

Sparkle Street, Manchester



Financial Viability Statement

CBRE Limited | National Planning & Development for:

Foras (Sparkle Street) Limited

May 2024

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Declaration

A declaration of conformity with the RICS Professional Statement Financial Viability in Planning, September 2019, 1st Edition¹, is set out within the following sub-sections.

Instruction and Purpose of Report

CBRE has been instructed by Foras (Sparkle Street) Limited ('the Applicant') to objectively assess, and report upon, the financial viability of the proposed redevelopment of Land adjacent to Sparkle Street and Store Street, Manchester ('the Site') for a residential development of the following description (constituting the 'Proposed Development'):

"Full Planning Permission for demolition of existing low rise commercial units and erection of ground plus 27 storey residential development comprising 359 residential units (Use Class C3) with supporting residential amenity, private terraces and private shared garden, highways work, plant, and associated works."

The purpose of this viability assessment ('VA') is to test the financial viability of the Proposed Development at the Site, taking into account the policy requirements set by Manchester City Council ('MCC' or 'the Council') as well as national planning policy and guidance.

Objectivity, impartiality and reasonableness

CBRE places the utmost importance on the integrity, impartiality, and potential conflicts of interests in carrying out its services and seeks to identify and assess all relationships which may result in a conflict of interest or pose a threat to impartiality. CBRE aims to inspire confidence by being open and impartial, offering transparency of process, being fair and maintaining the confidentiality of our clients.

In undertaking this instruction and carrying out the viability assessment, CBRE always confirms that we have acted impartially, with objectivity, without interference and with reference to all appropriate available sources of information.

CBRE confirms that adequate time has been provided to produce this report.

CBRE confirms that there is no instruction in place to undertake an Area-Wide viability assessment concerning existing and future planning policies against which the proposed development scheme will, in due course be considered.

CBRE has set out a full explanation of the evidence provided with reasoned justification.

Conflict(s) of interest

CBRE confirms, to the best of its knowledge, that no conflict or risk of conflict of interest exists in carrying out this viability assessment on behalf of the Applicant(s) and in respect of the site.

Contingent Fee

In preparing this report, no performance related or contingent fees have been agreed between CBRE and the Applicant(s).

¹ RICS (May 2019) *Financial viability in planning: conduct and reporting*, 1st Edition

Status

This report does not constitute a formal valuation and cannot be regarded, or relied upon, as such.

This report provides a guide for feasibility in line with the purpose for which the assessment is required, in accordance with the National Planning Policy Framework ('NPPF')² and national Planning Practice Guidance for Viability ('PPGV')³, and as stated within the relevant guidance published by the RICS⁴.

The conclusions of this report are based upon the input assumptions as stated herein and as available at the time of production. The input assumptions and conclusions of this report are valid at the date of publication and should be subject to review should further information be made available or in the event of material economic or property market change, or in respect of relevant legislative and policy changes.

Publication

This viability assessment has been prepared on the basis that it is expected to be made publicly available, other than in exceptional circumstances.

Where information may compromise delivery of the Proposed Development or infringe other statutory and regulatory requirements, these exceptions will be discussed and agreed with the Local Planning Authority ('LPA') and documented early in the process. Commercially sensitive information will be presented in aggregate form following these discussions. Any sensitive personal information will not be made public.

Personnel

This report has been prepared and approved by the following personnel:



Matt Spilsbury MRICS MRTPI
Senior Director
National Planning & Development
CBRE UK Limited



Geoff Machen
Assistant Surveyor
National Planning & Development
CBRE UK Limited

² MHCLG (2021) National Planning Policy Framework (NPPF)

³ MHCLG (2019) National Planning Practice Guidance – Viability

⁴ RICS (2021) Assessing viability in planning under the National Planning Policy Framework 2019 for England RICS guidance note, England 1st edition, March 2021 (effective from 1 July 2021) ('RICS Viability Guidance')

Executive Summary

CBRE has been appointed by Foras (Sparkle Street) Limited (hereto referred to as ‘the Applicant’) to objectively assess, and report upon, the financial viability of the proposed redevelopment of Land adjacent to Sparkle Street and Store Street, Manchester (‘the Site’) for a residential development of the following description (constituting the ‘Proposed Development’):

“Full Planning Permission for demolition of existing low rise commercial units and erection of ground plus 27 storey residential development comprising 359 residential units (Use Class C3) with supporting residential amenity, private terraces and private shared garden, highways work, plant, and associated works.”

The purpose of this viability assessment (‘VA’) is to test the financial viability of the Proposed Development at the Site, taking into account the policy requirements set by Manchester City Council (‘MCC’ or ‘the Council’) as well as national planning policy and guidance.

Assessment Methodology

The viability model is conducted on a residual basis using industry standard Argus Developer software. A cashflow is provided for full transparency.

The key viability modelling input assumptions adopted by CBRE for the viability appraisal of the Proposed Development are summarised in Table ES1.

Table ES1: Viability Assessment Inputs Summary

Input	Rate	Comment
BTR Estimated Open Market Rental Value (‘ERV’):	£30.29/ft²	Based upon local BTR market evidence
BTR Net Initial Yield (‘NIY’)	4.75%	Forward funded NIY set optimistically in comparison to the current transactional funding market.
Construction Costs	£75,060,706	Based upon an Cost Estimate prepared on behalf of the Applicant by Midgard
Contingency	3.00%	Of estimated construction costs. Considered a reasonable minimum developer’s risk allowance in the current market.
Professional Fees	8.00%	Estimated rate as a % of total build costs
Development Management Fee	2.50%	Estimated rate as a % of total development costs
FF&E: Apartments	£1,436,000	Budget allowance for apartment FF&E
FF&E: Amenity Areas	£359,000	Budget allowance for amenity areas FF&E
Statutory Planning Fee(s)	£88,404	Informed by the Applicant
Investment Sale Agent Fee	0.75%	Of GDV
Investment Sale Legal Fee	0.50%	Of GDV

Input	Rate	Comment
Purchaser's Costs (Investment)	2.00%	Optimistically assumes asset held in SPV. SDLT on share transfer at 0.50%, plus institutional fund's agency and legal fees (including VAT at 20.00%) on funding commitment.
Purchaser's Costs (Land)	SDLT + 1.80%	Standard HMRC non-residential stamp duty land tax ('SDLT'), agent's fee (1.00%) and legal fee (0.80%)
Finance	4.75%	Coupon rate, which is expected to be equal to the NIY. Optimistic funding rate in current market (a 5.00%+ rate being more realistic).
Developer's Return (blended) on GDV	12.00%	Total target return on GDV (circa 13-15% return on Cost) to reflect current levels of market risk, in line with the minimum market expectations and at the low end the range set-out in PPGV. CBRE's experience is that, given the heightened market and commercial risk, both developers and funders are requiring demonstration of higher minimum returns ranging up to 15% profit on Cost. The rate applied in this assessment, in comparison, is at the lower end of the range and takes a more aggressive stance as a result.

Benchmark Land Value ('BLV')

By way of analysis set out within chapter 5 of this document, the BLV for the Site has been determined based on the Existing Use Value ('EUV') plus premium. The BLV represents CBRE's conclusion as to the minimum level of value at which the landowner would be suitably incentivised to release the site.

It is CBRE's professional opinion that the BLV for the Site equates to [REDACTED]

Viability Assessment Results & Conclusion

The policy compliant viability appraisal demonstrates that, when incorporating 20% affordable housing (in the form of APR units at 80% of local market rent) and the assessed BLV, the outturn residual profit margin generated equates to [REDACTED] (or cost)

The delivery of the Proposed Development on a basis in compliance with the Council's adopted development plan fails to generate a profit sufficient to meet the target minimum risk-adjusted developer's return on GDV and the Proposed Development is not financially viable on this basis.

CBRE has subsequently run a scenario test to assess the implications on financial viability of removing the affordable housing provision.

The scenario test demonstrates that when reducing the affordable housing provision to nil the outturn residual profit margin generated increases to [REDACTED] This remains below the risk-adjusted developer's return target, albeit the viability deficit is reduced.

The commercial decision whether to proceed with the Proposed Development will therefore be at the discretion of the Applicant.

Given the commercial risks, it would be CBRE's recommendation that the Proposed Development does not incorporate any affordable housing units (or a payment in lieu of on-site provision) and any sums towards planning obligations.

CBRE understands that a viability review mechanism will be incorporated in the Section 106 Agreement, which will serve to recover planning obligations up to a policy-compliant basis, if the Proposed Development outperforms.

Any sum offered by the Applicant for planning obligations prior to this (i.e., alongside determination of this application) would be at the Applicant's own commercial risk.

1 Introduction

Instruction

- 1.1 CBRE has been appointed by the Applicant to objectively assess, and report upon, the financial viability of the Proposed Development at the Site.
- 1.2 The purpose of the VA is to test the financial viability of the Proposed Development at the Site, taking into account the policy requirements set by the Council as well as national planning policy and guidance.

Context

Subject Site, Description, Location & Access

- 1.3 The Site comprises 0.30 hectares (0.74 acres) of land located to the east of Manchester City Centre and north of Piccadilly Station. The Site is located within an area currently undergoing significant redevelopment, supported by the long term vision of the Manchester Piccadilly Strategic Regeneration Framework.
- 1.4 The Site is bounded by Store Street to the north, Sparkle Street to the west, residential apartments to the south and vacant land to the east.
- 1.5 Manchester Piccadilly station lies approximately 100m south of the Site, providing both regional and national rail services, including direct services to London. The station also offers access to the Metrolink system which provides services across Greater Manchester.
- 1.6 The Site is also in proximity to a number of bus stops which provide services across Greater Manchester, including the free shuttle bus services located adjacent to Piccadilly Station.
- 1.7 A Site Location Plan is provided within **Appendix A**.

