**Statement of Case**

**Appendix 22**

Affordable Housing Statement of Case –
prepared by James Walker of Berkeley

Berkeley
Partnership Homes

**Affordable Housing and Viability Statement**

Prepared by James Walker BSc (Hons) MRICS.

## 1.0 Biography

1.1 I, James Walker am an Affordable Housing Director at Berkeley Partnership Homes responsible for all aspects of affordable housing delivery for The Berkeley Group.

1.2 The Berkeley Group is one of London and the South East's most successful development and regeneration specialists delivering typically over 3000 homes per annum. Viability issues around affordable housing are invariably key in the delivery of major housing projects and I have a comprehensive understanding of this area of development which is crucial to creating successful development schemes.

1.3 I hold an undergraduate degree in Property Valuation & Management from The City University, London. I qualified as a Chartered Surveyor in 1988 and have over 25 years' experience specialising in affordable housing development, having worked in the development team of a large housing association (Notting Hill), in consultancy (Savills) and, for the last 18 years, at Berkeley.

1.4 I have been involved in the appeal scheme since October 2019 preparing and submitting the viability as well as being involved in post application meetings with Reading Borough Council's officers and external assessor.

## 2.0 Reading Borough Council Affordable Housing Policy.

2.1 Policy H3 of the Reading Borough Local Plan (Adopted November 2019) states the following :

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

And adds :

'*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*.'

The explanatory text (para 4.4.24) states :

*'However the Council will be sensitive to exceptional costs of bringing a site to market such as for reasons of expensive reclamation, or infrastructure costs, or high existing use values. Where applicants can demonstrate, to the satisfaction of the Council, exceptional difficulties in bringing a site to market, the Council will be prepared to consider detailed information on the viability of a particular scheme and, where justified through an open book approach, to reduce the affordable housing requirement'.*

2.2 At the time of the applicant's submission in January 2020 there was no policy requiring any form of review of the viability position at any stage of the development. However the Council subsequently adopted the document 'Affordable Housing Supplementary Planning Document (SPD) – Adopted March 2021'. (see Appendix 1)

2.3 This document states (Para 6.12) that '*where a reduced contribution to affordable housing was agreed at application stage, a mechanism should be included within the s106 agreement that ensures that a proportion of increased profits are secured for affordable housing'*.

2.4 Para 6.13 further explains the standard approach '*whereby all scheme costs including land value and agreed profit are deducted from the GDV and any surplus shared between the Developer and the Council on an equal basis*'.

2.5 A formula for the calculation of this deferred contribution is provided at Appendix 4 of the SPD.

## 3.0 Berkeley's Submitted Report (28th January 2020)

3.1 Fig 1 below is an extract from the submitted report detailing the appraisal as submitted in January 2020. The report's was that the scheme, prior to any market growth assumptions, fails to produce an acceptable return and is therefore unable to provide any affordable housing.

**Fig. 1 : The Appraisal as Submitted in January 2020**

**APPRAISAL SUMMARY** BERKELEY HOMES (OXFORD & CHILTERN) LTD

**The Old Power Station**
**Vastern Road, Reading**

**Summary Appraisal for Phase 1 Whole Scheme**

**Currency in £**

| | | | | | |
|---|---|---|---|---|---|
| **REVENUE** | | | | | |
| **Sales Valuation** | **Units** | **ft²** | **Rate ft²** | **Unit Price** | **Gross Sales** |
| Private Sale Residential | 209 | 141,421 | 555.61 | 375,955 | 78,574,580 |
| **NET REALISATION** | | | | **78,574,580** | |
| **OUTLAY** | | | | | |
| **ACQUISITION COSTS** | | | | | |
| EUV | | 8,000,000 | | | |
| Premium to EUV | | 1,600,000 | | | |
| Total Acquisition | | | 9,600,000 | | |
| | | | | 9,600,000 | |
| Stamp Duty | | 5.00% | 480,000 | | |
| Irrecoverable VAT | | 1.00% | 96,000 | | |
| Agent Fee | | 1.50% | 144,000 | | |
| Legal Fee | | 0.50% | 48,000 | | |
| | | | | 768,000 | |
| **Other Acquisition** | | | | | |
| S106 | | | 205,754 | | |
| Borough CIL | | | 1,626,479 | | |
| Third Party Issues | | | 500,000 | | |
| | | | | 2,332,233 | |
| **CONSTRUCTION COSTS** | | | | | |
| **Construction** | **ft²** | **Rate ft²** | **Cost** | | |
| Private Sale Residential | 141,421 ft² | 362.68 pf² | 51,290,407 | **51,290,407** | |
| **PROFESSIONAL FEES** | | | | | |
| Professional fees | | 6.00% | 3,077,424 | | |
| Pre planning fees | | | 1,030,535 | | |
| | | | | 4,107,959 | |
| **MARKETING & LETTING** | | | | | |
| Marketing - PD | | 4.50% | 3,535,856 | | |
| | | | | 3,535,856 | |
| **DISPOSAL FEES** | | | | | |
| Sales Legal Fee | 209 un | 600.00 /un | 125,400 | | |
| | | | | 125,400 | |
| **FINANCE** | | | | | |
| Debit Rate 7.000%, Credit Rate 0.000% (Nominal) | | | | | |
| Land | | | 120,960 | | |
| Other | | | 6,276,286 | | |
| Total Finance Cost | | | | 6,397,246 | |
| **TOTAL COSTS** | | | | **78,157,102** | |
| **PROFIT** | | | | | |
| | | | | **417,478** | |
| **Performance Measures** | | | | | |
| Profit on GDV% | | 0.53% | | | |

## 4.0 The Council's Assessor's Response (3rd August 2020)

4.1 Fig 2 below is an extract from the report by BPS Chartered Surveyors (full report in Appendix 2) who acted on behalf of the Council to assess the applicant's viability submission.

**Fig. 2 : BPS Report Appraisal August 2020**

**APPRAISAL SUMMARY** **BPS SURVEYORS**

The Old Power Station
Vastern Road, Reading

Appraisal Summary for Phase 1 Whole Scheme

Currency in £

| REVENUE<br>Sales Valuation | Units | ft² | Sales Rate ft² | Unit Price | Gross Sales |
|---|---|---|---|---|---|
| Private Sale Residential | 209 | 141,421 | 586.58 | 396,914 | 82,955,000 |
| Ground Rent | 1 | 0 | 0.00 | 731,500 | 731,500 |
| Car Parking | 37 | 0 | 0.00 | 20,000 | 740,000 |
| Cafe | 1 | 193 | 416.58 | 80,400 | 80,400 |
| **Totals** | **248** | **141,614** | | | **84,506,900** |

| | | | | |
|---|---|---|---|---|
| **NET REALISATION** | | | | **84,506,900** |
| **OUTLAY** | | | | |
| **ACQUISITION COSTS** | | | | |
| Fixed Price | | | 6,500,000 | |
| | | | | 6,500,000 |
| Stamp Duty | | | 312,500 | |
| Effective Stamp Duty Rate | | 4.81% | | |
| Agent Fee | | 1.50% | 97,500 | |
| Legal Fee | | 0.50% | 32,500 | |
| | | | | 442,500 |
| **Other Acquisition** | | | | |
| S106 | | | 205,754 | |
| Borough CIL | | | 2,186,704 | |
| Third Party Issues | | | 50,000 | |
| | | | | 2,442,458 |
| **CONSTRUCTION COSTS** | | | | |
| **Construction** | ft² | Build Rate ft² | Cost | |
| Private Sale Residential | 141,421 | 362.68 | 51,290,407 | **51,290,407** |
| **PROFESSIONAL FEES** | | | | |
| Professional fees | | 6.00% | 3,077,424 | |
| Pre planning fees | | | 1,030,535 | |
| | | | | 4,107,959 |
| **MARKETING & LETTING** | | | | |
| Marketing - PD | | 3.00% | 2,488,650 | |
| | | | | 2,488,650 |
| **DISPOSAL FEES** | | | | |
| Sales Legal Fee | 209 un | 600.00 /un | 125,400 | |
| | | | | 125,400 |
| **Developer's Profit** | | | | |
| Developer's Profit | | 17.50% | 14,788,707 | |
| | | | | 14,788,707 |
| **FINANCE** | | | | |
| Debit Rate 6.500%, Credit Rate 0.000% (Nominal) | | | | |
| Land | | | 75,210 | |
| Other | | | 5,252,806 | |
| Total Finance Cost | | | | 5,328,016 |
| **TOTAL COSTS** | | | | **87,514,098** |
| **PROFIT** | | | | |
| | | | | **(3,007,198)** |
| **Performance Measures** | | | | |
| Profit on Cost% | | -3.44% | | |
| Profit on GDV% | | -3.56% | | |
| Profit on NDV% | | -3.56% | | |

4.2 Despite a number of significant areas of disagreement on key elements of the appraisal as detailed in section 8 below, the BPS report concludes that 'no affordable housing can viably be provided' (ref para 2.3).

## 5.0 Berkeley's Current Position

5.1 A further amended version of the viability appraisal was submitted by the applicant to the Council in January 2021, shown in Fig 3. This appraisal shows the cost of additional requirements (as detailed in para 9.3.1 below). This was not commented on by the Council or BPS.

**Fig 3 : Berkeley's Updated Appraisal January 2021.**

**APPRAISAL SUMMARY** **LICENSED COPY**

The Old Power Station
Vastern Road, Reading
Updated Appraisal Jan 21

**Appraisal Summary for Phase 1 Whole Scheme**

**Currency in £**

| | | | | | |
|---|---|---|---|---|---|
| **REVENUE** | | | | | |
| **Sales Valuation** | **Units** | **ft²** | **Sales Rate ft²** | **Unit Price** | **Gross Sales** |
| Private Sale Residential | 209 | 141,421 | 555.61 | 375,955 | 78,574,580 |
| **NET REALISATION** | | | | **78,574,580** | |
| **OUTLAY** | | | | | |
| **ACQUISITION COSTS** | | | | | |
| EUV | | 8,000,000 | | | |
| Premium to EUV | | 1,600,000 | | | |
| Total Acquisition | | | 9,600,000 | | |
| | | | | 9,600,000 | |
| Stamp Duty | | 5.00% | 480,000 | | |
| Irrecoverable VAT | | 1.00% | 96,000 | | |
| Effective Stamp Duty Rate | | 6.00% | | | |
| Agent Fee | | 1.50% | 144,000 | | |
| Legal Fee | | 0.50% | 48,000 | | |
| | | | | 768,000 | |
| **Other Acquisition** | | | | | |
| S106 | | | 205,000 | | |
| Borough CIL | | | 2,186,704 | | |
| Third Party Issues Insurance | | | 50,000 | | |
| Carbon Offset Payment | | | 228,420 | | |
| | | | | 2,670,124 | |
| **CONSTRUCTION COSTS** | | | | | |
| **Construction** | **ft²** | **Build Rate ft²** | **Cost** | | |
| Private Sale Residential | 141,421 | 364.28 | 51,517,409 | | |
| Revised Energy Strategy | | | 1,367,517 | | |
| | | | | 52,884,926 | |
| **Other Construction** | | | | | |
| Vastern Road Crossing | | | 200,000 | | |
| | | | | 200,000 | |
| **PROFESSIONAL FEES** | | | | | |
| Professional fees | | 6.00% | 3,091,045 | | |
| Pre planning fees | | | 1,030,535 | | |
| | | | | 4,121,580 | |
| **MARKETING & LETTING** | | | | | |
| Marketing - PD | | 4.50% | 3,535,856 | | |
| | | | | 3,535,856 | |
| **DISPOSAL FEES** | | | | | |
| Sales Legal Fee | 209 un | 600.00 /un | 125,400 | | |
| | | | | 125,400 | |
| **FINANCE** | | | | | |
| Debit Rate 7.0000%, Credit Rate 0.0000% (Nominal) | | | | | |
| Total Finance Cost | | | | 6,708,785 | |
| **TOTAL COSTS** | | | | **80,614,671** | |
| **PROFIT** | | | | | |
| | | | | **(2,040,091)** | |
| **Performance Measures** | | | | | |
| Profit on GDV% | | -2.60% | | | |

5.2 Following the refusal of the application at committee, the appeal is based on the agreed position that it is not viable to provide any affordable housing. However we acknowledge and accept that the Council has, since the original application, introduced a revised SPD on Affordable Housing which sets out a requirement for a review mechanism (or 'Deferred contributions'), and it is therefore proposed to include a review mechanism within the Unilateral Undertaking which we will seek to agree with the Council. This will be subject to some key details relating to the initial viability position being clearly established in the formula for the review as set out in further detail below.

## 6.0 Proposed 'Deferred Contributions' Mechanism

6.1 The newly adopted 'Affordable Housing Supplementary Planning Document, March 2021' sets out a requirement and formula for a viability review of the scheme at a 'key stage of delivery' (Para 6.13 (i)) (it suggests 75% of units sold). There are three suggested mechanisms, but the 'standard' approach is to undertake an updated viability assessment of all scheme costs and values and establish whether any surplus then exists which can be shared to enable a contribution towards affordable housing.

6.2 Whilst the principle of this process is considered fair, the actual formula stated in Appendix 4 of the SPD does not achieve the stated objective, as was pointed out to the Council during the consultation process (provided in Appendix 3 of this statement).

6.3 The problem is that the formula simply calculates the difference between the original viability and the updated viability undertaken at the time of the review and assumes that the difference is the surplus available to share. This would only be true if the original viability was not itself in deficit i.e. if it did not fall short of achieving an acceptable return to the developer, as is the case with both the submitted viability and the BPS report

6.4 This means that, according to the adopted formula, the Appellant would not be able to recover to a viable position before sharing any surplus. That could mean that it may never be possible to achieve an acceptable margin even if there was some improvement to the viability position.

6.5 We therefore propose a solution to this problem by setting out, as a clear reference point for the adopted formula, a viability statement that establishes the figures against which the future viability will be assessed.

6.6 We propose that the formula remains as in Appendix 4 of the SPD. However the elements of the formula that refer to the 'assessment of viability at the time planning permission was granted', i.e. C, F, and Y are determined by the following viability position.

6.7 The proposed base viability position is set out at section 8.

6.8 In setting out this viability position we have taken account of the following:

1. Updated cost items that are known to be required due to amendments to the scheme;
2. Included those key elements of the viability appraisal where we disagree with the BPS report, in particular the Benchmark Land Value; and
3. Amended the anticipated total revenue to a level that means that the scheme is just achieving an acceptable margin.

6.8 Further explanation of these points is provided in section 8 below.

## 7.0 Calculation of deferred contribution upper limit (Z):

7.1 For this formula the following elements are agreed:

G = 0.3
H = 0

## 8.0 Base Viability Position for the Purposes of Deferred Contribution Formula

The Old Power Station
Vastern Road, Reading
Updated Appraisal May 21

**Appraisal Summary for Phase 1 Whole Scheme**

**Currency in £**

| | | | | | |
|---|---|---|---|---|---|
| **REVENUE** | | | | | |
| **Sales Valuation** | **Units** | **ft²** | **Sales Rate ft²** | **Unit Price** | **Gross Sales** |
| Private Sale Residential | 209 | 141,421 | 714.36 | 483,374 | 101,025,164 |
| **NET REALISATION** | | | | **101,025,164** | |
| **OUTLAY** | | | | | |
| **ACQUISITION COSTS** | | | | | |
| EUV | | 8,000,000 | | | |
| Premium to EUV | | 1,600,000 | | | |
| Total Acquisition | | | 9,600,000 | | |
| | | | | 9,600,000 | |
| Stamp Duty | | 5.00% | 480,000 | | |
| Irrecoverable VAT | | 1.00% | 96,000 | | |
| Effective Stamp Duty Rate | | 6.00% | | | |
| Agent Fee | | 1.50% | 144,000 | | |
| Legal Fee | | 0.50% | 48,000 | | |
| | | | | 768,000 | |
| **Other Acquisition** | | | | | |
| S106 | | | 205,000 | | |
| Borough CIL | | | 2,186,704 | | |
| Third Party Issues Insurance | | | 50,000 | | |
| Carbon Offset Payment | | | 228,420 | | |
| | | | | 2,670,124 | |
| **CONSTRUCTION COSTS** | | | | | |
| **Construction** | **ft²** | **Build Rate ft²** | **Cost** | | |
| Private Sale Residential | 141,421 | 364.28 | 51,517,409 | | |
| Revised Energy Strategy | | | 1,367,517 | | |
| | | | | 52,884,926 | |
| **Other Construction** | | | | | |
| Vastern Road Crossing | | | 200,000 | | |
| | | | | 200,000 | |
| **PROFESSIONAL FEES** | | | | | |
| Professional fees | | 6.00% | 3,091,045 | | |
| Pre planning fees | | | 1,030,535 | | |
| | | | | 4,121,580 | |
| **MARKETING & LETTING** | | | | | |
| Marketing - PD | | 4.50% | 4,546,132 | | |
| | | | | 4,546,132 | |
| **DISPOSAL FEES** | | | | | |
| Sales Legal Fee | 209 un | 600.00 /un | 125,400 | | |
| | | | | 125,400 | |
| **FINANCE** | | | | | |
| Debit Rate 7.0000%, Credit Rate 0.0000% (Nominal) | | | | | |
| Total Finance Cost | | | | 5,897,686 | |
| **TOTAL COSTS** | | | | **80,813,848** | |
| **PROFIT** | | | | **20,211,316** | |
| **Performance Measures** | | | | | |
| Profit on GDV% | | 20.01% | | | |

Note 1

Note 2

Note 3

Note 4

Note 5

## 9.0 Base Viability Explanatory Notes

### 9.1 Note 1 : Total Scheme Gross Development Value (GDV)

9.1.1 This figure is not based on current evidence and is higher than we believe the current market to be, and also higher than BPS's assessment. It is set at the level that it needs to be for the scheme to be just viable at current costs.

9.1.2 This total revenue figure would include the revenue from all sources, including, for example, revenue from car parking spaces if sold separately to the apartment, and from the sale of ground rents if they are indeed charged at the time of the review (although we maintain that this is unlikely).

9.1.3 This figure represents element C in the formula for the deferred contribution.

### 9.2 Note 2 : Benchmark Land Value

9.2.1 As a key element of the total scheme development cost, this figure is set at the level as our original submission. BPS proposed a lower figure (para 7.32) which we believe is based on a fundamental misunderstanding of the current position with the existing building.

9.2.2 We note that BPS's report agrees with most aspects of Romans' valuation, and also helpfully sets out the NPPF case for our approach, being an existing use value plus a premium.

9.2.3 BPS also acknowledge that the existing buildings are in reasonable condition having only recently been made vacant and confirm that the building is lettable in its current condition (para 7.8).

9.2.4 However, BPS has allowed for a substantial sum (£1million) to refurbish the building, and then used that assumption to argue that this means that the valuation is therefore an Alternative Use Value (to which no premium can be added) rather than an Existing Use Value.

9.2.5 We further dispute the idea that spending a relatively small amount of £400k to allow for multiple lettings (which BPS does not dispute is reasonable) would render the valuation approach an Alternative Use Value. It is merely a sensible approach to asset management that any rational owner might pursue. This principle is supported in the recent RICS guidance 'Assessing viability in planning under the National Planning Policy Framework 2019 for England, March 2021'.

9.2.6 We maintain therefore that a refurbishment is not necessary and the application of a 20% premium to Roman's valuation is perfectly reasonable and in line with guidance and therefore the benchmark land value is £9.6m.

## 9.3 Note 3 : Additional Costs

9.3.1 The appraisal includes a cost allowance for the additional elements of the scheme that have been required since our original submission, namely:

- Carbon offset payment
- Revised energy strategy
- Vastern Road crossing

## 9.4 Note 4 : Total Development Costs

9.4.1 The total cost including the Benchmark Margin (see note 5) is the total development cost which is element F in the deferred contribution formula.

## 9.5 Note 5 : Benchmark Margin

9.5.1 The rate of 20% on GDV is the rate used in the original submitted appraisal as the Benchmark Margin (against which the actual residual margin is assessed to test if the scheme is viable or not).

9.5.2 This rate is also element Y in the deferred contribution formula.

## 10.0 Conclusion

10.1 The applicant has met the policy requirements of Policy H3 by submitting a viability report which shows, to the satisfaction of the Council's appointed assessor, that it is not viable to provide any affordable housing.

10.2 The applicant proposes to meet the more recent requirement to provide a mechanism for a deferred contribution in line with the formula as published in the adopted SPD.

10.3 The applicant has explained that, in order for the adopted formula to achieve its stated objective, it is necessary to set out a base viability position as a reference point to be used in the application of the adopted formula.

10.4 The affordable housing provision and deferred contribution is in accordance with adopted policy.

**Appendix 1**

Affordable Housing SPD
(March 2021)

# AFFORDABLE HOUSING
## SUPPLEMENTARY PLANNING DOCUMENT

**Adopted, March 2021**

www.reading.gov.uk

Reading Borough Council
Working better with you

# Contents

# 1. Introduction

1.1 One of the biggest issues that Reading faces is ensuring that there is sufficient access to decent and affordable housing to meet needs. This presents a challenge across the country, but it is a particular difficulty in areas of economic success such as the Thames Valley, where house prices are high and there is significant demand for new homes. The Council's Corporate Plan 2018-21 sets 'improving access to decent housing to meet local needs' as one of its six priorities, and identifies a need for a new Housing Strategy to address the issue.

1.2 The housing crisis needs to be addressed using a wide range of tools across local and national government functions, but the key contribution that a local planning authority can make is to secure the provision of affordable homes as part of new development. Affordable housing has a specific definition in the National Planning Policy Framework (NPPF), but the key point is that it responds to a need that cannot be met by the market. The most recent assessment of the level of need for affordable housing in Reading found a need for 406 affordable homes each year from 2013 to 2036, which represents almost 60% of Reading's total need for new homes (Berkshire (including South Bucks) Strategic Housing Market Assessment, 2016). To achieve even a reasonable proportion of this overwhelming need requires a substantial contribution from new development.

## Purpose and applicability of this document

1.3 The purpose of this Supplementary Planning Document (SPD) is to provide further information to supplement policies in the Reading Borough Local Plan (adopted November 2019) in achieving affordable housing. It replaces the previous Affordable Housing SPD, adopted in July 2013.

1.4 In line with adopted policies, this SPD applies to residential developments of one dwelling or more, with the exception of:

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

1.5 The policy relates to the total gross number of dwellings provided on the site. There is no allowance for the replacement of existing dwelling units on a site. However, the existing use value will form part of any consideration of viability of the development in the negotiation of affordable housing and other planning obligations. Existing dwellings retained as single dwelling units as part of any scheme will not count against the affordable housing requirement.

1.6 The policy will not be applied to student accommodation, residential care or other specialist provision falling within the C2 use class or proposals for serviced apartments, unless:

- they are being developed on an allocated housing site or a site where residential development and affordable housing provision would have been anticipated; and

- in the case of an apart-hotel, arrangements for accommodation allow tenancies of more than 3 months.

1.7 The policies will also not apply to changes of use between a single dwelling house and a house in multiple occupation, where unrelated residents live communally and share common facilities within the single residential property. It will apply to new-build houses in multiple occupation, as well as to emerging forms of accommodation such as co-living.

1.8 Affordable housing provided in line with this SPD includes housing for those on low incomes, those, such as defined key workers whose earnings are insufficient to enable them to afford market price housing, and households with special/supported housing needs such as those in need of NHS care or other forms of community care. It will include the forms of housing for vulnerable people referred to in policy H6 where such housing is being provided as affordable accommodation.

1.9 This SPD was adopted on 15th March 2021, following consultation undertaken in October and November 2020.

***Figure 1: Housing association properties, St George's Road***

# 2. Policy background

## National planning policy

2.1 Affordable housing is defined in the National Planning Policy Framework (NPPF) as *"housing for sale or rent, for those whose needs are not met by the market (including housing that provides a subsidised route to home ownership and/or is for essential local workers)"* (see NPPF Glossary).

2.2 The importance of providing affordable housing is emphasised in national policy. The NPPF, in paragraph 61, makes clear that the housing need for various groups, including those requiring affordable housing, should be assessed and reflected in planning policies. This includes the size, type and tenure of the housing required. According to paragraph 62, the need for affordable housing should be specified, and should be met on site unless:

> *"a) off-site provision or an appropriate financial contribution in lieu can be robustly justified; and*
>
> *b) the agreed approach contributes to the objective of creating mixed and balanced communities."*

2.3 Paragraph 63 of the NPPF contains some matters that were previously introduced by a written ministerial statement. The paragraph states that affordable housing should not be sought for residential developments that are not major developments (i.e. less than ten dwellings), other than in designated rural areas. It also introduces a credit for vacant buildings, so that the contributions sought towards affordable housing are reduced by an amount proportionate to the floorspace of any vacant buildings to be re-used or redeveloped. However, local approaches to these matters apply in Reading, which are described below in paragraphs 2.10 to 2.12.

2.4 There is a requirement in paragraph 64 of the NPPF that, for major developments involving housing provision, 10% of the total housing should be for an affordable home ownership product, with certain caveats, and excluding proposals for entirely affordable developments and build to rent schemes. As policy H3 requires 30% on-site affordable housing on major developments, this means that national policy expects one third of the affordable element to be for affordable home ownership. More recently, in August 2020, the government consulted on a proposal that 25% of on-site affordable housing will be in the form of 'First Homes', which is expected to replace in part the affordable home ownership provision, although this policy is not yet in place.

2.5 The NPPF also deals with viability of policy expectations in paragraph 57. This states that:

> *"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."*

2.6 The Local Plan policy requirements were subject to viability testing, which was undertaken in 2018[1], which took into account the other costs of complying with policies in the plan, for example on energy efficiency and the Community Infrastructure Levy. Further viability testing has been undertaken on the tenure split for on-site contributions set out in this SPD. The policy requirements have been found to be viable, and therefore the default position is that there should not usually be a need for contributions at lower than the policy requires.

2.7 Paragraph 57 also makes clear that any viability assessments undertaken *"should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available"*.

## Local planning policy

2.8 This SPD provides specific guidance on how affordable housing will be secured in Reading, but forms part of a wider planning policy framework, and should be read in conjunction with other relevant planning policy documents, particularly the Local Plan.

2.9 This document is a Supplementary Planning Document (SPD), meaning that it supplements and expands upon higher level planning policies. A SPD should therefore be linked to a 'parent' policy in a development plan. This SPD supplements policy H3 in the Reading Borough Local Plan, adopted on 4th November 2019. The policy, including supporting text, is included in full in Appendix 1. Policy H3 sets out under which circumstances affordable housing will be sought, and what form that contribution should take. The policy text makes clear that an SPD will be required. This was originally intended for 2019, but, for various reasons, not least the time taken to receive the Inspector's Report on the Local Plan itself, this was delayed to 2020.

2.10 In relation to paragraph 63 of the NPPF referring to small sites, the stance taken by the Local Plan is that the need for affordable housing in Reading is so significant that there is a justification for seeking contributions to affordable housing from all sizes of residential development, from one dwelling upwards. This was found to be sound in the Inspector's Report of September 2019, and therefore forms part of adopted policy H3. The only exceptions offered by policy H3 are for one-for-one replacement dwellings and for residential conversions from houses to flats.

2.11 The Council's stance on seeking affordable housing from developments of less than ten dwellings has been strongly supported at appeal, both since the adoption of the Local Plan and before it, when similar policies applied. The requirement for an affordable housing contribution on a small housing site has been reflected in more than 30 appeal decisions at the time of publication of this SPD, dating back to 2016. It is clear that there are exceptional circumstances in terms of affordability and housing need in Reading that justify the local approach.

[1] Affordable Housing: Reading Borough Council Viability Testing Report, BPS Chartered Surveyors, March 2018

2.12 In terms of the vacant building credit, also set out in NPPF paragraph 63, this does not form part of the adopted Local Plan policy. Planning Practice Guidance states that, in considering how the credit should apply to a particular development, local planning authorities should have regard to the intention of national policy. The purpose of the credit is to incentivise use of brownfield land. However, the vast majority of residential development in Reading already takes place on brownfield land. Between 2013 and 2020, 90% of new dwellings completed have been on previously developed land. There is no local need to incentivise the delivery of brownfield sites. As such, the vacant building credit should not generally be applied in Reading unless there is clear evidence that a long-term vacant site (vacancy of five years or more) would not otherwise be brought forward for development. For clarity, where the floorspace of an existing building is discounted within a Community Infrastructure Levy calculation due to it qualifying as 'in-use', it will not be possible to also argue that the vacant building credit should apply.

2.13 This SPD also supplements policy H4 of the Local Plan, which deals with build-to-rent developments, and which requires a distinct approach to affordable housing. Policy H4 is included in Appendix 2. Paragraphs 4.15 to 4.26 of this document relate specifically to build-to-rent, although the general provisions of the SPD also apply unless otherwise stated.

