

Albert Bridge House, Manchester



Financial Viability Statement | Non-Technical Executive Summary

CBRE Limited | National Planning & Development proposal for: Oval Real Estate Ltd

Oval

November 2022

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 Oval Real Estate Limited ('the Applicant') to objectively assess, and report upon, the financial viability of the proposed redevelopment of the Bridge Street Car Park, 1 Bridge Street, Manchester ('the Site') for the full demolition and redevelopment of the car park to deliver a new residential building with basement, flexible commercial space, including food and beverage, and significant public realm.

This viability assessment ('VA') examines the financial viability of the residential redevelopment of the Site (hereafter referred to as the 'Proposed Residential Development').

The purpose of this viability assessment ('VA') is to test the financial viability of the Proposed Residential 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

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

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

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:



Geoff Machen
Assistant Surveyor
National Planning & Development
CBRE UK Limited



Matt Spilsbury MRICS MRTPI
Senior Director
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 Oval Real Estate Limited (hereto referred to as ‘the Applicant’) to objectively assess, and report upon, the financial viability of the proposed redevelopment of the Bridge Street Car Park, 1 Bridge Street, Manchester (‘the Site’) for a residential building with basement, flexible commercial space, including food and beverage, and significant public realm.

This viability assessment (‘VA’) examines the financial viability the residential redevelopment of the Site (hereafter referred to as the ‘Proposed Residential Development’).

The purpose of this viability assessment (‘VA’) is to test the financial viability of the Proposed Residential 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 Residential Development are summarised in Table ES1.

Table ES1: Viability Assessment Inputs Summary

Input	Rate	Comment
BTR Estimated Rental Values (‘ERV’): Open Market Apartments	£27.18/ft ²	Based upon local BTR market evidence
BTR Net Initial Yield (‘NIY’)	4.25%	Forward funded NIY
Commercial ERVs	£22.50/ft ²	Set optimistically against local market evidence
Commercial NIY	6.50%	Set optimistically against market evidence
Construction Costs	£98,037,000	Based upon a Cost Estimate produced by Cumming. The cost excludes contractors design and build risk (1%), client’s contingency, professional fees and inflation.
Contingency (Contractor & Developer)	3.00%	Of estimated build costs. Considered a modest allowance for both contractor’s and developer’s risk in the current market.
Professional Fees & Insurances	8.00%	Estimated rate as a % of total build costs
Other Costs	£2,500,000	
FF&E: Apartments	£1,436,000	Budget allowance for apartment FF&E
Commercial Letting Agent Fee	10.00%	Of Commercial GDV
Commercial Letting Legal Fee	5.00%	Of Commercial GDV
Investment Sale Agent Fee	1.00%	Of GDV
Investment Sale Legal Fee	0.50%	Of GDV
Purchaser’s Costs (Land)	-	Standard fees relating to stamp duty, agent’s fee (1.00%) and legal fee (0.80%)
Finance	4.25%	Coupon rate, which is expected to be equal to the NIY

Input	Rate	Comment
Developer's Return (blended)	10.00%	Total target 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

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 area of] the site associated with the Proposed Residential Development equates to £4.45m.

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 risk-adjusted developer's return on cost, the residual land value ('RLV') generated equates to -£1,629,402. The RLV falls below the BLV.

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 cost 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. This generates a RLV of £2,524,552 and demonstrates that the financial viability of the Proposed Residential Development remains challenged, but that the viability deficit is significantly 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.

