Viability Assessments in Planning

John Wacher, Strategic Planning Manager – Viability
Charles Solomon – Development Viability Advisor
Outline of session

• Recent trends
• GLA Viability Team
• Viability Guidance
• Revised national policy and guidance
• Mayor’s approach
• Transparency
• Review Mechanisms

• Viability Method and Models
• Key inputs – values, costs, profit, land value etc
• Worked example
The Mayor is determined to make more homes affordable to Londoners on low and middle incomes and is committed to a long term strategic target for half of new homes built to be genuinely affordable.
Average house prices in London and England after adjusting for inflation, 1970 to 2017

Source: Mayor of London Housing in London, 2018
Affordable homes as a percentage of net conventional approvals in London, 2004/05 to 2015/16

Source: GLA analysis of London Development Database (LDD), August 2017. This is based on the proportion of net conventional housing approvals in each year that comprised affordable housing between 2008/09 and 2015/16 (the latest year available).
Residential, office and hotel land values in London

Guidance on Viability
Development contributions - Paragraph 34

Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.
Planning obligations - Paragraph 57

• 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.

• Applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage.

• The weight to be given to a viability assessment is a matter for the decision maker, having regard to circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force.

• Reflect recommended approach in PPG, including standardised inputs, and be made publicly available.
Plan Making

• Proportionate assessment of viability taking account of all policies, local, national standards, CIL and S106.
• Role of viability primarily at plan stage.
• Cumulative cost of policies not undermine delivery of plan.
• Realistic deliverable policies without need for viability at decision making stage.
• Developers and other parties buying land should have regard to the total cumulative cost of all relevant policies when agreeing a price for land. Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan.
• Striking a balance between aspirations of developers’ and landowners’ returns against risk and aims of planning system to secure maximum benefits in the public interest.
Decision Taking

- Applicant to demonstrate need for viability testing – circumstances differ from plan testing.
- Evidence of what has changed.
- Review mechanisms – to ensure policy compliance and optimal public benefits through economic cycles. Not a tool to protect developer return.
- Proportionate, simple, transparent and publicly available.
- Values; costs; land value (Existing use value plus a premium; alternative use value); developer’s return (15-20% on GDV).
- Integrity, executive summary, publicly available other than in exceptional circumstances
- Monitoring and reporting developer contributions.
Draft London Plan – Affordable Housing

Strategic target 50% of all new homes

Sets out how this will be achieved through:

• Threshold approach - 35% on private sites
• 50% on public sector, industrial land
• Fast track Route / Viability Tested Route
• Affordable housing from affordable providers & “strategic partners”
Rationale for threshold approach

• Greater planning certainty

• Embed affordable housing policy requirements in land values across London

• Clear incentives

• Viability Tested Route
  – Subject to viability tested approach through SPD assumptions and late review mechanisms

• Reduce protracted viability debates
Mayor’s Preferred Affordable Housing Tenures

- Low cost rent
  - Social Rent
  - London Affordable Rent
- Intermediate
  - London Living Rent
  - London Shared Ownership
GLA Viability Team

• Policy and guidance on viability
• Referable applications
• Viability assessments
• Review mechanisms
• Supporting boroughs
• Wider engagement
SPG - Viability

- Non-referable / referable applications
- Evaluate appraisals rigorously (LP policy 3.12 / paragraph 3.71)
- Clarifies assumptions and methodology
- Guidance on benchmark land values
- Stronger and more consistent review mechanisms
- Transparency – ICO – EIR – Public interest
Transparency

• Commercial in confidence
• Exemptions to Freedom of Information / Environment Information Regulations
• Standardised inputs
• Information Commissioner/ First Tier Tribunal
• Heygate, Greenwich Peninsular, Streatham Megabowl
• Two key tests – Harm, Public interest
• Transparency arrangements
Review mechanisms

- If surplus profit; capped at target; formulas
  • Early review
- If not substantially implemented within 2 years
- On-site affordable housing
  • Late Review
- Schemes not meeting threshold
- Actual values and costs
- Sale of 75% of units
- Financial contribution
Questions
Residual land value method

Gross Development Value

\[ \text{minus} \]

Development costs (including construction costs, fees, developer’s profit, CIL, S106)

\[ \text{equals} \]

Residual land value

*Compare with land value benchmark*

If higher – viable

If lower – not viable
• Development values
  - Specification
  - Up to date comparable evidence
  - Gross/ net

