



Financial Viability Appraisal

Regarding the development at:

85 Pell Street, Reading, RG1 2NP

15th June 2020



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Introduction

Section 106 Management is instructed by Mr John Rivers to produce a Financial Viability Appraisal to determine the level of Affordable Housing contribution that it is appropriate to expect from a proposed development at 85 Pell Street, Reading, RG1 2NP.

The site currently accommodates an Architectural Salvage Yard which has been vacant since 2016. The existing building has a GIA of 104.6m² and the total site area is 346.84m². The development proposes to demolish the existing buildings, clear the site, and erect a block containing 6 x residential flats, with an attached 2-bedroom house. In total the project will provide 256m² of residential accommodation.

Reading Council rely upon Policy DM6 of their 'Sites and Detailed Policies Development Plan Document' (adopted October 2012) for the provision of Affordable Housing.

Location Plan



S106 Management

S106 Management is a viability consultancy established in 2011 by Robin Furby, retired solicitor and 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 and architects and an extensive network of planning professionals.

With over a decade of experience in creating expert viability assessments, advising on complex planning obligations, and negotiating with LPAs, **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 planning industry.

S106 Management have worked with over 600 clients on more than 800 developments, facilitating over 4,500 homes across 124 LPAs. Our viability reports have been successfully used at 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 DM6 'Sites and Detailed Policies Development Plan Document':

DM6: AFFORDABLE HOUSING

On development sites of less than 15 dwellings, the following proportions of affordable housing provision will be provided:

- *on sites of 10 - 14 dwellings 30% provision;*
- *on sites of 5 - 9 dwellings 20% provision; 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 more than 4 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.

Based on the above policy, we would expect Reading to seek a 20% contribution towards the provision of Affordable Housing elsewhere in the borough. The purpose of this FVA is to determine whether such a contribution is achievable.

The operation of this policy is driven by the 'Reading Affordable Housing Supplementary Planning Document' (adopted July 2013).

These policies have been informed by the Reading BC 'Supporting Development Viability Report' by Steve Hicks MRICS (July 2011 hereafter referred to as the SDV) and the 'Critical Review' of the same document by BPS Chartered Surveyors (July 2011 hereafter referred to as the Critical Review).

National Guidance is a material consideration; therefore, we also consider the 'National Planning Policy Framework' (NPPF) (Feb 2019), 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 57 of the NPPF is of relevance:

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

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.’

Vacant Building Credit

The NPPF (February 2019) establishes Vacant Building Credit (VBC) in Para. 63:

63. Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer). To support the re-use of brownfield land, where vacant buildings are being reused or redeveloped, any affordable housing contribution due should be reduced by a proportionate amount

We consider that the Property has the benefit of a Vacant Building Credit, as follows:

Existing vacant floor area:	104.6m²
Proposed floor area:	383.9m²

The existing vacant floor space is equivalent to 27% of the proposed development, thus the maximum amount of Affordable Housing that could be provided, irrespective of the financial viability addressed in this report, is 14.6%.

Viability

The relevance of viability is accepted in Policy DM6 which states:

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

The issue of viability is developed further by the Reading Affordable Housing SPD and its guidance is also adopted in this report. We particularly make reference to paragraph 4.38 relating to the examination procedure leading to the adoption of policy DM6:

The Inspector's Report on the examination of the Sites and Detailed Policies Document noted that the policy will be applied flexibly to take account of market conditions or difficulties on particular sites.

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

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.

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	49.7	1-bed 1-person Flat (Studio)
2	51.5	1-bed 2-person Flat
3	48.8	1-bed 1-person Flat (Studio)
4	51.4	1-bed 2-person Flat
5	39.1	1-bed 1-person Flat (Studio)
6	40.4	1-bed 1-person Flat (Studio)
7	77.7	2-bed 4-person House
Total	356.9	

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)

As the Council's viability evidence is rather generalised and accordingly not particularly helpful on the subject of local property values, we have referred to Zoopla to determine likely asking prices:

Property value data/graphs for RG1

Property type	Avg. current value	Avg. £ per sq. ft.	Avg. no beds	Avg. £ paid (last 12m)
Detached	£597,866	£364	4.0	£498,945
Semi-detached	£436,281	£342	3.5	£447,411
Terraced	£308,759	£351	2.9	£307,744
Flats	£265,950	£404	1.7	£246,794

This data leads us to expect sales values for the proposed flats of circa £4,347/m², and £3,776/m² for the attached house.

