

FINANCIAL VIABILITY ASSESSMENT



**58 BATH ROAD
READING
RG30 2AY**

PLANNING REFERENCE: TBA

PREPARED FOR: P. PHILLIPS AND SON (READING) LTD

DATE: MAY 2026

1. Introduction

The information contained within this report is believed to be correct as at 5 May 2026 but affordable housing 106 give notice that:

all statements contained within this report are made without acceptance of any liability in negligence or otherwise by affordable housing 106.

the information contained in this report has not been independently verified by affordable housing 106;

none of the statements contained within this report are to be relied upon as statements or representations of fact or warranty whatsoever without referring to affordable housing 106 in the first instance and taking appropriate legal advice;

references to national and local government legislation and regulations should be verified with affordable housing 106 and legal opinion sought as appropriate;

affordable housing 106 does not accept any liability, nor should any of the statements or representations be relied upon, in respect of intending lenders or otherwise providing or raising finance to which this report as a whole or in part may be referred to;

any estimates of values or similar, other than specifically referred to otherwise, are subject to and for the purposes of discussion and are therefore only draft and excluded from the provisions of the RICS Valuation - Professional Standards (January 2025).

We confirm that no known conflict of interest exists between AH106 and Reading Borough Council (RBC).

We confirm our fees are all quoted in advance and agreed with clients on a fixed or capped basis, with no element whatsoever of incentive/performance related payment.

2. Background

The application site area is 0.33 ha and is occupied by a detached 3b bungalow.

P. Phillips and son (Reading) Ltd (the “applicant”) is submitting a planning application on the application site for:

“Demolition of existing dwelling and erection of 5 detached houses with private and communal amenity space, driveway, parking and refuse stores”.

affordable housing 106 is retained by the applicant to carry out a Financial Viability Assessment (FVA) for the planning application.

The purpose of this FVA is to determine what level of affordable housing contribution can be reasonably and viably provided within the development proposals, this accords with National, Regional and Local affordable housing planning policy and guidance.

3. Planning Policy

The most relevant affordable housing planning policies and guidance are noted as follows:

3.1 National Planning Policy

- The National Planning Policy Framework (NPPF)

The NPPF sets out the relevant Government's planning policies for England and how these are expected to be applied.

NPPF Paragraph 2 states:

Planning law requires that applications for planning permission be determined in accordance with the development plan, unless material considerations indicate otherwise.

The National Planning Policy Framework must be taken into account in preparing the development plan and is a material consideration in planning decisions. Planning policies and decisions must also reflect relevant international obligations and statutory requirements

Underline and bold my emphasis.

The requirement to provide affordable housing is a planning obligation.

NPPF Paragraph 58 states:

Planning obligations must only be sought where they meet all of the following tests:

- (a) necessary to make the development acceptable in planning terms;***
- (b) directly related to the development; and***
- (c) fairly and reasonably related in scale and kind to the development***

Underline my emphasis.

The tests are set out in regulation 122(2) of the Community Infrastructure Levy Regulations 2010.

NPPF Paragraph 59 states:

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.

Underline my emphasis.

This FVA follows the recommended approach of viability assessments required by National, Regional and Local planning policy and guidance, including standardised inputs.

At the heart of the NPPF is a presumption in favour of sustainable development.

With regard to making effective use of land, NPPF Paragraph 124 states:

Planning policies and decisions should promote an effective use of land in meeting the need for homes and other uses, while safeguarding and improving the environment and ensuring safe and healthy living conditions. Strategic policies should set out a clear strategy for accommodating objectively assessed needs, in a way that makes as much use as possible of previously-developed or 'brownfield' land

Underline my emphasis.

NPPF paragraph 125 states:

Planning policies and decisions should:

- a) *encourage multiple benefits from both urban and rural land, including through mixed use schemes and taking opportunities to achieve net environmental gains – such as developments that would enable new habitat creation or improve public access to the countryside;*
- b) *recognise that some undeveloped land can perform many functions, such as for wildlife, recreation, flood risk mitigation, cooling/shading, carbon storage or food production;*
- c) *give substantial weight to the value of using suitable brownfield land within settlements for homes and other identified needs, proposals for which should be approved unless substantial harm would be caused, and support appropriate opportunities to remediate despoiled, degraded, derelict, contaminated or unstable land;*
- d) *promote and support the development of under-utilised land and buildings, especially if this would help to meet identified needs for housing where land supply is constrained and available sites could be used more effectively (for example converting space above shops, and building on or above service yards, car parks, lock-ups and railway infrastructure); and*

e) *support opportunities to use the airspace above existing residential and commercial premises for new homes. In particular, they should allow upward extensions – including mansard roofs – where the development would be consistent with the prevailing form of neighbouring properties and the overall street scene, is well-designed (including complying with any local design policies and standards), and can maintain safe access and egress for occupiers. A condition of simultaneous development should not be imposed on an application for multiple upward extensions unless there is an exceptional justification.*

Underline my emphasis.

