
Financial Viability Statement: *Non-Technical Executive Summary*

Bridgewater House, Chester Road, Manchester

July 2022

Prepared on behalf of:

Watch This Space (Jembrana) Limited

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Declaration

A declaration of conformity with the RICS Professional Statement Financial Viability in Planning, September 2019, 1st Edition¹, is set out within the following sub-sections.

Instruction and Purpose of Report

CBRE has been instructed by Watch This Space (Jembrana) Limited ('the Applicant') to objectively assess, and report upon, the financial viability of options for the restoration and conversion of the Grade II listed Bridgewater House, Chester Road, Manchester ('the Site') by way of a Viability Assessment ('VA').

The Site extends approximately 0.21 hectares (0.52 acres) and contains an existing building known as Bridgewater House and a pay-and-display surface car park, with the latter currently being the only active use.

Bridgewater House was listed Grade II in 1974 and comprises two substantial late-18th century former dwellings, with a c. 1843 office wing constructed by the Bridgewater Trustees extending southwards from the rear of the property, and other various extensions.

The Site is bounded by Chester Road to the north-west, Great Jackson Street to the north-east, Silvercroft Street to the south-east, and Crown Street to the south-west. The Site is located to the south-west of the city centre, between the Castlefield and Hulme districts. Although it is not within a Conservation Area itself, it is within the immediate setting of the Castlefield Conservation Area. It is also within the setting of Middle Warehouse (Grade II listed) to the north-west of the Site.

CBRE understands that the redevelopment of the Site will be considered in the context of national legislation, local planning policy and Historic England ('HE') guidance and will be expected to represent less than substantial harm to the significance of the designated heritage asset and its setting.

National Planning Policy Framework ('NPPF')² (paragraph 202) requires that harm should be weighed against the public benefits of a development proposal including, where appropriate, securing the optimum viable use ('OVU') of that asset.

The Government's guidance on decision-making within the heritage environment³ confirms the importance of ensuring that the use of a heritage asset is viable to facilitate investment in the maintenance necessary for long-term conservation. It is acknowledged that this often requires that owners are incentivised for active conservation, which can lead to the justification of harm if required to realise the OVU of a heritage asset, providing such harm is minimised.

Determining the OVU therefore requires the adoption of a sequential approach to confirm the options available for the use of a heritage asset before subsequently calculating the minimum level of required intervention (or 'harm') at which the prospective options become economically viable. The option that both achieves the lowest level of harm to the asset and secures public benefit via its economically viable use (and hence its future conservation) is that which is deemed to be 'optimum'. If there is only one viable use, that use represents the OVU.

This VA responds to the requirements set out in the NPPF, PPGHE and local planning policy by analysing a series of design-led restoration and redevelopment 'options' for the Site, representing varying levels of intervention, appraised in a sequential approach. The financial viability of each development option is tested to determine the threshold at which the use of the Site becomes financially viable.

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

² MHCLG (2021) *National Planning Policy Framework ('NPPF')*

³ MHCLG (2019) *Planning Practice Guidance – Historic Environment ('PPGHE')*

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The viability assessment will also have a dual role in addressing the implications on financial viability of Manchester City Council's ('MCC' or 'the Council') adopted planning policies – notably in respect of affordable housing provision and other planning obligations (as typically covenanted via Section 106 Agreement). The purpose being to demonstrate the impact on financial viability, whilst highlighting that compliance will necessitate increasing the level of harm to significance of the heritage asset (i.e. additional density will be required or possible loss of part/all of the heritage asset in order to increase revenues/reduce costs sufficiently to accommodate the additional planning policy cost burden). It is CBRE's expectation that the Council will set aside seeking such planning obligations (in part or in full) to minimise the prospective necessary harm to the heritage asset to secure its OVU.

The VA concludes by presenting CBRE's recommendation as to the option that represents the OVU for the Site; being that which balances both necessary considerations of financial viability and minimisation of harm to the significance of the heritage asset.

Objectivity, impartiality, and reasonableness

CBRE places the utmost importance on the integrity, impartiality, and potential conflicts of interests in carrying out its services and seeks to identify and assess all relationships which may result in a conflict of interest or pose a threat to impartiality. CBRE aims to inspire confidence by being open and impartial, offering transparency of process, being fair and maintaining the confidentiality of our clients.

In undertaking this instruction and carrying out the viability assessment, CBRE always confirms that we have acted impartially, with objectivity, without interference and with reference to all appropriate available sources of information.

CBRE confirms that adequate time has been provided to produce this report.

CBRE confirms that there is no instruction in place to undertake an Area-Wide viability assessment concerning existing and future planning policies against which the proposed development scheme will, in due course be considered.

CBRE has set out a full explanation of the evidence provided with reasoned justification. It is noted that it is a requirement to seek to secure resolution of any differences of opinion between parties where possible, should these arise.

