Dear Gareth,

RE: RESIDENTIAL DEVELOPMENT: HALL DALE QUARRY - MATLOCK
APPLICANTS: 4M PROPERTY PARTNERS LIMITED

Further to your instructions and the recent meeting with the applicants, I am pleased to supply my revised report as follows.

1.0 My Instructions and the Scope of my Role

1.1 You have asked that I review all of the information I have received from the planning applicants, their surveying consultants HEB Chartered Surveyors, E C Harris, Quantity Surveyors, and architects.

1.2 In particular you want me to undertake a viability/development appraisal of the proposals and comment on what proportion of developer obligations, including affordable housing the scheme can support.

1.3 You want me to comment specifically on whether the applicant’s proposed scheme is viable as submitted (with no affordable housing); viable with the previous offer of affordable housing at 10%, and, if not, what would be a sustainable level of affordable housing.

1.4 I am assuming you wish me to assess the viability of the scheme as at July 2016.

1.5 The applicant’s view until recently appeared to be that the project is only viable enough to provide 9% of affordable homes, equivalent to 20 semi-detached units, though HEB had, in fact, advised the applicant that, on viability grounds, no developer obligations were able to be supported. The most recent appraisal submitted by HEB in January 2016 suggests that no developer obligations at all can be supported, and that the scheme only produces a return on Gross Development Value of 10.62%.

1.6 In accordance with the outline planning application, I have evaluated a residential development which comprises about 27,240 square metres. For the 220 units, in the absence of a definitive schedule of accommodation, I have assumed a mix of suitable unit types and floor areas.
2.0 Assumptions and Limitations

2.1 I make no comment about the design, efficiency, merit or otherwise, of the suggested scheme.

2.2 I have been given some supporting material including build cost estimates, infrastructure and abnormal costs, and a scheme layout drawing. I do not have any technical information in relation to site investigation matters. Please see below for further comment on construction aspects.

2.3 I have previously inspected the site and am familiar with the area and property values in the locality.

2.4 My former colleague, Philip Lee, had a number of email exchanges and a meeting with Mr Mark Elliott of Mabec Property Limited and his advisors, who were kind enough to supply Philip with further information. I have had recent correspondence and telephone conversations with Jon Emmerson and Matthew Hilton of HEB acting for the applicant in connection with my draft report and appraisal dated 13 January 2016 and a revised viability assessment prepared by them dated 24 January 2016.

2.5 We met the applicants at your offices on 12 April 2016, at which meeting the applicants explained the proposed development in more detail, and challenged some of the assumptions regarding inputs contained in my previous draft report of 18 February 2016.

2.6 In addition to the requirement for affordable housing, I was advised that there are Section 106 Agreement requirements as follows:

An Affordable Housing Commuted Sum £1,100,000
Contribution Towards the Local Surgery £ 63,120

3.0 The Applicant’s Appraisal

3.1 The applicants originally presented an appraisal from HEB Chartered Surveyors dated 29 January 2015 which, allowing for a developer’s profit of 12.04% on revenue, produces affordable housing expressed as a total floor area of 18,000 sq ft (1,672 square metres). There is recorded a £2,000,000 land value equivalent to £29,851 per acre based on a gross site area of 67 acres (27.1 hectares).

3.2 The revised appraisal dated 24 January 2016 suggests that no developer obligations at all can be supported, and that the scheme only produces a return on Gross Development Value of 10.62% (a “sub-market” level of profit).

4.0 DV Appraisal

4.1 I attach my appraisal. It has been undertaken “through the eyes” of a typical developer intent on implementing the planning permission. Following consideration of the arguments put forward by the applicants at the recent meeting, I recognise that, though for a site of this size the typical developer might be a regional or national house builder, this site would be low down on a list of prioritised sites in terms of ease of development and general market appeal. For that reason, the typical developer of this site is more likely to be an organisation similar in nature to the applicant, in which case some of the assumptions previously made may not be applicable.

4.2 I have also input the relevant data into the Homes and Community Agency’s Development Appraisal Tool (DAT) which, amongst other things, calculates the amount of finance necessary for the scheme by utilising a cash flow.
4.3 I comment below on my rationale and methodology and, where appropriate, explain the differences between my approach and that of the applicants.

Revenue

4.4 My office holds details of all sales of residential properties in the region including referencing information such as accommodation, floor areas etc. I have analysed sales of dwellings built since 2010 in the relevant post code areas. I have had particular regard to sales evidence from transactions on the nearby Morledge housing scheme in Matlock, and the Limestone Croft development adjacent to the subject site.

