



Valuation Office
Agency

DVS Property Specialists
for the Public Sector

Valuation Report for
Perth and Kinross
Council
Affordable Housing
Land Valuations and
Commuted Sum
Payments

Report for:
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Executive Summary

1.1 Description

Perth and Kinross Council have requested advice on the level of Commuted Sum payments that should be applied in connection with their Affordable Housing Policy.

The Commuted Sum is a financial sum, paid by a developer to Perth and Kinross Council. It is paid in lieu of serviced land which would otherwise have been delivered to Perth and Kinross Council or to a Registered Social Landlord (RSL) nominated by Perth and Kinross Council (PKC) for the purposes of developing Affordable Housing.

Perth and Kinross Council has divided Perth and Kinross into 5 Housing Market Areas (HMA's) listed as follows: -

1. Highland
2. Kinross
3. Perth (Including city centre)
4. Strathearn
5. Strathmore & the Glens (formerly known as Eastern)

Only limited guidance has been published by the Scottish Government with regard to commuted sum methodology. The Benchmark Approach has been adopted, which is considered to be in line with the Scottish Government guidance PAN 2/2010 and should provide some certainty for developers and local authorities.

The Benchmark Approach is based on plot values for notional residential plots for unrestricted market sale and for a value of an identical notional site but assuming the use is restricted in perpetuity to the provision of affordable housing.

Site values have been provided for serviced plots for notional properties which are typical of those provided as affordable housing, namely a two bedroom semi-detached house suitable for 4 person occupation.

The Commuted Sum Payment is the difference between the affordable land plot value and the value of the plot for private development.

The total Commuted Sum is calculated by multiplying the commuted payment per unit by the number of Affordable Housing units required.

1.2 Valuation

The date of valuation is 19 January 2023 and after consideration of the matter, I am of the opinion that the appropriate commuted sums are fairly stated as follows

Housing Market Areas	Plot Value per Unit for Private Sale	Plot Value per Unit for Affordable Housing	Commuted Sum per Unit
Highland	£25,000	£1,000	£24,000
Kinross	£25,000	£1,000	£24,000
Perth	£36,000	£1,000	£35,000
Strathearn	£28,500	£1,000	£27,500
Strathmore	£21,500	£1,000	£20,500

1. Introduction

I refer to your instructions dated 2 November 2022 and my Terms of Engagement dated 17 November 2022.

I have valued the property and I am pleased to report to you as follows.

2. Valuation Parameters

2.1 Identification of Client

Perth and Kinross Council.

2.2 Purpose of Valuation

It is understood that you require the valuations for land for affordable housing; in order to assess commuted sum payments required by Perth and Kinross Council Local Development Plan Adopted 2019 and PKC Developer Contributions & Affordable Housing Supplementary Guidance July 2020.

2.3 Subject of the Valuation

The properties to be valued are notional house plots within each of the 5 Housing Market Areas (HMA's) in Perth and Kinross suitable for houses which are typical of those provided as affordable housing being a two bedroom semi-detached house

It is assumed the notional plot will be ready for development with services close by and that the house plots are located within a development of 10 houses.

Valuations will be provided on the following tenures:

Private plots for sale
Social Rented.

2.4 Date of Valuation

The date of valuation is 19 January 2023.

Please note that values change over time and that a valuation given on a particular date may not be valid on an earlier or later date.

2.5 Confirmation of Standards

The valuation has been prepared in accordance with the professional standards of the Royal Institution of Chartered Surveyors: RICS Valuation – Global Standards and RICS UK National Supplement, commonly known together as the Red Book.

Compliance with the RICS professional standards and valuation practice statements gives assurance also of compliance with the International Valuations Standards (IVS).

Measurements stated are in accordance with the RICS Professional Statement '**RICS Property Measurement' (2nd Edition)** and, where relevant, the **RICS Code of Measuring Practice (6th Edition)**.

2.6 Agreed Departures from the RICS Professional Standards

There are no departures beyond those restrictions on the extent of investigations and survey, and the assumptions, stated below.

2.7 Basis of Value

The basis of value adopted is Market Value which is defined at VPS 4, para 4 as:

'The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.'

