

**AFFORDABLE HOUSING VIABILITY REPORT
FOR RESIDENTIAL DEVELOPMENT AT 8 ARDLER ROAD,
CAVERSHAM, READING, RG4 5AE.**

On behalf of Bozedown Ltd

**By Simon Corp BSc (Hons) MCIOB
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1.0 Introduction and Instructions

- 1.1 S106 Affordable Housing (Hampshire) Ltd has been instructed by Bozedown Ltd to prepare an affordable housing viability assessment to determine the viable level of affordable housing provision that can be provided on the proposed development at 8 Ardler Road, Caversham, Reading providing 2no two bedroom semi-detached houses.
- 1.2 The report has been prepared by Simon Corp, I have a BSc (Hons) in Residential Development from Nottingham Trent University and 30 years experience in affordable housing development, most of this time was spent working for Registered Providers developing affordable housing projects including Aldwyck Housing Group, Raglan Housing Group now Stonewater and Eastleigh Housing now Vivid Group . I am a Director of S106 Affordable Housing (Hampshire) Ltd a specialist practice providing viability, development and affordable housing consultancy services.
- 1.3 The purpose of the study is to set out the policy background, development details, viability and cost issues and make a case for the level of affordable housing contribution the development can viably sustain. Our methodology will be to carry out a viability assessment without any affordable housing provision and compare the resultant residual land value with the benchmark existing land value to determine the total development subsidy that is available to fund any affordable housing provision.
- 1.4 The appraisal has been carried out using the HCA (now Homes England) economic Appraisal Toolkit (EAT), where information is not available any assumptions made are either in line with industry norms or the default settings of the toolkit.
- 1.5 The updated NPPF and Planning Practice Guidance (Viability) states that an applicant must make a case why a viability assessment is required and a viability assessment should refer back to the viability assumptions adopted at plan making stage. The Reading Borough Council Affordable Housing policy is based on viability evidence set out in a viability assessment prepared by BPS Surveyors in 2018, in common with all borough wide assessments this has been based on a range of development typologies and appraisal assumptions so a site specific viability assessment is required to compare the site specific circumstances with the broad assumptions which support the Local Plan policy.
- 1.6 This report has been undertaken with objectivity, impartiality, without interference and this instruction does not result in any conflict of interest. This instruction is on a fixed fee basis, in preparing this report no performance related fees nor have any contingent fees have been agreed.

2.0 Executive Summary

- 2.1 The application site extends to a site area of 0.03ha and is currently occupied by a two bedroom bungalow in a state of disrepair. The site was granted planning consent for 2no houses in April 2018 but that consent has since lapsed. A new planning application is proposed for 2no two bedroom semi-detached houses.
- 2.2 The Reading Borough Council Local Plan was adopted in November 2019 and policy H3 states that 10% affordable housing is required from sites providing 1-4 dwellings and this can be delivered as a financial contribution towards offsite affordable housing. The Reading guidance states that affordable housing should have a value at 50% of open market value and so a policy compliant contribution will equate to 5% of GDV which has been calculated at £47,500.
- 2.3 To assess if the development can viably support the policy level affordable housing requirement we have been instructed to prepare a viability assessment to establish if a development surplus is generated by the development which can be used to support affordable housing provision or other planning obligations. In line with the Planning Practice Guidance we have appraised the proposed development on a residual valuation basis and compared the resultant land value with the benchmark land value assessed on an existing use plus premium or Alternative Use basis. The difference between the residual land value and the benchmark land value provides the surplus which is available to support the provision of an affordable housing.
- 2.4 We have prepared a EAT appraisal for the proposed scheme on a residual land value basis and the result is summarised below:

Appraisal Scenario	Residual land value (£)	Benchmark land value (£)	Surplus/deficit (£)
Open market	152,804	183,209	-30,405
Policy compliant	109,583	183,209	-73,626

- 2.5 The open market appraisal with no allowance for any affordable housing shows a negative outcome with a deficit at -£30,405 and so clearly no surplus is generated by the scheme to provide any affordable housing or other s106 costs. For the development to come forward the applicant will need to take a commercial view to accept a lower level of return below the levels set out in the guidance, but the developer should not be expected to contribute to planning obligations until the threshold levels of return set out in the Planning Practice Guidance at 15-20% of GDV have been achieved.