4.5 Some of my data relates to second hand properties which tend to sell for a lower price than equivalent brand new units. Moreover, transactions several months away from the reference date do not necessarily reflect the market conditions at the time needed. Accordingly, I have made suitable adjustments to the “comparables” (ie the sales evidence), to arrive at what I believe to be defendable values per square metre for current purposes.

4.6 For the open market value units, the applicants now have an average sales value of £2,217 per square metre compared to my £2,306 per square metre figure in my last draft report. Following the meeting with the applicants, I have again reviewed the sales values used in my previous report and also considered them in the light of the prevailing values for similar types of housing in the area. Having done so, I now believe that the sales values put forward by the applicants are robust, and I have broadly adopted them in my appraisal.

4.7 The Gross Development Value arrived at in my appraisal is related to the mix of typical house types assumed. At the recent meeting, the applicants indicated that they were prepared to look at a “balanced” mix of house types, having previously put forward proposals for a mix dominated by 3 and 4 bedroom dwellings. The mix is an important factor influencing the eventual Gross Development Value of the scheme.

4.8 For the commercial land, I have reviewed the representations put forward by the applicants on the likely realisable site values for this land, and though broadly agreeing with their comments, I consider that a value of £500,000 is appropriate.

Acquisition Costs

4.9 In accordance with the Royal Institution of Chartered Surveyors Guidance Note entitled “Financial Viability in Planning,” dated August 2012, I have followed the process of initially considering where the value of the site would be if the respective costs of applying all the Council’s planning policies and undertaking abnormal works were fully reflected.

4.10 I am then obliged to look at the price at which a reasonable, hypothetical, commercially-minded landowner would dispose of the land having regard to the site’s Current Use Value (CUV) or any Alternative Use Value (AUV), should one be available.

4.11 The current (former) use is as a quarry and I have had regard to this as a basis for assessment. A former quarry in Lincolnshire, extending to 4.65 acres and previously used for open storage of building materials, sold at auction in July 2015 for £19,354 per acre.

4.12 My valuation would therefore be in the order of £60,000 to £65,000 per acre for the subject site, and reflecting an incentive for a typical owner to sell, I therefore arrive at a benchmark land value for the subject site of £3,000,000. This figure equates to £76,431 per net developable acre and £3,300 per acre for the non-developable parts of the site. My benchmark land value now reflects a hypothetical current/alternative use
value plus a modest incentive, to reflect the fact that this site would be likely to struggle to find a purchaser for a valuable alternative use, the magnitude of abnormal costs is significant, and as such the incentive required by the vendor to sell would be much lower than if this was not the case.

4.13 I note that in the applicant’s consultants’ response to Philip’s previous conclusions on land value, they pointed out that in the District-wide study undertaken by us on behalf of your authority, a benchmark land value of between £150,000 and £200,000 per acre was put forward as being appropriate, and therefore contend that the minimum figure should be used for the subject site. However, elsewhere in the report we refer to an assumed £100,000 per net acre for abnormals costs for “difficult” sites; in this instance, the abnormals/strategic infrastructure costs put forward by the applicant’s consultants amount to almost £294,000 per acre, and the benchmark land value has to reflect this.

4.14 It is further relevant to test the land value against any known comparable transactions in the market which will provide a general value “tone.” A comparison must be done in a consistent way to try to eliminate the differences in planning gain and abnormal costs from one site to another. It is therefore best to compare on a “greenfield / oven ready” basis across all sites. To do this, I have grossed up the figure in the preceding paragraph by the cost of planning gain and abnormals. I arrive at a “greenfield/oven ready” value, equating to £370,391 per acre, which I consider to be a robust value in all the circumstances.

Construction Costs

4.15 I have been able to compare the supplied cost estimates with the build costs per square foot/metre provided by the Building Cost Information Service (BCIS) of the Royal Institution of Chartered Surveyors. I have assumed that all the houses to be built will be of a similar good standard and had regard to the BCIS median build costs figure which includes for preliminaries.

