
Viability Assessment Review

Cross Keys, New Cross, Manchester

Executive Summary

The RICS Professional Statement Financial Viability in Planning: Conduct and Reporting (1st Edition, May 2019) states that all FVAs **must** be accompanied by non-technical summaries of the report so that non-specialists can better understand them (ref: 2.11).

We summarise the key findings of this assessment below:

Applicant	Cross Keys Estate Limited
Address	Cross Keys, New Cross, Manchester
Scheme	99 x 1, 2 and 3 bedroom BtR units

Appraisal Assumptions

	CBRE	Savills
GDV		
Residential GDV	£29,534,211	£29,534,211
Development Costs	£26,973,511	£26,881,989
Construction Costs inc 5% Contingency	£22,661,358	£22,661,358
Professional Fees	8% of construction costs	8% of construction costs
Enabling & FF&E Costs	£623,844	£623,844
Sales Agent Fees	1% of GDV	1% of GDV
Sales Legal Fees	0.5% of GDV	0.5% of GDV
Finance Rate	4.75%	4.75%
Benchmark Land Value (Fixed Land Cost)	£1,860,203	£1,395,910
EUV / AUV	£1,430,925	£1,163,259
Premium	30% (£429,278)	20% (£232,652)
Developer's Profit Margin	Target: 12% on GDV	Target: 10% on GDV
Profit Amount	£109,813	£665,627
Profit on GDV	0.37%	2.25%

We have run a development appraisal assuming all apartments would be privately rented, adopting a fixed land value as our BLV of £1,395,910. Based on our adopted assumptions this results in the proposed development achieving a developer profit of £665,627, equating to 2.25% profit on GDV. This is significantly lower than the target risk adjusted developer return of 10% on GDV that would suggest that the development cannot support any contribution for affordable housing and would question viability in general.

On balance we agree with CBRE that no affordable housing can be delivered based on current market conditions. We would however suggest that given the current uncertainty in the funding markets and inflationary pressures on build costs it would be prudent to require a review mechanism in the Section 106 agreement. This will ensure that Manchester City Council capture any additional value created by the development once a funding deal is in place and the development has been constructed so that the actual costs can be fixed.

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1. Introduction

We have been instructed to undertake an independent review of the Financial Viability Statement, dated April 2024, produced by CBRE in respect of the proposed development known as Cross Keys, New Cross, Manchester.

The proposed development will include 99 build to rent (BtR) apartments and townhouses across an 8-storey building. The development will comprise of the following residential unit mix:

- 1 bedroom apartments: 29 no.
- 2 bedroom apartments: 60 no.
- 1 bedroom duplex: 4 no.
- 2 bedroom townhouses: 5 no.
- 3 bedroom townhouses: 1 no.

An outdoor terrace and 191.59 sq.ft. of internal amenity space is provided on the eighth floor and 50 no. double stacked bike racks (100 bike spaces) provided on the ground floor alongside bin storage and plant.

We understand that although there is a 20% on site affordable housing policy requirement, CBRE assert that the Financial Viability Statement demonstrates that there is no scope for any financial contributions or affordable housing.

We have reviewed the assumptions made within their appraisal and have made our own assessment of what we believe to be viable in terms of the financial contribution in respect of affordable housing delivery.

Site & Location

The site is located within the New Cross area of Manchester, on the eastern edge of the city centre. The site is bounded by Cross Keys Street to the north west, Goulden Street to the north east, Chadderton Street to the south east and Marshall Street to the south west.

The site is approximately 0.31 acres (0.12 ha) in total and comprises a surface car park with 70 car parking spaces. CBRE state that part of the site is occupied by industrial storage containers used for an adjacent development.

Planning Obligations

There is a requirement, as per Policy H8 of the Manchester Core Strategy, for 20% affordable housing (5% affordable rented and 15% intermediate housing) to be delivered on site and for Section 106 Contributions to be payable for items such as public open space, education, public transport and highways.

In terms of additional Section 106 contributions, it is not clear what additional Section 106 contributions Manchester City Council (MCC) would expect to see provided with a development of this nature.

CIL is currently not chargeable by Manchester City Council, therefore no CIL has been allowed for.

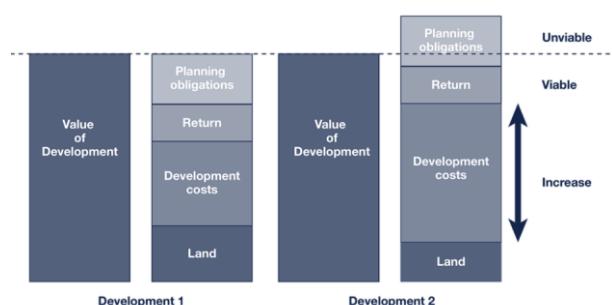
2. Viability Methodology

Overview

The fundamental issue in considering viability assessments in a town planning context, is whether a development is made unviable by the extent of affordable housing, planning obligations or other requirements. A proper understanding of financial viability is essential in ensuring that:

- i. land is released for development;
- ii. developers are capable of obtaining an appropriate market risk adjusted return for delivering the proposed development;
- iii. the proposed development is capable of securing funding; and assumptions about the quantum of development that can be delivered over the course of the plan period are robust.

Where planning obligation liabilities reduce the site value to the landowner and return to the developer below an appropriate level, land will not be released, and development will not take place. Whilst the RICS Guidance Note: Financial Viability in Planning, 1st Edition (August 2012) is now out-dated, it provides a useful diagram to explain how viability is assessed:



National Planning Policy Framework and Planning Practice Guidance

The NPPF was updated in December 2023. It sets out the Government's planning policies for England and how these should be applied.

Paragraph 58 of the NPPF states that *"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"*.

It also states that: "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 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 circumstances in the case, including whether the plan and viability evidence underpinning it is up to date, and any change in circumstance since the plan was brought into force."

