

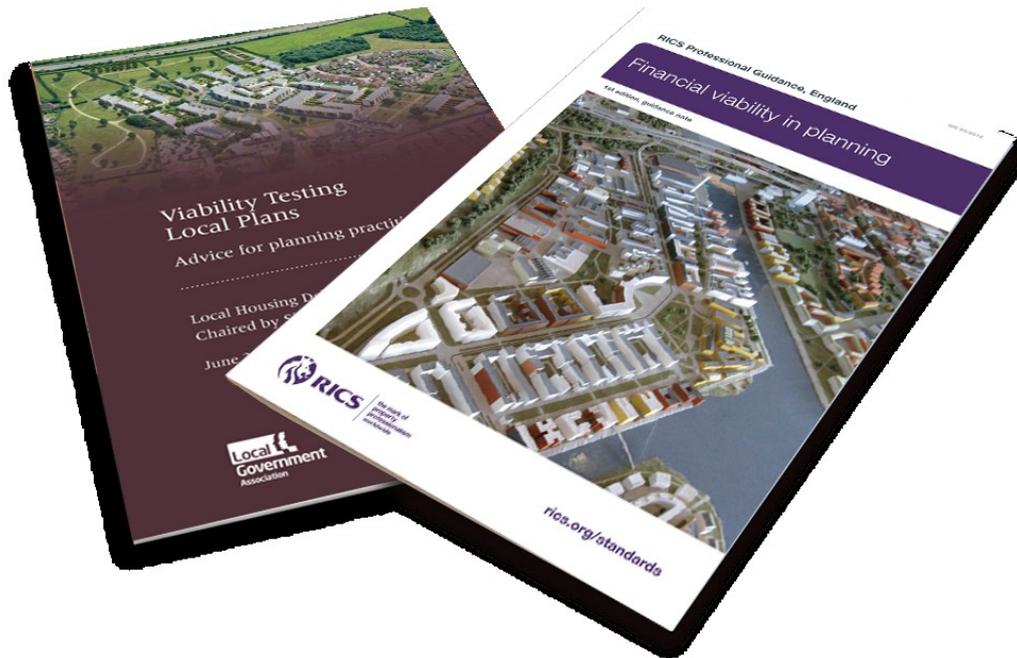
Financial Viability in Planning

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Financial Viability in Planning



Outline

- The RICS Brief to Working Party
- Structure of the GN
- Definition of Viability for Planning Purposes
- Site Value Benchmarking (definitions and meaning)
- RICS and LHDG Compatibility
- Concluding Comments

The RICS Brief to Working Party

- To provide LPA's, other “users”, Practitioners (incl. Chartered Surveyors with a definitive and objective methodology and set of principles that can be applied for both “plan making” and “development management”.
- To provide an effective framework within which financial viability may be assessed, having regard to the regulatory regime in place and the economic cycle in which the evaluation is being carried out.
- To define a rigorous, impartial and objective approach to evaluating financial viability (rather than develop a prescriptive tool or financial model).

Note: The focus of the GN is on development management (site specific applications) although the principles can be applied to area wide viability (Local Plans and CIL Charging Schedules).

Structure of the GN

- Introduction – scope, planning regime and uses of the GN (All)
- Key features of a development viability assessment (Users)
- Viability and Site Value benchmarks (Practitioners)
- Further professional advice (All)

Appendices

- A. Relevance of viability to planning (All)
- B. Property market overview (Users)
- C. Indicative outline of what to include in a viability assessment (All)
- D. Refinements to viability methodology (Practitioners)
- E. Application of Underlying concepts within the GN (Practitioners)
- F. Glossary of terms (All)
- G. FAQs for users of viability assessments

Use of Viability Appraisals in Planning

- Estimating the level, split and timing of affordable housing (on-site; off site; and contribution in lieu payments);
- Nature, level and timing of planning obligations;
- Reviewing land uses and bulk, scale and massing;
- Applications for enabling development;
- Economic assessments for obsolescence & depreciation;
- Heritage assets and conservation areas; and
- Local Plan Testing and CIL charging schedules (area-wide viability testing).