Planning and Status

- 1.8 A review of the MCC's online planning application public access database has been undertaken to identify relevant planning history pertaining to the Site.
- 1.9 There are no recent planning permission on record at the Site, however there are a number of major planning applications in the immediate locality for high-density BTR development which have been permitted.
- 1.10 Further details of the relevant planning applications can be found within the Planning Statement accompanying the planning application for the Proposed Development.

Proposed Planning Application

- 1.11 Following pre-application engagement with MCC, it is understood that the Applicant intends to submit a (full) planning application imminently for the Proposed Development at the Site.

Date of Appraisal

- 1.12 The date of appraisal is the stated date on the cover of this report.

Document Structure

1.13 The viability assessment report is structured as follows:

Section 2: presents the relevant planning policy context.

Section 3: confirms the approach and methodology to this viability assessment together with a brief review of the relevant current guidance for undertaking viability assessments.

Section 4: sets out a summary of the principal assumptions and evidence used within this financial viability assessment.

Section 5: derives the benchmark land value ('BLV') or 'Site Value'.

Section 6: summarises the results of viability assessment.

Section 7: sets out concluding recommendations to the Applicant and the Council in respect of the level of affordable housing provision and Section 106 planning obligations (as applicable) that can be realistically supported by the Proposed Development in accordance with the National Planning Policy Framework ('NPPF')⁵ and national Planning Practice Guidance ('PPG')⁶.

⁵ MHCLG (2021) *National Planning Policy Framework*

⁶ MHCLG (2019) *National Planning Practice Guidance – Viability*

2 Planning Policy Context

- 2.1 This section of the document presents the relevant national and local planning policy context to viability assessment of the Proposed Development of the Site.

National Planning Policy Framework

- 2.2 The NPPF presents the Government's planning policies for England and how these are expected to be applied.
- 2.3 Paragraph 2 of the NPPF states that planning law requires planning applications to be determined in accordance with the development plan unless material considerations indicate otherwise⁷. The NPPF, along with emerging plans, are material considerations that must be accorded weight within planning decision-making.

Sustainable Development

- 2.4 The presumption in favour of sustainable development is at the heart of the NPPF and is to be pursued positively in both decision-making and plan-making as set out within NPPF paragraphs 10 and 11. For the purposes of plan-making the presumption is only disapplied in the circumstances indicated in paragraph 11(b).

Affordable Housing

- 2.5 Within Annex 2, the NPPF confirms that affordable housing for rent is expected to be the normal form of affordable housing provision within BTR schemes. This is to be known as Affordable Private Rent ('APR') and must meet the following conditions:
- the rent is set at least 20% below local market rents (including service charges where applicable);
 - where a build to rent scheme the landlord need not be a registered provider; and
 - it includes provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.

Deliverability & Viability

- 2.6 The NPPF confirms that it is the applicant's responsibility to demonstrate whether the circumstances affecting the development justify the requirement for the submission of a viability assessment at the application stage.
- 2.7 The LPA, as decision maker, must determine the weight to be given to the submitted viability assessment having regard to all the circumstances in the case including the following:
- whether the Plan and viability evidence underpinning it is up to date; and
 - whether there have been any changes in site circumstances since the Plan was brought into force.

⁷ Section 38(6) of the Planning and Compulsory Purchase Act 2004

- 2.8 All viability assessments, including those undertaken at plan-making stage, should reflect the recommended approach in national planning guidance⁸.

Planning Practice Guidance for Viability (‘PPGV’)

- 2.9 The Government’s national planning guidance for understanding viability in both plan making and decision taking is set out within PPGV⁹.
- 2.10 Detailed guidance is provided regarding viability assessment in decision-taking upon individual schemes at the application stage. Firstly, it is the responsibility of the applicant to demonstrate the circumstances justifying the need for viability assessment. Whilst not stated as exhaustive, examples stated in PPGV are:
- where development is proposed on unallocated sites of a wholly different type to those used in viability assessment that informed the plan;
 - where further information on infrastructure or site costs is required;
 - where particular types of development are proposed which may significantly vary from standard models of development for sale (for example BTR or housing for older people); or
 - where a recession or similar significant economic changes have occurred since the plan was brought into force.
- 2.11 Paragraph 20 confirms that the inputs and findings of any viability assessment should be set out in a way that aids clear interpretation and interrogation by decision makers. Reports and findings should clearly state what assumptions have been made about costs and values (including gross development value, benchmark land value (‘BLV’) including the landowner premium, developer’s return and costs).

Build to Rent

- 2.12 Paragraph 019 of PPGV confirms that the economics of build to rent schemes differ from build for sale as they depend on a long-term income stream. For BTR it is expected that the normal form of affordable housing provision will be affordable private rent.
- 2.13 For individual schemes, PPGV confirms developers may propose alternatives to the policy, such as variations to the discount and proportions of affordable private rent units across a development, and the ability to review the value of a scheme (rent levels) over the duration of its life.

PPG for Build to Rent

- 2.14 PPG for Build to Rent sets out the Government’s national planning guidance for understanding planning for Build to Rent (BTR) development.
- 2.15 The PPG confirms that a ‘generally suitable benchmark’ for the level of APR homes to be provided (and maintained in perpetuity) in a build to rent scheme is 20%, unless an LPA has set an alternative proportion via Local Plan policy.
- 2.16 PPG Build to Rent also confirms that the PPG for Viability permits developers, in exception, the opportunity to make a case seeking to differ from this benchmark on the basis of financial viability.

⁸ MHCLG (2021) National Planning Policy Framework (NPPF): Paragraph: 58

⁹ MHCLG (2019) Planning Practice Guidance: Viability

- 2.17 The rental discount in APR units should be a minimum of 20% relative to local market rents (inclusive of service charges) and should be calculated when a discounted home is rented out or the tenancy is renewed.
- 2.18 Both the proportion of APR units, and discount offered on them can be varied across a development, over time. Similarly, it should be possible to explore a trade-off between the proportion of discounted units and the discount(s) offered on them, with the proviso being that these should accord with the headline affordable housing contribution agreed through the planning permission. All options should be agreed jointly between the local authority and the developer as part of the planning permission and set out in a section 106 agreement.

Adopted Local Policy

Development Plan

- 2.19 For the purposes of this assessment, the Development Plan documents for the Site comprise the following:
- Manchester Core Strategy ('MCS') (adopted July 2012)
 - Extant Unitary Development Plan ('UDP') policies (incl. alterations) (adopted 1995)
- 2.20 Other material considerations include:
- Places for Everyone Joint Development Plan Document ('PFE') (August 2021)
 - Guide to development in Manchester SPD (adopted April 2007)
 - Providing for Housing Choice SPD (adopted September 2008)

Manchester Core Strategy

- 2.21 The MCS is a key document of the Manchester' Local Plan and sets out the long term (15 year) strategic policies for Manchester's future development and forms the framework against which planning applications are assessed.

Housing

- 2.22 Spatial objective SO3 (Housing) targets a significant increase in high quality housing provision at sustainable locations throughout the City to address demographic needs and support economic growth.
- 2.23 Policy H1 (Overall Housing Provision), states that approximately 60,000 new dwellings will be provided in Manchester over the period March 2009 to March 2027, which equates to an average of 3,333 units per year.
- 2.24 Policy CC3 states: *"The City Centre will see the most intensive development of housing in the City. It is expected that a minimum of 16,500 new units will be provided from 2010-2027. Key locations for the residential development will be Castlefield, Piccadilly, the Southern Gateway, and the Northern Quarter..."* In other parts of the City Centre residential development will only be appropriate in line with Policy CC7.
- 2.25 Policy CC7 confirms that residential development will be supported as part of schemes which include employment. The Council must be satisfied that proposals will contribute to the economic regeneration of the City and that the residential element of the scheme is of a scale which will ensure that the economic uses on the site, including retail and hotels, will be maximised. A clear justification will be required for proposals without employment opportunities.

2.26 High density development (over 75 dph) is expected to be appropriate in the City Centre and parts of the Regional Centre – given the accessible location. However, the general distribution and mix of new housing is expected to depend upon:

- The number of available sites identified as potential housing sites in the SHLAA;
- Land values and financial viability;
- The need to diversify housing stock in mono-tenure areas by increasing the availability of family housing and the availability of other tenures to meet identified needs, and preserving and improving the quality of the existing housing stock; and
- The management of areas where Houses in Multiple Occupation predominate.

Affordable Housing

2.27 The Council's affordable housing requirements (Policy H8) currently apply to all residential developments on sites of 0.3 hectares and above, or where 15 or more units are proposed. New residential developments that meet this criteria will contribute to the city-wide target of 20% affordable housing provision – expected to be a starting point. The specified affordable housing tenure split is 25% affordable rented accommodation and 75% intermediate housing.

2.28 Policy H8 requires affordable housing units to reflect the type and size of the development as a whole and for an inclusive design which reflects the character of the development on the site.

