



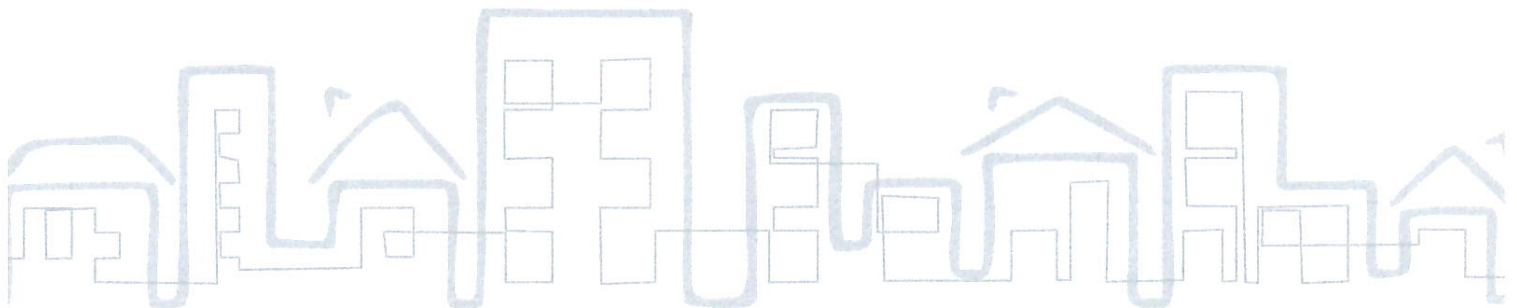
HOUSING EXPECTATIONS

Affordable Housing Financial Viability Report

Relating to the Proposed Re-Development at:

Reading Metropolitan

29th June 2020



Contents of Report

The contents of this report must remain confidential and circulated only to parties requiring sight of this document in relation to the proposed planning application.

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1. Executive Summary

This executive summary has been prepared in accordance with the NPPF 2019 and associated guidance. It compares the scheme viability assumptions with the Council's approved CIL viability study and the NPPF consultation assumptions.

This Affordable Housing Financial Viability Report has been prepared on behalf of Hermes Investment Management and should be read in conjunction with the attached HEAM viability assessment.

	Executive Summary of Viability Results	
Benchmark Land Value	£31,050,000	
Residual land value	Minus £27,291,987	The value calculated having taken account of all revenue and costs attributable to the scheme.
Residual land value compared to Benchmark Land Value	Minus £58,341,987	The difference between the Benchmark Land Value and the Residual Land Value

Recommendation

Item	Council / Community Benefit
Affordable housing	0
Section 106 contribution	£8,548,988

2. The Site & the Development Proposals

2.1 The site covers approximately 2.2 hectares. It is located to the north of Reading train station and is approximately 400 metres to the north of Reading town centre.

The site is bounded to the west by Caversham Road, to the north by Vastern Court Retail Park, to the east by a multi-storey car park, and to the south by the mainline rail tracks and a service road.

2.2 The site itself is predominately level and comprises commercial buildings, hard standing and limited tree landscaping at the western end of the site. There are three main buildings, namely the former main sorting office building (flanking the northern boundary of the Site), a workshop which was used to service Royal Mail vehicles and a 3-storey office building leased to Network Rail and used by their staff. The total floor area of the existing buildings is 10,991 sq m GEA.

2.3 On 14 September 2011 Reading Borough Council's Planning Applications Committee resolved to grant outline planning permission for a mixed use redevelopment of the site for between 41,000 sq m and 69,000 sq m of floorspace (comprising offices, housing, hotel, retail and leisure uses) across three development plots and ranging in height from 3 storeys to 16 storeys. Upon the completion of a satisfactory s106 agreement the outline planning permission was issued on 26 March 2012.

2.3 The proposed scheme comprises of the demolition of the existing buildings and the development of 620 apartments (spread over 8 blocks ranging between 8 and 24 storeys), 7 townhouses, 14,658 m² of office space, 1,650 m² of retail space and a further 629 m² of community / health centre space. In addition the scheme includes for 70 car parking spaces provided within 2,178 m² of basement car park.

