



79

Mosley Street

St Peter's Square
Manchester, M2 3LQ

Market Context and Viability Paper

May 2023

79

Mosley Street

Introduction

This paper has been compiled by office / workspace real estate consultancy OBI Property who specialise in both occupation and investment agency in Manchester city centre. The advice relating to the ground floor F&B, leisure and retail uses has been provided by experts Lyons Thompson Letts Property Consultants.





Background and options for the site

Whilst a façade retention scheme has been granted planning consent for the property, it is the preference of the new owners to abandon this façade retention scheme and instead to progress a scheme which leaves the building in its current form. In order for this to be viable, some internal alterations are needed to the building's existing layout. These alterations are minor when compared to the complete internal demolition as approved under the façade retention consent.

Without these internal alterations the building is not viable in its existing layout. Leaving the owner with the choice of either continuing the current façade retention scheme, or mothballing the property until the market becomes less uncertain.

This document seeks to explain the viability arguments behind these alterations.

It is understood that the starting point for any heritage considerations is to seek zero interference with a historical building. However in this instance the building is not commercially viable with zero interference. This principle has been well established by the 2016 feasibility studies associated with the façade retention scheme, and is self-evident insofar as the property has sat empty for 14 years despite being located within one of Manchester's prime commercial workspace locations.

Floors 1-3, Workspace / Office Use Proposed Alterations

There is a former hoistway within the rear half of the building which protrudes internally from the Back George Street elevation as shown in image A Appendix 2. This hoistway has undergone various modifications in the past and has been boarded over at each floor level and has historically had all the doors and some of the walls removed. This hoist reduces usable floor area and restricts light into an already dark part of the floor plate within the building.

There is a secondary staircase which discharges onto Princess Street as shown in image A Appendix 2. This staircase is also located within the rear half of the building and is redundant from a circulation point of view. If the staircase is retained, then there would be a requirement to effectively extend it by forming a protected fire lobby and wheelchair refuge area in its location.

The location of the staircase is such that as well as reducing the lettable floor area, it also serves to partially close off the attractive visual aspect over Princess Street. The staircase and the hoist both give a more cellular feel to the office, with less daylight ingress and less open space available. The narrow area of office between the lightwell and the Princess Street elevation becomes even more of a pinch point with the inclusion of the staircase.

The office suites are heavily compromised by the historic supporting columns which run vertically through the building. These columns are especially concentrated in the rear of the floor plates where there are 12 situated closely together in a tight knit formation. It is hoped that creative workspace planning can accommodate these columns and still provide a high quality offering. To achieve this the floor space needs to be otherwise clear from obstructions.

The staircase and hoist will restrict occupational demand and limit the rental values achievable in this space to the extent where the scheme become unviable. Their removal is proposed, this is considered unavoidable

We are aware that the removal of a staircase is treated as a significant intervention from a heritage standpoint, and so have set out below the viability case for this intervention.

We do also stress at this point, that the interventions necessary to make this newly proposed scheme viable are infinitely less harmful to the building than are the interventions already approved under the current planning and listed building consents.

Manchester Office Market Overview

The Manchester office market has remained resilient during 2022 with take-up reaching 1,192,569 sq.ft, which is above the 10 year average of 1,090,000 sq.ft. 79 Mosley Street is located within the St Peter's Square & Civic Quarter, which is home to some of Manchester's most notable corporate occupiers and rental levels of £40.00 psf have been achieved within this location for prime new build Grade A workspace.

However, the proposed refurbishment of 79 Mosley Street will provide smaller character floor plates that would not appeal to the corporate occupiers located within No.1 & No.2 Peter's Square and Landmark. The target market for the building will be occupiers considering space in either Manchester's Central Core, or the Portland and Oxford Corridor, which are sub-districts, which sit adjacent to St Peter's Square. Within the Central Core there are character refurbished buildings and Grade A refurbished buildings, which offer similar sized floor plates to 79 Mosley Street and within Portland and Oxford Corridor there is a concentrated number of refurbished former warehouse buildings that have similar characteristics to 79 Mosley Street. Therefore, to review occupier demand for refurbished workspace in 79 Mosley Street it is sensible to review the occupier take-up within the Central Core and Portland and Oxford Corridor.

During 2022 the Central Core was Manchester's best performing sub-district in Manchester city centre in terms of the number of transactions undertaken as it concluded 29% of the total annual transactions. The Portland & Oxford Corridor was the 3rd best performing district during 2022 in terms of number of transactions undertaken and this demonstrates that there is strong demand for workspace in close proximity to St Peter's Square.