- **Planning Practice Guidance (PPG)**

The PPG is a web-based resource which indicates the Secretary of State's views. It is managed by the Department for Levelling Up, Housing and Communities (DLUHC).

Paragraph 010 of the PPG relating to Planning obligations states:

Are planning obligations negotiable?

Yes. Plans should set out the contributions expected from development towards infrastructure and affordable housing.

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. Planning obligations can provide flexibility in ensuring planning permission responds to site and scheme specific circumstances.

Where planning obligations are negotiated on the grounds of viability it is up to the applicant to demonstrate whether particular circumstances justify the need for viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker.

Underline my emphasis.

Paragraph 008 of the PPG relating to Viability states:

Should viability be assessed in decision-taking?

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.

Such circumstances could include, for example where development is proposed on unallocated sites of a wholly different type to those used in viability assessment that informed the plan; where further information on infrastructure or site costs is required; where particular types of development are proposed which may significantly vary from standard models of development for sale (for example build to rent or housing for older people); or where a recession or similar significant economic changes have occurred since the plan was brought into force.

Underline my emphasis.

3.2 Local Planning Policy

- Reading Borough Council Local Plan (November 2019)

The Local Plan states:

H3: AFFORDABLE HOUSING

Residential development will make appropriate contribution towards affordable housing to meet the needs of Reading

- on sites of 10 or more dwellings, 30% of the total dwellings will be in the form of affordable housing;*
- 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*
- 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.*

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.

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.

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. The affordable units provided should be integrated into the development.

Priority needs are currently for housing with two or more bedrooms that can house families. The Council will regularly monitor and review the need for, and delivery of, affordable housing.

The following types of residential development will be exempt from the requirement to provide affordable housing:

- *Replacement of a single dwelling with another single dwelling; and*
- *Conversion of a dwelling to self-contained flats where there is no new floorspace.*

Underline my emphasis.

- **Reading Borough Council Local Plan viability evidence**

The Local Plan viability evidence which informs the Local Plan is the Affordable Housing Viability Testing Report (AHVTR), carried out by BPS in March 2018

The application site is a “windfall” site.

The AHVTR did not test the viability of this particular site.

We note that there are significant differences between a number of current viability appraisal inputs and those adopted in 2018.

Since the AHVTR in 2018, BCIS All in TPI indicate build costs have increased by 27% (from 326 to 413), the Bank of England base interest rate has risen from 0.5% to the current 3.75%, and the LIBOR 3-month lending rate has increased from 0.57944% to a SONIA 3 – month compounded rate of 3.74499% (29 April 2026).

LIBOR rates have been replaced by the reporting of Sterling Overnight Index Average (SONIA) risk free rates, which is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

It is clear that the economy and housing market, and the assumptions adopted in the AHVTRs have changed significantly since 2018.

Planning policy and guidance at all levels, reinforced in planning appeal decisions, advocates that local planning authorities should be flexible in their requirements when considering the scale of planning obligations and policy burdens and that these can be assessed and determined by carrying out a site-specific Financial Viability Assessment of the application scheme.

4. Financial Viability Assessment

4.1 Introduction

Paragraph 011 of the PPG on Viability states:

Standardised inputs to viability assessment

What are the principles for carrying out a viability assessment?

Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return.

Any viability assessment should follow the government's recommended approach to assessing viability as set out in this National Planning Guidance and be proportionate, simple, transparent and publicly available.

Underline my emphasis.

This FVA reports the key elements of a viability assessment, including the gross development value, costs, land value, landowner premium, and developer return.

4.2 Executive Summary

Paragraph 021 of the PPG on Viability states:

Practitioners should ensure that the findings of a viability assessment are presented clearly. An executive summary should be used to set out key findings of a viability assessment in a clear way.

This FVA demonstrates that it is not viable for the scheme to provide any affordable housing contribution as the Residual Land Value (RLV) of the proposed scheme is lower than the Benchmark Land Value (BLV) with and without any affordable housing contribution.

We have evidenced the viability inputs and assumptions used in this FVA to establish whether it is viable or not for the scheme to provide an affordable housing contribution. These inputs/assumptions have been compared to the AHVTR where possible.

The Development Appraisal Inputs adopted in this FVA are:

Appraisal Input	AH106 (May 2026)	Reading AHVTR (March 2018)	Notes
Existing Use Value (EUV)	£865,000	Not stated	3b Bungalow.
Premium	10%	Not stated	PPG/GLA
Alternative Use Value (AUV)	N/A	Not stated	N/A
Benchmark Land Value (BLV)	£951,500	£60,000/plot	PPG/GLA/LBM EUV + Premium.
SDLT	SDLT	Not stated	
Acquisition costs	Agent: 1% Legal: 0.75%	Agent: 1% Legal: 0.5%	
AH Contribution	£0		See Appendix 3 and 3A

