

FINANCIAL VIABILITY ASSESSMENT

9-10 HIGH STREET

HITCHIN

SG5 1BH

25 JUNE 2024



CONTENTS

EXECUTIVE SUMMARY.....4

INTRODUCTION.....6

EXISTING PROPERTY.....8

DEVELOPMENT PROPOSALS.....11

PLANNING CONTEXT.....13

VIABILITY METHODOLOGY.....15

BENCHMARK LAND VALUE.....17

VIABILITY APPRAISAL ASSUMPTIONS..26

VIABILITY RESULTS & CONCLUSIONS...33

APPENDIX 1 – EXISTING FLOORPLANS AND PHOTOS

APPENDIX 2 – PROPSOED SCHEME FLOORPLANS & AREA SCHEDULE

APPENDIX 3 – VIABILITY APPRAISAL SUMMARY

01

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

1. This report constitutes a Financial Viability Assessment (FVA) in accordance with planning policy and has been prepared by Montagu Evans LLP on behalf of Bellborough Limited (hereafter the Applicant) to support an application for planning permission on the site known as 9-10 High Street, Hitchin, SG5 1BH (the Site).
2. The planning application seeks permission for:

“Demolition and redevelopment to provide 44 residential apartments, including, 325 sq m of Class E floorspace at ground floor fronting the High Street, landscaping, amenity and associated parking.”
3. Montagu Evans LLP has been instructed by the Applicant to assess the maximum reasonable amount of affordable housing that the proposed development is able to provide by undertaking an FVA in accordance with planning policy.
4. This FVA has been prepared by Sarah Gibbs, BSc (Hons) MRICS, RICS Registered Valuer, and Cameron Brown, BSc (Hons) MRICS, RICS Registered Valuer.
5. The FVA provides an overview of the proposed scheme and presents evidence for the assumptions adopted within a residual appraisal and then compares the residual land value to an appropriate Benchmark Land Value based upon the value of the existing building on the Site being demolished (Existing Use Value).
6. The FVA concludes that the proposed scheme is unable to viably support any affordable housing. This is because the residual land value generated by a 100% private scheme is below the Benchmark Land Value. The main reason for this viability conclusion is the strong Existing Use Value as well as the relatively modest residential sales values that are achievable in Hitchin.
7. We understand the Applicant sought to promote a higher density scheme in pre-application consultation with the Council, which considered that a scheme of 53 units in buildings up to five storeys was not acceptable given the site's heritage constraints.
8. Despite our viability conclusion, the proposed 44-unit scheme as assessed would be profitable and deliverable, albeit at margins that we consider to be sub-market.

02

INTRODUCTION

INTRODUCTION

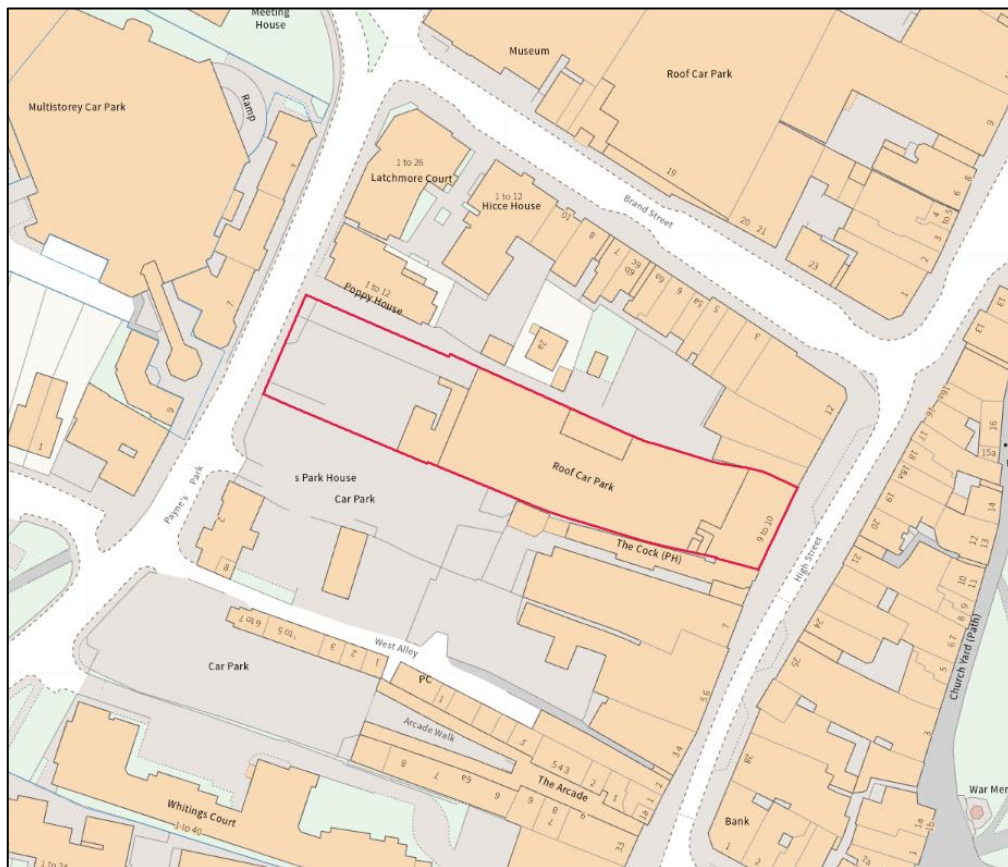
1. We set out below our Financial Viability Assessment (FVA) which has been prepared on behalf of the Applicant in support of the planning application.
2. The report has been prepared in accordance with RICS valuation guidance and with regard to relevant guidance on preparing FVAs for planning purposes. However, it is not a 'Red Book' valuation and should not be relied upon as such.
3. In accordance with the RICS Professional Statement *Financial Viability in Planning: Conduct and Reporting* (May 2019), we confirm that when undertaking this FVA we have acted:
 - With objectivity;
 - Impartially;
 - Without interference; and
 - With reference to all appropriate available sources of information.
4. We further confirm that we are not aware of any conflicts of interest that arise from our instruction to carry out this FVA, and that no performance related or contingent fees have been agreed.
5. For planning purposes, viability is assessed by comparing the residual land value (RLV) generated by the proposed development with an appropriate benchmark land value (BLV). If the RLV is lower than the BLV, then the scheme is not technically viable with the level for affordable housing and other planning benefits required or being proposed.
6. The RLV of the proposed development has been modelled using the industry recognised Argus Developer software. The BLV has been estimated based on the existing use value (EUV) of the Site.
7. This report provides a summary of development proposals, sets out the assumptions and evidence used to undertake the residual appraisal, and provides the assumptions and evidence used to arrive at a suitable BLV. The report then summarises the results of the residual appraisal, compares the RLV with the BLV and then provide conclusions.