The Viability Planning Practice Guidance (PPG) prioritises the assessment of viability at the plan-making and development management stages. The preferred methodology in this respect is a typology approach whereby sites are grouped by shared characteristics such as location, size and whether they are greenfield or brownfield. Plan makers can then decide on an appropriate benchmark land value, average costs, average values and the subsequent policy requirements for each typology.

The PPG also sets out a preferred methodology for assessing viability at the decision making stage. A viability assessment should incorporate standardised inputs and should also be based upon and refer to any viability that informed the development plan (subject to this being up to date). Any deviation from the figures used in the viability assessment of the plan should be explained and supported by evidence. The standardised inputs as set out in the planning practice guidance are as follows:

- Gross Development Value (GDV)
- Costs – to include build costs, abnormal costs, infrastructure costs, cost of conforming with planning policies (e.g. S.106 costs, CIL and affordable housing), finance costs, professional fees, management costs, sales / marketing costs and contingency costs
- Benchmark Land Value – to be assessed as the Existing Use Value (EUV) plus a premium
- Developer's return

Financial Viability in Planning: Conduct and Reporting (Professional Standards)

This RICS professional standards and guidance, Financial Viability in Planning Conduct and Reporting, 1st Edition, dated May 2019 states the following: “RICS members must comply with the NPPF and PPG as the primary policy and guidance on assessing viability.”

It sets out the mandatory requirements that should be adhered to when Financial Viability Assessments (FVAs) are carried out.

Adopted Methodology

As per the NPPF and RICS guidance, we have adopted the prescribed approach to the standardised inputs and will be assessing the profit margin of the proposed development as follows:

GROSS DEVELOPMENT VALUE less COSTS less BENCHMARK LAND VALUE = DEVELOPER'S PROFIT

We will assess the appropriate Benchmark Land Value and included this as a fixed land value within our appraisal. We will then compare the developer's profit from the appraisal against the minimum acceptable profit margin. We have therefore assessed what level of planning obligations can be provided whilst ensuring that a minimum acceptable profit margin is achieved.

3. Benchmark Land Value

In accordance with the NPPF, the land value for a viability assessment should be a Benchmark Land Value (BLV).

The BLV is usually based upon the EUV plus a premium (EUV+) approach, although an Alternative Use Value (AUV) can also be used.

CBRE have adopted the EUV+ approach for each of the existing use onsite. We have reviewed this assessment below.

Existing Use Value

We have assessed the EUV of the site in accordance with the NPPF. The EUV of the site is the value of the land in its existing use. It is not the price paid and should disregard hope value.

The subject site extends to 0.31 acres (0.12 ha) in total and comprises a tarmacadam white lined pay and display car park, totalling 70 parking spaces. CBRE have considered the EUV on this basis.

CBRE state the car park is operated by Car Park Securities, charging a rate of £8.80 per space for up to 24 hours. We have made online enquires which confirms this rate. CBRE state the daily rate is reduced by 20% to £7.33 to allow for VAT. CBRE state they have visited the site on several occasions and determine a daily occupancy rate of 90%. This results in a gross annual turnover (exc. VAT) of £168,630.

CBRE have estimated the annual cost of Business Rates at approximately £35,840 at the 2023/24 rates and assumed operating costs of 20% of the gross annual turnover, equating to £33,726, which we consider to be reasonable.

CBRE calculate their Net Annual Turnover at £99,064, which they have capitalised at 6.5%, less purchasers costs of 6.06% to provide a Net Investment value of £1,430,925, equating to £20,442 per space.

We are aware of the recent transactions of car park sites:

Surfaced Car Park

Property	Size (acres)	Price (£ per acre) (£ per space)	NIY	Date	Comment
Land on the South Side of Southall Street	0.31	£1,024,800 (£3,305,806) (£21,350)	-	June 2022	48 Spaces operated by Total Car Parks.
Charles Street, Manchester	0.08	£495,000 (£6,187,500) (£38,077)	6.75%	June 2023	13 spaces, with a income of £35,000 per annum.

The above provides a range of value between £20,000 to £38,000 per space.

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We have previously assessed the EUV of surfaced and purpose build car parks in Manchester city centre for values in the order of £5,100 and £32,800 per car parking space. The difference between the values is reflective of the type, quality and location of car parking. We summarise these below:

Development	Size (Acres)	No. Parking Spaces	Gross Rent (PA)	Net Rent (PA)	Net Rent (PA Per Space)	Yield	EUV	EUV (Per Space)
Tariff Street	0.76	128	-	£160,000	£1,250	8%	£1,880,500	£14,688
Great Northern	-	126	-	£206,650	£1,640	5%	£4,132,800	£32,800
Port Street	1.29	150	£229,950	£172,500	£1,150	8%	£2,050,000	£13,666
Renaissance	0.49	131	£195,884	£127,999	£977	6.5%	£2,280,000	£17,405
Rochdale Road	-	115	£88,206	£61,744	£536	10%	£587,800	£5,111
Plot C, Great Jackson Street		100		£131,400	£1,314	8%	£1,642,500	£16,425
Plot G, Great Jackson Street	1.48	150	-	£110,000	£733	6.5%	£1,700,000	£11,333
Gould Street	6.69	675	£689,850	£482,895	£715	10%	£4,500,000	£6,667
Average					£896			£11,614

Based on the above, we consider a capitalisation rate of 6.5% adopted by CBRE to be optimistic for this location, with the most comparable sites being Tariff Street, Port Street and Rochdale Road. We have instead adopted a yield of 8% to the net rental income of £99,064 per annum. This results in an total EUV of £1,163,259 for the site after deducting purchasers costs at the prevailing rate. This equates to an EUV of £16,618 per car parking space which is slightly higher than what was agreed at Port Street, which is a lower grade car park, but lower than what was agreed at Renaissance which is an established purpose built multi-storey car park in a prime location.

Total EUV

Based on the above calculations, we have assessed the site to have an EUV of £1,163,259.

