APPENDIX 2

AVISON YOUNG

Anglia Square Phase 1 Financial Viability Assessment

23rd October 2023

Contents

Appendices

Report title: Anglia Square FVA
Status: Final
Date: 23 October 2023

For and on behalf of Avison Young (UK) Limited

1. Qualifications & Experience

1.1 The CIL Regulation 57 (4)(d)(ii) makes it clear that a claim for relief must be accompanied by an assessment carried out by an independent person of the economic viability of the chargeable development.

1.2 CIL Regulation 57 (5) adds that, for the purposes of paragraph (4)(d)(ii), an independent person is a person who:

(a) is appointed by the claimant with the agreement of the charging authority; and

(b) has appropriate qualifications and experience.

1.3 Jonathan Bernstein is a Director in the Land and Development team at Avison Young. He has previously advised the Council in relation to the viability of redeveloping Anglia Square; this has included an independent review of the viability assessment submitted in support of the planning application as approved by the Council on 18 July 2023.

1.4 Jonathan has not previously worked for the claimant and has the appropriate qualifications and experience to assess the economic viability of the chargeable development for the purposes of the CIL ECR claim.

1.5 Norwich City Council has provided assurance and agreed to the appointment of Jonathan Bernstein of Avison Young as an independent person in the terms of CIL Regulation 57 to carry out the assessment.

2. Introduction

2.1 Avison Young (AY) has been instructed by Columbia Threadneedle Investments (CTI) to undertake a financial viability assessment in respect of Phase 1 of Anglia Square, Norwich, NR3 ("the Site") in support of the application for Exceptional Circumstances Relief (ECR) from the Community Infrastructure Levy (CIL) made to the charging authority, Norwich City Council (the Council).

2.2 The Council has a CIL ECR policy in accordance with Regulation 55 to 57 of the CIL Regulations 2010 (as amended).

2.3 The CIL Regulations 2010 (as amended) sets out the procedures for grant of ECR. CIL Regulation 57(4)(d) states that a claim for relief must be accompanied by an assessment carried out by an independent person of the economic viability of the chargeable development. For the purposes of the CIL regulations, AY are acting as an independent advisor appointed by the claimant with the agreement of the charging authority.

2.4 We consider ourselves adequately qualified to provide this assessment. For the purposes of transparency, AY previously acted on behalf of the Council in reviewing the submitted FVA (as part of the successful planning application) by the applicant which sought to demonstrate the maximum level of affordable housing that the scheme was capable of providing. AY endorsed the applicant's final position which was accepted at committee. It is worth noting that the planning application was submitted by Weston Homes. Therefore, our appointment to advise CTI on the specific matter of ECR was supported by the Council. We have extensive experience on all aspects of viability and provide advice to numerous local authorities and developers.

2.5 The consented scheme will be delivered in four phases and each phase is a separate CIL chargeable development. Whilst Reg 57 of the CIL Regs does not specifically prescribe that an overarching viability assessment for the scheme as a whole must be submitted with an ECR application, it is considered that an overarching assessment would provide important context and therefore it is reasonable for a separate overarching assessment to be included within each ECR application for this consented scheme. We understand that this is a view accepted by all key stakeholders due to the scale of the consented scheme which has the capacity to act as a catalyst for wider economic enhancements and place-making.

2.6 It has been agreed that the following procedure should be undertaken for Phase 1 and the future phases of Anglia Square:

1. Phase 1 Chargeable Development – assessment of viability of phase 1 plus a separate assessment of viability for the scheme as whole
2. Phase 2 Chargeable Development – assessment of viability of phase 2 plus a separate updated assessment of viability for the scheme as whole
3. Phase 3 Chargeable Development – assessment of viability of phases 3 plus a separate updated assessment of viability for the scheme as whole
4. Phase 4 Chargeable Development – assessment of viability of phases 4 plus a separate updated assessment of viability for the scheme as whole

2.7 On this basis, our financial viability assessment will provide a viability assessment for phase 1 alongside a separate assessment of the whole scheme. The assessment includes all values and costs associated with that phase, including demolition, infrastructure costs, construction costs, S106 and HIF grant.

3. CIL Regulations & Planning

CIL Regulations

3.1 The CIL Regulations 2010 (as amended by the 2013, 2014 and 2019 Regulations) set out the requirements for claiming and granting ECR. We have summarised the relevant requirements of the CIL Regulations below:

- CIL Regulation 55 (1) sets out that a charging authority may grant relief (“relief for exceptional circumstances”) from liability to pay CIL in respect of a chargeable development if:

    a) it appears to the charging authority that there are exceptional circumstances which justify doing so; and

    b) the charging authority considers it expedient to do so.

- CIL Regulation 55 (3) sets out when a charging authority may grant relief for exceptional circumstances.

    a) The charging authority has made relief for exceptional circumstances available in its area.

b) A planning obligation under Section 106 of TCPA 1990 has been entered into in respect of the planning permission which permits the chargeable development.

c) The charging authority considers that to require payment of the CIL charge by it in respect of the chargeable development would have an unacceptable impact on the economic viability of the chargeable development.

- CIL Regulation 57 sets out the procedure through which ECR can be granted. CIL Regulation 57(4)(d)(ii) states that a claim for relief must be accompanied by an assessment carried out by an independent person of the economic viability of the chargeable development.
- CIL Regulation 9(4) states that in the case of a grant of phased planning permission, each phase of the development is a separate chargeable development.

3.2 National practice guidance (NPG) is available in relation to CIL and ECR. Charging authorities may offer relief from the levy in exceptional circumstances where a person responsible for a specific scheme cannot afford to pay the levy.