03

EXISTING PROPERTY

EXISTING PROPERTY

1. The Site is located to the west of High Street in Hitchin in Hertfordshire, approximately 30 miles north of Central London.
2. Edged red in the plan below, the Site is broadly rectangular in shape and measures approximately 0.68 acres (0.28 hectares). It is bounded by Paynes Park to the west which provides primary vehicular access to the Site, High Street to the east and neighbouring commercial properties to the north and south boundaries.



3. The Site currently comprises two adjacent vacant retail units arranged over ground, first and second floors with car parking for approximately 10 x cars to the rear. There is additional car parking for approximately 50 x cars on the roof of the existing building and accessed via a ramp from Paynes Park.
4. The existing built accommodation provides a total combined Net Internal Area (NIA) of 3,383 sq m / 30,827 sq ft comprising 18,659 sq ft NIA at 9 High Street and 12,167 sq ft NIA at 10 High Street. A summary of the existing built accommodation is set out in the tables below:

9 High Street			
Floor	Description	Area (NIA Sq M)	Area (NIA Sq Ft)
Ground	Retail	741	7,979
1st	Storage	804	8,657
2nd	Storage	188	2,023
Total		1,733	18,659

10 High Street			
Floor	Description	Area (NIA Sq M)	Area (NIA Sq Ft)
Ground	Retail	717	7,719
1st	Storage	413	4,448
Total		1,130	12,167

5. The existing retail units were previously occupied by Poundland Limited and Mackays Stores Ltd (t/a M&Co) but both tenants have since vacated following the expiry of their leases in 2021 and 2022 respectively. The Site has since remained vacant despite active marketing and is now pending redevelopment.
6. The lawful permitted use of the existing Site falls within Class E.
7. Hitchin Train Station is located 0.7 miles to the north east of the Site, providing regular and direct train services to London (St Pancras International, Farringdon and City Thameslink) in 33 minutes.

04

DEVELOPMENT PROPOSALS

DEVELOPMENT PROPOSALS

1. Planning permission is being sought for the demolition of the existing buildings, to be replaced with a residential led scheme providing a total of 44 x flats, new commercial accommodation as well as car parking, associated landscaping and public realm works.
2. As shown in the block layout plan below, the proposed accommodation is to be built in a series of four linked blocks up to four storeys, with on site parking for the residential accommodation only:



3. The residential element of the proposals will deliver a total of 44 x new residential homes comprising one- and two-bedroom flats. The table below provides a summary of the proposed residential accommodation:

Unit Type	Number of Units	Average Size (NSA Sq Ft)	Total NSA (Sq Ft)
1B2P Flat	21	591	12,411
2B4P Flat	23	884	20,333
TOTAL	44	-	32,743

4. The proposals also include new retail accommodation (Use Class E) arranged on the lower ground floor level and fronting High Street, extending to 335 Sq M / 3,606 Sq Ft NIA.
5. The proposed scheme includes a total of 32 x off-street car parking spaces for residents use only and arranged on the lower ground floor and accessed via Raynes Park.
6. Floorplans and a schedule of accommodation for the proposed scheme are attached at **Appendix 2**.

05

PLANNING CONTEXT

PLANNING CONTEXT

NATIONAL PLANNING POLICY

1. Paragraph 34 of the National Planning Policy Framework (NPPF, 2023) confirms that the contributions expected from development, including the levels and types of affordable housing provision, should not undermine the deliverability of the relevant plan.
2. Paragraph 57 confirms that planning obligations should only be sought where they are:
 - necessary to make the development acceptable in planning terms;
 - directly related to the development; and
 - fairly and reasonably related in scale and kind to the development.
3. Paragraph 58 goes on to state:

“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 up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.”

4. Paragraph 128 underlines how planning policies and decisions should support development that makes efficient use of land, *“taking into account local market conditions and viability”*.

LOCAL PLANNING POLICY

5. The Site falls within the jurisdiction of North Hertfordshire Council and relevant planning policy is contained within the North Hertfordshire Local Plan (2022).
6. Policy HS2 of the Council's adopted Local Plan states that residential developments comprising 25 or more dwellings will be required to deliver 40% of the dwellings as affordable housing. The Council's preferred tenure mix is for 65% of units to be delivered as an affordable rented tenure and the remaining 35% units to be delivered as other affordable tenures, subject to viability.
7. In addition to the Local Plan, the Council's Developer Contributions SPD states that departure from policy compliant affordable housing provision on viability grounds will be negotiated on a case-by-case basis and have regard to the findings of the viability study.
8. In summary, the Site is subject to a minimum target of 40% affordable housing, subject to viability testing.

06

VIABILITY METHODOLOGY

VIABILITY METHODOLOGY

VIABILITY CONTEXT

1. In simple terms, the viability of a scheme is assessed by comparing the Residual Land Value (RLV) of the proposed development with an appropriate Benchmark Land Value (BLV). The BLV can be considered as the value below which a reasonable landowner is unlikely to release a site for development. If the residual land value is lower than the BLV then the scheme is not technically viable.
2. The residual land value of the proposed development is arrived at by summing the revenues derived from the development and deducting from these the costs of development (including an appropriate profit allowance).
3. This is illustrated by the diagram below.



4. There are a number of different approaches adopted in order to reach an acceptable BLV depending on site specific factors.
5. In arriving at our opinion of the appropriate BLV we have had regard to:
 - The Planning Practice Guidance (PPG) for viability in support of the National Planning Policy Framework (NPPF).
 - The RICS Professional Statement – *Financial viability in planning: conduct and reporting* (1st edition, May 2019).
 - The RICS Guidance Note - *Assessing viability in planning under the National Planning Policy Framework 2019 for England* (1st Edition March 2021).
6. We detail the approach to arriving at a suitable BLV for the Site in Section 7 of this report.

07

BENCHMARK LAND VALUE

BENCHMARK LAND VALUE

1. The Viability Planning Practice Guidance (PPG) in support of the National Planning Policy Framework (NPPF) states: *"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. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements."*
2. The RICS Guidance Note *Assessing viability in planning under the National Planning Policy Framework 2019 for England (March 2021)* also supports the PPG's preferred Existing Use Value Plus (EUV+) methodology for assessing Benchmark Land Values (BLVs).
3. We have therefore assessed the BLV adopting the EUV+ approach in accordance with the NPPF and current RICS Guidance. To do so, we have first assessed the EUV of the Site and have then considered an appropriate landowner's premium.

