# Financial Viability Assessment Report

Reading Station Park, Reading RG1 8AL

## Instructions

This Financial Viability Assessment (FVA) is submitted to Reading Borough Council ('the Council') to accompany an Outline Planning Application (OPA) for the proposed mixed use development at the Reading Station Park, Reading ('the Subject'). The application is made on behalf of Aviva Investors ('the Applicant').

In producing this FVA we can confirm that all those involved, including sub-consultants, have acted objectively and impartially and without interference. Additionally, all those involved have given full consideration to how the proposed development will be delivered and the associated performance metrics. The conclusions of this assessment have been made with reference to all the appropriate guidance / policy including:

- National Planning Policy Framework (updated June 2019);
- Planning Practice Guidance (PPG) – Viability (updated September 2019);
- RICS Assessing viability in planning under the National Planning Policy Framework 2019 for England, 1st Edition (March 2021); and
- RICS Financial Viability in Planning: Conduct and Reporting 1st Edition (May 2019).

This FVA has been carried out with regard to the Professional and Ethical standards set out within PS2 of the RICS Valuation – Global Standards 2020 (the Red Book), effective January 2020.

A copy of our Terms of Engagement are attached at **Appendix 1**.

We confirm that this report and all subsequent engagement with the Council and its reviewer has and will be conducted in a reasonable and transparent manner.

## Confidentiality

We understand that the report will be submitted to the Council as a supporting document to the planning application. The report must not be recited or referred to in any document (save the consultants instructed by the Council to review the report) without our express prior written consent.

## Report Limitations

Please note that the advice provided on values is informal and given purely as guidance. Our views on pricing are not intended as a formal valuation and should not be relied upon as such. No liability is given to any third party and the figures suggested are not in accordance with the RICS Valuation – Global Standards 2020 (incorporating the IVSC International Valuation Standards), together the 'Red Book', and neither Savills nor the author can accept any responsibility to any third party who may seek to rely upon it, as a whole or any part as such.

## Conflicts of Interest

We can confirm that there are no known conflicts of interest between Savills and either the Applicant, the Council or the Subject.

## Declaration of Previous Involvement with Local Planning Authority

We confirm that we are unaware of any previous material involvement with the Local Planning Authority.

## Date of Appraisals

The date of appraisal is the date of this report.

## Contingent Fees

We confirm that, in preparing this report, no performance related or contingent fees have been agreed.

## Confirmation of Reporting Timescales

We can confirm that an adequate amount of time has been allowed for in the preparation of this report and the timeframes stated within our Terms of Engagement were not extended.

## Signatures to the Report

Prepared by:

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A. Reade

Associate Director

Reviewed by:

M. Breen

Director

# Contents

Appendix 6 Ancillary Commercial Comparables

Appendix 7 CAST Cost Plan

Appendix 8 Savills Appraisals and Sensitivity

# 1. Executive Summary

1.1.1. The Subject is located to the north of Reading Station north of the town centre. It is bound to the north and west by the A329, to the south by the former Royal Mail delivery depot, and to the east by a multi storey public car park.

1.1.2. The application site measures approximately 1.8 hectares (4.4 acres) and comprises property known as the 'Reading Station Park' - an operational income producing asset of approximately 75,000 sq ft. It is accessed via the A329 both to the north and west through separate points of access and egress.

1.1.3. A flexible Outline Planning Application is proposed which will facilitate two options including full residential development ('Scenario 1'), or a combination of residential and office uses ('Scenario 2') with either option capable of coming forward depending on market conditions and/or commercial objectives. For the purposes of this assessment we have considered both scenarios whilst having regard to the Council's affordable housing policy. For the avoidance of doubt our assessment considers all residential accommodation on a 'market for sale' basis only.

1.1.4. A new Local Plan was adopted by the Council in November 2019. Policy H3 (Affordable Housing) identifies that on sites of more than 10 dwellings, 30% of the total dwellings will be in the form of affordable housing, subject to viability. A Financial Viability Assessment (FVA) is required in support of the planning application to assess the level of obligations which the scheme may reasonably support.

1.1.5. We have assessed the development economics of the proposed scheme in order to identify the level of planning obligations that the scheme can sustain. We have appraised the Residual Land Value (RLV) of the proposed scheme on each of the above scenarios using proprietary software Argus Developer and have based our appraisal upon the drawings and schedule of accommodation shown in **Appendix 2** and **Appendix 3** respectively. The assumptions adopted within our appraisal have been informed by market evidence and input from third party experts as appropriate.

1.1.6. We have compared the RLV concluded for each scenario to our adopted Site Value Benchmark (SVB) to ascertain whether there is a deficit or surplus against our SVB. In this case our SVB has been determined by giving consideration to the Existing Use Value (EUV) of the Subject plus a suitable landowner premium. The EUV has been confirmed in the form of an independent market valuation (excluding hope value) which valued the property on an investment basis at £28,525,000 in August 2021.

1.1.7. We have applied a landowner's premium of 25% to the EUV equivalent to a SVB of say £35,700,000 which we adopt for the purposes of the FVA. We have not investigated a possible Alternative Use Value of the Subject as we do not deem it appropriate in this instance but reserve our position to review.

