
Viability Assessment Review

Plot D, 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	Plot D, Great Jackson Street, Manchester
Scheme	642 x 1, 2 and 3 bedroom apartments, 8,202 sq. ft. of retail and community space, 22,989 sq. ft. of commercial space and 214 public car parking spaces across a 71-storey tower

Appraisal Assumptions

	Renaker	Savills
GDV	£304,195,470	£318,883,111
Residential GDV	£289,040,220	£302,804,040
Car Parking GDV	£5,350,000	£5,350,000
Commercial Area GDV	£2,734,000	£3,515,143
Office Space GDV	£7,071,250	£7,213,929
Development Costs	£270,160,445	£275,875,986
Construction Costs	£211,708,080	£211,708,080
Additional Costs	£4,719,471	£4,719,471
Professional Fees	10.36% of construction costs	10.36% of construction costs
Marketing and Sales Agent Fees	5.26% of residential GDV	3% of residential GDV
Sales Legal Fees	£650 per apartment	£650 per apartment
Commercial Letting Agent and Legal Fees	-	15% of commercial ERV
Finance Rate	6.21%	6.21%
Benchmark Land Value	£3,501,017	£1,755,000
EUV / AUV	-	£1,170,000
Premium	-	£585,000
Developer's Profit Margin	10.04% on GDV	12.94% 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 D, Great Jackson Street.

The proposed development comprises 642 x 1, 2 and 3 bedroom apartments, 8,202 sq. ft. of commercial space, 16,971 sq. ft. of office space and 214 underground car parking spaces.

We understand that although there is a 20% on site affordable housing policy requirement, Renaker consider 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

Plot D comprises an irregularly shaped cleared site that is currently being used as a concrete batching plant for other ongoing developments by Renaker in the immediate area. It extends to approximately 1.17 acres (0.47 hectares).



Plot D is located within the Great Jackson Street Framework study area of Manchester, on the western edge of the city centre. It is bounded by Great Jackson Street to the north and the Mancunian Way (A57 M) to the south. Plot G, a proposed development of 1,037 apartments across two 56-storey towers bounds the site to the east. Plots C and E, the proposed development of 1,746 apartments, 10,384 sq. ft. of commercial space, 467 underground car parking spaces by Renaker bounds the site to the north.

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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.

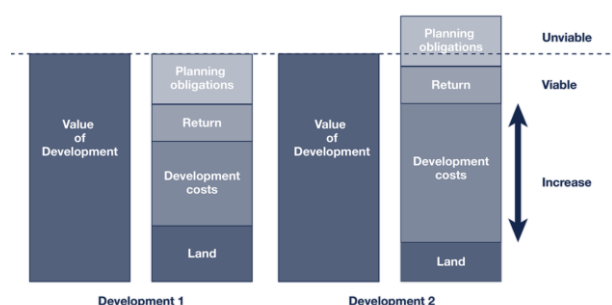
2. Viability Methodology

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 £3,501,017 within their appraisal. This reflects a purchase price of £2,992,322 per gross acre and £5,453 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 comprises approximately 1.17 acres of industrial land that Renaker are currently utilising as a concrete batching plant. We consider the most appropriate use for the property if it was re-marketed would be for open storage and have assessed the EUV on this basis.

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 to our industrial agency colleagues and consider an EUV of £1,000,000 per acre to be a fair assumption for this location.

The subject site extends to 1.17 acres which results in a EUV of £1,170,000.

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%.

A premium of 20% (£234,000) results in a BLV of £1,404,000 whilst a premium of 50% (£585,000) results in a BLV of £1,755,000.

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A BLV of £1,755,000 equates to a price of approximately £2,735 per plot which is considerably lower than residential land transactions in the area and other BLV's that we have been involved in. We therefore consider a premium of 50% to be reasonable.

Benchmark Land Value

Renaker have not adopted an EUV+ approach and instead have included a land price of £3,501,017 within their appraisal.