3. Policy Context

- 3.1 There is extensive national, regional and local planning policy relating to affordable housing.
- 3.2 At the local level the Reading Borough Council Core Strategy was adopted in January 2008 but amended in January 2015. Policy CS16 sets out their affordable housing requirements whereby all developments of 15 dwellings and above will provide 30% of the total number of dwellings as affordable.
- 3.3 We were advised by the Council that in terms of tenure split they are currently looking for 50% social rent and 50% intermediate tenure
- 3.4 The National Planning Policy Framework (NPPF) 2019 states in Chapter 3 paragraph 34 Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.
- 3.5 It goes on to say in Chapter 5 paragraph 60 'To determine the minimum number of homes needed, strategic policies should be informed by a local housing need assessment, conducted using the standard method in national planning guidance – unless exceptional circumstances justify an alternative approach which also reflects current and future demographic trends and market signals.'
- 3.6 Paragraph 63 states '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'. Paragraph 64 requires that at least 10% of the total number of homes provided should be made available for affordable home ownership as part of the overall affordable housing requirement.
- 3.7 Government Guidance on Viability updated 2019 requires that 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. This has been detailed in the summary in Appendix 1. This Guidance also states that '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 includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return'. This viability submission follows the recommended approach available at the time of submission.
- 3.8 In planning appeal case (land at The Manor, Shinfield Case ref: APP/X0360/A/12/2179141/NWF), the Inspector determined that a viable scheme should provide a residual value equating to existing use value plus 50% of the uplift from the grant of planning consent, prior to any planning obligations. In addition, the Inspector stated that a competitive return of a 20% margin on GDV for both market and affordable housing should be accounted for within a viability submission.

In accordance with new national guidelines as set out in the National Policy Planning Framework, financial viability of sites is now a material planning consideration and this

legislation has been further supported by the Government in their recent announcements stating that they wish to see more developments brought forward and not stalled due to viability issues.

- 3.9 It is in accordance with the NPPF and the Government's clear wish to take viability into serious consideration as part of the planning process that this report and accompanying viability has been submitted.

4. **Financial Viability Appraisal Assumptions**

Costs

4.1 **Planning Obligations**

Using the Council's methodology our client has assumed a total required financial CIL contribution of £8,548,988.

It can be noted that this CIL financial contribution has been allowed for within the recommended viability.

4.2 **Build Costs**

The client commissioned an independent cost report undertaken by Currie & Brown.

The full detailed cost report can be found in Appendix 4. The proposed development consists of 9 separate blocks and 7 townhouses. The blocks range between 8 and 24 storeys in height.

4.3 **In Summary:**

Net Build Cost @ £3,616 per m2 (including abnormals)

Base Build Cost:	£191,476,000
Contingency @ 5 %:	£10,272,000
External Works	£13,959,000
Total Build Cost:	£215,707,000

This build cost includes demolition and site clearance and preparation, basement car parking, office and retail space and 620 residential units with lifts and public realm areas. Due to the height of the buildings and superior quality of the overall development required this is not easily comparable to other schemes.

4.4 **BCIS comparison**

The BCIS Average Price figures based on prices received for developments within Reading over the last 5 years are shown below:-

	Mean	Upper Quartile	Highest
6+ storey residential	£1,885 per m2	£1,984per m2	£5,632 per m2
Offices	£1,961 per m2	£2,420 per m2	£2,467 per m2

Housing with shops, offices	£2,085 per m2	£2,417 per m2	£2,866 per m2
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The proposed build cost estimate includes demolition, basement car parking, piled foundations, lifts etc. BCIS figures do not include any abnormal costs or externals. In addition do not provide specific details of the scheme samples and it is therefore not possible to ascertain how comparable they are – however it is extremely unlikely that any of them compare to this type of development the high rise nature of this proposed development and proximity to the railway line will be considerably more expensive to build than a 6 storey block of apartments.

4.5 **Developer's Overheads and Profit**

In line with latest guidance and several appeal cases, a total of 20% of GDV has been allowed for in terms of the open market housing in relation to developer's return, and overheads have been allowed for within this figure.

Recent appeal cases which support this approach include the following:-

- Flaxley Road, Selby: 02/11/16
- Lansdowne Place, Hove: 28/10/16
- Ravenshead, Nottinghamshire: 13/12/16

In addition as part of the NPPF consultation the draft PPG states that 'for the purpose of plan making an assumption of 20% of GDV may be considered a suitable return to developers in order to establish viability of the plan policies.'

For the purposes of the commercial element of this proposed development an industry standard figure of 15% has been allowed for developer's overheads and profit.

4.6 **Land Values and Acquisition Costs**

An independent valuation was undertaken by Knight Frank in February 2019 and they confirmed the EUV of this site of £27m.