1.1.8. We have appraised the proposed scheme and summarise the results in the table below. Please refer to Appendix 8 for a full suite of appraisals:

**Table 1 – Viability Appraisal Result (Scenario 1)**

| Residual Land Value | Site Value Benchmark | Surplus / (Deficit) |
|---|---|---|
| **(£21,800,000)** | **£35,700,000** | **(£57,500,000)** |

**Table 2 – Viability Appraisal Result (Scenario 2)**

| Residual Land Value | Site Value Benchmark | Surplus / (Deficit) |
|---|---|---|
| **(£4,700,000)** | **£35,700,000** | **(£40,400,000)** |

1.1.9. Our assessment of viability concludes that the RLV generates a deficit against the SVB under each scenario. Therefore the scheme is not considered commercially viable in planning and therefore technically unable to provide an affordable housing contribution. We consider sensitivity analysis further within our assessment.

1.1.10. The key issue facing the proposed development is the Subject's investment value as an operational income producing asset. In planning viability terms, this inherently supports a relatively high EUV - and by extension SVB, setting a challenging threshold at which the scheme is technically able to deliver an affordable housing contribution. We note that significant costs of bringing a site forward including SVB are acknowledged as a key consideration by the Council at Para 4.4.24 of the Local Plan (and emerging Affordable Housing SPG dated October 2020) and should not therefore present a barrier to scheme delivery.

1.1.11. Despite the concluded viability deficit, we would highlight that the Applicant is an experienced developer with a demonstrable national track record and strong reputation in development delivery. Viability in Planning is therefore not a prohibitive factor to the Applicant's ambition to deliver a high quality scheme which will deliver much needed new housing, additional planning contributions in the form of CIL, and public realm improvements within the borough whilst maximising site potential.

1.1.12. Notwithstanding, we would welcome engagement with the Council to explore potential opportunities to secure an affordable housing contribution including in the form of future phased viability assessment.

# 2. Introduction

## 2.1. Client Instruction

2.1.1. We have been instructed by the Applicant to examine the economic viability of the proposed outline planning application, to determine the level of planning obligations that the proposed development can reasonably support whilst remaining viable. A copy of our Terms of Business can be found attached at **Appendix 1**.

## 2.2. Supporting Information

2.2.1. We have been provided with, and have relied upon, the following information from the Applicant:

- Collado Collins Architects Drawings;
- Collado Collins Architects Accommodation Schedule, dated July 2021; and
- CAST Order of Cost Estimate (Rev 15/16), dated September 2021.

2.2.2. A copy of the independent valuation report may be shared with the Council and its appointed viability advisor for review although the content of the report is deemed commercially confidential and will not be made publically available.

# 3. The Subject

## 3.1. Location

3.1.1. The Subject is located to the north of central Reading and within close proximity to the northern entrance of Reading Station and Reading town centre.

3.1.2. The surrounding area provides a mix of commercial, leisure and residential uses. A range of new developments within the local area could provide hundreds of new homes and a range of commercial and leisure uses over the coming years. This includes the adjacent Hermes scheme situated between the Subject and Reading Station to the south where an application has been submitted seeking development of 894 homes across 4 development parcels with associated basement car parking and landscaping.

3.1.3. The site is extremely well connected in terms of public transport. Reading Station is currently served by four train operators and provides direct services to London Paddington. From 2022, the new Elizabeth Line (Crossrail) is expected to provide direct services to Central London at a frequency of 12 trains per hour.

## 3.2. Description

3.2.1. The application site extends to an area of approximately 1.8 hectares (4.4 acres). It is broadly level and of an irregular, largely rectangular shape housing the Station Retail Park – an operational income producing asset of approximately 75,000 sq ft. It is accessed via the A329 both to the north and west through separate points of access and egress. The below plan shows the application red line area including the existing site in its configuration as a retail park.

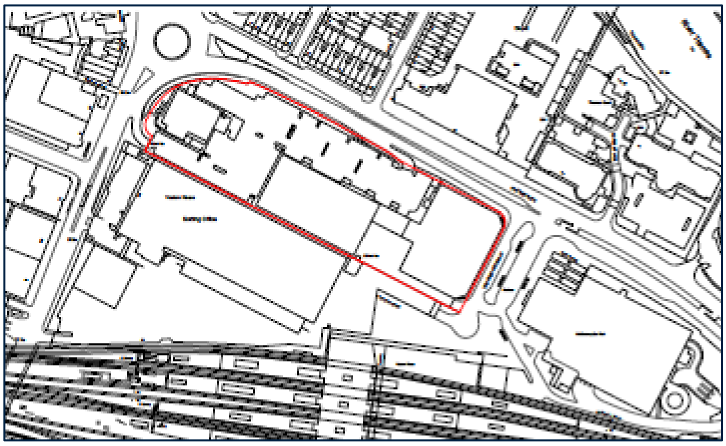

*Image Showing existing site ownership and configuration*

3.2.2. The application site is bound to the west and north by the Inner Ring Road (A329), to the east by the APCOA Reading Station Car Park, and to the south by the former Royal Mail delivery depot site (the 'Hermes site').

