



Confidential – Not for Public Disclosure

Financial Viability Assessment

**3-5 Craven Road
Reading
RG1 5LF**

Prepared for:



31 October 2017

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Executive Summary

For your convenience, we summarise the key features of this Financial Viability Assessment which should nevertheless be read in full.

Location Plan



Proposed Site Layout



Property Type/Use:

The Property has, until recently, been occupied as administrative offices, day centre and consulting rooms.

Proposed Scheme:

Type	No. of Units
1 Bed Retirement Living Apartments	3
2 Bed Retirement Living Apartments	22
TOTAL	25

Planning Proposal:

Proposed erection of a 25 (Category II Type) Sheltered Housing Retirement Apartment scheme including communal facilities, landscaping and car parking.

Existing Use Value:

£1,140,000

Potential Planning Obligations Package available:

£198,109 – CIL

Sec.106 Payments - £168,480

1.0 Introduction

We are instructed by The Planning Bureau Limited (TPB), acting as Planning Consultants for McCarthy & Stone Retirement Lifestyles Limited (McC&S), to undertake a Financial Viability Assessment (FVA) of a proposed redevelopment of 3-5 Craven Road, Reading (the Property).

This independent FVA is to provide support to McC&S in demonstrating to the local planning authority, Reading Borough Council (RBC), whether or not planning obligations and a developer's contribution towards off-site affordable housing in particular, can be afforded by the McC&S development proposals.

This FVA report has been prepared in accordance with the RICS Guidance Note 'Financial Viability in Planning', 1st edition, published August 2012. This Guidance Note provides users with recommendations for accepted good practice, as followed by competent and conscientious practitioners in undertaking Financial Viability Assessments.

This FVA is provided on a confidential basis to RBC. We therefore request that the report should not be disclosed to any third parties (other than consultants instructed by RBC to review this report) under the Freedom of Information Act 2000 (sections 41 and 43 (2)) or under the Environmental Regulations.

2.0 Definitions

For ease of reference, the following key abbreviations used in this report are defined as follows:

- **Current Use Value (CUV)** is defined in the Royal Institution of Chartered Surveyors Viability in Planning Guidance Note 1st Edition (RICS Viability GN) as:

“Market value for the continuing existing use of the site or property assuming all hope value is excluded, including value arising from any planning permission or alternative use. This also differs from the Existing Use Value. It is hypothetical in a market context as property generally does not transact on a CUV basis.”

- **Residual Land Value (RLV)** is defined in the RICS Viability GN as:

“The amount remaining once the GDC of a scheme is deducted from its GDV and an appropriate return has been deducted”

- ❖ **Gross Development Cost (GDC)** is defined in the RICS Viability GN as:

“The cost of undertaking a development, which normally includes the following:

*acquisition costs
site specific related costs
build costs
fees and expenses
interest or financing costs; and
holding costs during the development period”*

- ❖ **Gross Development Value (GDV)** is defined in the RICS Viability GN as:

“The aggregate market value of the proposed development, assessed on the special assumption that the development is complete as at the date of valuation in the market conditions prevailing at that date.”

- **Benchmark** is defined in the RICS Viability GN as:

“A comparator for either the outputs or inputs into the appraisal, i.e. Site Value or developer’s return”

- **Site Value (SV)** is defined in the RICS Viability GN as:

“Market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan”

3.0 Alder King

Alder King LLP (www.alderking.com) is widely recognised as a market-leading multi-discipline property and planning consultancy and multiple winner of one of the Estates Gazette 'Most Active Agent' awards. Alder King has a heritage stretching back over a century and with that comes a culture of sound professionalism, innovative thinking and practical advice borne out of experience.

The firm attracts clients across the property spectrum, from institutional investors and government agencies through to planning authorities and developers. Businesses large and small in both the public and private sector depend on its broad range of property and planning expertise to inform their property decisions.

The Alder King network of offices and strategic alliances ensures in-depth market knowledge and a national perspective that its clients rely upon. Alder King provides strategic insight and adds real value into new planning, development and investment opportunities; it not only manages nationwide portfolios but also advises start-up businesses taking their very first commercial space. Alder King has provided development consultancy advice for many of the McCarthy & Stone developments in a wide range of locations from Truro (Cornwall) to the west, Clacton-on-Sea (Essex) to the east, Glasgow (Scotland) to the north and Worthing (Sussex) to the south, to name but a few.

In the last 30 years or so Alder King has been at the forefront of Office and Business Park development dealing with the numerous new developments, lettings and sales of buildings and rent reviews, lease renewals etc. Alder King is an industry expert in employment land and the Office and Business Park market.

Alder King is also an industry expert in the residential land sector. The consultancy has acted as property advisors to McCarthy & Stone and The Planning Bureau for over 20 years, in recent times providing specialist development viability in planning advice. The Viability team, drawn from Valuation, Development and Planning departments, delivers practical, timely and effective advice on the viability of residential and mixed-use developments.

While viability has always been a key part of the property development process, financial viability has increasingly become a material consideration in the town planning process.

Alder King provides specialist development and viability guidance to a wide range of private developer and landowner clients and is currently advising on volume and niche housing schemes, city centre mixed-use regeneration projects and strategic land urban extensions for housing and employment land uses.

