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Please ask for:	Laura Bailey	Direct Dial:	01295 221824
Email:	Laura.bailey@cherwell-dc.gov.uk	Our Ref:	11/01494/OUT

29 June 2012

Dear Christine

Re: Proposed redevelopment of Graven Hill (Bicester) and C site (Arncott) – Planning application no. 11/01494/OUT

I write with regard to the above mentioned planning application and further to our meeting at Bodicote House on 31st May 2012, which was to discuss outstanding matters. I also write further to Philippa's email received on the 20th June 2012 outlining DIO's finalised S106 offer. I shall deal with both issues in turn.

Please find below my understanding of the outstanding issues you required clarification on, following the 31st May meeting:

•Updated allotment S106 figures - 2012/13 Rate for Allotment Maintenance is £16.07 + 10% Management = total £17.67/m^2

•I have received a formal response from the Council's Planning Policy section in relation to the application, which has been captured online. You required clarification on the Council's position in relation to the private housing mix DIO has presented. You will note from the formal Policy response that the mix proposed significantly differs from Policy BSC4: Housing Mix. The Council does not consider that the mix complies with the requirements of the Policy. What consideration has been given to how a range of housing closer to that required by Policy BSC4 can be achieved?

•The Design and Conservation Officer (Claire Sutton-Abbott) requested the following additional information in her latest response as follows:

The following photomontages and their assessments requested by Linda Rand are still outstanding:

** The verification of the screening of the building by the Tally Ho Hotel and the impact of the proposed building on the setting of the adjacent listed building, 43 Ploughley Road.*

** Viewpoint 7 (Methodist Chapel and 16 Green Lane) and a full analysis of the impact of the proposed building on the aspect from the existing buildings and the setting of the listed buildings here.*

The verification of screening, as outlined, is still required. Photomontages for viewpoint 7 are not required, but a full analysis of the impact of the building on the setting of the listed buildings (including the Methodist Chapel) is still required. This is in addition to the additional work identified for Graven Hill in her response dated 17th May 2012.

•Ecology - you are in receipt of the comments provided by the Council's Ecologist (Sarah Postlethwaite), which outlines the further information required. I understand that you are in direct contact with Sarah, your Ecologist and Natural England to try and resolve this outstanding matter.

•Underpass – Philippa confirmed that work to date on this matter remains inconclusive. Both Jenny and I reiterated that this issue is fundamental to the proposal, with particular regard to the connectivity and sustainability of the site. The Bicester Strategy Team (County Council) have also confirmed that the underpass route is considered an essential link to the town centre from the development and needs to be secured.

•In relation to the comments provided by Rob Lowther (Council's Anti Social Behaviour Manager) regarding the ES Addendum information, you confirmed that Rachel from AMEC would be liaising directly with Rob to provide the additional information required.

In addition to these points, the following issues still remain unresolved:

- Visual impact of the development on both sites (C and D&E) remains a serious issue. In particular, the buildings fronting the A41 on Graven Hill and the scale and height of the Fulfilment Centre on C site.
- We are still awaiting confirmation from the County Council regarding transport impacts and mitigation.
- With particular regard to the comments from the Planning Policy section, you will note that there are several issues relating to;
    - Inadequate provision of affordable housing and private housing mix contrary to Policy BSC4 of the Proposed Submission Local Plan 2012 (PSLP).
    - Lack of Economic Strategy and information as to how the development would contribute to the development of a coherent economic strategy for Bicester and complement other planned employment to seek to change the image of the town, in line with the Eco Bicester – One Shared Vision document and the Council's Economic Development Strategy.
    - The scale of retail development proposed at Graven Hill is of a much larger scale than local centre provision. The Council's 2010 Retail Study identifies that there is no additional capacity for convenience retail in Bicester, on top of that approved as part of the Bicester Town Centre expansion. Any 'local centre' provision at the Graven Hill site should reinforce rather than undermine the role of Bicester town centre as the primary retail and service centre.
    - In terms of transport and connectivity, one of the key requirements of Policy 2: Graven Hill within the PSLP are use of the rail tracks on site to serve commercial logistics and distribution development of an expanded rail freight interchange. You

should be aware that the delivery of rail linked warehousing is a key element of the allocation of the site for development in the PSLP, as is the retention and use of the spur line off the Bicester – Oxford line in its entirety. The future use of this rail spur is a key element affected by this proposal and should form part of the outline application.

