



Independent Viability Experts

FAO Ms Polly Harris-Gorf
Principal Planning Officer
South Holland District Council

Sent by email only

David Newham MRICS

Director

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Our ref: DN-0320

Your ref: H04-0508-19

Date: 29 April 2020

Dear Ms Harris-Gorf

PROPERTY ADDRESS: Land off Town Dam Lane, Donington (Phase 2)

INSTRUCTING BODY: South Holland District Council

APPLICANT: Ashwood Homes

Further to our viability report dated 18th March 2020, whereby we concluded that the scheme could viably provide a total S106 sum of £318,000 only (with nil on-site affordable housing).

In response to our report the applicant has submitted a response via email, dated 28 April 2020. The applicant has raised a number of queries (which builds on their own viability appraisal dated February 2020) in relation to the assumptions we have adopted in our appraisal, concluding the scheme is unable to support any S106 contribution. These relate to:

- Professional fees
- Marketing costs
- Finance / interest rates
- Garages
- Externals
- Benchmark land value



1. Professional fees

- 1.1 The applicant's original appraisal from February 2020 included professional fees equivalent to 7.53% of the plot construction and externals.
- 1.2 In our March 2020 report (paragraphs 4.26 to 4.27) we refer to 6 comparable sites, which were taken from similar sized schemes in Boston, South Holland and East Lindsey, all since March 2019. The sample was based on viability appraisals submitted to Local Authorities by developers. The average professional fee allowance in the sample was just over 6% of plot construction and external costs. In light of this evidence we concluded that a 6% allowance was reasonable and adjusted our professional fee allowance accordingly.
- 1.3 In their latest comments the applicant refers to a 7% allowance in the 2017 Local Plan Viability study and seek to reduce their own allowance to this level.
- 1.4 However, we do not accept the 7% allowance. This is because the latest evidence points to a figure of 6%. Furthermore, a Local Plan Viability Study is a high level assessment taken at a point in time, which does not take into account the specific circumstances of individual sites or prevalent market conditions. It is therefore possible to apply variances to the Local Plan study assumptions when dealing with individual developments at decision making stage, providing there is sufficient evidence to justify this departure. In this case we consider that there is sufficient evidence so stand by the allowance of 6% as being consistent with other recent, similar scale schemes.

2. Marketing costs

- 2.1 The applicant's original appraisal from February 2020 included marketing / disposal fees equivalent to 3% of revenue.
- 2.2 In our March 2020 report (paragraphs 4.31 to 4.33) we refer to the same 6 comparable site sample discussed above. The average marketing / fee allowance in the sample was just over 2.25% of revenue. In light of this evidence we concluded that a 2.5% allowance was reasonable and adjusted our marketing / disposal fee allowance accordingly.
- 2.3 In their latest comments the applicant refers to a 3% allowance in the 2017 Local Plan Viability study.
- 2.4 However, we do not accept the 3% allowance. This is because the latest evidence points to a lower figure. As discussed above, it is deemed appropriate to make adjustments to viability assumptions at decision making stage, if there is evidence to support the adjustment. In this case, the evidence suggests our allowance of 2.5% is reasonable and therefore we stand by this assumption.

3. Finance / interest rates

- 3.1 The applicant originally applied a 6.5% debit interest charge, however they now agreed to reduce this to 6.25% as per our assessment.

4. Garages

- 4.1 The applicant originally applied £998,150 for garages construction, however they now agreed to reduce this to £850,000 as per our assessment.

5. Externals

- 5.1 The applicant's original appraisal from February 2020 included what we perceived to be 'standard' external fees totalling £1,806,000. This included the following:

- Site set up fees	£25,000
- Roads & sewers	£1,459,000
- Plot specific externals	£272,000
- Site landscaping	£50,000
Total	£1,806,000

- 5.2 All other costs relating to externals / infrastructure were included (and accepted) in our appraisal as abnormals. We therefore agree to all externals / infrastructure / abnormal costs in our appraisal.
- 5.3 In their latest comments the applicant suggests we have not allowed for open space and driveways.
- 5.4 To confirm, we have accepted the cost of the driveways in our appraisal, as we accepted all of the external costs put forward by the applicant.

- 5.5 With respect to public open space this would need to form part of the £318,000 S106 provision that we consider the scheme can viably support (and be weighed against other policies).

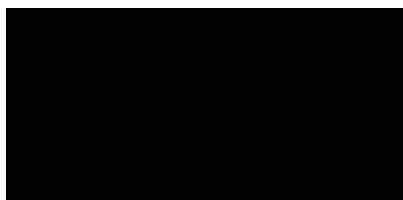
6. Benchmark land value

- 6.1 The applicant's original appraisal from February 2020 included a benchmark land value of £1.5million. This is based on an existing use value of £10,000 per acre, and premium uplift of 11 times this figure.
- 6.2 In our March 2020 report (paragraphs 4.44 to 4.52) we discuss the methodology to establishing a benchmark land value and also our approach. We conclude that a benchmark land value of £1.2million is appropriate for the subject site. This is based on a reduced existing use value of £8,000 per acre, plus a multiplier of 11 times this figure.
- 6.3 In their latest comments the applicant questions the approach we have adopted, which involves identifying the existing use value and then applying an appropriate premium uplift (to reflect an incentive for a hypothetical landowner to release the site for development). More specifically, the applicant argues that a multiplier of 11 times the existing use value is not appropriate if a lower existing use value is applied.
- 6.4 We stand by the approach, which is detailed in our original report. For clarity, our main point of disagreement with the applicant is with respect to the existing use value, which we consider should be reduced to £8,000 per acre to reflect the poor state of the existing greenhouse structure on site. We accept the premium uplift of 11 times the existing use value, as shown in the applicant's appraisal.

7. Conclusion

7.1 Based on the applicant's latest comments we are not persuaded to amend our appraisal. We therefore stand by our previous conclusion that the scheme can viably support a S106 contribution of £318,000 (but with nil affordable housing).

Yours sincerely



David Newham MRICS
Director
CP Viability Ltd