4.16 I am aware, however, that BCIS average prices are only one of several benchmarks which should be reviewed in order to reach a conclusion on an appropriate build cost for any particular scheme. The weight of evidence we have gathered over a period of time in our day to day work strongly suggests that BCIS average prices’ relevance to large residential schemes is regarded as highly dubious. My Team Leader, David Newham, has recently reviewed build cost data received by BCIS across the board since January 2011. Of the 106 housing schemes for which data was submitted, only 7.5% of the data was for schemes of 50 houses or more, and only 1 scheme had more than 100 houses (conversely just over 2/3rds of the data was for schemes of sub 20 units). We are now also having regard to other build cost data held by our office, including build costs from planning appeal decisions, external Quantity Surveyor reports, data from area wide studies undertaken by private practitioners, build costs from other viability appraisals received by our office, and tender information from the Homes and Communities Agency (“HCA”), in particular relating to the Deliver Partner Panel 2.

4.17 Nevertheless, in my previous appraisal I may not have given sufficient weight to the construction problems likely to be encountered in developing what is inarguably a difficult site, both in terms of topography and likely ground conditions.

4.18 I have therefore included the applicant’s original house construction costs at £915 per square metre which sum was stated to include an allowance for in-plot external works. My reasoning for not increasing this figure by the amount of build cost inflation likely to have occurred since the original appraisal is based on my comments in 4.17 above on the validity of BCIS average price data compared to other evidence on build costs which has emerged since that appraisal was prepared.
4.19 In addition, I have made an allowance for site wide external/infrastructure works.

4.20 Though I had previously used the applicant's original costs for abnormalities/strategic infrastructure, I accept the applicants' contention that there has been cost inflation on build costs generally over the past 12 months, and have added 7% to my original figure, increasing costs in my previous appraisal by around £650,000.

I believe the cost estimates supplied should be independently checked by the Council's own quantity surveyors and engineers.

Professional Fees/Other Costs

4.21 I have adopted suitable design team fees, marketing/sale and legal costs.

4.22 The applicant's consultants hold the opinion that the contingency on build costs should be at a constant rate of 3% (across base build costs). I did not previously accept this rate, preferring 2% on the basis of my assumption that the site would be developed out by a volume housebuilder. However, I may not have given sufficient weight to the construction problems likely to be encountered in developing the site, both in terms of topography and likely ground conditions, though these might be more properly regarded as an abnormal cost element. However, these likely difficulties could arguably justify an increase in the contingency level on the base build cost. Increasing this from 2% to 3%, costs rise by around £300,000 from my previous appraisal. I had, in addition, previously allowed a 5% contingency on the abnormalities costs.

4.23 Other costs such as NHBC certification costs, site investigation costs and planning and building regulation fees have been included as appropriate.

Finance

4.24 I have included total finance costs of just over £1.9m., which sum is less than the £2,522,229 figure adopted by the applicant.

4.25 The finance costs reflect the phased/rolled out nature of the scheme and the requirement to deal with off-site abnormal costs as well as the construction of the dwellings with their attendant infrastructure.

4.26 I have run the Homes and Communities Agency's Development Appraisal Tool (DAT) to assist in the calculation of finance. Factoring in a credit rate of interest as well as a debit percentage, the DAT shows total interest payable of £1,908,329 as mentioned above.

Profit

4.27 For moderate to large sized residential developments it is not uncommon for developers to state a profit figure as a certain percentage based on scheme costs or scheme value. There are no hard and fast rules here and some developers will be content if the profit is expressed as a significant cash sum.

4.28 Adopting the two-tier profit level approach favoured by the Homes and Communities Agency, my appraisal shows a profit on the market value dwellings of 20% of the gross development value (GDV) together with a 6% profit on cost in respect of the affordable units (although in my latest appraisal, none is provided). In particular, my figure for the market value dwellings reflects comparable profit levels for sites where the development risk is greater than the typical site of comparable size.
5.0 Overall Conclusions

5.1 Having run my appraisal I agree with the applicant’s view that the scheme is unable to viably support the Council’s full affordable housing policy of 45%, as this would produce a loss of over £2.8m at market levels of profit.

5.2 In terms of the applicant’s latest viability assessment, the contention is that the scheme is not viable enough to provide any developer obligations, and that the level of developer profit on GDV is at a “sub-market” level for a scheme involving the perceived level of risk. However, even using inputs which differ in several areas from mine, the project is still anticipated to return a positive (rather than a negative) return, and on that basis the applicant may choose to proceed with the scheme despite the lower rate of return.

5.3 In my appraisal, the changes made to some of the inputs as detailed above have a significant impact on the ability of the scheme to support any planning gain. My appraisal now shows that the project cannot support any level of affordable housing, nor can it support any other S.106 contributions. Assuming a market facing level of return of 20%, as advised in 4.28 above, the project falls short of that target profit rate, making a profit on market dwellings of 17.09% (some £1.7m below target).

