



MANAGEMENT

Financial Viability Appraisal

Address: 13-15 Station Road,
Reading, RG1 1LG

LPA: Reading

Planning ref: 230202 / 230203

Client: Faye and Yara Limited

Date: 25th May 2023



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Executive Summary

This report provides a Financial Viability Appraisal (FVA) of proposed development at 13-15 Station Road, Reading, RL1 1LG. The process involves utilising Market Comparison and Residual Methods following RICS Guidance *Valuation of Development Property* (2019), *Assessing Viability in Planning under the NPPF Framework* (2021), and National Planning Policy Guidance on Viability (NPGV 2019), and complies with RICS professional standards and guidance *Financial Viability in Planning: Conduct & Reporting*.

Following NPGV para 008, wherever possible this FVA utilises assumptions used in the underlying local plan evidence base. Where changes have been made, these are fully supported by market evidence demonstrating current local circumstances.

The key outputs of this FVA are summarised in the below table:

GDV	£2,322,319.10
Costs exc land and profit	£1,222,218.28
Finance	£136,065.31
Return	£429,629.03
BLV	£850,000.00
RLV	£534,406.47
RLV-BLV	(£315,593.53)
Target profit	18.50%
Actual profit	4.91%

Target developer return includes a risk-adjusted rate for market residential (18.5%). Sensitivity analysis demonstrates this is the minimum return necessary to offset the current risk environment.

Benchmark Land Value (BLV) is assessed via the EUV+ and AUV method where relevant in line with national policy. No premium has been added in this instance.

As such, this FVA demonstrates that, on a 100% open market basis, the benchmark land value exceeds the residual land value of the scheme. Therefore, the development cannot viably provide the targeted contributions.

Full appraisal inputs and evidence are found in the Schedules, referred to throughout.

Introduction

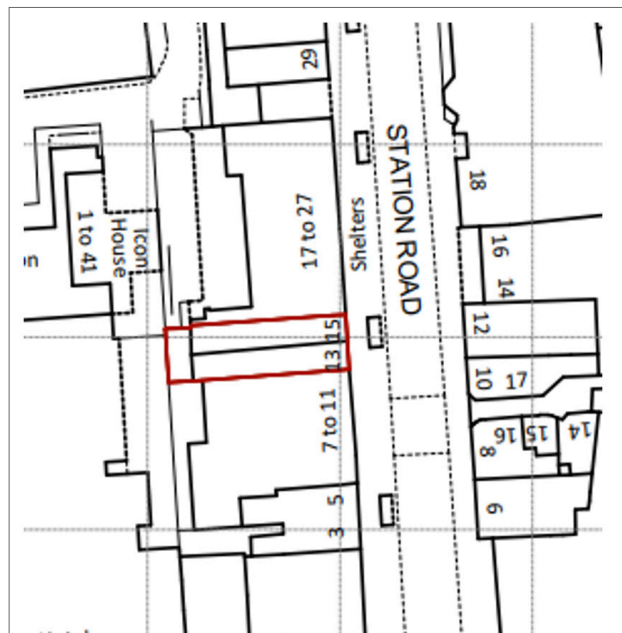
S106 Management is instructed by Faye and Yara Limited to produce a Financial Viability Appraisal (FVA) to determine the level of Affordable Housing contribution that can be viably delivered on proposed development at 13-15 Station Road, Reading, RG1 1LG.

Reading Borough Council seeks an Affordable Housing contribution in accordance with Policy H3 of the Reading Borough Local Plan, adopted in November 2019.

The site currently accommodates 13-15 Station Road, a 6-storey commercial building with a GIA of 748.61 (501m² net lettable space).

This FVA is to be viewed in conjunction with a planning application which proposes to convert the existing building. The basement and ground floor levels will be retained as commercial space, and upgraded throughout. Floors 1st to 4th will be converted to 7 residential apartments. In total the development will create 232m² of commercial accommodation and 395m² of C3 space.

Site Location Plan



S106 Management

S106 Management is a viability consultancy established in 2011. Formed initially to capitalise on 35 years of specialist experience in planning law, viability assessment and development, the company has expanded over the last 10 years and now benefits from the expertise of chartered surveyors, town planners, solicitors, architects and an extensive network of planning professionals.

With over a decade of experience in creating expert financial viability appraisals, advising on complex planning obligations, and negotiating with local authorities, **S106 Management** has often been at the forefront of planning viability matters. The company is now one of the most effective and experienced specialist viability consultancies in the UK, combining expertise from all corners of the industry and benefiting from a considerable evidence base of several thousand development appraisals countrywide.

Planning Policy

By virtue of section 38 (6) of the *Planning and Compulsory Purchase Act 2004*, planning applications must be determined in accordance with the adopted plan of the Local Authority, unless material considerations indicate otherwise.

Therefore, our starting point is Policy H3 of the Reading Borough Local Plan (adopted November 2019):

H3: AFFORDABLE HOUSING

Residential development will make appropriate contribution towards affordable housing to meet the needs of Reading

- *on sites of 10 or more dwellings, 30% of the total dwellings will be in the form of affordable housing;*
- *on sites of 5 - 9 dwellings, a financial contribution will be made that will enable the equivalent of 20% of the housing to be provided as affordable housing elsewhere in the Borough; and*
- *on sites of 1 - 4 dwellings, a financial contribution will be made that will enable the equivalent of 10% of the housing to be provided as affordable housing elsewhere in the Borough.*

For sites of 10 or more dwellings, provision should be made on site in the first instance with a financial contribution being negotiated to make up the full requirement as appropriate.

In all cases where proposals fall short of the policy target as a result of viability considerations, an open-book approach will be taken and the onus will be on the developer/landowner to clearly demonstrate the circumstances justifying a lower affordable housing contribution.

In determining residential applications the Council will assess the site size, suitability and type of units to be delivered in relation to the current evidence of identified needs. The Council will seek an appropriate tenure mix of affordable housing to include social rented, affordable rent, intermediate rent and shared ownership affordable units. The affordable units provided should be integrated into the development.

Priority needs are currently for housing with two or more bedrooms that can house families. The Council will regularly monitor and review the need for, and delivery of, affordable housing.

The following types of residential development will be exempt from the requirement to provide affordable housing:

- *Replacement of a single dwelling with another single dwelling; and*
- *Conversion of a dwelling to self-contained flats where there is no new floorspace.*

Policy H3 suggests that developments of 5 to 9 dwellings should provide an offsite financial contribution equivalent to 20% of the units. We have been advised that the Council have requested £190,000 in this regard.

The purpose of this FVA is to determine whether the development is capable of supporting the targeted contribution.

This policy has been informed by the 'Reading Borough Council Viability Testing Report', completed on behalf of the council by BPS Surveyors and published in March 2018. Where appropriate, the conclusions of this document are used to inform our report.