2.29 Variations to the affordable housing policy may be permitted where either a financial viability assessment is conducted and demonstrates that it is only viable to deliver only a proportion of the affordable housing target of 20%; or where material considerations indicate that intermediate/ social rented housing would be inappropriate. In the latter case, such circumstances could include:

- *“There is a very high level of affordable housing in the immediate area;*
- *There is either a high proportion of social rented (35%), or low house prices in the immediate area compared to average incomes;*
- *Affordable housing would be prejudicial to the diversification of the existing housing mix.*
- *The inclusion of affordable housing would prejudice the achievement of other important planning or regeneration objectives which are included within existing Strategic Regeneration Frameworks, planning frameworks or other Council approved programmes;*
- *It would financially undermine significant development proposals critical to economic growth within the City;*
- *The financial impact of the provision of affordable housing, combined with other planning obligations would affect scheme viability;*
- *There is a need for additional housing provision for older people or disabled people either as affordable or market housing dependent on the results of a financial viability assessment of the scheme.”*

Developer Contributions

2.30 In accordance with Policy PA1 (Developer Contributions), the Council may seek to secure planning obligations (in line with Circular 5/2005) for the following:

- Affordable housing

- Education
- Health and wellbeing facilities
- Community facilities
- Provision of Green Infrastructure including open space
- Public realm improvements
- Protection or enhancement of cultural heritage
- Protection or enhancement of environmental value
- Safety and security improvements
- Training and employment initiatives
- Highway improvements, traffic management, sustainable transport and disabled people's access
- Climate change mitigation / adaptation

2.31 The scale of planning obligations sought will relate to the form of development and its potential impact upon the surrounding area. Where appropriate the provisions will be made on site, alternatively a commuted payment is likely to be sought. Site specific conditions and viability issues may be taken into account when determining the nature and scale of the planning obligations.

Low and Zero Carbon Development

2.32 In relation to climate change, the Core Strategy's policies are now somewhat out of date and do not reflect the accelerated ambitions of the City as it pushes towards a zero-carbon future.

2.33 Policy EN4 encourages the reduction on CO2 Emissions through following the Energy Hierarchy principles:

- To reduce the need for energy through design features that provide passive heating, natural lighting and cooling.
- To reduce the need for energy through energy efficient features such as improved insulation and glazing
- To meet residual energy requirements through the use of low or zero carbon energy generating technologies.

2.34 Policy EN6 seeks CO2 reductions from low or zero carbon energy supplies and includes the following targets:

- A CHP/district heating anchor or connection; or where not feasible
- A 15% increase on Part L 2010.

2.35 Policy EN8 Adaption to Climate Change set out that all new development will be expected to be adaptable to climate change in terms of design, layout, siting and function of buildings and external spaces.

Providing for Housing Choice – Supplementary Planning Document

2.36 The Providing for Housing Choice SPD was adopted in March 2008. The document recognises the importance of providing a sufficient mix of homes which are decent, affordable and accessible homes to everybody living in Manchester. The SPD provides planning guidance about the mix of new housing provision to meet the requirements of Manchester.

- 2.37 Paragraphs 5.11 - 5.12 confirm the city-wide affordable housing target of 20% and expected tenure split – as adopted in MCS Policy H8 (affordable Housing).
- 2.38 Paragraph 5.28 states that the types and size of housing provision suitable for each site will vary and should take account of the housing need of the immediate neighbourhood. Where schemes relate to wider regeneration initiatives, the Council may wish to consult with the local community to ensure that local needs are considered. The appropriate mix of development should be part of the pre-application discussions.
- 2.39 Paragraphs 5.49 and 5.50 iterate the presumption that affordable housing will be provided on application sites; however, where it can be robustly justified by reference to local housing needs or the infeasibility of on-site provision, then off-site provision, or a commuted sum or payment in lieu of on-site provision, will be considered.
- 2.40 Paragraph 5.58 sets out examples of exceptions which may allow developers to provide a lower proportion of affordable housing, including where the inclusion of affordable housing would prejudice the achievement of other important planning or regeneration objectives which are included within existing Strategic Regeneration Frameworks, planning frameworks or other Council approved programmes; or financially undermine the significant development proposals critical to economic growth within the City and where the financial impact of the provision of affordable housing, combined with other planning obligations would affect scheme viability.
- 2.41 Paragraphs 5.59 – 5.67 set out the exceptional circumstances where particular costs associated with development may be taken into account in order to agree the amount of affordable housing and tenure mix.
- 2.42 Where an applicant proposes to demonstrate particular or ‘abnormal’ costs the onus is on them to show, through a detailed financial appraisal, that these are genuine additional costs that:
- cannot be offset by depreciated land value;
 - were not known prior to purchase; or
 - cannot be recouped in the open market sale price of the new homes.
- 2.43 Financial appraisals to support viability cases should be submitted for pre-application consideration. Where abnormal costs can be demonstrated to the satisfaction of the Council, a negotiated deduction may be agreed, either to the overall scale of affordable provision or to size and/or tenure.

Places for Everyone (Joint DPD) (August 2021)

- 2.44 The Places for Everyone (‘PfE’) Joint Development Plan Document (‘JDP’) is a long-term plan of nine Greater Manchester districts (Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Tameside, Trafford and Wigan) for jobs, new homes, and sustainable growth. The plan is a joint development plan of the nine districts which will determine the kind of development that takes place in their boroughs up until 2037.
- 2.45 The Places for Everyone examination has now concluded and the Inspector’s report on the examination was published on 14 February 2024. Each of the nine local authorities has now voted to adopt the strategy.
- 2.46 The PfE JDP seeks substantial improvements in the ability of people to access housing at a price they can afford, to be achieved via significant increases in the supply of new housing; delivery of at least 50,000 additional affordable homes (up to 2037); working with Government to maximise public funding towards affordable housing provision; and increasing the supply of low-cost market housing.

- 2.47 Policy JP-H 2 ('Affordability of New Housing') aims to deliver at least 50,000 additional affordable homes across Greater Manchester up to 2037, with at least 60% being for social rent or affordable rent. The policy supports provision of affordable housing, either on- or off-site, as part of new developments (avoiding where possible clusters of tenure to deliver mixed communities), with locally appropriate requirements being set by each local authority. Moreover, the policy targets increasing the supply of low-cost market housing, to complement the provision of affordable homes and diversify options for low income households.
- 2.48 Policy JP-H 3 ('Type, Size and Design of New Housing') requires developments to incorporate a range of dwelling types and sizes, which will be defined by district local plans, masterplans and other guidance. All new dwellings are required to:
- *"Comply with the nationally described space standards; and*
 - *Be built to the 'accessible and adaptable' standard in Part M4(2) of the Building Regulations, unless specific site conditions make this impracticable."*
- 2.49 Policy JP-H 4 ('Density of New Housing') seeks a minimum density for new housing of:
- 200dph within City Centres and within 400 metres of Metrolink stops in the City Centre.
- 2.50 Policy JP-D 1 ('Infrastructure Implementation') seeks to:
- Establish a new long-term funding mechanism for transport and site specific infrastructure to ensure timely delivery and capture of developer contributions;
 - Encourage early dialogue between developers and infrastructure providers to identify the infrastructure needs arising from new development and ensuring that these are addressed through building design, utility networks and connections in time to serve the proposed development;
 - Require applicants to prepare an infrastructure phasing and delivery strategy for strategic sites, and major sites where build out will be delivered by different developers or in phases. This strategy must outline what needs to be provided by when and who will fund and deliver it;
 - Ensure that development does not lead to capacity or reliability problems in the surrounding area by requiring applicants to demonstrate that there will be adequate utility infrastructure capacity, from first occupation until development completion. As a minimum, applicants should identify and plan for:
 - Minimising the demand for energy, water and utility services by requiring sustainable building design and the incorporation of demand management measures within all new development and conversions where practicable;
 - Electricity supply to serve the construction phase and the intended use for the site, and identify, in conjunction with electricity providers the estimated load capacity of the building and the substations and routes for supply;
 - Reasonable gas and water supply, considering the need to conserve natural resources;
 - The provision of multiple-ducting to support full fibre digital connections from different providers;
 - Heating and cooling demand and the viability of its provision via decentralised energy networks. Designs must incorporate access to existing networks where feasible and viable; and

- Where potential capacity problems are identified and no improvements are programmed by the relevant infrastructure provider, we will require the developer to contribute to and/or facilitate necessary improvements.

- 2.51 Policy JP-D 2 ('Developer Contributions') confirms that developers will be required to provide, or contribute towards, the provision of mitigation measures to make the development acceptable in planning terms, secured through the most appropriate mechanism, including, but not limited to, planning conditions, legal contracts, or CIL (or any subsequently adopted planning gain regime).
- 2.52 The policy expects that viability assessments should only be undertaken where there are clear circumstances creating barriers to delivery. If an applicant wishes to make the case that viability should be considered, they should provide clear evidence at the planning application submission stage, demonstrating the specific issues that would create barriers to delivery in a transparent manner and reflecting national guidance.
- 2.53 Where it is accepted that viability should be considered as part of the determination of an application, the Local Planning Authority should determine the weight to be given to a viability assessment alongside other material considerations.

Other Material Considerations

- 2.54 In November 2018, Manchester City Council made a series of commitments, informed by the Manchester Climate Change Agency's (MCCA) work with the world-renowned Tyndall Centre for Climate Research based at University of Manchester. The key commitments are as follows:
- To becoming zero carbon by 2038, significantly accelerated from the original target of 2050.
 - To adopt a carbon budget and emit only a maximum of 15 million tonnes CO₂ for the period 2018-2100. This has been transposed from a global carbon budget which has been calculated as "likely" to maintain global temperature change within 2°C as agreed in the Paris Agreement.
 - To achieve a 13% year-on-year reduction in citywide CO₂ emissions from 2018 to achieve this carbon budget.
- 2.55 On 13th March 2019, MCC fully endorsed the Zero Carbon Framework 2020-2038, outlining how Manchester can meet its aim to being a zero-carbon city by 2038. Building from this, on 10 July 2019, MCC debated a motion to declare a Climate Emergency, declaring that climate change is a serious risk to Manchester's future. MCC committed to embedding the issue as an integral part of council decision-making, making sure that all key decisions are taken with the City's target of becoming zero-carbon by 2038 in mind.
- 2.56 Areas for action in the Manchester Zero Carbon Framework (2020-2038) include improving the energy efficiency of local homes; generating more renewable energy to power buildings; creating well-connected cycling and walking routes, public transport networks and electric vehicle charging infrastructure; plus, the development of a 'circular economy', in which sustainable and renewable materials are reused and recycled as much as possible.
- 2.57 Following this commitment, MCC's Executive endorsed the Manchester Climate Change Framework 2020-2025 in March 2020 which has been produced by the Manchester Climate Change Partnership and Agency. Within this, all developments where MCC has additional influence, for example as a client / end-user, landowner or development partner, all new development will need to be zero carbon from 2025 at the latest, when the new Manchester Local Plan is expected to become operational and is expected to become a policy requirement.