Alder King's Viability team has broad experience of appeals and providing expert witness evidence, including high profile Planning Appeal cases involving valuation and viability matters. They include the recent test cases of Shinfield (PINS Ref: APP/X0360/A/12/2179141) following the publication of the RICS Viability GN, and Holsworthy (PINS Ref: APP/W1145/Q/13/2204429) following the introduction of the Section 106 AB, BB amendments.

4.0 Background

A Site Location Plan showing the extent of the 0.33 ha (0.81 acres) gross site (the Property) for identification purposes is at Appendix 1.

Appendix 1 – Site and Location Plan

The Property comprises two detached buildings arranged over ground and first floors dating back to the 1870's with more recent temporary accommodation constructed to the rear. The buildings are currently occupied by Royal Berkshire NHS Foundation Trust as a children's centre. The site is surplus to the Trust's Property requirements and as such they are seeking to dispose of the site.

The Property is located in a primarily residential area of Reading but directly opposite The Royal Berkshire Hospital. The Property enjoys frontage to two roads with access from Craven Road and returned walled frontage to Erleigh Road. The Property is a short distance from the London Road (A4).

This report is for feasibility assessment purposes of the McC&S redevelopment proposals only and it does not constitute a formal valuation. The advice contained in this report is exempt from the current RICS Valuation Professional Standards July 2017 – Global and UK Edition (the Red Book). We reserve the right to update, amend or vary our advice should the matter progress to a planning Appeal Hearing or Inquiry.

5.0 Viability in Planning – Policy Context

5.1. National Planning Policy Framework (NPPF)

In March 2012 the Government published the National Planning Policy Framework, now generally referred to as either the NPPF or simply the Framework. This document forms a key part of reforms to make the planning system less complex, more accessible and to promote sustainable growth. This document replaces all national Planning Policy Statements and Guidance Notes, with the exception of national waste policies.

The Framework sets out the Government's economic, environmental and social planning policies for England and also articulates their vision of sustainable development.

A key principle set out in the document is the presumption in favour of sustainable development. A requirement is placed on local planning authorities to plan positively for new development, and approve all individual proposals wherever possible (see Para 14).

In terms of housing, the presumption in favour of sustainable development means that Local Plans should be prepared on the basis that objectively assessed development needs should be met, unless the adverse impacts of doing so would significantly and demonstrably outweigh the benefits, when assessed against the policies in this Framework taken as a whole.

In order to ensure viability and deliverability the Framework states at Para 173:

“Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.”

5.2. National Planning Practice Guidance (NPPG)

The Department for Communities and Local Government in March 2014 revised and updated planning guidance designed to be easily accessible on-line and user friendly. The NPPG contains 41 categories; from 'Advertisements' to 'Water supply'.

The category of relevance in context with this report is the Guidance on 'Viability'. In the Viability and Decision Taking section, Land value is guided as follows:

“Central to the consideration of viability is the assessment of land or site value. Land or site value will be an important input into the assessment. The most appropriate way to assess land or site value will vary from case to case but there are common principles which should be reflected.

In all cases, land or site value should:

- Reflect policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy charge;
- Provide a competitive return to willing developers and land owners (including equity resulting from those wanting to build their own homes); and
- Be informed by comparable, market-based evidence wherever possible. Where transacted bids are significantly above the market norm, they should not be used as part of this exercise.”

As an update, Mr Justice Holgate in his Judgement in *West Berks & Reading Councils v DCLG* 2015 stated:

Para 173 of the NPPF “enables a developer to put forward legitimate viability arguments to show the overall cost of a local authority’s planning requirement (including affordable housing) for a particular site needs to be reduced if the site is to be deliverable.”

5.3. Further National Guidance on Viability

The NPPF approach to viability is supported by other national guidance and clarification.

5.3.1. The Harman Report

The report “Viability Testing Local Plans: Advice for Planning Practitioners” by the Local Housing Delivery Group (chaired by Sir John Harman) and known as “the Harman Report” was published in June 2012. The report was commissioned by the Housing Minister to provide advice from a cross industry group to help support the Government’s ambition to increase the supply of housing through viable local planning.

Whilst the report focuses mainly at a Local Plan preparation level, some of the general observations appear to give helpful guidance at a site specific level. At Page 14, the report provides the following definition of viability, which states:

“An individual development is viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the landowner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered”.

The report effectively emphasizes the need that for land to be released for development, there should be a “willingness and ability of the private sector to implement a development proposal having regard to acceptable developer return” (Page 24). There should also be the “willingness of a landowner to sell land at an acceptable return” (Page 24). With regard to the latter, the report uses the term “Threshold Land Value”, defining this as:

“the value at which a typical willing landowner is likely to release land for development before payment of taxes (such as capital gains tax)” (Page 28).

Later on Page 28, the report goes on to state its recommendations that the Threshold Land Value should be based on a **premium** (AK emphasis) over current use values and credible alternative use values, noting certain exceptions.

5.3.2. RICS Viability Guidance Note

The Royal Institution of Chartered Surveyors (RICS) published their Guidance Note titled “Financial Viability in Planning” 1st Edition (RICS Viability GN) in August 2012. The document has the status of a Guidance Note to set out best practice for practitioners involved in undertaking viability appraisal work.

The RICS Viability GN provides the Institution’s own definition of financial viability for the purpose of town planning decisions:

“An objective financial viability test of the ability of a development project to meet its costs, including the cost of planning obligations, while ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project.”