- The Energy Strategy is not sufficiently detailed to meet the requirements of the PSLP policies on sustainability.

DIO's finalised S106 offer

The proposed final offer falls considerably short of the S106 requirements sent to you on 31st May 2012. For instance, the offer does not provide for CDC waste collection, cemetery provision, landscape maintenance, community halls (and workers) or public art.

In relation to viability, Bruton Knowles have provided further comments on DJD's comments. I attach them for your information. Consequently, the Council is unable to agree on viability matters.

Given the range and complexity of issues that remain outstanding, the application will not be taken to the July Planning Committee.

I would be grateful for your written confirmation/clarification on the points I have raised above. I would also suggest that you contact me to arrange a mutually convenient meeting time to discuss these matters, in the week commencing either 2nd July or 9th July 2012.

Yours sincerely

Laura Bailey BSc. (Hons) MA MRTPI
Planning Officer
Public Protection & Development Management
Cherwell District Council

Enc: Bruton Knowles response on viability

Bicester Viability Appraisal – Application No. 11/01494/OUT Response to Bruton Knowles' second note dated 14 May 2012

Date:	11 June 2012
To:	Philippa Charles, DIO Christine Ide, DIO
From:	Lindy Nassar, DJD

Bruton Knowles' comments are shown in blue below. A response to each heading has been provided in turn: BKs further without prejudice comments are now in red

Land Acquisition Costs

I am unclear whether the £29.75 million argued for is made up of the existing use value of the current buildings and facilities on the site plus a premium (as set out in the viability report) or whether it is an assessment of the strategic land value of the site.

Once that is clarified and some details of the existing use valuation and/or details of the strategic sites sold by DJD have been provided I will be in a position to consider this aspect further. It may be this issue can then be agreed.

The £29.7 million represents the net developable strategic brownfield land of 401.6 acres, based on a figure of £75,000 per acre. The comparable evidence we have is for greenfield strategic land with potential for redevelopment to residential use, rather than an assessment of the existing use value of the current buildings and facilities on site plus a margin (which may well be higher).

In summary, if the scheme were to come forward as we have outlined, DIO would stand to receive £33.3 million in current value (or £83,000 per acre). We took the view that this was a reasonable figure for the landowner to release the land.

Landowners in the region would expect to receive a minimum of £100,000 per acre, and up to £250,000 per acre (Source: Carter Jonas Strategic Land Team, Oxford). These are values for greenfield sites that have not been allocated for residential development but are at Preferred Option stage. We would argue that these sites are similar to Graven Hill, however Graven Hill is not a greenfield site, but rather a brownfield site with potential for redevelopment to residential use. As such DIO could reasonably expect to receive less than £100,000 per acre due to the complexities of the site. As Bruton Knowles has pointed out, there is also an underlying value for the existing employment use.

We would like to agree the release value of £33.3 million, based on the information above.

I think the net has been previously quoted at slightly over 396 acres (160.52 hectares). That achieves the £29.7 million at £75,000 per net acre. If this figure is not an assessment of the existing use value I cannot see the logic for a premium over and above it.

Perhaps we will be able to agree a release value of £29.7 million

Timescales
[The timescales are] noted but that does not necessarily mean that some form of escalation or development review mechanisms should not be incorporated into large scale, long term schemes of this nature where appropriate and necessary.

