Rebuttal of Matthew Spilsbury's Proof of Evidence

Relating to Planning Appeal ref:

APP/Y9507/W/23/3314274

Application ref SDNP/21/04848/FUL

Prepared by

Fraser Castle MSc MRICS RICS

Registered Valuer

Liss Forest Nursery

Petersfield Road

Greatham

Hampshire

GU33 6HA

0. This rebuttal responds to Matthew Spilsbury's (MS) proof of evidence.

0.1 I have organised this rebuttal by topic as there are several recurring themes in MS's evidence which are best addressed this way. The topics covered are as follows:

1. Local Plan and Affordable Housing Viability Assessment August 2017 (The BNP Report)
2. Purchase Price
3. Impact on Costs & Values on Viability
4. Evidence & Forecasts
5. Benchmark Land Value (BLV)
6. Gross Development Value (GDV)
7. Affordable Housing Values
8. Developer's Profit
9. Marketing, Agency and & Legal Fees
10. Sensitivity Testing & Rejection of Evidence of Comparable Development Land Transactions
11. Appellant's Viability Scenarios
12. Viability Information Before Planning Committee
13. Chronology

0.2 I refer to seven appendices as follows:

Appendix One - Savills Residential Development Land Report Quarter 3 2022

Appendix Two - UK House Pirce Index (East Hampshire) March 2021 to February 2023

Appendix Three - Savills Residential Development Land Report Quarter 1 2023

Appendix Four - Pages 19-21 Fraser Castle's Proof of Evidence for Astley House, Lewes

Appendix Five - Floor Plan for 11 Todmore, Greatham, Hampshire

Appendix Six - Residual Appraisal (18 x Shared Ownership Development)

Appendix Seven - Sensitivity Analysis (18 x Shared Ownership Development)

1. Local Plan and Affordable Housing Viability Assessment August 2017 (The BNP Report) (CD 5.2)

1.1 In my opinion MS over relies on the Local Plan and Affordable Housing Viability Assessment August 2017 (the BNP Report). In particular MS appears to place significant weight to the generic inputs applied to the residual appraisals in the BNP Report in preparing his own residual appraisals for the Proposed Development and the Policy Compliant Development.

1.2 The BNP Report specifically cautioned against such an approach. Paragraph 7.12 of the BNP Report states *'…It is also important to note that many of the inputs to the appraisals are cautious and may consequently understate that residual land values to a degree…'*. The BNP Report and the residual appraisals provide a relevant starting point but have been carried out at a high level using cautious inputs. The BNP Report clearly recognises that the residual land values generated may be understated and should not therefore be relied upon for site-specific viability.

1.3 Further, at paragraph 8.3 the BNP Report goes on to say that *'…Many of the appraisal inputs are at the pessimistic end of the reasonable range and schemes on the ground may consequently generate higher residual land values*'. The application of a developer's profit at 20% of the Market Housing GDV by the residual appraisals used to inform the BNP Report is a good example and reflects a sum at the upper end of the 15% to 20% range indicated by the PPG. A developer's profit at 20% was applied by the BNP Report as this was considered to be a '*rigorous approach which ensures the robustness of the appraisal outputs'* (BNP Report paragraph 5.38). The BNP Report goes to some lengths to demonstrate that at the date of reporting (August 2017) market conditions were unfavourable following the EU Referendum and adopts a developer's profit at the upper end of the established range to ensure the robustness of the appraisal outputs over the plan period. The adoption of a developer's profit at 20% of the Market Housing GDV therefore represents a very pessimistic assumption for plan making purposes. It was reflective in particular of the banks' attitude to risk in lending in those specific circumstances (as explained in paras 5.37-8).

1.4 Furthermore, at paragraph 8.4 the BNP Report confirms that *'…Our assessment indicates that most development typologies providing 11 or more units can viably provide 50% Affordable Housing, with the exception being those at the very bottom of the value range. The unviable scenarios could come forward with alternative tenure mixes or with reduced affordable housing percentages if a proven viability case is submitted reflecting site-specific factors. We would also expect improvements in market values over the plan period to extend the range of viable typologies to these lower value cases'.* It is clear that the expectation is that the majority of developments of the size and type provided by the proposed form of development at the Appeal Property which is located within a Category 3 Settlement and therefore not at the lower value range will be viable with 50% Affordable Housing provision.

1.5 At paragraph 8.8 the BNP Report states that *'…this study represents a high level assessment of viability using development typologies and that there are likely to be specific viability circumstances on individual sites which will require more detailed testing when applications are submitted*'.

1.6 Having regard to the above, I consider that the BNP Report is based upon residual appraisals prepared at a high level; using cautious inputs many of which are at the pessimistic end of the reasonable range; that the residual appraisals may understate the Residual Land Value (RLV) with schemes on the ground expected to generate a higher RLV; and that there will be site specific circumstances that require more detailed testing of the inputs applied.

1.7 MS concludes at paragraph 5.107 *'…that a risk adjusted developer's target return for open market sales units should equate to 20% of GDV. This is consistent with the LPAHVA (the BNP Report) and reflects both the guidance set out in PPG Viability … and the RICS Guidance Note…'*.

1.8 In fact, as indicated above, the BNP Report cautions against the application of the same generic inputs it applied for plan making in site-specific viability testing. It makes it clear that the appraisal inputs applied by the BNP Report were at the pessimistic end of reasonable ranges and that the application of such generic inputs may understate the RLV with schemes on the ground expected to generate a higher RLV.

1.9 At paragraphs 3.4 and 3.5 of his proof of evidence MS refers to significant economic, housing market changes and increasing development costs as justification for the submission of a FVA when there is an up to date Local Plan and evidence base available. Further references to these changes in economic conditions are made thereafter throughout his proof of evidence and are discussed below. It should, however, be appreciated that Typology 13 and 14 for Category 3 Settlements (which provide the most comparable typologies when compared with the proposed form of development at the Appeal Property) are considered to be viable forms of development with policy compliant Affordable Housing provision and that since the date of the BNP Report (August 2017) average house prices have increased by 29% in East Hampshire (UK House Price Index) against an increase in costs of 24.79% (BCIS) over the same period. I discuss the effect of these increases in further detail below but at a headline level it will be appreciated that if increases in sales values surpass increases in costs then the RLV can be expected to increase. Higher RLVs are consistent with the experience of the development land market which has seen significant increases in residential development land values since August 2017.

1.10 One would anticipate higher RLVs to result in improved viability and this is recognised by the BNP Report which at paragraph 8.5 advises that *'…We would also expect improvements in market values over the plan period to extend the range of viable typologies…'*. The expectation therefore being that viability even for lower value locations would improve over the plan period.

2. Purchase Price

2.1 The proof of evidence of MS at Appendix V provides a copy of a Statutory Declaration prepared by the Appellants. The Statutory Declaration states that '… *if planning permission is granted… the Landowners can be compelled to sell the land to the Appellant at a price calculated by reference to the open market value of the Site, but subject to a minimum guaranteed figure ('the Option Minimum Price). I have reviewed the Option Minimum Price against the benchmark land value final figure relied upon by the Appellant, which is £1,195,000. I can confirm that the Option Minimum Price exceeds the benchmark value final figure'.*

2.2 The Statutory Declaration goes on to say that *'It follows, therefore, that on the basis of the current contractual arrangements, there is no credible prospect that the Site would be sold to the Appellant at a figure that is below the benchmark land value final figure'.*

2.3 This partial disclosure in relation to the Option Minimum Price is new information requested on several occasions by Bruton Knowles and SDNPA. The ability to request this information is confirmed by MS at paragraph 5.191, 5.193 and 5.195 which reference the Professional Statement (CD6.12), the PPG (CD6.1) and the Affordable Housing SPD (CD4.4).

2.4 MS confirms at paragraph 5.195 of his proof of evidence that the Affordable Housing SPD at Appendix 3 (Minimum Content for an Applicant's Viability Appraisal) Part 3 requires '*Confirmation of the price paid for the property or the price expected to be paid for the property on the grant of planning permission together with confirmation of the contractual terms relevant to the determination of the purchase price within any contingent sale agreement or option agreement including minimum price and overage provisions*'.

2.5 This information is central to transparency which is a stated objective of the Professional Statement (CD6.12) and accepted by MS at paragraph 5.198 on his proof of evidence and the 2021 Guidance Note (CD6.13) and is relevant to the stand back exercise required by the Professional Statement and the 2021 Guidance Note and, in that respect, sensitivity testing and the analysis of comparable development land transactions. The failure of the Appellant to confirm this information until the submission of proofs of evidence and continuing failure to disclose the Option Minimum Price hampers the ability to provide an evidence based sense check of the results of a residual appraisal.

2.6 For the reasons discussed below had this previously requested and required information been provided with the Appellant's FVA the viability negotiation may not have followed the course it has. I would have applied greater weight to the evidence from the comparable development land transaction (Elizabeth Meadows) discussed in my Review Report and proof of evidence and the sensitivity testing.

2.7 The Appellant's disclosure remains incomplete. The Option Minimum Price has not, in fact, been confirmed. The Appellant has instead confirmed that the Option Minimum Price is for a sum higher than the Appellant's opinion of the BLV of £1,195,000. This is contrary to the requirements of Appendix 3 Section 3 of the Affordable Housing SPD (CD4.4) which requires the minimum price to be confirmed together with the contractual terms relevant to the calculation of the purchase price and any overage provisions.

2.8 I do not understand the logic of linking the purchase price with the BLV. As MS himself indicates at paragraphs 5.200-5.203, the price paid is of limited relevance to the BLV. It is however of potential importance as a proxy for the RLV (subject to appropriate adjustments) which can be used as part of the sense checking of the results of the residual appraisal (which can be very sensitive to inputs). It is this exercise which the Option Minimum Price could help inform and the partial disclosure does not provide the relevant information .

2.9 The Appellant's Statutory Declaration advises that '…*The terms of that option agreement are commercially sensitive and confidential, and I am not at liberty to disclose the contents of the agreement, except for the points I make within this statutory declaration'*. However, the Appellants in this case are both the Developer and the Landowners. It is unclear why the terms of the option agreement are considered commercially sensitive and to whom. On the face of it , it would seem that the relevant confidentiality is between the Appellants themselves. If this is right, then it would be open to them to waive such confidentiality and comply with the expectations of transparency to inform the evidence base for sense checking the results of the residual appraisal.

2.10 The Statutory Declaration does not therefore, in my opinion, and contrary to the views expressed by MS at paragraph 5.198 *'…represent appropriate information on this matter, suitably aids transparency in accordance with the RICS Professional Statement (CD6.12), PPG Viability (CD6.1) and RICS GN (CD6.13) and addresses the expectations of SDNPA's AHSPD (CD4.4)'*. It does not provide the information expected or put forward a good reason for the lack of disclosure. Moreover, the partial information has come very late in the process which causes prejudice.

2.11 Without detracting from the comments above, I will set out briefly how this new information is material to the sense checking of the results of the residual appraisal. Notwithstanding the comments raised above in relation to the shortcomings of the new evidence provided by the Appellant in relation to the Option Minimum Price it is nevertheless possible to extrapolate that the minimum purchase price of at least £1,195,000 relates to minimum assessment of the RLV reflecting all risk in 2017. The reasons for this are discussed further below.

2.12 In my experience, the price payable under an option agreement would typically be equal to 80% to 85% of the Market Value of the property with the benefit of planning permission for the approved form of development at the valuation date (say one day after expiry of the Judicial review period). This emphasises the need for the terms of the option agreement and calculation of the purchase price to be confirmed.

2.13 This discount of 15% to 20% to the Market Value reflects the developer's (Appellant's) risk of entering into the option agreement, committing time and resources and potential abortive costs in the event that planning permission cannot be secured. The Option Minimum Price of at least £1,195,000 might reasonably be expected to translate into a Market Value with planning permission of not less than £1,405,000 to £1,495,000. i.e. without the 15% to 20% discount.

2.14 The obvious conclusion therefore is that the Appellant must have considered the property to be viable with policy compliant Affordable Housing provision in June 2017. Residential development land values have improved since June 2017 and this is a piece of evidence that supports the proposition that the Policy Compliant Development remains viable.

2.15 A value at £1,405,000 to £1,495,000 for the Policy Compliant Development provides greater alignment with the purchase price paid for Elizabeth Meadows as referred to at Section 9.2 of my proof of evidence which was acquired following the grant of planning permission on 30th November 2018.

2.16 It is also consistent with the outcome of my sensitivity analysis as referred to at Section 10 of my proof of evidence which demonstrates that with only minor changes to the inputs to my residual appraisals within typical valuation error and/or standard ranges the Policy Compliant Development would be viable.

3. Impact on Costs & Values on Viability

3.1 At paragraph 4.8 of his proof of evidence MS advises that the viability of the proposed form of development at the Appeal Property deteriorated between September 2021 and May 2022 (being the date of the Appellant's FVA (CD1.17) and Appellant's response (CD1.86) to the Bruton Knowles Review. This deterioration in viability was considered by MS to be a result of *'…market uncertainty and escalating build costs (over and above house price growth)'*.

