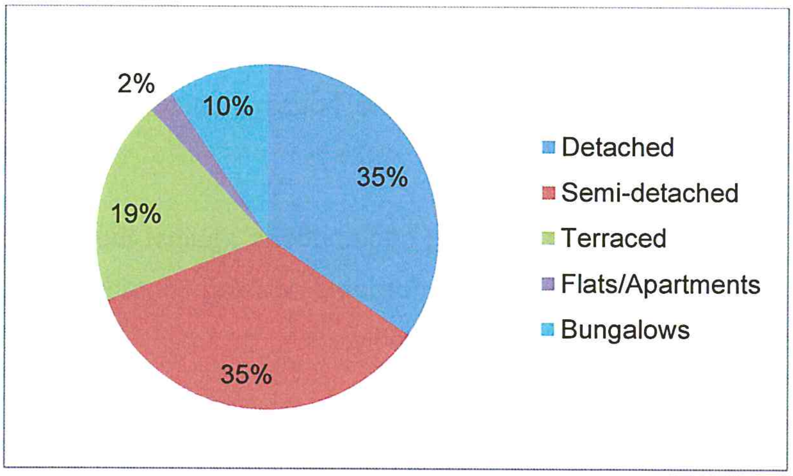
Private Residential Market Summary

5.2 In arriving at a capital value for the residential accommodation, regard has been given to the surrounding existing stock, surrounding new build developments, comparable transactions and the overall design of the scheme. The scheme is proposed to comprise of up to 600 units with a mix of two, three, four and five bedroom dwellings.

Existing Market

5.3 Data from Rightmove indicates that the current residential market of properties for sale within 1 mile of the site comprises of 84 properties, which consists predominantly of detached houses (35%) and semi-detached houses (35%), followed by terraced houses (19%), bungalows (10%) and flats/apartments (2%). This information is displayed below in Chart 5.1.

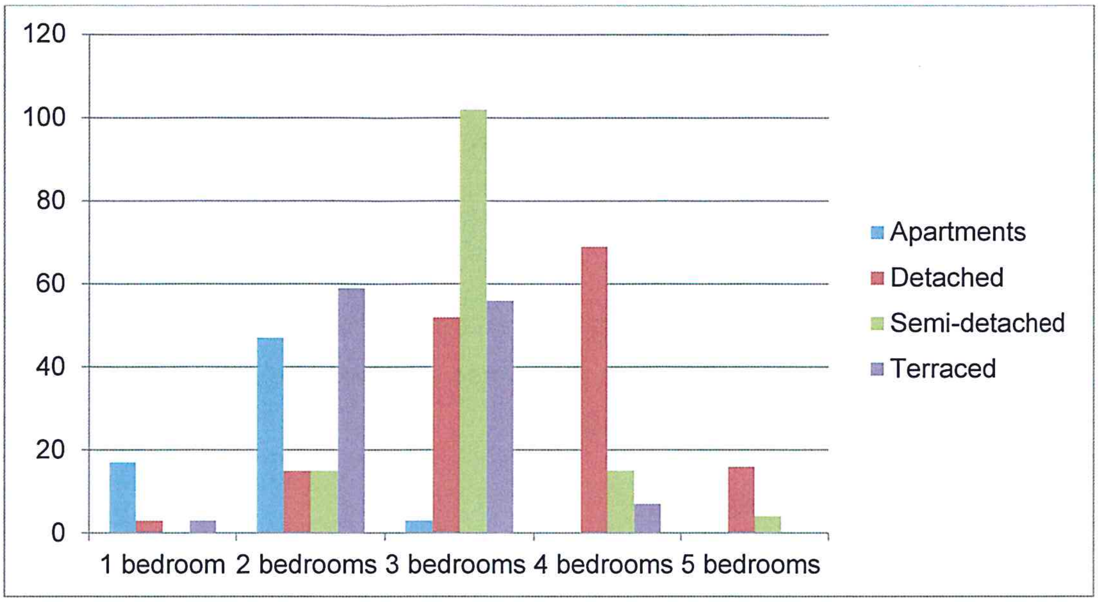
Chart 5.1: Freehold Housing Market Mix (within 1 mile)



Source: Rightmove

5.4 Chart 5.2 illustrates the current freehold residential market mix within 3 miles (4.8 km).

Chart 5.2: Freehold Residential Market Mix (within 3 mile)

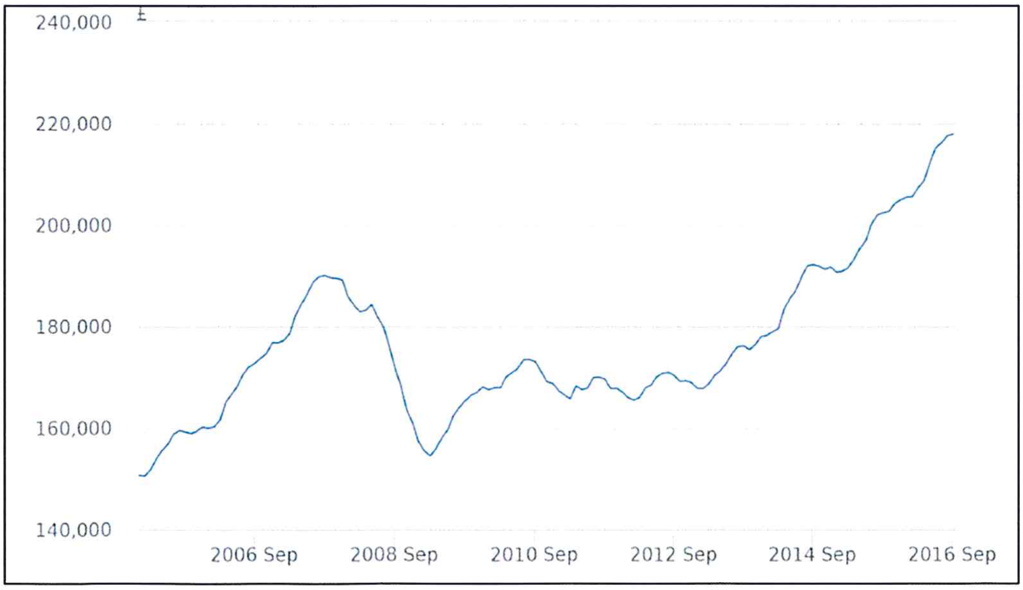


Source: Rightmove

5.5 As shown in Chart 5.2, the current residential market of properties for sale within 3 miles (4.8 km) of the site consists of predominantly three bedroom semi-detached houses (102), followed by four bedroom detached houses (69) and two bedroom terraced houses (59), (consisting of 539 properties).

5.6 Figure 5.3 displays the average UK house prices for January 2005 to September 2016.

Figure 5.3: Average UK House Price (January 2005 – September 2016)

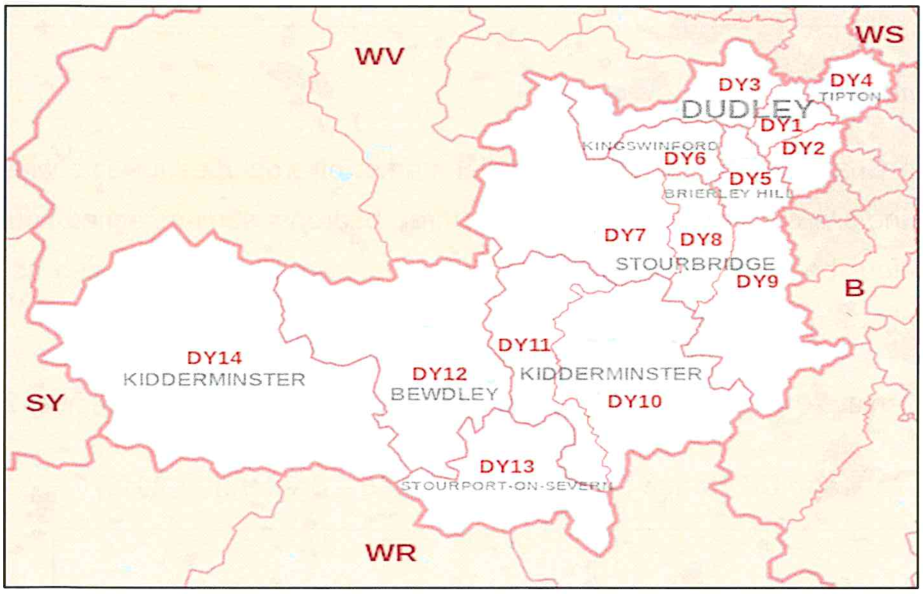


Source: Land Registry and Office for National Statistics

5.7 As shown by Figure 5.3, since the 2008 financial crisis, house prices have continued to rise. As at September 2016 the average house price for a property in the UK was £217,888, following a sharp rise in the three previous years. Consequently, only the average house prices of four and five bedroom properties within 1 mile are in excess of the national average, at £240,000 and £297,500 respectively. This is followed by three bedroom properties average price at £180,500 and two bedroom properties average price at £132,306.

5.8 The following Charts (5.4 – 5.6) have been analysed using the DY10 postcode, the area the site is located within. This illustrates the homes sold and average house prices. The DY10 area coverage is shown from Figure 5.4.

Figure 5.4: DY10 Area Coverage

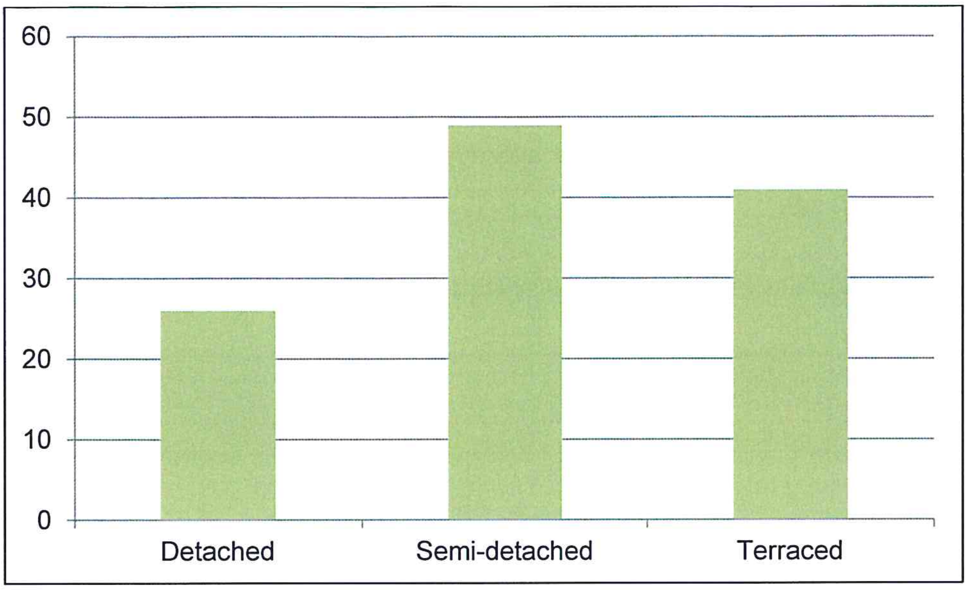


Source: Office for National Statistics.

