

17 September 2025

Anthony Scholes
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Civic Offices
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By email only

Dear Anthony,

FORMER JOHN LEWIS DEPOT, LETCOMBE STREET, READING, RG1 – UPDATED AFFORDABLE HOUSING OFFER AND RESPONSE TO CJ REPORT

Further to the Financial Viability Assessment Addendum (“FVA Addendum”) submitted by DS2 in August 2025 and the Carter Jonas (“CJ”) draft report dated August 2025 (hereafter “CJ Report”), relating to the proposed redevelopment of Former John Lewis Depot, Letcombe Street, Reading, RG1 (hereafter “the Site”) which is located in the administrative area of Reading Borough Council (hereafter the “Council” or “RBC”).

The detailed planning application seeks consent for the following (“the Proposed Development”):

“Demolition of the existing building and redevelopment of the site comprising erection of a new building for up to 170 build to rent residential dwellings (Use Class C3) together with flexible community space (Use Class F1/F2), residents’ facilities, landscaping, public realm, amenity space and cycle parking”.

The Proposed Development comprises the demolition of the existing building and the redevelopment of the Site comprising the erection of a new building for 170 Build to Rent (“BTR”) homes along with flexible community space at ground floor. As set out in the FVA Addendum, notwithstanding the viability position of the Site which showed that 0% affordable housing is the maximum viable amount the Proposed Development can provide, the Proposed Development previously proposed 10% affordable housing (by units) which equated to the delivery of 17 affordable homes. The affordable homes were intended to be provided as Affordable Private Rent (“APR”) with the rental levels set at Local Housing Allowance (“LHA”) levels, in accordance with the Local Plan. John Lewis Partnership BTR Ltd (hereafter “JLP”) has however made the decision to increase the affordable housing provision.

Updated Affordable Housing Offer

The Applicant has been in discussions with the Council since the submission of the FVA Addendum, and despite the conclusions of the FVA Addendum, has made a decision to increase the affordable housing provision.

The updated affordable housing offer reflects the provision of 16% affordable housing (by units) provided as APR (which equates to 27 homes), with 17 APR homes provided at LHA Levels and the remaining 10 APR homes provided at 80% of market rent. This reflects an increase in 10 affordable homes when compared to the affordable housing provision set out in the FVA Addendum (equivalent to 10% affordable housing, or 17 APR homes).



The updated affordable housing unit mix is set out in the table below:

Table One: Updated Affordable Housing Unit Mix				
Unit Type	No. of APR Homes at LHA Levels	No. of APR Homes at 80% of Market Rent	Total Affordable Homes	Affordable Unit Mix
1B2P	7	5	12	44%
2B3P	6	4	10	37%
3B5P	4	1	5	19%
Total	17	10	27	100%

An updated viability appraisal is provided at **Appendix One**, this assumes the following:

- Appraisal inputs as per the FVA Addendum appraisal with the exception of the following:
 - o GDV updated to reflect the updated affordable housing offer. The rental calculations are provided at **Appendix Two**.
 - o Updated CIL allowance of £1,963,843, as advised by the Applicant's planning consultants, Savills, based on the updated affordable housing offer.
 - o Updated S106 allowance of £322,160, which aligns with the latest draft Heads of Terms.

The updated viability appraisal indicates the following results:

Table Two: Updated Proposed Development Appraisal			
	Developer Return	Benchmark Land Value	Surplus/deficit
Proposed Development	15.00% on GDV (£9,681,858)	£4,560,000	(£24,236,849)

The above results indicate that the provision of 16% affordable housing (by units), equating to 27 APR homes is in excess of the maximum viable amount of affordable housing the Proposed Development can viably provide, with a deficit of c. £24.24m being identified. The overarching conclusions are consistent with the conclusions set out in both the FVA Addendum and CJ Report in that the Proposed Development is delivering in excess of the maximum viable amount of affordable housing.

The updated appraisal results are reflective of the viability challenges that both the Proposed Development and wider industry is currently facing, however, the Applicant has made a decision to increase the affordable housing provision following discussions with the Council and to achieve a planning consent within a reasonable timeframe.

