



Financial Viability Appraisal

Address:	Abbey Corner, 2-4 Kings Road, Reading, RG1 3AA
LPA:	Reading Borough Council
Planning reference (if any):	N/A
Client:	OOAK Developments Limited
Date:	1st February 2022



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Executive Summary

This report provides a Financial Viability Appraisal (FVA) of proposed development at Abbey Corner, 2-4 Kings Road, Reading, RG1 3AA, 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).

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	£1,095,000.00
Costs excl. land and profit	£863,343.51
Finance	£35,472.90
Return	£202,575.00
BLV	£72,000.00
RLV	(£6,391.41)
RLV-BLV	(£78,391.41)
Target profit	18.50%
Actual profit	11.34%

Target developer return includes a risk-adjusted rate for market residential (18.5%). Sensitivity analysis demonstrates this is the minimum return necessary to offset a high-risk environment. This is broadly policy and precedent compliant.

Benchmark Land Value (BLV) is assessed via the EUV+ method in line with national policy. A 20% landowner premium has been added to the EUV in this instance.

As such, this FVA demonstrates that, on a 100% open market basis, the resulting actual return to the developer following all costs including land value detracted from gross development value would be significantly below target return. Therefore, the development cannot viably provide additional s106 contributions.

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

Introduction

S106 Management is instructed by OOAK Developments Limited to produce a Financial Viability Appraisal (FVA) to determine the level of Affordable Housing contribution that should be expected from proposed development at Abbey Corner, 2-4 Kings Road, Reading, RG1 3AA.

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

The existing site comprises the roof space on top on an existing 4-storey building at Abbey Corner, 2-4 Kings Road, which is currently used as office accommodation. The roof space accommodates a plant room with a GIA of 35m², as well as servicing enclosures for the building.

This planning application is for a vertical extension using the existing roof space to provide 4 X 1-bed flats. In total, the proposed development will provide 169m² of residential accommodation, plus 38m² for communal areas.

Location Plan



S106 Management

S106 Management is a viability consultancy established in 2011 by Robin Furby, retired solicitor, land promoter and property developer. 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 planning contributions, **S106 Management** has often been at the forefront of new statutory procedures, making one of the first Commons De-registration Applications, and one of the first S106BA viability review applications. The company is now one of the most effective viability consultancies in the UK, combining expertise from all corners of the industry to ensure a fair and balanced approach to developer contributions.

S106 Management have worked with clients on more than 1,000 developments, facilitating over 50,000 homes across LPAs countrywide. Our viability reports have been successfully used in pre-application discussions with Planning Officers and Affordable Housing Officers, supporting planning applications, written appeals, and planning appeal hearings.

Planning Policy

By virtue of section 38 (6) of the 'Planning and Compulsory Purchase Act', 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 development of between 1 and 4 dwellings should provide a financial contribution equivalent to delivering 10% of the units as affordable housing off-site. In this case, the contribution would be equivalent to providing 0.4 dwellings.

The purpose of this FVA is to determine whether the development is capable of supporting such a 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 equally 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.

Reading Borough Council also adopted a new Affordable Housing SPD in March 2021. As noted in PPG Plan-making (2021) para 008:

'Supplementary planning documents (SPDs) should build upon and provide more detailed advice or guidance on policies in an adopted local plan. As they do not form part of the development plan, they cannot introduce new planning policies into the development plan. They are however a material consideration in decision-making. They should not add unnecessarily to the financial burdens on development.'

National Guidance is also 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, which replaced the previous advice in PPS3.

