

# **Management Committee**

## **20<sup>th</sup> September 2016**

### **Weymouth Town Centre Masterplan – Site update - Peninsula**

*Appendices 1, 2 and 3 to this report are not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of The Local Government Act 1972, as amended. The public interest in maintaining the exemption outweighs the public interest in disclosing it.*

## **For Decision**

**Briefholder**  
Cllr Jeff Cant

**Senior Leadership Team Contact:**  
M Hamilton, Strategic Director

**Report Author: Martin Hamilton**

## **Statutory Authority**

Legal power to dispose of the land – s123 (2) and s 128(1) Local Government Act 1972 and Circular 06/03 Local Government Act 1972 General Disposal Consent (England) 2003.

## **Purpose of Report**

- 1 This report is to enable Management Committee to determine the next steps required to facilitate the re-development of the Peninsula site;

## **Officer Recommendations**

- 2 (a) Note the feasibility study prepared by Cushman & Wakefield on the Peninsula site and instruct officers to progress a leisure led development as outlined in this report;  
(b) To agree a budget allocation of £200,000 from the Borough Development Reserve for the more detailed reports and information needed, as set out in section 31 of the report.  
(c) To report back to Management Committee in December with the findings obtained;  
(d) Progress a “meanwhile uses” strategy for the existing peninsula buildings to bring buildings back into use pending redevelopment;

## Reason for Decision

- 3 The decisions collectively enable the Council to take the next critical steps in the regeneration of the Peninsula site by determining the nature of development to be sought and directing officers to take the necessary steps to enable that development.

## Background and Reason Decision Needed

- 4 The Peninsula is a man-made structure extending to approximately 5ha in size in a strategically important location close to Weymouth town centre and visible from the Esplanade. Currently occupied by the Jurassic Skyline Tower, Pavilion Theatre, pleasure pier, car park and redundant buildings associated with the previous ferry operation, the site is identified in the Weymouth Town Centre Master Plan for mixed use development.
- 5 The location of the site is such that its development has the potential to positively impact significantly on both the townscape and the economy of Weymouth. As a made-made structure, and located within a flood zone, the site also presents some significant development challenges.
- 6 Utilising funding from Dorset Local Enterprise Partnership, the Council commissioned Cushman & Wakefield (C&W) to undertake a study to establish the feasibility of developing the site, taking into account financial models and intelligence gathered from soft market testing. The outcome of this study is presented in this report to inform members' consideration of next steps for this key site.
- 7 In their feasibility study C&W have modelled a "residential led" redevelopment based on an assessment of an indicative level of residential development and associated leisure uses including café/restaurants, and a hotel. This model is subject to sensitivity analysis involving variations in market price for the residential units developed, and the proportion of affordable housing required. In addition, C&W have modelled a "leisure led" development, which is focused on establishing the Peninsula as a destination for all weather leisure activities. Each of these are summarised below and presented in more detail in the confidential Appendix 1 attached.
- 8 In addition to the C&W study, the LEP also funded a study on aspects of the local tourism economy which was undertaken by Blue Sail. This report raises a number of important issues which are relevant when considering the future of the Peninsula site. The report identifies that, whilst employment in the hospitality and leisure sectors in many seaside towns has grown in recent years, it has declined in Weymouth, and despite natural assets and profile, the town is under performing relative to its peers. The report notes that the tourism growth in the town is constrained by the need for more, and better, accommodation.
- 9 In addition, the report recommends substantial investment in the quality of the environment, the shopping and eating out experience, and in more visitor attractions, particularly attractions which are all-weather in nature.

Such investment would serve to increase both visitor numbers, length of stay, and spend, as well as serving to extend the tourism season in the town.

## **Ferry Terminal**

- 10 Subsequent to the departure of Condor Ferries from Weymouth in 2015, the Council entered into an agreement with High Speed Ferries (HSF) which enabled the Council to retain the designated Restricted Area on the Peninsula site whilst negotiations progressed with HSF.
- 11 The Management Committee decision was to maintain the Restricted Area for a ferry service until 31<sup>st</sup> March 2016 whilst discussions continued. As HSF were not in a position at the end of this period to commence the service, the Restricted Area is now no longer being maintained as such. HSF continue to pursue the development of their operations, but the Council is no longer in a formal agreement to facilitate that service operating from Weymouth.
- 12 In addition to HSF, officers have tested the likelihood of another ferry operator wishing to commence operations from the Weymouth ferry terminal, and see no prospect of this happening in the foreseeable future.
- 13 In light of the position with ferry operators, officers are pursuing a “meanwhile uses” strategy for the site, with a view to securing uses of the assets which reduce the net cost of the site. Members will be aware of the recent filming in Weymouth which made use of the site and, once filming had ceased, the former ferry queueing lanes were brought into use as car parking which proved popular in peak season. In addition, the various buildings on the site are being marketed for short term (3 year) lettings.
- 14 Neither the option to develop the site for housing nor leisure assume the operation of a ferry from the site. The eventual designs will need to accommodate the continued use of the wharf adjacent to the former ferry berth and associated storage. This should be arranged in order to provide both income to the harbour, and a point of interest for visitors to the site. It is proposed that the focus of work in the short term would be on securing short term lets and establishing the operational footprint for wharfage rather than pursuit of a ferry operator.