EXISTING USE VALUE

4. As set out in Section 3, the Site is broadly rectangular in shape and measures approximately 0.68 acres (0.28 hectares).
5. It comprises two adjacent vacant retail units arranged over ground, first and second floors with car parking for approximately 10 x cars to the rear. There is additional car parking for approximately 50 x cars on the roof of the existing building and accessed via a ramp from Paynes Park.
6. The existing built accommodation provides a total combined Net Internal Area (NIA) of 3,383 sq m / 30,827 sq ft. We note that approximately 50% of the existing floorspace (extending to a combined total of 15,128 sq ft NIA) comprises ancillary retail accommodation arranged on the first and second floors.
7. The accommodation was previously occupied by Poundland Limited and Mackays Stores Ltd (t/a M&Co) but both tenants have since vacated following the expiry of their leases. The Site has since remained vacant pending redevelopment.
8. To assess the Existing Use Value of the Site, we have undertaken an investment valuation. This involves applying an all-risk yield the Estimated Rental Value (ERV) in perpetuity, allowing for an appropriate combined void and rent-free period for re-letting purposes.
9. In order to determine the ERV of the existing accommodation, we have undertaken research of comparable evidence for similar retail accommodation in the local and surrounding areas.
10. However, we would note that in the event the existing Site was made available for a new lease under the lawful Use Class E, we consider that there would be reasonable demand for the upper parts of both retail units to be let separately to an office use occupier. We have therefore also undertaken comparable evidence for office accommodation falling within Use Class E within the local and surrounding area to support our ERV assessment as a sense check of values.
11. The table below provides a summary of pertinent rental transactions for retail accommodation within the local and surrounding area:

Rental Evidence – Retail					
Address	Date Let	Size (NIA Sq Ft)	Agreed Rent (£psf)	Comments	Photo
13A Bucklersbury, SG5 1BB	Jan-24	613	£23.65	Ground floor retail unit in secondary retail pitch. Inferior condition. Let by way of a new 3-year FRI lease. Located 0.1 mile to the south in a secondary retail pitch.	
8 Bucklersbury, SG5 1BB	Dec-23	1,023	£32.06	Recently refurbished retail unit. Let to Six Hill Brewing by way of a new 4-year FRI lease. Located less than 0.1 mile to the south in a slightly inferior retail pitch.	
6 Bucklersbury, SG5 1BB	Aug-23	1,087	£25.76	Let to Bridgetown Monroe by way of a new 5-year FRI lease subject to a break option at the expiry of the 3 rd year. Located less than 0.1 mile to the south in a slightly inferior retail pitch.	
7 Bucklersbury, SG5 1BB	Jul-23	1,313	£28.18	Recently refurbished retail unit. Arranged over ground floor. Let to Leestafford World Woman's Salon by way of a new 8-year FRI lease. Located less than 0.1 mile to the south in a slightly inferior retail pitch.	
5 Bridge Street, SG5 2DJ	May-23	651	£22.12	Ground floor retail unit with large frontage. Lease renewal with the existing tenant, Fortune Financial for a new 6-year term. Located 0.2 miles to the south in a secondary retail location.	
61 Hermitage Road, SG5 1DB	May-23	644	£32.53	Ground floor retail unit located. Let to an unknown tenant by way of an assignment of an existing lease. Located 0.2 miles to the northeast in a secondary retail pitch.	
13 Bancroft, SG5 1JQ	Sep-22	1,346	£29.72	Retail unit arranged over ground and basement floors. Let to Wenzels by way of a new 5-year FRI lease. Located less than 200m to the north in a comparable retail pitch.	

1 Sun Street, SG5 1AE	Apr-22	1,517	£17.14	Ground floor retail unit with ancillary storage accommodation on the 1 st floor. Let to local tenant Mr Nguyen by way of a new 10-year FRI lease. Located less than 0.1 mile to the south in a secondary retail pitch.	
111-112 Bancroft, SG5 1LS	Jun-21	3,053	£25.38	Ground floor retail unit. Let to The Sports District for a term of 12 years subject to a tenant option to break at expiry of 10 th year. Located 150m to the north in a comparable retail pitch.	
21 High Street, SG5 1AT	Apr-21	2,646	£18.90	Retail unit arranged over ground and two upper floors. Let to Joey's Brunch for a term of 20 years subject to tenant breaks every 5 years. Located immediately opposite in a comparable retail pitch.	
Average		1,389	£25.54	-	-

12. Our research shows that retail accommodation in Hitchin ranging between 613 sq ft and 3,053 sq ft NIA achieving rental values between £17.14 per sq ft and £32.53 per sq ft. The level of rent is driven by a number of factors including location, size of accommodation and configuration with a premium commanded for accommodation situated in the prime retail pitch along the High Street.

13. We would note that the majority of the evidence in the table above comprises accommodation that measures less than 3,500 sq ft NIA. We would therefore expect a reasonable quantum allowance to be applicable to the subject accommodation (providing units extending between 12,167 sq ft and 18,659 sq ft NIA) and the ERV to fall within the lower end of the above range.

14. We have applied particular weight to the lettings of 21 High Street (£18.90 per sq ft), 111-112 Bancroft (£25.38 per sq ft) and 13 Bancroft (£29.72 per sq ft) due to their similar location situated within the prime retail pitch. In particular, 21 High Street is located immediately opposite the subject Site and comprises retail accommodation of a similar configuration with accommodation arranged over ground, first and second floors. However, we would note that this evidence is now fairly historic.

15. In addition to the completed evidence set out in the table above, we are aware of the following current availability in Hitchin:

- **11A Bancroft, SG1 1JQ** – Ground floor double shop front retail unit extending to 3,704 sq ft, currently available with an asking price reflecting **£31.40 per sq ft**. Located less than 100m to the north in a comparable retail pitch; and
- **25 High Street, SG5 1AT** – Former bank premises extending to 4,946 sq ft arranged over ground and 1st floors, currently available with an asking price reflecting **£17.19 per sq ft**. Located opposite the subject Site.

16. We would note that the current asking prices of the above available properties (ranging between £17.19 per sq ft and £31.40 per sq ft) sit within the range of completed evidence.

17. In the event that the existing accommodation was available for a new lease, we consider that there would be sufficient demand for the upper floors of both retail units (extending to 10,680 sq ft and 4,448 sq ft NIA respectively) to be let separately to an office use occupier.

18. We therefore consider it is prudent to analyse comparable evidence for office accommodation in order to assist our assessment of ERV of the upper floors as sense check of rental value. The table below provides a summary of pertinent rental evidence for office accommodation within a 2-mile radius of the subject Site:

Rental Evidence – Retail					
Address	Date Let	Size (NIA Sq Ft)	Agreed Rent (£psf)	Comments	Photo
30-30A Market Place	May-24	1,223	£14.72	Recently refurbished office accommodation arranged on the 2 nd floor of a Listed mixed-use building. Located less than 100m to the south adjacent to the town square.	
34 Bancroft, SG5 1LA	Feb-24	608	£16.44	Self-contained office suite arranged on the ground floor. Let to an unknown tenant by way of a new 6-year FRI lease. Located less than 0.2 miles to the north in a slightly secondary location.	
103A-C Bancroft, SG5 1NB	Feb-23	733	£17.05	Purpose built 2-storey office building arranged evenly over ground and 1 st floors. Let to an unknown tenant for a new 10-year FRI Lease. Located less than 0.2 miles to the north off Bancroft and accessed via a small courtyard.	
System House 59-61 Knowle Place, SG4 0TY	Jul-22	5,456	£14.00	Purpose built 1990s detached office building. Modern office accommodation arranged over 1 st floors with suspended ceilings, recessed lighting, air con, central heating and parking for 14 cars. Located 1.7 miles to the north in an edge of town location.	
9-10 Bancroft, SG5 1JQ	Dec-21	2,318	£12.94	Newly refurbished office accommodation arranged on the 1 st floor. Let to Chilli Pilates by way of a new FRI lease. Located less than 100m to the north in a comparable location.	
Average		2,086	£15.03	-	-

19. Our research shows office accommodation in Hitchin ranging between 608 sq ft and 5,456 sq ft NIA achieving rental values of between £12.94 per sq ft and £17.05 per sq ft.

