

DWD

9-10 HIGH STREET
HITCHIN
SG5 1BH

PLANNING REF: 24/01426/FP

FINANCIAL VIABILITY APPRAISAL

INDEPENDENT REVIEW

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CONTENTS

1.0 INTRODUCTION.....1

2.0 BACKGROUND3

 The Property 3

 Title Matters 3

 The Development..... 4

 Planning Matters..... 5

3.0 RESIDUAL VALUE.....8

 Open Market Housing Values 8

 Freehold Ground Rent..... 9

 Phasing 9

 Construction Costs 9

 Non-BCIS/External Works Costs..... 10

 Fees 10

 Contingency 10

 Section 106 Payments 10

 Finance Costs 10

 Marketing, Acquisition and Disposal Costs..... 11

 Developer’s Profit. 11

 Summary..... 11

4.0 BENCHMARK LAND VALUE (“BLV”).....12

 Unaccounted Rating Liability 12

 Repair, Renewal and Adaptation 13

 Summary..... 16

5.0 CONCLUSIONS AND RECOMMENDATIONS17

1.0 INTRODUCTION

1.1 We have been instructed by North Hertfordshire District Council in their capacity as the Local Planning Authority (“**LPA**”) to review the Financial Viability Appraisal dated 26 June 2024 (“**FVA**”) prepared by Montagu Evans on behalf of Bellborough Limited (the “**Applicant**”) in connection with planning application ref: 24/01426/FP (the “**Application**”) relating to 9 – 10 High Street, Hitchin, SG5 1BH (the “**Property**”).

1.2 The Application proposes:

“Demolition and redevelopment to provide 44 residential apartments (in four part 4 storey / part 5 storey linked blocks) 325 sqms of Class E floorspace at ground floor fronting the High Street, landscaping, amenity and associated parking”

1.3 Montagu Evans have concluded within the FVA that the proposed development would, on the assumption of a Developer’s Profit of 17.5% of Private Housing Gross Development Value (“**GDV**”) and 15% of Commercial GDV, but without any affordable housing or contributions pursuant to section 106 of the Town and Country Planning Act (“**Section 106**”), generate a Residual Land Value (“**RLV**”) of **£706,122** against a Benchmark Land Value (“**BLV**”) of **£3,519,000** thereby delivering a deficit of **£2,812,878**.

1.4 Montagu Evans therefore conclude that:

“This FVA therefore demonstrates that the proposed development is unable to viably support any affordable housing. The main reasons for our viability conclusion are the strong Existing Use Value as well as the relatively modest residential sales values that are achievable in Hitchin.

Despite our viability conclusion, the proposed scheme as assessed would be profitable and deliverable, albeit at margins that we consider to be sub-market.”

1.5 We have reviewed the FVA and set out our comments and conclusions in respect of each input adopted by Montagu Evans within their appraisal. We have then reviewed the assessment of the BLV.

1.6 We have relied upon the following primary sources of information:

- The LPA Planning Portal
- Various Land Registry websites
- <https://www.westbournecareshome.co.uk>

- <https://online.bcis.co.uk/>
- <https://www.gov.uk/guidance/viability#standard-inputs>
- Companies House

- 1.7 Other sources of information are identified within the body of this Report.
- 1.8 We would highlight that the FVA is dated 25 June 2024. However, this Report has regard to current market values and expectations.
- 1.9 Our RLV is slightly higher than that calculated by Montague Evans at £971,238 compared to their RLV of £730,562. However, whilst Montagu Evans have calculated the value of the Property in its existing use to be £3,519,000, we are of the opinion that it is obsolete by virtue of its size, configuration and general condition such that it is a liability. In this regard, it is a clear development site in the absence of which it is likely to remain vacant and further deteriorate.
- 1.10 Section 5 of PS 1 of the RICS Valuation – Global Standards (effective from 31 January 2022) applies to this matter such that this Report should only be relied upon for the purposes of negotiating affordable housing and Section 106 obligations and for no other purposes including, for complete clarity, lending or financial accounting. In addition, it is confidential to the LPA and may only be viewed by those expressly authorised by the LPA to do so.
- 1.11 We confirm that there are no conflicts of interest and measures have been put in place to prevent the risk of the potential for a conflict of interest. In accordance with the RICS Professional Statement Financial Viability in Planning: Conduct and Reporting September 2019, this report has been prepared objectively, impartially, and with reference to all appropriate sources of information.