- 2.58 In addition, MCC developed a Climate Change Action Plan 2020-2025 to ensure that all aspects of the Climate Emergency Declaration were converted into clear actions with tonnes of CO2 savings included where applicable. The Plan builds on over a decade of previous activity which has seen the Council's direct CO2 emissions reduce by 54.7% between 2009/10 and 2019/20.
- 2.59 In August 2021 the Manchester Climate Change Partnership adopted and endorsed a roadmap to net zero carbon for new buildings within Manchester. The Partnership is a task force made up of private, public and third sector representatives and has been developed collaboratively with MCC. The roadmap sets out that all new buildings in the City should be net zero carbon from 2023.
- 2.60 Whilst the roadmap is not planning policy, it has been indicated by MCC that the roadmap may be considered as part of the new Local Plan.

Community Infrastructure Levy (CIL)

- 2.61 CIL was introduced under the Planning Act 2008 and is legislated by the CIL Regulations 2010 (as amended). Local authorities in England and Wales can elect to charge CIL on new development to assist in funding infrastructure associated with planned growth.
- 2.62 The Council's website states that they are *"not [currently] charging a CIL in relation to any planning permission."* However, they *"may seek contributions through relevant S106 agreements."*

CIL is therefore not applicable to this assessment at the current date.

3 Approach & Methodology

The Role of Viability Assessment in Planning

- 3.1 This chapter provides the approach and methodology to this viability assessment set within the context of the legislative planning framework and recognised national practice guidance for undertaking viability assessments.

RICS Financial Viability in Planning: Conduct and Reporting (1st edition, May 2019)

- 3.2 This RICS professional statement sets out mandatory requirements on conduct and reporting in relation to Financial Viability Assessments ('FVAs') for planning in England, whether for area-wide or scheme-specific purposes. It recognises the importance of impartiality, objectivity and transparency when reporting on such matters. It also aims to support and complement the Government's reforms to the planning process announced in July 2018 and subsequent updates, which include an overhaul of the NPPF and PPGV and related matters.
- 3.3 The statement focuses on reporting and process requirements, and the need for the assessment of viability to be carried out having proper regard to all material facts and circumstances. The additional requirements became effective on 1 September 2019.

RICS Guidance Note: Assessing viability in planning under the National Planning Policy Framework 2019 for England (1st edition, March 2021)

- 3.4 The RICS Viability Guidance¹⁰, effective from 1st July 2021, supplements the RICS Professional Statement and gives added guidance to RICS members and other stakeholders in the planning process on undertaking and understanding FVAs in both a plan-making and decision-taking context.
- 3.5 The RICS Viability Guidance, which replaces the earlier 2012 publication, provides best practice guidance for practitioners in carrying out and interpreting the results of viability assessments under the NPPF and PPGV.

PPGV

- 3.6 PPGV sets out the Government's recommended approach and confirms the principles for conducting viability assessment as follows:

¹⁰ RICS (2021) *Assessing viability in planning under the National Planning Policy Framework 2019 for England* RICS guidance note, England 1st edition, March 2021

‘Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return’.¹¹

3.7 PPGV confirms that the minimum landowner’s return should be referred to as the ‘benchmark land value’ (‘BLV’), which should be established on the basis of the existing use value (‘EUV’) of the land, plus a premium for the landowner. This approach is referred to as the ‘existing use value plus’ (‘EUV+’).

3.8 PPGV also confirms that alternative uses can be used in establishing the BLV. For the purposes of viability assessment the AUV refers to:

‘...the value of land for uses other than its existing use.’¹²

3.9 Where AUV is used this should be supported by evidence of the costs and values of the alternative use to justify the land value. PPGV confirms the Government’s position that valuation based on AUV includes the premium to the landowner (i.e. the AUV is equal to the EUV+ as a BLV)¹³.

Methodology

3.10 In order to determine the viability of the Proposed Development at the Site, a residual valuation model with cash flow has been prepared using proprietary software Argus Developer.

3.11 The methodology for undertaking this viability assessment follows the residual appraisal method, which is that accepted by the RICS and recommended within RICS Viability Guidance¹⁴. The methodology is also consistent with the Government’s recommended approach as set out in PPGV¹⁵.

3.12 The assessment calculates the cost to acquire, construct, and deliver the capital costs of the development scheme, which is set against the value of the development on the assumption it is completed in the current market. No allowance is made for underlying inflation.

3.13 This method is an industry standard approach for developers in calculating an appropriate bid to acquire land and premises for development. The residual land value (‘RLV’) represents the sum available following the deduction of all costs, including allowance for developer’s profit, from the net achievable revenue which can be derived from the proposed scheme.

Benchmark Land Value (‘BLV’)

3.14 As set out above, both the Government’s PPGV and RICS Guidance set out a requirement for viability assessment to compare the RLV of the Proposed Development, as derived through the viability assessment, with the BLV (i.e. minimum return at which it is considered a reasonable landowner would be willing to sell their land) in order to determine whether the proposed development is viable or unviable.

3.15 For the purpose of this viability assessment, CBRE has incorporated the BLV into the residual appraisals as a fixed input. The residual output of each appraisal is the outturn developer’s profit. This is benchmarked

¹¹ MHCLG (2019) National Planning Practice Guidance – Viability: Paragraph: 010

¹² MHCLG (2019) National Planning Practice Guidance – Viability: Paragraph: 017

¹³ MHCLG (2019) National Planning Practice Guidance – Viability: Paragraph: 017

¹⁴ RICS (2021) Assessing viability in planning under the National Planning Policy Framework 2019 for England RICS guidance note, England 1st edition, March 2021

¹⁵ MHCLG (2019) National Planning Practice Guidance – Viability

against current market minimum risk adjusted rates of return in order to determine whether the scheme appraisal generates a viable or unviable outcome.

4 Viability Assessment Assumptions

4.1 This section presents the principal assumptions used in the viability assessment.

Development Outputs

Land Analysis

4.2 The site area associated with the Proposed Development is 0.30 hectares (0.74 acres)

Proposed Development

4.3 The Proposed Development constitutes a ground plus 27-storey residential development comprising 359 apartments (Use Class C3) with supporting residential amenity, private terraces and private shared garden, highways work, plant, and associated works

4.4 The proposed residential unit mix is summarised in Table 4.1 below.

Table 4.1: Proposed Residential Unit Mix

Accommodation Type	Unit Type	Qty	Mix (%)
Apartment	1B1P	37	10.3%
	1B2P	80	22.3%
	2B3P	94	26.2%
	2B4P	143	39.8%
Townhouse	2B4P	3	0.8%
	3B6P	2	0.6%
Total:	-	359	100%

Source: simpsonhaugh

4.5 A full suite of floor plans can be found within the submitted planning pack supporting the planning application.

Accommodation Schedule

4.6 An accommodation schedule for the Proposed Development has been prepared by the Applicant's appointed architect simpsonhaugh. A summary of the accommodation schedule is presented in Table 4.2 overleaf.

Table 4.2: Summary Accommodation Schedule | Proposed Development

Accommodation Type	Unit Type	Qty	Avg. NIA (ft²)	Total NIA (ft²)	Total GIA (ft²)
Apartment	1B1P	37	415	15,349	-
	1B2P	80	539	43,085	-
	2B3P	94	658	61,814	-
	2B4P	143	766	109,481	-
Townhouse	2B4P	3	1,099	3,296	-
	3B6P	2	1,316	2,633	-
Total:	-	359	656	235,658	326,340

Source: simpsonhaugh

4.7 A copy of the Area Schedule is provided at **Appendix C**.

Policy Compliant Accommodation Schedule

4.8 In accordance with the Council's affordable housing policy (Policy H8), as a starting point a 20% provision should be delivered on schemes where 15 or more units are proposed. The specified affordable housing tenure split is 25% affordable rented accommodation and 75% intermediate housing. The Council does not have an affordable housing policy specific or suitable to BTR development.

4.9 CBRE has therefore given weight to the NPPF and PPG for BTR, which confirms the following:

- the normal form of affordable housing provision in a BTR scheme will be affordable private rent ('APR') homes;
- a 'generally suitable benchmark' for the level APR homes to be provided (and maintained in perpetuity) in a BTR scheme is 20%; and
- the rental discount in APR units should be a minimum of 20% relative to local market rents (inclusive of service charges).

4.10 CBRE has incorporated a 20% affordable housing provision in the form of APR units within the policy compliant viability appraisal of the Proposed Development.

