Berkeley
Partnership Homes

Steve Hicks MRICS
Property Estates & Valuation
Reading Borough Council

By Email Only

12th October 2020

Dear Steve,

55 Vastern Road. Ref 200188

Following our discussion last week and the information that you sent by email, in particular your email and attachments of 6th August, we have provided our response below.

Firstly with regards to the extract from the BPS report dated 3rd August 2020 provided :

Private Residential Values

The Berkeley sales and marketing team has reviewed BPS's comments and set out their response below:

Views

- We have reviewed the views which BPS have attributed to the plots across the site and compared them to how we have viewed the development

Of the entire site (BPS)		Of the entire site (BH)	
209	Total dwellings	209	Total dwellings
Vastern	23%	Vastern	23%
Substation	18%	Substation	18%
River	40%	River	33%
N/A	19%	N/A	26%

- We are in agreement regarding the Vastern Road facing plots and the substation facing plots located in Blocks A & B
- Our main discrepancy is regarding the river views and more specifically the plots in Block C and D
- In Block C, BPS have given 3 plots river views whereas we have attributed none. These plots are located in the middle of the site facing over the foot/cycleway and as such they cannot be given a river frontage premium price

- In Block D, BPS have stated that 100% of the properties have river views, again we disagree with this. Berkeley have priced 80% with river views (that includes partial views) and 20% with views over the foot/cycleway
- The 2 bed river view properties at Kenavon on average are achieving circa £30k higher than the internal apartments and secondly, not a £60k difference as the BPS are suggesting (in some cases)
- Using our uplift figure of £30k, £180k of revenue should be removed

Sales Comparables

- We disagree with BPS's assumption that you can attribute significant weight to asking prices as these are completely different and do not provide a comparison. A comparison can only be drawn from sales evidence which BPS have relied on throughout their report
- To date, we have sold and completed on 37 properties which range from 1 bed to 3 bed apartments, therefore a more direct comparison and we have provided some achieved selling prices as detailed below:

Plot Number	Block	Bedrooms	Floor Level	Sqft	Asking Price	Asking £/sqft	Achieved Price	Achieved £/sqft	Asking / Achieved Uplift
P0328	Mid	1 bed	5th Floor	592	£317,500	£536	£297,721	£503	94%
P0340	Mid	1 bed	6th Floor	594	£317,500	£535	£305,238	£514	96%
P0004	East	2 bed	GF	833	£450,000	£540	£425,999	£511	95%
P0005	East	3 bed	GF	1,048	£565,000	£539	£536,750	£512	95%
P0081	East	3 bed	GF	1,051	£565,000	£538	£536,750	£511	95%
						£538		£510	Avg. 5% difference*

- This shows an average of 5% difference between asking and achieved capital values which is why BPS cannot rely on asking prices as their only source of comparable evidence (note that incentives such as discounted value, legal fees and furniture packs have all been used at Huntley)
- If we take BPS's figure of £587psf and reduce this by 5%, we could expect to achieve a figure closer to £557psf which is not far off Berkeley's proposed sales revenues in the viability (£555.61psf)
- Note that in the current market we are assuming a 7% difference between asking and achieved to take into account extra incentives being required to achieve the high sales rate
- If you apply the Huntley Wharf capital values to the Vastern Road sizes (because on average they are smaller), you achieve the below figures:

1 bed (540sqft) = £297,721 (£551psf)
1 bed (540sqft) = £305,238 (565psf)
2 bed (753sqft) = £425,999 (£566psf)
3 bed (954sqft) = £536,750 (563psf)
AVERAGE = £561psf

We conclude that there is no evidence to suggest that our submitted figures are not correct.

Ground Rents

We have set out our reasoning for excluding ground rents from the appraisal in our submitted report. Our view remains that, by the time the first properties on this development complete in September 2022, the Government will have implemented their stated intention of restricting ground rents on new leases to £10p.a., effectively making them not worth collecting and therefore worthless.