2.0 BACKGROUND

- 2.1 This section sets out a brief description of the Property as it currently exists, a summary of the title and recent history together with an outline of the proposed development.

The Property

- 2.2 The Property currently comprises two vacant High Street commercial units over ground, first and second floors with a service yard and loading bay at the rear serving both units. We understand that it is constructed of concrete frame behind a brick façade with a pitched clay tile roof over the front sections.
- 2.3 The rear part of the Property supports a first floor car park providing 50 car parking spaces which are accessed via a ramp from Paynes Park.
- 2.4 The Property was originally occupied in the 1960's as a single unit by Woolworths but was split in 2011 to form two separate units. Unit 9 was let to Poundland Limited on a ten year lease which expired on 9 September 2016 whilst Unit 10 was let to Mackays Stores Limited on a fifteen year lease that was due to expire in 2027. However, Mackays Stores Limited went into administration in December 2020 prior to closing all of its UK stores in 2023.
- 2.5 We understand that the Property has been marketed for re-occupation as a commercial entity but there has been limited occupational interest and no offers have been made. It is therefore apparent from the marketing exercise that the Property is obsolete for its current use and is unlikely to be re-occupied in its current configuration and format.
- 2.6 It may be that partial reoccupation of the ground floor retail element could be secured following conversion works but it would be difficult to bring the upper parts or the rear storage areas back into use. Furthermore, the car park is effectively redundant.
- 2.7 The registered freehold ownership extends to 0.679 acres (0.275 hectares).

Title Matters

- 2.8 Montagu Evans have not provided any information in respect of matters affecting Title that would be likely to have a material impact on value. We have therefore reviewed the Land Registry Title entry but would stress that our analysis is dependent upon those records being complete and accurate.
- 2.9 We note that the freehold title is registered as Title HD304304 which records that Title absolute is held by Bellborough Limited and the price stated to have been paid on 27 March 2017 was £5,250,000.

- 2.10 We understand that Bellborough Limited purchased the freehold interest from fixed charge receivers on the basis of a total rental income of £315,000 per annum from Poundland Limited and Mackays Stores Limited. However, we note from the marketing particulars that the selling agents were suggesting that there was a possibility of bringing forward a development comprising 88 dwellings together with a substantial underground car park.
- 2.11 In this regard, we note that the proposed development is for only 44 residential units rather than 88, as proposed in 2017. We have assumed that the reduced density is acceptable in planning terms and make no comment as to whether the density could be increased.
- 2.12 There is no reference to any restrictive covenants, easements, wayleaves or other encumbrances on title likely to impact on value. We have therefore assumed that the Title is clean.

The Development

- 2.13 The Application proposes the following development:

“Demolition and redevelopment to provide 44 residential apartments (in four part 4 storey / part 5 storey linked blocks) 325 sqms of Class E floorspace at ground floor fronting the High Street, landscaping, amenity and associated parking”

- 2.14 According to the Design and Access Statement the proposed development provides the following accommodation:

Floor	Ref	Accommodation	NIA Sqm
GF	RO1	Retail	328
LGF	Carpark	32 spaces	
GF	001	1B 2P	53
GF	002	1B 2P	52
GF	003	2B 4P	92
GF	004	1B 2P	64
GF	005	1B 2P	50
GF	006	2B 4P	70
GF	007	1B 2P	54
GF	008	1B 2P	55
GF	009	2B 4P	81
GF	010	2B 4P	79
GF	011	2B 4P	76
GF	012	2B 4P	70
FF	101	1B 2P	53
FF	102	2B 4P	82
FF	103	2B 4P	90