## Other local policy

2.14 One of the priorities of Shaping Reading's Future: Reading Borough Council's Corporate Plan 2018-2021 is 'Ensuring access to decent housing to meet local needs', and the need to deliver additional affordable homes is an essential part of this.

2.15 The Plan aims for almost 800 additional affordable homes over the period 2017 to 2022, although it should be noted that these aims are still some way below the actual identified need for new homes set out in section 3. At March 2019, 224 of these homes had been delivered. The Plan also aims to reduce the number of families in bed and breakfast with shared facilities to zero from 2018.

2.16 The Corporate Plan identifies the production of a new Housing Strategy as one of the next steps. The Council's new Housing Strategy was published in September 2020. The preparation of the strategy has taken place alongside this SPD and the content is therefore consistent. The Housing Strategy has six priorities:

- Deliver high quality and sustainable homes;
- Facilitate a supply of housing that will meet the identified needs of all residents;
- Enhance the quality, safety and sustainability of existing homes;
- Create attractive and connected neighbourhoods;
- Prevent homelessness and help people sustain their accommodation; and
- Enable residents to access support, maintain their independence and have a voice to in respect to the services they receive.

2.17 The Housing Strategy is a high-level document, and there are a number of other existing and proposed strategies that sit within its framework and provide greater detail. This includes the Homelessness Strategy, Accommodation with Care Strategy and Empty Homes Strategy.

***Figure 2: Affordable homes at Dee Park***

# 3. Affordable housing in Reading

## Need for affordable housing

3.1 Reading is the heart of the Thames Valley, an economically successful area with excellent transport links and a high quality of life. One of the difficulties with this success is that there are significant issues with affordability of housing in Reading. Figures from the Office of National Statistics show that median house prices in Reading were 9.06 times median gross annual workplace-based earnings in 2019, and that affordability has been progressively worsening over the last 20 years. This issue is accentuated still further when lower-quartile house prices are compared to lower-quartile earnings, which gives a better view of where the affordability issues are likely to arise in particular. The Berkshire (including South Bucks) Strategic Housing Market Assessment (SHMA, 2016) shows that over time, lower quartile affordability in Reading is consistently worse than median affordability[2]. Put simply, in Reading, people on lower wages struggle to be able to afford housing at the lower end of the market.

3.2 This manifests itself in a high level of demand for affordable housing. At May 2020, there were 3,417 households on the Housing Register. During 2019-2020, 1,066 households approached the Council at risk of homelessness.

3.3 As a result, the need for affordable housing in Reading is very substantial. The most up-to-date full assessment of need for affordable housing is within the SHMA. This calculated that there was a need for 406 affordable homes each year up to 2036 to meet existing and newly arising needs, which would equate to almost 60% of the total housing needs over the same period. A more up-to-date sensitivity test of the SHMA conclusions based on more recent information[3] found that the need for affordable housing in Reading was significantly higher, at 503 homes per year. To meet even a reasonable proportion of this need, there will need to be very high levels of delivery of new affordable homes, from all sources, whether through contributions from private developments, or through new dwellings delivered by the local authority or other providers.

3.4 Failure to provide homes that people can afford would not only impact those in housing need, but would potentially affect the whole economy. The lack of affordable housing is frequently identified as a barrier to economic growth in the area. The economy cannot grow sustainably if the workforce needed cannot afford to live in the area. As well as providing for those in need, sufficient affordable housing should also be regarded as an essential piece of infrastructure to support the economy.

3.5 The Council maintains the Housing Register for the Borough and monitors and manages allocations. There is a high need for rented housing (or support through housing benefit). There is a particular need for housing for families (defined as

[2] See figures 92 and 93 of the Berkshire (including South Bucks) Strategic Housing Market Assessment 2016

[3] OAN Sensitivity Testing, March 2018

households with children living in overcrowded conditions) who are generally the highest priority needs.

## Supply of affordable housing

3.6 Over the period of the Local Plan so far (2013-2020), 648 new affordable homes have been delivered, which equates to an annual average of 93 homes. It is therefore clear that the supply is falling some way short of the assessed need of 406 per year. It is therefore essential that all sources of affordable housing are maximised.

3.7 There are three main sources of new affordable housing:

- Local authority new build;
- Development by another registered provider; and
- Provision as part of a developer contribution.

Over the first part of the Local Plan period, the majority of new affordable housing has been provided as an on-site contribution on private developments. Of the affordable homes provided between 2013 and 2019, 84% have been for rent (with a mix of affordable rent at up to 80% of market rents and social rent) with 16% for shared ownership.

3.8 To help address the shortfall in affordable housing, in 2014 the Council launched its own new-build affordable housing programme on Council-owned land. This uses a combination of Housing Revenue Account (HRA) borrowing, Right to Buy receipts and Section 106 receipts. Phase 1 of the Local Authority New Build (LANB) programme has now been completed, whilst Phase 2 of the programme is underway. By Spring 2019, 104 homes had been completed within Phases 1 and 2. Preparations are underway for Phase 3 of the programme, and the Council's Corporate Plan 2018-21 (Spring 2019 Review) expected planning applications for 182 homes under Phase 3 to be submitted in Summer 2020.

3.9 Where the Local Plan policy, as supplemented by this SPD, is to be fulfilled by an off-site financial contribution, this may be put towards the LANB programme. Other registered providers also develop affordable homes in Reading, albeit often at quite a small scale, and this new provision by other registered providers may also be grant funded by off-site financial contributions.

3.10 However, development by registered providers does not nearly suffice to meet needs, and on-site homes provided as a contribution by housing developers are essential to providing the necessary levels of affordable housing in Reading, and to ensuring that communities are mixed and balanced. Over recent years, this on-site provision has formed the vast majority of new-build supply. Even with the LANB programme having started to deliver between 2018 and 2020, 67% of affordable housing completions over those two years still came from on-site provision by private developers. Therefore, despite the Council having ambitious plans for building its own homes, on-site contributions from developments will continue to be absolutely essential if a significant proportion of the need is to be met.

***Figure 3: Mixed affordable and market extra care block, Green Park***

# 4. On-site affordable housing

4.1 On developments of ten or more dwellings, provision of affordable housing is expected to take the form of on-site provision, as specified by Local Plan policy H3. This means provision of either completed units or serviced land. Policy H3, as well as H4 in the case of build-to-rent proposals, specifies that 30% of the dwellings proposed should be affordable. This relates to the total provision on-site, not to the net increase in dwellings.

## Tenure

4.2 In general, of the on-site affordable housing provided to comply with policy H3, the tenure split will be as follows:

- Affordable rented accommodation at 'Reading affordable rent' levels – at least 62%; and
- Affordable home ownership (shared ownership or another product) – maximum 38%.

4.3 The above will not apply where the purpose of the proposal is the delivery of affordable housing. It will also not apply to build-to-rent developments, which are dealt with in paragraphs 4.15 to 4.26 below.

4.4 The tenure expectations in this section have been subject to viability testing to ensure that developments should generally be able to provide policy-compliant affordable housing at these levels without an adverse effect on viability levels. The results of this viability testing are available from the Council on request.

### Reading affordable rent

4.5 The expectation is that all affordable homes for rent secured through on-site provision on developments will be let at 'Reading affordable rent' levels, or lower.

4.6 'Reading affordable rent' is a tenure which is considered affordable to those in housing need in Reading. 'Reading affordable rent' is defined as rental levels capped at 70% of market rates. To assist with implementation of this requirement, the Council will produce an annual statement specifying what 70% of market rents equates to for Reading and publish this on its website. The rates for 2019-20 are set out in Appendix 3. The 70% cap includes service charges.

4.7 'Reading affordable rent' has been set at this level based on calculations of local affordability. The median weekly household income for the South East (to which Reading tracks quite closely) is £610. Good practice indicates that households should not spend more than 35% of their income on housing, which for a median weekly income is around £210. This equates to 70% of the weekly market rent for a 3-bed property (£300) in Reading. This is therefore affordable for the median household without requiring support from Housing Benefit or the housing element of Universal Credit.

4.8 An exception to the 'Reading affordable rent' requirement will apply if the rental element is to be provided as key worker housing or supported accommodation.

Provision of the rented element as key worker housing or supported accommodation will only be acceptable where the Council has identified a specific need that will not be met elsewhere.

4.9 'Reading affordable rent' will also not apply to affordable private rental properties provided as part of a build-to-rent development. The tenure expectations for build-to-rent are set out in paragraphs 4.16 to 4.17.

4.10 The purpose of 'Reading affordable rent' is to strike a balance between maximising the amount of affordable housing which can be secured on-site and ensuring that rents are at a level which are genuinely affordable to those in housing need in Reading. The level at which 'Reading affordable rent' has been set has been calculated with reference to the affordability of housing in the local area for Reading's residents, based on a median household income, spending 35% of that income on housing.

4.11 The requirement that 62% of the affordable housing element be let a 'Reading affordable rent' was subject to viability testing, based on the same scenarios and assumptions used in setting the overall requirement in the Local Plan. It was found to be generally viable in most scenarios.

### Shared ownership and affordable home ownership

4.12 The NPPF (paragraph 64) requires that 10% of major housing developments should be available for affordable home ownership. This includes shared ownership, as well other intermediate tenures such as discounted market sale at least 20% below local market value. As the overall on-site affordable housing requirement in Reading is 30%, this means that at least one third of on-site affordable housing should be for affordable home ownership products. In Reading, this has been increased to 38% to ensure that the whole on-site affordable housing package, including those units to be let at 'Reading affordable rent', is viable.

4.13 Shared ownership is a tenure where a proportion of the property is purchased and the remainder rented from the Registered Provider. In recent years, almost all of the dwellings provided in Reading for affordable home ownership have been shared ownership. This tenure is particularly suited to first time buyers, but may also be important for older people in housing need downsizing and freeing up a home elsewhere.

4.14 The NPPF includes starter homes within its definition of affordable housing. Starter homes are new dwellings, available for purchase by first time buyers between the ages of 23 and 39 only, sold at a discount of at least 20% of market value and, in Reading, for less than £250,000. Starter homes are defined in legislation. The Council's view is homes for sale at 80% of market value in Reading do not represent a truly affordable product that meets needs, and neither does any product that is not secured in perpetuity. It will not therefore expect provision of starter homes as part of developments.

4.15 In August 2020, the government consulted on a proposal to introduce a requirement that 25% of the affordable housing provided on-site by private developments should

be in the form of 'First Homes'. First Homes are an affordable housing tenure consisting of homes for sale to first-time buyers at a minimum 70% discount, which will continue to apply when the house is sold. The preferred approach was that the First Homes requirement would be in place of other affordable home ownership requirements, and in the case of Reading would replace some of the shared ownership element. This change would need to be made by changes to the NPPF and Planning Practice Guidance, and at the time of adoption of this SPD those changes had not yet been made. Any future national requirement for inclusion of First Homes will need to be considered in conjunction with local policy including this SPD.

4.16 The proportion of the affordable homes that will be for intermediate sale is expressed as a maximum, as these products make a less significant contribution to those in housing need in Reading than affordable rented homes. The priority is therefore for the provision of homes rented at 'Reading affordable rent'. For this reason, if overall on-site affordable housing provision is reduced below 30% for viability reasons, it will not be considered acceptable to increase the proportion of that provision that is shared ownership or other affordable sale purely in order to continue to meet the 10% requirement of the NPPF.

## Build to rent

4.17 Build to rent involves purpose-built development held in a single ownership and intended for long-term rental. It is a relatively recent form of development for Reading, with the first such local scheme under construction in 2020. However, it is now prevalent elsewhere, such as in London, and is expected to grow. It has recognition in the National Planning Policy Framework (NPPF), which includes acceptance that this form of development has characteristics which necessitate a distinct approach to affordable housing. The Local Plan includes policy H4 dealing specifically with build to rent schemes, which is included as Appendix 2.

### Rental levels

4.18 For build to rent proposals, policy H4 expects that, as for other schemes of ten homes or more, 30% of the dwellings will be affordable housing, provided on site, subject to viability considerations as detailed in supporting text to policy H4 of the Local Plan. National and local policy requires that this on-site provision will be in the form of 'affordable private rent'. Affordable private rent is a housing tenure introduced in the NPPF specifically to form the affordable housing element of build to rent developments. As for other forms of affordable housing, it must be at least 20% below local market rents, but the key difference from affordable rent is that it can be provided by the owner of the build to rent development rather than by a Registered Provider.

4.19 Paragraph 4.4.33 of the Local Plan makes clear that rental levels for affordable private rent, deducting from this ceiling the cost of service charges, must be set in relation to Local Housing Allowance (LHA) levels for Reading. Any changes in rents must also be linked to changes in LHA levels. Failing to link rents to this level would mean that there is little prospect of such housing remaining genuinely

affordable to those in need. Rental levels which are 80% of the market rent for the unit may only be applied where these are at or lower than LHA levels. Should LHA be replaced in the future, the applicable rent will be the lower of (a) 80% of market rent or (b) the last published LHA rate as increased by an amount equivalent to any increase in the market rents from the date on which the LHA rate was last published to the date the affordable private rent is calculated.

### Management

4.20 Where affordable private rent dwellings are to be delivered on site, the management process will be dealt with in the Section 106 agreement. This will either involve agreeing the details within the agreement itself, or the submission and agreement of a management strategy before occupation. In accordance with Planning Practice Guidance, the details to be covered should include the parameters of the lettings agreement, the rent levels, apportionment of the homes across the development, a management and service agreement, and a marketing agreement setting out how their availability is to be publicised (see PPG, 60-006-20180913)[4].

4.21 In line with Planning Practice Guidance, there will also need to be an annual statement, required by the Section 106 agreement, *"confirming the approach to letting the affordable units, their ongoing status, and clearly identifying how the scheme is meeting the overall affordable housing level required in the planning permission"* (60-006-20180913).

### Eligibility

4.22 The Section 106 agreement will need to set out the approach to eligibility for the development. Paragraph 4.4.35 of the Local Plan states that *"affordable housing will be allocated to eligible households on Reading's housing waiting list"*. For at least four weeks, the properties should be marketed exclusively to households on the Housing Register, and thereafter to other households meeting qualifying criteria agreed in the Section 106 agreement including those on the Housing Register. This should apply both to the initial letting upon the development's completion, and to any subsequent re-letting.

4.23 Qualifying criteria for affordable private rented homes should be agreed between the developer and Council, and should be set out in the Section 106 agreement. The Council's view is that the following criteria are appropriate, and that additional criteria will need to be suitably justified:

- Whether household size is appropriate to the size of the property;
- The degree to which the rents are affordable to the household (including any benefits for which the household is eligible);
- Suitable references and credit history;
- Recent convictions, within five years; and

[4] Planning Practice Guidance on build to rent

- Demonstration of an understanding of the responsibilities within the tenancy agreement.

4.24 Households should be offered tenancies of at least three years in the first instance, with a six month break clause in the tenant's favour, in line with the tenancies for the market rental dwellings as set out in policy H4.

### Changes in circumstances

4.25 Affordable private rented accommodation, as for other forms of affordable housing, should be secured in perpetuity. In addition, policy H4 states that the whole of a build to rent development should be secured in single ownership for the rental market for at least 20 years. Nevertheless, Planning Practice Guidance recognises that there may be cases where developers may have to sell all or part of a development so that it no longer qualifies as build to rent, and, in exceptional cases may need to convert affordable private rent to an alternative tenure. PPG expects that the Section 106 agreement for build to rent permissions should anticipate this and include 'clawback' measures to ensure that the value of the affordable housing contribution is maintained.

4.26 There are therefore two different scenarios to consider, and which should be built into a Section 106 agreement for build to rent schemes. Firstly, there is the sale of market build to rent units so that they no longer qualify as build to rent. Secondly, there is the sale of affordable private rented units or conversion into other tenures.

4.27 In the eventuality of the owner of a build to rent development transferring ownership of some or all of the units so that they no longer qualify as build to rent, the key element to consider will be the difference in value between the unit(s) as build-to-rent and as general homes. The developer would be expected to provide valuations of both uses, and a proportion of any uplift in value should be captured as a financial contribution. This proportion should be in line with the relevant affordable housing contribution for the size of scheme set out in policy H3 (with the size of scheme meaning the development as a whole and not just the amount of units proposed to be sold or changed). For developments of ten dwellings or more, which will usually be the case for build to rent, this will mean 15% of the uplift in Gross Development Value, in line with the approach in paragraph 5.10.

4.28 The second possibility would be the sale of an affordable private rented unit or units, or conversion into other tenures. In the first instance, such a sale should be to a Registered Provider, for conversion to an alternative affordable tenure, at a value which reflects the value of the units including the affordable rental levels. Any other sale would result in the permanent loss of an affordable unit. For this reason, the Council wishes to avoid this scenario. However, in an exceptional case where this is necessary, the priority will be to ensure that the unit is replaced. The preference should be for the owner to replace the unit with equivalent provision, either within the same building or complex, or elsewhere in Reading. Where this cannot be achieved, a financial contribution to off-site affordable housing will be required. This should reflect the cost of providing an alternative dwelling. As set

out in section 5, this can be estimated as 50% of a unit's market value. Therefore, in the instance that an affordable private rented unit were to be converted to market tenure, unless an alternative calculation is agreed between the Council and developer and includes in the Section 106 agreement, a financial contribution of 50% of sale price would generally be expected.

## Size and priority needs

4.29 The size and type of affordable housing secured on-site will need to take the circumstances of the site and the development into account. A town centre flatted scheme on a small site will clearly need to have a different mix of size and type of affordable housing than a development of new houses in a larger suburban location. Therefore, the affordable housing to be provided will depend the mix of sizes and types within the overall development, and the expectation is that the homes to be provided will broadly reflect the overall mix of sizes and types.

4.30 However, the mix will also need to reflect needs. In terms of size of affordable homes needed, the priority is for family-sized accommodation. Policy H3 refers to the priority being for homes of two or more bedrooms. Within this, the greatest need is for larger homes with three or more bedrooms. The Berkshire SHMA examined the need for different sizes of both market and affordable accommodation, and concluded that around 90% of the need for affordable homes in Reading was for two-bed or more, and 60% was for three-bed or more[5]. Since the SHMA was published in 2016, this need has only been exacerbated by recent affordable delivery, which has been mainly for one- or two-bedroom properties, reflecting the overall type of housing provided on these sites. Some sites are better placed to deliver the larger properties for which the needs are greatest and opportunities to meet these priority needs should be taken.

***Figure 4: Three bed affordable properties, Worton Grange***

[5] See Table 107 of the Berkshire (including South Bucks) Strategic Housing Market Assessment 2016

4.31 Previous affordable housing policies have referenced other priority needs including the provision of extra care accommodation. There is not currently considered to be any particular need for affordable extra care accommodation, as a substantial amount has been provided in recent years. The same applies to other specialist housing needs. However, the Council will keep this under review, and specific needs may arise in relation to a particular development. The Council may, from time to time, publish additional information on the nature of the affordable housing being sought to meet identified needs. Advice from the Council's Housing section, and any needs identified in an up-to-date Housing Strategy, will be taken into account.

4.32 Policy CR6 of the Local Plan refers to the need to avoid an overconcentration of social rent for single people in the town centre. As the rented elements of on-site provision are expected to be capped at Reading affordable rent, this will become less of an issue for the planning process and more for a RP to consider in setting rental levels.

## Design, quality and layout

4.33 The design, construction and quality of the affordable housing should be in keeping with the character, appearance and quality of any market housing on the site, and in line with the general policies on matters such as design and amenity in the Local Plan. It is vital that all residents of new developments are able to enjoy a high quality of life. There should be no compromises on meeting the policy requirements for new housing in terms of design and amenity for the affordable element of developments, so the design must be 'tenure-blind'. Affordable homes will need to meet the relevant standards under policy H5 of the Local Plan in terms of sustainability, water efficiency, internal space and accessibility that apply to any developments.

4.34 In terms of distribution within a development, it is important to bear in mind the purpose of provision of affordable, which is the creation of mixed and balanced communities. This objective should also apply to individual sites. Developments should not set out to segregate the affordable elements from the market housing, and a mix across the site should be achieved wherever this is possible. It is accepted that, for practical reasons, it may be necessary for affordable homes to be provided in groups rather than 'pepper potted' around a development, but a proposal which separates affordable housing out from the market elements and from access to open spaces, play areas, amenity areas, local facilities and transport links will not be acceptable. Poor quality entrances and amenity space for the affordable elements will also not be permitted. The dwellings which are to be provided as affordable homes should be clearly marked on a plan included within the Section 106 agreement.

4.35 It is expected that affordable dwellings will have the same level of, and access to, car parking provision as market dwellings of equivalent sizes on the same site.

***Figure 5: Affordable rent and shared ownership units distributed amongst market sale units, Coley Avenue***

4.36 Sites in a single ownership should not be artificially sub-divided to reduce the level of affordable housing below the threshold for on-site provision, 10 dwellings. Where a site has been divided to assist delivery, it will generally be expected that a phased outline permission with a single Section 106 agreement will cover the site. Where it is considered that there is clear scope for an uplift in dwellings that would result in the site exceeding the threshold for on-site provision, a Section 106 agreement will be expected to agree that such a combined development will be judged against the policy requirements for a site of that size.

4.37 Developments of 20 or more new-build dwellings are required under Local Plan policy H5 to provide at least 5% wheelchair user dwellings, under M4(3) of the Building Regulations. In some cases, these may form part of the on-site affordable housing element. Where the Council is responsible for allocating or nominating an individual to these homes, they will need to be 'wheelchair accessible' as defined in Part M.

# 5. Off-site provision

5.1 This section applies to instances where the contribution to be made to affordable housing would be off-site, rather than, or in addition to, securing on-site affordable units.

## Provision on surrogate sites

5.2 In some cases on sites of ten units or more, the Council may accept an argument that there are exceptional circumstances that mean that it would be beneficial and preferable for the affordable housing required as part of the development to be provided on a surrogate site.

5.3 It is important that, where a surrogate site is to be provided, the affordable housing to be provided is in addition to what would have been expected on the site in any case. If a site is already identified as suitable for housing use, which can include Local Plan allocations as well as sites identified in other policy tools such as housing land supply calculations, a housing trajectory or brownfield land register, affordable housing to be provided on site as a surrogate for another site should be in addition to the policy-compliant level of affordable housing provision on that site.

5.4 Where a proposal to provide affordable housing on a surrogate site is accepted, the Council will expect that the affordable housing to be provided will be subject to the same requirements as on-site housing (see section 4), and that:

- The affordable housing provided on the surrogate site will normally be of similar style and quality as the housing that is being provided on the principal site; and
- The mix of affordable housing types and sizes provided on the surrogate site will be equivalent to the affordable housing that would have been provided on the principal site.

5.5 An exception to the points above may be accepted where there are good reasons, supported by evidence, for providing a different product on the surrogate site.

## Financial contributions to off-site affordable housing

5.6 On sites of less than ten dwellings, policy H3 of the Local Plan requires a financial contribution to off-site affordable housing, rather than an on-site contribution. On sites of 1-4 dwellings, this will equate to 10% of the development, and on sites of 5-9 dwellings, this will equate to 20%. In exceptional circumstances, a financial contribution may also be accepted on sites of 10 dwellings or more, as described in paragraph 4.4.21 of the Local Plan, where an on-site contribution cannot be made and an opportunity to make provision on a surrogate site is not available. Sites in a single ownership should not be artificially sub-divided to reduce the level of financial contribution required.

5.7 Any financial contribution should be equivalent to the contribution that would have been made to provide the housing on-site. It should be of a sufficient amount to

enable a registered provider, including the Council, to provide a dwelling or dwellings of an appropriate size at an appropriate rental level to meet the identified need.

5.8 A registered provider can borrow against rental streams and use their own resources to purchase or construct completed units. However, it can only afford a proportion of the market value of the completed unit. In order to be able to provide a dwelling, the registered provider will require a financial subsidy equal to the proportion of the market value that it cannot afford. The financial contribution being sought in lieu of on-site provision will be broadly equivalent to this amount and is based on the general ability of an RP to purchase in the current market.

5.9 At the time of producing this SPD, the evidence in the market place generally is that a registered provider would be able to fund approximately 50% of the market value of a unit and would generally need a financial contribution of the remaining 50% of the market value in order to provide each unit. The figure will vary to some extent depending on the size and tenure (target rent/adjusted target rent, affordable rent, intermediate housing) of the affordable unit being provided. However, the figure of 50% market value of a unit provides an indication of the general level of contribution that will be needed to provide one unit by an RP in the current market. This takes account of the fact that the costs of complying with a variety of housing standards can be different for a unit of affordable housing.

5.10 The most appropriate way to calculate the contribution is to calculate the Gross Development Value (GDV) of the entire proposed development. The financial contribution will usually be directly proportionate to the GDV of the scheme assuming it is 100% private sales. As the financial contribution required by an RP to fund one unit is 50% of a unit's market value, the financial contribution equates to 50% of the proportion required under policy. Therefore, the following will generally apply:

- For sites of 1-4 dwellings, where the contribution required by policy H3 is 10%, this will equate to 5% of GDV of the development;
- For sites of 5-9 dwellings, where the contribution required by policy H3 is 20%, this will equate to 10% of the GDV of the development; and
- For sites of 10 dwellings or more, where the contribution required by policy H3 is 30% and where, in exceptional circumstances, a justification has been made for an off-site rather than on-site contribution, this will equate to 15% of the GDV of the development.

For the avoidance of doubt, for mixed use developments, where the 'development' is referred to above, this means the new dwellings.

5.11 An applicant proposing an off-site financial contribution should provide the details of their calculation of the GDV of a development. This should consist of scheme-specific achieved values – total and individual values for different dwelling types - accompanied by independent supporting evidence consisting of at least two independent valuations from suitably qualified local estate agents or benchmarked against Land Registry values. Where these values are estimated, they should be

supported by relevant analysed sales evidence of genuinely comparable property with sales verifiable through Land Registry records.

5.12 It is important to note that paragraphs 5.9 to 5.10 above are based on the current estimated costs of providing an affordable housing unit. Where there is strong evidence that these costs have changed, the Council may apply an alternative calculation.

## Financial contribution from student accommodation, residential care or serviced apartments

5.13 In paragraph 1.6, it is made clear that the requirement for contributions to affordable housing will not apply to student accommodation, residential care or specialist provision falling within the C2 use class or serviced apartments other than in specific circumstances. This section clarifies where it would apply, and how it will be operated.

5.14 Contributions to affordable housing will only be sought where these forms of development takes place on a site which is allocated for housing (and where the policy text of the allocation does not also explicitly refer to other forms of accommodation) or where residential development including affordable housing provision would have been otherwise anticipated. An example of such a site is where there is an existing residential permission which would contribute to affordable housing, or a site which otherwise appears for general housing within the latest Housing Trajectory or housing land supply calculations. Additionally, for serviced apartments only, contributions would only be sought where the development allows for tenancies of more than three months.

5.15 The reason for this is that, whilst there is an argument that these forms of residential accommodation can free up existing housing by drawing people out of houses or houses in multiple occupation, it does not address the significant affordable housing need. Therefore, the loss of a housing site which would have contributed to affordable housing should be mitigated by seeking an affordable housing contribution from the alternative development. Since policy H12 of the Local Plan generally directs student accommodation away from these locations, it is expected that such instances will not be frequent for student accommodation. For clarity, student accommodation located on the sites prioritised by policy H12 will not be required to contribute to affordable housing.

5.16 In these cases, the contributions sought will need to take the form of a financial contribution that equates to those set out in policy H3.

5.17 For serviced apartments, this would mean a 10% contribution for sites of 1 to 4 serviced apartments, 20% for sites of 5 to 9 and 30% for sites of 10 or more, calculated on the basis of GDV as set out in paragraph 5.10.

5.18 For student accommodation, a dwelling equivalent will need to be calculated, and the Local Plan includes such a methodology for the purposes of calculating housing supply in Appendix 1. This states that:

*"Where there is a cluster of bedrooms with shared kitchen and living room facilities, this is considered to be equivalent to a single dwelling, as are studios which are entirely self-contained. More frequently, accommodation is in the form of study bedrooms with some shared facilities, and in these cases we assume that four bedrooms equates to one dwelling."*

5.19 For residential care, the Local Plan methodology states that:

*"Some accommodation for older people, such as extra care housing, tends to count as a C3 dwelling anyway, where it is a wholly self-contained residential unit. In care accommodation with shared facilities, the assumption is that two new residential care spaces free up one new home."*

5.20 Once translated into dwellings, the relevant requirements in H3 for the scale of development will be applied, with all requirements expected to take the form of a financial contribution calculated on the basis of GDV as set out in paragraph 5.10.

