



A Second Runway for Gatwick

Appendix

A18

Land Valuation

Gatwick Airport Ltd – Proposed Second Runway Land Valuation

Contents

1	Introduction	3
2	Cost Estimate Summary	7
3	The PCE - Data Collection	11
4	PMSB and HOSS – Data Collection	13
5	The Council Tax Initiative (CTI) – scheme overview	14
6	The “compensation code”	17
7	Assumptions and Exclusions	22

Appendices (separately bound)

- 1 The Property Cost Estimate – Summary breakdown
- 2 The Property Cost Estimate – Area and plot breakdown
- 3 The Property Cost Estimate – Original base land referencing plans
- 4 The Property Market Support Bond – Financial analysis
- 5 The Home Owner Support Scheme – Financial analysis

Note: The Appendices contain commercially sensitive material and at this stage have been released to our instructing client (Gatwick Airport Ltd) only. Upon request, and subject to the necessary protective markings and restrictions, these Appendices can be released to the Airports Commission.

1 Introduction

- 1.1 This report provides an estimate of the compensation that will be payable by Gatwick Airport Ltd (GAL) to third party owners and occupiers who will be impacted if GAL were to proceed with the development of a second runway.
- 1.2 This report also estimates the amount of Stamp Duty Land Tax (SDLT) and professional fees that GAL will directly incur in acquiring property interests from these third party owners and occupiers.
- 1.3 Our estimates are considered under four headings:
 - **The Property Cost Estimate (PCE).** The costs of acquiring land and property interests located within the boundary of the proposed operational boundary for a second runway.
 - **The Property Market Support Bond (PMSB).** The costs of operating a compensation scheme for certain residential and small business owners located within the area originally safeguarded for a second runway.
 - **The Home Owner Support Scheme (HOSS).** The costs of operating a compensation scheme for certain residential and small business owners located outside the area originally safeguarded for a second runway, but who might be subject to >66dB noise from the operation of the second runway.
 - **The Council Tax Initiative (CTI).** The costs of operating a supplementary compensation scheme for certain residents who might be subject to >57dB noise from the operation of the second runway.

The Property Cost Estimate (PCE)

- 1.4 In early 2013, GAL identified an initial study area of land to the west, south and east of the existing airport that might need to be acquired to build the proposed second runway and associated development. This land was divided into six numbered areas (known as Areas 1-6) and comprised a total of about 1,000 ownership ("plot") interests on a land area of 1,679 hectares (4,148 acres). Plans showing the full extent of Areas 1-6 are contained at Appendix 3 to this report.
- 1.5 The extent of land required for GAL Option 3 (with and without End Around Taxiways (EATS)) is wholly contained within the initial study area, although the extent of land to be acquired has been significantly refined. The Option 3 land comprises about 400 plot interests on a land area about 815 hectares (2,014 acres) with EATS and 803 hectares (1,984 acres) without EATS.
- 1.6 We have prepared a "Property Cost Estimate" (PCE) to estimate the costs associated with acquiring the c400 plot interests that will need to be acquired to provide the Option 3 land (with and without EATS).
- 1.7 Given this significant number of land ownerships, compulsory purchase will be required to ensure that the acquisition of the land required can be achieved within a reasonable timetable. In order to acquire property by compulsory purchase, it is highly likely that GAL would need to successfully promote a Development Consent Order (DCO), pursuant the Planning Act 2008. A confirmed DCO essentially draws together various consents required to facilitate the development of Nationally Significant Infrastructure Projects (NSIPs). This includes planning

consent and the ability to acquire property interests by compulsory purchase. For the purpose of this exercise we have assumed a DCO has been obtained by GAL.

- 1.8 If possession of land is taken pursuant to DCO (or other form of compulsory purchase) compensation to affected landowners and occupiers is assessed and paid in accordance with the “compensation code”. This requires compensation to be paid for the Market Value of land interests being acquired and disturbance costs to be paid to occupiers who are displaced from occupation, together with the payment of statutory loss payments and fees. The overall objective is that compensation paid should put the “claimant” back in same position (so far as money can) as if the compulsory acquisition not happened.
- 1.9 Prior to, and in parallel with, the DCO process GAL should seek acquisition of land by agreement wherever practicable. As the “compensation code” is intended to provide fair and reasonable compensation, this provides a helpful benchmark in considering what should be offered to landowners by GAL as part of their efforts to acquire land by agreement.
- 1.10 The PCE was originally undertaken in stages during 2013 to reflect different scenarios of land take assumptions as the proposals were refined. The PCE has been refreshed during the first quarter of 2014 to reflect the latest assumed boundaries for Option 3. We have adopted a valuation date of **31 December 2013**.
- 1.11 The PCE has been carried out for budgeting purposes and to inform negotiations. As such, it is excluded from the provisions set out within the 2012 RICS Valuation Standards and should not be construed as representing a formal ‘Red Book’ valuation.
- 1.12 The PCE has been prepared by Graeme Lawes BSc (Hons) MRICS and Simon Layland MA (Hons) MRICS and reviewed by Michael Eckett BSc (Hons) MRICS.
- 1.13 In addition to the PCE costs – which assesses payments to be made to the owners and occupiers of the land required – GAL will incur acquisition costs in the form of SDLT on purchases, and professional fees (mostly legal and surveyors fees) incurred in negotiating the compensation to be payable and transferring Title to GAL. We have made a separate provision for these costs, with SDLT being assessed at the appropriate rate (an increasing scale based on property purchase price), and professional fees being assessed at the same amount that we have estimated will be incurred by landowners and occupiers.