3.2.3. The Subject site currently provides the following accommodation:

**Table 3 – Schedule of Accommodation (Existing)**

| Unit | Tenant | Size (Sq ft) |
|---|---|---|
| 1 | Vacant | 15,457 |
| 2a | Aldi | 13,177 |
| 2 | Majestic Wine | 3,131 |
| 4/5 | The Range | 35,103 |
| 6 | TGI Fridays | 8,153 |
| | **Total** | **75,021** |

## 3.3. Proposed Development

3.3.1. The proposed development encompasses the demolition of the existing retail warehouses and associated car parking preceding redevelopment to provide four self-contained buildings referred to as 'Blocks A, B, C and D'. It is further proposed that each of the four buildings will include ground floor ancillary active commercial and/or leisure use.

3.3.2. The outline planning application covering the scheme has been submitted by the Applicant's planning consultants, Barton Wilmore albeit with scheme design and configuration – including specific planning use, to be determined at future reserved matters stage(s). The outline planning application is described as follows:

> *"Outline planning permission with the details of access, appearance, landscaping, layout and scale reserved for later determination. A demolition phase and phased redevelopment (each phase being an independent act of development) comprising a flexible mix of the following uses: Residential (Class C3 and including PRS); Offices (Use Class B1(a); development in Use Classes A1, A2, A3 (retail), A4 (public house), A5 (take away), D1 and D2 (community and leisure); car parking; provision of new plant and renewable energy equipment; creation of servicing areas and provision of associated services, including waste, refuse, cycle storage, and lighting; and for the laying out of the buildings; routes and open spaces within the development; and all associated works and operations including but not limited to: demolition; earthworks; provision of attenuation infrastructure; engineering operations."*

3.3.3. At this stage the outline planning application will retain flexibility concerning the use of Block D and it is possible that either residential led development or office led development could come forward depending on market conditions.

3.3.4. For the purposes of this FVA and in accordance with the above we have considered the scheme on the basis of two separate scenarios, 'Scenario 1' and 'Scenario 2' whilst having regard to the Council's affordable housing policy.

3.3.5. A detailed accommodation schedule with supporting drawings has been prepared by Collado Collins Architects. These are included at **Appendix 2** and **Appendix 3** respectively. The following table sets out the schedule of accommodation supporting Scenario 1 on the basis of residential use.

**Table 4 - Accommodation Schedule (Scenario 1)**

| Use | Size (Sq ft GIA) | Size (Sq ft NSA/NIA) | Homes |
|---|---|---|---|
| Residential | - | 582,054 | 866 |
| Ancillary Commercial | - | 53,233 | - |
| **Total** | **874,355** | **635,287** | **866** |
| Car parking | 57 | | |

3.3.6. The proposed residential accommodation and number of homes to be provided by each constituent development parcel is shown within the Collado Collins Accommodation Schedule and summarised below for ease:

**Table 5 – Residential Accommodation (Per Block)**

| Block | Sq ft GIA | Sq ft NSA | No. Homes |
|---|---|---|---|
| A | 164,492 | 126,931 | 174 |
| B | 199,738 | 139,751 | 207 |
| C | 233,798 | 166,876 | 246 |
| D | 203,708 | 148,495 | 239 |
| **Total** | **801,736** | **582,054** | **866** |

3.3.7. The following table sets out the schedule of accommodation supporting Scenario 2 on the basis of mixed residential and office use.

**Table 6 - Accommodation Schedule (Scenario 2)**

| Use | Size (Sq ft GIA) | Size (Sq ft NSA/NIA) | Homes |
|---|---|---|---|
| Residential | - | 433,559 | 627 |
| Offices | - | 200,102[1] | - |
| Ancillary Commercial | - | 40,889 | - |
| **Total** | **904,756** | 674,550 | **627** |
| Car parking | 57 | | |

[1] *Assumes a gross:net efficiency of 80% advised by Collado Collins Architects.*

3.3.8. The proposed residential accommodation and number of homes to be provided by each constituent development parcel is shown within the Collado Collins Accommodation Schedule and summarised below for ease:

**Table 7 – Residential Accommodation (per Block)**

| Block | Sq ft GIA | Sq ft NSA | Homes |
|---|---|---|---|
| A | 164,492 | 126,931 | 174 |
| B | 199,738 | 139,751 | 207 |
| C | 233,798 | 166,876 | 246 |
| D | - | - | - |
| **Total** | **598,028** | **433,559** | **627** |

3.3.9. Further to the illustrative scheme detailed above, we have given consideration to an alternative scheme (the Parameter Scheme) under Scenario 1 which accommodates the prescribed maximum of 1,000 dwellings identified within the parameter plan accompanying the OPA.

3.3.10. Although the scheme may reasonably be delivered across a wide range of scenarios we have tested an indicative unit mix which accommodates a greater quantum of smaller unit types i.e. studio and 1 bed units albeit acknowledging a maximum limit equivalent to 60% of the unit total.

3.3.11. We have effectively maintained a consistent gross internal area (GIA) and a broadly equivalent NSA in order to ensure consistency in comparison. We have however adopted an alternative unit mix with marginally reduced average unit sizes in order to enable comparison to the illustrative scheme of 866 dwellings. In respect of the number of dwellings within each block our sensitivity assessment assumes a pro-rata approach based upon floor area provided. The accommodation schedule for the Parameter Scheme is set out within the table below:

**Table 8 – Parameter Scheme Accommodation (per Block)**

| Block | Sq ft GIA | Sq ft NSA | Homes |
|---|---|---|---|
| A | 164,492 | 119,406 | 205 |
| B | 199,738 | 144,992 | 249 |
| C | 233,798 | 169,716 | 292 |
| D | 203,708 | 147,874 | 254 |
| **Total** | **801,736** | **581,988** | **1,000** |

# 4. Methodology

## 4.1. Financial Viability Assessment

4.1.1. In line with the NPPF, site-specific FVA may be a material consideration in determining how much and what type of affordable housing should be required in residential and mixed-use developments.