Definition of Viability for Planning Purposes

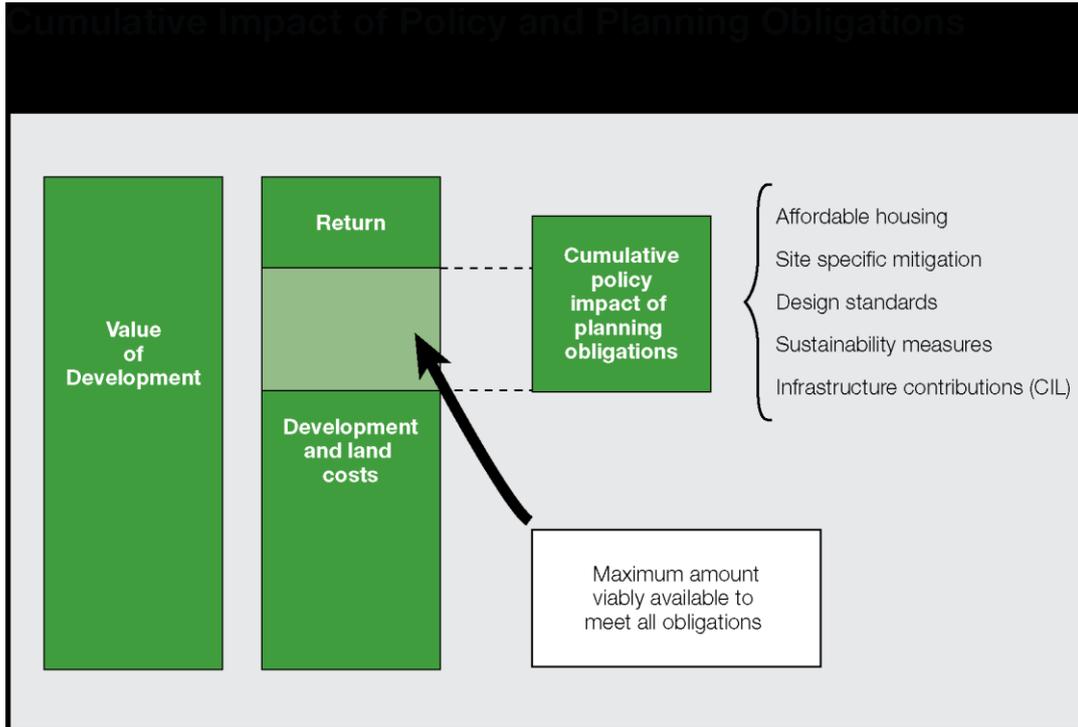
“ An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project.”

The GN separates the two key components of development:

- Land delivery;
- Viable development;

NPPF – Para 173 – viability & deliverability – “Competitive Returns”.

Viability Considerations (2)



General Appraisal Framework

- RICS VIP 12 - Valuation of development schemes and land.
- Acceptance that the residual model commonly used.

$$\begin{aligned} &\text{Gross Development Value (GDV)}^1 \\ &\quad \text{Less} \\ &\text{Total Development Costs (TDC)}^2 \\ &\quad \text{Equals} \\ &\text{Development Profit}^3 \end{aligned}$$

Or: **NPV of the benefits less costs over the duration of the development**

Notes:

1 = capitalised rents & other income, capital values and capital received (less purchasers costs)

2 = all construction costs, interest on construction, professional fees, site value, marketing & related fees and finance

3 = usually expressed as a ratio ROCE, NPV, IRR, development profit or yield etc

2+3 = Gross Development Costs (GDC)

Acceptable Approaches

(i) Developers return approach - Site Value is an input.

or

(ii) Site Value Approach - Developers return is an input.