Premium

CBRE have applied a premium to their EUV of 30%. Other Viability Assessments in Manchester that we have reviewed consider a minimum premium to be in the order of 20% and 50%.

A premium of 30% (£348,978) on our EUV results in a BLV of £1,512,237.

A BLV of £1,512,237 equates to a price of approximately £15,275 per plot which is considerably higher than residential land transactions in the area and other BLV's that we have been involved in as detailed below:

Address	Developer	Units	Date	Existing Use	BLV	BLV Per Plot
Phoenix Ironworks	MCR Life	256	Jun-23	Industrial	£1,848,000	£7,218
Tariff Street	Marco Living	267	Feb-23	Surface Car Park	£2,256,600	£8,452
Port Street	Renaker	485	Mar-22	Surface Car Park	£3,075,000	£6,340

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Rochdale Road	Mulbury	237	Sep-21	Car Park	£1,458,000	£6,152
Ferrous	Capital Centric &	107	Feb-21	Allocated Residential Space	£750,000	£7,009
Brunswick Place	Maryland Securities	277	Jul-21	Grade II Listed Mill	£1,200,000	£4,412
Gould Street	MCR	1,202	Apr-21	Car Park	£6,750,000	£5,616
Victoria Riverside	FEC	634	May-20	Car Park	£5,580,000	£8,801
Heyrod Street	Packaged Living Ltd	352	Jun-20	Industrial / storage	£1,817,844	£5,164
Crown Street - Phase 2	Renaker	855	Apr-20	Site Compound	£8,882,275	£10,389
Victoria House	Forshaw	177	Apr-20	Safety deposit centre (surfaced car park and service yard)	£1,770,000	£10,000
Land off Bennett Street	Ascena Developments Ltd	337	Mar-20	Industrial	£4,309,500	£12,788
First Street	Downing	1,568	Jan-20	Cleared site with extant planning permission	£16,176,371	£10,317
Addington Street	FEC	80	Aug-19	Surface Car Park with Advertising Hoarding	£1,200,000	£15,000
Chester Road	De Trafford	366	Jul-19	Vacant trade counter unit / cleared land	£5,490,000	£15,000
Arundel Street	Logik Developments	355	Apr-19	Industrial Buildings / Mill and very small plot of vacant land	£2,145,000	£6,042

We would consider a premium of 20% to be more appropriate and reflective of the premium adopted on nearby schemes, including Phoenix Ironworks, Port Street and Tariff Street, all of which adopted a premium of 20%.

Adopting a premium of 20% (£232,652) on our EUV of £1,163,259, results in a BLV of £1,395,910, equating to approximately £14,100 per plot.

Benchmark Land Value

We have therefore assessed the BLV on the following basis:

= EUV + minimum premium
= £1,163,259 + £232,652
= **£1,395,910**

The BLV of £1,395,910 equates to approximately £14,100 per plot. This is lower than the BLV adopted by CBRE but in line with other agreed BLV's that we have been involved in or are aware of that range between £4,400 and £15,000 per unit.

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4. Gross Development Value

CBRE have assessed the total GDV of the proposed BtR development to be **£29,534,211** for the 99 residential units.

Estimated Rental Value (ERV)

CBRE adopted a gross rent of £1,870,500 per annum, equating to an average rent of £27.59 per sq.ft. across a net sales area of 67,782 sq. ft.. We have been provided with the proposed rental values for the scheme assuming 100% private rent as follows:

Unit Type	No.	Average Unit Size	Total NSA (sq.ft.)	Avg. Gross Rent PCM	Avg. Gross Rent PA	Total Gross Rent PA	Gross Rent (£/sq.ft.)
1-Bed Apartment	29	542	15,731	£1,319	£15,829	£459,000	£29.18
2-Bed Apartment	60	727	43,612	£1,647	£19,764	£1,185,900	£27.19
1-Bed Duplex	4	623	2,493	£1,512	£18,149	£72,600	£29.12
2-Bed Townhouse	5	940	4,702	£2,000	£23,999	£120,000	£25.52
3-Bed Townhouse	1	1,244	1,244	£2,750	£33,003	£33,000	£26.53
TOTAL	99	67,782				£1,870,500	£27.59

CBRE have relied upon the following rental comparable evidence within their report, which we summarise below:

Scheme	Beds	Avg. Rent PCM	Avg. Rent/ sq.ft.	Scheme Average
Broadside	1	£1,080	£23.77	£23.62
	2	£1,432	£23.45	
	3	£1,985	£25.10	
Poplin	1	£1,210	£27.55	£27.25
	2	£1,570	£27.19	
	3	£2,083	£25.43	
The Astley	1	£1,210	£27.55	£24.59
	2	£1,570	£27.19	
	3	£2,083	£25.43	
Anco & Co	1	£1,073	£27.63	£25.43
	2	£1,502	£24.69	
	3	£2,259	£25.94	
Asking Rents				
Ancoats Gardens	1	£1,516 -£1,647		
	2	£1,794 -£1,859		
	3	£2,626		
Flint Glass Wharf	1	£945 - £1,200		
	2	£1,050 - £1,550		
The Quarters	1	£1,175 - £1,250		
	2	£1,400 - £1,500		

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Ice Plant	1	£965 - £1,175	
	2	£1,150 - £1,975	
	3	£2,100	
Angel Gardens	1	£1,600 - £1,760	
	2	£1,680 - £2,220	

We have reviewed the above and are also aware of the following current asking rents:

Meadowside, Manchester – FEC



Meadowside was designed as an open market sale development, however a number of the apartments have been purchased by investors and are available to rent.