- 2.6 The Planning Practice Guidance states that a viability assessment should refer back to the assumptions used at plan making stage. The Reading Borough Council Affordable Housing policy is supported by a Local Plan Review Viability Assessment provided by BPS Surveyors in 2018 and so we have summarised below the assumptions used in the Local Plan assessment with the assumptions used to construct the viability assessment. Where we have used a different assumption it is based on assumptions we have agreed on other similar assessments, but in the main we have adopted marginally lower cost assumptions than the assumptions in the Local Plan viability assessment.

Assumption	Local Plan Assumption	Scheme Assumption
Build costs	BCIS median rate	BCIS Upper Quartile rate
External works	Not specified	10%
Contingency	5%	5%
Professional fees	10%	10%
Sales costs	3% of GDV	2% of GDV
Finance costs	6.5%	8%
Developers profit	20% open market	17.5% open market
Affordable housing return	6%	6%

- 2.7 In summary the appraisal without any allowance for affordable housing provision or other s106 costs shows a viability deficit and therefore no surplus is generated by the scheme to support an affordable housing provision or other s106 contributions.

3.0 Viability Assessment

- 3.1 The application site extends to a site area of 0.03ha and is currently occupied by a two bedroom bungalow in a state of disrepair. The site was granted planning consent for 2no houses in April 2018 but that consent has since lapsed. A new planning application is proposed for 2no two bedroom semi-detached houses each plot with a gross internal floor area at 90m².
- 3.2 The Reading Borough Council Local Plan was adopted in November 2019 and policy H3 states that 10% affordable housing is required from sites providing 1-4 dwellings and this can be delivered as a financial contribution towards offsite affordable housing. The Reading guidance states that affordable housing should have a value at 50% of open market value and so a policy compliant contribution will equate to 5% of GDV which has been assessed at £950,000 and so the policy compliant contribution will be £47,500.
- 3.3 S106 Affordable Housing (Hampshire) Ltd has been instructed to assess if the policy level affordable housing can be viably funded from the proposed development. A development is deemed to be viable if the residual land value derived by the scheme is above the existing land value assessed on an existing use plus premium or Alternative Use basis, the surplus providing the subsidy available to support the affordable housing provision. Our methodology is therefore to assess the residual land value derived by the scheme and compare the resultant land value with the benchmark existing land value to assess if a development surplus is generated to support affordable housing provision.
- 3.4 An EAT appraisal for the proposed open market scheme with no affordable housing provision constructed on a residual valuation basis shows a residual value at £152,804. The appraisal has been based on a developers return at 17.5% of GDV which is at the mid point of the range set out in the Planning Practice Guidance at 15-20% of GDV.
- 3.5 To fully assess the viability of the scheme we need to compare the resultant level of residual value derived from the proposed scheme with the existing benchmark land value. The Planning Practice Guidance states that benchmark land value is based on an existing use plus premium valuation or a reasonable alternative use valuation. The EUV plus premium method is essentially valuing the property on an existing use value taking account of its current lawful planning use and allowing for an additional landowner's incentive to encourage the landowner to bring the site forward to the market. The Planning Practice Guidance also states that an Alternative Use Valuation (AUV) can be used if that alternative use complies with local plan policies but an AUV valuation is deemed to be inclusive of any landowner's premium.
- 3.6 In this case the site is occupied by a two bedroom detached bungalow which EPC records record as having a gross internal floor area at 66m². The building

appears to be in a state of disrepair and we would need to factor in refurbishment costs and associated fees to achieve a market value. To value the site we have therefore prepared a residual land valuation based on refurbishment of the existing property which shows a residual land value at £183,209.

- 3.7 The Planning Practice Guidance states that where refurbishment is factored in the valuation should be considered to be an Alternative Use Value (AUV) and consequently no landowners premium should be included. We have therefore adopted a benchmark land value at £183,209. We have noted the property was acquired for £410,000 in November 2022 but the Planning Practice Guidance is clear that we should not use purchase price to establish the benchmark land value it should be based on an EUV Plus Premium or Alternative Use Valuation.