We have cross-checked the Zoopla data with 'sold' transactions extrapolated from Rightmove which took place last year within ¼ mile of the proposed development:

Sold flats 1/4 mile last 1 year

Address	Type	Sale Date	Area (m ²)	£/m ²	Price
36, Quadrant Court, Jubilee Square, Reading RG1 2GW	Mid-floor flat	21.02.2020	60	£4,041.67	£242,500
Flat 113, Riverside View, 5 - 9, Berkeley Avenue, Reading RG1 6FH	Top-floor flat	07.02.2020	73	£5,193.63	£379,135
Flat 80, Riverside View, 5 - 9, Berkeley Avenue, Reading RG1 6FH	Mid-floor flat	07.02.2020	82	£4,512.20	£370,000
70, Quadrant Court, Jubilee Square, Reading RG1 2GU	Mid-floor flat	06.02.2020	63	£3,928.57	£247,500

Address	Type	Sale Date	Area (m2)	£/m2	Price
Flat 28, Riverside View, 5 - 9, Berkeley Avenue, Reading RG1 6FF	Mid-floor flat	03.02.2020	78	£4,730.77	£369,000
Flat 20, East View Place, East Street, Reading RG1 4AW	Ground-floor flat	31.01.2020	56	£2,455.36	£137,500
Flat 13, 118 - 128, London Street, Reading RG1 4SJ	Top-floor flat	30.01.2020	69	£3,333.33	£230,000
46 New Bright Street, Reading, Reading RG1 6QQ	1 bed flat	28.01.2020	49.9	£4,593.19	£229,200
6, Dartmouth Terrace, Reading RG1 5AL	Top-floor maisonette	15.01.2020	99	£2,929.29	£290,000
			Avg. £/m2	£3,960.68	

Sold terraced 1/4 mile last 1 year

Address	Type	Sale Date	Area (m2)	£/m2	Price
101 Waldeck Street, Reading, Reading RG1 2RF	2 bed terraced house, enclosed rear patio	06.03.2020	71.5	£3,363.64	£240,500
29 Edgehill Street, Reading, Reading RG1 2PU	2 bed terraced house, small rear garden	17.02.2020	64	£3,789.06	£242,500
101 Edgehill Street, Reading, Reading RG1 2PU	2 bed terraced house, small rear garden	14.02.2020	68	£4,000.00	£272,000
26 Francis Street, Reading, Reading RG1 2QB	3 bed terraced house, in need of modernisation, rear garden	11.02.2020	69	£3,362.32	£232,000
43, Edgehill Street, Reading RG1 2PU	Mid terraced house	03.02.2020	76	£3,618.42	£275,000
30 Chesterman Street, Reading, Reading RG1 2PR	2 bed terraced house, rear garden	31.01.2020	93.9	£2,822.15	£265,000
65 Mount Pleasant, Reading, Reading RG1 2TF	2 bed terraced house, enclosed small rear garden	09.12.2020	74.7	£4,109.77	£307,000
75 Elgar Road, Reading, Reading RG2 0DQ	3 bed terraced house, private rear garden	06.12.2020	85.3	£3,317.70	£283,000
25 Chesterman Street, Reading, Reading RG1 2PR	2 bed terraced house, private rear garden	06.12.2020	63.9	£4,194.05	£268,000
			Avg. £/m2	£3,579.47	

The average figures taken from Rightmove are lower than those proposed by Zoopla, this is because the data focusses more centrally on the area immediately surrounding the subject site, whereas the Zoopla data is compiled using transactions encompassing the whole RG1 postcode.

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

In addition to the 'sold' data, we have also looked at new-build units currently for sale :

