*Independent Viability Experts*

FAO Mr Richard Gilbert
Senior Planning Officer
Kirklees Council

Sent by email only

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**Our ref:** DN-0669
**Your ref:** 2021/94029
**Date:** 9th January 2023

Dear Mr Gilbert

**PROPERTY ADDRESS: Site of Former Spotted Cow Pub, New Hey Road, Oakes, Huddersfield, HD3 4BU**
**INSTRUCTING BODY: Kirklees Council**
**APPLICANT: Lidl GB Limited**

Further to our original draft viability review dated 28th June 2022, a subsequent revised scheme submission by the applicant which increased the scheme from 29 to 31 dwellings (which we appraised on 8th Sept 2022) and receipt of the updated independent cost consultant review on 3rd January 2023, we are pleased to provide our updated viability review as follows:

## 1. Background

1.1. For descriptive detail of the property please refer to our draft report dated 28th June 2022.

1.2. The current planning application (2021/94029) is for:

*"Demolition of existing structures and erection of a foodstore (class E) with associated access, parking, servicing areas and landscaping"*

1.3. As part of the planning considerations, the Council has requested that the applicant company justify its contention that residential development of the site is not economically viable. Initially, the applicant submitted a scheme based on 29 residential dwellings (being a mix of semi-detached and detached). However, following discussions with the Council regarding scheme design, the proposed development was reconfigured, and the number of dwellings increased from 29 to 31 units. We understand the latest iteration of the scheme is based on the following:

| Type | Beds | Units | Sq ft | Total sq ft |
|---|---|---|---|---|
| Semi | 2 | 10 | 1,043 | 10,431 |
| Semi | 3 | 2 | 1,189 | 2,379 |
| Semi | 3 | 8 | 1,193 | 9,541 |
| Detached | 2 | 2 | 994 | 1,987 |
| Detached | 3 | 5 | 1,426 | 7,130 |
| Detached | 4 | 4 | 1,530 | 6,118 |
| **Total** | | **31** | | **37,586** |

1.4. Acting on behalf of the applicant, JLL have submitted an updated viability assessment dated 17th October 2022, which is based on the above scheme mix (this is presented as an update from their own original assessment in Sept 2021).

1.5. JLL's updated viability assessment can be summarised as follows:

JLL October 2022 Gross Development Value (Revenue)

| Type | No. | Av £ per sq ft | Total |
|---|---|---|---|
| Market housing | 31 | £248 | £9,304,803 |
| **Total** | **31** | | **£9,304,803** |

JLL October 2022 Gross Development Cost (Outgoings)

| Type | Notes | Total |
|---|---|---|
| Plot costs / externals | £121.05 per sq ft | £4,549,785 |
| Contingency | 3% of build costs | £136,494 |
| Professional fees | 6% of build costs | £272,987 |
| Abnormal works costs | Various (£1,612,000 per acre) | £4,030,000 |
| Sales & marketing | 2.5% of GDV | £232,620 |
| Sales legal fees | £750 per dwelling | £23,250 |
| Finance | 6% debit interest | £73,510 |
| Developer profit | 17.5% on MV | £1,628,340 |
| **Total** | | **£10,946,986** |

1.6. Based on JLL's appraisal, the scheme generates a substantially negative residual land value of - (minus) £1,642,184, materially below their opinion of Benchmark Land Value of £275,000. JLL conclude that the scheme is unable to be delivered as a residential development.

## 2. CP Viability's appraisal

Gross Development Value (Revenue)

2.1. We have based our assessment of value for the completed dwellings on the schedule of accommodation as set out above in para 1.3).

2.2. By way of background to the previous market values applied to the subject site as part of different appraisal iterations:

- **Sept 2021**: this is JLL's original appraisal (based on the smaller scheme of 29 dwellings). This shows an average value for the market for sale dwellings at £227 per sq ft. This breaks down to circa £230 per sq ft for the 3 bed dwellings and £226 per sq ft for the 4 bed dwellings.

- **June 2022**: our original appraisal (also based on the smaller scheme of 29 dwellings). This shows an average value for the market for sale dwellings at £258 per sq ft. The adopted market values ranged from £236 to £310 per sq ft, dependent on the nature and size of the dwellings.

