



ALTERNATIVE DEVELOPMENT ASSESSMENT

39 Deansgate, Manchester

October 2021

EXECUTIVE SUMMARY – FOR PUBLIC RECORD

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Declaration

The RICS Professional Statement Financial Viability in Planning, September 2019, 1st Edition

Confirmation of conformity with the RICS Professional Statement Financial Viability in Planning, September 2019, 1st Edition, is set out within the following sub-sections.

Instruction and Purpose of Report

In accordance with email correspondence and an instruction on 1 June 2021, CBRE has been instructed by Kames Property Income Fund ('the Applicant') to objectively assess, and report upon, the financial viability of three options for the redevelopment of 39 Deansgate, Manchester ('the Site') by way of an Alternative Development Assessment ('ADA').

Specifically, the Alternative Development Assessment ('ADA') analyses the financial viability of:

- the comprehensive refurbishment of the existing property ('Option 1');
- development of a new 16 storey office building (plus basement providing cycle storage), ground floor retail with a mezzanine office storey and fourteen storeys of offices above ('Option 2'); and
- the Proposed Development, which constitutes a new self-contained 17 storey building (plus basement) providing basement cycle storage, ground floor retail with a mezzanine office storey and fifteen storeys of offices above ('Option 3').

Objectivity, impartiality, and reasonableness

CBRE places the utmost importance on the integrity, impartiality, and potential conflicts of interests in carrying out its services and seeks to identify and assess all relationships which may result in a conflict of interest or pose a threat to impartiality. CBRE aims to inspire confidence by being open and impartial, offering transparency of process, being fair and maintaining the confidentiality of our clients.

In undertaking this instruction and carrying out the viability assessment, CBRE confirms that we have acted impartially, with objectivity, without interference and with reference to all appropriate available sources of information.

CBRE confirms that adequate time has been provided to produce this report.

CBRE confirms that there is no instruction in place to undertake an Area-Wide viability assessment concerning existing and future planning policies against which the Proposed Development scheme will, in due course be considered.

CBRE has set out a full explanation of the evidence provided with reasoned justification. It is noted that it is a requirement to seek to secure resolution of any differences of opinion between parties where possible, should these arise.

Conflict(s) of interest

CBRE confirms, to the best of its knowledge, that no conflict or risk of conflict of interest exists in carrying out this viability assessment on behalf of the Applicant and in respect of the Site.

Contingent Fee

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

Confidentiality and Publication

This ADA contains confidential and commercially sensitive information.

Declaration

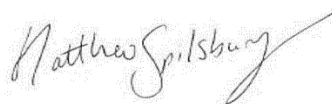
This Executive Summary contains aggregated information to address the limitation on disclosure arising from commercial sensitivity. The Executive Summary is suitable for MCC to place on public record.

Personnel

The ADA and this Executive Summary have been prepared and countersigned by:



Steve Smith MRICS
Associate Director
For and on behalf of CBRE Limited



Matt Spilsbury MRICS MRTPI
Senior Director
For and on behalf of CBRE Limited

Executive Summary

PURPOSE

CBRE has been appointed by the Applicant to objectively assess, and report upon, the financial viability of a range of potential alternative refurbishment and development options for the Site.

Specifically, this Alternative Development Assessment ('ADA') analyses the financial viability of:

- the comprehensive refurbishment of the existing property ('Option 1');
- development of a new 16 storey office building (plus basement) providing basement cycle storage, ground floor retail with mezzanine offices and fourteen storeys of offices above (Option 2'); and
- the Proposed Development, which constitutes a self-contained 17 storey building (plus basement) providing basement cycle storage, ground floor retail with a mezzanine office storey and fifteen storeys of offices above ('Option 3').

The ADA represents the culmination of this process and will form part of the evidence submitted to Manchester City Council ('MCC') accompanying a planning application for the Proposed Development (Option 3 above).

The ADA reflects the fact that the existing property is in a poor state of repair and is nearing the end of its useful economic life.

The new build options test the minimum number of storeys that are required from a new build development to generate a viable scheme, thereby minimising the impact on neighbouring properties and enabling the funding of the redevelopment of this important city centre site.

OPTION APPRAISAL

Benchmark Land Value ('BLV')

Each option is assessed on the basis that it is developed under current market conditions and upon completion it will be let on the open market, and then sold to an investment purchaser.

