
Viability Assessment Review

Plots C & E, Great Jackson Street, Manchester



Executive Summary

The RICS Professional Statement Financial Viability in Planning: Conduct and Reporting (1st Edition, May 2019) states that all FVAs **must** be accompanied by non-technical summaries of the report so that non-specialists can better understand them (ref: 2.11).

We summarise the key findings of this assessment below:

Applicant	Renaker
Address	Plots C and E, Great Jackson Street, Manchester
Scheme	1,746 x 1, 2 and 3 bedroom apartments, 10,384 sq. ft. of retail and community space and 467 car parking spaces across two 56 storey towers and two 50 storey towers

Appraisal Assumptions

	Renaker	Savills
GDV	£768,714,780	£775,246,434
Residential GDV	£753,578,340	£759,863,220
Car Parking GDV	£11,675,000	£11,675,000
Commercial GDV	£3,461,440	£3,708,214
Development Costs	£656,462,338	£653,467,137
Construction Costs	£517,402,668	£517,402,668
Additional Costs	£10,590,800	£10,590,800
Professional Fees	10.03% of construction costs	10.03% of construction costs
Marketing and Sales Agent Fees	5.1% of residential GDV	3% of residential GDV
Sales Legal Fees	£314 per apartment	£314 per apartment
Commercial Letting Agent and Legal Fees	-	15% of commercial ERV
Finance Rate	5.85%	5.85%
Benchmark Land Value	£22,414,095	£8,615,000
EUV / AUV	-	£6,067,500
Premium	-	35%
Developer's Profit Margin	11.69% on GDV	14.55% on GDV
Target Profit Margin	25% on GDV	18% on GDV

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1. Introduction

We have been instructed to undertake an independent review of the Financial Viability Statement, dated June 2023, produced by Renaker in respect of the proposed development known as Plot C & E, Great Jackson Street.

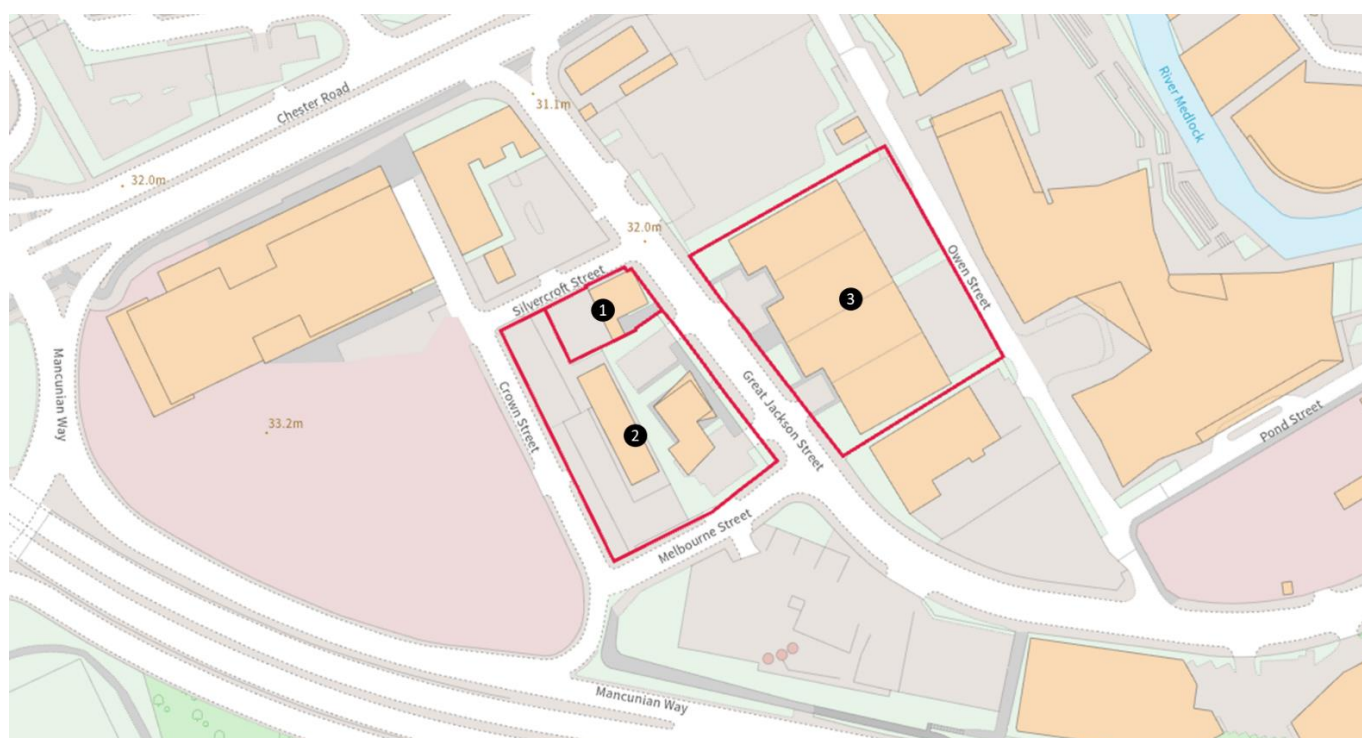
The proposed development is across two 56-storey towers and two 50-storey towers. The development will include 1,746 x 1, 2 and 3 bedroom apartments, 10,384 sq. ft. of commercial space, and 467 underground car parking spaces.

We understand that although there is a 20% on site affordable housing policy requirement, Renaker assert that the Financial Viability Statement demonstrates that there is no scope for any financial contributions or affordable housing.