4.1.2. As such, viability appraisals can and should be used to analyse and justify planning obligations to ensure that Section 106 requirements do not make a scheme unviable.

4.1.3. The RICS define financial appraisals for planning purposes as:

> *"An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to a developer in delivering a project."*

4.1.4. The logic is that, if the residual value of a proposed scheme is reduced to significantly below an appropriate viability benchmark sum, it follows that it is unviable to pursue such a scheme, and the scheme is unlikely to proceed.

4.1.5. If a scheme is being rendered unviable because of Section 106 requirements, it may be appropriate to look at reducing the burden of those requirements in order to facilitate viability.

## 4.2. Factors Affecting Viability

4.2.1. The following factors are particularly relevant to viability for a scheme of this nature:

- Strategic infrastructure costs;
- CIL (where applicable);
- S106 contributions;
- Off-site commuted payments;
- Quantum of Affordable Housing;
- Mix and tenure of Affordable Housing;
- Optimum land use within the proposed development;
- Market conditions at the date of application;
- Timing of delivery;
- Abnormal building costs; and
- Particular planning requirements.

## 4.3. Appraisal Methodology

4.3.1. The financial viability of development proposals is determined using the residual land valuation method. A summary of this valuation process can be seen below:

| | | | | |
|---|---|---|---|---|
| **Built value of proposed private residential and other uses** | **+** | **Built value of affordable housing** | **=** | **GDV** |
| **GDV** | **-** | **Build costs, finance costs, Section 106 costs, CIL, sales fees, developers profit, etc** | **=** | **Residual Land Value** |

4.3.2. The Residual Land Value (RLV) is then compared to a Site Value Benchmark (SVB). If the RLV is lower and/or not sufficiently higher than the SVB the project is not technically viable.

## 4.4. Adopted Viability Methodology

4.4.1. Our assessment follows traditional viability methodology whereby a lead entity i.e. the competent landowner – and Applicant in this instance, is responsible for the sale of constituent residential development land parcels to a housebuilder, developer and/or Registered Provider. Under Scenario 2, the commercial land parcel (Block D) is assumed to be sold to a commercial developer on completion.

4.4.2. It should be noted that the application site is occupied and subject to multiple tenancies with varying lease expiry dates and/or option to determine timings. In reality at this stage it is therefore not possible to definitively conclude how the proposed scheme might ultimately be brought forward by a competent landowner in terms of phasing strategy etc.

4.4.3. We have given consideration to two potential approaches upon which to inform our assessment of viability, as follows:

I. Phased Vacant Possession (VP) strategy (**Approach 1**); or

II. Day 1 VP (**Approach 2**).

4.4.4. Under Approach 1 it is considered unrealistic to assess a scheme of this nature adopting a phased VP strategy where a constituent part may not be brought forward in part until 2029 in the absence of vacant possession. An approach on this basis would require a host of subjective assumptions to be made in terms of phasing strategy having regard to legal and practical considerations which might preclude or hinder the ability to deliver the scheme in a coherent manner; this includes but is not limited to, for example leasehold car parking covenants, access rights or leaseholder trading obligations etc. We would also note that once such extended timescales are considered the basis of forecasting development revenue and build costs becomes increasingly unpredictable.

4.4.5. It is acknowledged that Approach 2 also suffers from some degree of subjectivity including the associated costs of obtaining vacant possession and loss of rental income during the period of the alternative phased VP strategy – the latter approach would however be somewhat offset by landowner expenditure including the increasing expenditure associated with the payment of statutory compensation under s.30 L&T Act 1954, empty property rates and service charge shortfalls etc. Moreover, it is considered more realistic that the scheme would in reality only be brought forward once vacant possession is achieved.

4.4.6. In consideration of the above we have adopted Approach 2 assuming present day development revenues and costs with site enabling and infrastructure costs whilst taking account of the scale of development within each constituent development parcel.

4.4.7. We have sought to compare the combined Residual Land Values for the various land parcels or 'Blocks' under each scenarios to our adopted SVB in order to assess viability.

# 5. Site Value Benchmark

## 5.1. Introduction

5.1.1. Identifying an appropriate SVB requires judgement bearing in mind that national planning guidance indicates that appropriate land for housing should be encouraged to come forward for development.

5.1.2. In line with both the latest professional and planning guidance we have assessed the SVB using the Existing Use Value (EUV) of the Subject, plus a suitable landowner premium. The premium for the landowner should reflect the reasonable minimum return at which it is considered a reasonable landowner would be willing to sell their land. Existing Use Value is sometimes referred to as Current Use Value (CUV), and these two terms are interchangeable when used for Financial Viability in planning. The latest guidance also requires us to consider the Alternative Use Value (AUV) of the Subject where an existing planning consent may already exist or where the Subject may benefit from being converted to an alternative lawful planning use.