Paragraph 58 of the NPPF is of relevance:

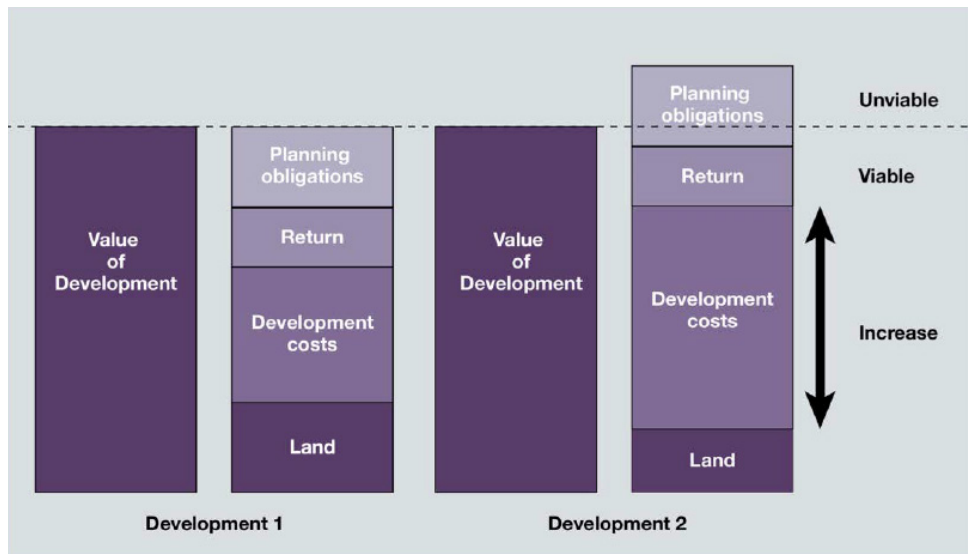
58. Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application 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.

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 12 which sets out the costs that should be included in any viability statement, and paras 13-17 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.

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 matter of viability of developments is also further addressed by the Local Plan at **para. 4.4.24 (page 78)**:

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.

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

There are several proprietary spreadsheets in use to justify viability. We use the Housing Corporation Economic Appraisal Tool (HCEAT), developed by GVA Grimley in partnership with the Housing Corporation (now HCA); it is one of the Toolkits commonly used when considering development viability.

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 HCEAT spreadsheet examining the viability of this site; the spreadsheet is shown in **Schedule 1** of this report. The comments below address the inputs to the spreadsheet sequentially and an electronic copy can be provided to the LPA on request.

Spreadsheet Inputs

Proposed Development (Input Sheet 1)

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

Unit	Area (m2)	Type
1 (A)	42.90	1-bed flat
2 (B)	42.60	1-bed flat
3 (C)	43.60	1-bed flat
4 (D)	40.00	1-bed flat
Total area (m2)	169.10	
<i>Avg. unit size (m2)</i>	<i>42.2750</i>	

Affordable Housing Values (Input Sheet 2)

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) then we produce further modelling to illustrate the maximum level of Affordable Housing that can viably be delivered by the development.

Open Market Housing Values (Input Sheet 2)

The Zoopla data for the RG1 Postcode is set out below:

Property type	Avg. current value	Avg. £ per sq ft.	Avg. no beds	Avg. £ paid (last 12m)
Detached	£608,442	£367	4.0	£617,323
Semi-detached	£436,747	£344	3.5	£445,846
Terraced	£318,001	£352	2.9	£306,931
Flats	£267,138	£408	1.7	£255,126

The Zoopla data suggests that flats in the RG1 area might expect to achieve in the region of £4,391.712/m² based on an average no. of 1.7 bedrooms. We note however that values in Reading are exceptionally sensitive to small changes in geographical area. Further, the impact of the Covid-19 pandemic on homeowner preferences is not fully reflected in this data which is reported with a lag behind the current market.