3.3 A charging authority can give relief from the levy if it deems that the levy would have an unacceptable impact on the viability of a development. Use of an exceptions policy enables charging authorities to avoid rendering sites with specific and exceptional cost burdens unviable. There is no statutory definition of what constitutes the viability of a development. The charging authority has the discretion to make judgements about the viability of the scheme in economic terms (for example, see National Planning Policy Guidance on viability). However, it is important to ensure that any exceptional circumstances relief is based on an objective assessment of viability as set out in viability guidance.

The Proposed Scheme

3.4 On 18 July 2023, the Council granted hybrid (part full/part outline) planning permission (ref. 22/00434/F) for the phased, comprehensive redevelopment of the site for up to 1,100 dwellings and up to 8,000 sqm (NIA) of flexible retail, commercial and other non-residential floorspace including a community hub, up to 450 car parking spaces, car club spaces and associated works to the highway and public realm areas.

3.5 The proposed scheme currently includes the following unit numbers and areas across phases 1-4, however we understand that the outline scheme (phases 3 & 4) is subject to potential iterations at the reserved matters stage following a review of the parking quantum and unit numbers.

- 1,062 homes including 10% affordable
- 440 car parking spaces
- C. 80,000 sq ft of commercial space (NIA)

3.6 There is detailed planning consent for phases 1 & 2, which comprises:

- 353 homes (of which 106 are proposed to be affordable)
- 134 car parking spaces

- C. 64,000 sq ft of commercial space (NIA)

3.7 We have summarised the key figures from the area schedule for phase 1 (Blocks A, B, C, D & M) in table below:

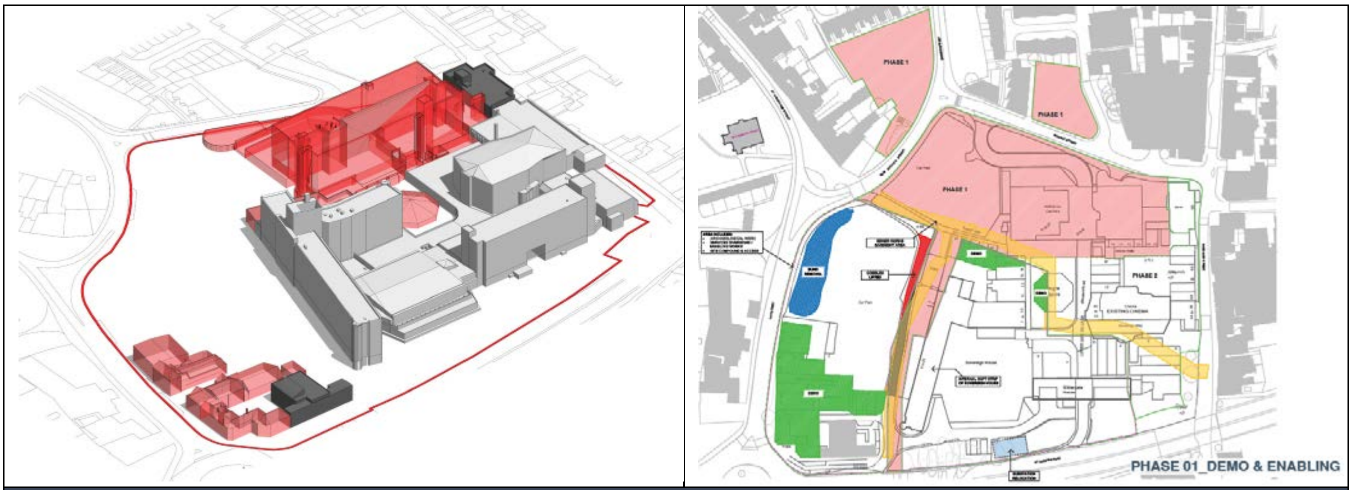
Phase 1	Gross Internal Area (Sq Ft)	Net Internal Area (Sq Ft)	Gross to Net (%)
Private Residential	188,548	139,823	74%
Social Rented	12,616	11,913	94%
Intermediate	38,561	31,704	82%
Residential Ancillary	16,250	-	-
Commercial	18,712	18,697	100%
Commercial - Back of House	8,703	-	-
Car Parking	42,362	-	-
TOTAL	**325,752**	**202,137**	**-**

Phasing Strategy

3.8 We have been provided with the phasing strategy for Anglia Square which includes a set of plans illustrating the demolition, enabling works and construction programme for each phase. This phasing strategy comprises the 'Anglia Square Phasing Strategy Revision E (September 2023)' approved under application ref. 23/00985/D.

