



1

Creating Sustainable Assets in a Plan Led System

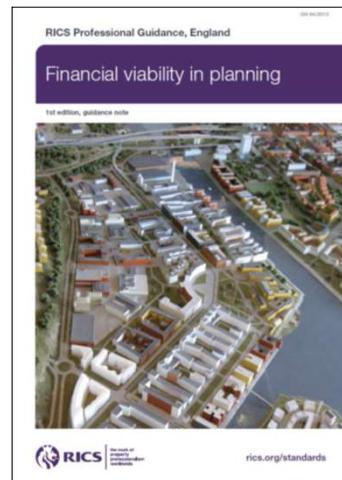
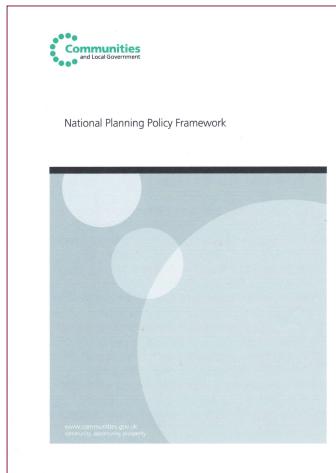
Controlling costs – Enhancing value

$\text{£}-$	$\text{£}+$
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RICS
LEADING THE WORLD FOR 150 YEARS

2

National Planning Policy Framework (NPPF) 2012 Planning Practice Guidance (PPG) 2014

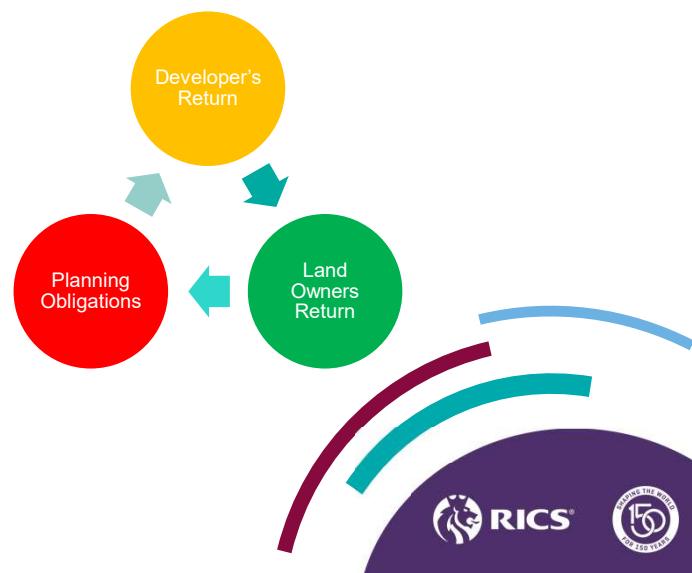


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National Planning Policy Framework (NPPF) 2012

Evolved in a recession

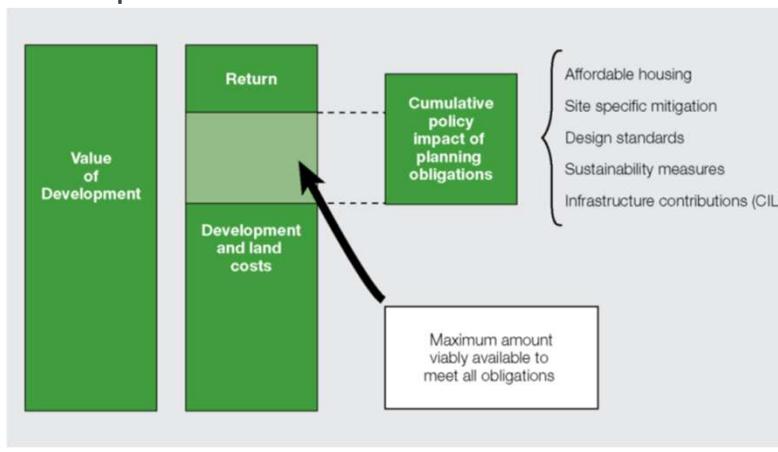
- ▶ Sustainable development
- ▶ Deregulation
- ▶ Emphasis on delivery
- ▶ Competitive returns to developer and land owner



