

Titan Property Developments

Garrard House, Garrard Street, Reading, RG1 1NR

VIABILITY ASSESSMENT

FOI Exemption Section 41/43(2) Private & Confidential

October 2015

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1. INTRODUCTION

The application scheme involves the construction of three additional storeys on Garrard House which is a 1980s part four, part five storey brown brick-faced office building with tinted windows. The office building has been vacant for the past four years.

The size mix of the 20 residential flats, which will meet the Lifetime Homes standard and Code for Sustainable Homes Level 4, is as follows:

- 11 x 1 bed flats
- 8 x 2 bed flats
- 1 x 3 bed flat

Given the sustainable nature of the site, located in the town centre with several bus routes nearby and the train station within walking distance, the need for car use will be limited.

The purpose of this Viability Assessment is to summarise the financial inputs of the scheme that enable it to optimise its planning contributions within the context of viability.

Before undertaking financial analyses using the Toolkit, the following Section sets out the planning policy context for affordable housing and other planning obligations as part of viable residential and mixed use schemes within Reading.

2. PLANNING POLICY CONTEXT

The national policy context relating to affordable housing and financial viability has been consolidated into the National Planning Policy Framework (NPPF) (March 2012).

The Development Control Toolkit has become a standard mechanism for appraising residential and mixed use development scheme economics since it was first used in 2004.

The following sub-sections cover the national, regional and local planning policy position in relation to financial viability.

2.1 National Planning Policy

The NPPF summarises the issue of financial viability in relation to planning obligations in paragraph 173, as follows: **“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.”

The above text makes clear that both land owners and developers should be able to secure “competitive returns” when seeking planning consents and these should not be “threatened” by planning obligations of an unreasonable “scale” or “burden”.

The NPPF therefore continues to ensure that the level of planning obligations (including affordable housing) sought by a Council should be moderated when assessed against scheme viability.

Meanwhile the ‘Development Control Toolkit Guidance Notes’ (2014) state that **“the existing use value (EUV) will normally be a key factor in deciding whether a scheme comes forward because this is the measure by which a land owner decides whether it is worth his/her while in making a planning application to change the use of the site”** (paragraph A2).

In paragraph A3, the Notes then make clear that **“viability is determined by comparing the Residual Value against a benchmark (or threshold) land value (which is likely to be EUV plus an appropriate, site specific landowner premium.)”** Previous iterations of the Notes have included a range of 10-40% for the landowner premium.

The issue of benchmark land value is covered in more detail in Section 3.10 below.

2.2 Regional Planning Policy

The ‘South East Plan – Regional Spatial Strategy’ (2010) has a **“regional target that 25% of all new housing should be social (now affordable) rented accommodation and 10% intermediate affordable housing”** (Policy H3), equating to an overall target of 35% affordable housing across the South East.

2.3 Local Planning Policy

Policy CS16 of the ‘Adopted Core Strategy Document’ (2008) states that **“all developments of 15 dwellings and above...will provide 50% of the total number of dwellings in the form of affordable housing.”** No target tenure mix between rented and intermediate housing is identified in Council planning policy and guidance.

However, in paragraph 6.29 of the same document, it is noted that **“the Council will be prepared to consider detailed information on the viability of a particular scheme and, where justified, to reduce the affordable housing requirement.”**

Meanwhile, the Council’s ‘Supplementary Planning Document’ (2013) makes clear that it will **“take account of the availability of public subsidy and, where it is not available, or only at low levels, will be prepared to adjust its expected provision of affordable housing accordingly”** (paragraph 4.33).

In summary and in accordance with national, regional and local planning policies and guidance, the Council seeks 50% affordable housing with a mix of affordable rented and intermediate housing, subject to practicality and viability.

Based on the above, the following Section produces a financial viability assessment using the Toolkit to demonstrate the quantum of Section 106, community infrastructure levy (CIL) and affordable housing contributions that can be delivered, whilst allowing the scheme to make a reasonable developer’s return.

3. DEVELOPMENT CONTROL TOOLKIT

As already noted above, the Toolkit is used by councils to assess the level and tenure mix of affordable housing that could be delivered as part of financially viable schemes.

