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Our ref: 190815 Station Works Financial
Viability Report v4 final [

Your ref:

14th August 2019

Dear Helen

Station Works, Radcliffe – Financial Viability Services

Instruction

AspinallVerdi have been instructed by Kestrel Forwarding to undertake a Viability Assessment for the proposed development at the former Station Works in Radcliffe, Greater Manchester.

The report considers the viability of the scheme in the context of the delivery of a 100% employment scheme at the request of the Local Planning Authority in an email dated 15th May 2019.

The Site & Location

The site is located on Bury Road at the former Station Works site in Radcliffe, Bury (postcode area M26 2UA). The site is currently vacant following demolition of the former Station Works and has an area of approximately 0.58 Hectares (1.40 acres). The surrounding areas are predominately residential including two recently constructed separate residential developments, one to the north and another located adjacent to the site.

The presence of residential accommodation is a critical concern to industrial occupiers due to the complaints and restrictions on noise and hours of operation.

A site location map is provided overleaf.





Source: Google Maps, 2019

Accommodation

It is considered that a development of approximately 10,764 sqft could be considered for the site taking into account access and yard requirements.

Commercial Market Assessment

The following section sets out our review of the commercial industrial market in Radcliffe. In order to gain an understanding of the market, we have reviewed property data from published sources such as Co-star. This provides an understanding of the volume of transactions in the area, as well as the rents and yields which are currently being achieved. We have also had regards to asking rental / price data for properties advertised on Rightmove, Co-star and Property Link.

Achieved Rents

We firstly identify achieved rents for industrial properties recorded on Costar. We extended our search to a half mile radius of Radcliffe due to there being a limited number of transactions in Radcliffe. There has been a total of 6 transactions.

Address	City	Floor	Date	Total SF Leased	Rent per annum	Effective Rent PSF
Weston St	Bolton	GRND	28/02/2018	29,128	£118,551	£4.07
Hacken Ln	Bolton	GRND	14/12/2016	8,127	£28,038	£3.45
Hacken Ln	Bolton	GRND	10/06/2016	6,022	£19,993	£3.32
Lever St	Bolton	GRND	01/04/2016	2,662	£17,489	£6.57
Hacken Ln	Bolton	GRND	14/01/2016	9,539	£26,232	£2.75
Raikes Ln	Bolton	GRND	13/04/2015	1,618	£6,471	£4.00

Source: Costar, 2019

The above transactions have achieved an effective rent (net rental income) ranging between £2.75 psf and £6.67 psf. The total lettable space ranges between 1,618 sqft and 29,128 sqft. It can be seen that smaller units command higher rental values, although quality of building and location are factors.

Capital Values

In terms of achieved prices we were able to identify the transaction of an industrial warehouse unit located at the Ivy Mill on Lorne Street in Bolton. This 40,494 sqft unit transacted on 09/04/19 at a price of £300,000 (£7.41psf).

We review asking rental values for industrial warehousing units overleaf.