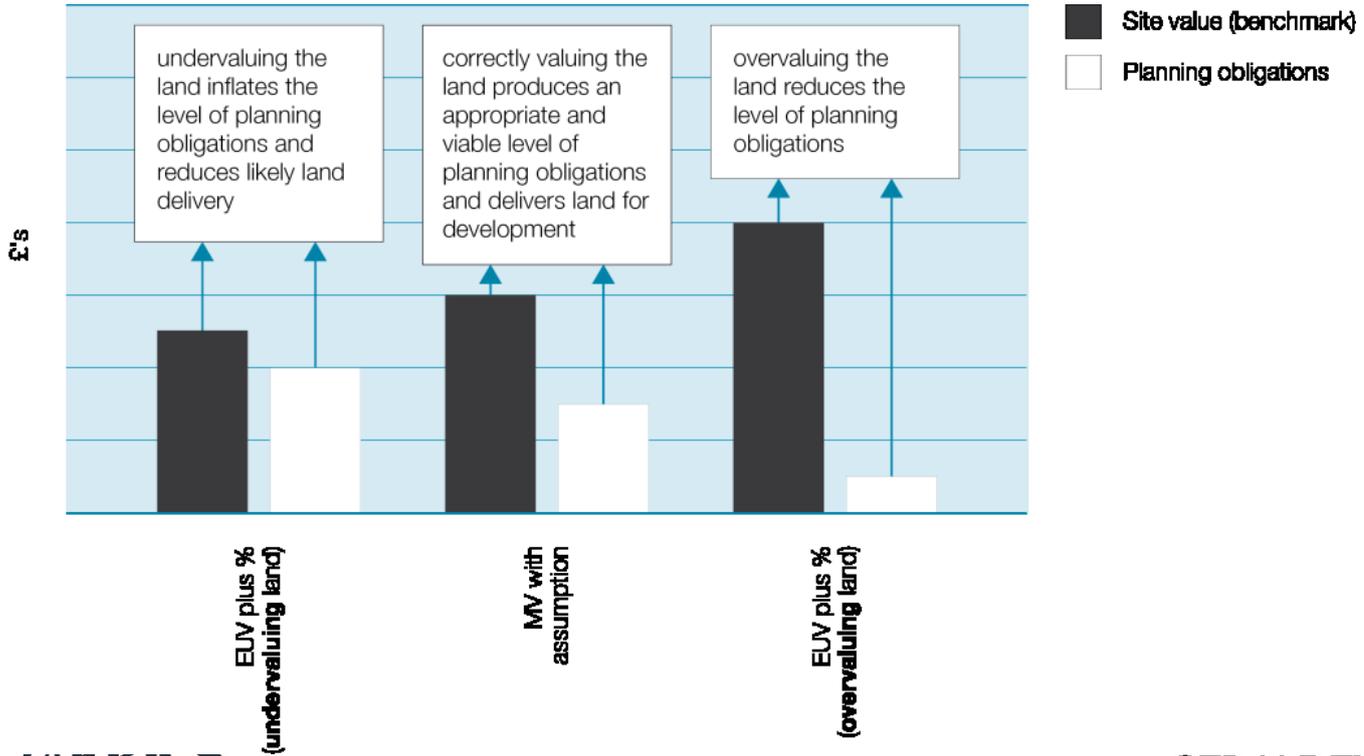
Whether Site Value is an input or an output, it is clearly important to define and appropriately apply.

Site Value (Scheme Specific)

