

Alderholt Meadows
Land to the South of Ringwood Road
Alderholt, Dorset, SP6 3DF

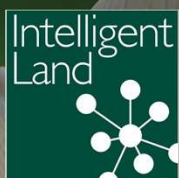
VIABILITY REBUTTAL REPORT

REVIEW OF ASPINALL VERDI'S VIABILITY PROOF OF EVIDENCE

Prepared By Mark Sturman BSc (Hons), MRICS
On Behalf of Appellant (Dudsbury Homes (Southern) Ltd

APPEAL REF: APP/D1265/W/23/3336518

June 2024



SMARTER DEVELOPMENT

Hillview Business Centre
2 Leybourne Avenue
Bournemouth
Dorset
BH10 6HF

CONTENTS

Section 1 Review of the Council’s Viability Report, Prepared by Mr Atam Verdi of
 Aspinall Verdi

APPENDICES

Appendix 1 Benchmark Land Values Adopted in Other Regional Assessments

Appendix 2 Adjusted Residual Appraisal 50% Affordable Housing

Report Presented by	Intelligent Land on Behalf of the Appellant
Appeal Reference	APP/D1265/W/23/3336518
Planning Reference	P/OUT/2023/01166
Issue no.	1
Date Issued	14 th June 2024
Lead Author	Mark Sturman MRICS
Checked by	Nigel Jacobs

1. **Review of the Council's Viability Proof, Prepared by Mr Atam Verdi of Aspinall Verdi**

1.1 During the period leading up to the appeal I have not received any meaningful response from Mr Verdi regarding viability. Conversely, I have engaged on an open book basis with the Council and their advisors, sharing evidence, spreadsheets and appraisal software files. I only understood the Council's position when Mr Verdi issued his proof of evidence.

1.2 I have carefully reviewed Mr Verdi's proof of evidence and it is apparent that there are two key areas of difference, leading to the significant gap between positions. The appellant proposes 35% affordable housing and the Council propose 50% affordable housing. This rebuttal seeks to assist the Inspector in understanding the key issues that have led to the differences in opinion.

1.3 **Benchmark Lane Value**

1.4 It is agreed that the benchmark land value should include a significant premium above existing use value (EUV). Both parties have obtained opinions of EUV from third party consultants. Due to time limitations and a willingness to engage the Appellant obtained an informal opinion. In his Proof, Mr Verdi set out his own view of EUV but on 10 June 2024 he provided a 'Red Book' opinion of value that indicated a significantly different EUV from Mr Verdi's own view.

1.5 My opinion of benchmark land value is set at the minimum threshold of £100,000 per gross acre. This rate reflects my experience and has been used regionally on other projects when assessing viability. That benchmark land value has been before the Council since April 2023 and no other benchmark has been put forward before Mr Verdi's proof. To assist the Inspector, Appendix 1 provides details of benchmark land values adopted in other regional schemes. The figure of £100,000 per gross acre is derived from professional judgement, but then referenced back to EUV.

1.6 I am advised by rural agents Symonds & Sampson that the average EUV is £19,500/gross acre, creating an equivalent multiplier (landowner premium) of 5.1, well below the industry accepted greenfield multiplier range of 10-20 times EUV. The multiplier confirms, in my opinion, the selected benchmark land value.

- 1.7 Mr Verdi has not assessed nor evidenced landowner premium, choosing to simply adopt the equivalent multiplier produced in my calculations. As a result, he produces a benchmark land value in his proof of £58,650/gross acre. This figure is too low to incentivise landowners and at odds with regional evidence. Since he received his Red Book valuation, it seems from my discussions with him that Mr Verdi has altered his benchmark land value by applying the same equivalent multiplier to the new EUV. This alteration is documented in the Viability Topic Paper whereby Mr Verdi's benchmark land value has increased from £17,794,487 to £26,903,775.
- 1.8 Mr Verdi's chosen lower benchmark partly supports his assertion that the scheme can afford to viably deliver 50% of dwellings as affordable housing units. This figure is also at odds with actual delivery from other regional developments that average 27% affordable housing (see Appendix 18 of my proof of evidence).
- 1.9 In my opinion Mr Verdi's approach is wrong because he fails to consider actual price at which a landowner would be incentivised to sell. This is not driven by a mathematical application of a particular multiplier to the EUV. The premium should be assessed by reference to the "best available evidence informed by cross sector collaboration. Market evidence can include benchmark land values from other viability assessments" (PPG Paragraph: 016 Reference ID: 10-016-20190509). I have set out such evidence, but it does not appear that Mr Verdi has done so.
- 1.10 Appraisal Assumptions**
- 1.11 At para 6.4 of Mr Verdi's proof, he advises that agreement has been made on most appraisal inputs and that key areas of difference are profit, professional fees and benchmark land value.
- 1.12 Whilst this might be his opinion, in his appraisal Mr Verdi has adjusted various inputs in my appraisal to effectively 'balance the books' equalising a lower residual value to the reduced benchmark land value. These changes are not explained in his proof but have been used to alter the appraisal to support the contention that 50% affordable housing could viably be provided.
- 1.13 Small appraisal input adjustments can have a significant effect on output particularly on large scale projects. For example, Mr Verdi has reduced professional fees by 2%, this relatively small adjustment leads to a cost reduction of £5,800,000.

