



LANDMARK DEVELOPMENTS AG

Industry and Whitely Lane site update

March 09

It is still difficult to understand how quickly a buoyant economy in the decade leading up to 2007 could be turned on its head by late 2008. Recent figures show the UK to be officially in recession for the last quarter of 2008 as Gross Domestic Product shrunk by 1.5%.

America is blamed by most for their banking sectors willingness to lend to unsuitable individuals, more commonly referred to as sub-prime. However some blame needs to be laid at European banks for their willingness to buy such bad debt. That and a cavalier approach by directors and traders and a lack of strict regulatory control have cost the general public billions.

UK Banks were bailed out by the Government recently as liquidity issues became a real problem and threatened their very existence. Interest rates were cut from 5.25% in 07 to 1% in 09. However these rate cuts have not always filtered through to the general public and to date have not had the desired effect on the depressed housing market.

Banks won't lend to each other because they don't know if they will be repaid, and consumers find it hard to get mortgages because lenders with access to funds have little confidence in the value of the asset they are lending against. Even potential buyers with finance are holding back, waiting for the market to fall further. As a result UK home builders have been in freefall since mid 2008 with huge levels of unsold stock, massive write downs in the value of their assets, debt levels that cannot be serviced and credit lines that have all but dried up.

Developers are fighting back with heavily discounted prices and others have cut as much as 70% of their workforce. Many building sites have been temporarily abandoned as the cost of building will not be recouped as commercial and residential demand falls further. This double edged sword not only affects their ability to raise capital from banks for existing projects but also affects home owners as the mortgage markets shrinks. New mortgage approvals fell 52% in 2008 according to the British Bankers' Association (BBA). The graphs below show share price performance of 3 major home builders in 2008.



Barratt Shares down 80%



Taylor Wimpey down 93%



Persimmon down 65%

There is a difference of opinion on how much the housing market fell in 2008 depending on who you believe. According to Hometrack the average price fell 8.7% or 16.2% if you consider Halifax figures to be more accurate. Either way home builders are expected to have a dire year with some predicting insolvency for some of the larger developers. Many are set to write down their land bank values with Taylor Wimpey writing off £550 million or 11% of its land bank value in 2008. Expect more of the same for 2009 as developers are forced to re-evaluate their assets and expected earnings. However this may only be a temporary measure as Government build targets are not being met.

In 2008, the number of new starts was over 40 per cent lower than during the same period in 2007, and the total number of completions for 2008 should be less than 100'000, well below the 240'000 homes the Government needs to meet its target of three million new homes by 2020. Is the government culpable for having unrealistic targets? Perhaps, but more importantly it's the ministers who were committed to increasing home-ownership and reducing the unaffordability of purchasing, then blinded themselves to the fact that prices were being driven up by credit more than by supply factors and thus could have reduced our exposure to the recession by constricting credit rather than by increasing supply.

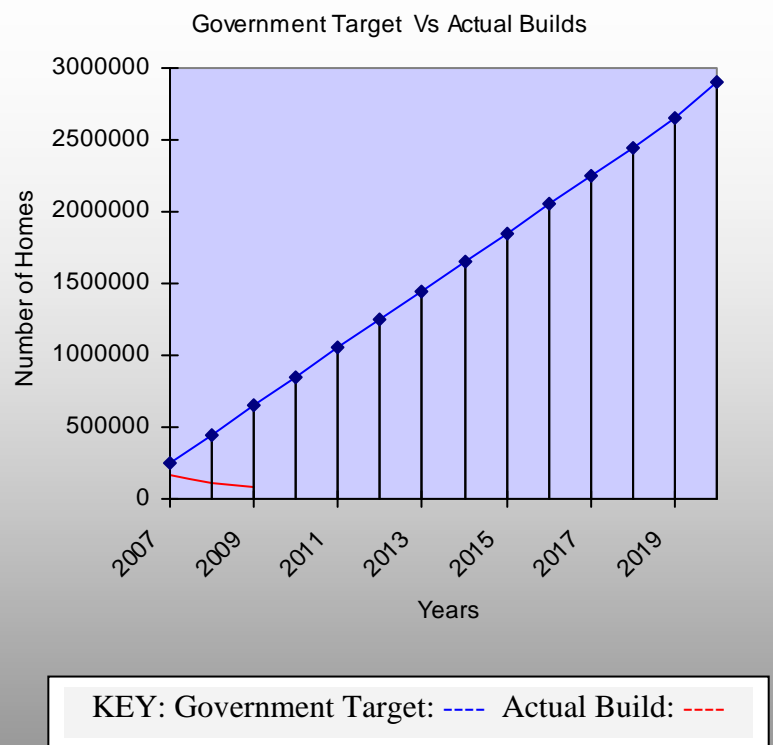
These are not the only criticisms faced by the Government. Observers have commented that the Barker review of 2006 contained flaws as the author lacked necessary experience in land economics and housing. In particular Barkers lack of understanding of a developers business model, which is never to fully meet demand for homeownership as this would destroy their market. It is easy to point the finger of blame after the event; the underlying problem is the lack of liquidity in the banking system due to bad lending.