- 3.8 In summary the appraisal results are set out below:

Appraisal Scenario	Residual land value (£)	Benchmark land value (£)	Surplus/deficit (£)
Open market	152,804	183,209	-30,405
Policy compliant	109,583	183,209	-73,626

- 3.9 The open market appraisal with no allowance for any affordable housing shows a negative outcome with a deficit at -£30,405 and so clearly no surplus is generated by the scheme to provide any affordable housing or other s106 costs. For the development to come forward the developer will need to take a commercial view to accept a lower level of return and if we account for the viability deficit they are effectively returning 13.8% of GDV. A developer should not be expected to provide any planning obligations until the threshold level of return as set out in the guidance at 15-20% of GDV has been achieved.

- 3.10 For comparative purposes we have also prepared a policy compliant appraisal including the policy level contribution at £47,500 and this shows an increased deficit at -£73,626 and reduces the developers return to 8.5% of GDV. Clearly including the affordable housing contribution just compounds the pre-existing viability pressure.

- 3.11 The viability guidance states that we should consider the sensitivity of the appraisal results to changes in inputs and we have modelled some alternative appraisal scenarios as set out below:

Appraisal Scenario	Residual land value (£)	Benchmark land value (£)	Surplus/deficit (£)
Sales values +5%	185,653	183,209	+2,444
Sales values -5%	120,013	183,209	-63,196
Interest rate 7%	156,989	183,209	-26,220

- 3.12 The assessment has been constructed with sales values based on local comparable evidence within 0.25 miles of the site, construction costs have been informed by the BCIS benchmark cost rates in line with standard practice and all other assumptions are either in line with the assumptions in the Local Plan Viability Assessment or standard market assumptions we have agreed on other viability assessments.
- 3.13 In summary the appraisal with no allowance for any affordable housing provision shows a viability deficit and therefore no surplus is generated by the development to support any affordable housing contribution or other s106 costs.

4. Policy Background

Local Plan Policies

- 4.1 The Reading Borough Council Local Plan was adopted in 2019 and policy H3 states that on developments providing 1-4 dwellings the council expect a financial contribution towards affordable housing equivalent to 10% provision.
- 4.2 The policy goes on to state where proposals do not comply with the policy requirements for viability reasons, the onus is on the applicant to clearly demonstrate the reasons for non-compliance.
- 4.3 The council also published an Affordable Housing SPD in March 2021 which provides some additional policy background and advice for applicants on how to deliver the requirements of policy H3. The guidance provides information on how a viability assessment should be presented and this assessment is in compliance with the SPD.

National Planning Policy Framework July 2021

- 4.4 The NPPF was last updated in July 2021 and we have highlighted below the parts of the guidance that have relevance to viability assessment.
- 4.5 Section 34 states that Local Plans should set out the obligations that are expected from developments including affordable housing, however it says that such plans should not undermine the deliverability of the plan
- 4.6 As set out in the 2012 framework planning obligations should only be sought where they meet the following tests:
- Necessary to make the development acceptable in planning terms.
 - Directly related to the development
 - Fairly and reasonably related in scale and kind to the development
- 4.7 Section 58 of the framework sets out one of the key changes around viability, this states that where policies around contributions have been set out in the plan, schemes that comply with them will be deemed to be viable. It is up to the applicant to demonstrate that circumstances differ from the Local Plan assumptions which require a viability assessment. Such examples would be particular existing use that was not modelled at plan making stage, abnormal costs or movement in the market since the plan was adopted.
- 4.8 Section 64 states that affordable housing should not be sought from schemes which are not major developments, this is defined at 10 units except in designated rural areas where a lower threshold can apply.

Planning Practice Guidance

- 4.9 The viability section of the Planning Practice Guidance has also been updated and there have been some changes introduced in the recommended assumptions for constructing a viability assessment. The key change being land value should be based on an EUV plus premium valuation method. The guidance now also states that a viability assessment should refer back to the viability assumptions which backed up the Local Plan and should evidence how circumstances have changed to justify the need for a viability assessment.
- 4.10 The guidance now specifically states the EUV plus premium method should be adopted where as before a range of options were set out including the market value approach. This is a clear change of direction to provide more clarity on how to set a benchmark land value in a viability assessment.
- 4.11 The guidance also states that the use of an alternative use value is allowed if it is a reasonable alternative use and a planning consent on the site exists for that use.
- 4.12 The guidance states that developer's return in the range of 15-20% of gross development value is appropriate for plan making purposes but alternative levels can be utilised where it is justified by the scale and complexity of the development.
- 4.13 The guidance also states methodologies for assessing gross development value and build costs but these are broadly unchanged since the previous version of the guidance.
- 4.14 The guidance states that a viability assessment should be presented in a clear way so the assumptions for GDV, costs and developers profit are clear.