We are aware of the following asking rents:-

Type	Beds	Rent (PCM)	Rent (PA)
Apartment	1	£1,150	£13,800
Apartment	2	£1,300 - £1,650	£15,600 - £19,800

We are aware of the following achieved rents:-

Type	Beds	Rent (PCM)	Rent (PA)
Apartment	1	£1,050 - £1,400	£12,600 - £16,800
Apartment	2	£1,400 - £1,650	£16,800 - £19,800
Apartment	3	£2,000 - £3,000	£24,000 - £36,000

We understand that the 1 and 2 bedroom apartments are achieving rental values in the order of £23.00 per sq. ft. and the 3 bedroom apartments are achieving rental values in the order of £20.00 per sq. ft..

Meadowside is situated in a less central location than the subject development.

New Victoria, Manchester – Muse Developments

New Victoria is a development of 520 apartments over two 20-storey and two 25-storey buildings. The development is situated 0.4 miles to the south west of the subject site in a more central location adjacent to Victoria station, one of Manchester's three main train stations.

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We are aware of the following asking rents:-

Type	Beds	Rent (PCM)	Rent (PA)
Apartment	1	£1,400 - £1,485	£16,800 - £17,820
Apartment	2	£1,590 - £1,800	£19,080 - £21,600
Apartment	3	£2,090 – 2,355	£25,080 - £28,260

New Victoria is situated more centrally than the subject site with more amenities including a private dining space, games room and cinema room. We would therefore expect New Victoria to achieve higher rents in comparison to the subject site.

Poplin, Manchester – Cheyne Capital

Poplin is a BTR development of 144 x 1, 2 and 3 bedroom apartments. The development is situated immediately to the south of the subject, also within the New Cross neighbourhood.



We are aware of the following asking rents:-

Type	Beds	Rent (PCM)	Rent (PA)
Apartment	1	£1,205 - £1,350	£14,460 - £16,200
Apartment	2	£1,550 - £1,720	£18,600 - £20,640
Apartment	3	£2,160+	£25,920+

Poplin is situated 200m from the subject site offering a key comparable and benefits from a wide range of resident's amenities including a residents lounge, co-working space, private dining and a communal roof terrace. We therefore would expect City View to achieve lower rental values in comparison.

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Angel Gardens

Angel Gardens is a build to rent development situated in the NOMA district of Manchester. Comprising 466 apartments, it has an extensive amenity provision including roof terraces, outside gardens, flexible workspace, resident dining space, resident events & clubs, rooftop sports court, BBQ area, gym and 24/7 concierge. The development is located 0.4 miles to the south of the subject site.



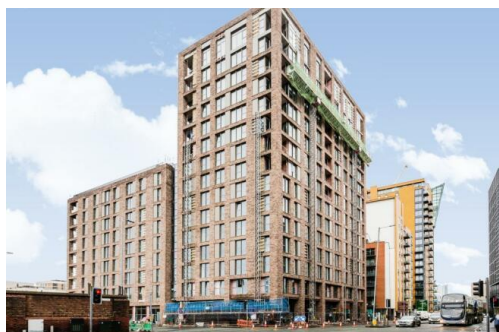
We are aware of the following asking rents:-

Type	Beds	Rent (PCM)	Rent (PA)
Apartment	1	£1,485 - 1,710	£17,820 - 20,520
Apartment	2	£1,900 - £2,400	£22,800 - £28,800

Angel Gardens offers a higher specification and benefits from a wide provision of resident amenity. We would expect lower rents to be achieved at the subject site in comparison.

Ancoats Gardens, Manchester – Beech Developments

Ancoats Gardens is a PRS development of 155 x 1, 2 and 3 bedroom apartments that have been sold to investors. The development is situated 300m to the north of the subject and benefits from a state of the art duplex gym, co-working space and roof-top garden.



We are aware of the following asking rents:-

Type	Beds	Average Rent (PCM)	Average Rent (PA)
Apartment	1	£1,335 - £1,500	£16,020 - £18,000
Apartment	2	£1,650	£19,800

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Ancoats Gardens is situated on the edge of the New Cross development area, offering a similar scheme to the proposed development. We would expect similar rents to be achieved at the subject site in comparison.

In line with the above and our assessment of rental values in nearby comparable locations, we consider CBRE's rents to be reasonable.

We have adopted a blended rent of £27.49 per sq. ft. across a net sales area of 67,782 sq.ft. as detailed below:

Unit Type	No.	Average Unit Size	Average Rent PCM	Average Rent (Per Sq. Ft.)	Total Price
1 Bed Apartment	29	542	£1,314	£29.06	£457,200
2 Bed Apartment	60	727	£1,646	£27.17	£1,185,300
1 Bed Duplex	4	623	£1,475	£28.40	£70,800
2 Bed Townhouse	5	940	£1,960	£25.01	£117,600
3 Bed Townhouse	1	1,244	£2,750	£26.52	£33,000
	99			£27.49	£1,863,900

This is in line with the average rent achieved at Poplin and Anco & Co, two of the most comparable schemes to the proposed scheme in terms of location and specification.

Our ERV is within 0.5% of the ERV adopted by CBRE, within what we would consider a reasonable tolerance, therefore we have adopted the rents adopted by CBRE within our appraisal. We have therefore adopted a blended rent of £27.59 per sq. ft. across the development which results in a total gross rent of £1,870,500.

Operational Expenditure and Voids

CBRE have reduced the total gross annual rental revenue by 25% to reflect the projected minimum operational management costs and voids.

This level of operating expenditure is in line with other new build assets that we have been involved in and we therefore consider it to be acceptable.

This results in a net rent of £1,402,875.

Total Net Revenue

CBRE comment that they have undertaken the BTR appraisals on the assumption that they would be forward funded by an institutional investor with handover at practical completion. They have capitalised the net BTR income at a 4.75% Net Initial Yield which they consider to be the sharpest achievable yield for a prime institutional grade asset in this location in Q2 2024.

CBRE has capitalised the net rental income at a yield of 4.75% which results in a net revenue of £29,534,211, equating to £435.72 per sq.ft and £298,325 per unit.

