



ALTERNATIVE DEVELOPMENT VIABILITY ASSESSMENT

49 Spring Gardens and 50 Fountain Street,
Manchester, M2 2AS

August 2021

Ask Real Estate on behalf of M & G Real Estate

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 Edition¹, is set out within the following sub-sections.

Instruction and Purpose of Report

In accordance with email correspondence and an instruction on 15 June 2021, CBRE has been instructed by Ask Real Estate Ltd acting as Development Manager on behalf of Prudential UK Real Estate General Partner Ltd ('the Applicant') to objectively assess, and report upon, the financial viability of options for the redevelopment of 49 Spring Gardens and 50 Fountain Street, Manchester, M2 2AS ('the Site') by way of an Alternative Development Viability Assessment ('VA').

The Site comprises 49 Spring Gardens and 50 Fountain St. It is bounded by Spring Gardens to the south west, Fountain Street to the south east, Concert Lane to the north west and the Estate Exchange building to the north east with York Street beyond. It currently comprises a ground plus 4 storey office building, which is Grade II listed. It is situated in Manchester City Centre's traditional central business district ('CBD') and the Upper King Street Conservation Area.

The Applicant has prepared proposals for redevelopment of the Site as follows:

Retention and refurbishment of the Grade II Listed 49 Spring Gardens façade; demolition of the 1970s 50 Fountain Street building; and erection of a ground plus 6-storey commercial building (Use Class E) plus rooftop pavilion and plant with basement, landscaping, and associated works.

The Applicant's appointed heritage consultant has concluded within a Heritage Statement² that the Applicant's proposals for redevelopment of the Site represent less than substantial harm to the significance of the designated heritage asset and its setting.

In such circumstances, paragraph 202 of the National Planning Policy Framework ('NPPF')³ requires that this harm should be weighed against the public benefits of the development proposal including, where appropriate, securing its optimum viable use ('OVU').

The Government's guidance on decision-making within the heritage environment⁴ confirms the importance of ensuring that the use of a heritage asset is viable to facilitate investment in the maintenance necessary for long-term conservation. It is acknowledged that this often requires that owners are incentivised for active conservation, which can lead to the justification of harm if required to realise the OVU of a heritage asset, providing such harm is minimised.

Determining the OVU therefore requires the adoption of a sequential approach to confirm the options available for the use of a heritage asset before subsequently calculating the minimum level of required intervention (or 'harm') at which the prospective options become economically viable. The option that both achieves the lowest level of harm to the asset and secures public benefit via its economically viable use (and hence its future conservation) is that which is deemed to be 'optimum'. If there is only one viable use, that use represents the OVU.

¹ RICS (May 2019) Financial viability in planning: conduct and reporting, 1st Edition

² Stephen Levrant Heritage Architecture Ltd (August 2021) 50 Fountain Street / 49 Spring Gardens Heritage Statement

³ MHCLG (2021) National Planning Policy Framework ('NPPF')

⁴ MHCLG (2019) Planning Practice Guidance – Historic Environment ('PPGHE')

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This VA responds to the requirements set out in the NPPF and PPGHE by analysing a series of design-led principal development 'options' for the Site, representing varying levels of intervention, appraised in a sequential approach. The financial viability of each development option is tested to determine the threshold at which the use of the Site becomes financially viable.

The VA concludes by presenting CBRE's recommendation as to the option that represents the OVU for the site; being that which balances both necessary considerations of financial viability and minimisation of harm to the significance of the heritage asset.

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.

Status

This report does not constitute a formal valuation and cannot be regarded, or relied upon, as such.

This report provides a guide for feasibility in line with the purpose for which the assessment is required, in accordance with the NPPF, national Planning Practice Guidance for Viability ('PPGV')⁵, PPGHE, and as stated within the relevant guidance published by the RICS⁶.