5.9 Figure 5.4 shows the area that the postcode DY10 covers, including Kidderminster (east), Chaddesley Corbett, Blakedown and Cookley.

5.10 Chart 5.5 displays the number of homes sold in the past 12 months by property type.

Chart 5.5: Homes Sold in the past 12 months (DY10)

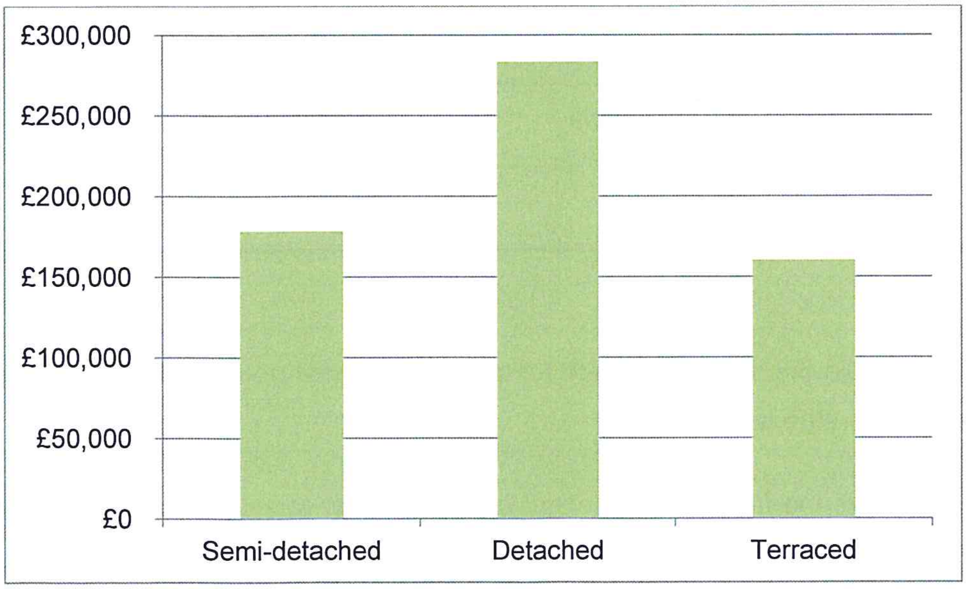


Source: Rightmove

5.11 As illustrated by Chart 5.5, semi-detached housing was the most frequently sold type of house in the past 12 months as 49 houses were sold, followed by terraced and detached which sold 41 and 26 houses respectively.

5.12 Chart 5.6 displays the average house prices for each property type in the DY10 area in the past 6 months.

Chart 5.6: Average House Prices (DY10)



Source: Rightmove

5.13 Chart 5.6 indicates detached properties in this area have an average price of £283,446, followed by semi-detached and terraced at £178,316 and £160,306 respectively.

Price Range and Average Prices

5.14 Table 5.7 displays the price range and average value for two bedroom properties within 1 mile of the subject site.

Table 5.7: Two Bedroom Price Range (within 1 mile)

Description	Price Range		Average Value
2 Bedroom Houses	From	£110,400	£132,306
	To	£213,000	

Source: Rightmove

5.15 As shown by Table 5.7, the price range for a two bedroom house is £110,400 to £213,000 and the average value is £132,306.

5.16 Table 5.8 shows the freehold residential price range for three bedroom properties within 1 mile of the subject site.

Table 5.8: Three Bedroom Price Range (within 1 mile)

Description	Price Range		Average Value
3 Bedroom Houses	From	£125,000	£180,500
	To	£319,500	

Source: Rightmove

5.17 As shown by Table 5.8, the price range for a three bedroom house is £125,000 to £319,500 and the average value is £180,500.

5.18 Table 5.9 displays the freehold residential price range for four bedroom properties within 1 mile of the subject site.

Table 5.9: Four Bedroom Price Range (within 1 mile)

Description	Price Range		Average Value
4 Bedroom Houses	From	£162,500	£240,000
	To	£489,950	

Source: Rightmove

5.19 As shown by Table 5.9 the average value for a four bedroom property is £240,000 and its price range within 1 mile is £162,500 to £489,950.

5.20 Table 5.10 displays the freehold residential price range for five bedroom properties within 1 mile of the subject site.

Table 5.10: Five Bedroom Price Range (within 1 mile)

Description	Price Range		Average Value
5 Bedroom Houses	From	£170,000	£297,500
	To	£495,000	

Source: Rightmove

5.21 Table 5.10 displays the price range for five bedroom properties within 1 mile of the subject site to be £170,000 to £495,000, with an average value of £297,500.

5.22 Within 0.5 mile of the subject site, there are currently 11 properties listed on Right move that are either for sale or have sold. A number of these properties have been used for comparable purposes and can be seen in Table 5.11.

Table 5.11: Houses within 0.5 mile of the site

Address	Developer/Marketing Agent	Price	Description	Status	Size (sq. ft.)	£ /sq. ft.
Rosemary Road, Kidderminster DY10 2SW	Phipps and Pritchard	£129,500	3 bed semi	Sold (as of 03/01/17)	850	£152.29
Baldwin Road, Kidderminster, DY10	Purple Bricks	£182,500	3 bed semi	Sold (as of 03/01/17)	789	£231.31
Bruce Road, Kidderminster, DY10*	Andrew Grant	£205,000	3 bed semi	Sold (as of 03/01/17)	960	£213.62
Birmingham Road, Kidderminster, DY10	Purple Bricks	£229,950	4 bed semi	Sold (as of 03/01/17)	1066	£215.79
Ashley Road, Kidderminster*	Shipways	£200,000	3 bed semi	Guide Price	1043	£191.72
Coates Road, Kidderminster, DY10 2TZ*	Shipways	£170,000	3 bed semi	Guide Price	835	£203.55
Baldwin Road, Kidderminster	Dixons	£170,000	3 bed semi	Sold (as of 03/01/17)	923	£184.15
**10-15% added to floor areas*					**Average**	£201.38

Source: Rightmove

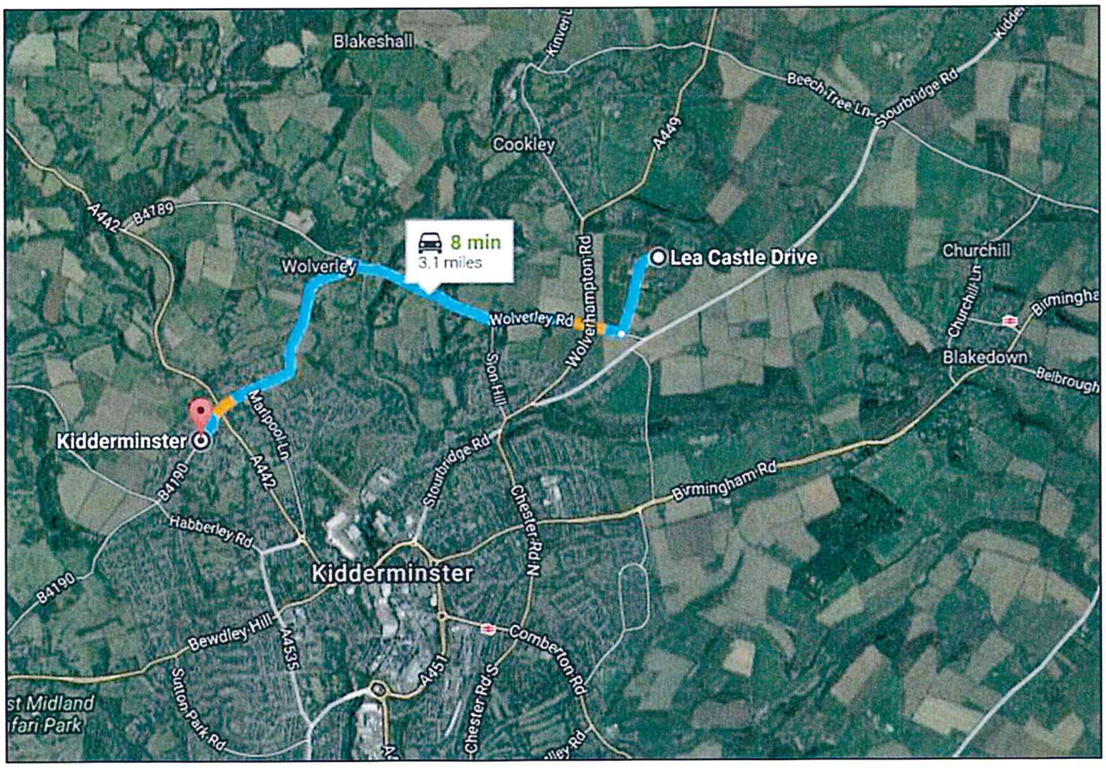
5.23 As Table 5.11 shows, the average sales values of market housing with 0.5 mile of the site is approximately £201 per sq. ft. This information provides a useful benchmark, however we have also considered new build developments within close proximity.

New Build Schemes

5.24 There are three new build comparable schemes within approximately 5 miles (8km) of the subject site. Their market and achieved values have been appraised within our comparable evidence as this provides the most accurate reflection of new build values nearby. They comprise of:

- Bowbrook Old Worcester Road, Hartlebury (Taylor Wimpey)
- Stour Valley Kidderminster (Taylor Wimpey / Bovis Homes)
- Oriel Stourbridge (Kendrick Homes)

Bowbrook Old Worcester Road, Hartlebury



5.25 The Bowbrook development is located 3.1 miles (5 km) to the West of the subject site and is a development by Taylor Wimpey.