• Affordable Housing Values
  - RP price - S106 - Timing

• Build Costs
  - Elemental form – benchmarking
  - Current day/ growth

• Profit
  - Justified and risk related
  - Lower for a/h/ commercial / PRS
Gross Development Value

Typically:

- Market housing
- Private rented housing
- Affordable housing
- Commercial
- Others (eg Freehold of ground rents; car parking)
Market housing

- Purchaser types
- Comparable evidence
- Aspect, amenities, specification
- Numbers
- Marketing timing
Valuing Affordable Housing

- Rent receipts
- Capital receipts
- Grant funding
- Internal or cross subsidy

- GLA approach—must be evidenced and the agreed price per unit set out in the S106. Practical issues implementing this.
Establishing Development Costs

Typically:

- Land value/ benchmark
- Build costs, contingency & Professional fees
- S106/ CIL
- Marketing/ disposal costs
- Funding/ finance
- Profit

Points to note:

- Current build cost levels- tender based?
- Value engineering
• **Land value**

“Reliance on land transactions for sites that are not genuinely comparable or that are based on assumptions of low affordable housing, excess densities, or predicted value growth, may lead to inflated site values. This undermines the implementation of DP policies and the ability of planning authorities to deliver sustainable development”. 
• Land value benchmark

• Support for ‘EUV plus premium’ - excludes hope value; premium must be justified

• Market value approach - reflect policy, site specific circumstances risk of circularity - non-standardised assumptions, growth etc

• Alternative Use Value – Extant consent, realistic, policy compliant, implementable permission
## MAYOR OF LONDON

### 200 unit Scheme 20% affordable

<table>
<thead>
<tr>
<th>Viability Appraisal</th>
<th>Per unit</th>
<th>Number</th>
<th>Value / Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Values</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market units</td>
<td>£450,000</td>
<td>160</td>
<td>£72,000,000</td>
</tr>
<tr>
<td>Affordable</td>
<td>£125,000</td>
<td>40</td>
<td>£5,000,000</td>
</tr>
<tr>
<td><strong>Gross Development Value</strong></td>
<td>£575,000</td>
<td>200</td>
<td>£77,000,000</td>
</tr>
<tr>
<td><strong>Costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Build costs</td>
<td>£200,000</td>
<td>200</td>
<td>£40,000,000</td>
</tr>
<tr>
<td>On cost (finance fees etc)</td>
<td>£75,000</td>
<td>200</td>
<td>£15,000,000</td>
</tr>
<tr>
<td>CIL/ S106</td>
<td>CIL £70 MCIL £35</td>
<td>160</td>
<td>£1,776,000</td>
</tr>
<tr>
<td>Land cost</td>
<td></td>
<td></td>
<td>£16,000,000</td>
</tr>
<tr>
<td><strong>Gross Development Costs</strong></td>
<td></td>
<td></td>
<td>£72,776,000</td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td>Value minus costs</td>
<td></td>
<td><strong>£4,224,000</strong></td>
</tr>
<tr>
<td>Compared with</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Target profit</strong></td>
<td>20% on GDV</td>
<td></td>
<td><strong>£15,400,000</strong></td>
</tr>
<tr>
<td>Surplus/ Deficit</td>
<td>Profit minus target profit</td>
<td></td>
<td>-£11,176,000</td>
</tr>
</tbody>
</table>
### 200 unit scheme 20% affordable - updated values, land cost, profit

<table>
<thead>
<tr>
<th>Values</th>
<th>Per unit</th>
<th>Number</th>
<th>Value / Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market units</td>
<td>£525,000</td>
<td>160</td>
<td>£84,000,000</td>
</tr>
<tr>
<td>Affordable</td>
<td>£150,000</td>
<td>40</td>
<td>£6,000,000</td>
</tr>
<tr>
<td><strong>Gross Development Value</strong></td>
<td>£675,000</td>
<td>200</td>
<td><strong>£90,000,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Costs</th>
<th>Per unit</th>
<th>Number</th>
<th>Value / Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Build costs</td>
<td>£200,000</td>
<td>200</td>
<td>£40,000,000</td>
</tr>
<tr>
<td>On cost (finance fees etc)</td>
<td>£75,000</td>
<td>200</td>
<td>£15,000,000</td>
</tr>
<tr>
<td>CIL/ S106</td>
<td></td>
<td>160</td>
<td>£1,776,000</td>
</tr>
<tr>
<td>Land cost</td>
<td></td>
<td></td>
<td>£8,500,000</td>
</tr>
<tr>
<td><strong>Gross Development Costs</strong></td>
<td></td>
<td></td>
<td><strong>£65,276,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Profit</th>
<th>Value minus costs</th>
<th>£24,724,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compared with</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target profit</td>
<td>18% on GDV (private) 6% on A/H</td>
<td>£17,160,000</td>
</tr>
<tr>
<td>Surplus/ Deficit</td>
<td></td>
<td>£7,564,000</td>
</tr>
</tbody>
</table>
### 200 unit Scheme - 35% affordable - updated inputs