The floor plates within 79 Mosley Street are circa 4,500 sq.ft, which is an active size band for occupier demand and during 2022, 77% of all of the transactions completed took place within suites that were under 5,000 sq ft. The level of activity within this size band has been consistent for over 10 years within Manchester city centre and the refurbished floors within 79 Mosley Street can meet this occupier demand. During 2022, 22% of total transactions were undertaken within the 2,500 – 5,000 sq.ft size band.

A further detailed analysis of the occupier take-up shows that during 2022 there was 229,455 sq.ft transacted at an average transaction size of 3,374 sq.ft and within the Portland & Oxford Corridor, 75,780 sq.ft was transacted within an average transaction size of 2,706 sq.ft. 25% of the total annual take-up was concluded within these two sub-districts of Manchester city centre and demonstrates there will be occupier demand for full floors and sub-divided floors within 79 Mosley Street. It should also be noted that During 2022, 94,777 sq.ft was transacted in the St Peter's Square and Civic Quarter sub-district with an average transaction size of 11,847 sq.ft. The large average transaction size is because the majority of supply in this district is within the large floor plates within new build Grade A schemes in this location.

Although prime Grade A rental levels within St Peter's Square & Civic Quarter are £40.00 psf there is limited other comparable rental evidence for refurbished workspace in this district. Both 101 Barbirolli and Windmill Green have been fully refurbished to provide Grade A workspace in large floor plate buildings with rental levels ranging from £31.50 psf - £34.00 psf but are not reflective of the workspace that will be delivered in 79 Mosley Street. The only refurbished character build-

ing with available workspace in this sub-district is within St Georges House, which was subject to a façade retention and the quoting rent within this building is £22.50 psf.

Our detailed review of occupier take-up has focussed on the Central Core and Portland and Oxford Corridor and we have reviewed rental levels in these two sub-districts. The table below shows the current quoting rents within the Portland and Oxford Corridor for refurbished former warehouse buildings. These buildings have all been the subject to comprehensive refurbishments to provide Grade A character workspace and the difference in quoting rents is due to the configuration of the floor plate. The comprehensive refurbishment of 40 – 46 Princess Street will be completed in April 2023 and will deliver a higher specification building with wider amenity than the competition but the quoting is a reflection of the configuration of the floor plate.

QUOTING RENTS WITHIN THE PORTLAND AND OXFORD CORRIDOR

BUILDING	AVAILABILITY (SQ.FT)	RENT (£PSF)
127 Portland Street	4,280	£27.00
40 - 46 Princess Street	c.4,500 5,250 sq.ft	£25.00
52 Princess Street	7,301	£27.50
54 Princess Street	3,818	£24.00
56 Princess Street	3,531	£24.00
105 – 107 Princess Street	3,911	£27.50

The rental levels within the Central Core have a wider range than the Portland and Oxford Corridor as there is better quality workspace available in this location. Within Central Core new build Grade A workspace is available in buildings such as 11 York Street at quoting rents of £38.50 psf.

Within the refurbished buildings the rental values vary due to the quality of the refurbishment and the level of building amenity that is offered to the occupiers. There is a growing trend of occupiers demanding more building amenity and the full refurbishment of Freetrade Exchange will deliver a building with a quoting rent of £36.00 which psf will provide occupiers with access to a free gym, sauna and business lounge.

QUOTING RENTS WITHIN THE CENTRAL CORE

BUILDING	AVAILABILITY (SQ.FT)	RENT (£PSF)
Freetrade Exchange	c.5,300 (4 floors)	£36.00
42 Fountain Street	c.3,500 (4 floors)	£30.00
10 Chapel Walks	c.4,500 5,250 sq.ft	£27.50
Lexicon	c. 4,600 sq.ft	£26.50

Estimated Office Rental Values

The analysis above demonstrates that if the building can be refurbished to position in a way that it can attract both the professional service occupiers who seek space in the Central Core as well as occupiers from the creative sectors who acquire space in the Portland & Oxford Corridor then the building will be brought back into commercial use.

There have been commercial viability appraisals undertaken for both the scheme that retains the staircase and hoistway and for the scheme that removes the staircase and hoistway. Rental values for both of these options are set out below:

OPTION 1:

Retention of Staircase and hoistway

QUOTING RENT: £22.00 - £22.50 PSF.

The configuration of the floor plate makes it very inefficient and there are challenges from a space planning point of view, which would result in occupiers choosing competing schemes in similar locations with more efficient floor plates. The current lightwell and its close proximity to the Princess Street elevation combined with the concentrated large number of cast iron columns in rear of the floor plate already make the space challenging and the introduction of the fire lobby further narrows the floor plate on the Princess Street elevation.