## Other forms of accommodation

5.21 A financial contribution will also be sought from some other forms of residential development that do not take the form of dwellinghouses. This will apply to new-build houses in multiple occupation, for instance. In addition, 'co-living' is a new form of accommodation which is emerging as a response to the housing crisis, and may well gain traction in Reading. These forms of development do not lend themselves to on-site affordable housing provision which would involve transfer to a registered provider, and therefore in most cases, regardless of size, an off-site financial contribution is more likely to be appropriate than on-site provision.

5.22 The off-site contribution should be calculated by converting the bedspaces to dwelling equivalents (usually on the basis of four bedspaces equating to one dwelling, unless there is an alternative methodology which is clearly more appropriate) and applying the relevant percentage contribution as set out in policy H3 on the basis of GDV, as set out in paragraph 5.10.

## Spend of financial contributions

5.23 Commuted sums collected by the Council in lieu of on-site provision of affordable housing will be spent on delivery of affordable housing schemes across Reading. The Council is building new affordable homes through its Local Authority New Build programme, and may also grant fund other Registered Providers to deliver new affordable homes.

5.24 The First Homes requirement on which the government commenced consultation in August 2020 includes a provision that 25% of affordable housing contributions would be delivered as First Homes, and this would include off-site financial contributions. This SPD takes account of national policy at the time of adoption, and any subsequent changes to introduce First Homes will need to be considered alongside this SPD, but wherever it can the Council will continue to prioritise the funding of affordable housing that most clearly meets the needs, which is generally rented housing at or below Reading affordable rent.

5.25 As of December 2020, the Council is required to produce an annual Infrastructure Funding Statement, which sets out how financial contributions under Section 106 (as well as CIL) have been spent.

***Figure 6: Local authority new build homes at Conwy Close***

# 6. Viability

6.1 In line with national policy, the Local Plan requirements, including those for affordable housing, should generally be assumed to be viable. The viability of those requirements as a whole were subject to testing at plan-making stage and have been found to be sound. In most cases, there should be no need for deviation from these policy requirements.

6.2 However, the Council is still aware that the viability of a residential development will vary from site to site, and that this may in some circumstances affect whether a development can provide a level of affordable housing that complies with policy requirements. Policies H3 and H4 and their supporting text make clear that, where applicants can demonstrate exceptional difficulties in bringing a site to market, the Council will be prepared to consider detailed information on viability to potentially reduce the affordable housing requirement. The onus will be on a developer to clearly demonstrate the circumstances justifying a lower affordable housing contribution. In line with Planning Practice Guidance, this should include identifying and justifying where there are changes from the assessment at Local Plan examination stage[6].

## Viability assessments

6.3 Planning Practice Guidance[7] contains guidance on how viability assessments to justify a reduced affordable housing contribution should be carried out, and this will apply equally to development in Reading.

6.4 Essentially, carrying out a viability assessment for the purposes of demonstrating a case for a reduced affordable housing contribution involves comparing the residual land value (the gross development value minus costs) with the benchmark land value (which is generally the current land value, with some additional allowances). PPG contains high-level guidance on how this should be approached which is the main source of national-level guidance on viability matters.

6.5 The factors that may render a development unviable in exceptional cases will vary from site to site, but might include particularly high existing use values, the need to provide particularly costly infrastructure, or unusual site conditions, which might include unusually high remediation costs. The Council is, however, clear that the purchase price of the land does not justify deviation from the policy requirements, and this is also strongly emphasised in the PPG.

6.6 Viability assessments should generally be carried out on the basis of an expected profit to the developer of 15-20%, as specified in Planning Practice Guidance, with profit levels related to the scale, complexity and risk of the proposed development. For instance, the lower end of that range will often be appropriate for smaller, less complicated schemes, whilst larger brownfield developments including taller buildings will reflect the upper end of the range. A deferred

[6] The viability assessment for the Local Plan is on the Council's website

[7] Planning Practice Guidance on viability

contributions mechanism may be used to capture a future increase in profit, and this is covered in paragraph 6.12 onwards.

6.7 Policy H3 is clear that viability assessments will be on the basis of an open-book approach, with all relevant information submitted to be assessed by the Council's Valuer or his/her nominee. The open book accounting should be set out to reveal the residual valuation for the application site taking account of abnormal costs, including Section 106 and CIL requirements.

6.8 Viability assessments, where submitted, are critical to understanding the decision that has been taken on an application, and should be open to public inspection. Information submitted will therefore be published on the Council's website alongside other planning application records. Where an applicant has a particularly strong reason why certain information should be redacted when placed on the public record, this case should be made when the information is submitted.

6.9 Paragraphs 7.3 to 7.13 summarise the information that will need to be submitted at planning application stage to set out the viability case for any deviation from affordable housing policy. Checklists of the specific information required are also included in Appendices 5 and 6.

## Evaluation of viability assessments

6.10 The Council has in-house expertise which is used to evaluate submitted viability assessments, although external consultants are also used in some cases. The fee for this will be charged to the applicant. The fee structure is tailored to the scale of the application scheme. The current fees in 2020 are set out below, although these may change over time:

- 1 unit- £1,500
- 2 - 4 units - £2,500
- 5 - 9 units - £4,000
- 10 - 14 units - £5,000
- 15 - 29 units - £8,000
- 30 + units - £10,000
- Multi-phase schemes - £15,000

6.11 Carrying out these assessments needs to be factored into the timescales for a planning application, and it underlines why viability assessments should be provided as early as possible. The Council will share the outcome of the assessment with the applicant in a timely manner to ensure the application can move swiftly to determination.

## Deferred contributions

6.12 The viability of a development can change significantly over time, as market conditions change. The viability situation when a development is implemented can be very different to when the assessment at planning application stage was carried

out, and this can particularly arise where a development is large or will be delivered in phases. The Council's policy is that an appropriate contribution to affordable housing will be made. It is therefore considered that, where a reduced contribution to affordable housing was agreed at application stage, a mechanism should be included within the Section 106 agreement that ensures that a proportion of increased profits are secured for affordable housing. This is referred to as a planning deferred contributions mechanism.

6.13 There are a number of options for the form of such a mechanism, as follows:

(i) Profit share – this is the standard approach based on an Open Book assessment at a key stage of delivery (usually when 75% of the units have been sold or let, although this may be varied, in particular where there are longer-term or phased schemes) whereby all scheme costs including land value and agreed profit are deducted from the GDV and any surplus shared between the Developer and the Council on an equal basis.

(ii) Private sales share – in default of (i) above the Council may agree to a share of uplift in private sales based on an equal share of any actual sales increase in value in excess of those estimated at the time of grant of planning.

(iii) Build costs share – in default of (i) above the Council may agree to a share of savings on build costs based on an equal share of any actual build cost savings against those estimated at the time of grant of planning.

6.14 As the profit share approach is the standard approach which is expected to be used in the majority of cases, the Council will usually apply a formula to its calculation. The relevant formula is set out in Appendix 4. The deferred contribution will be limited to policy-compliant levels, and a suggested formula for the upper limit is also set out in Appendix 4, although an alternative approach can be used if it better reflects the specific circumstances of the development. The appropriate form and application of the deferred contribution mechanism will be case-specific and at the discretion of the Council.

# 7. Application process

7.1 The provision of affordable housing, both on-site provision and off-site contributions, will generally be secured through a Section 106 agreement. The provision that a development will make for affordable housing is a critical part of the consideration of a development proposal, and will need to be considered from the outset.

## Pre-application stage

7.2 It is advisable for heads of terms for Section 106 agreements to be discussed and documented prior to the submission of any planning application, to enable the determination of planning applications within target timescales. The Council encourages pre-application discussions, partly to ensure that the process of agreeing, drawing up and completing agreements is well advanced and they can be agreed and signed within the planning application determination period. Applications may be refused where agreements are not ready to be completed within the determination period, so timely consideration of affordable housing at pre-application stage is important. A draft heads of terms and Affordable Housing Statement as part of a pre-application enquiry will therefore ensure that the best possible advice can be given.

## Planning application information requirements

7.3 There are a number of pieces of information that are required to be submitted as part of the planning application where affordable housing would be required by policy. Failure to submit an important piece of information will mean that the application will not be validated. More information can be found in the Council's Validation Checklist, which is available on the website[8].

7.4 The Council will provide applicants with a timetable for completing actions so that planning applications can be determined within the specified target period. Failure to provide this information may result in the application being refused if inadequate time is available to complete the agreement.

### Affordable Housing Statement

7.5 An Affordable Housing Statement is required for all residential developments which are required to provide affordable housing, i.e. all proposals for one dwelling or more (other than replacement of a single dwelling with another single dwelling, and conversion of a dwelling to self-contained flats where there is no new floorspace). The Affordable Housing Statement should specify what is being proposed with regard to affordable housing and should provide justification for the amount and type proposed.

[8] 'Help with Planning' page of the Council's website

7.6 A typical Affordable Housing Statement for developments of 10 or more dwellings, where the expectation is that provision is on-site, should include details of the following:

- the total number of all residential units;
- the number of affordable units; numbers of bedrooms and property types across all tenures to demonstrate representative mix of unit types and sizes;
- plans showing the location of units;
- the different levels or types of affordability or tenure proposed for different units- this should be clearly and fully explained in line with policy expectation, and include rent levels where appropriate; and
- demonstration that the affordable units have proportionate car parking spaces in line with policy expectation.

7.7 A typical Affordable Housing Statement for developments of less than 10 dwellings, where an off-site financial contribution is expected, should include the following information:

- the total number of all residential units;
- details of the Gross Development Value (GDV) of the whole development, based on two separate valuations by suitably qualified estate agents of the completed development; and
- the proposed level of financial contribution.

### Viability Assessment

7.8 Where an application cannot, for reasons of viability, provide the level of affordable housing contribution required by policies H3 or H4 or this SPD, a viability assessment will need to be submitted to justify the deviation from the policy.

7.9 As provision of affordable housing is a critical element of the acceptability of any development, it is vital that information that justifies provision below policy levels is publicly available. The Local Plan (paragraph 4.4.24) notes that viability considerations will be on an open-book basis. The expectation is therefore that viability assessments will be published on the Council's website as part of the application information.

7.10 In order to fully assess whether the case made by an applicant for not meeting the policy requirements is reasonable and justifiable the Council will require the applicant to submit a residual valuation which covers all of the key items necessary to assess whether the viability case is robust.

7.11 The amount of detail required under these headings will differ depending on whether the development is for 10 dwellings or more. Larger developments will need to provide more detail, whilst for smaller developments of less than 10 dwellings, a brief schedule of the main elements of the valuation together with estate agents' valuations will usually be sufficient. The appendices to this SPD contain two checklists for viability assessments that set out the information

needed. Appendix 5 is relevant to sites of 10 or more dwellings, whilst Appendix 6 relates to sites of less than 10 dwellings.

### Heads of Terms and Section 106 Information

7.12 Where an application would be required to contribute towards affordable housing in line with policy, applicants will need to provide the following information as part of the application submission, as set out in the Council's Validation Checklist, which can be found on the 'Help with planning' page of the Council's website:

(i) proposed heads of terms of the legal agreement;

(ii) copies of the "title deeds";

(iii) in the event that there are any charges, mortgages or other securities secured on the land, the names and addresses of the chargees/mortgagees/holders of the security (since it will be necessary for any such to be joined as parties to the agreement and/or consent to its terms or execute a Consent to Dealing as appropriate);

(iv) an undertaking to pay the Council 's appropriate legal costs in connection with the preparation of the legal agreement; and

(v) in the event that the applicants are represented by solicitors, the relevant contact address and name of the solicitor/person dealing with the matter.

7.13 The Council will process negotiations and agreements on Section 106 agreements in a positive and proactive manner and as quickly as is reasonable. However, it can be a complicated legal process and ample time is needed for its completion. To this end, the Council has drawn up standard clauses to be used in any draft legal agreement to assist the processing of applications. Applicants will need to brief their own legal advisors early in the pre-application process.

## After planning permission

7.14 It may be necessary for a Section 106 agreement to specify that certain information needs to be submitted at some point after the application is approved. For instance, where deferred contribution mechanisms are included to capture any uplift in profits at the time the development is delivered, there will be requirements for information submission at a later stage, usually when 90% of dwellings are sold or let. The Council will closely monitor developments to identify when certain triggers are reached.

# 8. Process of making the contribution

8.1 The processes that will generally be followed when securing either new affordable homes (on site or on a surrogate site) or a financial contribution to providing affordable housing elsewhere are set out below.

## Provision of homes

8.2 Any affordable housing provided should remain at an affordable price for future eligible households, or mechanisms should be provided to enable the subsidy to be recycled for alternative affordable housing provision. The Council believes that most effective way of doing this is through a Registered Provider (RP) such as a housing association (HA) or direct provision by the local authority. The Council will generally prefer to secure provision of affordable housing through a Section 106 agreement. Where a partner Housing Association is involved it will usually be party to the agreement and should be involved as early as possible in pre-application discussions. Section 106 Agreements will be formulated against the provisions and assumptions agreed at the time of determination of the application.

8.3 Where on-site provision is made, the Council will normally wish to see the developer transfer the freehold interest in serviced land or completed units (whether on the application site or a surrogate site) to a RP. In some cases, a 999-year lease may be more appropriate. Where it is proposed that the completed units are not to be transferred to a RP, which will generally be the case for build-to-rent developments for instance, the Council will need to be satisfied that, in accordance with the definition of affordable housing in the NPPF, provisions are in place to ensure that the affordable housing will remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision. This will usually take the form of restrictive covenants within a Section 106 agreement.

8.4 Developers are advised to involve an RP from the earliest possible stage of the scheme. Involvement from pre-application stage will be helpful, as it will assist with consideration of deliverability, and will ensure that inputs into any viability calculations are more robust.

8.5 All Council and Housing Association properties in the Borough are currently let through Reading Borough Council's Choice Based Lettings Scheme. Applicants are awarded priority for housing based on their level of housing need, taking into account criteria such as overcrowding, homelessness, or medical or welfare needs.

8.6 Local plan policy is clear that affordable housing contributions should be secured in perpetuity. Therefore, if it is agreed that Section 106 agreements must provide for exceptional circumstances in which a forced disposal of affordable homes is required, the agreement must ensure that safeguards are in place to enable the units to be passed to another provider in the first instance.

## Provision of a financial contribution

8.7 Payment of contributions will generally be sought upon first occupation of a development unless it is agreed that an alternative stage in development is appropriate and acceptable. Payments will be made to the Council. For larger scale proposals, in order to assist the viability and delivery of the scheme, the Council may agree to staged or deferred contributions. These might be linked to the occupation of different phases of the development or stages in the implementation of the scheme. Payments will (where appropriate) be index linked to the Retail Prices Index from the date of the agreement.

8.8 The Council will choose the registered providers to which to direct the funding for the provision of affordable housing. Funding will be directed towards schemes to meet the housing needs of Reading Borough. The Council's annual Infrastructure Funding Statement will specify how contributions secured under Section 106 agreements have been spent.

***Figure 7: Supported living at Phoebe Cusden House***

# 9. Glossary

9.1 Please note that, for a full definition of some of the items below, there will be a need to refer to the relevant legislation, which may change over the lifetime of this SPD.

**Affordable housing -** Housing for sale or rent, for those whose needs are not met by the market (including housing that provides a subsidised route to home ownership and/or is for essential local workers); and which complies with one or more of the definitions in Annex 2 of the NPPF (source of definition: NPPF)

**Affordable Housing Statement -** A statement submitted as part of a planning application to cover the matters in paragraphs 7.5 to 7.7.

**Affordable private rent -** An affordable housing product specific to build to rent schemes, offered for rent by the private landlord of the build to rent development at up to 80% of market rates. Reading Borough Local Plan policy specifies that the rents should be related to LHA rates.

**Affordable rent -** An affordable housing product offered for rent by a Registered Provider at up to 80% of market rates.

**Alternative use value -** The value of land for uses other than its existing use. These uses should be limited to uses that comply with relevant development plan policies in full.

**Benchmark land value -** For the purposes of viability assessment, benchmark land value is in most circumstances the existing use value (EUV) of a site plus a minimum premium at which a reasonable landowner would be willing to sell their land. Alternative use value will be considered where it can be demonstrated these are fully compliant with relevant Council policies, there is evidenced demand for the uses and a full explanation provided as to why this use is not being pursued.

**Build to rent -** Purpose built housing that is typically 100% rented out. It can form part of a wider multi-tenure development comprising either flats or houses, but should be on the same site and/or contiguous with the main development. Schemes will usually offer longer tenancy agreements of three years or more, and will typically be professionally managed stock in single ownership and management control. (definition from NPPF)

**Co-living -** A form of living accommodation with a focus on community that shares some facilities and amenities. These may include but are not limited to living and dining areas, leisure and working spaces.

**Community Infrastructure Levy -** A charge which local authorities can charge on most new types of development in their area, to be spent on infrastructure to support the development of the area. CIL was introduced in Reading in April 2015.

**Consumer Prices Index (CPI) -** The official measure of inflation in consumer prices.

**Deferred contribution -** Financial contribution by a developer based on a re-assessment of scheme viability either prior to implementation or at a late stage in

the development and subject to an upper limit in potential contributions equal to the shortfall on policy compliance

**Existing Use Value (EUV) -** The value of a site in its existing use.

**First Homes -** A new affordable housing product proposed by government that would be homes for sale to first-time buyers at a minimum 70% discount.

**Gross Development Value (GDV) -** The market value of a development assuming that the development is complete as at the date of valuation in the market conditions prevailing at that date.

**Housing association -** A non-profit organisation which provides affordable housing to those in housing need.

**Index linking -** A method of ensuring that financial sums are linked to an index of prices (such as the Retail Prices Index) to ensure that they take account of inflation and the changing cost of living.

**Intermediate housing -** Affordable housing provided for sale or rent at levels above social rent but below market levels, and which includes shared ownership.

**Key worker -** A public sector worker who provides an essential service to the community.

**Local Authority New Build -** New build housing developed by the local authority and intended to be rented at an affordable level to those in housing need.

**Local Housing Allowance (LHA) -** The rates used by the Valuation Office Agency (VOA) used to calculate housing benefit for those who are private renting. These vary according to area and dwelling size, and can be calculated on the VOA website.

**Reading affordable rent -** A locally-set level of affordable rent which is designed to be affordable to those needing affordable housing in Reading, and which is calculated in accordance with paragraphs 4.5 to 4.10 of this SPD. Reading affordable rent levels for 2019-20 are set out in Appendix 3.

**Registered provider -** Landlords of affordable housing, including local housing authorities and housing associations, which are registered with the Regulator of Social Housing.

**Residual land value -** The sum left over after deducting all development costs including benchmark land value and developer profit from anticipated scheme gross development value (GDV).

**Retail Prices Index -** A measure of inflation published on a monthly basis by the Office for National Statistics (ONS).

**Section 106 agreement -** A legally binding agreement or obligation entered into by the local authority and a land developer over an issue related to a planning application, under Section 106 of the Town and Country Planning Act 1990.

**Serviced apartments -** A use falling between hotels and housing, providing basic facilities for self-sufficient living but also the amenities of a hotel, and let on short-term tenancies, often less than three months. Generally classed as C1 hotels for planning purposes.

**Shared ownership -** An affordable housing product where a proportion of the property is purchased and the remainder rented from the Registered Provider.

**Social rent -** A rental level set by central government according to a formula (also known as formula rent).

**Starter homes -** A new dwelling available to purchase only by first time buyers between 23 and 39 years old, to be sold for 80% of market value, up to a price cap outside London of £250,000. Other restrictions may be specified in Regulations.

**Supported accommodation -** Accommodation where housing, support and sometimes care services are provided together[9].

**Surrogate site -** A site to be used for the provision of the affordable housing that would otherwise be delivered on the principal development site.

**Target rent -** A social rent level calculated by government which council and housing associations should use to move their social rents to over time (source of definition: Chartered Institute for Housing)

[9] Supported Accommodation Review, November 2016

# APPENDIX 1: POLICY H3 OF THE READING BOROUGH LOCAL PLAN

## Affordable Housing

***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;***
- ***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.***

4.4.17 Affordable housing is subsidised housing that enables the asking price or rent to be substantially lower than the prevailing market prices or rents in the locality, and is subject to mechanisms that will ensure that the housing remains affordable for those who cannot afford market housing. It is defined in the National Planning Policy Framework (NPPF) as, "Social rented, affordable rented and intermediate

housing, provided to eligible households whose needs are not met by the market." The Government has consulted on changes to this definition to classify some other tenures as affordable, including starter homes.

4.4.18 The NPPF indicates that in order to boost significantly the supply of housing, local authorities should ensure that their Local Plan meets the full, objectively assessed needs for market and affordable housing in the housing market area. It goes on to indicate that local planning authorities need to plan for a mix of housing based on current and future demographic trends, market trends and the needs of different groups in the community in order to deliver a wide choice of high quality homes, widen opportunities for home ownership and create sustainable, inclusive and mixed communities.

4.4.19 The Berkshire (with South Bucks) Strategic Housing Market Assessment (SHMA, 2016) has once again emphasised the critical need for affordable housing within Reading as well as the remainder of Berkshire. The SHMA identified a need for 406 new affordable homes per year in Reading, which represents the majority of the overall housing required. The consequences of not providing much-needed affordable homes would be severe, and would include homelessness, households in temporary or unsuitable accommodation, overcrowding and younger people having to remain living with parents for increasing periods. Insufficient affordable housing will also act as an impediment to economic growth, as firms will face increasing problems with accommodation for their workforce. Meeting even a substantial proportion of the identified housing need presents significant challenges, and it is therefore critical that new residential development of all sizes makes whatever contribution it can.

4.4.20 A Ministerial Statement in November 2014 sought to remove sites of ten or less dwellings from the need to provide affordable housing. Although subsequent challenges in the courts[10] have upheld this statement, they have also clarified that the statement does not have the effect of overriding local policies where there is evidence of exceptional need for affordable housing. Such a need clearly exists in Reading, and it is therefore appropriate that sites of ten or less dwellings contribute to meeting this need. However, on a practical level, it is more difficult to make such provision from residential conversions and from one-for-one replacement, which means that such developments will be exempted from the provisions of policy H3.

4.4.21 Affordable housing contributions will be sought from residential-only developments and mixed-use developments. On-site provision (serviced land or completed units) of affordable housing will always be sought in the first instance on sites of 10 dwellings or more. Where there are exceptional reasons, the provision of surrogate sites (serviced land or completed units) or commuted sums that will enable the provision of a commensurate number and mix of affordable units, will be considered. Examples of exceptional circumstances may include sites where there are existing concentrations of particular types of affordable housing, where there are demonstrable benefits to be gained by providing the new units elsewhere (e.g.

[10] See relevant Court of Appeal decision

to create more socially-balanced communities), or where there is an opportunity to provide a particular type of much needed housing elsewhere (e.g. family housing). In the case of commuted sums, the Council will choose the registered provider to which to direct the funding or may use the contribution for Local Authority New Build. Under this policy it is accepted that affordable housing provision can take place off site or through contributions in the case of sites of less than 10 dwellings.

4.4.22 Affordable housing contributions must be secured in perpetuity and thus be available to successive generations of households in recognised housing need. The most effective way of doing this is through the involvement of a registered provider (RP).

4.4.23 The target set in the policy has been determined as the result of an assessment of the viability of development of sites of various sizes in the Borough in accordance with the requirements of the NPPF. This will be the expected level of affordable housing provision.

4.4.24 However, the Council will be sensitive to exceptional costs of bringing a site to market such as for reasons of expensive reclamation, or infrastructure costs, or high existing use values. Where applicants can demonstrate, to the satisfaction of the Council, exceptional difficulties in bringing a site to market, the Council will be prepared to consider information on the viability of a particular scheme and, where justified through an open book approach, to reduce the affordable housing requirement. The information required will be proportionate to the scale of development, and, where a proposal is for less than 10 dwellings, will be more limited in scope and length. For sites of less than 10 dwellings, a brief schedule of the main elements of the viability calculations, supported by estate agent valuations, will generally suffice. The Affordable Housing SPD, to be revised later in 2019, will contain more detail on information to be submitted. As development costs are usually reflected in the residual land value, the purchase price of a particular site will not, on its own, be a reason for reducing the affordable housing requirement. The Council will generally secure provision of affordable housing through a Section 106 agreement.

4.4.25 The tenure, size and type of affordable housing provided as part of any scheme should respond to the identified need for affordable housing taking account of the most up-to-date information, including information in an Affordable Housing Supplementary Planning Document[11] or other Supplementary Planning Document. The SPD may need to be updated to take account of any changes to the affordable housing definition, as well as other matters. Taking account of the 2016 SHMA, housing with two or more bedrooms that can house families is a priority. Paragraph 4.4.8 considers this in more depth. New development should therefore include a range and mix of tenures, sizes and types (e.g. house types, flats) of affordable housing (as appropriate depending on site size) to reflect local needs and to reflect the range and mix of house types in the scheme as a whole (i.e. the mix of dwelling sizes in the provision of affordable housing should reflect the mix proposed for the private housing).

[11] The most up-to-date Affordable Housing SPD at the time of publication is that adopted in July 2013

4.4.26 At the time of producing the Local Plan, the tenure split below reflects the most up to date position on needs within Reading. However, a revised Affordable Housing SPD, to be produced during 2019, will look at this issue in detail. The needs below are therefore subject to change within the SPD.

- Social rented or affordable rent housing of no more than target rent – 70% of affordable housing units; and
- Intermediate and/or shared ownership housing – 30%.

# APPENDIX 2: POLICY H4 OF THE READING BOROUGH LOCAL PLAN

## Build to Rent schemes

***H4: BUILD TO RENT SCHEMES***

***Planning permission will be granted for developments of self-contained, private rented homes which:***

1. ***Are secured in single ownership providing solely for the rental market for a minimum 20 year term with provision for clawback of affordable housing contributions should the covenant not be met; and***
2. ***Provide tenancies for private renters for a minimum of three years with a six month break clause in the tenant's favour and structured and limited in-tenancy rent increases agreed in advance; and***
3. ***Provide a high standard of professional on-site management and control of the accommodation; and***
4. ***Provide a commitment to high-quality rental arrangements, through meeting Reading Borough Council's voluntary Rent with Confidence Standards or equivalent measures; and***
5. ***Provide for a mix of unit sizes in accordance with Policy H2 or CR6; and***
6. ***Meet the standards of design set out in Policy H5; and***
7. ***Provide 30% on-site affordable housing, either in accordance with Policy H3 and any relevant Supplementary Planning Document; or in the form of Affordable Private Rent Housing as defined and set out in a relevant Supplementary*** Planning Document.

4.4.27 Planning Practice Guidance, under the heading 'The private rented sector', indicates that:

> *"some privately rented homes can come from purpose built schemes held in single ownership which are intended for long term rental. The economics of such schemes differ from build for sale and should be determined on a case by case basis. To help ensure these schemes remain viable while improving the diversity of housing to meet local needs, local planning authorities should consider the appropriate level of planning obligations, including for affordable housing, and when these payments are required. So these homes remain available to rent only, local planning authorities may choose to explore using planning obligations to secure these schemes for a minimum period of time. Local planning authorities should enforce these planning obligations in the usual way." (reference 10-018-20150326)*

4.4.28 A large part of the housing stock in Reading is privately rented although mostly through landlords who own a limited number of separate properties. Development interest in large, institutionally owned, private rented schemes has increased in Reading recently. Thames Quarter, a development of 315 residential units on the corner of Vastern Road and Napier Road was approved in principle in 2017, subject to the applicant entering into a planning agreement to retain it in single ownership

and in occupation as a private rented scheme. In line with emerging government policy, including the NPPF, it is considered that the local plan for Reading needs to contain a policy covering this form of development.

4.4.29 Build to Rent developments are long term investment vehicles that it is hoped will be attractive to financial institutions. Financial institutions will be looking for large-scale, professionally managed developments. Such developments will bring new providers into the UK housing market (financial institutions play major roles on housing provision in much of Europe and North America), thus increasing competition. They will bring higher quality and better managed accommodation and associated services to the private rental market. They will operate with longer tenancies as the model seeks to retain occupants for as long as possible.

4.4.30 Private rented sector (PRS) housing meets the housing needs of residents who cannot afford to buy or do not want to buy private homes or who cannot get access to social housing or subsidised housing in Reading. It can benefit the local and regional economy as it enables greater household mobility. However, there are many issues associated with private renting in the Borough revolving around poor quality and poorly managed accommodation with limited security of tenure and unjustified rent increases.

