Valuation Office Agency

DVS Property Specialists for the Public Sector

Valuation Report for Moray Council: Affordable Housing Land Valuations and Commuted Sum Payments

Report for:
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Executive Summary

1.1 Description

The Moray Council (TMC) has commissioned research to determine at what level a commuted sum, defined as a ‘financial contribution to affordable housing’ should be set for each of the Local Housing Market Areas (HMAs) in the Moray Local Authority area.

1.2 Tenure

Owner’s heritable interest with vacant possession is assumed.

1.3 Valuation Date

16 June 2021

1.4 Methodology

The recommended methodology used to arrive at the level of developer contribution is taken as being the difference between the value of land for affordable housing and the market value of the land for private residential development.

Valuations have been provided for social rented affordable house plots and for unrestricted plots which would be available on the open market.

The notional house plot is for a three bedroom/five person semi-detached house.

1.5 Basis of Valuation

Although my advice will not constitute a formal valuation, it will generally accord with the concept of 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.’*

1.6 Opinion of Value

The opinion of **Market Value** of the owner’s heritable interest with vacant possession of the notional house plots and the resultant commuted sums as at 18 June 2021 are as follows:

Local HMA	Affordable Housing Plot value	Private Housing Plot Value	Commuted Payment
Buckie	£0	£18,500	£18,500
Elgin	£0	£22,500	£22,500
Forres	£0	£19,750	£19,750
Keith	£0	£18,500	£18,500
Speyside	£0	£16,500	£16,500
Average (Moray)	£0	£19,250	£19,250

The Cairngorms National Park local HMA is excluded from this report. A separate report was commissioned by Cairngorms National Park Authority (CNPA) in 2020 which covers the area of Moray located within the CNPA.

1.7 Remarks

The land values for the unrestricted plots are based on the assumptions stated within the report. Specific sites with abnormal costs relating to infrastructure, site conditions or planning obligations could well produce different plot values. Similarly if the characteristics of the notional unit were to change, then higher or lower values could be generated.

As the hypothetical site could be located anywhere within the radius of the Local HMAs, values in reality would likely vary within each area and there would likely be some ‘blurring’ at the borders of the Local HMAs.

1. Introduction

I refer to your initial request for a fee quote dated 24 March 2021, my fee quote provided in my email dated 25 March 2021, confirmation that you wish to proceed with the instruction on 8th April 2021 and provision of PON on 16th April 2021. I also refer to my Terms of Engagement and amended Terms of Engagement both dated 22 April 2021.

I have carried out the valuations and I am pleased to report to you as follows.

2. Valuation Parameters

2.1 Identification of Client

The valuation advice is prepared for The Moray Council (TMC).

2.2 Purpose of Valuation

It is understood that you require the valuation advice in order to assess at what level a commuted sum, which is defined as a "financial contribution to affordable housing" should be set for each of the Local Housing Market Areas (HMAs) in the Moray Council area and an average for Moray as a whole.

2.3 Subject of the Valuation

The valuations are for notional house plots for the erection of a four apartment/three bedroom semi-detached house within a development of around ten houses in each of the five Local HMAs within Moray (as shown on the Map of the Housing Market Areas in Section 3.1).

Valuations have been provided for social rented affordable house plots and for private unrestricted plots: the commuted payment is the difference between the two.

2.4 Date of Valuation

The date of valuation is 16 June 2021.

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)**.

The notional completed houses have been reported upon using a measurement standard other than IPMS, and specifically Gross Internal Area (GIA) has been used. Such a measurement is an agreed departure from 'RICS Property Measurement (2nd Edition)'. The reason for this departure is to maintain consistency with previous cases and also GIA is the basis of measurement adopted by BCIS for average house price costs.

2.6 Agreed Departures from the RICS Professional Standards

As specifically requested by you, and as captured above with explanation, certain property has been reported upon using a measurement standard other than IPMS.