The Property Market Support Bond (PMSB)

- 1.14 GAL has two existing schemes that are designed to mitigate property blight: the Property Market Support Bond (PMSB) and the Home Owner Support Scheme (HOSS). These schemes were both introduced in 2005 and may be subject to further updates to reflect legislative and practical changes since this date. However, for the purposes of our assessment we have assumed that these schemes will be implemented in their current form.
- 1.15 The Property Bond scheme is intended to support the property market by ensuring that properties in the local area can be bought and sold at normal market rates in the uncertain period before GAL confirms whether it will apply for a Development Consent Order (DCO). This is achieved by GAL stepping in and acquiring property if a price close to a pre-determined target price cannot be achieved in the market. After GAL confirms it intends to apply for a DCO, it will acquire property without the owner having to first seek a disposal on the market.

- 1.16 Property qualifying for the PMSB includes some residential and small commercial premises within the area originally safeguarded for the second runway. The vast majority of these properties are also within the boundary of the land required for Option 3, so we have assessed these costs within our PCE exercise. We have apportioned our estimates between acquisitions inside and outside the Option 3 boundaries.

The Home Owners Support Scheme (HOSS)

- 1.17 This HOSS scheme provides additional financial support to property owners that will not be directly acquired for the construction of a second runway, but who might be suffer as a result of additional noise created by the operation of a second runway. A 66dB threshold has been set as the level of noise required to qualify under the HOSS.

- 1.18 The HOSS scheme comprises three distinct parts;

- The Early Movers Home Purchase – early acquisition by GAL if homeowners cannot achieve a price close to a pre-determined target price.
- Early Movers Contribution to Sale Costs – if homeowners can sell in the market, GAL will make a contribution to costs to encourage a prompt disposal
- Post Planning Consent Purchases

- 1.19 In our assessment of the potential operational costs of the HOSS scheme we have considered two scenarios. The “Highest cost scenario” assumes that all qualifying residential property will be acquired by GAL and the “Reasonable cost scenario” assumes that market churn will continue at existing rates and that there will continue to be market activity thus requiring less direct intervention by GAL. This second scenario also assumes that any property acquired by GAL will be re-sold in the market at a reduced price (80% of the price paid) and makes a provision for acquisition and holding costs.

- 1.20 More details about the PMSB and HOSS are provided at:

<http://www.gatwickairport.com/business-community/aircraft-noise/consultations-and-schemes/>

The Council Tax Initiative (CTI)

- 1.21 Historically, major infrastructure schemes have been criticised for failing to provide adequate financial compensation for the impacts they have on local communities. The Council Tax Initiative (CTI) is a newly proposed scheme promoted as part of GALs range of existing voluntary support measures, to address this issue and seeks to ensure that residents impacted by the new runway development are compensated for intensification of air traffic movements arising from it. Under the proposed initiative, eligible Council Tax payers living within a defined noise contour will be able to apply for a contribution of £1,000 per year toward the cost of their Council Tax.
- 1.22 The identified noise contour is >57dM(A) Leq and GAL has advised there are up to 4,100 existing properties that might qualify for the scheme. The CTI scheme is proposed to go “live” after use of the second runway commences, although homeowners are required to have been resident at the Announcement Date of the scheme in order to qualify. Further details on the proposed CTI scheme are set out in Section 5 of this report.

2 Cost Estimate Summary

The Property Cost Estimate

- 2.1 Based on the data collection methodology set out in Section 3 of this report, applying the provisions of the “compensation code” set out in Section 6 of this report, and having regard to the assumptions set out in Section 7 of this report, our property cost estimate of acquiring the Option 3 Land is:

With EATS: £804,000,000 (eight hundred and four million pounds)

Without EATS: £800,000,000 (eight hundred million pounds)

- 2.2 These figures are broken down into the following component parts.

Head of Claim	Estimate – Option 3 With EATS	Estimate – Option 3 Without EATS
Market Value – Residential Property	£74,987,000	£73,167,000
Market Value – Land Value	£52,559,019	£51,562,519
Market Value – Non-residential Property	£455,379,999	£455,079,999
Disturbance	£192,797,597	£192,538,179
Loss Payments	£16,354,300	£16,158,801
Professional fees	£12,126,582	£11,988,463
Total	£804,204,496, say £804,000,000	£800,494,961, say £800,000,000

- 2.3 A more detailed analysis of these costs is set out in Appendices 1 and 2, with reference to the initial study area plans contained at Appendix 3.
- 2.4 In addition, it is estimated that the following costs will be incurred by GAL in the negotiations and acquisition of property. This excludes costs incurred internally by GAL in administrating and managing the land acquisition process.