3.2 This opinion of MS is not, however, supported by reference to BCIS data and the UK House Price Index.

3.3 In this period (September 2021 to May 2022), average house prices increased by 6.17% in East Hampshire (UK House Price Index) whilst build costs increased by 9.25% in East Hampshire (BCIS).

3.4 At face value, this suggests that build costs rose more than residential values, however, at May 2022 the date of the Appellant's response to the Bruton Knowles Review development costs (inclusive of contingency and site specific infrastructure costs and abnormal development costs) represented 63.91% of the Gross Development Value (GDV). It can therefore be seen that the relative increase in build costs as a percentage of GDV would have been 5.91%.

3.5 The GDV would therefore have increased by a higher sum than the development costs (6.17% v 5.91%). This can be expected to have a positive effect or neutral on the Residual Land Value.

3.6 It can therefore be seen that residential development land values can increase even in times of high build cost inflation. This appears to have been the case with Savills Residential Development Land research report for Quarter 3 2022 (copy provided as Appendix One) confirming a rise in urban residential development land values over this period of 0.6%.

4. Evidence & Forecasts

4.1 MS in his proof of evidence at paragraphs 5.3 to 5.22 seeks to provide commentary on the macro economic environment and the effect on the residential market. MS cites several research documents and national, regional and local House Price Indices. This commentary is provided in the context of seeking to determine the Gross Development Value (GDV) of the Proposed Development and Policy Compliant Development.

4.2 MS then concludes at paragraph 5.23 that '*It is my opinion that comparable transactional evidence should be treated with a degree of caution in the current market, as it is essentially backward looking – and reflective of 'peak' market conditions, which the cycle is now moving beyond. Current macro-economic headwinds (eg cost of living pressures driven by inflation and rising interest rates) are negatively impacting on purchaser affordability and dampening demand in the housing market. This is already starting to result in price growth reversing in Q4 2022, with South East property prices not forecast to recover for several years*'.

4.3 I disagree with this approach. I consider that transactional evidence should be given the greatest weight and provides the most reliable indicator of current values.

4.4 Forecasting the future with reliability is always difficult and there will always be scope for debate about conflicting indications in a range of indices.

4.5 MS appears to be heavily influenced by national research reports and indices (Nationwide House Price Index and Halifax House price Index, the RICS UK Residential Market Survey, Knight Frank UK Housing Market Forecast Update March 2023, Savills UK Regional Mainstream Forecast 2023-27 and CBRE Real Estate Market Outlook 2023).

4.6 I am cautious as to the relevance of the forward projections of these indices and documents (some of which now appear dated and reflect a more pessimistic opinion of macro-economic conditions than appears to be supported by more recent publications).

4.7 At paragraph 5.20 MS advises that CBRE's Residential Research Team forecasts a modest recession in 2023. This, however, is contradicted by more recent commentary from the Office of Business Responsibility which provides independent advice to the government and advises that the although the UK economy is expected to shrink by 0.2% in 2023 it does not anticipate a recession. It then thinks the economy will grow by 1.8% in 2024, 2.5% in 2025 and 2.1% in 2026.

4.8 Moreover, the reliance upon national research and indices, does not accurately reflect the specific market forces within the South Downs National Park and in this respect I consider the evidence from the UK House Price Index rebased to East Hampshire to be most relevant. It relates to the specific location and is therefore a better and more reliable indicator of the market in this location.

4.9 UK HPI Data was available up to February 2023 at the date of MS proof of evidence and it is unclear why he has not used data to February 2023 but has limited use of the index to January 2023. A copy of the UK House Price Index rebased to East Hampshire reflecting all property types in line with Table 5.2 of MS proof of evidence is provided as Appendix Two. The table shows that in the period to February 2023 (and in line with MS comments at paragraph 5.6 of his proof of evidence) residential values in East Hampshire have continued to grow since March 2021 and although showing a fall in November and December 2022 following the September 2022 Mini-Budget they have since shown positive growth in January and February 2023. Values in East Hampshire are now higher than ever and higher than in September 2022 prior to the Mini-Budget.

4.10 Of the various indices discussed, in my opinion, the UK House Price Index for East Hampshire should be given the greatest weight. It naturally addresses issues relating to the national, regional and sub-regional variation in the market and demonstrates that the market in this location has, in fact, returned to growth.

4.11 This accords with the recent experience of the Opie Gardens development in Liss (referred to by both of us in our proofs of evidence). This development lies a short distance from the Appeal Property and was marketed off-plan with the development scheduled for completion in May 2023 and all of the units were placed under offer at the asking prices with no discounts applied in the period between November 2022 and January 2023 when the market was at its most pessimistic.

4.12 It is also noted that asking prices and sale prices continue to increase at Maple Walk in Liphook and this further demonstrates the strength of the local market within the South Downs National Park. In my view, local market conditions are more material than national and regional research and indices.

4.13 In my opinion, the views expressed by MS at paragraph 5.23 of his proof of evidence do not accurately reflect the local market. Furthermore, there is no indication of the local market having peaked with prices in February 2023 (as demonstrated by the UK House Price Index for East Hampshire) reflecting a new high. Any negative sentiment by MS relating to the local residential market therefore appears misplaced and, in any event, should have no bearing on the assessment of the GDV.

4.14 Residual appraisals are to be based upon current costs and current values and not projections into the future. Within residual appraisals, market sentiment/risk is a factor to be addressed by the developer's profit.

4.15 To this end I am of the view that the market generally, and certainly locally as demonstrated by the sales at Opie Gardens and the UK House Price Index, is far more positive than suggested by MS. The Office of Business Responsibility considers that the UK will now avoid a recession; mortgage rates are coming down despite interest rate rises with more products also becoming available; and general market expectations are more positive now than at the turn of the year with market participants now making more positive projections.

4.16 At paragraph 7.53 MS refers to the Savills' Market in Minutes : Residential Development Land research paper for Quarter 4 2022. A copy of this research paper updated to Quarter 1 2023 is provided as Appendix Three. It can be seen that at Quarter 1 Savills paint a more positive picture than in Quarter 4 2022. *'…A net balance of 23% of Savills development agents reported positive market sentiments, up form -3% in December 2022. The Savills sentiment survey also reveals a slight improvement in the net balance of agents reporting new sites coming to the market and the number of bids per site. There has also been a modest uptick in activity in the new build sales market since the start of the year, with average sales rates at 0.6 per outlet per week in February as reported by the major housebuilders, up from an average of 0.3% in December 2022. This follows an easing in the cost and availability of mortgages coupled with a scarce supply of homes for sale in the second hand market'*.

4.17 On page two of the Savills research paper I note with interest that '*oven ready consented sites between 50 and 150 units in primary locations with no significant upfront infrastructure costs are attracting the greatest interest from parties and remaining resilient in some locations*' and that '*Land buying is more competitive in locations that are heavily constrained by lack of supply*'.

4.18 There are by definition limited development opportunities within South Downs National Park and it can therefore be considered a location constrained by supply. Equally, as a development of 37 x residential units in Greatham the proposed form of development at the Appeal Property provides a close match to those sites that are attracting the greatest interest (50 -150 units with planning permission, occupying a primary location and with no significant upfront infrastructure costs).

5. Benchmark Land Value (BLV)

5.1 At paragraph 5.115 MS advises that he has undertaken his own assessment of the BLV of the Appeal Property following the reporting requirements of the RICS Professional Statement (CD6.12) and has adopted the EUV plus a premium method in accordance with the PPG (CD6.1) and the 2021 Guidance Note (CD6.13).

5.2 This does not, however, appear to be the case. MS appears to rely upon the opinion of the EUV provided by BCM and dated 31st March 2023 without further analysis in adopting an EUV of £995,000. This is despite BCM arriving at their opinion of the EUV using an irregular method of valuation (Depreciated Replacement Cost (DRC)) and without BCM providing a copy of the DRC valuation or comment on the nature of the Modern Equivalent Asset (MEA) assumed; the costs applied; or the allowance made for depreciation to reflect physical, functional and economic obsolescence. Similarly, the BCM Valuation does not provide any advice or confirm the weight applied to the DRC valuation.

5.3 As discussed in my proof of evidence the use of the DRC method of valuation is unusual in these circumstances and is normally applied in situations where there is no directly comparable transactional evidence of the same property type. Its use is generally reserved for financial reporting and it does not actually provide a valuation of the property but of a hypothetical substitute - the MEA with depreciation applied.

5.4 MS at paragraph 5.111 recognises that the PPG (CD6.1) advises that determination of the premium to the landowner should reflect the implications of abnormal costs, site specific-infrastructure costs and professional site fees. However, in arriving at his opinion of the BLV (as stated in the Statement of Common Ground) MS confirms that a premium based upon '*hope value for development*' at 20% in line with the BCM valuation has been applied in arriving at a BLV of £1,195,000. Local Plan Policy SD28 advises that '*The Authority will not accept a land cost assumption that factors in 'hope value'.* The Appellant's assessment of the BLV does not therefore comply with the requirements of Policy SD28.

5.5 However, in his proof of evidence MS appears to apply a different rationale for the adoption of a premium equal to 20% of the EUV. It is, nevertheless, clear that this rationale does not follow the approach required by the PPG and makes no attempt to reflect the implications of abnormal costs, site specific-infrastructure costs and professional site fees. The only reference MS makes to the implications of abnormal costs, site specific-infrastructure costs and professional site fees is made at paragraphs 5.160 to 5.162 and are limited to comments previously made by me.

5.6 MS in his proof of evidence makes extensive reference to premiums of 20% that have been universally applied in plan making (BNP Report (CD5.2), a report by Litchfields dated August 2021 that is based upon a study of 93 Local Plan and CIL Viability Assessments and related Inspector's decisions and the GLA AHSPG). However, in each case I note from the comments made by MS that a specific premium of 20% is not supported.

5.7 The BNP Report (CD5.2) (which MS refers to at paragraph 5.135) at paragraph 5.43 adopts a BLV for commercial sites based upon a residual appraisal for an assumed development of industrial/storage space on one hectare of land with 40% site coverage and then applies a 20% premium. It should be noted that the BNP Report (CD5.2) pre-dates the PPG (CD6.1), the RICS Professional Statement (CD6.12) and the 2021 Guidance Note (CD6.13). On the current approach, it would be an error to apply any premium when seeking to determine the BLV by reference to an Alternative Use Value (AUV).

5.8 I disagree with MS's suggestion that the generic approach adopted by the BNP Report (CD5.2) in seeking to determine a baseline BLV for plan making purposes could be considered to provide an acceptable method for determining the BLV in site specific viability. To do so is not the application of the specific requirements set out in the PPG (CD6.1) at paragraphs 013 and 014. This, however, appears to be the view of MS when at paragraph 5.36 he notes that the BNP Report (CD5.2) '*endorses a 20% premium in excess of the EUV to the landowner as a BLV for previously developed sites*'.

5.9 Similarly, it is noted at paragraph 5.141 that the Litchfield report found that '*…Of the 26 studies where we were able to discern the brownfield premium we found that 69% of these (18/26) assessed a reasonable premium as being EUV+ 20%. We found that the maximum percentage uplift over EUV ranged between 10% and 45%, but the most common uplift was 20%*'.

5.10 This again is in the context of plan making and does not relate to site specific viability; the range of uplifts was between 10% and 45%; and 20% was applied by only 69% of Local Authorities.

5.11 I consider that paragraph 1.3 of the BNP Report is relevant in this context. This paragraph states that '*…This sets the South Downs National Park apart from other local authorities, who by contrast are generally expecting to meet the development needs of their area. This places the onus on those proposing development to conform to the National Pak's purposes and duty, including the delivery of a high proportion of affordable housing rather than the emphasis* *being on delivery for its own sake. This is an important consideration for viability of development, as the Authority does not rely on sites coming forward to deliver housing targets; consequently the expectation that development for commercial gain will be supported is low, and this will in future act as a restraint on land value expectations, compared with the situation that existed before National Park designation. This in turn helps to ensure that where sites do come forward, high land values do not act as a constraint on the ability of sites to deliver affordable housing'*.

5.12 Equally, at paragraph 2.28 of the Affordable Housing SPD (CD4.4) SDNPA sets out a guideline landowner premium for sites with non-agricultural use of 10% of EUV. The Affordable Housing SPD makes reference here (footnote 10) to the commonly used range for previously developed land at 10% to 30% of EUV and cites paragraph 3.46 of the GLA AHSPG.

5.13 At paragraphs 5.145 to 5.149 of his proof of evidence MS advises (paragraph 5.146) that in paragraph 18, p.8 of the GLA AHSPG '*The premium above Existing Use Value will be based on site specific justification reflecting the circumstances that apply'*.

5.14 At paragraph 5.147 MS advises that paragraph 3.46 bullet 2 of the GLA AHSPG states that '*Premiums above EUV should be justified, reflecting the circumstances of the site. For a site which does not meet the requirements of the landowner or creates ongoing liabilities/costs, a lower or no premium would be expected compared with a site occupied by a profit-making business that requires relocation. The premium could be 10% to 30% but this must reflect site specific circumstances and will vary'*.