We do not disagree with the principle of a review mechanism for these large scale sites, however, viability must be assessed at the current time with the mechanism to review the viability in say 5 years' time to the benefit of the Council or indeed the landowner at that time. It is however, unrealistic to expect DIO to make assumptions about the market in the future and sign up to additional contributions at the current time based on such forecasts.

Noted. Viability appraisals can be carried out on either basis – current values plus a review mechanism or on forecast values. Your preference is noted.

A limited pre-development period can be factored into appraisals of this nature where appropriate but in my experience of large scale schemes it is rarely longer than 6 to perhaps 9 months unless there are particular upfront infrastructure requirements that have to be installed before any housebuilding can commence. I am not aware that this is the case here.

There is a fundamental issue relating to the fact that the site is not available until 2015 yet planning permission is being sought now. It does not seem appropriate to allow this period to dramatically impact on the ability of the scheme to support justifiable planning gain. For the purposes of a viability assessment I cannot be convinced that it is appropriate.

We have taken on board this point and we would like to agree a pre-development period of 12 months. On this basis, we are pleased to offer additional contributions.

Noted and prepared to accept a 12 month lead in period. This makes a significant difference to the viability model. I have re-run the Applicants model removing three of the pre-development years but keeping everything else the same for illustrative purposes only. It increases the OCC Cost Requirement line from £14.24 million to £54.7 million.

Residential Land Value
I have researched serviced land sales in Bicester by way of a check against your £950,000 per acre net of demolition etc. The most recent sale of land at Kingsmere was Lots KM 8 and KM 12 sold to David Wilson in September 2011. The marketing details are attached for information. The offer comprised 10.87 acres gross with consent for 133 units in total of which 43 were affordable housing (32.3% overall). The sites were fully serviced with very little abnormal development cost and no Section 106 obligations to be met. I understand that the sale price equated to some £100,000 per blended unit/£13.3 million overall although I am currently unable to determine whether this was paid in tranches or by way of a single lump sum.

I have been unable to determine the exact net developable acreage of the site but it will be less than the 10.87 gross acres. Nonetheless, taking this figure gives £1.225 million per blended acre as a minimum value for a serviced and blended net developable acre. Assuming say 10 net developable acres would yield £1.33 million per blended net acre.

We would consider the plots of land sold by Strutt & Parker to be 'net' developable residential land in order to compare them to our own assessments. We appreciate that there will be internal roads & car parking and a bit of landscaping within those serviced plots, but that is the basis for which we are running our own appraisals so we would like to agree this 'net' land point on this basis. If we assume the net land is then 10.87 acres, this yields a blended value of £1.2 million per acre.

Presumably you are saying the Kingsmere sales were of net land only – ie they were not selling anything that could be considered to fall outside the normal definition of net developable area. If so, then yes, the sales indicate £1.225 million per blended acre. However that seems unlikely bearing in mind the evidence provided on another Bicester site suggesting £1.4 million per net acre inclusive of deferred payment terms.

There are two further Kingsmere plots currently on the market – KM7 and KM8. Details are attached for information. The combined sites are 9.92 acres supporting 141 dwellings of which approximately 31.75% are affordable. The asking price is £12 million so equating to £1.21 million per "gross" acre and obviously more than that on a "net" acre if there is any difference between those two measures.

I have put a call into Strutt & Parker to determine whether they are selling 100% net which may resolve this issue.

These land values do not reflect abnormal development costs and I note that your £950,000 per net developable blended acre does include a deduction of £150,683 per net hectare (£61,000 per net acre) for abnormal costs relating to planning, demolition (E site only) and remediation. It is appropriate to adjust the serviced land value figures accordingly.

It is correct to agree on this point in principle, but no two sites are the same and although it is helpful to 'sensecheck' development appraisals against transacted prices for land, the purpose of the development appraisal is to correctly reflect the costs and values attributed to the site and the site's issues. The Kingsmere land in Bicester and the Graven Hill site (even if just viewed from an aerial photograph) are incredibly different in type. There are costs associated with Graven Hill (demolition, remediation etc) which are not applicable to the Kingsmere site because the land there is cleared and ready for redevelopment.