Asking Rents

Address	sqm	sqft	Asking Rent	£ per	Comments	Source	Image
Unit 39, Eton Business Park, Eton Hill Road, Radcliffe, UK M26 2ZS	241	2 600	£21,995	£8.46	Industrial Space to let with parking available. The premises is located off Eton Hill Road, approximately 1.1 miles northeast of Radcliffe town centre	Rightmove	
Unit 12, Eton Business Park, Eton Hill Road, Radcliffe, UK M26 2ZS	77	830	£10,002	£12.85		Rightmove	
Phoenix House, 100 Sneyley Street, Bury, Greater Manchester	98	1,051	£8,500	£8.09	Modern Light Industrial units to let close to Bury Town Centre and Motorway Access. Two on-site parking spaces are also available	Rightmove	
Unit 2, Topley House, 52 Wash Lane, Bury, Greater Manchester BL9 6AS	351	3 781	£15,011	£3.97	A single storey unit providing a workshop / storage space. The unit is located at the rear of Topley House and is accessible from Wash Lane, a busy road leading to junction 2 of the M66	Rightmove	
Riversdale Industrial Estate, Hacken Lane, Bolton, Greater Manchester, BL3	971	10 459	£25,000	£2.39	The subject unit is located on Riverside Industrial Estate which is accessed via Hacken Lane in the Darcy Lever area of Bolton. The property is easily accessible from the A666 which provides links with the wider road network.	Rightmove	
First Floor, Phoebe House, Burnden Business Park, Bolton, Greater Manchester, BL3	290	3 131	£17,500	£5.59	The subject property comprises a high quality two storey refurbished mill complex situated on an established and fully-let industrial estate, benefiting from convenient transport links and ample on-site car parking. Burnden Business Park is situated off Burnden Road which itself is situated off Raikes Lane/Manchester Road (B5636) and benefits from links in both directions to A666 St Peter's Way and The National Motorway Network.	Rightmove	
St Bartholomew Building, Bolton, BL3	455	4 897	£18,500	£3.78	The subject property is a detached two storey industrial premises. Externally the unit has a large service yard with parking for several vehicles.	Rightmove	
Unit 1 & 2, Albion House, Albion Street, Bolton, BL3	417	4 488	£27,500	£5.13	The subject property is a detached industrial unit. Internally the unit comprises large open plan industrial/warehouse space with a floor to ceiling height of 6 metres, office, reception, kitchen, w/c facilities with shower room and ancillary storage. The subject property is located in a popular and established industrial area on Albion Street with a prominent corner position fronting Fletcher Street and Bridgeman Street.	Rightmove	
St Bartholomew Building, Bolton, BL3	455	4 897	£18,500	£3.78	The subject property is a detached two storey industrial premises. Externally the unit has a large service yard with parking for several vehicles. The property is located in a popular and established industrial area of Bolton. Located on Back McKean Street the subject property is surrounded by a mix of trade counter and industrial users.	Rightmove	

To ensure a thorough review, we extended our search to within a 3 mile radius of Radcliffe to identify industrial units located in Bury, Bolton and Worsley. From the above table we can see that asking rents for these units range between £2.39 psf for the unit at Riversdale Industrial Estate located in Bolton and £12.05 psf for the modern industrial unit at Eton Business Park which is located on Eton Hill Road (approximately 0.9km from the subject site). The higher asking rent psf is due to the smaller unit size for this property. Eton Hill Park is a well-managed business park which provides the top end of the range in modern industrial units to let. An agent at Pearson Ferrier advised that units at this business park are let on a regular (monthly) basis resulting in asking rents being achieved. Parking is also available and the site is secured with CCTV. For these reasons we consider that these rentals need to be adjusted to be comparable with the subject site.

Asking Prices

In terms of asking price data, we have been able to identify a light industrial unit listed as available on Rightmove. The property is located on Lord Street in Radcliffe and originally formed three separate buildings, which have now been linked together. The property includes a work shop area, showrooms, office, WC and kitchen. The 6,278 sqft (583 sqm) property is currently on offer at an asking price of £264,950 (£42.20 psf).

Market Rental Value - Summary

Taking into consideration the market research above and the new build element of the industrial unit, we have adopted a (gross) rent of £5.95 psf for the proposed industrial warehousing unit which in our opinion is appropriate for the size and location of this unit. The proposed unit will comprise a single detached unit which does not benefit from being located within a prominent industrial estate or proximity to motorway access. For this reason we consider the rental value as reasonable.

Commercial Property Yields

Yields are highly variable and reflect a number of variables. Yields are also generally driven by length of lease and the quality of the covenant. Yield data is not readily available at the local level in Radcliffe, we have therefore consulted CBRE investment yield evidence for February 2019. This shows that investments yields in a secondary location range between 5.50%-7%. We have adopted an investment yield of 6.5% which we consider is appropriate for the location of the subject site. We would expect an industrial unit which benefits from proximity to motorway access to achieve a better yield than the subject site. Based on this yield the capital value of the proposed unit is in the order of £91.54 psf (£985.31 psm).

Financial Appraisal Assumptions

In this section we set out the assumptions which have been made within our financial development appraisals.

The appraisal have been prepared on a residual basis and a target level of developer's profit at 15% on cost.