CBRE have referenced the following BtR investment transactions:

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- 1NQ – Northern Quarter – November 2023: A 261 unit freehold BtR project with full planning permission, situated on Tariff Street and Port Street within the Piccadilly Basin neighbourhood of Manchester. The Maximum commitment equated to £75.6m, equating to £289,655 per plot. CBRE acted as funding agent for the developer and confirm a funding yield of 5%.
- The Astley, Houldsworth Street, Manchester: CBRE are acting as the investment agent of the above stabilised asset at a capital value of £371 per sq.f.t, £238,150 per unit, reflecting a reversionary yield of 4.7% off an ERV of £26.75 per sq.ft.

CBRE's April 2024 investment yield guide confirms sentiment for multi-family residential has weakened but now stable. The NIY for regional prime centres is at 4.35% and regional secondary centres is 4.75%, having softened over the past 12 months.

CBRE also refer to Knight Franks Residential Investment Yield Guide, dated January 2024, which reports income focused transactions of prime, stabilised institutional grade assets have softened to 4.5% in Tier 1 regional cities, and further 4.75% in Tier 2 regional cities. CBRE have considered the subject site akin to tier 2 regional cities, on account of its situation outside of the ring road. We consider this approach to be reasonable.

We are aware of the following investment transactions in Manchester:

Asset	Purchaser	Units	Sale Price	Transaction Type	NIY	Date
Duet	Swiss Life	270	£74,000,000	Investment Purchase	3.65%	Mar-22
Colliers Wharf	Cortland	559	£180,000,000	Forward Purchase	4.00%	Dec-21
Lampwick Quay	PGIM	213	-	Forward Purchase	4.10%	Sep-21
Trilogy	Barings	232	£53,500,000	Investment Purchase	4.00%	Sep-21
The Castings	CDL	352	£73,000,000	Forward Fund	4.60%	Sep-21
Oldham Road	Cheyne Capital	144	£32,000,000	Forward Fund	4.50%	Jan-21

Investment yields within Manchester have ranged from 3.65% to 4.68%. Forward Fund deals have been completed in the order of 4.5% to 4.6%, however have softened since the above transactions, in line with the transactions detailed by CBRE.

We therefore consider the yield of 4.75% adopted by CBRE to be a reasonable.

Total GDV

CBRE have adopted a GDV of £29,534,211, equating to £435.72 per sq.ft and £298,325 per unit. Based on our above review, we consider this to be reasonable and have adopted the same GDV within our appraisal.

5. Development Costs and Timescales

Construction Costs

CBRE have adopted total construction costs as per the cost plan provided by Enabl (dated Q2 2024) of £21,552,110 (Excluding Enabling Works) across the total Gross Internal Area of 90,860 sq. ft.. This reflects a blended rate of £237.20 per sq. ft. We have been provided with a total development cost breakdown that we summarise below:

Cost Item	Cost
Enabling Works	£137,844
Substructure	£999,266
Superstructure	£8,324,147
Internal Finishes	£2,161,304
Fittings, Furnishings & equipment	£1,429,732
MEP Services	£4,649,668
External Works	£298,000
Prelims @ 13.5%	£2,429,995
OH&P	£1,259,997
Contractor Risk	Exc.
Total:	£21,689,953

Whilst we are not qualified cost consultants, we have compared the adopted costs used by CBRE against BCIS data and other comparable developments that we have been involved in.

We have checked the latest BCIS mean and upper quartile rates for 6 storey plus apartments in Manchester and rebased to Q2 2024 (Appendix 1). BCIS data for residential apartments of over 6 storeys provides mean cost of £203 per sq. ft., and an Upper Quartile of £221 per sq. ft.. BCIS excludes external works, contingencies and design fees.

The proposed Phoenix Ironworks development by Manchester Life has 'all in' build costs that reflect approximately £232 per sq. ft.. Phoenix Ironworks ranges from a part 5 storey up to a part 10 storey development and we would therefore expect the proposed development to have similar costs in comparison.

Red Bank Towers NT02, NT03 and NT02 comprising 6 and 8 storey buildings respectively by FEC has proposed 'all in' build costs that reflect approximately £232 per sq. ft. blended across all 3 developments.

Based on the above and accounting for slight inflation on the costs provided on other scheme which were costed in 2022/2023, we consider the costs provided by Enabl to be reflective of other developments and in line with BCIS data, and therefore we consider them to be reasonable. For the purpose of this viability assessment we have adopted the build costs of £237.20 per sq. ft. within our appraisal.

Viability Assessment

Cross Keys, New Cross, Manchester



Other Development Costs

CBRE have also allowed for the following development cost assumptions:

Cost Item	Rate
Enabling Works	£137,844 (adopted from the cost estimate produced by Enabl)
Contingency	5%
Residential FF&E (Furniture Pack)	£5,000 per unit
Professional Fees	8% of construction costs
Investment Sales Agent Fee	1% of GDV
Investment Sales Legal Fees	0.5% of GDV
Purchasers Costs (Land)	SDLT at the prevailing rate, 1% agency fee and 0.8% legal fee.
Purchasers Costs (Investment)	2%. Assumes asset held in SPV. SDLT on share transfer at 0.5%, plus institutional funds agency and legal fees on funding commitment.
Finance Costs	4.75%

Enabling Works: CBRE have included enabling works as per the cost estimate produced by Enabl, dated Q2 2024.

Contingency: CBRE have included a contingency at 5% of the construction costs within their appraisal. We consider the assumption to be reasonable given the scale of the proposals.

Residential FF&E: CBRE have included additional FF&E costs equivalent to £5,000 per unit to cover the additional furniture package costs advised by the applicant. This cost is an addition to the allocated FF&E costs detailed within the Enabl cost plan. We consider this to be a reasonable assumption based on the high quality nature of the proposed scheme which justifies that additional costs, and have adopted this within our appraisal.

Professional Fees: CBRE have included professional fees at 8% of the construction costs within their appraisal. We would usually expect to see professional fees in the order of 8% and 12% for residential developments. We therefore consider the assumption to be reasonable given the scale of the proposals.

