

Ben Glover  
Senior Planning Officer  
Major Projects

**BY EMAIL ONLY**

30 January 2025

**WITHOUT PREJUDICE**

Dear Ben,

**9-10 High Street, Hitchin, SG5 1BH – Response to DWD’s Financial Viability Appraisal Independent Review**

Thank you for providing us with the report dated November 2024 and prepared by DWD.

Pleasingly DWD agree with our overall approach and the vast majority of our inputs and assumptions adopted in our submitted Financial Viability Assessment (FVA). The differences of opinion between DWD’s and our assessment relate to the following:

- Benchmark Land Value;
- Private Residential Gross Development Value; and
- Finance.

Our submitted FVA for the proposed scheme assessed as 100% private housing generates a residual land value of £706,122. This presents a viability deficit of **-£2,812,878** when compared to a Benchmark Land Value of £3,519,000.

DWD’s changes to the above inputs lead to a conclusion that there is a viability surplus of approximately £706,000 and that the proposed scheme can deliver affordable housing.

We provide our response to each of the three disputed items in turn below.

Benchmark Land Value (BLV)

Our submitted FVA adopted a BLV assessment of £3,519,000 for the existing Site, which was arrived at using the Existing Use Value Plus (EUV+) approach.

Our opinion of EUV of £3,519,000 equates to a net capital value of £114 per sq ft when applied to a total Net Internal Area (NIA) of 30,827 Sq Ft.

We did not apply a landowner’s premium in this instance, however we reserved the right to revisit our assumptions.

DWD consider the value of the existing Site to be nominal and adopted a BLV assessment of £nil. The key points in reaching their conclusion are as follows:

- Level of irrecoverable costs in relation to the unlettable parts of the existing building;
- Level of irrecoverable costs in relation to refurbishment/renewal to bring the accommodation to a lettable condition; and
- Limited evidence of occupier demand for the property of this size and configuration.

DWD has requested further consideration of the BLV assessment and therefore we respond to each of the above points in turn below.

#### Irrecoverable Costs

DWD consider that the level of irrecoverable costs including business rates in relation to the unlettable parts as well as the cost of refurbishment would exceed any income received on the parts of the existing building which are deemed to be lettable.

The Applicant has confirmed that they pay business rates for the retail accommodation at 9 High Street and 10 High Street only, as follows:

| Part           | Rateable Value  | Rating Liability (£ per annum) |
|----------------|-----------------|--------------------------------|
| 9 High Street  | £114,000        | £62,244                        |
| 10 High Street | £140,000        | £76,440                        |
| <b>Total</b>   | <b>£254,000</b> | <b>£138,684</b>                |

We understand that the existing rooftop car deck has not been in operation at any time during the Applicant's ownership due to the condition of the access ramp via Paynes Park. Consequently, this part of the building is exempt from business rates, as it is not capable of suitable occupation. Therefore, if the accommodation were to remain vacant and could not be let, as DWD suggest, the maximum business rates liability would be £138,684 per annum.

Additionally, DWD considers that *'the property is, in a number of aspects, beyond repair such that renewal/refurbishment would be required for which the previous tenants would not be liable such that the landlord would have to bear the cost thereof'*.

For the exception of the existing rooftop car deck (as set out above), it is not clear how DWD has come to this conclusion in regard to the condition of the existing accommodation.

We have attached a series of internal and external photographs of the existing building which clearly demonstrate that the existing retail accommodation is in a fair, arguably good condition, as one might expect given that Unit 9 was last occupied until September 2021 and Unit 10 was last occupied until Q2 2023. Please see photos attached at **Appendix 1**.

Certainly, the existing retail accommodation is not beyond repair which would require refurbishment, as DWD assert.

We would also comment that any incoming tenant would undertake their own fit out works and the costs of undertaking these works would be supported by an appropriate rent-free incentive. Our EUV assessment includes a combined letting void and rent-free allowance of 18-months which we considered to be appropriate, if not conservative.