4.4.31 The Council wishes to encourage a private rented sector which provides high quality, professionally managed accommodation and a greater level of security for tenants than that which is offered by much of the current PRS market. We will support institutional investment in the sector where benefits are secured for residents and the economy of the Borough and where this produces high quality development with positive benefits for the Borough. Such schemes will normally be larger scale developments of more than 50 units to achieve the level of quality and facilities and to efficiently provide the high quality of management that is needed to support such accommodation.

4.4.32 It is accepted that as Build to Rent developments are dependent on long term rental income rather than early sales, their funding is inevitably long term, and operates to different viability models compared to for sale schemes. Government policy therefore sees a need for some flexibility, particularly in relation to affordable housing provision. Nevertheless, where such justification is being made, the Council will expect the viability assessment to also provide information on the viability of the development as a for sale scheme.

4.4.33 The Council will expect rental levels for the affordable housing or Affordable Private Rent housing to be related to Local Housing Allowance rate levels (including service charges) and be affordable for those identified as in need of affordable housing in the Borough. An Affordable Housing SPD, to be produced in 2019, will set out further detail. The Council will expect such housing to remain affordable in perpetuity.

4.4.34 That policy acknowledges the need to tie such schemes to providing rental accommodation for a minimum period of time, particularly where the planning authority has been flexible over affordable housing provision or in the use of the Affordable Private Rent housing. Therefore, where viability assessments show that

the full target affordable housing cannot be provided or where the provider proposes the provision of Affordable Private Rent Housing, managed by the owner of the development, the Council will expect the application to agree to a covenant tying the development to providing solely private rented accommodation for a minimum period of 20 years  Where viability testing demonstrates that affordable housing contributions are unviable, clawback mechanisms will be included as part of the planning permission to recoup the loss of affordable housing if any residential units are sold out of single ownership within the covenant period. Comments on assessing viability within policy H3 and its supporting text also apply to schemes under H4. A charge towards the provision of additional affordable housing will be triggered where any private rented homes are sold within the development within 20 years of occupation of the completed development.

4.4.35 Affordable housing will be allocated to eligible households on Reading's housing waiting list. Affordable Private Rent Housing must be allocated in the first instance to eligible households on Reading's housing waiting list.

4.4.36 Any on-site affordable housing (or exceptionally where such housing is provided off-site) will be provided in perpetuity. Affordable Private Rent Housing must be provided in perpetuity.

# APPENDIX 3: READING AFFORDABLE RENT LEVELS 2020

'Reading affordable rents', which is the capped rental level for the rented portion of an on-site affordable housing contribution (see paragraphs 4.5 to 4.10), is set at 70% of market rents. The tables below set out what that would equate to at 2019-20 levels.

The rents below are only relevant at the time of publication. The Council will publish a revised schedule on its website on an annual basis to guide applicants and developers.

***Table 1: Reading affordable rent levels 2020***

| Size | Current market rent (median) per month | Current market rent (median) per week | Reading affordable rent per month | Reading affordable rent per week |
|---|---|---|---|---|
| 1-bed | £823 | £189.92 | £576.10 | £132.94 |
| 2-bed | £1,101 | £254.08 | £770.70 | £177.86 |
| 3-bed | £1,300 | £300 | £910 | £210 |
| 4-bed | £1,700 | £392.31 | £1,190 | £274.62 |

# APPENDIX 4: CALCULATION FOR PROFIT SHARE APPROACH TO DEFERRED CONTRIBUTIONS

This appendix sets out a standard calculation to use where a profit share approach is to be used to calculate a deferred contribution for a development where the affordable housing contribution has been reduced on viability grounds.

## Calculation of deferred contribution (X)

**X = (((A + B) – C) – ((D + E) - F) - P) x 0.5**

A = GDV achieved on sale/lease of 90% of residential units and GDV from other parts of the development sold/let and other income receipts (£)

B = Estimated GDV for parts of the development that are yet to be sold/let and other income sources (£)

C = GDV determined as part of the assessment of viability at the time planning permission was granted (or as determined in previous review) (£)

D = Development costs incurred at the time of review (£)

E = Estimated development costs for remainder of the development (£)

F = Total development costs determined as part of the assessment of viability at the time planning permission was granted (or as determined in previous review) (£)

P = (A + B – C) * Y; Developer profit on change in GDV (£)

Y = Developer profit as a percentage of GDV as determined at the time planning permission was granted (%)

*Notes:*

*(A + B) - C = The change in GDV from the grant of planning permission (or previous review) to the late stage review (£)*

*(D + E) - F = The change in development costs from the grant of planning permission (or previous review) to the late stage review (£)*

*P = Developer profit on change in GDV (£)*

*0.5 = Any surplus profit, after deducting the developer profit (P), will be shared equally between the developer and the Council, with the Council share being used for the provision of affordable housing within Reading*

## Calculation of deferred contribution upper limit (Z)

An upper limit (Z) will be applied to the deferred contribution to ensure that it, in combination with the already agreed affordable housing contribution, does not exceed a policy-compliant levels of affordable housing. This upper limit will be calculated as follows:

**Z = ((A + B) x 0.5) x G) – H**

A = GDV achieved on sale/lease of 75% of residential units and GDV from other parts of the development sold/let and other income receipts (£)

B = Estimated GDV for parts of the development that are yet to be sold/let and other income sources (£)

G = relevant proportion to achieve policy compliance, depending on the size of scheme. For schemes of 10 dwellings or more, G is 0.3. For schemes of 5-9 dwellings, G is 0.2. For schemes of 1-4 dwellings, G is 0.1.

H = The financial value of the existing affordable contribution that has already been agreed either at planning permission stage or at an earlier viability review.

# APPENDIX 5: CHECKLIST FOR VIABILITY ASSESSMENT OF SITES OF 10 DWELLINGS OR MORE

***Table A5.1: BASIC INFORMATION (10 dwellings or more)***

| INFORMATION REQUIRED | COMMENTS | ✓/X |
|---|---|---|
| Site plan with building footprints | At 1:500 | ✓/X |
| Gross and net site area | In Hectares (ha) | ✓/X |
| Schedule of existing floorspaces | Areas measured and provided in accordance with the RICS Code of Measuring Practice, specifying both NIA and GIA. | ✓/X |
| Schedule of unit numbers and sizes | Including number of bedrooms and other habitable rooms. | ✓/X |
| Summary case of why provision of a policy-compliant level of affordable housing cannot be provided. | Short summary using bullet points where appropriate. | ✓/X |

***Table A5.2: VIABILITY FACTORS (10 dwellings or more)***

| INFORMATION REQUIRED | COMMENTS | ✓/X |
|---|---|---|
| **DEVELOPMENT VALUE** | **See below** | **✓/X** |
| Value of private sale units | Estimated achieved values, for scheme and individual dwellings. Two independent valuations supported by analysed relevant market sales evidence of genuinely comparable properties. | ✓/X |
| Value of private rental units (for build to rent developments) | Estimated capitalised net rental income. This should be supported by relevant evidence of market lettings of genuinely comparable properties and analysed comparable market sale of rental investments. | ✓/X |
| Value of the affordable housing provision, where relevant, together with tenure assumptions and calculation of any commuted sum | Assumptions as to the proposed unit types, tenures and values of providing the affordable housing or the financial contribution proposed including details of tenure assumptions and evidence or estimates of RP offers where appropriate. Detailed assumptions adopted in computing the value of the affordable units should also be provided including rents, yields, discount period, allowances and deductions sufficient to reproduce the valuation. | ✓/X |
| Details of any grants/non developer financing towards affordable housing provision | e.g. Homes England or local authority grants, charitable funding, direct and indirect funding from the partner registered housing provider | ✓/X |
| Other values generated by the scheme | e.g. the value any non-residential uses, any ground rents, car parking, temporary income, etc. | ✓/X |

| INFORMATION REQUIRED | COMMENTS | ✓/X |
|---|---|---|
| Gross development value (GDV) | The total of items above. | ✓/X |
| Marketing and sales costs and fees | Estimated fees for property agents, marketing, legal fees etc. | ✓/X |
| Net development value | GDV minus marketing and sales costs. | ✓/X |
| **DEVELOPMENT COSTS** | **See below** | **✓/X** |
| Estimated construction costs | BCIS costs or, if higher, supported by Tender costs or QS schedule. should be accompanied by a full elemental cost plan. Include contract related fees and itemised/defined 'abnormals'. Include any costs of complying with policy, e.g. sustainability standards, SuDS etc. | ✓/X |
| Itemised preliminary costs | Site specific costs e.g. demolition, and other works arising from ecological, geotechnical, archaeological and other site investigations, decontamination, stabilisation, land forming/raising, infrastructure and servicing, site set up and contractor/ contract preparation. These would be expected in normal circumstances to be reflected within the purchase price. Should be verified by independent cost consultants. | ✓/X |
| Contingency | A development contingency allowance to cover unforeseen costs. | ✓/X |
| Professional fees presented under each respective heading | All related professional fees including architects, planners, engineering, QS, ecologists, arboriculturalists, project manager, CDM etc., individually listed and costed. | ✓/X |
| Planning costs as advised by the LPA | Policy compliant costs under Section 106 agreements and CIL unless otherwise advised. | ✓/X |
| Financing details | Following valuation convention it is expected the scheme appraisal will reflect an assumption of 100% debt finance reflecting a single overall interest rate. | ✓/X |
| Estimated profit | It is expected that profit will be expressed in terms of a percentage return on GDV and where more than one use is in the proposal it is expected relevant rates will be applied to each element to reflect the different levels of risk involved including affordable housing. | ✓/X |
| **RESIDUAL LAND VALUE** | **See below** | **✓/X** |
| Residual land value | The residual land value, i.e. the gross development value minus the development costs set out above. There should be a fully detailed scheme appraisal showing the computation which generates the residual value. | ✓/X |

| INFORMATION REQUIRED | COMMENTS | ✓/X |
|---|---|---|
| **BENCHMARK LAND VALUE** | **See below** | **✓/X** |
| Current/Existing Use Value | Value of site in its current use, prior to the deduction of land related costs, supported by an independent valuation, including fully justified assumptions, copy leases etc where appropriate and a fully reasoned justification for the land owner premium proposed. | ✓/X |
| Land costs | Including legal and agent's fees, site promotion, taxes and duties, together with any exemptions or tax-efficient delivery vehicles. These should be based on the land value benchmark not price paid for the site. | ✓/X |
| Premium | Assessed premium to landowners for retaining site in current use. This will vary by site but will generally be within 10% to a maximum of 30%. The premium will be lower where the existing use is to be retained on site. Items such as relocation costs will be excluded. | ✓/X |
| Benchmark Land Value | The current use value less costs and profit.<br>This should in most circumstances be based on an EUV plus approach. AUV approach will only be accepted where these can be supported by a relevant planning consent, or can demonstrate to the satisfaction of the Council that the proposed use is fully compliant with the Council's prevailing policies, where the use is capable of being implemented and demand for the use can be evidenced, and where detailed reasons are provided why the applicant has chosen not to pursue this use. Analysis of market land transactions will only be considered useful as a cross check where it can be demonstrated that the transactions reflect the current policy background and are fully compliant with those policies. As such on sales of land with consent are likely to be suitable for this purpose. | ✓/X |
| **OTHER CONTEXTUAL INFORMATION** | **See below** | **✓/X** |
| Land acquisition price | Including evidence of price paid. | ✓/X |
| Details of purchase process | Details of process used, e.g. private treaty, open market bid, auction etc. | ✓/X |
| Basis of purchase | Details of basis of purchase, e.g. outright purchase, option, contract etc. | ✓/X |
| Terms of acquisition | Details of any terms of acquisition, e.g. subject to planning, soils, ground conditions survey, etc. | ✓/X |

| INFORMATION REQUIRED | COMMENTS | ✓/X |
|---|---|---|
| Construction timescales, programme and phasing | Should include any proposed phasing, particularly where it would result in phased CIL payments. | ✓/X |
| Detailed cashflow for the development | Showing the proposed phasing amounts and timings of all the income and expenditure forecasts and payments. | ✓/X |

***Table A5.3: SUMMARY INFORMATION (10 dwellings or more)***

| INFORMATION REQUIRED | COMMENTS | ✓/X |
|---|---|---|
| Residual value summary - policy compliant | Summary of calculation of residual value including policy compliant affordable housing contribution. | ✓/X |
| Residual value summary - as proposed | Summary of calculation of residual value including proposed affordable housing contribution. | ✓/X |
| Evidence of sensitivity testing | Evidence of sensitivity testing and checks being undertaken to verify the soundness of the judgements being taken on viability, e.g. different profit assumptions, comparisons with the sale price of land for similar development, etc. | ✓/X |
| Comparison of residual valuation with benchmark site values | Site Value should equate to the market value providing that the value has regard to development plan polices and all other material planning considerations and disregards that which is contrary to the development plan. | ✓/X |

# APPENDIX 6: CHECKLIST FOR VIABILITY ASSESSMENT OF SITES OF LESS THAN 10 DWELLINGS

***Table A6.1: BASIC INFORMATION (less than 10 dwellings)***

| INFORMATION REQUIRED | COMMENTS | ✓/X |
|---|---|---|
| Site plan with building footprints | At 1:500 | ✓/X |
| Gross and net site area | In Hectares (ha) | ✓/X |
| Schedule of existing floorspaces | Areas measured and provided in accordance with the RICS Code of Measuring Practice, specifying both NIA and GIA. | ✓/X |
| Schedule of unit numbers and sizes | Including number of bedrooms and other habitable rooms. | ✓/X |
| Summary case of why provision of a policy-compliant level of affordable housing cannot be provided. | Short summary using bullet points where appropriate. | ✓/X |

***Table A6.2: VIABILITY FACTORS (less than 10 dwellings)***

| INFORMATION REQUIRED | COMMENTS | ✓/X |
|---|---|---|
| **DEVELOPMENT VALUE** | **See below** | **✓/X** |
| Value of private sale units | Estimated achieved values, for scheme and individual dwellings. Two independent valuations or benchmarked against Land Registry values. | ✓/X |
| Other values generated by the scheme | e.g. the value any non-residential uses, any ground rents, car parking, temporary income, etc. | ✓/X |
| Gross development value (GDV) | The total of items above. | ✓/X |
| Marketing and sales costs and fees | Estimated fees for property agents, marketing, legal fees etc. | ✓/X |
| Net development value | GDV minus marketing and sales costs. | ✓/X |
| **DEVELOPMENT COSTS** | **See below** | **✓/X** |
| Estimated construction costs | BCIS costs or, if higher, supported by Tender costs or QS schedule. Include contract related fees and itemised/defined 'abnormals'. Include any costs of complying with policy, e.g. sustainability standards, SuDS etc. | ✓/X |
| Itemised preliminary costs | Site specific costs e.g. demolition, and other works arising from ecological, geotechnical, archaeological and other site investigations, decontamination, stabilisation, land forming/raising, infrastructure and servicing, site set up and contractor/ contract preparation. These would be expected in normal circumstances to be reflected within the purchase price. | ✓/X |

| INFORMATION REQUIRED | COMMENTS | ✓/X |
|---|---|---|
| Contingency | A development contingency allowance to cover unforeseen costs. | ✓/X |
| Professional fees presented under each respective heading | All related professional fees including architects, planners, engineering, QS, ecologists, arboriculturalists, project manager, CDM etc., individually listed and costed. | ✓/X |
| Planning costs as advised by the LPA | Policy compliant costs under Section 106 agreements and CIL unless otherwise advised. | ✓/X |
| Financing details | Following valuation convention it is expected the scheme appraisal will reflect an assumption of 100% debt finance reflecting a single overall interest rate. | ✓/X |
| Estimated profit | Basic estimated profit. | ✓/X |
| **RESIDUAL LAND VALUE** | **See below** | **✓/X** |
| Residual land value | The residual land value, i.e. the gross development value minus the development costs set out above. There should be a fully detailed scheme appraisal showing the computation which generates the residual value. | ✓/X |
| **BENCHMARK LAND VALUE** | **See below** | **✓/X** |
| Current/Existing Use Value | Value of site in its current use, prior to the deduction of land related costs. | ✓/X |
| Land costs | Including legal and agent's fees, site promotion, taxes and duties, together with any exemptions or tax-efficient delivery vehicles. These should be based on the land value benchmark not price paid for the site. | ✓/X |
| Premium | Assessed premium to landowners for retaining site in current use. This will vary by site but will generally be within 10% to a maximum of 30%. The premium will be lower where the existing use is to be retained on site. Items such as relocation costs will be excluded. | ✓/X |

| INFORMATION REQUIRED | COMMENTS | ✓/X |
|---|---|---|
| Benchmark Land Value | The current use value less costs and profit.<br>This should in most circumstances be based on an EUV plus approach. AUV approach will only be accepted where these can be supported by a relevant planning consent, or can demonstrate to the satisfaction of the Council that the proposed use is fully compliant with the Council's prevailing policies, where the use is capable of being implemented and demand for the use can be evidenced, and where detailed reasons are provided why the applicant has chosen not to pursue this use. Analysis of market land transactions will only be considered useful as a cross check where it can be demonstrated that the transactions reflect the current policy background and are fully compliant with those policies. As such on sales of land with consent are likely to be suitable for this purpose. | ✓/X |
| **OTHER CONTEXTUAL INFORMATION** | **See below** | **✓/X** |
| Land acquisition price | Including evidence of price paid. | ✓/X |

***Table A6.3: SUMMARY INFORMATION (less than 10 dwellings)***

| INFORMATION REQUIRED | COMMENTS | ✓/X |
|---|---|---|
| Residual value summary - policy compliant | Summary of calculation of residual value including policy compliant affordable housing contribution. | ✓/X |
| Residual value summary - as proposed | Summary of calculation of residual value including proposed affordable housing contribution. | ✓/X |
| Comparison of residual valuation with benchmark site values | Site Value should equate to the market value providing that the value has regard to development plan polices and all other material planning considerations and disregards that which is contrary to the development plan. | ✓/X |

Planning Section
Reading Borough Council
Civic Offices, Bridge Street
Reading
RG1 2LU
Tel: 0800 626540
Planning Policy e-mail
Planning Policy website

Reading Borough Council
Working better with you

**Appendix 2**

BPS Report (August 2020)

# 55 Vastern Road, Reading, RG1 8BU

# Independent Viability Review

Prepared on behalf of Reading Borough Council

3rd August 2020

Planning reference: 200188

BPS
Chartered Surveyors

215a High Street, Dorking, RH4 1RU
www.bps-surveyors.co.uk
Tel: 01483 565 433

# Contents

## 1.0 INTRODUCTION

1.1 BPS Chartered Surveyors have been instructed by Reading Borough Council ('the Council') to undertake a review of a Financial Viability Assessment (FVA) prepared by Berkeley Homes (Oxford and Chiltern) Ltd ('the Applicant') in connection with a planning application for the redevelopment of the above site.

1.2 The site currently comprises an office building previously occupied by SSE who recently vacated the site. The site is approximately 0.767 ha in size and the office buildings on site have a GIA of 4,683 sq m (50,403 sq ft) and 180 car parking spaces. The wider site has an electrical substation switch gear which is to be unaffected by the proposals and is not included within the red development line.

1.3 The location is predominantly mixed in nature with primarily residential uses to the west and office buildings to the east. There are planning applications and consents for large residential development in the surrounding area including the Aviva mixed use redevelopment of Vastern Retail Park Hermes redevelopment of the Royal Mail site immediately to the south of the subject. To the north of the site is the River Thames and it is on the edge of Reading town centre, Approximately 100m from Reading Station. The site is not located in a conservation area and part of the site is occupied by the locally listed 55 Vastern Road which is to be demolished in the proposed development.

1.4 The proposals are for:

*Demolition of existing structures and erection of a series of buildings ranging in height from 1 to 11 storeys, including residential dwellings (C3 use class) and retail floorspace (A3 use class), together with a new north-south pedestrian link, connecting Christchurch Bridge to Vastern Road*

1.5 The basis of our review is the Viability Assessment prepared by Berkeley Homes Ltd, dated January 2020, which concludes that the proposed scheme with no affordable housing contribution currently shows a profit of £417,478 which is equivalent to 0.53% on GDV which is significantly below the target they have set of 20% on GDV and therefore no affordable housing can viably be offered. We have also downloaded documents available on the Council's planning website. We have received a live version of the Argus appraisal included in the report.

1.6 We have assessed the cost and value inputs within the financial appraisal in order to determine whether the scheme can viably make any affordable housing contributions.

1.7 We have searched the Reading Borough council planning website and have not identified any other recent or outstanding planning applications relating to the site. In 2005 permission was granted for the ground floor of the warehouse to be used as B1 office space. A Land Registry search shows that the applicant does not currently own the property.

## 2.0 CONCLUSIONS AND RECOMMENDATIONS

2.1 We have reviewed the Viability Assessment prepared by Berkeley on behalf of the applicant for the proposed scheme which concludes that the proposed scheme generates a residual profit of £417,500 (0.53% on GDV) which is below their profit target of 20% on GDV. On this basis the scheme cannot provide any affordable housing contribution.

2.2 We have been provided with a live version of the Argus appraisal included in the Berkeley report to which we have applied our amendments which include:

*Increased residential sales values*
*Inclusion of car parking revenue*
*Inclusion of ground rental income*
*Inclusion of café value*
*Reduced marketing fees*
*Increased CIL liability*
*Reduced developer profit target*
*Reduced benchmark land value*

2.3 Consistently with Berkeley we have used a residual profit appraisal with the land cost fixed to the benchmark land value, however we have allowed for a fixed developer profit in the appraisal. Our amended appraisal shows that the scheme delivers a residual deficit of £3 million and therefore we agree that no affordable housing can viably be provided. If a fixed profit target is not included the scheme shows a residual profit of 14.54% on GDV. Our appraisal summary can be found in Appendix Four and includes sensitivity analysis which shows that increases in residential sales values of 5% will result in the scheme producing a surplus.

2.4 We consider the main point of contention to be the residential sales values. Given the proximity to Reading station, which will be served by Crossrail when it opens in 2021, it is likely that there will be large increases in residential value in the area. Given the high quality design of the scheme, the reputation of the applicant and the prime riverside location it is reasonable to believe that sales values will be at a premium to residential developments in Reading. Our pricing schedule reflects a premium on the achieved values in the current market however there is potential that by the time the scheme is delivered the residential values could surpass these figures, and therefore we recommend a late stage review is adopted in the S106 agreement so that improvements to viability can be captured over time.

2.5 Paragraph 64 of the NPPF requires that 10% of units in major developments be provided for affordable home ownership. In this instance this would constitute 20 units as intermediate shared ownership tenure. This would put the scheme in greater deficit however we consider this the minimum requirement for a scheme of this size.

<u>Benchmark Land Value</u>

2.6 The site consists of a mainly two storey, part three storey detached office building with a total GIA of 4,683 sq m (50,403 sq ft). The building has been extended several times and is a 1960s brick construction which appears to be of reasonable condition having been made only recently vacant. The space is predominantly open plan and we have seen photos of the site which show it to be in generally good condition. There is car parking for 180 vehicles and the site is adjacent to the river Thames and is approximately 100m from Reading Station.

2.7 Berkeley Homes have relied on a valuation report produced by Romans dated December 2019. Romans have assumed the value of the property will be maximised by the property being subdivided into several smaller units between 5,000 and 10,000 sq ft in size. They have allowed for a 2,000 sq ft reduction in size giving a revised NIA of 43,012 sq ft (net to gross 85%) and consider that the car parking requirement for the office space will be only 1 space per 500 sq ft of useable office space (86 spaces total) leaving 94 car parking spaces to be let privately.

2.8 Romans have adopted a rental value of £16 per sq ft; or £688,000 pa. They have assumed the car parking spaces will be let at £1,000 per space giving a rental value of £94,000 pa. They suggest they have applied equivalent rents to the subject property so that rent free periods and other tenant incentives have been stripped out of the rental value. They have provided comparable evidence for rental and sale transactions, some of which is too historic for relevance. Romans have also made an allowance of £400,000 towards the cost of converting the building to accommodate multiple tenants and alterations to the car park gates to allow the use of other businesses, as well as allowing for a 12 month rent free period. They have capitalised the income at a yield of 8% which gives a capital value (EUV) of £8 million.

2.9 Berkeley have applied a landowner premium of 20% to this value which they consider to be conservative given the demand for office space, the location and the potential for improvement. They accordingly arrive at an existing use value plus (EUV+) of £9.6 million as the benchmark land value.

2.10 We find the overall approach by Berkeley to be reasonable although consider this to be an alternative use valuation given the changes to the building and private use of the car park. We have identified additional rental and investment transactions and find the rental values and yield adopted by Romans to be appropriate. Our cost consultant has judged the sum of £400,000 to be reasonable for the conversion proposed by Romans and we have allowed for a further £1 million pounds for light refurbishment due to the age of the building which is the lowest amount our cost consultant would expect for a building of this age. We have adopted a 21 month rent free / void period for the office space to allow for the conversion, tenants to occupy the space and tenant incentives, as well as deducting letting marketing, agent and legal fees.

2.11 This gives a total site value of £6.5 million and the Argus appraisal summary for the valuation can be found in Appendix Two. Given that this is an AUV no landowner premium should be adopted in accordance with NPPG, therefore we adopt a benchmark land value of £6.5 million as the benchmark land value.

Proposed Scheme

2.12 The proposed scheme includes 209 residential units which are arranged over 7 blocks ranging between 2 and 11 storeys. The proposals included improvements to the public realm and pedestrian access through the site providing a link between Caversham and the station, as well as the inclusion of a small café with outdoor seating. All of the units are proposed for private sale.

2.13 The site is in a prominent location on the edge of Reading town centre. It is approximately 100m at its closest to Reading station which is a stop for both cross country services, direct trains to London and will benefit from Crossrail which is due to open in 2021. The site is bound by residential uses to the west, office space to the east and the Vastern Retail park to the south which is subject to a planning application for large scale development. The river Thames is immediately to the

north of the site with the Thames Path running along the site and Christchurch Bridge providing direct access across the river to Christchurch Meadows park. We consider the location to be prominent for residential development in the town.

2.14 It can be seen that the position of the units varies greatly with some units having riverside views, which we would expect to achieve a large premium, and others having views over the busy Vastern Road or the substation which we would expect to decrease values. Most of the proposed unit include balconies and given the prestige of the developer we consider the fit out of the units is likely to be high specification. The landscaping and setting of the development are of high quality and overall we consider this to be a desirable development, the only drawback being the electricity substation on site.

2.15 Berkeley have relied on a valuation report produced by Savills for their valuation of the proposed units. Savills have identified transactional and marketing evidence from several developments around the town including Verto, Riverside, Kings Reach, Weldale, 300 Kings Road, St Marys Hall and St Davids Hall. They have created a full pricing schedule which gives a total value of £76.647 million (£540 per sq ft average) for the proposed units. Berkeley have increased these values by approximately 2.5% to reflect their quality and reputation which gives a total value of £78,574,580 (£556 per sq ft average).

2.16 We have identified a further comparable development at Huntley Wharf which is being delivered by the applicant. Although it offers more amenities than the subject we consider the subjects location to be more desirable and therefore suggest the proposed units in the subject would achieve higher values.

2.17 Overall we consider the values proposed by Savills to be slightly lower than our expectations given the premium location, high quality design and fit out and riverside views many of the units have. We have created a full pricing schedule which can be found in Appendix Three and can be summarised as follows:

| Beds | Persons | Count | Av Sq M | Av Sq Ft | Savills Price | BPS Price | £ / sq ft |
|---|---|---|---|---|---|---|---|
| 1b | 1 | 1 | 39 | 420 | 250,000 | £280,000 | £667 |
| 1b | 2 | 59 | 50 | 540 | 298,864 | £315,678 | £584 |
| 2b | 3 | 80 | 62 | 672 | 362,175 | £392,125 | £584 |
| 2b | 4 | 57 | 72 | 771 | 407,947 | £441,140 | £572 |
| 3b | 4 | 2 | 74 | 797 | 457,000 | £585,000 | £734 |
| 3b | 5 | 6 | 89 | 959 | 547,500 | £627,500 | £654 |
| 3b | 6 | 4 | 95 | 1,027 | 584,500 | £650,000 | £633 |
| **Total** | | **209** | **13,138** | **141,421** | **76,647,000** | **£82,955,000** | **£587** |

2.18 Overall our pricing schedule represents an increase of £6.38 million (£45 per sq ft) on the values proposed by Savills and £4.38 million (£31 per sq ft) on the values adopted by Berkeley. More information on the residential valuation can be found in section 4 of this report.

2.19 Ground rents have not been included by Savills or Berkeley given the government are looking to restrict ground rents to a peppercorn on new build developments. There is no parliamentary timescale for its reading and consequently it remains practice for developers to generate revenue through ground rental income, therefore we

consider it should be included in the appraisal. We have adopted a rental value of £350 per flat and have capitalised the income at a yield of 10% to reflect the uncertainty of their income which gives a value of £731,500 for ground rental income.

