Great Northern, 235 Deansgate, Manchester

Financial Viability Statement |

Non-Technical Executive Summary

CBRE Limited | National Planning & Development report for:
GNW Developments Ltd

November 2022

Contents

Declaration..... 3

Executive Summary..... 5

 ©2022 CBRE, INC.

Declaration

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

Instruction and Purpose of Report

In accordance with an instruction and our appointment, CBRE has been instructed by GNW Developments Ltd ('the Applicant') to objectively assess, and report upon, the financial viability of the proposed redevelopment of Great Northern, 235 Deansgate, Manchester.

CBRE understands that the Applicant intends to submit a single planning application for the redevelopment of the site, but that the scheme will be delivered over three non-sequential phases, as follows:

- **Phase A:** the refurbishment and conversion of the Great Northern Warehouse (including the removal of modern features) and the northern end of Deansgate Terrace for commercial use, alongside the enhancement of Great Northern Square and retention of existing ground floor occupiers;
- **Phase B and C:** demolition of the Leisure Box (including alterations to the existing multi-storey car park below), erection of residential elements (B) and refurbishment and conversion of the southern end of Deansgate Terrace (C).

This viability assessment ('VA') addresses the redevelopment of the Leisure Box (hereafter referred to as 'the Site' or 'Leisure Box') for the 'Phase B', residential-led scheme (constituting 'the Proposed Development').

The purpose of this VA is to test the financial viability of the Proposed Development of 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.

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

©2022 CBRE, INC.

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).

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 RICS[4].

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')*

©2022 CBRE, INC.

Executive Summary

CBRE has been appointed by GNW Developments Ltd ('the Applicant') to objectively assess, and report upon, the financial viability of the proposed redevelopment of Great Northern, 235 Deansgate, Manchester.

CBRE understands that the Applicant intends to submit a single planning application for the redevelopment of the site, but that the scheme will be delivered over three non-sequential phases, as follows:

- **Phase A:** the refurbishment and conversion of the Great Northern Warehouse (including the removal of modern features) and the northern end of Deansgate Terrace for commercial use, alongside the enhancement of Great Northern Square and retention of existing ground floor occupiers;
- **Phase B and C:** demolition of the Leisure Box (including alterations to the existing multi-storey car park below), erection of residential elements (B) and refurbishment and conversion of the southern end of Deansgate Terrace (C).

This viability assessment ('VA') addresses the redevelopment of the Leisure Box (hereafter referred to as 'the Site' or 'Leisure Box') for the 'Phase B', residential-led scheme (constituting 'the Proposed Development').

The purpose of this VA is to test the financial viability of the Proposed Development of 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 Rental Values ('ERV'): Open Market Apartments	£28.74/ft²	Set optimistically against local BTR market evidence
BTR ERVs: Car Parking	£150pcm	Per residential car parking space
BTR Net Initial Yield ('NIY')	4.00%	Forward funded NIY
Commercial ERVs	£20.00 - £23.00/ft²	Set optimistically against local market evidence
Commercial NIY	6.50%	Set optimistically against local market evidence
Construction Costs	£203,397,000	Based upon a Preliminary Budget Estimate produced by Quartz Project Services Limited. Incorporates facilitating, abnormal and external works, and includes a 1.50% construction risk allowance. VAT, design fees and inflation are excluded.
Other Construction Costs	£9,548,500	Assessment of the additional costs associated with deliver of the Proposed Development. The costs are commercially sensitive and have therefore been presented in summary for reporting.

©2022 CBRE, INC.

Input	Rate	Comment
Contingency	3.00%	Of estimated build costs. Applied In addition to the 1.50% allocation within the Quartz Preliminary Budget Estimate to appropriately cover main contractor's and developer's risk
Professional Fees	7.50%	Estimated rate as a % of total build costs
Investment Sale Agent & Legal Fee	1.00%	Of GDV
Commercial Letting Agent Fee	10.00%	Of Commercial GDV
Commercial Letting Legal Fee	5.00%	Of Commercial GDV
Purchaser's Costs (Investment & Land)	-	Standard fees relating to stamp duty, agent's fee (1.00%) and legal fee (0.80%)
Finance	4.25%	Estimated total cost of capital (coupon) for financing the Proposed Development in the current market
Developer's return	10.00%	Total target return on Cost to reflect current levels of market risk, in line with the minimum market funding expectations and at the low end the range set-out in PPGV

Benchmark Land Value ('BLV')

The BLV for the Site (Leisure Box) has been determined based on the Existing Use Value ('EUV') plus premium and Alternative Use Value ('AUV') methodology. 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 £16.15m.

Viability Assessment Results & Conclusion

The policy compliant viability appraisal demonstrates that, when applying the BLV as a fixed input and incorporating 20% affordable housing (in the form of Affordable Private Rent ('APR') units at 80% of local market rent), the outturn residual profit margin generated equates to 3.96% on cost.

The residual profit margin fails to meet the target minimum risk-adjusted developer's return of 10.00% on cost, which is considered the absolute minimum return required for funding (by lenders) in the current market.

A scenario test demonstrates that when affordable housing provision is reduced to nil the outturn residual profit margin generated is 7.88% on cost, which remains below the minimum risk-adjusted developer's return of 10.00%.

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.

©2022 CBRE, INC.