Conflict(s) of interest

CBRE confirms, to the best of its knowledge, that no conflict or risk of conflict of interest exists in carrying out this viability assessment on behalf of the Applicant and in respect of the Site.

Contingent Fee

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

Status

This report does not constitute a formal Red Book Valuation⁴ and cannot be regarded, or relied upon, as such. This report and its contents are not to be relied upon for lending purposes, taxation, or other financial planning matters⁵.

⁴ It sits outside the RICS Valuation - Global Standards (Red Book Global Standards)

⁵ Neither CBRE or the author shall not be liable for any indirect, special, or consequential loss or damage howsoever caused, whether in contract, tort, negligence or otherwise, arising from or in connection with this document.

Declaration

This report provides a guide for feasibility in line with the purpose for which the assessment is required, in accordance with the NPPF, national Planning Practice Guidance for Viability (‘PPGV’)⁶, PPGHE, and as stated within the relevant guidance published by the RICS⁷.

Moreover, whilst the alternative development options do not constitute enabling development, on the basis that the Site comprises a heritage asset the VA has sought to be consistent with Historic England’s (‘HE’) Enabling Development and Heritage Assets guidance document, where relevant and appropriate⁸.

The conclusions of this report are based upon the input assumptions as stated herein and as available at the time of production. The input assumptions and conclusions of this report are valid at the date of publication and should be subject to review should further information be made available or in the event of material economic or property market change, or in respect of relevant legislative and policy changes.

Publication

This Executive Summary document provides aggregated information to address the limitation on disclosure arising from commercial sensitivity. The Executive Summary is suitable to place on public record.

⁶ MHCLG (2019) *National Planning Practice Guidance – Viability (‘PPGV’)*

⁷ RICS (2021) *Assessing viability in planning under the National Planning Policy Framework 2019 for England RICS guidance note, England 1st edition, March 2021 (effective from 1 July 2021) (‘RICS Viability Guidance’)*

⁸ *Historic England (June 2020) Enabling Development and Heritage Assets*

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Instruction

CBRE has been instructed by Watch This Space (Jembrana) Limited ('the Applicant') to objectively assess, and report upon, the financial viability of options for the restoration and conversion of the Grade II listed Bridgewater House, Chester Road, Manchester ('the Site') by way of a Viability Assessment ('VA').

The VA represents the culmination of this process and will form part of the evidence submitted to Manchester City Council ('MCC' or 'the Council') accompanying a planning application for the Site.

Purpose

The Site contains an existing building known as Bridgewater House and a surface car park, with the latter currently being the only active use. Bridgewater House was listed Grade II in 1974 and comprises two substantial late-18th century former dwellings, with a c. 1843 office wing constructed by the Bridgewater Trustees extending southwards from the rear of the property, and other various extensions.

The Site is bounded by Chester Road to the north-west, Great Jackson Street to the north-east, Silvercroft Street to the south-east, and Crown Street to the south-west. The Site is located to the south-west of the city centre, between the Castlefield and Hulme districts. Although it is not within a Conservation Area itself, it is within the immediate setting of the Castlefield Conservation Area. It is also within the setting of Middle Warehouse (Grade II listed) to the north-west of the Site.

Given any redevelopment of the Site will involve works to a listed building and its setting, and is within the setting of a conservation area and nearby listed buildings, it will be necessary for the Local Planning Authority ('LPA') to pay special attention to the desirability of preserving the setting of listed buildings, as required by Section 16 of the Planning (Listed Building and Conservation Areas) Act 1990; as well as the desirability of preserving or enhancing the character or appearance of the conservation area, as required by Section 72(1) of the same Act.

The redevelopment of the Site will be considered in the context of national legislation, local planning policy and Historic England ('HE') guidance and will be expected to represent less than substantial harm to the significance of the designated heritage asset and its setting.

National Planning Policy Framework ('NPPF')⁹ (paragraph 202) requires that harm should be weighed against the public benefits of a development proposal including, where appropriate, securing the optimum viable use ('OVU') of that asset.

The Government's guidance on decision-making within the heritage environment¹⁰ confirms the importance of ensuring that the use of a heritage asset is viable to facilitate investment in the maintenance necessary for long-term conservation. It is acknowledged that this often requires that owners are incentivised for active conservation, which can lead to the justification of harm if required to realise the OVU of a heritage asset, providing such harm is minimised.

Determining the OVU therefore requires the adoption of a sequential approach to confirm the options available for the use of a heritage asset before subsequently calculating the minimum level of required intervention (or 'harm') at which the prospective options become economically viable. The option that both achieves the lowest level of harm to the asset and secures public benefit via its economically viable use (and hence its future conservation) is that which is deemed to be 'optimum'. If there is only one viable use, that use represents the OVU.