We have assessed the BLV of the property using an EUV+ approach. We have assessed the EUV of the property to be £1,170,000 based on open storage land and have applied a premium of 50% (£585,000) to the EUV. This results in a BLV of £1,755,000 equivalent to approximately £2,735 per plot. This is lower than the BLV per plot agreed on Plot G, Great Jackson Street at £4,919 per plot and lower than what we have suggested at Plot C and Plot E, Great Jackson Street at £4,934 plot. This is reflective of the quantum of development that has been proposed on the site which distorts the BLV on a per plot basis.

4. Gross Development Value

Renaker have assessed the total GDV of the proposed development to be **£304,195,470**. Renaker have assumed a GDV of £289,040,220 for the residential income, £7,072,250 for office income, £2,734,000 for the commercial areas and £5,350,000 for the car parking income.

Residential GDV

Renaker have assumed a total GDV of £289,040,220 for the 642 residential apartments. This reflects an average price of £630 per sq. ft. across the total Net Sales Area of 458,794 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	16	435	£267,500	£615	£4,280,000
1 Bed Apartment	187	531	£331,667	£624	£62,021,717
2 Bed Apartment	402	773	£458,405	£593	£184,278,811
3 Bed Apartment	31	1,013	£712,637	£703	£22,091,734
3 Bed Penthouse	6	1,739	£2,727,993	£1,569	£16,367,958
	642			£630	£289,040,220

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 prices 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 and a premium for the scale of development at 71-storeys.

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 sales values in comparison 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 average £671 per sq. ft.. We would expect the subject site to achieve slightly lower sales values in comparison to the remaining 45 apartments to reflect the weaker location.

We have adopted a blended rate of £660 per sq. ft. across the development which results in a total GDV of £302,804,040.

Car Parking GDV

Renaker have valued the 214 private car parking spaces at £25,000 per space. This results in a total capital value of £5,350,000.

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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 GDV

The proposed development includes 8,202 sq. ft. of commercial space on the 70th floor that is anticipated to be let to a restaurant operator.

Renaker have adopted a rent for the commercial space at £20.00 per sq. ft. to give an annual rent of £164,040 per annum. Renaker have then capitalised the commercial income at yield of 6% to calculate a GDV of £2,734,000 for the commercial space.

We consider the following comparable to be relevant:

Chotto Matte have reportedly agreed a 25 year lease for the rooftop restaurant at the St Michael's development with an anticipated opening in 2024. The restaurant is located on the 10th floor and has an internal demise of 9,564 sq. ft. with an external terrace of approximately 12,000 sq. ft.. The rent payable is reportedly £600,000 per annum for year 1 and £800,000 per annum or 7% of gross turnover thereafter until the first rent review. This gives a minimum rent of £760,000 per annum over the 5 year period. This equates to an annual rent of £79.46 per sq. ft. across the internal demise and an annual rent of £35.24 per sq. ft. including the terrace area. St Michaels is situated in a more central location than the subject site and whilst we would expect a premium to reflect the height of the commercial unit, it is difficult to say with certainty at this stage what an operator would pay for the site.

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 a rent of £30.00 per sq. ft. within our appraisal to reflect the recent lettings in the area and a premium for being situated on the 70th floor.

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 £3,515,413 for the 70th floor commercial unit.

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Office GDV

Renaker have suggested that the proposed development includes 16,971 sq. ft. of office space across 5 storeys. We have reviewed the floor plans for the office scheme which indicates 20,199 sq. ft. of lettable space across the 5 storeys.

Renaker have adopted a blended rent for the office space at £25.00 per sq. ft. and have capitalised the commercial income at yield of 6%. This results in a GDV of £7,071,250 for the office space.

We are aware of the following rental values for offices that are currently under construction:

Havelock is a redevelopment of 70 Great Bridgewater Street which will provide 105,250 sq. ft. of office accommodation over 7 floors. The development is expected to complete in Q2 2024 and the quoting rent currently is £36.50 per sq. ft. to £39.00 per sq. ft..

Island, John Dalton Street is a new build development across 10 storeys that will provide 98,813 sq. ft. of office accommodation. The development is expect to complete in Q3 2024 and the quoting rent currently is £40.00 per sq. ft. to £42.00 per sq. ft..

