

Brunswick Living Ltd
New Brunswick
Brunswick Street, Ardwick

Viability Assessment
August 2021

1. Introduction

This Viability Assessment has been produced by Brunswick Living Ltd for the planning submission dated August 2020, for our proposed residential development on Brunswick Street, Ardwick.

This assessment responds to Policy H8 of the Core Strategy in relation to affordable housing provision. Under this policy the requirement for affordable housing or any alternative financial contribution applies to all residential developments consisting of more than 15 units. All new development will be expected to contribute towards the city wide policy of 20% of new housing to be affordable. The policy is cognisant of the need to consider the financial viability of a site and explains that a lower level of affordable housing provision may be permitted where either a financial viability assessment is conducted which can demonstrate that a lower level of provision is appropriate or material considerations indicate that intermediate or social housing would be inappropriate. In this case, the policy explains that such considerations may include: the inclusion of affordable housing may prejudice strategic regeneration objectives identified in other council documents; it would financially undermine proposals critical to the economic growth of the city; and the impact of affordable housing provision coupled with other planning obligations would affect scheme viability.

This viability assessment is informed by a range of cost and value assumptions. The GDV is based upon our extensive market research together with external advice. The construction figures stated are based on a contractor's estimate (and QS review) dated August 2021, details of which can be found in Appendix A. This follows on from a series of cost reports provided by Zerum throughout the scheme evolution and previous estimates from a number of contractors. All other fees, costs and values have either been based on actual costs incurred or have been estimated based upon quotes received, research, market testing and/or our extensive experience of delivering similar schemes.

This Viability assessment forms part of a revised application for the site. The original approved scheme required extensive party wall negotiations with neighbours to try to secure permissions to build up to the site boundaries. As a result of the time taken (over 2 years) and the costs, this revised scheme is now being submitted, which moves the property in from the site boundaries.

The scheme has therefore incurred a number of significant costs as a result of this abortive work.

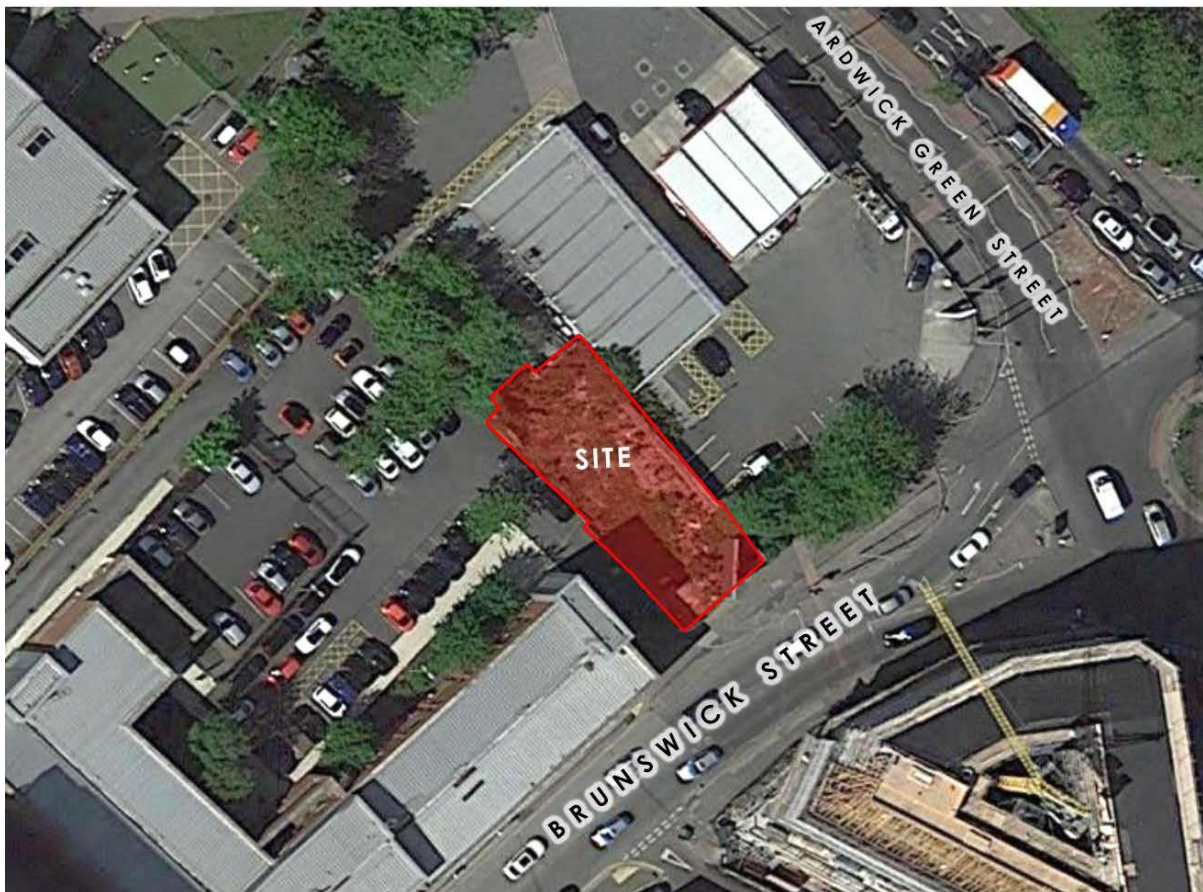
In looking to bring forward the original approved scheme we have also encountered significant abnormalities in the ground in the form of a large existing basement which covered most of the site, which had not been picked up by the site investigations. This is in addition to the abnormal costs of clearing and treating two areas of knotweed on the site, as well as constructing a building within a very compact and constrained site.