4.11 The adopted policy compliant accommodation schedule is summarised in Table 4.3 overleaf.

Table 4.3: Policy Compliant Accommodation Schedule

Tenure	Accommodation Type	Unit Type	Qty	Avg. NIA (ft²)	Total NIA (ft²)
Open Market	Apartment	1B1P	30	406	12,182
		1B2P	64	539	34,474
		2B3P	75	657	49,240
		2B4P	114	765	87,266
	Townhouse	2B4P	2	1,118	2,237
		3B6P	2	1,316	2,633
Open Market Sub-Total:		-	287	655	188,030
APR	Apartment	1B1P	7	453	3,168
		1B2P	16	538	8,611
		2B3P	19	662	12,574
		2B4P	29	766	22,215
	Townhouse	2B4P	1	1,059	1,059
	APR Sub-Total:		-	72	661
Total:		-	359	656	235,658

Source: CBRE

Development Value

- 4.12 The value to be adopted is based on the special assumption that the development is complete on the publication date of this document in the prevailing market conditions.

Residential (BTR) | Open Market Rents

- 4.13 CBRE has conducted a residential rental market pricing analysis of current new-build and re-let apartments in the locality of the Site to inform estimated open market rental values ('ERVs') within the viability appraisal of the Proposed Development.
- 4.14 In reaching a position on pricing, particular attention has been paid to new-build, high-end, amenitised, purpose-built BTR schemes. Notable comparables include the following:
- **Oxygen:** developed by Property Alliance Group, Oxygen comprises c. 361 apartments and 12 luxury townhouses within a 31-storey building. The development is located on Store Street, c. 200m east of the Site. Resident amenities include a swimming pool; cinema room; resident's lounge; gym & spin studio; communal spaces; on-site management; and 24hr concierge. Marketing material suggests rents at the scheme start at £1,175. There are a number of apartments and townhouses currently being marketed at the following asking rents:
 - 1-bed apartments: £1,450 - £1,700 pcm
 - 2-bed apartments: £1,585 - £1,900 pcm

It is considered that the level and quality of amenity provision on offer at Oxygen exceeds that which could be provided by the Proposed Development and thus Oxygen will achieve a rental price premium.

- **The Astley:** located on Houldsworth Street, approximately 500m north of the Site, The Astley comprises 135 BTR apartments with resident amenities including a lounge; workspace and roof terrace. CBRE considers the Proposed Development as superior in location and specification, and expect it to achieve a premium. There are two apartments currently being marketed at the following asking rents:
 - 1-bed apartment: £1,125 pcm (or £27.27/ft²)
 - 2-bed apartment: £1,350 pcm (or £25.95/ft²).
- **Anco&Co:** located on Blossom Street, on the southern edge of the fashionable Ancoats neighbourhood, Anco&Co comprises 140 purpose-built 1-bed, 2-bed and 3-bed apartments and 3-bed townhouses. Amenities include on-site management; parcel collection; 24 hour concierge; private gym; cinema room; communal garden; roof terrace; and private dining room. Three apartments currently being marketed at the following asking rents:
 - 1-bed apartment: £1,150 pcm (or £32.05/ft²)
 - 2-bed apartment: £1,612 pcm (or £23.96/ft²)
 - 2-bed townhouse: £1,798 pcm (or £23.58/ft²)

CBRE consider the high specification and amenity provision to be on a par with the Proposed Development, which is in a superior location. As a result, the Proposed Development would be expected to achieve a modest premium.

- **The Castings:** located on Heyrod Street, c. 300m south-east of the Site, Packaged Living's The Castings will deliver 352 new apartments, comprising studio, 1-bed, 2-bed and 3-bed units. The development is expected to be completed Q2/Q3 2024. Resident amenities include a gym & yoga studio; co-working space; private dining room; games room; rooftop terrace; and 24hr reception. Apartments at the development are currently being marketed at the following asking rents:
 - Studio: £1,180 to £1,190 pcm (or £38.69/ft² to £39.02/ft²)
 - 1-bed apartment: £1,340 to £1,350 pcm (or £31.78/ft² to £32.02/ft²)
 - 2-bed apartment: £1,580 to £1,605 pcm (or £26.69/ft² to £27.11/ft²)

CBRE consider The Castings to be a strong comparable in scale, specification and amenity offer. The Proposed Development is in a slightly superior location and the Proposed Development would be expected to be closely benchmarked, but with a modest premium.

- **Victoria House:** located on Great Ancoats Street, c. 350m south-east of the Site, Victoria House comprises 177 apartments over 25 storeys and includes 1, 2 and 3-bed units. Resident amenities include a resident's lounge, gymnasium, rooftop terrace; and co-working spaces. The scheme is under construction with an estimated completion date of Q2 2024. Apartments at the development are currently being marketed at the following asking rents:
 - 1-bed apartments: £1,100 to £1,400 pcm
 - 2-bed apartments: £1,500 to £1,800 pcm

CBRE consider Victoria House to be a strong comparable in scale, specification and amenity offer. The Proposed Development is in a slightly superior location and the Proposed Development would be expected to be closely benchmarked, but with a modest premium.

- **Kampus:** developed by Capital & Centric and completed in Q3 2021, Kampus comprises a 2.3 acre site and 534 apartments in five main residential blocks, located proximate to Piccadilly Station and adjacent to the fashionable Canal Street. All apartments have been designed and delivered to a high specification. Resident amenities include gym; 24-hour on-site team; residents' lounge, rooftop cinema, private dining room; and terrace. Apartments are currently being marketed at the following asking rents:

- 1-bed apartments: £1,405 to £1,625 pcm (or £34.05 to £42.83/ft²)
- 2-bed apartments: £1,650 to £2,150 pcm (or £30.16 to £35.30/ft²)
- 3-bed apartments: £3,695 pcm (or £26.17/ft²)

Kampus is considered to represent a super-prime product at the very upper premium end of the BTR market in Manchester, benefitting from the fashionable Capital & Centric brand in a highly central location, and has been assumed to be superior to the Proposed Development.

- 4.15 A summary of the rental market asking price data [reviewed above] has been provided at **Appendix D**
- 4.16 Having considered the data, CBRE has set the open market ERVs for the Proposed Development appropriately against rents currently demonstrable in the market for purpose-built BTR schemes, which will form the scheme's primary competition for lettings. The ERVs reflect location, scale of the redevelopment, floor height/ outlook, expectation of a high quality specification, level of resident amenity offer, and professional, on-site management within a dedicated BTR product.
- 4.17 The ERV structure for the Proposed Development is summarised in Table 4.4. The APR units reflect a 20% discount to open market rents.

Table 4.4: ERV Summary | Proposed Development

Tenure	Accomm. Type	Unit Type	Qty	Avg. NIA (ft²)	Total NIA (ft²)	Avg. Gross Rent PCM (£)	Avg. Gross Rent PA (£)	Total Gross Rent PA (£)	Gross Rent (£/ft²)
Open Market	Apartment	1B1P	30	406	12,182	£1,244	£14,930	£447,911	£36.77
		1B2P	64	539	34,474	£1,391	£16,698	£1,068,652	£31.00
		2B3P	75	657	49,240	£1,707	£20,483	£1,536,189	£31.20
		2B4P	114	765	87,266	£1,847	£22,169	£2,527,271	£28.96
	Townhouse	2B4P	2	1,118	2,237	£2,248	£26,970	£53,940	£24.12
		3B6P	2	1,316	2,633	£2,575	£30,900	£61,800	£23.47
Open Market Sub-Total:		-	287	655	188,030	£1,654	£19,846	£5,695,762	£30.29
APR	Apartment	1B1P	7	453	3,168	£1,022	£12,259	£85,816	£27.09
		1B2P	16	538	8,611	£1,093	£13,113	£209,810	£24.36
		2B3P	19	662	12,574	£1,351	£16,216	£308,106	£24.50
		2B4P	29	766	22,215	£1,449	£17,389	£504,280	£22.70

Tenure	Accomm. Type	Unit Type	Qty	Avg. NIA (ft²)	Total NIA (ft²)	Avg. Gross Rent PCM (£)	Avg. Gross Rent PA (£)	Total Gross Rent PA (£)	Gross Rent (£/ft²)
	Townhouse	2B4P	1	1,059	1,059	£1,744	£20,928	£20,928	£19.76
APR Sub-Total:		-	72	661	47,627	£1,307	£15,680	£1,128,940	£23.70
Total:		-	359	656	235,658	£1,584	£19,010	£6,824,702	£28.96

Source: CBRE

Operational Expenditure and Voids

- 4.18 The total gross annual residential rental revenue has been reduced by 25.00% to reflect the projected minimum operational management costs and voids. It should be noted that there is continued upward pressure on operational costs due to the inflationary macro-economic environment witnessed throughout 2022 to date.