No. 3 Circle Square is a 224,970 sq. ft. new build office in Circle Square that is expected to complete in January 2025. The current quoting rent is £40.00 per sq. ft..

No. 8 First Street is a 170,000 sq. ft. Grade A BREEAM Excellent office. On the 4th floor, 14,174 sq. ft. is available at a quoting rent of £32.50 per sq. ft..

We would expect the subject site to achieve lower rental values in comparison to reflect the weaker location.

We have also reviewed office rental transactions in Castlefield which we summarise below:

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 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 similar rental values to reflect a new product but a weaker location.

The proposed office scheme is situated in a residential location and is of a smaller scale than the above comparable developments. We would expect the office scheme to achieve low rental values in comparison. Office rental values in Castlefield are in the order of £20.00 to £25.00 per sq. ft. and after consulting with Savills office agency we consider the adopted rental values of £25.00 per sq. ft. to be reasonable.

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We have adopted a rent of £25.00 per sq. ft. across the lettable office area of 20,199 sq. ft. which results in a total rent of £504,975 per annum. We have capitalised this income at a yield of 7% which results in a capital value of £7,213,929 for the office accommodation. This reflects a capital value of £357 per sq. ft..

Total GDV

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

Element	Renaker GDV	Savills GDV
Residential	£289,040,220	£302,804,040
Car Parking	£5,350,000	£5,350,000
Commercial	£2,734,000	£3,515,143
Office	£7,071,250	£7,213,929
Total:	£304,195,470	£318,883,111

Based on our assumptions we have assessed the GDV to be £318,883,111 which is £14,687,641 higher than the GDV assumptions made by Renaker.

5. Development Costs and Timescales

Construction Costs

Renaker have adopted total construction costs of £211,708,080 across the total Gross Internal Area of 840,575 sq. ft.. This reflects a blended rate of £251.86 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	£4,710,616	£5.60
Superstructure	£6,922,868	£8.24
Frame	£47,591,706	£56.62
Cladding & Misc Superstructure	£66,830,511	£79.51
Fit-Out	£55,680,323	£66.24
Sub-Total	£181,736,024	£216.20
Preliminaries	£18,756,303	10.32%
Contingency	£11,215,753	6.17%
Total:	£211,708,080	£251.86

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 £2,270,471 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	£250,081
Sales and Marketing Budget	1.05% of residential GDV
Residential Sales Agency Fees	4.21% of residential GDV
Residential Legal & Conveyance Fees	£650 per apartment
Irrecoverable VAT	£449,400
Other Development Costs	£2,000,000
Finance Costs	£16,000,000

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 £250,081. 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 10.36% 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 71-storey tower, 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 £3,041,955 (1.05% of the residential GDV) and agency fees of £12,167,819 (4.21% of the residential GDV). This is equivalent to 5.26% 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 £650 per apartment for legal and conveyance fees. This is a reasonable assumption 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 £2,000,000 for insurance, legal and professionals. In addition they have included £449,000 for non-recoverable VAT. We consider these to be reasonable and have adopted the total allowance of £2,449,000 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 £16,000,000 within their appraisal. This equates to a finance rate of 6.21% of their total adopted costs of £257,661,462. 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.

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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 on GDV. The appraisal submitted by Renaker results in a developer's profit of £30,534,008 equating to a developer's profit margin of 10.04% 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;
- 45 months construction period;

Renaker have not provided the anticipated sales period.

This is a complex development, and we consider the above construction and pre-construction timescales to be reasonable. We have assumed that the entire 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 £1,755,000, this results in a developer's profit of £41,252,126 reflecting a margin of 12.94% 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 £57,398,960 which based on our appraisal has a viability gap of £16,146,834.

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	£41,252,126 12.94% on GDV	£45,702,428 14.13% on GDV	£50,152,729 15.29% on GDV	£54,603,031 16.42% on GDV	£59,053,333 17.51% on GDV

The table shows that if the sales values increased to £700 per sq. ft. then the developer's profit margin would increase to 17.51% on GDV which is still below the target profit margin of 18% on GDV.