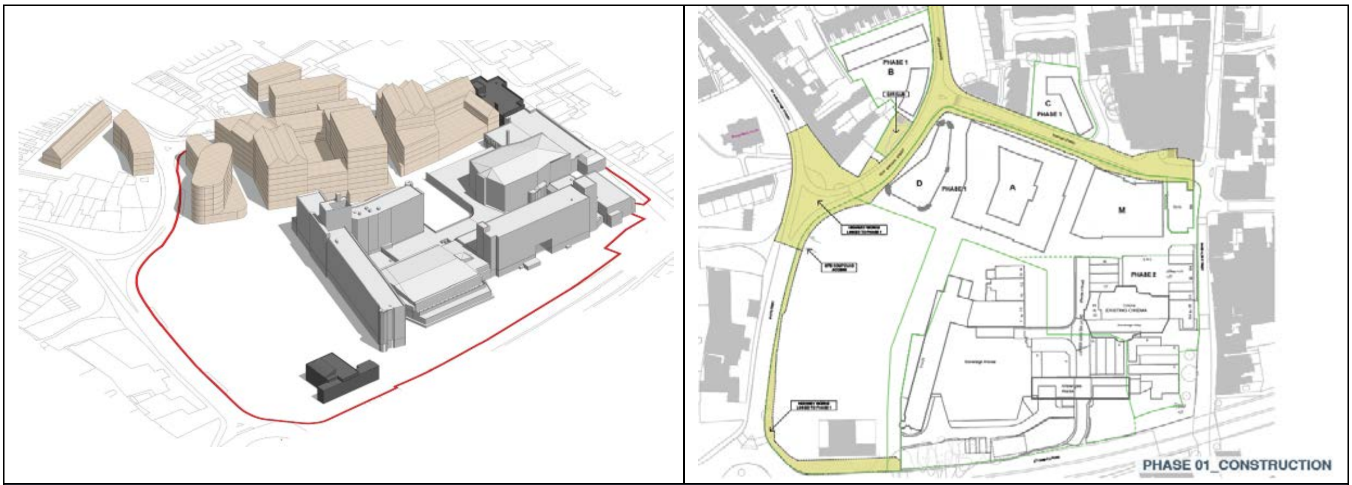
3.9 Phase 1 will involve demolition of the multi-storey car park, the northern part of the shopping centre and the buildings fronting Pitt Street, taking place between Q1 2024 and Q2 2024. The demolition areas are highlighted in red on the plan below.

3.10 Phase 1 will also include a series of enabling works including bund removal, substation relocation, service diversions, cobbles lifted, archaeological work and creation of a site compound and access from Pitt street. Details of the enabling works are illustrated on the plan below.



Phase 1 – Demolition & Enabling

3.13 Phase 1 construction includes blocks B, C, D, M & A located towards the northern end of the scheme as illustrated in the plan below. Phase 1 will also involve off site highways works along Pitt Street, New Botolph Street and Edward Street, as highlight in green in the plan below.



Phase 1 – Construction

3.16 The phase 1 construction timings are summarised in the table below.

Block	Start Date	End Date
B	Q1 2024	Q2 2025
C	Q1 2024	Q2 2025
D	Q1 2024	Q2 2025
M	Q1 2025 (commercial (Q1 2027)	Q2 2027
A	Q1 2025	Q3 2027

Block	Start Date	End Date
	(commercial Q1 2027)	

4. Developer Requirements

Profit

4.1 The CIL Regulations 2010 (as amended) require CIL ECR to be assessed and granted on a phase by phase basis, therefore the application has been made for each phase of Anglia Square in isolation.

4.2 However, for large regenerative, development projects a developer will typically consider the profit over the duration of the scheme rather than on a phase by phase basis. This is reflective of the long-term nature of projects such as Anglia Square, where significant upfront costs are required to facilitate regeneration of the area, which in turn will create additional value uplift in the latter phases. There is therefore the expectation that earlier phases will be less profitable and that profit achieved in the latter phases will subsidise the former.

Finance

4.3 Weston Homes have financial arrangements for borrowing as a group rather than financing developments on a project by project basis, therefore it is uncertain at this stage how much equity and debt will be drawn down for Anglia Square. Weston Homes are willing to commit a sum of substantial equity to facilitate the development in order to mitigate costs, however finance will also be required.

4.4 It has been agreed that a cost of finance will be required and will form a development cost of some form, however its structuring needs to be considered in detail, which may include different levels of equity and debt from phase to phase. Any attempt to incorporate the cost of finance would be inaccurate at this stage therefore we have assumed that the scheme will be entirely funded by equity, whilst recognising that when finance is included this will have a detrimental impact on the scheme.

4.5 We understand that all stakeholders accept that the costs are greater than what is contained within the presented appraisals and that these will be factored in accordingly in due course. It is also worth noting that the CIL exemption will also assist in the applicant’s capability to secure more favourable funding terms.

Phasing

4.6 Four separate CIL ECR applications will be required for each phase of the Anglia Square development, which will require careful timing and division of the costs to ensure that the viability of each phase is correctly demonstrated. The timings and costs of land acquisition, infrastructure, externals, demolition and S106 costs should follow the approach of a prudent developer and be as close to reality as possible.

4.7 The agreement between CTI and Weston Homes is for the purchase of the whole site which would be incurred as an upfront cost in phase 1. As a result, we expect the appraisals for CIL ECR to replicate this approach.

4.8 The S106 costs would be linked to specific milestones prescribed in the S106 Agreement and we would expect these costs to be applied to each phase on this basis. The S106 Agreement also prescribes the level of affordable housing delivered in each phase.

4.9 Off-site infrastructure, demolition and enabling works should follow the approach of a prudent developer, incurring costs as and when required to enable development, whilst having regard to the potential economies of scale of incurring certain costs at a point in time. All stakeholders recognise that costs will be incurred for each phase prior to their eventual construction and delivery.

5. Market Evidence

Values - Residential

5.1 We have analysed sales evidence within Norwich for new build and conversion properties sold between 2021 and 2023. We have noted details of the schemes below:

- **St James Quay – NR3 (New build) – Sold & asking prices:** St James Quay is a development of 220 residential units and 447 sq. m of commercial space being developed by Hill. The scheme comprises a mix of one, two and three bedroom apartments set within 11 blocks and is being delivered in three phases. Phase 1 comprises 139 units in two buildings – Sewell Building and Pullman Building. Sold prices are from October 2021 to October 2022 and asking prices are from December 2021 to August 2023.