If the floors are sub-divided the rear of the floor plate would be extremely difficult to let unless rent was heavily discounted and therefore a strategy to sub-divide floors could not be followed.

The review of the Portland Street and Oxford corridor has shown a range of rents with the highest rents being achieved on the buildings with unincumbered floor plates. Although 79 Mosley Street is a prime commercial workspace location we have discounted the rental value below the refurbishment schemes in Princess Street and Portland Street because there is a large percentage of the floor plate that occupiers will consider to be of low value.

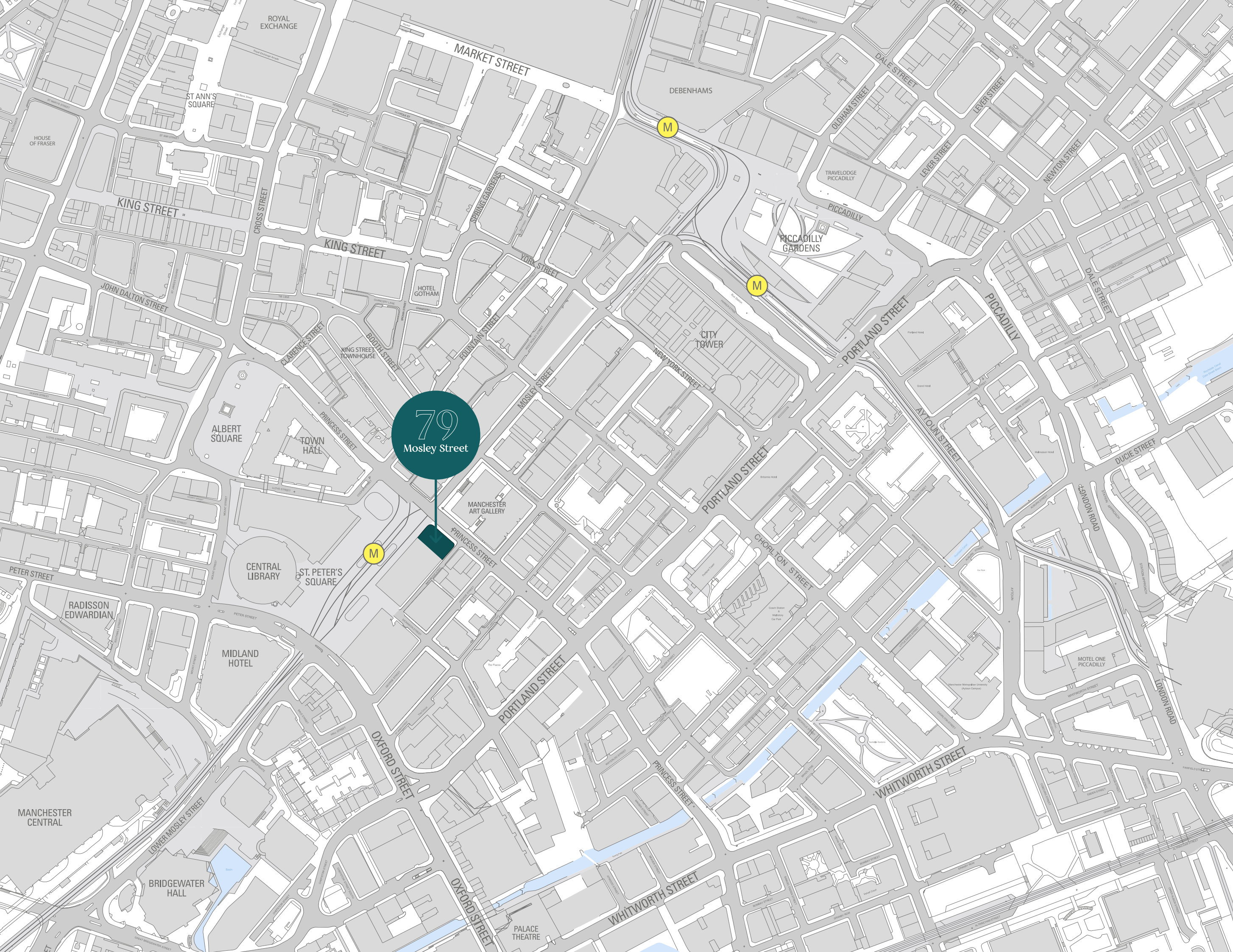
OPTION 2:

Removal of Staircase and hoistway

QUOTING RENT: £30.00 PSF

The removal of the staircase reduces the impact of the narrow-elongated area that was on the Princess Street elevation within Option 1 but the other challenges of floor plate remain. The floor plate would be capable of sub-division but the rear suite would be less attractive than the area of the floor plate overlooking St Peter's Square. The leasing strategy should aim to lease the building on a floor-by-floor basis and a CAT B fit out (tenant fit out and furnish) may need to be speculatively delivered to demonstrate to occupiers how the other limiting factors of the floor plate could be accommodated within a tenants fit out.