GAL Acquisition Costs	Estimate – Option 3 With EATS	Estimate – Option 3 Without EATS
Stamp Duty Land Tax (SDLT)	£23,440,354	£23,344,434
Professional Fees	£12,126,582	£11,988,463
Total	£35,566,936	£35,332,897

The Property Market Support Bond (PMSB)

- 2.5 We have identified that 185 residential properties will be entitled to apply for a PMSB. We understand that 20 PMSB's have been issued to date by GAL.
- 2.6 A large number of these properties are contained within the PCE boundary, and therefore the acquisition costs are included in the table contained at paragraph 2.2.
- 2.7 The table below summarises the number of properties and potential acquisition costs. This assumes that every qualifying party applies for, and triggers, a PMSB therefore requiring GAL to acquire.
- 2.8 We have not made any separate assessment for non-residential property (agricultural and small businesses might also be able to apply under the current arrangements).

Property Market Support Bond	Estimate – Option 3 With EATS	Estimate – Option 3 Without EATS
Total number of residential properties within PMSB boundary	185	185
- Of which, number inside PCE boundary	147	145
- Of which, number outside of PCE boundary	38	40
Total acquisition cost	£118,481,645	£118,481,645
- Of which, cost of acquiring within PCE boundary (and included in table at Para 2.2)	£96,253,539	£94,085,571
- Of which, cost of acquiring outside PCE boundary	£22,228,106*	£24,396,074*

*This figure therefore represents the estimated cost of acquiring property that is not within the proposed operational boundary for the second runway (assuming that all qualifying owners apply and trigger Bonds). This property could potentially be re-sold in the market, albeit at a depreciated price to reflect the impact of the 2nd runway, but we have not sought to assess this potential resale value.

- 2.9 A more detailed breakdown of this assessment is set out at Appendix 4.
- 2.10 Excluding those properties included in the PCE boundary (and thus avoiding double counting) the costs to be incurred by GAL in acquiring property pursuant to the PMSB scheme are estimated to be:

GAL Acquisition Costs	Estimate – Option 3 With EATS	Estimate – Option 3 Without EATS
Stamp Duty Land Tax (SDLT)	£546,750	£619,550
Professional Fees	£792,997	£872,765
Total	£1,339,747	£1,492,315

The Home Owner Support Scheme (HOSS)

- 2.11 We have identified that 21 residential properties may be able to submit a claim under the HOSS. These properties are all located outside the PCE and safeguarding boundaries.
- 2.12 The table below summarises the number of properties and potential acquisition costs on two scenarios. The first, “highest cost scenario” assumes that every qualifying landowner requires GAL to acquire their property (the *Post Planning Consent Purchase* element of the HOSS) and does not take account of the resale value provided to GAL.
- 2.13 The second “reasonable cost scenario” assumes that compensation will be payable under different elements of the HOSS, (being the *Early Movers Home Purchase*, the *Early Movers Contribution* and the *Post Planning Consent Purchases*) and reflects the resale benefit to GAL.
- 2.14 Agricultural and small businesses might also be able to apply under the HOSS scheme currently proposed but we have not made any separate assessment for non-residential property.

Home Owner Support Scheme	Estimate – Option 3 With EATS	Estimate – Option 3 Without EATS
Total number of residential properties within HOSS	21	21
Highest cost scenario - Total estimated cost of acquiring all residential property qualifying for HOSS	£13,945,000*	£13,945,000*
Reasonable cost scenario - Total estimated cost of net compensation under the HOSS	£1,973,574**	£1,973,574**

*assumes acquisition of all qualifying properties and no offset of potential resale value.

**HOSS scheme comprises three elements: Early Movers Home Purchase; Early Movers Contribution; and, Post Planning Consent Purchases. This estimate reflects assumptions as to the number of applications under each element and assumes a resale (of 80% of purchase price) for each property that GAL is required to acquire. This assessment includes acquisition/holding costs to be incurred by GAL and therefore these are not separately stated.

- 2.15 A more detailed breakdown of this assessment is set out at Appendix 5.

The Council Tax Initiative (CTI)

- 2.16 It has been identified there are up to 4,100 residential properties that may be newly subjected to > 57dB(A) Leq of noise as a result of the operation of the second runway, and therefore may qualify for the CTI scheme. However, only residents who are in occupation at both the Announcement Date (in 2014) and the date the second runway opens (in, say, 2025) will qualify. Taking into account the definitions and market “churn rate” assumptions set out in Section 5 of this report, we estimate there might be 2,700 qualifying properties when payments under the scheme first become due in, say 2026.
- 2.17 This assumption would provide an estimated “Year 1” (2026) cost of **£2,700,000** (i.e. 2,700 x £1,000). In order to assess the true present value of this future Year 1 expenditure we might need to consider the impact of the RPI increases to the £1,000 which are due under the

scheme and discount on the basis that this expenditure is not being incurred for another 11 or 12 years' time (although these two adjustments could essentially cancel each other out). In subsequent years costs should reduce as properties are sold in the market and the owners of newly purchased properties do not qualify.