We have reviewed the assumptions made within their appraisal and have made our own assessment of what we believe to be viable in terms of the financial contribution in respect of affordable housing delivery.

Site & Location

Plots C and E are located within the Great Jackson Street Framework study area of Manchester, on the western edge of the city centre. The two plots are situated either side of Great Jackson Street, with Plot C situated to the west of Great Jackson Street and Plot E situated to the east. Plot C is an island site bounded by Silvercroft Street to the north, Great Jackson Street to the east, Melbourne Street to the south and Crown Street to the west. Plot E is bounded by future residential development by Renaker to the north and south, Owen Street to the east and Great Jackson Street to the west.



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Plots C and E total approximately 2.2 acres (0.89 ha) in total and comprise a mixture of different uses. The area labelled as Parcel 1 on the site plan above extends to 0.14 acres (0.06 ha) and comprises a three storey office building known as Gaddum House. Parcel 2 extends to 0.86 acres (0.35 ha) and comprises a marketing suite and portacabins used by Renaker for their other developments. Parcel 3 comprises 1.2 acres (0.48 ha) of cleared land having formerly contained an industrial warehouse extending to 26,901 sq. ft. according to CoStar.

Planning Obligations

There is a requirement, as per Policy H8 of the Manchester Core Strategy, for 20% affordable housing (5% affordable rented and 15% intermediate housing) to be delivered on site and for Section 106 Contributions to be payable for items such as public open space, education, public transport and highways.

In terms of additional Section 106 contributions, it is not clear what Manchester City Council (MCC) would expect to see provided with a development of this nature.

CIL is currently not chargeable by Manchester City Council, therefore no CIL has been allowed for.

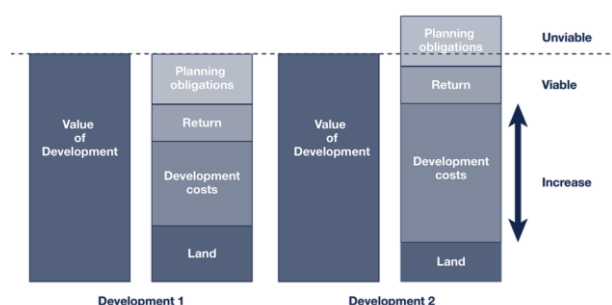
2. Viability Methodology

Overview

The fundamental issue in considering viability assessments in a town planning context, is whether a development is made unviable by the extent of affordable housing, planning obligations or other requirements. A proper understanding of financial viability is essential in ensuring that:

- i. land is released for development;
- ii. developers are capable of obtaining an appropriate market risk adjusted return for delivering the proposed development;
- iii. the proposed development is capable of securing funding; and assumptions about the quantum of development that can be delivered over the course of the plan period are robust.

Where planning obligation liabilities reduce the site value to the landowner and return to the developer below an appropriate level, land will not be released, and development will not take place. Whilst the RICS Guidance Note: Financial Viability in Planning, 1st Edition (August 2012) is now out-dated, it provides a useful diagram to explain how viability is assessed:



National Planning Policy Framework and Planning Practice Guidance

The NPPF was updated in July 2021. It sets out the Government's planning policies for England and how these should be applied.

Paragraph 58 of the NPPF states that *"all viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available"*.

It also states that: "where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all circumstances in the case, including whether the plan and viability evidence underpinning it is up to date, and any change in circumstance since the plan was brought into force."

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The Viability Planning Practice Guidance (PPG) prioritises the assessment of viability at the plan-making and development management stages. The preferred methodology in this respect is a typology approach whereby sites are grouped by shared characteristics such as location, size and whether they are greenfield or brownfield. Plan makers can then decide on an appropriate benchmark land value, average costs, average values and the subsequent policy requirements for each typology.

The PPG also sets out a preferred methodology for assessing viability at the decision making stage. A viability assessment should incorporate standardised inputs and should also be based upon and refer to any viability that informed the development plan (subject to this being up to date). Any deviation from the figures used in the viability assessment of the plan should be explained and supported by evidence. The standardised inputs as set out in the planning practice guidance are as follows:

- Gross Development Value (GDV)
- Costs – to include build costs, abnormal costs, infrastructure costs, cost of conforming with planning policies (e.g. S.106 costs, CIL and affordable housing), finance costs, professional fees, management costs, sales / marketing costs and contingency costs
- Benchmark Land Value – to be assessed as the Existing Use Value (EUV) plus a premium
- Developer's return

Financial Viability in Planning: Conduct and Reporting (Professional Standards)

This RICS professional standards and guidance, Financial Viability in Planning Conduct and Reporting, 1st Edition, dated May 2019 states the following: “RICS members must comply with the NPPF and PPG as the primary policy and guidance on assessing viability.”

It sets out the mandatory requirements that should be adhered to when Financial Viability Assessments (FVAs) are carried out.

Adopted Methodology

As per the NPPF and RICS guidance, we have adopted the prescribed approach to the standardised inputs and will be assessing the profit margin of the proposed development as follows:

GROSS DEVELOPMENT VALUE less COSTS less BENCHMARK LAND VALUE = DEVELOPER'S PROFIT

We will assess the appropriate Benchmark Land Value and included this as a fixed land value within our appraisal. We will then compare the developer's profit from the appraisal against the minimum acceptable profit margin. We have therefore assessed what level of planning obligations can be provided whilst ensuring that a minimum acceptable profit margin is achieved.

3. Benchmark Land Value

In accordance with the NPPF, the land value for a viability assessment should be a Benchmark Land Value (BLV).

The BLV is usually based upon the EUV plus a premium (EUV+) approach, although an Alternative Use Value (AUV) can also be used.