New build flats for sale 1/2 mile

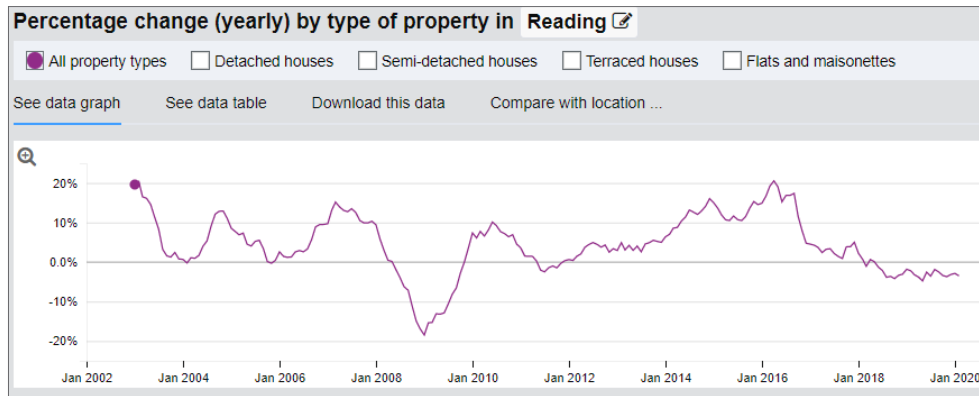
Address	Type	Sale Date	Area (m2)	£/m2	Price
Berkeley Avenue, Reading, RG1	2 bed luxury high spec apartment, private balcony, parking	Guide price	70.3	£5,490.75	£386,000
Jacksons Corner, Reading	2 bed luxury flat, ultra-modern high spec finish, audio/visual entry, communal gardens	Guide price	60	£6,583.33	£395,000
Berkeley Avenue, Reading, RG1	2 bed contemporary high spec apartment, town centre location	For sale from	68	£5,220.51	£354,995
Chiltern Verto, Kings Road, Reading, RG1	2 bed modern apartment, high spec finish, bike storage	For sale from	60.1	£5,740.43	£345,000
Goring Verto, Kings Road, Reading, RG1	2 bed modern apartment, high spec finish, rooftop garden, private balcony	For sale from	60.1	£5,657.24	£340,000
Pell Street, Reading	2 bed modern apartment, off road parking, communal garden	For sale	64.9	£5,007.70	£325,000
Pell Street, Reading	2 bed modern apartment, off road parking, communal garden	For sale	63.48	£4,883.43	£310,000
Jacksons Corner, Reading	1 bed luxury, high spec apartment, communal courtyard, audio/visual entry system	For sale	40.6	£6,896.55	£280,000
Verto, Kings Road, Reading, RG1	1 bed high spec apartment, concierge & communal roof garden	Guide price	44.5	£6,123.60	£272,500
			Avg. £/m2	£5,655.28	

New build terraced for sale + 5 miles

Address	Type	Sale Date	Area (m2)	£/m2	Price
Woodland Gardens at Green Park Village , Longwater Avenue, Green Park, Reading RG2 6AB	3 bed terraced house, luxury / modern design, private garden, 2 parking spaces	for sale	103	£4,733.01	£487,500
Beales Grove, Shinfield, RG2	3 bed end terrace house, modern interior, rear garden, allocated parking	Offers in excess	84.6	£4,432.62	£375,000
Grazely at Heritage Park, Brookers Hill, Shinfield, RG2	2 bed terraced house, modern interior, rear garden	For sale from	71	£4,647.89	£330,000
The Dalton - Plot 452 at Loddon Park, Sandford Farm, Off Mohawk Way' Wood- ley, Reading, RG5	2 bed end terrace house, modern/ contemporary design, rear garden, garage & parking	For sale from	112.1	£3,835.86	£430,000
The Colton - Plot 873 at Deer Leap Park, Church Lane, Reading, RG7 1HE	3 bed terraced town house, modern / contemporary design, rear garden, allocated parking	For sale from	105.39	£3,909.29	£412,000
White Lake Gardens, Colemansmoor Road, Woodley, Reading, RG5	3 bed terraced house, modern design, garden, 2 parking spaces	Guide	126.1	£4,242.66	£534,999
Avg. £/m2				£4,266.92	

The average 'asking' prices are higher than the 'achieved', however due to ongoing uncertainties and stagnation in the current market it is reasonable to suggest that asking prices are less than likely to be realised.

Whilst it is true that we may expect to see a premium of say 10% on the sold data (as the subject development will provide newly built units, it should also be stressed that, at the time of writing, it is considered entirely probable that property prices will decline by perhaps as much as 15-20% in the recession that will follow the present Covid-19 crisis. Land registry data documents a decline of 18.5% following the 2008 sub-prime crisis, a similar outcome is to be expected; graph on the next page.



The above notwithstanding, we have projected optimistic values; summarised below:

Unit	Area m2	Type	£/m2 value	Price
1	48.73	1-bed 1person Flat (Studio)	£4,514	£220,000
2	50.53	1-bed 2person Flat	£4,354	£220,000
3	48.90	1-bed 1person Flat (Studio)	£4,499	£220,000
4	51.41	1-bed 2person Flat	£4,279	£220,000
5	39.19	1-bed 1person Flat (Studio)	£5,104	£200,000
6	40.46	1-bed 1person Flat (Studio)	£4,944	£200,000
7	76.78	2-bed 4person house	£4,168	£320,000
Total	355.99		£4,494.48	£1,600,000

For clarity we have run the HCEAT adopting the Median quartile figure, which is £4,494.48.