- 2.18 The CTI is a new concept which is likely to go to public consultation and be subject to further refinement. The "Scheme Area" is also subject to 5 yearly reviews which could bring in new properties and exclude others. For these reasons we have not yet undertaken any detailed analysis of long term total scheme costs, and have presented this as an initial estimate of the "Year 1" costs only.

Summary

- 2.19 The table below summarises the total costs for under each of the schemes considered above.

Scheme	Estimate – Option 3 With EATS	Estimate – Option 3 Without EATS
Property Cost Estimate – Compensation payable to landowners and occupiers	£804,000,000	£800,000,000
Property Cost Estimate – Acquisition costs incurred by GAL	£35,566,936	£35,332,897
Property Market Support Bond* - Compensation payable to qualifying residential landowners	£22,228,106	£24,396,074
Property Market Support Bond* - Acquisition costs incurred by GAL	£1,339,747	£1,492,315
Home Owner Support Scheme**	£1,973,574	£1,973,574
Council Tax Initiative – Estimate Year 1 (2026) annual cost of operation	£2,700,000pa	£2,700,000pa

*Excludes costs where these are included in the Property Cost Estimate.

**Assumes the "Reasonable Cost Scenario" considered in para 2.13, above.

3 The PCE - Data Collection

Land Referencing

- 3.1 The data capture exercise required obtaining Ordnance Survey Base Mapping and copyright licenses over the initial study area, and undertaking a Registered Title Search (known as a SIM search) to identify each freehold interest.
- 3.2 Each Title area was then plotted onto the Base Mapping plans and prescribed a plot reference number. These plans are attached at Appendix 3. Relevant information on each Title including address, Title number, registered owner, and any price paid information was recorded against each plot number. The site area of each plot was also recorded.
- 3.3 Copies of the Office Copy Entry for each Registered Title and copies of the Base Mapping plans with plot numbers overlaid, have been separately provided to GAL.
- 3.4 The initial study area comprised about 1,000 separate ownership ("plot") interests, although the extent of land required for Option 3 is significantly less than this. We have overlaid the Option 3 plans (as prepared by Arup) to our Base Mapping plans to identify the c400 ownership plots required for Option 3.

Building Areas

- 3.5 Assumptions and information about individual buildings located on each plot within the Study Area has been taken from various sources. In some cases (particularly for more substantial buildings), specific "building reports" are available from on-line property sources including EGI and CoStar. These reports provide information including floor areas and transaction history (i.e. where the plot has sold or been let in the market). In other cases, property particulars (marketing details) are available where property is on the market to be sold or let.
- 3.6 In cases where information is not available we have, where possible, taken buildings areas from the Rating List. The Rating List is compiled and maintained by the Valuation Office Agency (VOA). For every qualifying property, the VOA prepares a valuation to assess the "Rateable Value", and Business Rates are charged as a proportion of this Value. The valuations prepared by the VOA are publically available and are usually (but not always) based on an appropriate annual rental value being applied to their measured floor areas.
- 3.7 In those cases where floor areas are not available from any of the sources referred to above, we have either estimated areas by scaling from the Base Mapping plans and applying a multiplier according to building height or, where values are relatively small, (i.e. agricultural buildings) we have not considered floor areas when producing our estimates.
- 3.8 We have tried to inspect each building, from public highways and other publically accessible areas only. We have not internally inspected or measured any buildings or spoken to any of the landowners or occupiers.

Market Review and Analysis

- 3.9 We have undertaken a review of the agricultural, commercial and residential property market to determine the appropriate inputs to apply in assessing the value of each plot interest.
- 3.10 Each plot interest has been individually assessed having regard (as appropriate) to the land and building(s) that each plot comprises.
- 3.11 We have assumed each plot is owner occupied and that there is a single party entitled to receive compensation. In reality, many of the plot interests will comprise multiple levels of tenure, for example a freehold investor owner and separate occupational tenant. This might result in a greater number of property interests entitled to receive compensation, but the total sum of compensation to be payable should not be materially different to the total figure we have adopted.