5.1.3. In support of the above, the RICS define SVB as *'the value to be established on the basis of the existing use value (EUV) plus a premium for the landowner or the alternative use value (AUV) in which the premium is already included.*

5.1.4. The Council's recently adopted Affordable Housing SPD, dated March 2021 defines SVB as follows: *'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.'*

5.1.5. The SPD goes on to define EUV as the *'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'.* Landowner's premium is defined as the *'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.'*

5.1.6. The Subject currently accommodates an operational retail park with clear beneficial economic use which generates a substantial annual rental income. It is therefore wholly appropriate to assess the property on an EUV+ basis having regard to the property's investment value. The current accommodation is set out within the table below and is understood to be accurate at the date of assessment.

**Table 9 – Station Retail Park Tenancy Schedule**

| Unit | Occupier | Size (Sq ft) | Lease Commencement | Lease Expiry |
|---|---|---|---|---|
| 1 | Vacant | 15,457 | - | - |
| 2 | Majestic Wine | 3,131 | 25.12.13 | 25.12.28 |
| 2a | Aldi | 13,177 | 21.01.08 | 20.01.23 |
| 4/5 | The Range | 35,103 | 22.02.10 | 21.02.25 |
| 6 | TGI Fridays | 8,153 | 25.03.89 | 25.03.29 |

5.1.7. The most recent valuation of the property was carried out independently by external valuers for accounting purposes. We are advised by the Applicant that the reported valuation on the basis of EUV as at July 2021 is in the order of £28,525,000 on the basis of investment valuation methodology.

5.1.8. We understand that the Subject does not benefit from an existing planning consent or possible conversion to an alternative lawful planning use. As such we have not prepared an AUV of the Subject although we reserve the right to review as part of due process.

5.1.9. We have applied a landowner's premium of 25% to the existing use value to derive a SVB of Say £36,650,000 which we adopt for viability purposes.

## 5.2. Market Valuation

5.2.1. The Market Valuation prepared independently on behalf of Aviva is confidential although the Applicant would be pleased to share this with the Council and/or its appointed viability advisor for verification purposes.

## 5.3. Purchase Price of the Land

5.3.1. The Subject is currently held by Aviva for investment purposes, has not been the subject of recent acquisition and therefore no relevant transactional data is available for disclosure within this assessment.

5.3.2. Notwithstanding, viability guidance under the NPPF states "the price paid for land is not a relevant justification for failing to accord with relevant policies in the plan". Whilst the guidance allows Local Authorities to request information concerning the price paid for land, which we would be pleased to discuss in greater detail with the Council and its appointed advisor, we would note that such information concerning historic land acquisition, option and promotion agreements, may be bound by confidentiality agreements.

# 6. Development Revenue

## 6.1. Residential Values

6.1.1. In forming an opinion of sales values we have had regard to the constituent buildings included within the outline planning application. For Scenario 1 this includes Blocks A, B, C and D and for Scenario 2, Blocks A, B and C only.

6.1.2. Our opinion of sales values takes into consideration location, size, aspect, provision of outside space, proposed accommodation and parking provision and is supported by comparable market research and discussions with local residential agents including Savills' new build development team based in Reading.

6.1.3. Based on our research (attached at **Appendix 4**) and advice from Savills' Reading office we have adopted an aggregate Gross Development Value (GDV) of £318,265,000 (Scenario 1) and £233,269,000 (Scenario 2), reflecting a blended average of £547 psf and £538 psf respectively. The table below sets out Savills' assumed residential sales values on a per unit basis:

**Table 10 – Residential Pricing Assumptions (*Anecdotal - Scenario 1*)**

| Unit Type | No. Units | Average Size (Sq ft) | Average Price (rounded) |
|---|---|---|---|
| Studio | 112 | 434 | £270,000 |
| 1B2P | 278 | 541 | £312,500 |
| 1B2P (w) | 30 | 716 | £330,000 |
| 2B3P | 33 | 665 | £390,000 |
| 2B3P (w) | 12 | 780 | £405,000 |
| 2B4P | 301 | 785 | £420,000 |
| 2B4P (w) | 18 | 963 | £445,000 |
| 3B5P | 82 | 936 | £485,000 |

6.1.4. The table below sets out Savills' adopted GDV included within our appraisals on a per building basis:

**Table 11 – Residential GDV**

| Building | Residential GDV (Scenario 1) | Residential GDV (Scenario 2) |
|---|---|---|
| A | £66,907,000 | £66,907,000 |
| B | £76,038,000 | £76,038,000 |
| C | £90,324,000 | £90,324,000 |
| D | £84,996,000 | - |
| **Total** | **£318,265,000** | **£233,269,000** |

6.1.5. The above pricing assumes a stable level of market absorption over the period of development for each constituent development parcel.

6.1.6. For the parameter Scheme we have made the following assumptions in respect of pricing taking account of the marginally reduced unit sizes when compared to the illustrative scheme for 866 homes.

**Table 12 – Parameter Scheme Pricing**

| Unit Type | No. Units | Average Size (Sq ft) | Average Price (rounded) |
|---|---|---|---|
| Studio | 250 | 420 | £265,000 |
| 1B | 350 | 538 | £310,000 |
| 2B | 368 | 705 | £410,000 |
| 3B | 32 | 914 | £480,000 |

6.1.7. The table below sets out Savills' adopted GDV for the Parameter Scheme included within our appraisals on a per building basis:

**Table 13 – Residential GDV (Parameter Scheme)**

| Building | Residential GDV (Scenario 1) |
|---|---|
| A | £69,960,844 |
| B | £84,951,481 |
| C | £99,437,695 |
| D | £86,639,980 |
| **Total** | **£340,990,000** |

6.1.8. The GDV identified above for the Parameter Scheme is equivalent to £586 psf NSA with the uplift largely attributable to the increased composition of smaller unit types when compared to the illustrative scheme.