5.26 The Bowbrook development benefits from being in the village of Hartlebury, which is well connected with transport links. Hartlebury railway station provides direct train services to Birmingham, Worcester, and Kidderminster, while the A449 through Hartlebury links Kidderminster and Worcester by road. The village also benefits from local amenities such as a general store and a Post Office, along with two schools and a leisure centre.

5.27 Table 5.12 displays the number of each house type in the context of the overall scheme. As can be seen, 3 and 4 bedroom housing accounts for almost two thirds of the scheme; which gives a good indication of the demand for housing in the Kidderminster area.

Table 5.12: Bowbrook Old Worcester Road, Hartlebury

House Type	Number of units	Percentage of overall scheme
1 bedroom	2	2.1%
2 bedrooms	16	17.4%
3 bedrooms	29	32%
4 bedrooms	28	30%
5 bedrooms	17	18.5%
Total:	92	100%

Source: Rightmove

Table 5.13: Bowbrook scheme comparable evidence

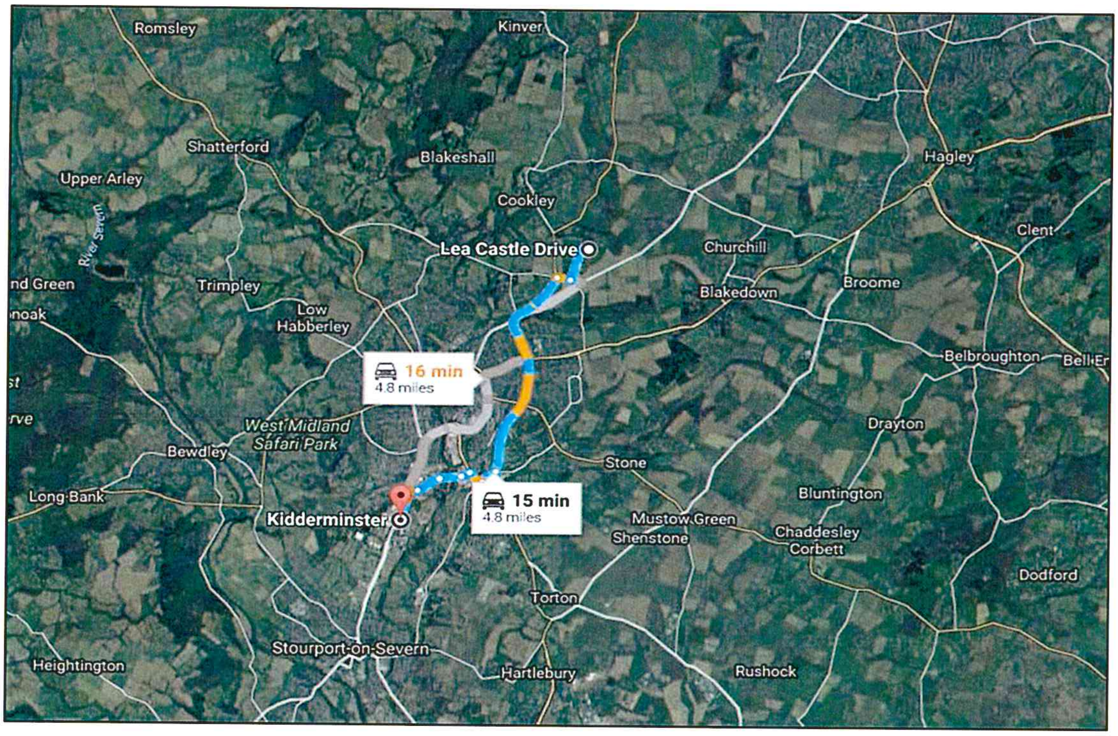
Address	Developer/Marketing Agent	Price	Description	Status	Size (sq. ft.)	£ /sq. ft.
The Haddenham at Bowbrook, Old Worcester Road, Hartlebury, DY11 7TU	Taylor Wimpey	£349,995	4 bed detached	Guide Price	1460	£239.72
The Shelford - Plot 18 at Bowbrook, Old Worcester Road, Hartlebury DY11 7TU	Taylor Wimpey	£341,995	4 bed detached	Guide Price	1369	£249.81
The Shelford - Plot 27 at Bowbrook, Old Worcester Road, Hartlebury DY11 7TU	Taylor Wimpey	£334,995	4 bed detached	Guide Price	1369	£244.70
					Average	£244.74

Source: Rightmove

5.28 As can be seen in Table 5.13 above, two available comparables for the Bowbrook scheme average at approximately £245 psf.

5.29 Due to its location, we consider the Bowbrook development to be more attractive and desirable for prospective home owners than the subject site which is more limited in terms of local amenities and transport links. This, in our opinion, accounts for it's higher than average sales values.

Stour Valley Kidderminster



5.30 This development is 4.8 miles (7.7 km) south-west of the subject site, Taylor Wimpey and Bovis homes each have 125 dwellings on site. Thus far Taylor Wimpey has built 92 units, as shown in Table 5.14. Currently, Bovis are up to the final phase of construction with 10 houses remaining to build. Each site includes 15 five bedroom detached houses and 15 affordable homes. Both developments comprise of 2, 3, 4 and 5 bedroom houses on site. The application site measures 6.1 acres (2.48 ha) the proposed layout achieves a density 37dph.

Table 5.14: Taylor Wimpey Stour Valley Kidderminster

House Type	Number of units	Percentage of overall scheme
2 bedrooms	11	12%
3 bedrooms	31	34%
4 bedrooms	50	54%
Total:	**92**	100%

Source: Rightmove

Table 5.15: Stour Valley Comparable Evidence

Address	Developer/Marketing Agent	Price	Description	Status	Size (sq. ft.)	£ /sq. ft.
Haddenham - Plot 224 at Stour Valley, Stourport Road, Kidderminster, DY11	Taylor Wimpey	£300,995	4 bed detached	Guide Price	1460	£206.16
The Shelford - Plot 18 at Bowbrook, Old Worcester Road, Hartlebury DY11 7TU	Taylor Wimpey	£341,995	4 bed detached	Guide Price	1369	£249.81
Downham - Plot 192 at Stour Valley, Stourport Road, Kidderminster, DY11	Taylor Wimpey	£267,995	4 bed detached	Sale Price (28/11/16)	1244	£215.43
The Arundel at Stour Valley, Kidderminster, Worcestershire, DY11 7BW*	Bovis	£375,995	5 bed detached	Sale price (17/11/16)	1752	£214.61
The Oxford at Stour Valley, Kidderminster, Worcestershire, DY11 7BW*	Bovis	£361,996	5 bed detached	Sale Price	1487	£243.44
Haddenham, Stour Valley, Kidderminster	Bovis	£289,995	4 bedroom detached	Guide Price	1460.0	£198.63
Bisham, Stour Valley, Kidderminster	Bovis	£237,995	4 bedroom detached	Guide Price	1095.0	£217.35
Kempsford, Stour Valley, Kidderminster	Bovis	£238,995	4 bedroom detached	Guide Price	1099.0	£217.47

The Winchester at Stour Valley, Kidderminster, Worcestershire, DY11 7QL	Bovis	£442,995	5 bedroom detached	Guide Price	1994.0	£222.16
The Middleton at Stour Valley, Kidderminster, Worcestershire, DY11 7QL	Bovis	£379,995	4 bedroom detached	Guide Price	1483.0	£256.23
The Canterbury at Stour Valley, Kidderminster, Worcestershire, DY11 7QL	Bovis	£308,995	4 bedroom detached	Guide Price	1343.0	£230.08
					Average	£224.67

Source: Rightmove

5.31 As shown by Table 5.15, we have collected comparable evidence from the Stour Valley development, this has provided an average sales value of approximately £225 psf.

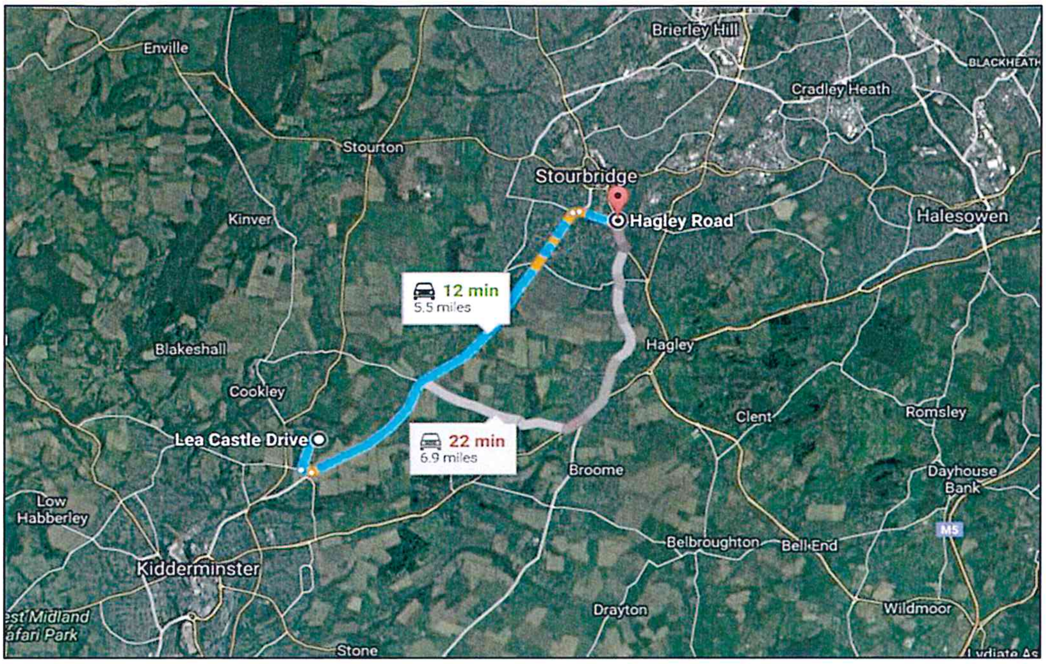
5.32 In terms of scale, the Stour Valley scheme is the largest new build housing development within 5 miles (8 km) of the subject site, measuring at 250 units. As the proposed development is for up to 600 units, we would anticipate that major volume housebuilders similar to Taylor Wimpey, Bovis Homes and Barratt David Wilson Homes would be likely to compete for the site. As a result we are of the opinion that the housing product developed on the site will be of a similar quality to what has been built at Stourbridge, by a similar developer. We believe the Stour Valley development is the most comparable residential development and source of evidence, therefore, we have assumed the same sales rate within our appraisal and believe that £[redacted] psf is a realistic sales value expectation at the subject site.

