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Date : 8 July 2011

Dear Ms Aird,

King Edward VII Hospital Viability Assessment

I have now had the opportunity to review the applicant's viability appraisal that accompanied their letter to you dated 1 July, and comment under the various headings below.

1.0 Introduction

1.1 We have been instructed by South Downs National Park Authority (SDNPA) to assess a development appraisal submitted by City & Country (the applicant) that was attached to correspondence sent to SDNPA dated 1 July 2011. The applicant's letter responds to a letter prepared by English Heritage dated 21 June 2011.

2. Background

2.1 We have previously considered the applicant's proposals for this site on behalf of Chichester District Council, and understand a copy of our report dated March 2011 on their proposal to provide 393 units of which 246 residential (C3) 147 assisted care (C2) which extended to a net saleable area of c. 46,417 sq m (c. 499,637 sq ft).

2.2 We were also asked to consider 4 additional scenarios in the context of the applicant's revised internal assumptions. Our review of the assumptions listed below were the subject of a review dated 28 April 2011.

1. 246 residential & 147 assisted care
2. 268 residential & 147 assisted care
3. 335 Residential & 80 assisted care
4. 313 Residential & 80 assisted care

2.3 We are now asked to consider the applicant's revised enabling assessment which considers the financial and practical implications of Sanatorium & Chapel Repairs and conversion before any new build sales. This scheme envisages a mixed use development of 147 assisted care units, 238 new residential and 30 residential conversion dwellings together with associated facilities.

4. Information Provided

4.1 We have had regard to the following information:

1. Financial viability assessment prepared by City and Country dated 1 July 2011 which models the financial and practical implications of Sanatorium & Chapel Repairs and conversion before any new build sales considers for the above scenario;
2. A revised phasing plan dated 1.07.11
3. Copy correspondence addressed to SDNPA in response to English Heritage letter dated 21 June 2011.

5. Review of the Applicant's Appraisal Model

5.1 We are familiar with the model which the applicant has adopted to determine the conservation deficit of the various scenario schemes after having regard to the cost, value and assumptions that have previously been adopted.

5.2 Due to the time constraints we have not undertaken a cell by cell assessment of the financial model to verify the various inputs and calculations that inform the model results. In providing the financial models the applicant has identified the cells on the various worksheet pages highlighted yellow and no other material amendments have been made.

5.3 In looking at the model the movement in the conservation deficit are a consequence of changes to the cost, value or assumption inputs which are cash flowed over the project programme which is geared to the anticipated sales rates that are adopted. Due to re-phasing the programme the duration of the project programme has increased by 19 months.

5.4 It should be highlighted this assessment considers both **sales revenue and construction on a present day basis**.

5.5 In undertaking our assessment of the re-phased scheme the applicant has made allowance for adjustments in respect of a revised programme, holding costs, funding fees, sales and marketing costs, sales revenue, sales costs, service charge voids, and an adjusted profit on cost return.

5.6 We have considered the various adjustments and are generally satisfied that after taking account of the inputs the conservation deficit reported is a fair indication.

5.7 Best practice requires an assessment of the development proposal to determine whether the applicant's scheme is capable of realising a surplus, deficit or a nil return, after having regard to the applicant's opinion of revenue, costs and assumptions adopted in the enabling assessment model.

5.8 A result that returns a nil return after allowance for a reasonable developer's return indicates there is sufficient development volume to fund the necessary repairs to secure the future of the heritage asset.

5.9 If we were to apply a strict interpretation of the English Heritage Guidance there remains an argument for the applicant to seek to increase the development volume (i.e. increased number of dwellings) to a level sufficient to deliver a nil return.

6.0 Conclusion

6.1 We are satisfied the input adjustments to reflect different phasing assumptions are not unrealistic, and the conservation deficit is a fair indication of the financial performance that can be reasonably assessed at this stage.