



Financial Viability Appraisal

Address:	The Junction Hotel, Manchester, M15 5FT
LPA:	Manchester
Planning reference (if any):	N/A
Client:	Junction Manchester Ltd
Date:	10th February 2022



Executive Summary

This report provides a Financial Viability Appraisal (FVA) of proposed development at utilising Market Comparison and Residual Methods following RICS Guidance Valuation of Development Property (2019), Assessing Viability in Planning under the NPPF Framework (2021), and National Planning Policy Guidance on Viability (NPGV 2019).

Following NPGV para 008, wherever possible this FVA utilises assumptions used in the underlying local plan evidence base. Where changes have been made, these are fully supported by market evidence demonstrating current local circumstances.

The key outputs of this FVA are summarised in the below table:

GDV	£6,057,584.20
Costs excl. land and profit	£4,993,998.04
Finance	£306,862.84
Return	£1,087,827.23
BLV	£275,000.00
RLV	(£331,103.92)
RLV-BLV	(£606,103.92)
Target profit	18.00%
Actual profit	7.97%

Target developer return includes a risk-adjusted rate for market residential (18%). Sensitivity analysis demonstrates this is the minimum return necessary to offset a high-risk environment. This is broadly policy and precedent compliant.

Benchmark Land Value (BLV) is assessed via the EUV+ and AUV method in line with national policy.

As such, this FVA demonstrates that, on a 100% open market basis, the resulting actual return to the developer following all costs including land value detracted from gross development value would be significantly below target return. Therefore, the development cannot viably provide additional s106 contributions.

Full appraisal inputs and evidence are found in the Schedules, referred to throughout.

Introduction

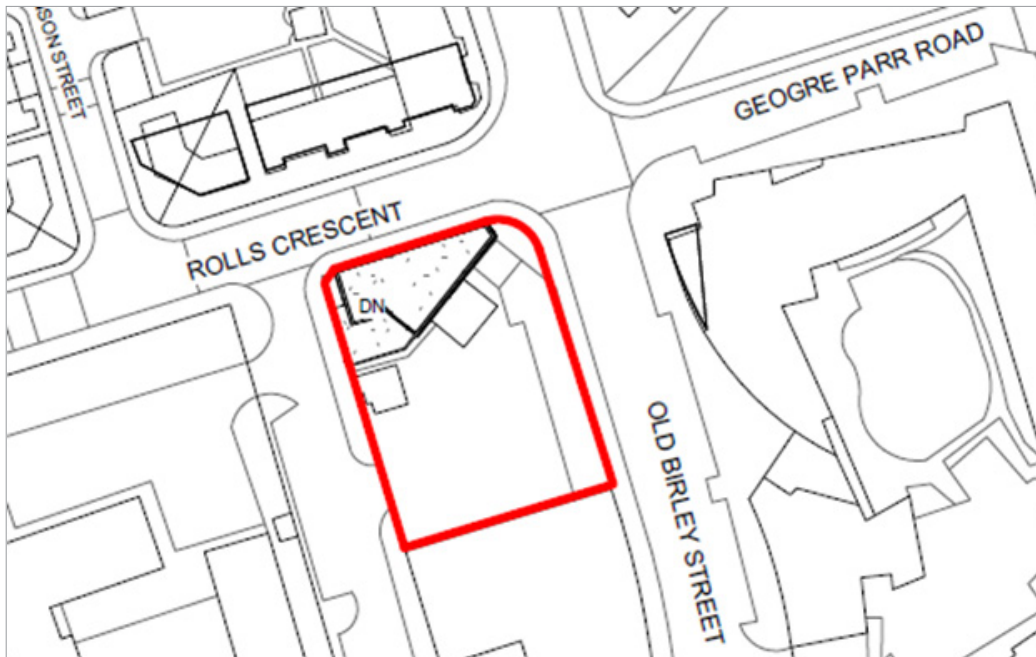
S106 Management is instructed by Junction Manchester Ltd to produce a Financial Viability Appraisal (FVA) to determine the level of Affordable Housing contribution that should be expected from proposed development at The Junction Hotel, Rolls Crescent, Hulme, Manchester, M15 5FT

Manchester City Council seeks an Affordable Housing contribution in accordance with Policy 3 of their Core Strategy (adopted July 2012).

The existing site comprises The Junction Hotel, a former hotel that was most recently in use as a public house before its closure in 2016. The GIA of the existing building is 503.8m².

The development proposes to convert the existing structure, providing commercial / community facilities on ground and basement, with residential flats on the first and second levels. In addition, a connected 4 storey apartment building will be erected, providing commercial accommodation to the ground floor, with flats above. In total the development will provide 28 residential units with a total GIA of 1,892m², as well as 388.8m² of commercial accommodation.

Location Plan



S106 Management

S106 Management is a viability consultancy established in 2011 by Robin Furby, retired solicitor, land promoter and property developer. Formed initially to capitalise on 35 years of specialist experience in planning law, viability assessment and development, the company has expanded over the last 10 years and now benefits from the expertise of chartered surveyors, town planners, solicitors, architects and an extensive network of planning professionals.