2.8 Special Assumptions

The following agreed special assumptions have been applied:
For social rented tenures, the Market Value will be subject to the special assumption that the use of the land will be restricted in perpetuity for the provision of affordable housing.

2.9 Nature and Source of Information Relied Upon

In addition to relying upon VOA held records and information, I have assumed that all information provided by, or on behalf of you, in connection with this instruction is correct without further verification – for example, details of tenure, tenancies, planning consents, etc.

My advice is dependent upon the accuracy of this information and should it prove to be incorrect or inadequate, the accuracy of my valuation may be affected.

You have provided me with:

1. Rental levels for a 2 bedroom house for Perth and Kinross Council, Hillcrest and Kingdom Housing Associations.
2. Details of Voids as a % of the overall rental income for P and K Council, Hillcrest and Kingdom Housing Associations.
3. Recent newbuild development costs for PKC, Hillcrest and Kingdom Housing Associations.
4. A map showing the 5 HMA's
5. Total Commuted Sums received in each of the HMA's from 2021 to present.

2.10 Date of Inspection

The properties are notional house plots within each of the 5 Housing Market Areas in Perth and Kinross. No inspections were undertaken, the valuer is familiar with the area.

2.11 Extent of Investigations, Survey Restrictions and Assumptions

An assumption in this context is a limitation on the extent of the investigations or enquiries undertaken by the valuer. The following agreed assumptions have been applied in respect of your instruction, reflecting restrictions to the extent of our investigations.

- As the valuations will be for notional house plots, no inspections will be carried out. The valuer is familiar with the various Housing Market Areas.
- No detailed site survey, building survey or inspection of covered, unexposed, or inaccessible parts of the property was undertaken. The Valuer has had regard to the apparent state of repair and condition and assumed that inspection of those parts not inspected would neither reveal defects nor cause material alteration to the valuation, unless aware of indication to the contrary. The building services have not been tested and it is assumed that they are in working order and free from defect. No responsibility can therefore be accepted for identification or notification of property or services' defects that would only be apparent following such a detailed survey, testing or inspection.
- It has been assumed that good title can be shown, and that the property is not subject to any unusual or onerous restrictions, encumbrances, or outgoing.

- It has been assumed that the property and its value are unaffected by any statutory notice or proposal or by any matters that would be revealed by a local search and replies to the usual enquiries, and that neither the construction of the property nor its condition, use or intended use was, is or will be unlawful or in breach of any covenant.
- Valuations include that plant that is usually considered to be an integral part of the building or structure and essential for its effective use (for example building services installations) but exclude all machinery and business assets that comprise process plant, machinery and equipment unless otherwise stated and required.
- It has been assumed that no deleterious or hazardous materials or techniques were used in the construction of the property or have since been incorporated. However, where an inspection was made and obvious signs of such materials or techniques were observed, this will be drawn to your attention and captured in this report.
- No access audit has been undertaken to ascertain compliance with the Equality Act 2010 and it has been assumed that the premises are compliant unless stated otherwise in this report.
- No environmental assessment of the property (including its site) and neighbouring properties has been provided to or by the VOA, nor is the VOA instructed to arrange consultants to investigate any matters with regard to flooding, contamination or the presence of radon gas or other hazardous substances. No search of contaminated land registers has been made.

However, where an inspection was made and obvious signs of contamination or other adverse environmental impact were visible this will have been advised to you, further instructions requested, and the observations captured in the report. Where such signs were not evident during any inspection made, it has been assumed that the property (including its site) and neighbouring properties are not contaminated and are free of radon gas, hazardous substances, and other adverse environmental impacts. Where a risk of flooding is identified during any inspection made, or from knowledge of the locality, this will be reported to you. The absence of any such indication should not be taken as implying a guarantee that flooding can never occur.

3. Property Information

3.1 Location

The commuted payment policy is to apply to Perth and Kinross local authority area. The Perth and Kinross Council area has been divided into 5 Housing Market Areas (HMA's) listed as follows:

1. Highland

The largest settlements are Aberfeldy, Dunkeld, and Pitlochry along with various other small villages.

2. Kinross

The largest settlements are Kinross and Milnathort along with various other small villages

3. Perth (Including city centre)

Perth is the largest settlement in Perth and Kinross, greater Perth includes numerous surrounding towns and villages including Scone and Bridge of Earn.