5.33 It is worth noting however, that the Stour Valley scheme is located just outside Kidderminster town centre, and this is considered to be in a slightly better location, closer to amenities than the subject site.

5.34 We have consulted Taylor Wimpey and Bovis Homes to ask for further information on their developments at Stour Valley in Kidderminster. As of January 2017, we were informed by Taylor Wimpey that they have sold [redacted] units in 3 years (36 months), this equates to [redacted] houses per month. We were informed by Bovis they have been selling on average [redacted] per month. Consequently, overall this equates to a sales rate of [redacted] per month.

5.35 Within our appraisal we have assumed a sales rate of [redacted] per month. This reflects the comparable sales rate evidence from the Stour Valley development which is the most comparable residential development.

The Oriel Development, Stourbridge



5.36 This development by Kendrick Homes is 5.5 miles (8.8 km) north-east of the site and consists of 14 dwellings, see Table 5.16 for the housing mix.

Table 5.16: The Oriel, Stourbridge

House Type	Number of units	Percentage of overall scheme
4 bedrooms	5	36%
5 bedrooms	9	64%
	14	100%

Source: Rightmove

5.37 Despite our attempts to contact Kendrick Homes, we were unable to ascertain any sales data for the Oriel Development.

Affordable Housing Values Consultation

5.38 We consulted Oakleaf Commercial to market test our assumptions on the affordable housing values. Oakleaf Commercial were the only party to provide market evidence.

5.39 Oakleaf have dealt with various developments in the Worcestershire area. Their response is summarised in Table 5.17.

Table 5.17: Oakleaf Commercial Affordable Values

Tenure	Indicative Property Size (Sq. Ft)	Value	Value psf
Market Value	801.9	£[redacted]	£[redacted]
Social Rented	801.9	£[redacted]	£[redacted]
Shared Ownership	801.9	£[redacted]	£[redacted]

Source: Rightmove

5.40 We have applied the Council preferred size mix from the housing needs data to the affordable housing units within the scheme as shown as in Table's 5.18 and 5.19.

Table 5.18: Social Rented Affordable Housing

Source: GE

No. of beds	Housing type	Number	Size (sq. m)	Total floor space (sq. ft.)	% of social rented	% of total floorspace
2	Housing	92	68	67,339	79%	0.5
3	Housing	20	81	17,438	17%	12.6
4	Housing	3	94	3,035	3%	2.2
5	Housing	2	107	2,303	2%	1.7
	Total:	117	350	90,115	100%	64.9
					Average Size:	770

Table 5.19: Intermediate Housing

No. of beds	Housing type	Number	Size (sq. m)	Total floor space sq. ft.	% of Intermediate	% of total floorspace
2	Houses	34	68	24886	89%	17.93
3	Houses	2	81	1744	5%	1.26
4	Houses	2	94	2024	5%	1.46
5	Houses					
	Total:	38	243	28654	100%	20.65
					Average Unit Size:	754

Source: GE

5.41 Table 5.2 shows how Starter Homes could be incorporated within the scheme.

Table 5.20: Starter Homes

No. of beds	Housing type	Number	Size (sq. m)	Total floor space sq. ft.	% of starter homes	% of total floorspace
2	Houses	25	74.3225	20,000	100%	14.41
3	Houses					
4	Houses					
5	Houses					
		25	74.3225	20,000	100%	14.41
					Average Unit Size	800

Source: GE

EMPLOYMENT USE

Industrial Market

5.42 Kidderminster is 17 miles (27km) south-west of Birmingham which is one of the largest UK Industrial centres in terms of both employment and the size of its industrial and warehousing stock. Current availability of industrial accommodation within Kidderminster is contained within the following paragraphs.

Kidderminster Trade Park, Birmingham Road, Kidderminster, DY10 2RN

5.43 Kidderminster Trade Park is 2 miles (3.2 km) south of the subject site. It has industrial trade counter units on the market to rent at a cost per annum of £18,650 for 3,243 sq. ft. (301 sq. m) or £28,225 for 4,908 sq. ft. (453 sq. m) of space.

Unit 5 Greenhill Industrial Estate, Kidderminster, DY10 2RN

5.44 Unit 5 of Greenhill's industrial estate in Kidderminster is approximately 1.5 miles (2.4 km) south of the subject site. Its total GIA is 41,891 sq. ft. (3,892 sq. m) and it is on the market to let or purchase at an undisclosed price.

Haybes Point, Stourport Road, Kidderminster, DY11 7PZ

5.45 Haynes Point industrial warehouse is 4 miles (6.4 km) south of the subject site. There is 172,633 sq. ft. (16,038 sq. m) of space of which only one unit of 68,926 sq. ft. (6,403 sq. m) is available to either buy or rent. The freehold price is undisclosed but the rent is £2.50 per sq. ft.

Wyre Forest Economic Development Information

Space, Hoo Farm, Kidderminster, Industrial Estate, DY11 7SL

5.46 Space provides start-up businesses the ability to rent workshops launched by Wyre Forest District Council. It provides 7,000 sq. ft. of flexible workspace for businesses to start, develop and grow.

5.47 It was a firm requirement of Wyre Forest to create a business centre for start-up and growing businesses. It comprises 8 to 13 flexible workshop spaces based on 25 sq. m modules and the type of workspace is suited to individual business needs.

5.48 The maximum lease length is three years with a two week notice period and rents start from £198 per month based on a 22 sq. m module. Although start-up businesses receive a 50% reduction in rent in year one and a 25% reduction in year two and are provided access to business support, advice and funding. In addition, alternatively there is secure storage space on site for £40 per month.

South Kidderminster Enterprise Park

5.49 Ratio Park is located on Finepoint Way with direct frontage to the main A451 Stourport Road. It is a development of 11 modern industrial units ranging from 967 sq. ft. to 2,145 sq. ft. and completion is expected Spring 2017. Rental prices for units at the development are £10 psf, with freehold prices starting at £115,000 for the smallest units and increasing to £276,875 for the largest unit, which represents a price of £125 psf.. In total, it is anticipated this has the potential to bring around 850 jobs to the area.

5.50 The area is home to a number of key businesses and also provides commercial opportunities through existing employment units and land that is available for redevelopment for new employment use.

5.51 The whole area benefits from an adopted Local Development Order. This order allows greater flexibility for businesses to expand, develop or make alterations to existing units without the need for planning permission.

Basepoint Market Consultation

5.52 Basepoint are an operator and developer of serviced offices and industrial units of approximately 32 different sites. They build out and refurbish sites and are open to joint ventures with organisations such as the HCA and local authorities.

5.53 Basepoint believed the site has the following disadvantages:

- A poor prominence / frontage to the entrance of the site;
- Poor transport links available to the site;
- Not a conventional choice for employment use;

- Small population within the immediate area.

5.54 However, Basepoint explained they would look at the site but they would require a minimum space of 1.5 acres (0.6 ha). This would contain 26,000 sq. ft. (2,415 sq. m) or 10,000 sq. ft. (929 sq. m) for either an office or industrial use. However, the recent Referendum result may affect their ability to bring sites forward as they rely on European funding.

5.55 If Basepoint were to occupy part of the site, they anticipate office rents would be c. £[redacted] psf and workshop rents c. £[redacted] psf. Basepoint explained unless a government pre-let is agreed, values of £[redacted] per sq. ft. would be required in order for the scheme to be viable. Basepoint have advised construction costs of approximately £6million, although we believe this sounds too high. In addition, they have advised maintenance costs of £[redacted] - £[redacted] per year and have stated they would not progress the land for free.

5.56 It is thought that a small business / incubation centre will be more suitable to industrial units. Basepoint is one model they have recommended and they pay a premium rent for this and can be flexible on a license.

5.57 The site has a limited market for employment but the council is to assess whether they will take on the employment land for themselves. For the employment uses we have applied a value of £[redacted] (£[redacted] per acre). This is following discussions with the Council who are assessing the possibility of acquiring this part of the site.

Care / Extra Care Use

5.58 We have conducted market analysis on extra care / care's suitability to the subject site. A care specialist at Frontier Estates has informed they believe the site might not be suitable for large care developers such as McCarthy & Stone.

6 Site Value

This section sets out the rational and reasoning in determining a Site Value in which we have made consideration to current use value and market comparable evidence.

Introduction

6.1 This section sets out the underlying basis of the Site Value. It has been prepared having regard to the RICS Guidance Note - Financial Viability in Planning. The RICS GN reflects Best Practice for undertaking viability assessments. The guidance note defines site value as:

> *"Site value should equate to the Market Value subject to the following special assumption; that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan."*

6.2 The definition of Market Value contained within the RICS Valuation - Professional Standards 2012 (The Red Book) is:

> *"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion."*

Site Purchase

6.3 The RICS GN states:

> *'The actual purchase price may or may not be material in arriving at a Site Value for the assessment of viability… it is up to the practitioner to consider relevant or otherwise of the actual purchase price and whether any weight should be attached to it."*

6.4 It is noted within the NPPF, that Site Value is defined as being "at a level at which a landowner would be willing to sell", and furthermore that those "willing sellers of land should receive competitive returns".

6.5 We understand, historically the site was in several ownerships, with the HCA acquiring a large part of the Lea Castle Hospital site from the Department of Health in 2005. To consolidate site ownership, a further two parcels were transferred in 2014, thereby allowing for comprehensive redevelopment of the site.

6.6 We understand that the site was acquired by the HCA for £3,827,000 in 2005. However to this date, the HCA have incurred substantial holding and security costs.

Site Value

Net Developable Area

6.7 The Site is approximately 120 acres (48.7 hectares) on a gross basis. We therefore consider that the net developable land area equates to approx. 42.9 acres (c.17.4 ha).

Existing Use Value

6.8 The RICS Guidance references an approach of EUV plus a premium to determine site value. However RICS guidance states that 'the problem with this singular approach is EUV that it does not reflect the workings of the market as land is not released at EUV plus. The margin mark-up is also arbitrary and is often inconsistently applied in practical application as a result.[5] Whilst the site has a EUV as a hospital we have not considered further in this instance as it would have a higher value as a residential development opportunity.

DCLG Land Value Estimates

6.9 We have had regard to Department for Communities and Local Government's ('DCLG') publication on Land Value Estimates for Policy Appraisal (February 2015).

