

Yield Hall Place The Oracle Reading Town Centre



Financial Viability Statement | Non-Technical Executive Summary

CBRE Limited | National Planning & Development report for:
The Oracle Limited Partnership

February 2024

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Declaration

A declaration of conformity with the RICS Professional Statement Financial Viability in Planning, September 2019, 1st Edition¹, is set out within the following sub-sections.

Instruction and Purpose of Report

In accordance with an instruction and our appointment dated 23 January 2024, CBRE has been instructed by The Oracle Limited Partnership ('the Applicant') to objectively assess, and report upon, the financial viability of the repurposing and redevelopment of sites at the eastern end of the Oracle shopping centre building to provide a mixed-use development comprising residential and town centres uses. The proposals focus around two main sites:

- Former Debenhams department store at the eastern end of the Oracle shopping centre building and northern side of the River Kennet, to be known as Yield Hall Place 1 ('YHP1'); and
- Vue cinema building on the southern side of the River Kennet and to the east of the Oracle Riverside multi storey car park, to be known as Yield Hall Place 2 ('YHP2').

Two detailed planning applications (ref: 221916 and 221917) for the redevelopment of the above sites were submitted in December 2022 and remain live. It is understood that since initial submission the proposals have evolved to reflect discussions with the Council.

The current descriptions for the proposed developments sought for each site are summarised as follows:

- YHP1: "mixed use development comprising part demolition of former department store and erection of new building comprising up to 218no. build to rent residential dwellings (Class C3) and 1,209 sqm commercial uses within Uses Class E and / or bar (Sui Generis Use). Reconfiguration and change of use of up to 5,866 sqm remaining department store floorspace (Class E) to uses within Use Class E and / or bar (Sui Generis Use) and / or experiential leisure use (Sui Generis Use). Associated public realm, infrastructure works and external alterations to shopping centre, including creation of new shopping centre entrance."
- YHP2: "mixed use development comprising demolition of existing buildings and erection of new building comprising up to 218no. build-to-rent residential dwellings (Class C3) and up to 3,046 sqm commercial floorspace comprising cinema (Sui Generis) and ground floor commercial uses within Use Class E and /or Bar (Sui Generis Use). Associated public realm and infrastructure works."

This viability assessment ('VA') is submitted in respect of the latest proposals for the proposed developments and assesses their financial viability, taking into account the policy requirements set by the Council as well as national planning policy and guidance.

Objectivity, impartiality and reasonableness

CBRE places the utmost importance on the integrity, impartiality, and potential conflicts of interests in carrying out its services and seeks to identify and assess all relationships which may result in a conflict of interest or pose a threat to

¹ RICS (May 2019) *Financial viability in planning: conduct and reporting, 1st Edition*

impartiality. CBRE aims to inspire confidence by being open and impartial, offering transparency of process, being fair and maintaining the confidentiality of our clients.

In undertaking this instruction and carrying out the viability assessment, CBRE always confirms that we have acted impartially, with objectivity, without interference and with reference to all appropriate available sources of information.

CBRE confirms that adequate time has been provided to produce this report.

CBRE confirms that there is no instruction in place to undertake an Area-Wide viability assessment concerning existing and future planning policies against which the proposed development scheme will, in due course be considered.

CBRE has set out a full explanation of the evidence provided with reasoned justification.

Conflict(s) of interest

CBRE confirms, to the best of its knowledge, that no conflict or risk of conflict of interest exists in undertaking this viability assessment on behalf of the Applicant(s) and in respect of the site(s).

Contingent Fee

In preparing this report, no performance related or contingent fees have been agreed between CBRE and the Applicant(s).

Status

This report does not constitute a formal valuation and cannot be regarded, or relied upon, as such.

This report provides a guide for feasibility in line with the purpose for which the assessment is required, in accordance with the National Planning Policy Framework ('NPPF')² and national Planning Practice Guidance for Viability ('PPGV')³, and as stated within the relevant guidance published by the RICS⁴.

The conclusions of this report are based upon the input assumptions as stated herein and as available at the time of production. The input assumptions and conclusions of this report are valid at the date of publication and should be subject to review should further information be made available or in the event of material economic or property market change, or in respect of relevant legislative and policy changes.

Publication

This viability assessment has been prepared on the basis that it is expected to be made publicly available, other than in exceptional circumstances.

Where information may compromise delivery of the proposed development(s) or infringe other statutory and regulatory requirements, these exceptions will be discussed and agreed with the Local Planning Authority ('LPA') and documented early in the process. Commercially sensitive information will be presented in aggregate form following these discussions. Any sensitive personal information will not be made public.

² MHCLG (2021) *National Planning Policy Framework (NPPF)*

³ MHCLG (2019) *National Planning Practice Guidance – Viability*

⁴ RICS (2021) *Assessing viability in planning under the National Planning Policy Framework 2019 for England RICS guidance note, England 1st edition, March 2021 (effective from 1 July 2021) ('RICS Viability Guidance')*

Personnel

This report has been prepared and approved by the following personnel:

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Executive Summary

CBRE has been appointed by The Oracle Limited Partnership ('the Applicant') to objectively assess, and report upon, the financial viability of the repurposing and redevelopment of sites at the eastern end of the Oracle shopping centre building to provide a mixed use development comprising residential and town centres uses. The proposals focus around two main sites:

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This viability assessment ('VA') is submitted in respect of the latest proposals for the proposed developments and assesses their financial viability, taking into account the policy requirements set by the Council as well as national planning policy and guidance.

Assessment Methodology

The viability model is conducted on a residual basis using industry standard Argus Developer software. A cashflow is provided for full transparency.

The key viability modelling input assumptions adopted by CBRE for the viability appraisals of the proposed developments at the sites are summarised in Table ES1 overleaf.