PPG Viability para 008 states:

'How should a viability assessment be treated in decision making?

'Where a viability assessment is submitted to accompany a planning application this should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then.'

This creates a presumption that the underlying local plan evidence base is correct until otherwise proven by dissenting parties, with the burden of proof relating to what changes have occurred since adoption of the local plan applicable to all parties.

As such, where appropriate the conclusions of the underlying local plan evidence base are used to inform our report and corroborate assumptions. Where we believe changes must be made these are fully evidenced.

National Guidance is a material consideration; therefore, we also consider the 'National Planning Policy Framework' (NPPF) (2021), and the 'National Planning Guidance for Viability' (NPGV) (May 2019).

National Guidance

National guidance on the delivery of Affordable Housing is provided by the NPPF.

Paragraphs 57, 58 and 64 of the NPPF are of particular relevance:

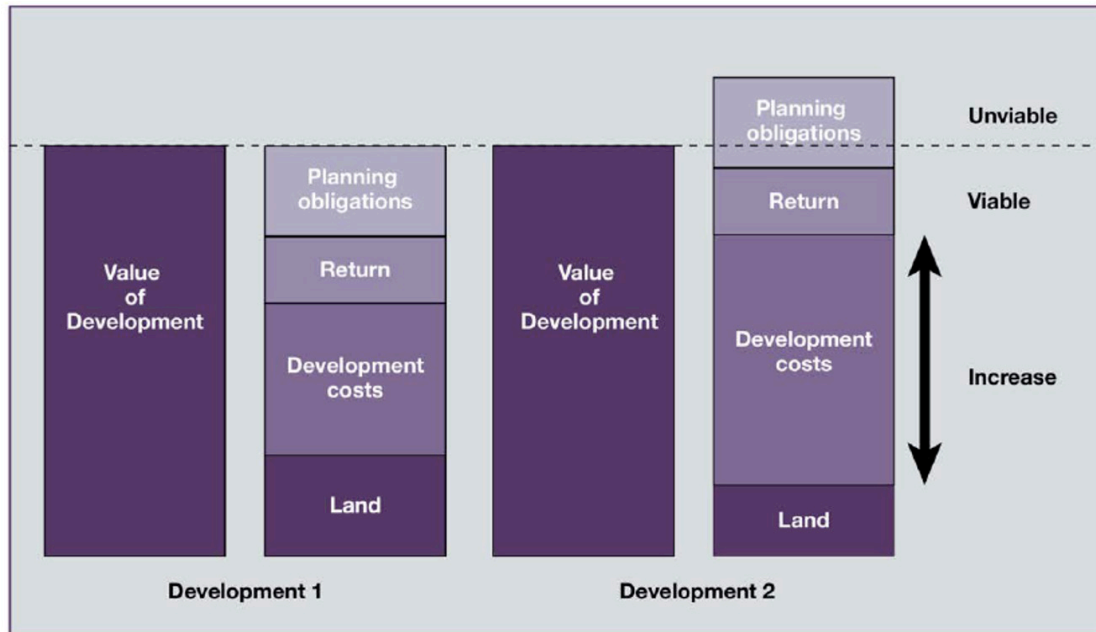
57. Planning obligations must only be sought where they meet all of the following tests²⁶:
- a) necessary to make the development acceptable in planning terms;
 - b) directly related to the development; and
 - c) fairly and reasonably related in scale and kind to the development.
58. Where up-to-date 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.
64. Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer). To support the re-use of brownfield land, where vacant buildings are being reused or redeveloped, any affordable housing contribution due should be reduced by a proportionate amount³⁰.

The recommended approach referred to above is set out in the NPGV (<https://www.gov.uk/guidance/viability>).

The standard approach to viability is explained at para. 10 of the NPGV:

‘Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it.’

This is summarised well in the below figure from RICS guidance:



Paragraphs 11-18 lay out the required approach to calculating gross development value (GDV), development costs, benchmark land value, landowner and developer return.

The concept of viability is well expressed by the NPGV, in particular para 012 which sets out the costs that should be included in any viability statement, and paras 013-017 which seek to ensure that the landowner should receive the Existing Use Value (EUV) of the site plus a premium, thus providing an incentive to the landowner to bring the site forward for development.

Our report has been written in accordance with the principles set out in both the NPPF, and the NPGV.

Particular Circumstances

Both RICS guidance and PPG Viability note that particular circumstances must justify the need for a site-specific viability assessment. These circumstances are broad, with a non-exhaustive list provided by the PPG.

'Such circumstances could include, for example where development is proposed on unallocated sites of a wholly different type to those used in viability assessment that informed the plan; where further information on infrastructure or site costs is required; where particular types of development are proposed which may significantly vary from standard models of development for sale (for example build to rent or housing for older people); or where a recession or similar significant economic changes have occurred since the plan was brought into force.'

PPG Viability para 007

The particular justification for this site-specific viability assessment is that significant economic changes have occurred since the plan was brought into force.

Following the RICS guidance:

3.10.3 The main differences in FVAs for decision taking, compared to for plan making, are that:

- the level of planning requirements has been determined in the plan
- the site will be identified
- the scheme will be specified in more detail
- any abnormal costs can be identified, including any remediation costs and related land remediation relief tax allowances that may be available, and any costs incurred in readying the site for development, and
- the evidence base can be more specifically related to the actual site (where the site was not assessed at the plan-making stage).

In many cases due to the lifecycle of the local plan it has often been many years since the last area-wide study was completed, meaning that the data underlying the adopted policy may require updating to accurately model changes to local markets.

Viability

The relevance of viability is accepted in Policy H3, which states:

In all cases where proposals fall short of the policy target as a result of viability considerations, an open-book approach will be taken and the onus will be on the developer/landowner to clearly demonstrate the circumstances justifying a lower affordable housing contribution.

The issue of viability is discussed in more detail at Para. 4.4.24 of the Local Plan:

4.4.24 However, the Council will be sensitive to exceptional costs of bringing a site to market such as for reasons of expensive reclamation, or infrastructure costs, or high existing use values. Where applicants can demonstrate, to the satisfaction of the Council, exceptional difficulties in bringing a site to market, the Council will be prepared to consider detailed information on the viability of a particular scheme and, where justified through an open book approach, to reduce the affordable housing requirement. The information required will be proportionate to the scale of development, and, where a proposal is for less than 10 dwellings, will be more limited in scope and length. For sites of less than 10 dwellings, a brief schedule of the main elements of the viability calculations, supported by estate agent valuations, will generally suffice. The Affordable Housing SPD, to be revised later in 2019, will contain more detail on information to be submitted. As development costs are usually reflected in the residual land value, the purchase price of a particular site will not, on its own, be a reason for reducing the affordable housing requirement. The Council will generally secure provision of affordable housing through a Section 106 agreement.

These policy statement should be seen in the context of the NPPF, and indeed subsequent Government guidance.