6.10 This document provides land value estimates based on specific areas for the purposes of policy appraisal. This document sets out the land value estimate for post permission residential uses whereby Wyre Forrest is considered to equate to £[redacted] per hectare. On this basis, assuming 17.4 hectares as the net developable area, the land value would equate to c. £[redacted].

[5] RICS GN94 2012 para 3.4.1

GERALDEVE

Comparable Land Evidence

6.11 In accordance with RICS best practice, we have considered comparable land values to inform our view of market value. We have had regard to recent land transactions in Kidderminster, consulted local agents and the land requirements in the area.

6.12 Table 6.1 below shows land currently being marketed or sold within 5 miles (8 km) of the subject site.

Table 6.1: Comparable Land Evidence

Address	Size (AC)	Price (£ - Asking)	£/ AC	Summary	Description of Site	Distance from scheme (miles)	Date
Land, Mitton Street, Stourport On Severn, DY13 9AG	0.3	£387,950	£1,293,167	Small residential plot situated in Stourport	Site was formally a builder's yard but became vacant for a number of years. The site measures approximately 1,350 sq. m. Site has planning permission at time of sale for 8 dwellings.	4.7	07/12/2016
The Musketeer, Avon Road, Kidderminster, Worcestershire	0.4	£200,000	£500,000	The site is located in an established residential location on Avon Road on the edge of the town centre of Kidderminster.	Subject to planning permission the site has potential for residential development of up to 19 residential units (8x1 bed, 9x2 bed and 2x3 bed) or alternative uses subject to planning.	4.4	08/12/2016
Yew Tree Inn, Chester Road, Kidderminster	Unknown	Undisclosed price	N/a	Residential development site	The approved scheme at the Yew Tree Inn comprises of: 5 x 4 bed town houses (3.5 storey with integral carport); 1 x 4 bed town house (2.5 storey with carport); x 2 bed flats (3 storey building); 1 x 3 bed detached dwelling (conversion of the 2 storey pub); and 17 car parking spaces shall be provided for residents together with 3 visitor spaces.	1.5	08/12/2016

Source: Rightmove

6.13 As shown in Table 6.1, the Musketeer site on Avon Road comprises 0.4 acres (0.16 ha) and sold for £200,000 subject to contract. It is located in an established residential location on Avon Road on the edge of the town centre of Kidderminster. Subject to planning permission the site has potential for residential development of up to 19 residential units (8x1 bed, 9x2 bed and 2x3 bed) or alternative uses subject to planning.

6.14 In addition to the land comparable evidence in Table 6.1, The Yew Tree Inn on Chester Road in Kidderminster is a residential development site which is currently on the market at an undisclosed price and is located 1.5 miles (2.4 km) south of the subject site. It has planning permission (Ref No 15/0020/FULL) for conversion of the public house currently on site to one residential dwelling and the development of nine dwellings with associated parking and access and no S106 or affordable housing provision is required on site.

6.15 The approved scheme at the Yew Tree Inn comprises of:

- 5 x 4 bed town houses (3.5 storey with integral carport);
- 1 x 4 bed town house (2.5 storey with carport);
- x 2 bed flats (3 storey building);
- 1 x 3 bed detached dwelling (conversion of the 2 storey pub); and
- 17 car parking spaces shall be provided for residents together with 3 visitor spaces.

The Oriel Development, Kendrick Homes, Stourbridge

6.16 The site for the Oriel Development in Stourbridge was sold by Gerald Eve on behalf of Oriel College, Oxford, to Kendrick Homes in September 2013 for £1, 850,000. The site was 2.6 acres (1 ha) in size, which equates to approximately £711,538 per acre.

6.17 The scheme was small scale at 14 units. Furthermore, the development was located in the highly desirable area of Norton, Stourbridge, which commands sales values around [redacted]% higher than the immediate Kidderminster area.

6.18 Compared with the subject site, the Oriel Development carried far less risk to a developer due to its size, location and the low site costs involved. For these reasons, the land value at the subject site is considerably lower than the values achieved at this development.

Stour Valley Development, Taylor Wimpey, Kidderminster, DY11 7QL

6.19 As part of our due diligence we spoke with [redacted], Senior Land Manager for Taylor Wimpey West Midlands, regarding the above scheme.

6.20 She disclosed that Taylor Wimpey paid £[redacted] for 8 acres (3.2 ha) of land at the Stour Valley site, equating to £[redacted] per acre. [redacted] mentioned that this was a particularly high figure as the land was already serviced and the build costs were considerably lower than usual. She advised that the usual price range for residential land in the Kidderminster area would be between £[redacted] and £[redacted] per acre.

6.21 Due to the high costs involved at the subject site, the value of the land is considerably less than the figures provided by Taylor Wimpey.

Analysis

6.22 We have had regard to the information available in determining a base land value. We note government publications which estimate developable land values on a regional basis, however, we note the importance of supporting such assumptions with suitable market based evidence.

6.23 However, when assessing a base land value for development land, it is important to note that all transacted development sites will vary significantly in the values achieved as each respective site will be subjected to site specific abnormal costs. For some sites, these could be significantly high and for others they could be very low. The cost report for the subject site quotes very high abnormal costs, in excess of £[redacted], which will negatively impact upon the land value. Therefore whilst comparable evidence is important to consider, it is unlikely that they will be compared on a like for like basis.

Applied Land Value

6.24 We consider the applied land value of the site with regard to the information above to be in the region of £[redacted]. This reflects a value of £[redacted] per plot and approximately £[redacted] per acre (gross) and £[redacted] per net developable acre. This applied base land value is within the range of land values considered in the above analysis based on comparable evidence.

Land Value:

£[redacted]

7 Applied Assumptions

This section of the report sets out the financial assumptions applied to the FVA.

Introduction

7.1 We have relied upon a Cost Report provided by Amec Foster Wheeler for a number of the applied assumptions. Where expert information has not been provided, we have relied on market data and standard assumptions widely used for the purposes of viability.

Build Costs and Abnormal Costs

7.2 The main elements of the construction of the Site have been split into two parts:

- Build Costs; and
- Additional Site Specific Costs.

Build Costs

7.3 We have obtained construction costs from Build Cost Information Service ('BCIS'). We have had regard to the lower quartile of new build general estate housing at a rate of £[redacted] psm or £[redacted] psf. In addition, a [redacted]% allowance has been applied for the external works totalling £[redacted] psf, (£[redacted] psm). External works usually range between [redacted]%. The lower quartile for build costs has been used as it has been assumed that the development will be undertaken by a national housebuilder.

7.4 With regard to a contingency, we have had regard to the recent appeal case (APP/J3015/S/15/3019494) for a scheme in Nottingham which set out that a reasonable contingency of 2.5% should be expected. As the subject site is a large development with a modest level of risk we have therefore applied a contingency of [redacted]% on the build cost, see Table 7.1.

Table 7.1: Build Cost Summary

Element	Cost
BCIS Lower Quartile (£/sq. ft.) (including [redacted]% for external works)	£[redacted] psf
Build Cost Contingency ([redacted]%)	£[redacted] psf

Source: BCIS/AFW

Professional Fees

7.5 Professional fees reflect a number of consultancy services which would be incurred in delivering a development. Professional fees generally range from [redacted]% to [redacted]%. Where a local housebuilder is likely to deliver housing, the professional fees would be expected to lie towards the lower end of the range. For the purposes of this assessment, we have therefore applied a professional fee allowance of [redacted]%.

Cost Report

7.6 We have relied upon a Cost Report which has been prepared by Amec Foster Wheeler to support the planning application. A copy is contained within Appendix B. Table 7.2 displays details of the abnormal costs, contingency, profession fees and fees and other charges, this is based on a 600 unit scheme with no apartments at the policy compliant 30% affordable housing. These costs will change when conducting sensitivity analysis for a different number of units or a different affordable housing mix later on in this report, see Appendix B for details of this.

Table 7.2: Policy Compliant Cost Report Summary

Item	Cost
Site Access Works	£[redacted]
Ground Remediation	£[redacted]
Additional Foundation Costs	£[redacted]
SuDs	£[redacted]
Internal Roads, Footpaths and Street Lighting	£[redacted]
Site Clearance and Demolition	£[redacted]
On Site Services/Utilities/Connections	£[redacted]
Abnormals total:	**£[redacted]**
[redacted]% Abnormals Contingency	£[redacted]
[redacted]% Professional Fees	£[redacted]
Fees & Other Charges	£[redacted]

Source: Amec Foster Wheeler / GE

Site Clearance and Demolition

7.7 This cost has been based on the estimate of Vertase F.L.I from November 2012. The cost of £[redacted] includes an additional allowance for the removal of services and tunnels below ground at [redacted]% equating to £[redacted] with an allowance for the removal of Asbestos at [redacted]% equating to £[redacted] and finally a [redacted]% allowance for material not utilised on site at £[redacted]. Contingency has not been applied to the site clearance and demolition cost as contingency has already been included.

Ground remediation

7.8 A cost of £[redacted] has been attributed in relation to any ground contamination due to the previous laundry use of part of the site.

Additional Foundation Costs

7.9 Regarding foundations, the majority of the site can be founded upon traditional shallow strip footings. There are areas of deep made ground but these are associated with the areas of the site that have been re-profiling with cut and fill. When the site is redeveloped these areas are likely to be removed or reduced as the site is re-profiled. Consequently, there is an allowance of [redacted]% of the building area that will require raft/piled foundations instead of strip foundations. As a result, Amec Foster Wheeler have assumed circa. [redacted]% of the buildings area 329,378 ft2 at £[redacted]/ft2, equating to a cost of £[redacted] allows for additional foundation costs.

Sustainable Urban Drainage Systems (SuDs)

7.10 This cost of £[redacted] comprises of £[redacted] for On Site Pods and £[redacted] for Permeable Paving.

Site Access Works

7.11 This cost has been estimated at £[redacted] as the site access improvement works have not yet been agreed with the council's highways department.

Section 106 Costs and Obligations

7.12 The Section 106 Costs have been provided by Amec Foster Wheeler; see Table 7.3 for the S106 costs associated with a 30% affordable housing requirement for 600 units. However, these costs will change as the mix and level of affordable changes, see Amec Foster Wheeler's cost report in Appendix B.