5.15 This is logical and aligns well with my own expectations in relation to the assessment of the premium to be applied in site -specific viability. i.e. it is site specific, requires justification, must reflect site specific circumstances and will vary, with a nil premium being applicable in some circumstances and a 10% to 30% premium applying in the majority of cases. MS similarly appears to accept the logic of the GLA AHSPG (paragraph 5.150).

5.16 I do not see that the guideline landowner premium of 10% indicated by SDNPA contradicts any of the above. It is intended as a guideline but in the context of the special circumstances of the South Downs National Park and does not, in my opinion, preclude site-specific justification for the determination of the relevant premium.

5.17 However, the only justification that MS appears to provide for the application of a premium of 20% is that the landowner could opt not to dispose of the of the site for development (paragraph 5.153) and could explore opportunities to increase the profitability of the commercial enterprise (paragraph 5.154). MS gives the example of removing the current restriction to the sale of wholesale goods from the premises. However, in the first scenario this would not result in any incentive to the Landowner and does not advance the debate. In the second scenario this is speculation on the part of MS that the restriction could successfully be removed. One is also left wondering why such an opportunity would not have been explored earlier by the Landowner were it to represent an attractive option for the business.

5.18 It is noted that at paragraphs 5.125 – 5.129 MS supports my opinion that the Appeal Property has no potential to support an alternative use other than residential. This does, however, set up a further contradiction with the Statement of Common Ground and the Appellant's advice that the premium of 20% is based upon '*hope value for development'* at 20% in line with the BCM valuation.

5.19 I have considered the potential for an alternative or higher value use in my proof of evidence at paragraph 7.5.6 and dismissed this in arriving at my opinion of the premium to apply.

5.20 In arriving at my opinion of the premium to apply I have had regard to the standard range for premiums which appears to be accepted at 10% to 30%; the implications of site specific infrastructure costs, abnormal development costs and professional fees; the minimum sum required to incentivise the landowner to dispose of their land for development; and the other options available (none) to the landowner. The implications of site specific infrastructure costs, abnormal development costs and professional fees and the minimum sum required to incentivise the landowner are in my opinion, and on this occasion, the most significant factors with the former indicating that a nil premium could apply but the latter indicating that the adoption of a 10% premium is reasonable.

5.21 MS has no regard to the implications of site specific infrastructure costs, abnormal development costs and professional fees and instead over relies on the application of a generic 20% premium which is unjustified and based on premiums applied in plan making and not site specific viability.

5.22 It is noted that at paragraphs 5.169 – 5.175 MS makes reference to planning appeal decision (APP/Y9507/W/21/3269823 & APP/Y9507/W/22/3295783) relating to Astley House in Lewes. MS states that Mr Castle and the Appellant agreed a 10% premium above the EUV in determining the BLV. This, however, is incorrect. In this case, I based my opinion of the BLV on AUV. No premium applies in the case of AUV and my approach was accepted by the Appellant. A copy of pages 19 to 21 of my proof of evidence for this appeal are provided as Appendix Four.

5.23 On the basis of the above, it is clear that MS has misunderstood the approach that I took to the assessment of the BLV at Astley House in Lewes. Accordingly, the analysis of MS and conclusions reached (paragraphs 5.170 to 5.174) are in error and unsupported by this previous appeal decision.

6. Gross Development Value (GDV)

<u>Maple Walk, Longmoor Road, Liphook</u>

6.1 MS states at paragraph 5.27 that '*As can be seen within Table 5.8, Redrow's asking prices are plateauing/falling across all the unit types. Where there are relevant plots within the proposed development, I have cross-referenced these for benchmarking purposes, taking into* *consideration that the prices listed are asking, with some downward flexibility expected given the current market condition*'.

6.2 I fundamentally disagree with this statement for the reasons set out below:

6.3 First, there is no evidence of plateauing/falling values. There are only two house types that apply in both Table 5.7 and Table 5.8. These being the Warwick and the Harrogate. It can be seen that in both cases the asking prices (Table 5.8) are higher than the previously achieved sale prices (Table 5.7).

6.4 Plot 122 (the Warwick) achieved a sale in April 2022 at £499,950. This compares with Plot 96 also of the Warwick house type which the MS advises has an asking price of £524,950. I am advised by the marketing agent that this unit was reserved at the asking price of £524,950 in the week commencing 24th April 2023.

6.5 Plot 109 (the Harrogate) achieved a sale in February 2023 at £679,950. This compares with Plot 101 also of the Harrogate house type which has a current asking price of £699,950 (as at 4th May 2023) which is lower than both MS and I were previously advised at £709,950.

6.6 I was advised by the marketing agent on 1st March 2023 that Plot 59 (the Letchwoth) exchanged on 17th February 2023 at £479,950, Plot 58 (the Letchworth) exchanged on 3rd October 2022 at £479,950 and that current asking prices were £499,950. MS, however, advises at Table 5.8 that asking prices for the Letchworth are currently £469,950. I have visited the website for this development and understand there are no Letchworth units currently available. Prices appear to have remined static between October 2022 and February 2023.

6.7 The above demonstrates that, in line with the UK House Price Index (East Hampshire), and as discussed above at Section 4, Redrow consider that house prices are stable or increasing in this location.

6.8 Second, MS appears to consider that some downward flexibility is expected given current market conditions. As discussed above at Section 4, I consider the opinion of MS in relation to the local market to be pessimistic and unrepresentative. The UK House Price Index (East Hampshire) demonstrates that the market has returned to growth in January and February 2023. Furthermore, recent sales have been achieved at the asking prices and the on-site agent advised me that no discounts are being given. The most recent reservation being Plot 96 (the Warwick) at the asking price referenced by MS of £524,950.

Oak Park, Liphook

6.9 At paragraph 5.9 MS provides a table that is intended to demonstrate that the application of the UK House Price Index (East Hampshire) overestimates values. MS compares the sale price from 'new' of four units with the sale prices subsequently achieved by these units on resale to the prices indicated by the index. The initial sale prices and the dates of those sales are not provided and I am not therefore able to confirm the figures referenced by MS.

6.10 On the basis of this exercise conducted by MS it is clear that house prices have increased in this location over the relevant period.

6.11 However, I do not accept this as a valid test of the UK House Price Index (East Hampshire). This is because MS is not making a true comparison. MS is comparing the sale of a 'new' house with the sale of a now 'second-hand' house. New build houses attract a premium. One would therefore anticipate a lower sale price in relative terms to apply as this new build premium is eroded over time. A relevant analogy might the acquisition of a new car - once you drive it off the forecourt it is no longer 'new' and a discount applies. In my opinion, it is this discount that is being reflected in MS's figures rather than an error in the UK House Price Index (East Hampshire).

6.12 I note that three of the properties referenced (3 Forresters Drive, 28 and 20 Brickwork Avenue) are three storey houses which typically attract significantly lower values than two storey houses of the equivalent size.

6.13 16 Lowesely Farm Drive, however, comprises a link-detached three bed house with accommodation extending to 926 sq ft that occupies a relatively small plot 0.05 acre and lies close to the entrance of this development on a busy corner. At £470,000 the purchase price in January 2022 analyses at £508 per sq ft.

6.14 The market has improved since the date of sale and although provided by MS for an alternative purpose it is considered that this property is supportive of significantly higher values in £ per sq ft for the three bed houses at the proposed development at the Appeal Property than either MS or I have adopted.

<u>Andlers Wood, Andlers Ash Road, Liss</u>

6.15 At paragraph 5.36 MS makes a number of comments through bullet points. I generally agree with the points made. However, in relation to CALA whilst I agree that this developer has a strong brand I do not agree that they provide developments to a higher specification and consider that other developers would disagree.

6.16 I also do not agree that Liss is a more desirable location than Greatham and have demonstrated this in my proof of evidence. Liss is in fact considered to be an inferior location in terms of residential values when compared to Greatham.

6.17 In arriving at this opinion, MS appears to rely on the view expressed by Homes estate agents which focus on the proximity to Liss Station and the facilities offered by the village.

6.18 These are, however, only some of the factors that influence the value on a particular location when compared to another and it should be recognised that Liss Station is served by the stopping service for trains travelling north and south requiring a change at Haslemere or Petersfield to pick up the fast train. Many people in the area drive to Haslemere or Petersfield to catch a train to London.

6.19 Liss is surrounded by villages (Rogate, Milland, Greatham, Steep, Sheet, Selborne) all of which command significantly higher residential values than Liss and none of which have a station or the same level of facilities.

6.20 Indeed, one of the negative aspects of Liss is the proximity of the station to the village centre and the level crossing which is notorious in the area for causing significant delay getting in and out of the village.

6.21 I disagree with MS's comments at paragraph 5.37 that the units within Andler's Wood would command a premium when compared to the units at the proposed development at the Appeal Property. This opinion is not supported by evidence and in my proof of evidence I have demonstrated that the units at Andlers Wood do not even achieve a premium over neighbouring second hand but modern developments (Upper Mount and Nursery Fields).

<u>Other Evidence</u>

6.22 ***<u>Table 5.14 - Meadow Way, Liphook GU30 7BH</u>***

This property comprises a ground floor apartment constructed in 2019 that has accommodation extending to 524 sq ft. MS advises that it is currently under offer at £225,000 (£429 per sq ft). Meadow Way forms part of a 1970s era estate that lies on the north eastern side of the village close to Radford Park and the recreation ground. MS considers this to be a superior location to the Appeal Property (Table 5.14) and that a premium value would apply to this unit when compared to the two bed apartments at the proposed development.

6.23 I disagree with this opinion. Meadow Way is in fact one of the less valuable locations within Liphook where values fall significantly below the average for the village. The higher values areas tend to lie on the western side of the village and close to the centre. Furthermore, as demonstrated in my proof of evidence Liphook is an inferior location in terms of residential values than Greatham.

6.24 On the basis of the above, I am of the opinion that MS significantly under estimates the value of the two bed apartments at the proposed development in applying values of £411 per sq ft and £378 per sq ft.

6.24 I have applied values equal to £457 per sq ft and £433 per sq ft which are more in line with the evidence from Meadow Way and, if anything, higher values would be expected to apply reflecting the significantly superior location of the Appeal Property.

6.25 ***<u>Table 5.15 - 11 Todmore, Greatham</u>***

Table 5.15 of MS's proof of evidence makes reference to 11 Todmore and describes this as a four bedroom detached house with an integral garage and accommodation extending to 1,313 sq ft Net Sales Area. This property occupies a busy location at the centre of the Todmore development and occupies an awkward shaped plot extending to 0.08 acre.

6.26 I note from the floor plans provided by the marketing agent (copy as Appendix Five) that the internal accommodation appears to have been extended to create a utility room. This at the expense of the integral garage which now measures at 3.21 m x 2.53 metres and is therefore no longer large enough to accommodate a car. Whilst I accept that many garages are now used for alternative purposes (storage, gym, workshop) and not for keeping cars the value of this property will be discounted to reflect the smaller available space when compared to a property with a full size garage.

7 The Lockleys, Greatham

6.27 At Table 5.15 MS also refers to 7 The Lockleys. This appears to be the same property that I refer to in my proof of evidence as 3 The Lockleys (on advice by the marketing agent). MS advises that the marketing agent did not confirm the sale price agreed but in my conversation with the marketing agent a purchase price at the asking price of £600,000 was confirmed.

6.28 At paragraph 5.55 MS advises that he has undertaken analysis of the wider market and economic context, which has a material bearing on open market GDV and constitutes appropriate evidence. I disagree with this statement for two reasons. First, as set out above at Section 4 it appears that MS's opinion of the market is based upon national and regional market commentary which relates to a more pessimistic period in the market and does not accurately reflect the strength of the local market demonstrated by the UK House Price Index (East Hampshire) and evidence from recent residential sales at Opie Gardens and Maple Walk.

6.29 Second, the commentary on the wider economic market, in my opinion would fall within the lowest category of evidence (Category C) as defined by the RICS GN - Comparable Evidence (CD6.14), and should therefore be given little if any weight given that there is evidence from direct comparable that would fall within the highest category of evidence (Category A).

6.30 Third, residual appraisals are to be based upon current costs and current values. Forecasting of costs and values is therefore inappropriate within residual appraisals.

6.31 MS goes on to say that he has engaged with local estate agents to obtain their opinion of the pricing for the units at the proposed development. MS appears to place great weight on the opinions provided by the agents and appears to adopt the values provided by Homes Estate Agents.

6.32 These values are not incomparable to those that I have adopted based upon the market evidence available and agent opinion provided by Kelway Law.

6.33 It is the values applied to the two bed houses and three bed houses where there appears to be the greatest variance between the values he and I adopt.

6.34 In relation to the three bed houses I am of the opinion that the recent reservation (week commencing 24th April 2023) of a Warwick house type at Maple Walk at the asking price of £524,950 (£486 per sq ft) provides very good evidence for a similar size three bed house (1,081 sq ft) to those at the proposed development at the Appeal Property. Maple Walk is confirmed by MS to be the most comparable development and at £486 per sq ft this is significantly higher than the values applied by MS to the three bed houses at the proposed development which range between £422 per sq ft to £458 per sq ft.