2.7 Basis of Value

Although my advice will not constitute a formal valuation, it will generally accord with the concept of 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:

The valuations are for notional house plots and the following assumptions have been applied:

- The house plots are for the erection of a standard new build four apartment/three bedroom semi-detached house of approximately $90m^2$ GIA.
- It is assumed that the notional house has private garden grounds, off-street parking but no garage.
- The plot will be ready for development with services located close by, which is in line with section 22 of PAN 2/2010 Affordable Housing and Housing Land Audits, which states the commuted sum should be of 'a value equivalent to the cost of providing the amount of serviced land required by the policy'.

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.

The valuation methodology is outlined below in section 4 with reference to the Scottish Government PAN2/2010, More Homes Division Guidance Notes 2020/02 (updated January 2021) and the guidance notes issued by the RICS, in particular 'Valuation of Land for Affordable Housing Scotland' GN100/2013, VIP 12 'Valuation of Development Land' and RICS "Valuation of Development Property" October 2019.

I have also had regard to the Local Plans and Supplementary Planning Guidance published on the internet by Moray Council.

In undertaking my research I have also used property marketing websites including Zoopla, Rightmove and local Estate Agents, Solicitors' and Developers' websites and sales data from PropVals, CoStar and Registers of Scotland.

2.10 Date of Inspection

The valuation reflects notional house plots and no inspections were undertaken.

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 agreed with you, no inspection of the property was undertaken and the advice and valuation has been prepared on a 'desk-top basis'; i.e. it is provided on the basis of 'restricted information'.

- 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 outgoings.

- 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.

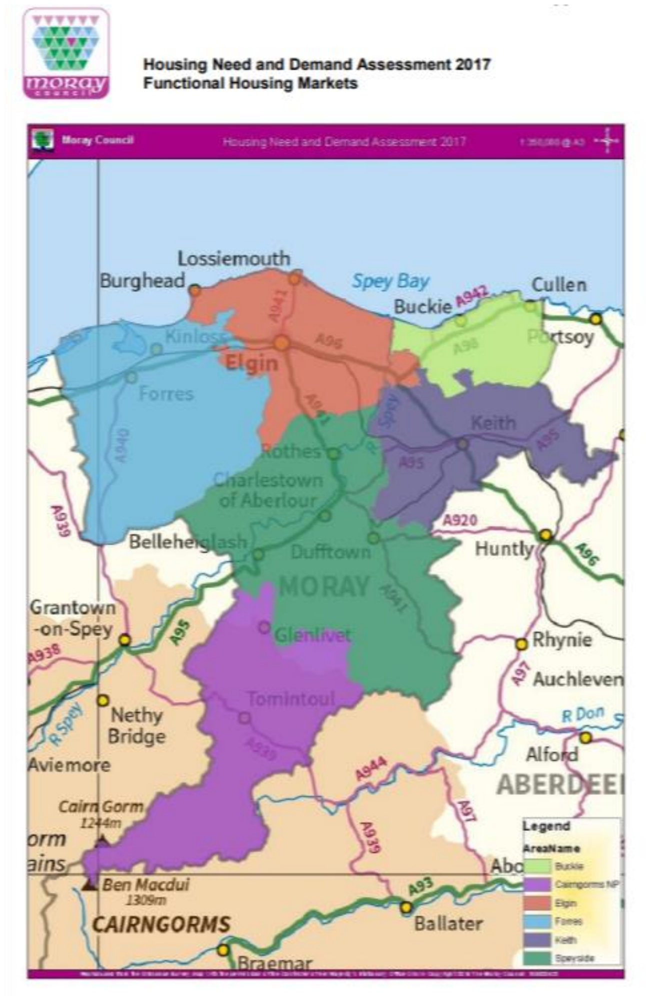
3. Property Information

3.1 Location

The commuted payment policy is to apply to the Moray Local Authority area. The Moray Council Housing Need and Demand Assessment (HNDA) (2018) concludes that the whole of Moray is a functional HMA, within which six sub or local HMAs exist.

The six Local HMA's covering Moray are:

- Buckie
- Elgin
- Forres
- Keith
- Speyside
- Cairngorms National Park (CNP)



The Cairngorms National Park HMA is excluded from this report. A separate report was commissioned by Cairngorms National Park Authority (CNPA) in 2020 which covered the area of Moray located within the CNPA.