Transactional Data

We have compared this data to relevant recent 'sold' transactions extrapolated from Rightmove (see **Schedule 3**). As previously noted, values in Reading are extremely sensitive to small changes in area and hence we have limited our transactional search to within 1/2 mile of the scheme. All transactions below occurred in the past 1 year:

Sold FLATS - within 1/2 mile, last 1 year					
Address	Type	Sale Date	Area m ²	£/m ²	Price
15 Swan Place, Reading, Reading RG1 6QD	1-bed flat - in need of modernisation, fitted bathroom and kitchen	07.05.21	39.30	£5,597.96	£220,000
Flat 22, Greys Court, Sidmouth Street, Reading, Reading RG1 4PP	1-bed flat - top floor, in need of modernisation, fitted bathroom and kitchen	20.04.21	54.00	£4,037.04	£218,000
40 Maltings Place, Reading, Reading RG1 6QG	1-bed flat - in need of modernisation, fitted bathroom and kitchen, double bed	15.03.21	42.50	£5,235.29	£222,500

8 Katesgrove Lane, Reading, Reading RG1 2ND	1-bed flat - double bedroom, natural light throughout, plenty of storage space, in need of modernisation	22.02.21	50.00	£3,300.00	£165,000
52 Kennet Walk, Reading, Reading RG1 3GF	1-bed flat - fitted kitchen and bathroom, riverside development	05.02.21	45.00	£4,166.67	£187,500
24 Selborne Court, Reading, Reading RG1 3BW	1-bed flat - gated riverside development, balcony, 4th floor, secured parking	01.02.21	43.70	£4,919.91	£215,000
43 Maltings Place, Reading, Reading RG1 6QG	1-bed flat - 1 x parking, double bedroom, fitted kitchen and bathroom, in need of modernisation	17.12.20	50.90	£4,616.90	£235,000
Flat 18, Kings Oak Court, Queens Road, Reading, Reading RG1 4PX	2-bed flat - double beds, 1 x parking, investment opportunity	13.07.21	61.00	£4,426.23	£270,000
Flat 22, Q2 Watlington Street, Reading, Reading RG1 4AY	2-bed flat - entry phone, en-suite shower room, communal roof terrace, 1 x parking	18.06.21	79.00	£4,177.22	£330,000
			Avg. £/m2	£4,432.75	

The average achieved price extrapolated from Rightmove is marginally higher than the average suggested by Zoopla, due to reasons noted above.

There is also evidence of the commonly seen 'quantum' inverse correlation between unit area and £/m2 value, meaning we would expect the smaller units to achieve higher £/m2 values than the larger.

We have further studied properties which are currently on the market and also located with ½/2 mile of the subject site:

<i>For sale FLATS - within 1/2 miles</i>					
Address	Type	Sale Date	Area m2	£/m2	Price
40 London Road, Reading, RG1	1-bed flat - period features, 1 x allocated parking, modern bathroom, communal gardens, modern interiors, floor to ceiling windows	For sale	73.20	£4,508.20	£330,000
Indigo Apartments, Crown Street, Reading	1-bed flat - penthouse apartment, 2 x terraces, modern open plan kitchen, secured parking, stunning views, high ceilings, wood flooring, stylish bathroom	For sale	73.00	£4,452.05	£325,000

Verto Building, Kings Road, RG1	1-bed flat - modern interiors, concierge service, high standard finish, canal views, 1 x bath	For sale	48.00	£6,666.67	£320,000
Kennet House, 80 Kings Road, Reading RG1 3BJ	1-bed flat - spacious flat, concierge service, fitted kitchen and bathroom, riverside development, GF	For sale	51.00	£5,294.12	£270,000
The Forbury, Reading, Berkshire	1-bed flat - recently converted, investment opportunity	For sale	44.00	£5,681.82	£250,000
38-50 Kings Road, Reading, RG1	1-bed flat - town centre location, 4F, integrated appliances, beautifully presented, modern finishes	For sale	32.10	£7,475.08	£239,950
Castle Street, Reading, RG1	1-bed flat - 2F, modern interiors, kitchen with integrated appliances,	For sale	38.40	£6,119.79	£235,000
Deansgate Road, Reading, RG1	1-bed flat - secure off road parking, GF, brand new bathroom suite	For sale	48.10	£4,781.70	£230,000
			Avg. £/m2	£5,394.68	

The average for sale value is higher than both the value proposed by Zoopla and also that resulting from the sold units research. This suggested a current ascending trend in market prices for flats in the area.

