

Financial Viability Statement | Non-Technical Executive Summary

Upper Brook Street, Manchester

June 2023

1. Declaration

Instruction and Purpose of Report

- 1.1 McLaren Property Ltd and Kadans' Science Partner (the Applicant), are seeking full planning permission to enable the delivery of a Sci-Tech and purpose-built student accommodation scheme (PBSA) on land at Upper Brook Street, Manchester. The new Sci-Tech floor space would be developed by Kadans' in-house team while the student accommodation would be developed by McLaren Property.
- 1.2 Avison Young (AY) has been appointed by the Applicant to prepare an independent assessment of scheme viability, the purpose of which is to:
- a) Demonstrate that the quantum of student development proposed is the minimum necessary to balance the risk profile and scheme viability, inclusive of wider public realm and community benefits.
 - b) Demonstrate that the PBSA scheme is deliverable, which is a key strand of the Council's student housing policy¹

Basis of Reporting

- 1.3 Our report has been prepared in accordance with the RICS Professional Statement Financial Viability in Planning: Conduct, and Reporting, 1st edition, May 2019. This document sets out mandatory requirements on conduct and reporting in relation to viability assessments for planning in England to demonstrate how a reasonable, objective and impartial outcome should be arrived at.
- 1.4 Further to the mandatory RICS reporting requirements the assessment has also been undertaken with due regard to the RICS Guidance Note: Assessing viability in planning under the National Planning Policy Framework 2019² for England, 1st edition March 2021 and the latest Planning Policy guidance (PPG) and National Planning Policy Framework (NPPF) guidance relating to viability

Objectivity, Impartiality and Reasonableness

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

¹ Policy H12 – Purpose Built Student Accommodation.

² It should be noted that although the latest version of the NPPF is July 2021 the guidance remains valid.

- 1.9 We confirm that that adequate time as been provided to produce this report.

Conflict of Interest

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

Contingent Fee

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

Status

- 1.12 The advice contained within this report does not constitute a valuation of the site in accordance with RICS Valuation – Global Standards 2020 and should not be relied upon as such³.
- 1.13 This report has been prepared for the sole use of our client, based on the scope of work and on the terms and conditions agreed with our client. Whilst facts have been rigorously checked, Avison Young can take no responsibility for any damage or loss suffered because of any inadvertent inaccuracy within this report. Information contained herein should not, in whole or part, be published, reproduced, or referred to without prior approval. Any such reproduction should be credited to Avison Young.

³ The assessment is prepared for assessing the viability of development to assist with planning matters, either plan/policy making, or decision taking. The assessment therefore constitutes an exception from valuation technical and performance standards ('VPS') 1 – 5 of the Red Book, and is not a formal valuation and should not be relied upon as such

2. Executive Summary

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

Table 2.1 – Key Viability Assumptions

Input		Comments
PBSA Rents - Studios	£255 per week	Equates to an annual rent of £13,005 over a 51 week term, which have then been adjusted by 3% to account for voids and bad debt.
PBSA Rents – Cluster Rooms	£205 per week	Equates to an annual rent of £10,455 over a 51 week term, which have then been adjusted by 3% to account for voids and bad debt.
PBSA Operational Expenditure	23% of gross operating income	inclusive of management fee and sinking fund/lifecycle costs etc.
PBSA Yield	5.25%	-
Life Science Rents	£430psm (£41psf)	Assumed rent for both the office and lab space.
Life Science Yield	5.25%	-
PBSA Construction costs	£97,645	Cost per bed based on preliminary order of cost from Abacus.
Life Science Construction costs	£3,875psm (£360psf)	Costs based on preliminary order of cost from Gardiner Theobald
S106 Contributions	-	No costs have been included for Section 106 contributions or Section 278 Works; however, the cost plans include allowances for the following: - Upgrading the footpaths to UBS and Kincardine Road (£40,000). - Work to the road crossing on UBS (£80,000). - Works to the road crossing on Kincardine Road (£25,000)
Developers Contingency	5%	Applied to the construction costs.
Project fees	8%	Applied to construction costs and covers planning, architecture, QS, structural engineer, services engineer, project manager, specialist fees and surveys, legal, development management and other fees.
Sales agent fee (PBSA and Life Science)	0.5%	% of GDV.
Sales legal fee (PBSA and Life Science)	0.25%	% of GDV.

Input		Comments
Letting agents (life sciences)	10%	% of the first year's rental value.
Letting legals (life sciences)	5%	% of the first year's rental value.
Land Value	£10,300,000	The values are split £3,800,000 for the PSBA block and £6,500,000 for the Sci Tech block.
Interest	6.5%	-

Target Profit

- 2.3 Planning Practice Guidance (PPG) states⁴ that for the purpose of plan making an assumption of 15% to 20% of gross development value (GDV) may be considered a suitable return to developers to establish the viability of plan policies. It further states that plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. It also states that alternative figures may also be appropriate for different development types.
- 2.4 Whilst the reference within PPG is clearly aimed towards viability in plan making many practitioners also refer to the guidance within PPG for viability in decision making. However, at the application and decision-making stage the level of return needs to have regard to the scale and complexity of the project in question, its cash efficiency, the scale of investment required and the embedded risk in delivering the project, which correlates with the guidance set out within PPG.
- 2.5 With respect to this project, the following points are highlighted:
- The project is a large complex project in an urban location on a constrained site, enhancing the construction risks.
 - Current cost estimates are subject to a much higher level of uncertainty than would normally be the case due to continuing cost inflation.
 - Increased interest rates (and more expected), together with wider economic concerns, are causing developers and investors to reprice assets. The market is still in a period of 'pricing discovery' meaning there is a higher level of uncertainty on the schemes estimated net development value, than would normally be the case.
- 2.6 Because, this assessment is focussed on demonstrating 'deliverability' of the scheme the profit included in the assessment reflects the applicant's 'target profit'. In this instance and reflecting the inherent risk associated with the scheme the Applicant is seeking to achieve a blended scheme profit of 12.5% on costs

Viability Assessment Results and Conclusions

- 2.7 The assessment has demonstrated that the scheme is capable of generating a profit of circa 12.32%, which is only marginally lower than the target profit of 12.5%, thereby, demonstrating that the scheme (including the student block) is deliverable, which is a key strand of the Council's student housing policy.
- 2.8 The assessment has also demonstrated that the scale of the student block proposed is the minimum necessary to balance the risk profile and scheme viability to ensure a deliverable scheme, inclusive of wider public realm and community benefits, which is a key strand of the Council's student housing policy.

⁴ Paragraph: 018 Reference ID: 10-018-20190509

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