

**DEVELOPMENT VIABILITY REPORT
FOR RESIDENTIAL DEVELOPMENT AT 59 GLOUCESTER
ROAD, READING, RG30 2TH.**

On behalf of Kiss House Ltd

**By Simon Corp BSc (Hons)
10th December 2020**



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1.0 Introduction and Instructions

- 1.1 S106 Affordable Housing (Hampshire) Ltd has been instructed by Kiss House Ltd to prepare a development viability assessment to determine the viable level of affordable housing contribution which can be funded from the proposed development providing 2 no Passivhaus four bedroom dwellings on land at 59 Gloucester Road, Reading.
- 1.2 The report has been prepared by Simon Corp, I have a BSc (Hons) in Residential Development from Nottingham Trent University and 27 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 Association now Vivid Housing. 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 s106 contributions the development can viably sustain. Our methodology will be to carry out a viability assessment without any affordable housing or other s106 costs and compare this with the benchmark land value to determine the total development subsidy that is available to fund any planning obligations.
- 1.4 The appraisal has been carried out using the HCA (now Homes England) Development Appraisal Toolkit (DAT), 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 affordable housing policy is based on viability evidence produced by BPS Surveyors in March 2018, in common with all borough wide assessments this is 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 assumed at plan making stage.
- 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 site extends to an area of 0.13ha and is currently occupied by a single storey building previously used as a nursery but we understand this is now used as a studio with a B1 use. The building will remain in-situ and the adjacent land will be developed to provide 2no four bedroom Passivhaus houses, we understand one will be developed as a self build for the site owners and the other will be sold on the open market. This is intended as an exemplar project by the applicants to showcase the Passivhaus product and due to the high build costs associated with the product it is not expected to generate a commercial level of return and is unable therefore to support the policy level of planning obligations.
- 2.2 The Reading Local Plan was adopted in 2019 and policy H3 states that developments providing 1-4 units should provide a financial contribution equivalent to 10% affordable housing provision. A policy compliant contribution has been set out in section 3 of this report which shows a contribution to affordable housing of £48,650.
- 2.3 We have been instructed to assess if the development can viably support the policy level of affordable housing provision. To assess the viability of the scheme and to establish if a surplus is generated to deliver affordable housing in line with the Planning Practice Guidance we have compared the residual land value derived by the proposed scheme with the benchmark existing land value based on an existing use plus premium valuation. To assess the effect on scheme viability of the Passivhaus requirements we have also prepared a version of the viability excluding the additional Passivhaus construction costs.
- 2.4 In this case the existing use value of the land is vacant amenity land, the NPPF states a viability assessment should refer back to the assumptions adopted at plan making stage and usually a Local Plan borough wide viability assessment will propose a benchmark land value which is the minimum level of land value a landowner would reasonably require to bring a site forward. The Reading Local Plan policies are based on viability evidence provided by BPS Surveyors in March 2018 but unusually they have not specified a benchmark land value, however in adjacent Wokingham the viability evidence provided by GL Hearn in 2013 assessed benchmark land value at £300,000/ha. We usually find benchmark land value set in borough wide assessments in the range of £300,000-500,000/ha so we have adopted a base benchmark land value at £300,000/ha. This provides a site value at £39,000 but it should be noted this is a lot less than the site land acquisition value recorded on Land Registry records at £320,000, but the Planning Practice Guidance is clear that purchase price should not be used as a reason for non-compliance with plan policies.

2.5 The results of the assessment are set out below:

Scenario	Residual land value (£)	Benchmark land value (£)	Surplus/deficit (£)
Open market Passivhaus	36,950	39,000	-2,050
Open market standard construction	90,422	39,000	+51,422
Open market standard with contribution	44,031	39,000	+5,031

2.6 The viability assessment on all open market basis based on a Passivhaus product with no affordable housing provision shows a small deficit based on a standard developers profit 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 and a level we have typically agreed on other similar sites. If the developer's profit is reduced slightly to 17.25% the assessment shows a neutral viability outcome. It should be noted the BPS Local Plan Viability Assessment uses a higher profit assumption at 20% of GDV but this is a standard assumption to cover a range of development types, at the proposed level of 17.5% of GDV the scheme assumption is already below the Local Plan viability assumption.