The RICS Viability GN also defines Site Value:

“Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan.”

The RICS Viability GN similarly highlights the importance of providing acceptable returns to both developer and landowner. The RICS Viability GN suggests that the uplift in value between existing use and its residual land value for development should be sufficient to cover planning gain obligations. At the same time it emphasizes these obligations cannot use up the whole of this value difference as allowance must be made for the “competitive returns” required under the NPPF. Para 3.4.3 of the RICS Viability GN states:

“The residual land value (ignoring any planning obligations and assuming planning permission is in place) and current use value represent the parameters within which to assess the level of any planning obligations. Any planning obligations imposed will need to be paid out of this uplift but cannot use of the whole of this difference, other than in exceptional circumstances, as that would remove the likelihood of the land being released for development.”

The RICS Viability GN is referred to again in Section 7 of this report.

5.3.3. Reading Borough Council Affordable Housing SPD

Any redevelopment of the site would have regard to the Affordable Housing SPD adopted in July 2013 and the CIL charging schedule adopted in January 2015.

The Affordable Housing Policy (CS16) confirms: *“All developments of 15 dwellings and above will provide 30% of the total number of dwellings in the form of affordable housing to meet the needs of the area, as defined in a housing needs assessment.”*

Affordable housing is subsidised housing that enables the asking price or rent to be substantially lower than the prevailing market prices or rents in the locality, and is subject to mechanisms that will ensure that the housing remains affordable for those who cannot afford market housing.”

On sites below 15 dwellings Policy DM16 of the Local Development Framework applies. The Policy states:

“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.*

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

In determining residential applications the Council will assess the site size, suitability and type of units to be delivered in relation to the current evidence of identified needs. The Council will seek an appropriate tenure mix of affordable housing to include social rented, affordable rent, intermediate rent and shared ownership affordable units.

Priority needs are for family sized housing, specialist accommodation for vulnerable people and extra care housing. The Council will regularly monitor and review the need for, and delivery of, affordable housing”.

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.”

Policy CS16 allows for a financial contribution/commuted sums being acceptable (in exceptional circumstances). The proposed development seeks an off-site contribution due to the specialist nature of retirement housing.

5.3.4. Community Infrastructure Levy (CIL)

RBC adopted CIL on 1 January 2015. CIL is charged on residential development based on the gross additional (new) floor space of any given development.

The levy was set in January 2015 at £120 per sq m for residential. The chargeable amount is indexed linked to the RICS's All-In Tender Price Index for the year in which planning is granted and the year in which the charging schedule too effect. In this instance we calculate this to be an 11.85% increase i.e. £134.22 payable.

The existing buildings total 1,218.6 sq m with the proposed development totalling 2,694 sq m. The net gain is therefore 1,476 sq m. The chargeable sum for the proposed development is therefore £134.22 x 1,476 sq m - £198,109.

6.0 The Proposed Scheme

The McC&S scheme is for the development of a 25 unit Sheltered Housing – Retirement Living development in a four storey block (the Scheme).

All apartments are to be open market units in the mix as detailed below:

Type	No. of Open Market Units
1 Bed Apartments	3
2 Bed Apartments	22

In common with most new build Retirement Living apartment schemes the floor space can be broken down into the saleable and non-saleable areas.

The saleable areas are the individual apartments for which capital receipts are expected from each of the occupiers. The saleable area of the 25 Apartments is 1,923.32 m².

The non-saleable areas are the common parts, which include entrance lobbies and reception, residents lounge, laundry, buggy and bicycle store, refuse store, cleaner's stores and guest suite as well as typical circulation space (corridors, lift/stair wells). We are advised that the Gross Internal Area (GIA) of the Proposed Scheme is 2,693.73 m².

We have calculated that the design of the Scheme provides a 71%/29% saleable/gross internal area ratio. This is a typical floorspace ratio for such developments.

The Proposed Site Layout Plan and floor plans are at Appendix 2.

Appendix 2 – Proposed Site Layout Plans

7.0 Viability Assessment

7.1. Benchmark Land Value

As noted at 5.3.2, the Royal Institution of Chartered Surveyors (RICS) published their Guidance Note titled 'Financial Viability in Planning' in August 2012.

The usual test applied in establishing whether a planning obligations package (including Affordable Housing) is viable, is to consider whether the residual site value of the proposed scheme exceeds the benchmark Site Value of the property. If it does, there is financial headroom for planning obligations package. If it does not, there is no financial headroom and thus there is no viability for planning obligations to be included.

The Site Value can either be inputted into the Argus appraisal as a fixed input or can be used as a comparative benchmark against which the residual element produced by an appraisal can be compared.

The site's existing use value as administrative offices/healthcare facility was assessed by Savills at £950,000.

The Existing Use Value (EUV) forms the lower parameter of a viability assessment. It is accepted practice that land does not transact at EUV and a landowner would not be incentivised to bring their land forward for redevelopment if they were merely achieving a land sale at an amount representing the EUV. It is indoctrinated within the NPPF at Para 173 (referenced above) that the landowner must receive a competitive return which represents a financial incentive over and above the EUV of the Property.

In this instance we have assumed a premium of 20% above EUV to incentivise the landowner to sell the site. The benchmark land value for this viability assessment is therefore £1,140,000.