4 PMSB and HOSS – Data Collection

- 4.1 We have had regard to the qualifying criteria and other features of the existing Property Market Support Bond (PMSB) and Home Owner Support Scheme (HOSS).
- 4.2 Qualification for the PMSB requires the claimant to have an appropriate property interest within the original safeguarded area, which is largely consistent with the proposed operational boundary (land required) for Option 3. The initial land referencing exercise included consideration of the entire PMSB area.
- 4.3 Some of the properties that might be acquired under the PMSB will not be required for the second runway (i.e. those falling outside of the proposed Option 3 boundary but within the safeguarded area). These may have some resale value to GAL, albeit this is likely to be at a depreciated price. For the purposes of this exercise we have not taken into account the benefit of the potential resale value of these properties.
- 4.4 Qualification for the HOSS requires the owner to have a qualifying property interest outside of the original safeguarded area, but within an area where the operation of an expanded airport would provide new exposure to medium to high levels of noise (>66dB).
- 4.5 GAL has provided copies of plans showing the envisaged “HOSS Boundary”, which is significantly reduced from the indicative boundary shown in the HOSS public information booklet (published in August 2005). We have sought to overlay these HOSS boundary plans onto our land referencing plans, to identify the numbers (and values) of properties that may potentially qualify. With the exception of a handful of properties (that are located to the east of the M23 motorway) the land referencing exercise includes the entire HOSS area. The number of properties located to the east of the M23 has been calculated by undertaking Google Earth searches.
- 4.6 The HOSS scheme comprises three parts: The Early Movers Home Purchase; the Early Movers’ Contribution to Sale Costs and the Post Planning Consent Purchases. In our “highest cost scenario” we have assumed that all qualifying owners wish to sell and no properties sell on the open market, thus requiring GAL to purchase all properties. We have not reflected the benefit to GAL of any resale value of these properties.
- 4.7 In our alternative “reasonable cost scenario” we have assumed that, prior to intention to submit a planning application, 8% of properties are put on to the market each year (roughly twice the national annual “churn” rate) of which 50% are sold in the market (qualifying the owner for the Early Movers’ Contribution to Sale Costs) and 50% are sold to GAL (because they cannot be sold in the market within 15% of market value). We have assumed that any properties acquired by Gatwick are sold in the market for 80% of the price paid, subject to holding costs equivalent to 10% of the property value being incurred.

5 The Council Tax Initiative (CTI) – scheme overview

5.1 A summary of the CTI, as provided by GAL, is set out below.

What?	Financial compensation to Qualifying Residents affected by operation of R2, offered unconditionally as a contribution toward their Council Tax liability.
Why?	Because Council Tax is a tax on the occupation of dwellings and it is residents' enjoyment of their occupation of their dwellings which will be affected by R2.
Who?	Council tax paying households within a specified noise contour for R2, who are resident at the Announcement Date, and who live in a home which was built before 2015.
Which contour?	The Department for Transport's contour for the onset of noise annoyance (> 57dB(A) Leq) is used to determine the Scheme Area. The Scheme Area will include homes already within the existing single runway contour, as they will be affected by intensification of traffic due to R2.
How much?	£1000 per year, indexed at RPI. This is broadly equivalent to the average Band A Council Tax rate in the Scheme Area.
How long?	In perpetuity as long as Claimant remains resident and their household remains within the Scheme Area. Residents moving into the Scheme Area after the runway opens are not eligible.
How is the Scheme Area updated?	<p>The initial Scheme Area will be determined by the measured Scheme Noise Contour published by the CAA for the first Scheme Year. Thereafter the Scheme Area will be updated every five years based on the measured contour for the preceding year.</p> <p>Each time the Scheme Area is updated, newly eligible households will be notified, as will households which cease to be eligible. New Claimants will have to Self-Certify that they were resident at the runway opening date when they make their Claim.</p>
Payment?	Annual Payment Amount paid directly into the Claimant's bank account for each Claim Year.
Validation?	Claimants are required to notify the Scheme Administrator (Self-Certification) if they move away. Claimants are given the option to nominate payment to be made to Gatwick Community Trust or a new GAL Foundation. Land Registry data is monitored for Validation purposed.
Disputes?	Independent Data controller, arbitrator / adjudicator and dispute resolution process.

5.2 The various definitions are set out below:

“Announcement Date” means [a date to be determined but expected to be during 2014]

“Annual Payment” means the deposit of the Annual Payment Amount into a Claimant bank account in response to a Valid Claim

“Annual Payment Amount” means £1,000 indexed at RPI from the Announcement Date

“CAA” means the Civil Aviation Authority

“Claim” means a request to the Scheme for Payment for a Scheme Year

“Claimant” means a person submitting a Claim

“Claim Date” means the date of submission of a Claim

“Claim Deadline” means [Date TBC] of any Scheme Year

“Claim Period” the Scheme Year to which a Claim relates

“Qualifying Property” means a home within the Scheme Area which was built and first occupied prior to 1 January 2015

“Qualifying Resident” means a person who was registered for payment of Council Tax at a Qualifying Property on the Scheme Start Date, and who remains resident at the Claim Date.

“Initial Scheme Noise Contour” means the Scheme Noise Contour for Scheme Year 1

“Opening Year” means the year of entry into service of the second runway

“Payment Value” means the Scheme Year average Band A Council Tax rate for the Scheme Area

“Relevant Scheme Noise Contour” means the Scheme Noise Contour applicable to a Claim Period

“Scheme” means Gatwick Airport’s Council Tax Initiative

“Scheme Administrator” means Gatwick Airport Limited or their agent

“Scheme Area” means the area covered by the applicable Scheme Noise Contour

“Scheme Data” means information held by the Scheme Administrator in administering the Scheme

“Scheme Noise Contour” means the > 57dB(A) Leq noise contour for Gatwick Airport published by the CAA

“Scheme Start Date” means the date of entry into service of a second runway

“Scheme Year” means any full calendar year after the Scheme Start Date

“Self-Certification” means confirmation by a Claimant that they were a Qualifying Resident for the Claim Period by submitting a completed Claim, or that they are no longer a Qualifying Resident.

