F.a.o. Mr Rob Back (by Email only)

Head of Growth and Investment
Rugby Borough Council,
Town Hall,
Evreux Way,
Rugby,
CV21 2RR

22nd February 2018

Dear Mr Back,

Rugby BC Local Plan Examination – Lodge Farm – Request from Mr Hayden (re Mr Barfield)

As requested I am writing in response to your email of 19th February, which passed on the questions from the Inspector Mr Hayden as set out in Carmel Edwards' email of 15th February. I shall seek to address those 3 questions (repeated for ease of reference in italic text below) as succinctly as possible. However, should Rugby BC (RBC) need to clarify any aspect or need anything further from Dixon Searle Partnership (DSP), do please let us know.

1. *Confirmation of how Dixon Searle has arrived at a benchmark land value of £250,000-£500,000 per hectare for residential sites, given the range of values available from land transactions in the area and the benchmarks used by other Midlands Council's in their CIL/Local Plan viability reports as set out in Appendix III of the Dixon Searle report?*

DSP response (1):
Acknowledging that development will come forward on a range of host site types, DSP's viability assessment used a scale of benchmark land values (also referred to as 'viability tests') ranging overall from £250,000/Ha to £1,200,000/Ha (equivalent to approximately £100,000/acre to £480,000/acre). These land value levels are based on the assumed gross (overall) area of the site (development scenario being tested).

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At the lower end of this scale, i.e. at not less than £250,000/Ha (approx. £100,000/acre) this generally represents around the minimum level that land is likely to be released for sale - in our experience of a wide range both pre-planning application / planning application stage site-specific assessments (e.g. for the purpose of informing planning obligations packages or phasing adjustments) and the preparation of strategic viability studies such as carried out for RBC.

Typically in our experience there tends to remain a certain amount of reluctance on the part of the involved parties to release the details of land agreements such as options, and there are of course potential sensitivities to understand from the land owner's viewpoint on that.

In general, transactional evidence is very difficult to come by and then is most often uncertain in reliability when it comes to analysis and making comparisons between sites. I shall come on to it further below (re Q 3) but in my view this is at least to some degree illustrated by Mr Barfield's presented analysis. It is necessary to be very sure indeed of the circumstances underpinning certain figures and therefore how applicable those are to other sites and situations.

I raise this, because an understanding is needed of the various stages of the process. Our viability assessment, like others of its type, together with most site-specific assessments that we have carried out, are at the point of first release of the land from its existing use (nearly always entirely or a great majority greenfield in cases such as this). This means that what the involved parties are looking at is a significant incentive to secure the release of the agricultural land – to take it out of that existing use. In these scenarios generally an uplift factor of not less than say 10x agricultural use value is appropriate and used in the assessment. So this envisages the agricultural land owner receiving around 10x agricultural value; that base value in existing use being approximately £20,000 to £25,000/Ha (approx. £8,000 to 10,000/acre) in most cases where large sites ("bulk land") is concerned – for example for strategic scale residential-led development.

The circa. £250,000/Ha (approx. £100,000/acre) is therefore derived from this enhancement to existing agricultural use basis and well established principles.

DSP has found that there tends to be relatively little variation in this geographically, and a land value at around this level would usually be regarded a minimum option price (i.e. a point beneath which the landowner might not be obliged to sell under an agreement). Whilst such sites (at first release from agricultural land status) in areas supporting higher sales values or perhaps a much smaller scale of development potential may underpin a higher level of land value, in our experience we have not seen this exceed £150,000/acre (approximately £370,000/Ha) applied to the gross land area in any circumstances. Our

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involvement in viability review discussions at planning application stage has included sites ranging from lower property sales value northern to high value SE located sites; with all greenfield enhancement land values used within viability discussions (e.g. to inform the settling of affordable housing provision and other s.106) at this stage of review falling within the range mentioned here. Furthermore, we have seen little change in the use of these figures in the last few years.

This is consistent with the relevant data from DSP's viability assessment Appendix III (Table 18b, page 109) – i.e. where some other LAs' agricultural land release related benchmarks are noted. For example Warwick (£250-370,000/Ha), Hinckley & Bosworth (£278,750/Ha), Nuneaton & Bedworth (£250,000/Ha). As above, because strategic level (e.g. Local Plan) viability assessments typically cover a range of development and site types, a wider range of land values/benchmarks will be noted and used (including as reflect PDL sites for example). The relevance here is large scale greenfield based development potential, from land in agricultural use, with the necessary value uplift in place; but not an excessive land value expectation that would not be supportable.