- **Canary Quay – NR1 (New build) – Sold & asking prices:** Canary Quay is a development of 323 residential units developed by Broadland. The scheme comprises a mix of 1 and two bedroom apartments, including a proportion of shared ownership units. The sold prices are from September 2021 to March 2023. The asking prices are from September 2022 to May 2023.

- **Conisford Court – NR1 (New build) – Asking prices:** Conisford Court is a development of 26 residential units and commercial at the ground floor. The scheme comprises a mix of 1 and 2 bed apartments. The scheme is marketed as a luxury scheme with a high quality specification. The asking prices are from February 2023.

- **St Annes Quarter – NR1 (New build) – Sold prices:** St Annes Quarter is a development of 247 units delivered by Orbit Homes. The scheme comprises of a mix of one, two and three bedroom apartments. There are only a handful of sold prices between January 2021 to March 2022, a majority of the scheme sold out between prior to 2021.

- **Narrows Place – NR1 (Conversion) – Asking prices:** Narrows Place is a development of 25 units and 2 penthouses with larger terraces that overlook the Broads. The scheme comprises of a mix of one, two and three bedroom apartments. The asking prices are from February 2023 to July 2023.

- **St Peters House – NR1 (Conversion) – Sold prices:** St Peters House is a conversion of existing offices to provide a total of 53 units. The scheme comprises a mix of one and two bedroom apartments with some of the apartments offering balconies or roof terraces. We understand that the scheme is registered with Help to Buy. There were only two sales in September 2021 and February 2022.

- **Castle House – NR2 (Conversion) - Sold prices:** Castle House is a conversion of existing offices to provide a total of 25 units. The scheme comprises a mix of one, two and three bed apartments. The sold prices are from September 2021 to March 2022.

- **Aldwych House – NR2 (Conversion) – Sold prices:** Aldwych House is a conversion of existing offices to provide a total of 52 units. The scheme comprises a mix of one and two bed apartments. There were only two sales in March 2022.

5.2 We have summarised our comparable evidence in the table below:

Schemes	Beds	Average Size (sq ft)	Average Price	Average Price (£per sq ft)	Price Date
St James Quay	1	545	£206,089	£378	Sold – Oct 21 to Oct 22
	2	792	£309,894	£393	
	3	918	£393,330	£427	
St James Quay	1	-	£192,617	-	Asking – Dec 21 to Aug 23
	2	-	£353,320	-	
	3	-	£572,450	-	
Canary Quay	2	776	£233,950	£301	Sold – Sep 21 to Mar 23
Canary Quay	2	-	£245,000	-	Asking – Sep 22 to May 23
Conisford Court	2	746	£272,500	£365	Asking - Feb 23
St Annes Quarter	1	512	£190,833	£368	Sold – Jan 21 to Mar 22
	2	660	£251,333	£379	
	3	817	£319,286	£388	
Narrows Place	1	-	£230,000	-	Asking – Feb 23 to Jul 23
	2	-	£365,000	-	
St Peter House	1	419	£145,000	£345	Sold – Sep 21- Feb 22
	2	796	£250,000	£314	
Castle House	1	588	£178,200	£304	Sold – Sep 21 to Mar 22
	2	893	£255,000	£285	
	3	1173	£310,000	£264	
Aldwych House	1	447	£142,750	£319	Sold – Mar 22

5.3 We have collated comparable evidence in Norwich City Centre, focusing on the NR1, NR2 and NR3 post code areas, and considered the sold and asking prices between 2021 and 2023, placing a greater reliance on the achieved prices and most recent evidence in our analysis.

5.4 The comparable evidence above comprises a mix of new build and conversion schemes, the former of which are more relevant to Anglia Square, including St James Quay, St Anne's Quarter, Connisford Court and Canary Quay. New build schemes generally achieve a new build premium over and above conversion schemes due to a higher standard of specification and condition, the unit sizes and layouts are also generally more conventional and attractive.

5.5 St James Quay, St Anne's Quarter and Canary Quay are all large scale residential led developments (in excess of 200 new homes) with ancillary commercial floorspace, which provide the best comparable evidence for Anglia Square, albeit the subject is much larger in scale and includes a larger commercial element. We have also considered the location and situation of these comparables, and the stage of development for each scheme, as there is the expectation that values will increase over the duration of the development.

5.6 On this basis, we have adopted a base residential value of £350 per sq ft in phase 1. Over the duration of the scheme, there is potential to achieve a significant premium above today's values, given the scale and significance of the development. Phase 1 will deliver a significant number of new homes and commercial floorspace, alongside key infrastructure works, which will help to regenerate the area. We have therefore assumed that residential values will increase from phase 2 onwards, adopting a premium of 12.5% for phase 2, 20% for phase 3 and 27.5% for phase 4, from the base position. This assumption was reflected and agreed at the planning viability stage.