With over a decade of experience in creating expert financial viability appraisals, advising on complex planning obligations, and negotiating planning contributions, **S106 Management** has often been at the forefront of new statutory procedures, making one of the first Commons De-registration Applications, and one of the first S106BA viability review applications. The company is now one of the most effective viability consultancies in the UK, combining expertise from all corners of the industry to ensure a fair and balanced approach to developer contributions.

S106 Management have worked with clients on more than 1,000 developments, facilitating over 50,000 homes across LPAs countrywide. Our viability reports have been successfully used in pre-application discussions with Planning Officers and Affordable Housing Officers, supporting planning applications, written appeals, and planning appeal hearings.

Planning Policy

By virtue of section 38 (6) of the 'Planning and Compulsory Purchase Act', planning applications must be determined in accordance with the adopted plan of the Local Authority, unless material considerations indicate otherwise.

Therefore, our starting point is Policy H8 of the Manchester City Core Strategy (adopted July 2012):

Policy H 8

Affordable Housing

The following requirements for affordable housing or an equivalent financial contribution, as set out in Providing For Housing Choice, or any future published SPD and Planning Guidance, currently apply to all residential developments on sites of 0.3 hectares and above or where 15 or more units are proposed. These thresholds will be subject to amendment over the lifetime of the Core Strategy to reflect changing economic circumstances. The targets and thresholds will form part of supporting SPD and/or Planning Guidance.

1. New development will contribute to the City-wide target for 20% of new housing provision to be affordable. Developers are expected to use the 20% target as a starting point for calculating affordable housing provision. It is envisaged that 5% of new housing provision will be social or affordable rented and 15% will be intermediate housing, delivering affordable home ownership options.
2. The proportion of affordable housing units will reflect the type and size of the development as a whole; and where appropriate provision will be made within Section 106 agreements to amend the proportion of affordable housing in light of changed economic conditions, subject to a financial viability assessment.
3. Affordable housing units will be inclusively designed to reflect the character of development on the site.
4. Either an exemption from providing affordable housing, or a lower proportion of affordable housing, a variation in the proportions of socially rented and intermediate housing, or a lower commuted sum, may be permitted where either a financial viability assessment is conducted and demonstrates that it is viable to deliver only a proportion of the affordable housing target of 20%; or where material considerations indicate that

intermediate or social rented housing would be inappropriate. In the latter case, such circumstances could include:

- There is a very high level of affordable housing in the immediate area;
 - There is either a high proportion of social rented (35%), or low house prices in the immediate area compared to average incomes;
 - Affordable housing would be prejudicial to the diversification of the existing housing mix.
 - The inclusion of affordable housing would prejudice the achievement of other important planning or regeneration objectives which are included within existing Strategic Regeneration Frameworks, planning frameworks or other Council approved programmes;
 - It would financially undermine significant development proposals critical to economic growth within the City;
 - The financial impact of the provision of affordable housing, combined with other planning obligations would affect scheme viability;
 - There is a need for additional housing provision for older people or disabled people either as affordable or market housing dependent on the results of a financial viability assessment of the scheme.
5. The Council will also consider the provision of affordable housing which is delivered by taking advantage of other equity based products in addition to those options identified in PPS 3.
 6. The definition used for affordable housing is set out in Annex B of PPS 3.

Policy H8 suggests that developments providing 15 or more units or those located on sites of 0.3ha or more will be liable to provide at least 20% of the dwellings as affordable housing. The policy aspiration is therefore the delivery of 6 affordable dwellings.

The purpose of this FVA is to determine whether the development is capable of supporting such a contribution.

This policy has been informed by the Affordable Housing Assessment of Viability completed by Levvel Ltd in September 2009.

PPG Viability para 008 states:

'How should a viability assessment be treated in decision making?

Where a viability assessment is submitted to accompany a planning application this should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then.'

This creates a presumption that the underlying local plan evidence base is correct until otherwise proven by dissenting parties, with the burden of proof relating to what changes have occurred since adoption of the local plan equally applicable to all parties.

As such, where appropriate the conclusions of the underlying local plan evidence base are used to inform our report and corroborate assumptions. Where we believe changes must be made these are fully evidenced.

The Levvel report is now rather old. Regrettably Manchester have not updated their viability reporting, therefore we have also cross referenced to the more recent Salford 'Draft Local Plan Assessment of Residential Viability 2019 where this is helpful because it provides an impartial and contemporary overview of standardised NPPF compliant viability reporting.

National Guidance is a material consideration; therefore, we also consider the 'National Planning Policy Framework' (NPPF) (2021), and the 'National Planning Guidance for Viability' (NPGV) (May 2019).

National Guidance

National guidance on the delivery of Affordable Housing is provided by the NPPF, which replaced the previous advice in PPS3.

