

Viability Study

Land to the West of 300 Kings Road, Reading, RG1 4HP

By

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Private & Confidential

July 2022

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1. BACKGROUND AND RELEVANT EXPERIENCE

- 1.1. My name is Nicholas Bignall of 32-33 Cowcross Street, London EC1M 6DF. I am a Member of the Royal Institution of Chartered Surveyors ("RICS") having qualified in 2013 following the award, in 2009, of an Honours Degree in Land Management from University of Reading and in 2010 a Master's Degree in Urban Planning & Development.
- 1.2. In 2010 I joined the practice of Turner Morum Chartered Surveyors and was made an Associate in 2015 and a Partner in 2018. I am a specialist in the field of development site appraisals and associated subjects.
- 1.3. I regularly advise across the whole of the UK on the value and potential of major tracts of development land and infill urban development focusing specifically on development sites within the London Boroughs & the South East. I am currently instructed by a number of Local Authorities, Landowners, Housing Associations and Developers and have extensive experience in this field. I have also provided Expert Witness evidence at planning appeals and Local Plan Examinations. Full details of some of my recent case experience can be viewed at **Appendix 5**.
- 1.4. Turner Morum were appointed by the applicant to undertake a viability assessment in regards to their proposed development on the site at 300 Kings Road, Reading. The scheme is for the development of 14 residential dwellings in a single block extending up to 3 floors. This planning application was originally submitted to the Council in April 2018 and consented in February 2019 (180683).
- 1.5. A viability was submitted as part of this planning application and was agreed with the Council's viability specialist, Mr Steve Hicks, on the basis of a provision of c. 30% affordable housing (shared ownership) and a commuted sum payment of £35,000.
- 1.6. Since that agreement and achieving the consent, the site has been unable to progress and move forward with construction. The reason for this, as explained in

further detail in this report, is primarily due to the previously assumed market values no longer being achievable and the consequential impact this has on the scheme's overall viability. A further factor has been the rampant build cost inflation experienced over the last 12 months caused through a combination of Brexit and COVID resulting in labour and materials shortages. This is confirmed in a report by BCIS which shows that housebuilders development costs have increased 15% from Q1 2021 to Q1 2022¹.

- 1.7. A new planning application has been prepared for the subject site which is described as follows:

“Construction of a part five part three storey building of 14 residential apartments (C3) and associated undercroft car parking.”

- 1.8. In this updated assessment I consider the impact of the changing market on the deliverability of this latest planning application and how this affects the overall site viability. To inform this I have referenced, where appropriate, the previous agreement reached with the Council in the original planning application.
- 1.9. The subject site is located to the West of the office building at 300 Kings Road and is currently used as a car parking facility with 20 allocated parking spaces. The gross site area extends to some 0.2 acres and a site plan can be viewed as per **Appendix 1**.
- 1.10. I have carried out a development appraisal adopting a bespoke valuation model structure to analyse the viability of the proposed scheme. The residual appraisal and supporting information can be seen as **Appendix 2**.
- 1.11. In undertaking this viability I am aware and follow the mandatory RICS *Financial Viability in Planning; Conduct & Reporting (2019)* (see **Appendix 6**).

¹ BCIS Report (14th June 2022): Housebuilders cost up 15% in the past year

- 1.12. I am also aware of viability guidance documents such as the *RICS Financial Viability in Planning (2012)*, *Viability Testing Local Plans* (the Harman report) and the *RICS Assessing viability in planning under the NPPF 2019 for England (2021)*. I am also aware of the Planning Practice Guidance on Viability published following updates to the National Planning Policy Framework (NPPF).

2. MECHANICS OF THE ASSESSMENT

- 2.1. My residual appraisal analysis can be summarised as follows: -

- **Appendix 2 Tab 1A** – Appraisal showing the viability of the proposed scheme with c. 30% affordable housing (4 units) with a tenure split of 3 * affordable rent and 1 * shared ownership. This appraisal is intended to represent the policy target position.
- **Appendix 2 Tab 1B** – Appraisal showing the same scheme as above but with 0% affordable housing. This appraisal is intended to assess whether the scheme can viably afford a commuted sum contribution.

- 2.2. I will now run through the various appraisal inputs in sequential order as they appear in my residual appraisal analysis:

REVENUES

- 2.3. Market revenues for the residential units are based upon research of comparable schemes and discussions with local agents. Included as per **Appendix 3** are a number of comparables considered as part of the exercise to arrive at a suitable GDV. Primarily I have considered a 1 bed unit on the market at £230k at the main 300 Kings Road site (of which this application forms an extension of). This is clearly pertinent evidence as it forms part of the main development site, and therefore is directly comparable in terms of location and type of development. I am also

advised by the applicant that sales from this site have been slow and hence why the majority of the units are now rented (which has shown a stronger market). On this basis it is reasonable to suggest that whilst £230k may be the advertised marketing price a realistic achievable sale price would likely fall below this figure.