The demand for speculative CAT B fit outs is a growing trend within the market but it would not be a successful approach in Option 1 as it would only heighten the fact that areas of the floor plate are unusable.



Ground Floor, F & B / Leisure / Retail Uses Proposed Alterations

In preparing this advise we have raised concerns over the bus stop which currently blocks the Princess Street entrances. We have been advised by our client that they are in discussions with GMPT about relocating this bus stop, and our opinions on occupier demand and market rental values are based on the assumption that this bus stop is no longer present.

It is anticipated that given the location of the property, the ground floor (including ancillary basement space) will attract a strong level of interest from F&B operators.

This demand will come from well established bar and restaurant operators – for whom the sweet spot of floor plate is approximately 4,000 – 5,000 sq ft, but also from smaller niche bar and café operators who would wish to let smaller amounts of space. Requirements for 4,000 – 5,000 sq ft would be met by renting the full ground floor, quite possibly with some of the basement as ancillary space. Requirements for smaller sized units could be met by dividing the ground floor and basement into as many as four separate units.

We have been asked to comment on the effect that removing the Princess Street staircase and the Back George Street hoistway will have on rental values for this category of use.

OPTION 1:

Retention of staircase and hoistway

As can be seen in image B Appendix 2, the most instant effect of retaining the Princess Street staircase is that the ground floor gets split in two by the fire corridor. This removes the possibility of letting the whole ground floor to one occupier.

As such, Option 1 provides two distinct ground floor units shown on the plans as Ground floor front and Ground floor rear. Each of which could potentially be let with ancillary basement – although it is not expected that a small ground floor unit will require additional basement space at a competitive rental level. It is instead anticipated that higher rentals will be achieved overall if the basement spaces are let separately.

In this configuration, the Ground floor front unit would still generate strong demand. It occupies the prominent front location with excellent footfall through St Peters Square. The smaller footplate being offered here should not present a difficulty in lettability of the space, we envisage strong demand from coffee shops, snack bars and niche retailers. **For this unit we estimate market rental value of £35.00 psf.**

Unlike the front, the Ground floor rear unit is quite severely impacted by the retention of the stairs and hoistway – in particular the stairs. The impact can be seen visually in image B Appendix 2

The raised level of the ground floor rear unit makes it necessary for stepped access from street level, along with appropriate DDA access. This access arrangement is then further complicated by the protected fire corridor exiting the building from the Princess Street staircase. This set up would mean an occupier of the Ground floor rear unit will be forced to divert their customers through the communal fire lobby before entering their premises. Such compromises will directly limit demand – and therefore rental levels.

In the layout shown in image B Appendix 2, we do not believe that the Ground floor rear unit would be capable of achieving a letting without significantly reducing the asking price to levels seen in secondary locations. It is hard to quantify the exact effect on price though we know entrances are all important for F&B operators. A shared and stepped entrance such as this one would move the unit away from prime operators and towards secondary operators who would accept a shared entrance. **For this, we would apply an estimated market rental of £20.00 psf. We would also anticipate a reduction in the covenant strength of the operator.**

In Option 1, the Ground floor rear unit could be let along with the basement beneath it, however given the poor access for the Ground floor rear unit, it is to be expected that any occupier taking the basement as ancillary to Ground floor rear would expect a similar reduction in rental applied throughout the space.

In determining the maximum market value for Option 1 we have assumed the basement units are let individually. Our opinion of Market Value is:

UNIT	SIZE (SQ FT)	RENT (£PSF)	ERV
Gnd Flr front	2,280	£35.00	£68,400
Gnd Flr rear	1,418	£20.00	£21,270
Basement front	1,440	£20.00	£28,800
Basement rear	1,873	£20.00	£37,460
		Gnd & Basement ERV:	£139,365

OPTION 2:

Removal of hoist and staircase

Under this option we are able to offer a 4,250 sq ft whole floor plate, with additional basement space if needed. This size unit sits right in the sweet spot of what strong covenant F&B / leisure operators need and the whole floor is able to benefit from the St Peter's Square frontage.