Renaker have not established a BLV for the subject site and have instead included a land price of £22,414,095 within their appraisal. This reflects a purchase price of £10,188,225 per gross acre and £12,837 per plot.

Existing Use Value

We have assessed the EUV of the site in accordance with the NPPF. The EUV of the site is the value of the land in its existing use. It is not the price paid and should disregard hope value.

The site extends to approximately 2.2 acres (0.89 ha) in total and comprises a mixture of different uses. We have assessed the EUV for the three different land parcels separately.

Parcel 1

Parcel 1 comprises Gaddum House which is a 3-storey office that extends to approximately 5,198 sq. ft. according to the VOA.

The office is situated in a predominately residential location. We have reviewed office sales and rental transactions in Castlefield which we summarise below:

Sales Transactions

Property	Size (Sq. Ft.)	Sold Price	Price (Per Sq. Ft.)	Date
2 Jordan Street	1,044	£220,000	£211	Jan-23
12 Commercial Street	3,265	£680,000	£208	Mar-22

2 Jordan Street and 12 Commercial Street are situated within Castlefield Basin and have achieved a price in the order of £210 per sq. ft.. We would expect the subject site to achieve a lower price on a per sq. ft. basis than the above comparable transactions.

Rental Transactions

Property	Size (Sq. Ft.)	Tenant	Rent (PA)	Rent (Per Sq. Ft.)	Date
1 st Floor, Bass Warehouse	6,439	Beyond Legal	£154,536	£24.00	Jun-23
2 nd Floor, 4 Jordan Street	2,924	Rezzil	£65,790	£22.50	Mar-23
Ground Floor, 4 Jordan Street	3,976	Hatton Legal	£85,484	£21.50	Mar-23
2 nd Floor, Eastgate	1,767	Wild Commercial	£38,874	£22.00	Jan-22

Recent lettings in Castlefield are in the order of £21.50 to £24.00 per sq. ft.. Bass House and Eastgate are situated within Castlefield Basin which is a more attractive office location compared to the subject site. 4 Jordan Street is also situated more centrally and we would expect the subject site to achieve lower rental values in comparison.

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We consider a rent of £18.00 per sq. ft. to be appropriate across the scheme which results in a total rent of £93,564 per annum across the total NIA of 5,198 sq. ft..

We have consulted with Savills investment who consider a yield in excess of 8% to be reasonable for a secondary office in this location. The location is unlikely to appeal to tenants with secure covenants and we have therefore capitalised the office income at 9%, which is 250 basis points higher than prime office yields in Manchester. This results in a capital value of £1,039,600, say £1,040,000 reflecting a price of £200 per sq. ft.. This is slightly lower than the office transactions at £210 per sq. ft. noted above and we therefore consider this to be a reasonable assumption.

Parcel 2

Parcel 2 extends to 0.86 acres in total and comprises a marketing suite and portacabins used by Renaker for their other developments. The site was previously a car park and we have considered the EUV on this basis and for industrial storage land.

Surfaced Car Park

If the site reverted back to its former use then it would comprise a surfaced car park. We are unaware of the number of car parking spaces the site previously provided and have therefore reviewed other car parks in Manchester to determine an appropriate number that we believe could be provided.

- The car park operated by RCP Parking Ltd on Great Jackson Street, bounding Plot E to the north extends to approximately 0.53 acres and provides 60 car parking spaces according to Parkopedia. This equates to 113 car parking spaces per acre.
- Plot G on Great Jackson Street comprises two industrial warehouses that were previously used as a car park. The site extends to 1.48 acres and provides 150 car parking spaces. This equates to 101 car parking spaces per acre.
- Manchester Bridgewater Hall car park on Little Peter Street is operated by NCP and extends to approximately 1.66 acres. According to Parkopedia the car park provides 280 car parking spaces equating to 168 car parking spaces per acre.

The subject site is of an irregular shape and we have assumed 105 car parking spaces could be provided per acre to give a total estimate of 90 car parking spaces.

We have previously assessed the EUV of surfaced and purpose build car parks in Manchester city centre for values in the order of £5,100 and £32,800 per car parking space. We summarise these below:

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Development	Size (Acres)	No. Parking Spaces	Gross Rent (PA)	Net Rent (PA)	Net Rent (PA Per Space)	Yield	EUV	EUV (Per Space)
Tariff Street	0.76	128	-	£160,000	£1,250	8%	£1,880,500	£14,688
Great Northern	-	126	-	£206,650	£1,640	5%	£4,132,800	£32,800
Port Street	1.29	150	£229,950	£172,500	£1,150	8%	£2,050,000	£13,666
Renaissance	0.49	131	£195,884	£127,999	£977	6.5%	£2,280,000	£17,405
Rochdale Road	-	115	£88,206	£61,744	£536	10%	£587,800	£5,111
Plot G, Great Jackson Street	1.48	150	-	£110,000	£733	6.5%	£1,700,000	£11,333
Gould Street	6.69	675	£689,850	£482,895	£715	10%	£4,500,000	£6,667
Average					£896			£11,614

The car park on Great Jackson Street operated by RCP Parking Limited is charging £8.00 per car parking space per day. Assuming that this could be achieved on the subject site gives a gross rent of £157,680 per annum allowing for an occupancy rate of 60% and a net rent of £118,250 per annum assuming for 25% management / operational costs.

Capitalising the income at a yield of 10% results in a capital value of £1,182,500 which equates to an EUV of £13,139 per car parking space. This is slightly below the recent EUV assessments for surfaced car parking at Tariff Street and Port Street.

Industrial Storage Land

The site, as surfaced land would also be appropriate for industrial open storage uses. We have reviewed industrial land transactions over the last 24 months which we summarise below.