4. Strathearn

The largest settlements are Crieff, Auchterarder and Comrie along with various other small villages.

5. Strathmore & the Glens (formerly known as Eastern)

The largest settlements are Blairgowrie, Coupar Angus and Alyth along with various other small villages.

An analysis of house sales evidence was undertaken in order to establish a general pattern of the level of values across the region. The approach by necessity covers a broad spectrum and it is recognised that the HMA's will inevitably contain a wide range of values. The figures provided are therefore not location specific but are considered to be weighted averages i.e., closer to the values in the larger settlements.

3.2 Description

The valuation methodology is outlined below in section 4 with reference to the Scottish Government PAN2/2010 and More Homes Division Guidance Notes 2020/02. As of 29th October 2021, the Scottish Government revised the benchmark rates for both Registered Social Landlords (RSL's) and Local Authorities, the benchmarks were introduced with immediate effect. The Scottish Government have stated that the revised rates "will be reflected in an update to MHDGN 2020/02 which will be published in due course". To date there has been no further publication.

I have also had regard to the guidance notes issued by the RICS and in particular 'Valuation of Land for Affordable Housing Scotland' GN100/2013 and GN Valuation of Development Property October 2019.

In line with this guidance and in order to assess the value of the notional plots the following has been assumed, regarding the notional plots within the 5 HMA's in Perth and Kinross:

The notional plot is for a semi-detached house, within a development of ten houses, it is two storey, three apartments (two bedrooms), having an approximate Gross Internal Area of 85 square metres, providing accommodation for four people, with gas central heating and double glazing but no garage or en-suite facilities.

The accommodation is assumed to comprise:

Ground Floor – living room, kitchen, and cloakroom.

First Floor – two bedrooms and bathroom.

It is assumed that all units will be built to a good standard meeting all statutory requirements and that parking will be available in line with Perth and Kinross Council's current policy on parking.

3.3 Tenure

Owner's heritable interest with vacant possession.

3.4 Title Restrictions

In terms of the valuations for private sale, there are no title restrictions assumed.

In terms of the valuation for Social Rented accommodation it is assumed the land will be restricted to the provision of Affordable Housing in perpetuity.

3.5 Floor Area

The above areas are on the basis of GIA as defined in the RICS Code of Measuring Practice 6th Edition.

3.6 Defects and Repair

The valuations are provided for plots and as such there will be no defects or repair issues apparent. I have assumed that there will be no abnormal costs associated with residential development.

3.7 Services

PAN 2/2010 states the commuted payment should be of “value equivalent to the cost of providing a percentage of serviced land required by the policy” and would therefore assume that the mains services of gas, water, drainage, and electricity will be provided up to the site boundary.

3.8 Access and Highways

It is assumed that the maintenance of roads and footpaths ex adverso the property is the responsibility of the local authority.

3.9 Planning

Perth and Kinross Council’s policy for Affordable Housing is in Perth and Kinross Local Development Plan (LDP) Adopted on 29 November 2019 and is detailed within Perth and Kinross Council Developer Contributions & Affordable Housing Supplementary Guidance published in July 2020.

The following is a summary of the policy as detailed in the Supplementary Guidance:

Section 7.6

The LDP identifies a benchmark figure of 25% affordable housing, i.e., 25% of the total number of housing units per housing site should be provided as affordable.

Section 7.11

Residential developments, including conversions, consisting of 5 or more units should include provision of an affordable housing contribution amounting to an equivalent of 25% of the total number of units proposed, except where the LDP varies this quota on an individual site basis or sites of 20 units or less in the City Centre Zone. Whenever practical, the affordable housing should be integrated with, and indistinguishable from the market housing

Section 7.22 Commuted Payments

It is important to note that it will only be in limited circumstances that the Council will accept the payment of a commuted sum in lieu of the provision of affordable housing on or off-site. One of the primary obstacles to the delivery of affordable housing in Perth and Kinross is the difficulty which RSLs experience in being able to compete with private developers to acquire land. This coupled with the importance of creating socially inclusive and mixed communities, means that the Council will generally always seek the provision of affordable housing on-site or on an alternative site within that housing market area and the payment of a commuted sum will always be the final option. Commuted Payments may be acceptable only if there are no suitable sites brought forward after following the sequential tests above or where there are restrictions to the availability of public subsidy.