Appraisal Input	AH106 (May 2026)	Reading AHVTR (March 2018)	Notes
RLV	Negative £1,403,326	Varies	See Appendix 3 and 3A
GDV Sales	£5,000,000	£594,000/unit	
Build Cost	£4,310,053	£2,000/m ² New build Detached House	See Appendix 8 No differentiation for scale, type etc BCIS TPI Q2 2018 – 326 BCIS TPI Q2 2026 – 413 Increase @ 27%
Contingency	5% of Works	5% of Works	
Professional Fees	10% of Works + Fees	10% of Works	
CIL	£154,310	£120/m ²	
S106 Contributions	N/A	N/A	
Sales and Marketing Fees	Total 2.5%	Total 3%	
Legal Fees (Sales)	£2,000/unit	0.5% of GDV	Minimum
Finance	10%	6.57%	BOE Base Rate: 2018 – 0.5% (March) 2026 – 3.75% (May) Libor 3m rate 2018– 0.57944% (February) SONIA 2026 – 3.74499% (29 April 2026)
Target Developer Profit (Private Sale)	20% of GDV	20% of GDV	

4.3 Definition of Viability

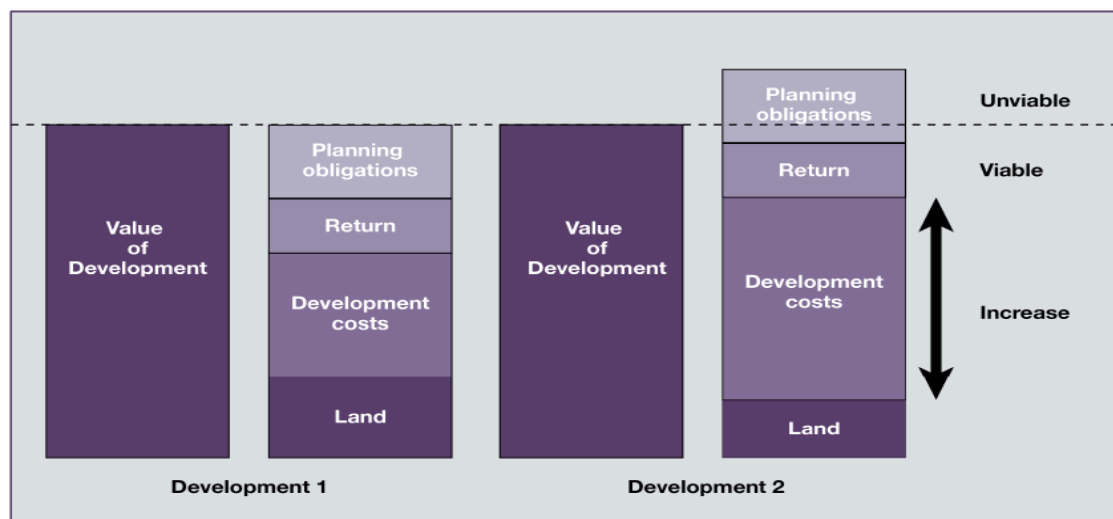
RICS professional Guidance Note “Assessing viability in planning under the National Planning Policy Framework 2019 for England” (March 2021) defines Viability in decision making as:

“The process of assessing viability at the decision-taking stage by looking at whether the value generated by a development is more than the cost of developing it (PPG paragraph 010)”

Underline my emphasis.

Although the RICS Financial Viability in Planning (2012) has now been superseded by RICS professional Guidance Note “Assessing viability in planning under the National Planning Policy Framework 2019 for England” (March 2021), Figure 2 – Comparative development viability in FVIP (2012) shows the difference between a viable and a non-viable development scheme.

Figure 2



Paragraph 2.1.1 of FVIP states:

As can be seen, the development economics of Scenario 1 is such that policy can be met in delivering all planning obligations while meeting a Site Value for the land, all other development costs and a market risk adjusted return for the development. In this case it is unlikely a financial viability assessment would be required. Under Scenario 2, costs have increased, while development values have remained static. In arriving at Site Value, the development return, and the ability to meet the planning obligations, a financial viability assessment would be required to objectively resolve what could viably deliver the development while meeting the viability definition

Underline my emphasis.

4.4 Methodology

This FVA has been compiled giving full consideration to the NPPF, National Planning Guidance, Regional and Local planning policies.

In particular, this FVA complies with RICS professional Guidance Note “Assessing viability in planning under the National Planning Policy Framework 2019 for England” (March 2021) which states:

“This and other RICS guidance notes are intended to assist practitioners in applying the government’s required approach and should be referenced as appropriate.”

The financial viability of a development can be assessed in principle by producing a Development Appraisal (DA) and associated Discounted Cash Flow (DCF) noting the income and expenditure of a particular scheme; we have employed the HCA Development Appraisal Tool (HCA DAT) to model this.

In undertaking this viability assessment, we have disregarded the nature of the applicant and assessed values on a current day basis.

4.5 Site

4.5.1 Site Location/Description

The subject site is 0.33 ha in area and is occupied by a 3b bungalow @ 236 m² (2,540 ft²) GIA, garage and store @ 126 m² (1,356 ft²) GIA.

