Viability Review: The Former Lee Bay Hotel Site
Updated 5th April 2019.

Introduction

- Plymouth City Council's Development Viability Team (PCC) has been requested by North Devon District Council to undertake a review of a second application by Acorn Blue (Acorn), for the demolition and redevelopment of the Lee Bay Hotel. An original viability report was submitted by Alder King, dated February 2018, (AK) on behalf of the applicant and PCC provided an independent assessment of the report and the viability of the scheme including a comment on capacity of the scheme to support additional s.106 contributions.

- Subsequently Acorn submitted changes to the application (63167) and a revised viability was submitted by the consultant, JLL in November 2018 for 23 units (comprising a 13 unit block, and two 5 unit blocks) with comment on an 18 unit scheme.

- This was further updated in response to a changed scheme layout submitted in February 2019, for a 21 unit scheme, (comprising a 13 unit block, and two 4 unit blocks) and further comment on a reduced 17 unit scheme (deleting the middle building).

The Site
- The site address is the former Lee Bay Hotel site, Lee, North Devon, EX34 8LR.

- The site area is 1.79 ha (gross) and lies immediately to the north west of the village of Lee, adjacent to Lee Bay. The full details of the site are described in the JLL Assessment reports.

- In addition to the derelict hotel, the site is laid out to gardens leading down to a stream and former pond, and an unsurfaced car park.

- The original 2016 application included the construction and the rebuild café and public toilets and car park. However these elements have now been omitted from this VA as we understand that this area of the site will be transferred to the National Trust who will be carrying out the redevelopment of these facilities direct.

Vacant Building Credit (Affordable Housing exemption)

We understand that the developer and North Devon District Council are investigating whether Vacant Building Credit should be applied to this site.

In our appraisal we have assumed that VBC is applicable, however if it is found not to be the case, then we would rerun the appraisal to take into account addition payments for offsite housing contribution.

Gross Development Value

The applicant has provided an array of information on the increased cost of constructing this housing complex. However there has been no comment on potential increases in the capital values over the period.

Recent Govt. data on house price increase, year on year for February 2019 shows an increase of approx. 6% for the South West Region.

PCC has endeavoured to research water front location sales in the Lee Bay area, however there is a lack of comparables. We have also noticed that the Gross Development Value (GDV) figures for similar sized units presented by JLL are reduced from the 2016 submission, despite the growth in values for water front houses & apartments in North Devon.

PCC have therefore looked at prices achieved in other exclusive seaside locations and are of the opinion that the sales values exceed the figures suggested in the VA submitted by JLL.

The recent research produced marketing evidence in Saunton and Woolacombe as follows.
Byron, Woolacombe - 3 Bed apt - 1661sf - £895k
Byron, Woolacombe - 3 Bed apt -1250sf - £450k
Byron, Woolacombe - 3 Bed apt - 690sf - £385k

Ocean Point –Saunton – 3 bed duplex -1167sf - £740k
Ocean Point –Saunton – 2 bed apt -1060sf - £680k

PCC consider that Lee Bay to be a more exclusive location~~,~~ and consequently have increased some of the GDV in line with this research.

Profit in this instance has been fixed as a percentage of the sales value (GDV). We believe that due to high sales values achieved in this location that the profit levels should be moderated to approx. 15% in order to ensure both the developer, and the community achieve benefit from the proposed scheme. The guidance attached to the recent NPPF suggests that this level of profit is acceptable. This has been confirmed in the JLL appraisal.

Commentary

NDC has requested information relating to the revised layout plans, but despite reminders, this information arrived a day or two before the deadline, which makes any assessment difficult.

PCC has received a number of cost estimates and asked for an independent consultant to advise on these cost reports submitted by the applicant and their advisor Taylor Lewis. (TL).

Therefore Gates Consultants, a respected locally based Quantity Surveyor, has been retained as independent advisor to NDC, and have considered the two recent cost plans.

The 'Compilation' estimate (No 2) issued in mid-February 2019 and the subsequent TL estimate (No 3) issued at end of March 2019 represent an approximate 6-7 week period. These reports have been analysed and the following observations have been noted.

- Unexplained difference in floor areas, of 2,360 (No 2) and 2,189 (No 3).

- Cost plan No 2 heads the lists estimates for 21 & 17 unit schemes, but confusingly refers to 23 & 18 units in the text.

- The TL report increases the estimated costs in this two month period considerably above the BCIS index. The cost plan No 3 appears to be a 're-run' of the previous 23 unit scheme and then edited. However the drawings for the 21 unit scheme issued by Nash Partnership Architect shows a different design from the earlier 23 unit proposal.

- Prelims and OH&P have increased without explanation at levels well above BCIS indices.

- The cost plan No 2 refers to Classic Builders, a good Plymouth based contractor. However PCC understand that this builder withdrew from the project last year.

As mentioned, NDC has asked PCC to consider the viability by removing the middle block of 4 units, thus a revised scheme of constructing only 17 units. PCC ran a further appraisal based on the reduced unit scheme and the results indicate that this reduced number of units will also be viable and return an industry acceptable profit level.

Conclusion

PCC has undertaken a review of the original Alder King financial viability assessment of the Acorn Blue application for a 23 unit scheme last year. PCC has subsequently considered the viability advisor's report of November 2018, and also the subsequent revised 21 unit scheme of February 2019. PCC concur with JLL that both the 23 and 21 unit schemes are viable.

PCC conclude that there is sufficient headroom within scheme to allow for all the requested S.106 contributions of approx. £195,638 for education and £ 103,615 for public open space contributions.

It appears that the cost information supplied by the applicants consultants is confusing and misleading. Therefore PCC will reply on the opinion by Gates, the independent local expert QS, whose conclusion is that assessment "indicate that the rate used in Cost Estimate 3, is very high and includes preliminary costs."

PCC have also commented on the possible reduction to provide 17 units. As mentioned this is based on a further re-run of the appraisal. We have made the assumption that there will be an adjustment of the abnormal costs which are still applicable, and have been incorporated in our appraisal.

PCC has undertaken additional research into the local property sales market, and been informed of sales of properties in the Bay in excess of previous comparable data.

As mentioned, PCC have reviewed prices achieved in other exclusive seaside locations and are of the opinion that the sales values exceed the figures suggested in the VA submitted by JLL and consequently have increased some of the GDV in line with this research.

PCC has reviewed the data supplied by the applicant and their advisors, and believe that some of this information is conflicting and potentially confusing.

In conclusion, based on the observations outlined above reviewed by Gates, PCC has analysed both the 21 unit and the potential 17 unit scheme and conclude that both developments are viable.

We trust the above report is satisfactory for your purposes, but should you require any further information or clarification, please do not hesitate to contact us.

Lionel Shelley
Development Viability Lead
Plymouth City Council
Ballard House

Plymouth
PL1 3BJ