6.35 I note that MS does not provide any evidence relating to the sale of two bed houses and relies exclusively on agent opinion in this regard in adopting values between £445 per sq ft to £456 per sq ft. These values do not compare well with those achieved by second hand stock (4 Teacher's Terrace in Liss and 10 Allee Drive in Liphook) which I refer to in my proof of evidence and which sold at £436 per sq ft in January 2023 and £472 per sq ft in February 2023 respectively. Nor do they compare well with the evidence from the sale of 1 Terracotta Road in Liphook (Oak Park which is considered to be an inferior development in an inferior location) in February 2021 which with indexation indicates a value in the order of £469 per sq ft.

6.36 Furthermore, one would typically anticipate higher values to apply to two bed houses when compared to three bed houses within the same development. The values adopted by MS do not, in my opinion, sit well with actual prices achieved or by extrapolation from the values adopted for the three bed houses.

7. Affordable Housing Values

7.1 The unit values I have adopted for the Affordable Housing units at the Policy Compliant Development and the Proposed Development have been confirmed in my proof of evidence.

8. Developer's Profit

8.1 MS discusses the developer's profit at paragraphs 5.85 to 5.107 of his proof of evidence.

I draw out three points in response:

8.2 First, MS relies on the generic developer's profits applied for the purpose of plan making and, in particular, reference to the standard range indicated by the PPG for plan making of 15% to 20% and the profit of 20% applied by the BNP Report in 2017. I note, however, that paragraph 5.38 of the BNP Report advises that *'…the outcome of the referendum on the UK's membership of the European Union has resulted in a degree of uncertainty about the future trajectory of house prices. We have therefore adopted a profit margin of 20% of GDV for testing purposes , although individual schemes may require lower or higher profits, depending on site specific circumstances. This is considered to be a rigorous approach which ensures the robustness of the appraisal outputs'*.

8.3 The adoption of a developer's profit of 20% by BNP was therefore made in the context of market uncertainty following the UK's vote to leave the EU (and specifically the banks' attitude to risk at this time – see paras 5.57-5.38); and was based upon a rigorous approach to ensure the robustness of the residual appraisals over the plan period. The BNP Report advises that *'…Many of the appraisal inputs are at the pessimistic end of the reasonable range and schemes on the ground may consequently generate higher residual land values*' (BNP Report paragraph 8.3) and anticipates that individual schemes may require higher or lower profits depending on site specific circumstances. The application of a developer's profit at 20% of the Market Housing GDV by the residual appraisals used to inform the BNP Report is a good example and reflects a sum at the upper end of the 15% to 20% range indicated by the PPG;

8.4 Second, MS relies on market commentaries demonstrating, he says, pessimism. He relies upon market commentary relating to a more pessimistic period in the market (Quarter 4 2022) following the mini-budget in September 2022. MS at paragraphs 5.97 and 5.98 makes reference to the January 2023 Savills' Market in Minutes: Residential Development Land – Q4 2022. However, this research paper has now been updated to Quarter 1 2023 and a copy is provided as Appendix Three. Savills paint a more positive picture in Quarter 1 2023 than in Quarter 4 2022. *'…A net balance of 23% of Savills development agents reported positive market sentiments, up from -3% in December 2022. The Savills sentiment survey also reveals a slight improvement in the net balance of agents reporting new sites coming to the market and the number of bids per site. There has also been a modest uptick in activity in the new build sales market since the start of the year, with average sales rates at 0.6 per outlet per week in February as reported by the major housebuilders, up from an average of 0.3% in December 2022. This follows an easing in the cost and availability of mortgages coupled with a scarce supply of homes for sale in the second hand market'*.

On page two Savills advise that '*oven ready consented sites between 50 and 150 units in primary locations with no significant upfront infrastructure costs are attracting the greatest interest from parties and remaining resilient in some locations'* and that *'Land buying is more competitive in locations that are heavily constrained by lack of supply'*.

8.5 There are by definition limited development opportunities within South Downs National Park and it can therefore be considered a location constrained by supply. Equally, as a development of 37 x residential units in Greatham the proposed form of development at the Appeal Property provides a close match to those sites that are attracting the greatest interest (50 -150 units with planning permission, occupying a primary location and with no significant upfront infrastructure costs).

8.6 Third, MS asserts that there have been changing market conditions since the date of the Inspector’s decision at Astley House in Lewes under appeal reference (APP/Y9507/W/21/3269823 & APP/Y9507/W/22/3295783). I have relied upon this decision in applying a developer’s profit of 18.5% to the Market Housing GDV. However, as discussed above, if anything market conditions have improved since the date of the Inspector’s decision in this case. This is evidenced anecdotally by the latest (Quarter 1 2023) version of the research paper prepared by Savills and relied upon by the Applicant and, empirically, by the UK House Price Index (East Hampshire) which better reflects the specific location of the Appeal Property and the local market within the South Downs National Park and demonstrates that whilst residential values fell in November 2022 and December 2022 they have since returned to growth in January 2023 and February 2023 and reached a new peak.

8.7 The relative strength of the local market, as discussed above, is also demonstrated by the recent experience of the Opie Gardens development in Liss and Maple Walk in Liphook. Opie Gardens was marketed off-plan with the development scheduled for completion in May 2023 and all of the units were placed under offer at the asking prices with no discounts applied in the period between November 2022 and January 2023 when the market was at its most pessimistic. Similarly, asking prices and sale prices continue to increase at Maple Walk in Liphook which appears to be the Applicant’s preferred comparable.

9. Marketing, Agency and & Legal Fees

Marketing and Agency Fees

9.1 MS advises at paragraphs 5.70 and 5.71 of his proof of evidence that he has contacted three estate agents and requested agency quotes on the basis that there will be a show home on site. MS goes on to say that due to the nature and scale of the proposed development the agents concurred that a show home on-site would be expected as a prerequisite.

9.2 MS confirms agency fees of 1.75% to 2% if a show house is provided and 1.25% to 1.5% if no show house was provided. MS then lists a series of additional costs including provision of a show home which he then assumes will be equal to 1% of the GDV when adopting an aggregate cost for agency and marketing costs of 3%. MS then quotes the BNP Report which provides for a combined cost for agency and marketing of 3%.

9.3 In my opinion, the above appears to be an over simplification by MS and it is not clear on what basis he has asked the agents to comment. That is to say, has he requested advice assuming all 37 of the units will be available for sale as Market Housing units; or 29 units in line with the Proposed Development; or 19 units in line with the Policy Compliant Development.

9.4 I have sought to verify the views expressed by the agents referred to by MS by seeking the views of another local agent (Kelway Law).

9.5 Kelway Law advise that ‘*With the potential of 50% of the development being provided as Affordable Housing and those numbers in mind I don't believe that a marketing suite would be needed, my proposal would be to market off plan with all of the relevant CGI's I would look at* *matterport tours for the properties alongside brick samples, kitchen, carpets, etc in branch. If you were to be moving beyond 25 units I would look at initial off plan sales with the potential for a show house as the build progresses'*.

9.6 The extent of Affordable Housing provision and the rate of off-plan sales will therefore determine whether a show home is required. Kelway Law anticipate that approximately 10 of the houses at the development could/would achieve sales off-plan which is in line with the experience of Opie Gardens which sold off-plan in more pessimistic market conditions in November 2022 to January 2023.

9.7 Assuming the provision of 8 x Affordable Housing units (in line with the Proposed Development) that would leave 29 x Market Housing units. This is above the '*beyond 25 units*' threshold indicated by Kelway Law where a show house may be required but dependent upon the extent of initial off-plan sales with the decision to provide a show house made as the build and off-plan sales progress.

9.8 In the event that Affordable Housing in line with the minimum indicated by my residual appraisals (13 x Affordable Housing units) was to apply this would provide for 24 x Market Housing units which lies just below the 25 unit threshold indicated by Kelway Law where a show home may be required.

9.9 On the basis of the above and supported by the experience of strong off-plan sales at Opie Gardens in more pessimistic market conditions, I am of the opinion that an on-site marketing suite and show home would not be required. I therefore consider that the application of agency and marketing costs at 2% is appropriate. The 2021 RICS Guidance Note (CD6.13) at paragraph 3.10.2 states that '*The assessor should consider whether their advice represents the most effective and efficient way to deliver the optimum development proportionate to the scheme being tested. This is sometimes referred to as 'value engineering'. The assessor will need to give the LPA and their advisors confidence that the FVA reflects the way the development would be carried out. If this is not the case it should be stated and explained'*.

9.10 For the reasons discussed I do not consider that employing an on-site marketing office and show house is a prerequisite and consider the agency and marketing costs applied by MS to be overstated. This is supported by the evidence I have relied upon in applying agency and marketing costs at 2% which is based upon the FVA for a development of 33 x residential units at Lavant Street in Petersfield.

Legal Fees

9.11 MS at paragraphs 5.79 to 5.83 refers to the legal fees incurred by the Appellant for the disposal of 5 of the houses at their recent development of 21 x 3, 4 and 5 bed houses in Ash known as Samara. The legal fees incurred are in the range between £1,200 per unit and £1,680 per unit and are used to support legal fees of £1,000 per unit.

9.12 At paragraph 5.82 MS considers the application of legal fees of 0.5% in line with inputs applied by the BNP Report and concludes that this provides for an unduly cautious estimate at £2,850 per unit. I agree with this assessment and consider that it is another example of the pessimistic inputs relied upon by the BNP Report to ensure the '…*the robustness of the appraisal outputs' (paragraph 5.38)*.

9.13 In my appraisals I have applied legal costs of £850 per unit to the Market Housing units which are supported by and based upon the FVA for a development of 33 x residential units at Lavant Street in Petersfield which similarly applies a sum of £850 per unit in the residual appraisals.

10 Sensitivity Testing & Rejection of Evidence of Comparable Development Land Transactions

10.1 **Rejection of Evidence of Comparable Development Land Transactions**

At paragraphs 5.176 to 5.180 MS comments on the advice provided by the 2021 Guidance Note in relation to the use of evidence from comparable land transactions as it relates to the determination of the BLV. The comments made by MS in this regard, however, appear to be used to introduce some of the difficulties in applying evidence of comparable development land transactions in determining the BLV to the determination of the RLV. Whilst I accept that there are some cross-over points the determination of the BLV is a different exercise to the determination of the RLV.

10.2 MS quotes directly from the RICS Guidance Note title Comparable Evidence in Real Estate Valuation 2019 (CD6.14) and at paragraph 5.182 lists the criteria set out at section 2 of RICS GN- Comparable Evidence. MS then comments at paragraph 5.183 that he '*…has not been able to independently identify evidence of singular or multiple land transactions that meet the criteria set out…*'.

10.3 This is not unsurprising, and section 3 of the RICS GN – Comparable Evidence identifies a range of factors that may result in the comparables not fulfilling all of the criteria but do not prevent the use of the method in real estate valuation. The RICS GN – Comparable Evidence advises that *'…comparable evidence will probably never perfectly match the real estate asset subject to valuation. The valuer will, therefore, need to analyses and interpret the available evidence and use it as guidance rather than direct evidence of value…'*.

10.4 At paragraph 5.189 MS discusses Section 7 of the RICS GN – Comparable Evidence and confirms that a lack of evidence should not prevent a valuation being undertaken and that the valuer has to look further afield across a wider range of indicators when transactional evidence of directly comparable real estate is lacking. However, MS appears to pass over the comments made at Section 7 that in the absence of comparable evidence the *'…skills, expertise and judgement of the valuer become more important in difficult market conditions'*.

10.5 The RICS GN – Comparable Evidence is relatively silent when it comes to the valuation of development property. This is, in my opinion, due to the inherent difficulties associated with the valuation of development property. As a result of these difficulties the valuation of development property is addressed by the RICS Guidance Note Valuation of Development Property (October 2019) ((the 2019 Guidance Note) (CD6.14)).

10.6 The relevance of the 2019 Guidance Note is discussed in detail in my proof of evidence, however, it is important to note that paragraph 2.2.4 of the 2021 Guidance Note specifically requires the 2019 Guidance Note to be referenced. The 2019 Guidance Note at paragraph 2.3.4 advises that '*Best practice avoids reliance on a single approach or method of assessing the value of development property. Normally any valuation undertaken by the market comparison approach should be cross-checked to the residual method. Where a residual method is used, it is similarly important to cross-check the outcome with comparable market bids and transactions where they exist, including the subject property…'*.

10.7 It is also important to note that at paragraph 5.9 of the 2019 Guidance Note the guidance confirms that *'…Even where reliable information is not available, the market approach may provide an essential check, or inform valuation prepared using the residual method. The valuer will have to exercise skill and judgement concerning justification of inputs and analysis of outputs'*.

10.8 MS at paragraphs 7.44 of his proof of evidence sets out the reasons why he does not consider weight should be placed on the evidence from the comparable development land transaction at Elizabeth Meadows in Stroud. The reasons provided by MS are as follows:

10.9

1. that it is a single transaction (and maybe an outlier) and dated having completed in November 2018.