Section 7.24

The instances where a commuted sum may be acceptable include:

- Where a development is in a remote rural setting or out with a settlement where it is difficult to access services;
- Where it is a very small development and economies of scale make the management of small and sporadic units, creating affordability difficulties for RSLs;
- Where the number of units proposed are below the thresholds identified in the policy;
- Where there is a high concentration of affordable housing in the area and the provision of a commuted sum would help achieve more balanced communities elsewhere in the housing market area;
- Where the Councils housing service recommend that this is the most appropriate form of contribution in considering the Councils strategic housing priorities.

Section 7.25

These payments will be used to enable off-site provision to make an equal and equivalent financial contribution to an affordable housing fund managed by the Council which promotes the direct provision of affordable accommodation through the Council or RSL on other sites. The Commuted sum must be spent within the local housing market area.

National guidance is contained in Planning Advice Note (PAN) 2/2010 and More Homes Division Guidance Notes 2020/02.

3.10 Equality Act 2010

Whilst I have had regard to the provisions of the Equality Act 2010 in making this report, I have not undertaken an access audit nor been provided with such a report. It is recommended that you commission an access audit to be undertaken by an appropriate specialist in order to determine the likely extent and cost of any alterations that might be required to be made to the premises or to your working practices in relation to the premises in order to comply with the Act.

3.11 Mineral Stability

Perth and Kinross Local Authority Area is not in an underground mining area and a Mining Subsidence Report has not been obtained.

3.12 Environmental Factors Observed or Identified

For the purposes of this report, it is assumed that there are no environmental factors or abnormal development costs that would have an impact on the value of the land.

4. Valuation

4.1 Background

The preference is for affordable housing to be provided on site or alternatively on a suitable site in the same HMA. However, it is accepted, in line with 7.24 of Perth and Kinross Council Developer Contributions & Affordable Housing Supplementary Guidance July 2020, as detailed above, that this may not always be possible and that on occasions, a commuted payment might be acceptable in lieu of affordable housing. Most councils view commuted payments as a last resort, and I understand that Perth and Kinross Council similarly considers this method of contribution only in exceptional circumstances.

My understanding of Planning Advice Note (PAN) 2/2010 is that the commuted payment would be in lieu of, and equivalent to, the value of providing the percentage of serviced land otherwise required by the policy. Guidance as to how commuted payments should be calculated is limited. However, best practice is outlined in PAN 2/2010 paragraph 22 as follows:

“22. Where it is agreed that an alternative to a contribution of land within the proposed development site is acceptable, the developer will provide either land or homes or a commuted sum of a value equivalent to the cost of providing the percentage of serviced land required by the policy. Best practice is that the value should be independently determined by the District Valuer, or a chartered valuation surveyor suitably experienced in the type of property and the locality. Wherever possible the relevant parties should agree to appoint and instruct a valuer, failing agreement, on which, the valuer should be appointed by the Chairman of the RICS in Scotland. The commuted sum is a matter for negotiation between the developer and the local authority, having regard to development costs, other contributions that are being sought, and other relevant factors, for example layout and design. Planning authorities may wish to consider a policy for calculating a commuted sum, but this should be the subject of consultation with stakeholders before being applied.”

The guidance in PAN 2/2010 is relatively vague and to a large extent it has been left to the individual local authorities to establish the methodology used to calculate the commuted payments.

4.2 Benchmark Approach

DVS has provided commuted payments advice to Perth and Kinross Council and a number of other local authorities dating back some years.

Perth and Kinross Council (PKC) and several other authorities have adopted a benchmark approach which is recognised as providing a degree of certainty for both authorities and developers and is considered to be in line with PAN 2/2010 and the More Homes Division Guidance Notes of 2020/02 - Affordable Housing Supply Programme, Processes and Procedures

The Benchmark Approach is based on plot values for notional residential plots for unrestricted market sale and for a value of an identical site but assuming the use is restricted in perpetuity to the provision of affordable housing. The commuted payment is the difference between the affordable land plot value and the value of the plot for private development multiplied by the number of affordable housing units required:

Number of affordable housing units required x (benchmark MV of unrestricted housing plot less benchmark value of an affordable housing plot).