Commercial

Letting Market

5.7 We have summarised below the latest retail comparable evidence obtained between January 2022 and September 2023 within a 1 mile radius of Norwich city centre:

Address	Town Centre / Out of Town	Occupier	£PSF	Sq. ft.	Date	Lease Term
1-17 Westlegate	OOT	Cluck 'D	£24.08	1,661	31/07/2023	20 yrs
21 Castle St	TC	-	£50.04	2,398	27/07/2023	10 yrs
1 Haymarket	TC	-	£23.69	6,333	26/07/2023	-
2-10 Back Of The Inns	TC	Dune	£55.98	802	21/06/2023	5 yrs
31-33 Castle St	TC	The Cornish Bakery	£39.27	1,910	08/06/2023	10 yrs
1-25 St. Augustines Gate	OOT	-	£16.35	787	18/05/2023	10 yrs
13-15 Dove St	TC	-	£29.91	535	13/03/2023	-
33 Angel Rd	OOT	-	£11.19	1,117	06/03/2023	-
Timberhill	TC	Silhouette	£14.84	3,201	05/01/2023	-
5a St Stephens St	TC	-	£44.82	569	13/12/2022	-
Castle Meadow	TC	Pure Norwich Limited	£10.71	3,736	01/12/2022	10 yrs
13 Back Of The Inns	TC	Lucy & Yak	£44.72	1,004	17/10/2022	10 yrs
2-4 Brigg St	TC	Adrian Moya Limited	£36.86	1,560	03/10/2022	10 yrs
17 Westlegate	TC	Norwich Samaritan	£12.30	2,027	30/09/2022	10 yrs
4 St. Augustines Gate	OOT	-	£15.49	2,906	02/09/2022	-
7 Back of The Inns	TC	Saltrock Surfwear Ltd	£29.84	1,003	21/06/2022	8 yrs
24-26 St Stephens St	TC	Shoe Zone Retail Limited	£11.62	7,730	15/06/2022	5 yrs
10 White Lion St	TC	Loake	£33.94	884	04/05/2022	10 yrs
7 St Giles St	TC	Indigo Tattoo	£21.11	1,303	23/03/2022	10 yrs
8 Guildhall Hl	TC	-	£22.86	700	15/03/2022	-
31 Gentlemans Walk	TC	-	£23.27	3,223	14/03/2022	-
21 Castle St	TC	Castle Fine Art	£20.37	4,908	02/02/2022	5 yrs
221-231 St Leonards Rd	OOT	Break Charity	£6.46	1,238	02/02/2022	-

5.8 The comparables reflect an average rent of £26.07 psf, although we would note the variance between £6psf and £56psf. Clearly, the evidence presented above takes account of a wide range of retail uses and pitches, with varied size, condition, and lease terms.

5.9 On the basis of the comparable evidence above we have adopted a rent of £25 per sq ft, which reflects the rental value that would need to be achieved to ensure the commercial space makes a return.

Investment Market

5.10 We have summarised below the latest retail comparable evidence obtained between January 2022 and September 2023 within a 1 mile radius of Norwich city centre:

Address	Size (sq. ft.)	Sale Price	£/sq. ft.	NIY (%)	Sale Date
1 Haymarket	6,460	£1,375,000	£212.85		06/01/2023
12-13 Tombland	3,500	*£250,000 (asking)*	*£71.43*	-	07/12/2022
20 West End	1,342	*£80,000 (asking)*	*£59.61*	-	07/12/2022
2-4 Sprowston Rd	907	£102,000	£112.46	-	24/10/2022
22 Prince Of Wales Rd	4,844	*£275,000 (asking)*	£56.77	-	26/07/2022
3-5 Orford Pl (Part of Multi-Property Sale)	3,228	£792,642	£245.55	10.85%	06/07/2022
1 Orford Pl (Part of Multi-Property Sale)	1,107	£82,358	£74.40	10.85%	06/07/2022
46 St. Benedicts St	2,890	£184,500	£63.84	-	03/05/2022
9 White Lion St	4,980	*£1,000,000 (asking)*	£200.80	-	14/04/2022
18 Haymarket	4,674	£2,750,000	£588.36	-	18/03/2022
2 Rampant Horse St (Part of Portfolio)	2,420	£234,820	£97.03	-	07/01/2022
23 White Lion St	1,278	£500,000	£391.24	-	Under offer

5.11 The comparables reflect an average capital value of £181 psf, ranging from £57 to £588 psf. However we note that the evidence includes a wide range of pitches and tenants with different covenant strengths and remaining lease terms.

5.12 On the basis of the comparable evidence above we have adopted a yield of 6%, which reflects the yield that would need to be achieved to ensure the commercial space makes a return.

6. Development Inputs

6.1 We have provided a summary of the key assumptions in the following paragraphs.

BLV

6.2 The BLV has been established using the EUV+ method based on the existing use value of a site plus an appropriate site premium. The principle of this approach is that a landowner should receive at least the value of the land in its ‘pre-permission’ use, which would normally be lost when bringing forward land for development. A premium is usually added to provide the landowner with an additional incentive to release the site, having regard to site circumstances, and where appropriate an alternative use of a higher value.

6.3 The PPG is clear that market evidence can be used as a cross-check for BLV, but should not be used in place of BLV, and nor should it be assumed to equate to market value. It is based on PPG requirements and a prescribed method that may not accord with assumptions and methods used to assess the price paid for land in the marketplace at any particular point in time. Recognising this possible divergence between BLV for planning purposes and prices paid in the market, PPG paragraph 011 states that ‘Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan’.

6.4 The Norwich City Council’s Affordable Housing SPD 2019 advocates a 15% premium on brownfield sites which is taken as the starting point for consideration. The viability assessment supporting the emerging Greater Norwich Local Plan applied a 30% premium. It remains the case that the NCC affordable housing SPD limits the premium to 15%, but the former is a material consideration. If we were to adopt a premium of 30% this would further increase the EUV+ and worsen the viability position.

6.5 We have summarised our BLV for the surface car parks, shopping centre & MSCP, Sovereign House & Gildengate House and the Pitt Street properties in the table below.

