

Affordable Housing Viability Appraisal

Document Purpose

To provide a viability assessment of the subject property to assess the possibility and viability of providing an off-site affordable housing contribution.

Site

Construction of five apartments consisting of a three bedroom, two bathroom ground floor unit, a two bedroom, two bathroom and a one bedroom one bathroom first floor units and a two bedroom, two bathroom and one bedroom, one bathroom second floor units with off road parking and amenity space, including bicycle and bin stores

at

1a North Street
Caversham
Reading
RG4 8JA

Prepared by:

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Executive Summary

Gross Development Value: based on a development of 5 apartments with a gross sales area of 3347.6 sq ft	£1,275,000.00
Total development costs: having regard to the criteria set out in the below report	£602,568.00
Residual Land Value	£333,998.90
Net Land Value (less interest and stamp duty)	£425,000
Less Benchmark Land Vale	£510,000
Deficit	-£85,000

Having regard to the criteria set out in the below report, the proposed development is in deficit by £85,000. The scheme cannot viably afford to provide any off-site affordable housing contribution.

1. Introduction

- 1.1. The purpose of this report is to provide a viability assessment to determine the amount of affordable housing the proposed development can viably provide.
- 1.2. Its main objective is to establish and justify the development revenues and costs and use these to ascertain the Residual Land Value (RLV). This will then be compared to the Benchmark Land Value (BLV) to ascertain the viability of the scheme and the appropriate affordable housing contribution.
- 1.3. The report will also ensure that a competitive return for both the landowner and the developer is factored in.

2. Description of Property

- 2.1. The property is a development of 5 apartments, comprising a 3 bedroom, 2 bathroom unit and 2 x 2 bedroom, 2 bathroom units and a 1 bedroom, 1 bathroom unit with off road parking and amenity space including bicycle and bin storage, totalling 371m² (3993.41ft²).
- 2.2. The plot is made up of an existing single dwelling (1 bedroom bungalow) and the rear of a former restaurant at 3 Prospect Street consisting entirely of former kitchen and storage space and an unused yard. The restaurant (The Happy diner) has been unused and vacant since circa. 2017.

3. Proposed Scheme

- 3.1. The proposed scheme is to erect a three storey block of apartments, five in total with off road parking spaces (5 in total) and amenity space. The plan is for a 3 bedroom, 2 bathroom ground floor apartment, proposed first floor accommodation is a 2 bedroom, 2 bathroom apartment and 1 bedroom, and 2 bedroom, 2 bathroom and 1 bedroom, 1 bathroom second floor apartments.
- 3.2. The development has a total of 371² (3993.41ft²) of gross internal floor area, set out as follows:

Plot 1: 3-bedroom, 2 bathroom ground floor unit	96.13m ² (1034.36ft ²)
Plot 2: 1-bedroom, 1 bathroom first floor unit	40.23m ² (432.87ft ²)
Plot 3: 2-bedroom, 2 bathroom first floor unit	65.9m ² (709.08ft ²)
Plot 4: 1-bedroom, 1 bathroom second floor unit	35.21m ² (378.86ft ²)
Plot 5: 2-bedroom, 2 bathroom second floor unit	55.02m ² (592.02ft ²)
Communal Area & Internal walls	78.51m ² (845.07ft ²)

4. Planning Policy Context

- 4.1. Policy H3 of the Reading Borough Local Plan 2036 states that *“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.”*
- 4.2. In accordance with Policy H3, the proposed scheme should deliver a contribution of 10% of GDV. The policy does go on to state that if a developer is proposing a lower contribution, *“the onus will be on the developer/landowner to clearly demonstrate the circumstances justifying a lower affordable housing contribution”*.

5. Benchmark Land Value

- 5.1. The benchmark land value (BLV) is considered to be the existing use value plus a premium (EUV+) to incentivise the landowner to bring the land forward for development, in accordance with the guidance set out in the National Planning Policy Guidance (PPG) on Viability.
- 5.2. The PPG states that *“plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan”*. Reading Borough have yet to publish their updated Affordable Housing SPD and as such, their development plan remains silent on this matter. Looking at plans made by other authorities, it is reasonable to adopt a premium of 20%.
- 5.3. The existing bungalow is currently valued at approximately £350,000. There is a yard and disused kitchen space with a nominal value of approximately £75,000. The combined values is considered to be the minimum EUV.
- 5.4. The BLV is therefore considered to be £425,000 + 20% = **£510,000**

6. Gross Development Value

- 6.1. The opinions of three well established local estate agents have been sought as to the potential value of both proposed properties. The following schedule sets out the valuations from each:

Estate Agent	Plot 1	Plot 2	Plot 3	Plot 4	Plot 5	Total Value	£ per sq ft
Winkworth	£300,000	£200,000	£285,000	£200,000	£275,000	£1,260,000	£376.39
Masons	£320,000	£205,000	£285,000	£195,000	£275,000	£1,280,000	£382.36

- 6.2. The average figure from these prices is £380 per sq ft.
- 6.3. The next schedule sets out the sales evidence of the most recent immediately located transactions of detached units. All properties are located within the surrounding area in Caversham, at a maximum distance of 0.25 miles away:

Property Address	Property Type	Date Sold	Price Achieved	£ per sq ft
3 Archway House, Gosbrook Rd, RG4 8HU	1-bed apartment	Oct 2018	£225,000	£342.68
61 Abbotsmead Place, RG4 8BB	2-bed apartment	April 2017	£355,000	£458.06
35 Abbotsmead, RG4 8BB	1-bed apartment	Mar 2019	£215,000	£269.76
27b Priest Hill, RG4 7RZ	3-bed apartment	Dec 2019	£375,000	£308.42
98 Gosbrook Road, RG4 8BJ	2-bed apartment	Dec 2018	£235,000	£316.41
90 Gosbrook Road, RG4 8BJ	2-bed apartment	Dec 2019	£245,000	£287.13
16 Waller Court, RG4	2-bed apartment	Oct 2019	£252,500	£366.53

6.4. It is clear from the research that there is a lack of good quality apartments in the centre of Caversham available for sale in this area. Exact comparables are therefore hard to come by and as such, similar sized units within a half a mile radius and sold over the last 3 years have been used as comparables.

6.5. The median price is used here, rather than the average, to ensure that any outlying data does not skew the final figure. The median figure is £335.57 per sq ft.

6.6. The unpredictability of the housing market, caused by COVID-19 and the upcoming end to the Brexit transition period, means there is likely to be a large amount of uncertainty in the housing market next year. This uncertainty will have been factored into the estate agent's valuations above. They therefore carry more weight than the higher "£ per sq ft" figures found in the comparable evidence.

6.7. The final "£ per sq ft" value for both is therefore **£380.87** per sq ft, which is in line with the estate agent's valuations. This equates to a total GDV of **£1,275,000**.

7. Development Costs

7.1. Construction Cost

7.1.1. In assessing the build costs for this development, the BCIS Indices have been consulted and rebased for Reading. The Median Quartile has been adopted, which is deemed to be conservative given the high level of GDV adopted.

7.1.2. On this basis, a build cost of £180 ft² has been adopted for the dwellings.

7.1.3. In an attempt to assist in making the scheme viable, no additional amount has been allowed for external works. We reserve the right to include an additional 10% on the construction costs in the future.

7.1.4. The final total construction costs are therefore **£602,568**.

7.2. Interest Charge

7.2.1. *Construction Cost*

The interest rate charge assumed on the construction cost borrowing is **6.75%**. This has been assumed over a 15-month period to allow for a 3-month marketing period after the completion of construction.

7.2.2. *Land Purchase Cost*

The interest rate charge assumed on the land purchase cost is **6.75%**. This has been assumed over an 18-month period to allow for a 3-month pre-build period and a 3-month marketing period.

7.3. Agents Marketing and Legal Costs

7.3.1. Agents marketing and legal costs have been assumed at **3%**, as is widely accepted industry practice.

7.4. Build Period

7.4.1. The build period is assessed at **12 months**.

7.5. Technical Fees

7.5.1. Technical fees have been assessed at **8%** of build cost, which is at the lowest end of the accepted standard of 8-15% usually applied in similar viability statements.

7.6. Contingency

7.6.1. A minimal contingency of **3%** has been adopted, again on the basis of ensuring the viability of the scheme.

7.7. Community Infrastructure Levy

7.7.1. The CIL due on this development is calculated as follows. The original building bungalow is 39m² to be demolished and 126m² of unused commercial floor area to be demolished.

$$371\text{m}^2 - 126\text{m}^2 - 39\text{m}^2 = 206\text{m}^2$$

$$£157.18 \text{ psm} \times 206\text{m}^2 = \textbf{£32,379.08}$$

7.8. Developer's Profit

7.8.1. While a developer's profit of 20% is industry standard, a conservative profit margin of **17.5%** has been assumed in an attempt to ensure the viability of the scheme.

8. **Viability Appraisal and Residual Land Value**

8.1. The below schedule sets out the previous discussed appraisal inputs necessary in order to bring forward this 5-unit development.

Scheme	1 x 3-bed apartment, 2 x 2-bed apartments and 2 x1 bed apartments with parking and amenity space
Gross Development Value	£1,275,000.00
Construction Costs	£602,568.00
Interest Charge	£50,841.68
Agents Marketing & Legal Costs	£38,250.00
Technical Fees	£48,205.44
Contingency	£18,076.80
CIL	£32,379.08
<i>Build Cost Subtotal</i>	£790,321.00
Developer's Profit (17.5%)	£140,149.10
Total Project Costs	£930,470.10
Residual Land Value (GDV – Project Costs)	£344,529.90
<i>Stamp Duty</i>	£9,856.00
<i>Land Purchase Interest</i>	£16,699.95
Net Land Value (less stamp duty & land interest)	£317,973.95

Benchmark Land Value	£510,000.00
Surplus/Deficit	-£192,026.05

9. Conclusion

- 9.1. It can be seen from the above summary that the proposed development of 5 1-3 bedroom apartment with off road parking cannot sustain any level of off-site affordable housing contribution. The scheme shows a deficit of **-£192,026.05**.
- 9.2. Any off-site affordable housing contribution would render this scheme completely unviable and it would not be able to proceed