2. The Site

The site is located on Brunswick Street, with a narrow frontage to the street and with a health centre on one side and a Tesco Express / petrol filling station on the other. It is a small site - approximately 345 square metres of vacant brownfield land within Ardwick. Previous use of the site was as an advert hoarding with remaining land available for surface storage.

Situated on the edge of the Brunswick Estate (which is the subject of an ongoing major PFI regeneration), it is a location with an existing very high level of affordable housing in the immediate area.

The site falls within the recently adopted Ardwick Green Neighbourhood Development Framework area.



3. The Scheme

The application therefore seeks full planning permission for the erection of a six-storey residential building comprising of 16 no. apartments with associated facilities including a residents lounge, internal cycle store and residents roof terrace.



The site previously received planning permission in 2017. It was also for 16 flats. There was no requirement for affordable housing provision as part of that scheme, based on the previous viability assessment submitted with that application.

Initial enabling works to deliver the original scheme started on site in early 2021. The large basement was discovered. The requirement to remediate, clear and backfill is an additional abnormal cost.

However Party Wall negotiations had still not resulted in an agreement with the neighbours on both sides and therefore a new scheme was designed which moved the side walls in from the site boundary edge, enabling it to be constructed from entirely within the site without any third-party agreement.

The redesign also enabled the scheme to be improved in order to respond to Covid, by providing significantly more communal and private outdoor space and also to respond to emerging developments in the local area.

The revised scheme included additions which add to the scheme cost, such as balconies; roof garden (fully accessible by a lift); a large fully accessible DDA compliant ground floor flat; and an enlarged residents lounge / workspace to the ground floor.

4. Viability review

16 units is just over the Council's more than 15 unit threshold for affordable homes, so in line with Policy H8 of the Council's Core Strategy, we have produced a viability appraisal to demonstrate how the potential financial impact of the provision of affordable housing would affect scheme viability.

This section summarises the cost and value assumptions that have gone into the appraisal. Some of these assumptions are actual figures, while others are necessarily estimates.

Our sales targets are ambitious. In developing this property we aim to establish a relatively new and untested sales market in this area. There are limited comparables in terms of similar new build flats close by (see table 1 below). Where they do exist, the values achieved are quite a bit below the sales values that this scheme is targeting. However we are looking to raise the quality of what is currently in this area and provide a different offer, and feel that these values can be achieved, although this carries with it a risk.

Table 1: Comparable sales values (August 2021)

Address	Flat Type	Size Sqft	Status	Price
Ardwick Green North	2b3p	562	Currently on Market (asking price)	£140k
Devonshire St South	1b2p	558	Currently on Market (asking price)	£145k
212 Stockport Road	1b2p	501	Currently on Market (asking price)	£135k
Hurstfield Walk	2b4p	689	Currently on Market (asking price)	£150k

Flats currently on the market within ½ mile are not new build stock. Asking prices equate to around £220-£270 per sqft. There are no new build flats currently on the market and recent new build here is very limited.

Our sales values average out at just over £339 per sqft.

Table 2: GDV breakdown by flat

Flat Number	Floor	Type	Sqft	Sales Price £
1	G	2b	883	285,000
2	1	2b	657	231,000
3	1	2b	657	231,000
4	1	1b	549	161,000
5	2	2b	657	233,000
6	2	2b	657	233,000
7	2	1b	549	163,000
8	3	2b	657	235,000
9	3	2b	657	235,000
10	3	1b	549	165,000
11	4	2b	657	237,000
12	4	2b	657	237,000
13	4	1b	549	167,000
14	5	2b	657	239,000
15	5	2b	657	239,000
16	5	1b	549	169,000
Totals			10,193	3,460,000

We have also assumed an income from freehold sales of £70,000 based upon an assumption that legislation will restrict this to around 0.01% of sales price. To this we have applied an investment yield of 5%, comparable to other

ground rent investment portfolios. However there is a risk of no freehold sales income at all.

