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Affordable Housing Viability Assessment

The Former Roebuck Hotel, Oxford Road, Tilehurst, RG31 6TE

Prepared for
Roetel Limited

January 2025



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1 Executive Summary

This report examines the development economics of Roetel Limited's ('the Applicant') redevelopment of the site at The Former Roebuck Hotel, Oxford Road, Tilehurst, RG31 6TE ('the Scheme').

The proposed scheme comprises the conversion of the Grade II listed former hotel to create 8 apartments.

The purpose of this report is to ascertain the viable level of affordable housing. We have analysed the development economics of the scheme and in summary, our assessment demonstrates that the proposed scheme cannot support any affordable housing.

2 Introduction and Terms of Reference

Roetel Limited ('the Applicant') has commissioned BNP Paribas Real Estate to provide an assessment of the economic viability of the scheme at The Former Roebuck Hotel, Oxford Road, Tilehurst, RG31 6TE ('the site').

Our terms of reference are summarised as follows:

- Assess the residual value of the Proposed Scheme using an appropriate appraisal model; and
- Using the outputs of the model, consider an appropriate and economically viable level of affordable housing.

2.1 BNP Paribas Real Estate

BNP Paribas Real Estate is a leading firm of chartered surveyors, town planning and international property consultants. The practice offers an integrated service from nine offices in eight cities within the United Kingdom and over 180 offices, across 37 countries in Europe, Middle East, India and the United States of America, including 16 wholly owned and 21 alliances. In 2005, the firm expanded through the acquisition of eight offices of Chesterton and in 2007, the firm acquired the business of Fuller Peiser and Strutt & Parker in 2017. We are a wholly owned subsidiary of BNP Paribas, which is the number one bank in France, the second largest bank in the Euro Zone and one of only six top rated banks worldwide.

BNP Paribas Real Estate has a wide-ranging client base, acting for international companies and individuals, banks and financial institutions, private companies, public sector corporations, government departments, local authorities and registered providers ("RPs").

The full range of property services includes:

- Planning and development consultancy;
- Affordable housing consultancy;
- Valuation and real estate appraisal;
- Property investment;
- Agency and Brokerage;
- Property management;
- Building and project consultancy; and
- Corporate real estate consultancy.

This report has been prepared by Jamie Purvis MRICS, RICS Registered Valuer and reviewed by Anthony Lee MRTPI, MRICS, RICS Registered Valuer.

The UK Development Viability and Affordable Housing Consultancy of BNP Paribas Real Estate advises landowners, developers, local authorities and RPs on the provision of affordable housing.

Anthony Lee was a member of the working group which drafted guidance for planning authorities on viability, which was published by the Local Housing Delivery Group in June 2012 as '*Viability Testing Local Plans: Advice to Planning Practitioners*'. He was a member of MHCLG's 'Developer contributions expert panel' which assisted in the drafting of the viability section of the 2019 Planning Practice Guidance. He is also a member of the Mayor of London's Housing Delivery Taskforce expert panel.

In addition, we were retained by Homes England ('HE') advise on better management of procurement of affordable housing through planning obligations.

The firm has extensive experience of advising landowners, developers, local authorities and RPs on the value of affordable housing and economically and socially sustainable residential developments.

2.2 Report Structure

This report is structured as follows:

Section three provides a brief description of the Development;

Section four describes the methodology that has been adopted;

Section four sets out our assumptions and variables used to complete the Appraisal;

Section five sets out the results of the appraisals;

Finally, in **Section six**, we draw conclusions from the analysis.

2.3 The Status of Our Advice

In preparing this report and the supporting appraisals, we have given full regard to the RICS Professional Standard ('PS') 'Assessing viability in planning under the National Planning Policy Framework for England 2019' (first edition, March 2021). However, paragraph 2.2.3 of the PS acknowledges that statutory planning guidance takes precedence over RICS guidance. Conflicts may emerge between the PS and the PPG and/or other adopted development plan documents. In such circumstances, we have given more weight to the PPG and development plan documents.

In carrying out this assessment, we have acted with objectivity, impartiality, without interference and with reference to all appropriate available sources of information.

We are not aware of any conflicts of interest in relation to this assessment.

In preparing this report, no 'performance-related' or 'contingent' fees have been agreed.