The above figures represent the top end of what is achievable in 'today's' market; however, if the knock-on effect of the present Pandemic is as negative as many forecasts suggest, this level of sale values will not be realised.

In addition to the sales values we have included a lump sum of £30,000 to allow for the value of the freehold ground rent, based on an assumed rental of £300pa and capitalised at 6%.

Timing (input sheet 2)

This report is to accompany a planning application, which it is hoped will be granted within the next 3 months. There will be a further 3 month period required after the determination of the application to prepare the building regulation drawings, obtain fixed price quotations and all other regulatory consents.

Construction will be undertaken for c. 14 months with sales expected between months 14 - 16.

The 'holding cost' prior to commencement is disregarded for the purposes of our report.

Construction Costs (input sheet 2)

The BCIS data is as follows:

£/m2 study							
Description: Rate per m2 gross internal floor area for the building Cost including prelims. ?							
Last updated: 23-May-2020 00:47							
Maximum age of results: Default period ▼							
Building function (Maximum age of projects)	Mean	Lowest	£/m² gross internal floor area				Sample
			Lower quartiles	Median	Upper quartiles	Highest	
New build							
816. Flats (apartments)							
Generally (15)	1,628	807	1,358	1,549	1,831	5,620	912
1-2 storey (15)	1,553	954	1,322	1,486	1,716	2,792	214
3-5 storey (15)	1,601	807	1,346	1,539	1,805	3,427	602
6 storey or above (15)	1,975	1,180	1,601	1,837	2,141	5,620	93
820.3 'One-off' housing terraced (3 units or less) (15)	1,592	1,289	1,322	1,419	1,585	3,341	14

We adopt the Upper quartile costings for projects of this nature, thus £1,805/m2 for the 6 x flats, and £1,539/m2 for the attached house. These costings should be viewed as particularly modest considering the sharp rise in inflation in the build cost sector caused by current and rapidly evolving uncertainties.

The GIA of the flats (279m²), represents 91% of the total GIA of the building (307m²) with the additional space allowing for all communal areas; the HCEAT has been run with a corresponding correction factor.

The BCIS data only refers to the costs that will be incurred in creating the envelope of the proposed buildings; abnormal and external works are examined subsequently in our report.

Fees (input sheet 2)

The figure of 10% is industry standard and thus is adopted in the HCEAT.

Contingency (input sheet 2)

The figure of 5% is industry standard and thus is adopted in the HCEAT.

Section 106 Payments (input sheet 2)

Reading adopted their CIL Charging Schedule in January 2015 which stipulates that all residential developments should pay £120 for every additional m² of accommodation provided; following indexation this figure is now £146.6.

The development proposes to create 279.3m² of additional residential accommodation, thus we have included a sum of £40,945 in CIL. This figure should be confirmed by both the applicant and the LPA.

Abnormal Development Costs (input sheet 2)

As mentioned previously, BCIS data only allows for costs incurred in erecting the building envelope; Abnormal and External works are summarised by the table below:

Abnormal work required	Quantity	Cost per unit	Total cost
NHBC	7	£3,000	£21,000
Services	7	£3,500	£24,500
Soft landscaping	68	£30	£2,040
Hard landscaping	100	£80	£8,000
Demolition and clearance	1	£25,000	£25,000
Total cost			£80,540

The HCEAT Spreadsheet has been run with a corresponding figure under the heading 'Site Abnormals.'

Site Acquisition Costs (input sheet 2)

The EUV of the site as explained below is 300,000; we have included Acquisition costs of £10,000 which incorporates £7,500 in SDLT.

Finance Costs (input sheet 2)

Typically, banks are prepared to lend only the building cost (£755,000) of this type of development; their arrangement fee will be 2%, and the spreadsheet carries an input of £15,000.

While base rates are at a historic low level, cost of funding expressed as a percentage above LIBOR is at historically high figures; an interest figure of 7% is used in the spreadsheet.

The spreadsheet includes misc. lending fees of £10,000 which is made up from the bank surveyor's initial valuation fee of £5,000, monitoring fees while the project progresses of £2,500, and £2,500 in other bank fees.

Marketing Costs (input sheet 2)

The HCEAT spreadsheet has default values of 6% for marketing and £600 per unit for legal fees; as a compromise we have adopted a marketing cost of 3% and legal fees of £1000 per unit.

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?

