Planning risk and development:
How greater planning certainty would affect residential development

a Bartlett/LSE London project for the RTPI

Highbury Group
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Background to the research

- Growing recognition that *risk and uncertainty* can delay development

The English planning system is responsible for

'increasing the cost and uncertainty of investment, hence reducing the efficient use of land and other resources'

HM Treasury 2015

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Recent legislation

- **2015** Government pledges to introduce zoning-style mechanisms to give more certainty to the planning process

- **2016** Housing and Planning Act introduces ‘Permission in Principle’

Our research question

- Would a zoning-type approach reduce the costs of planning risk enough to lead to a significant expansion in housing supply?

Methods

- *Literature review* including experience in zoning-based systems e.g. USA
- *Interview programme:*
  - Developers
  - National and local policy makers
  - Financiers, landowners, consultants
- *Workshops* with practitioners in London and Birmingham to test our findings
- Used Permission in Principle example to guide interviews and workshops--but *not* a formal evaluation

The logic model

Assumptions

- In any field, higher risk → higher required return
- Obtaining planning consent constitutes a significant risk, increasing developers' hurdle rate of return
- Schemes promising lower returns do not get built…
- Contributing to the undersupply of new housing

The logic model

Expectations

- More planning certainty would reduce risk
- Facing lower risk, developers would reduce their hurdle rate of return
- Schemes promising lower returns would get built….
- Leading to more new housing

Uncertainties driving planning risk

- Will the scheme receive permission?
- What will be required in terms of
  - Affordable housing?
  - Infrastructure?
  - Other contributions?
- Will planning committee overturn agreements made at officer level?
- How long will it take to negotiate consent?

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How market actors price planning risk

- *Developers* use rules of thumb rather than modelling or formal analysis
- *Strategic land investors/land traders* seek out land without planning permission because of potential for high returns. Qualitative judgements about what might be permissible in future

How market actors price planning risk

- *Lenders* generally only lend to developers after planning permission is secured—so take no planning risk

- *Institutional investors* in residential property usually invest in completed Build to Rent schemes—so take no planning risk

Pricing risk: where planning fits in

Blanket term	Stages in development process	Associated risk	Pricing
Land risk	**Stage 1**: Purchase of site	Site may have unforeseen problems (contamination, archaeological remains)	As a rule of thumb, add 15-20% of costs to required returns in developer models to cover land and planning risk
Planning risk	**Stages 1-3**: Prior to discussion with local authority **Stage 4**: Secure planning permission **Stage 5** Onwards - fulfil detailed planning conditions	Planning permission may not be granted for requested scheme. Time taken to secure permission may be longer than expected. S106 requirements may be different than anticipated. Modifications may be required with associated costs. Conditions may be problematic to implement.	

And let's not forget…

Blanket term	Stages in development process	Associated risk	Pricing
Construction and delivery risk / development risk	**Stages 8-13**: Build	Construction costs may be higher than expected. Delays also add costs.	Possibly add 5% for construction risk although sometimes just accepted
Sales risk	**Stage 13-15**: Marketing	Housing market may turn down. Units may not sell for expected price, or take longer to sell than expected	Usually covered by developer's required return

Existing mechanisms for reducing uncertainty

- Pre-application discussions
- Outline planning permission
- Local development orders
- Development corporations

The new one: Permission in Principle

- Housing and Planning Act 2016
- Local authorities can specify a priori what development would be acceptable on ***brownfield sites***
- PiP covers the principle of development—location, use and number of units--but not Technical Details Consent

Early days

- Two mechanisms currently available
  - List in Part 2 of brownfield register (deadline Dec 2017).
  - Developers can apply for PiP for small housing developments (since June 2018)
- Later: to appear in neighbourhood & local plans
- Few (none?) yet in place

+s and –s of PiP

- Certainty about the principle of development could help small/medium developers with finance
- Local authorities lack expertise/staff to do detailed site assessments
- Planning conditions, themselves a major source of risk, are not covered

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Wider issues w/grafting zoning onto discretionary system

- Consulting local communities about the *principle* of development, but without a specific proposal, would be challenging
- PiP would reduce flexibility to respond to changes in market conditions
- Reduced risk would feed through to higher land prices for affected sites

Conclusions

- PiP (or similar) could reduce risk and increase delivery in some cases—especially smaller developers on smaller sites
- Need to agree planning conditions on larger, more complex sites leaves significant risk
- Developers price risk based on experience—so changes would take time to filter through