



*Independent Viability Experts*

FAO Mr Richard Fidler  
Development Manager  
South Holland District Council

Sent by email only

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**Our ref:** DN-0628

**Your ref:** H09-0468-16

**Date:** 11<sup>th</sup> May 2022

Dear Mr Fidler

**PROPERTY ADDRESS:** Land to the West of Holbeach Lincolnshire

**INSTRUCTING BODY:** South Holland District Council

**APPLICANT:** Lincolnshire County Council and Mr R H and Mr A.M. Goodley

Further to our draft viability review report with respect to the above property, dated 3<sup>rd</sup> February 2022. Through their advisor Savills, a rebuttal to our findings has been submitted by the applicant via email dated 25<sup>th</sup> March 2022 (although sent to us on 6<sup>th</sup> May 2022). We have reviewed this document and would respond as follows (please note, for ease we have followed the order as set out in Savills rebuttal).

In terms of the respective positions following the initial viability reviews, the applicant (through their advisor Savills in a report dated October 2021) concluded that the scheme was unable to viably support any affordable housing (and seemingly no planning contributions). Based on our testing we concluded that the scheme could viably support the full planning policy contributions, being 163 affordable houses (25%) and S106 contributions totalling £4,343,950.

The difference in viability outcome reached in Savills' assessment compared to our own related to 3 key appraisal assumptions, summarised as follows:

Input	Savills appraisal	CPV appraisal
Bungalows average market value	£2,523.76 psm	£2,897.09 psm
2 storey average market value	£2,114.76 psm	£2,335.60 psm
Plot Construction (Blended)	£1,181 psm	£1,168 psm

By way of illustration, based on Savills' 100% market value appraisal the overall scheme revenue equated to £135,157,517. Based on our adjusted market values, again assuming 100% market values dwellings, the scheme revenue would total £151,870,000. This differential of £16,712,483 is therefore the key reason why the respective viability appraisals returned such a different outcome.

## 1. Review of CPV Report and Appraisal

- 1.1. Savills note that much of the respective development appraisal assumptions are agreed, which is the case (bar the 3 elements summarised above).
- 1.2. However, Savills do note that their original assessment was at October 2021, whereas our review was as at February 2022. Savills have subsequently updated their appraisal as at Feb 2022 to ensure a consistent point between the appraisals.

## 2. Updated advice in relation to Private Sales Values

- 2.1. Savills original Oct 21 report focused on 3 x Ashwood Homes schemes in Holbeach (with sales mostly from 2019 and 2020), together with a single new build sale in Whaplode and also 'second-hand' bungalows in Holbeach.

- 2.2. In our Feb 22, we note that the most recent (and closest) evidence was from Jelson Homes' Northons Court scheme, which is situated just over 100m to the eastern edge of the subject site. We identified 5 sales all from March 2021. We also noted Loosegate Homes' Wignals Wood scheme, around 0.3 miles from the subject site. These sales were from 2020. We also considered asking prices at the time of our report, to provide an insight into how value expectations had changed in 2022 (following strong levels of inflation in the previous 12 months or so).
- 2.3. In their March 22 note Savills do refer to the Jelson Homes Northons Court scheme, indicating that there have been 6 transactions all as at March 21. Based on this evidence, Savills conclude that that there is justification for uplifting their Oct 21 adopted values.
- 2.4. Savills go on to refer to our 5% uplift in value allowed from these transactions as at March 21 to the viability assessment date of Feb 22. Savills state "There is no evidence to support this on site specific new home schemes within Holbeach. We therefore have concerns that this is a very crude approach that doesn't reflect actual sales prices achieved". We would comment on this as follows:
- The Jelson Homes transactions from March 21 is considered to be the closest and most up to date evidence available for new build housing in this locality. We maintain our view that this is an important source of evidence when assessing dwelling values at the subject scheme.



- In terms of the general market, it is accepted that residential values have been subject to inflation during the period from Mar 21 to Feb 22. This is supported by the indexation evidence referred to in para 4.7 of our Feb 22 report. Of the indexation rates assessed, 2 suggest that values increased by 9.10% to 10.74%. The other suggests 4.66% (although this latter dataset only goes up to Sept 21 and furthermore only refers to sales achieved for specific housing, not all housing values, so the level of increase is skewed by the nature of the stock that happened to sell in that particular area during that particular period).
  
- Savills suggest there is no evidence of new build inflation. However, we note the 3 semi-detached dwellings (each of 72 sq m and the "Plover" house type) sold in March 2021 for £175,000. At the current time at Northons Court, The Sanderling (a smaller 2 bed semi) is currently being marketed at an asking price of £189,500. This is evidence that value expectation has changed significantly within the last 12 months or so, which is consistent with an indication of inflation.
  
- We would therefore strongly disagree with any view which suggests values have not been subject to inflation from March 21 to Feb 22. Both the wider indexation evidence and also local price expectations suggest otherwise. In our view, the question is not therefore whether inflation took place, but instead how much inflation.
  