Agreed, which is why a £61,000 per net acre adjustment needs to be made

There is no guarantee that the costs to make Graven Hill ready for development are exact; the costs we have assumed which underpin the

£950,000 per acre assessment, are based on reasonable abnormal assumptions. These equate to about £61,000 per acre for reserved matters costs, demolition and remediation. A contingency of only 5% has been applied to the appraisals, arguably, a higher contingency should be allowed to reflect this risk.

As such, we would like to agree the residential values at c. £950,000 per acre based on the assumptions above.

We are narrowing down the serviced, blended land values to somewhere between £1.21 million per net acre to £1.388 million per net acre. We are then agreeing that £61,000 per net acre needs to be deducted for abnormal costs taking us to a revised range of £1.15 million to £1.327 million per net acre.

There is nothing in the viability appraisal to suggest we should allow a further deduction to maintain £950,000 per net acre.

If I am able to ascertain that the Kingsmere land sales are of net land only then £1.215 million less £61,000 = £1.154 million per net acre might be appropriate for the purposes of this modelling. This is a blended value based on approximately 32% affordable housing. The £950,000 is a blended value based on 20% affordable housing.

This again has a significant impact on the model. The £54.7 million referred to above becomes £78 million at £1.154 million per net acre and justifies 32% affordable housing.

Whilst less important when there is evidence of serviced land value to consider, I have been tracking sale prices at Kingsmere from late 2011/early 2012 as well as the general Bicester market and have used this to assess my opinion of average sales values which I attach herewith. You will see that it concludes average flat values at £2,854 psm/£265 psf and average house values at £2,758 psm/£256 psf.

We note the only concern raised in relation to the residential development appraisal, is the sales values of the units.

Not correct. It follows from the wide divergence between the DJD appraisal results and the land sales evidence that the appraisal may under estimate values and/or over estimate costs. I have simply not picked through each input at this stage because it is unnecessary to do so with directly comparable land sales evidence available to us.

We have taken note of the schedule provided regarding comparable sales values and we note that our values are lower than your estimates by 3% for flats (DJD valuation of £257 psf) and by 10% for houses (DJD valuation of £230 psf).

Flats

Broadly speaking, a 3% difference in our sales values is not a substantial issue. However, we have set out below our assessments:-

We are aware that Bovis and Taylor Wimpey developed the first two phases of Kingsmere (KM 1 & KM 2) and those schemes did not include 1 bedroom flats. The 2 bedroom flats in these schemes are known as 'coach houses' – they are effectively flats over a garage. The schedule provided by Bruton Knowles shows only one 2 bed flat which is on the market at £205,000 (including a discount this equates to a sales value of £246 psf). The value provided here of £246 psf is in fact lower than our valuation, and inconsistent with Bruton Knowles' summary sheet reporting a higher value of £265 psf for flats.

The scheme proposed at Graven Hill does allow for a small proportion (10%) of 1 bedroom flats to cover all aspects of the market and allowing for a longer term view of market demand. In valuing the apartments, we took note of agents' comments that flats are normally located in town centres and within close proximity to transport, with limited demand for flats on the outskirts. Based on comparable evidence, £120,000 - £135,000 per unit is a reasonable sales price for second hand 1 bedroom units in Bicester.