FF	104	1B 2P	56
FF	105	1B 2P	57
FF	106	2B 4P	91
FF	107	2B 4P	83
FF	108	1B 2P	57
FF	109	2B 4P	77
FF	110	1B 2P	51
FF	111	1B 2P	58
FF	112	2B 4P	72
FF	113	2B 4P	87
FF	114	1B 2P	54
SF	201	1B 2P	52
SF	202	2B 4P	81
SF	203	2B 4P	90
SF	204	1B 2P	56
SF	205	1B 2P	57
SF	206	2B 4P	91
SF	207	2B 4P	83
SF	208	1B 2P	57
SF	209	2B 4P	77
SF	210	1B 2P	51
SF	211	1B 2P	58
SF	212	2B 4P	69
SF	213	1B 2P	53
SF	214	1B 2P	52
3F	301	2B 4P	104
3F	302	2B 4P	96
3F	303	2B 4P	74
3F	304	2B 4P	79

2.15 The Total Floor Space is therefore 32,743 ft² (3,044 sqm) across 44 flats averaging 744.69 ft² per unit.

Planning Matters

2.16 We have set out below a summary of the policies and provisions that are of most relevance to this instruction.

2.17 The relevant policies comprise HS2 (Affordable Housing), SP7 (Infrastructure requirements and developer contributions) and SP8 (Housing) of the North Hertfordshire Local Plan (the “**Local Plan**”).

2.18 Paragraph 4.90 of the Local Plan states:

“In cases where viability is an issue, developers will need to provide an assessment and analysis of their viability evidence in order to verify it. This must be completed by a suitably qualified individual or company and scrutinise the assumptions that have been made and the conclusions that have been reached and whether they are justified. The methodology and scope of any such assessment should be agreed in advance between the applicant and the Council. If, following this assessment, it is accepted by the Council that the viability of a scheme would be critically undermined by application of the Council’s usual standards and expectations, we will exceptionally:

- consider which requirements are most critical to securing development and meeting the overall vision and objectives of this Plan;*
- assess the extent to which these might be met in a way which makes any scheme viable; and*
- determine whether this would result in an appropriate and acceptable level of contribution and / or mitigation.”*

2.19 In addition, Section 2.3 (Viability) and Section 2.4 (Viability review mechanism) of the “Developer Contributions Supplementary Planning Document (SPD)” (DCSPD) in January 2023 are relevant to this matter.

2.20 In this context, Section 2.3 of the DCSPD refers to the “North Hertfordshire District Council – Local Plan Viability Assessment – Update – Final Report (August 2016)” and the “Local Plan Examination Addendum (Viability) (Proposed policies HS4 and HS5) (January 2018)”. We have referred to these respectively as the LPVA 2016 and the LPEA 2018 within this Report.

2.21 Paragraph 2.3.1 of the DCSPD states:

“Applicants should ensure that development proposals adhere to Local Plan and Neighbourhood Plan policies and that these requirements are factored into land value. The Local Plan should be treated as the starting point, with the underlying viability evidence demonstrating overall viability. This reflects NPPG, which states that where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is therefore up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage and where needed, provide evidence of what has changed since then.”

