

INSIGHT
AUGUST 2021

Fine Margins

Viability assessments
in planning and plan-making



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Executive summary

The financial viability of development is taking on an increasingly important role in the planning and plan-making process. In this Insight, we have sought to provide a comprehensive overview of the way in which viability assessments are conducted and for the purposes of area-wide viability studies to inform local plan preparation.

Changes within recent years to national planning policy and related practice guidance present some potentially significant challenges for developers and plan-makers to overcome. Principally, these changes relate to the 'frontloading' of viability assessments to the plan-making stage and the implications of a widespread usage of an approach to defining land value with referencing to its Existing Use Value (EUUV) plus a premium. The importance of these changes cannot be overstated: recent evidence suggests that the soundness of local plans is increasingly being fought on a viability battleground.

We hope that this Insight – drawing upon several years' worth of evidence from local plan and Community Infrastructure Levy (CIL) viability studies from across England and Wales – will be useful to a wide range of users. Potential users might include those wanting:

1. To gain an overview of the concepts, inputs and outputs that underpin viability assessment in a housing development context;
2. To understand in greater detail the links between viability assessment and planning; and
3. To scrutinise local plan (or CIL) viability evidence (or underpin independent evidence) with reference to a robust national dataset.

To this end, it is Lichfields' intention that this Insight helps to bring greater clarity to an area of practice in which there are frequent misunderstandings and to allow more meaningful debate on this important issue.

Key finding(s)	Lichfields' perspective
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Factors with a common methodology

Build costs	<ul style="list-style-type: none"> Building Costs Information Service (BCIS) widely used 	<ul style="list-style-type: none"> Transparent and easy to apply in area-wide viability assessment Best approach in the absence of any more robust, standardised alternative (but be wary of additional costs which may not be factored in)
Sales values	<ul style="list-style-type: none"> HM Land Registry price data cross-checked against EPC Register 	<ul style="list-style-type: none"> Reliant on new build sales evidence (for which there is often a lag) and risk of values rapidly becoming out of date Straightforward and consistent method to apply in area-wide viability assessment

Factors with a narrow range

Developer profit	<ul style="list-style-type: none"> 20% GDV (market housing) 6% GDV (affordable housing) 	<ul style="list-style-type: none"> Flexibility should be built in, to account for varying risk profiles across site typologies
Externals	<ul style="list-style-type: none"> 10 - 20% of build costs 	<ul style="list-style-type: none"> Application of a range necessary to reflect different site typologies
Contingency	<ul style="list-style-type: none"> 2.5 - 5% of build costs 	<ul style="list-style-type: none"> Site typologies and their risk profiles should dictate the use of a flat rate or tiered approach
Professional fees	<ul style="list-style-type: none"> 8 - 10% of build costs 	<ul style="list-style-type: none"> Discretion should be used to apply an allowance that reflects specific site circumstances
Development finance	<ul style="list-style-type: none"> 6 - 7% debt interest rate 	<ul style="list-style-type: none"> Should reflect prevailing economic conditions with reference to LIBOR (or its successor)
Sales and marketing	<ul style="list-style-type: none"> 2.5 - 3.5% GDV Legal fees in addition (c.£750/unit) 	<ul style="list-style-type: none"> Differentiated rates may be appropriate
Land acquisition	<ul style="list-style-type: none"> 1.5 - 2.25% of land purchase price (with SDLT on top of this) 	<ul style="list-style-type: none"> Combined percentage to cover agent and legal fees

Factors with greater variation

Abnormals	<ul style="list-style-type: none"> Common not to apply an allowance Brownfield only approach common 	<ul style="list-style-type: none"> if included, clear justification should be provided, with clear differentiation from other cost allowances Critical to assess within the context of land value (see Benchmark Land Value)
Opening up costs	<ul style="list-style-type: none"> Common not to apply an allowance 	<ul style="list-style-type: none"> Lack of understanding of what these constitute and how they relate to other cost allowances Clarity of approach required and detailed breakdown of other costs
Viability buffer	<ul style="list-style-type: none"> Not commonly applied More common for CIL than for development plans 	<ul style="list-style-type: none"> 'Frontloading' directive puts increased emphasis on a need for buffers in both development plan and CIL viability testing Where not applied, give consideration to if buffers have been applied to other assumptions to avoid planning to the margins of viability