Finally, we have looked at new-build properties currently for sale, again located within ½ mile of the subject site:

<i>NB for sale FLATS - within 1/2 mile</i>					
Address	Type	Sale Date	Area m2	£/m2	Price
Kenavon Drive, Reading, RG1 3DH	1-bed flat - 1F, on-site gym and restaurants, balcony, integrated appliances	For sale	50.00	£4,275.00	£213,750
Kenavon Drive, Reading, RG1 3DG	1-bed flat - open plan kitchen / living area, gym and concierge on-site, balcony, double bed	For sale	47.40	£6,877.64	£326,000
Kenavon Drive, Reading, RG1 3DG	1-bed flat - open plan kitchen / living area, gym and concierge on-site, balcony, double bed	For sale	48.80	£6,577.87	£321,000

Kenavon Drive, Reading, RG1 3DG	1-bed flat - open plan kitchen / living area, gym and concierge on-site, balcony, double bed	For sale	55.00	£5,745.45	£316,000
The Dukesbridge, 1 Duke Street, Reading, RG1	1-bed flat - modern interiors, fitted kitchen and bathroom, central location, open plan kitchen/living	For sale	38.00	£7,105.26	£270,000
Kenavon Drive, Reading, RG1 3DH	1-bed flat - 5F, double bed, communal podium gardens, on-site gym and restaurants	For sale	52.00	£4,362.98	£226,875
The Dukesbridge, 1 Duke Street, Reading, RG1	1-bed flat - modern interiors, fitted kitchen and bathroom, central location, luxury bathroom	For sale	35.00	£6,142.86	£215,000
Kenavon Drive, Reading, RG1 3DH	1-bed flat - 1FF, double bed, communal podium gardens, on-site gym and restaurants	For sale	50.00	£4,275.00	£213,750
			Avg. £/m2	£5,588.45	

The suggested average sales value is higher than the values proposed by Zoopla and the sold units research, and also marginally higher than that achieved by properties currently on the market. This suggests that new build flats in the area are selling for a premium price.

Since the proposed flats will be newly built, we look at the comparable units included in the 'new build for sale' dataset.

Therefore, the property for sale at ***The Dukesbridge, 1 Duke Street, Reading***, currently on the market for £270,000 is most similar to the smallest proposed flat with an area of 40m². These are both 1-bed units and are almost identical in size, with the proposed flat being only marginally larger. Moreover, both dwellings have an open plan living/kitchen and are located in a central location above commercial unit. We therefore expect the proposed flat to achieve a similar sales value.

Taking into consideration the above research and other related factors, we value the smallest flat based on the comparable unit mentioned above and adjust prices for the rest of the flats to account for the inverse correlation function:

Unit	Area (m2)	Type	£/m2	Price
1 (A)	42.90	1-bed flat	£6,410.26	£275,000
2 (B)	42.60	1-bed flat	£6,455.40	£275,000
3 (C)	43.60	1-bed flat	£6,307.34	£275,000
4 (D)	40.00	1-bed flat	£6,750.00	£270,000
			£6,475.46	£1,095,000

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.

For the sake of clarity, we have run with the average £/m2 value of £6,475/m2 to produce a GDV of £1,095,000.

The capital value of the Freehold Ground Rents from the project is included at zero for the purposes of this viability appraisal because legislation is proposed in the next parliamentary session to limit annual rents to a peppercorn, and national and local government are currently encouraging this. See MHCLG announcement 07/01/2021 <https://www.gov.uk/government/news/government-reforms-make-it-easier-and-cheaper-forleaseholders-to-buy-their-homes>.

Five major national housebuilders (Barratt, Bellway, Countryside, Tailor Wimpey, and Berkeley) announced in December 2020 they are abolishing ground rents on new flatted development. As such, to remain competitive, any future development is likely to need to limit ground rent to a peppercorn at maximum.