In addition, we also have the option of offering the ground floor front and rear as two separate units, with the entrance limitations no longer being in place for the rear unit.

We expect either of these options would produce market rental levels of £35psf across the ground floor.

As with Option 1, the basement spaces could either be let separately or as ancillary space to ground floor lettings. As such we have applied the same £20.00 psf.

UNIT	SIZE (SQ FT)	RENT (£PSF)	ERV
Gnd Flr front	2,280	£35.00	£68,400
Gnd Flr rear	1,993	£35.00	£59,790
Basement front	1,440	£20.00	£28,800
Basement rear	1,873	£20.00	£37,460
		Gnd & Basement ERV:	£177,885

Removal of stairs and hoist are going to lead to a significant increase in the Market Rental Value of the ground floor. It will also provide greater options of how the space can be divided and let which will significantly widen the market of operators who would wish to occupy the space.

Market Values & Valuation Workings

Prime yields for Manchester city centre offices have softened by approximately 50bps - 75bps over the last six to nine months. This shift has been driven by the rapid rise in debt cost, with debt and income buyers for good secondary offices now seeking equivalent yields of over 7.00% to provide sufficient arbitrage between debt and running yield. Investors are seeking ungeared returns for value-add deals of approximately 8.00%-10.00%, as a minimum, to reflect the risk in the market and the current cost of debt. Pricing has particularly softened for assets which cannot demonstrate a clear ESG pathway. Institutional investors have capital ready to deploy but this is limited by a flight to quality, with a requirement for best-in-class assets, and so the polarisation between prime and secondary assets is set to continue with a widening yield gap.

A key take-away from this means that secondary offices are most at risk and are most susceptible to yield erosion. For assets like 79 Mosley Street, it is now increasingly important to deliver workspace that is in-keeping with current market requirements, with buyers less forgiving and less willing to compromise on the physical aspects. There is no room for complacency beyond prime.

This means that investors have limited appetite for risk, particularly for letting voids and re-letting prospects. Occupiers are now more design focussed, requiring well-configured space that will attract the best talent for their business, and so it is fair to say that the investment market has never been more reliant on the occupation landscape.

With the above in mind, we are of the opinion that the staircase and the hoist within the existing floorplates would certainly compromise the quality of tenant and associated covenant strength obtainable. Retaining these features would undoubtedly have an adverse impact on value. In our opinion, removal of the staircase and the hoist would help mitigate against void periods, secure higher rents to stronger tenant covenants, and would improve the re-letting prospects for the asset on completion. Accordingly, we are firmly of the opinion that this could be quantified by a yield differential in the order of 100 basis points on exit.

Based on the proposed business plan, we would be comfortable in our assessment of spot yields, on exit, as follows:

- RETAIN STAIRS & HOIST: 7.25% exit yield
- REMOVE STAIRS & HOIST: 6.25% exit yield

With reference to the development appraisal, this is critical for the business plan as proposed, resulting in the following gross profit position for each scenario:

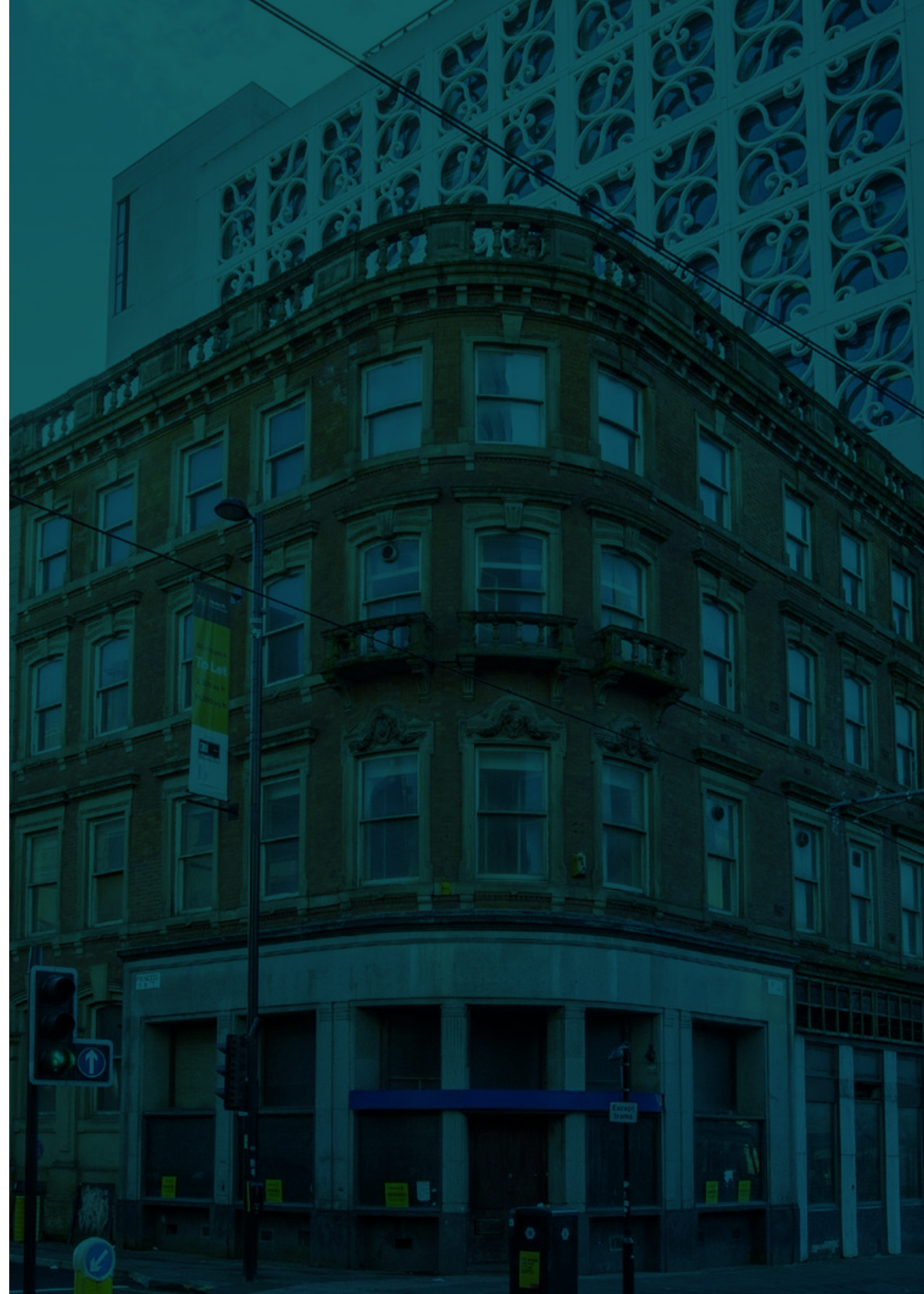
- RETAIN STAIRS & HOIST: -£2,332,196 (loss)
- REMOVE STAIRS & HOIST: £1,113,613

Retaining the staircase and the hoist within the existing floorplates would severely compromise the viability of the scheme, and so we would strongly recommend that these are removed in the interest of providing well-proportioned and well-configured workspace that would satisfy current market demand, mitigate void periods, improve re-letting prospects, improve the income position and secure tenants of stronger covenant profile.

Conclusion

In conclusion, the previous owners of this property undertook extensive work in drawing up different schemes to bring this building back into use. This work culminated in an 87 page report produced in 2016 which evaluated multiple schemes for the building and ultimately determined that the façade retention was the only viable scheme to bring the building back into use at the time. This option adds approximately 10,000 sq ft of floor space and in many ways is perhaps the most compelling solution for the building from a commercial point of view. However, the rapid rise in interest rates and market uncertainty has led debt funding to become either non-available, or prohibitively expensive in the current environment.

The current owners acquired the property against this backdrop of reduced appetite for expansive schemes such as the façade retention and have spent the last 12 months evaluating the development potential of the property – with a preference for schemes that can be delivered both immediately and speculatively. Since 2016 there has been an improvement in office rental levels and an increase in demand for smaller character workspaces as discussed above which have ultimately convinced the owners of the merit in the scheme proposed in this submission. Whilst this new scheme does include harm being done to some internal features of the building, it does undoubtedly cause significantly less harm than the façade retention scheme which remains as an alternative project to be developed out once market appetite for such schemes returns .



