Room2 Hometel, Piccadilly

Viability Statement - Addendum

April 2024

Contents

1. Introduction 2
2. Scheme Proposals 5
3. Apprasial Assumptions 6
4. Apprasial Results 7
5. Conclusions 8

Appendices

Appendix I – Scheme Height Comparisons

Appendix II – Development Appraisal for Reduced Scheme

Title: Room2 Hometel Financial Viability Statement
Prepared by: Dale Robinson, MRICS
Status: Final
Draft date: © April 2024
For and on behalf of Avison Young (UK) Limited

1. Introduction

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 was appointed by the Applicant to prepare an independent assessment of scheme viability. This report is a technical annex to the application and is intended to form a material consideration in the eventual determination of this application.

1.5 Following submission of a viability report the case officer enquired into the following matters.

- Why intervention is needed in the Listed Building
- Why the additional height, in comparison to the previous scheme, is required to make the scheme viable.
- Why the Room2 proposal is viable in comparison to the previous Toyoko Inn consent (planning application ref: 121014/FO/2018)

1.6 In responding to the first point, I understand that the justification for the interventions to the listed building are to create a better scheme, as set out within the Design and Access Statement[1].

1.7 With respect to the second point, it is challenging to compare the schemes. The Applicant has confirmed that the Toyoko scheme was fundamentally a different product with very small rooms which were around half the size of what is currently proposed. Toyoko abandoned the scheme during Covid and then the significant inflationary pressures on build costs meant that the scheme became unviable.

1.8 In addition, to further justify the interventions / additional height, the Toyoko scheme wasn't compliant in a number of aspects ranging between safety, functionality and accessibility. In resolving these shortfalls to deliver a compliant building, pressure was placed on the layouts which impacted hotel room numbers and overall scheme viability. The main issues included:

- Under provision of fire escape stairs, two needed, only one provided in the consented scheme[2]
- Lift shafts significantly undersized to meet the needs of building.
- Insufficient riser provision on each floor.
- Significant under provision of space allocated for plant rooms.
- ENW substation undersized.
- Insufficient space allocation for back of house / ancillary facilities.
- Non-compliant ground floor fire escape and fire brigade access.
- Accessibility / inclusivity challenges with multiple finished floor levels at ground floor.

1.9 The result of addressing these issues was a larger protruding core, increased basement size to house plant and more space allocated to back of house facilities and fire escape provision.

[1] Pages 39 to 47.
[2] The revised regulatory framework (post Grenfell) meant there is now a requirement for two stairs to the full height of the building rather than the single staircase proposed in the Toyoko scheme.

1.10 In addition, the clients' aspirations to create a Net-zero carbon exhibition space on the first floor was included as a publicly accessible amenity space instead of allocating to additional hotel rooms.

1.11 A culmination of the above resulted in the scheme height being increased to improve scheme viability.

1.12 In terms of the third and final point, the case officer confirmed that the viability of a scenario, whereby the height of the Room2 scheme is reduced to the same height of the consented scheme is required. The purpose of this addendum is to consider the viability of this scenario.

Methodology and Basis of Reporting

1.13 Our methodology and the basis of our reporting is that same as that set out within our original report.

2. Scheme Proposals

2.1 The Applicant's architects[3] confirmed that a reduced scheme to match the height of the previous consented scheme would result in a building with ground floor plus 23 storeys. Please refer to the tower height comparisons at Appendix I.

2.2 The reduced scheme accommodates 223 bedrooms and extends to a GIA of 11,055sq.m (118,999sq.ft). A breakdown of the total GIA is provided in Table 2.1.

Table 2.1 – Comparison of Scheme GIA

Element	Reduced Scheme		Current Proposal		Difference	
	Sq.m	Sq.ft	Sq.m	Sq.ft	Sq.m	Sq.ft
Hotel	10,700	115,178	12,369	133,143	-1669	-17,965
Café & Restaurant	139.5	1,502	1,000	10,764	-860.5	-9,262
Museum/Exhibition/ Conference Use	216	2,325	216	2,325	-	-
Totals	**11,055.5**	**119,005**	**13,585**	**146,232**	**-2,529.5**	**-27,227**

Source: Bennett Associates

[3] Bennett Associates

3. Appraisal Assumptions

3.1 Reflecting the reduced scale of development the estimate of GDV has been updated.

3.2 Our specialist hotel team has calculated the GDV at £64,300,000, which is a reduction in value of £26,100,000 from the GDV based on the current proposals (i.e £90,400,000).