Furthermore, since our original report, it has become clear that the Government are already seeking to exclude ground rents from those properties sold under Help to Buy.

This move by the Government not only impacts immediately on a significant proportion of the properties on this development, but also signals their clear intention to continue with their stated intention of restricting all ground rents.

Parking

The market values which we presented within the submission incorporate parking within two parts. Firstly, the 3 bedroom properties have all been attributed 1 allocated parking space and this has been reflected in their respective values. Secondly, the remaining spaces (37) are unallocated and the submission assumes addition value in the properties on site given that there is additional parking available.

Commercial Unit Valuation

We believe that BPS's valuation of the cafe unit is a gross overestimate. They offer just 3 comparables including a property let at £17.40psf which seems to us to be more comparable than the others, and have offered no comparable for the very keen yield of 6%. There is apparently no allowance for purchaser's costs or any letting incentives or void period.

Given the uncertainty over rents and yields, and the ability to let to a commercial operator at all, we maintain that no value can be attributed to this property net of incentives.

Benchmark Land Value

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.

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.

We are therefore confused by the comments that 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.

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.

We have taken advice on this point from the Robert Fourt of Gerald Eve who is currently helping prepare new RICS guidance on this issue.

The RICS's view is that minor works of this nature, including sub-division of buildings, does not amount to 'refurbishment' as referred to in viability guidance to the NPPF.

We maintain therefore that 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.

Turning now to the additional comments in your email dated 6th August :

1.1 All of the market valuations that we have used in our report assume the added value that Berkeley brings to a development, not only in terms of specification and placemaking, but also in terms of our skills in marketing. This costs more than a typical developer and is reflected to some extent in the marketing budget. Were we to adopt a more restrictive, cheaper, approach to marketing we would not achieve either the values that we have adopted or the rate of sale. Both of these elements would negatively affect the viability far more than the cost saving.
We maintain therefore that 4.5% is a reasonable allowance.

1.2 Having taken further advice on the level of CIL we are aware that our figure is probably an underestimate. It is likely that the correct figure will be c£400,000 more. This will, of course, further impact on the amount by which our appraisal is in deficit.
We note that the higher figure that you refer to in your email has not been used in the appraisal you provided.

1.3 Noted that the s106 charge is agreed.

1.4 As we explained to BPS, these costs are highly commercially sensitive. We are not prepared to expand on this further.

1.5 We believe that 7% is a reasonable assumption for speculative residential development, taking into account all arrangement fees.

1.6 Noted that the programme assumptions are agreed.

Build Costs

We note that you have chosen not to reveal to us BPS's comments on the build cost. We conclude from this that they agree with our figures.

We have seen no evidence to support any reduction in these costs.

Revised Appraisals

We have submitted with this report a revised appraisal taking account of the increased CIL figure.

This shows that our profit margin is actually negative and equates to a deficit of over 20% of GDV.

In order to illustrate that the severity of the viability position, we have also included an appraisal based on your appraisal but also corrected for the higher CIL, and re-set to show how much affordable would be possible to deliver and still maintain an acceptable margin. This demonstrates that the scheme would in fact provide less than 1 units, being in surplus by just £147,000 with nil affordable housing.

Furthermore, should the scheme be required to provide an energy centre and a contribution to the additional road works, even this low number reduces to zero and the scheme has a deficit of £1.3m.

Conclusion

We stress that we do not agree with these inputs. We merely wish to illustrate that, even if all of your parameters were justified, the scheme could still not provide any affordable housing on present day costs and values.

However, should we consider a review mechanism, we maintain that our submission should represent the base position from which any reviewed position is measured.

My colleagues at Berkeley Oxford & Chiltern will be discussing with you some proposals as to how we move forward to a positive conclusion to this application.

Yours sincerely

James Walker BSc MRICS
Affordable Housing Director

Attached : Summary Response 12/10/20