4

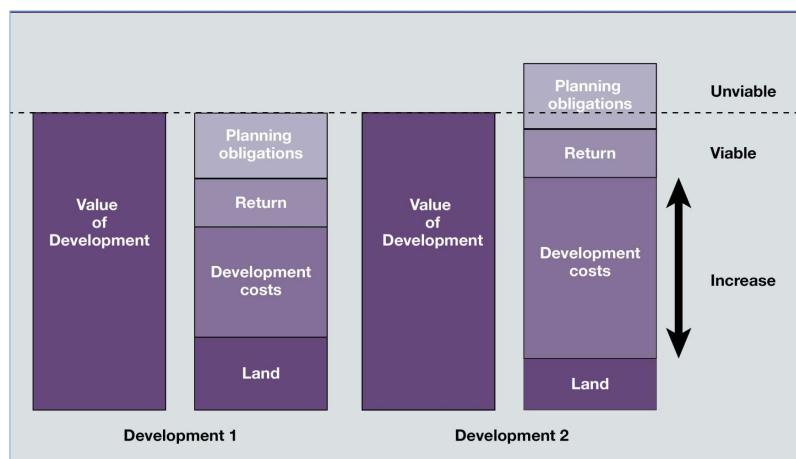
The Challenge NPPF 2012

- ▶ How much 'sustainability' could be delivered through private development?



5

Looked at another way



6

National Planning Policy Framework 2018/2019

National Planning Guidance 2018/2019

Policy rationale

- ▶ Bring greater certainty earlier in the development process
- ▶ Deliver more infrastructure through planning system
- ▶ Deliver more affordable housing through planning system
- ▶ Price the costs into the land price/Capture more land value uplift



7

Approach

Requirement:

- ▶ Majority of viability testing conducted at plan making stage not at development management stage
- ▶ Viability no longer a material consideration in policy
- ▶ Land value based on 'existing use value' plus a premium to incentivise release of land

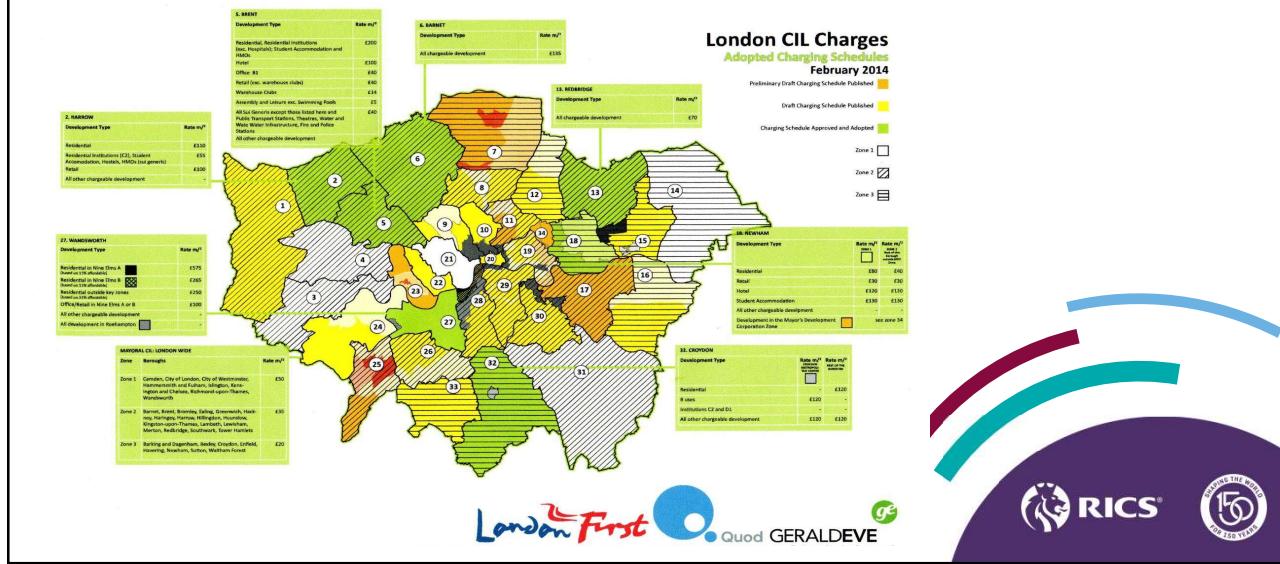
Expectation:

- ▶ Land buyers pay less for land once they understand the level of policy obligations



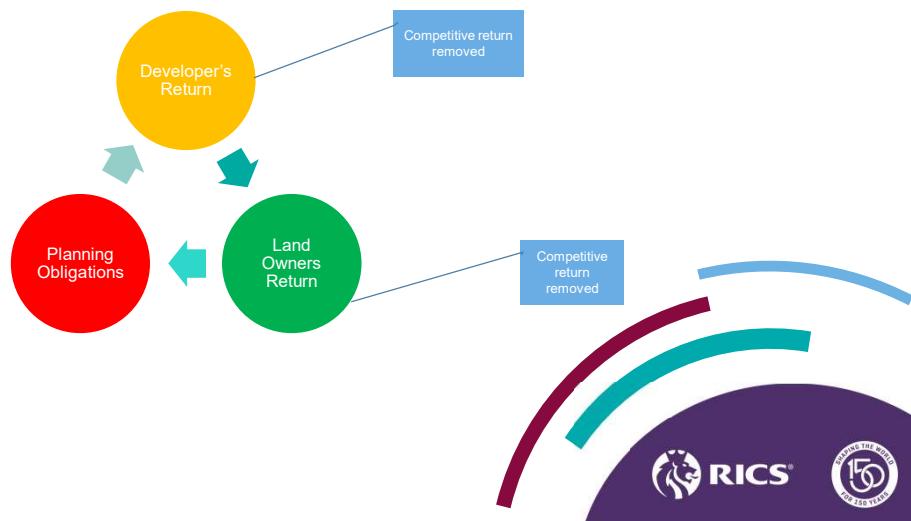
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Area wide viability assessment not new



9

National Planning Policy Framework/Planning Practice Guidance 2018/2019



10

How to ensure policy requirements are deliverable

"Policy requirements, particularly for affordable housing, should be set at a level that takes account of affordable housing and infrastructure needs and allows for planned types of sites and development to be deliverable, without the need for further viability assessment at the decision making stage."

Para 002

"Plan makers should engage with landowners, developers, and infrastructure and affordable housing providers to secure evidence on costs and values to inform viability assessment at the plan making stage."

Para 006



11

Viability and decision-taking

"Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage"

Para 007

"Where a viability assessment is submitted to accompany a planning application this should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then."

Para 008



12

Weight to be given to a viability assessment

"The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether

- ▶ *the plan and viability evidence underpinning the plan is up to date,*
- ▶ *any change in site circumstances since the plan was brought into force,*
- ▶ *the transparency of assumptions behind evidence submitted as part of the viability assessment*

NB Any viability assessment should reflect the government's recommended approach



13

What is the government's recommended approach?

How should land value be defined for viability purposes?

"To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land plus a premium for the land owner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called 'existing use value plus' (EUV+)"

Para 013



14

Factors to be considered to establish BLV

BLV should :

- ▶ *Be based upon existing use value*
- ▶ *Allow for a premium to landowners*
- ▶ *Reflect the implications of abnormal costs; site-specific infrastructure costs and professional site fees*
- ▶ *Be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance.*
- ▶ *Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan.*

Para 014



15

How should the premium be defined?

"Existing Use Value is the first component of calculating benchmark land value."

Para 015

"The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to comply with policy requirements"

Para 016



16

Why is the meaning of ‘policy compliant’ important?

Because:

- ▶ It addresses the validity of the comparable evidence
- ▶ Which enables a relevant analysis to be carried out
- ▶ To arrive at an appropriate ‘Benchmark Land Value’
- ▶ Which incentivises release of land
- ▶ And supports the business case for carrying out the development
- ▶ Thereby achieving delivery



17

3 Valuation definitions – reconciling the numbers

1. Government’s Benchmark Land Value

- ▶ Existing use value (EUV) of the land plus a premium for the land owner. The premium should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land while allowing a sufficient contribution to comply with policy requirements.