#### Limited Demand

DWD consider that there is limited occupier demand for the current accommodation in its existing size and configuration and would therefore 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'*. In support of their statement, DWD have referred to the previous marketing campaign for Unit 9 which was undertaken by local agents Brown & Lee following the expiry of Poundland's lease in 2021 and suggest that there was limited occupier interest for the accommodation in its current condition.

We disagree with DWD's statement. We understand that there was a reasonable level of interest at the time of marketing however, due to M&Co terminating their lease earlier than expected (due to falling into administration), the marketing campaign did not progress any further and instead the Applicant chose to progress the current redevelopment proposals.

DWD has also referred to the reduced amount of commercial accommodation within the current proposals, extending to 3,530 sq ft NIA. In doing so they suggest that it is *'self-evident 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.'*

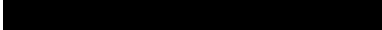
We would note that there is a planning requirement to re-provide retail accommodation at the Site owing to its High Street location and therefore we consider this is a rather meaningless comment to make.

In addition, since the planning application was submitted, we understand the Applicant has received enquiries from a number of interested parties to acquire the Site. As a result, a soft marketing campaign was undertaken in November 2024 with parties invited to submit formal offers.

We understand a total of six formal offers were received including three offers made by parties seeking to occupy the existing accommodation in its existing commercial use. [REDACTED] offers range between [REDACTED] [REDACTED] as summarised in the table below:

| Bidder                                    | Offer      | Proposed Use            | Proposed Terms                                 |
|-------------------------------------------|------------|-------------------------|------------------------------------------------|
| Commercial investor                       | [REDACTED] | Existing commercial use | Subject to survey of ramp and agreed timetable |
| Large privately owned commercial investor | [REDACTED] | Existing commercial use | Subject to surveys                             |

|                                               |                                                                                   |                         |                             |
|-----------------------------------------------|-----------------------------------------------------------------------------------|-------------------------|-----------------------------|
| Commercial development and investment company |  | Existing commercial use | Subject to agreed timetable |
|-----------------------------------------------|-----------------------------------------------------------------------------------|-------------------------|-----------------------------|

The above offers reflect capital value between  when applied to a total Net Internal Area (NIA) of 30,827 Sq Ft.

On the above basis, we consider that there is sufficient demand and market interest for the existing accommodation in its existing use owing to its recent marketing campaign. We therefore urge DWD to revisit their BLV assessment.

Additionally, we have obtained the following further sales evidence since the submission of our FVA:

- **2-8 Bucklersbury, SG5 1BB** – Freehold interest of a Grade II Listed retail parade comprising a total of five retail units and extending to 6,265 sq ft. It sold in August 2024 for £1,700,000, reflecting a net initial yield of 11% and capital value of £271 per sq ft.
- **13-13A Bancroft, 114-123 Bancroft and 3-4 Portmill Lane, SG5 1LS** – Freehold interest of a multi-let retail investment comprising two x adjoining retail parades and a vacant office building to the rear extending to a total NIA of 46,905 sq ft currently under offer. The guide price of £10,360,000 reflects a net initial yield of 9.00% and capital value of £220 per sq ft.

The above further evidence demonstrates that our BLV assessment reflecting £114 psf is conservative.

#### Council's Local Plan Viability Assessment

Moreover, we have referred to the Council's own Local Plan Viability Assessment Update, prepared by Dixon Searle Partnership (DSP) and dated August 2016. This viability study assesses the deliverability of a number of potential development sites within the district boundary and tests the ability for development to support affordable housing and other S.106 obligations.

The viability assessment provides Existing Use Values of various land uses that have been accepted by the Council at plan making stage when assessing viability of development within the district. We note the Local Plan Viability Assessment Update (August 2016) provides an updated viability assessment to the previous Local Plan viability assessment, also undertaken by DSP and dated November 2014.

Paragraph 2.6.12 of the Council's original Local Plan Viability Assessment Study (2014) provides Benchmark Land Values of between £1,500,000 to £2,000,000 per hectare applied to 'Upper Previously Developed Land', defined as higher value commercial sites. Owing to its town centre high street location, we consider upper previously developed land is the most appropriate land use for the purpose of viability.

