

Waterfront Square, Reading

Financial Viability Statement
Non-Executive Technical Summary

CBRE Limited | National Planning & Development report for:
Norman Place (Reading) LLP

September 2024



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 1 May 2024, CBRE has been instructed by Norman Place (Reading) LLP ('the Applicant') to objectively assess, and report upon, the financial viability of the repurposing and redevelopment of land at Norman Place, Reading, RG1 8DA (the 'Site') for a residential development of the following description (constituting the 'Proposed Development'):

"Demolition of the former Covea Insurance building and construction of residential-led development, access from Norman Place and associated car parking, infrastructure and landscaping"

The purpose of the viability assessment ('VA') is to test the financial viability of the Proposed Development at the Site, taking into account the policy requirements set by Reading Borough Council ('RBC' or '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 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 the 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 the viability assessment on behalf of the Applicant(s) and in respect of the site(s).

Contingent Fee

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

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

Status

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

The 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

The 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.

Personnel

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

Project Name:	Waterfront Square, Reading		
Project Number:	Date:	Prepared By:	Verified By:
	<u>2 October 2024</u>	Geoff Machen Assistant Surveyor	Matt Spilsbury MRICS MRTPI Senior Director
CBRE, Henrietta House, Henrietta Place, London W1G 0NB			
Telephone: 020 7182 2000			
Copyright The contents of this document must not be copied or reproduced in whole or in part by any party/person other than the addressee without the written consent of CBRE. Copies of or extracts from this document may not be passed to third parties without the express consent of CBRE. CBRE accepts no liability for the use of the materiel contained within this document, other than by the party/person to whom it is addressed, unless otherwise agreed in writing. Maps, plans or other material reproduced in this document have either the express consent of the originating body or comply with the Copyright, Designs and Patents Act 1998.			

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’)

Executive Summary

CBRE has been appointed by Norman Place (Reading) LLP (‘the Applicant’) to objectively assess, and report upon, the financial viability of the repurposing and redevelopment of land at Norman Place, Reading, RG1 8DA (the ‘Site’) for a residential development of the following description (constituting the ‘Proposed Development’):

“Demolition of the former Covea Insurance building and construction of residential-led development, access from Norman Place and associated car parking, infrastructure and landscaping”

The purpose of the viability assessment (‘VA’) is to test the financial viability of the Proposed Development at the Site, taking into account the policy requirements set by Reading Borough Council (‘RBC’ or ‘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 appraisal of the Proposed Development are summarised in Table ES1.

Table ES1: Viability Assessment Inputs Summary

	Rate	Comment
GDV (Policy Compliant Scheme)	£70,518,528	
ERV ⁵ : Open Market BTR	£37.33/ft ²	Based on and set optimistically against local market comparable BTR evidence reflecting location, specification and height.
ERV: APR ⁶ BTR	£19.47/ft ²	Rents capped at Reading Local Housing Allowance (‘LHA’) rates
NIY ⁷ : BTR	5.00%	Forward funding yield – set optimistically in current investment transactional funding market.
ERV: Commercial Unit	£17.50/ft ²	Based on comparable local market evidence (plus allowance for incentives)
NIY: Commercial Unit	9.00%	Optimistic yield, based on current market comparable evidence
Construction Costs	£62,192,000	Based upon a Stage 2 Cost Plan prepared on behalf of the Applicant by Arcadis. The adopted cost is inclusive of demolition, external works, main contractors prelims and OH&P, but excludes risk allowance, inflation and VAT.
Contingency (Developer)	3.00%	Of estimated construction costs. Considered minimum to reflect the level of cost and programme risk in the current market.