2.22 We would also point out that paragraph 66 of the current NPPF states:

*“Where major development involving the provision of housing is proposed, planning policies and decisions should expect **at least 10% of the total number of homes to be available for affordable***

home ownership, unless this would exceed the level of affordable housing required in the area, or significantly prejudice the ability to meet the identified affordable housing needs of specific groups. Exemptions to this 10% requirement should also be made where the site or proposed development:

- a) provides solely for Build to Rent homes;*
- b) provides specialist accommodation for a group of people with specific needs (such as purpose built accommodation for the elderly or students);*
- c) is proposed to be developed by people who wish to build or commission their own homes; or*
- d) is exclusively for affordable housing, a community-led development exception site or a rural exception site.”*

2.23 None of these exceptions apply. As such, the NPPF requires a minimum of 10% Affordable Housing provision.

2.24 However, the Montagu Evans FVP concludes that the development is unable to provide **any** Affordable Housing or S106 contributions. If it was to be assumed that the Montagu Evan FVP was correct, which we dispute, there is a clear conflict between paragraph 66 of the NPPF and the Applicant’s proposals.

3.0 RESIDUAL VALUE

- 3.1 We have reviewed each of the inputs adopted by Montagu Evans in the order adopted within their FVA in assessing the Residual Value as follows.

Open Market Housing Values

- 3.2 Montagu Evans have assessed a GDV of £15,475,000 equating to an average unit price of £351,704 and an average rate of £472.63 psf as of 25 June 2024. This opinion is supported by transactional evidence derived from the following schemes:
- Hurlocke Fields, Chapman Way, Hitchin, SG4 0JD
 - Weston Gate, Cambridge Road, Hitchin SG4
 - Waterhouse Court, Letchworth Garden City, SG6
- 3.3 We agree that these schemes are helpful. However, it is necessary for us to consider values as at the date of this Report against the background of additional transactions having come to light and market movement.
- 3.4 According to the Land Registry indexes, flat prices in the LPA area increased by 3.6% between June to August 2024. In addition, whilst there is no data post June 2024 in respect of new build properties, the trend in the LPA area has been for new build properties to increase in price significantly faster than existing properties.
- 3.5 In this regard, further sales have been achieved at both the Weston Gate and Waterhouse Schemes which suggest that the average sale price of 1 bedroom flats has increased in the interim by circa 1.5% and 2 bedroom flats by 1%.
- 3.6 It is therefore our opinion that the current average price for a 1B/2P flat is in the region of £270,000 to £315,000 (i.e., £458 psf to £500 psf) and the current average price for a 2B 4P flat is in the region of £394,000 to £485,000 (i.e., £450 psf to £523 psf). We have therefore adopted an average price of £483 psf resulting in a total Private Housing GDV of £15,814,682.
- 3.7 We have not, at this stage calculated the value of Affordable Housing on the basis that none is currently being offered. We will therefore require advice from the LPA as to the preferred tenure mix and target rents.

Freehold Ground Rent

- 3.8 The Leasehold Reform (Ground Rent) Act 2022 restricts ground rents to a peppercorn rent for new long leaseholds effective from 30 June 2022. We have therefore assumed that there will be zero ground rent income.

Phasing

- 3.9 Montagu Evans have assumed a 6 month pre-construction phase followed by 18 months construction and then a 4 month sale period.
- 3.10 They have assumed that the commercial element will be disposed of in one sale on Practical Completion together with 50% of the Private Flats. The remaining 22 flats are then assumed to be sold off over a period of 3 months.
- 3.11 We followed the same phasing on the basis that there are likely to be a number of pre-commencement surveys to be carried out prior to the developer being able to fully appoint a contractor and accurately estimate budget costs.
- 3.12 We are of the opinion that it would be unlikely that any Private Housing sales would be completed prior to Practical Completion due to the nature of the development and the impact of continuing construction works on prospective residents hence have followed Montagu Evan's approach in respect of the phasing of sales.

Construction Costs

- 3.13 We have not been provided with a cost plan by the Applicant and Montagu Evans has chosen to rely upon BCIS data.
- 3.14 We have concerns with relying upon BCIS data due to its highly generic nature but we note that the NHDC Local Plan Viability Assessment Update dated August 2016 relied upon Median BCIS Build Cost tables. We have therefore accepted the approach taken by Montague Evans for the present purposes albeit would stress that any review mechanism must have regard to actual costs and evidenced estimates of costs yet to be incurred at the point of the reappraisal.
- 3.15 We note that Montagu Evans have assumed a gross to net ratio (i.e., GIA to NIA) of 90% in respect of the commercial space and 76.43% in respect of the residential element. Our attention has not been drawn to any plans detailing the actual GIA of the proposed development hence we require clarification of this before we would be able to formally agree the floor areas to which the BCIS prices should be applied.