Paragraph 58 of the NPPF is of relevance:

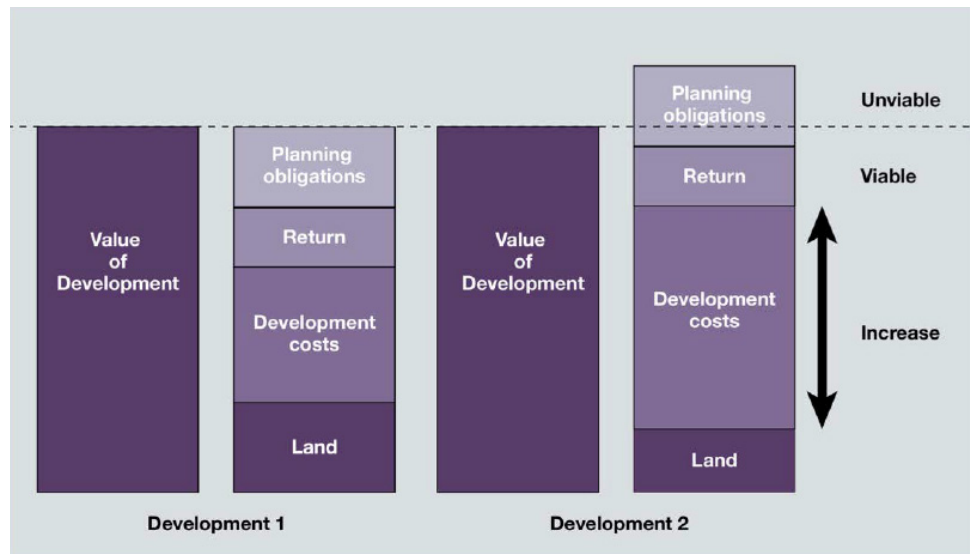
58. Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.

The recommended approach referred to above is set out in the NPGV (<https://www.gov.uk/guidance/viability>).

The standard approach to viability is explained at para. 10 of the NPGV:

‘Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it.’

This is summarised well in the below figure from RICS guidance:



Paragraphs 11-18 lay out the required approach to calculating gross development value (GDV), development costs, benchmark land value, landowner and developer return.

The concept of viability is well expressed by the NPGV, in particular para 12 which sets out the costs that should be included in any viability statement, and paras 13-17 which seek to ensure that the landowner should receive the Existing Use Value (EUV) of the site plus a premium, thus providing an incentive to the landowner to bring the site forward for development.

Our report has been written in accordance with the principles set out in both the NPPF, and the NPGV.

Vacant Building Credit

The 2021 NPPF establishes Vacant Building Credit (VBC) in Para. 64:

64. Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer). To support the re-use of brownfield land, where vacant buildings are being reused or redeveloped, any affordable housing contribution due should be reduced by a proportionate amount 30.

30 Equivalent to the existing gross floorspace of the existing buildings. This does not apply to vacant buildings which have been abandoned.

We consider that the Property has the benefit of a Vacant Building Credit, as follows:

Existing vacant floor area:	503.8m ²
Proposed floor area:	2,059m ²

The existing vacant floor space is equivalent to 24.4% of the proposed development, thus the maximum amount of Affordable Housing that could be provided, irrespective of the financial viability addressed in this report, is 15.2% or 4 units.

Viability

The relevance of viability is accepted in Policy H8 which states:

4. Either an exemption from providing affordable housing, or a lower proportion of affordable housing, a variation in the proportions of socially rented and intermediate housing, or a lower commuted sum, may be permitted where either a financial viability assessment is conducted and demonstrates that it is viable to deliver only a proportion of the affordable housing target of 20%; or where material considerations indicate that

This policy statement should be seen in the context of the NPPF, and indeed subsequent Government guidance.

There are several proprietary spreadsheets in use to justify viability. We use the Housing Corporation Economic Appraisal Tool (HCEAT), developed by GVA Grimley in partnership with the Housing Corporation (now HCA); it is one of the Toolkits commonly used when considering development viability.

Our report and its conclusions are based on the application of this tool.

The next section sets out the assumptions that have been made in the preparation of the HCEAT spreadsheet examining the viability of this site; the spreadsheet is shown in **Schedule 1** of this report. The comments below address the inputs to the spreadsheet sequentially and an electronic copy can be provided to the LPA on request.

Spreadsheet Inputs

Proposed Development (Input Sheet 1)

The development is summarised by the table below and detailed plans are shown at **Schedule 2** to this report:

Unit	Area (m2)	Type
1	76.00	2-bed flat
2	69.50	2-bed flat
3	69.30	2-bed flat
4	69.70	2-bed flat
5	69.50	2-bed flat
6	69.50	2-bed flat
7	69.50	2-bed flat
8	47.10	1-bed flat
9	70.70	2-bed flat
10	80.20	2-bed flat
11	76.00	2-bed flat
12	69.50	2-bed flat
13	69.30	2-bed flat
14	69.70	2-bed flat
15	69.50	2-bed flat
16	69.50	2-bed flat
17	69.50	2-bed flat
18	47.10	1-bed flat
19	50.00	1-bed flat
20	71.20	2-bed flat

21	76.00	2-bed flat
22	69.50	2-bed flat
23	69.30	2-bed flat
24	69.70	2-bed flat
25	69.50	2-bed flat
26	69.50	2-bed flat
27	69.50	2-bed flat
28	47.10	1-bed flat
Total area	1,892.40	
Avg. unit area	67.59	

The unit mix comprises 4 x 1-bedroom units and 24 x 2-bedroom units.

Affordable Housing Values (Input Sheet 2)

We approach this issue by firstly modelling a scheme with no Affordable Housing; if the Residual Value of this model exceeds the Benchmark Value of the site (as described below) then we produce further modelling to illustrate the maximum level of Affordable Housing that can viably be delivered by the development.