2.20 The proposed development includes 55 car parking spaces with Savills having assumed 13 of the spaces will be allocated to the 13x three bedroom units and have not adopted a value for the remaining 37 unallocated spaces. We consider the unallocated spaces should be assigned a value as they will likely be sold to individual apartments by the applicant. We have adopted a value of £20,000 per space which gives a total value of £740,000 for the car parking element.

2.21 Berkeley have not attributed a value to the 18 sq m café included in the proposals on the basis that it is likely to be operated by a local residents group or private independent operator. We consider value should be attributed to this element and have adopted a rental value of £25/per sq ft and capitalised the income at a yield of 6% giving a total capital value of £80,400 to the unit. More information on this valuation can be found in section 5 of this report.

Development Costs

2.22 Our Cost Consultant, Neil Powling, has analysed the build cost plan for the proposed scheme prepared by Fulkers LLP, dated January 2020, and concludes that:

*Our benchmarking results in an adjusted benchmark of £2,979/m² that compares to the Applicant's £2,950/m². We therefore consider the Applicant's costs to be reasonable.*

2.23 Mr Powling's full cost report can be found at Appendix 1. We have accordingly adopted the costs proposed by Berkeley.

*2.24* We find most of the additional cost assumptions used by Berkeley to be reasonable apart from the inclusion of marketing and agents fees at 4.5% which we have reduced to 3%.

2.25 Berkeley have assumed CIL charges at £1.626 million while we have been informed by the Councils CIL officer that the liability for the scheme would be £2,186,703.88 when accounting for the existing GIA.

2.26 S106 charges have been included at £205,754 which the Council find to be reasonable and we have accordingly adopted. Berkeley have made an allowance of £500,000 for third party costs which we find to be higher than we would expect for such a development and have reduced to £50,000.

2.27 The developer profit targeted by Berkeley Homes is 20% on the residential GDV. While this is a large development we do not consider it to be high risk and have accordingly adopted a developer profit target of 17.5% on residential GDV. We have accordingly included this as a fixed cost in our appraisal.

2.28 We find the development timings and assumptions on finance adopted by Berkeley to be reasonable.

## 3.0 PRINCIPLES OF VIABILITY ASSESSMENT

3.1 Development appraisals work to derive a residual value. This approach can be represented by the formula below:

Gross Development Value – Development Costs (including Developer's Profit) = Residual Value

3.2 The residual value is then compared to a benchmark land value. Existing Use Value (EUV) and Alternative Use Value (AUV) are standard recognised approaches for establishing a land value as they help highlight the apparent differences between the values of the site without the benefit of the consent sought.

3.3 The rationale for comparing the scheme residual value with an appropriate benchmark is to identify whether it can generate sufficient money to pay a realistic price for the land whilst providing a normal level of profit for the developer. In the event that the scheme shows a deficit when compared to the benchmark figure the scheme is said to be in deficit and as such would be unlikely to proceed.

3.4 Development appraisals can also be constructed to include a fixed land value and fixed profit targets. If an appropriate Benchmark Land Value is included as a fixed land value within a development appraisal, this allows for interest to be more accurately calculated on the Benchmark Land Value, rather than on the output residual value. By including fixed profit targets as a cost within the appraisal, programmed to the end of development so as not to attract interest payments, the output represents a 'super' profit. This is the profit above target levels generated by the scheme which represents the surplus available towards planning obligations.

## 4.0 PRIVATE RESIDENTIAL VALUES

4.1 The residential element of the proposed scheme, as sought by the planning application, is for 209 residential units which are all proposed to be for private sale. Berkeley have relied on a valuation report and pricing schedules produced by Savills dated January 2020 to value the revenue of the proposed scheme. The scheme comprises the following accommodation:

| Beds | Persons | Count | Av Sq M | Av Sq Ft | Av value | £ / sq ft |
|---|---|---|---|---|---|---|
| 1b | 1 | 1 | 39 | 420 | £250,000 | £596 |
| 1b | 2 | 59 | 50 | 540 | £298,864 | £553 |
| 2b | 3 | 80 | 62 | 672 | £362,175 | £539 |
| 2b | 4 | 57 | 72 | 771 | £407,947 | £529 |
| 3b | 4 | 2 | 74 | 797 | £457,000 | £574 |
| 3b | 5 | 6 | 89 | 959 | £547,500 | £571 |
| 3b | 6 | 4 | 95 | 1,027 | £584,500 | £569 |
| **Total** | | **209** | **13,138** | **141,421** | **£76,647,000** | **£542** |

4.2 The site is in a prominent location on the edge of Reading town centre. It is approximately 100m at its closest to Reading station which is a stop for cross country services, direct trains to London and will benefit from Crossrail which is due to open in 2021. The site is bound by residential uses to the west, office space to the east and the Vastern Retail park which is subject to a planning application for large scale development. The river Thames is immediately to the north of the site with the Thames Path running along the site and Christchurch Bridge providing direct access across the river to Christchurch Meadows park. We consider the location to be prominent for residential development in the town and anticipate that residential values will be at a premium compared to most other sites in the town centre.

4.3 The proposed development is arranged across seven buildings ranging between two and eleven stories. It includes improvements to the public realm with a café and riverside square while there while it also provides a new pathway access from Caversham to the town centre from the Christchurch bridge.

4.4 There is a studio unit on the first floor of block D which is listed in the Savills pricing schedule as being in block E which we have amended in our pricing schedule. The blocks have different characteristics which are described in the table below:

| Block | No. Units | Height (storeys) | Views over |
|---|---|---|---|
| **A Railway Store** | 27 | 6 | Vastern Road |
| **B Goods Warehouse** | 78 | 11 | Some with substation, some with Vastern Road |
| **C Goods Office** | 10 | 4 | Some with river |
| **D Turbine Hall & Generator** | 54 | 10 | Most with river |
| **E Christchurch Wharf** | 33 | 8 | Most with river |
| **F Coal Drop** | 6 | 3 | Some with river |
| **G** | 1 | | |

4.5 It can be seen that the position of the units varies greatly with some units having riverside views, which we would expect to achieve a large premium, and others having views over the busy Vastern Road or the substation which we would expect to decrease values.

4.6 Most of the proposed unit include balconies and given the prestige of the developer we consider the fit out of the units is likely to be high specification. The landscaping and setting of the development are of high quality and overall we consider this to be a desirable development, the only drawback being the electricity substation on site.

### Savills approach

4.7 Savills have referenced their own residential market reports from January 2020 which indicates moderate house price increases in the region over the past few years with forecasts echoing similar sentiments. They suggest Reading is best placed to benefit from the ripple of price growth out of London.

4.8 Savills suggest the subject would attract interest given the proximity to the train station, Reading town centre and desirable neighbourhood of Caversham. This would make the subject flats suitable for couples commuting to London and the overseas market. They have received advice from their new homes team in Reading who suggest that the current climate for sales of one bedroom flats are stronger than for two bedroom units.

4.9 Savills have considered transactions and marketing from comparable developments in Reading. Some of these have been verified by land registry while some has been provided verbally or they have had direct involvement in the sale. The developments they have identified are as follows:

Verto, Kings Road, Reading, RG1 3FS

4.10 18 storey development (tallest in Reading) development with 103 residential units providing a concierge, residents gym, lounge, roof garden and high specification interiors. Located 0.7 miles south east of the subject, adjacent to the river Kennet and bound by busy roads, considerably further from the station (11 minute walk) in a predominantly commercial location. There are 27 car parking spaces but it is unclear how these are allocated and it is assumed these are sold separately. The plans indicate that all of the 2 bedroom units are 4 person and most have two bathrooms, one en suite to the master bedroom.

4.11 Savills have provided the following range of sales evidence which dates from the end of the last year:

- One bedroom: £248,000 - £330,000, 479 - 590 sq ft, £499 to £584 per sq ft
- Two bedroom £314,750 to £527,000, 647 - 1,028 sq ft, £448 to £630 per sq ft
- Three bedroom: £437,000 to £850,000, 847 sq ft - 1,516 sq ft, £516 to £608 per sq ft

4.12 We have identified further sales evidence form HM land registry which we have corresponded to the floor sizes provided in the marketing brochure for the development. For sales from the past 18 months the averages are as follows:

| Beds | Count | Price | Sq Ft | Sq M | £ Sq Ft | £ Sq M |
|---|---|---|---|---|---|---|
| **1** | 26 | £294,624 | 534 | 50 | £553 | £5,957 |
| **2** | 39 | £404,397 | 775 | 72 | £522 | £5,618 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **3** | 4 | £530,178 | 1,013 | 94 | £524 | £5,639 |
| **Total** | 69 | | | | | |

4.13 These values broadly correspond with the values identified by Savills.

4.14 Savills suggest that they would anticipate similar capital values and rates per sq ft to reflect the similar unit sizes, town centre location, water frontage and proximity to the train station. We consider that the subject scheme would achieve significantly higher values given the location is more desirable in both setting, with primarily residential surroundings and fronting a larger more open stretch of river, and the proximity the subject has to the station.

Riverside, Reading, RG1 6EL

4.15 Weston Homes development of 112 flats of up to seven storeys in height. South of the town centre, situated between the busy A33 and river Kennet, further from the town centre and approximately 1 miles south of the subject and train station (18 minute walk) in a predominantly residential location. Savills suggest all units have an under croft car parking space, and the units are of high specification, all two bedroom units reportedly have en suite shower facilities. Some of the units overlook the river while others on the western edge overlook the A33 and a self storage unit.

4.16 Savills have provided the following range of sales evidence which dates from the end of the last year:

- One bedroom: £240,000 - £305,000, 473 - 737 sq ft, £413 to £581 per sq ft
- Two bedroom £359,000 to £420,000, 703 - 962 sq ft, £436 to £540 per sq ft
- Three bedroom: £399,000 to £426,000, 815 sq ft - 851 sq ft, £494 to £523 per sq ft

4.17 Savills suggest that the units in the subject would achieve higher capital values and sales rates per quantum given the superior specification, location and river frontage. We find this to be a reasonable assumption.

Kings Reach, 38-50 Kings Road, RG1 3AA

4.18 Office conversion comprising 72 units in the town centre, approximately 0.5 miles south east of the subject therefore further from the train station in a predominantly commercial location. Flats to the rear benefit from canal views and there is no car parking.

4.19 Savills have provided the following range of sales evidence which dates from the end of the last two years:

- One bedroom: £185,000 - £300,000, 300 - 732 sq ft, £398 to £617 per sq ft
- Two bedroom £355,000 to £385,000, 685 - 832 sq ft, £463 to £518 per sq ft

4.20 Savills anticipate higher capital values and lower sales values per quantum in the subject given the larger unit sizes, superior specification. We find this to be reasonable given the reasons suggested by Savills and the location, car parking provision and purpose built design of the subject units rather than conversion from flats.

Weldale Street, Reading, RG1 7BX

4.21 New build 4 storey development in two phases. Phase one includes 25 one and two bedroom flats. Approximately 0.5 miles south west of the subject, fronting the busy A329 in a primarily industrial area, close to the station and includes undercroft car parking.

4.22 Savills have provided the following range of sales evidence which dates from the end of the last two years:

- One bedroom: £215,000 - £245,000, 333 - 468 sq ft, £502 to £661 per sq ft
- Two bedroom £310,000 to £347,500, 666 - 804 sq ft, £420 to £587 per sq ft

4.23 Savills suggest the subject units would achieve higher capital values and lower rates per quantum given the smaller units, superior specification and river frontage. We find this to be a reasonable assumption along with the proximity to the station, design of the development and more favourable residential location.

300 Kings Road, Reading, RG1 4HP

4.24 Conversion from office use to provide 79 flats over 3 storeys. Approximately 1 miles east of the subject property and on the edge of the town centre on a busy arterial road, which we agree with. The development includes a concierge service and residents' gym. Savills suggest the units at the rear benefit from canal views although this is not the case and is likely a typo.

4.25 Savills have provided the following range of sales evidence which dates from the end of the last year:

- Studios: £230,000 - £235,000, 372 - 374 sq ft, £584 to £632 per sq ft.
- One bedroom: £220,000 - £250,000, 354 - 400 sq ft, £575 to £659 per sq ft
- Two bedroom: £375,000, 633 sq ft, £592 per sq ft

4.26 Savills suggest the subject units would achieve higher capital values and lower rates per quantum given the smaller units, superior specification and river frontage. We find this to be a reasonable assumption along with the proximity to the station, design of the development and more favourable residential location.

St Marys Hall, 32-40 London Road, Reading, RG1 5AQ

4.27 Conversion of 19th century Georgian terraces period properties to provide 53 flats and mews houses. Approximately 0.9 miles south of the subject on the busy A4, further from the town centre and station, desirable residential area. Units benefit from high ceilings, allocated car parking and period features.

4.28 Savills have provided the following range of sales evidence which dates from the last 16 months:

- One bedroom: £285,000 - £350,000, 425 - 704 sq ft, £462 to £671 per sq ft
- Two bedroom: £300,000 - £375,000, 483 - 868 sq ft, £432 - £621 per sq ft

4.29 Savills suggest the subject units would achieve higher capital values and lower rates per quantum given the smaller units, superior specification and river frontage. We find this to be a reasonable assumption along with the proximity to the station, purpose built design of the development although the prestige of the units in St Marys Hall will bring values closer to the subject than other comparable evidence.

St Davids Hall, 24-30 London Road, Reading, RG1 5AQ

4.30 Neighbouring St Marys Hall and second phase of the same development. Conversion of 19th century Georgian terraces period properties to provide 53 flats and mews houses. Approximately 0.9 miles south of the subject on the busy A4, further from the town centre and station, desirable residential area. Units benefit from high ceilings, period features and allocated car parking.

4.31 Savills have provided the following range of sales evidence which dates from the last 16 months:

- One bedroom: £260,000 - £350,000, 425 - 965 sq ft, £468 to £671 per sq ft
- Two bedroom: £300,000 - £375,000, 483 - 868 sq ft, £432 - £621 per sq ft

4.32 Savills suggest the subject units would achieve higher capital values and lower rates per quantum given the smaller units, superior specification and river frontage. We find this to be a reasonable assumption along with the proximity to the station, purpose built design of the development although the prestige of the units in St Davids Hall will bring values closer to the subject than other comparable evidence.

Summary

4.33 Savills summarise the transactional evidence as follows:

| Type | Size (sq ft) | Sale Price £psf | Achieved Price £psf |
|---|---|---|---|
| Studio apartments | 372 to 394 | £230,000 to £235,000 | £584 to £632 |
| One bed apartments | 300 to 737 | £185,000 to £350,000 | £413 to £671 |
| Two bed apartments | 483 to 1,028 | £300,000 to £527,000 | £432 to £630 |
| Three bedroom | 815 to 1,516 | £399,000 to £850,000 | £494 to £608 |

4.34 Savills consider the apartments will benefit from a high standard of finish, the welcoming public realm, waterside frontage, car parking for some units and location. They have created a full pricing schedule which is attached in the appendix of their valuation report. This can be summarised as follows:

| Block | Block Name | Units | Area Sq Ft | Av unit size | GDV | £ Sq ft |
|---|---|---|---|---|---|---|
| A | Railway Store | 27 | 17,822 | 660 | £9,442,000 | £530 |
| B | Goods Warehouse | 78 | 51,053 | 655 | £27,070,000 | £530 |
| C | Goods Office | 10 | 6,329 | 633 | £3,385,000 | £535 |
| D | Turbine Hall & The Generator | 54 | 40,043 | 742 | £22,362,000 | £558 |
| E | Christchurch Wharf | 33 | 21,578 | 654 | £11,928,000 | £553 |
| F | Coal Drop Building | 6 | 3,940 | 657 | £2,110,000 | £536 |
| G | Old Power Station | 1 | 657 | 657 | £350,000 | £533 |
| **Total** | | **209** | **141,421** | **677** | **£76,647,000** | **£542** |

4.35 This gives a total GDV of £76.647 million (£542 per sq ft average) for the proposed units which is adopted by Berkeley in their appraisal.

4.36 Berkeley have increased these values by approximately 2.5% to reflect their quality and reputation which is based on advice from their own sales and marketing team. This gives a total residential GDV of £78,574,580 (£556 per sq ft average).

**BPS approach**

4.37 We find the evidence identified by Savills to be sufficient and relevant to the subject site, although disagree with their assumptions on value in several instances. For the purposes of consistency we have based on our analysis on the Savills report rather than the slightly increased figure adopted by Berkeley in the appraisal. We have identified an additional comparable scheme:

Huntley Wharf, Kernavon Drive, RG1 3DH

4.38 Berkeley Homes riverside development approximately 1 mile south east of the subject. It is situated between an industrial estate, retail park, river Kennet, Reading prison and residential uses and further from the town centre.

4.39 High quality consisting of entirely flats, all units with private outdoor amenity and includes residents' gym, shop, restaurant and nursery. In several phases with blocks of up to 11 storeys in height, 765 units in total. They have listed the following asking prices:

One bedrooms: from £307,500

Two bedrooms: from £385,000

Three bedrooms: from £565,000

4.40 Although Huntley Wharf is considerably larger than the subject and will benefit from enhanced place making we suggest that the units in Huntley Wharf would achieve lower values than those in the subject given the subject is in a more desirable surrounding area, to the station and frontage to a larger river. Given that the developer is the same and they are both riverside developments within the town centre we find this to be strong comparable evidence even though the units are only asking prices.

Summary

4.41 Overall we consider the values proposed by Savills to be slightly lower than our expectations. We consider the site to be in a premium location compared to all of the identified evidence, being in between the river Thames and the station, with Christchurch Meadow a short walk over the bridge. The scheme is well designed and we consider that units would be subject to a high specification fit out. Many of the units in blocks D and E will have price premiums due to the riverside location, while we consider that the units facing the road in Blocks A and B, and facing the substation in Block B will have lower values due to less desirable views.

4.42 We have created a full pricing schedule which can be found in Appendix Three. We have used the Savills accommodation schedule and floor plans obtained from the planning website to note whether the units have balconies and the view the flats have, with the planning documents differing slightly from the Savills schedule which can partly be credited to updated plans which have removed the balconies. We have

also taken into account the location of the units within the block, with slight height premiums and lower values on ground floor units, which is consistent with Savills approach.

4.43 The schedule is summarised in the tables below:

By Unit Type

| Beds | Persons | Count | Av Sq M | Av Sq Ft | Savills Price | BPS Price | £ / sq ft |
|---|---|---|---|---|---|---|---|
| 1b | 1 | 1 | 39 | 420 | 250,000 | £280,000 | £667 |
| 1b | 2 | 59 | 50 | 540 | 298,864 | £315,678 | £584 |
| 2b | 3 | 80 | 62 | 672 | 362,175 | £392,125 | £584 |
| 2b | 4 | 57 | 72 | 771 | 407,947 | £441,140 | £572 |
| 3b | 4 | 2 | 74 | 797 | 457,000 | £585,000 | £734 |
| 3b | 5 | 6 | 89 | 959 | 547,500 | £627,500 | £654 |
| 3b | 6 | 4 | 95 | 1,027 | 584,500 | £650,000 | £633 |
| **Total** | | **209** | **13,138** | **141,421** | **£76,647,000** | **£82,955,000** | **£587** |

By Block

| Block | Units | Area Sq Ft | Av unit size | Savills GDV | BPS GDV | £ Sq ft |
|---|---|---|---|---|---|---|
| A | 27 | 17,822 | 660 | £9,442,000 | £10,005,000 | £561 |
| B | 78 | 51,053 | 655 | £27,070,000 | £27,890,000 | £546 |
| C | 10 | 6,329 | 633 | £3,385,000 | £3,770,000 | £596 |
| D | 55 | 40,463 | 736 | £22,362,000 | £25,630,000 | £633 |
| E | 32 | 21,158 | 661 | £11,928,000 | £12,900,000 | £610 |
| F | 6 | 3,940 | 657 | £2,110,000 | £2,340,000 | £594 |
| G | 1 | 657 | 657 | £350,000 | £420,000 | £640 |
| **Total** | **209** | **141,421** | **677** | **£76,647,000** | **£82,955,000** | **£587** |

4.44 Overall our pricing schedule represents an increase of £6.38 million (£45 per sq ft) on the values proposed by Savills and £4.38 million (£31 per sq ft) on the values adopted by Berkeley.

4.45 Given the proximity to Reading station, which will be served by Crossrail when it opens in 2021, it is likely that there will be large increases in residential value in the area. Given the high quality design of the scheme, the reputation of the applicant and the prime riverside location it is reasonable to believe that sales values will be at a premium to residential developments in Reading. Our pricing schedule reflects a premium on the achieved values in the current market however there is potential that by the time the scheme is delivered the residential values could surpass these figures, and therefore we recommend a late stage review is adopted in the S106 agreement so that improvements to viability can be captured over time. Our appraisal summary in Appendix Four includes sensitivity analysis which shows that a 10% increase in residential sales values results in the scheme producing a surplus.

**Ground Rents**

4.46 Ground rents have not been included by Savills or Berkeley given the current position by the government to restrict ground rental income on new build developments. Berkeley reference a consultation paper published by the government dated October 2019 and suggest that the implementation could have been applied from April 2020.

4.47 Although there is an intention to bring a private members bill before Parliament concerning this issue, there is as yet no Parliamentary timescale for its reading. It is also not clear if Parliamentary time will be given to the bill. Consequently, it remains current practice for developers to generate revenue through this source and since our assessment is on a current day costs and values basis, we consider income should therefore be included in the appraisal.

4.48 We have assumed an average rent overall of £350 per flat but we have capitalised this at a yield of 10% to reflect the current uncertainty and highlighted risk. This equates to a value of £731,500.

**Parking**

4.49 The proposed development includes 55 car parking spaces. Savills have assumed 13 of the spaces will be allocated to the 13x three bedroom flats with the remaining 37 left unallocated for residents to purchase. They have not adopted a value for the 37 unallocated spaces.

4.50 We consider this to be a reasonable approach however consider the unallocated spaces should be assigned a value given that they are intended to be sold by the applicant. We have adopted a value of £20,000 per space for the 37 unallocated spaces given the perceived high demand for car parking in such a development. This gives a total value of £740,000 for the car parking element and our valuation for the three bedroom units reflect the inclusion of a car parking space.

## 5.0 COMMERCIAL UNIT VALUATION

5.1 The proposed scheme includes an 18 sq m (193 sq ft) café (Use Class A3) in a detached building adjacent to the riverside. The proposals include outdoor seating for the café and we consider given the prominent location on the route between Caversham and Reading station it will be popular.

5.2 Berkeley have not attributed a value to café due to the size and scale of the operator, and consider it is most likely to be run by a local residents group or local independent operator. This does not mean there will be no receivable income.

5.3 We have identified the following evidence for similar units:

- **Library Parade, Crockhamwell Road, Woodley, RG5 3LX:** 579 sq ft, let for £18,000 pa (£31.10 per sq ft) from 21/10/19. A3 space let to Fresh Woodley Ltd. In Woodley, eastern suburb of Reading.
- **Caversham Road, Reading, Berks, RG1:** 2,588 sq ft, on the market for £45,000 pa (£17.40 per sq ft). A3 restaurant unit, mid terrace, dated exterior. Approximately 500m north west of the subject on a busy road.
- **81 Broad Street, Reading:** 3,496 sq ft, on the market for £90,000 pa (£25.75 per sq ft). A3 unit previously used as a bar, over two storeys with ancillary office accommodation. In the middle of Broad Street, prime Reading shopping area.

5.4 The unit at Library Parade is the most similar in size to the subject although is in a less desirable location. The unit on Caversham Road is the most similar in terms of location but is of worse quality and is significantly larger, while 81 Broad Street is again larger but in a more desirable location. Overall we consider a rental value of £25 per sq ft to be reasonable given the size of the unit and location, with smaller units benefitting from higher rental values per sq ft. This gives a total rental value of £4,825 pa which we have adopted this for the purpose of our valuation.

5.5 We have been unable to identify any investment transactions for A3 units in surrounding area. We consider a yield of 6% to be broadly reasonable given the location and condition and have adopted this for the purpose of our valuation. This gives a total capital value of £80,400 for the café unit.

## 6.0 DEVELOPMENT COSTS

6.1 Our Cost Consultant, Neil Powling, has analysed the build cost plan for the proposed scheme prepared by Fulkers LLP, dated January 2020, and concludes that:

*Our benchmarking results in an adjusted benchmark of £2,979/m² that compares to the Applicant's £2,950/m². We therefore consider the Applicant's costs to be reasonable.*

6.2 Mr Powling's full cost report can be found at Appendix 1. The only cost that is deemed to be higher than usual is the allowance for external works which Mr Powling suggests reflects the high quality design and landscaping of the scheme. We have accordingly adopted the build costs proposed by Berkeley.

6.3 The applicants consultants have applied the following additional cost assumptions:

- Professional fees of 6%
- Planning fees of £1.03 million
- Marketing and Agent fees of 4.5%
- Legal Fees of £600 per unit

6.4 We consider marketing and Agent fees of 4.5% to be higher than we would expect. Berkeley have included these to reflect the assumed high sales rate of 6 units per month. We have reduced these to 3% which we consider to be more consistent with market norms, and have similarly allowed for legal fees of £600 per unit. The combined planning and professional fees are approximately 8% of the total build cost which we consider to be a reasonable allowance.

6.5 CIL charges have been assumed at £1.626 million which Berkeley states has been calculated based on current rates and have accounted for an offset from the existing floorspace. We have been informed by the councils CIL officer that the liability for the scheme would be £2,186,703.88 when accounting for the existing GIA and we have accordingly adopted this figure in our appraisal.

6.6 S106 charges have been included at £205,754 which Berkeley suggest have been discussed with the council. We have been advised by the Council that these are broadly reasonable and have similarly adopted them in our appraisal.

6.7 Berkeley have made an allowance of £500,000 for third party costs. We find this sum to be higher than we would reasonably expect for such a development and have reduced it to £50,000. If further evidence is provided on these costs we would be willing to revisit our position.

6.8 Finance has been included at 7% assuming that the scheme is 100% debt financed. We find this to be slightly higher than we would expect

6.9 The developer profit target adopted by Berkeley is 20% on the residential GDV. We appreciate that this is a large scheme however given the prime location and nature of the site we do not consider this to be a higher risk development. We consider a developer profit target of 17.5% on GDV to be more reasonable for the proposed scheme and have included this as a fixed cost in the appraisal.

6.10 Berkeley have adopted a construction period of 42 months which has a 6 month overlap with a pre construction period of 9 months. Our cost consultant finds these timings to be reasonable to allow for demolition and the phased nature of the site. The sales period adopted by Berkeley is 18 months in length and commences 24

months into the development with sales evenly spread over the development period. Overall we find these sales timings to be reasonable on the basis that units will be sold and completed in phases.

## 7.0 BENCHMARK LAND VALUE

7.1 We note the Planning Policy Guidance, published May 2019, states:

*Benchmark land value should:*

- *be based on existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*

*Viability assessments should be undertaken using benchmark land values derived in accordance with this guidance. Existing use value should be informed by market evidence of current uses, costs and values. Market evidence can also be used as a cross-check of benchmark land value but should not be used in place of benchmark land value. These may be a divergence between benchmark land values and market evidence; and plan makers should be aware that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners.*

*The evidence should be based on developments which are fully compliant with emerging or up to date plan policies, including affordable housing requirements at the relevant levels set out in the plan. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.*

*[…] Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan. Local authorities can request data on the price paid for land (or the price expected to be paid through an option agreement).*

7.2 We find the Market Value approach as defined by RICS Guidance Viability in Planning 2012 if misapplied is potentially open to an essentially circular reasoning. The RICS Guidance promotes use of a modified standard definition of "Market Value" by reference to an assumption that the market values should reflect planning policy and should disregard that which is not within planning policy. In practice we find that consideration of compliance with policy is generally relegated to compliance somewhere on a scale of 0% to the policy target placing land owner requirements ahead of the need to meet planning policy.

7.3 There is also a high risk that the RICS Guidance in placing a very high level of reliance on market transactions is potentially exposed to reliance on bids which might

a) Represent expectations which do not mirror current costs and values as required by PPG.

b) May themselves be overbids and most importantly

c) Need to be analysed to reflect a policy compliant position.

To explain this point further, it is inevitable that if site sales are analysed on a headline rate per acre or per unit without adjustment for the level of affordable housing delivered then if these rates are applied to the subject site they will effectively cap delivery at the rates of delivery achieved of the comparable sites.

This is an essentially circular approach which would effectively mitigate against delivery of affordable housing if applied.