2.7 We have run a second version of the appraisal removing the additional costs associated with a Passivhaus project and it shows based on standard build costs it would be viable to make a policy compliant affordable housing contribution. Therefore it is the additional construction costs associated with a Passivhaus product that is generating an affordable housing viability issue, this is to be expected because the viability modelling for the Local Plan requirement was based on standard construction costs.

2.8 The NPPF states that a viability assessment should refer back to the assumptions used at plan making stage. The Reading Local Plan policies are based on a Local Plan Viability Assessment provided by BPS Surveyors in 2018 and so we have summarised below the assumptions used in the BPS assessment with the assumptions used to construct the viability assessment. This shows the assumptions are either in line or at a lower level than the assumptions used in the Local Plan Viability Assessment.

Assumption	BPS Assumption	Scheme Assumption
Build costs	BCIS median rate	BCIS median rate
External works	10%	10%
Contingency	5%	5%
Professional fees	10%	10%
Sales costs	3% of GDV	2% of GDV
Finance costs	6.75%	6.75%
Open market profit	20% of GDV	17.5% of GDV
Affordable return	6%	6%

- 2.9 In summary the viability assessment for the proposed Passivhaus scheme on an all open market development basis shows a viability deficit and therefore no surplus is generated by the development to support any affordable housing contribution or other s106 costs.

3.0 Viability Assessment

3.1 The site extends to an area of 0.13ha and is currently occupied by a single storey building previously used as a nursery but we understand this is now used as a studio which is a B1 use. The building will remain in-situ and the adjacent land will be developed to provide 2no four bedroom Passivhaus houses, we understand one will be developed as a self build for the site owners and the other will be sold on the open market. This is intended as an exemplar project by the applicants to showcase the Passivhaus product and due to the high build costs associated with the product it is not expected to generate a commercial level of return and is unable therefore to support the policy level of planning obligations.

3.2 The Reading Local Plan was adopted in 2019 and policy H3 states that developments providing 1-4 units should provide a financial contribution equivalent to 10% affordable housing. The financial contribution should reflect the financial benefit to the developer of not providing the affordable housing on site and the proposed calculation is set out below based on a typical affordable housing value at 65% of open market value.

Open market value 1 unit	£695,000
Value to Registered Provider	£451,750
Net subsidy	£243,250

$$£243,250 \times 0.2 = £48,650$$

3.3 We have been instructed to assess if the development can viably support the policy level of affordable housing provision. To assess the viability of the scheme and to establish the surplus generated to deliver affordable housing in line with the Planning Practice Guidance we have compared the residual land value derived by the proposed scheme with the benchmark existing land value based on an existing use plus premium valuation. We have then looked at the effect on viability of introducing the policy level requirement for affordable housing. To demonstrate the affect on scheme viability of the additional costs associated with a Passivhaus product we have also run a second appraisal based on standard construction costs.

3.4 A DAT appraisal for an all open market scheme allowing for a Passivhaus product constructed on a residual valuation basis shows a residual value at £36,950 which is based on a standard developers profit assumption at 17.5% of GDV.