Financial Appraisal	Assumptions	AspinallVerdi Comments
Void / Rent Free	12 months	We have assumed a void for letting at 6 months and rent free period of 6 months.
Build Costs	£808 psm / £75.07 psf	We have consulted BCIS online for site for Q3 2019 (See Appendix 1). This has returned with the build costs psm for the Bury District over a period of 5 years. BCIS costs include preliminaries, but exclude professional fees and contingencies. We discuss these separately. Having reviewed BCIS, we would assume the 'Median generally' for Warehouses / Stores.
External Works	12.5%	We have made an allowance for external works at 12.5%. Such costs relate to the provision of site roads, landscaping, boundary treatments, etc.
Contingency	3%	Developer's contingency varies based on the nature of a scheme and how much risk is involved. For a simple development where there are few unknowns, we would expect a contingency between 3% and 5% contingency. We have adopted a contingency of 3% in our appraisals.
Professional Fees	7%	Professional fees cover the costs for planning consultants, site investigations, project manager, quantity surveyor, architects and engineers etc. and can range from 6% up to 12%. We have adopted a conservative figure of 7%.
Disposal Fees	Marketing (0.5%) Sales Agent (1%) Sales Legal (0.5%)	We have included sales and marketing costs. This takes into account agent and legal fees as well as advertising costs and some allowance for incentives.

Letting Fees	Letting Agent (10%) Letting Legal (5%)	We have included the following letting agent and legal fees (industry standard)
Acquisition Costs	Stamp Duty (5%) Agents Fee (1%) Legal Fee (0.5%)	Industry Standard
Development Finance	6.5%	Standard industry assumption is to assume 100% debt financing for the scheme, this is in line with RICS Guidance: <i>'It is common practice in conventional development appraisals to assume all-debt financing, i.e. all development costs are financed by borrowing.'</i> ¹ We have used a 6.5% debit (inclusive of fees).
Developers Profit	15% on cost	Given that this is a relatively small development, we consider the following profit level to be reasonable.
Timing Assumptions	Pre-Construction (3 Months) Construction (6 Months) Disposal (3 Months)	The following assumptions has been made for the project time scale.

Source: AspinallVerdi, 2019

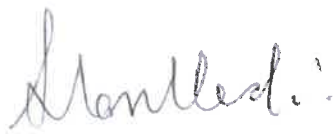
It should be noted that no allowance has been made in respect of site preparation and remediation. Such costs can be significant and would be incurred.

¹ RICS (2012) Financial viability in planning, page 36

Financial Appraisal Outturn – Summary

The outturn of the financial appraisal modelled for an employment use only scheme, on a residual basis and a fixed developer's profit at 15% on cost produces a deficit and a negative residual land value of £220,917. The employment use only development is therefore not viable, even before the unit account costs of remediation and site preparation, which would only increase the viability gap. The combination of development costs including site costs and risks associated with an employment use development render an employment use only scheme as non-viable.

Yours sincerely



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Appendix 1 –Financial Appraisal

APPRAISAL SUMMARY**ASPINALLVERDI**

190813 Former Station Works, Radcliffe, 100% emp v2

Summary Appraisal for Phase 1

Currency in £

REVENUE**Rental Area Summary**

	Units	ft²	Rate ft²	Initial MRV/Unit
Industrial Warehouse	1	10,764	5.95	64,046

Investment Valuation**Industrial Warehouse**

Market Rent	64,046	YP @	6.5000%	15.3846
(1yr Rent Free)		PV 1yr @	6.5000%	0.9390

NET REALISATION**925,183****OUTLAY****ACQUISITION COSTS**

Residualised Price (Negative land)			-220,917	-220,917
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CONSTRUCTION COSTS

Construction	ft²	Rate ft²	Cost	
Industrial Warehouse	10,764 ft²	75.07 p£	808,053	808,053
Contingency		3.00%	24,242	24,242
Other Construction				
External Works		12.50%	101,007	101,007

PROFESSIONAL FEES

Professional Fees	7.00%	56,564	56,564
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MARKETING & LETTING

Marketing	0.50%	4,626	
Letting Agent Fee	10.00%	6,405	
Letting Legal Fee	5.00%	3,202	14,233

DISPOSAL FEES

Sales Agent Fee	1.00%	9,252	
Sales Legal Fee	0.50%	4,626	13,878

FINANCE

Debit Rate 6.500%, Credit Rate 0.000% (Nominal)			
Land		-5,202	
Construction		12,650	7,448
Total Finance Cost			

TOTAL COSTS**804,507****PROFIT****120,676****Performance Measures**

Profit on Cost%	15.00%
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APPRAISAL SUMMARY**ASPINALLVERDI****190813 Former Station Works, Radcliffe, 100% emp v2**

Profit on GDV%	13.04%
Profit on NDV%	13.04%
Development Yield% (on Rent)	7.96%
IRR	Out of Range
Land Cost pAcre	0