Total Net Revenue

- 4.19 Reflecting that the Proposed Development is expected to be forward funded by an institutional investor with handover at practical completion ('PC'), a Net Initial Yield ('NIY') of 4.75% is currently applied to the net BTR residential revenue, which is considered optimistic for an institutional grade asset as at Q2 2024, in this market location.
- 4.20 Whilst yields sharpened in the period to mid-2022, the inflationary climate coupled with macro-economic and geo-political instability and rising interest rates, has resulted in a softening of residential investment yields over the course of 2023. This has stabilised in Q1 2024, but conditions remain challenging and subdued. The liquidity pool of investors seeking forward funding opportunities is extremely shallow and, due to the resultant viability constraints, there are few transactions occurring in this challenging market.
- 4.21 In November 2023, CDL agreed terms to forward fund 1NQ, a 261-unit freehold BTR project that recently secured planning permission in Manchester's fashionable Northern Quarter. Specifically, the site is located near Piccadilly Station, along Tariff Street and Port Street in the Northern Quarter, within the Piccadilly Basin neighbourhood of Manchester. The maximum commitment equated to £75.6m. This equates to approximately £430/ft² and £289,655 per unit. CBRE acted as funding agent for the developer and can confirm that the funding yield equated to circa 5.0%. CBRE would contend that the Proposed Development would attract a similar investment value to 1NQ in the current market.
- 4.22 CBRE is also acting as the investment agent for The Astley, 61 Houldsworth St, Manchester M1 2FA, which is under offer as a stabilised asset at a capital value of £371/ft² on the residential component (£238,150 per unit), reflecting a reversionary yield of 4.7% off an ERV of £26.75/ft².
- 4.23 Stepping back, CBRE's May 2024 Investment Yield Guide confirms sentiment for multi-family residential is now stable. The NIY for Regional Cities Prime is at 4.35% and Regional Cities Secondary at 4.75%, having softened over the past 12 months.
- 4.24 Knight Frank's most recently published Residential Investment Yield Guide, dated February 2024, reports that income-focused transactions of prime, stabilised institutional grade assets are 4.50% in Tier 1 regional cities and 4.75%+ in Tier 2 regional cities.
- 4.25 It is CBRE's professional opinion that the Site sits in the space between Regional Prime and Regional Cities Secondary in present market conditions. It is not 'Prime' Manchester city centre, albeit is an up-and-coming location. As a result, a stabilised net initial yield ranging from 4.5% - 4.75% is appropriate and is supported by the transactional evidence.

- 4.26CBRE is typically seeing a 25-35bps yield compression on stabilised transactions in comparison to funding deals. CBRE’s professional opinion is that a funding yield in the present market would sit equal to or in excess of 5.0%.
- 4.27In order to reflect an optimistic stance, CBRE has applied a funding yield of 4.75%, in anticipation of an improving investment environment in Q2-3 2024. This generates a capital value, on a net (of PCs/coupon) basis, of £439/ft² or £288,193 per unit – assuming full open market rents. This represents a strong assumption of capital value.
- 4.28This reaffirms CBRE’s opinion that a yield range between 4.75% and 5.0% is broadly appropriate.
- 4.29CBRE reserves the right to keep the NIY applied under observation and update this should new evidence come to light.

Development Costs

Construction Costs

- 4.30The Applicant instructed Midgard (main contractor company in the JRL Group) to provide an estimate of the cost for construction of the Proposed Development.
- 4.31The estimated cost for construction, as at Q2 2024, is £75,060,706. The cost includes allowances for facilitating works, external works, main contractor’s preliminaries and OH&P, but excludes professional fees and inflation.
- 4.32The above construction cost has been adopted within the viability appraisal of the Proposed Development at the Site.
- 4.33A copy of the Cost Estimate is provided within **Appendix E**.

Other Development Costs

- 4.34Other development costs are summarised in Table 4.5.

Table 4.5: Other Development Costs | Proposed Development

Cost Item	Rate	Commentary
Contingency	3.00%	Of estimated construction costs. Considered a reasonable allowance for developer’s risk for the scale (height) and design complexity of the development, in the current market.
Professional Fees	8.00%	Estimated rate as a % of total build costs
Development Management Fee	2.50%	Estimated rate as a % of total development costs
FF&E: Apartments	£1,436,000	Budget allowance for apartment FF&E
FF&E: Amenity Areas	£359,000	Budget allowance for amenity areas FF&E
Statutory Planning Fee(s)	£88,404	Informed by the Applicant

Cost Item	Rate	Commentary
Investment Sale Agent Fee	0.75%	Of GDV
Investment Sale Legal Fee	0.50%	Of GDV
Purchaser's Costs (Investment)	2.00%	Optimistically assumes asset held in SPV. SDLT on share transfer at 0.50%, plus institutional fund's agency and legal fees (including VAT at 20.00%) on funding commitment.
Purchaser's Costs (Land)	SDLT + 1.80%	Standard HMRC non-residential stamp duty land tax ('SDLT'), agent's fee (1.00%) and legal fee (0.80%)
Finance	4.75%	Coupon rate, which is expected to be equal to the NIY. Optimistic funding rate in current market (a 5.00%+ rate being more realistic).
Developer's Return (blended) on GDV	12.00%	Total target return on GDV (circa 13-15% return on Cost) to reflect current levels of market risk, in line with the minimum market expectations and at the low end the range set-out in PPGV. CBRE's experience is that, given the heightened market and commercial risk, both developers and funders are requiring demonstration of higher minimum returns ranging up to 15% profit on Cost. The rate applied in this assessment, in comparison, is at the lower end of the range and takes a more aggressive stance as a result.

Source: CBRE; the Applicant

Development & Disposal

4.35 The adopted development programme, informed by advice provided by the Applicant, is summarised in Table 4.6.

Table 4.6: Development & Disposal Programme | Proposed Development

Duration	Stage	Description
Month 1:	Purchase	Assumes grant of planning permission
Months 2 - 4:	Pre-Construction	Procurement, discharge of planning conditions and site set-up
Months 5 - 37:	Construction	Overall construction period including facilitating and demolition works.
Months 38:	Sale / Handover	Practical Completion

Source: CBRE; The Applicant

5 Site Value (or 'Benchmark Land Value')

- 5.1 Establishing the minimum level of financial return at which a reasonable landowner would be willing to release their land for development represents a critical component of a viability assessment. It must represent a premium over the existing use value ('EUV') and a reasonable incentive, in comparison with other options available, for the landowner to sell land for development, whilst allowing a sufficient contribution to comply with policy requirements.
- 5.2 Whilst not directly featuring as a cost in an appraisal conducted on a residual basis, this 'minimum return' forms the BLV against which the RLV derived from the appraisal is tested in order to determine the viability of the Proposed Development and scope for planning obligations (including affordable housing).
- 5.3 The Government's PPGV requires that the BLV should:
- '...be informed by market evidence including current uses, costs and values. Market evidence can also be used as a cross-check of benchmark land value but should not be used in place of benchmark land value... This evidence should be based on developments which are fully compliant with emerging or up to date plan policies, including affordable housing requirements at the relevant levels set out in the plan. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.'*¹⁶
- 5.4 Paragraph 016 of PPGV provides further elaboration. It states:
- 'Market evidence can include benchmark land values from other viability assessments. Land transactions can be used but only as a cross check to the other evidence. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners.'*¹⁷
- 5.5 The approach adopted for arriving at an appropriate BLV for the Site follows that set out within Chapter 3 of this document and accords with the relevant RICS Guidance, PPGV and the NPPF (2021). It considers:
- the existing use value ('EUV') of the subject site;
 - the alternative use value ('AUV') of the subject site;
 - the premium; and
 - available comparable evidence of land transactions.

¹⁶ MHCLG (2019) National Planning Practice Guidance – Viability: Paragraph: 014

¹⁷ MHCLG (2019) National Planning Practice Guidance – Viability: Paragraph: 016

Existing Use Value (‘EUV’)

- 5.6
- The Site occupies an area of 0.30 hectares (0.74 acres) and comprises two large industrial/ commercial buildings: one formerly occupied as a telecommunications superswitch site and the other currently occupied for storage and distribution. A limited number of car parking spaces are attributed to each premises.
- 5.7
- The Site is secured by perimeter fencing and the buildings are largely screened from the road on two sides (Sparklet Street and Store Street aspects) by existing vegetation.
- 5.8
- It is understood that the two buildings were originally built sub-divided into a total of five individual industrial/ commercial units. The western building, formerly occupied as a telecommunications superswitch site, was once three units (1A to 1C) and the eastern building, presently occupied for storage and distribution use, two units (2A and 2B)
- 5.9
- The western building is understood to be currently vacant.
- 5.10
- CBRE is aware there is a short-term lease over the eastern building (units 2A and 2B) permitting its occupation and ongoing use for storage and distribution. The lease has an end date of March 2025, but includes a break clause which can be exercised at any time (having become implementable from March 2023). Given the short-term nature of the lease and diminished covenant strength, CBRE has considered its EUV on the assumption of vacant possession.
- 5.11
- In arriving at an opinion on the EUV for the Site, CBRE has had regard to comparable evidence within the market to inform and achievable rent and yield (capitalisation rate).
- 5.12
- The following lease transactional evidence has been considered:

Table 5.1: Industrial Lease Transactional Evidence

Image	Address	Size (ft²)	Rent (£/pa)	Rent (£/ft²)	Transaction Date	Comments
	Unit 2, Apollo Business Centre, Apsley Grove, Ardwick, M12 6AW	3,330	£23,000	£6.91	October 2023	5-year lease
	Unit 27, Piccadilly Trading Estate, Manchester, M1 2NP	9,404	£56,424	£6.00	May 2023	5-year lease

Image	Address	Size (ft²)	Rent (£/pa)	Rent (£/ft²)	Transaction Date	Comments
	Unit J3, Kansas Avenue, Cassidy Court, Salford, M50 2GL	1,037	£14,500	£13.98	March 2023	5-year lease
	Unit 12, Harp Trading Estate, Trafford Park, M17 1SR	2,978	£31,269	£10.50	Under Offer	5-year lease
	Unit 1A, Fourth Avenue, Trafford Park, M17 1DB	12,837	£121,952	£9.50	July 2022	6-year lease Evri (Hermes) as tenant
	Unit 14, Harp Trading Estate, Trafford Park, M17 1SR	2,981	£26,829	£9.00	April 2022	5-year lease Mainmark Ground Engineering (UK) Limited as tenant

Source: Egi Radius

5.13 CBRE has also obtained details of recent industrial investment transactions. Notable comparables are provided in Table 5.2 overleaf.