20. We have applied particular weight to the letting of 30-30A Market Place (£14.72 per sq ft) and 9-10 Bancroft (£12.94 per sq ft) due to comprising office accommodation arranged on the upper floors of a high street retail unit. It is

evident that office accommodation situated above high street retail accommodation commands a lower ERV to ground floor retail accommodation below. We have considered this when reflecting the appropriate discount to apply to the subject accommodation.

21. Following our analysis of comparable evidence for both retail and office accommodation as well as current availability, we have applied an ERV of £15.00 per sq ft to the ground floor retail accommodation and a lower ERV of £10.00 per sq ft applied to the ancillary accommodation on the upper floors, as summarised in the table below:

9 High Street (former Poundland)				
Floor	Description	Area (NIA Sq Ft)	ERV	ERV (£ per annum)
Ground	Retail	7,979	£15.00	£119,688
1st	Storage	8,657	£10.00	£86,574
2nd	Storage	2,023	£10.00	£20,229
Total		18,659	£12.14	£226,490

10 High Street (former M&Co)				
Floor	Description	Area (NIA Sq Ft)	ERV	ERV (£ per annum)
Ground	Retail	7,719	£15.00	£115,792
1st	Storage	4,448	£10.00	£44,476
Total		12,167	£13.17	£160,268

22. We would note that our opinion of ERV applied to the ancillary retail accommodation on the upper parts reflects a discount of approximately 35% to the ERV applied to the ground floor retail accommodation, which we consider is appropriate.

23. Based on the above, we consider a total Estimated Rental Value of £226,490 per annum for 9 High Street and £160,268 per annum for 10 High Street. When combined together, this results in total combined Estimated Rental Value of £386,758 per annum, which reflects a blended rate of £12.55 per sq ft when applied to a total existing NIA of 30,827 sq ft.

24. We would note that our opinion of ERV sits below the range of rental evidence obtained for both retail and office accommodation (between £17.14 per sq ft and £32.53 per sq ft for retail and £12.94 per sq ft and £17.05 per sq ft for offices), which we consider appropriate, if not fairly conservative.

25. In order to determine the appropriate yield to adopt in our assessment, we have reviewed investment and vacant possession transactions of similar retail accommodation in the local and surrounding area. We highlight that there is a dearth of investment evidence, nonetheless, we outline the pertinent evidence in the table below.

INVESTMENT SALES EVIDENCE					
Address	Size (NIA sq ft)	Sale Price (£/Yield/£psf)	Date	Comments	Photo
5 Bridge Street, Hitchin, SG5 2DJ	651	£215,000 6.27% NIY £330	Under offer Jun-24	Freehold interest of end of terrace retail unit currently under offer. Let to Fortune Financial with a passing rent of £14,400 per annum. Located 0.2 miles to the south in a secondary retail location.	

7 High Street, Hitchin, SG5 1BH	11,411	£2,000,000 6.55% NIY £175 psf	May-22	Freehold interest of retail unit sold at auction. Let to Boots by way of 10 years from September 2019 with a passing rent of £122k pa (reflecting £10.69 psf). Located along from the existing Site in a comparable retail pitch.	
290-298 Hitchin Road, SG16 6DP	11,107	£1,000,000 £90 psf	Feb-22	Freehold interest sold to AA Henlow Ltd sold with Vacant Possession. Retail accommodation formerly occupied as a convenience store. Located 4.6 miles to the north in an inferior location.	
53-55 High Street, Stevenage, SG1 3AQ	2,124	£1,100,000 6.28% NIY £518 psf	Oct-21	Freehold interest of 2 x adjoining Grade II Listed retail units with retail accommodation on the ground floor and flats above. Total passing rent of £64,400 per annum at the time of sale.	
23 Brand Street, Hitchin, SG5 1HS	1,352	£580,000 5.75% NIY	Sep-21	Freehold interest of retail unit sold at auction. Let to Santander for a term of 5 years from December 2020 with a total rent passing of £35,000 per annum (reflecting £25.89 psf). Located just off the High Street in a slightly inferior location.	
Average	11,107	£278 psf & 6.21% NIY	-	-	-

26. The evidence in the table above shows transactions of retail accommodation in the local and surrounding areas ranging between 651 sq ft and 11,411 sq ft achieving capital values between £90 per sq ft and £518 per sq ft and net initial yields of between 5.75% and 6.55%.

27. We have applied particular weight to the sale of 7 High Street (£175 per sq ft / 6.55%) owing to its comparable location adjacent to the existing Site on Hitchin High Street. We consider this was sold with a weighted average unexpired lease term of c.7 years secured by a strong retail covenant (Boots).

28. We would note that the majority of the evidence set out in the table above pre-dates the September 2022 mini-budget and therefore, we would consider a yield towards the higher end of the range to be appropriate given recent yield movements.

29. We would also note that the freehold interest of 2-8 Bucklersbury in Hitchin is available at a guide price of £1,750,000. This comprises a retail parade comprising a total of five retail units and extending to 6,265 sq ft NIA arranged over part lower ground and ground floors. The property is fully let to a total of five separate tenants producing a gross rental income of £188,800 per annum.

30. Despite not comprising completed evidence, we have applied some weight to this evidence owing to its comparable location, albeit in a slightly inferior retail pitch, and characteristics to the subject accommodation. In the event that

a disposal is agreed at the current asking price of £1,750,000, this would reflect a net initial yield of 10.16% and capital value of £279 per sq ft.

31. Due to the lack of investment evidence, we have also referred to the current figures stated in the latest Knight Frank Investment Yield Guide (June 2024). This provides a net initial yield of 7.00% for retail in Prime Towns and 10.00% for Good Secondary Towns.

32. Following a review of comparable evidence as well as the Knight Frank Investment Yield Guide, we have applied a yield of 9.00% to the total ERV of £386,758 per annum. We consider this yield to be conservative in light of the evidence above and reserve the right to revisit it.

33. Following an allowance of an appropriate combined letting and rent-free void period of 18 months, our EUV assessment results in a gross capital value of £3,776,220 and net capital value of (less purchaser's costs) of £3,519,437, which equates to £114 per sq ft.