This report is addressed to Roetel Limited only. No liability to any other party is accepted.

3 The Site and Development

3.1 Site Location

The site extends to approximately 0.14 hectares comprising a former hotel located on Oxford Road. The building has been used as a 21 room HMO for a number of years although its lawful use remains a hotel. The site is bounded by railway lines to the north and east and Oxford Road to the south and west. The site is located c. 0.25 miles to the northwest of Tilehurst Railway Station which provides services into London Paddington via Reading in approximately 55 minutes.

3.2 Planning History

We have reviewed the Council's planning website and note that the site has not been subject to any planning applications that are relevant to this viability assessment.

3.3 The Proposed Development

The Applicant is seeking planning permission for:

“Change of use and conversion from a hotel to 8 apartments”.

We summarise in Table 3.2.1 the proposed scheme accommodation.

Table 3.2.1: Market Housing Units

Unit	Floor	Beds	Floor Area (sq/ft)
1	Ground	2	893
2	Ground	1	753
3	Ground	2	1,076
4	First	3 (Duplex)	1,464
5	First	1	785
6	First	1	710
7	Third	1	603
8	Third	2	1,022
Total	-	-	7,306

4 Methodology

We have used Argus Developer ('Argus') to appraise the development proposals. Argus is a commercially available development appraisal package in widespread use throughout the industry. It has been accepted by a number of local planning authorities for the purpose of viability assessments and has also been accepted at planning appeals. Banks also consider Argus to be a reliable tool for secured lending valuations. Further details can be accessed at www.argussoftware.com.

Argus is a cashflow-backed appraisal model. This cash-flow approach allows the finance charges to be accurately calculated over the development/sales period. The difference between the total development value and total costs equates to either the profit (if the land cost has already been established) or the residual value. The model is normally set up to run over a development period from the date of the commencement of the project and is allowed to run until the project completion, when the development has been constructed and is occupied.

Essentially, such models all work on a similar basis:

- Firstly, the value of the completed development is assessed;
- Secondly, the development costs are calculated, using either the profit margin required or land costs (if, indeed, the land has already been purchased).

The difference between the total development value and total costs equates to either the profit (if the land cost has already been established) or the residual value.

The output of the appraisal is a Residual Land Value ('RLV'), which is then compared to an appropriate benchmark, typically the Existing Use Value ('EUV') of the site plus a site-specific landowner's premium, in line with the Planning Practice Guidance.

An Alternative Use Value ('AUV') may also constitute a reasonable benchmark figure where it is considered to be feasible in planning and commercial terms. Development convention and viability guidance suggests that where a development proposal generates a RLV that is higher than the benchmark, it can be assessed as financially viable and likely to proceed. If the RLV generated by a development is lower than the benchmark, clearly a landowner would sell the site for existing or alternative use or might delay development until the RLV improves.

5 Assumptions

This section of the report sets out the general principles and assumptions which have been used to undertake a development appraisal of the scheme.

5.1 Housing Market Commentary

Economic and housing market context

Since early 2020, the global economy has been subject to a degree of turbulence arising from the consequences of the Covid-19 pandemic; subsequent supply chain and labour market issues; and steep increases in energy prices resulting from Russia's invasion of Ukraine. In addition to these global issues, the UK economy has also been adversely affected by its departure from the European Union and the resulting impact on trade and tourism, as well as the government's September 2022 'Fiscal Event'. The combined effect of these issues resulted in a sharp increase in inflation to 10.7% in October 2022. In response, the Bank of England ('BoE') increased its base rate from 0.1% in March 2020 to 5.25% in September 2023 and in May 2024, inflation fell to 2.3%.

Despite the impact of these events, the UK housing market outperformed expectations between 2020 and mid 2022 and has subsequently remained resilient despite increasing costs of borrowing.

In its August 2024 House Price Index release, Nationwide reported that UK house prices fell by 0.2% month-on-month in August, after having increased by 0.3% month-on-month in July 2024 and by 0.2% month-on-month in June 2024. As a result, the annual rate of change increased to 2.4% from 2.1% in July. Commenting on these changes, Nationwide's Chief Economist, Robert Gardener, observed that *"while house price growth and activity remain subdued by historic standards, they nevertheless present a picture of resilience in the context of the higher interest rate environment and where house prices remain high relative to average earnings (which makes raising a deposit more challenging)".*

Nationwide is not forecasting significant growth in 2024 and indicates that significant change is unlikely until interest rates start to fall and affordability improves, suggesting that housing market activity is only likely to strengthen *"gradually"* as affordable constraints ease *"through a combination of modestly lower interest rates and earnings outpacing house price growth"*.