For full transparency, the Applicant makes the commitment of 16% affordable housing on a without prejudice basis to the evidenced financial viability position set out above. Any increase in s106 contributions or obligations and/or if positive local determination is not possible, will impact negatively on the cost profile for the Proposed Development and, in such circumstances, such commitment may be subject to reconsideration.

Response to CJ Report

This section of the letter sets out a response to the CJ Report. The FVA Addendum indicates the following results:

Table Three: FVA Addendum Results			
	Developer Return	Benchmark Land Value	Surplus/deficit
Amended Proposed Development	15.00% on GDV (£9,846,914)	£4,560,000	-£23,560,019

The FVA Addendum concludes that the provision of 17 affordable homes (equating to 10% by units) is in excess of the maximum viable amount of affordable housing the Proposed Development can provide.



The FVA Addendum provided sensitivity testing setting out how the viability of the Proposed Development could improve over the development period.

CJ Report

The CJ Report concludes that the Proposed Development faces viability challenges, as evidenced by the projected deficit. CJ conclude the following results within the CJ Report.

Table Four: CJ Report Appraisal Results			
	Developer Return	Benchmark Land Value	Surplus/deficit
Amended Proposed Development	12.50% on GDV (£8,205,762)	£4,177,530	-£16,766,734

The identification of a deficit by CJ indicates that the Proposed Development is providing in excess of the maximum viable amount, with development costs exceeding Gross Development Value ("GDV").

Whilst DS2 and CJ are in agreement on the overarching conclusions, there is a difference of opinion over the identified deficit. The difference of opinion being c. £6.79m. It is not necessarily required for all appraisal inputs to be agreed between both parties. Appraisal inputs which require agreement due to the Proposed Development being subject to a deferred payment mechanism, are developer return on GDV and Benchmark Land Value ("BLV"). This is on the basis that the draft S106 Heads of Terms indicate that the deferred payment mechanism will re-assess all development costs and values, with the only 'fixes' being BLV and developer return.

The differences of opinion between DS2 and CJ are set out below:

- Construction costs (including contingency)
- Professional fees reduced from 10% to 8% of construction costs
- Finance rate reduced from 7.5% to 7%,
- Developer return on GDV reduced from 15% to 12.5%.
- BLV Landowner premium reduced from 20% to 10%.

The below table sets out DS2's response to the areas where there is a difference of opinion, as set out above.

Table Five: DS2 response to CJ assumptions	
Input	DS2 response
Construction costs (including contingency) (page 33)	DS2: £51,100,000 CJ: £48,590,000 The Proposed Development construction costs (including contingency) were provided by cost consultants, Bristow. The construction costs have been reviewed by Johnsons Associates, who have identified potential cost savings of up to £2,510,000. We have not been provided with the information to support the potential cost savings of up to £2,510,000, as the cost plan review is not provided at Appendix 2 of the CJ Report. Therefore at this stage we are unable to review and comment on the potential cost saving. However, due to the fact that a deficit has been identified in the CJ Report (which in turn implies the affordable housing provision is considered in excess of the maximum viable amount), and the nature of the deferred review mechanism which will assess the actual construction costs, a full agreement is not required on this point.
Professional Fees (page 33)	DS2: 10% CJ: 8%