34. The table below shows our calculation of EUV:

Existing retail accommodation	30,827 sq ft NIA
Estimate Rental Value (£ per annum)	£386,758 per annum
Capitalised using a 9.00% yield	£4,297,314
Less combined letting void and rent-free period (reflecting 18 months)	£3,776,220
Less Purchaser's costs (reflecting 6.8%)	£3,519,437
Say	£3,519,000 £114 per sq ft

35. We have cross checked this against our research of sales evidence of similar retail accommodation. Our EUV assessment equating to £114 per sq ft (when analysed using a total NIA of 30,827 sq ft) lies towards the lower end of the range shown by the comparable evidence above (between £90 per sq ft and £518 per sq ft).

36. We would note that our assessment of EUV does not apply any value to the additional car parking located on the roof of the existing building and accessed via a ramp from Paynes Park. However, we reserve the right to revisit our assumptions in relation to this.

37. On the basis on the above, we consider our EUV of £3,519,000 for the existing Site to be appropriate, and potentially conservative, given its size and location that make it attractive to a range of commercial occupiers.

LANDOWNER'S PREMIUM

38. In accordance with the Viability PPG, it is normal viability practice to add a premium to the EUV to reflect the incentive required for the landowner to release the asset for redevelopment. This premium is normally in the range 10% - 40%.

39. We have not applied a landowner's premium in this instance, however we reserve the right to revisit our assumptions if negotiations proceed in this regard.

BENCHMARK LAND VALUE

40. On the above basis, the BLV for the purposes of this FVA is **£3,519,000**.

08

VIABILITY APPRAISAL ASSUMPTIONS

VIABILITY APPRAISAL ASSUMPTIONS

1. We have prepared a viability appraisal using Argus Developer software and attach a summary at **Appendix 3**. We set out below a summary of the key appraisal assumptions.

DEVELOPMENT PHASING & TIMESCALES

2. We have adopted the following development timescales based upon our experience of similar sized projects.

DEVELOPMENT PHASE	START DATE	DURATION
Pre-construction	June 2024	6 months
Construction	December 2024	18 months
Private Residential Sales	June 2026	4 months

3. The private residential sales period assumes 50% of the units are sold on Practical Completion and the remaining units are sold at an absorption rate reflecting approximately 5 units sold per month thereafter. We consider this to be optimistic when considered against the comparable evidence.

DEVELOPMENT REVENUES

RESIDENTIAL SALES VALUES

4. Hitchin is a popular commuter town in Hertfordshire, surrounded by Green Belt land that separates the neighbouring towns and villages. Most of the local housing stock comprises housing and demand has typically been from up-sizers attracted by the proximity of green space and countryside settings, although more recently the town has also started attracting a growing number of first-time buyers.
5. Hitchin Train Station is served by Thameslink and Great Northern Rail, providing direct journeys to London St Pancras in as little as 33 minutes.
6. Rightmove data indicates that the average sold price in Hitchin is just over £480,000 which is similar to the previous year and 4% up on the 2021 peak of £464,000. We note that average achieved price for a flat in Hitchin is approximately £247,000.
7. We have undertaken research for comparable new build flatted schemes in Hitchin and nearby locations to help determine an appropriate value to apply to the private residential accommodation within our viability appraisal.

Hurlocke Fields, Chapman Way, Hitchin, SG4 0JD

8. Hurlocke Fields is a development by Cala Homes and comprises a mix of one and two-bed flats and two to four-bed houses. We understand that there are 27 car parking spaces which are allocated to flatted accommodation. The development is located 0.4 miles to the south east of Hitchin Station and 1 mile to the east of the subject Site.
9. The development, which comprises mostly houses, is located at the edge of Hitchin town centre, next to Purwell Meadows, providing a rural feel. Hurlocke



Fields' location in offering residents access to open space is enhanced with its proximity to Hitchin Station, which is only a 12-minute walk from the development.

10. We understand the scheme reached practical completion in Q2 2023. We have summarised below the pertinent sales evidence of one- and two-bedroom flats which have taken place between Q2 2023 to Q4 2023 in the table below:

No. of sales	Unit Type	Average (NSA Sq Ft)	Minimum Price	Average Price	Maximum Price	Average Price (£psf)
6	1-Bed	565	£240,000	£257,267	£274,950	£455
10	2-Bed	771	£250,000	£344,315	£369,950	£447

11. As shown in the table above, one-bedroom flats at Hurlocke Fields have achieved between £240,000 and £274,950, reflecting an average price of £455 per sq ft. Two-bedroom flats achieved between £250,000 and £369,950, reflecting an average price of £447 per sq ft.
12. Hurlocke Fields is delivered by a volume housebuilder and comprises flatted units that are smaller than the subject proposals. As such we consider the quality of units delivered to be higher at the subject proposals but due to their size command a lower capital value when assessed on a £ per sq ft basis
13. Hurlocke Fields is located just 1 mile to the east of the subject Site, however it occupies a comparably different location in the sense that it has a rural feel being situated next to Purwell Meadows. The subject Site benefits from local amenities and a central location, whilst Hurlocke Fields is adjacent to open space whilst maintaining good transport connections. We therefore consider both the subject proposals and Hurlocke Fields to have their own locational merits, albeit they are comparably different.
14. On balance, we consider the subject proposals will command slightly higher capital values relative to those achieved at Hurlocke Fields.

Weston Gate, Cambridge Road, Hitchin, SG4

15. Weston Gate is a development by Taylor Wimpey comprising one- and two-bedroom flats, as well as two, three and four bedroom houses. The scheme is located 0.4 miles to the east of Hitchin Station and 1.1 miles to the east of the subject Site fronting a busy road.



16. Similar to Hurlocke Fields, Weston Gate is located adjacent to Purwell Meadows, offering residents a rural feel whilst also providing strong transport connections. Hitchin Station is just a 12-minute walk from the scheme, making it accessible for commuters.
17. We understand Weston Gate will reach practical completion in the Summer 2024 and a number of units have been reserved to date. We summarise the pertinent off-plan sales (occurring between April 2024 and May 2024) in the table below:

No. of sales	Unit Type	Average (NSA Sq Ft)	Minimum Price	Average Price	Maximum Price	Average Price (£psf)
3	1-Bed	538	£260,000	£260,833	£262,500	£485
2	2-Bed	721	£350,000	£363,500	£377,000	£504

18. Despite only being able to obtain a total of five pre-sales, we consider the sales evidence achieved at Weston Gate provides a live snapshot of the market and as a result, we have applied particular weight to the evidence set out above.
19. Similar to Hurlocke Fields, the flatted accommodation at Weston Gate is smaller than the subject proposals. The one-bedroom units are comparably smaller than the subject proposals and therefore whilst they are a good indication, we note that the larger units at the subject proposals will command higher capital values. The two-bedroom units also provide a useful insight to pricing, and we have used these to inform our view on pricing for similar sized two-bed properties.
20. Similar to Hurlocke Fields, Weston Gate occupies a location that is nearby to Hitchin Station whilst providing a rural feel. We acknowledge that this has its merits and have balanced this with the fact the subject Site is closer to local amenities.
21. We also consider the subject proposals to provide a more boutique development feel which is likely to command a premium over the achieved prices at Weston Gate. On balance, we consider the subject proposals to command similar capital values to the achieved evidence for comparably sized units at Weston Gate, however, would expect a lower overall blended value when analysed on a £ per sq ft basis due to a quantum discount being applied.