Non-BCIS/External Works Costs

- 3.16 These costs relate to hard and soft landscaping, fencing, walls, drainage, services and outbuildings as would typically be required for a new-build development.
- 3.17 Montagu Evans have made an addition of 15% for these works but Appendix 1 of the LPVA 2016 states *“External works added separately – 10% of base build costs.”*
- 3.18 We note that Montagu Evans have reserved the right to include demolition costs hence, in the interests of taking a pragmatic approach, we propose to accept 15% on the understanding that this is considered to be inclusive of demolition costs. However, if the Applicant later wishes to add in demolition costs and provides a detailed calculation thereof, we will revert to 10% in respect of the external works costs.
- 3.19 The review mechanism would have regard to actual costs and evidenced estimates of costs yet to be incurred rather than a percentage of construction costs.

Fees

- 3.20 Montagu Evans have adopted 10%.
- 3.21 We are of the opinion that development fees are typically in the range of 8 to 10%. However, we recognise that, due to the restricted nature of the site and the need to excavate to provide the basement car park, the scheme is not entirely straightforward. We are therefore prepared to agree 10% on this occasion.

Contingency

- 3.22 Montagu Evans have adopted 5%. We agree.

Section 106 Payments

- 3.23 We have not included any section 106 payments at present on the basis that the purpose of this exercise is to calculate the surplus (if any) available for the initial payment of contributions and provision of affordable housing.
- 3.24 We will need to be provided with a schedule of required contributions by the LPA in order to include these within our appraisals for discussion with Montagu Evans.

Finance Costs

- 3.25 Montagu Evans have adopted 7.5%. We consider that current costs are in the region of 6.75 to 7% and would therefore be prepared to agree a maximum of 7% by way of compromise.

Marketing, Acquisition and Disposal Costs

- 3.26 Montagu Evans have assumed acquisition agent's fees of 1%, acquisition legal fees of 0.5%, marketing fees of 1.5%, leasing agent's fees of 10%, leasing legal fees of 5%, sales agent fees of 1% and sales legal fees of 0.25%. We agree with all of these assumptions.
- 3.27 We would add that we would allow 0.5% legal fees in respect of Affordable Housing.

Developer's Profit.

- 3.28 Montagu Evans have adopted 17.5% GDV for Private Housing and 15% GDV for the commercial element. We agree.
- 3.29 We would add that we would allow 6% GDV profit in respect of Affordable Housing.

Summary

- 3.30 We agree with Montagu Evans in respects subject to the following comments:
- We have increased the Private Housing GDV to £15,814,682
 - We require evidence as to the calculation of the assumed GIA that has been adopted for the purposes of calculating the construction costs.
 - The finance rate should be 7% rather than 7.5% as advocated by Montagu Evans
 - We accept an allowance of 15% in respect of external works for the purposes of this initial assessment but if the Applicant subsequently adds in demolition costs this allowance will reduce to 10%. This issue will become immaterial for the purposes of any review mechanism as that will be carried out on an "open book" basis.
- 3.31 We have attached a copy of our Argus appraisal to this Report.