	CJ state based upon the examples they have cited within their report that they believe the range identified is from 6-9%, rather than the 10-12% stated by DS2. CJ refer to a number of examples supporting the above range without providing any evidence or commentary on the development proposals. We would note that a number of the schemes referred to are for the provision of a significantly greater quantum of units when compared to the Proposed Development, and therefore potentially benefiting from economies of scale. DS2 remain of the opinion that 10% professional fees are reasonable, if not optimistic in this current market. The 10% fee allowance is in line with the Local Plan viability evidence. However, due to the deficit identified in the CJ Report and the nature of the deferred review mechanism, a full agreement is not required on this point.
Finance Rate (page 34)	DS2: 7.5% CJ: 7% CJ refer to the recent interest rate cuts as well as 'all in' finance rates adopted in other planning viability assessments to support their opinion. As acknowledged by CJ, the finance rate adopted is an 'all-in' rate which includes a basic margin, commitment fees, arrangement fees and exits fees, as well as bank monitoring costs, non-utilisation fees and the developer's own cost of funds given that developments are not 100% debt funded. There are a number of factors which impact the cost of development finance, such as Loan-to Value ratio, project risk and complexity, location and market conditions, the borrowers experience and track record as well as economic and interest rate environment. The Bank of England base rate is currently 4% following the recent rate cut in August 2025. Developments are often funded through a combination of senior debt, mezzanine finance as well as equity. Senior debt is considered the lowest risk and therefore the margin above the base rate is generally lower when compared against mezzanine finance (which is higher risk). It is likely that the margin above the base rate for senior debt would be 3-7%, with mezzanine finance 8-15% above base rate. However, the margin will vary depending upon scheme specifics factors (developer experience, economic conditions, Loan-to-Value etc.). DS2 are of the opinion that an 'all-in' finance rate of 7.5% is reasonable considering the following: • Senior debt is likely to be secured at a minimum of 3% above base rate (7%). • Mezzanine debt is likely to be secured at a minimum of 7% above base rate (11%) • The 'all-in' finance rate reflects arrangement fees (likely to be 1-2% of debt facility), Non-utilisation fees (likely to be 0.5% - 1% of the undrawn debt facility), valuation fee, legal fees, broker fee as well as exit fee (likely to be 1-2% of debt facility). DS2 acknowledge that the actual amount will vary on a scheme by scheme basis however the above is provided to illustrate the potential cost of development finance. Whilst DS2 accept there will be other planning viability assessments that include an 'all in' finance rate of 7%, DS2 remain of the opinion that this understates the total finance costs for bringing forward residential led development (although recognising the rate may vary on a site by site basis considering the specifics of the scheme). Whilst there is a difference on this input, a full agreement is not required on this point as the CJ Report identifies a deficit and this will be picked up as part of the review mechanism .
Developer Return on GDV	DS2: 15% on GDV CJ: 12.5% on GDV CJ adopt a return on GDV of 12.5% based on what they are seeing in the market and what they state they have recently agreed on other BTR schemes in Reading. In the absence of supporting information, it is unclear whether this level of return on GDV was agreed by the applicant on a without prejudice basis in order to reach an agreement, which is common when negotiating the conclusions of planning viability assessments. CJ therefore form the opinion that all BTR developments regardless of



	size, location, complexity etc.. has the same risk profile and therefore required developer return. All developments are different and a blanket approach to certain inputs is not appropriate as site specific factors need to be considered when forming an opinion on the required developer return, as provided at section 11 of the FVA. Paragraph 6.6 of Reading's Affordable Housing Supplementary Planning Document (March 2021) ("Reading SPD") states: <i>"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".</i> In short, the Reading SPD states viability assessments should generally be carried out on the basis of an expected profit to the developer of 15-20%, with profit levels related to the scale, complexity and risk of the proposed development. As previously stated, the Reading Borough Council Viability Testing Report, prepared by BPS (dated March 2018) (hereafter "Local Plan Viability Study"), in support of the now adopted Local Plan assumed a developer return of 14.5% on GDV for Build to Rent products. Whilst this assumption was based on hypothetical viability scenarios intended to establish a broad policy baseline, the Council's advisors formed the opinion that 14.5% return on GDV was reasonable for BTR typologies. It is unclear why this opinion would materially change regardless of whether it was for plan making and site-specific viability (although noting there may be some variances). We have taken 14.5% on GDV as a starting point, and noting that this is at the bottom end of the range identified at paragraph 18 of the NPPG and adjusted to reflect the following: - Gateway 2 and 3 – Both are rigorous processes that must be undertaken and therefore any delays to both gateways can have a severe impact on the programme and therefore increase the risk profile of the development. Whilst Gateway 2 is in theory supposed to take 12 to 14 weeks DS2 understand from discussions with developers that the process is taking at least 12 to 18 months to achieve Gateway 2 approval which is clearly an inherent risk which impacts when works may commence. - Build cost – According to BCIS All-in TPI data, build costs have increased by c.24% since 2018 and therefore it would be reasonable to assume a higher developer's return as development has become inherently riskier to build - BTR values – As a result of the current inflationary pressures and high interest rates, property yields have softened significantly over the past few years which impacts the Gross Development Value (GDV). Furthermore, as interest rates rise, the value of government bonds or 'Gilts' reduces, and the yield increases. As the yield on government bonds increases, the attractiveness of investing in property, which in comparison is inherently riskier, reduces. According to CBRE yield sheets, BTR yields for Outler London and South East Prime have gone from 3.60% in May 2022 to 4.25% as of August 2025. Whereas currently UK 10 year Gilt are at 4.79% making it a more attractive and less riskier proposition to invest in. Taking into account the changes to market conditions since the Local Plan Viability Study was written (2018), it would be reasonable to adopt a higher developer's return of 15%.
BLV Landowner Premium	DS2: 20% CJ: 10% As previously stated, Paragraph B.1.12 of the RICS Professional Standard makes clear that landowners should not be penalised for the costs and risks associated with preparing sites for development, and in practice a 20% premium on EUV is widely recognised as a reasonable and established benchmark. A 10% premium is unlikely to provide a sufficient incentive for a landowner to release a site, particularly where there is an alternative option of holding the property for income. The 20% premium ensures that the landowner is fairly compensated for opportunity cost and risk, while also striking the appropriate balance between safeguarding development viability and reflecting realistic landowner behaviour. When adopting a 20% premium this results in a BLV of £165