	EUV	EUV + (15%*)
Surface car park	£4,880,000	£5,612,000
Shopping centre & MSCP	£2,100,000	£2,415,000
Gildengate House	£780,000	£780,000
Sovereign House	£1,000,000	£1,000,000
Pitt Street properties	£1,600,000	£1,840,000
TOTAL	**£10,360,000**	**£11,647,000**

*Excluding the 15% premium on Sovereign House & Gildengate House as we have adopted an alternative use value approach which assumes conversion to residential use.

6.6 Should further information be sought on the BLV calculations, then we would recommend that the Council refer to the FVA reviews previously undertook on their behalf as part of the planning application.

6.7 The agreement between CTI and Weston Homes is for the purchase of the whole site which would be incurred as an upfront cost. The total BLV for the site has therefore been included at the start of Phase 1.

6.8 The deal between CTI and Weston Homes has been agreed at circa £13.1m, which is c. 13% higher than the EUV+. The transactional price provides further context for the requirement for CIL ECR.

Gross Development Value (GDV)

6.9 We have adopted the following value assumptions within our appraisal.

Values	Assumptions	Comments
Private residential	P1 - £350 per sq ft P2 – £394 per sq ft P3 - £420 per sq ft P4 – 446 per sq ft	We have adopted a base private value of £350 psf in phase 1 based on the comparable evidence in section 5 of this report. We have included an additional regeneration premium from phase 2 onwards, which increases as the scheme progresses.
Intermediate	P1 - £280 per sq ft P2 – No intermediate included P3 – No intermediate included P4 - No intermediate included	80% of the private residential values
Social rent	P1 - £165 per sq ft P2 – £185 per sq ft P3 – no SR included P4 - no SR included	47% of the private residential values
Car parking	£15,000 per private space £0 per affordable space £0 per commercial space	-
Commercial rent	£25 per sq ft	This rental tone would need to be achieved in order to ensure the commercial space makes a return.
Commercial yield	6%	As above.
Commercial incentives	12 months	Inclusive of rent free and void.

Additional Revenue

6.10 The site has been allocated for £15m of HIF funding, which has been apportioned across phases 1 (70%) & 2 (30%). This apportionment is based on information provided by Weston Homes which indicates c. 70% of the HIF funded works will be completed in phase 1 and c. 30% of the works in phase 2.

6.11 From the start of development, interim income generated from surface car parks, the Shopping Centre and the Pitt Street properties on the site has been included at a reduced level to account for the disturbance from ongoing construction and uncertainty. The income for each element is received until the respective areas of the site are required for construction and/or new provision has been provided elsewhere.

6.12 Elements of this income are not directly affected by the construction of phase 1, however the site is being purchased as a whole, therefore the developer will benefit from this income throughout the lifecycle of the development, up to the point at which the respective areas are required for construction. We have adopted the following additional income which is received up until the following points based on the phasing schedule provided:

- Surface Car Parks: £170,000 per annum – Received up until Q1 2024.

- Shopping Centre:
    - £103,000 per annum (area to be replaced by Blocks J3 & K/L) – Received up until Q1 2024.
    - £103,000 per annum (area to be replaced by Blocks G, H & J) - Received up until Q3 2026.
- Pitt Street Properties: £85,000 per annum - Received up until end of Q1 2024.

Costs

6.13 Exigere initially undertook a cost plan dated April 2022, which was used as part of the planning viability process, and was provided on the behalf of the applicant, Weston Homes. Exigere have since provided an updated cost plan dated September 2023 which has reviewed the individual rates against current cost data. The Exigere costs have increased by +9% overall from £290,360,629 (£244 per sq ft) to £317,591,000 (£267 per sq ft). The Exigere cost plan includes the build costs, demolition, external works & services, but excludes contingency and inflation.

6.14 Avison Young have undertaken an independent cost audit of the updated Exigere cost plan to assess the suitability of the prices increases since the cost plan of April 2022. AY have undertaken a desktop review of the changes to the cost plan on a high-level basis, assessing rates/allowances from cost breakdowns where provided. The rationale for undertaking such a review is to ensure that CTI have undertaken their due diligence as well as providing another layer of scrutiny by which the Council can rely upon.

6.15 This Exigere uplift is slightly higher than we would expect to see in the current market, over the period. BCIS General Building Cost Index and BCIS All-in TPI both suggest the inflationary movement in period sits at +6%. At Avison Young, we have experienced cost movement of up to 8% - however the timeframes in question are not on a complete “like for like” basis with Anglia Square. On the basis of our cost plan review, we have assumed a built costs of £262 per sq ft.

6.16 We have undertaken development appraisals on the basis of the AY cost audit which return an insufficient profit and would hinder delivery of the development. These appraisals are included within Appendix 2.

6.17 Weston Homes have a unique position as the developer delivering the scheme and have provided the build cost assumptions included within their model. Weston Homes have adopted a build cost of £180 per sq ft for the commercial and £232 per sq ft for the residential. The build costs are lower than the Exigere Cost Estimate and the AY Cost audit for a number of reasons including reduced preliminary fees, as Weston Homes own their own plant and employ site staff directly such as site managers and labourers. Weston Homes also do not appoint a building contract therefore there is no allowance for contractor’s profit. Weston Homes also buy many of their materials directly at source and therefore experience savings on materials. We have also adopted Weston Homes contingency and professional fee assumptions which are lower than the standard market assumptions.

6.18 Based on our conversations with Weston, their cost profile and vertically integrated business model represents their competitive advantage within the market. It is commonplace for developers/housebuilders to be able to achieve a lower cost profile then what is envisaged in the market, and based on the fact that they have a demonstrable commitment to the scheme evidenced by the planning process itself and the proposed transaction with CTI, we consider that their cost assumptions must be achievable otherwise the scheme would be undeliverable. Consequently, we are happy to endorse their position.