The site is bordered to the north, south, east and west by residential properties, and to the southeast by Beech House Hotel.

Reading's central shopping/retail area (Broad Street Mall) is located approximately 1.9 km to the northeast, and Reading main line railway station is located approximately 2.0 km to the northeast.

The site is situated approximately 5.0 km northeast of junction 11 of the M4 motorway which runs from west London to south Wales.

4.6 Development Proposal

The development proposes the demolition of the existing bungalow and buildings and the erection of 5 x 2.5 storey 4 bedroom detached houses and associated works.

The completed development will comprise:

Unit	M ² GIA (Ave)	Ft ² GIA (Ave)
5 x 4b Houses (Detached)	238.9	2,572

Other

- External works/landscaping
- Bike/refuse storage
- Surface parking

A site location plan is attached – Appendix 1.

The existing and proposed plans are attached – Appendix 2.

4.7 Appraisal Inputs

The inputs are recorded in the HCA DAT, a development appraisal toolkit used by Homes England, and accepted by Local Planning Authorities and the Planning Inspectorate.

The Development Appraisal shows the surplus/deficit for the private sale scheme with nil affordable housing contribution.

The Development Appraisal computes a Residual Land Value (RLV) of negative £1,403,326 - Appendix 3.

The RBC Affordable Housing Supplementary Planning Document (March 2021) notes that an affordable housing financial contributions equivalent to 20% of the scheme (5 – 9 units) will generally be 10% of the GDV. The GDV of the proposed scheme is £5m, therefore 10% of the GDV would equate to £500,000.

The Development Appraisal with an affordable housing contribution of £500,000 computes a negative RLV of £1,883,859 - Appendix 3A.

4.7.1 Development Programme

We have assumed the following timetable:

May 2026	-	Planning application submission
September 2026	-	Planning consent
October 2026	-	Acquisition
October – November 2026	-	Issue tenders
January 2027	-	Review tenders, select building contractor
February 2027	-	Prepare contract documents/negotiations/lead in
March 2027	-	Start on site
April 2028	-	Site practical completion
August 2028	-	Final Sales

We have adopted a building contract period of 14 months (62 weeks) and benchmarked this against the BCIS duration calculator for a conversion scheme in the Reading Council administrative area of similar value.

The contract period of 62 weeks falls within the BCIS 90% prediction interval for individual projects - Appendix 4.

4.7.2 Income

i) Private Residential Unit (5) - £5,000,000

We have visited site; reviewed property web sites including right move, Prime Location and On The Market, and discussed the site with a number of local active estate agents.

There are no new build +4b detached house comparable sales evidence within 0.5 miles of the application site, we have therefore considered sales transactions and marketing evidence up to 3 miles – Appendix 5.

The 2 new build comparables are for 2 smaller 4b/5b detached houses on Croudace developments, with asking values ranging from £449/ft² - £480/ft². Both benefit from separate garages, whereas the application scheme does not. We would expect the larger application scheme units to achieve a lower sales rate per square foot.

The comparable evidence for second hand properties range in value from £800,000 to £1,300,000 with asking/sales rates from £353/ft² to £559/ft².

In our opinion, the best comparable evidence is an existing 5b detached house at 10 Kettering Close @ 217.3 m² (2,339 ft²) GIA, which is being marketed at OIEO £900,000. This would represent a sales rate of 385/ft². The property benefits from an integral double garage and attractive front/rear gardens.

The prices for the proposed 5 new build detached houses will reflect surface parking only (no garages) and being located on smaller plots - when compared to most detached houses on the market.

Taking all the comparable evidence available to us, and making allowances and adjustments for asking/sold prices, age, location, parking, amenities, competition from other properties etc, we consider the proposed sales values for the application scheme to be as follows:

Unit	M ² GIA (Ave)	Ft ² GIA (Ave)	OMV (Ave)	Sale Value (Ft ²) (Ave)
4b House (Detached)	238.9	2,572	£1,000,000	£389

4.7.3 Expenditure

i) Benchmark Land Value - £951,500

Paragraph 014 of Planning Guidance – Viability states:

How should land value be defined for the purpose of viability assessment?

To define land value for any viability assessment, a benchmark land value should be established on the basis of 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.

Underline my emphasis.

Paragraph 018 of Planning Guidance – Viability states:

“Can alternative uses be used in establishing benchmark land value?”

For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its existing use. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should be limited to those uses which would fully comply with up-to-date development plan policies, including any policy requirements for contributions towards affordable housing at the relevant levels set out in the plan. Where it is assumed that an existing use will be refurbished or redeveloped this will be considered as an AUV when establishing BLV.

Plan makers can set out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with up-to-date development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued. Where AUV is used this should be supported by evidence of the costs and values of the alternative use to justify the land value. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted”.

Underline my emphasis

To establish the BLV, we have considered the EUV and AUV of the site.

We have valued the EUV as £865,000 and added a premium of 10% @ £86,500.