Land Value

Approach	<ul style="list-style-type: none"> EUV plus a premium ('EUV+') to reflect a 'sufficient' landowner incentive 	<ul style="list-style-type: none"> Pre-Parkhurst Road judgment, EUV+ was widely embedded within the industry NPPF/PPG changes in 2019 are a response to this
Premium	<ul style="list-style-type: none"> Typical indicative ranges include: Brownfield: EUV+ 20% Greenfield: 15-20 times EUV 	<ul style="list-style-type: none"> A 'standard' level of premium does not exist Landowner premium ought to be adjusted (downwards) to reflect specific infrastructure and abnormal costs and other site fees

O1

Why is viability important?

Viability is a critical but often misunderstood concept, and one that is central to the deliverability of housing sites and the successful implementation of local plan strategies. If developments are not viable, they may not come forward and local plans could fail to deliver in terms of meeting their identified housing requirements, creating new jobs, providing community facilities, and delivering regeneration objectives.

At its most basic level, viability relates to the relative balance between the value generated by development (GDV) and the total costs associated with the delivery of that development. Figure 1 indicates the revenue and cost considerations that a typical viability assessment should take into account.

Having a scheme that functions from a financial perspective provides a sound basis for a development scheme to come forward. If the GDV is equal to or greater than the total costs, then the scheme is viable and can go ahead. If not, then the deliverability of that development may be compromised unless additional funding can be achieved or costs can be reduced. To this end, whilst strategic plans set out policy requirements in respect of affordable housing provision and other development contributions, these have often been subject to negotiation at application stage. Taking a reduced profit could also help to boost the viability of a scheme, although this may not be possible due to the need for the developer to balance risk and reward. A reduction in landowner return can be another mechanism to make a scheme viable, although this also needs to be balanced against the requirement for a sufficient financial incentive to release land for development.



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Figure I: Viability assessment components

Gross development value / revenue
Construction costs (including an allowance for opening-up, externals and abnormal costs)
Contingencies
Professional fees
The cost of finance
Legal and marketing fees associated with the sale of individual dwellings
Developer profit
Policy requirements (Section 106 and CIL)
The cost of acquiring the site (taking account of the need to provide a competitive return to the landowner, plus legal and agents fees and Stamp Duty Land Tax).

Source: Lichfields analysis

Front-loading viability

To ensure deliverability it is vitally important that local plans and CIL charging schedules are drawn up with a comprehensive understanding of viability. These documents should be based on sound evidence so that development (whether to be delivered on allocated or non-allocated sites) can proceed in such a way that will satisfy the landowner and developer whilst also meeting the relevant policy obligations such as affordable housing, financial contributions, environmental standards and design requirements (see Figure 2).

Planning policy in England and Wales now seeks to “front-load” all consideration of development viability so that it is given a much greater emphasis at strategic plan preparation stage. The assumption that flows from this is that developments that accord with the strategic plan will be viable. It will be for an applicant to demonstrate why the viability of their development is compromised because of a change in circumstances since the plan was prepared and adopted.