West Egerton Street comprises approximately 5.72 acres of open storage land that was formerly a gas holder site in Salford. Praedius reportedly purchase the site in September 2022 for £6,250,000 reflecting a price of approximately £1,095,000 per gross acre.

Kier Street comprises 4.9 acres of brownfield land which was purchased by Kier Property Developments in September 2021 for £4,200,000, reflecting a price of approximately £860,000 per gross acre. The purchaser intends to develop the site into a multi-let industrial and trade counter scheme indicating that the purchase price reflects an element of hope value.

We have spoken Savills industrial agency who consider an EUV of £1,000,000 per acre to be a fair assumption for this location.

Parcel 2 extends to 0.86 acres which results in a EUV of £860,000 on this basis.

This is lower than the EUV of £1,182,500 for car parking uses and we have therefore adopted the EUV of £1,182,500 for Parcel 2.

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Parcel 3

Parcel 3 comprises a rectangular cleared site that extends to approximately 1.2 acres (0.48 ha). We understand that it formerly comprised an industrial warehouse extending to 26,901 sq. ft. according to CoStar. The warehouse was demolished to facilitate the proposed development.

As stated in the RICS professional standard 'Assessing viability in planning under the NPPF 2019 for England at 5.3.5, *'It is important not to penalise landowners or developers who have undertaken preliminary work towards delivering development.'* We therefore consider a fair approach to assess the EUV based on both open storage land and for the former warehouse prior to being demolished.

Industrial Storage Land

As noted above we consider an EUV of £1,000,000 per acre to be a fair assumption for open storage land. This gives a land value of £1,200,000 for Parcel 3.

Industrial Warehouse

According to Co-Star the former warehouse totalled 26,901 sq. ft.. The proposed development at Plot G, Great Jackson Street is being marketed for industrial purposes. The letting agent has commented that they have had a strong interest in the property from operators due to close proximity to the city centre. The property however is in a poor condition having previously been used as a car park which has deterred interested parties. If the property was refurbished the letting agent commented that they would expect to achieve rental values in the order of £8.00 to £10.00 per sq. ft. whilst in the current condition they would expect rental values in the order of £6.00 per sq. ft. to be achievable.

We have consulted with Savills industrial agency who consider rental values in the order of £12.00 per sq. ft. for second-hand warehouses to be reasonable in this location. We consider a rent of £10.00 per sq. ft. to be appropriate as it is difficult to determine what condition the property was in prior to being demolished. This results in a total rent of £269,010 per annum across the NIA of 26,901 sq. ft..

We have consulted with Savills investment who consider a yield of 7% to be reasonable for a secondary industrial warehouse in this location. The location is unlikely to appeal to tenants with secure covenants and we have therefore capitalised the industrial income at 7%. This results in a capital value of £3,843,000, say £3,845,000 reflecting a price of £143 per sq. ft..

Total EUV

Based on the above calculations, we have assessed Parcel 1 to have an EUV of £1,040,000, Parcel 2 to have an EUV of £1,182,500 and Parcel 3 to have an EUV of £3,845,000. This results in a **total EUV of £6,067,500**.

Premium

Renaker have not applied a premium to their adopted land value. Other Viability Assessments in Manchester that we have reviewed consider a minimum premium to be in the order of 20% and 50%.

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A premium of 20% results in a BLV of £7,281,000 reflecting £4,170 per plot whilst a premium of 50% results in a BLV of £10,751,610 reflecting £6,158 per plot.

We are aware of other BLV's that we have been involved in that range between £4,400 and £15,000 per plot. The BLV for Plot G on Great Jackson Street was agreed at £4,919 per sq. ft..

A premium of 35% results in a BLV of £8,615,850, say £8,615,000 which reflects £4,934 per plot. We consider this to be reasonable and have therefore adopted a premium of 35% within our assessment.

Benchmark Land Value

Renaker have not adopted an EUV+ approach and instead have included a land price of £22,414,095 within their appraisal.

We have assessed the BLV of the property using an EUV+ approach. We have assessed the EUV of the three land parcels to be £6,067,500 and have applied a premium of 35% (£2,548,350) to the EUV. This results in a BLV of £8,615,000 equivalent to approximately £4,934 per plot which we consider to be reasonable.

4. Gross Development Value

Renaker have assessed the total GDV of the proposed development to be **£768,714,780**. Renaker have assumed a GDV of £753,578,340 for the residential income, £3,461,440 for the commercial areas and £11,675,000 for the car parking income.

Residential GDV

Renaker have assumed a total GDV of £753,578,340 for the 1,746 residential apartments. This reflects an average price of £580 per sq. ft. across the total Net Sales Area of 1,299,273 sq. ft.. We have been provided with the proposed sales values for the scheme assuming 100% private housing as follows:

Unit Type	No.	Average Unit Size	Average Price	Average Price (Per Sq. Ft.)	Total Price
Studio	108	460	£252,407	£548	£27,260,000
1 Bed Apartment	458	557	£322,415	£579	£147,666,089
2 Bed Apartment	1,082	810	£444,415	£549	£480,856,809
3 Bed Apartment	74	1,063	£737,776	£694	£54,595,442
2 Bed Penthouse	12	1,598	£1,600,000	£1,001	£19,200,000
3 Bed Penthouse	12	1,741	£2,000,000	£1,148	£24,000,000
	1,746			£540	£753,578,340

Renaker have not provided any residential comparable evidence to support this assumption.