Table 5.2: Industrial Investment Transactional Evidence

Image	Address	Size (ft ²)	Sales Value (£)	Transaction Date	Net Initial Yield (%)	Comments
	Downing Street Industrial Estate, Charlton Place	74,520	£15,500,000 (£208/ft ²)	December 2023	Unknown	Purchased by Transport for Greater Manchester
	Ringway Trading Estate, Manchester, M22 5LH	151,464	£13,500,000 (£89.13/ft ²)	December 2022	5.48%	High specification. Good industrial location
	Unit 1A, Fourth Avenue, Trafford Park, M17 1DB	12,837	£2,910,000 (£226.69/ft ²)	August 2022	3.80%	Good industrial location
	Units 1-4 Europa Way, Trafford Park	45,271	£6,600,000 (£145.79/ft ²)	August 2022	4.14%	Passing rent of £291,714

Source: CBRE; Egi Radius

- 5.14 The market evidence presents mixed accommodation and demonstrates achieved rents between £6.00/ft² and £14.00/ft² and capital values of £89/ft² to £227/ft².
- 5.15 In addition to the yield evidence presented in Table 5.2, CBRE has had regard to market intelligence¹⁸ which suggests as at May 2024 industrial yields were generally stable, with prime estate yields at 5.25% and yields for good secondary locations at 6.50%.
- 5.16 Drawing upon the market data and intelligence gathered by CBRE, the calculation of the EUV for the existing buildings at the Site is presented in Table 5.3. The building areas have been informed by the Applicant's appointed architect simpsonhaugh and utilised within the calculation.

¹⁸ CBRE (2024) Investment Yields Sheet

Table 5.3: EUV Calculation

Premises	GIA (ft²)	Rent (£/ft²)	Annual Rent (£)	Yield (%)	Capital Value (£)
Western Building	5,834	£10.00	£58,340	5.75%	£972,340
Eastern Building	6,997	£10.00	£69,965	5.75%	£1,166,090
Gross Investment Value:					£2,231,405
Less Purchaser's Costs	SDLT			4.53%	-£101,070
	Agents & Legal Fees			1.80%	-£40,165
EUV:					£2,090,170

Source: CBRE

- 5.17 The EUV appraisal generates a net investment value of £2,090,170, equating to £162.91/ft², which is considered reasonable for this use, in this location and in the current market.

Premium ('+')

- 5.18 The premium should represent the minimum return that would persuade a reasonable landowner to release the land for development.
- 5.19 CBRE considers the existing premises to be well located and requiring limited / no capital expenditure in the short-medium term, and could attract a significant premium in excess of the EUV.
- 5.20 Moreover, the opportunity for subdivision to recreate five individual units at the Site (as the previous configuration) offers additional upside to the potential premium attached to the Site.
- 5.21 CBRE has therefore applied a 30% premium is applied to the EUV to generate the 'EUV+' calculation of the estimated minimum sum at which the landowner may reasonably be incentivised to dispose of the subject site and premises in the current market.
- 5.22 The EUV+ equates to approximately £2,717,221.

Alternative Use Value (AUV)

- 5.23 An assessment of AUV has not been prepared at this stage. However, CBRE reserves the right to prepare such an assessment if deemed necessary.

Determining the BLV

- 5.24 Reflecting on the above analysis, when assessed consistently with the methodology of NPPF, PPGV, and RICS Guidance, it is CBRE's professional view that the BLV for the area of the site associated with the Proposed Development equates to £2.72m

6 Appraisal Results

- 6.1 This chapter presents the results of the assessment of financial viability arising from the Proposed Development of the Site.

Viability Appraisal

- 6.2 A policy compliant viability appraisal has been undertaken for the Proposed Development at the Site.
- 6.3 By way of analysis set out in chapter 5 of this document, it is considered that, if acting reasonably and when fully accounting for adopted planning policy, guidance and all other relevant factors, including a minimum 'premium' at which the vendor would be incentivised to dispose of the Site associated with the Proposed Development, this results in a BLV of £2.72m
- 6.4 The BLV has been applied as a fixed input to the viability appraisal with the resultant developer's profit generated by the Proposed Development becoming the outturn.
- 6.5 The policy compliant viability appraisal demonstrates that, when incorporating 20% affordable housing (in the form of APR units at 80% of local market rent) and the assessed BLV, the outturn residual profit margin generated equates to [REDACTED]
- 6.6 The Proposed Development is considered unviable on a policy compliant basis.
- 6.7 The policy compliant viability appraisal is provided within **Appendix F**.

Scenario Test

- 6.8 CBRE has scenario tested the implications on financial viability of reducing the level of affordable housing sought from the Proposed Development to return it to a financially viable position.
- 6.9 The scenario test demonstrates that when reducing the affordable housing provision to nil the outturn residual profit margin generated increases to [REDACTED] This remains below the risk-adjusted developer's return target, albeit the viability deficit is reduced.
- 6.10 The scenario test appraisal is provided within **Appendix G**.

Sensitivity Test

- 6.11 CBRE has undertaken sensitivity testing of key appraisal variables in order to seek to return the Proposed Development to a financially viable position.
- 6.12 Sensitivity testing illustrates that an increase in the ERVs by c. £1.20/ft² and concurrent decrease in construction costs by approximately -£16.00/ft² would generate an outturn profit margin in excess of the minimum risk-adjusted developer's return target of 12.00 on GDV.
- 6.13 A copy of the sensitivity test is provided within **Appendix H**.
- 6.14 The sensitivity scenario would carry significant risk and should be treated with a degree of caution and, CBRE would advise, given limited weight.