Appendix 1
Residual Valuations

Option 1 - Hoistway and Princess Street staircase retained

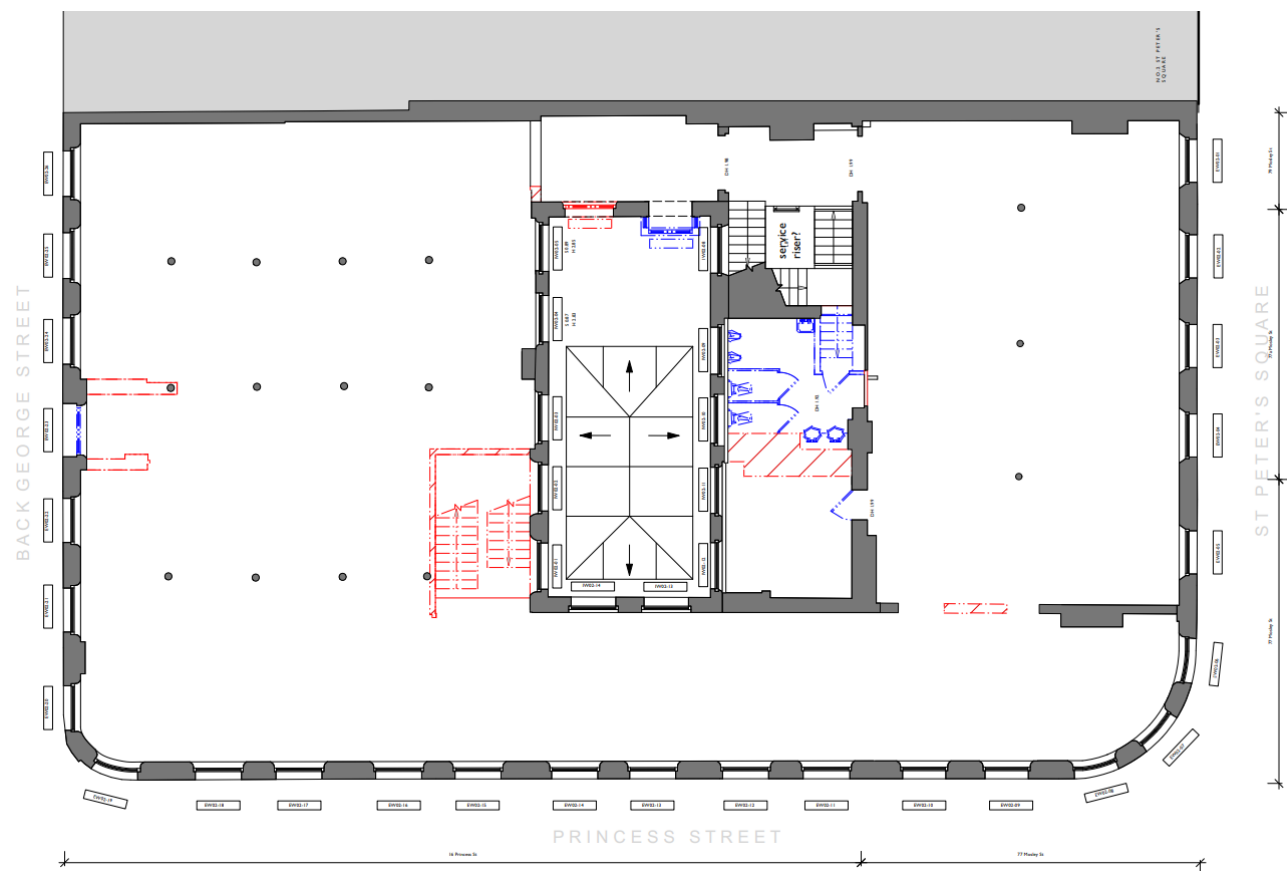
79 Mosley Street									
Option 1 - Retain and Refurbish									
	NIA / sqft	Rent / Value	Cap Yield	Annual Rent	Gross Value				
Ground Flr retail front	2280	35.00	7.25%	£ 79,800	£ 1,100,690				
Ground Flr retail back	1418	20.00	7.25%	£ 28,360	£ 391,172				
Basement front	1328	5026 20.00	7.25%	£ 26,560	£ 366,345				
basement back	1851	20.00	7.25%	£ 37,020	£ 510,621				
Offices - 1st Floor	4020	22.00	7.25%	£ 88,440	£ 1,219,862				
Offices - 2nd Floor	4057	22.00	7.25%	£ 89,254	£ 1,231,090				
Offices - 3rd Floor	4044	13972 22.00	7.25%	£ 88,968	£ 1,227,145				
	18998			£ 438,402	£ 6,046,924				
Retail Rent Free		6 Months	£	134,720	£ 67,360				
Office Rent Free		6 Months	£	266,662	£ 133,331	50.00%	deducted due		
Less Purchasers Costs		6.75%			£ 382,358		to early deals		
NET SALE PRICE						£	5,463,875		
LESS SALE COSTS									
SLGP SALE FEE		0.20%	£	10,928					
TOTAL SALE COSTS					£ 10,928				
NET CAPITAL PROCEEDS						£	5,452,947		
DEVELOPMENT COSTS									
SITE	PRICE								
SITE	£ 3,200,000								
MISC	£ -								
TOTAL PURCHASE PRICE			£	3,200,000					
Agent	1.00%	£ 32,000							
Purchase LEGALS		£ 13,269							
STAMP Duty	4.00%	£ 128,000							
MISC		£ 5,450							
			£	178,719					
TOTAL PURCHASE COST					£ 3,378,719				
CONSTRUCTION COSTS									
Main Contract Works			£	3,500,000					
Contingency			£	265,307					
					£ 3,765,307				
Architect	2.50%	£ 94,133							
PM/CDM/QS	3.00%	£ 112,959							
M+E	2.00%	£ 75,306							
Engineer	2.00%	£ 75,306							
PLANNING Costs		£ 20,000							
BUILDING REGS		£ 10,000							
MISC fees/costs	1.00%	£ 37,653							
TOTAL COST OF WORKS					£ 425,357				
LETTING									
AGENTS FEES	10.00%	£ 43,840							
LEGAL FEES	5.00%	£ 21,920							
Marketing PROMOTION		£ 50,000							
					£ 115,760				
Void Costs (Insurance, Sercurity Service Charge etc. 2.5 Years					£ 100,000				
TOTAL DEVELOPMENT COST					£ 7,785,144				
GROSS PROFIT					-£ 2,332,196				
PROFIT AS % OF COST							-29.96%		