Information regarding 1 bedroom flats in Bicester, is shown below:-

Address	**Sold**	**Asking**	**sq ft**	**sq m**	**£ sq ft**
Heron Drive	£124,000	£129,950	479	45	£258.87
Ambassador Court		£138,950	700	65	£198.50
Victoria Court		£135,000	600	56	£225.00
Lapwing Close		£123,995	359	33	£345.39
		£130,000			**£257.00**

Source: Thomas Merrifield, Connells, Quadrant, Chancellors, Andrews Estate Agents

Information regarding 2 bedroom flats in Bicester, is shown below:-

Address	**Asking**	**sq ft**	**sq m**	**£ sq ft**
Coach House	£167,995	683	63	£245.97
Coach House	£195,000	831	77	£234.66
Parkland Place	£179,995	695	65	£258.99
Corncrake Way	£155,000	646	60	£240.00
	£173,000			**£245.00**

Source: Quadrant, Alexander, Chancellors, Taylors, Michael Crouch Estate Agents

We have assumed a more appropriate sales value for the flats of £257 psf based on the higher average of 1 & 2 bed flats noting that some of our comparables are second hand stock which will fetch lower values, and taking into account the sold transaction price of the 1 bedroom unit.

Applying a £257 psf sales value to the Dovedale unit at Kingsmere yields a sales price of £203,000 which is in keeping with the asking price that Bruton Knowles have presented us.

On this basis, we would like to agree the sales values of the flats at £257 psf.

As noted earlier, further consideration of individual unit values is unnecessary with land sales evidence to consider.

Houses
There is a difference of 10% in the sales values reported by Bruton Knowles at £256 psf and the Drivers Jonas Deloitte value of £230 psf.

Having reviewed the schedules provided, we note the following inconsistencies:-

Taylor Wimpey:
· Belford is not currently on the market
· Flatford asking price is £265,000
· Crofton asking price is £275,000
· Lincoln asking price is £350,000
· Oakford asking price is £325,000
· Thame asking price is £435,000
· Langton asking price is £455,000

Bovis:
· Padstow, Oxford, Fleming, Barnstaple and Gaskell are not currently on the market
· Howden asking price is £259,995 (correctly reported)
· Wheatley asking price is on application
· Sherwood asking price is £319,995 (correctly reported)
· Beaumont asking price is £345,995
· Buckingham asking price is £349,995 (correctly reported)
· Melville asking price is £419,995 (correctly reported)
· Faulkner asking price is £429,995
· Howard asking price is £494,995
· Middleton asking price is £499,995
· Beaumaris asking price is £509,995

It would appear that the asking prices have dropped between the Bruton Knowles data of Feb 2012 and May 2012. See enclosed pdf.
Our comparable evidence for houses is shown in the table below:-

Bovis Homes Development – Kingsmere
Address House/Flat Bed Asking sq ft sq m £sq ft
The Howden House 3 £269,995 966 90 £279.50
The Sherwood House 3 £319,995 1,086 101 £294.65
The Ashleigh House 3 £279 ,995 1,1 90 11 1 £235 .29
40% 1,080 £269.81
Address House/Flat Bed Asking sq ft sq m £sq ft
The Fleming House 4 £339,995 1,231 114 £276.19
The Beaumont House 4 £344,995 1,192 111 £289.43
The Gaskell House 4 £365,995 1,826 170 £200.44
22% 1,416 132 £255.35
The Melville House 5 £419,995 1,660 154 £253.01
The Barnstaple House 5 £424,995 1,760 164 £241.47
The Faulkner House 5 £434,995 1,737 161 £250.43
The Howard House 5 £499,995 2,211 205 £226.14
38% 1,842 171 **£242.76**

The weighted average value of these houses (i.e. taking into account the proportion of 3/4/5 beds), is £256 psf and we have been advised by Bovis that they are accepting discount packages of 10% off asking prices which equates to £230 psf. As such, our assumed sales value for the houses is **£230 psf.**

It is also important to bear in mind that there is currently no direct competition to the Kingsmere site, howeverwith increased supply of new builds once Graven Hill comes forward, this increase in competition would have an effect on values.

As there are no further comments on the residential appraisals, we would like to close out this point regarding the sales values, at £257 psf for flats and £230 psf for houses. Our assessment is based on a detailed set of assumptions that are specific to the site and reflective of the current market.

We do not need to rely on residual appraisals to assess land value inputs into the model. Land sales evidence is more appropriate.