“Updated Scheme Noise Contour” means a Scheme Noise Contour produced five years after the previous Scheme Noise Contour

“Validation” means cross checking by the Scheme Administrator of a Claim against public records (including Council Tax and Land Registry data) to confirm whether a Claimant is a Qualifying Resident.

“Valid Claim” means a correctly submitted Claim made by a Qualifying Resident before the Claim Deadline

Eligibility criteria

5.3 The proposed key eligibility criteria are:

- The Scheme would be open to registered Council Tax payers living within a specified noise contour, who are resident at the Scheme Start Date, and whose home was built before 2015;
- The Scheme Start Date is the entry into service date of the new runway;
- The Scheme is not open to people who move into the area after the Scheme Start Date;
- Homes built and first occupied after 1 January 2015 are not Qualifying Properties for the purpose of the Scheme;
- Compensation will be offered unconditionally to Qualifying Residents.

5.4 Further details on the CTI are being refined and we understand that the scheme is likely to be subject to consultation before going live.

5.5 At this stage we have sought to assess the potential “Year 1” costs of running the CTI. Under the proposed arrangements, in order to qualify residents must be in occupation at the Announcement Date (which we have assumed is some time in 2014) and at the opening date of the second runway (say 2025). During this 11 year period properties will be bought and sold in the market but any new purchasers will not qualify for payment under the CTI. Assuming an annual churn rate of 3.5% (i.e. 3.5 out of every 100 properties are sold in the market each year), the number of qualifying properties in 2025 could reduce from 4,100 (the estimated existing number of potentially qualifying properties) to about 2,700.

6 The “compensation code”

- 6.1 The PCE provides an estimate of the compensation which may be payable by GAL if compulsory purchase powers were exercised to acquire the land required for Option 3. Compensation is assessed in accordance with principles derived from statute and case law, collectively referred to as the “compensation code”. Compensation is assessed in accordance with the following “heads” of claim, which are considered in more detail below:
- Property value;
 - Disturbance and re-investment costs;
 - Loss Payments; and,
 - Fees.
- 6.2 In addition, statutory interest is payable from the valuation date (being the date that the possession is taken of the land) to the date of payment. Statutory interest is fixed at 0.5% below the Bank of England Base Rate, so is currently 0%.
- 6.3 For the purposes of our PCE we have assumed that every plot interest is owner occupied and that the owner is entitled to claim under each of the each of the Heads of Claim considered in this section. In practice reality, there will be more than one property interest in each plot (i.e. investor owner of the freehold and leasehold occupier). In these cases, (with the exception, perhaps, of increased administration and professional fees) the sum of compensation payable to all interests required should not be materially different to our estimate against the single interest we have assumed.
- 6.4 In reality, many plot interests are not occupied. In these cases no occupier will need to be displaced and therefore no disturbance compensation (for business relocation or business extinguishment) will be payable. Property that is currently vacant could become occupied before it is required by GAL.
- 6.5 There will also be opportunities to mitigate compensation exposure by implementing a strategic land assembly programme. This could include, for example, the early acquisition of freehold property and determining occupational leases in accordance with landlord and tenant procedures rather than paying compensation in accordance with the “compensation code”.
- 6.6 There will be a refinement of costs if either the assumed land boundary can be refined to have specific regard to protecting existing property interests, or if there are property interests within the boundary that are not required for the R2 works and can remain in situ (and accessible/operational) during and after the works.

Property Value

- 6.7 Rule (2) of section 5 of the Land Compensation Act 1961 assesses property value as “*the value of land shall, subject as hereinafter provided, be taken to be the amount which the land is sold in the open market by a willing seller might be expected to realise*”.

- 6.8 Compensation for Property Value is therefore usually based on the market value of the land. This might be existing use value or development value, whichever is the higher. This can include any hope value or marriage value that would be paid in the market, but cannot include any enhanced value derived from the scheme underlying the acquisition (in this case, the airport expansion); this concept is referred to as valuing in the “no-scheme world”.
- 6.9 The estimates within our PCE are, generally speaking, based on an assumption that the Property Value is the existing use value of the property. We have applied the data collection and valuation methodology considered in Section 3 of this report to determine the Property Value of each plot interest.

Severance, Injurious Affection and Betterment

- 6.10 This applies in cases where a landowner has only part of his land acquired and retains the ownership of the other land which was contiguous or previously “held with” the land acquired. There is an entitlement to compensation for the reduction in value of the land retained as a result of the physical separation and subsequent use of the land acquired.
- 6.11 If the impact of severance is so severe that the retained property is materially impacted as a result of no longer being held with the land acquired, the owner can serve a notice of “material detriment” on the acquiring authority and request that they acquire the whole.
- 6.12 However, there is a converse to this. If the value of the retained land is increased as a result of the development scheme this increase in value is referred to as betterment and may be offset against the value of the land acquired.
- 6.13 In the case of this exercise, where the boundary of the Subject Land cuts through a property we have assumed that the whole will be acquired. Where the boundary cuts through land (typically agricultural land) we have taken a view as to whether the whole of the property interest would need to be acquired or whether acquisition of part could be taken without any detrimental impact to the remainder.