   It is accepted that this transaction is now somewhat dated, however, in my opinion it remains valid as it is contemporaneous with the date of the option agreement for the Appeal Property and the date of preparation of the BNP Report (August 2017) upon which MS relies.

2. it is not very similar or identical to the Appeal Property. However, the reasons given for this statement that it is a greenfield site and that valuation inputs such as the amount and density of the permitted development, the assumed value of the completed development, ground conditions, development costs and allowance for risk are not addressed by may analysis.

This is incorrect. In analysing the evidence from this comparable development land transaction I have applied the Gross Land Value method of analysis and reported the outcome by reference to a consistent unit of measurement (£ per sq ft of Net Sales Area). The Gross Land Value method of analysis is established practice for the analysis of comparable development land transactions and the method is set out in my proof of evidence.

The difficulty in applying the Gross Land Value method generally relates to the inability to source information relating to abnormal development costs. However, in relation to Elizabeth Meadows these were confirmed directly by the developer in the FVA that was submitted to SDNPA. I do not therefore consider the reasons advanced by MS to be correct.

It should also be recognised that the 2019 Guidance Note at paragraph 5.11 advises that '*Typically, comparison may be the most appropriate where there is an active market and/or a relatively straightforward low-density form of development is proposed. Examples might include … small residential developments…*'.

3. It has not been verified that the transaction represented an arm's-length transaction. MS does not provide any reason why he considers this transaction to have been anything other than an arm's-length transaction or the reason for his concerns in this regard.

4. Mr Castle does not provide any evidence of the source of the figures he refers to within his analysis of the transaction.

   The source of information relied upon is confirmed above. The sums relating to abnormal development costs set out in my proof of evidence were confirmed directly by the developer in the FVA that was submitted to SDNPA. I do not therefore consider this reason to be valid.

10.10 On the basis of the above, I do not consider that the reasons advanced by MS for rejecting the evidence from this comparable development land transaction are valid. I remain of the view that it provides good evidence and this is supported by the partial new evidence provided by the Appellant in relation to the Option Minimum Price. I am also mindful of paragraph 5.11 of the 2019 Guidance Note which suggests that comparison may be the most appropriate where a relatively straightforward low-density form of development is proposed including small residential developments which, in my view, provides a good description of the proposed form of development at the Appeal Property.

10.11 Furthermore, having regard to the guidance provided by the 2019 Guidance Note and (the RICS GN – Comparable Evidence) which recognise the particular difficulties with sourcing 'perfect' evidence of comparable development land transactions; the weakness of the residual appraisal method of valuation; and the best practice recommendation not to apply a single method in assessing the value of development property; it is my opinion that the approach taken by MS does not comply with paragraph 5.9 of the 2019 Guidance Note *'…Even where reliable information is not available, the market approach may provide an essential check, or inform valuation prepared using the residual method. The valuer will have to exercise skill and judgement concerning justification of inputs and analysis of outputs'*.

<u>Sensitivity Analysis</u>

10.12 It should be remembered that the objective of the residual appraisals, for site specific viability testing, is to determine the Residual Land Value of the property with the benefit of planning permission for the Proposed Development. Residual Land Value is a Market Value based concept and reflects Market Value on the special assumption that planning permission is granted for the Proposed Development.

10.13 The Residual Land Value should be based upon inputs that replicate the market. If not then the inputs and the output (the Residual Land Value) are incorrect

10.14 MS discusses the important subject of sensitivity analysis at paragraphs 7.34 to 7.36 and advises at paragraph 7.36 that he has '*set the upwards and downward ranges applied in the context of wider market factors, and then conducted analysis of the results by way of reference to market evidence and trend data'*.

10.15 I note that the sensitivity analysis applied by MS is restricted to two inputs to the residual appraisal (the GDV and the development costs). In my opinion, this represents an incomplete exercise as it is the aggregate effect of small changes to any or all of the inputs to the residual appraisal that makes residual appraisals so sensitive and unreliable without a cross-check to evidence from comparable development land transactions and sensitivity testing (stand back).

10.16 I do not consider that MS has had regard to market evidence in arriving at his opinion of the RLV of the Proposed Development and the Policy Compliant Development other than in relation to the GDV.

10.17 I assume that MS reference to trend data is a reference to market surveys and commentary relating to the macro-economic climate, however, as discussed in Section 4 above these and MS opinions in this regard now appear to be dated and reflective of a more pessimistic mood in Quarter 4 2022 and do not reflect Quarter 1 2023 or the local market.

10.18 On the basis of the above, I am of the opinion that the comments of MS at paragraph 7.36 are unsupported.

11. Appellant's Viability Scenarios

11.1 I note that MS has prepared a residual appraisal based upon the provision of 18 x Shared Ownership units. For completeness I have prepared a similar residual appraisal based upon the provision of 18 x Shared Ownership units using my inputs.

11.2 A copy of the residual appraisal is provided as Appendix Six and a copy of the Sensitivity Test is provided as Appendix Seven.

11.3 The residual appraisal indicates a RLV for this form of development of £826,653. Say £825,000.

With sensitivity testing* the residual appraisal indicates a RLV of £1,846,226. Say £1,845,000.

*Developer's profit on Market Housing at 16.5%, professional fees 8%, +3% GDV and -3% Build Costs

12 Viability Information Before Planning Committee

12.1 At paragraphs 4.10 to 4.27 MS indicates that the Appellant was not in receipt of all the information provided by Bruton Knowles to SDNPA at the date of the meeting of the Planning Committee.

12.2 This is incorrect, an e-mail was sent to and received by the Appellant on 29th June 2022 confirming Bruton Knowles' opinion of the RLV for the Proposed Development and the Policy Compliant Development.

12.3 Prior to the meeting of the Planning Committee Mr Ferguson of SDNPA called me and during the course of that telephone conversation I provided an estimate that 14 x Affordable Housing units could be supported by the proposed form of development. No detailed appraisals were prepared or supplied to Mr Ferguson for this estimate.

13 Chronology

13.1 At section 4 of his proof of evidence MS provides a chronology. I am generally in agreement with MS's comments at paragraphs 4.2 to 4.11.

13.2 At paragraph 4.12 and 4.13 MS states that BK did not provide their professional opinion of the actual level of Affordable Housing the proposed development could afford in the e-mail dated 29th June 2022. This is correct and represents standard practice.

13.3 At paragraph 4.14 MS states that '*BK was unable to set out their position as to the appropriate level of affordable housing. It is my understanding that this was due to BK having not received instructions from SDNPA to instruct an independent firm of cost consultants to review the construction cost evidence submitted by CBRE*'. This is incorrect.

13.4 First of all it is not a requirement of the reviewer to advise in relation to the actual number of Affordable Housing units considered appropriate. To provide such information would be to speculate on the appropriate tenure mix and the preferred location of the Affordable Housing units within the development. In reporting a RLV of £2,244,153 this identified a significant surplus that could be used to provide additional Affordable Housing.

13.5 Second, in reporting a RLV of £2,244,153 I had provisionally adopted the Appellant's construction costs. There is no logical reason for MS to consider that the construction costs would have increased as a result of a review and the application of the Appellant's own construction cost assumptions indicated the availability of a significant surplus that could be used to provide additional Affordable Housing.

13.6 At paragraph 4.18 MS refers to slide 14 presented at the meeting of the Planning Committee on 14th July 2022 that indicated that BK had advised SDNPA that the proposed development would be viable with 14 x affordable housing units. As discussed above, this information was communicated to Mr Ferguson in a telephone conversation and no detailed appraisals were prepared or supplied to Mr Ferguson for this estimate.

13.7 At paragraph 4.20 MS claims that BK failed to adhere to part 2.6 of the RICS Professional Statement. This is incorrect. In my e-mail of 29th June 2022 (a copy of which is provided as Appendix G) I confirmed all of the agreed inputs to the residual appraisal and provided advice in relation to the items where there was no agreement. I further advised as follows:

'*The Applicant has not confirmed the purchase payable for the property on the grant of planning permission for development or provided any evidence from comparable development land transactions. In this way the Applicant's viability appraisal is incomplete and is non-compliant with SDNPA's SPD, the PPG and RICS guidance.*

In the absence of such information to provide the context for the valuation I remain of the opinion that the inputs I have adopted in my residual appraisals are consistent with the market and there is no rationale for a change. The exception being the finance cost which I accept will have increased to say 6.5% per annum.

I therefore remain of the view that the following are appropriate:

- *Agency and legal fees on acquisition 1.8%*
- *Professional fees 8%*
- *Marketing and agency fees of sale of the completed Market Housing units 2.5%*
- *Legal fees on the Market Housing units £750 per units and £350 per unit for the Affordable Housing*
- *Developer's profit 17.5% on Market Housing GDV and 6% on Affordable Housing GDV*'

Statement of Truth & Declaration

(i) (ii) Statement of Truth

I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

(iii) (iv) Declaration

1 I confirm that my report has drawn attention to all material facts which are relevant and have affected my professional opinion

2 I confirm that I understand and have complied with my duty to the Planning Inspectorate as an expert witness which overrides any duty to those instructing or paying me, that I have given my evidence impartially and objectively and that I will continue to comply with that duty as required.

3 I confirm that I am not instructed under any conditional or other success-based fee arrangement

4 I confirm that I have no conflict of interest

5 I confirm that my report complies with the requirements of the RICS – Royal Institution of Chartered Surveyors, as set down in the RICS Practice Statement Surveyors acting as expert witnesses.

Fraser Castle MRICS
RICS Registered Valuer
For and on behalf of Bruton Knowles LLP

Appendix One

Savills Residential Development Land Report Quarter 3 2022

Residential Development Land

savills

Continued but slower regional land value growth

Leading up to mid September (before the mini-budget), regional development land values continued to grow albeit at a slower rate. However, the market faces more downward pressures particularly since the Government's mini-budget announcements on 23rd September.

UK greenfield and urban values increased by 0.6% and 1.1% in Q3 2022 (**three months to 15th September 2022**), taking annual growth to 6.3% and 6.2% respectively. UK greenfield values are now 0.4% below their 2007/08 peak.

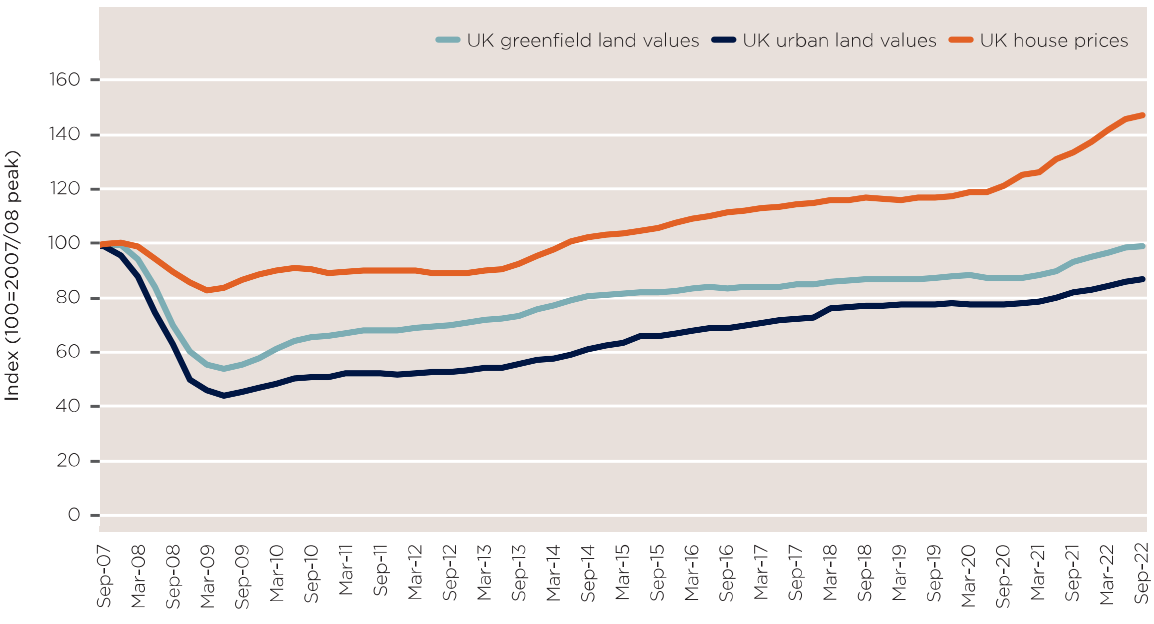
Land values have been supported up to now by an ongoing scarcity of sites and continued demand for land from a range of parties across all tenures. Sites remain in short supply, given the delays to Local Plan production in some areas, under-resourced planning departments and the issue of nutrient neutrality in affected markets. Nationally, 11% fewer planning consents were granted in the year to Q2 2022 compared to the previous 2019 peak.

But there have also been mounting pressures on land values. After a period of exceptional strength, house prices have started to slow, build costs continue to rise, the cost of debt is increasing, and Help to Buy is ending.

