

86-90 Duke Street – Application No 13F/0890

Funding for Development - Response to English Heritage comments

Introduction

The proposals in respect of the above application will secure the redevelopment by Langtree Land and Property Plc (Langtree) of a prominent derelict site, delivering new employment floorspace to support the retention and creation of local jobs. The scheme has been designed to meet the requirement of Atlantic Container Line UK Ltd (ACL), an important local business that has secured Regional Growth Funding (RGF) to support expansion within Liverpool. ACL has been unable to identify suitable Grade A office accommodation¹ for purchase within the existing city centre stock.

An application for European Regional Development Fund (ERDF) grant support has been made to address viability constraints and enable the proposed scheme to proceed. Grant support will address a significant viability gap arising from site specific and wider market factors which have acted as a significant impediment to the regeneration of this and other adjacent sites over a prolonged period.

As part of the planning submission for the scheme AMION Consulting prepared a review of alternative funding options for the Duke Street site, reflecting both the unique nature of the opportunity and key viability issues. English Heritage has reviewed this submission² as part of the planning application and commented as follows:

“A limited appraisal of funding opportunities is also provided with the application, focused on a small number of public funders and does not consider options for other private investment some of which have unlocked the development of longstanding Buildings at Risk in Liverpool recently.”

This note sets out a response to these comments. It demonstrates that the review of funding sources set out within the submission is appropriate in terms of both its scope and detail and that other forms of funding or investment would not be applicable to the circumstances of this case. It notes that all public sector sources of funds have been considered. It also demonstrates that private sector funding has been maximised in this scheme by virtue of it securing a purchaser that, in line with normal market principles of investment, will only invest up to the market value of the completed development.

Public Sector Heritage Funding

(i) Sources of funding

The review identifies key sources of public sector funding for heritage projects, focusing upon major national funding sources reflecting the level of support which would be required to bring the existing building back into employment use. It indicates that there is significant competition for limited funding available from English Heritage and the Heritage Lottery Fund which is targeted towards heritage assets of recognised national significance and those schemes delivering a wide range of community focused benefits. Satisfying the criteria for existing heritage funding streams is not possible for a commercial scheme seeking to deliver significant employment benefits within an area of economic need.

¹ Grade A property is a definition used by the property sector to describe the best quality accommodation. Typically, office buildings within the Grade A bracket are brand new or have been recently redeveloped and benefit from high-quality facilities, furnishings and accessibility.

² Reference P00239527 dated 7 June 2013

In preparing the submission, alternative public sector funding opportunities³ were reviewed including the Architectural Heritage Fund, Landfill Communities Fund and funding available through other funds and trusts. Based upon the stated funding criteria, these and other sources of funding are not suitable for the scheme due to:

- the existing site ownership arrangements and the commercial status of Langtree and ACL;
- the proposed redevelopment of the site for commercial office uses;
- the level of funding required to enable the refurbishment of the existing derelict premises.

(ii) Heritage Buildings At Risk

English Heritage comments in relation to the redevelopment of other Buildings At Risk in Liverpool are not relevant to the Duke Street scheme, which has secured as much private sector investment as possible (see below).

Investment in other schemes has responded to market demand within the hotel and student accommodation sectors (which have remained more buoyant than other commercial sectors over recent years). Furthermore, investment has been supported by capital allowances and public sector grant support as demonstrated below.

The redevelopment of the St. Andrews Church of Scotland in Rodney Street, Liverpool for student residences has attracted private sector investment. This investment reflects the strength of the student accommodation market, both at the national and the local level, based upon an imbalance between demand and the supply of prime stock.⁴

The redevelopment of the warehouse to the north of Stanley Dock and former Royal Insurance Building⁵ are now underway and will result in the delivery of 150 apart-hotel units and 116 hotel rooms respectively. Significant private sector investment has been attracted to these schemes through the Business Premises Renovation Allowance (BPRA) mechanism⁶, alongside public sector support:

- Stanley Dock North – the scheme has been awarded funding through the North Liverpool City Fringe Employment and Investment Programme (Regional Growth Fund award) to bridge viability constraints associated with bringing the historic fabric of the structure of the Warehouse back into active use;
- 1-9 North John Street – Liverpool City Council acquired the building for £1.95 million, with a further £297,500 grant support provided by English Heritage.

Private sector investment in the 1-9 North John Street scheme has been supported by a relatively buoyant hotel market within Liverpool. However, it is noted that there is increasing concern that the hotel market is becoming oversaturated, reflecting growth in the number of rooms in the city centre of approximately 93% between 2005 and 2013 with significant supply in the development pipeline.

Each of these schemes reflects the specific characteristics of the property alongside wider market and policy factors. It is further noted that while investment has emerged for these schemes, a significant number of heritage assets within the city centre remain vacant and in a poor or derelict condition and, in the absence of public grant support, have been unable to attract investment.

³ <http://www.fundsforhistoricbuildings.org.uk/search.php>

⁴ GVA, Student Housing Market Overview, Autumn 2012

⁵ 1-9 North John Street

⁶ Details in relation to the BPRA are set out within the funding submission accompanying the application

Private sector investment

As detailed in the funding review submitted as part of the application, the Duke Street scheme responds to the specific requirement of ACL for new premises within the City Centre. This requirement can only be met through the construction of new Grade A office space. ACL will acquire the site on a freehold basis, occupying part of the premises and marketing the remainder on a leasehold basis. In line with normal market principles of investment, ACL will only invest up to the market value of the completed development. Securing this private sector investment up to the market value of the completed development is critical to unlocking the redevelopment and regeneration potential of this vacant site. No further private sector investment beyond the market value will be forthcoming.

The critical issue with the Duke Street scheme is that the cost of delivering Grade A commercial office space exceeds its market value - or the amount that the private sector could invest in the project. An application has been submitted to secure ERDF funding to address this viability gap (see below). Given the proposed delivery and ownership arrangements and the nature of the gap funding required, no alternative sources of private sector investment can be sought for this scheme. As such, an appraisal of institutional funders was not included within the funding review.

Regeneration funding

Reflecting the prominence of the site and the overall importance of the scheme in relation to the regeneration of Duke Street and the wider Ropewalks area, discussions in relation to the application for ERDF grant support under Priority 3 of the North West Operational Programme 2007-13 are now at an advanced stage.

Under the terms of the Programme the application must be approved not later than December 2013 and it is unlikely that any further applications will now be accepted under the current Programme. Reconfiguration of the proposals would significantly delay the scheme and the opportunity to secure critical funding required to unlock regeneration and support economic growth would be lost.

1st July 2013