Open Market Housing Values (Input Sheet 2)

The Zoopla data for the M15 Postcode is set out below:

Property type	Avg. current value	Avg. £ per sq ft.	Avg. no beds	Avg. £ paid (last 12m)
Detached	£215,334	£179	2.8	£336,000
Semi-detached	£198,294	£196	3.0	£235,100
Terraced	£216,184	£188	2.9	£230,225
Flats	£206,818	£251	1.9	£188,168

The Zoopla data suggests that flats in M15 might expect to achieve in the region of £2,700/m² based on an average 1.9 no of beds. However, values in the area are sensitive to small changes in geographical area. Further, the impact of the Covid-19 pandemic on homeowner preferences is not fully reflected in this data which is reported with a lag behind the current market.

Transactional Data

We have compared this data to relevant recent 'sold' transactions extrapolated from Rightmove (see **Schedule 3**). As noted, values in Manchester are extremely sensitive to small changes in search area; therefore, we have limited our transactional search to within 2 years and 1/4 mile of the scheme.

Sold flats within 1/4 mile last 2 years					
Address	Type	Sale Date	Area m ²	£/m ²	Price
28 Chorlton Road, Manchester, Greater Manchester M15 4AU	1-bedroom purpose built flat	10.09.2021	56	£2,446.43	£137,000
377a Stretford Road, Manchester, Greater Manchester M15 4AW	2-bedroom modern purpose built flat	28.05.2021	52.9	£2,315.69	£122,500
56 Chorlton Road, Manchester, Greater Manchester M15 4AU	2-bedroom purpose built flat with balcony	17.05.2021	74	£1,918.92	£142,000

Apartment 2, Bishops Corner, 321, Stretford Road, Manchester, Greater Manchester M15 4UW	Mid-floor flat	18.03.2021	65	£2,400.00	£156,000
Apartment 45, Bishops Corner, 321, Stretford Road, Manchester, Greater Manchester M15 4UW	Mid-floor flat	01.03.2021	64	£2,468.75	£158,000
377g, Stretford Road, Manchester, Greater Manchester M15 4AW	Mid-floor flat	12.02.2021	56	£2,589.29	£145,000
24 Tomlinson Street, Hulme, Manchester, Greater Manchester M15 5FW	2-bedroom flat in purpose-built apartment block, private terrace, secure parking	05.02.2021	59.9	£2,754.59	£165,000
Flat 5, 89, Ribston Street, Manchester, Greater Manchester M15 5RJ	Mid-floor flat	14.02.2021	53	£2,735.85	£145,000
60 Chorlton Road, Manchester, Greater Manchester M15 4AU	2-bedroom top-floor flat, secure gated parking	26.11.2020	58	£2,370.69	£137,500
Avg. £/m2				£2,427.62	

The average achieved price extrapolated from Rightmove is marginally lower than the figure taken from Zoopla, for the reasons noted above.

There is also evidence of the commonly seen 'quantum' inverse correlation between unit area and £/m2 value, meaning we would expect the smaller units to achieve higher £/m2 values than the larger.

We have also studied properties which are currently on the market within 1/4 mile of the subject site:

Flats for sale + 1/4 mile					
Address	Type	Sale Date	Area m2	£/m2	Price
Bishops Corner, Stretford Road, Hulme, Manchester. M15 4UW	2-bedroom flat in purpose-built apartment block, balcony, secure parking	Guide Price	60	£2,582.50	£154,950
Stretford Road, Hulme, Manchester. M15 4AY	2-bedroom first-floor modern flat, balcony, secure parking	For Sale	55	£2,726.36	£149,950
Blanchard Street, Hulme, Manchester, M15	2-bedroom top-floor flat in purpose-built development, sold with tenant in situ	For Sale	50.3	£2,783.30	£140,000

The Life Building 3, 1 Boston Street, Hulme	2-bedroom modern top-floor flat, secure parking	Guide Price	71	£1,901.41	£135,000
The Life Building 3, 1 Boston Street, Hulme	2-bedroom purpose-built apartment sold with sitting tenant	Sold STC	63	£2,222.22	£140,000
Greenheys Lane West, Manchester, Greater Manchester, M15	2-bedroom flat in purpose-built development, sold with sitting tenant	For Sale	78.3	£1,851.85	£145,000
Chorlton Road, Manchester	3-bedroom ground-floor flat in semi-detached property, off-road parking	Sold STC	64.1	£3,478.94	£223,000
Greenheys Lane West, Manchester, Greater Manchester, M15	2-bedroom mid-floor flat in purpose-built development, balcony, secure parking	For Sale	69	£2,101.45	£145,000
Stretford Road, Manchester, Greater Manchester, M15	2-bedroom flat in modern apartment block, investors only, tenant in situ	For Sale	65	£2,607.69	£169,500
			Avg. £/m2	£2,435.99	

The asking price is in line with the achieved data set.