	per sq ft which is within the range of comparable evidence provided as part of the FVA and is therefore deemed to be a reasonable assumption. Therefore following the above, DS2 maintain their position of adopting a 20% BLV landowner premium.
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Response to CJ Report - Conclusion

The CJ Report identifies a deficit of c.£16.77m based upon the provision of 10% affordable housing (equivalent to 17 affordable homes), to be provided as APR at LHA Levels. The identification of a deficit implies that the Proposed Development is providing in excess of the maximum viable amount of affordable housing.

DS2 and CJ agree on the overarching conclusions (i.e. a deficit is identified) however there is a difference of opinion on the level of deficit identified, as set out above. It is not necessarily required for all appraisal inputs to be agreed between both parties. Appraisal inputs which require agreement due to the Proposed Development being subject to a deferred payment mechanism, are developer return on GDV and BLV. This is on the basis that the draft S106 Heads of Terms indicate that the deferred payment mechanism will re-assess all development costs and values, with the only 'fixes' being BLV and developer return. A response to these two points has been provided above.

DS2 LLP

APPENDIX 1 - UPDATED VIABILITY APPRAISAL

Mill Lane, Reading
Proposed Development

DS2 Appraisal
Updated affordable housing offer

Development Pro Forma
DS2 LLP
September 15, 2025

PROJECT PRO FORMA**DS2 LLP**

Mill Lane, Reading
Proposed Development

Project Pro Forma for Phase 1

Currency in £

REVENUE**Rental Area Summary**

	Units	Initial MRV/Unit	Net Rent at Sale	Initial MRV	Net MRV at Sale
Build to Rent	143	23,337	2,502,900	3,337,200	2,502,900
Affordable Private Rent - LHA Levels	17	12,474	112,876	212,059	112,876
Affordable Private Rent - 80% of MR	<u>10</u>	18,576	<u>127,417</u>	<u>185,760</u>	<u>127,417</u>
Totals	170		2,743,193	3,735,019	2,743,193

Investment Valuation**Build to Rent**

Current Rent	2,502,900	YP @	4.2500%	23.5294	58,891,765
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Affordable Private Rent - LHA Levels

Current Rent	112,876	YP @	4.2500%	23.5294	2,655,906
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Affordable Private Rent - 80% of MR

Current Rent	127,417	YP @	4.2500%	23.5294	2,998,047
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Total Investment Valuation**64,545,718****GROSS DEVELOPMENT VALUE****64,545,718**

Purchaser's Costs

(4,389,109)