Taking account viability guidance a premium / allowance for hope value has been added to this EUV in order to incentivise the land owner to bring the site forward for redevelopment. Therefore an additional 15% has been added to arrive at the **Benchmark Land Value** of £31,050,000

In June 2019 the Council's consultant BPS issued their viability review report in which they proposed an Alternative Use Value based on a mixed use Policy compliant scheme generating a residual value of £6,104,000.

Our client subsequently sought Counsel opinion on the approach taken by BPS and a letter and a copy of Counsel's opinion was provided to the Council on 1st August 2019.

Further Counsel opinion was sought and provided to the Council on 31st October reconfirming the originally submitted existing use valuation basis. Please see all reports and correspondence in Appendix 6.

When considering AUV it is not correct to only consider the current mixed use application.

Acting for the client, consultants BNP have also noted that in relation to the AUV approach that,

'The Application Site forms part of a wider site allocation (reference CR11e 'North of Station') which the Local Plan describes as follows:

There will be retail and leisure development on the ground floor activating the streets and spaces including the new northern station square, with other uses including residential and offices on upper floors. Retail will have good pedestrian links to, and will not have a detrimental impact on, the rest of the retail core of the centre. Public car parking will be provided. A high quality route incorporating a green link should be provided through to the Thames. Development should take account of mitigation required as a result of a Flood Risk Assessment, and should consider opportunities to open up the culverted Vastern Ditch and enhance it as an ecological feature.

The allocation extends to 6.71 hectares and the Local Plan notes the following indicative capacity:

"Indicative potential: 640-960 dwellings, 50,000-80,000 sq m net gain of offices, 3,000-6,000 sq m net gain of retail and leisure, hotel".

The Application Site extends to 2.7 hectares and therefore accounts for 40% of the wider allocation.'

' developers would consider altering the mix of uses so that a scheme capable of generating a sufficiently positive residual land value could come forward. The Local Plan identifies broad parameters for the Site allocation as a whole (60% of which is outside the Applicant's ownership) and the balance of residential and commercial can clearly be amended across the Site.

The owners of either site (Hermes or the owners of the adjacent site) have the option of tilting the balance away from residential to commercial in order to generate a positive residual land value to establish the benchmark land value.'

Taking all of the above into account we remain of the opinion that the Value of £31,050,000 is an appropriate land value against which to assess the viability of the proposed scheme.

4.7 **Anticipated Programme**

The following programme has been assumed for this development however due to the Covid 19 implications this is likely to be extended:-

Site preparation works:	18 months
Anticipated build programme:	81 months
Time between build completion and sale of last unit:	6 months per block
Total Programme:	8.5 years assumed
Anticipated sales per month	8
Phasing	As per schedule – timing dependent upon sales

4.8 **Finance Costs**

An interest rate of 7% has been utilised within the viability assessment as previously agreed with the Council's consultants.

This rate has been averaged out within the various cost elements to allow for the effect of income and costs. In our experience this equates to a very similar figure to that generated via a discounted cash flow.

4.9 **Fees**

The following fees as previously agreed with the Council's consultant have been allowed for within the accompanying viability:-

- Marketing @ 2.5% (agent 1%; legals, incentives, brochures, adverts etc 1.5%)
- Land acquisition @ 6.25% (incl SDLT costs)
- Professional @ 7%

Revenue

4.10 Market Values

Unit Type	Estimated Average Sales Values
Studio apartment	£220k - £325k
1 bed apartment	£265k - £385k
2 bed apartment	£305k - £460k
3 bed apartment	£355,000 - £505k
townhouses	£400k

These units have been independently valued by CBRE (please see attached report in Appendix 5), and these values have been utilised within the accompanying viability applying the average sales revenue rate of £497 pfs and summarised above. Comparable evidence to support these proposed revenues has also been provided.

4.11 Commercial Values

Ground rents of £300 per unit per annum have been capitalised utilising a 10% yield giving a positive contribution of £1,860,000. The rate and yield utilised are as agreed with the Council's consultant as part of the previous audit and reflect the increasing likely-hood that this anticipated income will decrease to a nominal amount pending revised legislation. However we would propose that this income is removed from the viability given the Government's commitment to reduce ground rents to peppercorn levels in the near future.

Car parking has been assumed at sales revenue of £10k per space attributable to the 70 residential spaces.