There are several proprietary toolkits in use to justify viability. We use the Housing Corporation Economic Appraisal Tool (HCEAT), and Argus Developer.

Our report and its conclusions are based on the application of this tool.

The next section sets out the assumptions that have been made in the preparation of the viability toolkit examining the viability of this site; the toolkit is shown in **Schedule 1** of this report. The comments below address the inputs to the toolkit sequentially and an electronic copy can be provided to the LPA on request.

Toolkit Inputs

Proposed Development

The residential element of the development is summarised by the table below (plans are shown at **Schedule 2** to this report):

Unit	Area m2	Type
1	57.90	1-bed 1F
2	41.90	1-bed 1F
3	58.00	1-bed 2F
4	43.70	1-bed 2F
5	57.90	1-bed 3F
6	42.90	1-bed 3F
7	92.70	2-bed 4F
Total	395.00	

The unit mix comprises 6 x 1-bedroom units and 1 x 2-bedroom unit.

Affordable Housing Values

We approach this issue by firstly modelling a scheme with no Affordable Housing; if the Residual Value of this model exceeds the Benchmark Value of the site (as described below) producing a surplus profit, then we produce a second model to illustrate the maximum level of Affordable Housing that can viably be delivered by the development.

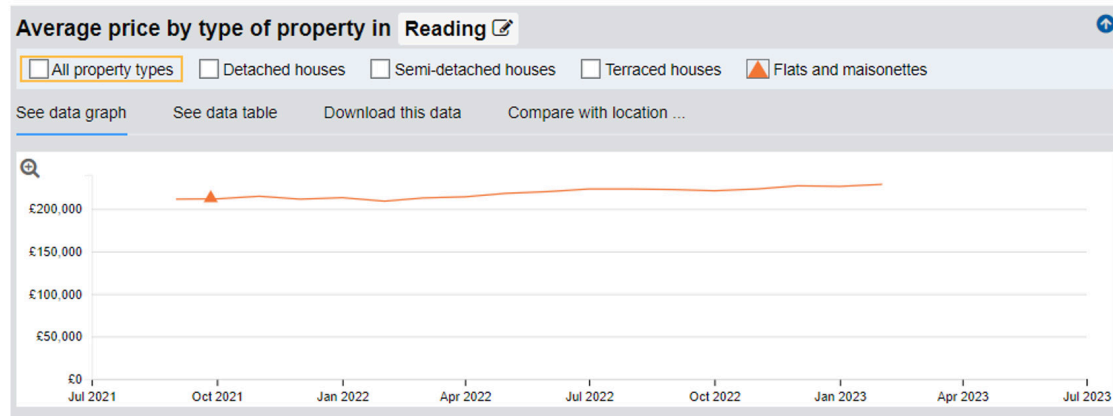
Open Market Housing Values

Land Registry data for Reading suggests the following average values for flats:

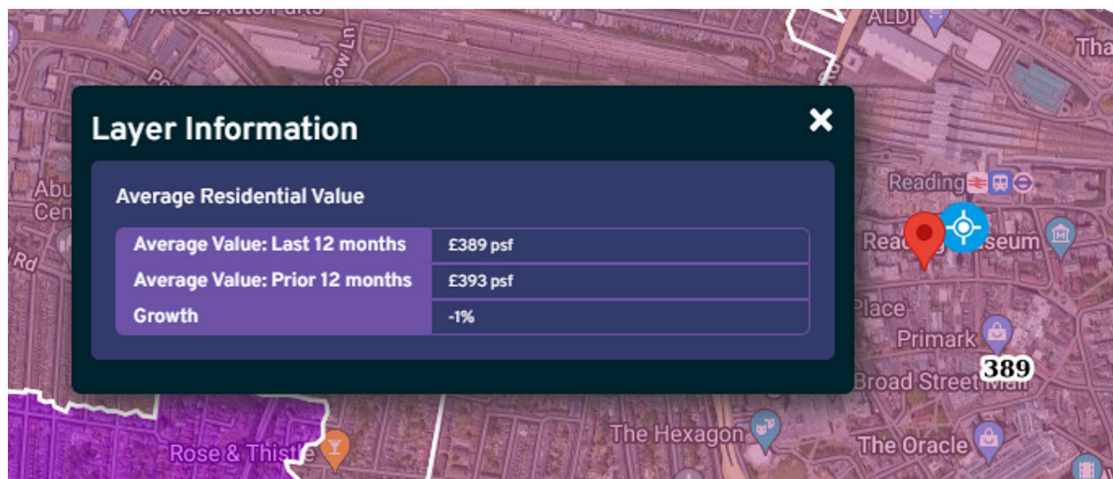
Reading for September 2021 to May 2023

Type of property

Track the index, average price and both monthly and annual change for all property types or focus on one in particular.



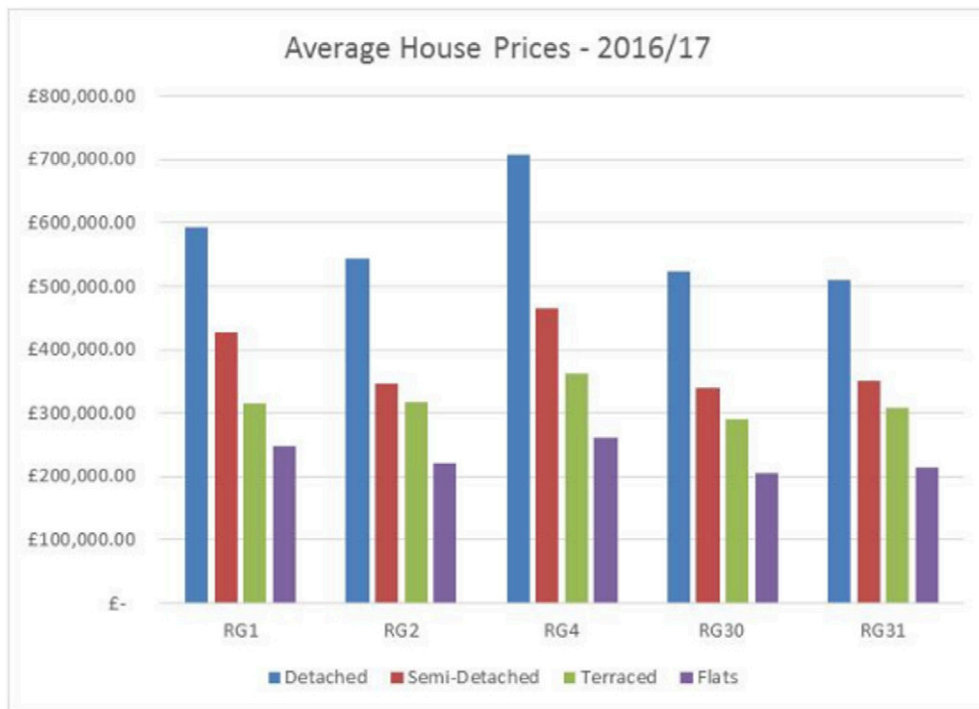
Nimbus suggests the following data:



This suggests an average open market value for properties in the immediate area of £4,185/m².