We have adopted build costs based on RICS Building Cost Information Service (BCIS) indices and certain specific estimates provided to us by McCarthy & Stone obtained in respect of certain identified abnormal site preparation and external area costs made necessary by the scheme. We have adopted anticipated sales revenue figures based on comparable evidence from other retirement home schemes in the region, making adjustment for the Reading location where appropriate in comparison.

Our Argus Developer appraisal summary of the scheme is at Appendix 4 but our assumptions and outcomes are summarised below.

7.2. Development Programme/Timing Assumptions

In terms of timing it is assumed that construction would commence at month 7, i.e. following a 6 month lead-in period to receive all necessary consents. The construction period is assumed to be 12 months for a flatted scheme of this size with Practical Completion at the end of month 18 and the overall scheme end date is assumed to be in month 30 i.e. following a 12 month sales period.

Our monitoring of sales rates at comparable McCarthy & Stone sheltered schemes across the country indicates on average that approximately 10% of apartments are sold at practical completion. A further 40% - 50% are then sold to the end of the first year of sales. The rate of sales then slows over the following two to three years depending on the size of the scheme, with the average overall selling rate after 1 year being around 1 per month.

We have taken an optimistic view on sales rate in this instance. We have assumed 30% (8 units) are sold at practical completion followed by the remaining 70% (17 units) selling over the remaining 11 months i.e. all units sold 12 months after practical completion. The overall sales rate equates to 2.05 per month.

7.3. Appraisal Revenue – Gross Development Value (GDV)

The open market GDV figures comprise receipts from the apartment sales themselves plus the investment sale of their capitalised ground lease income secured.

Generally speaking, retirement apartment property development, as a small and specialist sub-sector of the overall residential market, is price sensitive to the location.

There are no directly comparable retirement living schemes in the immediate area. We have had regard to open market flatted development in the locality in particular the following developments:

We have had regard to the sale of retirement apartments in Wokingham (approximately 7 miles from the proposed development). The scheme known as Queen's Gate was completed in 2016 and to date 24 apartments have completed. The average price achieved for a 1 bedroom apartments has been £317,816 and the average value for a 2 bed apartment £421,283. The average price achieved equates to an overall rate of £5,365.49 per sq m (£498 per sq ft). Wokingham is a higher value location.

We have estimated the appropriate average GDV level today for the proposed McC&S scheme to be £340,000 for the 1 Bed apartments and £400,000 for the 2 Bed apartments. The apartment sales produce a capital receipt of **£9,820,000** showing an overall average rate of £5,105.75 per m² (£475 per sq ft).

The GDV of the ground rental income stream (assessed at £425 p.a. per 1 Bed apartment and £495 p.a. per 2 Bed apartment) assumes all apartments are sold once income producing within the project timescale and is based on an investment yield of 5% equating to an additional ground rent capital value of £243,300. After deducting purchaser costs at 1.56% (£3,795) the Net Developable Value is **£10,059,505**.

7.4. Development Costs

7.4.1. Constructions Costs

We have undertaken research using BCIS Review Online. The Building Cost Information Service (BCIS) of the Royal Institution of Chartered Surveyors (RICS) produces detailed cost information and indices and is a recognised source of assessing build costs when testing viability.

The median base build cost for supported housing development (3 Storey) rebased to Reading is currently £1,556/m² (October 2017 5 year data set). The base figure does not allow for external works and an allowance of 10% has been made to account for these works.

The total core build cost for the development is assessed at **£4,610,581** equating to £1,711.60/m².

In addition to the core build costs we have made allowances for extra-over development costs associated with the development of the site. These are as follows:

- Demolition, Site Clearance and Removal of Asbestos - £77,500.
- Archaeology - £35,000.
- Basement Removal and Fill - £50,000

A building cost Contingency of 5% on the base build plus extra-over development cost estimates equates to £238,654.

7.4.2. Professional Fees

Professional building design fees (Architect QS etc.) are assumed to be 10% of the total construction cost to include all planning and building regulation fees equates to **£501,173**.

7.4.3. Marketing and Disposal Fees

Marketing Costs (including show home, brochures etc.) have been allowed for at 3% of each apartment sale totalling £294,600. The marketing costs have been reduced from the typical 4% allowance which is generally for retirement schemes, and this reduction reflects the shorter sales period assumed in this instance.

An allowance of 2% for the sale of the open market apartments results in a cost of £196,400. Legal costs on apartment sales equating to £650 per apartment total £16,250. Total disposal fees are therefore £212,650.

7.4.4. Additional Costs

An allowance for Empty Property Costs for this single phase flatted development has been made over the 12 month sales period. This equates to **£31,432** as shown on the Schedule at Appendix 3.

Appendix 3 – Schedule of Empty Property Costs

As noted above RBC introduced its Community Infrastructure Levy (CIL) in January 2015. The CIL Charge is assumed to have increased to £134.22 per sq meter on the gross additional floor space. In this instance we calculate the charge at **£198,109**.

7.5. Finance Costs

Where development finance is available (which having been available for a select number of situations is now improving) lenders are currently charging 3 - 5% above LIBOR. Arrangement fees (1-3%), monitoring fees (2-5%) and exit fees (1% of GDV) amongst other fees can be added costs dependant on the status of the borrower. These lending terms have emerged due to the bank's perceived risk of residential development in the current market.