We have undertaken a review of the new build residential sales market to inform our opinion of an appropriate GDV for the proposed development. We summarise the achieved and asking sales values for the comparable developments below:

Development	No. Units	Average Price Per Sq. Ft.
Deansgate Square – Renaker (Re-Sales)	1,508	£492
Crown Street (Phase 1) – Renaker (Re-Sales)	664	£477
The Blade – Renaker	414	£513
Viadux – Salboy	375	£536
Vista River Gardens (Phase 1) – Renaker	1,015	£496
Bankside at Collier's Yard – Renaker	444	£579
One Port Street – Select Property	477	£657

Deansgate Square is a development of 1,500 apartments across four skyscrapers. Two of the towers were purchased by L&G for PRS purposes with the other two having been sold to the wider market. The development includes a wide provision of residential amenity space and ground floor commercial spaces. We are aware of recent sales on the second-hand market which average a price in the order of £492 per sq. ft.. We understand that car parking spaces cost £30,000 to purchase.

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Crown Street (Phase 1) is a development of 664 apartments across two towers known as Elizabeth Tower (52 storeys) and Victoria Residence (21 storeys) attached by a shared ground floor podium. The development includes a rooftop swimming pool and gymnasium. We are aware of recent sales on the second-hand market which average a price in the order of £477 per sq. ft..

The Blade and **Three60** form the second phase of Crown Street providing a total of 855 apartments across the two towers. The first of the apartments at The Blade were handed over in August with the upper floors completing in September. We are aware of one recent re-sale at The Blade, a 32nd floor 2 bedroom apartment for £450,000 (£513 per sq. ft.) in August 2023.

Viadux is a development of 375 apartments across 40 storeys. The development is due to complete in Q2 2024 and we understand that 330 of the 375 apartments have been sold or reserved. We are aware the average price across the achieved sales reflects £536 per sq. ft.. We understand that the asking price for the 45 remaining apartments average £671 per sq. ft., however these are heavily weighted towards the upper floors with the average floor being 31st floor.

One Port Street is a development by Select Group of 477 apartments. We are aware of a selection of apartments that reflect an average asking price in the order of £657 per sq. ft., but note that the selection of apartments are located on the upper floors which typically achieve higher sales values.

Bankside at Collier's Yard is one of three towers to be constructed as part of the Collier's Yard development within the Greengate neighbourhood of Salford. Colliers Yard will comprise 1,521 dwellings across three towers that range between 41 and 51 storeys. Bankside comprises 444 apartments over 42 storeys with the most recent asking prices reflecting a price in the order of £579 per sq. ft..

Re-sales at Deansgate Square average £492 per sq. ft. and at Crown Street Phase One they average £477 per sq. ft.. We are aware of one recent re-sale at The Blade which reflects a price of £513 per sq. ft.. We would expect Renaker to achieve a uplift over the above sales to reflect the newer product.

Renaker are on-site at Bankside at Collier's Yard with asking prices in the order of £579 per sq. ft.. We would expect the subject site to achieve higher values to reflect the superior location and scale of development.

Viadux is situated in a more central location than the subject development. The average price across the completed sales reflects £536 per sq. ft., whilst the asking prices for the 45 remaining apartments reflects an average of £671 per sq. ft.. We would expect the subject site to achieve similar values to the completed sales at Viadux but have run a sensitivity analysis to assess the changes to profit margin if higher sales values were achieved.

We have adopted a blended rate of £590 per sq. ft. for the 50-storey towers and a blended rate of £595 per sq. ft. for the 56-storey towers. This is slightly higher than the GDV being achieved at Bankside at Collier's Yard in Salford which we consider to be reasonable to reflect the superior location. The accommodation schedule provided suggests that the NIA for the residential apartments totals 1,282,228 sq. ft. which is 17,045 sq. ft. lower than the NIA that Renaker have adopted. Based on the NIA of 1,282,228 sq. ft. we have calculated the GDV for the residential accommodation to total £759,863,220.

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Car Parking GDV

Renaker have valued the 467 private car parking spaces at £25,000 per space. This results in a total capital value of £11,675,000.

We understand that Renaker have sold car parking spaces between £25,000 and £30,000 across their other developments. We summarise the prices below:

- Bankside - £30,000 per car parking space (available to 3 bedroom apartments only)
- Elizabeth Tower - £25,000 per car parking space
- The Blade - £25,000 per car parking space
- Deansgate Square - £30,000 per single car parking space or £50,000 per tandem car parking space

We therefore consider the valuation assumption of £25,000 per car parking space to be reasonable which is in line with the recent prices at The Blade and Elizabeth Tower.

Commercial Space GDV

The proposed development includes 10,384 sq. ft. of ground floor commercial space. Renaker have adopted a rent for the commercial space at £20.00 per sq. ft. and have capitalised the commercial income at yield of 6%. This results in a GDV of £3,461,400 for the commercial space.

Renaker comment that they have achieved recent commercial lettings between £19.00 and £25.00 per sq. ft. in 2023 at Deansgate Square. We are aware that Unit 1 at Deansgate Square was let to Salvi's in October 2021 for £60,010 per annum. The unit totals approximately 2,691 sq. ft. reflecting a rent of £22.30 per sq. ft..

We have adopted rental values of £25.00 per sq. ft. within our appraisal for the commercial accommodation as we would expect higher rental values to be achieved as the location continues to become more established. This results in a total rent of £259,598 per annum across the NIA of 10,384 sq. ft..

Renaker have capitalised the income at a yield of 6% which we consider to be optimistic. Instead we have capitalised the commercial income at a yield of 7% which we consider to be more realistic which results in a total GDV of £3,708,214 for the commercial areas.