- 2.4. Other comparables considered include a 1 bed unit on Duke Street located in a development called The Dukesbridge. This unit is on the market at £252k however is in a much more superior location than the application scheme being located just 0.3 miles from Reading Station. The specification within the units themselves are also of a higher standard with quartz kitchen worktops, bathrooms with Italian nature stone and marble walls and floors. There is also a 2-bed unit on the market within this scheme at £350k.
- 2.5. Another comparable located further from central Reading is a 1 bed unit at Wesley Gate, Queens Road. This is on the market at £225k so more in the line with the asking price at 300 Kings Road. Finally, I have also considered a comparable located just out of Reading town centre which is a 2-bed maisonette on the market at £260k.
- 2.6. Taking all of this evidence into consideration I have priced the scheme at an average of c. £430 psf; varying from £439 psf for a 1 bed to £404 psf for a 3 bed. I consider this to be an optimistic position especially considering the evidence of sales from the 300 Kings Road site. Full details of the adopted pricing can be viewed as per **Tab 2 Appendix 2**.
- 2.7. Shared ownership values have been benchmarked at 70% of open market value (£312 psf) whilst affordable rent values have been benchmarked at 50% of OMV (£210 psf). I would suggest these benchmarks are both within industry benchmarks and indeed at the upper end of an acceptable range. It is intended that this appraisal analysis demonstrates the 'best case' scenario and arguably a lower % could be justified.
- 2.8. To support the position on shared ownership I have cross referenced using a Discounted Cashflow Analysis. The basic premise of the DCF model is to take the

full market value of the units and discount them over an assumed 30-year staircasing period. A capital receipt is then calculated for each tranche payment, based on the discounted Market Value figure for the year in which it falls, whilst accounting also for the rent paid on the retained share of the property, and any associated costs. This produces a yearly income total, the sum of which produces a gross revenue figure, from which one would then deduct appropriate costs and marketing fees etc.

- 2.9. For a DCF the standard assumptions include 4 x 25% tranche payments (including initial deposit) in Years 1, 10, 20 and 30. Over this 30 year staircasing period whereby purchasers will step up to 100% equity with a corresponding reduction in rents over the period – this is then capitalised with a discount rate of 5% taking account of anticipated management costs, allowance for bad debts and inflation (1.5%). I have also assumed a rent charge of 2.0% on the retained portion of the unit. This produces a value of c. £310 which shows the 70% allowance adopted in my appraisal and is reasonable and if anything optimistic.

DEVELOPMENT COSTS

- 2.10. Fees and marketing costs in respect of the development are included at 3% of Market Housing Gross Development Value ("GDV"), and the cost of disposing of the affordable units to a Registered Provider is included at 0.5% of affordable GDV, as per standard industry benchmarks. These assumptions were not previously disputed in discussions with the Council so are considered as agreed.
- 2.11. The construction costs are derived from a cost plan provided to me by the applicant. The total costs equate to some £240 psf excluding the 5% contingency which is separately applied in my appraisal model. Full details of the cost plan can be viewed as per **Appendix 4**.
- 2.12. An allowance for Technical Fees is included at 6% of the Standard Build Cost which reflects the costs associated with Architects, Quantity Surveyors, Engineers, Project Management and other technical / professional consultancy fees. This is

at the very bottom of the acceptable range in viability where fees can be as high as 12% dependent on the project. For reference the Council's Viability Testing Report (March 2018) undertaken by BPS assumes a benchmark of 10% on professional fees.

- 2.13. The assumed target developer profit was an area of dispute with the Council in the original viability negotiations. My professional opinion is that in the current economic climate of uncertainty and with the current rampant cost inflation a return of 20% on market GDV is required to compensate for risk. However, in this instance, in order to facilitate an agreement with the Council I have reduced the margin to 17.5% on GDV. For reference the Council's Viability Testing Report (March 2018) undertaken by BPS assumes a benchmark of 20% on market housing GDV and identifies a range of 17% - 20%; my appraisal therefore is at the bottom end of this accepted range. The affordable housing profit margin is included at 6% of GDV which is an industry standard allowance.
- 2.14. Estimated S106 costs have been included at a cost of £40,725 as advised by the applicant. CIL has been calculated based on the proposed scheme GIA with a reduction for the affordable housing provision with an assumed £ psm charge of £156.70. During the course of discussions with the Council regarding the viability/deliverability of this scheme should either of the assumptions on CIL/S106 prove to be inaccurate I would reserve the right to amend the appraisal in line with the accurate planning obligations.
- 2.15. With regards to the calculation of finance, I have included within my appraisal a quarterly cashflow to reflect the cost of finance for my appraisal analysis. This can be seen as per **Tab 4A – 4B of Appendix 2** and reflect the details of the particular scheme including the build rate of the residential units and the particular infrastructure timings.
- 2.16. I have made the assumption that construction will commence on site within Q1 Year 1 (this is assumed to be a period of site preparation) and will be completed by Q1 Year 2.