## **Site Conditions and Constraints**

- 15 As noted above the peninsula is a man-made structure. As such, development of the site for any purpose will involve abnormal costs when compared with many other brownfield sites. The extent of these abnormal costs is as yet unquantified, and will vary depending on the nature and scale of development undertaken. They will however include:
  - Flood Prevention – a significant portion of the site is in a flood zone, with parts of the site liable to flooding likelihood greater than 1 in every 100 events. The site is surrounded by harbour walls which have been assessed as “poor but serviceable” and will require investment. Any

residential development would need to take account of this flood risk and mitigate it either through design or by enhancing the flood defences. For a leisure scheme the mitigation might potentially be able to be reduced, but this would need to be quantified further.

- Contamination – The site is made up of fill brought into the location and its precise makeup is unknown. Some degree of contamination must be assumed.
- Ground conditions – as made up ground, reclaimed in phases, it is assumed that any development will require piling.

16 In preparing the feasibility study, C&W have assumed a level of abnormal costs based on their experience elsewhere. Whilst adequate for the purposes of modelling, it will be necessary for the Council to procure detailed site condition surveys prior to marketing in order to secure an accurate estimate of the abnormal costs likely to be encountered.

### **Appraisal of Housing Market**

17 In order to establish the feasibility of a residential led development on the Peninsula, C&W have reviewed the local market for the sorts of properties likely to be included in any development. The ability of the site to “market make”, and thereby secure a significantly higher value than is currently being realised in Weymouth, is uncertain as the market for waterside development is not as mature as in other south coasts towns.

### **Residential Led Feasibility Model**

18 C&W have drafted a development model for the Peninsula which envisages:

- 349 residential units (private plus 35% affordable)
- 130 bed hotel
- 400 space multi-story
- 5 Restaurants
- New public square
- Pavilion remaining in situ.
- No ferry operation

19 This model is for appraisal purposes only. It is indicative of a particular mix which would make good use of the site in terms of maximising residential units without developing to a height which would be problematic in terms of the visual impact. If taken to market the precise mix of units, levels of parking etc, would undoubtedly be subject to change, but the model put forward presents a credible basis for appraisal.

20 The model has been tested by C&W with major developers, hotel and restaurant operators in soft market testing.

- 21 The C&W report attached at Confidential Appendix 1 set out the detail of their financial appraisals. The appraisals show:
- Gross receipt, from residential units, hotel, restaurants and car parking
  - Development costs for the above
  - Other costs such as legal fees, cost of finance, etc
  - Developer's profit
  - Gross Residual Land Value - in essence, the value of the site

Sensitivity analysis varies the proportion of affordable housing from 35% (as per policy) to 0% (which assumes reduction due to viability).

The analysis shows that the development is, at best, marginal in terms of financial viability. The site only secures a positive net residual value if there is NO affordable housing. In addition this model gives the Council no receipt for the current site value and the car park income is lost. In essence this represents a net loss to the council.

- 22 With the marginal viability there will be a presumption of any development progressing as a joint venture between the Council and a development company, with the Council sharing the risk and providing some funding to facilitate the development.
- 23 The financial appraisal does not take into account deliverability risk. As shown in the C&W models, the residential led development would be an £100- £125m development, and if progressing the Council would need to be assured that the development would be completed, and completed in an acceptable timeframe. Developers contacted through the soft market test recognised that the site would be a complex one to develop. Many indicated they would not be interested due to the total capital investment required; high risk and so would want the council to lead and share in the higher risk elements of the scheme.
- 24 If minded to pursue development for mixed use as per this appraisal, the process of undertaking site surveys, competitive process to select development partner, negotiation of joint venture, securing detailed planning consent would see actual construction works commence on site in mid-2020.

### **Leisure Led Feasibility Model**

- 25 In addition to the residential led development option, C&W have modelled a development with no residential buildings, but rather focussing on the development of a mix of leisure uses which would create a "leisure destination" in its own right. The aim of this model was to evaluate the viability of a development which directly addressed the need for significant all-weather facilities in the town with a view to generating an ongoing economic impact.

There are significant benefits to the leisure led model. In summary the benefits are that the general leisure sector is very strong and continuing to expand, but being a relatively young market the tenant covenants are not that strong. Such a scheme however would extend the tourist offering and

potentially the season, as well as providing a wet weather attraction. The financial commitment required to deliver such a scheme is low relative to a residential scheme and potentially with higher delivery prospects. This would also generate ongoing employment and provide a different offering relative to competing tourist destinations.