Table 7.3: Section 106 Costs

Item	Cost
Off-site services reinforcement	£[redacted]
Landscaping and Public Open Space	£[redacted]
Ecological mitigation	£[redacted]
S106 Financial Contributions (off site)	£[redacted]
S106 Cost to Developer (on site)	£[redacted]
Total:	**£[redacted]**

Source: Amec Foster Wheeler

7.13 As shown in Table 7.3, Landscaping and Public Open Space is projected at a cost of £[redacted], this cost is based on the required LEAPs, NEAP, LAPs, local park and amenity green space. The Ecological Mitigation cost at £[redacted] is based on a Bat house (maternity roost) at £[redacted], Bat house (maternity and hibernation) at £[redacted] plus bat boxes at £[redacted] and dormouse boxes, bird boxes, log piles and bat access bricks).

Marketing Fees

7.14 We have allowed for marketing fees which would be expected to be incurred by the developer when selling the respective dwellings and include the costs of a show home(s). These costs are incurred on the gross development value ('GDV').

Table 7.4: Marketing Fees

Item	Cost
Marketing costs	[redacted]%

Source: GE

Purchasers Costs

7.15 It is important to have regard to the associated costs which a purchaser will be required to pay as part of acquiring the land for development. These are set out as follows in Table 7.5 and Table 7.6.

Table 7.5: Agent and Legal Fees

Item	Percentage
Agent Fees	[redacted]%
Legal Fees	[redacted]%

Source: GE

7.16 The total costs of the agent and legal fees equate to £[redacted].

Table 7.6: Stamp Duty Land Tax Breakdown

SDLT Breakdown	Cost
0% on the first £150,000	£[redacted]
2% on the next £100,000	£[redacted]
5% on the final £[redacted]	£[redacted]
Total:	**£[redacted]**

Source: GE

7.17 As shown in Table 7.6, the total stamp duty costs equate to £[redacted].

8 Programme and Phasing

This section of the report sets out the phasing assumptions applied to the FVA.

Introduction

8.1 Within this section is a summary of the development programme associated with the proposed scheme.

Overall Development Timeline

8.2 The construction period estimated to build all 600 units in [redacted] months, as shown in Table 8.1. This is based on a sale period of [redacted] units per month, so for the sensitivity which has been conducted later on in this report for 550 and 580 unit scenarios with and without apartments, the sales period are linked to a sales period of [redacted] per month and the construction period mirrors the sale period. The dates below correspond with the profiling of expenditure and payments that have been inputted into Argus Developer.

Table 8.1: Development Timeline

	Start date	Duration (months)
Land Acquisition	Month [redacted]	[redacted]
Pre-construction works	Month [redacted]	[redacted]
Construction	Month [redacted]	[redacted]
Sale	Month [redacted]	[redacted]

Source: Gerald Eve LLP

8.3 Table 8.2 displays the cost phasing; this shows how the other costs not previously mentioned are phased in our appraisal.

Table 8.2: Cost Phasing

Cost	Start Date	Duration (months)	Phasing Assumption
Acquisition Costs	Month [redacted]	[redacted]	Full cost paid in month [redacted]
Site Clearance and Demolition	Month [redacted]	[redacted]	Cost equalled distributed from the start of the development for the first [redacted] months
Additional Revenue (Employment Land)	Month [redacted]	[redacted]	Full instalment at the end of pre-construction
Abnormals	Month [redacted]	[redacted]	S-Curved over the Construction Period Note as the number of units change for the sensitivity analysis (550/580 units) the Construction Period will change and so will any timescales linked to this.
Abnormals Contingency	Month [redacted]	[redacted]	S-Curved over the Construction Period
Build Cost Contingency	Month [redacted]	[redacted]	S-Curved over the Construction Period
Professional Fees	Month [redacted]	[redacted]	S-Curved over the Construction Period
Fees & Other Charges	Month [redacted]	[redacted]	S-Curved over the Construction Period
Marketing Costs	Month [redacted]	[redacted]	Monthly over the Construction Period
S106	Month [redacted]	[redacted]	Equal payments every [redacted] months or four instalments spread out over the Construction Period

Source: Gerald Eve LLP / Amec Foster Wheeler

8.4 Table 8.2 explains the phasing of the various costs used in the appraisal.

8.5 We have aligned the construction and sale periods to [redacted] months, with the first sale starting [redacted] months after the start of construction. We consider that an appropriate sales rate would be [redacted] units per month as this would take into account that there might be two developers on site at the same time. This is slightly in excess of the comparable scheme by Bovis and Taylor Wimpey. As mentioned in Table 8.2 as the number of units change for the sensitivity analysis (550/580 units) the Sale and Construction Period will change based on a sales rate of [redacted] units per month and so will any linked phasing timescales.

9 Basis of Viability Assessment

This section sets out the rational and reasoning in determining the viability of the Scheme having regard to an appropriate Site Value and Competitive Return.

Introduction

9.1 This section of the report sets out the basis upon which the viability assessment has been produced in respect of the scheme. Argus Development Software has been used to assess the viability of the scheme. It is important to have regard to the basis of viability as recommended by national, local and RICS Guidance.

9.2 The assumptions have been assessed through sensitivity analysis to provide an informed and robust assessment of the Section 106/Affordable Housing obligations in which the Scheme can provide.

9.3 This section has been set out under the following headings:

- Viability Model; and
- Development and Expected Returns.

Viability Model

9.4 We have used Argus Developer to create our financial appraisals. The appraisal inputs values and costs to produce an output that either shows a profit or a loss. Assuming that the output shows a profit, it is then necessary to judge this against a target rate of return in order to conclude whether this is an acceptable level of profit or not given the risks of the Scheme and counterfactual scenarios.

9.5 The proposed Scheme development appraisal contained in this report is run on a residual cashflow basis where the output is the development return resulting. Whether the Scheme (or counterfactuals) is viable or not will depend on the level of profitability having regard to the risks of implementation.

Development Return

9.6 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. 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. In addition to the state of the market in terms of demand and lot size of the completed development and the anticipated timescales for development and for receiving a return.

9.7 Development profit is necessary if private sector investment is to deliver any given project. The level of profit is essentially rewarded to the developer for their time, expertise and risk involved in carrying out the process of development.

9.8 Measurements of return such as "profit on cost", "profit on value", "development yield", or "internal rates of return" (IRR) ratios are commonly used as comparable benchmark ratios. The return (profitability) of a scheme should be tested against a target benchmark return based on the risks of the Scheme.

9.9 The paragraph below sets out the factors we have taken into account in formulating our view of appropriate return. The target return adopted takes into account the following factors, which are specific to the Site and the Scheme:

- The Scheme provides a significant amount of new housing for the locality.
- The Site has a number of constraints due to the condition of the site and its buildings which mean it has high costs to deliver the development

9.10 We therefore consider that an appropriate target rate of return should be [redacted]% profit on GDV for the private residential element and [redacted]% for the affordable housing element having regard to the risks of the Scheme and property market. However, to calculate this we have used an in-house blended viability target rate calculator. We have considered scenarios containing Starter Homes as a form of Affordable Housing. On this basis we have increased the level of profit on this element to [redacted]% as it is not known how the market will respond to Starter Homes.

Blended profit requirement assuming 30% affordable housing

9.11 Table 9.1 displays the blended profit return target rate for the 30% policy compliant affordable housing scheme. This assumes 30% Affordable Housing at the suggested policy tenure split of 70% social rented and 30% intermediate housing.

Table 9.1: Affordable Housing Policy Compliant Target Rate

Policy Compliant Target Rate	
Assuming 30% Affordable Housing Policy Target:	
Private Residential Units GDV (£m)	£[redacted]
Affordable Housing Units GDV (£m)	£[redacted]
Target Rate of Return Private Housing (Profit on GDV)	[redacted]%
Target Rate of Return Affordable Housing (Profit on GDV)	[redacted]%
Blended Return Target Rate (Profit on GDV)	[redacted]%

Source: GE

9.12 Table 9.1, sets out that the blended target rate for the 30% Affordable Housing policy compliant scheme and as shown the target rate is [redacted]% profit on GDV.

Development Finance

9.13 De Montfort University's The UK Commercial Property Lending Market Research Findings Mid-Year 2016 collates a sample of the conditions under which lenders offer development finance.

9.14 The survey highlighted the 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:

- Residential for sale: Average loan to cost ratios of 66% to 75%; average interest rate margins of 400 bps; average arrangement fees of 135 bps.

- Pre-let commercial: Average loan to cost ratios of 58% to 80%; average interest rate margins of 348 bps; average arrangement fees of 108 bps.

- Speculative commercial: Average loan to cost ratios of 58% to 80%; average interest rate margins of 513 bps; average arrangement fees of 140 bps.

- 50% speculative / 50% pre-let commercial: Average loan to cost ratios of 58% to 80%; average interest rate margins of 350 bps; average arrangement fees of 121 bps.

9.15 At mid-year 2016 finance of fully pre-let development demonstrated average interest rate margins of 348bps, which represented an increase from 339bps reported at year-end 2015. The average loan-to-cost ratio was 66% and the average arrangement fee 108bps. For 50% pre-let: 50% speculative development schemes at mid-year 2016 the average interest rate margin was 332bps with an average loan-to-cost ratio of 58% and an average arrangement fee of 121bps. In comparison the average margin year-end 2015 was 351bps. For speculative developments there was an average margin of 513bps, a 140bps average arrangement fee and an average loan-to-cost ratio of 56%. In comparison, the average margin year-end 2015 was 384bps.

9.16 This reflects an increased finance risk premium in regards to speculative commercial development which saw margins widen significantly in 2016. Pre-let development finance however remains available on broadly comparable terms to 2015. This equates to a lending cost premium of c. 200 bps, including arrangement fees, for developing speculatively. Whilst debt markets remain active lenders are increasingly reticent to lend to schemes in what has become an increasingly uncertain occupier market.

9.17 The residential development finance market has, according to De Montfort University, seen margins decrease albeit with accompanying average loan-to-value and loan-to-cost ratios decreasing and arrangement fees increasing. Average interest rate margins declined from 434bps recorded at year- end 2015 to 400bps at mid-year 2016 together with an exit fee of 115pbs and an arrangement fee of 135bps.

9.18 According to a review of UK development finance market conducted by the Investment Property Forum (IPF) in 2015, although banks still dominate the lending market, there has been an increase in alternative lending platforms. Lending from banks represents a relatively regular set of lending criteria, whilst alternative lenders lend at a wide variety of interest rate margins and often include project-specific fees and profit sharing arrangements within their lending agreements.

