

8th July 2024

By email only

Dear Melissa,

NODE COURT, DRIVERS END LANE, CODICOTE, HITCHIN, HERTFORDSHIRE, SG4 8TR

Summary Letter

1. Background

- 1.1 This letter should be read in conjunction with the viability email sent out on 8th December 2023.
- 1.2 In December 2023, North Hertfordshire District Council ("NHDC" or "the Council") commissioned DS2 to review the viability assessment produced by RLP Surveyors, dated 10th February 2023, in relation to the proposed redevelopment of Node Court, Drivers End Lane, Codicote, Hitchin, Hertfordshire, SG4 8TR (hereafter "the Site").
- 1.3 DS2 reported in December 2023 that the proposal was producing a surplus of £114,767, which equated to an affordable housing payment of £100,000 when assuming the affordable housing payment is made at the start of construction (the appraisal also allowed for an additional S106 cost of £300,845 as advised by the Council).
- 1.4 The assessment provided to DS2 was not in accordance with RICS Professional Standard 'Financial Viability in Planning: Conduct and Reporting' (1st Edition, adopted September 2019) and the RICS Professional Standard 'Assessing Viability in Planning under the National Planning Policy Framework 2019 for England' (1st Edition, adopted July 2021).
- 1.5 The key difference between both appraisals was the build costs with RLP surveyors acting on behalf of the applicant assuming a total build cost of £7,127,215. Exigere reviewed the costs on behalf of DS2 and provided a cost plan, which reported a cost of £6,521,387, excluding contingency, would be reasonable and had been adopted within the appraisal.

2. Updated position

- 2.1 In June 2024, further to a meeting between the respective cost advisors and an exchange of additional information, Exigere reported an increase in build costs by £418,274. When applying this to the proposed development appraisals and maintaining all other inputs the same, the development is now producing a deficit of £423,973 (please see summary of results in the table below). As a result, the proposals cannot viably provide an affordable housing payment.

Table 1: Results Comparison Summary, Node Court, July 2024			
Scenario	Developer return (%)	Target developer return (%)	Surplus/deficit
Previous Base Appraisal (08.12.23)	21.00%	20%	1.00%
Previous Base Appraisal with £100k affordable housing payment (08.12.23)	19.98%	20%	-0.02%
DS2 (17.06.24) with updated build costs	16.31%	20%	-3.69%

2.2 The appraisal above does not take into account additional build cost of £250,000 which the applicant included in their May response as Exigere have not commented on the costs and could not do so due to a lack of detail provided.

2.3 Following the above, from a viability perspective the proposed development does not support an affordable housing contribution given the agreed methodology which measures the residual developer return against a target rate of return.

3. Scenario Testing

3.1 The Council have asked DS2 to assess whether all 17 residential units are required to optimise the viability of the proposals. DS2 have undertaken a sensitivity that removes two of the units (units 16 & 17) the summary of which is replicated in the table below. In essence the removal of the two units erodes the viability. We have removed the attributable £1.4m value from the Connells' pricing schedule and reduced build costs by £803,867 (reflecting Exigere's cost plan for units 16 & 17).

Table 2: Scenario Testing, Node Court, July 2024			
Scenario	Developer return (%)	Target developer return (%)	Surplus/deficit
17 Unit Scheme	16.31%	20%	-3.69%
15 Unit Scheme	15.14%	20%	-4.86%

3.2 We have also prepared a scenario that deducts the S106 financial contributions and another scenario in which all the new build units are removed. For the latter scenario we have reduced the construction programme to 12 months and reduced the sales programme. It is evident that whilst reducing the scheme from 17 unit to 15 units has a marginal albeit material impact on the appraisal, it is clear that removing all the new build units would have a significant impact on the appraisal.

Table 3: Scenario Testing Without S106 Costs, Node Court, July 2024			
Scenario	Developer return (%)	Target developer return (%)	Surplus/deficit
17 Unit Scheme without S106	19.37%	20%	-0.63%
15 Unit Scheme without S106	18.72%	20%	-1.28%
No New Build without S106	7.68%	20%	-12.32%



4. Conclusions

- 4.1 This letter demonstrates that it is not viable for the Site to provide an affordable housing contribution and this is largely because of the relatively high build costs. The additional development massing for the new build properties does however improve the overall viability of the proposals as there is a positive relationship between development massing and the developer return / land value.
- 4.2 We would be happy to discuss or expand upon any points contained within this summary letter.

Yours Sincerely,

DS2 LLP

July 2024