3.2 Description

In order to assess the value of the notional plots the following has been assumed:

The notional house type is a 2-storey, 4-apartment (3-bedroom/5 person), semi-detached house built to a good standard of specification. It is assumed that it has private garden grounds, off-street parking but no garage. The property is assumed to have a GIA of 90m^2 and the accommodation is assumed to comprise:

Ground Floor: Living room, kitchen, cloak room.

First Floor: 3-bedrooms and bathroom.

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It is assumed that the units will be built to a good quality finish meeting all required Building Standards. It is further assumed that the units will adhere to the required RSL standards for affordable housing, these tend to be higher than mainstream requirements which can, in our experience, lead to higher construction costs.

Heating is not specified, but it is assumed to be a good standard and could comprise for example electric (including forms of renewable energy such as ground or air-source heat pump) or gas where available.

Parking provision is assumed to be available and in line with the local authority's current policy on parking.

It is also assumed that the plots will be serviced up to the site boundary with the necessary infrastructure in place.

3.3 Tenure

Owner's heritable interest with vacant possession is assumed.

3.4 Title Restrictions

In terms of the valuation for private sale, it is assumed there are no title restrictions.

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

3.5 Site Area

The notional house plot is assumed at 250 sq m.

3.6 Services

PAN 2/2010 states that the commuted payment should be of a "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 water, drainage and electricity will be provided up to the site boundary.

3.7 Access and Highways

It is assumed that the land is serviced with the necessary infrastructure, including roads up to the site boundary. It is further assumed that the maintenance of roads and footpaths ex adverso the property is the responsibility of the local authority.

3.8 Energy Performance Certificate

As the valuation is for notional plots, EPC ratings are not known. However, it is assumed that the units will be constructed to meet building standards in force at the time of construction and will have a relatively good energy rating.

3.9 Planning

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

I have summarised below the current policies and guidance for Moray Council.

Formally adopted on 27 July 2020, the Moray Local Development Plan (MLDP) 2020 sets out how the Council sees the MLDP area developing over the next 10 years and beyond and covers the administrative area of Moray Council, minus the southern part which falls within the Cairngorm National Park, which prepares its own LDP.

MLDP 2020 Affordable Housing Policy is found at DP2 Housing:

(d) Affordable Housing Proposals for all housing developments (including conversions) must provide a contribution towards the provision of affordable housing.

Proposals for new housing developments of 4 or more units (including conversions) must provide 25% of the total units as affordable housing in affordable tenures to be agreed by the Housing Strategy and Development Manager. For proposals of less than 4 market housing units a commuted payment will be required towards meeting housing needs in the local housing market area.

A higher percentage contribution will be considered subject to funding availability, as informed by the Local Housing Strategy (LHS). A lesser contribution or alternative in the form of off-site provision or a commuted payment will only be considered where exceptional site development costs or other project viability issues are demonstrated and agreed by the Housing Strategy and Development Manager and the Strategic Planning and Development Manager. Intermediate tenures will be considered in accordance with the HNDA and Local Housing Strategy and agreed with the Housing Strategy and Development Manager.

The 2017 HNDA identified a requirement for 56% of all need and demand to be affordable units in Moray between 2017 and 2035. MLDP 2020 has lowered the threshold so that individual house proposals are required to make a contribution towards affordable housing provision.

The cost figure for the contribution is published annually on the Council website http://www.moray.gov.uk/moray_standard/page_94665.html. It is based on an assessment of the value of serviced land for affordable housing in Moray. For 2020/21 the commuted payment is£16,000 in lieu of each unit of affordable housing required under the Council's policy. This amount is reviewed annually- the next review was due on 1 April 2021.

The Council will consider the following categories of affordable housing within the context of the needs identified in the HNDA/ LHS;

- Social rented accommodation- housing provided by an affordable rent managed by a Registered Social Landlord such as a housing association or another body regulated by the Scottish Housing Regulator, including Moray Council.

- Mid-market rent accommodation- housing with rents set at a level higher than purely social rent, but lower than market rent levels and affordable by households in housing need. Mid-market rent housing can be provided by the private and social housing sectors.
- Shared equity housing- sales to low income households, administered through a Scottish Government scheme e.g. Low-cost initiative for First Time Buyers (LIFT).

