

Sparkle Street, Manchester



Financial Viability Statement | Non-Technical Executive Summary

CBRE Limited | National Planning & Development for:

Foras (Sparkle Street) Limited

May 2024

Contents

Declaration..... 3

Executive Summary..... 5

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.

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 (main contractor company in the JRL Group)
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
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 total development cost	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')

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] on GDV (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.