⁵ ‘Estimated Rental Value’

⁶ ‘Affordable Private Rent’

⁷ ‘Net Initial Yield’

	Rate	Comment
Professional Fees & Insurances	8.00%	Estimated as a % of total build costs. Appropriate budget allowance to include for all professional and statutory fees and insurances.
FF&E: Apartments	£4,000	Budget allowance for apartment FF&E, deemed a conservative allowance in the current market
FF&E: Amenity Areas	£150,000	Budget allowance
Community Infrastructure Levy ('CIL')	£2,185,411	Estimated CIL liability. This figure reflects Social Housing Relief on 30% of units
Section 106 Planning Obligations	TBC	Subject to post-submission feedback from the Council/ consultees
Commercial Letting Agent Fee	10.00%	Industry standard
Commercial Letting Legal Fee	5.00%	Industry standard
Investment Funding Agent Fee	0.65%	Of GDV – representative of minimum market rate for capital markets funding agency
Investment Funding Legal Fee	0.25%	Of GDV – minimum budget for funding legal costs
Purchaser's Costs (Land)	SDLT + 1.80%	Standard HMRC non-residential stamp duty land tax ('SDLT'), agent's fee (1.00%) and legal fee (0.80%)
Purchaser's Costs (Investment)	1.60%	CBRE assumes the asset is held in a SPV, representing the optimum form of investment disposal. SDLT on share transfer at 0.5% plus institutional fund's agency and legal costs (including VAT at 20%) on funding commitment.
Finance	5.00%	Coupon rate, which is expected to be equal to the funding yield. Optimistic funding rate in current market (a 5.00%+ rate being more realistic).
Developer's Return	15.00% (on cost)	Total target return on cost. CBRE's experience is that, given the heightened market and commercial risk, both developers and funders are requiring demonstration of higher minimum returns. The adopted level of return therefore reflects current levels of market risk and is in line with market expectations and within the range set-out in PPGV.

Benchmark Land Value ('BLV')

The BLV for the Site has been determined based on the Existing Use Value ('EUV') plus premium. The BLV represents CBRE's conclusion as to the minimum level of value at which the landowner would be suitably incentivised to release the site.

It is CBRE's professional opinion that the BLV for the Site equates to £6.12m.

Viability Assessment Results & Conclusion

The policy compliant viability appraisal demonstrates that, when incorporating 30% affordable housing provision in the form of Affordable Private Rent ('APR') units with rents capped at Reading Local Housing Allowance ('LHA') rates and estimated CIL liability, the outturn residual profit margin generated equates to -16.69% on cost.

The residual profit margin fails to meet the target risk-adjusted developer's return and the Proposed Development is considered unviable on a policy compliant basis.

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

CBRE has subsequently run a scenario testing exercise to assess the implications on financial viability of reducing, and subsequently altogether removing, the affordable housing provision.

The scenario testing demonstrates that when reducing the affordable housing provision to nil (whilst maintaining c. £3.14m in CIL liability) the outturn residual profit margin generated is 1.20% on cost. This remains below the risk-adjusted developer's return target in the current market, albeit the viability deficit is significantly reduced.

At the Applicant's request, CBRE has prepared an additional scenario test (Scenario Test 3) which incorporates 5% affordable housing provision (at rents capped at current LHA levels) and analyses the impact on financial viability of stepped movements (both sharpening and softening) in the adopted funding yield upon the outturn residual profit margin. Whilst the present-day position accommodating 5% affordable housing capped at LHA rates would result in a loss-making scheme, the scenario test illustrates that a 25 basis point improvement in funding yield increases the profit residual by approximately £4.3m, or 5.00% (on cost) and would be profit-making, albeit still significantly viability challenged.

Given the commercial risks in the current market, it would be CBRE's recommendation that the Proposed Development does not incorporate any affordable housing units (or a payment in lieu of on-site provision) and any sums towards planning obligations. This would be a flexibility supported by Plan policy, NPPF and PPG, in order to support deliverability and regeneration at determination.

Any sum offered by the Applicant for planning obligations prior to this (i.e., alongside determination of this application) would be at the Applicant's own commercial risk, and would necessitate an improvement in the funding environment and generation of cost efficiencies in parallel, in order to be viably delivered.

CBRE understands that the Council will seek to apply a form of review mechanism within the S106 Agreement. Subject to scheme performance post-determination, this will provide an opportunity for any determination-stage flexibility applied to adopted Plan policy targets (for affordable housing and/or other planning obligations) to be recouped up to the adopted Plan policy maxima.