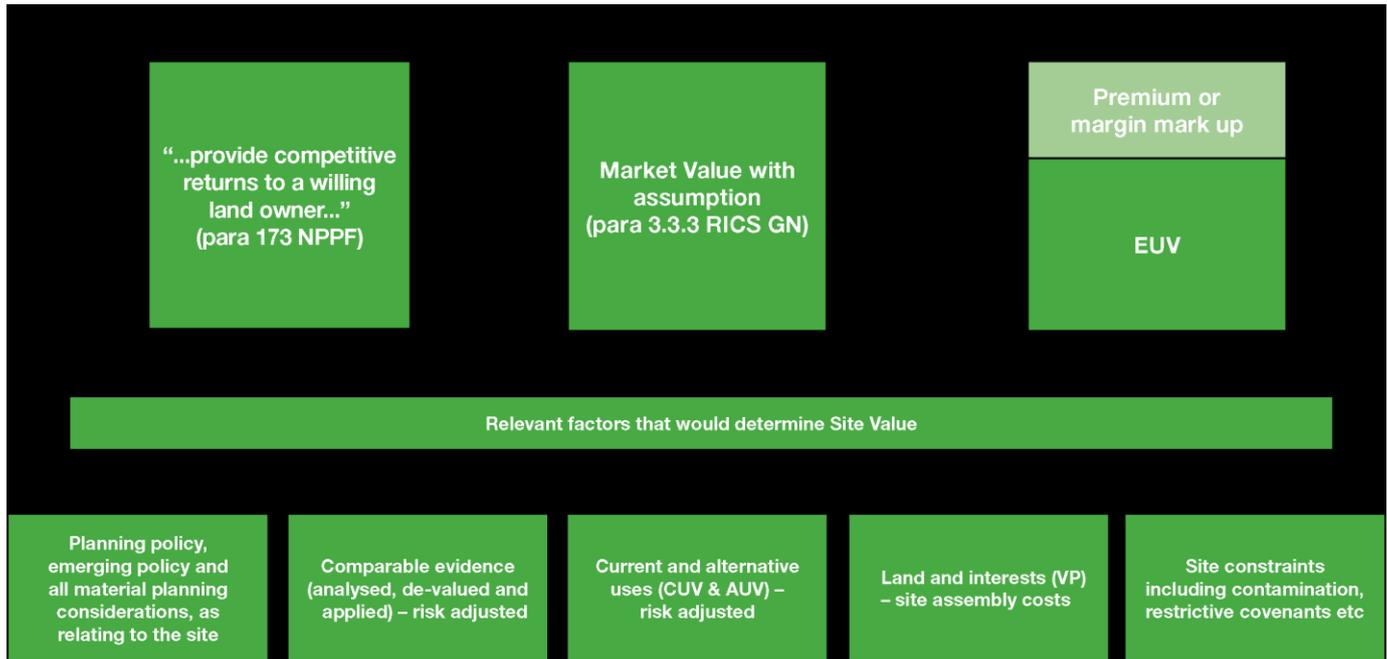
- Market Value (MV) of the site having regard to the development plan at the date of the appraisal as follows:
 - “ **Site Value should equate to the Market Value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan.**”

Note: MV (RICS Valuation Standards Definition) – the estimated amount for which an asset or a liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion.

Market Value (with assumption) v. Existing Use (plus)

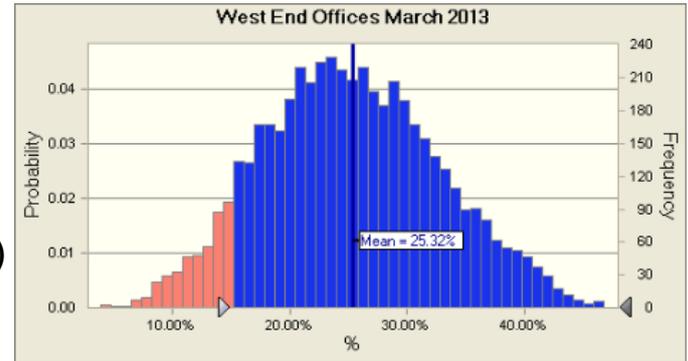


Establishing Site Value (Scheme Specific)



Testing the Results....

- Sensitivity.....
-Scenario, Simulation
- Projection (Growth) Modelling
- Reappraisal (prior to implementation)
- Date of the Assessment



RICS & LHDG Compatibility

RICS GN Site Value for Viability Testing		LHDG
Scheme Specific	Area-Wide	Threshold Land Value
<p>“Site Value should equate to the Market Value¹ subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan.”</p>	<p>“The Site Value (...) may need to be further adjusted to reflect the emerging policy / CIL charging level. The level of adjustment assumes that site delivery would not be prejudiced. Where an adjustment is made, the practitioner should set out their professional opinion underlying the assumptions adopted. These include as a minimum, comments on the state of the market and delivery targets at the date of assessment.”</p>	<p>“should represent the value at which a typical willing landowner is likely to release land for development, before payment of taxes (such as capital gains tax).”</p> <p>= Current Use plus a premium</p>

Concluding Comments

- Promotes a consistent and rigorous approach to viability
- Framed within the planning regime
- Policy sensitive
- Adopts existing terminology and defines terms
- Reflects market cycle
- Non-prescriptive
- De-risks the viability process through a shared impartial and objective understanding of the issues
- Encourages transparency and resolving differences of opinion