Mixed Commercial
I am aware that Countryside Properties have been marketing nearly 1.8 hectares/4.39 acres of land suitable for commercial uses as part of the Kingsmere scheme. Some 0.9 acres has been sold to a hotel/pub chain at a price rumoured to be circa £800,000. I am trying to verify that now. The remaining 4.39 acres has consent for office and industrial uses and asking prices are £500,000 per acre for the whole site or up to £700,000 per acre for smaller parts. Most of the demand has come from retail interest at that level. Note : I now understand that the hotel/pub site eventually sold for £880,000 per acre. It "grew" in size to 2.5 acres approximately.

We have been marketing small sites in Surrey recently and have had interest from foodstore operators for a number of them. We received an unconditional bid for a local convenience store at £585,000 for a 0.479 acre site (£1.22 million per acre) and a further unconditional bid for an edge of town centre site at £2.1 million. This was for a 0.63 acre site (£3.3 million per acre). Both of these sites are smaller than the one proposed at Graven Hill and illustrate the level of values payable for smaller local stores.

We note the comparables provided are for smaller sites of around 0.5 acres. Although we have allowed for a 1.5 acre site, the size of the potential foodstore applied for is 20,000 sq ft gross. This would equate to a 12-14,000 sq ft unit based on net sales areas. This is a critical point we would like to get across, as regardless of the size of the site, the value would be generated by the size of the foodstore unit. Despite the allowance provided in land take, a large foodstore would not be acceptable on the site in planning terms.

Noted, but land values for foodstores are significant and entirely unrelated to £225,000 per acre. We sold a site in Rye that was suitable for a foodstore. Two retailers bid on an unconditional basis with overage payments. One offered £3.9 million part unconditional part subject to planning for a store with a net retail area of 15,000 sq ft. In addition, they had to pay another landowner a significant sum for access. Even without that additional land value, one could equate that bid to a minimum of £3.1 million to £3.6 million plus for a store of 12,000 sq ft to 14,000 sq ft net retail area on a pro rata basis.

We have dealt with a number of foodstores and can provide further evidence if necessary but it is clear that land values are significantly in excess of £225,000 per acre.

So with hotel and foodstore operators able to pay considerably more than £225,000 per acre for 5.2 acres and office land values in the order of £400,000 per acre (see below) for circa 1.5 acres it can be seen that an average value of £225,000 per acre is too low.

Once I have been able to determine the price for the Kingsmere hotel/pub land we should be able to finalise figures here.

The scheme currently reflects sale of this mixed-use parcel in the first year. As Bruton Knowles will be aware this is an optimistic approach as without any homes delivered on the site, it will be difficult to attract occupiers. We may be able to reflect a higher value as you say but this wouldn't be reflected until some years in the future once the area is more established. The effect of discounting this future receipt would counter-act any additional value.

The mixed commercial land is set back from the main road (A41) and is situated within the development. It is assumed that the commercial occupiers will depend on through-traffic into the site from residents in order to trade. As such, if we were to assume higher values, we would need to agree that this mixed commercial land would not come forward in the early phases.

The land has been viewed as a comprehensive mixed-commercial site with significant onward risk of take-up. It is also based on currently limited demand from office occupiers and high risk local independent shops; as such we would like to agree a blended value of £225,000 per acre, assumed as an early receipt.

I am open to considering a delay of this income provided we can agree something sensible on land values. It is not appropriate to work on the basis of a heavily discounted value for "an early sale" approach.

I consider the following to be minimum values applicable to the mixed commercial area and suspect that, if anything I am understating the convenience store value:

Convenience Store	1.48 acres @ £1,500,000 per acre	£2,220,000
Hotel/Restaurant/Pub	3.7 acres @ £880,000 per acre	£3,256,000
Local Shops	1.98 acres @ £200,000 per acre	£396,000
Offices	1.48 acres @ £400,000 per acre	£592,000
	8.64 acres @ £750,000 per acre approx	**£6,464,000**

Perhaps we can agree this.