The difference between the unrestricted MV and the affordable housing value is considered to reflect the amount the council or housing association will have to pay over and above the affordable land value to obtain the alternative plot. Using this methodology, the developer contribution is directly related to land costs and reflects the difference in land values between Housing Market Areas (HMA's) Typically, social rent is a starting point for the assessment of affordable housing need and therefore of commuted sum.

4.3 Valuation Methodology / Approach and Reasoning

Value for Social Rented Accommodation

The valuation is on the basis of a permanent restriction to Affordable Housing based on a residual valuation where the costs of the development are deducted from the calculated income and housing grants as per the More Homes Division Guidance Note - Affordable Housing Supply Programme: Process and Procedures. (MHDGN 2020/02). I have also had regard to the guidance notes issued by the RICS and in particular 'Valuation of Land for Affordable Housing Scotland' GN100/2013 and GN Valuation of Development Property October 2019.

DVS have provided previous commuted sum valuations to Perth and Kinross, the most recent was contained in a report dated 3 August 2021 with DVS Reference 1772204. As in previous cases I have continued to base my valuations on the two accepted approaches:

- (i) Comparison with the sale price of land for comparable development and
- (ii) Assessment of the value of the completed scheme and deduction of the costs of development to arrive at the underlying land value (the residual method).

Sites that are permanently restricted to Affordable Housing rarely sell on the open market, in most instances the site is sold as part of a Design and Build package where a developer sells completed units to a Local Authority or a Registered Social Landlord to fulfil the criteria of a Section 75 Agreement. We are aware that a “plot value” has at times been quoted as a land price, however it is our opinion that this tends to be an apportionment of the overall price paid for the completed unit and is not an open market transaction.

There is an established history of payment of Commuted Sums within Perth and Kinross Council Area since the legislation was introduced in PAN 2/2010. You have been provided a list of 9 instances over the past year, where numerous developers have accepted the terms of the Section 75 Agreements and have paid Commuted Sums based on the figures in force at that time, the total of the payments received in the last 12 months is £108,418.

Whilst the above information provides a backdrop, given the lack of open market sales of land for affordable housing my valuation has been carried out on a residual basis. As a sense check when considering the residual valuation, I have considered various other valuations of land for Affordable Housing for both Registered Social Landlords (RSL) and Local Authorities (LA) which DVS has been involved with.

The two main components required to value land for affordable housing are an assessment of the monies available for the scheme and an understanding of the costs associated with constructing the scheme. The amount of money available (generally grant funding and borrowings based on rental income) will effectively be the Gross Development Value (GDV) of the scheme and will include the finance available and public subsidies.

Two separate residual valuations have been undertaken as RSL's and Local Authorities are awarded different levels of grant subsidies and have differing rental levels. Within the residual calculations I have assumed that both RSL's and Local Authorities will be granted the current benchmark rates set in October 2021. The current rates are:

- RSL £83,000 for social rent 3 person equivalent.
- Local Authority £75,500 for social rent 3 person equivalent.

You have provided me with the current social rents for the notional property:

- RSL's, being an average of Kingdom and Hillcrest HA's, at £5,324 per annum, voids have been provided at 1.61%.
- PKC at £4,297 per annum, voids have been provided at 1.33%.

With regards the costs associated with constructing the scheme, you have provided me with build costs based on a project Perth and Kinross are

constructing at Abernethy, it comprises 10 units, a mix of 4 flats and 6 houses, the costs equate to £1,970/sqm.

You have also provided details of 7 RSL new build projects in Perth, Alyth and Crieff constructed by Kingdom Housing Association and Hillcrest Homes, I have also had regard to the costs within 2 recent RSL Affordable Housing Projects which DVS has been involved with in Kinross and Crieff. The projects produced a range of costs between £1,638 to £2,213/sqm.

With the above costs, we do not have details of the abnormal costs that may be included in the developments. A range of costs is to be expected as the developments are for a variety of house types and RSL's and Councils operate under differing procurement frameworks.