9.19 Adopting the midpoints of the ranges above, the De Montfort University's The UK Commercial Property Lending Market Research Findings Mid-Year 2016, indicates that the median cost of senior debt is equivalent to 6.9% for pre-let commercial development and 7.3% for residential development on a nationwide basis.

9.20 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, comprise of equity and in some cases varying levels of junior debt, mezzanine debt.

9.21 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".

9.22 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.

9.23 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.

9.24 That said finance remains largely available, and total borrowing costs continue to be tempered by relatively low UK government bond yields and a lowering in the Bank Rate to 0.25%, both of which partially underpin development finance margins and loan availability.

9.25 Having regard to the above, current economic climate and the characteristics of the site and the proposed development, we have applied a finance rate of [redacted]%.

10 Summary of Results from Argus Appraisal

This section provides the appraisal outputs for the Scheme having regard to inputs outlined in the previous sections of this report along with planning and Affordable Housing obligations. These results are subsequently tested using sensitivity analysis in Section 11 of this report.

Introduction

10.1 The affordable housing target rate for the 30% policy compliant affordable housing scheme. This assumes 30% Affordable Housing at the suggested mix.

10.2 Table 10.1 displays the Blended Viability Target Rate (Profit on GDV) for the policy compliant position of 30% affordable housing, this equates to 126 social rented and 54 intermediate units at the policy tenure split of 70% social rented and 30% intermediate housing.

Table 10.1: Blended Viability Return Calculator

Assuming 30% Affordable Housing Policy Target for 600 units:	
Private Residential Units GDV (£m)	£[redacted]
Affordable Housing Units GDV (£m)	£[redacted]
Target Rate of Return Private Housing (Profit on GDV)	[redacted]%
Target Rate of Return Affordable Housing (Profit on GDV)	[redacted]%
Blended Return Rate (Profit on GDV)	[redacted]%

Source: GE

10.3 Table 10.2 displays the result of the 30% affordable housing policy position.

Table 10.2: Appraisal Results

Description	Level of Affordable Housing	Tenure Split	Blended Viability Target Rate (Profit on GDV)	Appraisal Result (Profit on GDV)
Policy compliant scheme	30%	70% social rented and 30% intermediate	[redacted]%	[redacted]%

Source: GE

10.4 As shown from Table 10.2, based on the applied assumptions and details of the Scheme, we conclude that the Scheme is not capable of achieving the blended benchmark return of [redacted]% Profit on GDV with 30% Affordable Housing. The result in our appraisal is [redacted]% Profit on GDV, consequently, the Scheme is considered to be unviable and therefore unable to provide 30% Affordable Housing whilst returning an appropriate profit level.

10.5 It is clear that as 600 unit scheme represents the highest amount of development achievable on the site, any of the other development scenarios that are presented in the sensitivity analysis would also be unviable using a policy compliant percentage.

11 Sensitivity Analysis

The purpose of this section is to test the robustness of the proposed Scheme from a quantitative perspective via a sensitivity analysis. As a result of the assessment in respect of the Scheme, the impact of planning obligations (including a financial contribution in lieu of affordable housing) has been tested having regard to the target rate of return.

Introduction

11.1 A sensitivity analysis is a fairly simplistic approach (but widely used) 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 then the level of planning payment. In short, this is a straightforward deterministic approach from which a judgement needs to be made as to the appropriateness of the outcome. Benchmarks can be used as performance measures. A prudent developer will also consider the sensitivities of a development and assess the risks of the particular project.

11.2 There are a number of areas associated with the scheme which could impact upon the Affordable Housing delivery. We have therefore undertaken the following assessments to understand the impact on the Scheme as follows:

- Variations in costs and values;
- Variations in unit numbers (including apartments);
- An affordable housing split of 65% Social Rented, 10% Shared Ownership/Intermediate and 25% Starter Homes.

Variations to Costs and Revenue

11.3 In order to assess the robustness of the viability of the Scheme in providing the considered level of Affordable Housing, it is necessary to consider variance in the pricing and cost inputs to the financial model. For the purposes of this exercise, we have employed a two-way sensitivity analysis.

11.4 Whilst all elements of a viability appraisal could be tested, it is considered that the areas which are most susceptible to variance within the market are revenue streams and construction costs.

11.5 Table 11.1 shows the impact on profit on GDV and profit amount when cost and value data varies. This is based on a 600 unit scheme inclusive of 30 apartments split equally between 1 and 2 bedrooms with 11% affordable housing split into the policy position of 70% Social Rented and 30% Intermediate which equates to a viable return of [redacted]% Profit on GDV.

Table 11.1: Profit on GDV sensitivity analysis

		Sales: Rate pf^2				
		-£5.00 pf^2	-£2.50 pf^2	0.00 pf^2	+£2.50 pf^2	+£5.00 pf^2
Construction: Rate pf^2	-£5.00 pf^2	[redacted]%	[redacted]%	[redacted]%	[redacted]%	[redacted]%
	-£2.50 pf^2	[redacted]%	[redacted]%	[redacted]%	[redacted]%	[redacted]%
	0	[redacted]%	[redacted]%	[redacted]%	[redacted]%	[redacted]%
	+£2.50 pf^2	[redacted]%	[redacted]%	[redacted]%	[redacted]%	[redacted]%
	+5.00 pf^2	[redacted]%	[redacted]%	[redacted]%	[redacted]%	[redacted]%

Source: GE

11.6 As table 11.1 shows, variations in costs have the most profound effect on profit on GDV. If the sales rate increased by £2.50 psf and the construction cost decrease by £2.50 psf, this would equate to an over viable return of [redacted]% profit on GDV. However, if the construction rate was to increase by £2.50 psf and the sales value were to decrease by £2.50 psf, this would equate to an unviable scheme at [redacted]% Profit on GDV.

11.7 There are a number of scenarios where the profit on GDV benchmark is achieved or exceeded, however, it is important to understand how likely these scenarios are.

11.8 A decrease in construction costs would have a hugely favourable impact on the profit on GDV and would allow for an increased level of affordable housing provision. However, in light of market trends and forecasts we consider this to be an extremely unlikely scenario, in addition, arguably if the construction costs were lower, this might impact upon the quality of the development and therefore the sales values.

11.9 Having regard to potential reductions in costs, BCIS All-in Tender Price Index suggests that construction costs are increasing year on year. The period between Q4 2015 to Q4 2016 saw an increase of c.5.5% which is up from the previous year's growth of 4.6%. It is therefore reasonable to assume that a reduction to the build costs is not likely and in fact, is more likely increase over the construction period.

11.10 In the wake of Brexit, there are also concerns that construction costs will increase for two significant reasons. Firstly, the devaluation in sterling has made it more expensive for UK construction firms to purchase materials from abroad. Secondly, there is uncertainty over the rights of EU migrants to live and work in the UK since the vote, and any potential restrictions placed on EU migrants will have a profound effect on the supply of workers in the construction industry, which relies heavily on workers from within the EU. A skills shortage would have a damaging impact on the industry, and may manifest itself in increased labour costs with construction firms having to pay more to source and retain staff.

11.11 Furthermore in relation to costs, for the purposes of this FVA the lower quartile of BCIS cost information has been used. Consequently, in view of market trends and projections it is unlikely that costs will reduce and it is more likely that costs will increase over the development period. If costs increased by £5 psf the scheme would become unviable and even if sales values increased by £5 psf alongside this, the profit on GDV would be [redacted]%.

11.12 As can be seen in the sensitivity analysis, there is scope for the profit on GDV to increase were costs to remain the same and sales values to increase by either £2.50 psf or £5 psf. However, based on the comparable evidence relied upon in this report, we consider it unlikely that sales values will increase above £[redacted] psf, and that it would be financially imprudent to expect such an increase.

11.13 The table below displays the different scenario testing we have conducted.

Table 11.2: Sensitivity Analysis Results

Mix	Affordable Housing (%)	Tenure split	Profit (Profit on GDV %)	Viability Comments
600 units (without apartments)	19.0%	65% Social Rented / 10% Intermediate / 25% Starter Homes	[redacted]%	Viable
600 units (without apartments)	18.0%	70% Social Rented / 30% Intermediate	[redacted]%	Viable
600 units (with apartments)	11.5%	65% Social Rented / 10% Intermediate / 25% Starter Homes	[redacted]%	Viable
600 units (with apartments)	11.0%	70% Social Rented / 30% Intermediate	[redacted]%	Viable
580 units (without apartments)	11.0%	65% Social Rented / 10% Intermediate / 25% Starter Homes	[redacted]%	Viable
580 units (without apartments)	10.0%	70% Social Rented / 30% Intermediate	[redacted]%	Viable
580 units (with apartments)	6.5%	65% Social Rented / 10% Intermediate / 25% Starter Homes	[redacted]%	Viable
580 units (with apartments)	5.0%	70% Social Rented / 30% Intermediate	[redacted]%	Viable
550 units (without apartments)	3.0%	65% Social Rented / 10% Intermediate / 25% Starter Homes	[redacted]%	Marginally viable
550 units (without apartments)	2.0%	70% Social Rented / 30% Intermediate	[redacted]%	Marginally viable
550 units (with apartments)	2.0%	65% Social Rented / 10% Intermediate / 25% Starter Homes	[redacted]%	Marginally viable
550 units (with apartments)	1.0%	70% Social Rented / 30% Intermediate	[redacted]%	Marginally viable

Source: GE

11.14 The table displays the different scenarios varying the mix, affordable housing tenure split and their impact on return and the level of affordable housing. The table shows that only a very low level of affordable housing can be provided for a 550 unit scheme to be marginally viable. It also shows a 580 unit scheme can only viably provide 5% affordable housing on an affordable housing tenure split of 65% social rented, 10% shared ownership and 25% starter homes.

11.15 Scenarios involving 550 and 580 units have been tested given that a lower level of development may only ultimately be achievable on the site. Indeed, the site capacity assessment undertaken by Amec Foster Wheeler to date shows that 580 units may represent a more realistic total site capacity. Should this prove to be the case, it is critical to note that a scheme of 580 units or lower could only remain viable with significantly reduced levels of affordable housing provision.

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12 Counterfactual Scenario

The purpose of this section is to test the profit return for the counterfactual scenario or in this instance Vacant Building Credit.

Vacant Building Credit

12.1 We have tested the impact of Vacant Building Credit (VBC) now this contained within PPG.

12.2 This is relevant to the subject site as National Policy now provides an incentive for brownfield development on sites containing vacant buildings. The subject site currently has an existing floorspace of 329,378 sq. ft. (30,600 sq. m) of vacant buildings from its former use as a hospital.