The BLV is therefore EUV “plus” i.e. £951,500.

ii) Existing Use Value (EUV) – £865,000

The existing site area of 0.33 ha is occupied by a detached 3b bungalow @ 236 m² (2,540 ft²) GIA with separate garage/outbuildings @ 126 m² (1,356 ft²) GIA.

We have visited site; reviewed property web sites including right move, Prime Location and On The Market, and discussed the site with a number of local active estate agents.

There is limited direct evidence of similar size bungalows sold within 0.5 miles of the existing site, therefore we have considered comparable evidence for +3b detached bungalows/houses up to 3 miles of the application site - Appendix 6.

The comparable evidence for the existing 3b detached bungalow range in value from £535,000 to £1,000,000 with asking/sales rates from £301/ft² to £498/ft².

In our opinion, the best comparable evidence is an existing 5b detached bungalow at 157a Halls Road @ 211.0 m² (2,271 ft²) GIA, which sold in October 2025 for £810,000. This represents a sales rate of £357/ft². The property benefits from an integral double garage and small side/rear garden.

We consider the existing property to be superior to this comparable as it benefits from being sited on a larger plot with additional garage/outbuildings @ 126 m² (1,356 ft²) GIA and is located in close proximity to central Reading.

Taking all the comparable evidence available to us, and making allowances and adjustments for asking/sold prices, age, location, parking, amenities, competition from other properties etc, we consider the proposed sales values for the application scheme to be as follows:

Unit	M ² GIA (Ave)	Ft ² GIA (Ave)	OMV (Ave)	Sale Value (Ft ²) (Ave)
3b Bungalow (Detached)	236.0	2,540	£865,000	£341

iii) Premium - £86,500

Paragraph 015 of the PPG relating to Viability states the Benchmark Land Value should allow for a premium to landowners.

Incentives for landowners to bring sites forward will vary depending on a number of factors including comparison with other options available for the landowner, the demand for the existing use and the demand for the proposed alternative uses, and the potential to increase the existing use land value.

Paragraph 017 of the PPG relating to Viability notes:

How should the premium to the landowner be defined for viability assessment?

The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner.

The premium should provide a reasonable incentive for a landowner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements.

Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration.

Market evidence can include benchmark land values from other viability assessments. Land transactions can be used but only as a cross check to the other evidence. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners.

Policy compliance means that the development complies fully with up-to-date plan policies including any policy requirements for contributions towards affordable housing requirements at the relevant levels set out in the plan. A decision maker can give appropriate weight to emerging policies. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).

Underline my emphasis.

The Mayor of London's Affordable Housing and Viability Supplementary Planning Guidance 2017 states:

"Premiums above EUV should be justified, reflecting the circumstances of the site. For a site which does not meet the requirements of the landowner or creates ongoing liabilities/costs, a lower or no premium would be expected compared with a site occupied by profit-making businesses that require relocation. The premium could be 10 per cent to 30 per cent, but this must reflect site specific circumstances and will vary".

There is a strong demand for development sites in Reading, which has seen a significant number of planning applications and residential redevelopments in recent years.

One way of looking at incentives is to consider what amount of money would it take to encourage the current landowners to find an alternative property on a like for like basis in the same location.

To incentivise the existing landowner, the developer would need to allow for a change in land values over the period of the Option Agreement (normally 1 year) and to cover the possibility and risk of taking the property off the market for a year, and then there being no sale as planning consent has not been secured.

On top of "costs/changing values" it would be reasonable for the owner to require a minimum 10% profit return on the EUV to act as an incentive.

A willing landowner would therefore expect to secure a 10% - 50% incentive return above the current land use value in return for the sale of the site to a developer.

We have adopted a premium of 10%.

iv) **Alternative Use Value – N/A**

There are numerous permutations and combinations for Alternative Use schemes on the application site which would generate an Alternative Use Value (AUV). We have not considered these at the present time as the application scheme existing use value plus incentive generates a scheme deficit.

For the purposes of this FVA, we have therefore not calculated an AUV but reserve the right to do so.

v) **Stamp Duty**

We have assumed an SDLT rate of 8.83%, based on the GOV SDLT calculator.

vi) **Legal Fees (Acquisition)**

0.75% of acquisition

vii) **Works – £4,310,053**

We have been provided with a site/scheme specific works budget from cost consultants Gleeds.

Gleeds have assessed the scheme works budget as £4,310,053 – Appendix 7.

As the budget has been assessed by a QS practice, we have adopted their budget of £4,310,053 in our appraisal.

viii) **Professional Fees – £452,556**

10% of works and contingency are standard assumptions for conversion schemes.

Our appraisals take account of professional fees and on costs that are likely to be incurred as part of the development process.

We have applied a professional fees allowance of 10% of build cost within our appraisals reflecting the scale and complexity of the proposals, given the proposed work and the occupied property, shared entrances/access.

ix) **Contingency – £215,503**

We consider that a contingency of 5% of construction costs would be required on this project. This reflects the current level and detail of information/design to date and the scale and complexity of the proposals.

x) **S106/CIL Contributions - £154,310**

The applicant has advised that the existing property has been occupied for at least 6 consecutive months in the last 3 years.