6.19 We have adopted the following additional cost assumptions:

	Assumptions	Comments
Off-site highways	P1 - £912,960.12 P2 - £683,199.14 P3 - £0 P4 - £0	Based on Highways Improvement Works Cost Plan undertaken CPC (July 2022). We have apportioned the off-site highways based on the Phasing Strategy provided by Weston Homes (September 2023), which suggests the following infrastructure projects occur in phases 1 & 2: Phase 1 – A, E, F, G Phase 2 – C, D
CIL	P1 - £1,761,967.16 P2 - £400,452.33 P3 - £3,375,854.15 P4 - £2,728,400.13	CIL liability minus social housing relief. Phases 1 & 2 CIL costs informed by the Council. Phases 3 & 4 CIL costs estimated by Weston Homes.
S106 costs	P1 - £1,050,057 P2 - £343,691 P3 - £1,598,417 P4 - £1,515,881	Applicant S106 costs which we understand have been verified by the Council. Includes nutrient neutrality, RAMS, Enhanced Green Infrastructure, Under the Flyover improvement works and maintenance, car club and Anglia Square management plan contributions.
Contingency	0%	Weston Homes generally don't allow for a contingency in their appraisals.
Professional fees	4%	Weston Homes typically assume 4% professional fees which reflects that fact that they employ staff directly rather than appointing external consultants.
Marketing	1%	-
Purchasers' costs	5.8%	Including the purchasers SDLT, agency fees, legal fees and VAT.
Sales agent fees	0.75%	-
Sales legal fees	0.25%	-
Letting agent fees	10%	-
Letting legal fees	5%	-

6.20 We have been provided with the CIL costs by the Council for phases 1 & 2 and we have estimated the CIL costs for phases 3 & 4. We have summarised our calculations below.

Phase 3 – CIL Calculations

6.21 Phase 3 includes the demolition of 4,418 m2 of existing buildings. We have apportioned the 'Demolition Area' and deducted this from the 'Proposed Development' area to calculate the 'Chargeable Development' area. We have adopted the 2023 Norwich City Council CIL rates for each proposed use.

	Proposed Development (GIA) (m2)	Chargeable Development (GIA) (m2)	CIL Rate (£ psm)	CIL Costs
Residential - 1-4 storeys	4,849	4,333	£118.87	£515,055.84
Residential - 5+ storeys	30,260	27,039	£103.01	£2,785,291.53
Commercial	1,068	954	£39.62	£37,802.92
Residential car parking	5,328	4,761	£7.92	£37,703.86
	41,505	**37,087**	**-**	**£3,375,854.15**

Phase 4 – CIL Calculations

6.22 There are no existing buildings in Phase 4. We have adopted the 2023 Norwich City Council CIL rates for each proposed use and applied these to the 'Chargeable Development' area.

	Proposed Development (GIA) (m2)	Chargeable Development (GIA) (m2)	CIL Rate (£ psm)	CIL Costs
Residential - 1-4 storeys	4,987	4,987	£118.87	£592,816.58
Residential - 5+ storeys	20,169	20,169	£103.01	£2,077,557.19
Commercial	579	579	£39.62	£22,928.09
Residential car parking	4,432	4,432	£7.92	£35,098.27
	30,166	**30,166**	**-**	**£2,728,400.13**

6.23 There is no affordable housing in phases 3 & 4 therefore we have not included any social housing relief.

7. Viability Results & Conclusions

7.1 We have undertaken development appraisals for phase 1 and the scheme as a whole with CIL costs and with CIL ECR to demonstrate the impact of CIL on the viability of the scheme. We have also assessed the viability of the scheme based on the AY Cost Audit and Weston Homes costs.

7.2 We are of the opinion that neither phase 1 nor the scheme as a whole produce a commercial return based on the AY Cost Audit appraisals, and that a long-term view is required by all stakeholders. An ECR for Phase 1 will make commencement of the scheme much more likely by assisting in the mitigation of costs and delivery of subsequent phases, as well as reducing the viability gap.

7.3 This is a complex regeneration initiative in a challenging market which has obvious viability constraints. As stated within the report, we have examined the cost implications of a scenario that CTI could procure should they be acting as the developer (i.e. the 'AY Cost Audit' scenario). This is simply to reflect that CTI is the claimant for the ECR and not the developer. This appraisal demonstrates that this cost profile renders the scheme as undeliverable, due to the fact that it is loss-making.

Appraisal Results - AY Cost Audit – Phase 1 & All Phases (inc. HIF)

	AY Cost Audit – Phase 1		AY Cost Audit – All Phases	
	Including CIL	Including CIL ECR	Including CIL	Including CIL ECR
GDV	£66.9m	£66.9m	£321.9m	£321.9m
NDV (less purchasers' costs)	£66.5m	£66.5m	£320.3m	£320.3m
HIF & Additional Income	£10.9m	£10.9m	£15.4m	£15.4m
Net Realisation	£77.4m	£77.4m	£335.7m	£335.7m
Total Costs	£113.4m	£111.6m	£379.1m	£370.8m
Profit	-£36.0m (-53.7% on GDV)	-£34.2m (-51.1% on GDV)	-£43.4m (-13.5% on GDV)	-£35.1m (-10.9% on GDV)

7.4 It is imperative to note that this does not reflect the aspirations of Weston Homes (planning applicant and the developer), who are able to achieve a lower cost profile through the bespoke nature of their business. Weston Homes are a vertically integrated house-builder who will be able to secure cost savings through the construction process. This is due to the economies of scale within their business model, and through the fact that all financial margins will be secured through the eventual completion of the development. This differs from a more conventional contractor model which requires profit, prelim allowances, design and other associated professional fees. Further, it will also require a developer that possesses the access to materials and labour that can be encapsulated within a cost profile that will enable delivery of this opportunity. Weston Homes possess the appropriate supply chain which facilitates this aspect. Weston Homes possesses all of these attributes and have demonstrated the basis on which they will be proceeding within their Financial Viability Assessment that was submitted with the planning application. The cost profile they adopted was in line with BCIS projections which is typically used at the planning viability stage.