3.5 To fully assess the viability of the scheme and its ability to viably deliver the affordable housing 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 should be 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 existing use value of the land is vacant amenity land, the NPPF states a viability assessment should refer back to the assumptions adopted at plan making stage and usually the borough wide viability assessment will propose a benchmark land value which is the minimum level of land value a landowner would reasonably require to bring a site forward. The Reading Local Plan policies are based on viability evidence provided by BPS Surveyors in March 2018 but unusually they have not specified a benchmark land value, however in adjacent Wokingham the viability evidence provided by GL Hearn in 2013 assessed benchmark land value at £300,000/ha. We usually find benchmark land value set in borough wide assessments in the range of £300,000-500,000/ha so we have adopted a base benchmark land value at £300,000/ha. This provides a site value at £39,000.
- 3.7 We have noted from Land Registry records the site was acquired in January 2020 for £320,000 however this includes the existing studio building which is being retained, so to calculate the net land value remaining we have to strip out the existing value of the studio. The studio extends to 70m² or 753ft² and if we assume the space can achieve a market rent at around £10/ft² and capitalise on a 7% yield allowing for purchasers costs the net EUV will be £101,386 which we have rounded down to £100,000. This leaves a net land value at £220,000.
- 3.8 The Planning Practice Guidance is clear that purchase price should not be used as a reason for non-compliance but we have also run the appraisal using the net land cost to reflect the developers actual financial position and the deficit increases to -£183,050.

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

Scenario	Residual land value (£)	Benchmark land value (£)	Surplus/deficit (£)
Open market Passivhaus	36,950	39,000	-2,050
Open market standard construction	90,422	39,000	+51,422
Open market standard with contribution	44,031	39,000	+5,031

- 3.10 The viability assessment on all open market basis with no affordable housing provision shows a small deficit based on a standard developers profit at 17.5% of GDV which is at the midpoint of the range set out in the Planning Practice Guidance at 15-20% of GDV and a level we have typically agreed on other similar sites. If the developer's profit is reduced slightly to 17.25% the assessment shows a neutral viability outcome. It should be noted the BPS Local Plan Viability Assessment uses a higher profit assumption at 20% of GDV but this is a standard assumption to cover a range of development types, at the proposed level of 17.5% of GDV the scheme assumption is already below the Local Plan viability assumption. However if we use the net land cost in the appraisal the return is significantly reduced and shows a developers profit at just 2.6% of GDV.
- 3.11 We have also run a second appraisal based on standard construction costs to model a non-Passivhaus product for comparison, this shows a viability surplus of £51,422 and a policy compliant level of affordable housing can be viably delivered. It is therefore the additional construction costs associated with a Passivhaus product generating the affordable housing viability issue.
- 3.12 The assessment has been constructed with sales values based on local comparable evidence within 0.25 miles of the site, the base construction costs have been informed by the BCIS rates but allow for a 6% cost uplift to reflect the additional costs associated with a Passivhaus project and all other assumptions are either in line with the assumptions in the Local Plan assessment or standard market assumptions we have agreed on other viability assessments.
- 3.13 In summary the appraisal for a Passivhaus product shows a viability deficit at -£2,050 and therefore no surplus is generated by the development to support any affordable housing or other s106 contributions. It should be noted the RICS has issued material uncertainty provisions to valuation guidance in response to the Covid 19 crisis. If the crisis continues to cause increases in unemployment this could have a negative effect on market confidence potentially leading to falling houseprices and sales rates and construction costs could increase due to requirements of social distancing on site increasing preliminary costs. The market conditions will need to be kept under review as the development proceeds.

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 20% 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 produced a Planning Obligations SPD in 2015, this sets out the policy background for planning obligations in the context of the adoption of CIL and repeats the policy requirements set out in the Local Plan.

National Planning Policy Framework June 2019

- 4.4 Following a consultation period the revised NPPF was issued on the 19th June 2019 and the main sections which effect s106 viability are outlined below.
- 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 previous versions the 2019 framework states 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 57 of the framework sets out one of the keys 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 particular 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 63 states that affordable housing should not be sought from schemes which are not major developments, this is defined at 10 units or less.