7.4 The NPPF recognises the need to provide both land owners and developers with a competitive return. In relation to land owners this is to encourage land owners to release land for development. This is set out in PPG as follows:

*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. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. Landowners and site purchasers should consider policy requirements when agreeing land transactions. This approach is often called 'existing use value plus' (EUV+)*

7.5 Guidance indicates that the sale of any premium should reflect the circumstances of the land owner. We are of the view that where sites represent an ongoing liability to a land owner and the only means of either ending this liability or maximising site value is through securing a planning consent this should be a relevant factor when considering whether a premium is applicable. This view is corroborated in the Mayor of London's Affordable Housing and Viability SPG which 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 premium of 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.*

<u>The site</u>

7.6 The site consists of a mainly two storey, part three storey detached office building with a total GIA of 4,683 sq m (50,403 sq ft). The building has been extended several times and is a 1960s built building of brick construction and appears to be of reasonable condition having been made only recently vacant. There is car parking for 180 vehicles and the site is adjacent to the river Thames and is approximately 100m from Reading Station. The surrounding area is mixed with residential uses to the west and offices to the east. To the south is the Vastern Retail Park which is subject to planning permission for large mixed use redevelopment.

7.7 Romans have provided us with the following breakdown of areas based on an area measurement report produced by Plowman Craven dated September 2017:

| Floor | Metric | Imperial |
|---|---|---|
| | | |
| Ground Floor, Net | 1,978.70 sq m | 21,299 sq ft |
| First Floor, Net | 2,008.40 sq m | 21,618 sq ft |
| Second Floor, Net | 194.60 sq m | 2,095 sq ft |
| | | |
| Total Net | 4,181.70 sq m | 45,012 sq ft |
| Total Gross | 4,682.60 sq m | 50,403 sq ft |

7.8 The office space is primarily open plan although there are several partitioned offices on both ground and first floors. Romans state that the building has air condition, lifts, suspended ceilings, raised floors and perimeter trunking. The Romans report includes photos of sections of the site. The car park hardstanding appears to be in good condition. The office interior has been stripped by the previous tenant but otherwise appears to be in useable condition and would likely require a light refurbishment which could be undertaken by an incoming tenant.

### Berkeley approach

7.9 Berkeley have relied upon a valuation report produced by Romans, a local chartered surveyor, dated December 2019. Romans have valued the building on the basis of vacant possession using the investment method of valuation. They suggest that the value of the subject property would be maximised by subdividing into smaller sections as there would be more demand from purchasers and tenants for smaller units, and that there would be significantly more demand for 5,000 to 10,000 sq ft units than a single 50,000 sq ft office. They have allowed for a 2,000 sq ft reduction on the NIA to accommodate an additional entrance to the modern section at the rear to accommodate more tenants, giving a revised NIA of 43,012 sq ft. They consider the level of car parking to be a significant benefit compared to the other town centre accommodation and consider that the office would only require 1 car parking space for every 500 sq ft of office space (86 spaces).

7.10 Romans have applied an average rental value of £16 per sq ft to the net office space however consider the more modern section to the rear would likely achieve a higher rental value than older sections at the front of the site, giving a total rental value of £688,000 pa. They have also assumed that the remaining 94 car parking spaces would be available to local business occupiers at a rate of £1,000 per space pa giving a rental value of £94,000 pa. This gives a total rental value of £782,000 pa. They suggest they have applied equivalent rents to the subject property where the affect of rent free periods and other tenant incentives have been stripped out, and that headline rents may exceed equivalent rents by approximately 10%.

7.11 Romans have identified the following comparable evidence for rental properties, of which we have only included those let within the past 2 years as we consider any other evidence too historic for relevance:

| Address | Description | Date | Transaction details | Rent £psf |
|---|---|---|---|---|
| **Hawker House, Napier Road, Reading, RG1 8BW** | Ground floor office space in a modern block. Smaller than the subject. East of the subject in a commercial area, close to the station and town centre. 5,303 sq ft | Jul 18 | 5 year lease with no breaks or rent reviews. Let for £110,761 pa. | £22.02 |

| | | | | |
|---|---|---|---|---|
| **The Blade, Abbey Street, Reading, RG1 3BD** | Space in a land building, 2009 built in the town centre. 20 car parking spaces included.<br>4,500 sq ft | Mar 18 | 10 year lease subject to tenant break after 5 years.<br>£107,730 pa | £23.86 |
| **The Blade, Abbey Street, Reading, RG1 3BD** | 5th floor space in a land building, 2009 built in the town centre.<br>3,961 sq ft | Sep 19 | 3 month rent free period.<br>£122,791 pa | £31 |
| **12 Richfield Avenue, Reading, RG1 8EQ** | 1980s office building in ain industrial park. North west of the subject, significantly less desirable location.<br>3,150 sq ft | Jan 18 | 5 year lease with mutual break after 3 years.<br>£42,500 pa. | £13.50 |
| **Reading Bridge House, Reading, RG1 8LS** | 5th floor unit in a 10 storey office building, dating from approximately the 1980s. Close to the subject to the east, near the town centre and station.<br>4,661 sq ft | Oct 18 | 10 year lease with no breaks or reviews.<br>£128,178 pa. | £27.50 |
| **Emerald House, Napier Road, Reading, RG1 8BW** | Ground floor office space in a modern block. Smaller than the subject. East of the subject in a commercial area, close to the station and town centre.<br>2,912 sq ft | Mar 18 | 5 year lease no breaks or rent reviews.<br>£45,194 pa. | £15.52 |
| **30-31 Friar Street, Reading, RG1 1DX** | 1960s built 4th floor office space above retail, in main shopping area of the town centre.<br>1,553 sq ft | Feb 18 | 2 year lease.<br>£27,594 pa. | £18 |
| **Greyfriars Gate, 5-7 Greyfriars Road, Reading, RG1 1NU** | Entire second (top) floor in an office building of brick construction. On the market for 19 months prior to letting. Includes 4 parking spaces.<br>2,270 sq ft | Oct 19 | Unknown | £24 |
| **Pacific House, Imperial way, Reading, RG2 0TD** | Entire building, modern office block in a business park a few miles south of Reading town centre. Space had been on the market for 92 months.<br>19,600 Sq ft | May 19 | 10 year lease with tenant breaks after 5 and 7 years.<br>£450,800 pa | £23 |

7.12 It can be seen that the rental values vary greatly depending on quality and location of the space. The closest geographical comparison to the subject is Reading Bridge House however this is a much more desirable office space.

7.13 Romans have made an allowance of £400,000 towards the cost of converting the building to accommodate multiple tenants including creating an entrance to the rear of the western wing of the building, additional toilet facilities and alterations to the gates to the car park to allow for their private use. They have also allowed for a 12 month rent free / void period.

7.14 Romans have capitalised the rental income at a yield of 8% and allowed for purchasers costs which gives a capital value of £8 million (£159 per sq ft). Berkeley have adopted this as the EUV. They have identified the following sales for office units by which to compare the capital value for the subject, which show the value adopted by Romans is lower than the comparable evidence:

| Property | Description |
|---|---|
| The Pinnacle<br>Tudor Road<br>Reading<br>RG1 1NH | A 2008 built multi-storey office building of 41,721 sq ft, located close to the subject property off Caversham Road, closer to the railway station with 42 parking spaces. Reported as sold in July 2017 for £13,450,000 quating to £322 per square foot. Let at the time of sale for a reported figure of £968,359 pa at 72% occupancy, reflecting a net yield of 6.75%. Much more modern and prestigious building than the subject, so would expect a high £psf and lower yield. |
| Abbey Gate,<br>Kings Road<br>Reading<br>RG1 3AB | Freehold multi-storey 1980's office building of approximately 56,052 sq ft, reported as renovated in 2015, in better central Reading location by the Law Courts. Reported as sold in June 2018 for £17,500,000, equating to £312 per square foot. Let at the time of sale to six individual tenants but no yield reported. More modern and better located than the subject so adjustment made. |
| Spencer House,<br>3 Basingstoke Road<br>Reading<br>RG2 0JN | Freehold multi-storey office building of 36,092 sq ft, built in 1989 and refurbished in 2007, located between the town centre and the M4 junction forming part of a business district with 121 parking spaces. Sold in June 2018 for a reported figure of £8,300,000, equating to £230 per square foot. The building was let in its entirety to Thames Water until August 2022 at a rent of £660,000 pa, equating to £18.29 per square foot and reflecting a net yield of 7.45%. More modern building than the subject let to a strong covenant, which is better than the subject. |
| Forum 1<br>Station Road<br>Theale<br>Reading<br>RG7 4RA | Freehold office building of 40,620 sq ft built in 1987 and located in a district of Reading on a business park close to Junction 12 of the M4. Sold in November 2018 for a reported figure of £6,100,000, equating to £150 per square foot. Part let at the time of sale to three occupiers at an average passing rent of £17 per square foot giving a hypothetical gross yield of 11.32 %. |
| Premier House<br>60 Caversham Road<br>Reading<br>RG1 7EB | Freehold, late 1980's build multi-storey office building of approximately 19,127 sq ft in central Reading location, close to the subject. The property was sold in May 2018 for a reported price of £5,700,000, equating to £298 per square foot. Smaller than the subject so quantum adjustment made. |
| 2 New Century Place<br>East Street<br>Reading<br>RG1 4ET | Freehold 1990's built multi-storey office building of approximately 21,170 sq ft in central location. Reported as sold in September 2016 for £5,000,000, equating to £236 per square foot. Smaller than the subject so quantum adjustment made. Let at the time of sale with the agent reporting a net initial yield of 8.58% |

7.15 The yields identified by Romans range between 6.75% and 8.58% and vary greatly in quality and size. Some of the evidence dates back to September 2016 which we consider too historic for relevance.

7.16 Berkeley have then applied a landowner premium of 20% to this value which gives an Existing Use Value Plus (EUV+) of £9.6 million which they have adopted as the benchmark land value. They consider the premium to be conservative given the demand for office space in the Reading area, the town centre location and the potential to improve the site which should warrant a site value significantly in excess of the EUV in order to bring the site forward for development.

### BPS approach

7.17 We find the approach Berkeley have used to be reasonable although consider this to be an alternative use valuation (AUV) rather than an EUV due to the conversion of part of the building to accommodate multiple tenants. We find the investment method of valuation to be reasonable and similarly adopt this method of valuation. We have been unable identify any business rates measurement information for the subject and have adopted the measurements provided by Plowman Craven.

7.18 The photos provided with the application suggest that the space is lettable in its current condition. While most of the space is open plan there are a few separated offices. Romans suggest that the older building at the front of the property is less desirable given the age although the photos provided by Romans suggest they are of a similar condition and layout.

7.19 We have identified the following additional evidence for rental units of similar quality in the surrounding area which have let in the past 18 months:

| Address | Description | Date | Transaction details | Rent £psf |
|---|---|---|---|---|
| **Unit 1, Richfield Place, 12, Richfield Avenue, Reading, RG1 8EQ** | Small, mid terrace two storey office unit in a block dating from the 1980s. In an industrial park. North west of the subject, significantly less desirable location.<br>892 sq ft | 1/6/19 | Let for £13,380 pa on a 5 year lease. | £15 |
| **The Pinnacle, 20 Tudor Road, Reading, RG1 1NH** | Several units let in the same 6 storey modern block. Just south of the subject, adjacent to railway lines and close to the station in the town centre.<br>Between 2,406 sq ft - 5,400 sq ft | Between 1/4/19 - 15/5/19 | Between 5-8 years. | Between £26.50-£28 |

| | | | | |
|---|---|---|---|---|
| **Part 2nd, 4th-5th FLOORS, 30-31, FRIAR STREET, READING, RG1 1DX** | 1960s built floor office space above retail, in main shopping area of the town centre<br>9,353 sq ft | 6/9/19 | 3.5 years | £19.50 |
| **Fife Court, 145, Friar Street, Reading, RG1 1EX** | Several units in a three storey period office building above retail. In Reading town centre, just south of the station.<br>Between 1,452 sq ft - 1,902 sq ft | Between 11/1/19-1/12/19 | Between 4-5 years | Between £17-£22 |
| **33-34, Market Place, Reading, RG1 2DE** | Two units above retail in a period building. In Reading town centre, south east of the subject.<br>851 sq ft & 2,251 sq ft | 28/2/19 - 3/5/19 | 5 years | £17 |
| **Unit 5, Windsor Square, Silver Street, Reading, RG1 2TH** | 1990s built office building in a small commercial park. In a suburban location south of the town centre.<br>2,499 sq ft | 15/2/19 | 5 years | £16 |
| **Unit 10, Suttons Business Park, Sutton Park Avenue, Reading, RG6 1AZ** | Dated unit in a business park. East of the subject and the town centre.<br>3,515 sq ft | 29/3/19 | - | £15 |
| **First Floor Unit 9, Cantay Business Park, Ardler Road, Caversham RG4 5AE** | First floor unit in a small industrial park, dated building. North of the subject in Caversham.<br>468 sq ft | 10/5/19 | 3 years | £17.50 |

7.20 The Pinnacle represents a higher quality office building which is close to the subject and we would expect to achieve higher rental values. It can be seen that the lower quality rental units range between £15 to £22 per sq ft. Most of the units are smaller than the proposed sub divided units assumed by Romans and therefore the units in the subject would comparatively have lower rental values per quantum.

7.21 Given the evidence provided by us and Romans we consider the rental value of £16 per sq ft adopted by Romans to be reasonable given the age, car parking provision, layout and condition of the property. This rental figure allows for some light tenant refurbishment.

7.22 We have identified the following office investment transaction from the surrounding area from the past 12 months:

| Address | Description | Date | Transaction details | Yield |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| **Worton Grange, Pacific House, Imperial Way, Reading, RG2 0TF** | Detached three storey office building of second hand Grade B space, approximately 1990s built. Multi let with unknown tenancy details. South of the subject in a business park in South Reading. 57,086 sq ft | 14/10/19 | Sold for £14.9 million | 7.3% |

7.23 We are unaware of the tenancy details however it appears to be a multi let building of more modern condition. It is not in a town centre location however is in a desirable business park near the M4. Given that Worton Grange is a purpose built, more modern building we consider it would achieve a lower yield.

7.24 We have also considered the evidence provided by Romans which ranged between 6.75% and 8.58% however all of this evidence was more than 18 months old. We have also considered market reports which typically list prime yields in the surrounding area as being significantly lower.

7.25 Overall we find the yield of 8% adopted by Avison Young to be reasonable given the location, age, condition and layout of the property. We consider the rent free period of 12 months adopted by Romans to be light and have adopted a 21 month rent free / void period which we consider to be more aligned with market conditions and makes an allowance for all of the units to be let.

7.26 We have consulted our Cost Consultant, Mr Powling, who finds the sum of £400,000 included to convert the building to multi let offices to be reasonable. We have also allowed for a £1 million light refurbishment cost due to the age of the building on the advice of Mr Powling. This figure is the lowest amount he would expect for such a refurbishment given that upgrades to the services. We have accordingly adopted this in our appraisal and have accordingly allowed for a 6 month period for the work to take place which is in accordance with BCIS estimates.

7.27 Romans have made an allowance for 86 car parking spaces to be allocated to the office space, which is one space per 500 sq ft. They have assumed the remaining 94 spaces are to be let on annual leases to local businesses at a rate of £1,000 per space which generates a total rental income of £94,000 pa. They have capitalised this income at the same yield of 8%. We have also considered a scenario where the car parking is retained by the office space however consider that this would increase the rental value for the offices which would result in an overall negligible difference between the two approaches. This gives a total ERV of £782,192 pa which is an overall rental value of £18 per sq ft, which we would consider to be at the higher end of the range were the entire car park to be occupied by the office space.

7.28 We find the valuation assumptions on the car parking provision to be reasonable and adopt the same rental value and capitalisation yield which gives a capital value of £12,500 per space. We have allowed for a three month rent free period to allow for the car parking spaces to be fully let.

7.29 We have also allowed for letting agent fees of 10%, letting marketing fees of 5% and legal fees of 2.5% on the ERV.

7.30 Overall the site value is £6.5 million which we have calculated using Argus developer software. The appraisal summary can be found in Appendix Two.

7.31 We consider this approach to benchmark land valuation to be an alternative use value approach (AUV) given that an allowance has been made to reconfigure the building and change the car park and therefore it is not being valued in its current condition. NPPG is clear that AUV should not warrant a landowner premium therefore we have not considered this in our assessment.

7.32 We accordingly adopt the AUV of £6.5 million as the benchmark land value. We have fixed the land cost to the benchmark land value which is consistent with the approach by Berkeley.

## 8.0 QUALITY STANDARDS CONTROL

This report is provided for the stated purpose and for the sole use of the named clients. This report may not, without written consent, be used or relied upon by any third party.

The author(s) of this report confirm that there are no conflicts of interest and measures have been put in place to prevent the risk of the potential for a conflict of interest. In accordance with the RICS Professional Statement *Financial Viability in Planning: Conduct and Reporting* September 2019, this report has been prepared objectively, impartially, and with reference to all appropriate sources of information.

The following persons have been involved in the production of this report:

**Arthur Boulding**
RICS Membership no. 6878828
For and on behalf of BPS
Chartered Surveyors

**Kelly Donnelly**
RICS Membership no. 5699454
For and on behalf of BPS
Chartered Surveyors

## 9.0 LIMITATION OF LIABILITY/ PUBLICATION

This report is provided for the stated purpose and for the sole use of the named clients. It is confidential to the clients and their professional advisors and BPS Chartered Surveyors accepts no responsibility whatsoever to any other person.

Neither the whole nor any part of this valuation report nor any reference hereto may be included in any published document, circular, or statement, or published in any way, without prior written approval from BPS of the form and context in which it may appear.

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we** consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuation(s) is / are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of [this property] under frequent review.

# Appendix One - Build Cost Report

# Project: 55 Vastern Road, Reading (The Old Power Station) 200188

# Independent Review of Assessment of Economic Viability

## Interim Draft Report
## Appendix A Cost Report

1 SUMMARY

1.1 We have undertaken a detailed analysis of the fit out and of the MEP for inclusion in the elemental analysis. The build-up to the fit out cost of the terrace house is £86,546 but it is posted as £62,590.90. We have reduced all elements proportionately to match the costs in our elemental analysis to the Applicant's costs.

1.2 Our benchmarking results in an adjusted benchmark of £2,979/m² that compares to the Applicant's £2,950/m². We therefore consider the Applicant's costs to be reasonable.

2 METHODOLOGY

2.1 The objective of the review of the construction cost element of the assessment of economic viability is to benchmark the Applicant's costs against RICS Building Cost Information Service (BCIS) average costs. We use BCIS costs for benchmarking because it is a national and independent database. Many companies prefer to benchmark against their own data which they often treat as confidential. Whilst this is understandable as an internal exercise, in our view it is insufficiently robust as a tool for assessing viability compared to benchmarking against BCIS. A key characteristic of benchmarking is to measure performance against external data. Whilst a company may prefer to use their own internal database, the danger is that it measures the company's own projects against others of its projects with no external test. Any inherent discrepancies will not be identified without some independent scrutiny.

2.2 BCIS average costs are provided at mean, median and upper quartile rates (as well as lowest, lower quartile and highest rates). We generally use mean or occasionally upper quartile for benchmarking. The outcome of the benchmarking is little affected, as BCIS levels are used as a starting point to assess the level of cost and specification enhancement in the scheme on an element by element basis. BCIS also provide a location factor compared to a UK mean of 100; our benchmarking exercise adjusts for the location of the scheme. BCIS Average cost information is available on a default basis which includes all historic data with a weighting for the most recent, or for a selected maximum period ranging from 5 to 40 years. We generally consider both default and maximum 5 year average prices; the latter are more likely to reflect current regulations, specification, technology and market requirements.

2.3 BCIS average prices are available on an overall £ per sqm and for new build work on an elemental £ per sqm basis. Rehabilitation/conversion data is available an

overall £ per sqm and on a group element basis ie. substructure, superstructure, finishings, fittings and services – but is not available on an elemental basis. A comparison of the applicants elemental costing compared to BCIS elemental benchmark costs provides a useful insight into any differences in cost. For example: planning and site location requirements may result in a higher than normal cost of external wall and window elements.

2.4 If the application scheme is for the conversion, rehabilitation or refurbishment of an existing building, greater difficulty results in checking that the costs are reasonable, and the benchmarking exercise must be undertaken with caution. The elemental split is not available from the BCIS database for rehabilitation work; the new build split may be used instead as a check for some, but certainly not all, elements. Works to existing buildings vary greatly from one building project to the next. Verification of costs is helped greatly if the cost plan is itemised in reasonable detail thus describing the content and extent of works proposed.

2.5 BCIS costs are available on a quarterly basis – the most recent quarters use forecast figures, the older quarters are firm. If any estimates require adjustment on a time basis we use the BCIS all-in Tender Price Index (TPI).

2.6 BCIS average costs are available for different categories of buildings such as flats, houses, offices, shops, hotels, schools etc. The Applicant's cost plan should ideally keep the estimates for different categories separate to assist more accurate benchmarking. However if the Applicant's cost plan does not distinguish different categories we may calculate a blended BCIS average rate for benchmarking based on the different constituent areas of the overall GIA.

2.7 To undertake the benchmarking we require a cost plan prepared by the applicant; for preference in reasonable detail. Ideally the cost plan should be prepared in BCIS elements. We usually have to undertake some degree of analysis and rearrangement before the applicant's elemental costs can be compared to BCIS elemental benchmark figures. If a further level of detail is available showing the build-up to the elemental totals it facilitates the review of specification and cost allowances in determining adjustments to benchmark levels. An example might be fittings that show an allowance for kitchen fittings, bedroom wardrobes etc that is in excess of a normal BCIS benchmark allowance.

2.8 To assist in reviewing the estimate we require drawings and (if available) specifications. Also any other reports that may have a bearing on the costs. These are often listed as having being used in the preparation of the estimate. If not provided we frequently download additional material from the documents made available from the planning website.

2.9 BCIS average prices per sqm include overheads and profit (OHP) and preliminaries costs. BCIS elemental costs include OHP but not preliminaries. Nor do average prices per sqm or elemental costs include for external services and external works costs. Demolitions and site preparation are excluded from all BCIS costs. We consider the Applicants detailed cost plan to determine what, if any, abnormal and other costs can properly be considered as reasonable. We prepare an adjusted benchmark figure allowing for any costs which we consider can reasonably be taken into account before reaching a conclusion on the applicant's cost estimate.

2.10

We undertake this adjusted benchmarking by determining the appropriate location adjusted BCIS average rate as a starting point for the adjustment of abnormal and enhanced costs. We review the elemental analysis of the cost plan on an element by element basis and compare the Applicants total to the BCIS element total. If there is a difference, and the information is available, we review the more detailed build-up of information considering the specification and rates to determine if the additional cost appears justified. If it is, then the calculation may be the difference between the cost plan elemental £/m² and the equivalent BCIS rate. We may also make a partial adjustment if in our opinion this is appropriate. The BCIS elemental rates are inclusive of OHP but exclude preliminaries. If the Applicant's costings add preliminaries and OHP at the end of the estimate (as most typically do) we add these to the adjustment amounts to provide a comparable figure to the Applicant's cost estimate. The results of the elemental analysis and BCIS benchmarking are generally issued as a PDF but upon request can be provided as an Excel spreadsheet.

## 3 GENERAL REVIEW

3.1 We have been provided with and relied upon the Viability Assessment issued by Berkeley Homes (Oxford & Chiltern) Ltd dated Jan 2020 including at Appendix 4 the Stage 2 Development Cost Estimate Rev 2 issued by Fulkers LLP inn the sum of £51,290,407.

3.2 We have also downloaded a number of files from the planning web site.

3.3 The cost plan we assume is base date 1Q2020. Our benchmarking uses current BCIS data which is on a current tender firm price basis. The BCIS all-in Tender Price Index (TPI) for 1Q2020 is 332 (Equivalent sample Prov 45) and for 3Q2020 332 (forecast).

3.4 The cost plan includes an allowance of 12% for preliminaries. There is no separate provision for overheads and profit (OHP) which we assume is included in the rates. We consider this allowance reasonable.

3.5 The allowance for contingencies is 5% which we consider reasonable. All the % figures are based on a calculation of a conventional arrangement of the sums in the analysis.

3.6 We have extracted the cost information provided by the Applicant into a standard BCIS/NRM format to facilitate our benchmarking. We have undertaken a detailed analysis of the fit out and of the MEP for inclusion in the elemental analysis.

3.7 The build-up to the fit out cost of the terrace house is £86,546 but it is posted as £62,590.90. We have reduced all elements proportionately to match the costs in our elemental analysis to the Applicant's costs.

3.8 Sales have been included in the Appraisal at average figures of £556/ft² (Net Sales Area).

3.9 We have downloaded current BCIS data for benchmarking purposes including a Location Factor for Reading of 108 that has been applied in our benchmarking calculations.

3.10 We have adopted the same GIA used in the Applicant's cost plan; we assume this to be the GIAs calculated in accordance with the RICS Code of Measurement 6th Edition 2007.

3.11 The development comprises a number of buildings Blocks A to G of flats – the storey height is generally 6 or above; BCIS average cost data is given in steps: 1-2 storey, 3-5 storey, 6 storey or above. We consider it appropriate to benchmark the whole of the development as 6 storey or above.

3.12 Our benchmarking results in an adjusted benchmark of £2,979/m² that compares to the Applicant's £2,950/m². We therefore consider the Applicant's costs to be reasonable.