2. RICS Red Book Valuation – Development Land - VIP12

- ▶ 6.6 Where there is no existing planning permission for the project it is necessary to allow for the costs of obtaining that permission.
- ▶ 6.7 The impact of legally binding agreements linked with the grant of planning permission has to be considered. The obligations usually, but not always, are deliverable on-site but, for instance, in the provision of local, or wider, highways provision could be elsewhere. The requirements might be for a cash payment, the provision of community facilities, affordable housing or providing enhanced public transport.

3. CPO Compensation for development land

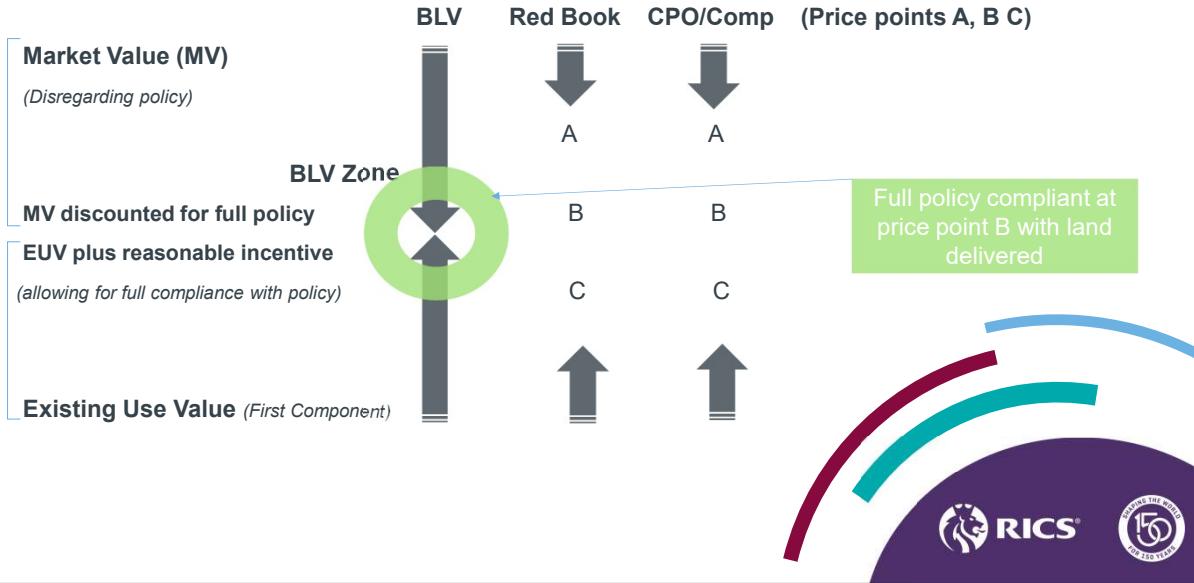
- ▶ In assessing the open market value of your land you are assumed to be a willing seller. However, it is assumed that you would only be willing to sell at the best price which you could reasonably achieve in the open market (Development in accordance with the development plan).