- As per our Feb 22, we adopted what we considered to be a cautious approach and adopted an average 5% uplift against the values shown at March 21. We stand by this as being reasonable and reflective of clear inflationary pressure in the market.

- In this regard, and for context, we note that our 2 bed semi-detached value was £175,000 (compared to £141,689 as shown in Savills appraisal). Against the Northons Court current asking price of £189,500 for a 2 bed semi we remain of the view that our allowance is not overstated.
- 2.5. Savills do, though, go on to state that “Notwithstanding the above, there is a recognition that prices have risen since our previous evidence was provided and we are therefore able to show the following improvements in our opinion of value...”. Savills go on to adjust their Oct 21 values from an overall average of £2,203 per sq m up to £2,330 per sq m. This is an overall increase from £135,157,000 to £14,291,000 (an uplift of circa £7,752,000).
- 2.6. We have revisited the evidence and would comment on the adjustments as follows:
- 2 bed semi 67 sq m: Savills now adopt a value of £170,000 (£2,537 per sq m), which compares to our allowance of £175,000 (£2,612 per sq m). For a similar sized semi (although slightly larger at 72 sq m) at Northons Court in March 21 a value of £175,000 (£2,431 per sq m) was achieved. Applying our 5% uplift for inflation, gives a current value of £183,750 (£2,552 per sq m). Having reconsidered this, we accept that Savills adjusted value is closer to our analysed evidence. On this basis, we have accepted this compromise in our appraisal.
  - 2 bed terrace 67 sq m: we would expect a circa £5,000 deduction for a terrace compared to the equivalent semi. Savills adjusted figure of £165,000 is therefore reasonable in light of our above adjustment.

- 3 bed semi 82 sq m: Savills now adopt a value of £190,000 (£2,317 per sq m), which compares to our allowance of £195,000 (£2,378 per sq m). In terms of evidence, at Northons Court we note a 3 bed detached of 82 sq m sold in Mar 21 for £237,000 (£2,890 per sq m). With a 5% uplift for inflation this equates to £248,850. Whilst a semi will naturally have a lower value than an equivalent detached, the limit of discount should be within reason. Our own figure of £195,000 already represents a discount of around £55,000 compared to this detached dwelling, which (if anything) could be argued to be overly cautious. We also note that a 3 bed semi at Northons Court is currently being marketed at an asking price of £209,950, which again points to a higher figure. In light of this, and adopting a cautious approach, we retain our view that our value of £195,000 is not overstated.
  
- 3 bed terrace 82 sq m: again allowing a £5,000 deduction compared to the equivalent terrace means that we retain our view that our figure of £190,000 is appropriate.
  
- 4 bed detached 133 sq m: Savills now adopt a value of £280,000 (£2,105 per sq m), which compares to our allowance of £310,000 (£2,331 per sq m). In terms of evidence, we note at Wignals Wood a similar detached of 130 sq m sold for £350,000 in Oct 2020. There is also another detached of 132 sq m at Wignals Wood currently sold subject to contract at £335,000. We also note at Northons Court a significantly smaller 3 bed detached currently has an asking price of £279,950. In light of this, we consider Savills' adopted figure of £280,000 to be below expectations. We retain our view that £310,000 is reasonable.



- 3 bed detached 119 sq m: Savills now adopt a value of £255,000 (£2,143 per sq m), which compares to our allowance of £275,000 (£2,311 per sq m). In terms of evidence, we note at Holbeach Meadows a similar detached of 119 sq m sold for £255,000 in Oct 2020. There has been significant sales price inflation since this time, which needs to be factored into the assessment of value. We also note at Wignals Wood a smaller 3 bed detached of 111 sq m currently has an asking price of £289,950. Likewise, at Northons Court a 3 bed detached currently has an asking price of £279,950. In light of this, we consider Savills' adopted figure of £255,000 to be below expectations. We retain our view that £275,000 is reasonable.
  
- 5 bed detached 160 sq m: Savills now adopt a value of £330,000 (£2,063 per sq m), which compares to our allowance of £360,000 (£2,250 per sq m). In terms of evidence, we note at Northons Lane a 4 bed detached (therefore smaller than the 5 bed) is currently being marketed for sale at an asking price of £359,950. Within this context, for a larger 5 bed detached (even after sales incentives) we consider a value of £360,000 to be justifiable.
  
- 2 bed detached bungalow 75 sq m: Savills now adopt a value of £205,000 (£2,733 per sq m), which compares to our allowance of £225,000 (£3,000 per sq m). Evidence is more limited for the bungalows. However, we do note that for a 2 bed bungalow of 75 sq m at Holbeach Meadows the current asking price is £262,000. Within this context, we do not consider our allowance of £225,000 to be overstated.
  
- 2 bed semi bungalow 70 sq m: Savills now adopt a value of £195,000 (£2,786 per sq m), which compares to our allowance of £205,000 (£2,929 per sq m). On reflection, we consider a £20,000 deduction compared to the larger detached version to be ambitious. And adjustment to £195,000 is reasonable.