Waterhouse Court, Letchworth Garden City, SG6

22. Waterhouse Court comprises a small housing scheme delivered by a local developer. Located 0.2 miles from Letchworth Garden City Station and approximately 4 miles to the north east of the subject Site.
23. The scheme comprises a total of 12 x two-bedroom flats and completed in late 2021 with sales completing in 2022. We have summarised the achieved prices from Q1 2022 to Q2 2022 in the table below:



No. of sales	Unit Type	Average (NSA Sq Ft)	Minimum Price	Average Price	Maximum Price	Average Price (£psf)
4	2-Bed	767	£295,000	£318,750	£330,000	£416

24. We have had consideration to the achieved evidence at Waterhouse Court due to its proximity to Hitchin as well as comprising a small boutique scheme.
25. We note the units at Waterhouse Court do not have any amenity space which we consider would detract buyers. We have also had regard to the fact the sales at Waterhouse Court took place two years ago and that there has been some house price growth in this time.
26. On balance, we consider the subject proposals to command higher capital value than those achieved at Waterhouse Court.

PROPOSED SCHEME PRICING

27. Following our analysis of comparable research as well as current availability, we have undertaken a unit-by-unit pricing exercise of the proposed scheme to arrive at a blended value of £473 per sq ft, as set out below:

Unit Type	Number of Units	Average Size (NSA Sq Ft)	Proposed Price (£)	Average Proposed Price (£psf)
1B2P Flat	21	591	Between £265,000 - £310,000	Between £450 psf - £492 psf
2B4P Flat	23	884	Between £390,000 - £480,000	Between £446 psf - £518 psf
Totals	44	-	£15,475,000	£473 psf

28. Based on the pricing set out above, we are of the opinion that the proposed scheme will achieve a Gross Development Value (GDV) of £15,475,000 reflecting £473 per sq ft.

29. We consider that our above pricing is optimistic when considered against the comparable evidence.

FLEXIBLE COMMERCIAL SPACE

30. The proposals include a total of 335 sqm (3,606 sq ft) GIA of flexible ground floor commercial accommodation. This has been designed to provide flexible space that would appeal to a range of business uses within Class E.

31. Following our review of comparable evidence of retail and office accommodation within the local and surrounding area as set out in Section 7 of this report, we have adopted a rental value of £30.00 per sq ft to the proposed commercial accommodation. This lies towards the upper end of the range of comparable rental values set out in Section 7 which we consider to be appropriate for new build accommodation.

32. When applied to an assumed NIA of 3,245 sq ft (following an allowance of 10%), this results in a total ERV of £97,350 per annum.

33. Following an allowance of an appropriate combined letting and rent-free void of six months, we have capitalised the estimated rental income using a 6.50% yield.

34. This results in a net commercial value of £1,352,583, after the deduction of purchasers' costs. This equates to a capital value reflecting £417 per sq ft when applied to a total NIA of 3,245 sq ft.

35. We note that this is significantly above our EUV for the existing commercial accommodation (£117 per sq ft), reflecting the new build condition and reduced amount of space when compared to the existing accommodation.

DEVELOPMENT COSTS

CONSTRUCTION COSTS & PROFESSIONAL FEES

36. We have not been provided with an order of cost estimate from the Applicant and therefore we have referred to RICS Build Cost Information Services (BCIS) to determine the level of construction costs to apply in our viability appraisal.

37. As shown in the extract below, BCIS median data rebased to North Hertfordshire currently stands at £1,817 per sq m (£169 per sq ft) for 3-5 storey new build residential flatted accommodation, £1,558 per sq m (145 per sq ft) for new build shops and £1,120 per sq m (£104 per sq ft) for car parking.

MAXIMUM AGE OF RESULTS:

Default period

▼

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample	
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest		
New build								
125.4 Car parks (Underground) (25)	1,122	902	-	1,120	-	1,343	3	
345. Shops								
Generally (30)	1,967	744	1,070	1,612	2,431	5,217	14	
1-2 storey (30)	1,990	744	1,065	1,558	2,530	5,217	13	
816. Flats (apartments)								
Generally (15)	1,936	968	1,600	1,820	2,182	6,615	811	
1-2 storey (15)	1,830	1,116	1,552	1,726	2,035	3,627	173	
3-5 storey (15)	1,912	968	1,593	1,817	2,151	3,979	541	
6 storey or above (15)	2,271	1,392	1,834	2,160	2,459	6,615	94	

38. BCIS data excludes the cost of external works, so we have made an allowance of 15% to the residential element only which increases the above BCIS figures to £2,090 per sqm (£194 per sq ft) for 3-5 storey new build residential flattened accommodation. For clarity, we have not applied an external works allowance to the proposed non-residential areas.

39. Based upon the above figures, we have applied a build cost rate of £194 per sq ft to the proposed residential accommodation, £145 per sq ft to the proposed retail accommodation and £104 per sq ft to the proposed car parking. This provides a total estimated construction cost of £10,378,646 applicable to the proposed scheme, which equates to a construction cost reflecting £169 per sq ft when applied to the total scheme GIA of 61,300 sq ft.

40. At this stage, we have also not included any allowance for demolition of the existing buildings, however reserve the right to revisit build cost if a scheme specific cost plan was to be provided.

41. We have also allowed for a 5.00% contingency and 10.00% professional fee budget which is standard market practice for a residential scheme of this type and size.

MARKETING, LETTING & DISPOSAL FEES

42. We have allowed for the following costs for marketing, letting and the disposal of the proposed residential and commercial accommodation:

- Marketing costs of 1.50% of private residential GDV;
- Letting agency fee of 10% of the first years' rent;
- Letting legal fees of 5% of the first years' rent;
- Sales agency fees of 1.00% of private residential GDV; and
- Sales legal fees of 0.25% of total GDV.

43. We consider the above costs are reasonable for the scale of the proposed scheme and are in line with market practice.

PLANNING CONTRIBUTIONS

44. A Community Infrastructure Levy is yet to be adopted in North Hertfordshire and therefore we have not included an allowance for this within our viability appraisal.
45. At this stage, our viability appraisal also does not include any allowance to cover S.106 contributions. However, we reserve the right to amend the viability appraisal should further information regarding planning contributions becomes available.