Last, we look at new build units which are offered to the market. Due to a constrained supply our search focusses on the units at Castle Wharf and Crown Street:

New build flats for sale + 1/2 mile					
Address	Type	Sale Date	Area (m2)	£/m2	Price
Castle Wharf, Chester Road, Castlefield, Manchester, M15	2-bedroom, 2-bathroom high specification apartment in new development, private waterfront terrace, residents' facilities	For Sale	82	£4,657.93	£381,950
Castle Wharf, Chester Road, Castlefield, Manchester, M15	2-bedroom high specification apartment in new development, private waterfront terrace, residents' facilities	For Sale	82	£4,657.93	£381,950
Crown Street, Manchester 1 Bedroom	1-bedroom luxury apartment still under construction, est completion Q4 2023	Fixed Price	58	£4,482.76	£260,000
Castle Wharf, Chester Road, Castlefield, Manchester, M15	3-bedroom high specification newly built apartment located in Castlefield Conservation area, residents only facilities	For Sale	108	£4,504.63	£486,500

Castle Wharf, Chester Road, Castlefield, Manchester, M15	2-bedroom high specification apartment in new development, Communal terrace with Canalside views, residents' facilities	For Sale	78	£5,051.28	£394,000
Crown Street, Manchester, 2 Bedroom	2-bedroom luxury apartment currently under construction, est completion Q4 2023 - Approx area	Fixed Price	76	£4,407.89	£335,000
Castle Wharf, Chester Road, Castlefield, Manchester, M15	3-bedroom luxurious penthouse apartment with far reaching views, extensive private balcony, waterside terrace, residents only facilities	For Sale	148	£5,236.49	£775,000
Great Jackson Street, Manchester, M15	2-bedroom contemporary new apartment situated on the edge of the city centre, residents' facilities - Approx. area	For Sale	80	£4,050.00	£324,000
			Avg. £/m2	£4,688.76	

The average new build asking price (£4,688/m²) represents a 92.4% premium on the average asking price identified previously. Upon closer examination the sites above (Castle Wharf, Crown Street, and Great Jackson Street), are not directly comparable to the subject development. All three sites represent entirely residential, non-mixed use, 'luxury' developments, benefitting from high spec amenities (concierge service, gym, rooftop terraces etc). In addition, they are more centrally located, with the Castle Wharf units benefitting from river views.

The units that will be provided by the subject development are less centrally located, and will be situated above commercial premises. Whilst they will provide quality accommodation, they will not be finished to a luxury standard, thus clearly we would not expect this project to achieve similarly impressive £/m² values.

We would however expect some new build premium compared to second-hand stock, and have therefore applied an uplift of 20% to the average £/m2 asking price (£2,435) to produce projected sales values in accordance with the table below:

Unit	Area (m2)	Type	£/m2	Price
1	76.00	2-bed flat	2,763	£210,000
2	69.50	2-bed flat	2,878	£200,000
3	69.30	2-bed flat	2,886	£200,000
4	69.70	2-bed flat	2,869	£200,000
5	69.50	2-bed flat	2,878	£200,000
6	69.50	2-bed flat	2,878	£200,000
7	69.50	2-bed flat	2,878	£200,000
8	47.10	1-bed flat	3,715	£175,000
9	70.70	2-bed flat	2,829	£200,000
10	80.20	2-bed flat	2,681	£215,000
11	76.00	2-bed flat	2,763	£210,000
12	69.50	2-bed flat	2,878	£200,000
13	69.30	2-bed flat	2,886	£200,000
14	69.70	2-bed flat	2,869	£200,000
15	69.50	2-bed flat	2,878	£200,000
16	69.50	2-bed flat	2,878	£200,000
17	69.50	2-bed flat	2,878	£200,000
18	47.10	1-bed flat	3,715	£175,000
19	50.00	1-bed flat	3,600	£180,000
20	71.20	2-bed flat	2,809	£200,000
21	76.00	2-bed flat	2,763	£210,000
22	69.50	2-bed flat	2,878	£200,000

23	69.30	2-bed flat	2,886	£200,000
24	69.70	2-bed flat	2,869	£200,000
25	69.50	2-bed flat	2,878	£200,000
26	69.50	2-bed flat	2,878	£200,000
27	69.50	2-bed flat	2,878	£200,000
28	4710	1-bed flat	3,715	£175,000
			£2,932.78	£5,550,000

The proposed valuation above has been reached following extensive market research, consideration of comparable characteristics in recent transactions, new build and external amenity premiums and advice from local agents and therefore should be considered robust. The figures represent the very top end of what can be achieved in today's market and considering current trends should be considered optimistic.

For the sake of clarity, we have run with the average £/m2 value of £2,932.78/m2 to produce a GDV for the residential element of £5.55m.

The capital value of the Freehold Ground Rents from the project is therefore included at zero for the purposes of this viability appraisal because this legislation will limit annual rents to a peppercorn, and national and local government are currently encouraging this. See MHCLG announcement 07/01/2021 <https://www.gov.uk/government/news/government-reforms-make-it-easier-and-cheaper-for-leaseholders-to-buy-their-homes>.

Five major national housebuilders (Barratt, Bellway, Countryside, Tailor Wimpey, and Berkeley) announced in December 2020 they are abolishing ground rents on new flatted development. As such, to remain competitive, any future development is likely to need to limit ground rent to a peppercorn at maximum.