The fundamentals of strong UK housing demand will remain, but the slump in house building will intensify the supply deficit and will help to drive prices higher. This could cause a delay in the economic recovery and will have to be watched by Government.

The graph shows Government targets not being met within the first 3 years of the initiative. There is also a good chance that we could be inflating the next bubble.

Many developers are offering incredible incentives on stock that has been built in the peak of the market, yet this will not last as the number of new home starts is rapidly depleting. This will only hold true if banks change or are forced to change their current stance on mortgage lending.

The most important factor to consider now is what schemes are to be put in place by ministers, how quickly these can be put into practice and at what cost to the public. The national debt is already at an alarming rate and some commentators feel there is not enough capital available for banks, car manufacturers, small to medium sized businesses and developers to all expect a hand out.



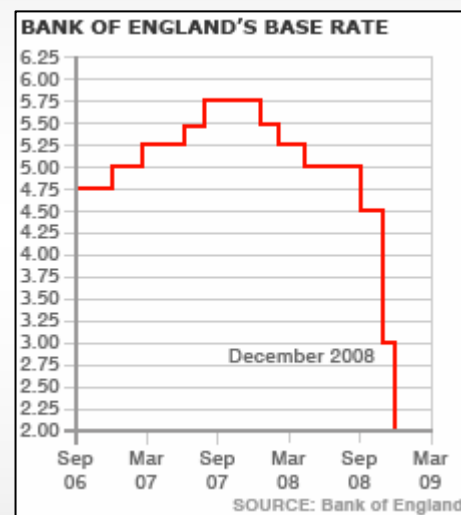
The UK Government is likely to take this opportunity to become more directly involved in the development market. Major homebuilders will no longer be the sole device for future growth. We could see government developing the land itself, perhaps through joint ventures with companies that have the capacity for major projects, such as the large construction firms. It would seem like an ideal marriage with both parties benefiting.

Stamp duty thresholds in 2008 fell from £125,000 to £175,000 and unveiled plans to help stimulate the housing market by collaborating with property developers to provide loans of up to 30% to home buyers. An estimated 10,000 new homes would be built over the next two years due to such proposals but this alone does little to alleviate the supply deficit.

Margaret Beckett, the housing minister, said a further £400m would be made available through the Government's HomeBuy Direct scheme, up from £300m when the initiative was announced in September 08. More than 130 developers have agreed to take part in the scheme, which enables households with incomes below £60,000 to buy a new build property with an equity loan. It is hoped the scheme will help up to 18,000 first-time buyers.

Certain councils could be given the go ahead to purchase yet-to-be-built properties from struggling builders to increase the number of available homes and ensure developments are completed. As a result affordable homes are increasingly important to Britain's housebuilding sector.

Commentators have accused the government of a scatter gun approach to dealing with the issue with not enough far reaching measures to make a real difference. The Government has to stop reviewing the planning system and get on with reforming it. The planning system is one of the most important factors inhibiting the construction of new housing. But most analysts would agree that the biggest policy change was the Bank of England's decision to drop interest rates from 5% in October 08 to 1% in February 09. This should help the liquidity problems but the full effects will not be realised until 6 months after any rate cuts take place.