Option 2 - Hoistway and Princess Street staircase removed

79 Mosley Street									
Option 2 - Retain and Refurbish -staircase removed									
	NIA / sqft	Rent / Value	Cap Yield	Annual Rent	Gross Value				
Ground Flr retail front	2236	35.00	6.25%	£ 78,260	£ 1,252,160				
Ground Flr retail back	2009	35.00	6.25%	£ 70,315	£ 1,125,040				
Basement front	1328	5573 20.00	6.25%	£ 26,560	£ 424,960				
basement back	1878	20.00	6.25%	£ 37,560	£ 600,960				
Offices - 1st Floor	4293	30.00	6.25%	£ 128,790	£ 2,060,640				
Offices - 2nd Floor	4330	30.00	6.25%	£ 129,900	£ 2,078,400				
Offices - 3rd Floor	4317	14818 30.00	6.25%	£ 129,510	£ 2,072,160				
	20391			£ 600,895	£ 9,614,320				
Retail Rent Free		3 Months	£	175,135	£ 43,784				
Office Rent Free		3 Months	£	388,200	£ 97,050	50.00%	deducted due		
Less Purchasers Costs		6.75%			£ 607,931		to early deals		
NET SALE PRICE								£	8,865,555
LESS SALE COSTS									
SLGP SALE FEE		0.20%	£	17,731					
TOTAL SALE COSTS					£ 17,731				
NET CAPITAL PROCEEDS								£	8,847,824
DEVELOPMENT COSTS									
SITE	PRICE								
SITE	£ 3,200,000								
MISC	£ -								
TOTAL PURCHASE PRICE			£	3,200,000					
Agent	1.00%	£ 32,000							
Purchase LEGALS		£ 13,269							
STAMP Duty	4.00%	£ 128,000							
MISC		£ 5,450							
			£	178,719					
TOTAL PURCHASE COST								£	3,378,719
CONSTRUCTION COSTS									
Main Contract Works			£	3,500,000					
Contingency			£	265,307					
					£ 3,765,307				
Architect	2.50%	£ 94,133							
PM/CDM/QS	2.00%	£ 75,306							
M+E	1.50%	£ 56,480							
Engineer	1.50%	£ 56,480							
PLANNING Costs		£ 20,000							
BUILDING REGS		£ 10,000							
MISC fees/costs	1.00%	£ 37,653							
TOTAL COST OF WORKS								£	350,051
LETTING									
AGENTS FEES	10.00%	£ 60,090							
LEGAL FEES	5.00%	£ 30,045							
Marketing PROMOTION		£ 50,000							
								£	140,134
Void Costs (Insurance, Sercurity Service Charge etc. 2.5 Years								£	100,000
TOTAL DEVELOPMENT COST								£	7,734,211
GROSS PROFIT								£	1,113,613
PROFIT AS % OF COST									14.40%

Appendix 2
Plans

A. Standard office floor showing hoistway
and Princess Street staircase in red



B. Ground floor with Princess Street staircase retained