3.13 The areas and costs included in the appraisal are consistent with the areas and costs in the estimate/cost plan.

BPS Chartered Surveyors
Date: 6th July 2020

## 55 Vastern Road, Reading (The Old Power Station)
## Elemental analysis & BCIS benchmarking

| | | | | Flats Def | |
|---|---|---|---|---|---|
| | GIA m² | | 17,387 | LF100 | LF108 |
| | | £ | £/m² | £/m² | £/m² |
| | **Demolitions** | **348,603** | **20** | | |
| **1** | **Substructure** | **2,385,199** | **137** | **147** | **159** |
| 2A | Frame | 1,974,090 | 114 | 129 | 139 |
| 2B | Upper Floors | 3,015,740 | 173 | 80 | 86 |
| 2C | Roof | 685,500 | 39 | 91 | 98 |
| 2D | Stairs | 1,674,614 | 96 | 30 | 32 |
| 2E | External Walls | 7,420,286 | 427 | 188 | 203 |
| | Balconies | 917,120 | 53 | | |
| 2F | Windows & External Doors | | | 90 | 97 |
| 2G | Internal Walls & Partitions | 3,771,475 | 217 | 67 | 72 |
| | Firestopping | 241,300 | 14 | | |
| 2H | Internal Doors | 1,051,512 | 60 | 50 | 54 |
| **2** | **Superstructure** | **20,751,637** | **1,194** | **725** | **783** |
| 3A | Wall Finishes | 1,076,084 | 62 | 73 | 79 |
| 3B | Floor Finishes | 942,121 | 54 | 60 | 65 |
| 3C | Ceiling Finishes | 681,980 | 39 | 39 | 42 |
| **3** | **Internal Finishes** | **2,700,184** | **155** | **172** | **186** |
| **4** | **Fittings** | **2,511,774** | **144** | **61** | **66** |
| 5A | Sanitary Appliances | 2,465,208 | 142 | 29 | 31 |
| 5B | Services Equipment (kitchen, laundry) | | | 24 | 26 |
| 5C | Disposal Installations | 132,000 | 8 | 13 | 14 |
| 5D | Water Installations MEP | 999,286 | 57 | 32 | 35 |
| 5E | Heat Source | | | 50 | 54 |
| 5F | Space Heating & Air Treatment | 637,887 | 37 | 104 | 112 |
| 5G | Ventilating Systems, smoke extract & control | 908,080 | 52 | 19 | 21 |
| 5H | Electrical Installations (power, lighting, emergency lighting, standby generator, UPS) | 2,583,920 | 149 | 87 | 94 |
| 5I | Fuel Installations | | | 7 | 8 |
| 5J | Lift Installations | 601,250 | 35 | 37 | 40 |
| 5K | Protective Installations (fire fighting, dry & wet risers, sprinklers, lightning protection) | 888,890 | 51 | 11 | 12 |
| 5L | Communication Installations (burglar, panic alarm, fire alarm, cctv, door entry, public address, data cabling, tv/satellite, telecommunication systems, leak detection, induction loop) | 592,564 | 34 | 23 | 25 |
| 5M | Special Installations - (window cleaning, BMS, medical gas) | 513,000 | 30 | 44 | 48 |
| 5N | BWIC with Services | 151,103 | 9 | 14 | 15 |
| 5O | Management of commissioning of services | 151,109 | 9 | | |
| | To balance | 4,000 | 0 | | |
| **5** | **Services** | **10,628,296** | **611** | **494** | **534** |
| 6A | Site Works & café | 2,814,912 | 162 | | |
| 6B | Drainage | | | | |
| 6C | External Services | 860,000 | 49 | | |
| 6D | Minor Building Works - remediation | 613,685 | 35 | | |
| **6** | **External Works** | **4,288,597** | **247** | | |
| | **SUB TOTAL** | **43,614,291** | **2,508** | **1,599** | **1,727** |
| **7** | **Preliminaries 12%** | **5,233,715** | 301 | | |
| | **Overheads & Profit** | | | | |
| | **SUB TOTAL** | **48,848,006** | **2,809** | | |
| | Design Development risks | | | | |
| | Construction risks 5% | 2,442,400 | 140 | | |
| | Employer change risks | | | | |
| | Employer other risks | 1 | 0 | | |
| | **TOTAL** | **51,290,407** | **2,950** | | |

| | | |
|---|---|---|
| | 51,290,407 | |
| Benchmarking | | 1,970 |
| Add demolitions | 20 | |
| Add external works | 247 | |
| Add balconies | 53 | |
| Add additional cost of frame & upper floors | 61 | |
| Add additional cost of external walls & windows | 127 | |
| Add firestoppping | 14 | |
| Add additional cost of fittings | 79 | |
| Add additional cost of sanitary/ bathroom pods | 110 | |
| Add additional cost of electrical & comms | 64 | |
| | 774 | |
| Add prelims 12% | 93 | 867 |
| | | 2,837 |
| Add contingency 5% | | 142 |
| Total adjusted benchmark | | 2,979 |

# Appendix Two - AUV Appraisal Summary

**Appraisal Summary for Phase 1**

**Currency in £**

**REVENUE**

**Rental Area Summary**

| | Units | ft² | Rent Rate ft² | Initial MRV/Unit | Net Rent at Sale | Initial MRV |
|---|---|---|---|---|---|---|
| office | 1 | 43,012 | 16.00 | 688,192 | 688,192 | 688,192 |
| car park | 94 | | | 1,000 | 94,000 | 94,000 |
| **Totals** | **95** | **43,012** | | | **782,192** | **782,192** |

**Investment Valuation**

| | | | | | |
|---|---|---|---|---|---|
| **office** | | | | | |
| Market Rent | 688,192 | YP @ | 8.0000% | 12.5000 | |
| (1yr 9mths Rent Free) | | PV 1yr 9mths @ | 8.0000% | 0.8740 | 7,518,446 |
| **car park** | | | | | |
| Market Rent | 94,000 | YP @ | 8.0000% | 12.5000 | |
| (6mths Rent Free) | | PV 6mths @ | 8.0000% | 0.9623 | 1,130,644 |
| **Total Investment Valuation** | | | | | **8,649,090** |

| | | | |
|---|---|---|---|
| **NET REALISATION** | | | **8,649,090** |
| **OUTLAY** | | | |
| **ACQUISITION COSTS** | | | |
| Residualised Price | | 6,496,301 | |
| | | | 6,496,301 |
| Stamp Duty | | 312,315 | |
| Effective Stamp Duty Rate | 4.81% | | |
| Agent Fee | 1.00% | 64,963 | |
| Legal Fee | 0.50% | 32,482 | |
| | | | 409,760 |
| **CONSTRUCTION COSTS** | | | |
| **Other Construction** | | | |
| Other Construction | | 1,400,000 | |
| | | | 1,400,000 |
| **MARKETING & LETTING** | | | |
| Letting Agent Fee | 10.00% | 78,219 | |
| Letting Marketing Fee | 5.00% | 39,110 | |
| Letting Legal Fee | 2.50% | 19,555 | |
| | | | 136,884 |
| **FINANCE** | | | |
| Debit Rate 6.500%, Credit Rate 0.000% (Nominal) | | | |
| Land | | 188,255 | |
| Construction | | 17,891 | |
| Total Finance Cost | | | 206,146 |
| **TOTAL COSTS** | | | **8,649,090** |
| **PROFIT** | | | |
| | | | **0** |

**Performance Measures**

| | |
|---|---|
| Profit on Cost% | 0.00% |
| Profit on GDV% | 0.00% |
| Profit on NDV% | 0.00% |
| Development Yield% (on Rent) | 9.04% |
| Equivalent Yield% (Nominal) | 8.00% |
| Equivalent Yield% (True) | 8.42% |
| IRR% (without Interest) | 5.44% |
| Profit Erosion (finance rate 6.500) | N/A |

# Appendix Three - Pricing Schedule

| Block | Plot | Type | Person | Floor | Beds | Sq M | Sq Ft | Savills Value | BPS Value | £ PSF | View | Balcony |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | 1 | 1 bed | 2 | 0 | 1b | 50 | 538 | £285,000 | £310,000 | £576 | | 0 |
| A | 2 | 2 bed | 4 | 0 | 2b | 71 | 761 | £385,000 | £405,000 | £532 | Road | 0 |
| A | 3 | 2 bed | 3 | 0 | 2b | 63 | 682 | £350,000 | £375,000 | £550 | Road | 0 |
| A | 4 | 2 bed | 3 | 0 | 2b | 63 | 682 | £350,000 | £375,000 | £550 | Road | 0 |
| A | 5 | 1 bed | 2 | 0 | 1b | 50 | 538 | £285,000 | £310,000 | £576 | | 0 |
| A | 6 | 2 bed | 4 | 1 | 2b | 71 | 761 | £388,000 | £420,000 | £552 | | 1 |
| A | 7 | 1 bed | 2 | 1 | 1b | 50 | 538 | £293,000 | £320,000 | £595 | | 1 |
| A | 8 | 2 bed | 4 | 1 | 2b | 71 | 761 | £393,000 | £410,000 | £539 | Road | 1 |
| A | 9 | 2 bed | 3 | 1 | 2b | 63 | 682 | £358,000 | £375,000 | £550 | Road | 0 |
| A | 10 | 2 bed | 3 | 1 | 2b | 63 | 682 | £358,000 | £385,000 | £564 | Road | 1 |
| A | 11 | 1 bed | 2 | 1 | 1b | 50 | 538 | £293,000 | £320,000 | £595 | | 1 |
| A | 12 | 2 bed | 4 | 2 | 2b | 71 | 761 | £395,000 | £410,000 | £539 | Road | 1 |
| A | 13 | 2 bed | 3 | 2 | 2b | 63 | 682 | £360,000 | £375,000 | £550 | Road | 0 |
| A | 14 | 2 bed | 3 | 2 | 2b | 63 | 682 | £360,000 | £385,000 | £564 | Road | 1 |
| A | 15 | 1 bed | 2 | 2 | 1b | 50 | 538 | £295,000 | £320,000 | £595 | | 1 |
| A | 16 | 2 bed | 4 | 3 | 2b | 71 | 761 | £398,000 | £410,000 | £539 | Road | 1 |
| A | 17 | 2 bed | 3 | 3 | 2b | 63 | 682 | £363,000 | £375,000 | £550 | Road | 0 |
| A | 18 | 2 bed | 3 | 3 | 2b | 63 | 682 | £363,000 | £385,000 | £564 | Road | 1 |
| A | 19 | 1 bed | 2 | 3 | 1b | 50 | 538 | £298,000 | £320,000 | £595 | | 1 |
| A | 20 | 2 bed | 4 | 4 | 2b | 71 | 761 | £400,000 | £410,000 | £539 | Road | 1 |
| A | 21 | 2 bed | 3 | 4 | 2b | 63 | 682 | £365,000 | £375,000 | £550 | Road | 0 |
| A | 22 | 2 bed | 3 | 4 | 2b | 63 | 682 | £365,000 | £385,000 | £564 | Road | 1 |
| A | 23 | 1 bed | 2 | 4 | 1b | 50 | 538 | £300,000 | £320,000 | £595 | | 1 |
| A | 24 | 2 bed | 4 | 5 | 2b | 71 | 761 | £403,000 | £420,000 | £552 | Road | 1 |
| A | 25 | 2 bed | 3 | 5 | 2b | 63 | 682 | £368,000 | £385,000 | £564 | Road | 0 |
| A | 26 | 2 bed | 3 | 5 | 2b | 63 | 682 | £368,000 | £395,000 | £579 | Road | 1 |
| A | 27 | 1 bed | 2 | 5 | 1b | 50 | 538 | £303,000 | £330,000 | £613 | | 1 |
| B | 28 | 2 bed | 4 | 0 | 2b | 79 | 845 | £405,000 | £415,000 | £491 | Road | 0 |
| B | 29 | 2 bed | 3 | 0 | 2b | 64 | 684 | £350,000 | £380,000 | £556 | Road | 0 |
| B | 30 | 2 bed | 3 | 0 | 2b | 64 | 684 | £350,000 | £380,000 | £556 | Road | 0 |
| B | 31 | 1 bed | 2 | 1 | 1b | 50 | 540 | £288,000 | £295,000 | £546 | Substation | 0 |
| B | 32 | 1 bed | 2 | 1 | 1b | 50 | 540 | £288,000 | £295,000 | £546 | Substation | 0 |
| B | 33 | 2 bed | 3 | 1 | 2b | 63 | 682 | £353,000 | £365,000 | £535 | Substation | 0 |
| B | 34 | 2 bed | 4 | 1 | 2b | 79 | 845 | £408,000 | £420,000 | £497 | Road | 0 |
| B | 35 | 2 bed | 3 | 1 | 2b | 64 | 684 | £358,000 | £375,000 | £549 | Road | 0 |
| B | 36 | 2 bed | 3 | 1 | 2b | 64 | 684 | £358,000 | £385,000 | £563 | Road | 1 |
| B | 37 | 1 bed | 2 | 2 | 1b | 50 | 540 | £290,000 | £295,000 | £546 | Substation | 0 |
| B | 38 | 1 bed | 2 | 2 | 1b | 50 | 540 | £290,000 | £295,000 | £546 | Substation | 0 |
| B | 39 | 2 bed | 3 | 2 | 2b | 63 | 682 | £355,000 | £365,000 | £535 | Substation | 0 |
| B | 40 | 2 bed | 4 | 2 | 2b | 79 | 845 | £415,000 | £430,000 | £509 | Road | 1 |
| B | 41 | 2 bed | 3 | 2 | 2b | 64 | 684 | £360,000 | £375,000 | £549 | Road | 0 |
| B | 42 | 2 bed | 3 | 2 | 2b | 64 | 684 | £360,000 | £385,000 | £563 | Road | 1 |
| B | 43 | 1 bed | 2 | 3 | 1b | 50 | 540 | £293,000 | £295,000 | £546 | Substation | 0 |
| B | 44 | 1 bed | 2 | 3 | 1b | 50 | 540 | £293,000 | £295,000 | £546 | Substation | 0 |
| B | 45 | 2 bed | 3 | 3 | 2b | 63 | 682 | £358,000 | £365,000 | £535 | Substation | 0 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| B | 46 | 2 bed | 4 | 3 | 2b | 79 | 845 | £418,000 | £430,000 | £509 | Road | 1 |
| B | 47 | 2 bed | 3 | 3 | 2b | 64 | 684 | £363,000 | £375,000 | £549 | Road | 0 |
| B | 48 | 2 bed | 3 | 3 | 2b | 64 | 684 | £363,000 | £385,000 | £563 | Road | 1 |
| B | 49 | 1 bed | 2 | 4 | 1b | 50 | 540 | £295,000 | £295,000 | £546 | Substation | 0 |
| B | 50 | 1 bed | 2 | 4 | 1b | 50 | 540 | £295,000 | £295,000 | £546 | Substation | 0 |
| B | 51 | 2 bed | 3 | 4 | 2b | 63 | 682 | £360,000 | £365,000 | £535 | Substation | 0 |
| B | 52 | 2 bed | 4 | 4 | 2b | 79 | 845 | £420,000 | £430,000 | £509 | Road | 1 |
| B | 53 | 2 bed | 3 | 4 | 2b | 64 | 684 | £365,000 | £375,000 | £549 | Road | 0 |
| B | 54 | 2 bed | 3 | 4 | 2b | 64 | 684 | £365,000 | £385,000 | £563 | Road | 1 |
| B | 55 | 1 bed | 2 | 5 | 1b | 50 | 540 | £298,000 | £295,000 | £546 | Substation | 0 |
| B | 56 | 1 bed | 2 | 5 | 1b | 50 | 540 | £298,000 | £295,000 | £546 | Substation | 0 |
| B | 57 | 2 bed | 3 | 5 | 2b | 63 | 682 | £363,000 | £365,000 | £535 | Substation | 0 |
| B | 58 | 2 bed | 4 | 5 | 2b | 79 | 845 | £423,000 | £430,000 | £509 | Road | 1 |
| B | 59 | 2 bed | 3 | 5 | 2b | 64 | 684 | £368,000 | £375,000 | £549 | Road | 0 |
| B | 60 | 2 bed | 3 | 5 | 2b | 64 | 684 | £368,000 | £385,000 | £563 | Road | 1 |
| B | 61 | 1 bed | 2 | 6 | 1b | 50 | 540 | £300,000 | £295,000 | £546 | Substation | 0 |
| B | 62 | 1 bed | 2 | 6 | 1b | 50 | 540 | £300,000 | £295,000 | £546 | Substation | 0 |
| B | 63 | 2 bed | 3 | 6 | 2b | 63 | 682 | £365,000 | £365,000 | £535 | Substation | 0 |
| B | 64 | 2 bed | 4 | 6 | 2b | 79 | 845 | £425,000 | £430,000 | £509 | Road | 1 |
| B | 65 | 2 bed | 3 | 6 | 2b | 64 | 684 | £370,000 | £375,000 | £549 | Road | 0 |
| B | 66 | 2 bed | 3 | 6 | 2b | 64 | 684 | £370,000 | £385,000 | £563 | Road | 1 |
| B | 67 | 1 bed | 2 | 7 | 1b | 50 | 540 | £303,000 | £295,000 | £546 | Substation | 0 |
| B | 68 | 1 bed | 2 | 7 | 1b | 50 | 540 | £303,000 | £295,000 | £546 | Substation | 0 |
| B | 69 | 2 bed | 3 | 7 | 2b | 63 | 682 | £368,000 | £365,000 | £535 | Substation | 0 |
| B | 70 | 2 bed | 4 | 7 | 2b | 79 | 845 | £428,000 | £430,000 | £509 | Road | 1 |
| B | 71 | 2 bed | 3 | 7 | 2b | 64 | 684 | £373,000 | £375,000 | £549 | Road | 0 |
| B | 72 | 2 bed | 3 | 7 | 2b | 64 | 684 | £373,000 | £385,000 | £563 | Road | 1 |
| B | 73 | 1 bed | 2 | 8 | 1b | 50 | 540 | £305,000 | £295,000 | £546 | Substation | 0 |
| B | 74 | 1 bed | 2 | 8 | 1b | 50 | 540 | £305,000 | £295,000 | £546 | Substation | 0 |
| B | 75 | 2 bed | 3 | 8 | 2b | 63 | 682 | £370,000 | £365,000 | £535 | Substation | 0 |
| B | 76 | 2 bed | 4 | 8 | 2b | 79 | 845 | £430,000 | £430,000 | £509 | Road | 1 |
| B | 77 | 2 bed | 3 | 8 | 2b | 64 | 684 | £375,000 | £375,000 | £549 | Road | 0 |
| B | 78 | 2 bed | 3 | 8 | 2b | 64 | 684 | £375,000 | £385,000 | £563 | Road | 1 |
| B | 79 | 1 bed | 2 | 9 | 1b | 50 | 540 | £308,000 | £305,000 | £564 | Substation | 0 |
| B | 80 | 1 bed | 2 | 9 | 1b | 50 | 540 | £308,000 | £305,000 | £564 | Substation | 0 |
| B | 81 | 2 bed | 3 | 9 | 2b | 64 | 684 | £378,000 | £380,000 | £556 | Road | 0 |
| B | 82 | 2 bed | 3 | 9 | 2b | 64 | 684 | £378,000 | £390,000 | £571 | Road | 1 |
| B | 83 | 1 bed | 2 | 10 | 1b | 50 | 540 | £315,000 | £315,000 | £583 | Substation | 0 |
| B | 84 | 1 bed | 2 | 10 | 1b | 50 | 540 | £315,000 | £315,000 | £583 | Substation | 0 |
| B | 85 | 2 bed | 3 | 10 | 2b | 64 | 684 | £380,000 | £390,000 | £571 | Road | 0 |
| B | 86 | 2 bed | 3 | 10 | 2b | 64 | 684 | £380,000 | £400,000 | £585 | Road | 1 |
| B | 87 | 2 bed | 3 | 0 | 2b | 64 | 684 | £350,000 | £390,000 | £571 | | 0 |
| B | 88 | 2 bed | 4 | 1 | 2b | 71 | 760 | £383,000 | £420,000 | £553 | | 1 |
| B | 89 | 2 bed | 4 | 1 | 2b | 71 | 760 | £378,000 | £420,000 | £553 | | 1 |
| B | 90 | 2 bed | 3 | 1 | 2b | 63 | 679 | £353,000 | £390,000 | £574 | | 1 |
| B | 91 | 1 bed | 2 | 1 | 1b | 50 | 540 | £288,000 | £295,000 | £546 | Substation | 0 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| B | 92 | 1 bed | 2 | 1 | 1b | 50 | 540 | £288,000 | £295,000 | £546 | Substation | 0 |
| B | 93 | 1 bed | 2 | 1 | 1b | 50 | 540 | £288,000 | £295,000 | £546 | Substation | 0 |
| B | 94 | 2 bed | 4 | 2 | 2b | 71 | 760 | £385,000 | £420,000 | £553 | | 1 |
| B | 95 | 2 bed | 4 | 2 | 2b | 71 | 760 | £385,000 | £420,000 | £553 | | 1 |
| B | 96 | 2 bed | 3 | 2 | 2b | 63 | 679 | £355,000 | £390,000 | £574 | | 1 |
| B | 97 | 1 bed | 2 | 2 | 1b | 50 | 540 | £290,000 | £295,000 | £546 | Substation | 0 |
| B | 98 | 1 bed | 2 | 2 | 1b | 50 | 540 | £290,000 | £295,000 | £546 | Substation | 0 |
| B | 99 | 1 bed | 2 | 2 | 1b | 50 | 540 | £290,000 | £295,000 | £546 | Substation | 0 |
| B | 100 | 2 bed | 4 | 3 | 2b | 71 | 760 | £388,000 | £425,000 | £559 | | 1 |
| B | 101 | 2 bed | 4 | 3 | 2b | 71 | 760 | £388,000 | £425,000 | £559 | | 1 |
| B | 102 | 2 bed | 3 | 3 | 2b | 63 | 679 | £358,000 | £395,000 | £582 | | 1 |
| B | 103 | 1 bed | 2 | 3 | 1b | 50 | 540 | £293,000 | £300,000 | £555 | Substation | 0 |
| B | 104 | 1 bed | 2 | 3 | 1b | 50 | 540 | £293,000 | £300,000 | £555 | Substation | 0 |
| B | 105 | 1 bed | 2 | 3 | 1b | 50 | 540 | £293,000 | £300,000 | £555 | Substation | 0 |
| C | 106 | 2 bed | 3 | 0 | 2b | 61 | 657 | £338,000 | £380,000 | £579 | | 0 |
| C | 107 | 2 bed | 3 | 0 | 2b | 61 | 657 | £338,000 | £380,000 | £579 | | 0 |
| C | 108 | 2 bed | 3 | 1 | 2b | 61 | 657 | £348,000 | £395,000 | £602 | River | 1 |
| C | 109 | 1 bed | 2 | 1 | 1b | 50 | 538 | £288,000 | £320,000 | £595 | | 1 |
| C | 110 | 2 bed | 3 | 1 | 2b | 61 | 657 | £348,000 | £390,000 | £594 | | 0 |
| C | 111 | 2 bed | 3 | 2 | 2b | 61 | 657 | £367,000 | £395,000 | £602 | River | 1 |
| C | 112 | 1 bed | 2 | 2 | 1b | 50 | 538 | £290,000 | £320,000 | £595 | | 1 |
| C | 113 | 2 bed | 3 | 2 | 2b | 61 | 657 | £350,000 | £390,000 | £594 | | 0 |
| C | 114 | 2 bed | 3 | 3 | 2b | 61 | 657 | £370,000 | £405,000 | £617 | River | 1 |
| C | 115 | 2 bed | 3 | 3 | 2b | 61 | 657 | £348,000 | £395,000 | £602 | | 0 |
| D | 116 | 2 bed | 3 | 1 | 2b | 61 | 657 | £340,000 | £410,000 | £624 | River | 0 |
| D | 117 | 2 bed | 4 | 1 | 2b | 70 | 754 | £404,000 | £460,000 | £610 | River | 1 |
| D | 118 | 2 bed | 4 | 1 | 2b | 70 | 754 | £404,000 | £460,000 | £610 | River | 1 |
| D | 119 | 2 bed | 3 | 1 | 2b | 61 | 657 | £340,000 | £420,000 | £640 | River | 1 |
| D | 120 | 1 bed | 2 | 1 | 1b | 50 | 538 | £285,000 | £350,000 | £650 | River | 1 |
| D | 121 | 2 bed | 4 | 1 | 2b | 70 | 754 | £380,000 | £440,000 | £584 | River | 0 |
| D | 122 | 2 bed | 4 | 1 | 2b | 70 | 754 | £380,000 | £440,000 | £584 | River | 0 |
| D | 123 | 2 bed | 3 | 2 | 2b | 61 | 657 | £371,000 | £420,000 | £640 | River | 1 |
| D | 124 | 2 bed | 3 | 2 | 2b | 61 | 657 | £371,000 | £420,000 | £640 | River | 1 |
| D | 125 | 2 bed | 4 | 2 | 2b | 70 | 754 | £426,000 | £460,000 | £610 | River | 1 |
| D | 126 | 2 bed | 4 | 2 | 2b | 70 | 754 | £426,000 | £460,000 | £610 | River | 1 |
| D | 127 | 2 bed | 3 | 2 | 2b | 61 | 657 | £343,000 | £420,000 | £640 | River | 1 |
| D | 128 | 1 bed | 2 | 2 | 1b | 50 | 538 | £288,000 | £350,000 | £650 | River | 1 |
| D | 129 | 2 bed | 4 | 2 | 2b | 70 | 754 | £407,000 | £450,000 | £597 | River | 1 |
| D | 130 | 2 bed | 4 | 2 | 2b | 70 | 754 | £414,000 | £450,000 | £597 | River | 1 |
| D | 131 | 2 bed | 3 | 3 | 2b | 61 | 657 | £374,000 | £420,000 | £640 | River | 1 |
| D | 132 | 2 bed | 3 | 3 | 2b | 61 | 657 | £374,000 | £420,000 | £640 | River | 1 |
| D | 133 | 2 bed | 4 | 3 | 2b | 70 | 754 | £428,000 | £460,000 | £610 | River | 1 |
| D | 134 | 2 bed | 4 | 3 | 2b | 70 | 754 | £428,000 | £460,000 | £610 | River | 1 |
| D | 135 | 2 bed | 3 | 3 | 2b | 61 | 657 | £345,000 | £420,000 | £640 | River | 1 |
| D | 136 | 1 bed | 2 | 3 | 1b | 50 | 538 | £295,000 | £350,000 | £650 | River | 1 |
| D | 137 | 2 bed | 4 | 3 | 2b | 70 | 754 | £409,000 | £450,000 | £597 | River | 1 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| D | 138 | 2 bed | 4 | 3 | 2b | 70 | 754 | £417,000 | £450,000 | £597 | River | 1 |
| D | 139 | 2 bed | 3 | 4 | 2b | 61 | 657 | £376,000 | £420,000 | £640 | River | 1 |
| D | 140 | 2 bed | 3 | 4 | 2b | 61 | 657 | £376,000 | £420,000 | £640 | River | 1 |
| D | 141 | 2 bed | 4 | 4 | 2b | 70 | 753 | £431,000 | £460,000 | £611 | River | 1 |
| D | 142 | 2 bed | 4 | 4 | 2b | 70 | 753 | £431,000 | £460,000 | £611 | River | 1 |
| D | 143 | 2 bed | 3 | 4 | 2b | 61 | 657 | £348,000 | £420,000 | £640 | River | 1 |
| D | 144 | 1 bed | 2 | 4 | 1b | 50 | 538 | £293,000 | £350,000 | £650 | River | 1 |
| D | 145 | 2 bed | 4 | 4 | 2b | 70 | 754 | £412,000 | £450,000 | £597 | River | 1 |
| D | 146 | 2 bed | 4 | 4 | 2b | 70 | 754 | £419,000 | £450,000 | £597 | River | 1 |
| D | 147 | 2 bed | 3 | 5 | 2b | 61 | 657 | £379,000 | £420,000 | £640 | River | 1 |
| D | 148 | 3 bed | 5 | 5 | 3b | 87 | 934 | £526,000 | £620,000 | £664 | River | 2 |
| D | 149 | 3 bed | 5 | 5 | 3b | 89 | 953 | £538,000 | £615,000 | £646 | River | 1 |
| D | 150 | 2 bed | 3 | 5 | 2b | 61 | 657 | £372,000 | £420,000 | £640 | River | 1 |
| D | 151 | 1 bed | 2 | 5 | 1b | 50 | 538 | £314,000 | £350,000 | £650 | River | 1 |
| D | 152 | 2 bed | 4 | 5 | 2b | 70 | 753 | £414,000 | £450,000 | £597 | River | 1 |
| D | 153 | 2 bed | 4 | 5 | 2b | 70 | 753 | £422,000 | £450,000 | £597 | River | 1 |
| D | 154 | 2 bed | 4 | 6 | 2b | 70 | 753 | £424,000 | £455,000 | £604 | River | 1 |
| D | 155 | 3 bed | 5 | 6 | 3b | 87 | 934 | £529,000 | £625,000 | £669 | River | 2 |
| D | 156 | 3 bed | 5 | 6 | 3b | 89 | 953 | £540,000 | £620,000 | £651 | River | 1 |
| D | 157 | 2 bed | 3 | 6 | 2b | 61 | 657 | £375,000 | £425,000 | £647 | River | 1 |
| D | 158 | 1 bed | 2 | 6 | 1b | 50 | 538 | £317,000 | £355,000 | £660 | River | 1 |
| D | 159 | 2 bed | 3 | 7 | 2b | 61 | 657 | £377,000 | £430,000 | £655 | River | 1 |
| D | 160 | 3 bed | 5 | 7 | 3b | 92 | 990 | £570,000 | £635,000 | £641 | River | 2 |
| D | 161 | 3 bed | 6 | 7 | 3b | 95 | 1017 | £581,000 | £635,000 | £624 | River | 1 |
| D | 162 | 2 bed | 3 | 7 | 2b | 61 | 657 | £377,000 | £430,000 | £655 | River | 1 |
| D | 163 | 1 bed | 2 | 7 | 1b | 50 | 538 | £319,000 | £360,000 | £669 | River | 1 |
| D | 164 | 3 bed | 4 | 8 | 3b | 74 | 797 | £466,000 | £590,000 | £741 | River | T |
| D | 165 | 3 bed | 5 | 8 | 3b | 92 | 990 | £582,000 | £650,000 | £656 | River | T |
| D | 166 | 3 bed | 6 | 8 | 3b | 95 | 1023 | £573,000 | £650,000 | £636 | River | T |
| D | 167 | 3 bed | 4 | 9 | 3b | 74 | 797 | £448,000 | £580,000 | £728 | River | 0 |
| D | 168 | 3 bed | 6 | 9 | 3b | 97 | 1044 | £608,000 | £660,000 | £632 | River | 2 |
| D | 169 | 3 bed | 6 | 9 | 3b | 95 | 1023 | £576,000 | £655,000 | £641 | River | 1 |
| D | 170 | Studio | 1 | 2 | 1b | 39 | 420 | £250,000 | £280,000 | £667 | River | 0 |
| E | 171 | 2 bed | 4 | 0 | 2b | 70 | 754 | £404,000 | £430,000 | £571 | River | 0 |
| E | 172 | 1 bed | 2 | 0 | 1b | 50 | 538 | £324,000 | £310,000 | £576 | | 0 |
| E | 173 | 2 bed | 4 | 0 | 2b | 70 | 758 | £406,000 | £430,000 | £567 | River | 0 |
| E | 174 | 1 bed | 2 | 0 | 1b | 50 | 543 | £285,000 | £330,000 | £608 | River | 0 |
| E | 175 | 1 bed | 2 | 0 | 1b | 51 | 545 | £285,000 | £330,000 | £606 | River | 0 |
| E | 176 | 2 bed | 3 | 1 | 2b | 61 | 657 | £382,000 | £430,000 | £655 | River | 1 |
| E | 177 | 1 bed | 2 | 1 | 1b | 50 | 538 | £321,000 | £350,000 | £650 | River | 1 |
| E | 178 | 2 bed | 4 | 1 | 2b | 70 | 758 | £404,000 | £450,000 | £594 | River | 1 |
| E | 179 | 2 bed | 4 | 1 | 2b | 71 | 761 | £393,000 | £460,000 | £604 | River | 2 |
| E | 180 | 1 bed | 2 | 1 | 1b | 51 | 545 | £288,000 | £320,000 | £588 | | 0 |
| E | 181 | 2 bed | 3 | 2 | 2b | 61 | 657 | £384,000 | £430,000 | £655 | River | 1 |
| E | 182 | 1 bed | 2 | 2 | 1b | 50 | 538 | £324,000 | £350,000 | £650 | River | 1 |
| E | 183 | 2 bed | 4 | 2 | 2b | 70 | 758 | £406,000 | £450,000 | £594 | River | 1 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| E | 184 | 2 bed | 4 | 2 | 2b | 71 | 761 | £395,000 | £460,000 | £604 | River | 2 |
| E | 185 | 1 bed | 2 | 2 | 1b | 51 | 545 | £290,000 | £320,000 | £588 | | 0 |
| E | 186 | 2 bed | 3 | 3 | 2b | 61 | 657 | £387,000 | £430,000 | £655 | River | 1 |
| E | 187 | 1 bed | 2 | 3 | 1b | 50 | 538 | £326,000 | £350,000 | £650 | River | 1 |
| E | 188 | 2 bed | 4 | 3 | 2b | 70 | 758 | £409,000 | £450,000 | £594 | River | 1 |
| E | 189 | 2 bed | 4 | 3 | 2b | 71 | 761 | £398,000 | £460,000 | £604 | River | 2 |
| E | 190 | 1 bed | 2 | 3 | 1b | 51 | 545 | £293,000 | £320,000 | £588 | | 0 |
| E | 191 | 1 bed | 2 | 4 | 1b | 51 | 549 | £329,000 | £355,000 | £647 | River | 1 |
| E | 192 | 2 bed | 4 | 4 | 2b | 70 | 758 | £411,000 | £455,000 | £600 | River | 1 |
| E | 193 | 2 bed | 4 | 4 | 2b | 71 | 761 | £400,000 | £455,000 | £598 | River | 1 |
| E | 194 | 1 bed | 2 | 4 | 1b | 51 | 545 | £295,000 | £325,000 | £597 | | 0 |
| E | 195 | 1 bed | 2 | 5 | 1b | 50 | 538 | £331,000 | £355,000 | £660 | River | 1 |
| E | 196 | 2 bed | 4 | 5 | 2b | 70 | 758 | £414,000 | £455,000 | £600 | River | 1 |
| E | 197 | 2 bed | 4 | 5 | 2b | 70 | 753 | £403,000 | £455,000 | £604 | River | 1 |
| E | 198 | 1 bed | 2 | 5 | 1b | 51 | 545 | £298,000 | £325,000 | £597 | | 0 |
| E | 199 | 2 bed | 4 | 6 | 2b | 70 | 755 | £431,000 | £470,000 | £623 | River | T |
| E | 200 | 2 bed | 4 | 6 | 2b | 70 | 753 | £420,000 | £460,000 | £611 | River | T |
| E | 201 | 2 bed | 4 | 7 | 2b | 70 | 755 | £424,000 | £470,000 | £623 | River | 1 |
| E | 202 | 2 bed | 4 | 7 | 2b | 72 | 777 | £418,000 | £460,000 | £592 | River | 1 |
| F | 202 | 2 bed | 3 | 0 | 2b | 61 | 657 | £340,000 | £380,000 | £579 | | 0 |
| F | 203 | 2 bed | 3 | 0 | 2b | 61 | 657 | £340,000 | £380,000 | £579 | | 0 |
| F | 204 | 2 bed | 3 | 1 | 2b | 61 | 657 | £348,000 | £390,000 | £594 | | 1 |
| F | 205 | 2 bed | 3 | 1 | 2b | 61 | 657 | £365,000 | £390,000 | £594 | | 1 |
| F | 206 | 2 bed | 3 | 2 | 2b | 61 | 657 | £350,000 | £400,000 | £609 | | 1 |
| F | 207 | 2 bed | 3 | 2 | 2b | 61 | 657 | £367,000 | £400,000 | £609 | | 1 |
| G | 209 | 2 bed | 3 | 0 | 2b | 61 | 657 | £350,000 | £420,000 | £640 | | 0 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total** | **209** | | | | | **13,138** | **141,421** | **£76,647,000** | **£82,955,000** | **£587** | | |

