



Viability Assessment

Site Location: 5 Southerndene Close, Tilehurst, Reading, RG31 6ND

Proposal: Erection of 1 no. dwelling

Prepared for: Mr. Wlasak

Version 1

Dated – December 2024

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1. Introduction & Assumptions

1.1	This Viability Assessment has been prepared by Lasseter Downie Planning on behalf of Mr. Wlasak, the owner of 5 Southerndene Close, at Tilehurst RG31 6ND. The Statement is made in support of an application for the erection of 1no. dwelling.
1.2	This statement will set out the viability of the above development in line with the requirements as set out within Policy H3 of the Reading Borough Local Plan and the provisions set out in the Affordable Housing Supplementary Planning Document, adopted March 2021. Policy H3 states: <i>“Residential development will make appropriate contribution towards affordable housing to meet the needs of Reading</i> <i>• on sites of 10 or more dwellings, 30% of the total dwellings will be in the form of affordable housing;</i> <i>• on sites of 5 – 9 dwellings, a financial contribution will be made that will enable the equivalent of 20% of the housing to be provided as affordable housing elsewhere in the Borough; and</i> <i>• 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.</i> <i>For sites of 10 or more 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.</i> <i>In all cases where proposals fall short of the policy target 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.”</i>

1.3	This report provides the focus on viability issues and the scope, or otherwise, for the proposal to deliver a contribution towards off-site affordable housing units as well as set out the assumptions used to calculate development values.
	National Planning Policy
1.4	The revised National Planning Policy Framework was published on 24 July 2018 and sets out the government's planning policies for England and how these are expected to be applied. The NPPF considers the issue of viability at paragraph 58, which is worth noting in its entirety: <i>“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.”</i>
1.5	The statement in paragraph 58 of the NPPF raises two points of specific relevance to this assessment. Firstly, it establishes a default position that policies within up to date local plans are deliverable. Secondly, if there is a case for a policy to not apply because of delivery issues, then it must be up to the applicant to demonstrate why this is the case. Regarding the latter point, the NPPF refers any viability assessment of an application site to follow the national planning guidance covering viability, which sets out some key principles of how development viability should be

	considered in planning practice and provides recommendations for standardised inputs.
1.6	When considering the recommendations in this report, the Council needs to draw from national planning guidance on decision making, which states that local planning authorities should: “...strike a balance between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission.”
1.7	In assessing the viability of the proposed scheme, this report brings together evidence for the prevailing values and likely costs, including policy costs, of the proposed scheme. This evidence is used to inform a set of assumptions that feed into assessing the viability of the proposed scheme using the residual land value method. This method subtracts the total costs, including profit, of the proposed scheme from the total value it will generate, to determine the residual land value.
1.8	The appraisal is used to identify what might be considered to be the maximum offsite affordable housing contribution based on an independent verification of the Applicant’s development values and costs, along with any adjustments to generate reasonable assumptions for the Applicant’s scheme.
	Appraisal Assumptions
1.9	A standard residual development appraisal approach has been adopted which ascertains the price that a developer could afford to pay for the site based on a particular quantum of development. In this case a single dwelling. This residual land value is then assessed against the value that might be anticipated for the site from a comparable evidence perspective. If a positive figure results, then the appraised development is viable and if negative, then the development is non-viable and would not be brought forward until such time as either values rose or costs fell to the extent that the scheme became viable.

1.10	The viability appraisal will evidence the development with the Policy required 10% after a suitable developers profit and without the 10% policy requirement. Should the development be viable with the 10% affordable housing contribution this will be made clear throughout this report.
	Cost Assumptions
1.11	Land Value – The land value derived is automatically calculated as the residual amount which a developer could afford to pay for a site, in order to develop out the appraised scheme and taking into account all those other costs and value assumptions utilised within the appraisal model.
1.12	Acquisition Costs – Acquisition costs have been applied based upon stamp duty land tax and purchasers legal costs associated with acquisition of the land and calculated at the appropriate rate for stamp duty, including 1.75% legal and surveyors fees
1.13	Utility Costs – Utility costs relate to the provision of new services into the site which include, Gas, Water, Waste and Internet services. It is considered likely that such costs would be approximately £1000 per service and as such have been assumed at around £4,000.
1.14	Construction Costs – Residential construction costs have been assumed at a rate of £2,512 per sqm. This sum is considered likely to prove realistic, all things taken into account. It is however noted that this lies towards the mean end of the scale which could rise (or fall) by circa. £500-800 per sqm. See appendix 1 – BCIS £/M2 Study
1.15	Professional Fees – Professional fees have been assumed at a rate of 10% of construction costs, such sum comprising architects fees, mechanical and engineering fees, structural engineers, quantity surveyor, project manager and construction design and management consultants.
1.16	Contingency – A contingency rate of 10% has been adopted which is not untypical for schemes of the subject nature.