5.4 I should emphasise that my appraisal embraces the costs and revenues appropriate to the valuation date and is therefore valid only if the building construction work commences by early 2017 and proceeds at a rate consistent with achieving sales in the market. If commencement of the works were to be delayed and is then undertaken at some other time when market conditions may be different, then I believe a re-appraisal will be required adopting the costs and revenues then obtaining.

5.5 Given that, based on my advice, your Council’s policy requirements for affordable homes and other S.106 contributions will not be met, then I recommend that a viability review mechanism should be included as a S.106 agreement/planning condition, the trigger point of which is to be agreed. My reason for recommending such a measure is driven by the current uncertainty regarding the nature of the future development of this site, bearing in mind that this is an outline application with no certainty on the eventual site layout, the housing mix and the design and specification of the dwellings.

5.6 I can advise on the detail of such a mechanism if you choose to follow this route.

If the factual matters above relating to floor areas and other planning obligations are wrong, I may have to revise my appraisal and advice.

Some of the content of this report may be regarded by the applicant for planning permission as commercially confidential and, in this regard, I assume that you will restrict the report’s circulation as appropriate.

I would be pleased to discuss the foregoing if you wish.

Yours sincerely

John Kipling

John Kipling BSc MRICS
Senior Surveyor
RICS Registered Valuer
DVS

Reviewed by: David Newham MRICS, Sector Leader
### VALUATIONS

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### TOTAL DEV VALUE

- **AH total** inter / rented percentages
- **DIV/01**
- **DIV/01**

| Retail A3 land    | 0.5 acres | @  | 17500 | 87500 |
| Office B1 land    | 2.78 acres | @  | 186000 | 412500 |

**TOTAL DEV VALUE**: 61023132

### COSTS

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<th>Site - gross 67.0 acres</th>
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<td>Net developable-retail/commercial</td>
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**Overall gross**: 67.00 acres at 44778

**Site value**: 3000000

**Purchase costs**
- Land Registry: 0.05% at 1500
- Purchase legals: 0.35% at 10500
- Purchase agents: 0.00% at 0
- Stamp Duty Land Tax: 4.00% at 4.40% at 120000

**Total**: 132000

**Construction**
- **Estate housing**: 27235 m² GIA at 915 24920255
- **Contingency**: 10% at 477800
- **Externals residential (exc on plot costs)**: 34.75 acres at 123000 4274250 29941875
- **Contingency**: 3% at 128228 30070103
- **Externals A3 & B1**: 3.25 acres at 123000 399750 4674000

**Total**: 3132000

**Professional fees**
- Architects & planning consultants
- Quantity Surveyor
- Civil and Structural Engineers
- Proj Mgmt & CDM etc

**Total**: 6.00% at 1796513 32278358
Planning
Building Regs

Abnormal/Infrastructure
contingency 5%
Earth/plots works 5779118 28956 6068074
Off site highways 195235 9762 204997 204997
Surface water attenuation 998768 49638 1048706
FW pump station 115600 5750 120750 120750
Off site rising main 221951 11083 232734 232734
Lanscaping 686381 34319 720700
Off site utilities 1227109 61355 1288464
Site preliminaries 362924 362924
Legal costs-appnts, S276, S38, S104, easements 100000 100000
Public relations 20000 20000
Professional fees 499753 499753
Local authority fees 487881 487881
Traffic regulation orders 15500 11170483

S106 Costs
Affordable housing committed sum 9.55% 21 at 25000 0
Local surgery 0
LAP - inc in landscaping costs 0 0

Sunday
Defects insurance NHBC/Zurich 220 700 154000
Marketing and sales 60523132 3.00% of GDV 1819694
Legals-MV residential sales 220 400 80000
Legals-sales to RP 0 200 0

Finance Costs
From HCA DAT cashflow 7.00% 1908329
Arrangement incl above 0 3.13%
Valuation incl above 0 3.13%
of GDV

Total costs 50596864

SUMMARY
Dev't Value 61023132
Total Costs 50596864

PROFIT
As %age of cost 10426266
As %age of valuation 17.09

Value of Affordable Homes

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Value of Affordable Homes = 0

HCA DAT Methodology - Developer's Profit
MV Residential Profit 20.00% of GDV 60523132 12104626
AH Residential Profit 6% of GDV As DAT 0 0

Approx equates to 5% of cost

Surplus / Superprofit 10426266 minus 12104626 = -1678358