Given the lack of directly comparable cost information I have considered the available information and adopted the build rate of £1,850 per sqm.

There has been a widely reported increase in construction costs over the past 2 years, led by a number of factors including Brexit and by increased demand post Covid. The Scottish Social Housing Tender Price Index (SSHTPI) latest publication, in September 2022, reports tender prices for social housing in Scotland are rising steadily, in Q1 2022/23 they were up 4% on the previous quarter and 12.7% on the same quarter a year earlier.

Adopting the above costs and the current rents provided produces a £NIL valuation for the RSL valuation and negative figure for the Local Authority valuation. This is due to the cost of construction being higher than the grant funding/borrowing that can be supported by the development. It should be remembered that residual valuations are sensitive to inputs and lower or higher values can be achieved depending on the variables adopted.

This office has advised Local Authorities and various RSLs on numerous affordable housing sites throughout Perth and Kinross, Fife, Tayside, and Central Scotland. Within the cases in the past 12 months values per plot have varied from Nil to £5,000, the plot rates are dependent on the tenure and size of the units and the corresponding rents and available grant subsidies.

In conclusion, this valuation exercise is looking at the affordable land values for social rent units throughout Perth and Kinross. Whilst the grants and rents are the same throughout the 5 HMA's, there are a variety of factors which will affect the valuations of specific projects, these include the nature of the site, any abnormal costs due to remediation work that is required and the level of any developer's contributions within a Section 75. Taking an overall view of the available information I am of the opinion that £1,000 per plot would be reasonable for social rent units throughout Perth and Kinross.

Value for Private Sale

In arriving at the valuations for the unrestricted plots I have undertaken a residual valuation for each of the 4 HMA's having regard to the RICS guidance notes, in particular VIP 12 Valuation of Development Land and "Valuation of Development Property 2019".

I have researched sales of new build properties throughout Perth and Kinross, there are numerous active sites across the county, high volume of sales had been achieved throughout 2021 and the first 6 months of 2022. Sales rates have been impacted by the current increases in cost-of-living, and rising mortgage rates, and have slowed over the past few months

My evidence includes amongst others; the sales and asking prices at Bertha Park, Huntingtower and Glasgow Road in Perth, Southfield Meadows in Abernethy, Moulin View in Pitlochry, sales in Rattray, Meigle and Alyth in Strathmore, sales in Crieff and Methven in Strathearn and sales in Kinross and Milnathort. It is evident that there are increased incentives being offered for new homes across various sites, and that some asking prices have fallen over the past few months and that sales rates have slowed down.

I am also aware of the Equity Shared Schemes, Caledonia Housing Association's website gives details of ten New Supply Shared Equity houses in Guildtown, all of which are reserved. PKC had six semi-detached houses under the scheme earlier in the year at Abernethy, they have now also all been reserved.

The Gross Development Value (GDV) of the private development is arrived at by having regard to the anticipated sale price of the completed units of the notional house being a 2 bed semi-detached.

Private sector housing may include en-suite facilities, garages, driveways etc and might be larger, or in some cases smaller, in size than the notional unit. In analysing the sales evidence, adjustments have been made as appropriate.

Estimated costs are deducted from the GDV to arrive at the residual land value, costs associated with constructing the notional scheme are based on information from actual projects and industry norms. I have had sight of cost information for several projects carried out recently by both RSLs and Councils and also by private developers across Tayside. I have also had regard to advice provided by the BCIS.

The cost of building materials has continued to rise since the start of 2021, following on from the impact of the pandemic and the UK officially leaving the EU, leading to materials shortages and problems shipping materials into the UK.

Throughout the past year, whilst some supplies have improved, costs have continued to rise amid the highest inflation rate in 40 years. The Construction Leadership Council (CLC) stated in November that inflationary pressures present the main challenge for building companies producing energy-intensive products such as glass, concrete, cement, PIR, plasterboard, and bricks.

Meanwhile increasing energy price rises has put pressure on construction firms due to industries producing these energy-intensive products passing on the impact of higher prices. Russia's invasion of Ukraine has caused significant disruption to supply chains.