Any proposals to provide affordable housing in a form other than those listed above, must demonstrate that the cost to the householder is "affordable" in the Moray context and that the property will remain "affordable" in perpetuity.

Commuted sums must be agreed by the Housing Strategy and Development and the Strategic Planning and Development Manager. Where a commuted sum is agreed, the commuted sum should be a value equivalent to the cost of providing the percentage of serviced land required by the Council's policy on provision of affordable housing.

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

The notional plot is assumed to not be 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 there are no environmental factors or abnormal development costs that would have an impact on the value of the land.

4. Valuation

4.1 Valuation Methodology / Approach and Reasoning

4.1.1 Background

A Commuted Payment is a financial contribution in lieu of affordable housing.

In terms of the Moray Council LDP 2020, proposals for new housing developments of 4 or more units (including conversions) must provide 25% of the total units as affordable housing. Generally, the preference is for affordable housing to be provided on site. However, it is accepted that this may not always be possible and that on occasions, a commuted payment might be acceptable in lieu of affordable housing.

LDP 2020 also proposes that developments under 4 units will also be expected to contribute to affordable housing but this will be in the form of a financial contribution. TMC therefore require a robust method for calculating the level of contribution required.

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.

Moray Council has previously adopted a plot rate of £16,000 for the commuted payment, however there is provision in the guidance for this to be reviewed.

4.1.2 Benchmark Approach

DVS has provided commuted payments advice to a number of local authorities dating back some years. A number of authorities, including the Local Authority areas bordering Moray, 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 for 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, that is :-

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 housing association or council will have to pay over and above the affordable land value to obtain the alternative plot. Using this methodology, the affordable housing contribution is directly related to land costs and reflects the difference in land values between HMAs.

Usually, social rent is a starting point for the assessment of affordable housing need and therefore of the commuted sum.

For developments of less than 4 units and depending on the level of Affordable Housing requirement in that location, a percentage of the benchmark commuted payment could be applied. In most cases this will be 25% and to illustrate a development of 3 units would therefore be required to contribute a financial contribution equivalent to 0.75 affordable housing units i.e. 0.75 times the commuted sum amount for that location.

In order to establish the difference between the unrestricted MV and the affordable housing value I have carried out valuations in each of the 5 Local Authority Areas within Moray (excluding CNP).

The valuations are on the basis of a notional residential housing plot within a hypothetical development of 10 houses. As agreed, the completed notional houses are assumed to be 3 bedroom/5 person semi-detached house of 90m^2 (gross internal areas) built to a good standard/specification. It is assumed that the property will have private garden grounds, off-street parking but no garage.

4.1.3 Value for Social Rented Accommodation

I have had regard to the guidance notes issued by the RICS and in particular 'Valuation of Land for Affordable Housing Scotland' GN100/2013, VIP 12 " Valuation of Development Land" and RICS 'Valuation of development property', 1st edition (October 2019).

The valuation is on the basis of a permanent restriction to Affordable Housing based on 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).

Given the lack of reliable open market sales of land my valuation has been carried out on a residual basis. As a sense check when considering the residual valuation, I have taken into account the valuations of land for Affordable Housing for both Registered Social Landlords (RSL) and Local Authorities (LA) which the VOA has been involved with along with the limited sales evidence available.

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 monies 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. In calculating the GDV I have had regard to the More Homes Division Guidance Note - Affordable Housing Supply Programme: Process and Procedures. (MHDGN 2020/02, updated Jan 2021) which details the benchmark grants available along with benchmark rents.

Separate residual valuations have been undertaken for RSL's and the Local Authority as they are awarded different levels of grants subsidies and have differing rental levels. Within the residual calculations I have assumed that RSL's can attract the 'Rural' greener grant subsidy benchmark of £74,000 for social rent 3 person equivalent, whereas Local Authority greener grant is lower at £59,000 as a flat rate.

The notional unit is for 5 people and I have adjusted the amount of grant in line with the conversion factors and the benchmark rents published in MHDGN 2020/02.

The grant available to an RSL for the hypothetical 3 bedroom/5 person unit is therefore:

£74,000 * 115.5 = £85,470.