We have further consulted the local plan viability study which notes the following assumptions for value:

Chart 7: Average House Prices 2016/2017



This suggests values of c. £250,000 for flats in the RG1 postcode, however, we note this information is from 2016 / 2017 and therefore will require updating for current market conditions.

Transactional Data

We have compared this data to relevant recent 'sold' transactions extrapolated from Rightmove (see **Schedule 3**). Values are extremely sensitive to small changes in search area; therefore, we have limited our transactional search to within 1 year and 1/4 mile of the scheme.

Sold Flats within 1 Year 1/4 Mile					
Address	Type	Sale Date	Area m2	£/m2	Price
The Chatham, 10, Thorn Walk, Reading RG1 7BJ	Mid-floor flat	04.11.2022	51	£3,921.57	£200,000
Garrard House, 30, Flat 220, Garrard Street, Reading RG1 1NR	Mid-floor flat	04.11.2022	32	£6,250.00	£200,000
The Chatham, 2, Thorn Walk, Reading RG1 7BJ	Mid-floor flat	30.09.2022	47	£4,680.85	£220,000
Garrard House, 30, Flat 606, Garrard Street, Reading RG1 1ED	Top-floor flat	23.09.2022	91	£3,626.37	£330,000
<i>Il-libro Court, Flat 14, Kings Road, Reading RG1 3AF</i>	<i>Recently refurbished 2-bedroom top-floor flat situated above a commercial premises</i>	<i>23.09.2022</i>	<i>61</i>	<i>£4,139.34</i>	<i>£252,500</i>
Garrard House, 30, Flat 210, Garrard Street, Reading RG1 1NR	Mid-floor flat	20.09.2022	42	£4,952.38	£208,000
Jeffrey Place, Flat 28, Caversham Road, Reading RG1 7AY	2-bedroom flat in gated development, town centre location	01.08.2022	42	£5,142.86	£216,000
Jeffrey Place, Flat 16, Caversham Road, Reading RG1 7AY	2-bedroom flat in gated development, town centre location	27.07.2022	58.1	£4,187.61	£243,300
11, Regent Court, Reading RG1 7HW	Modern 1-bedroom purpose-built apartment, parking	23.06.2022	37	£4,918.92	£182,000
			Avg. £/m2 value	£4,449.79	

The average achieved prices are higher than the average data noted above. This is due to the fact that the nimbus data is compiled from across the postcode and typologies. More granular data presents a more accurate picture.

We have also studied properties which are currently on the market within 1/4 mile of the proposed scheme:

<i>Flats For Sale within 1/4 Mile</i>					
Address	Type	SSTC/For Sale?	Area m2	£/m2	Price
Market Place, Reading, Berkshire, RG1	1-bedroom flat in recent development, central location	Guide Price	40	£6,125.00	£245,000
Garrard House, 30 Garrard Street, Reading, Berkshire, RG1	1-bedroom top-floor apartment finished to a high specification, Town centre location	Offers in Excess of	42	£5,952.38	£250,000
Caversham Road, Reading, Berkshire, RG1	1-bedroom flat in purpose-built block, private courtyard	Offers Over	39.1	£4,603.58	£180,000
Regent Court, Reading RG1 7HW	2-bedroom split level apartment in Grade II Listed building, parking	Guide Price	74.7	£4,016.06	£300,000
Market Place, Reading, Berkshire, RG1	1-bedroom flat in recent development, central location	Guide Price	40	£6,125.00	£245,000
Garrard Street, Reading	1-bedroom flat in modern apartment block, central location	For Sale	35	£5,428.57	£190,000
Oxford Road, Reading	1-bedroom top-floor flat, central location	Offers in Excess of	41.6	£3,966.35	£165,000
Summit House, 49-51 Greyfriars Road, Reading, Berkshire, RG1	Modernised 1-bedroom apartment, Approx area	Guide Price	38	£5,263.16	£200,000
Reading, Berkshire, RG1	1-bedroom apartment in period property, refurbished to a high standard throughout	Offers in Excess of	34	£5,882.35	£200,000
			Avg. £/m2 value	£5,137.88	

Furthermore, we have reviewed new-build data, due to a lack of comps in the locality we have extended the search radius to 1+ miles:

<i>New Build Flats within 1 Mile</i>					
Address	Type	SSTC/For Sale?	Area m2	£/m2	Price
Market Place, Reading, Berkshire, RG1	1-bedroom flat in recent development, central location	Guide Price	40	£6,125.00	£245,000
Flat 3 Cadogan House, Rose Kiln Lane, Reading, RG2 OHP	1-bedroom flat in new development, gated parking	For Sale	34	£5,073.53	£172,500
Brunswick Hill House, 39 Brunswick Hill, Reading, RG1	Newly converted 1-bedroom apartment in detached Period property, communal garden	Guide Price	51.3	£5,457.12	£279,950
Market Place, Reading, Berkshire, RG1	1-bedroom flat in recent development, central location	Guide Price	40	£6,125.00	£245,000
Brunswick Hill House, 39 Brunswick Hill, Reading, RG1	2-bedroom new apartment in recently converted Character property, communal garden & parking	Guide Price	112.26	£4,409.41	£495,000
Brunswick Hill House, 39 Brunswick Hill, Reading, RG1	1-bedroom new apartment in recently converted Character property, communal garden & parking	Guide Price	57.2	£5,594.41	£320,000
Discovery House South, Huntley Wharf, Reading, RG1	Brand new 2-bedroom apartment finished to a high specification throughout, est completion Q3 2023	For Sale	67.6	£6,642.01	£449,000
Flat 11 Cadogan House, Rose Kiln Lane, Reading, RG2 OHP	2-bedroom contemporary new apartment, parking	For Sale	65	£4,523.08	£294,000
Flat 1 Cadogan House, Rose Kiln Lane, Reading, RG2 OHP	1-bedroom contemporary new apartment, parking	For Sale	41	£5,365.85	£220,000
			Avg. £/m2 value	£5,351.42	

The average £/m2 values and GIAs from the data sets above are summarised below:

	Nimbus	Sold	For Sale	NB For Sale
Avg. £/m2 Values - Flats	£4,185	£4,449	£5,137	£5,351
	Sold	For Sale	NB For Sale	Subject Units
Avg. GIA m2 - Flats	51.23	42.71	56.48	56.43

Average asking prices are inflated when compared to wider achieved values and the dataset supplied by Nimbus, suggesting asking prices are unlikely to be achieved. Consultation with local agents suggests prices are often being discounted 5-10% in the current market. Halifax and Nationwide are both reporting several subsequent months of falling house prices in Q4 2022. Savills predicts an average 10% contraction in house prices UK wide, while JLL suggest a more modest 6% fall.