Statement In Response to Covid 19

- 4.15 On the 13th May 2020 the government issued additional guidance to councils in response to the Covid 19 Crisis, under the heading of s106 agreements the following statement has been made;

There are greater flexibilities within s106 planning obligations than CIL. Where the delivery of a planning obligation, such as a financial contribution, is triggered during this period, local authorities are encouraged to consider whether it would be appropriate to allow the developer to defer delivery.

Deferral periods could be time-limited, or linked to the government's wider legislative approach and the lifting of CIL easements (although in this case we would encourage the use of a back-stop date). Deeds of variation can be used to agree these changes. Local authorities should take a pragmatic and proportionate approach to the enforcement of section 106 planning obligations during this period. This should help remove barriers for developers and minimise the stalling of sites.

5.0 Cost and Value Assumptions

Benchmark Land Value

- 5.1 The Planning Practice Guidance states that benchmark land value is based on an existing use plus premium valuation or a reasonable alternative use valuation. The EUV plus premium method is essentially valuing the property on an existing use value taking account of its current lawful planning use and allowing for an additional landowner's incentive to encourage the landowner to bring the site forward to the market. The Planning Practice Guidance also states that an Alternative Use Valuation (AUV) can be used if that alternative use complies with local plan policies but an AUV valuation is deemed to be inclusive of any landowner's premium.
- 5.2 In this case the site is occupied by a two bedroom detached bungalow which EPC records record as having a gross internal floor area at 66m². The building appears to be in a state of disrepair and we would need to factor in refurbishment costs and associated fees to achieve a market value. To value the site we have therefore prepared a residual land valuation based on refurbishment of the existing property.
- 5.3 We identified the following two bedroom bungalows currently on the market:

Property Address	Floor Area (m ²)	Asking Price (£)	£/m ²
Newlands Avenue, Caversham	90	£499,500	£5,550
Horse Close, Emmer Green	81	£475,000	£5,864
Brill Close, Caversham	86	£490,000	£5,698

- 5.4 We have therefore adopted an average sales value at £5,600/m² and prepared a residual valuation of the site using the following appraisal assumptions:

Refurbishment cost	£1,200/m ²
Professional fees	5%
Contingency	5%
Sales costs	2% of GDV
Developers return	17.5% of GDV
Finance rate	8%

- 5.5 The appraisal shows a residual valuation at £183,209.

- 5.6 The Planning Practice Guidance states that where refurbishment is factored in the valuation should be considered to be an Alternative Use Value (AUV) and consequently no landowners premium should be included. We have therefore adopted a benchmark land value at £183,209. We have noted the property was acquired for £410,000 in November 2022 but the Planning Practice Guidance is clear that we should not use purchase price to establish the benchmark land value it should be based on an EUV Plus Premium or Alternative Use Valuation.

Residential Values

- 5.7 To establish the achievable residential gross development value we have looked at comparable properties on the market and sold within a 0.5 mile radius of the site. We have not been able to identify any comparable newbuild developments in the search area so we have focused on second hand evidence and we will allow for an additional new home premium.
- 5.8 Looking at second hand two bedroom properties on the market we identified a semi-detached property on Patrick Close, Caversham which is relatively small at 60m² on the market at £475,000. We also identified two bedroom terrace houses on Cromwell Road a 100m² property on the market at £427,500 and on Kings Road a 72.8m² property on the market at £410,000.
- 5.9 We do need to be cautious relying on properties on the market as the listed values will be asking prices and can be subject to offers and asking price reductions. A more reliable evidence base will be sold values taken from Land Registry records from which we have identified the following comparable transactions:

Property Address	Floor Area (m ²)	Sold Value (£)	Sale Date	£/m ²
4 Parkwood Court, 34 Ardler Road	102	£425,000	Dec 2022	£4,166
47 St Johns Road	86	£470,000	May 2022	£5,465
11 Nelson Road	82	£425,500	Sept 2022	£5,189
13 Nelson Road	70	£375,000	Oct 2022	£5,357
17 Rufus Isaacs Road	92	£490,000	March 2022	£5,326
83 Henley Road	82	£475,000	June 2022	£5,792

- 5.10 The average second hand value is circa £5,215/m² so we have adopted a value at the upper end of the comparable range to reflect a new home

premium at £475,000. This equates to a sales value at £5,278/m². There are three bedroom properties available to acquire within 0.25 miles from £435,000-450,000 and this effectively places a ceiling on the value a two bedroom house can achieve.