An extract from the Investment Property Forum (IPF) 'UK Development Finance Review 2015' confirms the range of fees that banks may charge:

"Fees are a significant feature of development finance and they often pose a challenge when attempting to compare all-in financing costs because of their variation. Many lenders offering the lowest margins will demand higher fees or impose more types of fees.

The spectrum of fees a bank lender may require will include front end (i.e. arrangement) fees, exit fees, non-utilisation fees, hedging fees, booking fees for residential (as each unit is sold) and, occasionally, pre-payment fees. In addition, there may be an array of management and monitoring fees, while agency fees will be payable if the deal is a club or syndication."

A debit interest rate of 6.5% together with a credit rate of 0.5% produces interest payments of **£421,646** over the project timetable.

7.6. Developer's Return for Risk and Profit

The residualised developer's profit having fixed the land value is **£2,012,660**, representing in performance measures, 20% Profit on GDV.

This level of profit is the current accepted norm for flatted Sheltered Housing.

7.7. Appraisal Summary

The Argus Developer model has been utilised to establish whether the Proposed Scheme provides any surplus for S106 developer contributions, including an amount towards off-site Affordable Housing.

In this instance it is evident that a surplus is available for such contributions. Having fixed the profit level at 20% on GDV, and the land value at the benchmark Site Value of £1,140,000, the appraisal produces a surplus of **£168,480** available for Section 106 obligations and Affordable Housing (Off-Site) contributions. This is in addition to providing £198,109 for CIL.

The summary table below shows the developers residual profit level arising out of the assumptions made and inputs used for a redevelopment for 25 Retirement Living apartments. A copy of the Appraisal Summary is at Appendix 4.

Illustrative Financial Appraisal		
Appraisal Revenue:		
Retirement Living Apartments	£9,820,000	
Ground Rents	£243,300	
Purchaser Costs	(£3,795)	
Gross Development Value		£10,063,300
Finance and Acquisition Costs:		
Residual Price: (Surplus)	£168,480	
Fixed Land Payment	£1,140,000	
Stamp Duty Fee	£46,500	
Agent Fee	£11,400	
Legal Fee	£9,120	
Appraisal Outlay:		
Core Construction Cost	£4,610,581	
Other Development Costs:		
Site Clearance	£77,500	
Archaeology	£35,000	
Basement Removal and Fill	£50,000	
Contingency	£238,654	
Professional Fees	£501,173	
Marketing	£294,600	
Disposal Fees	£212,650	
Empty Property Costs	£31,432	
CIL	£198,109	
Finance	£421,646	
Total Costs		£8,046,845
Developers Profit : 20% on GDV		£2,012,660

8.0 Conclusion

Our Financial Viability Assessment and review of the McCarthy & Stone Scheme for the 25 unit Retirement Living Scheme leads us to conclude there is financial headroom available for planning obligations, after accounting for the anticipated gross sales receipts and all reasonable aspects of the outlay necessary. This is demonstrated by the proposed scheme producing a surplus of £168,480. This sum can be made in addition to the CIL charge of £198,109.

We trust that this Financial Viability Assessment report is suitable for your purposes but please do not hesitate to contact us if you require any further detail or information.

9.0 Notes

Alder King accepts no responsibility whatsoever to any other person or third party who, choosing to rely upon this report, will do so entirely at their own risk. This applies even to a person or third party who pays the client for this report. Any right of any person to enforce Alder King's responsibility under the agreed terms and conditions of engagement pursuant to the Contract (Rights of Third Parties) Act 1999 are excluded.

This report should be read as a whole so that no part may be taken out of context. Neither the whole nor any part of this report, or any reference to it, may be included in any published document, circular or statement in any way without the written approval of Alder King as to the form and context in which it may appear.



.....
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Partner
RICS Registered Valuer