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. Cost and Value Assumptions

Benchmark Land Value

- 5.1 The Planning Practice Guidance states that benchmark land value should be 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 existing use value of the land is vacant amenity land, the NPPF states a viability assessment should refer back to the assumptions adopted at plan making stage and usually the borough wide viability assessment will propose a benchmark land value which is the minimum level of land value a landowner would reasonably require to bring a site forward. The Reading Local Plan policies are based on viability evidence provided by BPS Surveyors in March 2018 but unusually they have not specified a benchmark land value, however in adjacent Wokingham the viability evidence provided by GL Hearn in 2013 assessed benchmark land value at £300,000/ha. We usually find benchmark land value set in borough wide assessments in the range of £300,000-500,000/ha so we have adopted a base benchmark land value at £300,000/ha. This provides a site value at £39,000.
- 5.3 We have noted from Land Registry records the site was acquired in January 2020 for £320,000 however this includes the studio building which is retained, so to calculate the net land value remaining we have to strip out the existing value of the studio which is understood to have a B1 use. The studio extends to 70m² or 753ft² if we assume the space can achieve a market rent at around £10/ft² and capitalise on a 7% yield allowing for purchasers costs the net EUV will be £101,386 which we have rounded down to £100,000. This leaves a net land value at £220,000.
- 5.4 The Planning Practice Guidance is very clear that purchase price should not be used as a reason for non-compliance with plan policies and so accordingly we have set the benchmark land value based on a £300,000/ha benchmark providing a benchmark land value at £39,000.

Sales values

- 5.5 To inform the sales value we have undertaken an internet based market research assessment of achievable values within a half mile radius of the site, looking at properties on the market, sale agreed and recently completed.

- 5.6 Within 0.5 miles of the site we could only identify two relevant comparables on the market, a 4 bedroom detached on Parkside Road with a floor area at 117m² on the market at £480,000 and an older property on Argyle Road with a floor area at 109m² on the market at £450,000. Extending the search radius to one mile the highest value 4 bedroom detached comparable was being marketed at £650,000 but this property has a larger floor area at 190.5m².
- 5.7 The most reliable evidence base will be provided by sold transactions taken from Land Registry records and within 0.5 miles of the site we identified the following transactions:
- 12 Penroath Avenue 157m² sold £517,000 July 2020 (£3,292/m²)
3 Maldon Close 121m² sold £530,000 July 2020 (£4,380/m²)
96 Tilehurst Road 130.2m² sold £415,000 Dec 2019 (£3,187/m²)
45 Tilehurst Road 147m² sold £545,000 Aug 2020 (£3,707/m²)
- 5.8 A typical average value would be in the region of £3,500/m² but we do need to reflect a premium for a new home which is usually taken at 10% increasing the sales value to £3,850/m². If we apply this to the proposed units the sales value will be £693,000 which we have rounded up to £695,000. This is at the top of the local market and some £45,000 higher than the highest value comparable we could identify but we do need to reflect a newbuild premium and the potential saleability of a Passivhaus product appealing to buyers with environmental awareness. We have therefore adopted a sales value at £695,000 per dwelling.
- 5.9 The overall GDV on an all open market basis will be £1,390,000 which equates to an average value at £3,861/m².
- 5.10 The actual price achieved will be dependent on market conditions at the time of marketing, competitor developments and the completed specification and finishes. We will need to keep market conditions under review as at the time of writing we don't know how the market will respond to the Covid 19 crisis with increased risk of business failure and rising unemployment affecting market confidence.

Construction Costs

- 5.11 In line with standard practice and the Planning Practice Guidance on standardised inputs we have used the BCIS rates rebased to Reading to establish the base construction costs. The median rate for detached houses using the 1-3 dwelling cost range is £2,100/m².