⁹ MHCLG (2021) National Planning Policy Framework ('NPPF')

¹⁰ MHCLG (2019) Planning Practice Guidance – Historic Environment ('PPGHE')

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This VA responds to the requirements set out in the NPPF, PPGHE and local planning policy by analysing a series of design-led restoration and redevelopment ‘options’ for the Site, representing varying levels of intervention, appraised in a sequential approach. The financial viability of each development option is tested to determine the threshold at which the use of the Site becomes financially viable.

The viability assessment will also have a dual role in addressing the implications on financial viability of Manchester City Council’s (‘MCC’ or ‘the Council’) adopted planning policies – notably in respect of affordable housing provision and other planning obligations (as typically covenanted via Section 106 Agreement). The purpose being to demonstrate the impact on financial viability, whilst highlighting that compliance will necessitate increasing the level of harm to significance of the heritage asset (i.e. additional density will be required or possible loss of part/all of the heritage asset in order to increase revenues/reduce costs sufficiently to accommodate the additional planning policy cost burden). It is CBRE’s expectation that the Council will set aside seeking such planning obligations (in part or in full) to minimise the prospective necessary harm to the heritage asset to secure its OVU.

The VA concludes by presenting CBRE’s recommendation as to the option that represents the OVU for the Site; being that which balances both necessary considerations of financial viability and minimisation of harm to the significance of the heritage asset.

Existing Buildings

The Grade II listed building on the Site is understood to have been vacant for over ten years and has fallen into “a significant state of disrepair with only a small fraction of the building not showing signs of deterioration”¹¹.

A Condition Survey Report has been prepared by Stephen Levrant: Heritage Architecture Ltd (‘SLHA’) providing a summary of the condition of the Site at March 2020. CBRE understands this document will form part of the planning application pack to be submitted to the Council.

The Condition Survey Report notes that the survey and investigation was limited by restrictions on access and water ingress into the building, which rendered large areas of the building unsafe. However, the report does provide a detailed record of the buildings condition, the urgent temporary measures to halt decay, further investigations required and an outline of the long-term repairs that can be expected to bring the building back into acceptable condition.

The report confirms the building is in poor condition and is at risk of insurmountable loss of significant historic fabric without urgent intervention. A schedule of repairs have been identified, categorised by priority, which address the immediate building issues and safeguarding against the onset of building decay, repairing of the building’s internal fabric and reversal of inappropriate interventions.

CBRE conducted an external site visit on 23 May 2022, accompanied by a representative of the Applicant. It was not possible to access the building internally due to health and safety risks and resultant implications for insurance liability. From external inspection and dialogue with the Applicant, CBRE expects the building’s condition to have further deteriorated over the two-year period since the Condition Survey Report was produced.

The absence of a financial case for investment into the Site would see the wastage and deterioration of a listed building in a high-profile location within the city, acting as a detriment to the character and appearance of the Castlefield Conservation Area.

¹¹ SLHA (March 2020) Condition Survey Report

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Option development

Working closely with the Applicant's team of heritage specialists, architect, and town planning consultant, CBRE has followed a sequential methodology in preparing and appraising development options.

The starting point has been to seek to understand the appropriate use(s) and the minimum level of intervention in the existing Bridgewater House necessary to establish a financially viable development solution for the Site.

The process has firstly examined the potential suitable options for the restoration and redevelopment of the asset. In undertaking a comprehensive approach, subsequent analysis has necessitated exploring a wider set of potential redevelopment options, which entail varying degrees of intervention, alternative uses and additional development on the site.

The option analysis process has culminated in the identification of five potential redevelopment options for the Site, as summarised below:

Option 1 | Do Nothing

The first option considered for the Site is to continue to mothball it and 'do nothing', which would see Bridgewater House left in an unoccupied state.

It is deemed that a 'do nothing' option is not a viable and productive approach to the management and conservation of the heritage asset. It would result in the continued wastage and deterioration of the premises and would not in any way safeguard the long-term future of the heritage asset.

Option 2 | Office Use (Class E) Conversion

Option 2 represents the minimum level of intervention in the existing building, comprising the retention and comprehensive refurbishment to restore its previous use as offices (Class E). The refurbishment would seek to address the scope of internal and external repairs required and to preserve the long-term future of Bridgewater House.

Option 3 | Alternative Commercial Uses Conversion

CBRE has conducted a commercial market review of prospective alternative uses for the Site (other than office use), which included: hotel; restaurant/ pub; clinic/ healthcare; and conference centre uses.

It is CBRE's conclusion that these alternative uses would not be commercially viable at the Site in the current market or for the foreseeable future and would fail to generate the necessary capital investment to safeguard the long-term future of Bridgewater House.

On this basis, CBRE has discounted the above alternative uses.