Further, the terms of government programmes such as Help to Buy (which this development proposes to utilise extensively) and the Homebuilders Fund now preclude the charging of significant ground rents.

As such all viability assessors are currently including ground rent at either a zero or nominal rate as this income will not be realised.

Timing (Input Sheet 2)

This FVA is to be read in conjunction with a detailed planning application which we expect to be granted within 3 months. There will be a 3-month period following this to produce building regs. drawings and obtain all fixed price quotations.

Construction is projected over a 20-month period with sales expected between months 18 and 28.

The 6-month period before commencement of build has not been included in our calculations.

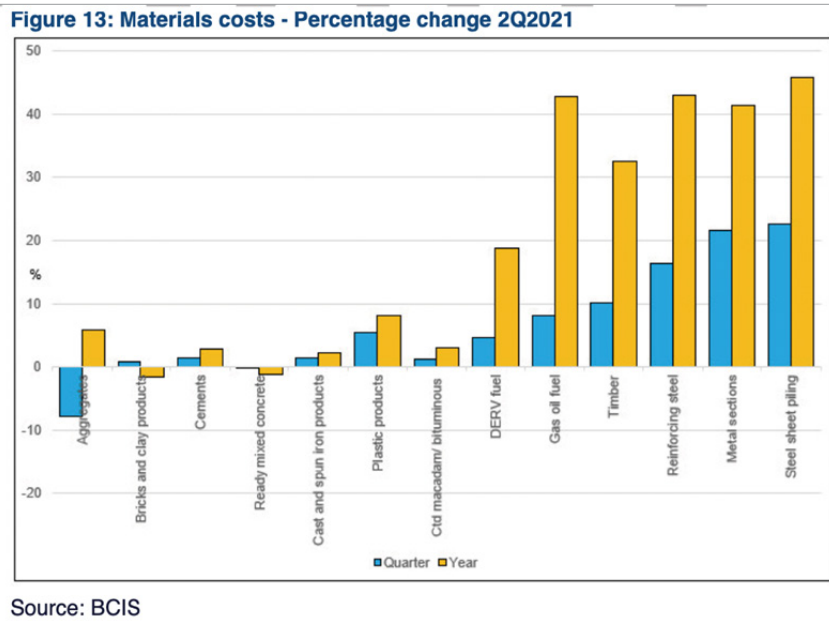
Construction Costs (Input Sheet 2)

In the first instance we refer to the BCIS dataset for projects of this nature:

£/m2 study							
Description: Rate per m2 gross internal floor area for the building Cost including prelims. ?							
Last updated: 15-Jan-2022 00:38							
Maximum age of results: Default period ▼							
Building function (Maximum age of projects)	Mean	Lowest	£/m² gross internal floor area				Sample
			Lower quartiles	Median	Upper quartiles	Highest	
New build							
816. Flats (apartments)							
Generally (15)	1,623	802	1,349	1,545	1,827	5,593	851
1-2 storey (15)	1,540	953	1,312	1,471	1,724	2,760	194
3-5 storey (15)	1,599	802	1,343	1,530	1,812	3,387	557
6 storey or above (15)	1,926	1,188	1,588	1,806	2,055	5,593	97
Rehabilitation/Conversion							
816. Flats (apartments)							
Generally (15)	1,696	493	1,012	1,333	1,659	5,849	78
1-2 storey (15)	2,200	721	1,121	1,412	2,543	5,849	17
3-5 storey (15)	1,434	493	1,066	1,301	1,547	5,414	45
6 storey or above (15)	1,962	564	919	1,336	2,706	4,850	15

Build cost inflation has been considerable through 2021, rising 8-10% overall and 30-40% on some costs such as steel. The industry is currently reporting widespread inflation due to increased demand post-pandemic, Brexit-related import costs and labour shortages, and widespread materials shortages leading to surges in pricing (particularly timber and concrete). RICS released further advice in October 2021:

- 'Materials prices rose by 6.3% in 3rd quarter 2021 on a quarterly basis and by 16.9% compared with a year earlier. The materials supply situation is expected to stabilise by 3rd quarter 2022 and prices will rise by 15% over the forecast period (3Q2021 to 3Q2026). The main risks to materials prices will be difficulty in obtaining materials during the Covid-19 crisis, oil prices, tariffs on imports (from countries with no current agreement) and sterling exchange rates
- The average of wage awards will be around 3% per annum over the forecast period. However, with labour shortages expected for a while yet, site rates are expected to see higher increases
- The BCIS General Building Cost Index rose by 4.2% in 3rd quarter 2021 compared with the previous quarter, and by 9.1% compared with a year earlier. Costs will rise by 16% over the forecast period (3Q2021 to 3Q2026).'



We therefore adopt the mean quartile costings; thus £1,623/m² for the 24 x new build units and £1,696 for the 4 x converted flats.

The HCEAT has been run with a corresponding figure.

The area of the flats (1,892m²) represents 92% of the total residential area of the development (2,059m²) with the remaining allowing for communal areas. The HCEAT spreadsheet has been run with a corresponding correction factor.

The BCIS makes no allowance for external works and associated infrastructure which are addressed subsequently in our analysis.