'Potential risk is accounted for in the assumed return for developers at the plan making stage. It is the role of developers, not plan makers or decision makers, to mitigate these risks. The cost of complying with policy requirements should be accounted for in benchmark land value. Under no circumstances will the price paid for land be relevant justification for failing to accord with relevant policies in the plan.

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.'

We refer to the Reading Borough Council Viability Testing Report (BPS – March 2018), which at para 5.5 identifies a developer profit of 17% and 20%:

5.5 Developer profit is a frequently contested issue in terms of viability in a planning context. We are currently typically seeing developer profit levels span 17%-20% of gross development value with profit margins on affordable housing typically around 6% of total affordable revenue and commercial risk set at a midpoint between these two rates. Profit margins are development specific and reflect the risk involved in delivery and sale as such there should in our view be no standard default assumption when looking on a site specific basis.

'Risk' is one of the key factors in determining the levels that developers should be working towards and clearly, in this current uncertain climate, it could easily be argued that base levels should be set higher (22%+). In this instance, we adopt the mid-point of the policy proposed by the Council (18.5%), however we reserve the right to return to this issue if necessary.

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 together with the right to implement any development for which there are policy compliant extant planning consents, including realistic deemed consents, but without regard to alternative uses. 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. 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 site currently provides a disused architectural salvage yard. The premises became vacant in 2016. The GIA of the existing building is 104.6m², while the total site area is 346.84m².

We have obtained the following advice from Mr John Carter (RICS), regarding the EUV of the premises:

I have been asked to carry out a Benchmark valuation on a premises at 85 Pell Street Reading RG1 2NP. The premises comprise a showroom and workshop extending to 1,126 ft.², total site area extends to 3,840 ft.².

The property is currently vacant but was occupied as an Architectural Salvage Yard and was, some years previous to that used as a car sales premises. The architect acting for the owner advises that currently the site falls into the Sui Generis use category.

It is apparent that rental levels of industrial premises of this size range from £10-£15 per ft² depending on location and prominence.

It is my understanding that the current owner purchased the premises some time ago from a car sales operator at a premium, and conducted his Architectural Salvage Yard business for many years (until around three years ago when it was vacated) paying rental to the Local Authority £12,000 per annum (rent set some time before the premises were vacated).

I suggest this premises may have some potential for additional value operating as a car sales business; as a similar site in Reading, extending to 3,250 ft.² is currently on the market via Right Biz at a premium, held on a lease of £38,400 per annum. The agent dealing with its disposal advises that the showroom/office extends to 520 sq. ft. in total. The open market rental was set in 2018 with a rateable value of £15,250, as compared to the rateable value of the subject property (described as a showroom workshop and office premises) at the sum of £6,278 per annum. A direct comparison would realise a rental of something excess of £20,000 per annum.

Having regard to the above it is my view that the current rental value should be set at the sum of £20,000 per annum (equivalent to a rent per sq. ft. of the showroom/office only is at £18.) and that an appropriate yield would be at 8.5%, realising a capital value of £235,200.

The premises which have a Sui Generis use, are located in a built-up area of Reading in a road comprised of mainly residential properties, and in fact, a planning permission was granted for a residential scheme in November 2018. It would therefore not be unreasonable for a longstanding owner to expect to achieve a value that recognises these circumstances, hence I believe an appropriate addition should be at 30%

As a consequence, my Benchmark valuation is at the sum of £300,000.

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

'The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to 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. For any viability assessment data sources to inform the establishment the landowner premium should include market evidence and can include benchmark land values from other viability assessments. 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. Local authorities can request data on the price paid for land (or the price expected to be paid through an option agreement).'

The advice provided by Mr Carter is inclusive of a premium, thus no additional allowance has been made.

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 current permitted use, and other than other potential development that requires planning consent, technical consent or unrealistic permitted development with different associated values. 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 have an existing implementable permission for that use. Where there is no existing implementable permission, 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 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 appropriate 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	£1,630,000
<i>Less costs</i>	
Construction Costs	£675,517
Other Site Costs	£236,190
Marketing	£56,900
Finance Costs	£95,595
Developer Profit	£301,550
Residual Site Value	£264,248

To determine the viability of the provision of Affordable Housing, the Benchmark Value of the site as stated above (**£300,000**), is deducted from the Residual Value calculated by the HCEAT spreadsheet. If the result is negative, as it is in this case (**-£35,752**), 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 profit that the developers will earn from this project:

Spreadsheet Residual Value	£264,248
Plus Spreadsheet Developer Profit	£301,550
Less Benchmark Value	£300,000
Actual Profit	£265,798

This presents a return of 16.3% which is below the 18.5% 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.