- 5.11 The overall gross development value is £950,000 which equates to an average value at £5,278/m².
- 5.12 The actual price achieved will be dependent on market conditions at the time of marketing, competitor developments and the completed specification and finishes.

Construction Costs

- 5.13 In line with standard practice and the Planning Practice Guidance on standardised inputs we have used the BCIS benchmark cost rates rebased to Reading to establish the construction costs. We have adopted the 1-3 unit semi-detached rate using the upper quartile cost range to reflect the additional costs of the raised finished floor levels, steps and platform lift which is currently £2,224/m².
- 5.14 The BCIS rates exclude allowances in connection with external works and the usual default assumption is 10-15% of the base build costs and the Local Plan viability assessment assumes an average cost at 15%. In this case we have adopted an assumption at 10% at the lower end of the range and we included a £40,000 allowance for external works in the appraisal.
- 5.15 As a practice we set up building contracts for registered providers and tendering projects to main contractors we rarely see costs at less than £2,500/m² particularly on small developments where the preliminary costs per plot are higher and there are limited economies of scale. The BCIS Upper Quartile rate is marginally below this level and considered a reasonable and balanced assumption.
- 5.16 We have also allowed for demolition of the existing building at £30,000.
- 5.17 We have separately allowed for design and professional fees at 10% and client contingency at 5% of construction costs both of which are in line with the Local Plan viability assessment.

Developers Profit

- 5.18 The revised Planning Practice Guidance recommends a developers profit allowance in the range of 15-20% of GDV and the developer's profit should

reflect the developers risk profile. The Local Plan Viability Assessment uses an assumption at 17.5% of cost but also states a reasonable range would be between 15-20%.

- 5.19 Over the last few years we have agreed a 17.5-18% of GDV profit level as a default position but with a backdrop of a strong economy and a rising market. Coming out of the Covid 19 pandemic and with the effects of leaving the EU and the conflict in Ukraine inflation has sharply increased putting significant pressure on interest rates. The growth forecasts for the economy are also being downgraded so the economic picture is now looking more gloomy and lenders may require a higher level of return to offset the perceived market risk.
- 5.20 Although a case can be made for a higher level of return to offset the increased market risk, a profit assumption at the mid point of the range at 17.5% of GDV is considered a balanced assumption for open market development.

6 Other Model Assumptions and Inputs

- 6.1 The basis for assumptions on sales values, construction costs and profit are set out in section 5.

Programme

- 6.2 The EAT assumes a 6 month lead in to site start for detail design, building regulations approval, clearing pre-start planning conditions and site set up. The contract period is 8 months with a sales period of 3 months.

S106 and CIL Contributions

- 6.3 We have allowed for a CIL on the full gross floor area of the development using the 2023 index linked rate at £167.06/m².

Interest Rates

- 6.4 Over the last few years we have agreed a standard finance rate at 6.5% but during that time base lending rates have been set at 0.5-0.75% which equates to a lending margin in excess of 5.75 points. The base rate has increased significantly to 4% and it would be reasonable to now adopt a higher finance cost assumption. We have therefore adopted an increased finance rate at 8%.

Sales and marketing costs

- 6.5 We have allowed for an allowance to fund sales and marketing costs at 2% of GDV this will fund a sales agent, development branding, advertising and promotion.

7 Conclusion

- 7.1 The proposed development will provide 2no dwellings and Reading Local Plan policy H3 will require 10% affordable housing equating to a policy compliant financial contribution towards offsite affordable housing at £47,500.
- 7.2 To establish if the requirement can be viably delivered we have appraised the development on an all open market basis to establish if a surplus is generated over the existing land value based on an Existing Use plus Premium or Alternative Use Valuation. This approach is in line with the Planning Practice Guidance and accepted standard practice.
- 7.3 The appraisal with no allowance for any affordable housing shows a viability deficit at -£30,405 and therefore no surplus is generated to support an affordable housing contribution or any other s106 costs. Introducing a requirement to provide affordable housing or other s106 costs would reduce the return below the range identified in the Planning Practice Guidance and may prevent the development coming forward.