The grant available to a Council for the hypothetical 3 bedroom/5 person unit is £59,000 (flat rate- no adjustment to 3 person equivalent required).

For the purposes of the residual calculation, I have assumed a small development of 10 houses. The total grant available to the RSL would therefore be: 10 units @ £85,470 = £854,700. The total grant available to a Council would be: 10 units @ £59,000 = £590,000.

The level of rent charged will vary from location to location across Moray, however for the purposes of my calculations I have assumed the benchmark for 2021/2022 plus 5% i.e.:

£4,676.70 plus 5% = £5,401.20 per annum.

The Council has provided information on average rents from the 5 HMA areas. For a 3 bedroom mainstream unit, the rents range from £4,539.60 to £4,694.56 per year (the average being £4,618.54 for this house type). These levels of rent are higher than the rents for older Council properties but are comparable to the rents charged by RSLs in these locations.

In the majority of cases the rents are likely to be lower than the benchmark however in order to establish a headline rate for the land I have assumed the benchmark plus 5% and rents are unlikely to be higher than this.

The total rent for 10 units is calculated to £54,012, which has been adjusted for voids at 1%, and then capitalised using a multiplier of 17.5689, which was formerly prescribed by the Scottish Government and although it has not been updated for some time it could be taken to represent an average borrowing rate across a wide range of RSL's and Councils. The total income available has been adjusted to take account of management, maintenance and major repairs. These can vary from RSL to RSL however I have adopted adjustments which are broadly in line with the figures in previous SG Guidance. Usually these are around 30% of rental income and in this case 29.16% has been used. The adjusted rent (based on the benchmark rent plus 5%) for both the RSL development and the Council development would therefore be £672,219.

The total finance available for the hypothetical development of 10 detached houses and based on the available grant plus capitalised adjusted rental income is £1,526,919 for the RSL and £1,3262,219 for the Council.

With regards the costs associated with constructing the hypothetical scheme, Moray Council are currently undertaking a new affordable housing project however tenders are yet to be received and the Council are unable to provide any up to date costs for projects they have been involved in recently. I have therefore analysed cost information for affordable housing projects dealt with by the VOA in recent times and had regard to the BCIS average prices indices adjusted for location.

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.

The costs for 2 storey semi- detached housing in the BCIS average prices index (rate/m2 GIA of building costs including prelims) adjusted for Moray as at 5 June 2021 are between £634/m^2 and £1,790/m^2 with the mean and median being £1,040/m^2 and £1,021/m^2 respectively. Experience has shown the build costs for RSLs and Councils tend to be close to or within the upper quartiles, which for Moray would be at least £1,140/ m^2 and usually higher.

- Externals are assumed at 12.5%, which is within the range indicated by development projects the VOA has been involved with.
- The industry norm for contingencies is between 3% and 5%. I have assumed a reasonably straight forward development, therefore 3% has been adopted.
- I have uplifted the build cost by 6% to reflect an addition for contractor's profit.
- Professional fees are 6.5% which is within the normal range.
- Other costs are taken at 4.5%.

As noted above in reality the costs will vary depending on location and on the developer. A Council is likely to have different costs to an RSL and the approach is broad brush, but overall the above inputs are considered to be reasonable and reflective of typical costs for a development of this nature. More rural areas are likely to incur higher construction costs than areas closer to major settlements or transport links. Experience has shown that affordable housing developments tend to have higher build costs than private developments.

I have assumed that the RSL would incur some direct costs in facilitating the development. I've assumed total direct costs, including developer's agent, clerk of works and other costs incurred by the RSL at 1.75% of the total contract amount. Arguably, the RSL may also incur some other costs, which are sometimes captured under development allowances, however I have assumed in this instance these costs are included in the 'other fees' within development costs.

Adopting a cost within the upper quartile of say £1,268/m^2, build costs are £1,373,922. Total development costs (including fees and developer's profit but excluding the land value) are £1,525,053 (£1,694.50/m^2). Subtracting these costs from the income available to the RSL (£1,526,919), the scheme just about breaks even.