The existing property comprises a total of 362 m² GIA (bungalow, garage and outbuildings) and the proposed scheme comprises a total of 1,194.6 m² GIA, thereby creating a CIL liability of 832.6 m² GIA.

With indexing, we calculate the CIL liability to be £154,310.

We have made no allowance for financial contributions for any S106 planning obligations; however the FVA can be reviewed/updated after the Council has assessed the planning application and advised of the planning obligations (if any) that it seeks.

Planning contributions must be considered on a site by site and scheme proposal basis and meet the tests set out in regulation 122 and 123 of the Community Infrastructure Levy Regulations 2010 as amended.

The 3 tests are:

1. necessary to make the development acceptable in planning terms
2. directly related to the development; and
3. fairly and reasonably related in scale and kind to the development.

xi) Sales & Marketing – £125,000

We have assumed 2.5% of GDV.

The disposal fees have been based upon industry standards. Provision to furnish and “stage” the properties will be required.

We have assumed a 4-month sales period from practical completion based on our discussions with local selling agents, including Haslams, Savills and the developer Croudace Homes.

In April 2026 Savills published its UK Housing Market Update, which is headlined with:

“Uncertainty weighs on mortgage rates”.

The update states Nationwide reporting a total change in UK house prices of plus 2.2% in March 2026 year on year, with house prices in the Southeast of England falling by 0.8% during the same period – Appendix 8.

The ONS reported a fall of 0.4% in the Southeast of England up to January 2026, year on year.

The update also states the Savills annual property forecasts for the housing market from November 2025 onwards. This assumes rising prices for mainstream properties in the Southeast of England @ 1% for 2026, with rises of 3% in 2027 and 4% in 2028.

xii) Legal Fees (Sales) – £10,000

£2,000 + VAT/unit. Reflects small development, new titles, sales values.

xiii) Interest - £417,170

In considering the appropriate level of finance and interest costs we have considered the HCA EAT, RICS GN and market practice.

HCA EAT recognises that finance costs would include an arrangement fee payable to a bank for arranging finance for the scheme, interest payable on the loan typically around 3-5% above 3-month LIBOR rate and miscellaneous fees such as monitoring surveyors.

RICS GN confirms that, as most appraisals assume 100% financing, it is usual for the interest rate to reflect the total cost of finance and funding of a property, i.e., the combination of both equity and debt in applying a single rate.

HCA DAT identifies that finance costs for a development scheme would typically include the following key elements:

- a. Arrangement Fee - This will vary depending on the type of lender, the borrower risk profile and the scheme risk profile.
- b. Interest on the loan - This represents the bank’s margin over its costs of borrowing and the cost of holding capital under the Basel III banking code.

Funding packages are therefore unique reflecting as they do not only the risks associated with the particular scheme but also the experience of the borrower and the extent of equity being provided by the borrower.

A well-funded and experienced developer should therefore be able to secure a more advantageous finance package than a less experienced more poorly funded borrower. RICS GN reflects the market approach to the calculation of finance costs by disregarding the nature of the applicant.

In the AHVTR (2018), the adopted finance rate was 6.57%.

Since then, the Bank of England base interest rate has increased from 0.5% to 4.5%, an increase of 4%. Interest rates are expected to remain at this level in the short/medium term.

Libor 3-month rates have increased from 0.57944% to 4.69521% (SONIA 25/2/25), an increase of 4.11577%.

Lenders are currently charging up to 5% above LIBOR/SONIA, with minimum rates of 9-10%.

There are also arrangement fees (1%-3%), monitoring fees (2%-5%) and exit fees (1%).

It is clear from loan facilities from companies such as Close Brothers, that lenders are currently charging 5% above LIBOR, plus fees.

Screenshots from a recent Close Brothers agreement confirms such:

5. Interest

Interest will accrue daily on the total balance outstanding on your Loan Account at the rate of 5% (the "Margin") per annum above the Bank of England Base Rate (the "Base Rate"). Such rate shall be re-fixed in line with increases and decreases in the Base Rate.

Notwithstanding the above, but subject to the provisions of clause 6. below, the minimum effective rate of interest payable to us shall be 6% per annum.

7. Fees

- a) A non-refundable commitment fee of £55,510 is payable on your acceptance of this Facility Letter. You must remit £5,000 of this fee on acceptance and the balance of £50,510 on first drawdown of the Facility, or upon legal completion of the security, whichever is the earlier.
- b) A release fee of 1.25%, calculated on the full amount of the Facility, will be payable by you (and which we may debit to your Loan Account) upon the sale or letting of the Property or upon the repayment in full or expiry of the Facility, or if, at any time, the Facility goes into default or is called in by us whichever shall first occur, subject to a minimum release fee of £69,387.