- 1.14 It is important to note that Mr Verdi has not evidenced any of the appraisal adjustments in his proof of evidence. Adjustments made specifically relate to:
- Employment land sale revenue
 - Public house land sale revenue
 - Local centre land sale revenue
 - Professional fees allowance
 - Disposal fees
 - Profit on market housing revenue
- 1.15 Since these changes are unexplained, I am unable to comment on them save to say that I consider that my appraisal remains sound. I am also unable to comment on finance costs and associated sale rates as Mr Verdi has not provided explicit cashflow printouts with his analysis.
- 1.16 To assist the Inspector, I have re-run my appraisal to measure the effects of introducing affordable housing at Policy LN3 target of 50%. All other appraisal input assumptions remain unchanged as submitted in my proof of evidence.
- 1.17 As shown at Appendix 2 the residual land value reduces to £12,600,000. This figure is circa £17,500,000 below my benchmark land value, £5,200,00 below the initial Aspinall Verdi benchmark land value and £14,300,000 below the altered Aspinall Verdi benchmark land value.
- 1.18 In my opinion Mr Verdi has made arbitrary, unevidenced adjustments to my appraisal to seek to justify a target of 50% affordable housing, despite this being accepted as being unviable in Dorset (see Section 9 of my proof of evidence). Following this unevidenced approach could threaten the long-term viability of the project.
- 1.19 My review of Mr Verdi's evidence has identified a mathematical error within his calculations. It appears that Mr Verdi has calculated affordable housing requirement using a total unit number of 1,630 as opposed to the correct total unit number of 1,694. The error leads to an overprovision of market units and under provision of affordable housing units. A summary comparison of the calculations is set out below

Table 1 – Housing Mix Correction Assuming 50% Affordable Housing

Analysis of Mr Verdi's Housing Mix	Mr Verdi Incorrect Calculation 50% AH.		MS Re-calculation 50% AH	
	Units	% of Mix	Units	% of Mix
1. Market Housing				
Local Centre Market Housing (Fixed)	64		64	
Main Scheme Market Housing	816		783	
Market Housing Total	880	52%	847	50%
			33	Diff
2. Affordable Housing				
First Homes	200		211	
Affordable Rent	415		446	
Shared Ownership	200		190	
Affordable Housing Total	815	48%	847	50%
			-32	Diff
Total Units	1695		1694	

- 1.20 The housing mix adopted by Mr Verdi in his proof and supporting appraisals reflect 48% affordable housing allocation and not 50% as stated therein.
- 1.21 It appears from recent correspondence that Mr Verdi no longer maintains the position in his proof but, in light of his Red Book valuation, contends for 41.5% affordable housing. This figure has not been supported by the disclosure of any new appraisal, but assuming it relies on the same inputs addressed above, my comments remain the same.
- 1.22 Given the above mathematical error in calculating affordable housing provision Mr Verdi's contention of 41.5% affordable housing is overstated. This figure will reduce if Mr Verdi's housing mix is corrected to reflect 50% allocation, with fewer market units and more affordable units.
- 1.23 The Appellant has offered a review mechanism to measure cost and revenue, ensuring additional affordable housing will be provided, if viable.

Appendix 1

Schedule of Benchmark Land Value Evidence

Paragraph 016 NPPF(Viability Guidance Feb-24) Confirms market evidence can include benchmark land values from other viability assessments.