The unit which has sold at *Il-libro Court, Flat 14, Kings Road, RG1* provides a useful comparable when considering projected sales values. This property is located less than 500m from the subject site, and like our client's proposal is situated above commercial premises. It has been recently refurbished and sold in September 2022 for £252,500, or £4,139/m².

We have been provided with advice from the Council regarding likely sales values. While we feel these projections are slightly optimistic, for the purpose of this review we adopt the sales values proposed by the LPA:

Unit	Area m ²	Type	£/m ²	PRICE
1	57.90	1-bed 1F	£4,750	£275,000
2	41.90	1-bed 1F	£5,967	£250,000
3	58.00	1-bed 2F	£4,793	£278,000
4	43.70	1-bed 2F	£5,789	£253,000
5	57.90	1-bed 3F	£4,853	£281,000
6	42.90	1-bed 3F	£5,478	£235,000
7	92.70	2-bed 4F	£3,991	£370,000
Total	395.00		£4,916.45	£1,942,000

The proposed valuation above has been reached following extensive market research, consideration of comparable characteristics in recent transactions, new build and external amenity premiums and advice from local agents and therefore should be considered robust. The figures represent the very top end of what can be achieved in today's market and considering current trends should be considered optimistic.

Freehold Ground Rent

The capital value of the Freehold Ground Rents from the project is therefore included at zero for the purposes of this viability appraisal. The Leasehold Reform (Ground Rent) Bill received Royal Assent on 8 February 2022 meaning it is now an Act of Parliament (law).

The Act limits ground rent to a 'peppercorn rent.'

As such, all-viability assessors are currently including ground rent at either a zero or nominal rate as this income will not be realised.

Timing

This FVA is to be read in conjunction with a detailed planning application which we expect to be granted within 3 months. There will be a 3-month period following this to produce building regs. drawings and obtain all fixed price quotations. We therefore allow a 6-month pre-commencement period.

Construction is projected over a 12-month period with sales expected between months 12 and 14.

Construction Costs

The below commentary is drawn from the most recent BCIS update.

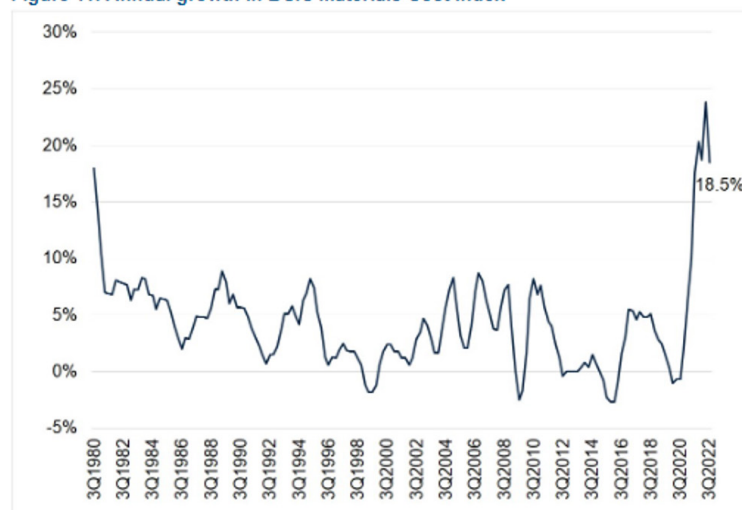
Wide predictions of a forthcoming recession combined with persistent high inflation provides a bleak outlook for construction over the next two years. Construction demand is expected to shrink, and with fewer opportunities there will be greater keenness to secure work. Although materials prices will fall long term, in the short term, current inflationary pressures are expected to keep labour costs rising resulting in increases in both costs and tenders. Tender prices will be rising more slowly than input costs over the next two years as contractors seek to fill order books and it is not until the last two years of the BCIS forecast period that margins and output are expected to recover.

Building costs as measured by the BCIS General Building Cost Index rose 12.7 in the year to Q3 2022 but are forecast to slow to approximately 2.5% per annum over the rest of the forecasted period. Although, in 2022 the increase in building costs was mainly driven by escalating costs of materials, going forward, labour is expected to be the main driver.

RICS released further advice in December 2022:

- *Tender prices in 4Q2022 rose by 1.1% compared with the previous quarter, and by 7.6% on an annual basis. Economic uncertainty will make contractors keen to tender, however, it also increases their risk of delivery. Although labour site rates are rising faster than wage awards, supply issues with materials have largely been resolved. Tender prices are likely to be suppressed in the first two years of the forecast due to reduced demand. It is not until the last two years of the forecast period that tender prices are likely to rise faster than basic costs, with tender prices forecast to rise by 13% in the five years to 4Q2027.*
- *Materials prices rose by 2.3% in 3Q2022 compared with the previous quarter, and by 18.5% compared with a year earlier. Some materials prices are easing (timber, steel, metals); however, soaring energy costs will result in escalating prices for energy-intensive construction materials.*
- *Wage awards over the next year will come under pressure from high inflation. Some of the 2% and 3% increases already agreed for 2023 may be renegotiated. Wage awards will peak in 2023 and the average annual wage awards over the forecast period will be around 3.5% per annum. Site rates have already risen in line with inflation and may steady in 2023. This will be reflected in the market conditions element of the TPI.*
- *The BCIS General Building Cost Index rose by 2.3% in 3Q2022 compared with 2Q2022, and by 12.7% compared with 3Q2021. Costs will rise by 13% over the forecast period (4Q2022 to 4Q2027).*
- *Total new work output increased by 2.4% in 3Q2022 compared with the previous quarter and by 5.7% compared with a year earlier. New construction output is expected to contract in 2023-2024, before returning to growth thereafter, and rising 5% over the forecast period (2022-2027).*

Figure 11: Annual growth in BCIS Materials Cost Index



Source: BCIS

Therefore, while there are initial positive signs, and some predictions of a more competitive environment driving pricing into 2023, overall build costs continue to increase at the current time.

Results

Rebased to 3Q 2023 (S103; forecast) and Reading (1113; sample 33) [Edit](#)

E/M2 STUDY

Description: Rate per m2 gross internal floor area for the building Cost including prelims.

Last updated: 20-May-2023 07:27

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	
Rehabilitation/Conversion							
816. Flats (apartments)							
Generally (15)	2,036	444	1,199	1,594	2,094	7,134	80
1-2 storey (15)	2,647	876	1,338	1,667	3,102	7,134	17
3-5 storey (15)	1,738	444	1,211	1,521	1,942	6,602	48
6 storey or above (15)	2,384	688	1,108	1,618	3,604	5,980	14

The above notwithstanding, we have adopted the median cost of £1,521/m2 for rehabilitation and conversion of flats (3-5 storey).