1.17	Statutory Costs – Assumed at a rate of £5,000, a sum considered appropriate from analysis of sites of a similar nature. This relates to Building Regulation fees and Planning Consent.
1.18	Funding Costs – These are those costs associated with the obtaining of funding from financial institutions within the present market.
1.19	Sale Fees – Sale fees of 2% are considered standard for a scheme of this nature.
1.20	Interest – An interest rate on debt has been assumed at a rate of 11%, this is considered appropriate in the present financial market, indications from lenders and considering the Bank of England base rate being at 5%.
1.21	Profit – Developers profit has been assessed based upon 15% minimum of value which is considered standard for a scheme of this nature.

2. Establishing the Benchmark Land Value (BLV)	
2.1	The Planning Practice Guidance (Updated July 2018) (PPG) sets out the government's recommended approach to viability assessment for planning. Importantly, in defining viability it states that a residual land value after costs are deducted from revenue, should be based on: <i>“...the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land.”</i>
2.2	It also states:

	<i>“Existing use value is not the price paid and should disregard hope value.”</i>
2.3	The application site forms a residential garage which is currently part of No.5 Southerndene Close. This land already benefits from a residential use which will be taken as the starting point for the BLV. Whilst it is difficult to specifically value the garage as a separate entity, several garages for sale within the wider area have been reviewed along with a per sqm value attached to the existing residential land itself, based upon similar land sales (without the benefit of planning permission) to establish a BLV. The average land values within the area on a per sqm basis equates to £270, however several of the land parcel benefitted from planning permission and thus would include a premium had the land not benefitted from permission. It is considered that a 20% discount would be reasonable to this figure, plus a value for the garage to establish a BLV. This would equate to £216 per sqm and a garage value of £25,000. The plot would measure 250.5sqm. As a result the BLV is considered to be £79,108 Based on the few properties for sale within Tilehurst with this potential use and to this scale, it is considered the BLV meets the PPG recommended approach to viability assessment for planning.
2.4	The minimum benchmark land value for this site informing this appraisal is therefore £79,108

3. Construction Costs

3.1	As set out above, a build cost has applied at a rate of £2,512 per sqm for the new dwelling, plus a further £15,000 for hard and soft landscaping. It is considered that this is a relatively average build cost for the Reading area which has been obtained from the Building Cost Information Service (BCIS) database supplied by the Royal Institution of Chartered Surveyors (RICS) for the period 3rd Quarter 2024. This figure is considered to be acceptable and therefore have adopted this cost in our appraisal. The total build
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	costs equates to £169,560
	Demolition Costs
3.2	In terms of demolition costs some of the existing building is to be retained where possible and practicable, given this a slight reduction in demolition costs have been assumed. In this instance, demolition costs of £12,000 have been assigned which would include the removal of the waste from the site to a suitable place of disposal.
	Professional Fees
3.3	Professional fees and disbursements of £20,000 , which is stated as £5,000 for planning and building regulations, and £15,000 for legal fees, architects' fees and 10 year build warranties. This is equivalent to approximately 10% of the Applicant's total build costs plus site costs.
3.4	Typically, an allowance for Professional fees (covering site investigations, planning, design and project management, etc), is normally priced between 8% to 12% of build cost plus external works depending on the complexity of development. The total professional fees of £20,000 is within the 8% to 12% range of the build costs and site costs used in our appraisal. We therefore consider this figure to be acceptable and have adopted this value in our appraisal.
3.5	The total development construction costs for this site informing this appraisal is therefore £228,560