## 6.2. Ground Rents

6.2.1. Draft legislation was included in the May 2021 Queen's Speech, which will restrict the charging of financial ground rents on new long residential leases with the intention of tackling inconsistency and ambiguity in ground rents for new leaseholders whilst fixing the same at a 'peppercorn'.

6.2.2. The exclusion of ground rent income within FVA is therefore widely considered appropriate and excluded from our appraisal.

## 6.3. Offices

6.3.1. Our valuation assumptions in respect of the office accommodation are set out within our appraisals and are informed by our Office Market Report attached at **Appendix 5**. Our appraisal is supported by recent comparable transactions, agents active in the market and advice from Savills' Office Agency team.

6.3.2. Based upon the advice provided to us and our own research we are aware of a headline rental tone of between £20 psf and £38 psf for comparable office accommodation depending predominantly on location and specification. Prime headline rents achieved within the town currently stand at around £38 psf although a figure of nearer £35 psf is considered more realistic for the Subject reflecting an appropriate 'step-down' from the new prime Grade A accommodation at Station Hill situated to the south of the station and elsewhere. Given the scale of development we have assumed an average 18 month rent free period within our appraisal.

6.3.3. Having regard to comparable investment transactions and research publications we would consider a yield in the order of 5.5% would be achievable for the proposed office accommodation.

6.3.4. In terms of take-up, the advice provided to us by Savills' office agency and commercial development teams is consistent. We are advised that take-up will likely take the form of smaller floorplates from multiple occupiers as opposed to a single, or fewer large occupiers. Having regard to the quantum of office accommodation included within Block D it is possible that take-up may take in excess of three years to achieve optimum occupancy levels. We have therefore assumed a take-up of three years within our appraisal.

6.3.5. Based on the above we have adopted the following assumptions for the office element as applicable:

- Rent - £35 psf
- Yield - 5.5%
- Incentive - 18 months

## 6.4. Ancillary Commercial

6.4.1. Following amendments to the Town and Country Planning (Use Classes) (Amendment) (England) Regulations 2020 which amended the Town and Country Planning (Use Classes) Order 1987, from 1st September 2020 a new Class E encompasses commercial, business and services which had previously been allocated under separate planning use class designations.

6.4.2. On this basis the commercial accommodation could reasonably assume a flexible permitted use and it is therefore appropriate to consider a range of possible uses in determining viability.

6.4.3. For the purposes of viability we have however assumed a planning condition against use of the ancillary commercial space as offices in accordance with the description of development. In the absence of such restriction we reserve the right to review our advice.

6.4.4. The site sits within a fairly prominent position fronting Vastern Road / Caversham Road and is a short distance from Reading Station which has direct links to London Paddington.

6.4.5. From looking at the surrounding area and what Reading has to offer in terms of retail/shopping experience the overall goal for new retail provision in this location should be to serve the needs of the new residential occupiers and should be predominately convenience led which is a trend we are seeing across the retail market at present.

6.4.6. It is intended that the ground floor commercial accommodation is principally in the form of retail use although it is acknowledged that alternative uses such as leisure and workspace may be pursued at reserved matters stage. At this stage we have carried out market research relating to retail use and have adopted a blended retail rent in respect of the flexible commercial accommodation being proposed.

6.4.7. For the proposed retail accommodation we have had regard to comparable evidence in the form of achieved rental evidence and quoting terms. This suggests a rental tone in the order of £14 - £39 psf on an overall basis depending on location, lease terms and specification.

6.4.8. We would consider a yield within the range of 6.5% – 7.5% would be achievable for the proposed retail accommodation assuming a good specification and depending on the quality of covenant. Although a range of incentives will likely be negotiated we have assumed an average 12 month rent free period within our appraisal.

6.4.9. Based on the above we have adopted the following assumptions for the retail element as applicable:

- Rent - £25 psf
- Yield - 7%
- Incentive - 18 months

6.4.10. A copy of our research is attached in **Appendix 5**.

## 6.5. Car Parking

6.5.1. A minimal quantum of car parking comprising a total of 57 spaces is proposed within the outline planning application. The level of detail available for assessment at this stage is however limited in terms of specific allocation and can therefore only be considered at high level.

6.5.2. Accordingly, our assessment of residential sales values takes account of the availability of parking spaces in respect of the residential accommodation where spaces would be allocated by way of incentive particularly in respect of the larger unit sizes. For the proposed commercial uses, it is assumed that sufficient car parking will be provided as appropriate for staff, customers and servicing.

6.5.3. In summary, we include no additional revenue within our appraisals.

## 6.6. Summary of Existing Income

6.6.1. For viability purposes, and in accordance with our advocated approach set out under Para 4.4 above, we have appraised the scheme on a present day basis assuming vacant possession and have not included any existing income within our appraisal. We would note that those costs associated with securing VP are also excluded in conjunction with Para 7.8 below.