We adopt a 90% gross to net correction factor to allow for all internal circulation space and common parts.

Our modelling has been run with a corresponding correction factor.

Non-BCIS Costs

As mentioned previously, the BCIS data makes no allowance for all external works and associated infrastructure costs, and as it is reported in retrospect will not account for newer policy and legislation such as biodiversity and enhanced building regulations.

We expect to see an allowance of between 10% and 20% for all external works. In this instance, given the nature of the project we have adopted a more modest 5% in this regard.

Also, a further allowance of 6% of base build costs are noted for the costs of meeting enhanced energy requirements, which are now embedded into part L of the Building Regulations, an uplift which will not yet have been fully incorporated into the BCIS reporting.

In addition, the requirements of the Environment Bill will soon come into force regarding a minimum 10% biodiversity net gain on all development sites. Councils may adopt a higher target in their development plans.

The 2019 DEFRA Consultation considers the potential cost of delivery as a proportion of build costs on both greenfield and brownfield sites.

Broadly we consider an allowance of 0.75% for brownfield delivery and 2.5% for greenfield to be an appropriate assumption

We have adopted the following inputs:

- 5% externals
- 6% to allow for regs uplift
- 0.75% for greenfield biodiversity uplift.

The toolkit has been run with a corresponding figure.

Fees

Professional fees are often quoted on a range of 8-12%, with separate allowances for planning fees.

The local plan viability study adopts 10% as a broad category for professional fees – this is not differentiated by site type.

This will vary according to the size and complexity of the scheme. We normally adopt 6-8% for large sites (with repetitive designs and no complicating factors), 10-12% for more differentiated sites (with a variety of different house types or areas) and 10-15% for small sites, where the scale of the fees is often larger due to the lower overall cost of build and lack of potential efficiencies.

We have adopted a figure of 10% on the basis that this scheme provides 7 units.

Contingency

PPG Viability para 012 notes:

- ***explicit reference to project contingency costs should be included in circumstances where scheme specific assessment is deemed necessary, with a justification for contingency relative to project risk and developers return***

Inflation is currently at 10.1%, which given the early stage of this assessment (pre-planning consent) is a material long-term risk. All prudent developers are currently adopting a standard contingency allowance of 10-20% to account for this risk. While general risk is accounted for in the project's target return, the lower the return assumption the higher the contingency adoption should be, ensuring an operating profit is retained in all instances.

In this case we adopt 8% on the basis of a 18.5% target return. If the target return is reduced then the contingency allowance must likewise be adjusted to compensate.

Planning Obligations (S106 contributions & CIL)

Reading adopted their CIL Charging Schedule in January 2015 which stipulates that developments should provide £120/m² for additional C3 accommodation. As there is no increase in floorspace proposed, the development is liable to provide any CIL contributions.

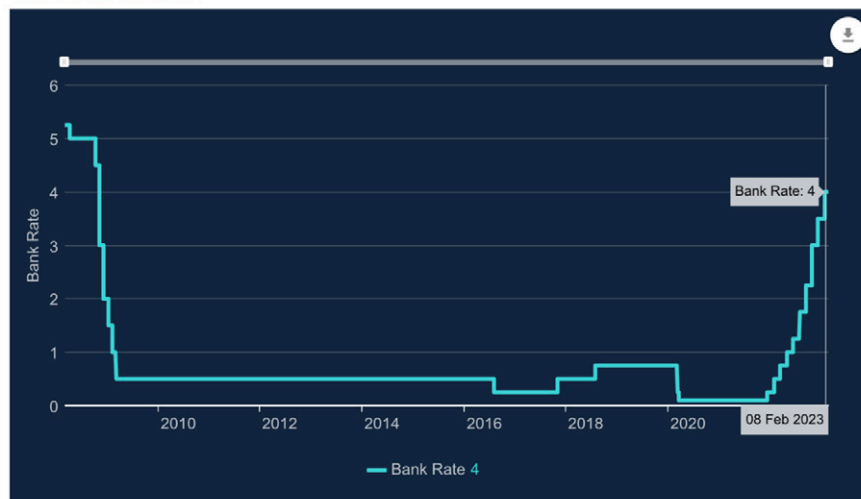
Site Acquisition Costs

The EUV is £850,000 as explained below. We have included acquisition costs comprised of SDLT at 5%, legal fees at 0.75% and agency fees of 1%.

Finance Costs

Given the macro-economic context, lenders have become increasingly risk adverse and therefore funding is becoming harder to acquire. The Bank of England raised the base rate to 4.5% in May 2023, with further rate rises currently suggested throughout 2023. The local plan viability study in March 2018 adopted 6.57%. The base rate at that date was 0.5%. The base rate has increase 4% since this date.

Official Bank Rate



Therefore, a minimum interest figure of 8% is appropriate, and has been used in the toolkit. In reality finance deals are now significantly exceeding this level, but as an all-in rate 8% accommodates all fees and is applied to all costs.

Sales/Marketing Costs

The local plan viability study adopts 2% sales fees and 0.5% (of total revenue) for legal fees on sales.

Generally, we would assume sales agents fees at 1.5%, legal fees at 0.5% and marketing/promotion at 2% for housing schemes including a show home and 1% for marketing without a show home.

We have adopted a sales/marketing cost of 2.5% and legal fees of £1,000 per unit.

Developer Profit

The NPGV contains the following advice at paragraph 18:

How should a return to developers be defined for the purpose of viability assessment?

'For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.'

The RICS guidance similarly notes the test laid out in the PPG as a starting point.

Return to the developer

4.2.27 In paragraph 018, under the heading of 'Standardised inputs to viability assessment', the PPG provides some guidance on how a return to developers is defined for the purposes of the FVA. The paragraph's focus is on a suitable return for plan making, rather than individual returns for scheme-specific decision taking. It identifies a standardised input of 15% to 20% of GDV as a suitable return for the purpose of plan making, but is silent on a decision-taking developer return. However, PPG paragraph 008 states that where a site-specific FVA accompanies a specific planning application, it 'should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then'. This implies, in addition to other inputs, a similar test regarding developer's profit to that used at the plan-making stage.

As previously noted, Paragraph 008 of the NPGV provides a presumption that the underlying local plan evidence base is correct until otherwise proven by dissenting parties. The 'Reading Borough Council Viability Testing Report,' completed on behalf of the council by BPS Surveyors and published in March 2018 identifies at **para. 5.5 (page 29)** gross development value between 17-20% as an appropriate assumption. This aligns with national policy and precedent.

Considering the risk profile of the development we have adopted the assumption adopted in the CIL Viability Assessment as appropriate (18.5%). This is supported by our sensitivity analysis, which further demonstrates the relative risk profile of the development (see below).

The appraisal has been run accordingly.

Commercial Assumptions - Input Sheet 3

Size of Scheme

In addition to the residential dwelling the development will also provide commercial units with a GIA of 232m² and NLA of 117m².