An interest rate of 10% (including fees) is therefore reasonable given the current residential market/UK economy

xiv) Profit

Paragraph 019 of the PPG relating to Viability notes:

How should a return to developers be defined for the purpose of viability assessment?

Potential risk is accounted for in the assumed return for developers at the plan making stage.

It is the role of developers, not plan makers or decision makers, to mitigate these risks. The cost of fully complying with policy requirements should be accounted for in benchmark land value. Under no circumstances will the price paid for land be relevant justification for failing to accord with relevant policies in the plan.

For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies.

Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.

Underline my emphasis

The profit range noted in the PGG has not been updated since 2019, and therefore it does not reflect the increased risks of the current market conditions and the loan requirements of lenders.

For redevelopment projects developer's profit margins are typically 20% of Gross Development Value (GDV).

Paragraph 004 of the PPG on Planning obligations states:

Where should policy on seeking planning obligations be set out?

Policies for planning obligations should be set out in plans and examined in public. Policy requirements should be clear so that they can be accurately accounted for in the price paid for land.

Underline my emphasis.

In the current economic climate, lenders and developers are requiring significant returns on their investment in respect of housing development due to the broader market risks associated with the construction market, as well as residential sales.

In January 2021, the United Kingdom (UK) left the European Union (EU), a decision known as "Brexit".

It is not known what the medium to long term effect of Brexit will be until it has bedded in, however there will be immediate disruptions/risks whilst the UK/EU and other trade deals are put into practice.

Russia is currently at war with Ukraine, which has resulted in UK and global inflation, rising prices and shortfalls in goods and materials.

Tension in the Middle East is rising due to armed conflict in Israel and surrounding areas such as Lebanon, Syria and Iran. Anti-Israel sentiment is resulting in disruption of the passage of shipping goods/materials in the Persian Gulf/Gulf of Oman and the Red Sea/Suez Canal area. This could significantly increase supply times and costs.

This application is being progressed and potentially completed during this period of uncertainty and these risks must be accounted for.

Market analysts and economists vary on their opinions and forecasts as to what is going to happen in the future, but all are agreed that there is great uncertainty.

At the 29 April 2026 MPC meeting, the Bank of England maintained the base interest rate at 3.75%.

The MPC minutes state:

At its meeting ending on 29 April 2026, the Monetary Policy Committee (MPC) voted by a majority of 8–1 to maintain Bank Rate at 3.75%. One member voted to increase Bank Rate by 0.25 percentage points, to 4%.

The conflict in the Middle East means that prospects for global energy prices are highly uncertain. Monetary policy cannot influence energy prices but will be set to ensure that the economic adjustment to them occurs in a way that achieves the 2% inflation target sustainably. The policy stance required to achieve this will depend on the scale and duration of the shock, and how it propagates through the economy.

The April Monetary Policy Report sets out three scenarios that help to illustrate a range of possible outcomes for the UK economy.

CPI inflation has increased to 3.3% and is likely to be higher later this year as the effects of higher energy prices pass through. There is a risk of material second-round effects in price and wage-setting, which policy would need to lean against. But the labour market continues to loosen, and a weakening economy could contain inflationary pressures. Financial conditions have tightened since the conflict began, which will help to reduce inflation over time.

Taking all the risks to the economic outlook into account, the Committee judges that it is appropriate to maintain Bank Rate at this meeting.

The Committee will continue to monitor closely the situation in the Middle East and how its impact propagates through the economy. The Committee stands ready to act as necessary to ensure that CPI inflation remains on track to meet the 2% target in the medium term

Underline my emphasis.

And

Domestic credit conditions

Recent developments in financial markets have begun to pass through to the rates faced by households and firms.

Quoted rates on new mortgages have risen by slightly over 100 basis points on average for 75% and 90% loan to value (LTV) mortgages since the February Report (Chart 1.16, left panel). This reflects faster than average pass-through of the rise in short-term OIS rates, which is not unusual following large moves in the latter. These rates have fallen a little in recent weeks, however.

Higher quoted rates will feed through to a higher effective rate on the stock of mortgages (Box E). Over the next three years, average monthly payments are expected to rise by approximately £80, although there is substantial variation within this figure and it will depend partly on the outlook for energy prices and any associated movements in reference rates. About 53% of UK mortgage holders are expected to see their payments rise, but around 25% of those who fixed at higher rates should see their payments fall, despite recent increases in quoted rates.

Other rates, including those on deposits and new bank lending to corporates, have been little changed since the February Report. That is consistent with Bank Rate having been unchanged and normal pass-through. Corporate bond yields have increased reflecting moves in risk-free rates. Credit spreads in household and corporate debt markets remain compressed by historical standards.

And

How might firms respond to higher energy prices?