Office space has been capitalised at a rent of £36 pfs @ 5.5% yield with a rent free period of 15 months as outlined within the CBRE report (Appendix 5)

Retail within blocks A & B has been capitalised at a rent of £16 pfs @ 7.25% and for blocks E & F a rent of £20 pfs capitalised @ 7.25% yield both with a rent free period of 12 months assumed as per the CBRE report (Appendix 5).

4.12 Affordable Housing Values

Housing Expectations have not yet sought offers from Registered Providers regarding this amended scheme due to the lack of viability in relation to any affordable housing. However

we are prepared to use the indicative figures for affordable housing as proposed by BPS in their June 2019 review in the first instance should this be deemed necessary.

5. Conclusions

- 5.1 In determining the level of affordable housing that the site can sustain, a series of viability models are undertaken, increasing the level of contribution until the scheme becomes unviable.
- 5.2 A financial viability assessment has been undertaken to demonstrate the effect of the costs attributable to the build of 620 homes, office, retail and community space at Reading Metropolitan.

Having concluded the viability appraisal relating to this proposed development it is proposed to deliver zero affordable homes and the CIL payment of £8,548,988.

6. Company Experience and Contact Details

- 6.1 Housing Expectations Ltd., formed in 2005 has the foundations of considerable numbers of years of experience of affordable housing delivery.
- 6.2 The Company, consisting of five members of staff, specialises in providing consultancy services for house builders, RSLs, LAs, contractors and land owners. We operate throughout the majority of the country providing advice in relation to affordable housing generally. As indicated within our website (which can be found at www.housingexpectations.com) our role is to work in partnership with RPs, LAs, house builders and vendors to provide mutually beneficial affordable housing solutions for all.
- 6.3 Operating on a national basis, we have gained considerable experience advising our clients (RPs, LAs, house builders and land owners) regarding planning policy relating to the provision of affordable housing and specifics relating to sect 106 agreements.
- 6.4 As a part of this overall process we regularly undertake financial viability exercises on behalf of our clients using HCA recognised toolkits and our own viability toolkit. We work in partnership with LAs and the HCA to use this information to assist in providing a 'reasonable' solution for all parties to sect 106 obligations and as a tool to assist our RSL partners in obtaining grant support for the much needed affordable housing provided.

6.5 Contact Details

Should any further information be required or you would like to discuss the contents of this viability assessment further please contact Stephanie Doylend, details as set out below:-

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7. Appendices

Appendix 1 – Executive Summary of Viability Assumptions

	Proposal	Council Policy / CIL viability assumptions	Comments / Evidence provided
Scheme Name	Reading Metropolitan		
Site Size	2.2 hectares		
Existing Use Land Value	£27 million		
Benchmark Land Value	£31.05 million		EUV + 15% premium / hope value in order to bring site forward for development
Total number of residential units proposed	620		
Total number of affordable rented units proposed	0	Updated LDF in Jan 2015. Council requirement confirmed by officers as 30% with 50% social rent and 50% intermediate tenure	
Total number of intermediate tenure units proposed	0		
Total proposed Commercial	21,296 m2		
Developer's profit on GDV	20% - private housing 6% - affordable housing	20% – private housing 6% – affordable housing	A developer requires this level of profit in order to attract development finance. This level of profit has been supported by a number of planning inspectors at appeal and is also the proposed figure within the Govt's recently published consultation of the NPPF.
Residential Revenue	£213,048,499		Independent report provided by CBRE

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Commercial Revenue	£101,583,900		Independent report provided by CBRE
Base Build costs	£191,476,000 including abnormals	BCIS mean rate plus 10% for externals plus abnormals	Independent report provided by Currie & Brown. This is a very complex development including a 26 storey and 16 storey block and therefore not comparable to usual BCIS figures.
External works and abnormal costs	£13,959,000 external works (equates to 7% of build cost)	No comparable – site by site basis 10% allowed for externals	Independent report provided by Currie & Brown
Build cost contingency	5%	5%	Between 5 – 10% is usually an acceptable norm
Professional fees	7%	10%	
Marketing costs	2.5%	2% + 1% sales fees	
Stamp duty, legal & acquisition fees	6.25% including stamp duty & fees	No comparable	
Finance Costs	7%	6.57% (although not sure if this was meant to say 6.75%)	Previously agreed

Appendix 2 – Viability Appraisal

Appendix 3 – Schedule of Phasing and Areas

Appendix 4 – Outline Cost plan (including accommodation schedule)

Appendix 5 – Open market values report

Appendix 6 – Existing Use Valuation and Counsel Opinion Correspondence