4.0 BENCHMARK LAND VALUE (“BLV”)

- 4.1 We note that Montagu Evans propose that the BLV is to be assessed by reference to the value of the Property for its existing use plus a premium by way of incentive to the landowner to release the Property for development.
- 4.2 Montagu Evans have assumed that the entirety of the existing retail/commercial floor space could be let on the basis of £15 psf in respect of the ground floor retail areas and £10 psf in respect of the upper floors. This results in rental values of £226,490 per annum and £160,268 per annum in respect of 9 High Street and 10 High Street respectively.
- 4.3 They have then applied rent free/void period of 18 months and a yield of 9% to arrive at an “existing use” capital value of £3,519,000. We understand that this does not include any value in respect of the first floor car park.
- 4.4 Montagu Evans have not applied a premium to this figure although they reserve the right to do so. In this context, we would point out that paragraph 16 of the National Planning Policy Guidance “Viability” states:
- “The premium should provide a reasonable incentive for a landowner to bring forward land for development **while allowing a sufficient contribution to fully comply with policy requirements**”*
- 4.5 Montagu Evans conclude, at page 33 of their Report, that the Residual Land Value of the proposed scheme, in the absence of any S106 contributions or Affordable Housing is £706,122 but the BLV prior to any premium (i.e., the value of the Property for its existing use) is £3,519,000.
- 4.6 The BLV does not allow the scheme to make any contribution to the policy requirements nor comply with the NPPF requirement to provide a minimum of 10% Affordable Housing hence we do not consider that any premium is warranted.
- 4.7 Furthermore, the Applicant is not, to the best of our knowledge, prohibited from selling the Property on the open market and were they to do so they would, according to the assessments carried out by Montagu Evans, realise the highest value by selling on an existing use basis.
- 4.8 Notwithstanding these points we set out our detailed comments below.

Unaccounted Rating Liability

- 4.9 The Property is split into three separate rating assessments as set out below:
- 9 High Street - £114,000 RV effective 1 April 2023
 - 10 High Street - £140,000 RV effective from 1 April 2023

- Roof Top Car Park to 9 and 10 High Street - £24,500 RV effective from 1 April 2023

- 4.10 Whilst the tenant of 9 and 10 High Street would bear their own rate liabilities, it is highly unlikely that either of those tenants would take on the rating liability for the roof-top car park. In this regard, the current Uniform Business Rate is 54.6 pence (2024/25) such that there is likely to be a rates bill of £13,377 per annum that the landlord would be unable to recover and which would need to be deducted from the rental income.
- 4.11 A purchaser would be aware of this unrecoverable cost and adjust their offer accordingly. However, Montagu Evans appear to have not taken account of this.

Repair, Renewal and Adaptation

- 4.12 It would normally be the case that, on vacation, the previous tenant would be liable for rectifying covenant breaches in respect of disrepair and decoration together with reinstatement. However, the tenant is protected pursuant to section 18 (1) of the Landlord and Tenant Act 1927 such that their liability is capped by the lower of the cost of rectification or the resulting diminution in value of the Property.
- 4.13 We anticipate that there have been no attempts by the actual landlord to recover these losses due to the fact that they intend to demolish the Property such that the tenant(s) would argue that the landlord would not suffer any loss as that loss would be superseded by the proposed development.
- 4.14 However, in assessing the BLV, we are required to assume that the existing use continues into the future such that redevelopment is not an option. In these circumstances, the landlord would need to demonstrate to the Courts that the Property was capable of reoccupation for commercial use had it been maintained in compliance with the lease obligations. The tenant(s) would then point out that no loss has actually arisen to the landlord as the Property would not be attractive to the market without significant reconfiguration works which would supersede any repair/decoration works required of the tenant.
- 4.15 In addition, judging by the age and design of the Property, it is probable that the Property is, in a number of aspects, beyond repair such that renewal/refurbishment would be required for which the previous tenant(s) would not be liable such that the landlord would have to bear the cost thereof.
- 4.16 The point that arises from this is that the hypothetical purchaser of the Property would know that they would have to incur significant irrecoverable cost in bringing the Property into a state that would be attractive to the market or, alternatively, incentivise prospective occupiers to bear these

costs. This is before any account is taken of required reconfiguration to accord with current market expectations.