2.17. I have assumed all of the residential sales will be achieved in the quarter post completion; this includes a portion of off-plan sales/reservations although the monies from these sales would go into escrow and would not be accessible by the developer until after the development is completed.

3. VALUATION METHODOLOGY

3.1. The issue of what is deemed to be an appropriate Land Value for inclusion within viability studies is at present a highly topical subject. Planning appeal decisions and government guidance dictate that one has to ignore the amount that is actually paid for a development site and instead adopt an appropriate Existing, Alternative or Benchmark Land Value.

3.2. The Council previously included an EUV in their assessment on the basis of £180k and this is included in my updated assessment for the purpose of these discussions. This was on the basis of an assumed value of £10k per parking space for the 20 parking spaces on site less 10% reduction for operational costs. The specifics on the site have not changed and therefore the EUV remains unadjusted from the previous viability.

4. SUMMARY CONCLUSION

4.1. The outturn of my analysis can be summarised as follows:

Tab	Description	Units	% AH	RLV	EUV	Surplus / Deficit
1	<i>29% Affordable Housing</i>	14	29%	-£720,033	£180,000	-£900,033
1a	<i>0% Affordable Housing</i>	14	0%	-£419,278	£180,000	-£599,278

5. SENSITIVITY ANALYSIS

- 5.1. In order to assess the viability, I have undertaken a sensitivity analysis by varying the level of affordable housing to try and achieve the break-even position (where the RLV is equal to the BLV).
- 5.2. In this instance, as per Tab 1a, I have reduced the affordable housing to 0% however even with this reduction the scheme still shows a deficit and therefore is technically non-viable.
- 5.3. I have also undertaken further sensitivity testing by varying the level of GDV/development cost and observing the impact on the viability. A summary of this assessment is shown below:

Tab 1A - GDV vs Total Cost						
	Surplus/Deficit	GDV				
	-£599,278	-10%	-5%	0%	+5%	+10%
TOTAL COSTS	+10%	-£1,490,206	-£1,277,956	-£1,065,706	-£853,456	-£641,206
	+5%	-£1,256,992	-£1,044,742	-£832,492	-£620,242	-£407,992
	0%	-£1,023,778	-£811,528	-£599,278	-£387,028	-£174,778
	-5%	-£790,564	-£578,314	-£366,064	-£153,814	£58,436
	-10%	-£557,350	-£345,100	-£132,850	£79,400	£291,650

6. NON-TECHNICAL SUMMARY

- 6.1. The Structure of my Residual Appraisals produces a Residual Land Value (RLV) which is then compared with an appropriate Benchmark Land Value (BLV). If the RLV exceeds the BLV, a surplus is generated and the scheme can be deemed "Viable". However, if the RLV is less than the BLV, a deficit is produced and the scheme should be considered "Non-Viable".

6.2. The inputs I have adopted within my analysis can be seen within the summary table below compared with the Reading Borough Council Viability Testing Report (March 2018):

Input:	Assessment Allowance:	Local Plan Viability Allowance:	Comments:
Market Revenues	£433 psf	£260k - £694k (unit value)	
Affordable Revenues	£240 psf	Variable	
Fees and Marketing (Market):	3%	3.5%	
Transaction Costs (Affordable):	0.5%	-	
Standard Construction Costs:	£240 psf + 5%	Variable	
Professional Fees:	6%	10%	
Developer Profit:	17.5% / 6%	20% / 6%	
Finance Rate:	6.5%	6.5%	
Benchmark Land Value:	£180k	Variable	

6.3. In this instance, one can observe from the table above and the appraisal included as **Appendix 2** that the RLV of the proposed scheme does not exceed the adopted BLV even when the affordable housing % is reduced.

7. CONCLUSIONS

7.1. You will note from the table above and the appraisal included as **Appendix 2** shows the proposed scheme incurring a deficit even when the affordable contributions are reduced. In these circumstances the scenarios tested should therefore be considered technically 'non-viable'.

- 7.2. What is clear from this analysis is that the scheme is unable to provide the c. 30% affordable housing policy target. On this basis a reduction is required in order to facilitate a deliverable scheme. Even with the reduction in terms of affordable housing this analysis shows that the scheme would still be technically non-viable. However, the applicant has indicated that they have reached the commercial decision to proceed with the scheme in spite shown in my appraisal model.
- 7.3. I hope this provides a sufficient level of information. I would welcome the opportunity to discuss the findings of my analysis with you at your earliest convenience.

Turner Morum LLP

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