Please note that the Development Control Toolkit inputs and outputs are provided on a strictly confidential basis. They are for use only by Reading Borough Council in the evaluation of this Viability Assessment. The inputs and outputs should not be revealed to any third parties.

The applicant considers that the information enclosed and other matters relating to completed and ongoing projects to be exempt from disclosure under the exemptions to the Freedom of Information Act 2000 set out in section 41 (information provided in confidence) and section 43 (2) (information provided in confidence).

The sub-sections below explain the inputs and outputs of the Toolkit, showing a financially viable scheme. The Toolkit is attached as **Appendix 1**.

3.1 Unit Types and Details

This worksheet shows the size mix and net internal areas (NIAs) of the individual residential units. The part of the scheme will be seven storeys in height with the extra three storeys. As already noted, all of the homes will meet the Lifetime Homes standards.

3.2 Tenure Mix

■ of the 20 new flats will be private, along with ■ affordable rented flats.

3.3 Market Values

This worksheet shows the open market values of the 20 private flats, which have an average sales value of £■ per sqft (£■ per sqm). The total gross development value (GDV) of the private residential units is £■.

The pricing of the scheme is based on advice from ■, which knows the Reading housing market well, being a national agent. Their advice is attached as **Appendix 2**.

3.4 Development Costs

A Base Build Cost of £■ per sqft (£■ per sqm) is shown for the scheme. The build cost covers a facade treatment to make the building more residential in nature.

The build cost also reflects a specification commensurate with flats that will sell for an average of £[REDACTED] per sq ft in a competitive local market. An Order of Cost Estimate by David Richards Practice is attached as **Appendix 3**.

The cost of implementing the Council's environmental policy requirements are included in the above base build cost, along with meeting Lifetime Homes standards throughout.

A construction period of [REDACTED] months covers site set-up, completion of the scheme and the sale of all flats, at an interest rate of [REDACTED] %.

Funder's fees and charges of £[REDACTED] are included, covering in/out, administration and monitoring. Such charges are now a standard part of financing residential schemes since the credit crunch.

The Developer's Return of [REDACTED] on GDV reflects the prevailing minimum requirement for funders in the current housing market, which is at the Toolkit default.

A [REDACTED] profit on GDV is also "**the minimum profit requirement**" of banks according to the Council's externally commissioned 'Community Infrastructure Levy, Economic Viability Assessment' (2013).

An allowance [REDACTED] has been included, although the final figure may well be higher.

3.5 Planning Obligations/CIL

A CIL financial obligation of £[REDACTED] has been included, based on the following calculation:

- [REDACTED] gross internal area x £[REDACTED] per sqm = £[REDACTED]

In addition, a cost of £[REDACTED] has been included to cover the Council's Section 106 Agreement monitoring and legal fees.

3.6 Capital Contribution From Other Sources

The ground rents shown on this worksheet are calculated as follows:

- £[REDACTED] per private unit x 18 units x [REDACTED] yield

The figure of £[REDACTED] therefore represents the capitalised net ground rents to be generated by the scheme.

3.7 Affordable Housing Value

The value of the ■ affordable housing units has been estimated at £■. Offers from housing associations for Section 106 sites have reduced significantly since the recent change to the rent regime by the Chancellor of the Exchequer.

3.8 Comparison with Other Site Values

No Site/Benchmark Value has been included, as the scheme involves development in space above the existing Garrard House.

3.9 Scheme Results

The 'Scheme Results' page of the Toolkit shows a zero Residual Value when compared with the Benchmark Value, with ■ affordable rented flats, planning obligations totalling £■ and a developer's return of ■ on GDV.

The key benefits of enabling this scheme to proceed are:

- 20 new homes in Reading, including ■ affordable rented
- £■ CIL contribution, plus £■ costs for the Council's monitoring and legal costs of completing the Section 106 Agreement.
- A financially viable and achievable scheme that will be sustainable, provide investment in the public realm, generate local employment, whilst bringing additional spending power and helping to revitalise this part of Reading.
- The scheme is in a sustainable location, with shops, services and public transport all easily accessed, therefore limiting car use for all occupiers of the proposed development.
- The scheme meets the environmental requirements of the Council, through Level 4 of the Code for Sustainable Homes.

Overall, it is considered by the applicant that the optimal planning contributions are being offered as part of a viable scheme for the proposed scheme at Garrard House.