3.3 With respect to the GDV the revised/reduced scheme has the following impacts:

- The reduced scheme does not include the larger more profitable bedrooms; therefore, we have reduced the ADR as well as the rooms cost to reflect reduced Online Travel Agent commission and the added cost of servicing larger/more premium bedrooms.
- The reduced scheme would achieve a marginally higher stabilised occupancy as the demand would fill a smaller supply of bedrooms.
- The significant reduction in food and beverage (i.e. café and restaurant) means the hotel is slightly less attractive to the market.
- The reduced scheme is less attractive from a trading perspective therefore we have reflected this by softening the yield by 50bps.

3.4 With respect to the costs, our previous appraisal was based on costs from Equals which equated to circa £3,875psm (£360psf). For the purpose of this addendum we have maintained this cost but applied it to the reduced floor area. The reduced scheme being circa 11,056sq.m (119,00sq.ft) in total, which results in a total construction cost of £42,840,000, thus the revised scheme is £9,836,967 cheaper to build.

3.5 All other assumptions remain as per our previous appraisal.

4. Appraisal Results

4.1 The results of this addendum are summarised in Table 6.1 and a copy of our appraisal is included at Appendix II. For comparison purposes, we have also shown the results against the findings from our original report.

Table 6.1 – Summary of Base Appraisal

Item	Reduced Scheme	Current Proposal (Original Assessment)	Difference
		Value/Cost	
Total GDV (A)	**64,300,000**	**£90,400,000**	**(£26,100,000)**
Land purchase price	£5,000,000	£5,000,000	-
Stamp duty and purchaser's costs	£340,000	£340,000	-
Construction costs	£42,840,000	£52,676,868[4]	(£9,836,868)
Developers' contingency (at 5% of construction costs)	£2,142,000	£2,633,843	(£491,843)
Additional set up costs	£3,301,183	£3,301,183	-
S106 costs	£20,000	£20,000	-
Project fees (at 10% of construction costs)	£4,284,000	£5,267,687	(£983,687)
Finance costs	£8,179,988	£9,518,358	(£1,338,370)
Total Costs (B)	**£66,107,171**	**£78,757,939**	**(£12,650,768)**
Profit (A – B)	(1,807,171)	£11,642,061	(-£13,449,232)
Profit on cost	-2.73%	14.78%	(17.51%)
IRR	-	18.40%	

4.2 The reduced scheme is not viable generating a deficit of circa £1.8m (-2.73% of costs).

4.3 In comparison the current development proposals are viable, generating a profit of circa £11.65m which equates to an IRR of 18.40% and a profit on cost of 14.78%. Both of these indices are sufficient to the developer / Applicant for them to bring the site forward for development.

[4] The figure in our appraisal is fractionally different to that in the cost plan due to rounding.