No.	Location	Source	Author	Date	Reference	BLV Rate/Gross Acre	Notes
1	Test Valley	Test Valley Borough Council: Strategic Sites Viability Testing	BNP Paribas Real Estate	Dec-23	Paragraph 4.20, page 14.	£100,000	Report concludes: 'Given their scale and high level of infrastructure requirements, we have applied a benchmark land value of £250,000 per gross hectare (£100,000 per gross acre) to the sites in the south'.
2	Wiltshire	Local plan viability and the review of the Wiltshire Community Infrastructure Levy Charging Schedule	Urba (Porte Planning Economics)	Sep-23	Table 6-11, page 63.	£112,443 (avg)	The figure shown is the average benchmark land value for greenfield strategic sites in Wiltshire. The highest BLV in the dataset was £150,136 and the lowest was £91,404.
3	Dorset	DVS - Robert Gill MRICS	District Valuer Service (DVS)	Jan-23	Meeting	£100,000	Mark Sturman discussion with DVS on appropriate benchmark land value for large greenfield strategic sites. DVS provided their opinion of acceptable threshold against which viability can be tested.
4	Dorset	Dorset Local Plan Viability Assessment - CDF-14	Three Dragons	May-22	Table 4.6, page 25.	£127,476 (avg)	This viability report supports the emerging Dorset Local Plan. The assessment tests greenfield strategic site viability against BLVs of £85,000/gross acre, £127,500/gross acre and £169,968/gross acre. The average of these rates is £127,476/gross acre. Sensitivity testing concluded limited reason for increasing the affordable housing target above 35% in the higher value area (NB the higher value area includes Alderholt).
5	Fareham	Fareham Borough Council - Welborne Garden Village Viability Review	CBRE	Oct-19	Paragraph 6, Page 24	£100,000	CBRE concluded 'In our experience we are of the opinion that £100k per acre is the minimum price that strategic land is acquired for'.
6	Dorset	DVS - Review of Development Viability Assessment - West Parley	District Valuer Service (DVS)	Jul-19	Paragraph (i), Page 9.	£100,000	Its existing use value as agricultural land would be approx. £10,000 per acre. Taking account of the Harman Report/NPPF we are of the opinion that a multiplier of 10 times the EUV would be appropriate for this green field site. We believe that this would provide an incentive for the landowner to sell in order for this strategic site to be delivered. We have therefore adopted a benchmark land value of £9,184,000 which equates to £100,000 per acre gross. This benchmark land value is now agreed with Alder King.

Appendix 2

ALDERHOLT MEADOWS SWVR
MAIN SCHEME APPRAISAL
1630 UNITS - 50% AFFORDABLE HOUSING
Intelligent Land Inputs

Development Appraisal
Prepared by Mark Sturman MRICS
Intelligent Land Limited
13 June 2024

**ALDERHOLT MEADOWS SWVR
MAIN SCHEME APPRAISAL
1630 UNITS - 50% AFFORDABLE HOUSING**

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft ²	Rate ft ²	Unit Price	Gross Sales
Market Housing	783	720,405	392.30	360,940	282,616,186
First Homes	211	160,674	260.05	198,024	41,782,990
Affordable Rent	446	344,819	227.53	175,916	78,458,482
Shared Ownership	<u>190</u>	<u>150,080</u>	227.53	179,728	<u>34,148,337</u>
Totals	1,630	1,375,978			437,005,995

Commercial Revenue

Employment Land Sale	4,000,000
PH Land Sale	1,000,000
Village Centre Land Sale	3,400,000
	8,400,000

NET REALISATION

445,405,995

OUTLAY

ACQUISITION COSTS

BSV (301.46 Acres 41,835.38 pAcre)	30,154,000
Residualised Price (Negative land)	(17,542,306)
	12,611,694
Stamp Duty	620,085
Agent Fee	126,117
Legal Fee	63,058
Acquisition Surveys Due Dil	5,000
	814,260

CONSTRUCTION COSTS

Construction	ft ²	Rate ft ²	Cost
Market Housing	738,725 ft ²	142.05 pf ²	104,933,623
First Homes	176,071 ft ²	147.79 pf ²	26,021,906
Garage Build	100,104 ft ²	45.00 pf ²	4,504,680
Affordable Rent	370,207 ft ²	147.46 pf ²	54,589,954
Shared Ownership	<u>163,689 ft²</u>	147.35 pf ²	<u>24,119,944</u>
Totals	1,548,796 ft²		214,170,107

214,170,107

Other Construction

IDP (See Cash Flow)	63,764,169
Section 106 (See Cash Flow)	14,319,207
Construction Contingency	10,708,505
IDP Contingency	6,376,417
	95,168,298

PROFESSIONAL FEES

Professional Fees	27,793,428
	27,793,428

DISPOSAL FEES

Market Fees (Market Housing)	8,478,486
Market Fees (FH & SO)	1,518,627
AR COntract Agency	784,585
AH Contract Legal Fee	563,034
Mkt/FH/SO Conveyance	888,000
	12,232,731

FINANCE

Debit Rate 5.500%, Credit Rate 0.000% (Nominal)	
Land	7,291,399
Construction	9,554,749
Total Finance Cost	16,846,148

TOTAL COSTS

379,636,666

PROFIT

65,769,329

Performance Measures

Profit on Cost%	17.32%
-----------------	--------

ALDERHOLT MEADOWS SWVR**MAIN SCHEME APPRAISAL****1630 UNITS - 50% AFFORDABLE HOUSING**

Profit on GDV%	15.05%
Profit on NDV%	15.05%
IRR	13.43%
Profit Erosion (finance rate 5.500%)	2 yrs 12 mths