<table>
<thead>
<tr>
<th>Viability Appraisal</th>
<th>Per unit</th>
<th>Number</th>
<th>Value / Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Values</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market units</td>
<td>£520,000</td>
<td>130</td>
<td>£67,600,000</td>
</tr>
<tr>
<td>Affordable</td>
<td>£150,000</td>
<td>70</td>
<td>£10,500,000</td>
</tr>
<tr>
<td><strong>Gross Development Value</strong></td>
<td>£670,000</td>
<td>200</td>
<td>£78,100,000</td>
</tr>
<tr>
<td><strong>Costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Build costs</td>
<td>£200,000</td>
<td>200</td>
<td>£40,000,000</td>
</tr>
<tr>
<td>On cost (finance fees etc)</td>
<td>£75,000</td>
<td>200</td>
<td>£15,000,000</td>
</tr>
<tr>
<td>CIL/ S106</td>
<td>CIL £70</td>
<td>160</td>
<td>£1,776,000</td>
</tr>
<tr>
<td>Land cost</td>
<td></td>
<td></td>
<td>£8,500,000</td>
</tr>
<tr>
<td><strong>Gross Development Costs</strong></td>
<td></td>
<td></td>
<td>£65,276,000</td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td></td>
<td></td>
<td>£12,824,000</td>
</tr>
<tr>
<td>Compared with</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Target profit</strong></td>
<td>18% on GDV (private) 6% on A/H</td>
<td></td>
<td>£12,798,000</td>
</tr>
<tr>
<td><strong>Surplus/ Deficit</strong></td>
<td></td>
<td></td>
<td>£26,000</td>
</tr>
</tbody>
</table>
## 200 Unit scheme 35% Affordable - Residual land value compared with benchmark

<table>
<thead>
<tr>
<th>Viability Appraisal</th>
<th>Per unit</th>
<th>Number</th>
<th>Value / Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Values</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market units</td>
<td>£520,000</td>
<td>130</td>
<td>£67,600,000</td>
</tr>
<tr>
<td>Affordable</td>
<td>£150,000</td>
<td>70</td>
<td>£10,500,000</td>
</tr>
<tr>
<td><strong>Gross Development Value</strong></td>
<td>£670,000</td>
<td>200</td>
<td><strong>£78,100,000</strong></td>
</tr>
<tr>
<td><strong>Costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Build costs</td>
<td>£200,000</td>
<td>200</td>
<td>£40,000,000</td>
</tr>
<tr>
<td>On cost (finance fees etc)</td>
<td>£75,000</td>
<td>200</td>
<td>£15,000,000</td>
</tr>
<tr>
<td>CIL/ S106</td>
<td>CIL £70</td>
<td>MCIL £35</td>
<td>160</td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18% on GDV (private) 6% on A/H</td>
<td></td>
<td></td>
<td><strong>£12,798,000</strong></td>
</tr>
<tr>
<td><strong>Gross Development Costs</strong></td>
<td></td>
<td></td>
<td><strong>£69,574,000</strong></td>
</tr>
<tr>
<td><strong>Residual Land value</strong></td>
<td></td>
<td></td>
<td><strong>£8,526,000</strong></td>
</tr>
<tr>
<td><strong>Benchmark Land value</strong></td>
<td></td>
<td></td>
<td><strong>£8,500,000</strong></td>
</tr>
<tr>
<td><strong>Surplus/ Deficit</strong></td>
<td></td>
<td></td>
<td><strong>£26,000</strong></td>
</tr>
</tbody>
</table>
Questions