DEVELOPER'S RETURN

46. Within the Viability Planning Practice Guidance (PPG) for the NPPF it states that “an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers”.
47. At this stage, we have adopted fixed profit margins of 17.50% on GDV applied to private residential accommodation and 15.00% on GDV to the commercial accommodation. This reflects a blended profit allowance of approximately 17%, which lies towards the lower end the PPG range set out above.

FINANCE

48. Costs have been financed over the development period at a combined finance rate of 7.50%, which we consider very bullish in the current interest rate environment. We therefore reserve the right to revisit this assumption.

09

VIABILITY RESULTS & CONCLUSIONS

VIABILITY RESULTS & CONCLUSIONS

1. We attach the viability appraisal at **Appendix 4** and summarise our viability conclusions below:

Viability Appraisal Summary		
Income	Basis	
Private Flats	44 units, £473 per sq. ft.	£15,475,000
Commercial	3,245 sq ft, £30.00 per sq. ft. capitalised at 6.50% after a 6-month void period	£1,451,269
Less Purchaser's Costs	6.80%	-£98,686
Net Development Value		£16,827,583
Costs		
Acquisition Costs	SDLT, 1.0% agency and 0.5% legal fees	£35,398
Construction Costs	BCIS Med +15% external works	£10,378,646
Contingency	5.00%	£518,932
Professional Fees	10.00%	£1,037,865
Marketing	1.50% of residential GDV	£232,125
Commercial Letting Agent and Legal Fees	15.0% of first year's rent	£14,603
Disposal Fees	1.00% sales agency and 0.50% sales legal fees	£210,345
Developer's Return	17.50% on private residential GDV and 15.00% on commercial GDV	£2,925,815
Finance	7.50%	£767,732
Total Costs		16,121,461
Residual Land Value		£706,122
Benchmark Land Value		£3,519,000
Viability Deficit		-£2,812,878

2. It can be seen from the above that the proposals result in a residual land value of **£706,122** representing a viability deficit of **-£2,812,878** when compared to the Benchmark Land Value of **£3,519,000**.
3. In accordance with the requirements of the RICS Professional Statement *Financial viability in planning: conduct and reporting* (May 2019), we have undertaken a sensitivity analysis of the proposed scheme appraisal and confirm that a construction cost decrease of 10% (from £170 psf to £153 psf) and a concurrent increase in private residential sales values of 10% (from £472 psf to £519 psf) would still present a viability deficit of approximately **-£789,000**. We do not consider either of these individual movements to be realistic, less so in concert.
4. 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.
5. Despite our viability conclusion, the proposed scheme as assessed would be profitable and deliverable, albeit at margins that we consider to be sub-market.

We trust that the above is clear but please do not hesitate to contact us should you require anything further.