# 7. Development Costs

## 7.1. Introduction

7.1.1. The following assumptions have been adopted in assessing the costs of the proposed scheme.

## 7.2. Build Costs

7.2.1. We have adopted build costs advised by Cast Real Estate and Construction Consultancy ('CAST') in respect of the various development options under consideration.

7.2.2. The cost plan dated September 2021 is inclusive of an allowance for demolition, preliminaries, contractor's OH&P and externals but is exclusive of construction contingency, professional fees and inflation.

7.2.3. The total estimated construction cost is included at £223,400,000 (£257 psf GIA) for Scenario 1. The total estimated construction cost is included at £228,120,000 (£252 psf GIA) for Scenario 2. The Cast cost plan estimates are included at **Appendix 7**.

7.2.4. The CAST cost plan is separated out into allowances for both residential and ancillary commercial accommodation. For the ancillary commercial element a single total cost is provided which we have allocated on a pro-rata basis based upon the quantum of accommodation being provided within each constituent parcel following discussion with CAST.

## 7.3. Contingency

7.3.1. A design contingency of 3.5% is included within the CAST cost plan although construction contingency is excluded. We would typically anticipate the inclusion of contractor's contingency equivalent to 5 – 10% of construction costs and the impact of such allowance may be demonstrated through sensitivity analysis.

7.3.2. We have not sought to include a further contingency allowance at this stage but reserve our position.

## 7.4. Professional Fees

7.4.1. For the purposes of our initial assessment we have adopted professional fees of 10% exclusive of development management costs which falls at the minimum end of a reasonable range for development of this nature.

7.4.2. We have however not been provided with a detailed breakdown of anticipated professional fees and therefore reserve the right to review in the future.

## 7.5. Sales, Marketing & Letting Fees

7.5.1. Within our appraisal we have adopted the following assumptions:

- Residential marketing: 1% on market residential GDV
- Commercial Marketing: £50,000 per parcel
- Residential sales agent: 1.5% on market residential GDV
- Commercial sales agent: 1% on commercial GDV

- Residential & Commercial sales legal: 0.5% on GDV
- Commercial letting agent: 10% on year 1 rent
- Commercial letting legal: 5%  on year 1 rent

## 7.6. Purchaser's Costs

7.6.1. We have deducted acquisition costs at an appropriate rate where appropriate.

## 7.7. Planning Obligations

7.7.1. We have included the following payments within our appraisal based upon estimates. We would advise that these figures are verified and reserve the right to review our appraisal in due course where updated figures are provided.

- Borough CIL – estimated on a per-parcel basis as appropriate including indexation and assuming Day 1 VP without relief; and

- Section 106 financial contributions - Nil

7.7.2. We have not applied CIL relief for appraisal purposes as we have assumed vacant possession at project commencement. We would note that the application of CIL relief should impact positively on the residual land value determined under each option.

## 7.8. Vacant Possession (VP) Costs

7.8.1. For viability purposes, and in accordance with our advocated approach set out under Para 4.4 above, we have appraised the Subject on a current day basis assuming vacant possession and have not included any existing income within our appraisal. We also exclude the possible income receivable during a phased VP strategy in conjunction with Para 6.6 above.

## 7.9. Profit

7.9.1. In assessing what constitutes an acceptable level of developer's return in the current market we have consulted with specialist colleagues within the Loan Security Valuation and Capital Markets departments of Savills, as well as applying our own development experience. In the current market if a developer was buying a site such as the Subject they would typically seek a return of at least 20% Profit on GDV (broadly equivalent to 25% Profit on Cost) in order to justify the risk of delivering the scheme.

7.9.2. Based on our experience and research we have included the following developer's return:

- 20% of Market Residential GDV; and

- 15% of Commercial GDV.

7.9.3. The respective blended profit allowance for each appraisal is shown within each of our appraisals.

## 7.10. Finance

7.10.1. In accordance with RICS guidance we have assumed that the development will be 100% debt financed. We have adopted a debit rate of 6.75% on an ‘all-in basis’. We have assumed an effective credit rate of nil.

## 7.11. Timescales

7.11.1. The methodology which we have adopted for viability purposes assumes Day 1 vacant possession without cost or premium. We have therefore applied isolated and concurrent phasing assumptions to each development parcel to determine scheme viability. We have therefore taken the individual blocks included within the Collado Collins drawings to each represent a separate development phase as part of our assessment.

7.11.2. We have not been provided with a detailed development programme and have therefore made reasonable assumptions for appraising the scheme on the following basis:

- Pre-construction and site enabling works: 3 months per parcel including demolition
- Construction: 18 – 24 months depending on scale of development per parcel
- Letting: ancillary commercial elements pre-let at PC
- Offices: phased tranche take-up of office accommodation (Block D only) to facilitate market absorption
- Residential Sales: 26 - 35 month sales period per parcel depending on the quantum of proposed housing delivery. We have assumed that 40% of the units will be sold off plan with receipt at PC, and that approximately 4 units will be sold per month thereafter.
- Ancillary Commercial: Sale of ancillary commercial element assumed at PC.

7.11.3. We have allowed a period of three months for pre-construction for each constituent development parcel to include the substantive demolition of the existing commercial accommodation, in addition to wider site preparation and enabling works.

7.11.4. Due to the configuration of each block as a composite entity we have assumed a period of between 18 – 24 months build depending on the scale of development across the various parcels. External areas including car parking and landscaping are assumed to coincide with the respective build phase.

