

Financial Viability Statement | Non-Technical Executive Summary

Room2 Hometel, Piccadilly

October 2023

1. Declaration

Instruction and Purpose of Report

- 1.1 Northside (Manchester) Ltd. (The applicant) is seeking full planning permission for a new 34 storey, 251 bedroom aparthotel with ancillary public facing uses including a new restaurant, bar, café, exhibition space and museum, at 12-16 Piccadilly.
- 1.2 The adjacent Grade II Listed former Union Bank building, is to also be incorporated into the proposed development.
- 1.3 The site has a long standing history of consented hotel developments which have not been implemented. Therefore the Council has requested evidence, which demonstrates that the scheme is viable and therefore deliverable.
- 1.4 Within this context Avison Young has been appointed by the applicant to prepare an independent assessment of scheme viability.

Basis of Reporting

- 1.5 Our report has been prepared in accordance with the RICS Professional Statement Financial Viability in Planning: Conduct, and Reporting, 1st edition, May 2019. This document sets out mandatory requirements on conduct and reporting in relation to viability assessments for planning in England to demonstrate how a reasonable, objective and impartial outcome should be arrived at.
- 1.6 Further to the mandatory RICS reporting requirements the assessment has also been undertaken with due regard to the RICS Guidance Note: Assessing viability in planning under the National Planning Policy Framework 2019¹ for England, 1st edition March 2021 and the latest Planning Policy guidance (PPG) and National Planning Policy Framework (NPPF) guidance relating to viability.

Objectivity, Impartiality and Reasonableness

- 1.7 The assessment has been carried out by an RICS member who has acted with objectivity, impartially, without interference and with reference to all appropriate available sources of information. Furthermore the RICS member who has undertaken this report is a suitably qualified practitioner and RICS Registered Valuer with sufficient skills, expertise and knowledge to provide a robust and objective assessment. The RICS member has extensive experience in advising on financial viability assessments and up-to-date knowledge of the planning system gained through previous viability experience and working alongside Avison Young's local and national planning teams.
- 1.8 We confirm that we have advocated, and will advocate reasonable, transparent and appropriate engagement between the parties at all stages of the viability process.
- 1.9 Neither Avison Young or the RICS member has undertaken an area-wide viability assessment concerning existing or future planning policies against which the proposed scheme could be assessed in the future.
- 1.10 All inputs into this assessment have been reasonably justified.
- 1.11 We confirm that that adequate time as been provided to produce this report.

¹ It should be noted that although the latest version of the NPPF is July 2021 the guidance remains valid.

Conflict of Interest

- 1.12 We confirm that to the best of our knowledge, no conflict of interest arises in preparing the advice requested.

Contingent Fee

- 1.13 In preparing this assessment, no performance-related or contingent fees have been agreed.

Status

- 1.14 The advice contained within this report does not constitute a valuation of the site in accordance with RICS Valuation – Global Standards 2022 and should not be relied upon as such².
- 1.15 This report has been prepared for the sole use of our client, based on the scope of work and on the terms and conditions agreed with our client. Whilst facts have been rigorously checked, Avison Young can take no responsibility for any damage or loss suffered because of any inadvertent inaccuracy within this report. Information contained herein should not, in whole or part, be published, reproduced, or referred to without prior approval. Any such reproduction should be credited to Avison Young.

² The assessment is prepared for assessing the viability of development to assist with planning matters, either plan/policy making, or decision taking. The assessment therefore constitutes an exception from valuation technical and performance standards ('VPS') 1 – 5 of the Red Book and is not a formal valuation and should not be relied upon as such.

2. Executive Summary

- 2.1 The assessment has been undertaken on a residual cashflow basis to determine the level of profit from the scheme, using industry standard Argus Developer software.
- 2.2 The key viability assumptions adopted by Avison Young when undertaking the assessment are summarised in Table 2.1.

Table 2.1 – Key Viability Assumptions

Input		Comments
GDV	£360,159 per room	The bar and restaurant will be leased to an operator and has an estimated value of £5,400,000. The rooms value is circa £85,000,000, which is £339,000 per bed. The total GDV estimate is, therefore, £90,400,000, which equates to £360,159 per room.
Construction costs	£209,868 per room	Cost based on Stage 2 Cost Plan from Equals.
S106 /S278 Contributions	£20,000	Provision allowance.
Developers Contingency	5%	Applied to the construction costs.
Project fees	10%	Applied to construction costs.
Set up costs	£13,152 per bed	Includes costs for furniture and equipment, rights of light compensation, marketing and branding etc.
Land Value	£5,000,000	-
Interest	9%	-

Target Profit

- 2.3 Planning Practice Guidance (PPG) states³ that for the purpose of plan making an assumption of 15% to 20% of gross development value (GDV) may be considered a suitable return to developers to establish the viability of plan policies. It further states that 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. It also states that alternative figures may also be appropriate for different development types.
- 2.4 Whilst the reference within PPG is clearly aimed towards viability in plan making many practitioners also refer to the guidance within PPG for viability in decision making. However, at the application and decision-making stage the level of return needs to have regard to the scale and complexity of the project in question, its cash efficiency, the scale of investment required and the embedded risk in delivering the project, which correlates with the guidance set out within PPG.
- 2.5 With respect to this project, the following points are highlighted:
- The project is a large complex project in an urban location on a constrained site including the refurbishing of a listed building, enhancing the construction risks.

³ Paragraph: 018 Reference ID: 10-018-20190509

- Current cost estimates are subject to a much higher level of uncertainty than would normally be the case due to continuing cost inflation.
- Increasing interest rates, together with wider economic concerns are causing developers and investors to reprice assets. The market is still in a period of 'pricing discovery' meaning there is a higher level of uncertainty on the schemes estimated development value than would normally be the case.

2.6 Because, this assessment is focussed on demonstrating 'deliverability' of the scheme the profit included in the assessment reflects the applicants 'target profit'. In this instance the applicant / developer will own and operate the asset once completed and, in this scenario, it is normal to base profit on an IRR approach, with a sense check against profit on cost.

2.7 A typical expected return would be an IRR of circa 20% but the distribution of IRR's varies widely, with a tolerance for as low as 15%. With respect to a profit on cost we would typically expect 15% with a tolerance for as low as 10%.

Viability Assessment Results and Conclusions

2.8 The assessment has demonstrated that the scheme generates a profit of £11.65m which equates to an IRR of 18.40% and a profit on cost of 14.78%, which would enable the developer/applicant to proceed with the scheme.

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