Other Government schemes have more immediate impact such as Hampshire councils decision to transfer a parcel of Brownfield land at Quay Street, Fareham to Tesco. In return Tesco will have to pay £2m towards improvements to a local junction to negate traffic implications. The project will create 200 local jobs and help local congestion problems. Despite such positives the scheme still came under attack from The Fareham Society and a further 31 letters were received from local residents raising concerns and objecting to the proposals. Thankfully these objections were overridden.

Councils have had to look at alternative ways of financing their operations and services. Hampshire was one of the first UK councils to fund and open a state owned care home. Sixty million pounds was set aside to create 500 new nursing beds in 10 purpose-built care homes in Hampshire from 2005 onwards. The demand for such development sites is still high despite the slowdown as the need for such facilities becomes more acute. Despite the high initial costs, long-term care expenditure is set to rise exponentially. It is worth noting that any potential sites need to match rigid criteria for both health and safety reasons and specific requirements required by the industry. Within the surrounding area of Whitely there are approximately 28 homes with 436 nursing home beds and 444 care home beds. The site may be an ideal destination for a care home in the future with an adjacent golf course and its rural back drop providing an ideal setting.

At the other end of the spectrum Whiteley has had a number of issues with its younger residents, namely a lack of school places within the local area. Winchester City Council refused to transfer a vital piece of land at Meadowside Recreation Ground. Hampshire County Council and Fareham Borough Council wanted to build a £5.5 M, 210 pupil church School on land next to the Meadowside Recreation Centre. However £4 M of funding to provide a much needed new primary school for Whiteley was lost in 2007 after Whiteley Parish Council, who opposed the plan, persuaded WCC not to release a small part of the Meadowside as the site for placement of the school despite protest letters from over 1,300 residents.

WCC were warned that the situation was getting desperate in Whiteley as other schools were becoming full. It now appears that these concerns were justified as many families now face driving across J9 and Segensworth roundabout in rush hour after their children were rejected for places at their local primary schools. In total 27 of the 35 children turned down from Whiteley Primary School in January 2008 have also been turned down by their second-choice school as well, which means parents will have to take their children outside the local area. WCC opposed the idea stating that there would be an unacceptable loss of recreational space and sports pitches and that a privately owned parcel of land nearby would be better suited.