Developer Contributions have been considered along with the latest publication available on Perth and Kinross Council's website being Developer Contributions & Affordable Housing Supplementary Guidance July 2020. Whilst there are a range of potential Developer Contributions including transport, education, and public art, these depend on the location and density of the development and cannot be analysed into the individual housing market areas. Within this report we are unable to make allowance for developer contributions, as they are specific to each application and can vary within wards depending on catchment areas etc.

The hypothetical site could be located anywhere within the radius of the HMA, values can vary, with small pockets of both higher and lower values existing in numerous HMA's. The final figures are therefore a weighted average across each HMA.

4.2 Comparable Evidence

As well as using the residual method of valuation, I have also had regard to recent transactional evidence of residential development land as a check. It should, however, be noted that the analysis of transactions is problematical and the purpose for which this report is required does not lend itself easily to valuation by comparison as there is limited evidence available and the evidence that there is, is difficult to analyse as key information relevant to the site, such as demolition or remediation costs are often not available. In many cases, full details are not made available or cannot be disclosed in order to preserve confidentiality.

Caution has to be exercised in the analysis of evidence as it will be site specific and particular regard should be had to the types of units that are proposed to be constructed as they are often different from the notional unit adopted for the purposes of this exercise. The developments will include units which individually may have a much higher GDV than the adopted notional unit. Other issues that might be relevant are site specific infrastructure and servicing requirements or planning obligations.

There have been few comparable land sales over the past 12 months, with regards Bertha Park in Perth, being the largest development within the county,

it is understood that an agreement has been reached between the landowner and the developers to phase the land sales as the development progresses, therefore while I have seen a recent sale, I have no details to allow a meaningful analysis.

I am aware from speaking to agents that developers are cautious at the moment, they are reluctant to commit to land purchases given the concerns over the economy and escalating build costs and the impact this will have on development viability.

4.3 Opinion of Value

The date of valuation is 19 January 2023 and after consideration of the matter I am of the opinion that the appropriate commuted sums are fairly stated as follows:

Housing Market Areas	Plot Value per Unit for Private Sale	Plot Value per Unit for Affordable Housing	Commuted Sum per Unit
Highland	£25,000	£1,000	£24,000
Kinross	£25,000	£1,000	£24,000
Perth	£36,000	£1,000	£35,000
Strathearn	£28,500	£1,000	£27,500
Strathmore	£21,500	£1,000	£20,500

4.4 Currency

All prices or values are stated in pounds sterling.

4.5 VAT

I understand that VAT does not apply to this transaction and my opinion of value reflects this. In the event that my understanding is found to be inaccurate, my valuation should be referred back for reconsideration.

4.6 Costs of Sale or Acquisition and Taxation

I have assumed that each party to any proposed transaction would bear their own proper legal costs and surveyor's fees.

No allowance has been made for liability for taxation, whether actual or notional, that may arise on disposal.

4.7 Market Commentary

Throughout 2021, the housing market in Perth and Kinross had been very buoyant, with high demand for houses of all types, especially new build housing where demand often outstripped supply. By the end of the year Register of Scotland reported house prices increased by 7% from those in 2020. However, with the current increases in cost-of-living, rising inflation, and ongoing political uncertainty, it is anticipated this will bring a slowing of these conditions. Springfield Homes at Bertha Park have reported sales have slowed to an average of 2 a month, although this also reflects a seasonal element. Numerous sites are offering increased incentives for new home purchases.

Within the wider market, the Bank of England has adopted a policy of increasing the interbank lending rate in order to quell inflation. The current official inflation rate as at this valuation date is 10.5% whilst the target is 2% (source: Bank of England). The Bank of England has increased interest rates by 2.9% since March 2020 with the most recent rise of 0.75% being the highest in 40 years. Mortgage rates have risen as a result of this, and the housing market is likely to be impacted directly by subsequent interest rate rises and the cost of living crisis in general. The longer term effects remain to be seen, however at the valuation date, there is emerging evidence that house prices are experiencing a fall-off in growth and marginal decrease in value in some areas.

How the above will impact on residential development land values in Perth and Kinross is not clear at this stage. To date there is a lack of land sale evidence to show that values have fallen. Whilst residuals reflect the increased build costs, there are no comparable land sale evidence to back up the lower residual plot values. That being said the current market trends cannot be ignored, the energy and cost-of-living crisis, rising inflation, ending of pandemic impact, and political uncertainty with on-going Russian/Ukraine conflict are all affecting and will continue to affect the property and development land market.