We would note that DSP has applied a consistent approach to their assessment of Benchmark Land Value for their Updated Assessment (2016). In particular, paragraph 2.3.6 of the Local Plan Assessment Update (2016) states that '*land value benchmarks have been used that are consistent with the previous assessment work basis, but this time with 20% added to each of the earlier levels.*'

On the above basis, this would provide an updated Benchmark Land Value of between £1,800,000 and £2,400,000 per hectare applied to previously developed land. This results in a Benchmark Land Value of between £504,000 and £672,000 when applied to the existing Site area of 0.28 hectares (0.68 acres).

We consider this is appropriate, if not conservative, given that the BLV figures set out above were last assessed in 2014. In order to reach an agreement and on a without prejudice basis, we are willing to adopt a revised Benchmark Land Value assessment of £504,000 to simply align with the Council's own viability assessment. However, should negotiations not progress on this basis, we reserve the right to revisit our assessment.

#### Private Residential Gross Development Value (GDV)

Our viability appraisal adopted a total GDV of £15,475,000 for the proposed private residential accommodation.

DWD's assessment adopts a slightly higher GDV of £15,814,682. This is approximately 2% higher than our assessment and we understand the difference in opinion is informed by further sales evidence achieved at Weston Gate and Waterhouse. However, DWD has not provided any information of the re-sale evidence to support this.

We have only been able to source the following re-sale evidence at Weston Gate as follows:

| Address           | Unit Type  | Size | Re-sale Price | Re-sale Price (£psf) | Date   |
|-------------------|------------|------|---------------|----------------------|--------|
| 40 Allwoods Place | 1-Bed Flat | 495  | £250,000      | £505                 | Oct-24 |
| 13 Allwoods Place | 2-Bed Flat | 646  | £300,000      | £465                 | Aug-24 |

Our proposed pricing, which resulted in a blended sales value of £473 per sq ft was arrived at applying capital values of between £265,000 and £310,000 to the proposed one-bedroom flats and capital values of between £390,000 and £480,000 to the proposed two-bedroom flats. We would note that our proposed pricing sits above the further sales evidence.

On the basis of the above, we consider our proposed pricing remains appropriate, if not fairly optimistic when considered against the recent sales evidence. However, in order to reach an agreement and on a without prejudice basis, we are willing to accept DWD's higher opinion of private residential GDV.

#### Finance

Our viability appraisal adopted a finance rate of 7.50%.

DWD's assessment adopts a lower rate of 7.00%.

We do not agree, however in order to reach an agreement and on a without prejudice basis, we are willing to accept DWD's lower finance rate.

Updated Initial Viability Results

We have undertaken an updated viability appraisal of the proposed scheme and adopting the assumptions set out above including DWD's opinion of residential Gross Development Value and finance rate.

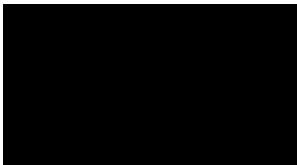
We understand the Council has confirmed a total estimate of £656,333 to cover S.106 contributions would be applicable for the current proposals. Our submitted assessment did not include any allowance for S.106 contributions and therefore our updated viability appraisal includes the above allowance.

Our updated viability appraisal of the proposed scheme assessed as 100% private housing generates an updated land value of approximately £375,000.

This presents a reduced viability deficit of **-£129,000** when compared to our adjusted Benchmark Land Value of £504,000 and therefore demonstrates that the proposed scheme remains unable to viably support any affordable housing.

A copy of our updated viability appraisal of the proposed scheme is attached at **Appendix 2**.