7.11.5. Due to the quantum of new homes being delivered we have allowed a 26 - 35 month sales period from practical completion. We have assumed that 40% of the apartments will be sold off plan with receipt at PC depending on the overall quantum of homes, and that approximately 4 units will be sold per month thereafter as advised by Savills’ local residential sales team based in Reading.

7.11.6. For the office development proposed under Scenario 2 we have allowed a construction period of 18 months. Due to the quantum of floorspace being proposed we have allowed for a phased tranche take-up of office accommodation to take account of realistic market absorption levels following conversation with Savills’ Office Agency team. We have assumed sale of the office accommodation following full occupancy.

7.11.7. For the ancillary commercial element at ground level we have assumed sale at practical completion following pre-let which is considered reasonable having regard to the quantum of floorspace being provided.

# 8. Conclusions

## 8.1. Results

8.1.1. We have appraised the proposed scheme on the basis of the two aforementioned scenarios including residential use only, and mixed residential and office use. Given the scale of development and anticipated phasing we have appraised each block in isolation.

8.1.2. We have also included the results of our assessment of the Parameter Scheme which is set out in the table below indicatively.

8.1.3. We have compared the combined RLV of the constituent development parcels to our adopted SVB in order to fully understand the economics of the development and to establish the level of planning obligations, including affordable housing that the scheme can reasonably support.

8.1.4. The results of this exercise is summarised within the table below:

**Table 14 – Viability Appraisal Results**

| Block | Scenario 1: Residential | Scenario 2: Mixed Use | Scenario 1: Parameter Scheme |
|---|---|---|---|
| A | (£0.8m) | (£0.8m) | £2.8m |
| B | (£7.0m) | (£7.0m) | (£0.9m) |
| C | (£5.4m) | (£5.4m) | £0.6m |
| D | (£8.6m) | £8.5m | (£7.4m) |
| **Combined** | **(£21.8m)** | **(£4.7m)** | **(£4.9m)** |

8.1.5. A copy of our appraisals is included at **Appendix 8**.

8.1.6. We compare below the results of our appraisals against our adopted SVB.

**Table 15 – Viability Appraisal Results (Scenario 1)**

| Residual Land Value | Site Value Benchmark | Surplus / (Deficit) |
|---|---|---|
| **(£21,800,000)** | **£35,700,000** | **(£57,500,000)** |

**Table 16 – Viability Appraisal Results (Scenario 2)**

| Residual Land Value | Site Value Benchmark | Surplus / (Deficit) |
|---|---|---|
| **(£4,700,000)** | **£35,700,000** | **(£40,400,000)** |

8.1.7. Our assessment of viability concludes that the Residual Land Value generates a deficit against the Site Value Benchmark and therefore the scheme is not considered viable in planning. The scheme is therefore technically unable to contribute to an affordable housing contribution. Our assessment of the Parameter Scheme also concludes a viability deficit and is therefore technically unviable in planning.

## 8.2. Sensitivity Analysis

8.2.1. The value of development sites can be volatile and the residual approach adopted within this report is sensitive to changes in key variables. It is therefore useful to provide a sensitivity analysis, showing the effect on the RLV through small changes in key variables such as sales values and build cost.

8.2.2. We have prepared a sensitivity analysis to examine the impact on development viability by increasing private sales revenue in 10% increments, and decreasing residential build cost in 10% increments. The results of this exercise are shown within the table below:

**Table 17 – Viability Sensitivity (Scenario 1)**

| Residual Land Value | Site Value Benchmark | Surplus / (Deficit) |
|---|---|---|
| **£23,300,000** | **£35,700,000** | **(£12,400,000)** |

**Table 18 – Viability Sensitivity (Scenario 2)**

| Residual Land Value | Site Value Benchmark | Surplus / (Deficit) |
|---|---|---|
| **£28,400,000** | **£35,700,000** | **(£7,300,000)** |

8.2.3. Our sensitivity analysis demonstrates for the scheme to become economically viable in planning terms i.e. where the RLV generates a surplus against the SVB, there would need to be a significant increase in GDV and/or significant decrease in development costs. Conversely, if there were either a decrease in GDV or an increase in build cost the RLV would decrease making the development even less commercially viable in planning terms.

8.2.4. The key issue facing the proposed development is the Subject's investment value as an operational commercial asset. In planning viability terms, this creates a relatively high Site Value Benchmark whilst setting a difficult hurdle threshold at which the scheme is technically able to deliver affordable housing. The exceptional costs of bringing a site forward including Site Value Benchmark is acknowledged as a key consideration by the Council at Paragraph 4.4.24 of the Local Plan and should not therefore present a barrier to scheme delivery.

8.2.5. Moreover, despite the viability deficit, we would note that the Applicant is an experienced and reputable developer with a track record nationally in development delivery. Planning viability is therefore not a prohibitive factor to the Applicant's ambition to deliver a high quality scheme which will deliver new housing, planning contributions and public realm improvements within the borough.

8.2.6. We would welcome the opportunity to engage with the Council to seek a solution that will assist the Applicant in bringing the site forward but that will allow the Council the opportunity to secure an affordable housing contribution in the future. This might be through entering into an agreement setting out the agreed approach to securing affordable housing on a phased basis.