Values

We have completed market research on rents in the subject location:

Commercial Office Space For Rent - 1/4 Mile Subject Site					
Address	Type	Status	Area m ²	£/m ² Rental	Annual Rent
Davidson House, Forbury Square, Reading, RG1 3EU	serviced office for lease. Large modern premises with various size units available	available	15	£327.20	£4,908
Thames Tower Station Road, Reading	premium units in serviced block. Available between 9 and 4000+ m ²	available	9.29	£1,226.00	£11,400
One Forbury Square, The Forbury, Reading, RG1 3BB	Newly refurbished Grade A office space	available	170	£402.78	£68,472
Co-Space Reading Quadrant House Broad Street Mall, Reading	High end serviced office space. Units available between 9 and 1,600m ²	available	9	£433.33	£3,900
Pinnacle, 20 Tudor Road, Reading, RG1 1NH	Centrally located premium commercial accommodation	available	224	£306.11	£68,568
30-31 Friar Street, Reading	Quality accommodation less than 2 minutes walk to Reading station. Range of units available	available	142	£210.51	£29,892
Greyfriars Gate, 7 Greyfriars Road, Reading, RG1 1NU	Fully fitted second floor with refurbished WCs and showers	available	253	£290.28	£73,440
Flat 1 Cadogan House, Rose Kiln Lane, Reading, RG2 0HP	1-bedroom contemporary new apartment, parking	For Sale	41	£5,365.85	£220,000
			Avg. £/m ² value	£282.73	

We note that a large portion of the sample size is compiled from premium, fully serviced, smaller units, which are not directly comparable to the space that will be provided by the development. This fact notwithstanding we adopt a rental value of £275/m2 which we capitalise at 8%.

Building Costs

We refer to the up-to-date BCIS data shown below:

Results

Rebased to 3Q 2023 (383; forecast) and Reading (113; sample 33) [Edit](#)

E/M2 STUDY

 **Description:** Rate per m2 gross internal floor area for the building Cost including prelims.

Last updated: 20-May-2023 07:27

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				
Rehabilitation/Conversion										
320. Offices										
Generally (15)	1,620	207	903	1,308	2,074	6,171	86			
Air conditioned										
Generally (15)	1,745	356	1,034	1,382	2,064	6,171	41			
1-2 storey (15)	1,574	356	722	1,166	1,724	6,171	17			
3-5 storey (15)	2,116	420	1,198	1,677	2,810	5,110	14			
6 storey or above (15)	1,624	691	1,173	1,382	2,015	2,920	7			
Not air conditioned										
Generally (15)	1,669	264	1,123	1,453	2,234	4,223	28			
1-2 storey (15)	1,506	264	1,019	1,331	2,023	3,577	14			
3-5 storey (15)	1,652	524	993	1,453	1,877	4,223	11			
6 storey or above (25)	1,354	551	-	1,219	-	2,425	4			

Due to the extent of works proposed to the LGF and GF levels we adopt the lower quartile costing (for air-conditioned offices generally), at £1,034/m2.

Fees

Professional fees (10%) and contingencies (8%) have been included as per the residential element of the scheme.

Timing

This is identical to the 'residential' section of the report.

Purchaser's costs

We have adopted purchaser's costs of 5.75%.

Developer Profit - Input sheet 2

We adopt a developer profit margin of 18.5%, which aligns with the Local viability study and the residential element of the project.

Benchmark Land Value

The NPGV provides a standard methodology for determining Benchmark Land Value (BLV).

Paragraph 15 requires that the EUV of the site should be identified:

'Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield (excluding any hope value for development).'

Sources of data can include (but are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence.'

RICS guidance Assessing Viability in Planning under the NPPF Appendix B lays out the appropriate approach to assessing existing use value, including relevant data sources:

B.1.3 The PPG paragraph 015 identifies the type of evidence base that can be used to support the determination of the EUV and the sources of that evidence. At the plan-making stage, this should be accomplished with collaboration between the plan-makers, developers and landowners, and can use published sources of information on rental and capital values of land and property, such as:

- land registry records of transactions
- real estate licensed software packages
- real estate market reports
- real estate research
- estate agent websites
- property auction results
- Valuation Office Agency data and
- public sector estate/property teams' locally held evidence.

The site currently accommodates 13-15 Station Road, a 6-storey commercial building with a GIA of 748.61 (501m2 net lettable space).

The Rateable Value as per Gov.uk website is £85,000:

Property

13-15, Station Road, Reading, RG1 1LG

Valuation

[Help with current valuation](#)
[Compare properties](#)

Valuation

Current rateable value (1 April 2023 to present)

£85,000

We capitalise this at 10% to produce an EUV of £850,000.

Paragraph 16 requires that a premium should be added to the EUV (EUV +) to *incentivise* the landowner to bring the site forward for development:

'The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a landowner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements.

*Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration. **Market evidence can include benchmark land values from other viability assessments.** Land transactions can be used but only as a cross check to the other evidence. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners. Policy compliance means that the development complies fully with up to date plan policies including any policy requirements for contributions towards affordable housing requirements at the relevant levels set out in the plan. A decision maker can give appropriate weight to emerging policies. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).'*

D.2.4 The circumstances underpinning the assessments of the EUV and premium, and which may require adjustment, could include:

- the date of the determination of the BLV
- landowner optionality, i.e. the range of options open to the landowner
- state of the property, obsolescence and compliance with environmental and building regulations
- site constraints such as ground conditions, contamination, ransom issues, planning factors, third-party rights and covenants
- uniqueness of opportunity, such as 'one-off' site assembly
- competition from alternative sites
- the weighting of individual BLV/premium evidence relative to the subject property, and
- adjustments made by the plan-maker in arriving at an adopted premium, if any.

D.2.5 Information on BLVs and premiums in other FVAs can be requested but, if it cannot be provided, the practitioner will need to make assumptions and this will have an impact on the quality of that evidence. It is up to the decision-maker how much weight to accord to that evidence.

D.2.6 Where the EUV part of the benchmark is a substantial element of the overall assessed value, the premium is usually stated as a percentage increase of the EUV. This is typical in urban and brownfield sites.

D.2.7 In the case of greenfield, cleared brownfield or some *sui generis* (unique) sites outside of the normal planning use classes, where the EUV is a small proportion of the BLV, the premium is more likely to be stated as a multiplier or could be stated as an actual amount.

In this instance we have not applied a landowner premium however we reserve the right to revisit this matter if necessary.

Paragraph 17 allows the BLV to be determined by an alternative Use Value (AUV):

'For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its existing use. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should be limited to those uses which would fully comply with up to date development plan policies, including any policy requirements for contributions towards affordable housing at the relevant levels set out in the plan.

Where it is assumed that an existing use will be refurbished or redeveloped this will be considered as an AUV when establishing BLV.