DSP's 2017 viability assessment report notes this theme on greenfield release and appropriate consideration of land values with this type of development and development stage in mind – at 3.3.31 – 3.3.32 for example.

2. *Comments on the alternative cash flow and finance cost calculated by Mr. Barfield for the Lodge Farm appraisal (Appendix 1 of his note) and how this might impact on the residual land value (RLV) for the site?*

<u>DSP response (2)</u>:
In its 2017 Local Plan assessment work related to the Lodge Farm site, DSP made a cautious assumption that the whole land purchase cost would need to be financed through the development period. Although DSP has not seen either Mr Barfield's full appraisal or that of CBRE / St Modwen, I consider that it is a reasonable approach of Mr Barfield, however, to assume in principle a staged approach to land purchase.

DSP has quickly trialled a re-run of its appraisal and I can say that a "saving" in finance costs of circa £20m is seen by taking that approach (i.e. spreading the land costs rather than assuming all of the land is 'paid for' upfront). Broadly, this costs reduction is seen to flow through to a similar improvement to the appraisal output RLV (residual land value – 'residualised price' seen within the Argus appraisal summary). So this has the effect of improving the viability outcome compared with the position presented by DSP in its 2017 appraisal. From the information made available to us in Mr Barfield's submission, that approach to land purchase spread and indicative timings seems to be consistent with assumptions drawn from / made by the 'St Modwen appraisal'.

So, bearing in mind that on relatively high-level/early stages review of such a scale of development, with the sums involved, even marginally differing views, assumptions and appraisals often result in £multi-million variances, our calculation of the finance cost (using Argus Developer software) would not be very different overall to Mr Barfield's. To recap, making this adjustment is positive for viability, therefore, when comparing with the DSP appraisal outcome (latter based on a prudent approach to assumptions setting overall, bearing in mind the assessment purpose).

3. *Comments on how that RLV and the RLV for the Lodge Farm site provided in the CBRE appraisal compares with the market value for the land on the Lodge Farm site, based on the evidence provided by Mr. Barfield (appendix 2 to his note), and how this would impact on the ability of the development to afford the full S106, affordable housing and other policy costs, without an increase in the overall housing numbers?*

<u>DSP response (3)</u>:
We see with interest that the CBRE Viability Report January 2018 notes a RLV equating to £387,000/Ha (£157,000/acre) based on gross land area. This is just beyond the upper end of the range discussed above in response to Q 1, and as CBRE say, this is comfortably in excess of the minimum levels also identified above and consistent with the DSP viability assessment.

It appears that Mr Barfield's assertion is that CBRE have underestimated the finance costs significantly (going the other way to DSP) – to the tune of potentially circa. £13m. Again, we have not seen the CBRE appraisal detail, but (in order to further consider this variance) viewed across the assumed land area of approximately 104Ha, this £13m equates to a differential of around £125,000/Ha. Deducting that from the CBRE RLV as a rough measure of comparison, would see the CBRE RLV fall to approximately £262,000/Ha. This is a broadbrush view only, but we can see that if this were the case, the CBRE indicated RLV remains above the £250,000/Ha benchmark. We need to reiterate, however, that we have not seen the CBRE appraisal or the cashflow assumptions that lead to the level of finance indicated.

The DSP 1,500 dwellings Lodge Farm representative appraisal produced an RLV of approx. £38m, equivalent to approx. £365,000/Ha – again showing a good level of consistency here in my view between views and appraisals.

We are asked for comments on how the seemingly much higher land value expectations derived by / referred to in Mr Barfield's submission (included Appendix 2 to his February 2018 response note). However, and referring to the doubts I began to express in

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responding to Q 1 above, from what I can see this most likely refers to / is sourced from rather different scenarios in the main. I cannot be completely certain from the information provided, but I think Mr Barfield's examples / land value figures refer to very different scenarios of land that has been progressed beyond the stages that we are dealing with here and made ready for development, further "down the line" – i.e. when land is being parcelled-up for sale to housebuilders. By this time the promotion, planning, resolution of headline planning obligations, quite possibly a degree of site accessing and servicing works etc., will most likely have been settled. The costs of getting to or close to the 'ready for development' stage with a significantly de-risked scenario, are typically reflected in a much higher land price paid by the housebuilder (transaction from developer to housebuilder) than paid to the initial landowner releasing the agricultural land.

