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Sent: 27 June 2025 14:13:24 UTC+01:00
To: "Joanne Fisher" <Joanne.Fisher@midsussex.gov.uk>
Subject: DM/24/2922 - Hollyrood House, Lindfield - Viability Report

Hi Jo,

Further to the request for an additional viability review, DSP have advised the following:

"DSP was commissioned by MSDC to carry out an independent review of the October 2024 FVA prepared by S106M. The conclusion of the FVA was that the 'all private scheme' appraisal produced a deficit of -£822,096 equivalent to an actual profit of 7.61% on GDV when compared to a BLV of £1,925,000. Therefore, the development could not provide any contribution towards affordable housing.

DSP's April 2025 review report (reference DSP25521AI) tested alternative assumptions summarised as follows:

- We considered that a lower BLV could be appropriate in the circumstances.*
- We tested a higher GDV – an increase of £330,000.*
- We applied a lower build cost and lower professional fees assumption.*
- We updated the S106 contributions allowance.*
- We reduced the construction period from 18 months to 12 months.*
- We tested a lower financier rate of 7.5%.*
- We assumed sales and marketing costs of 2%.*

Our review concluded that our alternative appraisal outcome produced a residual land value of £1,294,594 when including the required affordable housing contribution of £420,000 and that based on our view of the BLV, the full policy compliant AH contribution could not be ruled out.

We have reviewed S106M's response to our review report dated 23rd April, which helpfully provides a comparison table setting out the differences in assumptions. We note that DSP's alternative assumptions on GDV, professional fees and sales and marketing costs have been accepted by S106M, which is welcomed. We also note that although S106M state that DSP adopted a finance rate of 7%, our trial appraisal, as noted above, included a rate of 7.5%, which also appears to have been adopted by S106M in their latest appraisal. Therefore, our comments below are focused on those assumptions where a difference of opinion appears to remain.

Build Costs

The FVA submitted build costs were based on information from BCIS. DSP tested a lower BCIS build rate and a lower allowance for BNG. Our adjustments resulted in a difference of £121,456 between our revised total build cost of £4,044,677 and the submitted cost of £4,166,133 including the BNG costs.

S106M now seek to update the appraisal with build costs based on a cost plan prepared by David Parker QS dated April 2025. The cost plan includes a total cost of £4,740,900 including £60,000 for NHBC warranties. DSP would typically expect the allowance for warranties to be included with the professional fees allowance – in this case, agreed at 8%.

DSP commissioned ERM Surveyors on behalf of the Council to review the submitted costs. ERM's report is attached and provides a lower estimate of £4,552,820 on the same basis i.e. including NHBC warranties but excluding contingency.

We have included the lower second opinion estimate in our trial appraisal but excluding the NHBC warranties (with allowances for preliminaries and OH&P also excluded – a total of £74,250 excluded). Our trial appraisal therefore includes a build cost of £4,478,571.

S106M also seek to increase the BNG allowance from £28,213 to £41,972. This assumption is high in our view and we have maintained an allowance of 0.1% in our latest appraisal (£4,479).

Benchmark Land Value

As noted above, S106M assumed a BLV of £1.925m. This was based on an AUV of the premises as offices. DSP considered that the BLV could be considerably lower when appropriately based on the EUV+ of the existing premises with reference to the closed care home.

For information purposes only, DSP noted that applying a mid-point of the guide prices for vacant care homes on a per bedroom basis would produce a value of £1.245m. S106M have now assumed this value for the care home element but seek to add a further £504,000 for Hollyrood Cottage, which is noted to have a Lawful Development Certificate for Class C3 use – a total BLV of £1,749,000 and a reduction of £176,000 from the previous assumption.

S106M note that the property would require some refurbishment. The planning proposal includes the refurbishment for Hollyrood Cottage and therefore, we have run an AUV appraisal using the assumptions set out within our review report and applying the lower second opinion build cost estimate as above. Our AUV appraisal produces a RLV of £200,000 (rounded).

Although there has been positive movement on the BLV assumption, in our opinion, this does not quite go far enough and a BLV of no more than £1.45m could be considered reasonable.

Conclusions

The latest S106M appraisal produces a RLV of £847,045, which when compared to the updated BLV assumption of £1,749,000 produces a deficit of -£901,955.

When making the adjustment to the build cost assumptions as set out above and when including S106 contributions of £298,176, our latest appraisal on a 100% market housing basis produces a residual land value of £1,207,434. When compared to a higher BLV of £1.45m, the scheme produces a deficit of -£242,566.

Considering the scheme again based on the latest available information and having explored the viability as best we can within the guidelines set by the PPG, unfortunately the viability exercise does now conclude that the scheme is relatively marginal, and it appears unlikely that it would be sufficiently viable to support a contribution towards affordable housing at this time."

Nicholas Hewer Royle

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