I have undertaken sensitivity analysis and adopted the average rent for a mainstream 3 bedroom house for Moray (£4,618.54 p.a.). For the scheme to break even on the basis of this level of rental income, total development costs would have to be reduced to in the region of £1,545/m^2. In my experience development costs are often higher and/or rents are lower than that assumed and significant negative land values are often produced. This is typical for affordable housing developments, especially those that are 100% social rented.

It should be remembered however 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 Fife, Tayside and Central Scotland. Values per plot have varied from nil to £10,000. The plot rates are dependent on the tenure and size of the units and the corresponding rents and available grant subsidies.

Positive residual land values can sometimes be achieved if a tenure other than social rent is assumed. Mid-market rent (MMR) is an acceptable form of affordable housing and as the rents charged for MMR properties tends to be higher than the rent for social rented units, there is more money available for the scheme. Similarly, Shared Equity Schemes or Low-Cost Home Ownership (LCHO) can generate higher GDV's. However, social rent is usually identified as the highest need and I am of the opinion this should be the basis from which the commuted payment is calculated in the first instance.

Site values in reality are affected by the nature of the site, any remediation work that is required and also the level of any developer's contributions within a Section 75. In my experience however it is unusual for a social rented scheme to achieve a significant positive land value and, more often than not, a negative value, nil or very low value is reported.

4.1.4 Value for Private Sale

In arriving at the valuations for the unrestricted plots I have undertaken a residual valuation for each of the 5 HMAs having regard to the guidance notes issued by the RICS and in particular VIP 12 " Valuation of Development Land" and Valuation of development property, 1st edition, 2019.

As with the affordable housing residual valuation, I am assuming a small development of 10 standard new build 3 bedroom semi-detached house of 90sqm (gross internal areas) built to a good standard of specification, with private garden grounds, off-street parking but no garage.

GDV

The GDV of the private sales is arrived at by having regard to the anticipated sale price of the completed units of the notional houses. I have researched house sales evidence, and properties currently on the market, in each of the local HMAs in order to arrive at the likely selling price of the notional house in each area. The approach is by necessity broad brush and it is recognised that HMA's would inevitably contain a range of values.

The majority of the sales evidence available is located within the main towns and villages and there is a reasonable amount of evidence for Buckie, Elgin, Lossiemouth and Forres. There is however limited evidence of sales of similar house types in other locations. For Keith HMA, adjustments have been made to the house sales evidence available in order to estimate the likely selling price of the notional unit. The main settlements in Speyside are Craigellachie, Aberlour, Dufftown and Rothes. There is a handful of sales in these locations, but as with Keith adjustments to the evidence is generally required as the characteristics of the properties are different to the notional unit assumed- for example they tend to include garages or are older properties.

The value for Moray is taken as an average of the 5 other authority areas.

The GDV for each Local HMA (based on a development of 10 notional houses) can be summarised as follows:

Local HMA	Unit Value	GDV (10 units)
Buckie	£177,500	£1,775,000
Elgin	£182,500	£1,825,000
Forres	£179,000	£1,790,000
Keith	£177,500	£1,775,000
Speyside	£175,000	£1,750,000
Average (Moray)	£178,300	£1,783,000

Agents selling costs at 1.75% and legal selling costs at 0.75% have been deducted from the GDV to arrive at the Net Development Value.

Development Costs

Estimated 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 RSLs and Councils across Scotland as well as cost information provided in connection with viability assessments for private developments. Given the lack of directly comparable cost information however I have had regard to BCIS average prices, adjusted for location.

I have adopted a build cost rate of £1,050/m^2, which is just above the mean figure reported by BCIS for a 2 storey semi-detached estate house adjusted for Moray. The build cost is lower than what I have assumed for the affordable housing valuation, but that is not considered unusual.

Other costs are assumed to be broadly similar across all locations

- Externals are assumed at 12.5%, which is within the range indicated by development projects the VOA has been involved with.
- The industry norm for contingencies is between 3% and 5%. I have assumed a reasonably straight forward development, therefore 3% has been adopted.
- Professional fees are 6% which is within the normal range.
- Finance costs are assumed at 6.5%
- Profit is usually between 15% and 20% of GDV. I have adopted 20% as this is the level developers appear to be working to in order to secure financial backing.