Halifax report similar trends in its September 2024 release, with a month-on-month increase of 0.3% and annual growth of 4.3% (up from 2.4% in the previous month).

Commenting on the year-on-year increase, Amanda Bryden (Head of Mortgages, Halifax Mortgages) observed that *"this is due in large part to the comparison with weaker growth this time last year"*. The annual rate of change brings average prices back up to where they previously stood in June 2022 but she observed that *"affordability remains a significant challenge for many potential buyers still adjusting to higher mortgage costs"*.

Halifax points to ongoing affordability constraints for both first time buyers and existing mortgage holders who need to refinance at the end of fixed term deals. Providing the Bank of England reduces the base rate in the short term, Halifax expects prices to rise modestly over the remainder of 2024.

In their September 2024 Housing Market Update, Savills reflect improvements in market sentiment in response to falling mortgage rates, which has triggered an increase in demand from potential buyers.

Savills note that *"While we have seen higher levels of market activity than the same period last year, the past three months have moved more in line with a "normal" market (pre-pandemic) than earlier in 2024."* Savills now expect that UK house prices will increase by 2.5% in 2024.

Forecasts for house price growth indicate that values for the UK as a whole are expected to increase over the next five years. Savills forecast an increase of 21.6% across the UK as a whole over the period 2024 to 2028 (up from 17.9% in their November forecast). They forecast lower cumulative growth of 18.2% over the same period in south-east England (up from 16.7% in their November forecast) and 14.2% in London (up from 13.9% in their November 2023 forecast). The other major agents report similar rates of cumulative growth over the same period.

5.2 Market Housing Revenue

We highlight that there is a dearth of new build sales evidence within close proximity of the site. Therefore, in order to value the proposed scheme units we have initially had regard to sales of second-hand flats located within close proximity to the site. We summarise our sales evidence in the table below.

Table 5.2.1: Second hand Sale Prices

Address	Date	Sale Price	Beds	Floor Area (sq/ft)	£PSF
37 Dudley Close	Oct-24	£230,000	2	667	£345
Flat 2, Armour Lodge, 92 Armour Road	Sep-24	£250,000	2	687	£363
Flat 22, Warbreck Drive	Jul-24	£210,000	1	484	£434
24, Knowsley Road	Jun-24	£212,000	1	463	£458
32, Knowsley Road	Apr-24	£215,000	1	463	£464
Flat 9, Wheeler Court, Armour Hill	Dec-23	£170,000	1	527	£322
Flat 7, Wheeler Court, Armour Hill	Dec-23	£210,000	2	517	£406
Flat 1, 11, Lower Armour Road	Dec-23	£255,000	2	753	£338
14, Pryor Close	Nov-23	£249,500	2	635	£393

We have also had regard to current asking prices located in close proximity to the site.

Table 5.2.2: Current Asking Prices

Address	Asking Price	Beds	Floor Area (sq/ft)	£PSF	Additional Information
Oxford Road	£180,000	1	468	£385	Refurbished apartment in converted house.
Oxford Road	£185,000	1	422	£438	Refurbished apartment in converted house.
Oxford Road	£187,500	1	416	£451	Refurbished apartment in converted house.
School Road	£220,500	2	792	£278	-
Armour Road	£240,000	2	537	£447	Private Gated Development
Pryor Close	£270,000	2	700	£386	-

On the basis of the available sale and asking prices we have adopted the following values for the scheme in Table 5.2.3.