Investment Sales Agent Fees: CBRE have included sales fee of 1% of the residential GDV. We consider this to be a reasonable assumption and have adopted this within our appraisal.

Investment Sales Legal Fees: CBRE have allowed for 0.5% of GDV for legal and conveyance fees. This is a reasonable assumption and we have included this within our appraisal.

Purchaser's Costs (Land): CBRE have adopted SDLT at the prevailing rate, 1% agency fees and 0.8% legal fees. These are standard assumptions and we have therefore adopted these within our appraisals.

Purchaser's Costs (Investment): CBRE have assumed the asset to be held in SPV, with a SDLT on share transfer at 0.5%, plus agency and legal fees on funding commitment. This is a reasonable assumption and we have included this within our appraisal.

Viability Assessment

Cross Keys, New Cross, Manchester



Finance: CBRE have adopted finance rate of 4.75%. A coupon rate, which is expected to be equal to the NIY. We consider this a reasonable assumption and have adopted the above finance rate within our appraisal.

Developer's Return

From our knowledge and experience of the development land market, it is usual for residential developers in the North West region to seek a profit margin of 15-20% on GDV. This is typically reduced on BtR schemes to reflect the lower risks. Commercial investors usually require developers to make between 10% and 15% profit on cost for a BTR scheme.

CBRE have adopted a minimum target margin of 12% on GDV, circa 13-15% on the cost. We consider a minimum target margin of 10% on GDV to be more appropriate which reflects the target margin of other BtR schemes we have assessed and reviewed in Manchester, on the assumption of a forward funded agreement.

CBRE have indicated that at the time of our review, the applicant is struggling to obtain a forward funding partner, and therefore are considering amending the delivery mechanism to a speculative debt finance model or potentially change the exit strategy to forward sales. In this event, we would expect the developers profit to be reflective of the added risks (both construction and letting) and would consider a minimum target margin of 15% on GDV against a debt financed model and 18% on GDV against a forward sales exit strategy.

Timescales

CBRE have provided the following indicative timescales:

- 1 month purchase period;
- 5 months pre-construction period;
- 24 months construction period;
- 1 month sale - Investment disposal on practical completion.

This equates to a total development period of 31 months.

We consider the above construction and pre-construction timescales to be reasonable.

6. Development Appraisals

We have used ARGUS Developer software to undertake a development appraisal based on our amended assumptions.

Private Appraisal

We have run a development appraisal assuming no affordable housing is provided on site.

Based on our adopted assumptions including a BLV of £1,395,910, this results in a developers profit of £665,627, reflecting a developers profit margin of 2.35% on GDV. This is significantly lower than the target margin of 10% on GDV which would suggest that the proposals cannot support any contribution for affordable housing.

We attach a copy of the appraisal at **Appendix 1**.

Sensitivity Analysis

The appraisal indicates that the proposed development is unviable based on our adopted residential sales values. We have undertaken a sensitivity analysis to explore the potential changes to the residual value based on an increase to the sales values. We summarise this below:

Construction Cost	Percentage (£/sq.ft)	Rent/ sq.ft						
		-£3	-£2	-£1	0	+£1	+£2	+£3
	-£3	-7.57%	-3.86%	-0.16%	3.53%	7.22%	10.91%	14.59%
	-£2	-£2,112,087	-£1,078,982	-£45,878	£987,227	£2,020,332	£3,053,436	£4,086,541
	-£1	-7.92%	-4.23%	-0.55%	3.14%	6.81%	10.49%	14.16%
	0	-£2,219,287	-£1,186,182	-£153,078	£880,027	£1,913,132	£2,946,236	£3,979,341
	+£1	-8.27%	-4.60%	-0.92%	2.74%	6.41%	10.07%	13.72%
	+£2	-£2,326,487	-£1,293,382	-£260,278	£772,827	£1,805,932	£2,839,037	£3,872,141
	+£3	-8.62%	-4.96%	-1.30%	2.35%	6.00%	9.65%	13.29%

The table shows that the proposed development would need to achieve an increase of c.£2 per sq.ft. in the rental value to return a residual profit margin in excess of minimum risk adjusted developer return of 10% on GDV, which we consider to be an acceptable level to provide S106 contribution. However, we do not think that these values are achievable at the subject site.

7. Conclusion

As instructed, we have reviewed the Financial Viability Statement that was submitted as part of the planning application for the site.

CBRE have adopted a BLV of £1,860,203 within their viability assessment. CBRE have assessed the BLV based on an EUV+ approach. They have assessed the site to have an EUV of £1,430,925 and applied a premium of 30% (£429,278). We consider this to be optimistic and above the BLVs agreed on other residential schemes. CBRE have assessed the EUV of the car park based on a net annual turnover of £99,064, which we consider reasonable. They have then capitalised this at a yield of 6.5% which we consider to be strong for the location of the site, with nearby EUV of car parks adopting a yield in the region of 8%, which we consider to be more appropriate for the site and have adopted in our assessment of EUV. We also consider a 30% premium to be excessive, and again, above the premium adopted on nearby residential developments which have adopted a premium of 20%, which we have adopted in our assessment of the BLV. This results in a BLV of £1,395,910 reflecting £14,100 per plot. This is at the higher end of the agreed BLV's that we have been involved in.

We consider the residential blended rental value assumption of £27.59 per sq. ft. made by CBRE to be appropriate for the scale, specification and location of the proposed scheme. We have therefore adopted the same rental assumptions within our appraisal.

CBRE have adopted build costs of £237.20 per sq.ft. provided in the cost plan by Enabl, dated Q2 2024. We have reviewed these costs against BCIS data and cost plan from other residential developments we have been involved in and consider the costs to be reasonable. We have adopted the costs provided by Enabl within our appraisal.

We consider the additional costs including professional fees, sales and marketing and finance costs to be reasonable.

We consider the construction and sales timescales adopted by CBRE to be reasonable.