4. Gross Development Value

4.1	Following data received from several local estate agents, a sales figure of between £375,000 - £400,000 (£5,555 – £5,925 per sqm) has been provided. This estimate is drawn from several valuations by local residential agents, that provide the following estimations of average values: ▪ Hasalms - £500-550 psf or £360,000 - £400,000 ▪ Sansome & George – £375,000 - £400,000
4.2	Further sources for values per square metre of open market new build floorspace has also been identified using comparable local schemes, which are listed in Appendix 2, from the following sources: ▪ Land Registry data, which provides the achieved sales prices for bungalows at Cramer Close, Stoneham Close, Park Grove etc. from Land Registry, and Energy Performance Certificates, which provides the floorspace for most of the sold new build properties and is used to identify a sales value per square metre figure for each unit. ▪ RightMove data and marketing brochures for new apartments currently for sale in Cramer Close, Stoneham Close, Park Grove etc. all within approximately ¼ mile of the application site.
4.2	Analysis of the sales values from these two sources suggest that the average sales value is likely to be in the range of £4,755 per sqm. Therefore, based on this evidence and analysis, the sales price for the new dwelling would be in the region of £350,000 - £400,000. For the purpose of this viability exercise a GDV figure of £400,000 will be used for the best case. As can be seen within appendix 2, with the best case sales figure, the development would return a 2.9% profit figure.

5. Community Infrastructure Levy

- 5.1 Reading Borough Council adopted its CIL charging schedule in April 2015, and the site falls within the CIL chargeable area set at £179.29 per residential sqm. National policy requires that CIL is index linked to the BCIS national all-in tender price.
- The CIL payment of £12,102 has been included within the appraisal which is based upon the above charging rate (without any deductions at this time) and the new build Gross Internal Area of 67.5sqm.

6. Developer Profit Consideration

- 6.1 The Applicant's appraisal identifies that the development would be marginally profitable on the best case sale figure assumption and figures outlined above and within the support documents within the Appendix. Should the development be able to be undertaken on a construction cost of £1500 per sqm the development would make a modest profit of 23% on the basis of the sale of the property for at least £400,000 which is towards the higher end of the market.
- The typically developer profit margin would be in the region of a 15% profit and whilst the proposal could achieve a profit, it is only achievable on the very unlikely event that build costs are significantly lower and the sales price is towards the top end of the market for a property such as this.
- The calculated return of **2.9%** (appendix 2) is extremely low and the scheme would only seem to be profitable on significantly lower build cost per sqm which may well not be feasible or a larger sales price which may not be practicable. However, it is acknowledged that this this will vary depending on the strength of the market, nature of the scheme and the risk to the investors involved with the scheme.

7. Conclusion

7.1	The Application scheme has been assessed to identify how much financial contribution can be afforded (if any) to pay towards off-site affordable housing. In identifying this, the appraisal result in this section allows for a broad assessment of the economic context for the application site based on Policy H3 and the assumptions used for testing that are discussed within the above report, under the relevant sections.
7.2	It is important to note that this assessment is based on current values and costs at the time of writing, and known policy requirements to support the delivery of a development. Also, while there are significant benefits in undertaking the viability work, it is important to recognise its limitations since it is not an exact science. A viability assessment must therefore be seen only as a tool in assisting in the preparation of a robust planning scheme for seeking a planning application. It is not intended to be a formal 'Red Book' valuation and should not be relied upon as such.
7.3	In considering the viability assessment regarding the contribution for affordable housing at the Application site, the following points in the Planning Practice Guidance (Updated July 2018) (PPG) on planning viability with regards to the intention on national policy should be noted. In relation to viability in decision taking, the PPG states that: <i>“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.”</i>

7.4	The applicant has sought to do this, and this report identifies the ability (or not) for the proposed development to fully meet the total contribution of an equivalent 10% of the housing to be provided as affordable housing elsewhere in the Borough would be difficult. However, the PPG also notes that it is the planning authority that can decide whether there is a case for varying their policy requirements based on the following circumstances including: <i>“...whether the plan and viability evidence underpinning the plan is up to date, any change in site circumstances since the plan was brought into force, and the transparency of assumptions behind evidence submitted as part of the viability assessment.”</i> It is considered in this instance, given the increased build costs since the plan policy was adopted a contribution of 10% equivalent for an offsite Affordable housing would not be possible and extremely challenging for the developer and would likely lead to the development not taking place in the first instance.
7.5	Given this, the planning authority needs to: <i>“...strike a balance between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission.”</i>
7.6	On this basis, it is consider that it is reasonable to recommend that a contribution for offsite affordable housing is not provided in this instance when weighing up the associated costs, risks of the development and public interest of providing a modest additional house within the Borough.