- **Sept 2022**: this is JLL's initial update, based on the revised scheme of 31 dwellings. This shows an average value for the market for sale dwellings at £248 per sq ft. This is based on an average of £235 per sq ft for the 4 bed detached of 1,530 sq ft and £250 per sq ft for all other house types.

- **Sept 2022**: this is our update, based on the revised scheme of 31 dwellings. This shows an average value for the market for sale dwellings at £262 per sq ft. This is based on the following:

    - 2 bed semi £270,000 (£259 per sq ft)
    - 3 bed semi £297,363 (£250 per sq ft)
    - 3 bed semi £298,170 (£250 per sq ft)
    - 2 bed detached £300,000 (£302 per sq ft)
    - 3 bed detached £390,000 (£273.50 per sq ft)
    - 4 bed detached £400,000 (£262 per sq ft)

2.3. We subsequently agreed with the average of £250 per sq ft for the 3 bed semi detached dwellings. However, we considered an uplift to be appropriate for the other dwelling types.

2.4. To justify our amended values, we identified new build transactional evidence from the Land Registry in postcode area 'HD3' (in which the subject property is located). We noted the following:

## Persimmon Homes, Lindley Moor Meadows

| | Address | Pcode | Sq ft | £ psf | Price | Date | Type |
|---|---|---|---|---|---|---|---|
| 7 | WEATHERHILL RISE | HD3 2AF | 947 | £ 259 | £244,950 | 18/12/2020 | Detached |
| 2 | WEATHERHILL VIEW | HD3 2AG | 947 | £ 259 | £244,950 | 27/11/2020 | Detached |
| 15 | HAIGH CLOSE | HD3 2AB | 947 | £ 253 | £239,950 | 29/05/2020 | Detached |
| 16 | HAIGH CLOSE | HD3 2AB | 947 | £ 253 | £239,950 | 27/08/2020 | Detached |
| 17 | HAIGH CLOSE | HD3 2AB | 947 | £ 253 | £239,950 | 29/05/2020 | Detached |
| 12 | HAIGH WAY | HD3 2AD | 947 | £ 261 | £247,234 | 19/06/2020 | Detached |
| 42 | HAIGH ROAD | HD3 2AE | 947 | £ 253 | £239,950 | 13/03/2020 | Detached |
| | | | **947** | **£ 256** | **£242,419** | | |
| | | | | | | | |
| 15 | WEATHERHILL RISE | HD3 2AF | 980 | £ 260 | £254,950 | 12/03/2021 | Detached |
| 1 | WEATHERHILL VIEW | HD3 2AG | 980 | £ 255 | £249,950 | 14/08/2020 | Detached |
| 44 | HAIGH ROAD | HD3 2AE | 980 | £ 245 | £239,950 | 30/04/2020 | Detached |
| | | | **980** | **£ 253** | **£248,283** | | |
| | | | | | | | |
| 6 | WEATHERHILL RISE | HD3 2AF | 1,076 | £ 246 | £264,950 | 29/01/2021 | Detached |
| 23 | WEATHERHILL RISE | HD3 2AF | 1,076 | £ 255 | £274,950 | 30/04/2021 | Detached |
| 8 | WEATHERHILL VIEW | HD3 2AG | 1,076 | £ 251 | £269,950 | 25/09/2020 | Detached |
| 10 | HAIGH CLOSE | HD3 2AB | 1,076 | £ 246 | £264,950 | 28/08/2020 | Detached |
| 6 | HAIGH WAY | HD3 2AD | 1,076 | £ 246 | £264,950 | 19/06/2020 | Detached |
| 34 | HAIGH ROAD | HD3 2AE | 1,076 | £ 241 | £259,950 | 07/02/2020 | Detached |
| | | | **1,076** | **£ 248** | **£266,617** | | |
| | | | | | | | |
| 14 | WEATHERHILL RISE | HD3 2AF | 1,421 | £ 222 | £314,950 | 24/09/2021 | Detached |

- Suburban setting around 0.5 miles to the north of the subject site, close to the M62 motorway.
- In their original report, JLL also refer to Lindley Moor Meadows, albeit a different section of the wider scheme, a few hundred metres to the south. JLL only refer to sales from 2016 / 2017. It is unclear why the more recent sales from 2020 / 2021 have not been factored into their analysis.