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 14.68% 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 £3,501,017 within their appraisal. We have assessed the BLV based on an EUV+ approach. We have assessed the site to have an EUV of £1,170,000 and consider a premium of 50% (£585,000) to be reasonable. This results in a BLV of £1,755,000 reflecting £2,734 per plot. This is lower than agreed BLV's that we have been involved in and much lower than the BLV for Plot G on Great Jackson Street which was agreed at £4,919 per plot.

We consider the residential GDV assumption of £630 per sq. ft. made by Renaker to be slightly low and have adopted sales values of £660 per sq. ft.. 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 £30.00 per sq. ft. within our appraisal but have adopted a weaker yield of 7% instead of 6% assumed by Renaker. We consider the office rental value assumptions made to be reasonable but have adopted a weaker yield of 7%. This results in a GDV of £318,883,111 which is £14,687,641 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 5.26% 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 prior to being completed.

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 10.04% 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 12.94% 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 the sales rate. This highlights that if sales values increased to £700 per sq. ft. then the developer's profit margin would increase to 17.51% on GDV which still falls below the target margin of 18% on GDV.

Viability Assessment

Plot D, Great Jackson Street, Manchester



The proposed development will take 3 years and 9 months 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

Plot D, Great Jackson Street, Manchester



Appendices

Viability Assessment

Plot D, Great Jackson Street, Manchester



Appendix 1 – ARGUS Appraisal Summary

Plot D, Great Jackson Street
Savills Viability Assessment

Development Appraisal
Savills UK Limited
06 October 2023

Plot D, Great Jackson Street
Savills Viability Assessment

Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Residential	642	458,794	660.00	471,657	302,804,040
Car Parking	<u>214</u>	<u>0</u>	0.00	25,000	<u>5,350,000</u>
Totals	856	458,794			308,154,040

Rental Area Summary

	Units	ft²	Rent Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Commercial Space	1	8,202	30.00	246,060	246,060	246,060
Office Space	<u>1</u>	<u>20,199</u>	25.00	504,975	<u>504,975</u>	<u>504,975</u>
Totals	2	28,401			751,035	751,035

Investment Valuation

Commercial Space					
Current Rent	246,060	YP @	7.0000%	14.2857	3,515,143
Office Space					
Current Rent	504,975	YP @	7.0000%	14.2857	7,213,929
Total Investment Valuation					10,729,071

GROSS DEVELOPMENT VALUE **318,883,111**

NET REALISATION **318,883,111**

OUTLAY

ACQUISITION COSTS

Fixed Price	1,755,000				
Fixed Price			1,755,000		
				1,755,000	
Stamp Duty			77,220		
Effective Stamp Duty Rate	4.40%				
Agent Fee	1.00%		17,550		
Legal Fee	0.80%		14,040		
				108,810	

CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost		
Residential	840,575	251.86	211,708,080		
Public Realm and Highways Costs			2,270,471		
				213,978,551	
Other Construction					
Other Costs			2,449,000		
				2,449,000	

PROFESSIONAL FEES

Professional Fees	10.36%	21,932,957			
			21,932,957		

DISPOSAL FEES

Marketing and Sales Agent Fees		3.00%	9,084,121		
Sales Legal Fee	642 un	650.00 /un	417,300		
				9,501,421	

FINANCE

Debit Rate 6.210%, Credit Rate 0.000% (Nominal)					
Land			521,113		
Construction			27,384,133		
Total Finance Cost				27,905,246	

TOTAL COSTS **277,630,986**

PROFIT **41,252,126**

Performance Measures

**Plot D, Great Jackson Street
Savills Viability Assessment**

Profit on Cost%	14.86%
Profit on GDV%	12.94%
Profit on NDV%	12.94%
Development Yield% (on Rent)	0.27%
Equivalent Yield% (Nominal)	7.00%
Equivalent Yield% (True)	7.32%
IRR% (without Interest)	14.28%
Rent Cover	54 yrs 11 mths
Profit Erosion (finance rate 6.210)	2 yrs 3 mths

Viability Assessment

Plot D, Great Jackson Street, Manchester



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