Developer Obligations have been considered in line with Supplementary Guidance to MLDP 2020, published September 2020. Whilst there are a range of potential Developers Obligations including education, healthcare, transportation and 3G pitch provision, these depend on the location, type and scale of the development. Within this report I am unable to make allowance for developer contributions, as they are specific to each application and can vary between settlements and local authority areas.

The total development costs have been deducted from the Net Development Value to arrive at the residual land value in each location as follows:

HMA	**Residual Land Value**	**Unit land value**
Buckie	£186,057	£18,500
Elgin	£225,057	£22,500
Forres	£197,757	£19,750
Keith	£186,057	£18,500
Speyside	£166,557	£16,500
Average (Moray)	£192,297	£19,250

4.1.5 Comparable Evidence/Land Sales 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 I have listed some of these sales below. 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.

There is not a great deal of reliable transactional evidence for affordable housing land, however the VOA is involved with valuations for a number of clients (including TMC) throughout Scotland and it is not unusual for affordable housing sites, particularly ones proposed for social rent, to be reported with a very low, nil or negative land value.

The recent (2018 onwards) sales evidence noted below indicates a range of £10,900/unit to £31,917/unit, but this will depend very much on the type of development proposed and site-specific issues affecting value. At the lower end is a medium sized development of 59 affordable housing units. At the top end of the range is a development of 6 large detached houses sold to a private developer analysing to £31,917/unit.

The most recent evidence available of greenfield land purchased for affordable housing range from £10,900/unit £11,364/unit. Whilst this is the amount being paid, in many cases the valuation reported by the VOA on the basis of the actual social rented scheme is nil value as the costs of development are higher than the return from the site. In these instances, if payment for the land is made (and assuming there is a section 75 in place), it is in our opinion that the price paid is an apportionment of an overall price for a completed unit within a Design and Build Agreement rather than a true site value.

A site in Elgin sold to a private developer in August 2020 analysing to £15,250/unit. The completed development will be 100% affordable housing and will comprise 10 units (4 x 1 bed flats, 2 x 2 bed house, 2 x 3 bed house, 2 x 4 bed house). It is understood there is an overage provision of £15,250/unit. The sale price analyses to £293,000/ac (gross) and is understood to have been conditional on planning only. Details on tenure or whether the finished units will be sold to a RSL, but it is likely they will be so the development will be seen as relatively low risk.

In conclusion, the residual valuation based on inputs closer to those seen for actual developments breaks even at best and on the basis that much of the land valued for affordable housing dealt with by the VOA cannot be delivered for figures within benchmark, I remain of the opinion as a social rented scheme the residual value is nil £0 across all Local HMAs.

There is not a great deal of reliable evidence of private sales available. A private development in Kinloss achieved just under £32,000/unit but this was for larger detached houses. I am also aware of another private development of mainly detached houses, where c£36,650/unit has been reported although the details are confidential. Bulk land sales are very difficult to analyse but based on confidential information provided for a large site in Moray, an average unit rate of £18,750 can be deduced. 2.74 acres of land at Buckie proposed for 12 private and 6 affordable houses sold in November 2018 for £242,000. This analyses to £13,444/unit however if the land value for the 6 affordable units are assumed at nil (i.e. they are cost return neutral) the sale price would analyse to £20,167/unit.

As noted above 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.

4.2 Comparable Evidence

Address	£	Size (acres)	Date	£/ac	£/u
Elgin	£152,500	0.52	Aug-20	£293,000	£15,250
Kinloss	£191,500	1.4	Sep-20	£137,000	£31,917
Keith	£245,000	1.38	Feb-20	£177,500	£11,100
Hopeman	£250,000	2.1	Feb-19	£119,000	£11,364
Buckie	£242,000	2.74	Nov-18	£88,000	£13,444
Mosstodloch	£645,000		Apr-18		£10,900
Buckie	£310,000		Apr-18		£11,100
Elgin	£570,000		Apr-18		£11,400

4.3 Opinion of Value

Commuted Payment

The recommend methodology is the ‘benchmark’ approach detailed above. The commuted payment is the difference between the unrestricted MV and the affordable housing value, which is considered to reflect the amount the Housing Association or Council will have to pay over and above the affordable land value to obtain the alternative plot.