⁵ MHCLG (2019) National Planning Practice Guidance – Viability ('PPGV')

⁶ RICS (2021) Assessing viability in planning under the National Planning Policy Framework 2019 for England RICS guidance note, England 1st edition, March 2021 (effective from 1 July 2021) ('RICS Viability Guidance')

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Moreover, whilst the alternative development options do not constitute enabling development, on the basis that the Site comprises a heritage asset the VA has sought to be consistent with Historic England's ('HE') Enabling Development and Heritage Assets guidance document, where relevant and appropriate⁷.

The conclusions of this report are based upon the input assumptions as stated herein and as available at the time of production. The input assumptions and conclusions of this report are valid at the date of publication and should be subject to review should further information be made available or in the event of material economic or property market change, or in respect of relevant legislative and policy changes.

Confidentiality and Publication

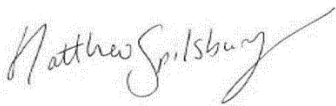
The VA contains confidential and commercially sensitive information.

Manchester City Council ('MCC') must treat the VA as a commercially sensitive document. It should not be placed on public record without the express written permission of the Applicant.

This separate Executive Summary document has been supplied to MCC, which provides 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

This report has been prepared by:



Matt Spilsbury MRICS MRTPI
Senior Director
National Planning & Development
For and on behalf of CBRE Limited

⁷ Historic England (June 2020) Enabling Development and Heritage Assets

Executive Summary

INSTRUCTION

CBRE has been instructed by Ask Real Estate Ltd acting as Development Manager on behalf of Prudential UK Real Estate General Partner Ltd ('the Applicant') to objectively assess, and report upon, the financial viability of options for the redevelopment of 49 Spring Gardens and 50 Fountain Street, Manchester ('the Site') by way of an Alternative Development Viability Assessment ('VA').

The VA represents the culmination of this process and will form part of the evidence submitted to Manchester City Council ('MCC') accompanying a planning application and listed building application for the Site.

PURPOSE

The Site comprises 49 Spring Gardens and 50 Fountain St. It is bounded by Spring Gardens to the south west, Fountain Street to the south east, Concert Lane to the north west and the Estate Exchange building to the north east with York Street beyond. It currently comprises a ground plus 4 storey office building, which is Grade II listed. It is situated in Manchester City Centre's traditional central business district ('CBD') and the Upper King Street Conservation Area.

The Applicant has prepared proposals for redevelopment of the Site as follows:

Retention and refurbishment of the Grade II Listed 49 Spring Gardens façade; demolition of the 1970s 50 Fountain Street building; and erection of a ground plus 6-storey commercial building (Use Class E) plus rooftop pavilion and plant with basement, landscaping, and associated works.

The Applicant's appointed heritage consultant has concluded within a Heritage Statement⁸ that the Applicant's proposals for redevelopment of the Site represent less than substantial harm to the significance of the designated heritage asset.

In such circumstances, paragraph 202 of the National Planning Policy Framework ('NPPF')⁹ requires that this harm should be weighed against the public benefits of the development proposal including, where appropriate, securing its optimum viable use ('OVU').

The Government's guidance on decision-making within the heritage environment¹⁰ confirms the importance of ensuring that the use of a heritage asset is viable to facilitate investment in the maintenance necessary for long-term conservation. It is acknowledged that this often requires that owners are incentivised for active conservation, which can lead to the justification of harm if required to realise the OVU of a heritage asset, providing such harm is minimised.

Determining the OVU therefore requires the adoption of a sequential approach to confirm the options available for the use of a heritage asset before subsequently calculating the minimum level of required intervention (or 'harm') at which the prospective options become economically viable. The option that both achieves the lowest level of harm to the asset and secures public benefit via its economically viable use (and hence its future conservation) is that which is deemed to be 'optimum'. If there is only one viable use, that use represents the OVU.

This VA responds to the requirements set out in the NPPF and PPGHE by analysing a series of design-led principal development 'options' for the Site, representing varying levels of intervention, appraised in a sequential approach.