Higher energy prices raise costs for firms and erode customers' real incomes, which can reduce demand for the goods and services firms sell. Firms will need to respond to the energy shock and can do so in several ways, including by allowing their profit margins to fall, raising their prices, reducing costs and reducing output. The balance of these responses across firms will partly determine the extent to which the rise in energy costs feeds through to CPI inflation. Early evidence suggests that, while firms expect to raise prices, they may not be able to pass through the full rise in costs and so their profit margins are likely to fall. Compared with the energy shock in 2022 following the Russian invasion of Ukraine, weaker demand and a looser labour market mean that firms may also respond to the shock by reducing their wage bills, although survey responses currently suggest only modest expected impacts on pay and employment growth. Firms' actions may change depending on the size and duration of the energy shock, as well as on how households react to lower real incomes, and to any monetary or fiscal policy response.

And

Outlook, scenarios and risks

The conflict in the Middle East has significantly increased the uncertainty surrounding the UK economic outlook. Given that uncertainty, this section presents three scenarios to help to illustrate a range of possible outcomes for the UK economy. The scenarios primarily differ in their assumptions about the paths of global energy prices and the extent of any second-round effects on domestic price and wage-setting. They are used to assess the implications of this new economic shock for inflation, activity and aspects of monetary policy strategy.

Across these three scenarios, inflation is higher in the near term than the central projection in the February Report. The outlook varies depending on the magnitude of the energy shock and how that propagates through the economy. Larger and more persistent rises in global energy prices are judged to be likely to lead to bigger second-round effects on inflation. Given the inflationary nature of the energy price shock, the monetary policy stance needs to be tighter on average in these scenarios compared with the central projection in the February Report, and materially so for a scenario in which there is a further sharp rise in energy prices and strongly persistent second-round effects. The appropriate path for Bank Rate will vary depending on how the shock evolves, as well as how the MPC judges the balance between the costs of leaning too little against second-round effects and the costs of responding too much.

Underline my emphasis.

Development risk factors include a number of variables such as:

- Additional planning reports at planning and planning condition stages which cause delays and increase work and build costs
- Delays to obtaining planning consent
- Delays and additional costs going to appeal
- Delays to pre commencement planning obligations consent
- Risk of no contractor tender returns
- Risk of tender returns higher than budget
- Securing a contractor for the right budget, right quality and agreeing commencement date
- Falling house prices/stagnant market
- Interest rates/SONIA rates increasing
- Viability assessments based on current values and not permitting inflation allowance in build costs or projected changes in interest rates and sales values

- Build costs increasing @ 5.8% up to Q2 2028 when practical completion occurs. See BCIS TPI forecasts below:

BCIS All-in TPI ?		
Base date: 1985 mean = 100		Updated: Mar-2026
		Series number: #101
Recent changes		
Date	Index	Equivalent sample
1Q 2026	410	Provisional
2Q 2026	413	Forecast
3Q 2026	417	Forecast
4Q 2026	420	Forecast
1Q 2027	423	Forecast
2Q 2027	425	Forecast
3Q 2027	427	Forecast
4Q 2027	430	Forecast
1Q 2028	434	Forecast
2Q 2028	437	Forecast
3Q 2028	440	Forecast
4Q 2028	444	Forecast

It is reasonable for the developer to consider the AHVTR March 2018 adopted profit rate of 20% and to reflect how the development risks including current interest rates, inflation rates, and economy/housing market have deteriorated significantly since then.

Accordingly, we have factored in a 20% Profit on Gross Development Value allowance to reflect the requirements of bank funding, and to provide a competitive return to the developer for the delivery of the proposed scheme given the current market. The proposed scheme providing nil affordable housing contribution generates a negative RLV of £1,403,326 – Appendix 3.

5. Sensitivity Analysis

In April 2026 Savills research published its UK Housing Market Update and Housing Forecasts, which indicated rising mainstream house prices @ 8% between now and the end of 2028 in the Southeast of England – Appendix 8.

The RICS BCIS All-in TPI provides an index of building costs. Building costs are predicted to increase by 5.8% from now until the estimated practical completion date.

We have carried out a basic sensitivity analysis on the 100% private sales scheme with nil affordable housing contribution, by assuming all inputs values remain the same, save build costs increase by 5.8% and sales values increase by 8%. This generates a negative RLV of £1,403,177 – Appendix 9.

6. Conclusion

This FVA shows that is not viable for the applicant make any financial affordable housing contribution to the Council.

Prepared by:

A handwritten signature in black ink, appearing to read 'M. Smith', with a horizontal line drawn underneath it.

Mark Smith

Director

For and on behalf of affordable housing 106

Appendices

Appendix 1	Site location plan
Appendix 2	Existing & proposed plans
Appendix 3	HCA DAT Model - 5 private sale units. Nil AH
Appendix 3A	HCA DAT Model - 5 private sale units. £500k AH
Appendix 4	BCIS contract duration calculator
Appendix 5	Proposed comparables residential sales/availability
Appendix 6	Proposed comparables residential sales/availability
Appendix 7	Works budget – PBE (Gleeds)
Appendix 8	Savills UK Housing Market Update April 2026
Appendix 9	Sensitivity Analysis (Works + 5.8%, Sales + 8%)

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