- Since 2020 / 2021 there has been significant sales price inflation. According to the UK House Price Index values in Kirklees have increased by 32% since June 2020 and 14.28% since June 2021. The Nationwide Index also shows a significant increase of 22.56% since June 2020 in postcode 'HD3' and 8.50% since June 2021.
- Please note, that the Land Registry does not factor in 'non-financial' incentives into the data (although it does show financial incentives). It is therefore appropriate to make a deduction from the above figures to allow for this, although we consider an average of 2.5% to be more than reasonable (rather than a 5% deduction suggested by JLL in their original assessment).
- However, as demonstrated above, an allowance for sales price inflation also needs to be factored into any analysis of the 2020 and 2021 sales values.

### Taylor Wimpey, Crosfield Park

| | Address | Pcode | Sq ft | £ psf | Price | Date | Type |
|---|---|---|---|---|---|---|---|
| 11 | SMITHY WAY | HD3 3ZD | 1,464 | £ 239 | £349,995 | 01/12/2020 | Detached |
| 62 | SMITHY WAY | HD3 3ZD | 1,464 | £ 239 | £349,995 | 04/12/2020 | Detached |
| | | | **1,464** | **£ 239** | **£349,995** | | |
| | | | | | | | |
| 20 | SMITHY CLOSE | HD3 3ZB | 861 | £ 261 | £224,995 | 12/04/2021 | Semi |
| | | | | | | | |
| 22 | SMITHY CLOSE | HD3 3ZB | 1,130 | £ 224 | £252,995 | 31/03/2021 | Semi (2.5s) |
| 24 | SMITHY CLOSE | HD3 3ZB | 1,130 | £ 224 | £252,995 | 04/05/2021 | Semi (2.5s) |
| | | | **1,130** | **£ 224** | **£252,995** | | |

- Suburban setting around 0.3 miles to the north of the subject site.
- JLL also refer to Crosfield Park, albeit a different section of the wider scheme, a few hundred metres to the south. JLL only refer to sales from 2018 / 2019. It is unclear why the more recent sales from 2020 / 2021 have not been factored into their analysis.

- The comments above in relation to inflation also apply to this scheme.

2.5. In addition to the above, we also considered smaller developments within a close proximity to the subject property.

2.6. In JLL's latest October 2022 assessment, the values adopted are the same as at their Sept 2022 appraisal (i.e. £235 per sq ft for the 4 bed detached and £250 per sq ft for all of the other house types).

2.7. We have revisited the local evidence and note the following:

- At **Taylor Wimpey's Crosfield Park** scheme (referred to above in para 2.4) a couple of 're-sale' transactions have taken place (i.e. recently build houses that have sold as 'second-hand' properties rather than as new builds). This includes 40 Smithy Way, which is a semi-detached of 1,130 sq ft. This sold in Apr 2022 for £272,000, which is equivalent to £241 per sq ft. For a similar, albeit 'brand new' property at the subject scheme, JLL allow £250 per sq ft, which we agreed with in our Sept 2022 assessment. This remains a reasonable reflection of the uplift that a new build dwelling would be expected to achieve over an equivalent 'second hand' dwelling. For the 3 bed semi-detached dwellings of this size we have subsequently again accepted £250 per sq ft, as per JLL's appraisal. Furthermore, and adopting a cautious approach, we have also adopted £250 per sq ft for the 2 bed semi, which is a slight reduction on our previous assessment.

- **17 Blackthorn Drive**: around 0.5 miles north east of the subject scheme. Detached dwelling of 1,615 sq ft constructed around 2010. Sold as a 'second-hand' dwelling in Feb 2022 for £375,000 (£232 per sq ft). For this broad size dwelling JLL allow £235 per sq ft. However, we would expect a more significant uplift for a new build.

- **Linnell Homes, Hollyfield View, Oakes**: small scheme of 17 dwellings around 0.3 miles south east of the subject scheme. The following are currently being marketed for sale:

    - Plot 6, The Bakewell – 4 bed detached 1,324 sq ft. Asking price £445,000 (£336 per sq ft). Sold subject to contract.
    - Plot 12 – 4 bed detached 1,334 sq ft. Sold subject to contract with an asking price of £395,000 (£296 per sq ft).
    - Plot 15 – 4 bed detached 1,334 sq ft. Sold subject to contract at an asking price of £395,000 (£296 per sq ft).
    - Plot 17 – 4 bed detached 1,334 sq ft. Sold subject to contract at an asking price of £395,000 (£296 per sq ft).
    - Plot 8 – 4 bed detached 1,1162 sq ft. Sold subject to contract at an asking price of £375,000 (£322 per sq ft).
    - Plot 5, The Hackney – 3 bed detached 904 sq ft. Sold subject to contract with an asking price of £325,000 (£360 per sq ft).
    - Plot 21, The Hackney – 3 bed detached 904 sq ft. Asking price of £325,000 (£360 per sq ft).