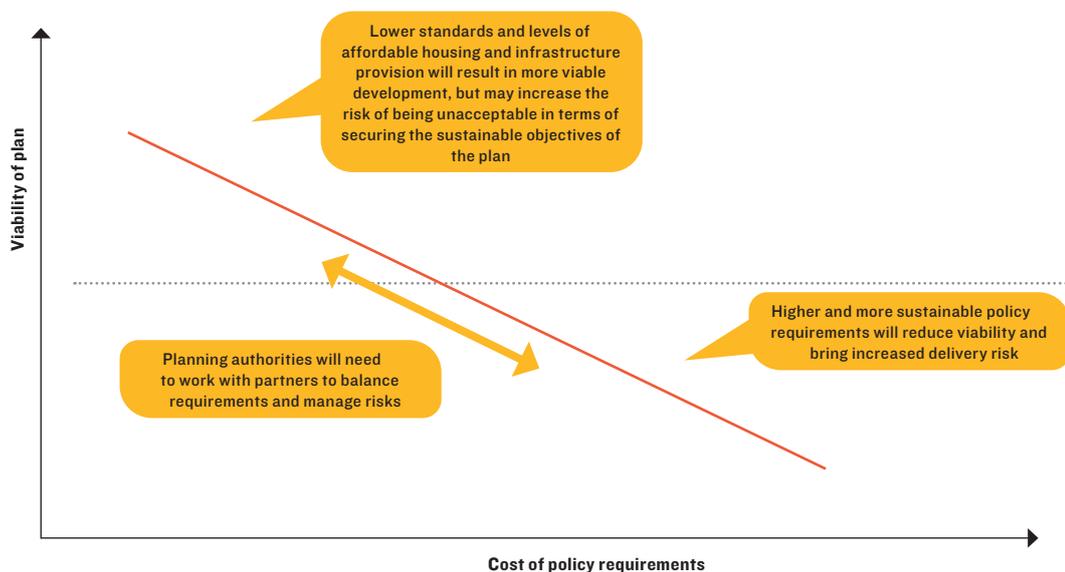
However, local plans provide a long-term framework for development and it is essential

that they are sufficiently flexible to account for changing circumstances, such as rising costs and potential changes in development values over the next 10-15 years. Although some situations – for example, the current Covid-19 pandemic – could not reasonably be anticipated by policymakers, the cyclical nature of the economy brings the need for flexibility into sharp focus. The significance of viability increases at times of economic downturn and this might result in the need for local authorities to be adaptable in their application of planning obligations and policy requirements so that development might continue to come forward in the right places throughout the plan period.

The implication of the new approach to viability is to underline the importance of full engagement in the plan preparation process by those seeking to promote land for development. Attention should be focused on:

1. Demonstration that its site is deliverable from a financial viability and technical perspective;
2. Scrutiny of proposed allocations that are not considered to be viable or deliverable;

Figure 2: Balancing delivery risk and sustainable plan policies



Source: Adapted from the Harman Review (2012) Viability Testing in Local Plans - Advice for planning practitioners

3. Ensuring the council's viability assessment takes account of an appropriate range of development typologies and that these are reflective of the local area;
4. Providing robust inputs to the council's viability assessment in respect of costs and development values so that it can inform reasonable policy choices;
5. Ensuring that the viability assessment considers all relevant matters – for example, the viability implications of design standards and environmental requirements – rather than focusing solely on Section 106 and CIL requirements;
6. Ensuring that a balance is struck between the need to satisfy requirements for affordable housing or infrastructure funded by CIL, and the importance of ensuring that the wider deliverability of development is not undermined; and,
7. Setting reasonable expectations in terms of land value for landowners and site promoters.

Is there such a thing as a standardised approach?

The NPPF and PPG both advocate the use of standardised inputs to viability assessments. This was considered by Dove J in *R (Holborn Studios) v London Borough of Hackney* (2020), which revolved around the issue of disclosure of viability assessments. Paragraph 63 of the judgment notes that the PPG “makes clear the preparation of a viability assessment ‘is not usually specific to that developer and thereby need not contain commercially sensitive data.’”

The standardisation of viability assessments is important in addressing concerns about commercial confidentiality and testing the robustness of assessments put forward by local authorities as part of their strategic plan making process and by developers at application stage. However, neither the NPPF nor the PPG provides much by way of guidance on inputs that should be applied. The PPG merely states that key elements are gross development value, costs, land value, landowner premium and developer return.

In Wales, the Development Plan Manual identifies the viability components that need to be addressed and expressed in the plan's



The preparation of a viability assessment is not usually specific to that developer and thereby need not contain commercially sensitive data.