- 3 bed detached bungalow 85 sq m: Savills now adopt a value of £230,000 (£2,706 per sq m), which compares to our allowance of £240,000 (£2,824 per sq m). Evidence is more limited for the bungalows. However, we do note that for a 3 bed bungalow of 94 sq m at Greenfield, Weston the current asking price is £290,000. However, this is less certain and on reflection we agree that an adjustment to £230,000 is reasonable.
  - 3 bed semi bungalow 80 sq m: Savills now adopt a value of £210,000 (£2,625 per sq m), which compares to our allowance of £220,000 (£2,750 per sq m). On reflection, we consider an adjustment to £210,000 to be reasonable.
- 2.7. Out of the 11 different dwelling types, we have not subsequently accepted 5 of Savills suggested adjustments, retaining our Feb 22 values for the remaining 6 types. Overall, our adopted market values average £2,447 per sq m (before affordable housing is factored in).

### **3. Update regarding build costs**

- 3.1. Savills adjust their construction costs in line with the figures used in our Feb 22 assessment. Build costs are now therefore agreed between the parties.

### **4. CPV updated appraisal**

- 4.1. The only remaining area of disagreement in the appraisal therefore relates to the adopted market values.



4.2. As discussed above in Section 2, we have adjusted some of our market values. In light of this, we have updated appraisal to include these figures. Please see attached our updated appraisal. This shows that with a benchmark land value of £8,000,000 the scheme is able to viably support 143 affordable dwellings (22.03%), plus S106 contributions totalling £4,343,950. The 143 affordable dwellings are mixed as follows:

	Affordable rent	Shared ownership
1 bed (19.58%)	26	2
2 bed (40.56%)	45	13
3 bed (34.97%)	29	21
4 bed (4.90%)	0	7
<b>Sub total</b>	<b>100 (69.93%)</b>	<b>43 (30.07%)</b>
<b>Total</b>	<b>143 (22.03%)</b>	

## 5. Conclusion

- 5.1. We note that, based on their updated appraisal, Savills suggest that 60 affordable dwellings can be viably provided (9.24%).
- 5.2. Based on our modelling, we cannot recommend acceptance of this offer. Instead, our updated modelling shows that 143 (22.03%) affordable dwellings can be viably supported.

Yours sincerely



David Newham MRICS  
 Director  
 CP Viability Ltd

Holbeach West  
H09-0468-19  
Viability appraisal - updated  
DN-0628

Development Appraisal  
Prepared by David Newham MRICS Director  
CP Viability Ltd  
11 May 2022

**Holbeach West  
H09-0468-19  
Viability appraisal - updated**

**Appraisal Summary for Phase 1**

Currency in £

**REVENUE**

Sales Valuation	Units	m <sup>2</sup>	Sales Rate m <sup>2</sup>	Unit Price	Gross Sales
Market value	506	50,187.00	2,438.58	241,868	122,385,000
Affordable rent	100	7,223.00	1,271.98	91,875	9,187,500
Shared ownership	43	<u>3,747.00</u>	1,622.20	141,358	<u>6,078,375</u>
<b>Totals</b>	<b>649</b>	<b>61,157.00</b>			<b>137,650,875</b>

**NET REALISATION**

**137,650,875**

**OUTLAY**

**ACQUISITION COSTS**

Residualised Price (36.42 Ha @ 219,758.15 /Hect)			8,003,592	8,003,592
Stamp Duty			389,680	
Effective Stamp Duty Rate		4.87%		
Agent Fee			80,036	
Legal Fee		0.50%	40,018	
				509,733

**CONSTRUCTION COSTS**

Construction	m <sup>2</sup>	Build Rate m <sup>2</sup>	Cost	
Market value	50,187.00	1,167.83	58,609,884	
Affordable rent	7,223.00	1,167.83	8,435,236	
Shared ownership	<u>3,747.00</u>	1,167.83	<u>4,375,859</u>	
<b>Totals</b>	<b>61,157.00 m<sup>2</sup></b>		<b>71,420,979</b>	<b>71,420,979</b>

Contingency			2,896,945	
Abnormals			7,096,652	
Healthcare			286,000	
Education			3,624,400	
Peppermint Junction works			433,550	
				14,337,547

**Other Construction Costs**

Externals		10.00%	7,142,098	7,142,098
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**PROFESSIONAL FEES**

Professional fees			5,962,370	5,962,370
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**DISPOSAL FEES**

Marketing & sales		2.50%	3,059,625	
Legals - market value	506.00 un	750.00 /un	379,500	
Legals - affordable	143.00 un	300.00 /un	42,900	
				3,482,025

**TOTAL COSTS BEFORE FINANCE**

**110,858,344**

**FINANCE**

Debit Rate 6.000%, Credit Rate 3.000% (Nominal)				
Land			3,965,944	
Construction			2,262,098	
Other			307,908	
Total Finance Cost				1,395,938

**TOTAL COSTS**

**112,254,282**

**PROFIT**

**25,396,593**

**Performance Measures**

Profit on Cost%	22.62%
Profit on GDV%	18.45%
IRR% (without Interest)	22.35%



Holbeach West  
H09-0468-19  
Viability appraisal - updated