CBRE have adopted a minimum target developer's profit margin of 12% on GDV. We consider a target margin of 10% on GDV to be more appropriate for a forward funded BtR scheme. In the event that the delivery mechanism changes to a speculative debt financed model, we would expect the developers return to reflect the additional risks and consider a minimum return of 15% on GDV to be appropriate in this situation.

We have run a development appraisal assuming all apartments would be privately rented, adopting a fixed land value as our BLV of £1,395,910. Based on our adopted assumptions this results in the proposed development achieving a developer profit of £665,627, equating to 2.25% profit on GDV. This is significantly lower than the target risk adjusted developer return of 10% on GDV that would suggest that the development cannot support any contribution for affordable housing and would question viability in general.

We have undertaken a sensitivity analysis to explore the changes to the profit on variables of +/- £1 per sq.ft. to the rental value and constructions costs. This highlights that if rental values increased to by £2 per sq. ft. then the profit on GDV would exceed the target of 10% on GDV which we consider to be an acceptable level to provide S106 contribution.

Viability Assessment

Cross Keys, New Cross, Manchester



On balance we agree with CBRE that no affordable housing can be delivered based on current market conditions. We would however suggest that given the current uncertainty in the funding markets and inflationary pressures on build costs it would be prudent to require a review mechanism in the Section 106 agreement. This will ensure that Manchester City Council capture any additional value created by the development once a funding deal is in place and the development has been constructed so that the actual costs can be fixed and known.

8. Important Note

Finally, in accordance with our normal practice, we would state that this report is for general informative purposes only and does not constitute a formal valuation, appraisal or recommendation. It is only for the use of the persons to whom it is addressed and no responsibility can be accepted to any third party for the whole or any part of its contents. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent, which will not be unreasonably withheld.

Our findings are based on the assumptions given. As is customary with market studies, our findings should be regarded as valid for a limited period of time and should be subject to examination at regular intervals.

Whilst every effort has been made to ensure that the data contained in it is correct, no responsibility can be taken for omissions or erroneous data provided by a third party or due to information being unavailable or inaccessible during the research period. The estimates and conclusions contained in this report have been conscientiously prepared in the light of our experience in the property market and information that we were able to collect, but their accuracy is in no way guaranteed.

Viability Assessment

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Appendices

Viability Assessment

Cross Keys, New Cross, Manchester



Appendix 1 – ARGUS Appraisal Summary

Cross Keys, Manchester

Development Appraisal
Savills
15 August 2024

Cross Keys, Manchester

Appraisal Summary for Phase 1 Scenario Test

Currency in £

REVENUE

Rental Area Summary

	Units	ft ²	Rent Rate ft ²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
1-Bed Apartment	29	15,731	29.18	15,828	344,250	459,000
2-Bed Apartment	60	43,612	27.19	19,765	889,425	1,185,900
1-Bed Duplex	4	2,493	29.12	18,150	54,450	72,600
2-Bed Townhouse	5	4,702	25.52	24,000	90,000	120,000
3-Bed Townhouse	1	1,244	26.53	33,000	24,750	33,000
Totals	99	67,782			1,402,875	1,870,500

Investment Valuation

1-Bed Apartment					
Current Rent	344,250	YP @	4.7500%	21.0526	7,247,368
2-Bed Apartment					
Current Rent	889,425	YP @	4.7500%	21.0526	18,724,737
1-Bed Duplex					
Current Rent	54,450	YP @	4.7500%	21.0526	1,146,316
2-Bed Townhouse					
Current Rent	90,000	YP @	4.7500%	21.0526	1,894,737
3-Bed Townhouse					
Current Rent	24,750	YP @	4.7500%	21.0526	521,053
Total Investment Valuation					29,534,211

GROSS DEVELOPMENT VALUE

29,534,211

Purchaser's Costs	(590,684)
Effective Purchaser's Costs Rate	2.00%
	(590,684)

NET DEVELOPMENT VALUE

28,943,526

NET REALISATION

28,943,526

OUTLAY

ACQUISITION COSTS

Fixed Price	1,395,910		
Fixed Price		1,395,910	
			1,395,910
Stamp Duty		59,295	
Effective Stamp Duty Rate	4.25%		
Agent Fee	1.00%	13,959	
Legal Fee	0.80%	11,167	
			84,422

CONSTRUCTION COSTS

Construction	ft ²	Build Rate ft ²	Cost
Construction Costs	90,860	237.20	21,552,110
Contingency		5.00%	1,109,248

Cross Keys, Manchester

				22,661,358
Other Construction Costs				
Enabling Works			137,844	
FF&E: Apartments	99 un	5,000.00 /un	495,000	
				632,844

PROFESSIONAL FEES

Professional Fees		8.00%	1,774,796	
				1,774,796

DISPOSAL FEES

Sales Agent Fee		1.00%	289,435	
Sales Legal Fee		0.50%	144,718	
				434,153

TOTAL COSTS BEFORE FINANCE
26,983,483
FINANCE

Debit Rate 4.750%, Credit Rate 0.000% (Nominal)				
Land			178,970	
Construction			1,115,446	
Total Finance Cost				1,294,416

TOTAL COSTS
28,277,899
PROFIT
665,627
Performance Measures

Profit on Cost%	2.35%
Profit on GDV%	2.25%
Profit on NDV%	2.30%
Development Yield% (on Rent)	4.96%
Equivalent Yield% (Nominal)	4.75%
Equivalent Yield% (True)	4.89%
IRR% (without Interest)	6.73%
Rent Cover	6 mths
Profit Erosion (finance rate 4.750)	6 mths