Commercial Uses
I have requested site of this report [GVA Grimley] to corroborate the £243,000 per acre adopted as there is no other evidence to support it. My general understanding of serviced land values in the M40 corridor area is that £400,000 to £450,000 per acre would be appropriate. I understand for example that land has recently been acquired at Kidlington for £450,000 per acre.

The reality of the situation is that 60 acres of employment land being offered to the market is a substantially large amount. We do not dispute that values of £250,000 - £450,000 may be achievable on smaller sites and we are aware of two transactions that are around that level: 4.5 acres of land under offer around Bicester at £250,000 per acre and 1.5 acres of land transacted at £450,000 in the area (Source: Carter Jonas Employment Land Team, Oxford). However other agents and ourselves are of the strong view that those sorts of values would not be achievable on 60 acres of employment land. Albion Land have recently acquired a 60 acre site around Oxford, however this was agreed under option. For a large strategic site, we are of the view (which is supported by two other agents in the marketplace) that values around £100,000 - £200,000 are more realistic for large employment sites.

I am assuming that the 60 acres available is a net developable area (991,000 divided by 60 acres is a typical coverage of 16,500 sq ft per acre) and that the £243,000 per acre is not the net value of 60 gross acres. The Grimley report will clarify this point.

The 60 acres is assumed to be the land available for employment use and it has been assessed at £243,000 per acre taking into account the complexities of the Graven Hill site.
We are unable to supply the Council with another consultant's confidential report, however we have supplied an extract from the report below to appease your concerns. This report was written on 6th January 2011 and was deemed to be current as the employment market did not move on substantially in 2011.

Employment

3.23 Unsurprisingly, a downwards pressure on employment land values has also been experienced since the credit crunch and property market downturn. This is due to increases in investment yields and weakening occupier demand (discussed above) which have lowered the value of end development. Increases in the margins developers require, to reflect the additional perceived risk, has reduced viability further.

3.24 The shortage of debt finance and deterioration of wider economic conditions have subdued the appetite of industrial developers for speculative industrial development, and crucially, their ability to secure development finance. Factors such as the changes to the Empty Rates liability and introduction of Energy Performance Certificates (EPC) have provided additional constraints over the past two years.

3.25 GVA Industrial surveyors estimate that a cleared site in Bicester with planning consent for B1 / B2 / B8 uses would achieve a land value in the order of £600,000 to £750,000 per hectare (£250,000 to £300,000 per acre), depending upon plot size and assuming that the land is serviced, ready for development, and has excellent road access. It follows that development land values have probably halved since the peak of the development land market in 2007. There are few transactions taking place to support this view, and the land values quoted should be viewed with an appropriate degree of caution in light of the

volatility of prevailing market conditions in the industrial sector.

Based on the information provided, we would like to agree the commercial land values at £243,000 per acre.

The information provided acknowledges values up to £450,000 per acre are appropriate for smaller parcels. We are not looking to agree a discounted rate for the sale of a significant block of commercial land in a single tranche because the model assumes commercial accommodation is built out at a rate the market can withstand. It mirrors the approach we have adopted for the residential land.

Are you able to provide more information on the 4.5 acres close to Bicester at £250,000 per acre for consideration please ?

Discount Rate

[The DJD points are] noted but my point is that we are trying to assess the residual value of the site with planning permission. I do not consider that the purchaser will be a master developer who installs infrastructure and sells on serviced plots to housebuilders. The most likely purchaser in my view is a developer or consortium of developers who will buy with a view to partition the land between them and develop out the value generating uses. Their profit is explicit in the serviced land values adopted. Based on my own experience of dealing with large scale land I believe it is more appropriate to discount the cashflow at a finance based rate of say 7% than it is to adopt 15%.

On the one hand, the comments above refute the use of a discount rate as it is assumed that the master developer or consortium of developers will have an explicit profit within the serviced land values.