Total GDV

We summarise the GDV assumptions made by Renaker and our GDV assumptions below:

Element	Renaker GDV	Savills GDV
Residential	£753,578,340	£759,863,220
Car Parking	£11,675,000	£11,675,000
Commercial	£3,461,440	£3,708,214
Total:	£768,714,780	£775,246,434

Based on our assumptions we have assessed the GDV to be £775,246,434 which is £6,531,654 higher than the GDV assumptions made by Renaker.

5. Development Costs and Timescales

Construction Costs

Renaker have adopted total construction costs of £517,402,668 across the total Gross Internal Area of 2,023,764 sq. ft.. This reflects a blended rate of £255.66 per sq. ft. We have been provided with a total development cost breakdown that we summarise below:

Cost Item	Cost	Cost Per Sq. Ft.
Enabling Works	£22,958,481	£11.34
Superstructure	£34,281,399	£16.94
Frame	£116,508,384	£57.57
Cladding & Misc Superstructure	£137,750,886	£68.07
Fit-Out	£132,529,477	£65.49
Sub-Total	£444,028,627	£219.41
Preliminaries	£45,916,962	10.34%
Contingency	£27,457,079	6.18%
Total:	£517,402,668	£255.66

We have reviewed these against BCIS data and other recent schemes that we have been involved in. We are of the opinion that the build costs appear to be low for a scheme of this scale and complexity. Whilst we are not qualified cost consultants, we have reviewed several development appraisals and cost plans of other schemes in Manchester city centre and therefore have formed a view based on this experience.

Renaker have delivered over 2,500 apartments across the Great Jackson Street Framework Area with the completion of four towers at Deansgate Square and the completion of Victoria Residence, Elizabeth Tower and The Blade at Crown Street. Three60 at Crown Street is still under construction.

Whilst we consider the above construction costs to be low, we have accepted these within our appraisal based on the successful delivery of other schemes by Renaker in the area.

In addition, Renaker have included £6,500,000 towards external public realm and highways works / Mancunian Way. We have accepted this cost within our appraisal.

Other Development Costs

Renaker have also allowed for the following development cost assumptions:

Cost Item	Rate
Professional Fees	7.5% of construction costs
Development Management Fee	2% of construction costs
Design and Submission	£1,200,000

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Cost Item	Rate
Finance & Accounting Fees	£612,946
Sales and Marketing Budget	1.02% of residential GDV
Residential Sales Agency Fees	4.08% of residential GDV
Residential Legal & Conveyance Fees	£314 per apartment
Irrecoverable VAT	£590,800
Other Development Costs	£3,500,000
Finance Costs	£37,512,227

Professional Fees: Renaker have included professional fees at 7.5% of the construction costs within their appraisal. They have also included a Development Management fee of 2%, a Design and Submission fee of £1,200,000 and Finance and Accounting Fees of £612,946. We would usually expect the Development Management, Design and Submission, Finance and Accounting fees to be included within the professional fee allowance. In total the assumed costs by Renaker reflect a total professional fee allowance of 10.03% of the construction costs. We would usually expect to see professional fees in the order of 8% and 12% for residential developments. The proposed development is for a two 50-storey towers and two 56-storey towers, making it a complex development. We therefore consider the assumption to be reasonable given the scale of the proposals.

Marketing and Residential Sales Agent Fees: Renaker have included Sales and Marketing Budget of £7,687,148 (1.02% of the residential GDV) and Agency Fees of £30,748,591 (4.08% of the residential GDV). This is equivalent to 5.1% of the residential GDV. We would usually expect to see Sales Agent and Marketing fees in the order of 3% of the residential GDV for open market sales schemes. Due to the scale of the proposed development it will likely be marketed internationally to achieve a large number of pre-sales before completion. We consider the assumptions made by Renaker to be reasonable but for the purpose of this exercise have adopted Sales and Marketing fees of 3% of the residential GDV.

Residential Sales Legal Fees: Renaker have allowed for £314 per apartment for legal and conveyance fees. This is a low assumption but would appear to be reasonable for the quantum of development proposed and we have included this within our appraisal.

Commercial Letting Agent and Letting Legal Fees: Renaker have not made an allowance for commercial letting agent or legal fees. We have included commercial letting agent fees of 10% of the commercial rental values and 5% of the commercial rental values for commercial letting legal fees. These are considered to be standard assumptions.

Other Development Costs: Renaker have allowed for £3,500,000 for insurance, legal and professionals. In addition they have included £590,800 for non-recoverable VAT. We consider these to be reasonable and have adopted the total allowance of £4,090,800 within our appraisal.

Purchaser's Costs (Land): We have adopted SDLT at the prevailing rate, 1% agency fees and 0.5% legal fees. These are standard assumptions.

Finance: Renaker have adopted finance costs totalling £37,512,227 within their appraisal. This equates to 5.85% of their total adopted costs of £641,364,206. We would expect a finance rate of 9% to be applied in the current market but have adopted the above finance rate within our appraisal.

Viability Assessment

Plots C & E, Great Jackson Street, Manchester



Developer's Return

From our knowledge and experience of the development land market, it is usual for residential developers in the North West region to seek a profit margin of 20% on GDV.

Renaker comment that they would expect a development of such scale and risk profile to produce a profit margin of 25% plus. The appraisal submitted by Renaker results in a developer's profit of £89,838,347, equating to a developer's profit margin of 11.69% on GDV.

We have targeted a developer's profit margin of 18% on GDV in our appraisal to be consistent with other viability assessments that we have been involved in. Based on current market conditions it is likely that a developer would target a higher profit margin to reflect the increased sales risk, market uncertainty as well as reflecting the complexity and height/scale of the proposed development.