- 4.17 In any event, the landlord would not be able to recover any costs in respect of the car park and other areas not included in the immediate demise to occupants. These are therefore irrecoverable costs that would directly impact upon value.
- 4.18 This all presupposes that, if the Property was in full repair and decoration there would be market demand for the Property as it currently exists but in full repair and decoration. As such, the Landlord would be offering two commercial units of 18,659 ft² (1,733 sqm) and 12,167 ft² (1,130 sqm) respectively to the market.
- 4.19 In this context, we note from page 19 of the FVP that the average retail letting is £25.54 psf for average space of 1,389 ft² and the average office letting is £15.03 psf for space of 2,086 ft². As such, whilst informative to an extent, the rental market evidence relates to lettings to occupiers requiring significantly less space than that offered by the Property. There is no evidence that those occupiers would require or express interest in taking significantly more space in the Property hence, whilst this evidence is helpful in considered market demand and value expectations of smaller floor plates, it is not helpful in informing the level of offers likely to be made by other occupiers who do require the amount of floor space offered by the Property.
- 4.20 We appreciate that Montagu Evans have applied a size discount but this assumes that the occupiers who were interested in the smaller units would also be interested in occupying the Property as an alternative proposition if they received a discount when, as we have already pointed out, they would, in all probability, not be interested in the Property as it is significantly larger than they require.
- 4.21 In effect, the hypothetical occupiers of the Property are unlikely to comprise or even have the same characteristics of any of the actual occupiers of the smaller space such that they are two different markets. This evidence is therefore of little assistance in assessing the rental bids likely to be made by a hypothetical occupier requiring the space offered by the Property.
- 4.22 The closest comparables, in terms of size, are the freehold investment sales of 7 High Street, Hitchin and 290-298 Hitchin Road for £2,000,000 and £1,000,000 respectively but these are roughly half the size of the Property and 7 High Street was let to Boots offering a strong covenant as reflected in the sale price. Again, it does not follow that Boots or the prospective occupier of 290-298 Hitchin Road would have any interest in occupying part or all of the Property.

- 4.23 It is therefore the case that there is no evidence of any transactions relating to properties of similar size and configuration as the Property that would assist a Willing Seller to assess what offers they would be likely to receive in the market or a Willing Purchaser to assess the expectations of that seller.
- 4.24 It is also clear from the marketing exercise that there has been limited, if any, occupier interest expressed in the Property as it currently exists and, in the absence of any evidence to the contrary, we are unaware of any published occupier requirements for the amount of space provided by the Property as two separate units let alone as a combined single unit in this locality.
- 4.25 A purchaser of the freehold interest would therefore form the view that, if the current use was to be maintained, the retail space would need to be reconfigured to provide a significantly reduced floor space in order to create units that are of a size and configuration commensurate with market expectations.
- 4.26 This, in turn, would mean that, in addition to the costs of creating such space, significant parts of the Property, in addition to the car park, would become redundant and unlettable such that the landlord would be required to meet the rates, repair and insurance liabilities of those parts without any ability to recover costs through a service charge or the enforcement of tenant's covenants.
- 4.27 In this context, I note that the proposed development provides a single unit of 3,530 ft² (328 sqm). This is circa 11.45% of the existing commercial floor space and is therefore a significant reduction in commercial space. We do not currently know whether this space has been proposed because the developer believes that there is market demand for this space or because it would be requirement of any planning permission but the developer would presumably have delivered more commercial floor space if they considered it financially beneficial.
- 4.28 It is therefore self-evident from this proposal that the Applicant themselves have concerns in respect of the viability of the existing commercial floor space and that a significant proportion, if not all, of the commercial space is a liability rather than a benefit.
- 4.29 It is against this background that we are of the opinion that the Existing Use Value, disregarding any prospect of development for an alternative use, is nominal and could even be negative bearing in mind the significant liabilities arising from the ownership of the Property as it currently exists and the lack of any reasonable prospect of rental income.
- 4.30 If the Applicant intends to maintain that the Property has some value in its existing use and is not a liability we will require further information in respect of the following matters:

- The quantum of irrecoverable rates, repair and insurance liability in respect of the car park
- Identification of active occupier demand/requirements for the existing quantum of floor space in this location
- The costs of altering the Property to provide floorplates of a size and configuration that would be commensurate with market demand and putting that space into a lettable state
- The holding costs of those parts rendered obsolete and unlettable as a result of the required alterations

Summary

- 4.31 We are of the opinion that the Property is unlettable in its present format and would require significant reconfiguration for any part of it to be attractive to occupiers. This combined with the extent of irrecoverable costs arising from those parts that are not lettable means that, in our opinion, the adaptation works are not viable and the Property currently has a negative value due to the outgoings exceeding the achievable rental income.
- 4.32 The FVP does not, in our opinion, properly assess the reality of the market in that, unless the market perceives an opportunity to viably create an income stream that is in excess of the holding costs generated by the remainder of the Property, the market will not submit a positive bid.
- 4.33 In this regard, it does not follow that the actual or prospective occupiers of the properties identified within the FVP would be interested or motivated to take significantly more space than they require in the Property if they are granted a discount and there is no evidence of any occupier demand for the Property in the market.
- 4.34 We are therefore of the opinion that, at best, the value of the Property for its existing use is nominal and could be argued to be negative such that redevelopment of the Property is the only option available to the landowner to mitigate their losses and generate value.

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 We have set out below a summary of our appraisal inputs and the resultant viability positions below:

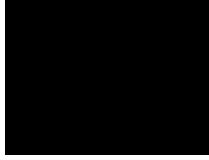
Item	Montagu Evans	DWD	Comments
Private GDV	£15,475,000	£15,814,682	Market Movement
Affordable GDV	Not assessed	Not assessed	
Commercial GDV	£1,352,582	£1,352,582	Agreed
Construction	£10,378,646	£10,378,646	GIA plans required
Contingency	5%	5%	Agreed
Professional Fees	10%	10%	Agreed
Acquisition Agent	1%	1%	Agreed
Acquisition Legal	0.5%	0.5%	Agreed
Marketing	1.5%	1.5%	Agreed
Leasing Agent	10%	10%	Agreed
Leasing Legals	5%	5%	Agreed
Private Sales Agent	1%	1%	Agreed
Private Sales Legal	0.25%	0.25%	Agreed
Affordable Legal	Not assessed	0.5%	
Private Profit	17.5% GDV	17.5% GDV	Agreed
Commercial GDV	15% GDV	15% GDV	Agreed
Affordable GDV	Not assessed	6% GDV	
Timescales	Sequential	Sequential	Agreed
Pre-construction	6 months	6 months	Agreed
Construction	18 months	18 months	Agreed
Sales	4 months	4 months	Agreed
Section 106	Not assessed	Not assessed	
CIL	Not applicable	Not applicable	Agreed
Finance	7.5%	7%	Not agreed
RLV	£730,562	£971,238	Not agreed
BLV	£3,519,000	£nil	Not Agreed
Surplus/(Deficit)	£2,812,878	£971,238	Not Agreed

5.2 Our current opinion is that the Applicant can viably commit to the provision of an element of Affordable Housing.

5.3 However, we will need your instructions in respect of the required S106 contributions in order to assess whether the initial provision could viably meet or exceed the NPPF minimum requirement of 10% and are currently of the view that it is unlikely that the proposed scheme would be able to provide the full policy requirement in the current market.

5.4 It is therefore inevitably the case that, on the assumption that planning permission was to be granted, there would need to be an agreed viability review mechanism to capture any ability on the

part of the Applicant to provide affordable housing over and above the agreed initial provision. This would require further engagement with Montagu Evans to negotiate the inputs to that mechanism.



Signed:
Peter Roberts FRCIS CEnv
8 November 2024