On the other hand, the comments also suggest that should it be acceptable to apply a discount rate, a rate of 7% would be more appropriate than 15%.

That is not correct. What I am saying is that the discount rate does not need to provide a profit return, only account for the time value of money – a developer purchaser is buying a lot of land day one but cannot develop it all out on day one - only over time. The discount rate deals with that. His profit is earnt from developing that land.

Our response is that this work has been carried out in light of soft-market testing. We are currently assuming Graven Hill will yield around £146 million in GDV over time, however there are significant highways and education contributions as well as demolition and remediation costs that a master developer will need to bear. As per Countryside's Kingsmere scheme, the master developer here would put in place all s106 contributions and they will require a return for the likelihood (or not) of selling parcels of land to housebuilders – otherwise there would be nothing to incentivise them to spend money on the infrastructure required. The discount rate takes into consideration their profit or return as well as the time value of money and finance.

We had directly discussed discount rates and the overall risk profile of the site with a number of master developers as part of our soft market testing. Detail of this evidence is shown below:-

Comments from one of the UK's largest privately owned housebuilders & construction business:
They would expect to have to pay the s106 contributions as well as off-site highways improvements, and service the site. The key issue for them will be how much infrastructure is needed upfront and whether they can service that cost. They would also want to know when vacant possession is expected and if they could push for reserved matters quickly. Their approach would be to undertake demolition and remediation themselves so as to maximise their income receipts, however this risk would need to be rewarded with a sufficient return. Although they would not disclose the discount rate, they said they would need to review the cashflow to fully understand how much money is at risk. A cost of £100 million, for example, would not be funded by them alone, and this would likely involve a consortium of developers to split the risk. Return on capital expenditure is a key driver, and alongside an investment such as this, they would consider various alternatives where their money is best placed. They also note that although they would expect the market in Oxfordshire to be stable, there is hesitation around placing 'all their eggs in one basket' and the risk of return on capital.

Comments from one of the UK's regeneration specialists dealing with strategic land:

They are currently running a Joint Venture with MOD on two sites: 2,500 homes in Mill Hill and 1,800 homes in Uxbridge. Taking on the risk of any of these sites upfront means they would have to factor in the cost of finance and the holding costs. They would expect to fund the wider infrastructure costs, partly through their own cash reserves and partly through finance from banks. The discount rate they would adopt would depend on the nature of the deal, the amount paid to the landowner, and how quickly and securely, they are likely to see a return. Their approach would be to put in the infrastructure for a premium and re-coup their project management costs on top of that.

We are of the strong view that a consortium of developers may not necessarily come forward for this site, and bearing in mind the type of scheme and longevity of the development, they are unlikely to take on board the risk at just the level of finance.

As such, we would like to agree a discount rate of 15% which is at the lower end of other bids we have received for large sites where the discount rate ranged between 15% - 20%.

I would expect a master developer to want a return if they were buying a site with planning permission based on a business model that installs infrastructure and pays Section 106 contributions whilst selling serviced land. But I am saying that a master developer does not buy sites with planning permission.

We deal with the exercise of Options on a significant number of urban extensions and new settlements across the country on behalf of both landowners and purchasers of similar size and larger than Graven Hill. Negotiations are based on discounted cashflows. We have never made an assumption that the discount rate needs to provide the purchaser with a return over and above that implicit in the serviced land values. Nor has any developer purchaser suggested we should. We have recently agreed a price on 1,500 units in the South East for example based on a finance rate level of discount. The purchaser is a consortium of national housebuilders and this is the profile of purchaser that I would expect here. Remember we are valuing Graven Hill assuming it has planning permission for the assumed scheme.

Concluding remarks

Hopefully the above provides some of the evidence sought. Equally it will assist the process if, for example, details of the existing use value and the Grimley report are provided to make further progress.

Drivers Jonas Deloitte has now supplied this information.