Timescales

Renaker have provided the following indicative timescales:

- 1 month purchase period;
- 3 months pre-construction period;
- 36 months construction period for each residential tower;

Renaker have not provided a phasing strategy or confirmed the anticipated sales period.

We understand that the four towers at Deansgate Square completed as follows:

Development	Completion Date	Months Between Last Completion
West Tower	Jul-19	-
South Tower	Apr-20	9
North Tower	Apr-21	12
East Tower	May-21	1

This reflects an average completion period of 7 months between the four towers, although we note that development did occur during the COVID-19 lockdown which will have slowed the construction period.

This is a complex development, and we consider the construction and pre-construction timescales to be reasonable. We have allowed for 3 months between the completion of each phase of development. We have assumed that each phase of development would be pre-sold before completion, which we consider to be an aggressive assumption given the current uncertainty facing the residential market.

6. Development Appraisals

We have used ARGUS Developer software to undertake a development appraisal based on our amended assumptions.

Private Appraisal

We have run a development appraisal assuming no affordable housing is provided on site.

Based on our adopted assumptions including a reduced BLV of £8,615,000, this results in a developer's profit of £113,164,297 reflecting a margin of 14.6% on GDV. This is lower than the target profit margin of 18% on GDV which would suggest that the proposals cannot support an off-site contribution for affordable housing.

A developers profit margin of 18% on GDV would equate to £139,544,358 which based on our appraisal would suggest that the scheme has a viability gap of £26,380,061.

We attach a copy of the appraisal at **Appendix 1**.

Sensitivity Analysis

The appraisal indicates that the proposed development is unviable based on our adopted residential sales values. We have undertaken a sensitivity analysis to explore the potential changes to the profit margin based on an increase to the sales values. We summarise this below:

	Residential Sales Values				
	-	+ £10 per sq. ft.	+ £20 per sq. ft.	+ £30 per sq. ft.	+ £40 per sq. ft.
Developer's Profit Margin	£113,164,297 14.6% on GDV	£125,839,872 15.97% on GDV	£138,515,447 17.3% on GDV	£151,191,022 18.58% on GDV	£163,866,597 19.82% on GDV

The table shows that if the sales values increased to £620 per sq. ft. (50-storey tower) and £625 per sq. ft. (56-storey tower) then the developer's profit margin would increase to 18.58% on GDV which we consider to be an acceptable level.

We consider our GDV assumptions to be reasonable compared with the comparable new build sales evidence and re-sales evidence provided. We also consider the costs adopted by Renaker to be low and there is potential for these to increase which would reduce the profit margin.

We would usually expect to see professional fees in the order of 8% and 12% for residential developments and have included the allowance made by Renaker at 10.36%. We have run an appraisal for the scheme adopting professional fees of 8% at the lower end of this range. This results in a developer's profit margin of 16.11% on GDV which is still lower than the target profit margin of 18% on GDV.

7. Conclusion

As instructed, we have reviewed the Financial Viability Statement that was submitted as part of the planning application for the site.

Renaker have not adopted a BLV within their viability assessment and instead have included a fixed land price of £22,414,095 within their appraisal. We have assessed the BLV based on an EUV+ approach. We have assessed the site to have an EUV of £6,067,500 and consider a premium of 35% (£2,548,350) to be reasonable. This results in a BLV of £8,615,000 reflecting £4,934 per plot. This is at the lower end of the range of agreed BLV's that we have been involved in and in line with the BLV for Plot G on Great Jackson Street which was agreed at £4,919 per plot.

We consider the residential GDV assumption of £580 per sq. ft. made by Renaker to be slightly low and have adopted sales values of £590 per sq. ft. on the 50-storey towers and £595 per sq. ft. on the 56-storey towers. We consider the car parking assumptions to be reasonable. We consider the commercial rental assumptions to be low and instead have assumed rental values of £25.00 per sq. ft. within our appraisal but have adopted a weaker yield of 7% instead of 6% assumed by Renaker. This results in a GDV of £775,246,434 which is £6,531,654 higher than the GDV assumptions made by Renaker.

We consider the build costs adopted by Renaker to be low but based on their track record of delivery we have accepted these within our appraisal.

We consider the professional fees to be reasonable. Renaker have adopted marketing and sales agent fees of 5.1% of the GDV which are higher than we typically allow for within viability assessments. Due to the scale of the proposed development it will likely be marketed internationally to achieve a large number of pre-sales before completion and we understand why Renaker have allowed for this assumption. We have however adopted a lower rate of 3% to be consistent with sales and marketing costs that we see in other viability assessments in Manchester.

We consider the construction timescales adopted by Renaker to be reasonable. Renaker have not provided a sales period and we have assumed that all apartments would be pre-sold. We have allowed for a 3 months phasing period between each development.

Renaker consider that a developer's profit margin of 25% on GDV should be required to reflect the scale and risk profile of the proposed development. The appraisal presented by Renaker results in a profit margin of 11.69% on GDV. We instead consider a profit margin of 18% on GDV to be a reasonable level of return.

We have run a development appraisal assuming all apartments would be privately sold. Based on our adopted assumptions this results in the proposed development achieving a developer's profit margin of 14.62% on GDV. This is lower than the minimum target return and would suggest that the development cannot support an off-site contribution for affordable housing.

We have undertaken a sensitivity analysis to explore the changes to the profit margin based on increases in the sales rate. This highlights that if sales values increased to £620 per sq. ft. (50-storey tower) and £625 per sq. ft. (56-storey tower) then the developer's profit margin would increase to 18.58% on GDV which we consider to be an acceptable level.