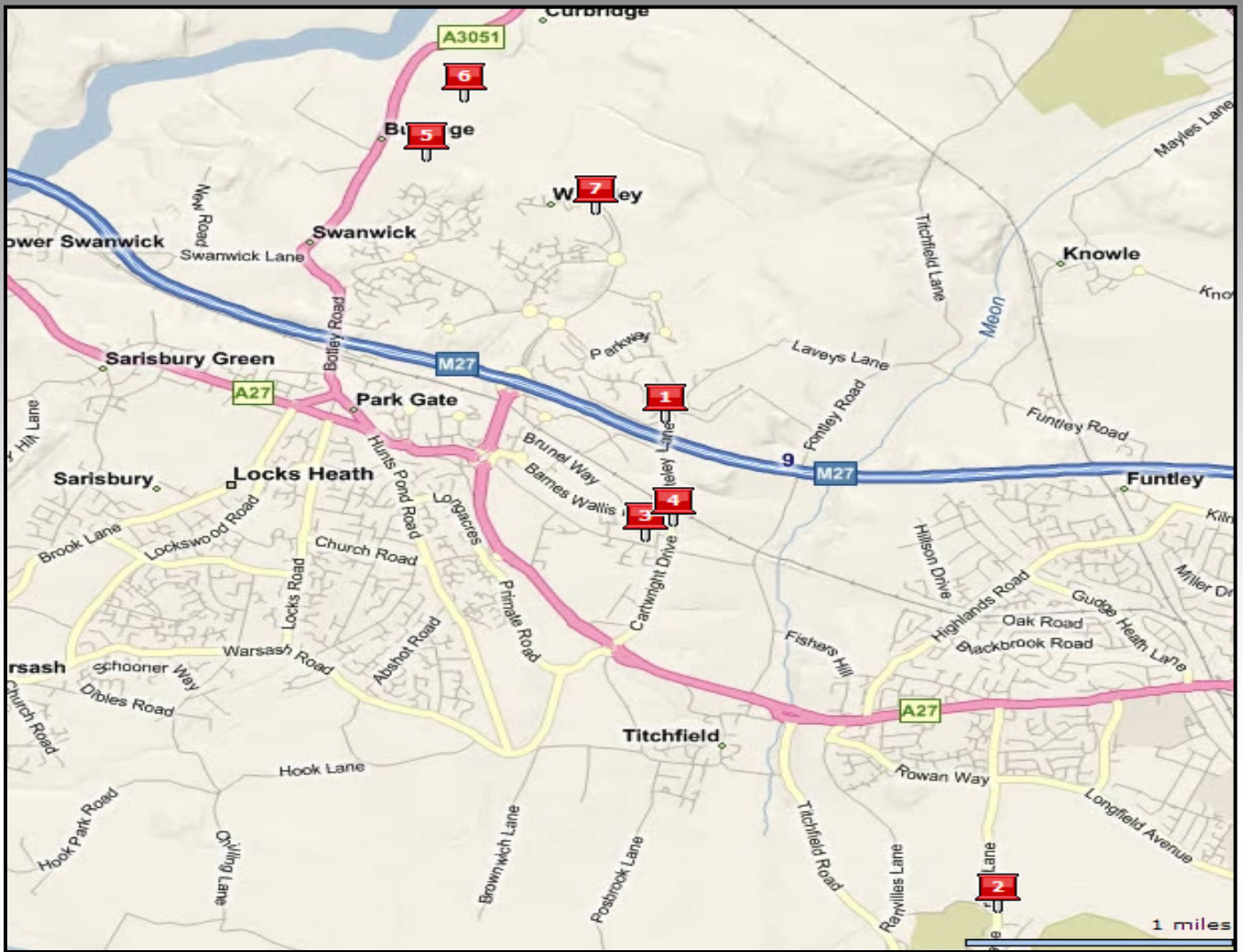
The next best hope for a new school will be if developers get permission to build another 3,000 homes on land North of Whiteley which will require primary schools and a secondary school to serve the area. However the school is not likely to be built before a large number of houses to fund it have been built during which time the shortage of school places is likely to become even more acute. The Whitely site could comfortably house a primary school with sufficient playing grounds and a car park but there would be issues of traffic congestion at peak times. The congestion problem in the area is well documented and there are already proposals in place to tackle the issue. The map below shows the proximity of Meadowside Recreational to the Whiteley site. (Pin 7)

Residents will also be very weary of any large developments after plans were submitted for the demolition of Whiteley Village Shopping Centre which is to be replaced by a larger more resident focused mall. Surprisingly the centre was only opened 9 years ago at a cost of £60M, but through poor planning it proved to be a failure as local needs were not met. The owners have now submitted plans for a brand new £100M centre.

Whiteley has seen a number of residential developments in the past and further development seems inevitable. Clients should have read the Report for The Executive Decision 2008 whereby Fareham Council recommended 3 potential sites for development in line with Government build targets. The Whiteley site lies directly in one of these areas. For more information on the publication please click the link below or copy and paste the address in your web browser;

<http://www.fareham.gov.uk/crs/Executive/080204/reports-public/xpt-080204-r13-lje.pdf>

Fareham needs to find room for 13,720 homes in the next 20 years which equates to 686 new homes each year. The Whiteley site would accommodate approximately 100 new homes on a conservative estimation. Developments of this size are not uncommon within Fareham. For a more detailed history of developments in the area please see the map below.