7.5 The following results are based on the Weston Homes costs. The appraisal results for phase 1 return a profit margin of -22.8% on GDV and 9.9% on GDV for all phases, assuming CIL ECR is granted.

Appraisal Results - Weston Homes Costs – Phase 1 & All Phases (Inc. HIF)

	Weston Homes Costs – Phase 1	Weston Homes Costs – All Phases

	Including CIL	Including CIL ECR	Including CIL	Including CIL ECR
GDV	£66.9m	£66.9m	£321.9m	£321.9m
NDV (less purchasers' costs)	£66.5m	£66.5m	£320.3m	£320.3m
HIF & Additional Income	£10.9m	£10.9m	£15.4m	£15.4m
Net Realisation	£77.4m	£77.4m	£335.7m	£335.7m
Total Costs	£94.5m	£92.7m	£312.0m	£303.8m
Profit	-£17.1m (-25.5% on GDV)	-£15.3m (-22.8% on GDV)	£23.7m (7.4% on GDV)	£32.0m (9.9% on GDV)

7.6 However, as stated, the presence of the HIF funding within the development appraisal presents an inaccurate reflection of the profit margin. We have therefore calculated the implications upon GDV and profit should the HIF funding be removed from the calculation. All stakeholders recognise that it is not appropriate for a margin to be calculated against public grant subsidies. The appraisal results for phase 1 return a profit margin of -38.5% on GDV and 5.3% on GDV for all phases.

Appraisal Results - Weston Homes Costs – Phase 1 & All Phases (Exc. HIF)

	Weston Homes Costs – Phase 1		Weston Homes Costs – All Phases	
	Including CIL	Including CIL ECR	Including CIL	Including CIL ECR
GDV	£66.9m	£66.9m	£321.9m	£321.9m
NDV (less purchasers' costs)	£66.5m	£66.5m	£320.3m	£320.3m
HIF & Additional Income	-	-	-	-
Net Realisation	£66.9m	£66.9m	£320.7m	£320.7m
Total Costs	£95.4m	£92.7m	£312.0m	£303.8m
Profit	-£27.6m (-41.2% on GDV)	-£25.8m (-38.5% on GDV)	£8.7m (2.7% on GDV)	£17.0m (5.3% on GDV)

Sensitivity Analysis – Purchase Price

7.7 We have undertaken sensitivity analysis adopting the purchase price agreed between CTI and Weston Homes at c. £13.1m, rather than the Benchmark Land Value (BLV) of c. £11.7m, to understand the impact on the viability of the scheme. This appraisal is utilising the Weston Homes costs and includes the HIF.

	Whole Scheme (Phases 1-4) - Including CIL ECR		
	AY BLV	Purchase Price	Difference
Net Realisation	£335.7m	£335.7m	£0m

Total Costs	£303.8m	£305.3m	£1.5m
Profit	£32.0m (9.9% on GDV)	£30.4m (9.5% on GDV)	-£1.6m (-0.4% on GDV)

7.8 The table above shows that the actual transaction is above the BLV, and therefore represents that the margin to Weston is actually lower when considered against what our independent view is of the value of the site. This premise further emphasises the need for ECR.

Sensitivity Analysis – Affordable Housing values decrease

7.9 We understand that Weston Homes have entered into early market engagement with Registered Providers that indicates that the affordable housing offers are likely to have decreased since the planning viability stage.

7.10 We have therefore undertaken sensitivity analysis on the affordable housing values to illustrate the impact on the scheme's viability of a decrease in the affordable housing offer from a Registered Provider. This appraisal is utilising the Weston Homes costs and includes the HIF.

Whole Scheme (Phases 1-4) - Including CIL ECR	
Affordable Housing values	**Profit**
0%	£32.0m (9.9% on GDV)
-10%	£30.7m (9.6% on GDV)
-20%	£29.5m (9.2% on GDV)

7.11 In summary, we have examined the cost implications of a scenario that CTI could procure should they be acting as the developer (i.e. the 'AY Cost Audit' scenario) which demonstrates that this cost profile renders the scheme as undeliverable, due to the fact that it is loss-making. CTI are the claimant for ECR, however Weston Homes are the developer who will be delivering the scheme. Our appraisals adopting the Weston Homes costs demonstrate that the scheme can be delivered by Weston Homes and that an ECR for Phase 1 will make commencement of the scheme much more likely by assisting in the mitigation of costs, as well as reducing the viability gap.

7.12 Consequently, we have demonstrated through extensive scrutiny and research that the payment of CIL would have an unacceptable impact on the economic viability of the development.

Appendix I

Appraisals – Weston Homes Costs, including CIL & HIF

Appendix II

Appraisals – Weston Homes Costs, including CIL ECR & HIF

Appendix III

Appraisals – AY Cost Audit, including CIL ECR & HIF

Appendix IV

Exigere Cost Plan and AY Cost Audit

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