Equivalent Reinstatement

- 6.14 In some circumstances the land to be acquired is devoted to a purpose for which there is no market or demand, and thus there is no basis for calculating a value reflecting the existing use. Accordingly, s.5 (5) of the Land Compensation Act 1961 (Rule (5)) provides for compensation to be paid in these circumstances for the equivalent reinstatement of the use to which the land is devoted. Section 5 (5) states:

“Where land is, and but for the compulsory acquisition would continue to be, devoted to a purpose of such a nature that there is no general demand or market for land for that purpose, the compensation may, if the Lands Tribunal is satisfied that reinstatement in some other place is bona fide intended, be assessed on the basis of the reasonable cost of equivalent reinstatement.”

- 6.15 Briefly, when Property Value is assessed on a Rule (5) (equivalent reinstatement) basis, compensation is assessed on the basis of: acquiring a replacement site; fees and SDLT incurred with the acquisition of a new site; the construction and fit out costs of the new premises; professional fees incurred in the construction; and other miscellaneous items incurred in the reinstatement. The reinstated accommodation should represent modern

equivalent premises of such a standard that would receive planning consent by a Local Authority and satisfy Development Control, with any inherent disrepair existing in the premises being acquired being deducted from the compensation paid.

- 6.16 There are a few examples in our PCE where we have assumed that compensation would be assessed on the basis of Rule 5. These include: St Michael and All Angels Church at Church Road, Lowfield Heath; the Brook House Detention Centre at Charlwood Road; and, Crawley Rugby Club at Ifield Avenue

Disturbance (including the costs of re-investment)

- 6.17 Rule (6) of section 5 of the Land Compensation Act 1961 provides:

“The provisions of rule (2) shall not affect the assessment of compensation for disturbance or any other matter not directly based on the value of land”.

- 6.18 Compensation for disturbance is usually paid to an occupier who is displaced from occupation. For a residential occupier, disturbance is based on the costs of relocation, and for a commercial occupier, compensation is based either on the costs of relocating the business or - in the event that it is cheaper or no suitable relocation properties are available – the costs of closing the business (also known as business extinguishment).

Relocation

- 6.19 There is not a standard list of costs that are recoverable when a business moves – each claim needs to be considered on its own merits depending on the losses that have actually been incurred.

- The claimant is under a duty to mitigate losses.
- The claimant must act reasonably.
- The costs must be a direct result of being displaced by compulsory purchase.
- The claimant should not be compensated for losses that have provided “value form money” (i.e. replacing old with new, or the fit out of property larger than that being acquired).

- 6.20 Although this list is not exhaustive, the “Heads” of a disturbance claim based on relocation will typically comprise:

- SDLT and other fees/ costs incurred in acquiring relocation premises;
- Double overheads to include rent and rates;
- Removal Costs;
- Fit-out costs and works of special adaptation to a relocation property;
- Physical move costs – people, IT, comms, plant & machinery, utilities etc;
- Management time;

- Temporary and permanent loss of profits; and,
- Other costs relating to the relocation – including costs for; changing stationery; advertising a relocation; and loss on forced sale.

Business Extinguishment

6.21 It might not be appropriate or reasonable for a business to relocate, in which case compensation is assessed on the costs of extinguishment of that business.

6.22 This approach will be reasonable if either:

- No suitable relocation premises are available;
- The costs of extinguishing the business are significantly less than the costs of relocating the business; or,
- The owner of the business is over 60, a sole proprietor, occupies premises with a rateable value less than RV£34,800 and wants to cease trading.

6.23 The “Heads” of a disturbance claim based on business extinguishment will typically comprise:

- Value of the business (annual profit with an appropriate multiplier applied);
- Redundancy payments;
- Loss on forced sale; and,
- Other losses associated with the closure.

6.24 Assuming that a business occupier is willing to relocate, and the costs of doing so would not significantly exceed the costs of extinguishment, its ability to do so would, of course, be dependent on the supply of suitable available property in their search area.

Investor Owner

6.25 An investor owner is not “displaced” from occupation when a DCO is implemented, but he may incur costs in acquiring a replacement investment. These costs, that would typically include SDLT, agents and legal fees, are recoverable under s10A of the Land Compensation Act 1961.

Loss Payments

6.26 Loss Payments are essentially premium payments that are made to reflect the fact that land is being acquired by compulsion rather than being sold by agreement. There are three types of loss payment: the Basic Loss Payment, the Occupiers Loss Payment and the Home Loss Payment.

6.27 Under the Planning and Compulsory Purchase Act 2004, a basic loss payment is payable of 7.5% of the property value to those with qualifying interests up to a maximum of £75,000. This has been included where a freehold value or a leasehold value is reported.