Table 5.2.3: Proposed Scheme Values

Unit	Floor	Beds	Floor Area (sq/ft)	Sale Price	£PSF
1	Ground	2	893	£285,000	£319
2	Ground	1	753	£240,000	£319
3	Ground	2	1,076	£299,000	£278

Unit	Floor	Beds	Floor Area (sq/ft)	Sale Price	£PSF
4	First	3 (Duplex)	1,464	£325,000	£222
5	First	1	785	£285,000	£363
6	First	1	710	£280,000	£394
7	Third	1	603	£245,000	£406
8	Third	2	1,022	£299,000	£293
Total/Average	-	-	7,306	£2,258,000	£309

5.3 Construction Costs

At this stage the Applicant has not instructed a cost consultant to produce a cost plan for the proposed scheme. However, in support of the proposed scheme costs we have had regard to BCIS cost rates for conversion apartments rebased to Reading. As the proposed scheme comprises the refurbishment of a Grade II listed building we have adopted a Median Upper Quartile cost rate of c. £194 per sq/ft (£2,090 per sq/m) and with the addition of a 10% external works allowance we have adopted a cost rate of c. £213 per sq/ft.

We have applied this cost rate to the scheme GIA totalling 8,200 sq/ft which generates a total cost of £1,751,391. Whilst we have currently adopted BCIS cost rates, the Applicant reserves the right to seek cost advice from a cost consultant.

We have also adopted a construction cost contingency of 5%.

5.4 Professional Fees

We have adopted professional fees of 10%, which reflects the complexities of the scheme.

5.5 Marketing, Sales, & Legal Fees

We have adopted a sales agent and marketing fee of 3% and a sales legal fee of £1,000 per unit in line with normal levels applied for a scheme of this scale.

5.6 S106 Obligations

In terms of S106 obligations, we would welcome confirmation from the Council as to whether any payments are required.

5.7 Development Timescales

We tabulate in Table 5.7.1 the development timescales we have adopted for the purpose of our assessment.

Table 5.7.1: Project Programme

Development Activity	Duration (months)
Site Purchase	1
Pre-Construction	6
Construction	12
Market Housing Sales	6
Total	25

5.8 Developer's Profit

We have taken into account the residual impacts of the United Kingdom's departure from the European Union and the potential risks associated with our future trading relationships with other countries now that the transition period has expired, in addition to the risks associated with this specific development.

We have also taken into consideration the current spike in utilities and commodities prices in addition to the geo-political situation and the recent increase in interest rates in response to increases in energy costs and other commodities. Our assessment of profit is based upon the perceived risks associated with the proposed development. In reaching a conclusion on the profit level, we have taken into account the price point of the units and we consider that there will be sufficient demand for the units at the values we have adopted. We therefore consider that a profit level of 17.5% of GDV to be reasonable reflecting the risk associated with the market housing units.

5.9 Finance Costs

We have adopted a finance rate of 7% and we consider that this finance rate falls within the typical range adopted in viability assessments and secured lending valuations (the latter of which banks rely upon for secured lending purposes). Although a bank would not provide 100% of the funding required for the proposed Development, it is conventional to assume finance on all costs in order to reflect the opportunity cost (or in some cases the actual cost) of committing equity to the project.

6 Analysis

In this section, we consider the outputs of the appraisals and the implications for the provision of affordable housing at the proposed development.

6.1 Viability Benchmark (Site Value)

In order for a rational land owner to pursue a residential led development, the residual value of that development must exceed an appropriate viability benchmark. This will be based upon the value of the site in its existing use ('EUV') plus appropriate premium to incentivise the landowner to bring the site forward or an alternative use value ('AUV') if this is acceptable in planning terms.

As the site comprises 21 x letting rooms we have adopted the current rental income as the basis for the calculation of the EUV and we summarise in Table 6.1.1 the current rents for each of the rooms (we highlight that there is no room 20).

Table 6.1.1: Current Rents

Room	Rent Per Month	Gross Rent Per Annum
1	£651	£7,812
2	£682	£8,184
3	£725	£8,700
4	£625	£7,500
5	£656	£7,872
6	£725	£8,700
7	£675	£8,100
8	£600	£7,200
9	£570	£6,840
10	£725	£8,700
11	£650	£7,800
12	£725	£8,700
13	£765	£9,180
14	£725	£8,700
15	£693	£8,316
16	£585	£7,020
17	£650	£7,800
18	£600	£7,200
19	£650	£7,800
21	£525	£6,300
22	£499	£5,988
Total	£13,701	£164,412

In order to arrive at a capital value we have deducted operational costs of 35% of gross rental income to reflect management and maintenance resulting in a net rent of £106,868. We have capitalised the net rent at a yield of 6% which correlates to an EUV of £1.66m following the deduction of purchaser's costs. We have applied a landowner's premium of 20% to the EUV and we have subsequently adopted a site value of c. £1.99m

6.2 Analysis of Appraisals

We have tested the viability of the development and we have compared the residual land value of the scheme to our benchmark site value of c. £1.99m.