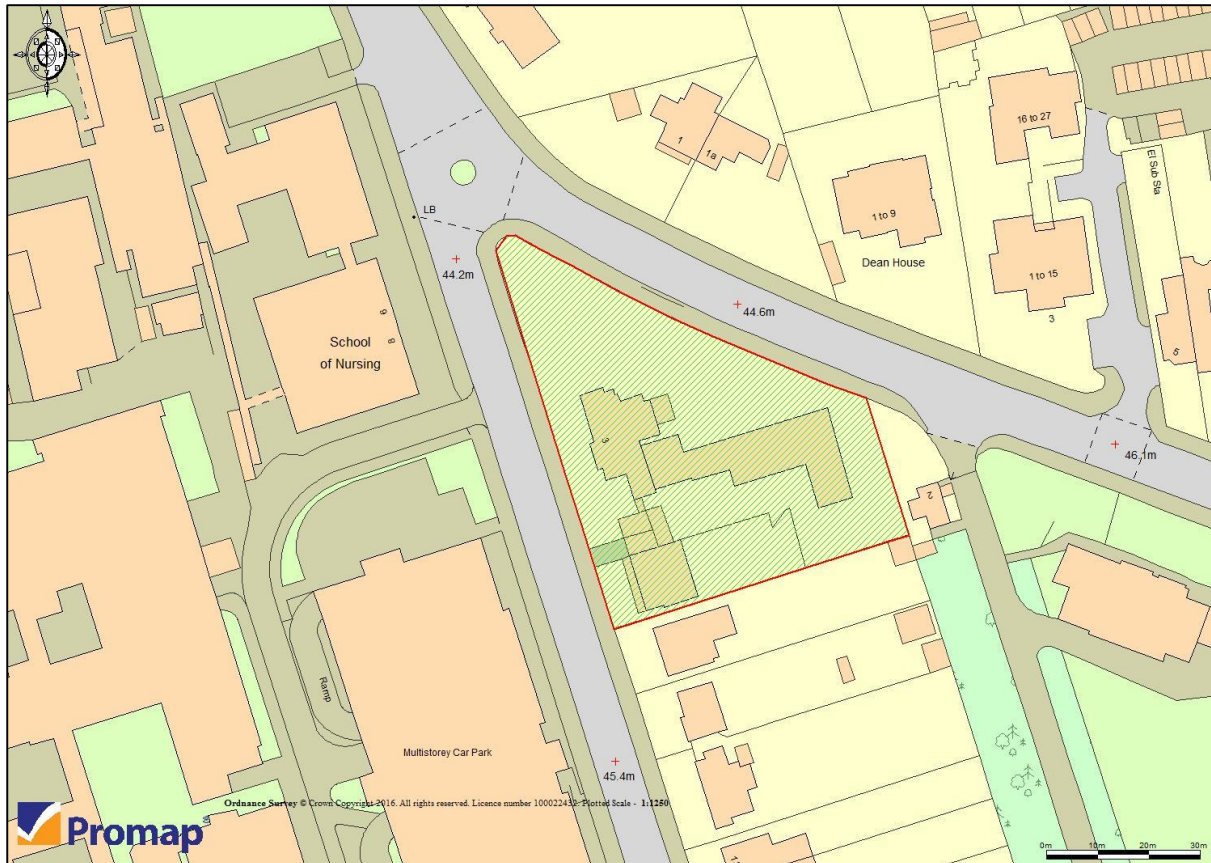
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Appendix 1 – Site Location Plan

OS SITE PLAN

3-5 CRAVEN ROAD, CHELTENHAM



Appendix 2 – Proposed Site Layout Plan and Drawings

Proposed Site Layout Plan

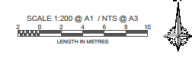


REVISIONS		
Rev	Description	Date



Project No: SE - 2372 - 03 - AC - 020 - 162878
 Drawing No: 162878
 Date: 30.10.2017
 Proposed Retirement Living Development, 3-5 Craven Road, Reading
 Proposed Site Layout Plan

Apartment Schedule			
	One Bed	Two Bed	Total
Ground Floor	-	7	7
First Floor	-	9	9
Second Floor	3	6	9
Total	3	22	25
Site	28 - Car Parking Spaces		

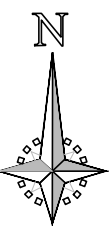


inspire design
 10 Ty Wootton Court, Marston, Oxford OX4 2JL, UK. Tel: 01865 3027700
 Website: www.inspire-design.co.uk
 Project No: SE - 2372 - 03 - AC - 020 - 162878
 Project Name: 3-5 Craven Road, Reading

Ground Floor Plan



SCALE 1:100 @ A1 / 1:200 @ A3
LENGTH IN METRES



REVISIONS		
Rev	Description	Date



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Drawn By: *[Signature]*
Checked By: *[Signature]*

Project: Proposed Retirement Living Development, 3-5 Craven Road, Reading
Dwg Title: Proposed Ground Floor Plan

Discipline: SE - 2372 - 03 - AC - 028 -
Drawing No.: 162978
Date: 30.10.2017
Job No: 1:100 @ A1 1:200 @ A3

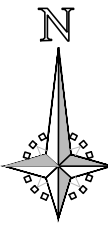
Region: SE - 2372 - 03 - AC - 028 -
Project No.: 162978
Scale: 1:100 @ A1 1:200 @ A3

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Venture House, 2 Arington Square, Downshire Way, Bracknell,
RG12 1WA, T: 0203 376879

First Floor Plan



SCALE 1:100 @ A1 / 1:200 @ A3
LENGTH IN METRES



REVISIONS		
Rev	Description	Date



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Checked By: *[Signature]*

Project: Proposed Retirement Living Development, 3-5 Craven Road, Reading
Dwg Title: Proposed First Floor Plan

Region: SE - 2372 - 03 - AC - 029 -
Project No.: 162978
Drawing No.: 162978
Discipline: 162978
Stage No.: 162978
Job No.: 162978
Date: 30.10.2017
Scale: 1:100 @ A1 / 1:200 @ A3

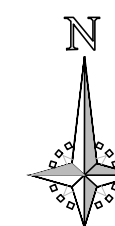
10 Ty Nant Court, Morgansdown, Cardiff CF15 8LW. T: 029 2022 7926
Venture House, 2 Ainslie Square, Downshire Way, Bracknell,
RG12 1WA. T: 0203 376879