I am of the opinion that the Market Value of the owner's heritable interest in the notional house plots with vacant possession (and the resultant commuted payments) as at 16 June 2021 are detailed in the table below.

HMA	Affordable Housing Plot value	Private Housing Plot Value	Commuted Payment
Buckie	£0	£18,500	£18,500
Elgin	£0	£22,500	£22,500
Forres	£0	£19,750	£19,750
Keith	£0	£18,500	£18,500
Speyside	£0	£16,500	£16,500
Average (Moray)	£0	£19,250	£19,250

Commentary on Reported Values

As the hypothetical site could be located anywhere within the radius of the Local HMA, values in reality would likely vary within each area and there would likely be some 'blurring' at the borders of the HMAs.

You have requested a value for Moray as a whole. As the values vary across the whole Local Authority area this has been calculated as an average of the values for each local HMA.

The value reported for Moray as an average is £19,250 which is higher than the £16,000 detailed in the current guidance. The value reported to CNPA for the area covered by Moray Local Authority was £17,000, however I would comment that the values report to CNPA were based on a different assumption set (i.e. detached houses of 96 sq m).

In terms of land values for Social Rented accommodation, 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 local HMAs for this type of tenure, particularly as the residual values produced tend to be nil or a negative value in most cases.

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 rents and other forms of affordable tenure may yield higher values.

It is also worth repeating that the land values for the unrestricted plots are based on the assumptions stated within the report, specific sites with abnormal costs relating to infrastructure, site conditions or planning obligations could well produce a lower plot value. Similarly if the characteristics of the notional unit were to change, then higher or lower values could be generated.

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

The property market in Moray appears to be reasonably stable. There are plans for dualling of the A96 but the time line for completion has recently been deferred beyond 2030. The preferred route for a bypass would be to the south of the Elgin and to the north of Forres.

Two major employers in Moray are the MoD bases at Lossiemouth and Kinloss. Whilst Kinloss has been scaled back to an army barracks and back-up airbase, Lossiemouth is being expanded with considerable investment. This investment has sustained further expansion around Elgin in both new homes and service industries.

Average house prices in Moray have shown steady increases over the past 5 years although they remain below the average for Scotland overall. There appears to be demand from both the private and social housing sectors.

The methodology and approach for this exercise has to be, by necessity, broad-brush and generalised. It is recognised that there will inevitably be a range of valuations within each locality.

4.8 Market conditions explanatory note: Novel Coronavirus (COVID-19)

The outbreak of COVID-19, declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has and continues to impact many aspects of daily life and the global economy – with some real estate markets having experienced lower levels of transactional activity and liquidity. Travel, movement and operational restrictions have been implemented by many countries. In some cases, "lockdowns" have been applied to varying degrees and to reflect further "waves" of COVID-19; although these may imply a new stage of the crisis, they are not unprecedented in the same way as the initial impact.

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date some property markets have started to function again, with transaction volumes and other relevant evidence returning to levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt, our valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

For the avoidance of doubt, this explanatory note has been included to ensure transparency and to provide further insight as to the market context under which the valuation opinion was prepared. In recognition of the potential for market conditions to move rapidly in response to changes in the control or future spread of COVID-19 we highlight the importance of the valuation date.

5. General Information

5.1 Status of Valuer

It is confirmed that the valuation has been carried out by Kate Paton 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.

Douglas Bowers MRICS, a RICS Registered Valuer, has reviewed the valuations and report.

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. As previously disclosed, DVS has provided valuation advice in respect of similar exercises in relation to affordable housing and commuted payments policy to Moray Council in the past, which has been drawn to your attention.

In addition to this and as you are aware, you have recently instructed the VOA to provide valuation advice in relation to a review of viability assessment provided by an applicant in relation to a planning application. The VOA has reviewed other site-specific viability assessments previously and provides a valuation advice service to Moray Council.

This previous involvement will not compromise the overriding obligation to act with independence and objectivity and 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.

DVS Property Specialists for the Public Sector

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

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.

Kate Paton

Kate Paton MA (Hons) MLE MRICS
Senior Surveyor
RICS Registered Valuer
DVS