Looking at the land areas, number of units, apparently defined s.106 and other information listed at Mr Barfield's Appendix 2 Table, I think there we are mostly likely to be looking at the subsequent stage, as I note above. Again, I cannot be sure, but the notes of the involved parties there tend to support my view I think – i.e. vendors noted as Gallagher, Cemex; 'developers' noted as Bloor Homes, Bovis/Bellway, Barratt/DWH (= David Wilson Homes), Taylor Wimpey. I think what we are seeing there is activity at the stage beyond the agricultural land (or other holding perhaps) having been purchased by organisations such as Gallagher, worked through to a developable or closer to construction stage, and often sold to the housebulding companies. Such subsequent sales would be seen at significantly higher land values than those that I have discussed above and that are relevant the Local Plan viability considerations when looking to reflect and consider the first release of agricultural land – in the case of such larger scale greenfield hosted development. Were we dealing with other host site types, for example previously developed land (PDL) with a potentially significantly higher existing use value, or development consent in place, then we would agree that significantly higher land values could well be appropriate.

Given the nature of the proposition at the relevant point and all the relevant costs to be reflected at the early stage, the land value levels I think Mr Barfield suggests should or could be relevant would in my view generally not be appropriate. Such a land value expectation at this stage would most likely place too much pressure on viability and (if it were correct / appropriate) mean scheme and / or planning obligations adjustments. However, for the reasons noted here, I consider that would not be the case – such a level of land value would not be accepted in any negotiation with the local authority in our experience, and would in itself result in a non-deliverable outcome. Instead, a land value benchmark that was considered too high could be expected to come under pressure and need adjustment as part of the usual viability dialogue. As is well recognised in guidance, land value needs to reflect all the characteristics of a site and planning policy requirements; it is not simply a case of an immovable land value at too high a level meaning some form of development proceeding regardless of this consideration.

As a final point on this, related to assertions on land value, I consider it worth noting that Mr Barfield's "rule of thumb" is barely relevant in the context of varying site scenarios and planning policies, a CIL potentially being in place, etc. Whilst this might give some form of general indication in some PDL or consented development scenarios, a wide range of land values (including when expressed as a proportion of gross development value) is still seen generally. This is certainly not any form of even rough indication appropriate for use in a strategic scale greenfield release scenarios. I am not sure if or how this has fed directly into Mr Barfield's presented positions, but in general the theme appears consistent with what are, I think, most likely excessive land value ideas for this purpose.

So, concluding on this, if much higher land value levels were appropriate then, yes, the scheme content could come under pressure for alteration in some way as Mr Barfield suggests. However, I consider the key point here is that such land value expectations should not be entertained at the point in the development process we are dealing with here; i.e. rather than in the different circumstances of subsequent on-sale of the land by the promoting/masterplanning developer ready for development to the housebuilder. I have acknowledged that the above has necessarily involved a degree of interpretation / surmising.

I would add finally that it may be of interest to note that the London Mayoral SPG, for example, picks up the matter of comparability, and states on the area of using comparables / land transaactions with reference to benchmark land values: '*Land transactions reflect the specific circumstances of the developer whereas planning viability appraisals are typically undertaken on a standardised basis. Reliance on land transactions for sites that are* <u>*not genuinely comparable*</u> [DSP emphasis] *or that are based on assumptions of low affordable housing delivery, excess densities or predicted value growth, may lead to inflated site values. This undermines the implementation of Development Plan policies and the ability of planning authorities to deliver sustainable development.'* (Source: para 3.42, London Mayoral document – Affordable Housing and Viability SPG - 2017).

I trust this adequately covers the points raised and is helpful for the Examination purposes. Again, however, please let us know if anything more is needed from DSP.

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I confirm that DSP is content for this to be passed on by RBC for the Examination purposes only; it is not intended for and should not be relied upon for any other purpose. In no way does this letter provide formal valuation advice.

Yours Sincerely,

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