Yours sincerely,



**SARAH GIBBS MRICS**  
**Associate**  
Montagu Evans LLP



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# **APPENDIX 1 – PHOTOGRAPHS**

**9-10 High Street, Hitchin**  
**INSPECTION PHOTOGRAPHS**



**9-10 High Street, Hitchin**  
**INSPECTION PHOTOGRAPHS**



# **APPENDIX 2 – UPDATED VIABILITY APPRAISAL SUMMARY**

9-10 High Street, Hitchin  
100% Private

Development Appraisal  
Montagu Evans LLP  
January 30, 2025

**APPRAISAL SUMMARY****MONTAGU EVANS LLP**

9-10 High Street, Hitchin  
100% Private

**Appraisal Summary for Phase 1**

Currency in £

**REVENUE**

| Sales Valuation     | Units | ft <sup>2</sup> | Sales Rate ft <sup>2</sup> | Unit Price | Gross Sales |
|---------------------|-------|-----------------|----------------------------|------------|-------------|
| Private Residential | 44    | 32,743          | 483.00                     | 359,425    | 15,814,682  |

**Rental Area Summary**

|                     | Units | ft <sup>2</sup> | Rent Rate ft <sup>2</sup> | Initial<br>MRV/Unit | Net Rent<br>at Sale | Initial<br>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****17,265,950**

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

**NET DEVELOPMENT VALUE****17,167,264****NET REALISATION****17,167,264****OUTLAY****ACQUISITION COSTS**

|                           |       |         |         |
|---------------------------|-------|---------|---------|
| Residualised Price        |       | 375,980 |         |
|                           |       |         | 375,980 |
| Stamp Duty                |       | 8,299   |         |
| Effective Stamp Duty Rate | 2.21% |         |         |
| Agent Fee                 | 1.00% | 3,760   |         |
| Legal Fee                 | 0.50% | 1,880   |         |
|                           |       |         | 13,939  |

**CONSTRUCTION COSTS**

| Construction | ft <sup>2</sup> | Build Rate ft <sup>2</sup> | Cost |
|--------------|-----------------|----------------------------|------|
|--------------|-----------------|----------------------------|------|

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

|                                |                   |        |                   |            |
|--------------------------------|-------------------|--------|-------------------|------------|
| 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>  |            |
| <b>Totals</b>                  | <b>61,300 ft²</b> |        | <b>10,378,646</b> |            |
| Contingency                    |                   | 5.00%  | 518,932           |            |
| S106 estimate                  |                   |        | 656,333           |            |
|                                |                   |        |                   | 11,553,911 |

**PROFESSIONAL FEES**

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

**MARKETING & LETTING**

|                   |  |        |         |         |
|-------------------|--|--------|---------|---------|
| Marketing         |  | 1.50%  | 237,220 |         |
| Letting Agent Fee |  | 10.00% | 9,735   |         |
| Letting Legal Fee |  | 5.00%  | 4,868   |         |
|                   |  |        |         | 251,823 |

**DISPOSAL FEES**

|                 |  |       |         |         |
|-----------------|--|-------|---------|---------|
| Sales Agent Fee |  | 1.00% | 171,673 |         |
| Sales Legal Fee |  | 0.25% | 42,918  |         |
|                 |  |       |         | 214,591 |

**MISCELLANEOUS FEES**

|                            |  |        |           |           |
|----------------------------|--|--------|-----------|-----------|
| Private Residential Profit |  | 17.50% | 2,767,569 |           |
| Commercial Profit          |  | 15.00% | 217,690   |           |
|                            |  |        |           | 2,985,260 |

**TOTAL COSTS BEFORE FINANCE****16,433,367****FINANCE**

|                                                 |  |  |         |         |
|-------------------------------------------------|--|--|---------|---------|
| Debit Rate 7.000%, Credit Rate 0.000% (Nominal) |  |  |         |         |
| Land                                            |  |  | 55,484  |         |
| Construction                                    |  |  | 640,792 |         |
| Other                                           |  |  | 37,621  |         |
| Total Finance Cost                              |  |  |         | 733,897 |

**TOTAL COSTS****17,167,264****PROFIT****0****Performance Measures**

|                 |       |
|-----------------|-------|
| Profit on Cost% | 0.00% |
|-----------------|-------|

9-10 High Street, Hitchin  
100% Private

|                         |       |
|-------------------------|-------|
| Profit on GDV%          | 0.00% |
| IRR% (without Interest) | 6.49% |