⁸ Stephen Levrant Heritage Architecture Ltd (August 2021) 50 Fountain Street / 49 Spring Gardens Heritage Statement

⁹ MHCLG (2021) National Planning Policy Framework ('NPPF')

¹⁰ MHCLG (2019) Planning Practice Guidance – Historic Environment ('PPGHE')

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The financial viability of each development option is tested to determine the threshold at which the use of the Site becomes financially viable.

The VA concludes by presenting CBRE's recommendation as to the option that represents the OVU for the site; being that which balances both necessary considerations of financial viability and minimisation of harm to the significance of the heritage asset.

OPTION DEVELOPMENT

Reflecting the design evolution process for the Site and, working closely with the Applicant's team of heritage specialists, architect, and town planning consultant, CBRE has followed a sequential methodology in preparing and appraising development options.

The starting point has been to seek to understand the appropriate use(s) and the minimum level of intervention in the heritage asset necessary to establish a financially viable development solution for the Site.

The process has firstly examined the potential suitable options for the repair and refurbishment of the heritage asset. In undertaking a comprehensive approach, subsequent analysis has necessitated exploring a wider set of potential redevelopment options, which entail varying degrees of intervention. These incorporate a progressive increase in development scale.

The options are summarised in Table ES1.

Table ES1: Option Development | Summary Description

Option	Summary Description
1	Retention and light refurbishment of existing office building only
2	Retention and refurbishment of Grade II Listed 49 Spring Gardens façade. Refurbishment of existing office building plus new build infill extension to fill site parallel to Fountain Street. Relocation of entrance to 49 Spring Gardens.
3	As per Option 2 with new build upward extension of one additional storey of commercial office floorspace plus development of rooftop pavilion and terrace for occupier amenity use.
4	Retention and refurbishment of Grade II Listed 49 Spring Gardens façade. Demolition of 1970s 50 Fountain Street building. Erection of a ground plus 4-storey commercial office building with basement. The new building will be connected to the façade via a glazed atrium. Overall height will be reduced from the existing building.
5	Retention and refurbishment of Grade II Listed 49 Spring Gardens façade. Demolition of 1970s 50 Fountain Street building. Erection of a ground plus 6-storey commercial office building with basement. The new building will be connected to the façade via a glazed atrium. Upper floors are stepped back from the façade.
6	Retention and refurbishment of the Grade II Listed 49 Spring Gardens façade. Demolition of the 1970s 50 Fountain Street building. Erection of a ground plus 4-storey commercial office building with basement, plus rooftop pavilion and terrace for occupier amenity use. The retained façade is wholly integrated into the new building and floorplates aligned.
7	Retention and refurbishment of the Grade II Listed 49 Spring Gardens façade. Demolition of the 1970s 50 Fountain Street building. Erection of a ground plus 6-storey commercial office building with basement, plus rooftop pavilion and terrace for occupier amenity use. The new building will be directly connected to the façade and floorplates aligned with the existing listed façade.
7b	Option 7b incorporates a larger set-back from the retained façade at G+4 upwards, visually separating the two components of the building. Large floorplates are provided at levels G to G+3 with smaller floorplates provided on G+4 and above. An additional storey is incorporated in the taller element (i.e. G+7-storeys). The rooftop pavilion and terrace above steps back further.

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CBRE understands that retaining the heritage asset in its current form limits the ability to create an office product within the existing building that is both fit-for-purpose and efficient, and therefore attractive to modern occupiers seeking floorspace in the CBD. This will result in a diminished level of occupier demand, from a reduced market pool of prospective tenants, which will impact on the future lettability of the existing building. This will diminish lease terms and suppress commercial investment value.

On this basis, it is deemed that a 'do nothing' option is not a viable and productive approach to management of the asset, and whilst there remains inherent value, it would see the wastage and deterioration in the quality of premises in a high-profile location within the city's traditional CBD, acting as a detriment to the area's continued role as the primary destination sought by occupiers in the professional services sector in the city.