Viability Assessment

Plots C & E, Great Jackson Street, Manchester



The proposed development will take 3 years to construct and sales values could continue to increase during this period. This could result in the development achieving a profit margin higher than 18% on GDV and would allow for an affordable housing contribution to be payable, but only subject to a review to take account of the actual costs.

On balance we agree with Renaker that no affordable housing can be delivered based on current market conditions. We would however suggest that given the current uncertainty in the funding markets and inflationary pressures on build costs it would be prudent to require a review mechanism in the Section 106 agreement. This will ensure that Manchester City Council capture an additional value created by the development once a funding deal is in place and the development has been constructed so that the actual costs can be fixed.

8. Important Note

Finally, in accordance with our normal practice, we would state that this report is for general informative purposes only and does not constitute a formal valuation, appraisal or recommendation. It is only for the use of the persons to whom it is addressed and no responsibility can be accepted to any third party for the whole or any part of its contents. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent, which will not be unreasonably withheld.

Our findings are based on the assumptions given. As is customary with market studies, our findings should be regarded as valid for a limited period of time and should be subject to examination at regular intervals.

Whilst every effort has been made to ensure that the data contained in it is correct, no responsibility can be taken for omissions or erroneous data provided by a third party or due to information being unavailable or inaccessible during the research period. The estimates and conclusions contained in this report have been conscientiously prepared in the light of our experience in the property market and information that we were able to collect, but their accuracy is in no way guaranteed.

Viability Assessment

Plots C & E, Great Jackson Street, Manchester



Appendices

Viability Assessment

Plots C & E, Great Jackson Street, Manchester



Appendix 1 – ARGUS Appraisal Summary

Plot C and Plot E, Great Jackson Street
Private Sales Appraisal

Development Appraisal
Savills UK Limited
06 October 2023

Plot C and Plot E, Great Jackson Street
Private Sales Appraisal

Appraisal Summary for Merged Phases 1 2 3 4

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
C7 Residential	422	307,073	590.00	429,320	181,173,070
C7 Car Parking	113	0	0.00	25,000	2,825,000
C8 Residential	422	305,415	590.00	427,002	180,194,850
C8 Car Parking	113	0	0.00	25,000	2,825,000
E1 Residential	451	334,262	595.00	440,989	198,885,890
E1 Car Parking	121	0	0.00	25,000	3,025,000
E2 Residential	451	335,478	595.00	442,593	199,609,410
E2 Car Parking	<u>120</u>	<u>0</u>	0.00	25,000	<u>3,000,000</u>
Totals	2,213	1,282,228			771,538,220

Rental Area Summary

	Units	ft²	Rent Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
C7 Retail	3	1,888	25.00	15,733	47,200	47,200
C8 Retail	3	1,976	25.00	16,467	49,400	49,400
E1 Retail	5	3,500	25.00	17,500	87,500	87,500
E2 Retail	<u>3</u>	<u>3,019</u>	25.00	25,158	<u>75,475</u>	<u>75,475</u>
Totals	14	10,383			259,575	259,575

Investment Valuation

C7 Retail					
Current Rent	47,200	YP @	7.0000%	14.2857	674,286
C8 Retail					
Current Rent	49,400	YP @	7.0000%	14.2857	705,714
E1 Retail					
Current Rent	87,500	YP @	7.0000%	14.2857	1,250,000
E2 Retail					
Current Rent	75,475	YP @	7.0000%	14.2857	1,078,214
Total Investment Valuation					3,708,214

GROSS DEVELOPMENT VALUE **775,246,434**

NET REALISATION **775,246,434**

OUTLAY

ACQUISITION COSTS

Fixed Price	8,615,000			
Fixed Price		8,615,000		
			8,615,000	
Stamp Duty		420,220		
Effective Stamp Duty Rate	4.88%			
Agent Fee	1.00%	86,150		
Legal Fee	0.50%	43,075		
			549,445	

CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost
C7 Residential	483,202	255.67	123,541,800
C8 Residential	484,645	255.67	123,910,573
E1 Residential	532,824	255.67	136,228,701
E2 Residential	<u>523,018</u>	255.67	<u>133,721,594</u>
Totals	2,023,689 ft²		517,402,668
Public Realm and Highways Works			6,500,000
			523,902,668
Other Construction			
Other Costs		976,773	
Other Costs		979,688	
Other Costs		1,077,081	
Other Costs		1,057,258	

APPRAISAL SUMMARY**SAVILLS UK LIMITED****Plot C and Plot E, Great Jackson Street
Private Sales Appraisal**

				4,090,800
PROFESSIONAL FEES				
Professional Fees	10.03%	52,305,795		52,305,795
MARKETING & LETTING				
Letting Agent Fee	10.00%	25,957		
Letting Legal Fee	5.00%	12,979		
				38,936
DISPOSAL FEES				
Marketing and Sales Agent Fees	3.00%	22,795,897		
Sales Legal Fee	1,746 un 314.00 /un	548,244		
				23,344,141
FINANCE				
Debit Rate 5.850%, Credit Rate 0.000% (Nominal)				
Total Finance Cost				49,235,352
TOTAL COSTS				662,082,137
PROFIT				113,164,297
Performance Measures				
Profit on Cost%	17.09%			
Profit on GDV%	14.60%			
Profit on NDV%	14.60%			
Development Yield% (on Rent)	0.04%			
Equivalent Yield% (Nominal)	7.00%			
Equivalent Yield% (True)	7.32%			
IRR% (without Interest)	16.97%			
Rent Cover	435 yrs 12 mths			
Profit Erosion (finance rate 5.850)	2 yrs 9 mths			

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