- 6.28 The 2004 Act also includes an Occupiers Loss Payment which is based on either: 2.5% of the value of the interest acquired; £25/ sq m applied to the gross external floor area; or, £2.50/ sq m applied to the total land area. The Occupier's Loss Payment is also subject to a minimum payment of £2,500 and a maximum payment £25,000
- 6.29 Home loss payments have been assessed in line with the Home Loss Payments (Prescribed Amounts) (England) Regulations 2008. These are assessed at 10% of the Property Value and paid to owner occupiers only. Home loss payments are currently subject to a minimum payment of £4,700 and a maximum payment of £47,000.

Professional Fees

- 6.30 The owner is entitled to recover the costs of instructing a surveyor to prepare, submit and negotiate a compensation claim on their behalf, and the legal fees incurred in documenting agreement and making payment. Based on previous experience, we have assessed total professional fees at 4% of the total compensation estimate, subject to a minimum figure of £2,500 and a maximum figure of £150,000.
- 6.31 This assumes that all settlements with claimants are agreed without reference to Upper Tribunal of the Lands Chamber (also known as the Lands Tribunal). If this is not the case, additional professional fees will be incurred including potential Lands Tribunal reference costs.

7 Assumptions and Exclusions

- 7.1 The valuation date is 31 December 2013.
- 7.2 Our PCE has been prepared for the purpose of negotiations it has been excluded from the provisions set out within the RICS Valuation – Professional Standards 2014 and should not be construed as representing a formal ‘Red Book’ valuation.
- 7.3 Inspections have been undertaken from the public highway and other publicly accessible areas. No internal inspections have been undertaken.
- 7.4 The compensation estimates have been prepared by considering each Registered Freehold Title within the study area. An “office copy entry” of each Registered Title has been obtained from the Lands Registry and headline details of this (including any reported details on price paid) are recorded in our schedule.
- 7.5 Commercial building areas have been taken from either published buildings reports (available on line from Estates Gazette, CoStar and other sources), property particulars (where the property is or has recently been on the market), the Valuation Office Agency website or, if not otherwise available, by scaling from plans licenced from Ordnance Survey. Residential property values have been considered with reference to Council Tax banding, on line searches (websites sites as Zoopla) and with reference to prices recorded against the Title. Site areas (i.e. for agricultural land and woodland) have been calculated as part of our land referencing exercise.
- 7.6 We have assumed that each interest is owner occupied. In practice many of the property interests will be subject to leases and other occupational interests. If our PCE were adjusted to reflect all interests in the property, the compensation estimate would need to be apportioned (for example with the freeholder owner may receive the “Property Value” and the leaseholder in occupation may receive the “Disturbance compensation”), but the sum of apportioned parts would not be materially different from the total reported within the PCE.
- 7.7 We have assumed that every property is occupied and therefore, in each case, there is an occupier (either commercial or residential) who would be required to vacate and claim the disturbance costs of a relocation (or, in the event of commercial property, extinguishment of the business).
- 7.8 We have assumed it will be necessary to use compulsory purchase powers to acquire all interests and there is no means of securing possession by alternative methods, i.e. use of Landlord and Tenant powers or by acquiring vacant properties.
- 7.9 Our estimates have been assessed in accordance with the provisions of the “compensation code”.
- 7.10 No enquiries have been made of the Local Planning Authority and therefore we have not considered whether any of the interests have a “development value” that is greater than existing use value.

- 7.11 No investigations have been undertaken to establish any incidence of contamination and/or deleterious materials and no enquiries have been made to establish whether any other environmental factors affect the subject properties.
- 7.12 In a limited number of cases our study area includes part only of a Registered Title. We have assessed the impact of this on a case by case basis and assumed either, that there will be no impact on the retained land (and have valued the part within the defined boundary only) or that there will be “material detriment” to the retained land and that the entirety will be required.
- 7.13 No allowance has been made for the cost of road closures and diversions, services diversions, or the relocation and reinstatement of utilities.
- 7.14 Given the “high level” nature of this exercise and the sources of information available, individual line entries may be subject to variation and further due diligence should be undertaken before any financial offers with landowners is undertaken.
- 7.15 We have included a provision for the reasonable professional fees (surveyors and solicitors costs) incurred by landowners in reaching agreement on the compensation to be payable. Where stated, the fees incurred by GAL have also been included.
- 7.16 It may be appropriate to include an additional contingency for the potential costs of referring disputes to Third Party (the Upper Tribunal of the Lands Chamber) in the event that agreement cannot be reached.
- 7.17 Our estimates for commercial property assumed that the claimant is VAT registered and is therefore able to recover any VAT incurred. For residential property, we have included VAT in our estimates.
- 7.18 We have not made any assessment of compensation that may be payable pursuant to Section 10 of the Compulsory Purchase Act 1965 (where no land is acquired but rights are interfered with as a result of the works), Part 1 of the Land Compensation Act 1973 (where no land is acquired but losses are suffered as a result of the operation of the works), or the Civil Aviation Act 1982 (under which, for example, sound proofing works may need to be undertaken).