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design

Second Floor Plan



SCALE 1:100 @ A1 / 1:200 @ A3
LENGTH IN METRES



REVISIONS		
Rev	Description	Date



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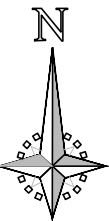
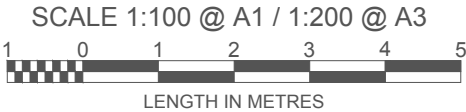
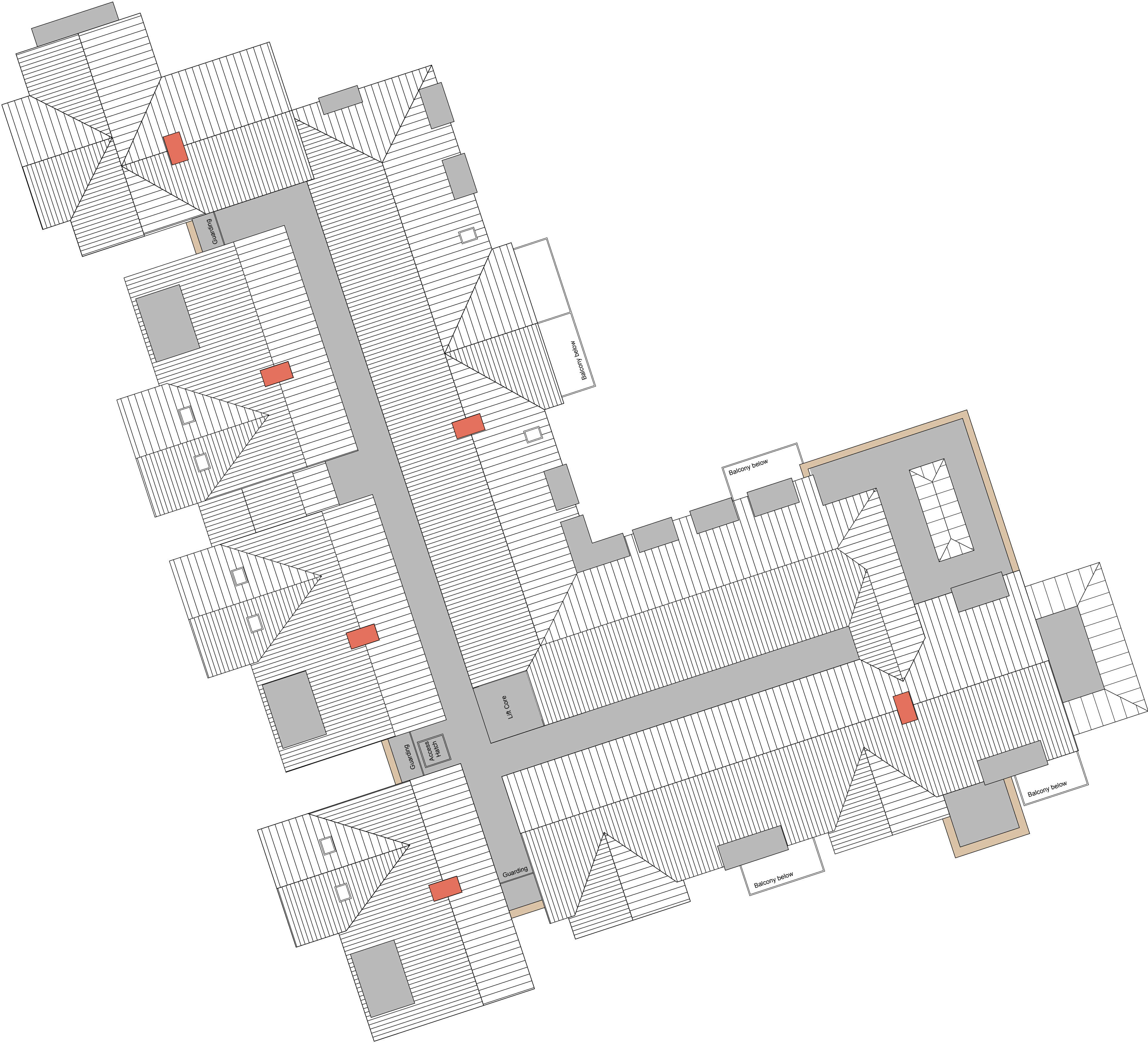
Drawn By: *[Signature]*
Checked By: *[Signature]*

Project: Proposed Retirement Living Development, 3-5 Craven Road, Reading
Dwg Title: Proposed Second Floor Plan

Region: SE - 2372 - 03 - AC - 030 -
Project No.: 162978
Drawing No.: 162978
Discipline: 162978
Stage No.: 162978
Job No.: 162978
Date: 30.10.2017
Scale: 1:100 @ A1 / 1:200 @ A3

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10 Ty Nant Court, Morgansdown, Cardiff CF15 8LW. T: 029 2022 7926
Venture House, 2 Ainslie Square, Downshire Way, Bracknell,
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Roof Plan



REVISIONS		
Rev	Description	Date



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Appendix 3 – ARGUS Summary Appraisal