PROJECT PRO FORMA**DS2 LLP****Mill Lane, Reading****Proposed Development**

Effective Purchaser's Costs Rate	6.80%		
			(4,389,109)

NET DEVELOPMENT VALUE **60,156,609**

TOTAL PROJECT REVENUE **60,156,609**

DEVELOPMENT COSTS**ACQUISITION COSTS**

Fixed Price	4,560,000		
Fixed Price		4,560,000	
			4,560,000

CONSTRUCTION COSTS

Construction	ft ²	Build Rate	ft ²	Cost	
Construction	162,742	313.99	51,100,000		
					51,100,000

Section 106 Costs

Estimated S106			322,160	
Estimated CIL			1,963,843	
				2,286,003

PROFESSIONAL FEES

Professional Fees	10.00%	5,110,000	
			5,110,000

MARKETING & LEASING

Site mobilisation		500,000	
			500,000

DISPOSAL FEES

PROJECT PRO FORMA**DS2 LLP****Mill Lane, Reading****Proposed Development**

Sales Agent Fee	0.50%	300,783	
Sales Legal Fee	0.25%	150,392	
			451,175

MISCELLANEOUS FEES

Loose FF&E		752,500	
Other development costs		1,829,000	
BTR Profit	15.00%	9,681,858	
BSL		330,955	
			12,594,313

TOTAL COSTS BEFORE FINANCE**76,601,490****FINANCE**

Debit Rate 7.50%, Credit Rate 0.00% (Nominal)			
Land		1,068,998	
Construction		5,356,021	
Letting		1,366,948	
Total Finance Cost			7,791,968

TOTAL COSTS**84,393,458****PROFIT****(24,236,849)****Performance Measures**

Profit on Cost%	-28.72%
Profit on GDV%	-37.55%
Profit on NDV%	-40.29%
Development Yield% (on Rent)	3.25%

Mill Lane, Reading**Proposed Development**

Equivalent Yield% (Nominal)	4.25%
Equivalent Yield% (True)	4.37%
IRR% (without Interest)	-17.22%
Rent Cover	-8 yrs -10 mths
Profit Erosion (finance rate 6.000)	N/A

APPENDIX 2 - UPDATED RENTS

Mill Lane, Reading
Updated Rents

Updated affordable housing provision - 16% Affordable Housing with 10 DMR units at 80% of MR and remaining at LHA Levels

Unit Type	Total	Market	Affordable	Affordable Unit Mix (%)	Affordable		Market		DMR @ 80% of MR		DMR @ LHA Levels	
					DMR @ 80% of MR	LHA Levels	Monthly rent	Annual rent	Monthly rent	Annual rent	Monthly rent	Annual rent
1B1P	19	19	-	0%	-	-	£ 1,500	£ 342,000	£ 1,200	£ -	£ -	£ -
1B2P	60	48	12	44%	5	7	£ 1,700	£ 979,200	£ 1,360	£ 81,600	£ 848	£ 71,206
1B2P WA	-	-	-		-	-	£ 1,700	£ -	£ 1,360	£ -	£ 848	£ -
2B3P	35	25	10	37%	4	6	£ 2,050	£ 615,000	£ 1,640	£ 78,720	£ 1,092	£ 78,624
2B4P WA	4	4	-			-	£ 2,250	£ 108,000	£ 1,800	£ -	£ 1,092	£ -
2B4P	42	42			-	-	£ 2,250	£ 1,134,000	£ 1,800	£ -	£ 1,092	£ -
3B4P	5	5		19%			£ 2,650	£ 159,000	£ 2,120	£ -	£ 1,296	£ -
3B5P	5	-	5		1	4	£ 2,650	£ -	£ 2,120	£ 25,440	£ 1,296	£ 62,229
Total	170	143	27		10	17		£ 3,337,200		£ 185,760		£ 212,059
AH %			16%				OPEX	£ 834,300	Total Affordable Annual Rent			£ 397,819
					Total AH Units	27	per unit	£ 5,834				
							LHA OPEX	£ 99,183				
							DMR OPEX	£ 58,343				