5. General Information

5.1 Status of Valuer

It is confirmed that the valuation has been carried out by Ruby Ashworth MRICS, a RICS Registered Valuer, acting in the capacity of an external valuer, who has the appropriate knowledge and skills and understanding necessary to undertake the valuation competently, and is in a position to provide an objective and unbiased valuation. The valuations and report have been reviewed and verified by Principal Surveyor Douglas Bowers MRICS.

5.2 Conflict of Interest

Checks have been undertaken in accordance with the requirements of the RICS standards and have revealed no conflict of interest. DVS has had no previous material involvement with the property.

DVS has provided previous valuation advice in respect of this subject to Perth and Kinross. The most recent advice was a Valuation Report of commuted sums on 3 August 2021 DVS Ref 1772204. I confirm that this does not impact on my overriding obligation to act with independence and objectivity. I am satisfied that no conflict of interest exists.

5.3 Restrictions on Disclosure and Publication

The client will neither make available to any third party or reproduce the whole or any part of the report, nor make reference to it, in any publication without our prior written approval of the form and context in which such disclosure may be made.

You may wish to consider whether this report contains Exempt Information within the terms of paragraph 9 of Schedule 7A to the Local Government (Scotland) Act 1973 (see section 2 and Part II of Schedule 1 to the Local Government (Access to Information Act 1985) and your Council can treat it accordingly.

5.4 Limits or Exclusions of Liability

Our valuation is provided for your benefit alone and solely for the purposes of the instruction to which it relates. Our valuation may not, without our specific written consent, be used or relied upon by any third party, even if that third party pays all or part of our fees, directly or indirectly, or is permitted to see a copy of our valuation report. If we do provide written consent to a third party relying on our valuation, any such third party is deemed to have accepted the terms of our engagement.

None of our employees individually has a contract with you or owes you a duty of care or personal responsibility. You agree that you will not bring any claim against any such individuals personally in connection with our services.

5.5 Validity

This report remains valid for three (3) months from its date unless market circumstances change or further or better information comes to light, which would cause me to revise my opinion.

6. **Recommendations**

6.1 Summary of key issues

With regards land values for Social Rented accommodation, dependant on the specifics of the site, the cost of development can outweigh any return in the form of capitalised rents and grant available resulting in a negative or nil value.

In the residual valuation undertaken in this instance a positive value of £1,000 has been adopted. As the level of government subsidy, development costs and rents charged by RSL's and the Council are broadly similar across the region, there is unlikely to be much variation across the different HMA's for this type of tenure.

However, it is important to acknowledge that the value for one type of affordable tenure can differ significantly from another type of tenure, for example higher Mid-Market rent and other forms of affordable tenure may yield higher or indeed lower values.

Regarding the land values for the unrestricted plots, there has been a national slowing in property market growth over the past year, incentivisation and discounting is now becoming more prevalent on new build sites. The residual valuations undertaken have resulted in plot values considerably less than those previously reported, the residuals reflect the increased build costs which are 25% higher than 18 months ago. Whilst there is a lack of land sale evidence to show that land values have fallen significantly within Perth and Kinross, the market trends are that land values will, to some extent fall. To date there is no clarity available within the market, we are experiencing a period of uncertainty with the ongoing cost of living crises, rising inflation and build cost increases. The unrestricted plot values reported are in the region of 12% less than those reported in August 2021 in the earlier report, this has reduced the Commuted Sum's by a similar percentage.

I trust that the above report is satisfactory for your purposes. However, should you require clarification of any point do not hesitate to contact me further.

Identity and status: The valuer responsible for the valuation is Ruby Ashworth BSc Hons MRICS.

Report reviewed by:
Douglas Bowers MRICS
Principal Surveyor
RICS Registered Valuer
DVS

Date: 13 January 2022

Signed

A handwritten signature in grey ink that reads "RAshworth". The signature is written in a cursive, slightly slanted style.

Ruby Ashworth BSc Hons MRICS
Senior Surveyor
RICS Registered Valuer
DVS