# Appendix Four – Appraisal Summary

# The Old Power Station
# Vastern Road, Reading

**Appraisal Summary for Phase 1 Whole Scheme**

**Currency in £**

**REVENUE**

| **Sales Valuation** | **Units** | **ft²** | **Sales Rate ft²** | **Unit Price** | **Gross Sales** |
|---|---|---|---|---|---|
| Private Sale Residential | 209 | 141,421 | 586.58 | 396,914 | 82,955,000 |
| Ground Rent | 1 | 0 | 0.00 | 731,500 | 731,500 |
| Car Parking | 37 | 0 | 0.00 | 20,000 | 740,000 |
| Cafe | 1 | 193 | 416.58 | 80,400 | 80,400 |
| **Totals** | **248** | **141,614** | | | **84,506,900** |

| | | | | |
|---|---|---|---|---|
| **NET REALISATION** | | | | **84,506,900** |
| **OUTLAY** | | | | |
| **ACQUISITION COSTS** | | | | |
| Fixed Price | | | 6,500,000 | |
| | | | | 6,500,000 |
| Stamp Duty | | | 312,500 | |
| Effective Stamp Duty Rate | | 4.81% | | |
| Agent Fee | | 1.50% | 97,500 | |
| Legal Fee | | 0.50% | 32,500 | |
| | | | | 442,500 |
| **Other Acquisition** | | | | |
| S106 | | | 205,754 | |
| Borough CIL | | | 2,186,704 | |
| Third Party Issues | | | 50,000 | |
| | | | | 2,442,458 |
| **CONSTRUCTION COSTS** | | | | |
| **Construction** | **ft²** | **Build Rate ft²** | **Cost** | |
| Private Sale Residential | 141,421 | 362.68 | 51,290,407 | **51,290,407** |
| **PROFESSIONAL FEES** | | | | |
| Professional fees | | 6.00% | 3,077,424 | |
| Pre planning fees | | | 1,030,535 | |
| | | | | 4,107,959 |
| **MARKETING & LETTING** | | | | |
| Marketing - PD | | 3.00% | 2,488,650 | |
| | | | | 2,488,650 |
| **DISPOSAL FEES** | | | | |
| Sales Legal Fee | 209 un | 600.00 /un | 125,400 | |
| | | | | 125,400 |
| **Developer's Profit** | | | | |
| Developer's Profit | | 17.50% | 14,788,707 | |
| | | | | 14,788,707 |
| **FINANCE** | | | | |
| Debit Rate 6.500%, Credit Rate 0.000% (Nominal) | | | | |
| Land | | | 75,210 | |
| Other | | | 5,252,806 | |
| Total Finance Cost | | | | 5,328,016 |
| **TOTAL COSTS** | | | | **87,514,098** |
| **PROFIT** | | | | |
| | | | | **(3,007,198)** |

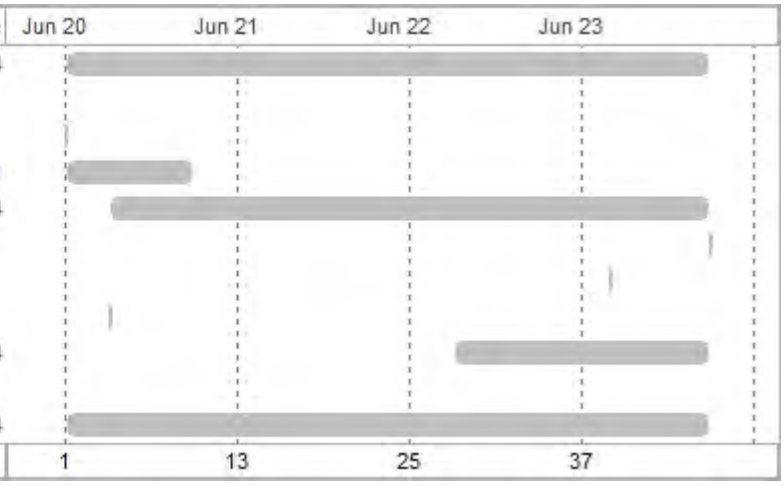
| **Performance Measures** | |
|---|---|
| Profit on Cost% | -3.44% |
| Profit on GDV% | -3.56% |
| Profit on NDV% | -3.56% |
| Profit Erosion (finance rate 6.500) | N/A |

**The Old Power Station**
**Vastern Road, Reading**

| Project Timescale | |
|---|---|
| Project Start Date | Jun 2020 |
| Project End Date | Feb 2024 |
| Project Duration (Inc Exit Period) | 45 months |

**1. Whole Scheme**

| | Start Date | Duration | End Date |
|---|---|---|---|
| **Project** | Jun 2020 | 45 | Feb 2024 |
| Purchase | Jun 2020 | 0 Month(s) | |
| Pre-Construction | Jun 2020 | 9 Month(s) | Feb 2021 |
| Construction | Sep 2020 | 42 | Feb 2024 |
| Post Development | Mar 2024 | 0 Month(s) | |
| Letting | Aug 2023 | 0 Month(s) | |
| Deposits | Sep 2020 | 0 Month(s) | |
| Sale | Sep 2022 | 18 | Feb 2024 |
| Cash Activity | Jun 2020 | 45 | Feb 2024 |



**The Old Power Station**
**Vastern Road, Reading**

## Table of Profit on GDV% and Profit Amount

| | Sales: Gross Sales | | | | |
|---|---|---|---|---|---|
| Construction: Gross Cost | -10.000% | -5.000% | 0.000% | +5.000% | +10.000% |
| | 74,659,500 | 78,807,250 | 82,955,000 | 87,102,750 | 91,250,500 |
| -5.000%<br>48,725,887 | -9.050%<br>(£6,896,766) | -4.280%<br>(£3,439,201) | 0.022%<br>£18,363 | 3.906%<br>£3,462,600 | 7.420%<br>£6,885,666 |
| -2.500%<br>50,008,147 | -11.034%<br>(£8,409,546) | -6.162%<br>(£4,951,982) | -1.768%<br>(£1,494,417) | 2.208%<br>£1,957,580 | 5.807%<br>£5,389,065 |
| 0.000%<br>51,290,407 | -13.019%<br>(£9,922,327) | -8.045%<br>(£6,464,762) | -3.559%<br>(£3,007,198) | 0.508%<br>£450,366 | 4.193%<br>£3,891,630 |
| +2.500%<br>52,572,667 | -15.004%<br>(£11,435,107) | -9.927%<br>(£7,977,543) | -5.349%<br>(£4,519,978) | -1.198%<br>(£1,062,414) | 2.572%<br>£2,387,300 |
| +5.000%<br>53,854,927 | -16.989%<br>(£12,947,888) | -11.810%<br>(£9,490,323) | -7.139%<br>(£6,032,759) | -2.905%<br>(£2,575,195) | 0.951%<br>£882,280 |

## Sensitivity Analysis : Assumptions for Calculation

**Sales: Gross Sales**
Original Values are varied by Steps of 5.000%.

| Heading | Phase | Amount | No. of Steps |
|---|---|---|---|
| Private Sale Residential | 1 | £82,955,000 | 2.00 Up & Down |

**Construction: Gross Cost**
Original Values are varied by Steps of 2.500%.

| Heading | Phase | Amount | No. of Steps |
|---|---|---|---|
| Private Sale Residential | 1 | £51,290,407 | 2.00 Up & Down |

# Appendix 3

Representations submitted in response to draft
SPD consultation (November 2020)

# Draft Affordable Housing Supplementary Planning Document

Representations submitted on behalf of
Berkeley Group

November 2020



BARTON WILLMORE

**Draft Affordable Housing Supplementary Planning Document**

**Representations submitted on behalf of**
**Berkeley Group**

| | | | | |
|---|---|---|---|---|
| **Project Ref:** | 28876/P4/A5 | 28876/P4/A5 | 28876/P4/A5 | 28876/P4/A5 |
| **Status:** | Draft | Draft | Draft | Final |
| **Issue/Rev:** | | A | B | C |
| **Date:** | 29th October 2020 | 10th November 2020 | 10th November 2020 | 13th November 2020 |
| **Prepared by:** | Emily Ford / Craig Pettit | Emily Ford / Craig Pettit | Emily Ford / Craig Pettit | Emily Ford / Craig Pettit |
| **Checked by:** | Kim Cohen | Kim Cohen | Kim Cohen | Kim Cohen |
| **Authorised by:** | Kim Cohen | Kim Cohen | Kim Cohen | Kim Cohen |

The Blade,
Abbey Square,
READING,
Berkshire. RG1 3BE

Tel: 0118 943 0000
Fax: 0118 943 0001
Email: planning@bartonwillmore.co.uk

Ref: 28876/P4c/A5/EF/CP/slh

Date: November 2020

# CONTENTS

# 1.0 INTRODUCTION

1.1 These representations are submitted by Barton Willmore LLP on behalf of Berkeley Croup in response to Reading Borough Council's (RBC's) consultation on the draft Affordable Housing Supplementary Planning Document (SPD). The representations have been prepared with input from Berkeley Partnership who are responsible for the assembly, planning, implementation, procurement and delivery of Berkeley Group's programme of affordable housing.

1.2 As background, Berkeley are one of the leading property development companies in London and the South East. Berkeley are experienced in regenerating complex sites to deliver fantastic places for people to live, work and socialise in. Berkeley have built 19,200 homes in the last five years, across London, Birmingham and the South of England. Their developments range in size and include medium to large-scale developments in towns, cities and the countryside, encompassing executive homes, mixed use schemes, riverside apartments, refurbished historic buildings and urban loft spaces.

1.3 Within Reading, Berkeley are responsible for the delivery of high-quality new developments including Green Park and Huntley Wharf which are delivering 737 and 765 new homes, respectively. In addition, Berkeley have historically delivered the scheme at Kennet Island which provides 1,350 homes. In total, Berkeley are delivering approximately 755 affordable homes from these three sites in conjunction with RBC.

1.4 Berkeley are currently promoting the redevelopment of the SSE site north of Vastern Road to provide a new residential community comprising 209 homes, a café and a new north-south pedestrian link connecting Christchurch Bridge to Vastern Road, toward Reading Station. The proposals are subject to a live full planning application (RBC reference 200188).

1.5 These representations comment upon the proposed content of the SPD in the context of, and in terms of consistency with, the adopted Local Plan (November 2019), National Planning Policy Framework (NPPF) and Planning Practice Guidance (PPG).

## 2.0 RESPONSE TO DRAFT AFFORDABLE HOUSING SPD

2.1 Our client recognises that housing affordability represents a significant challenge in Reading and supports RBC's ambition to improve access to decent housing to meet local needs, as set out in RBC's Corporate Plan 2018-21.

2.2 Our client therefore supports RBC in preparing an updated Affordable Housing SPD to align with the Local Plan adopted in November 2019.

2.3 Planning Practice Guidance states that:

> **'Supplementary planning documents (SPDs) should build upon and provide more detailed advice or guidance on policies in an adopted local plan. As they do not form part of the development plan, they cannot introduce new planning policies into the development plan. They are however a material consideration in decision-making. They should not add unnecessarily to the financial burdens on development.'** (Paragraph 61-008-20190315)

2.4 In this regard, the SPD must reflect the Development Plan context. Policy H3 'Affordable Housing' in the adopted Local Plan states:

> **'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 to 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 should be integrated into the development.**
>
> **Priority needs are currently for housing with two or more bedrooms than 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 dwellings; and**
> - **Conversion of a dwelling to self-contained flats where there is no new floorspace.'**

2.5 Our client considers that the draft SPD is broadly consistent with Local Plan Policy H3 which identifies the affordable housing requirement.

2.6 However, our client does not consider that the SPD is entirely consistent with the NPPF and PPG, for the reasons detailed below.

<u>Tenure Mix</u>

2.7 Paragraph 4.2 of the draft SPD identifies the tenure split to be as sought from on-site affordable housing as follows:

- Affordable rented accommodation at 'Reading affordable rent' levels – at least 62%; and
- Affordable home ownership (shared ownership or another product) – maximum 38%.

*Reading affordable rent*

2.8 Paragraph 4.6 defines 'Reading affordable rent' as rental levels capped at 70% of market rates. Paragraph 4.9 explains that the purpose of 'Reading affordable rent' is to strike a balance between maximising the amount of affordable housing which can be secured on-site and ensuring that rents are at a level which are genuinely affordable to those in housing need in Reading.

2.9 RBC's report to the Policy Committee on 28th September 2020 sets out at paragraph 4.4 that:

> **'Reading Affordable Rent' equates to a cap of 70% of market rents and is pitched at a level considered to be affordable to those in housing need in Reading. In the past, policies have sought social rent (at target rent level) or affordable rent (up to 80% of market rents), but it is considered that a more locally-specific approach is justified and would result in the most significant on-site contribution to secure genuinely affordable housing. This has been subject to viability testing, which found that the mix of tenures sought is viable in most scenarios.**

2.10 Annex 2 of the NPPF sets out conditions that affordable housing for rent must meet, including that the rent is set in accordance with the Government's rent policy for Social Rent or Affordable Rent, or is at least 20% below local market rents (including service charges where applicable).

2.11 Our client does not consider that sufficient evidence has been provided to justify the proposed 'Reading Affordable Rent', either within the SPD or as part of any other separate documents. Indeed, the assessment of the viability of different rents undertaken by BPS considers only three options, none of which are based upon rent at more than 70% of market rents. In so doing, the assessment does not provide any evidential basis to support the above claim that 'a more locally-specific approach is justified' and that discounting market rents by 30% is necessary or appropriate.

2.12 As such, it is unclear how the conclusion in paragraph 4.13 of the Policy Committee report from 28th September has been reached. Paragraph 4.13 states:

> **'Ultimately, this comes down to trying to strike a balance between achieving as much on-site affordable housing as possible and setting rents at a level which is genuinely affordable. The Reading Affordable Rent option with rents set at 70% of market rents is considered to be the option which strikes that balance best'.**

2.13 To this end, our client does not consider this assessment to be sufficient to justify the proposed 'Reading affordable rent' which departs from the NPPF's suggested approach of a 20% reduction to market rents.

*Tenure split*

2.14 Paragraph 4.4 of the draft SPD states that the 'tenure expectations have been subject to viability testing to ensure that developments should generally be able to provide

policy-compliant affordable housing at these levels without an adverse effect on viability levels'. Paragraph 4.10 goes on to say that the requirement for 62% of affordable housing to be 'Reading affordable rent' was 'found to be generally viable in most scenarios'.

2.15 In light of RBC's recognition that the proposed tenure expectations will not be achievable in all scenarios without an adverse effect on viability, our client requests that the SPD includes increased flexibility in terms of the tenure mix to be provided.

2.16 In this regard, our client objects to paragraph 4.14 of the draft SPD. Paragraph 4.14 identifies that the priority for RBC is the provision of homes rented at 'Reading affordable rent' on the basis that affordable homes for intermediate sale make a less significant contribution to those in housing need in Reading than affordable rented homes. For this reason it is stated that 'if the overall on-site affordable housing provision is reduced below 30% for viability reasons, it will not be considered acceptable to increase the proportion of that provision that is shared ownership or other affordable sale purely in order to continue to meet the 10% requirement of the NPPF'.

2.17 However, Paragraph 64 of the NPPF states:

> **'Where major development involving the provision of housing is proposed, planning policies and decisions should expect at least 10% of the homes to be available for affordable home ownership[29], unless this would exceed the level of affordable housing required in the area, or significantly prejudice the ability to meet the identified affordable housing needs of specific groups. Exemptions to this 10% requirement should also be made where the site or proposed development:**
>
> **a) provides solely for Build to Rent homes;**
> **b) provides specialist accommodation for a group of people with specific needs (such as purpose-built accommodation for the elderly or students);**
> **c) is proposed to be developed by people who wish to build or commission their own homes; or**
> **d) is exclusively for affordable housing, an entry-level exception site or a rural exception site.'**

2.18 Importantly, footnote 29 of paragraph 64 states 'as part of the overall affordable housing contribution from the site'.

2.19 RBC acknowledge this within paragraph 4.11 of the report to Policy Committee, setting out in relation to the options for tenure mix that 'there is one set parameter, in that the NPPF states that at least 10% of major residential developments should be available for

affordable home ownership products, which therefore equates to approximately 30% of the affordable portion of major developments'.

2.20 Our client does not consider that RBC have provided sufficient justification for their proposed departure from the NPPF in circumstances where policy-compliant affordable housing provision is proven to be unviable. Therefore, our client objects to paragraph 4.14.

*Starter homes*

2.21 Our client notes that paragraph 4.12 of the draft SPD sets out that RBC's view is that homes for sale at 80% of market value in Reading do not represent a truly affordable product that meets needs and that, on that basis, RBC will not expect the provision of starter homes as part of developments. Starter homes are included with the NPPF's definition of affordable housing and our client does not consider that RBC has provided any justification for its approach which is contrary to the NPPF.

*First homes*

2.22 Paragraph 4.13 of the SPD acknowledges that the Government consulted upon a proposed requirement for 25% of affordable housing provided on-site by private developments to be in the form of 'First Homes'. Our client notes that the SPD as drafted makes reference to the consultation but does not specify First Homes as a potential source of affordable home ownership units. The potential impact of First Homes becoming part of affordable housing provision has also not been tested within the viability assessment which underpins the SPD's proposed tenure mix.

2.23 To ensure that the SPD remains up-to-date, it is important that the final version takes account of any such requirement imposed nationally.

<u>Design</u>

2.24 Our client supports the reference in paragraph 4.27 to the size and type of affordable housing to be secured on-site needing to take the circumstances of the site and the development into account. Our client acknowledges that identified needs should be reflected in the mix to be provided as far as is feasible; however, the nature of schemes will determine the types of affordable units which could be provided. As such, it is important that RBC have flexibility in terms of unit type and size to be provided on-site.

2.25 Our client welcomes the recognition within paragraph 4.32 that 'for practical reasons, it may be necessary for affordable homes to be provided in groups rather than 'pepper potted' around a development'. Whilst our client supports the provision of affordable housing as part of 'tenure-blind' schemes, as required by paragraph 4.31, it is not always practicable or achievable to pepper-pot affordable units, particularly in flatted schemes. In this context, RBC's pragmatic approach is supported.

Viability

2.26 Our client welcomes the recognition in paragraph 6.2 of the SPD that the viability of residential development will vary from site to site and in some circumstances may affect whether a development can provide a level of affordable housing that complies with policy requirements.

2.27 Viability is an important consideration for our client. Our client therefore welcomes the opportunity for open discussion with RBC and its external consultants, where relevant, regarding the viability of development proposals.

2.28 Our client recognises that the engagement of external consultants to review viability assessments may be necessary in some instances. Where submitted viability assessments are subject to external review, at the applicant's expense, our client considers that it is entirely reasonable that the outcome of the review is shared with the applicant in a timely manner. Our client recommends that the SPD is amended to specify this.

2.29 Paragraph 6.12 of the SPD sets out that, on the basis that RBC's policy is that an appropriate contribution to affordable housing will be made, where a reduced contribution to affordable housing is agreed at application stage a mechanism should be included within the Section 106 agreement that ensures that a proportion of increased profits are secured for affordable housing, referred to as a deferred contributions mechanism.

2.30 Our client agrees with the principle of seeking an appropriate contribution to affordable housing provision and consider that a review mechanism can be appropriate.

2.31 However, our client considers that a deferred contribution mechanism will not always be the most suitable approach to seeking affordable housing provision. For example, where betterment is agreed at application stage, our client does not consider that it is appropriate to also require a deferred contributions mechanism.

2.32 Moreover, it is important to note that developers in the market will tend to rely, to some extent, on growth in the market to achieve an acceptable margin on schemes that would otherwise not be viable. Sharing in that uplift therefore introduces additional risk, which can, as a consequence, make the cost of finance higher.

2.33 In this regard, our client considers that the use of deferred contribution mechanism should be considered on a case by case basis, just as the appropriate form of the mechanism should be case-specific as stated in paragraph 6.14.

2.34 Notwithstanding this, Berkeley Partnership have reviewed the formulae which RBC intend to apply in the profit share approach, as set out in Appendix 4 of the SPD, and consider that the formulae could result in contributions being paid on assumed higher profits that have not, in reality, been achieved.

2.35 The formula for the deferred contribution (X) is considered to be too simplistic. Crucially, the formula does not take account of any deficit that the scheme may be in at the outset, as it considers only the uplift in value and uplift in build cost. As a result, the developer may be required to pay a contribution before the scheme has reached a viable position.

2.36 The formula also takes no account of the uplift in any costs other than build cost. Again, this could mean that a developer could be liable for a contribution when a scheme remains unviable as uplifts in other costs, such as financing, are not taken into account.

2.37 Our client consider that any review should comprise a full review of the viability using the same methodology as the original viability appraisal. The findings of the two appraisals should then be compared to identify whether the viability of the development has improved and it is reasonable to require any financial contributions towards affordable housing provision.

2.38 The formula for the cap (Z) is also considered to be too simplistic. As a result, it could result in a contribution that exceeds the equivalent of achieving a policy compliant position. This results from the formula assuming that the impact of affordable housing on the viability of a scheme can be represented by the simple difference in revenue, which equates to 50%. This proportion of affordable to private sale value is assumed to be fixed regardless of the value of the private sale, which implies that the value of the affordable will increase at the same rate as the private sale which is considered unlikely to be true. The formula also takes no account of the difference in costs and profit

expectations on private compared to affordable housing, thus exaggerating the amount needed to achieve the target affordable housing provision.

2.39 Furthermore, the 'cap' is not a fixed figure but depends on figures that are not able to be calculated at the outset. It is therefore not a cap.

2.40 To be a fair cap, the formula should use the same methodology as the original viability to calculate the difference in the benchmark margins between the proposed scheme as consented and a scheme that delivers the policy target level of affordable housing. That difference should be the cap which would then fairly represent the uplift needed to achieve RBC's target level of affordable housing.

## 3.0 RESPONSE TO BPS VIABILITY TESTING REPORT

3.1 Berkeley Partnership have reviewed the report on viability testing of affordable rent tenure options prepared by BPS.

3.2 The report is considered to be flawed, particularly in respect of the robustness of analysis of the impact of reducing affordable rents in Reading from 80% of market rents to 70%, for the reasons set out below.

3.3 Paragraph 1.3 of the report states that the aim of BPS' work was 'to use the baseline of appraisals created in respect of the Local Plan viability evidence base to test the impact of a number of potential changes'. Paragraph 1.4 sets out that 'the intention of the review is to consider the impact of a potentially increased proportion of affordable rented tenure and a higher level of discount to market rental value'.

3.4 Our client notes that, in addition to considering the impact of the reduced proportion of market rents, the report also analyses the impact of market changes. As a result, the report does not achieve the stated aim of comparing with the proposed change with the original Local Plan viability work, with the additional analysis of changes in market values meaning that direct comparison is not possible.

3.5 Moreover, it is noted that there is an error in the table of rents provided at paragraph 2.4. The figure for the weekly rent of a 4 bed property based on 2018 rents is stated as £253; based on the previous table which identifies market rents, the figure should be £420. It is unclear whether this error is present within the data used as part of BPS' calculations.

3.6 Our client notes that BPS' work demonstrates that the proposed changes to tenure mix result in only 30.8% of the scenarios tested being viable, regardless of whether market rents are discounted to 65 or 70%. The Local Plan viability work identifies that 76.9% of schemes would be viable based on affordable rent being 80% of market rents.

3.7 As such, it is clear from BPS' work that minor changes to the tenure mix can have significant impacts on the viability of development. In this regard, it is surprising that only three tenure options are tested as part of BPS' work, none of which include the affordable rent at 80% of market rents (the existing approach) or a percentage of market rents between 70 and 80%.

3.8 Taking account of the above, our client does not consider that the report represents a robust evidence base to support RBC's proposed tenure mix. Indeed, the report

identifies that the majority of scenarios tested are not likely to be viable based on current costs and values. Our client therefore considers that it is important that RBC maintain flexibility with regard to the tenure mix and quantum of affordable provision sought as part of development, having regard to site-specific viability assessments.