Abnormal / External Works

As mentioned previously, the BCIS data does not allow for external or infrastructure works. These are summarised by the table below:

Work Required	Quantity	Cost per Unit	Total Cost
Demolition / clearance	1	£10,000	£10,000
Incoming services	28	£4,000	£112,000
NHBC or similar	28	£3,000	£84,000
Bin stores	41.5	£120	£4,980
Cycle stores	31.9	£80	£2,552
Paving slabs for patios / paths	210	£80	£16,800
Timber fencing	10.6	£65	£689
Drainage connection to main road	y	£5,000	£5,000
Undercroft parking	506.5	£250	£126,625
Regular lift	2	£25,000	£50,000
Total cost			£412,646

This equates to c. 12% of the base build cost which is within industry standard parameters of 10-15%. The HCEAT has been run with a corresponding correction factor.

Fees (Input Sheet 2)

10% for fees is the default value of the HCEAT Spreadsheet and the commonly accepted industry standard allowance.

Contingency (Input Sheet 2)

5% for contingencies is the default value of the HCEAT Spreadsheet and is the commonly accepted industry standard allowance.

Section 106 Payments (Input Sheet 2)

Manchester is yet to publish their CIL Charging Schedule, thus no allowance has been made in this regard. At the time of writing, we are unaware of any additional S106 requests; we note that any future obligations would negatively affect the viability of the proposed scheme.

Site Acquisition Costs (Input Sheet 2)

The EUV is £275,000 as explained below. We include a nominal £2,000 to allow for all costs associated with purchase.

Finance Costs (Input Sheet 2)

While base rates are at a historic low level, cost of funding expressed as a percentage above LIBOR is at historically high figures. Further, given the macro-economic context, lenders have become increasingly risk adverse and therefore funding is becoming harder to acquire. Therefore, an interest figure of 7% is used in the spreadsheet.

Marketing Costs (Input Sheet 2)

We have adopted a marketing cost of 3% and legal fees of £1,000 per unit.

Developer Profit (Input Sheet 2)

The NPGV contains the following advice at paragraph 18:

How should a return to developers be defined for the purpose of viability assessment?

'For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale, and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.'

As previously noted, Paragraph 008 of the NPGV provides a presumption that the underlying local plan evidence base is correct until otherwise proven by dissenting parties. We have therefore referred to the Salford Draft Local Plan Viability Assessment, which identifies an 18% of GDV profit level at Table 10 para E1; this can be seen as the floor of appropriate profit margin.

Commercial Assumptions (Input Sheet 3)

Size of Scheme

In addition to the residential dwelling the development will also provide commercial units with a GIA of 388.86m².

Values

Following the advice of John Carter MRICS below we suggest a passing rent of £96.84/m² (£9/psf), with an increase of 50% to allow for the updated and improved facilities. To capitalise this, we have applied a yield of 7%. This produces a value of £536,000 for the commercial facility.

Building Costs

We refer to the BCIS dataset:

Results							
Rebased to 1Q 2022 (350; forecast) and Manchester (102; sample 67) Edit							
£/m ² study							
Description: Rate per m ² gross internal floor area for the building Cost including prelims. ?							
Last updated: 15-Jan-2022 00:38							
Maximum age of results: Default period ▼							
Building function (Maximum age of projects)	Mean	Lowest	£/m ² gross internal floor area				Sample
			Lower quartiles	Median	Upper quartiles	Highest	
New build							
340. Mixed commercial developments (15)	1,206	879	-	1,096	-	1,756	4

The data above refers to mixed commercial developments; we adopt the median quartile costing of £1,096/m².

Fees

Professional fees (10%) and contingencies (5%) have been included as per the residential element of the scheme.

Timing

This is identical to the 'residential' section of the report.

Letting Fees

We have adopted the default values of the spreadsheet, thus letting fees at 10%, advertising at 1%, and sales fees at 1.75%.

Developer Profit (Input Sheet 2)

We have run with developer profit for the commercial section at 17.5%.

Benchmark Value

The NPGV provides a standard methodology for determining Benchmark Land Value (BLV). Paragraph 15 requires that the EUV of the site should be identified:

'Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield (excluding any hope value for development).'

Sources of data can include (but are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence.'

The existing site comprises The Junction Hotel, a former hotel that was most recently in use as a public house before its closure in 2016. The GIA of the existing building is 503.8m².

To determine an appropriate BLV we consider the AUV methodology below.

Paragraph 16 requires that a premium should be added to the EUV (EUV +) to incentivise the landowner to bring the site forward for development:

'The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a landowner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements.'

Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration. Market evidence can include benchmark land values from other viability assessments. Land transactions can be used but only as a cross check to the other evidence. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or

differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners. Policy compliance means that the development complies fully with up to date plan policies including any policy requirements for contributions towards affordable housing requirements at the relevant levels set out in the plan. A decision maker can give appropriate weight to emerging policies. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).'

We have not adopted a premium in this instance; however reserve the right to revisit this point in further detail.

Paragraph 17 allows the BLV to be determined by an alternative Use Value (AUV):

'For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its existing use. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should be limited to those uses which would fully comply with up to date development plan policies, including any policy requirements for contributions towards affordable housing at the relevant levels set out in the plan. Where it is assumed that an existing use will be refurbished or redeveloped this will be considered as an AUV when establishing BLV.