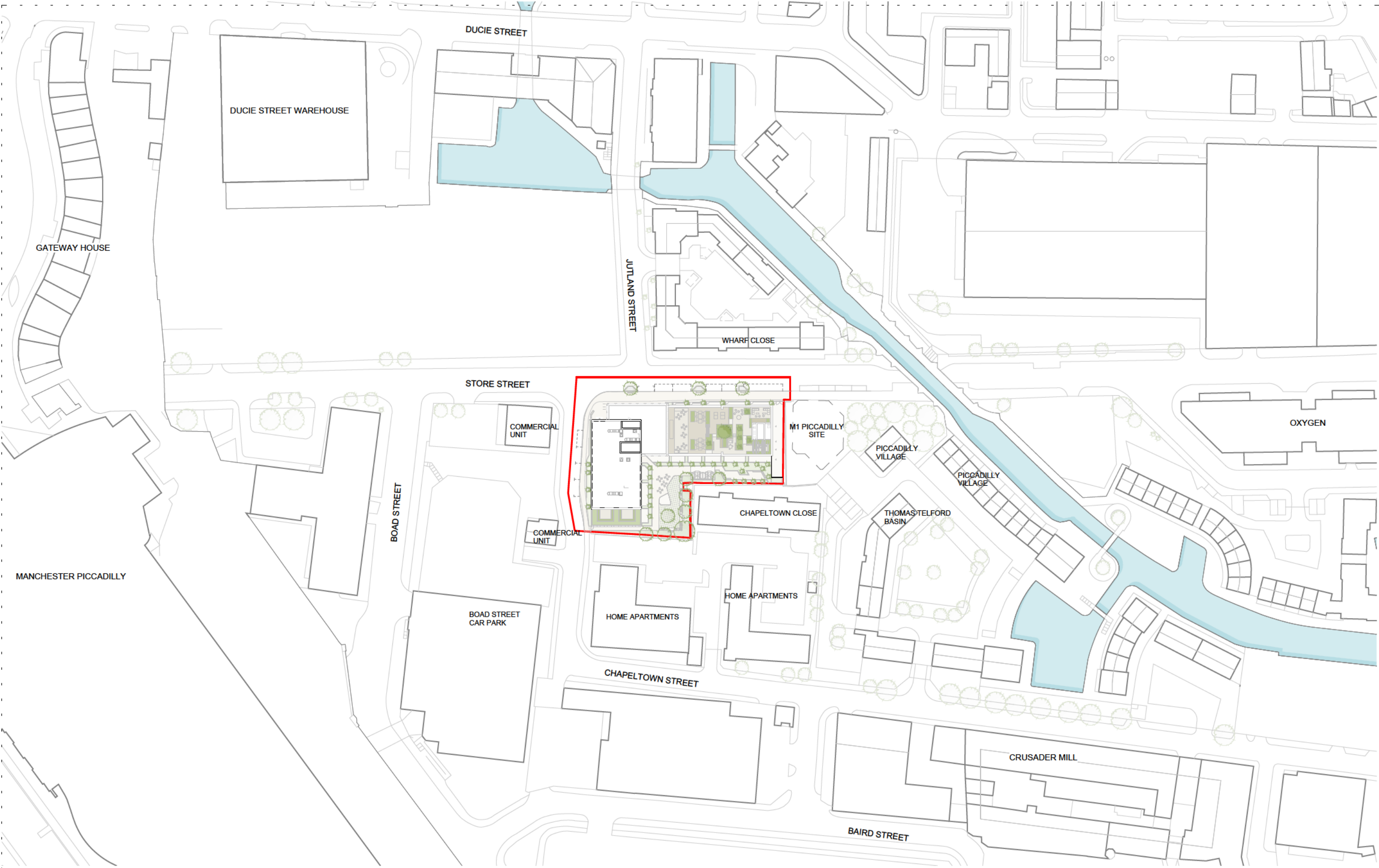
7 Conclusions

- 7.1 CBRE has been appointed by the Applicant to objectively assess, and report upon, the financial viability of the Proposed Development at the Site.
- 7.2 The purpose of the viability assessment is to test the financial viability of the Proposed Development at the Site, taking into account the policy requirements set by MCC as well as national planning policy and guidance.
- 7.3 By way of analysis set out in chapter 5 of this document, it is considered that, if acting reasonably and when fully accounting for adopted planning policy, guidance and all other relevant factors, the 'premium' at which the vendor would be incentivised to dispose of the Site associated with the Proposed Development represents a total minimum BLV of [REDACTED]
- 7.4 The BLV has been applied as a fixed input to the viability appraisal with the resultant developer's profit generated by the Proposed Development becoming the outturn.
- 7.5 The policy compliant viability appraisal demonstrates that, when incorporating 20% affordable housing (in the form of APR units at 80% of local market rent) and the assessed BLV, the outturn residual profit margin generated equates to [REDACTED]
- 7.6 The delivery of the Proposed Development on a basis in compliance with the Council's adopted development plan fails to generate a profit sufficient to meet the target minimum risk-adjusted developer's return on GDV and the Proposed Development is not financially viable on this basis.
- 7.7 CBRE has subsequently run a scenario test to assess the implications on financial viability of removing the affordable housing provision.
- 7.8 The scenario test demonstrates that when reducing the affordable housing provision to nil the outturn residual profit margin generated increases to [REDACTED] This remains below the risk-adjusted developer's return target, albeit the viability deficit is reduced.
- 7.9 The commercial decision whether to proceed with the Proposed Development will therefore be at the discretion of the Applicant.
- 7.10 Given the commercial risks, it would be CBRE's recommendation that the Proposed Development does not incorporate any affordable housing units (or a payment in lieu of on-site provision) and any sums towards planning obligations.
- 7.11 CBRE understands that a viability review mechanism will be incorporated in the Section 106 Agreement, which will serve to recover planning obligations up to a policy-compliant basis, if the Proposed Development outperforms.
- 7.12 Any sum offered by the Applicant for planning obligations prior to this (i.e., alongside determination of this application) would be at the Applicant's own commercial risk.

Appendices



A Site Location Plan



DO NOT SCALE OFF DRAWING, REFER TO INDICATED DIMENSIONS ONLY.
DRAWING TO BE READ IN CONJUNCTION WITH SHP SPECIFICATION.
INDICATIVE DETAILS TO ILLUSTRATE VISUAL INTENT ONLY. ALL TO CONTRACTOR'S DESIGN.
ALL DETAILS TO BE COORDINATED WITH ADJACENT TRADES AND BE A/E ENGINEER DETAILS.
THE CONTRACTOR IS RESPONSIBLE FOR MEETING THE SPECIFIED PERFORMANCE CRITERIA.

— Planning boundary



Sparkle Street

PLANNING ISSUE

Site Wide - Proposed Site Plan

10413-SHP-Z0-A-B5D8-G100-PL-XX-001

April 2024

P02

10413

1 : 1250 @A3

simpsonhaugh

Manchester
+44 (0)161 835 2345

London
+44 (0)20 7549 4000

B Floor Plans

*(SEE THE FULL SUITE OF PLANS WITHIN THE SUBMITTED PLANNING
PACK SUPPORTING THE PLANNING APPLICATION)*

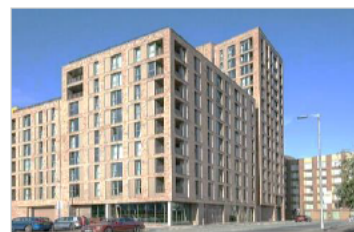
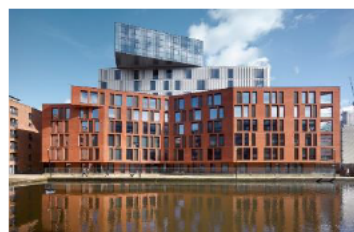
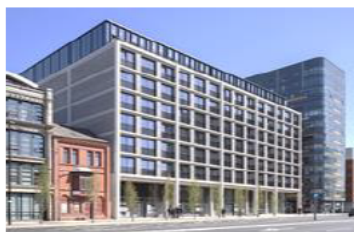
C Area Schedule

Stage 2 Proposal (Tower moved with Extra Height and Upper Amenity)												
	Floorplan	1B1P	1B2P	2B3P	2B4P	3B5P	3B6P	TOTAL	AMENITY	GIA (sq.m)	NIA (sq.m)	NIA:GIA
Ground	L00				3		2	5	241	1,884	277	14.7%
Level 01	L01	4	2	6	4			16		1,537	1,196	77.8%
Level 02	L02	4	6	7	5			22		1,587	1,252	78.9%
Level 03	TY1	2	5	7	7			21		1,587	1,254	79.0%
Level 04	TY1	2	5	7	7			21		1,587	1,254	79.0%
Level 05	TY1	2	5	7	7			21		1,587	1,254	79.0%
Level 06	TY1	2	5	7	7			21		1,587	1,254	79.0%
Level 07	TY1	2	5	7	7			21		1,587	1,254	79.0%
Level 08	TY1	2	5	7	7			21		1,587	1,254	79.0%
Level 09	TY1	2	5	7	7			21		1,587	1,254	79.0%
Level 10	L10	1	3		2		1	7	185	803	439	54.6%
Level 11	TY2	1	2	2	5			10		803	614	76.5%
Level 12	TY2	1	2	2	5			10		803	614	76.5%
Level 13	TY2	1	2	2	5			10		803	614	76.5%
Level 14	TY2	1	2	2	5			10		803	614	76.5%
Level 15	TY2	1	2	2	5			10		803	614	76.5%
Level 16	TY2	1	2	2	5			10		803	614	76.5%
Level 17	TY2	1	2	2	5			10		803	614	76.5%
Level 18	TY2	1	2	2	5			10		803	614	76.5%
Level 19	TY2	1	2	2	5			10		803	614	76.5%
Level 20	TY2	1	2	2	5			10		803	614	76.5%
Level 21	TY2	1	2	2	5			10		803	614	76.5%
Level 22	TY2	1	2	2	5			10		803	614	76.5%
Level 23	TY2	1	2	2	5			10		803	614	76.5%
Level 24	TY2	1	2	2	5			10		803	614	76.5%
Level 25	TY2	1	2	2	5			10		803	614	76.5%
Level 26	L26		2	1	3			6	253	803	371	46.2%
Level 27	L27		2	1	3			6		550	371	67.5%
Roof												
TOTAL		38 11%	80 22%	94 26%	144 40%	0 0%	3 1%	359	679	30,318	21,893	
%		32.9%		66.3%		0.8%				NIA:GIA		72%

Amenity per Unit (sq.m)	1.9
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D Rental Market Asking Price Data Summary

Rental Market Data



	ANCO & CO	BURLINGTON HOUSE	KAMPUS	OXYGEN	THE ASTLEY
Type	BTR	BTR	BTR	BTR	BTR
Owner	-	-	C&C	PAG	-
No. of Units	140	91	500+	361	135
P.C.	Q3 2020	-	-	-	Q1 2019
New-Build/ Conversion	New-Build	New-Build	New-Build & Conversion	New-Build	New-Build
Studio	-	-	-	-	-
Avg. Unit Size	-	-	-	-	-
Avg. Rent (£PCM)	-	-	-	-	-
Avg. Rent (£/ft²)	-	-	-	-	-
1 Bed Units					
Avg. Unit Size	431	-	482	463	495
Avg. Rent (£PCM)	£1,150	-	£1,512	£1,533	£1,125
Avg. Rent (£/ft²)	£32.05	-	£37.63	£37.59	£27.27
2 Bed Units					
Avg. Unit Size	861	-	706	-	624
Avg. Rent (£PCM)	£1,705	£1,647	£1,928	£1,713	£1,350
Avg. Rent (£/ft²)	£23.76	-	£32.77	-	£25.95
3 Bed Units					
Avg. Unit Size	-	-	1,694	-	-
Avg. Rent (£PCM)	-	£2,550	£3,695	-	-
Avg. Rent (£/ft²)	-	-	£26.17	-	-
Amenities					
Concierge	✓	✓	✓	✓	
Gym/Wellness Space	✓		✓	Swimming Pool & Gym	
Resident's Lounge			✓	✓	✓
Private Dining Room	✓		✓		
Media/ Games Room	✓		✓	✓	
Roof Top Spaces	✓		✓		✓
Communal Gardens	✓				
Co-working space		✓	✓		
Parking Provision			✓		

Rental Market Data



	THE CASTINGS	VICTORIA HOUSE
Type	BTR	BTR
Owner	Packaged Living	Forshaw
No. of Units	352	177
P.C.	Q2 2024	Q2 2024
New-Build/ Conversion	New-Build	New-Build
Studio	-	-
Avg. Unit Size	366	-
Avg. Rent (£PCM)	£1,185	-
Avg. Rent (£/ft²)	£38.86	-
1 Bed Units		
Avg. Unit Size	506	524
Avg. Rent (£PCM)	£1,340	£1,313
Avg. Rent (£/ft²)	£31.78	£30.54
2 Bed Units		
Avg. Unit Size	710	768
Avg. Rent (£PCM)	£1,593	£1,633
Avg. Rent (£/ft²)	£26.90	£25.53
3 Bed Units		
Avg. Unit Size	-	-
Avg. Rent (£PCM)	-	-
Avg. Rent (£/ft²)	-	-
Amenities		
Concierge	✓	✓
Gym/Wellness Space	✓	✓
Resident's Lounge		✓
Private Dining Room	✓	
Media/ Games Room	✓	
Roof Top Spaces	✓	✓
Communal Gardens		
Co-working space	✓	
Parking Provision		

E Cost Estimate

F Policy Compliant Appraisal | 20% Affordable Housing Provision

G Scenario Test Appraisal | Nil Affordable Housing Provision

H Sensitivity Test