18

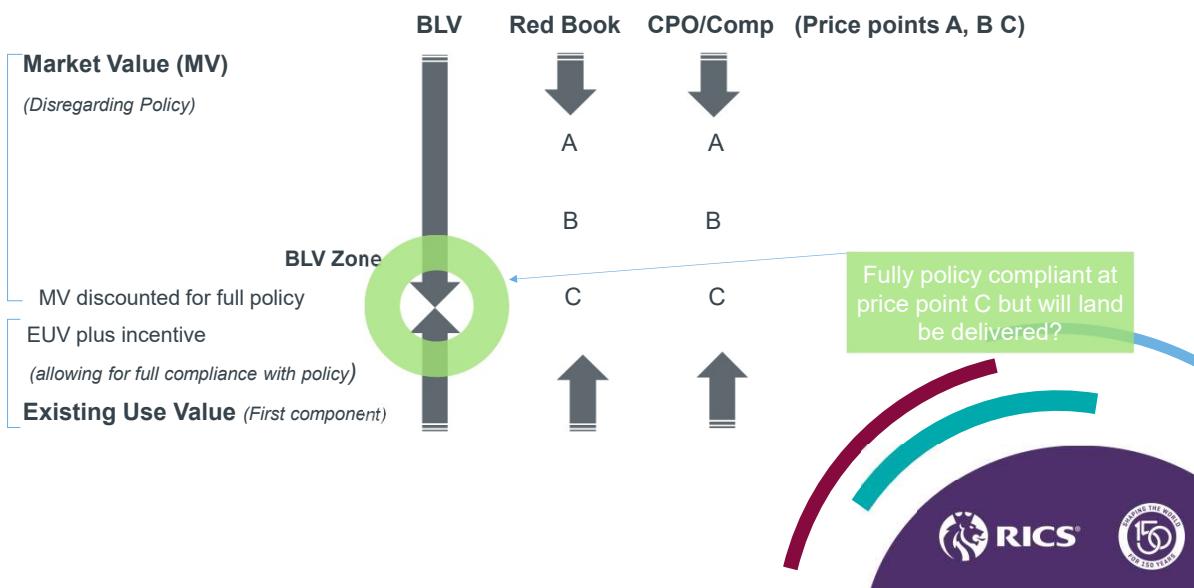
TM1

EUV Plus Incentive - Reconciling the numbers Year 1



19

EUV Plus Incentive - Reconciling the numbers Year 4



20

Slide 19

TM1 Tony Mulhall, 07/11/2018

Policy implementation in a plan led system

Delivering in a market economy!

What the Judge said in the context of NPPF 2012/PPG 2014

When estimating Benchmark Land Value (BLV) for a site the application of [market evidence] should “reflect”, and not “buck” relevant planning policies (including those for the delivery of affordable housing).

On the other hand, the proper application of these policies should be “informed by” and not “buck”, an analysis of market evidence which reflects those policies (or where appropriate is adjusted to do so).

Mr J Holgate, Parkhurst Road Case



21

What he also said!

Can we be a bit more prescriptive in our advice so that these issues don't keep turning up in the courts.



22

Questionnaire – Assessing financial viability in planning

- 1. The issues of policy compliance and circularity (importing comparable evidence into a viability assessment without adjustment to being compliant with the full stated policy) were addressed in the revised government practice and guidance.**

In relation to identifying and adjusting comparable evidence to be policy compliant does the draft guidance provide sufficient clarity on how this is to be approached?

- 2. Market evidence is only to be relied on as a cross check.**

Is there sufficient advice in the draft guidance on how the cross check is meant to operate and what weight is to be given to the cross check evidence in decision making?



23

- 3. One of the key calculations in the government framework is the establishment of the Existing Use Value and the reasonable Premium above this for the land owner to release the land.**

Does the approach adopted in the draft guidance provide adequate guidance on consistently establishing these two figures?

- 4. Alternative Use Value (AUV) is a metric which may be used in establishing the benchmark land value.**

Does the GN give sufficient guidance on understanding and assessing of Alternative Use Value (AUV)?



24

5. The efficiency with which planning administration operates is a common concern of all stakeholders relying on the system. Government is seeking a proportionate assessment method at area-wide and site specific levels.

Does the draft guidance provide a proportionate method of evaluation capable of aligning stakeholders with the objectives of the plan?

6. The purpose of area-wide viability assessment is to reduce the need for site specific testing.

Does the draft guidance provide sufficient advice on how these are to be conducted?



25

7. Some practitioners have been seeking greater levels of detail in the draft guidance.

Is the draft guidance at the appropriate level of valuation detail when read in conjunction with the new GN on the Valuation of Development Property and other RICS GNs or are there specific development or property types or valuation inputs that need more detail in this GN?

8. Assessing viability requires making refined judgments about planning policy and local conditions to achieve delivery.

Do you have enough information to understand the mechanics of viability testing? For example:

- On differing types of development and how there may be variations in the approach to viability testing of these?
- Is there sufficient detailed guidance on the quality of evidence, depth of analysis and evidence 'confidence' rating?



26

DISCUSSION