Plan makers can set out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with up to date development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued. Where AUV is used this should be supported by evidence of the costs and values of the alternative use to justify the land value. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted.'

To determine an appropriate EUV / AUV we have obtained advice from John Carter (RICS commercial valuer), shown below:

'I have been asked to provide a Benchmark Valuation for a premises Known as the Junction Hotel, Rose Crescent, Hulme, Manchester M15 5FT.

The premises comprise a two-story building extending to some 2520 ft.² on the ground floor and 2520 ft.² on the first floor together with open car parking land to the rear Extending to 5500 ft.².

The premises have been closed for some time and it is my view that a practical alternative use for this particular building would be for storage/warehouse purposes together with an area of open storage

to the rear.

The premises are located in a prominent position very close to the A57M motorway to the north and to Manchester City Centre itself. Additionally, there have been a number of new developments carried out in the particular section of Rose Crescent and the immediate area benefits from this activity.

Rentals for this type of accommodation range from £3 a square foot for large space units in poor locations to £12 a square foot for better located modern premises of a smaller size. It is my view, that once upgraded, that a unit of this size would readily let at a competitive rental and in this particular instance I have used £6 per square foot for the ground floor and £3 per square foot for the first floor. Furthermore, I have assumed that the car parking at the rear could be used for open storage which again has a high demand and very limited supply in this area, and I would take the space to be let at a rate of £1 a square foot.

The resulting total rental for the space would be at the sum of £28,000 per annum, and on the basis of a capitalisation at 8% which I have deferred for one year, would result in a capital value of some £324,000.

I have assumed that it would be necessary to carry out a certain amount of upgrading to allow the unit to be readily let, and I have I have taken the sum of £50,000 to reflect this. I have also deferred the income for 12 months to allow this work to be completed, and for a proper marketing exercise to be carried out on the subsequent upgraded unit.

My Benchmark Valuation is at the sum of £275,000.'

We adopt this as our BLV.

The standard approach to viability is to compare the BLV of the development site with the Residual Value calculated by the (HCEAT) viability spreadsheet. It is only if the Residual Value of the development exceeds the Market Value (Benchmark), that it will be viable for a contribution to be made towards Affordable Housing.

HCEAT Spreadsheet Conclusions (Spreadsheet Summary)

The full spreadsheet appears at **Schedule 1**, and the key conclusions are set out in the summary section. They are also repeated for convenience below:

Sales	£6,057,584.20
<i>Less Costs</i>	
Construction Costs (Resi)	£3,359,891.55
Commercial Costs (Build & Fees)	£504,177.29
Other Site Costs	£935,429.19
Marketing	£194,500.00
Finance Costs	£306,862.84
Developer Return	£1,087,827.23
Residual Site Value	(£331,103.92)
Benchmark Land Value	£275,000.00
Result	(£606,103.92)

To determine the viability of the provision of Affordable Housing, the Benchmark Value of the site as stated above (**£275,000**), is deducted from the Residual Value calculated by the HCEAT spreadsheet. If the result is negative, as it is in this case (**-£606,103**), the development cannot viably provide a contribution towards Affordable Housing.

Conclusion

The following table has been compiled using data from the HCEAT spreadsheet to reveal the return that the developers will earn from this project:

Spreadsheet Residual Value	(£331,103.92)
Plus Target Developer Return	£1,087,827.23
Less Benchmark Value	£275,000.00
Actual Profit	£481,723.31
 Percentage actual profit	 7.97%

This presents a return of 7.97% which is clearly significantly lower than the 18% target identified previously.

Any contribution towards Affordable Housing would further reduce this level.

This report demonstrates that the scheme can be considered policy compliant without the provision of any Affordable Homes or S106 contributions towards Affordable Housing.

Sensitivity Matrix

Following RICS guidance we have provided a sensitivity analysis of the assumptions in this report, demonstrating the impact on developer profit of +/-5-10% changes in build costs and sales values. This is particularly important given current material valuation uncertainty resulting from the Covid-19 pandemic and Brexit. As advised by RICS build costs, and in particular materials costs, have already been subject to considerable fluctuation which is not reflected in the current BCIS average data. Further, the negative trend already identified in recent flatted sales values due to changing homeowner preferences may be further compounded following the end of the current stamp duty holiday.

Sensitivity testing conclusions are included below.

Testing the variance associated with changes in sales and build costs of +/- 5-10% results in the below matrix:

Developer profit %	Sales Values					
		-10%	-5%	0%	5%	10%
Build Costs	-10%	3.51%	8.52%	13.53%	18.54%	23.55%
	-5%	0.73%	5.74%	10.75%	15.76%	20.77%
	0%	-2.05%	2.96%	7.97%	12.98%	17.99%
	5%	-4.83%	0.18%	5.19%	10.20%	15.21%
	10%	-7.61%	-2.60%	2.41%	7.42%	12.43%

This demonstrates that the maximum profit likely to be achieved is below the 18% target with no supra profit likely, unless the sales values increase by 5% and the build costs are reduced by 10% which, given the current macro-economic climate, seems highly unlikely.