The feasibility study is based on a development which would include:

- 1 x leisure unit of 8,000 sq. ft.
- 2 x leisure units of 20,000 sq. ft. (positioned next to each other to give the flexibility to be merged into one 40,000 sq ft unit)
- 1 x leisure unit of 15,000 sq. ft.
- 3-4 waterside restaurants of 3,000 sq ft – 3,500 sq ft each
- 1 x mid-range hotel
- Car parking reconfigured on the south of the site to allow the restaurants to benefit from the views onto the Esplanade.

There are a range of potential leisure uses but it is suggested that to give the optimum synergy with the Weymouth current tourist holiday base that this would be aimed at the “participative” activities.

These end leisure occupiers might include

- Indoor Surfing facility
- Climbing Centre
- Indoor Sky Diving
- High ropes
- Indoor soft play

- 26 The model assumes no ferry operation, retention of car park income, and Pavilion. This mix is offered for illustrative and modelling purposes, and the eventual mix should be very much market driven.
- 27 Leisure provision is a wide market sector and the C & W presentation attached at Appendix 1 gives not only further examples of the different types of offering in the sector, but also involvement of other councils who have taken forward such schemes. There are a number of viable schemes that have been produced where councils have taken a similar initiative.
- 28 The C&W report attached at Confidential Appendix 1 sets out the detail of their financial appraisals. One appraisal uses a traditional methodology with a developer assuming all risks, and selling the finished investment to make a capital profit. This approach shows that the development gives insufficient profit to be viable.
- 29 A second appraisal undertaken by C &W is based on a council led development benefiting from low cost borrowing available to local authorities. This appraisal allows the finished project to be retained by the council as a revenue generating asset. The appraisal shows this to be a viable project. Confidential Appendix 2 sets out the timeline for bringing the scheme to fruition, showing actual construction work commencing in 2019.

C&W have undertaken a cash flow model based upon the potential time line and this as set out in Confidential Appendix 3. While this shows the scheme to be viable this will need to be subject to further testing from the Councils perspective as part of the more detailed work to be undertaken following on from this report.

### **Next Steps**

- 30 The appraisals show that progressing a housing led development is very high risk in terms of financial viability and deliverability. In order to progress such a scheme would need to exclude social housing, and as a consequence it likely to deliver housing offer which does not reflect local need. The complexity of the site is such that a leisure led scheme is only really viable if a council led scheme is progressed.
- 31 In light of the appraisals and the benefits to the local economy, officers recommend that the leisure led scheme is progressed to the next stage of the development. This will require investment to finalise the viability and development issues, and will include:
- 1) Commission scheme concept and visuals for discussion with planners and occupiers
  - 2) Engagement with potential occupiers
  - 3) Pre-application planning submission
  - 4) Services and ground condition surveys
  - 5) Engagement with the Environment Agency
  - 6) Transport study
  - 7) Update of the financial viability analysis including production of a cost plan, and detailed due diligence by the council's finance team.

To obtain the foregoing a budget of £200,000 is requested which would be taken from the Borough Development Reserve.

## **Implications**

### **Corporate Plan**

Development of the sites within the Weymouth Town Centre master plan and the local plan are supported by way of employment gain and a mixed scheme development.

### **Financial**

The request for the £200,000 from the Borough Development fund is to undertake and commission more detailed viability issues.

### **Equalities**

There are no equalities issues and any development would be fully DDA compliant.

## **Environmental**

The delivery of a new mixed leisure or other scheme offers the opportunity to enhance the current Peninsula environment. Any scheme will be subject to the usual planning and other environmental and statutory checks and requirements.

## **Economic Development**

There is the potential from a successful scheme to provide additional employment, and to add to the economic prosperity of Weymouth.

## **Risk Management (including Health & Safety)**

The risk of any council undertaking a development scheme is potentially high, but with further detailed studies to assist in this decision the risk will be reduced. The council will, with that more detailed information and advice, be able to decide in December if it wishes to commit to progressing the scheme. The risks and costs will be set out and so each decision will be based upon the best information available at that time.

## **Human Resources**

None directly arising

## **Consultation and Engagement**

Asset Management Group.  
Town Centre Master Plan has been subject to consultation

## **Appendices**

Confidential Appendices 1- Financial analysis of the development options  
Confidential Appendices 2- Timeline for delivering a leisure scheme and options  
Confidential Appendices 3- Cash flow analysis for leisure scheme

## **Background Papers**

Weymouth town centre master plan

## **Footnote**

Issues relating to financial, environmental, economic and equalities implications have been considered and any information relevant to the decision is included within the report.

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