OPTION APPRAISAL

The Applicant presented the options set out in Table ES1 to Historic England ('HE') in early 2021. HE provided pre-application feedback on the options in March 2021¹¹.

HE's design advice was clear that care must be taken to ensure that any new build element and the retained façade seamlessly interlink, to avoid a development where the retained façade feels disjointed from the development behind.

On the basis that such interlinking is not possible within Options 4 and 5, these options have been discounted.

A residual valuation model with cash flow has been prepared and utilised for each identified principal development option¹² to determine their financial viability. Each option is assessed on the basis that it is developed under current market conditions.

Benchmark Land Value

To inform the setting of a threshold for testing whether each option is unviable or viable, it is firstly necessary to determine a benchmark land value ('BLV') for the Site.

This is a requirement of the NPPF, national Planning Practice Guidance for Viability ('PPGV')¹³, PPGHE, and as stated within the relevant guidance published by the RICS¹⁴.

By way of analysis set out within chapter 5 of this document, the BLV for the Site has been assessed based on the Existing Use Value ('EUV') plus premium.

The BLV represents CBRE's independent conclusion as to the minimum level of value at which the landowner would be suitably incentivised to release the Site. The BLV is **£6.65m**.

The BLV is inserted into the residual appraisal prepared for each option as a fixed land cost. The residual output of each appraisal is therefore the level of outturn developer's profit generated by each option.

¹¹ Historic England (26 March 2021) Pre-application Advice: 50 Fountain Street, Manchester, M2 2AS

¹² Note: excluding Options 4 and 5.

¹³ MHCLG (2019) National Planning Practice Guidance – Viability ('PPGV')

¹⁴ RICS (2021) Assessing viability in planning under the National Planning Policy Framework 2019 for England RICS guidance note, England 1st edition, March 2021 (effective from 1 July 2021) ('RICS Viability Guidance')

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Appraisal Results

A summary of the viability appraisal result for each option is provided in Table ES2.

Table ES2: Option Appraisal | Viability Results Summary

Appraisal Outputs	Options					
	1	2	3	6	7	7b
Net Development Value	£12,110,345	£16,815,664	£20,923,811	£27,828,046	£39,319,257	£37,676,901
Total Development Costs (incl. BLV)	£15,375,601	£19,512,454	£22,025,831	£27,227,898	£34,187,909	£34,606,214
Developer's Return (% of Total Dev. Costs)	-21.2%	-13.8%	-5.0%	2.2%	15.0%	8.9%
Developer's Return (£)	-£3,265,256	-£2,696,790	-£1,102,020	£600,148	£5,131,348	£3,070,687
Target Minimum Reasonable Developer's Return (%)	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Viability Surplus / Deficit (£)	-£5,571,596	-£5,623,658	-£4,405,895	-£3,484,037	£3,162	-£2,120,245

Table ES2 demonstrates that Option 7 is the only development option that is financially viable.

The other options would either generate outright losses, which no rational commercial developer or investor would willingly accept, or in the case of Options 6 and 7b where a developer's profit is made, the rates achieved are sub-optimum and represent an inadequate risk-adjusted return in the current market.

Conclusion

It is CBRE's conclusion that the Option 7 represents the minimum scale of intervention to the heritage asset necessary to generate a financially viable use that will secure investment to fund the refurbishment and maintenance required for its long-term conservation.

Option 7 represents the Applicant's proposed development of the Site, as follows:

Retention and refurbishment of the Grade II Listed 49 Spring Gardens façade; demolition of the 1970s 50 Fountain Street building; and erection of a ground plus 6-storey commercial building (Use Class E) plus rooftop pavilion and plant with basement, landscaping, and associated works.

On the basis that Option 7 is that which can be demonstrated to balance both the necessary considerations of financial viability and minimisation of harm to the significance of the heritage asset, it is CBRE's recommendation that Option 7 represents the OVU for the site.