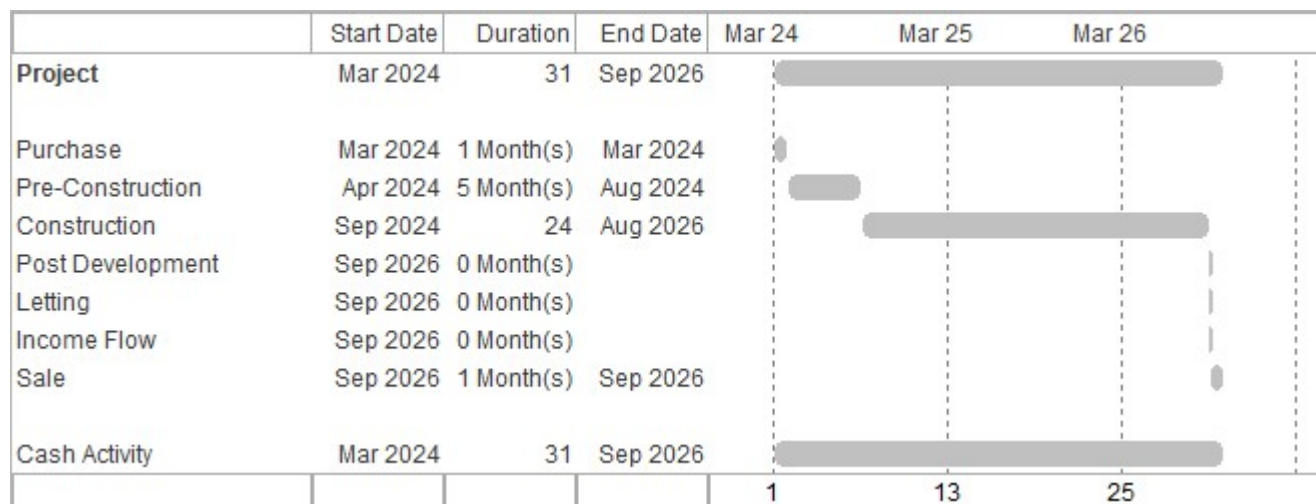
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**Net MRV
at Sale**
344,250
889,425
54,450
90,000
24,750
1,402,875

Cross Keys, Manchester

Project Timescale	
Project Start Date	Mar 2024
Project End Date	Sep 2026
Project Duration (Inc Exit Period)	31 months

1. Scenario Test



Cross Keys, Manchester
Detailed Cash flow Phase 1 (Scenario Test)
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	001:Mar 2024	002:Apr 2024	003:May 2024	004:Jun 2024	005:Jul 2024
Monthly B/F	0	(1,480,332)	(1,501,801)	(1,542,908)	(1,591,974)
Revenue					
Cap - 1-Bed Apartment	0	0	0	0	0
Cap - 2-Bed Apartment	0	0	0	0	0
Cap - 1-Bed Duplex	0	0	0	0	0
Cap - 2-Bed Townhouse	0	0	0	0	0
Cap - 3-Bed Townhouse	0	0	0	0	0
Disposal Costs					
Purchaser's Costs	0	0	0	0	0
Sales Agent Fee	0	0	0	0	0
Sales Legal Fee	0	0	0	0	0
Unit Information					
Acquisition Costs					
Fixed Price	(1,395,910)	0	0	0	0
Stamp Duty	(59,295)	0	0	0	0
Agent Fee	(13,959)	0	0	0	0
Legal Fee	(11,167)	0	0	0	0
Construction Costs					
Con. - Construction Costs	0	0	0	0	0
Enabling Works	0	(13,813)	(31,138)	(38,016)	(34,446)
FF&E: Apartments	0	0	0	0	0
Contingency	0	(691)	(1,557)	(1,901)	(1,722)
Professional Fees					
Professional Fees	0	(1,105)	(2,491)	(3,041)	(2,756)
Net Cash Flow Before Finance	(1,480,332)	(15,609)	(35,186)	(42,958)	(38,925)
Debit Rate 4.750%	4.750%	4.750%	4.750%	4.750%	4.750%
Credit Rate 0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Finance Costs (All Sets)	0	(5,860)	(5,921)	(6,107)	(6,277)
Net Cash Flow After Finance	(1,480,332)	(21,469)	(41,108)	(49,065)	(45,202)
Cumulative Net Cash Flow Monthly	(1,480,332)	(1,501,801)	(1,542,908)	(1,591,974)	(1,637,176)

Cross Keys, Manchester

Detailed Cash flow Phase 1 (Scenario Test)

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Detailed Cash flow Phase 1 (Scenario Test)

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Detailed Cash flow Phase 1 (Scenario Test)

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Detailed Cash flow Phase 1 (Scenario Test)

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027:May 2026 (24,583,933)	028:Jun 2026 (25,621,152)	029:Jul 2026 (26,522,506)	030:Aug 2026 (27,269,270)	031:Sep 2026 (27,843,746)
0	0	0	0	7,247,368
0	0	0	0	18,724,737
0	0	0	0	1,146,316
0	0	0	0	1,894,737
0	0	0	0	521,053
0	0	0	0	(590,684)
0	0	0	0	(289,435)
0	0	0	0	(144,718)
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
(813,718)	(692,015)	(555,542)	(404,299)	0
0	0	0	0	0
(18,689)	(15,894)	(12,759)	(9,286)	0
(41,620)	(35,395)	(28,415)	(20,679)	0
(66,593)	(56,633)	(45,464)	(33,087)	0
(940,620)	(799,937)	(642,181)	(467,351)	28,509,373
4.750%	4.750%	4.750%	4.750%	4.750%
0.000%	0.000%	0.000%	0.000%	0.000%
(96,598)	(101,417)	(104,583)	(107,125)	0
(1,037,219)	(901,354)	(746,764)	(574,476)	28,509,373
(25,621,152)	(26,522,506)	(27,269,270)	(27,843,746)	665,627

Robert Waterhouse MRICS
Associate

+44 (0) 161 244 7721
+44 (0) 7870 973 351
robert.waterhouse@savills.com

Adam Mirley MRICS
Director

+44 (0) 161 602 8658
+44 (0) 7967 347 620
adam.mirley@savills.com