2.8. The Lindell Homes scheme is considered to be a useful point of comparison, albeit we consider that the subject scheme is in an inferior position in comparison and there would be a deduction to reflect the specific location of the subject scheme. That said, and even allowing for a discount, the above does suggest that JLL's adopted values (which in the case of the 4 bed detached, for example, is around 35% lower) are overly cautious.

2.9. Having considered the above, we conclude that a value of £390,000 (£256 per sq ft) is reasonable for the 4 bed detached. For the 3 bed detached of 1,426 sq ft we have adjusted this to £375,000 (£263 per sq ft). For the 2 bed detached of 994 sq ft we have adopted £280,000 (£282 per sq ft).

2.10. Overall, we have arrived at a total gross development value of £9,582,729, which is £167,926 above JLL's appraisal.

Build costs

2.11. In their appraisal, JLL apply the following build costs:

| | | |
|---|---|---|
| Plot construction / externals | - | £121.05 per sq ft |
| Contingency | - | 3% of the above |
| Abnormal works | - | £4,030,000 |

2.12. JLL refer to Build Cost Information Service database ('BCIS') data in arriving at the plot construction figure, applying the median rate for "general estate housing" rebased to Kirklees. An uplift is then applied for standard external costs.

2.13. For a scheme of this size and scale we are also of the view that it is appropriate to consider build costs in the context of the Build Cost Information Service database ('BCIS'). Please note, the BCIS rates include preliminaries and a contractor's overhead, but they exclude externals, contingency and abnormals / site specific infrastructure (and therefore these need to be allowed for separately).

2.14. For a scheme of this scale, the median rate is typically applied, although the lower quartile can be deemed appropriate if the scheme is likely to be brought forward by a regional or national volume housebuilder (whose costs are typically reduced). The current median rate (with the data period restricted to the last 5 years) for Kirklees for "Estate housing 2 storey" is £1,217 per sq m (£113.06 per sq ft).

2.15. In terms of standard external works, given the nature of the scheme we consider a 10% uplift to be reasonable.

2.16. Overall, for the standard plot costs and externals our appraisal shows a total sum of £4,674,431. This is an uplift of £124,646 compared to JLL's appraisal.

2.17. The contingency sum applied by JLL is equivalent to 3% of the build costs. This is in keeping with expectations and has been applied to our appraisal.

2.18. With regard to what they consider to be abnormal works costs, JLL have relied on a submission by Jonathan Ketteridge Quantity Surveyor, which totals £4,030,000. This has been independently reviewed by RCS Construction Ltd. Their review is attached to this report as Appendix A. RCS conclude that the total abnormal costs should total £2,155,262, which we have applied to our appraisal.

Professional fees

2.19. The figure adopted for this category in the JLL appraisal is equivalent to 6% of the plot construction costs. This is considered to be in line with expectations and has been accepted in our appraisal.

Sales and Marketing / Legal costs

2.20. JLL adopt 2.5% of market dwelling revenue for sales and marketing, as well as sales legal costs at £750 per dwelling. This is considered to be in line with expectations and has been accepted in our appraisal.

Finance

2.21. JLL refer in their assessment to a debit interest rate of 6%. However, in light of recent Bank of England interest rates rises we consider an adjustment to 7% to be appropriate.

2.22. To calculate the finance costs, we have inputted our appraisal data into ARGUS Developer, an industry approved discounted cash flow model.

Developer's profit

2.23. JLL's appraisal includes a developer profit equivalent to 17.5% on revenue.

2.24. In our experience, and for a scheme of this size, profit margins fluctuate depending on the nature of the scheme and the type of developer implementing the project. However, and only as a broad guide, we tend to see profit margins in the region of 15% to 20% of revenue for market value dwellings.