5. Conclusions

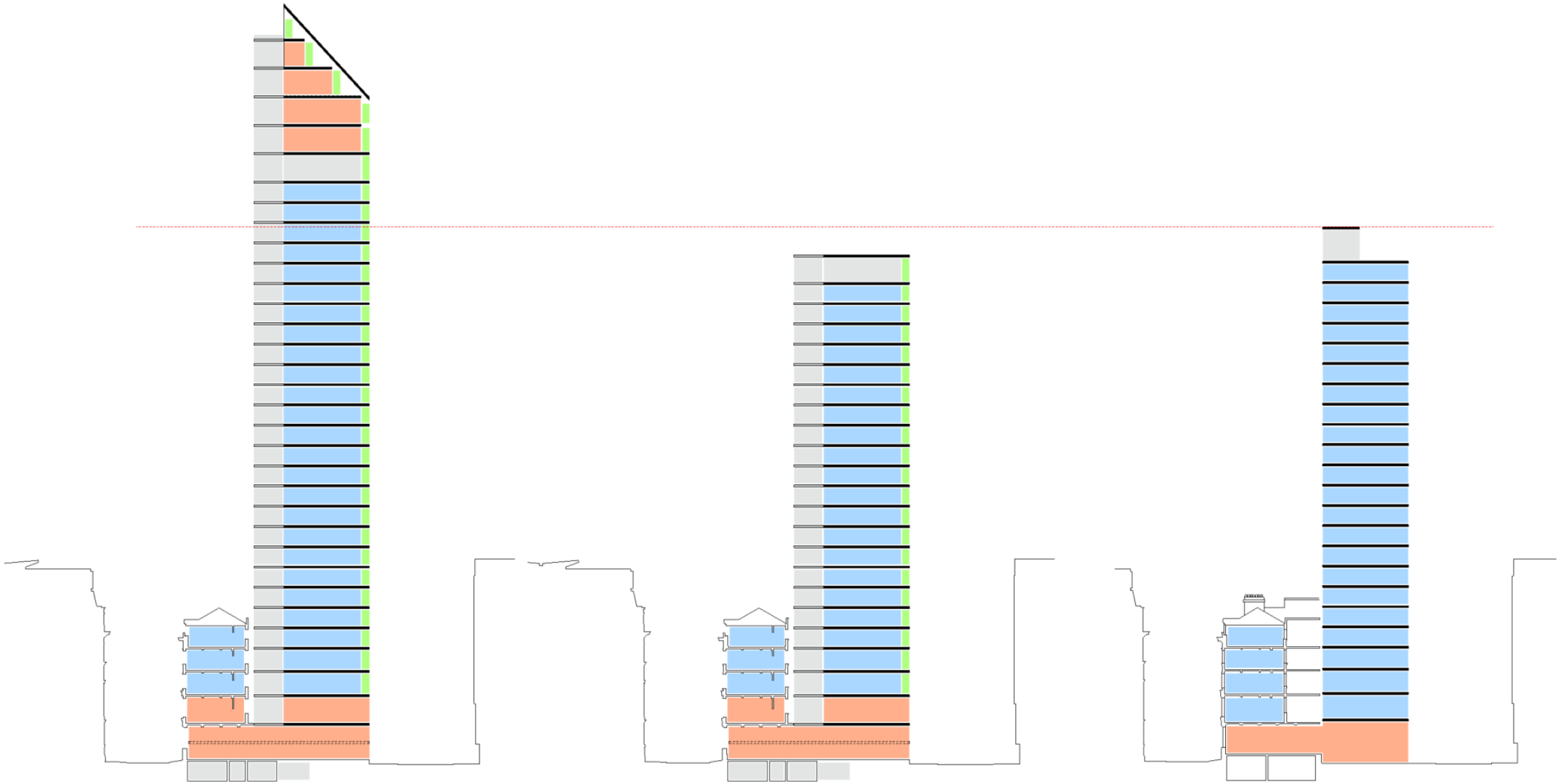
5.1 The purpose of this addendum was to consider the viability of a reduced scheme, of the same height as the previous consented Toyoko scheme.

5.2 This assessment has demonstrated that a reduced scheme would be unviable in comparison to the current proposals which are sufficiently viable to enable the developer / applicant to bring the site forward for development.

Appendix I

Height Comparisons

Room2 hometel Manchester
Bennetts Associates
2211(SK)0045 23 storey tower height comparison
06.03.24 KC



Appendix II

Reduced Scheme Appraisal

Room2, Hometel Piccadilly, Manchester

Base Appraisal

Development Appraisal
Avison Young (UK) Ltd
28 March 2024

APPRAISAL SUMMARY — AVISON YOUNG (UK) LTD

Room2, Hometel
Piccadilly, Manchester

Appraisal Summary for Phase 1

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
Room revenue	1	119,000	540.34	64,300,000	64,300,000
NET REALISATION				**64,300,000**	
OUTLAY					
ACQUISITION COSTS					
Fixed Price		5,000,000			
Fixed Price			5,000,000		
				5,000,000	
Stamp Duty and PC's			340,000		
Effective Stamp Duty Rate		6.80%			
				340,000	
CONSTRUCTION COSTS					
Construction	**ft²**	**Build Rate ft²**	**Cost**		
Room revenue	119,000	360.00	42,840,000		
Developers Contingency		5.00%	2,142,000		
				44,982,000	
Other Construction					
Additional set up costs			3,301,183		
				3,301,183	
Section 106 Costs					
Section 106 Costs			20,000		
				20,000	
PROFESSIONAL FEES					
Project Fees		10.00%	4,284,000		
				4,284,000	
FINANCE					
Debit Rate 9.000%, Credit Rate 0.000% (Nominal)					
Land			2,284,337		
Construction			5,425,589		
Letting			470,062		
Total Finance Cost				8,179,988	
TOTAL COSTS				**66,107,171**	
PROFIT					
				(1,807,171)	
Performance Measures					
Profit on Cost%		-2.73%			
Profit on GDV%		-2.81%			
Profit on NDV%		-2.81%			
IRR% (without Interest)		6.96%			
Profit Erosion (finance rate 9.000)		N/A			

Room2, Hometel
Piccadilly, Manchester

Contact details

Enquiries

Dale Robinson, MRICS
07810 757422
dale.robinson@avisonyoung.com

Visit us online
avisonyoung.com