We set out the results of our assessment in Table 6.2.1 and we attach our proposed scheme appraisal as Appendix 1 of this report.

Table 6.2.1: Scheme Appraisal Results (100% Market Housing)

Proposed Scheme Residual Land Value	Benchmark Site Value	Surplus/(Deficit)
c. - £0.29m	c. £1.99m	c. - £2.28m

In summary, our proposed scheme appraisal generates a negative residual land value of c. £0.29m and when benchmarked against our site value of c. £1.99m the scheme generates a deficit of c. £2.28m.

In conclusion, the scheme cannot support any affordable housing.

6.3 Sensitivity Analysis

We have also undertaken a sensitivity analysis based on our 100% market housing appraisal, which demonstrates scheme performance (via the residual land value) when values and costs change which we summarise in Table 6.3.1.

Table 6.3.1: Sensitivity Analysis

Construction Costs	Sales values				
	-10%	-5%	0.00%	+5%	+10%
-10%	- £258,505	- £173,977	- £89,693	- £5,844	£69,878
-5%	- £357,409	- £272,452	- £187,924	- £103,601	- £19,685
0%	- £456,369	- £371,351	- £286,399	- £201,871	- £117,510
+5%	- £555,588	- £470,310	- £385,292	- £300,346	- £215,818
+10%	- £654,983	- £569,469	- £484,251	- £399,233	£314,292

7 Conclusion

Our report tests the viability of the scheme, and the results of our viability assessment demonstrates that the scheme generates a deficit of c. £2.28m with 100% market housing. Consequently, the proposed scheme cannot support any affordable housing. Whilst the scheme currently generates a deficit, the Applicant is willing to proceed with the scheme with the expectation that market conditions will improve in the future.

Appendix 1 - BCIS Cost Rates

£/M2 STUDY

Description: Rate per m2 gross internal floor area for the building Cost including prelims.

Last updated: 14-Dec-2024 08:17

Rebased to Reading (108; sample 33)

MAXIMUM AGE OF RESULTS: DEFAULT PERIOD

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample	
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest		
Rehabilitation/Conversion								
816. Flats (apartments)								
Generally (15)	2,023	436	1,154	1,586	2,090	7,006	76	
1-2 storey (15)	2,754	861	1,279	1,679	3,402	7,006	15	
3-5 storey (15)	1,709	436	1,163	1,477	1,914	6,485	46	
6 storey or above (15)	2,343	676	1,094	1,597	3,544	5,872	14	

Appendix 2 - Proposed Scheme Appraisal

Licensed Copy

Development Appraisal

The Roebuck & Oxford Road

Proposed Scheme Appraisal

Report Date: 18 December 2024

APPRAISAL SUMMARY

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The Roebuck & Oxford Road Proposed Scheme Appraisal

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft²	Rate ft²	Unit Price	Gross Sales
Market Housing Units	8	7,306	309.06	282,250	2,258,000

NET REALISATION

2,258,000

OUTLAY

ACQUISITION COSTS

Residualised Price (Negative land)			(286,399)	(286,399)	
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CONSTRUCTION COSTS

Construction	ft²	Rate ft²	Cost		
Market Housing Units	8,200 ft²	213.58 pf²	1,751,391	1,751,391	
Contingency		5.00%	87,570		87,570

PROFESSIONAL FEES

Architect		10.00%	175,139		175,139
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MARKETING & LETTING

Marketing		1.50%	33,870		33,870
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DISPOSAL FEES

Sales Agent Fee		1.50%	33,870		
Sales Legal Fee	8 un	1,000.00 /un	8,000		41,870

FINANCE

Debit Rate 7.000% Credit Rate 0.000% (Nominal)					
Land			(16,480)		
Construction			61,904		
Other			13,985		
Total Finance Cost					59,409

TOTAL COSTS

1,862,850

PROFIT

395,150

Performance Measures

Profit on Cost%	21.21%
Profit on GDV%	17.50%
Profit on NDV%	17.50%
IRR	69.09%
Profit Erosion (finance rate 7.000%)	2 yrs 9 mths