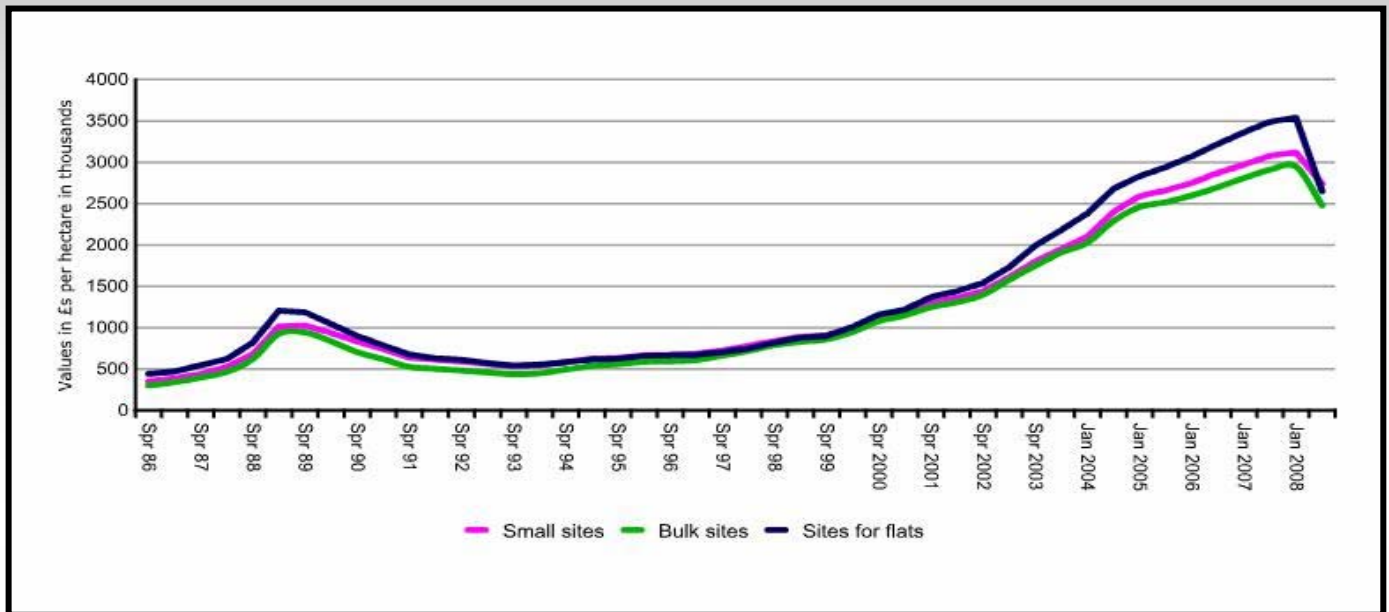


Note: All developments listed are within a 2.5 mile radius of the Whiteley Site.

Pin	Developer	Site Description	Planning Ref
1	Whiteley Site	Vacant	N/A
2	David Wilson Homes	30 Dwellings & Ancillary Works	P/06/0049/FP
3	Kings Oak Homes	51 Flats & 3 Homes	P/06/0485/FP
4	Bryant Homes	77 Homes, 3 Flats & Works	P/98/1428/FP
5	Persimmon Homes	215 Homes & Flats	P/04/1753/MA
6	David Wilson Homes	113 Homes	P/07/1520/FP
7	Meadowside Rec. Ground	In Use	N/A

It is evident that within the last 8 years there have been at least 489 new builds all within a two and a half mile radius of the site. This figure would increase substantially if Fareham as a whole was analysed. Further development for Whiteley is targeted to the North and East. Proposed improvements to Segensworth should negate any congestion issues.

In July 2008 the Valuations Office Agency (VOA) stated that the value for residential building land between Southampton and Portsmouth averaged £2.8 M per hectare for sites used to build flats or maisonettes. This would obviously mean planning permission had been attained. The value of development land has declined but not at the same rate as property prices as shown below.



Property Market Report July 2008 (VOA)

Using the VOA figures as a guideline the Whiteley site could be valued at £10.976 M. However this figure would be very optimistic considering the financial crisis. Landmark Developments requested an independent report to appraise the land in July 2008. A conservative valuation priced the site at £5 M once planning is achieved. Despite the slowdown various developers have contacted Landmark Developments but so far all offers have been rejected. Due to the economical issues the market has turned on its axis and is now considered a buyers market rather than a sellers market.

Developers are facing tough times and those left in business will no longer focus on inner-city flat developments. They will try where possible to target family houses in the outer suburbs where there is more tangible demand. Urban development will concentrate on 'edge of centre' sites where there is a possibility of developing high-value mixed accommodation.

The uncertainty facing the global economy is set to continue. The VOA decided not to include a residential land forecast in their latest report as the unprecedented volatility will not have been reflected in the previous data series used to compile the forecasts.

Despite the bleak economic outlook councils still need to adhere to build targets, the government have put into place initiatives to help builders and demand for housing remains high. One factor that remains fixed is the fact that further development in Whiteley is inevitable.