In September, UK house prices remained static, taking annual growth to 9.5%, according to Nationwide. UK tender prices increased by 8.0% in the year to Q3 2022 according to BCIS, and are now unlikely to be offset by house price inflation. And October is the last month reservations can be made using the Help to Buy scheme which has supported 30% of all new build sales since 2013.

In the outlook we discuss the prospects for the market going forward.

Growth in regional land values slows



Source Savills Research, Nationwide

> **"Growing concern about the future demand and pricing for new homes has led many parties to become more selective and considered in their land buying"**

Focal points
Development news and analysis in brief

SLOWER LAND VALUE GROWTH
Regional development land values continued to grow albeit at a slower rate in Q3 2022, driven by increased uncertainty. But, the market faces more downward pressures.

SOME FALLS IN LONDON
Land values in London have generally weakened in the last six months, more-so in Outer London. However, residential sites in primary locations have retained their prices and remain highly sought after.

UTILITIES CHALLENGES
Securing utilities connections for sites is becoming more challenging in some areas, in particular for water, gas and electricity, leading to delays and additional costs.

Demand for land is shifting

Despite the growth in land values, sentiment has become more subdued over the last quarter. A net balance of 40% of Savills development agents reported positive market sentiment in Q3 2022, down from 74% in Q2 2022.

Growing concern about the future demand and pricing for new homes has led many parties to become more selective and considered in their land buying, focusing on their priority areas. The number of bids per site in Q3 2022 has eased in slightly and the last couple of weeks has led to further uncertainty. A net balance of -20% of Savills development agents reported an increase in bid levels in Q3 2022 compared to the previous quarter.

The major housebuilders have been the most competitive in the land market but many have started to shift their focus towards securing sites of over 100 units within the core markets, instead of smaller sites in 'out of core patch' locations.

Appetite for Single Family Build to Rent (house-led) has grown over the last quarter, with an increasing number of investors looking to deploy capital into the sector. Housebuilders looking to de-risk sites and deliver a more diversified range of tenures have sold parcels for Single Family Rental.

The Single Family Rental sector is forecast to grow substantially in the coming years, surpassing 70,000 homes by 2032. Growing evidence of Single Family Build to Rent transactions have been seen in regional markets such as Oxfordshire, East Anglia and the East Midlands, in the last quarter, driven by core investors offering competitive bids for sites.

In the short term, recent disruption to the economy has impacted the land market, leading to some land deals taking longer or purchasers seeking to amend their terms and SMEs having issues with development finance in some cases.

Market headwinds including cost inflation and the rising cost of borrowing are likely to be much greater for smaller and medium sized housebuilders, especially if they are highly geared.

Two tier land market in London

Land values in London face downward pressure from the combination of slowing house price growth, rising build costs, enhanced building standards and increased affordable housing requirements. Over the last six months, land values in Central and Outer London have started to reflect these challenges. Central and Outer London residential land values fell by -5.8% and -7.2% in the six months to September 2022, taking annual falls to -6.0% and -7.5% respectively.

However, falls in land values have not been uniform. As in the regions, stock constraints are sustaining competition for land. Well-designed sites in primary locations remain highly sought after and continue to trade at previous levels of pricing. There are many needs-based buyers trimming their margins in order to remain competitive. Appetite for Build to Rent opportunities as a form of de-risking sites is also supporting values on primary sites. In contrast, more challenging sites located further away from transport hubs are struggling to maintain similar levels of competition and pricing. Sellers expectations of values remain high with limited evidence of landowners under pressure to sell, and many holding onto their sites.

Looking at the London office market, it's a similar story. Office land values in Central London have remained flat at 0% over the last six months, whilst in Outer London, values have fallen by -4.7%. In Central London, demand for core located development opportunities continues whereas in Outer London, there is less appetite for assets in less mature office locations.

Downward pressure on land values in London

Source Savills Research

London land values

Residential / Office

Central London

	Six-month change	Annual change to Sept 2022
Residential	-5.8%	-6.0%
Office	0.0%	7.6%

Outer London

	Six-month change	Annual change to Sept 2022
Residential	-7.2%	-7.5%
Office	-4.7%	-0.9%

Source: Savills Research

Infrastructure and grid capacity

A lack of grid capacity and the ability and timing of securing utilities connections on sites including electricity, water and gas, are becoming more prevalent concerns for parties when buying land in some markets.

Until capacity is significantly expanded and with pressure on the grid only set to increase, limited access to power and utilities on sites has the potential to impact the viability and deliverability of sites. In particular, large sites that have significant power and infrastructure requirements.

Outlook for the land market

Land values are likely to come under increased pressure as purchasers need to factor in prospects of house price falls and reduced transactions in the coming year. The rise in interest rates may be a challenge for some investors and housebuilders carrying debt which may have an impact on the land market with some players being more cautious in the near term.

We therefore expect more selective land buying activity. But the shortage of deliverable consented sites is likely to mitigate significant falls in land values.

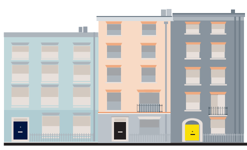
The underlying undersupply of homes and strong rental demand (UK rents grew 11.9% in the 12 months to August 2022, according to Zoopla) means however, there is a continued need for more housing for sale and rent in the right places.

UK land values

UK land value growth

UK Greenfield

Q3 2022	0.6%
Annual growth	6.3%



UK Urban

Q3 2022	1.1%
Annual growth	6.2%

Note: Figures to September 2022

Source: Savills Research

Savills team

Please contact us for further information

Lucy Greenwood
Director
Residential Research
020 7016 3882
lgreenwood@savills.com

Lydia McLaren
Associate
Residential Research
020 3428 2939
lydia.mclaren
@savills.com

Will Holford
Analyst
Residential Research
020 7409 9909
will.holford@savills.com

Patrick Eve
Head of Regional Development
07967 555595
peve@savills.com

Appendix Two

UK House Pirce Index (East Hampshire) March 2021 to February 2023

House Price Statistics

East Hampshire for March 2021 to March 2023

Type of property

Track the index, average price and both monthly and annual change for all property types or focus on one in particular.

Average price by type of property in East Hampshire

All property types Detached houses Semi-detached houses Terraced houses Flats and maisonettes

See data graph See data table Download this data Compare with location ...

Date	All property types	Detached houses	Semi-detached houses	Terraced houses	Flats and maisonettes
Mar 2021	£397,373	£615,527	£383,334	£309,719	£198,290
Apr 2021	£398,730	£618,342	£384,991	£310,663	£198,047
May 2021	£401,630	£623,637	£388,206	£312,534	£198,700
Jun 2021	£406,944	£631,603	£392,369	£317,718	£201,485
Jul 2021	£404,496	£627,857	£390,789	£315,349	£199,945
Aug 2021	£411,648	£641,377	£397,807	£320,117	£201,876

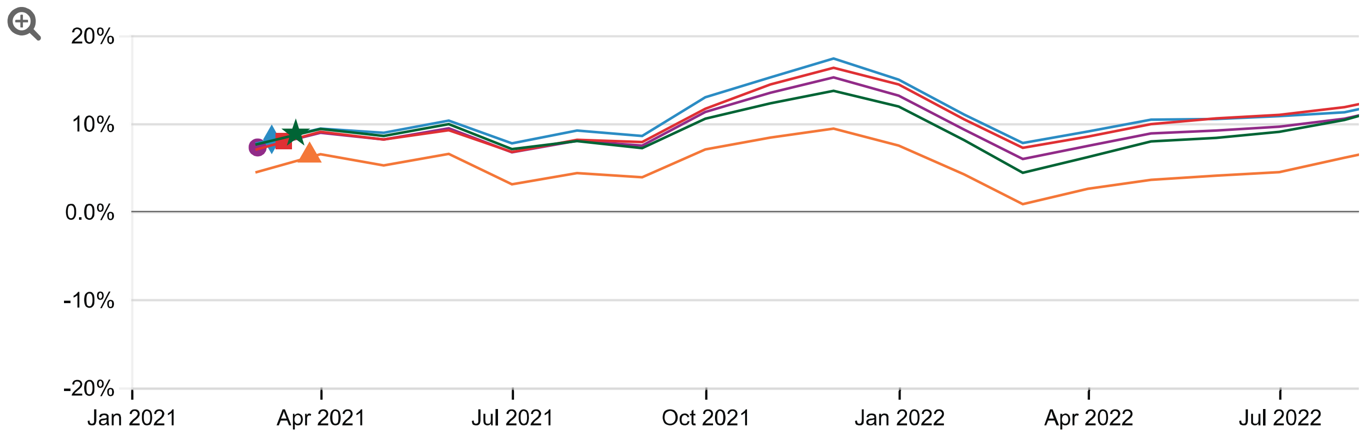
Date	All property types	Detached houses	Semi-detached houses	Terraced houses	Flats and maisonettes
Sep 2021	£411,773	£643,277	£398,893	£318,893	£200,678
Oct 2021	£426,094	£670,398	£411,831	£328,556	£205,504
Nov 2021	£432,618	£681,462	£418,928	£332,769	£207,987
Dec 2021	£444,380	£701,908	£429,905	£341,374	£212,645
Jan 2022	£441,792	£695,954	£428,938	£340,060	£211,039
Feb 2022	£430,290	£677,201	£418,226	£331,434	£205,739
Mar 2022	£421,034	£663,362	£411,070	£323,269	£199,930
Apr 2022	£428,343	£674,474	£417,703	£329,855	£203,148
May 2022	£437,182	£688,562	£426,663	£337,360	£205,835
Jun 2022	£444,333	£697,901	£433,871	£344,269	£209,644
Jul 2022	£443,399	£695,877	£433,640	£343,832	£208,861
Aug 2022	£455,010	£713,684	£444,931	£353,390	£214,209
Sep 2022	£462,097	£725,984	£452,191	£358,625	£216,023
Oct 2022	£463,743	£728,822	£453,730	£359,946	£216,479
Nov 2022	£460,417	£724,339	£450,462	£356,995	£214,464
Dec 2022	£458,211	£719,996	£448,502	£355,424	£214,186
Jan 2023	£463,017	£728,598	£453,735	£358,428	£215,506
Feb 2023	£466,836	£737,531	£456,398	£359,725	£216,737

print this table

Percentage change (yearly) by type of property in East Hampshire

All property types | Detached houses | Semi-detached houses | Terraced houses | Flats and maisonettes

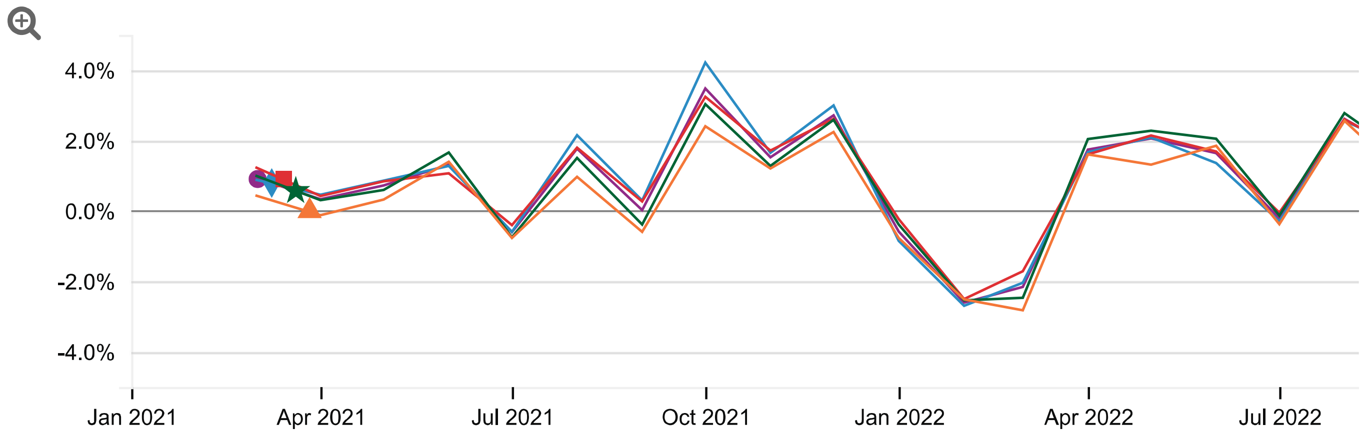
See data graph | See data table | Download this data | Compare with location ...