Table ES1: Viability Assessment Inputs Summary

	YHP1 Rate	YHP2 Rate	Comment
Estimated Rental Value ('ERV') BTR Open Market Apartments	£37.36/ft ²	£37.46/ft ²	Based upon local BTR market evidence
ERV BTR Affordable Private Rent ('APR') Apartments (LHA Capped)	£17.31/ft ²	£17.54/ft ²	Rents capped at LHA rates for Reading BRMA, as at January 2024.
Net Initial Yield ('NIY') BTR	4.25%		Represents an optimistic forward funded yield for a prime institutional grade asset in this location, at Q1 2024
ERV Class E/ Sui Generis Uses	£12.50 - £40.00/ft ²	£17.50 - £30.00/ft ²	Based upon local market evidence
NIY Class E/ Sui Generis Uses	7.00% - 8.25%	7.25% - 8.25%	Based upon market evidence
Construction Costs	£57,840,000	£61,720,000	Based on a cost plan produced on behalf of the Applicant by Arcadis. The cost presented excludes contingency/ risk, fees, inflation and VAT.
Enabling & Public Realm Works	See Cost Plan	See Cost Plan	Includes demolition, cinema 'warm shell' enhancements and public realm costs. Based on Arcadis' Cost Plan. The costs exclude contingency/ risk, fees, inflation and VAT.
Retail Side Costs	£11,609,981	-	Based on a Cost Plan produced on behalf of the Applicant. The cost includes for demolition and façade rebuild works, and excludes professional fees and insurances, contingency and VAT.
Contingency (Contractor & Developer)	3.00%		Overall allowance as a percentage of estimated build costs
Professional Fees	7.00%		Estimated rate as a % of total build costs
FF&E: Apartments	£4,000		Budget allowance per apartment
FF&E: Amenity Areas	£150,000		Budget allowance per site
Letting Agent Fee	10.00%		Of Commercial GDV
Letting Legal Fee	5.00%		Of Commercial GDV
Investment Sale Agent Fee	0.65%		Of GDV – representative of minimum market rate for capital markets funding agency
Investment Sale Legal Fee	0.25%		Of GDV – minimum market allowance for legal costs
Purchaser's Costs (Land)	-		Standard fees relating to stamp duty, agent's fee (1.00%) and legal fee (0.80%)
Finance (Coupon)	4.25%		Estimated minimum cost of capital for financing the proposed developments in the current market (note: the costs of securing development finance have increased rapidly in recent months, with risk of further cost elevation remaining to the upside)
Developer's return (Profit)	15.00%		Total target return on cost to reflect current levels of market risk for a complex mixed-use scheme, in line with the minimum market expectations and at the low end the range set-out in PPGV

Benchmark Land Value ('BLV')

The BLVs for the sites represent CBRE's conclusion as to the minimum level of value at which the landowner would be suitably incentivised to release the sites.

It is CBRE's professional opinion that the BLVs for the sites equate to £1.215m for YHP1 and £13.948m for YHP2, or a combined £15.164m.

Viability Assessment Results & Conclusion

Policy compliant viability appraisals demonstrate that, when incorporating the BLVs as fixed inputs, RBC CIL and a 30% affordable housing provision (in the form of APR units at LHA capped rents), the outturn residual profit margins generated equate to the following:

- YHP1: -5.57% profit on cost (*or -£4,748,441*)
- YHP2: -19.42% profit on cost (*or -£18,924,954*)
- Combined: -12.95% profit on cost (*or -£23,673,394*)

The residual profit margins fail to meet the target minimum risk-adjusted developer's return of 15.00% on cost either independently or in combination.

The delivery of the proposed developments on a basis in compliance with the Council's adopted development plan fail to generate a profit sufficient to meet the target minimum risk-adjusted developer's return on cost and the proposed developments are not financially viable on this basis.

CBRE has run a scenario test (Scenario Test 1) to assess the implications on financial viability of changing the affordable housing rents from LHA capped rates to 80% of open market rents (in accordance with NPPF). This generates outturn residual profit margins as follows:

- YHP1: 4.64% profit on cost (*or £3,951,497*)
- YHP2: -10.99% profit on cost (*or -£10,720,347*)
- Combined: -3.61% profit on cost (*or -£6,592,550*)

The proposed developments remain unviable and the residual profit margins fail to meet the target minimum risk-adjusted developer's return of 15.00% on cost. However, the delta to securing a position of financial viability is significantly reduced.

As a further scenario test ('Scenario Test 2'), CBRE assessed incremental reductions in the affordable housing provision and resultant impact upon viability. A summary, illustrating the impact upon the residual profit margin is presented in Table ES2.

Table ES2: Scenario Test 2 | Incremental Affordable Housing Reduction(s)

	Residual Profit Margin		
	20% APR Units	10% APR Units	0% APR Units
YHP1	6.50% (£5,551,704)	8.34% (£7,130,825)	10.14% (£8,684,278)

Residual Profit Margin			
YHP2	-9.67% (-£9,452,352)	-8.12% (-£7,949,832)	-6.55% (-£6,429,835)
Combined Scheme	-2.00% (-3,655,145)	-0.28% (-£505,214)	1.44% (2,635,418)

Scenario Test 2 demonstrates that the proposed developments remain unviable when the affordable housing provision is reduced to nil and that they fail to meet the target minimum risk-adjusted developer’s return of 15.00% on cost. At this level [nil affordable provision] only the proposed development at YHP1 presents a positive residual profit margin; collectively the proposed developments begin to demonstrate a positive return (albeit below the target risk-adjusted developer’s return).

The commercial decision whether to proceed with the proposed developments, and whether to offer a quantum of affordable housing above that which is deemed viable within this report, will therefore be at the discretion of the Applicant.