Craven road, Reading								
Empty Property Costs								
30.10.17								
Council Tax Calculation (Reading Borough Council)				Per Year	Per Month	Saleable No.	Total/month	
1 bed apartment - Band D				£ 1,723.33	£143.61	3	£430.83	
2 bed apartment - Band E				£ 2,106.30	£175.53	22	£3,861.55	
						25	£4,292.38	
					average per unit per month =		£171.70	
Service Charge (source: McCarthy & Stone)					Per Month	Saleable No.	Total/month	
1 Bed apt @ £1,625 per annum					£135.42	3	£406.26	
2 Bed apt @ £2,440 per annum					£203.33	22	£4,473.26	
						25	£4,879.52	
					average per unit per month =		£195.18	
Ground Rents (source: McCarthy & Stone)				Per Year	Per Month	Saleable No.	Total/month	
1 Bed apt @ £425 per annum				£425.00	£35.42	3	£106.25	
2 Bed apt @ £495 per annum				£495.00	£41.25	22	£907.50	
						25	£1,013.75	
					average per unit per annum =		£40.55	
Monthly Budget								
				Costs			Offsets	
Month	Sales Rate		Unsold Units	Service Charge	Council Tax	Electricity	Ground Rent Income	Total pcm
	%	No. of Sales						
Assumed Cost per month				£195	£172	£20	£41	
0			25					
1	30%	8	17.0	£3,318	£2,919	£340	£324.40	£6,252.49
2	70%	17	15.5	£3,016	£2,653	£309	£387.07	£5,591.93
3			13.9	£2,715	£2,388	£278	£449.74	£4,931.36
4			12.4	£2,413	£2,123	£247	£512.40	£4,270.79
5			10.8	£2,112	£1,857	£216	£575.07	£3,610.22
6			9.3	£1,810	£1,592	£185	£637.74	£2,949.66
7			7.7	£1,508	£1,327	£155	£700.41	£2,289.09
8			6.2	£1,207	£1,061	£124	£763.08	£1,628.52
9			4.6	£905	£796	£93	£825.75	£967.95
10			3.1	£603	£531	£62	£888.41	£307.39
11			1.5	£302	£265	£31	£951.08	-£353.18
12			0.0	£0	£0	£0	£1,013.75	-£1,013.75
13								
14								
15								
16								
17								
18								
19								
		25		£19,908	£17,513	£2,040	£8,029	£31,432
Av Rate of Sale			2.08	per month	Cost			

Appendix 4 – Empty Property Cost Schedule

APPRAISAL SUMMARY**ALDER KING**

READING - Craven Road (2017)
3-5 Craven Road
McC&S FVA

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	m²	Sales Rate m²	Unit Price	Gross Sales
1 Bed Apartments	3	201.60	5,059.52	340,000	1,020,000
2 Bed Apartments	<u>22</u>	<u>1,721.72</u>	5,111.17	400,000	<u>8,800,000</u>
Totals	25	1,923.32			9,820,000

Rental Area Summary

	Units	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Ground Rents - 1 Bed Apartments	3	425	1,275	1,275
Ground Rents - 2 Bed Apartments	<u>22</u>	495	<u>10,890</u>	<u>10,890</u>
Totals	25		12,165	12,165

Investment Valuation**Ground Rents - 1 Bed Apartments**

Current Rent	1,275	YP @	5.0000%	20.0000	25,500
--------------	-------	------	---------	---------	--------

Ground Rents - 2 Bed Apartments

Current Rent	10,890	YP @	5.0000%	20.0000	217,800
					243,300

GROSS DEVELOPMENT VALUE**10,063,300**

Purchaser's Costs		(3,795)
Effective Purchaser's Costs Rate	1.56%	(3,795)

NET DEVELOPMENT VALUE**10,059,505****NET REALISATION****10,059,505****OUTLAY****ACQUISITION COSTS**

Residualised Price	168,480	
Fixed Price	1,140,000	
Total Acquisition		1,308,480
		1,308,480
Stamp Duty		46,500
Agent Fee	1.00%	11,400
Legal Fee	0.80%	9,120
		67,020

CONSTRUCTION COSTS

Construction	m²	Build Rate m²	Cost
1 Bed Apartments	282.35	1,711.60	483,275
2 Bed Apartments	<u>2,411.37</u>	1,711.60	<u>4,127,305</u>
Totals	2,693.73		4,610,581

Contingency	5.00%	238,654
Demolition & Site Clearance		77,500
		316,154

Other Construction

Archaeology		35,000
Basement removal and Fill		50,000
		85,000

PROFESSIONAL FEES

Other Professionals	10.00%	501,173
		501,173

MARKETING & LETTING

Marketing	3.00%	294,600
		294,600

DISPOSAL FEES

Sales Agent Fee		2.00%	196,400
Sales Legal Fee	25.00 un	650.00 /un	16,250
			212,650

Additional Costs

APPRAISAL SUMMARY**ALDER KING****READING - Craven Road (2017)****3-5 Craven Road****McC&S FVA**

Empty Property Costs	31,432	
CIL	198,109	
		229,541

FINANCE

Debit Rate 6.500%, Credit Rate 0.500% (Nominal)		
Land	139,766	
Construction	172,171	
Other	109,708	
Total Finance Cost		421,646

TOTAL COSTS**8,046,845****PROFIT****2,012,660****Performance Measures**

Profit on Cost%	25.01%
Profit on GDV%	20.00%
Profit on NDV%	20.01%
Development Yield% (on Rent)	0.15%
Equivalent Yield% (Nominal)	5.00%
Equivalent Yield% (True)	5.16%

IRR	30.02%
-----	--------

Rent Cover	165 yrs 5 mths
Profit Erosion (finance rate 6.500)	3 yrs 6 mths