The BLV is included in each appraisal as a fixed cost, representing the minimum value required to release the Site for development, in line with Planning Practice Guidance: Viability ('PPGV').

It is considered that the minimum reasonable BLV for the Site is **£9,680,000**.

Developer Return

CBRE regards an appropriate market-facing developer's return for speculative high-density office development to be 20% profit on cost in the current market, if undertaking a generic assessment.

A 15% developer's return on cost has been adopted within the ADA as an absolute minimum threshold level, reflecting the existing ownership of the property and recognition that it is nearing the end of its economic life, requiring intervention to improve the longer term prospects of the site. A normalised target remains towards the 20% margin.

Option 1 Appraisal

The appraisal of the potential refurbishment of the existing nine storey retail and office building (Option 1) is summarised in Table 1.1.

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Table 1.1: Appraisal Summary | Option 1 – Refurbishment Only

INPUT / OUTPUT	COST/REVENUE (£)
Total Realisation Value ¹	19,306,500
Construction Costs ²	-8,933,156
Other Development Costs	-5,188,109
BLV (as fixed cost)	-9,680,000
Developer's Return (£ profit)	-5,394,765
Developer's Return (% profit on cost) ³	-22%

When total costs are deducted from the Total Realisation Value this results in a residual developer's return of -£5.395m (-22% return on cost) for Option 1.

The outturn developer's return demonstrates that the refurbishment of the existing property is unviable. It generates a substantive loss.

Option 2 Appraisal

An appraisal of a redevelopment (new build) option providing ground floor retail and 15 storeys of office accommodation (Option 2) is summarised in Table 1.2.

Table 1.2: Appraisal Summary | Option 2 – 16 Storey New Build Office

INPUT / OUTPUT	COST/REVENUE (£)
Total Realisation Value	91,555,264
Construction Costs	-39,195,131
Other Development Costs	-32,349,666
BLV	-9,680,000
Developer's Return (£ profit on cost)	£10,330,467
Developer's Return (% profit on cost)	(12.7%)

When total costs are deducted from the Total Realisation Value this results in a residual developer's return of c.£10.3m (12.7% return on cost) for Option 2.

Whilst demonstrating an improvement on Option 1, the developer's return for Option 2 falls below the absolute minimum rate required for funding in the current market, which is circa 15% on cost, for a speculative new build commercial development. This demonstrates that the 16-storey (i.e. GF+15 storeys) new build development option is unviable.

¹ Total achievable capitalised rental investment sales value of the office and retail accommodation upon completion of development and letting of the building

² In line with Gardiner and Theobald Cost Estimate July 2021

³ Note: figures are rounded.

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Option 3 Appraisal

The appraisal of the Proposed Development (Option 3) increases the building height by one storey (over Option 2) to provide ground floor retail plus 16 storeys of office accommodation (i.e. 17-storeys in total). The appraisal is summarised in Table 1.3.

Table 1.3: Appraisal Summary | Option 3 – 17 Storey New Build Office

INPUT / OUTPUT	COST/REVENUE (£)
Total Realisation Value	97,772,211
Construction Costs	-40,898,742
Other Development Costs	-33,786,590
BLV	-9,680,000
Developer's Return (£ profit on cost)	£13,406,879
Developer's Return (% profit on cost)	(15.9%)

When total costs are deducted from the Total Realisation Value this results in a residual developer's return of c.£13.4m (15.9% return on cost) for Option 3.

The developer's return exceeds the minimum market requirement of 15% on cost, indicating that the Proposed Development ('Option 3') is viable, and capable of providing a sufficient return to the developer to ensure deliverability, whilst also generating the appropriate minimum BLV necessary to incentivise the landowner to release the Site for redevelopment.

Conclusion

It is CBRE's conclusion that the Option 3 represents the minimum scale of development that is required to generate a financially viable use that will secure the investment to fund the redevelopment of this important city centre site.

In line with the submitted Planning Statement, *"when weighed in the planning balance the [17 storey] proposals fully comply with relevant policies and guidance and are considered to be acceptable in planning terms."*

The ADA concludes that, when assessed in line with PPGV and the National Planning Policy Framework, the absolute minimum level of developer return at 15% of costs requires the development of a 17 storey scheme, with a reduced height scheme of 16 storeys or refurbishment of the existing property shown to be unviable and undeliverable.