Option 4 | Residential Use (Class C3) Conversion

Option 4 represents the retention and comprehensive refurbishment and conversion of the existing building for residential use (Class C3). This would seek to address the scope of internal and external repairs required to preserve the long-term future of the buildings, as well as future stewardship.

In addition, internal alterations would be required to create separate apartments and generally to make the buildings appropriate and serviceable for future residential use.

Option 5 | Residential Use (Class C3) Conversion and New-Build

Option 5 includes the refurbishment and residential conversion of Bridgewater House in a consistent manner to Option 4. In addition, it includes the redevelopment of the existing surface car park to the rear of the building to provide an additional four-storey new-build residential apartment block.

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Option 6 | Commercial Use (Class E) Conversion and Residential (Class C3) New-Build

Option 6 is consistent with Option 2 (i.e. restoring Bridgewater House to office use (Class E)), plus includes the redevelopment of the rear car park to provide four-storey new-build residential apartment block.

This Option is considered as a mixed-use alternative to Option 5.

Option Appraisal

A residual valuation model with cash flow has been prepared and utilised for each identified development option to determine financial viability. Each option is assessed on the basis that it is developed under current market conditions.

Benchmark Land Value

To inform the setting of a threshold for testing whether each option is unviable or viable, it is firstly necessary to determine a benchmark land value ('BLV') for the Site.

This is a requirement of the NPPF, national Planning Practice Guidance for Viability ('PPGV')¹², PPGHE, and as stated within the relevant guidance published by the RICS¹³.

By way of analysis, the BLV for the Site has been assessed based on the Existing Use Value ('EUV') plus premium ('EUV+').

In this instance, due to its vacancy, poor physical condition, and the absence of an active planning use, CBRE deems Bridgewater House to have a nominal capital value. Instead, the EUV for the Site is derived from the income generation of the surface pay-and-display car park.

The BLV represents CBRE's independent conclusion as to the minimum level of value at which the landowner would be suitably incentivised to release the Site, in accordance with the NPPF and PPGV. The BLV is £353,283.

The BLV is inserted into the residual appraisal prepared for each option as a fixed land cost. The residual output of each appraisal is therefore the level of outturn developer's profit generated by each option.

Appraisal Results

A summary of the viability appraisal result for each option is provided in Table ES1.

Table ES1: Option Appraisal | Viability Results Summary

Option	Net Development Value (£)	Total Development Costs (Inc. BLV) (£)	Outturn Developer's Return (%)	Outturn Developer's Return (£)	Target Minimum Developer's Return (%)	Surplus / Deficit (£)
Option 1			N/A			
Option 2	£1,094,502	£3,780,028	-71.05% (on Cost)	-£2,685,526	15.00% (on Cost)	-£3,252,530
Option 4	£5,359,600	£5,619,072	-4.84% (on GDV)	-£259,472	17.50% (on GDV)	-£1,197,402

¹² MHCLG (2019) National Planning Practice Guidance – Viability ('PPGV')

¹³ RICS (2021) Assessing viability in planning under the National Planning Policy Framework 2019 for England RICS guidance note, England 1st edition, March 2021 (effective from 1 July 2021) ('RICS Viability Guidance')

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Option	Net Development Value (£)	Total Development Costs (Inc. BLV) (£)	Outturn Developer's Return (%)	Outturn Developer's Return (£)	Target Minimum Developer's Return (%)	Surplus / Deficit (£)
Option 5	£13,571,270	£11,696,270	13.82% (on GDV)	£1,875,000	17.50% (on GDV)	-£499,972
Option 6	£9,531,172	£10,136,243	-5.97% (on Cost)	-£605,072	16.00% (on Cost)	-£2,226,871

Table ES1 demonstrates that Option 5 is the most financially viable redevelopment option for the Site in the current market. Whilst it generates a profit level just below the minimum level of developer's return within the range set out in PPGV, it fails to achieve the viability threshold target developer's return (whilst incorporating the fixed cost of land acquisition [i.e. the BLV]) appropriate to reflect the commercial risk of delivering a residential scheme incorporating refurbishment and conversion of a severely dilapidated listed building in the current market.

All other options tested generate a significant financial loss, no rational commercial developer or investor would willingly accept. CBRE is confident that these options would not secure the necessary funding from the lending market for underwrite and delivery with margins at these levels.

Conclusion

Option 5 constitutes the comprehensive refurbishment of the existing building and the redevelopment of the car park area to provide an additional four-storey new-build block for residential use (Class C3), providing 53 apartments in total.

It is CBRE's conclusion that the Option 5 represents the minimum scale of intervention necessary to generate a financially viable use. Given the outturn profit falls below the minimum reasonable developer's return for risk, proceeding would be at the commercial risk of the developer.

As residential use (Class C3) is also the sole viable use, it is deemed to represent the OVU for the Site.