Percentage change (monthly) by type of property in East Hampshire

All property types | Detached houses | Semi-detached houses | Terraced houses | Flats and maisonettes

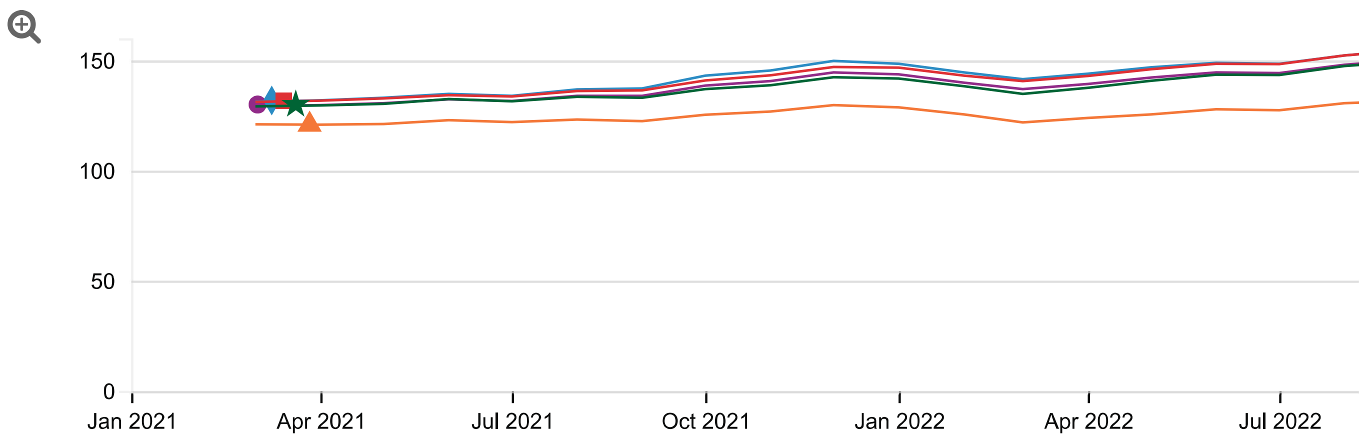
See data graph | See data table | Download this data | Compare with location ...



House price index by type of property in East Hampshire

All property types | Detached houses | Semi-detached houses | Terraced houses | Flats and maisonettes

See data graph | See data table | Download this data | Compare with location ...



Sales volume by type of property in East Hampshire

Buyer status

Track the index, average price and both monthly and annual change by the type of buyer e.g First Time Buyer or Former Owner Occupier

Average price by buyer status in East Hampshire

Percentage change (yearly) by buyer status in East Hampshire

Percentage change (monthly) by buyer status in East Hampshire

House price index by buyer status in East Hampshire

Funding status

Track the index, average price, both monthly and annual change and sales volumes by funding status e.g. Cash/Mortgage

Average price by funding status in East Hampshire

Percentage change (yearly) by funding status in East Hampshire

Percentage change (monthly) by funding status in East Hampshire

House price index by funding status in East Hampshire

Sales volume by funding status in East Hampshire

Property status

Track the index, average price, both monthly and annual change and sales volumes by funding by property status e.g. New/Existing

Average price by property status in East Hampshire

Percentage change (yearly) by property status in East Hampshire

Percentage change (monthly) by property status in East Hampshire

House price index by property status in East Hampshire

Sales volume by property status in East Hampshire

Application release 1.5.20

Appendix Three

Savills Residential Development Land Report Quarter 1 2023

UK Development – Q1 2023

MARKET IN MINUTES

Savills Research

Residential Development Land

savills

Uncertainty and variation in land values

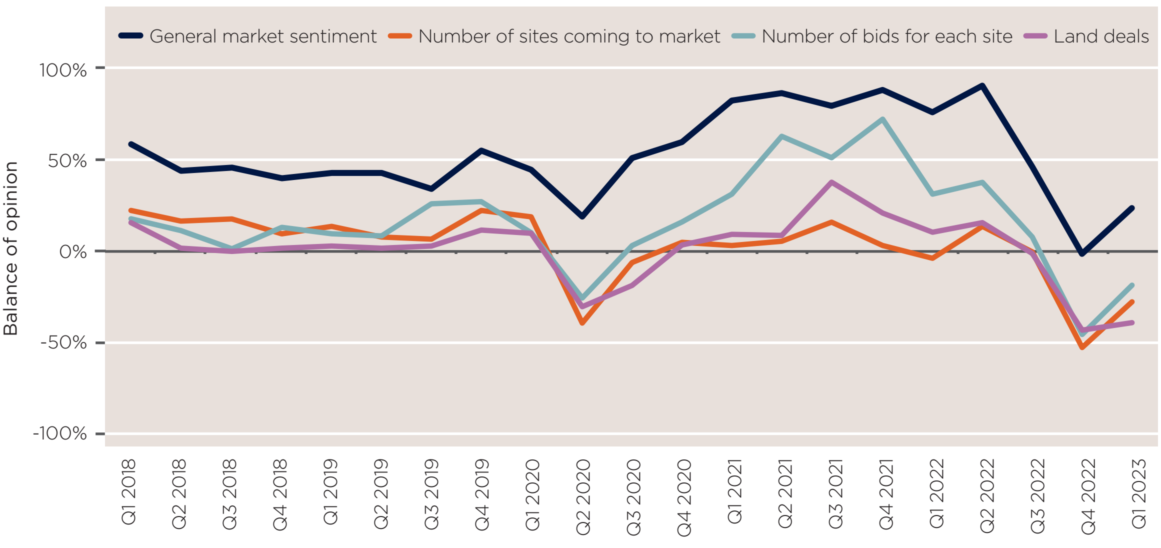
In the first quarter of 2023, the land market has continued to be slow with fewer land transactions and new sites launching onto the market, reflective of the wider housing market slowdown and the loss of the Help to Buy scheme. This has led to -9% fewer Savills land deals in Q1 2023 compared to the same quarter last year. Land values have also softened.

There is significant variation in both activity levels and the change in land values on a site by site basis. In some locations there have been price falls over the last quarter, but in other areas the ongoing lack of land supply has limited those falls. Sites in undersupplied markets remain in demand and are holding their value.

The lack of transactional activity makes it challenging to robustly assess the movement in development land values in Q1 2023. At a national level, the Savills Development Land Index shows further softening in land values over the last quarter as the market adjusts to more realistic pricing. UK greenfield and urban values fell by -1.7% and -1.8% in Q1 2023, marking -3.8% and -3.4% falls respectively since September 2022, following the Government's mini-budget and the shift in housing market conditions. However, there is the potential for further price adjustments as land transactions start to take place in future quarters.

Despite the challenging market backdrop, our Savills sentiment survey suggests there are signs that activity is picking up compared to the previous quarter. A net balance of 23% of Savills development agents reported positive market sentiment, up from -3% in December 2022. The Savills sentiment survey also reveals a slight improvement in the net balance of agents reporting new sites coming to the market and the number of bids per site. There has also been a modest uptick in activity in the new build sales market since the start of the year, with average sales rates at 0.6 per outlet per week in February as reported by the major housebuilders, up from an average of 0.3 in December 2022. This follows an easing in the cost and availability of mortgages, coupled with a scarce supply of homes for sale in the second hand market.

Early signs of improving sentiment in the UK greenfield land market



Source Savills Research

UK residential development land value growth

UK Greenfield

Q1 change -1.7%

Annual change to March 2023 -1.2%

UK Urban

Q1 change -1.8%

Annual change to March 2023 -0.5%

Source Savills Research

Focal points
Development news and analysis in brief

VERY FEW LAND SALES
The residential land market continues to be slow with fewer land transactions in most markets. However, the ongoing shortage of supply is sustaining competition for land in some locations.

REGIONAL LAND VALUES SOFTEN
Land values have softened in Q1 2023, reflective of caution in the wider housing market. UK greenfield and urban land values fell by -1.7% and -1.8% respectively in Q1 2023.

FALLS IN OUTER LONDON LAND VALUES
Residential land values in Outer London have fallen by -9.5% over the last six months to March 2023. However, Central London has been more robust with residential land values holding steady (+0.3%).

The land market continues to be slow

Land values continue to face downward pressure with rising build costs, falling house prices and slower sales rates in the new build market. Build costs increased by 8.6% over the last year and are forecast to increase by 17% over the next five years to Q1 2028, according to BCIS. UK house prices also fell by -3.1% in the year to March 2023, marking the biggest annual falls since 2009, according to Nationwide.

As a result of the weaker housing market, there has been reduced competition for sites over the last quarter as parties have become more cautious. There has been a greater preference for conditional deals, deferred payment structures and more examples of deals being renegotiated or in some cases falling through.

The major housebuilders have been largely out of the land market, only topping up sites in regional markets where they need to build up pipelines. However, small and medium sized private housebuilders and housing associations have remained active, using the current lack of competition to acquire sites. Homes England has recently updated its funding guidance for the Affordable Homes Programme 2021-26 allowing grant funding to be deployed more flexibly including on completed market sale stock.

There is appetite from developers considering alternative tenures from affordable housing to Build to Rent and student housing to diversify large sites in order to reduce exposure to the sales market.

Sites in undersupplied markets remain resilient

Oven-ready consented sites between 50 and 150 units in primary locations with no significant upfront infrastructure costs are attracting the greatest interest from parties and are remaining resilient in some locations.

Land buying is more competitive in locations that are heavily constrained by a lack of supply. For example, sites in the East of England in locations such as St Albans are selling well due to the significant undersupply of consented land in these markets.

There is also significant regional variation. In parts of the North and Wales there is appetite for land from a range of parties, supported by greater buyer affordability and stronger sales rates on new build sites in these markets.

In Wales, the new build market is also being supported by the extension of the Help to Buy scheme. Northern greenfield and urban values at March 2023 have remained on par with December levels.

Two-tier land market in London

Over the last six months, land transactions in London have slowed significantly as in the regions, and there has generally been less competition for sites, including from the major housebuilders. The transactional evidence for land values in Q1 2023 that there has been, indicates greater downward pressure on values across London, albeit this is not uniform. Central London residential land values have remained stable, increasing by 0.3% in the six months to March 2023, taking annual falls to -5.5%, underpinned by activity from cash buyers and overseas buyers with less reliance on borrowing. This also reflects where demand has held steady in the sales market. Prime Central London house prices remained relatively static at -0.6% in the six months to March 2023 according to the Savills Prime London house price index.

However, the picture in Outer London is different. The land market in Outer London has generally been more impacted by build cost inflation, slowing sales rates, the end of Help to Buy and rising mortgage rates. Residential land values in Outer London fell by -9.5% in the six months to March 2023, taking annual falls to -16%. However, there is variation across sub-markets in Outer London and on a site by site basis. Demand has remained more robust for smaller sites in well-established upper-mainstream markets and well-connected larger sites where there are opportunities for alternative residential uses such as Build to Rent and student housing.

In the London office market, land values have also faced a noticeable correction. Central and Outer London office land values fell by -17.6% and -22.6% in the six months to March 2023 respectively, driven by the increase in the cost of debt, outward yield movement, softening investor demand and general weaker market sentiment, particularly in more secondary locations.

London development land values

Residential | Office

Central London

	Six-month change to March 2023	Annual change to March 2023
Residential	0.3%	-5.5%
Office	-17.6%	-17.6%

Outer London

	Six-month change to March 2023	Annual change to March 2023
Residential	-9.5%	-16.0%
Office	-22.6%	-26.2%

Source Savills Research

> "The ongoing shortage of supply of sites is sustaining demand for land in some locations. As a result, there hasn't been the price adjustment to reflect the wider residential market slowdown and to enable larger volumes of transactions in the land market"

Outlook

The extent to which demand returns to the land market largely depends on the recovery in new build sales. According to our latest research **'What does the current new build market mean for demand for development land?'**, if the recent uptick in the sales rates seen since the start of the year is maintained, activity in the land market is likely to return by the summer as developers become increasingly confident to start on new sites alongside sustained demand from alternative sources (Housing Associations, Build to Rent developers and student housing developers).

Our Savills development agent sentiment survey also suggests early indications of improving appetite for land. More new sites are gearing up to launch and there are more interested parties, suggesting that the land market is starting to open up slowly.

However, there remains uncertainty over land values in the short term. The ongoing shortage of supply of sites is sustaining demand for land in some locations. As a result, there hasn't been the price adjustment to reflect the wider residential market slowdown and to enable larger volumes of transactions in the land market. Therefore, in some markets, a return to volume land sales may entail further downwards price adjustment.

Savills team

Please contact us for further information

Lucy Greenwood
Director
Residential Research
020 7016 3882
lgreenwood@savills.com

Lydia McLaren
Associate Director
Residential Reserch
020 3428 2939
lydia.mclaren
@savills.com

Will Holford
Analyst
Residential Research
020 7409 9909
will.holford@savills.com

Patrick Eve
Head of Regional
Development
01865 269071
peve@savills.com

Appendix Four

Pages 19-21 Fraser Castle's Proof of Evidence for Astley House, Lewes

Conclusion

8.10 In my opinion the Policy Compliant Scheme as at 20 June 2022 under both Appeal A and Appeal B is a viable form of development with policy compliant Affordable Housing.