12.3 Where a vacant building is brought back into any lawful use, or is demolished to be replaced by a new building, the developer should be offered a financial credit. This is equivalent to the existing gross floorspace of relevant vacant buildings when the local planning authority calculates any affordable housing contribution which will be sought.

12.4 Where there is an overall increase in floorspace in the proposed development, the local planning authority should calculate the amount of affordable housing contributions required from the development as set out in their Local Plan. A 'credit' should then be applied which is the equivalent of the gross floorspace of any relevant vacant buildings being brought back into use or demolished as part of the scheme and deducted from the overall affordable housing contribution calculation. This will apply in calculating either the number of affordable housing units to be provided within the development or where an equivalent financial contribution is being provided.

12.5 Consequently, to calculate the level of affordable housing required from VBC we have adopted the 'Norwich' method, this method takes the total number of units proposed and uses the proposed gross internal area and existing floorspace to work out the size of the uplift and in turn the percentage discount to the policy based affordable housing provision. The result from the VBC calculation is shown in Table 12.1.

Table 12.1: Vacant Building Credit Calculation

Norwich Method	
Assuming 30% Affordable Housing Policy Target	
Total units	600
AH Policy Target %	30%
Proposed GIA sq. ft.	665,028
Existing Floorspace sq. ft.	329,378
Uplift sq. ft.	359,650
Uplift / Proposed sq. ft.	0.52
% Discount to Affordable Housing Policy Target	52%
Affordable Housing Target % =	180 units
VBC Discount applied to Affordable Housing Target	90 units
VBC Adjusted Affordable Housing Requirement	**15%**

Source: GE

12.6 As shown in Table 12.1, VBC calculates a reduction and an adjusted affordable housing requirement to 15% equating to 90 affordable housing units. Table 12.2 displays the viability return calculator target rate; this uses the Gross Development Value (GDV) of the scheme inclusive of an affordable housing element to calculate a blended return rate.

Table 12.2: Blended Viability Return Calculator

Counterfactual Scenario VBC Target Rate for 600 units:	
Assuming 15% Affordable Housing Policy Target:	
Private Residential Units GDV (£m)	£[redacted]
Affordable Housing Units GDV (£m)	£[redacted]
Target Rate of Return Private Housing (Profit on GDV)	[redacted]%
Target Rate of Return Affordable Housing (Profit on GDV)	[redacted]%
Blended Return Rate (Profit on GDV)	[redacted]%

Source: GE

12.7 As shown in Table 12.2, the target rate for the Counterfactual Scenario using VBC for a 600 unit scheme is [redacted]%.

12.8 We have calculated this to work out the return on a 15% affordable housing scheme (90 affordable housing units) with 70% of this comprising as social rented and 30% as intermediate (shared ownership) housing, the results of this are in Table 12.3. In addition we have worked out the level of affordable housing required for a 550 and

580 unit schemes with no affordable split with 70% social rented and 30% intermediate (shared ownership) housing. For this we have used the same VBC calculation as shown in Table 12.1 and the results are detailed in Table 12.3.

Table 12.3: Blended Viability Return Calculator

Mix	Level of Affordable Housing Required	Tenure Split	Blended Viability Target Rate (Profit on GDV)	Appraisal Result (Profit on GDV)
600 Units (without apartments)	15%	70% social rented and 30% intermediate	[redacted]%	[redacted]%
580 Units (without apartments)	15%	70% social rented and 30% intermediate	[redacted]%	[redacted]%
550 Units (without apartments)	14%	70% social rented and 30% intermediate	[redacted]%	[redacted]%

Source: GE

12.9 As shown in Table 12.3 the only viable VBC option is with 600 units, the appraisal results for the 550 and 580 unit schemes do not result in a viable return in relation to the blended viability target rate.

13 Conclusion

The purpose of this section is to provide a concluding financial justification statement.

13.1 Gerald Eve LLP were instructed on behalf of the Homes and Communities Agency ('HCA') to prepare a Financial Viability Assessment ('FVA') to support an outline planning application for a residential led development.

13.2 This report has set out the proposed scheme and has provided the financial assessment, rationale and justification for the maximum contribution towards Section 106 and affordable housing that the scheme can support. This report has been undertaken in accordance with national, regional and local planning policies, the RICS Guidance Note on Financial Viability in Planning, other recognised guidance and current practice.

13.3 An outline planning application has been submitted for the delivery of a residential led scheme with an element of employment floorspace. As mentioned previously the proposed development will regenerate 48.7 hectares (120.4 acres) of formerly-developed land containing vacant buildings.

13.4 Due to the existing buildings on site, we have assessed the level of affordable housing that would be required from VBC for a 600 unit scheme with no apartments is at 15% which provides a viable result. The FVA has been conducted on a present day basis with revenues and costs assumed based on current day levels. We have relied on the cost information provided by Amec Foster Wheeler to inform the Scheme's viability position.

13.5 The current site capacity assessment conducted by Amec Foster Wheeler indicates that 600 units represents the maximum capacity of the site, and it is possible that only a lower level of development can be achieved on the site. The sensitivity analysis demonstrates that a lower level of affordable housing provision than 15% is required to make development of lower number of units viable. As a consequence, a discussion is needed with the council on appropriate mechanisms to ensure that viability across the site is protected depending on the level of development that may ultimately come forward through Reserved Matters.

13.6 The proposed Scheme is faced with a number of complex matters which will impact upon the development with regard to these risks. We consider that a reasonable developer's return should be [redacted]% profit on GDV, [redacted]% profit on GDV on social rented or intermediate affordable housing and [redacted]% profit on GDV for an affordable housing mix which includes starter homes.

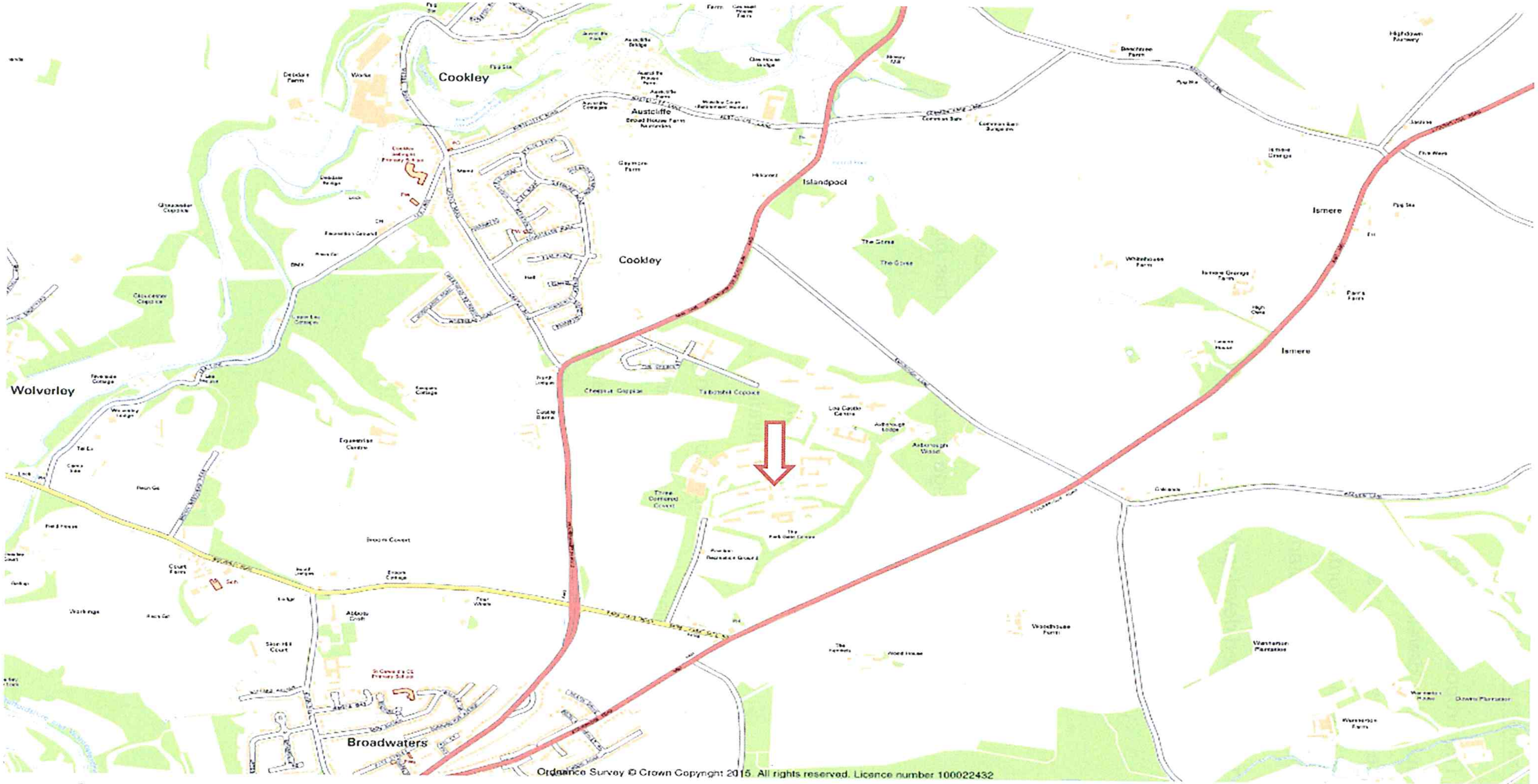
13.7 The proposed development will deliver the following benefits:

- Regenerate 48.7 hectares (120.4 acres) of formerly-developed land containing vacant buildings;
- The Scheme provides a significant amount of new housing to the Kidderminster area;
- The Site has a number of constraints due to the condition of the site and its buildings which mean it has high costs to deliver the development;
- Provides local jobs and investment in the area;
- Provides a high quality scheme that has been sensitively designed to accord with the surroundings; and
- Provides an aspirational, high quality, executive development commanding high market values.

13.8 This financial viability report has demonstrated the maximum level of affordable housing the scheme can provide for different scenarios in order to be able to deliver and implement a viable scheme. This has subsequently been tested and the results presented.

APPENDIX A

Location Plan



Source: Promap

April 2017
MC0655A

APPENDIX B

Cost Report

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MC0655A

APPENDIX C

Appraisal Results