Many of the fees and survey costs have either already been paid or have been agreed with the professional team. We have a robust and detailed build cost provided by the contractor. This follows on from additional cost report input provided by Zerum throughout the scheme evolution and input from a number of contractors. We have also drawn upon our experience and knowledge of current market costs from managing and delivering projects – including several on site over the last year in Salford Quays, Cheetham Hill, Cornbrook, Castlefield and Cheadle.

To take into account any project unknowns during the course of pre-construction and construction, we have included a design development contingency and construction contingency, which should account for any variances over the course of the project.

We have developed the design to an advanced stage for this planning submission to give us enough detail and the confidence that the cost plan is robust.

Table 3: Detailed cost breakdown

Category	Expenditure	Activity	Rate	Cost £	Total
Site Cost	Land value			240,000	
	Solicitors Costs			5,000	245,000
Fees	Planning Application Fees			13,942	
	Planning reports	Traffic , CIS, environmental etc		20,744	
	Site Investigations	Topographical, phase 1, 2 etc		17,704	
	New Build Warranty		1,000	16,000	
	Architects Fees			67,025	

	Party wall fees			49,629	
	Consultants Fees	Planning consultant		16,488	
		Structural Engineer		37,688	
		M&E		38,803	
		QS	1.5%	28,751	
		Project Manager		19,750	
		others		16,038	342,562
Build Cost	Demolition/Site clearance,				
	basement, contamination, remediation			83,969	
	Contractor Quote			1,916,747	
	Services		3,000	48,000	
	Contingency		5%	102,436	
	Total Build				2,151,153
Funding Cost	Loan amount	2,493,714			
	Bank valuations + legals			10,000	
	Bank monitoring		1.0%	24,937	
	Arrangement Fee		1.0%	24,937	
	Exit Fee		1.0%	24,937	

	Interest Costs		6.0%	74,811	159,623
Sales Cost					
	Sales Fees		1%	35,300	
	Brochures, CGI's, Advertising/Marketing Costs			20,000	
	Management Co + Show Flat F&F			15,000	
	Legal Fees on sales		500	8,000	78,300
Total Cost					2,976,637

The land value of £240k is based on a benchmark value in line with relevant guidance.

In terms of fees we have incurred additional costs due to the delays caused by the difficulties and protracted negotiations involved with getting neighbour party wall permissions. This has also resulted in an element of abortive fee costs associated with the original scheme design and planning application. Otherwise these fees are based on actual incurred costs, quotes received and industry standard rates.

The build cost rate equates £164 per sqft which is competitive in the current market. This also includes much of the abnormal costs. Abnormal costs include the basement clearance and the knotweed treatment, with excavation and disposal of contaminated waste. Also, given the compact and constrained nature of the site there will be a number of other abnormal costs – these will include the abnormal cost of foundations and structure due to proximity of neighbouring properties and the cost of storage of materials and deliveries due to limited compound space.

The funding costs reflect the cost of borrowing just under £2.5m. These include interest at 6% together with standard associated bank fee rates and charges.

5. Viability Summary

A summary of the viability assessment is set out in the table below:

Table 4: Viability Assessment Summary

Total GDV	£3,530,000
Total Cost	£2,976,637
Overheads & Profit	£553,363
% of GDV	15.7%

Without allowing for any affordable housing this scheme produces a developer margin of 15.7%. This includes developer overheads as well a clear profit. This compares to a typical expected developer profit of 18-20% on GDV.

This demonstrates that the scheme cannot afford any affordable housing provision.

6. Conclusion

Bringing back into use a challenging, compact and constrained brownfield site, this scheme delivers significant regeneration benefits for the area and as set out in our planning Statement, helps to deliver many aspects of the Ardwick Green Neighbourhood Development Framework. This development will also help to diversify the tenure mix in a local area which has a very high existing level of affordable housing.

Developing this site brings with it many financial risks. Some of these have already impacted on the scheme, such as the discovery of the large basement and the impact of the party wall issues. Many still remain – e.g. selling properties in an area without a significant established private housing market.

In line with the adopted NPPF and NPPG as well as RICS Guidance Notes on viability, developments must deliver a return that does not undermine deliverability of a scheme. For a scheme of this nature a developer will typically require 18-20% profit on GDV for open market sales.

In terms of this site, allowing for no affordable housing, the appraisal is achieving a compromised profit of 15.7%. It is assumed that the s.106 contribution of £10,000 towards a residents' parking scheme formally agreed and registered for the original planning application, will also be agreed for this revised scheme.

We consider that this report is sufficient to demonstrate that on the grounds of viability the development cannot afford any affordable housing provision in line with adopted planning and RICS guidance.

Appendix A – Contractor's Estimate