2.25. Furthermore, the recent Planning Practice Guidance ('PPG') from July 2018 refers to a broad range of 15% to 20% on revenue, albeit within the context of plan wide viability testing.

2.26. In our experience, we typically see profits at the upper end of the range put forward in the guidance for multi phased developments (where there is significant upfront infrastructure works which will not be fully repaid for a number of years, therefore increasing the perceived risk of the development and in turn increasing the level of profit required). For smaller schemes, like the subject property, where the development programmes are shorter, we regularly see profits at 17.5% on revenue (or lower) for market value housing. This is because the perceived risk associated with the development is considered to be reduced when compared against a multi-phased development. By way of example, during the last 12 months we have been involved with a scheme in Kirklees providing in excess of 250 dwellings where a 20% profit was deemed appropriate and agreed between the parties during a viability review. However, for a scheme of just over 50 dwellings a 17.5% on revenue allowance was applied.

2.27. In light of this, given the scale of the subject scheme (and adopting what we consider to be a cautious approach) we have applied a developer profit equivalent to 17.5% on revenue for the market value units.

Benchmark land value

2.28. The Benchmark Land Value ("BLV") attempts to identify the minimum price that a hypothetical landowner would accept in the prevalent market conditions to release the land for development. Whilst a relatively straight forward concept in reality this is open to interpretation and is generally one of the most debated elements of a viability appraisal. It is also often confused with market value, however the guidance stresses that this is a distinct concept and therefore is different to market value assessments.

2.29. The standard approach is to run an initial appraisal based on all of the above fixed inputs to arrive at a site value for the site. In accordance with the RICS guidance, this residual site value can then be compared to the "benchmark land value" (which is the minimum price that a hypothetical landowner would accept and a hypothetical developer would pay for the scheme to be delivered). If the residual site value is above this "benchmark" then the scheme is viable. If the residual site value falls below this figure, then the scheme is deemed to be unviable.

2.30. Viability assessors are provided some guidance through the National Planning Policy Framework ('NPPF') and Planning Practice Guidance ('PPG'), as published on 24th July 2018. One area which the PPG deals with is in relation to assessing BLV, stating the following:

2.30.1. To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land.

2.30.2. The EUV should disregard any hope value.

2.30.3. Benchmark land value should reflect the implications of abnormal costs, site specific infrastructure costs and professional site fees.

2.30.4. Benchmark land value should be informed by market evidence including current uses, costs and values wherever possible.

2.30.5. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.

2.30.6. Under no circumstances will the price paid for land be a relevant justification for failing to accord with the relevant policies in the plan.

2.30.7. Alternative Use Value of the land may be informative in establishing benchmark land value. However, these should be limited to those uses which have an existing implementable permission for that use. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted.

2.31. In other words, the Council should not subsidise (through a loss of planning policy contributions) any overbid made when acquiring the site. Any overbid (or indeed underbid) for a site should therefore be disregarded when considering the BLV. As part of the process of reviewing viability it is down to the assessor to determine whether a price paid is an appropriate figure (or not) to use as a BLV.

2.32. JLL follow the relevant Planning Policy Guidance by initially assessing the Existing Use Value (EUV) of the subject site. This is by reference to amenity land values, without specific comparable evidence. JLL consequently adopt a land value at a rate of £10,000 per gross acre. They then refer to "comparable" land sales and form a view that the premium above EUV should be £100,000 a multiple of 11 over EUV. This gives a BLV of £275,000 (£110,000 per gross acre).

2.33. The approach adopted by JLL is considered to be fair and we have subsequently applied the same £275,000 benchmark land value to our appraisal.

## 3. Appraisal results and conclusions

3.1. Please see attached our appraisal. On the basis of a 100% market value scheme, with no planning policy contributions and the reduced abnormal costs of £2,155,262, the revised scheme of 31 dwellings generates a developer profit equivalent to 14.28% on revenue. This is below the target profit of 17.5% on revenue and is therefore deemed to be unviable.

3.2. In summary, we concur with the applicant that it is reasonable to conclude that a residential development of the subject site is not viable.

3.3. Our conclusions remain valid for 6 months beyond the date of this report. If the implementation of the scheme is delayed beyond this then market conditions may have changed sufficiently for our conclusions on viability to be adjusted. Under this scenario we would strongly recommend the scheme is re-appraised.

Yours sincerely

David Newham MRICS
Director
CP Viability Ltd