Major Issues or Areas of Disagreement

8.11 The main areas of disagreement relate to the determination of the:

- Gross Development Value of houses at the Proposed Development
- The developer's profit
- The professional fees
- Failure of the Appellant to apply a 'Stand Back' Approach to the RLV

9. Benchmark Land Value

9.1 The BLV has been agreed at £2,200,000 for both Appeal A and Appeal B.

The Local Plan and Affordable Housing Viability Assessment August 2017

9.2 The Local Plan and Affordable Housing Viability Assessment Report prepared by BNP Paribas for South Downs National Park and dated August 2017 (the BNP Report) at paragraph 5.43 adopts a BLV for commercial land equal to £850,000 per gross hectare (£345,000 per gross acre) inclusive of a premium. This sum is based upon a residual value assuming commercial development at approximately £280,000 per acre and the BNP Report advises that this '*value is a good proxy for, and typical of, the existing use value of sites in the National Park currently in industrial use*'. A premium equal to 20% has been applied by the BNP Report in arriving at the BLV of £345,000 per acre. If this sum is applied to the site area of the Application Property (0.66 acres) this indicates a BLV of £227,700. Say £230,000.

The Appellant's Approach

9.3 A BLV of £2,443,000 was initially proposed by the Appellant. This assessment of the BLV was stated to have been assessed using the Existing Use Plus a premium approach. The EUV was assessed at £2,383,000 and a premium of 10% was applied.

9.4 The Appellant applied an average rent of £8.50 per sq ft to the Gross Internal Area of the ground and first floor parts, which they assessed at 20,137 sq ft, and a further sum of £4.25 per sq ft to the mezzanine assessed at 370 sq ft. This provided for an aggregate rental value of £172,737. The aggregate rental value was capitalised at 7.25% with an allowance made for purchaser's costs at 6.8%. This provided for a value of £2,220,564 to which a premium was applied in arriving at a BLV of £2,443,000.

Dixon Searle Partnership's Approach

9.5 DSP adopted the same methodology but applied a lower rental value of £6 per sq ft to the Gross Internal Area of the ground and first floor parts and a further sum of £3 per sq ft to the mezzanine assessed. This provides for an aggregate rental value of £121,932. The aggregate rental value was capitalised at 7.25% with an allowance made for purchaser's costs at 6.8%. This provided for a value of £1,567,457 to which a premium was applied in arriving at a BLV of £1,724,000.

Bruton Knowles Approach

9.6 The BK Report advised that the use of the Application Property by Sussex Police as the landowner was permitted under planning permission reference LW/93/0096. This planning permission was for a '*Section 73(A) Retrospective application for the retention of the existing vehicle workshop and ancillary offices and part change of use to bulk clothing store, printing workshop and ancillary office accommodation*'. The planning permission was granted on 22 March 1993 and was subject to 5 planning conditions.

9.7 Planning condition two reads as follows '*This permission shall enure for the benefit of the Sussex Police Authority only and shall be used for the storage, garaging and repair of vehicles, a clothes store and print rooms as specified in the application*'.

9.8 SDNPA confirmed that the use of the Appeal Property was Sui Generis and personal to Sussex Police Authority and further confirmed that the planning permission is a 'personal permission' for the benefit of Sussex Police and that once this use ceases the Appeal Property would have a 'nil use' in planning terms. The Appeal Property has been vacated by Sussex Police and this means that there is no existing use to speak of and any future use of the property would require planning permission.

9.9 On this basis, as there was no existing use there can be no Existing Use Value. Accordingly, in seeking to determine the BLV of the Application Property the BK Report was left to consider alternative uses. The correct measure for the assessment of the BLV was therefore Alternative Use Value (AUV).

9.10 AUV is defined as 'the value of the land for uses other than its existing use'. Valuation based upon the AUV includes the premium to the landowner.

9.11 In arriving at my opinion of the BLV I had regard to the use assumed by the Appellant and DSP and adopted the same in arriving at my opinion of the AUV and applied the same general valuation methodology.

9.12 However, I applied a rental value of £8 per sq ft to the Gross Internal Area of the ground and first floor parts (20,137 sq ft) and in line with normal valuation practice I applied a £nil rent to the mezzanine. This provides for an aggregate rental value of £161,096. The aggregate rental value was capitalised at 7.25% with an allowance made for purchaser's costs at 6.8%. This provided for an AUV of £2,222,014. Say £2,200,000 which I adopted as my opinion of the BLV.

9.13 The BLV for the Appeal Property was subsequently agreed at £2,200,000.

10. Assessment of the Residual Land Value

10.1 In arriving at my opinion of RLV for Appeal A and Appeal B I have considered the inputs adopted by the Appellant and, with the exception of the gross development value (GDV) of the houses at the proposed development, the professional fees and the developer's profit the inputs to the RLV are agreed between the Appellant and SDNPA for both Appeal A and Appeal B. The GDV for the houses, professional fees and developer's profit are discussed in turn below. However, as discussed above at Section65 and in line with the Professional Statement and the 2021 Guidance Note and the 2019 Guidance Note, I have also had regard to evidence from comparable development land transactions and the asking price for the property as part of the recent marketing exercise. This is an important exercise as land values derived from residual appraisals are very sensitive to small changes to the inputs adopted and this cross-checking exercise and sensitivity testing is an important and necessary stage in the accurate valuation of development land and forms part of the Stand Back required by the Professional Statement .

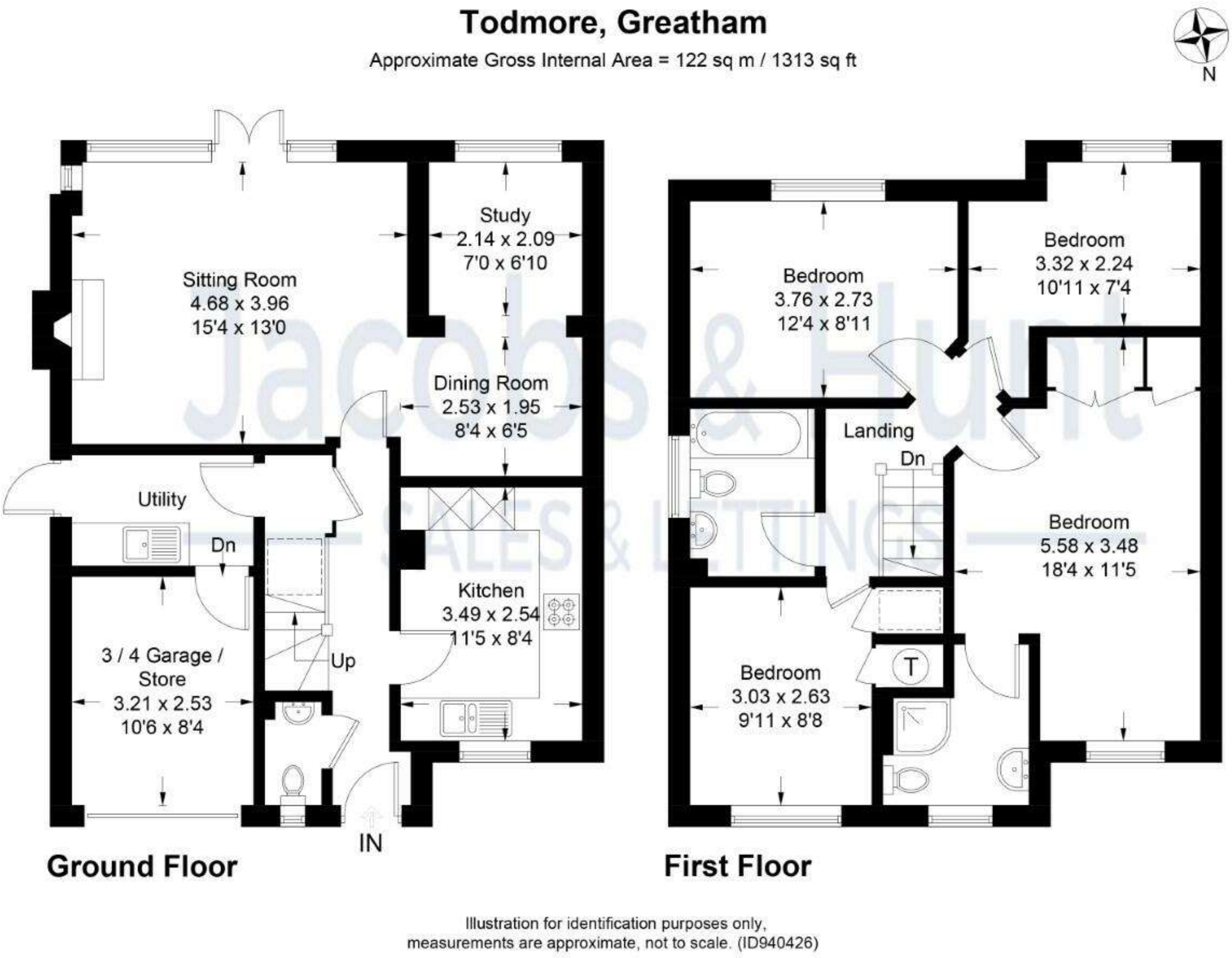
Appendix Five

Floor Plan for 11 Todmore, Greatham, Hampshire

Todmore, Greatham, Liss

£575,000

Floorplan 1



Appendix Six

Residual Appraisal (18 x Shared Ownership Development)

APPRAISAL SUMMARY	LICENSED COPY

Liss Forest Nursery
Appellant's Scenario 2 - 18 x AH Units (SO
March 31st 2023 (FC Inputs)

Appraisal Summary for Phase 1

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
Market Housing	1	28,385	454.64	12,905,000	12,905,000
Affordable Housing	1	15,797	298.77	4,719,744	4,719,744
Totals	**2**	**44,182**			**17,624,744**

NET REALISATION				**17,624,744**
OUTLAY				
ACQUISITION COSTS				
Residualised Price			826,653	
				826,653
Stamp Duty			30,833	
Effective Stamp Duty Rate		3.73%		
Agent Fee		1.00%	8,267	
Legal Fee		0.80%	6,613	
				45,712
CONSTRUCTION COSTS				
Construction	**ft²**	**Build Rate ft²**	**Cost**	
Base Build Cost	44,249	268.75	11,891,994	
				11,891,994
Section 106 Costs				
Highway Improvements			65,000	
Special Protection Area			15,000	
Community Infrastructure Levy			85,127	
				165,127
PROFESSIONAL FEES				
Architect		10.00%	1,189,199	
				1,189,199
DISPOSAL FEES				
Sales Agent Fee - Market Housing		2.00%	258,100	
Sales Agent Fee - Affordable			17,500	
Sales Legal Fee - Market			16,150	
				291,750
TOTAL COSTS BEFORE FINANCE				**14,410,436**
FINANCE				
Timescale	**Duration**	**Commences**		
Purchase	1	Feb 2022		
Pre-Construction	5	Mar 2022		
Construction	15	Aug 2022		
Sale	6	Nov 2023		
Total Duration	27			
Debit Rate 7.000%, Credit Rate 0.000% (Nominal)				
Land			106,995	
Construction			357,574	
Other			79,591	
Total Finance Cost				544,160
TOTAL COSTS				**14,954,595**
PROFIT				

Liss Forest Nursery
Appellant's Scenario 2 - 18 x AH Units (SO
March 31st 2023 (FC Inputs)

2,670,149

Performance Measures

Profit on Cost%	17.86%
Profit on GDV%	15.15%
Profit on NDV%	15.15%
IRR% (without Interest)	33.77%
Profit Erosion (finance rate 7.000)	2 yrs 4 mths
Cost per Gross ft²	169
Cost per Net ft²	169
Land Cost pAcre	0
Land Cost per Plot	413,326

Appendix Seven

Sensitivity Analysis (18 x Shared Ownership Development)

SENSITIVITY ANALYSIS REPORT LICENSED COPY

Liss Forest Nursery
Appellant's Scenario 2 - 18 x AH Units (SO
March 31st 2023 (FC Inputs)

Table of Land Cost and Profit on GDV%

Construction: Gross Cost					
Sales: Gross Sales	-4.000%	-3.000%	-2.000%	-1.000%	0.000%
	11,416,314	11,535,234	11,654,154	11,773,074	11,891,994
0.000%	-£1,687,834	-£1,576,505	-£1,465,176	-£1,353,847	-£1,242,518
12,905,000	13.690%	13.690%	13.690%	13.690%	13.690%
+1.000%	-£1,777,741	-£1,666,412	-£1,555,083	-£1,443,754	-£1,332,425
13,034,050	13.690%	13.690%	13.690%	13.690%	13.690%
+2.000%	-£1,867,648	-£1,756,319	-£1,644,990	-£1,533,661	-£1,422,332
13,163,100	13.690%	13.690%	13.690%	13.690%	13.690%
+3.000%	-£1,957,555	-£1,846,226	-£1,734,897	-£1,623,568	-£1,512,239
13,292,150	13.690%	13.690%	13.690%	13.690%	13.690%
+4.000%	-£2,047,462	-£1,936,133	-£1,824,804	-£1,713,475	-£1,602,146
13,421,200	13.690%	13.690%	13.690%	13.690%	13.690%

Sensitivity Analysis : Assumptions for Calculation

Construction: Gross Cost
Original Values are varied by Steps of 1.000%.

Heading	Phase	Amount	No. of Steps
Base Build Cost	1	£11,891,994	5 Down only

Sales: Gross Sales
Original Values are varied by Steps of 1.000%.

Heading	Phase	Amount	No. of Steps
Market Housing	1	£12,905,000	5 Up only