Plan makers can set out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with up to date development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued. Where AUV is used this should be supported by evidence of the costs and values of the alternative use to justify the land value. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted.'

An AUV calculation is not required in this instance.

The standard approach to viability is to compare the BLV of the development site with the Residual Value calculated by the (HCEAT) viability spreadsheet. It is only if the Residual Value of the development exceeds the Market Value (Benchmark), that it will be viable for a contribution to be made towards Affordable Housing.

Conclusions

The full spreadsheet appears at **Schedule 1**, and the key conclusions are set out in the summary section. They are also repeated for convenience below:

Sales	£2,322,319.10
<i>Less Costs</i>	
Construction Costs (Resi)	£667,549.98
Commercial Costs (Build & Fees)	£295,181.78
Other Site Costs	£203,936.52
Marketing	£55,550.00
Finance Costs	£136,065.31
Developer Return	£429,629.03
Residual Site Value	£534,406.47
Benchmark Land Value	£850,000.00
Result	(£315,593.53)

To determine the viability of targeted affordable housing provision, the Benchmark Value of the site as stated above, is deducted from the Residual Value calculated by the viability model. If the result is negative, as it is in this case, the development does not achieve the target return on a 100% open market basis and therefore is unlikely to be able to viably deliver the targeted contributions.

The following table summarises the above conclusions.

Spreadsheet Residual Value	£534,406.47
Plus Target Developer Return	£429,629.03
Less Benchmark Value	£850,000.00
Actual Profit	£114,035.51
Percentage actual profit	4.91%

This presents a return which is significantly lower than the 18.5% target identified previously.

Any planning obligations would further reduce this level.

Sensitivity Matrix

Following RICS guidance we have provided a sensitivity analysis of the assumptions in this report, demonstrating the impact on developer profit of +/-5-10% changes in build costs and sales values. This is particularly important to inform assessment of risk.

Sensitivity testing conclusions are included below.

Testing the variance associated with changes in sales and build costs of +/- 5-10% results in the below matrix:

Developer profit %		Sales values				
Build Costs		-10%	-5%	0%	5%	10%
	-10%	-2.22%	2.78%	7.78%	12.78%	17.78%
	-5%	-3.65%	1.35%	6.35%	11.35%	16.35%
	0%	-5.09%	-0.09%	4.91%	9.91%	14.91%
	5%	-6.53%	-1.53%	3.47%	8.47%	13.47%
	10%	-7.96%	-2.96%	2.04%	7.04%	12.04%

This demonstrates that in all scenarios the achieved return is below the targeted 18.5%, suggesting a high risk development.

T&Cs and Compliance

- 1.1 S106M has been instructed by the applicant to review the viability of the proposed development and engage with the local authority and their representatives on this matter.
- 1.2 Scope of instruction extends to provision of 1 report document and schedules for submission as part of a planning application.
- 1.3 S106M has not inspected the property.
- 1.4 This report is prepared as an assessment of the Planning Financial Viability of a proposed development for the purposes of agreeing appropriate Section 106 planning obligations and affordable housing contributions. It is not a valuation of the subject site or scheme. It is exempted from the RICS Red Book on the basis of the parties negotiating and agreeing the planning obligations and the authoritative requirement of the NPPF and PPG. It does not constitute a Red Book valuation report, and should under no circumstances be relied upon as such, although it may refer to the conclusions of third parties in this regard for which no liability is accepted. The date of the report can be viewed on the front page and will require updating for market uncertainty after a reasonable time period has elapsed.
- 1.5 The report is assumed to be made publicly available for transparency purposes unless otherwise stated. The Executive Summary can be considered a Non-Technical Summary for the purposes of the guidance.
- 1.6 S106M accepts responsibility only to the commissioning party named at the start of this report alone that this report has been prepared with the skill, care and diligence reasonably to be expected of a competent consultant but accept no responsibility whatsoever to any other person or entity.
- 1.7 S106M confirm that any RICS members involved in this reporting have complied with the mandatory requirements of RICS Professional Statement Financial Viability in Planning: Conduct and Reporting May 2019, including the following:
 - We have acted with objectivity, impartially, without interference and with reference to all appropriate available sources of information (para 2.1).
 - We have identified no conflicts of interest or risk of conflicts in preparing this report (para 2.2).
 - We are not working under a contingent or performance related fee agreement basis (para 2.3).
 - We support positive, proactive, transparent and appropriate engagement between all parties in the planning process. This report is prepared on the basis that it will be made publicly available, except in specifically agreed exceptional circumstances (para 2.4).
 - We have not been involved in the preparation of the Council's Local Plan Area Wide Viability Assessment (para 2.5); however we have regard to this in line with PPG Viability para 002 and the statutory development plan.
 - All inputs are reasonably justified by market and supporting evidence including but not limited to the local plan viability study which justifies the adopted planning policy in line with para 008 PPG Viability (para 2.6-2.7).
 - The status of this report is Final as of the dated front page subject to any further reasonable, proactive and constructive negotiations to resolve reasonable professional differences of opinion in line with para 2.6, 2.8 and 2.10 of the Professional Statement.
 - Our report includes sensitivity testing in line with the para 2.9.
 - Where there are professional differences of opinion over inputs we seek to resolve these during negotiations following submission of the original report in line with para 2.8-2.10. Where differences of opinion cannot be resolved this is stated clearly.

- The Executive Summary complies with the Non-Technical Summary requirement of para 2.11.
- Any sub-consultants contributing to this report have been made aware of the Professional Statement and its requirements, and confirm compliance with it (para 2.13).
- We have been allowed sufficient time since instruction to carry out this FVA bearing in mind the scale of the development and the status of the information as at the date of this report (para 2.14).
- Appropriate regard has also been had to RICS Guidance Note: Assessing Viability in Planning under the NPPF 2019 (2021).

Material Uncertainty

In respect of the planning and development sector as at the report date where unprecedented sets of circumstances are highlighted, including for example COVID-19, the Ukraine War and Energy Crisis, creating an absence of relevant/sufficient market evidence on which to base our judgements, our report will be reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, in respect of the report less certainty – and a higher degree of caution – should be attached to that report than would normally be the case.

For the avoidance of doubt this explanatory note, including the 'material valuation uncertainty' declaration, does not mean that the report cannot be relied upon. Rather, this explanatory note has been included to ensure transparency and to provide further insight as to the market context under which said report may have been prepared. In recognition of the potential for market conditions to move rapidly in response to changes in market conditions we highlight the importance of the valuation date and any reporting material uncertainty.

Quality Control

This report is provided for the stated purpose and for the sole use of the named clients. In line with para 2.12 the following quality control pathway has been taken, with all parties involved in the compilation of this report and history of previous viability discussions noted:

Luke James O'Cathail BA Hons

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Robin Furby BA Hons Law, Director