Your sincerely,



SARAH GIBBS MRICS

Associate

Montagu Evans LLP

M: 07825 437 220

E: sarah.gibbs@montagu-evans.co.uk



CAMERON BROWN MRICS

Senior Surveyor

Montagu Evans LLP

M: 07919 307 118

E: cameron.brown@montagu-evans.co.uk

APPENDIX 01

EXISTING FLOORPLANS AND PHOTOS

EXISTING LOWER GROUND FLOOR PLAN

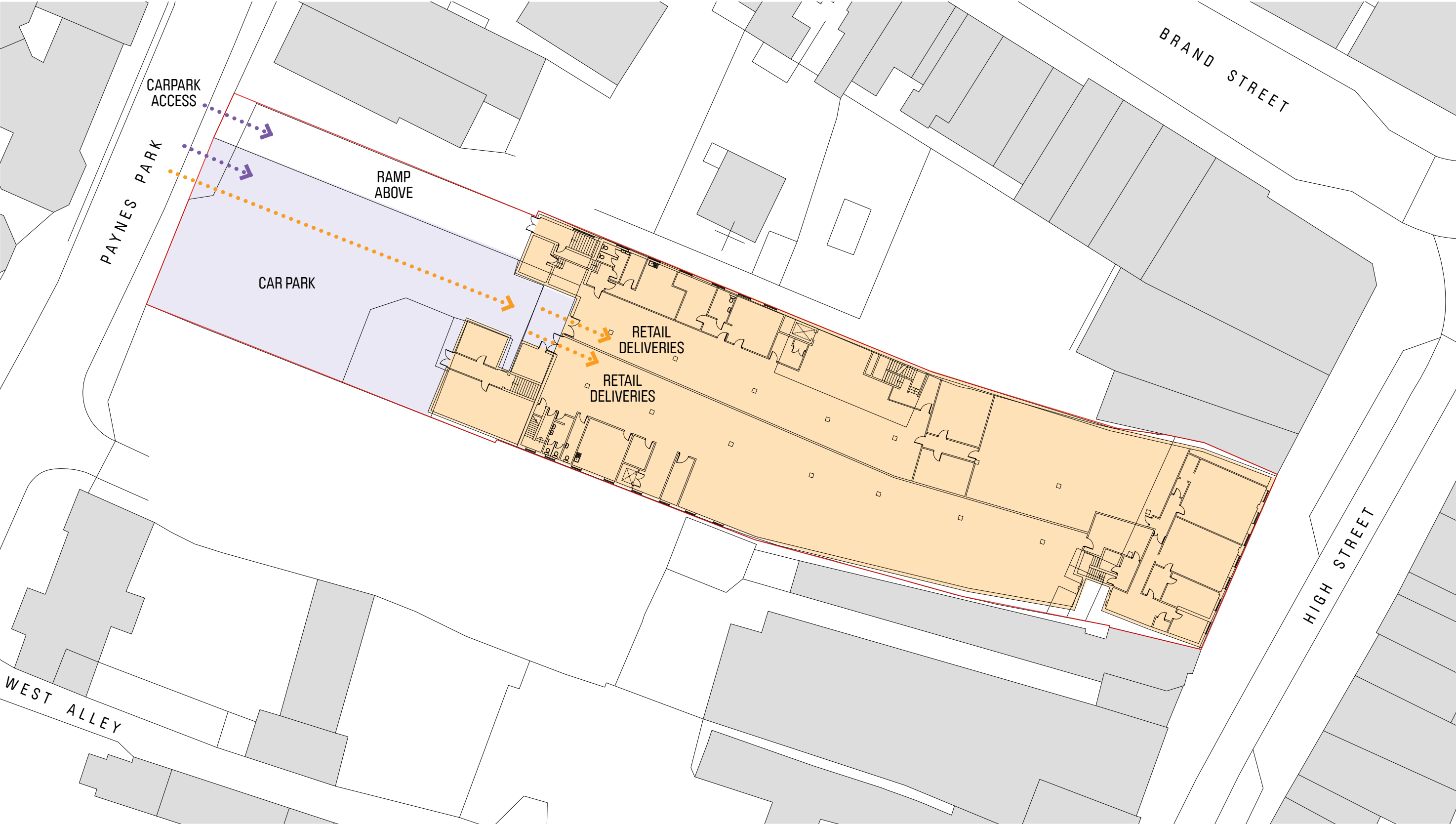


- Retail
- Ancillary / Back of House Retail Area
- On site car parking

Site Boundary



EXISTING GROUND FLOOR PLAN



- Retail
- Ancillary / Back of House Retail Area
- On site car parking

Site Boundary



EXISTING FIRST FLOOR PLAN



- Retail
- Ancillary / Back of House Retail Area
- On site car parking

Site Boundary





External – 9 High Street & 10 High Street



External looking south down High Street



Existing rear car park



Existing rear car park and additional car parking accessed via vehicle ramp

APPENDIX 02

PROPOSED SCHEME PLANS & AREA SCHEDULE

FLOOR	UNITS TYPE		TOTAL UNITS	RETAIL	PARKING SPACES	GIA
	1B	2B				
LOWER GROUND			0	325m2	32	1715
UPPER GROUND	6	6	12			1190
FIRST	7	7	14			1195
SECOND	8	6	14			1150
THIRD	0	4	4			445
TOTAL	21	23	44	325m2	32	5695
	48%	52%				

Floor	Existing GIA		Site Area
	Existing Retail Space 01	Existing Retail Space 02	
LOWER GROUND	710	810	2725
UPPER GROUND	1760		
FIRST	205		

[illegible]

UPPER GROUND FLOOR				FIRST FLOOR				SECOND FLOOR				THIRD FLOOR			
UNIT	TYPE	INTERNAL AREA	EXTERNAL AMMENITY	UNIT	TYPE	INTERNAL AREA	EXTERNAL AMMENITY	UNIT	TYPE	INTERNAL AREA	EXTERNAL AMMENITY	UNIT	TYPE	INTERNAL AREA	EXTERNAL AMMENITY
001	1B 2P	53	10	101	1B 2P	53	5	201	1B 2P	52	5	301	2B 4P	100	7
002	1B 2P	52	12	102	2B 4P	82	7	202	2B 4P	81	7	302	2B 4P	96	7
003	2B 4P M4(3)	92	12	103	2B 4P M4(3)	90	7	203	2B 4P M4(3)	90	7	303	2B 4P	73	7
004	1B 2P	64	7	104	1B 2P	56	5	204	1B 2P	55	5	304	2B 4P	79	7
005	1B 2P	50	20	105	1B 2P	57	5	205	1B 2P	56	5				
006	2B 4P	70	15	106	2B 4P M4(3)	91	7	206	2B 4P M4(3)	91	7				
007	1B 2P	54	5	107	2B 4P	83	7	207	2B 4P	83	7				
008	1B 2P	55	7	108	1B 2P	59	5	208	1B 2P	59	5				
009	2B 4P	81	10	109	2B 4P	77	7	209	2B 4P	77	7				
010	2B 4P	79	15	110	1B 2P	50	5	210	1B 2P	50	5				
011	2B 4P	76	25	111	1B 2P	58	5	211	1B 2P	58	5				
012	2B 4P	72		112	2B 4P	72	7	212	2B 4P	70	7				
				113	2B 4P	84	7	213	1B 2P	51	7				
				114	1B 2P	59		214	1B 2P	52					
TOTAL		798	138	TOTAL		971	79	TOTAL		925	79	TOTAL		348	28

APPENDIX 03

VIABILITY APPRAISAL

SUMMARY

APPRAISAL SUMMARY**MONTAGU EVANS LLP**

9-10 High Street, Hitchin
100% Private

Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Private Residential	44	32,743	472.63	351,705	15,475,000

Rental Area Summary

	Units	ft²	Rent Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Flexible Commercial	1	3,245	30.00	97,350	97,350	97,350

Investment Valuation**Flexible Commercial**

Market Rent	97,350	YP @	6.5000%	15.3846	
(6mths Rent Free)		PV 6mths @	6.5000%	0.9690	1,451,269

GROSS DEVELOPMENT VALUE**16,926,269**

Purchaser's Costs	6.80%	(98,686)
Effective Purchaser's Costs Rate	6.80%	
		(98,686)

NET DEVELOPMENT VALUE**16,827,582****NET REALISATION****16,827,582****OUTLAY****ACQUISITION COSTS**

Residualised Price		706,122	
			706,122
Stamp Duty		24,806	
Effective Stamp Duty Rate	3.51%		
Agent Fee	1.00%	7,061	
Legal Fee	0.50%	3,531	
			35,398

CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost
Flexible Commercial	3,606	145.00	522,870
Private Residential	42,840	194.00	8,310,960
Car Parking Construction Costs	<u>14,854</u>	104.00	<u>1,544,816</u>
Totals	61,300 ft²		10,378,646
Contingency		5.00%	518,932
			10,897,578

PROFESSIONAL FEES

Professional Fees	10.00%	1,037,865	
			1,037,865

MARKETING & LETTING

Marketing	1.50%	232,125	
Letting Agent Fee	10.00%	9,735	
Letting Legal Fee	5.00%	4,868	
			246,727

DISPOSAL FEES

Sales Agent Fee	1.00%	168,276	
-----------------	-------	---------	--

APPRAISAL SUMMARY**MONTAGU EVANS LLP****9-10 High Street, Hitchin****100% Private**

Sales Legal Fee	0.25%	42,069	210,345
-----------------	-------	--------	---------

MISCELLANEOUS FEES

Private Residential Profit	17.50%	2,708,125	
Commercial Profit	15.00%	217,690	2,925,815

TOTAL COSTS BEFORE FINANCE **16,059,851****FINANCE**

Timescale	Duration	Commences
Pre-Construction	6	Jun 2024
Construction	18	Dec 2024
Sale	4	Jun 2026
Total Duration	28	

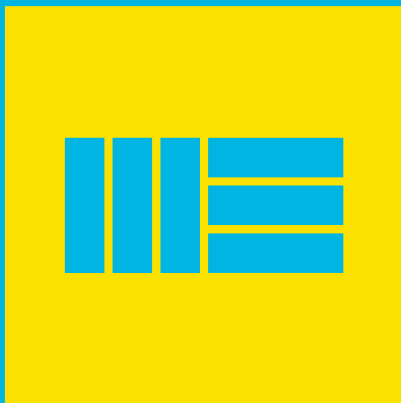
Debit Rate 7.500%, Credit Rate 0.000% (Nominal)

Land	113,529	
Construction	614,854	
Other	39,348	
Total Finance Cost	767,732	

TOTAL COSTS **16,827,582****PROFIT****0****Performance Measures**

Profit on Cost%	0.00%
Profit on GDV%	0.00%
IRR% (without Interest)	6.97%

MONTAGU EVANS
5 BOLTON STREET
LONDON
W1J 8BA



WWW.MONTAGU-EVANS.CO.UK

London | Edinburgh | Glasgow | Manchester