Further, the terms of government programmes such as Help to Buy and the Homebuilders Fund now preclude the charging of significant ground rents.

Timing - Input Sheet 2

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.

Construction is projected over a 12-month period with sales expected between months 12 and 16.

The 6-month period before commencement of build has not been included in our calculations.

Construction Costs (Input Sheet 2)

We have asked for advice from Mr David Parker, Chartered Quantity Surveyor, regarding the construction costs for this project. His full assessment can be found at **Schedule 4** to this report and is also summarised below for convenience:

Item	Cost (£)
Demolitions / alterations	£16,200.00
Frame	£38,000.00
External walls	£83,900.00
Roofs	£62,000.00
Upper floors	£19,900.00
Staircases	£2,000.00
Windows, doors and screens	£31,500.00
Internal partitions	£22,700.00
Internal doors and entrance doors	£15,700.00
Joinery	£59,600.00
Floor finishes	£15,700.00
Wall finishes	£5,500.00
Ceiling finishes	£12,700.00
Decorations	£24,000.00
Sanitary installation	£25,400.00
Plumbing installation	£47,400.00
Electrical installation	£44,800.00
Incoming services	£24,000.00
Acoustic testing	£2,400.00
Underground drainage	£6,000.00
NHBC / Warranty	£18,000.00
Main contractors prelims.	£86,700.00
Scaffolding and hoist	£20,000.00

Main contractors profit and overhead @ 10%	Incl. in rates
Total cost (£)	£684,100.00
Total GIA (m2) - flats only	169.00
Cost / m2 (flats only)	£4,047.93
Total GIA (m2) - incl. communal areas	207.00
Cost / m2 (incl. communal areas)	£3,304.83

We therefore adopt a construction cost of £4,048/m², as suggested by Mr Parker.

The area of the flats (169m²) represents c. 82% of the total area of the development (207m²), including 38m² in communal areas. The HCEAT spreadsheet has been run with a corresponding correction factor.

Fees - Input Sheet 2

10% for fees is the default value of the HCEAT Spreadsheet and the commonly accepted industry standard allowance. This is confirmed as an appropriate assumption by the Reading Borough Council Viability Testing Report at **para. 5.3 (page 28)**.

Contingency - Input Sheet 2

5% for contingencies is the default value of the HCEAT Spreadsheet and is the commonly accepted industry standard allowance. This is confirmed as an appropriate assumption by the Reading Borough Council Viability Testing Report at **para. 5.3 (page 28)**.

Section 106 Payments - Input Sheet 2

CIL has been calculated as per the table below:

	LPA CIL
Adopted Charging Schedule (£/m2)	£120
Following indexation (£/m2)	£157
Total proposed GIA (m2)	20700
Applicable GIA (m2)	207
CIL (total)	£32,438

This is subject to confirmation by the charging authority.

Site Acquisition Costs - Input Sheet 2

The BLV is £72,000 as explained in the Benchmark Land Value section of this report. No SDLT is applicable in this case; however, we include acquisition costs of £3,000.

Finance Costs - Input Sheet 2

While base rates are at a historic low level, cost of funding expressed as a percentage above LIBOR is at historically high figures. Further, given the macro-economic context, lenders have become increasingly risk adverse and therefore funding is becoming harder to acquire. Therefore, an interest figure of 7% is used in the spreadsheet. This is in line with the assumptions made by the Reading Borough Council Viability Testing Report at **para. 5.3 (page 28)**.

Marketing Costs - Input Sheet 2

We have adopted a marketing/sales cost of 3% and legal fees of £1,000 per unit, in line with the assumption made by the Reading Borough Council Viability Testing Report.

Developer Profit (Input Sheet 2)

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.'

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.

Taking into account the risk profile of the development we have conservatively adopted the mid-point of the assumption adopted in the Viability Testing Report as appropriate (18.5%). This is supported by our sensitivity analysis, which further demonstrates the relative risk profile of the development (see below).