- 5.12 We also need to account for the additional costs associated with a Passivhaus level of specification. A Passivhaus property will require enhanced levels of insulation, an airtight construction and a ventilation/heat recovery system. The Passivhaus Trust produced a cost assessment report in October 2019 which estimated the average additional cost at 8% of standard build costs in 2018 but with a longer term aim to reduce the costs through supply chain management to a target level of 4% in the longer term. A mid point position at 6% would be a reasonable estimate for the likely level of costs increasing the build cost rate to £2,226/m². For comparison the BCIS Upper Quartile rate is £2,769/m² so the proposed cost level is still less than the BCIS Upper Quartile cost range providing a market benchmark.
- 5.13 The BCIS rates exclude allowances in connection with external works and the usual default assumption is taken at 10-15% of the base build costs, in this case the external works allowance will need to fund the estate road, hard and soft landscaping and boundary treatments so we have adopted a 10% cost allowance. This increases the base build costs to £2,449/m².
- 5.14 For the standard (non Passivhaus) appraisal we have used the standard BCIS rate with a 10% external works allowance at £2,310/m².
- 5.15 The BPS Local Plan viability review also used the BCIS rates to inform the construction costs assumption so our methodology is in line with the Local Plan evidence base.
- 5.16 We have separately allowed for design and professional fees at 10% and contingency at 5%, which are in line with the assumptions adopted in the BPS Local Plan viability assessment.

Developers Profit

- 5.17 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 development risk profile. The Local Plan Viability assessment assumes a profit level at 20% of GDV.
- 5.18 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, however the Covid 19 crisis has the potential to significantly increase the market risk profile which has to be reflected with an increase in the level of developers return. The increased risks are two fold with the risk of increased unemployment rates effecting market confidence potentially resulting in reductions in sales values and sales rates and social distancing measures on site increasing construction costs. At this point it is not clear how the market will react to the crisis but a developers profit at the higher end of the range in the guidance may now justified to offset the potential for much higher levels of development risk.

5.19 Although a higher level of developer's profit could be justified we have adopted developers profit at 17.5% of GDV with the DVS on similar projects so we have adopted the same in this case.

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 DAT 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 2 months.

S106 and CIL Contributions

- 6.3 We have allowed for CIL but only against one dwellings as we understand the other should qualify for the self build relief. We have not allowed for any additional s106 costs.

Interest Rates

- 6.4 The Local Plan viability assessment assumes a finance rate at 6.75%, this is in line with other viability assessments we have agreed so we have adopted the same assumption.

Sales and marketing costs

- 6.5 We have allowed for an allowance of 2% of gross sales value for sales and marketing this will cover a sales agent of 1-1.5% and additional allowances for the production of marketing material, advertising and promotion.
- 6.6 The Local Plan viability uses a slightly higher assumption at 3% of GDV assumption but this is likely to be based on larger multi-unit sites where an on-site sales complex is required .

7 Conclusion

- 7.1 The proposed development will provide 2no dwellings and the Reading Borough Council affordable housing policy will require 20% affordable housing provision which we have taken as a requirement to provide a financial contribution of £48,650. We have been instructed to assess if the proposed development is viable and can support the policy compliant level of affordable housing provision.
- 7.2 To establish if a surplus is generated by the development to support affordable housing provision 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 valuation. This approach is in line with the Planning Practice Guidance and accepted standard practice.
- 7.3 The appraisal for the proposed Passivhaus product shows a deficit of -£2,050 and if we account for the deficit the developer is returning a level of profit below the mid-point profit range identified in the Planning Practice Guidance at 15-20% of GDV. Clearly therefore no surplus is generated by the scheme to support an affordable housing contribution.
- 7.4 For comparison we have also run a version of the appraisal on standard construction costs without the Passivhaus cost uplift and this shows a viability surplus of £51,522 so a policy compliant level of affordable housing contribution will be viable. This shows it is the additional costs of a Passivhaus product that is generating the affordable housing viability pressure but the wider benefit of a Passivhaus dwelling needs to be balanced against the need for planning obligations.
- 7.5 It should be noted in response to the Covid 19 crisis the RICS have issued material uncertainty provisions to valuation guidance. If the crisis continues to increase levels of unemployment this could affect market confidence with a resultant effect on sales values and sales rates. The viability will need to be kept under review as the development moves forward.