The HCEAT appraisal has been run accordingly.

Benchmark 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.'

The existing site comprises the roof space on top of an existing 4-storey building at Abbey Corner, 2-4 Kings Road, that is currently used as office accommodation. The existing roof space accommodates a plant room with a GIA of 35m², as well as servicing enclosures for the building. There will clearly be a value for this floorspace as the plant and servicing elements will need to be relocated within the existing building. Therefore this can be quantified through consideration of the analogous cost of relocating these elements within the current office building in terms of lost floorspace revenue and the costs of relocation. The loss of the relevant floorspace would equate to say 50m² of currently office use space for all elements, roughly 1 plot.

In order to assess the Existing Use Value of the site, we refer to **paragraph 2.15 (page 12)** of the 'Reading Borough Council Viability Testing Report', completed on behalf of the council by BPS Surveyors and published in March 2018:

2.15 In the context of running appraisals for the purposes of testing the local plan it is usual practice to assume hypothetical developments to avoid site specific factors skewing the appraisal results. In this context it is difficult to make generic assumptions about existing use value or alternative use values as these will vary significantly from site to site. Consequently site value has been determined using a generic plot value of £60,000 per unit which has then been subject to sensitivity testing. This approach is consistent with a plan led system. However it will be seen from our results that scope exists for some development scenarios to achieve the policy target and generates surpluses which result in differing land values/profit margins to the base modelling assumptions.

We therefore adopt the suggested generic plot value of £60,000 as the EUV for the site.

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).'

In this instance, we have applied a 20% landowner premium to incentivise release of the land for development as per para 16. This results in a BLV of £72,000, which we adopt in our HCEAT spreadsheet.

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.'

In this case it is not necessary to consider the AUV of the site.

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.

HCEAT Spreadsheet Conclusions (Spreadsheet Summary)

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	£1,095,000.00
<i>Less Costs</i>	
Construction Costs (Resi)	£684,896.45
Commercial Costs (Build & Fees)	£0.00
Other Site Costs	£141,597.07
Marketing	£36,850.00
Finance Costs	£35,472.90
Developer Return	£202,575.00
Residual Site Value	(£6,391.41)
Benchmark Land Value	£72,000.00
Result	(£78,391.41)

To determine the viability of the provision of Affordable Housing, the Benchmark Value of the site as stated above (**£72,000**), is deducted from the Residual Value calculated by the HCEAT spreadsheet. If the result is negative, as it is in this case (**-£78,391**) the development cannot viably provide a contribution towards Affordable Housing.

Conclusion

The following table has been compiled using data from the HCEAT spreadsheet to reveal the return that the developers will earn from this project:

Spreadsheet Residual Value	(£6,391.41)
Plus Target Developer Return	£202,575.00
Less Benchmark Value	£72,000.00
Actual Profit	£124,183.59
Percentage actual profit	11.34%

This presents a return of 11.34% which is clearly lower than the 20% target identified previously.

Any contribution towards Affordable Housing would further reduce this level.

This report demonstrates that the scheme can be considered policy compliant without the provision of any Affordable Homes or S106 contributions towards Affordable Housing.

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 given current material valuation uncertainty resulting from the Covid-19 pandemic and Brexit. As advised by RICS build costs, and in particular materials costs, have already been subject to considerable fluctuation which is not reflected in the current BCIS average data. Further, the negative trend already identified in recent flatted sales values due to changing homeowner preferences may be further compounded following the end of the current stamp duty holiday.

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					
		-10%	-5%	0%	5%	10%
Build Costs	-10%	7.60%	12.60%	17.60%	22.60%	27.60%
	-5%	4.47%	9.47%	14.47%	19.47%	24.47%
	0%	1.34%	6.34%	11.34%	16.34%	21.34%
	5%	-1.79%	3.21%	8.21%	13.21%	18.21%
	10%	-4.91%	0.09%	5.09%	10.09%	15.09%