Holborn Studios v London Borough of Hackney (2020)



evidence base. It then goes on to set out core modelling considerations which should be taken into account when progressing high level viability testing. The level of detail varies between the various components identified. The most specific level of guidance is provided in relation to developer profit. The Development Plan Manual states at page 145:

“The model will need to include an average profit margin to ensure a realistic developer profit is embedded within the model. The normal range of profit expected by developers and necessary to meet most lenders’ requirements is between 15% and 20% of Gross Development Value (GDV) for developments that will be let or sold on the open market. A lower profit margin, based on 6% of cost, is normally applied to the provision of affordable housing. It is important to understand the types of developers operating in an area and how land is brought forward. In rural areas smaller developers work on a different model to large, volume house builders. Larger sites can carry more risk where they take a long time to build out and an increased profit margin may be required, whereas smaller sites being developed quickly may not. Developer profit margin is also linked to interest rates charged for finance.”

In the absence of any clear guidance regarding

all aspects of the standard inputs in England and Wales, this Insight is intended to provide some clarity on the issue. It is based on a review of 93 local plan and CIL viability assessments and Inspector’s reports and seeks to:

1. Fill a void in the understanding of the various assumptions and inputs;
2. Identify common themes and approaches in relation to key viability metrics;
3. Prevent continued disagreement in respect of matters for which there is broad alignment and/or to understand why differences arose;
4. Inform scrutiny of local plan viability evidence; and,
5. Underpin independent evidence.

02

Policy overview

Both the English and Welsh planning systems through the National Planning Policy Framework ('NPPF') (and Planning Policy Guidance) in England and Planning Policy Wales (and the Development Plans Manual) in Wales have in recent years moved towards a policy of requiring viability assessments for sites at an early stage of the development plan making process.

In England, the Planning Practice Guidance ('PPG') (Paragraph 002 Ref ID: 10-002-20190509) states:

"The role for viability assessment is primarily at the plan making stage....It is the responsibility of site promoters to engage in plan making, take into account any costs including their own profit expectations and risks, and ensure that proposals for development are policy compliant."

Similarly, in Wales, planning guidance ('PPW') (paragraph 4.2.19) explains that:

"At the 'Candidate Site' stage of development plan preparation land owners/developers must carry out an initial site viability assessment and provide evidence to demonstrate the financial deliverability of their sites."

The rationale behind this approach is to ensure that all sites that are allocated in development plans are deliverable within the timescales of the plan. For a site to be deliverable it clearly needs to stack up from a financial perspective as well as being free from any unresolvable technical constraints.

Typology Approach

In considering potential allocation sites, local planning authorities need to balance the importance of satisfying the requirements of national policy against the proportionality of testing every site and the reality that some information may not be available at plan-making stage. Therefore, guidance explains that it is appropriate for local planning authorities to use a typology-based approach to understand the viability of local plans and to indicate the likely level of planning obligations that sites can accommodate. The PPG states:

"Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable. Plan makers can use site typologies to determine viability at the plan making stage. Assessment of samples of sites may be helpful to support evidence. In some circumstances more detailed assessment may be necessary for particular areas or key sites on which the delivery of the plan relies." (Reference ID 10-003-20180724)

Similarly, the Development Plans Manual ('DPM') in Wales explains that site specific viability appraisals should be undertaken for those sites which are key to delivering the plan. For other sites, high level testing based on typologies should be undertaken. A hybrid approach of testing notional sites via a typology approach alongside a more bespoke assessment for strategic sites is therefore advocated by planning policy in both England and Wales.

A typology approach seeks to ensure that the policies are realistic and deliverable based on the type of sites that are likely to come forward for development over the plan period. Sites are grouped by shared characteristics such as location, status (brownfield/greenfield), size and nature. Average costs and values are used to make assumptions about the viability of each typology and plan makers can come to a view on what might be an appropriate benchmark land value and policy requirement for each typology.

Having established broad typologies, the PPG then goes on to state that plan makers should:

"engage with landowners, site promoters and developers and compare data from existing case study sites to help ensure assumptions of costs and values are realistic and broadly accurate." (Reference ID 10-004-20190509).

The DPM in Wales similarly emphasises the good practice of involving key stakeholders in the early stages of plan making to ensure broad consensus on key viability inputs. It suggests the formation of a Viability Steering Group to facilitate this process as well as the use of Statements of Common Ground to establish areas of consensus and narrow down areas of disagreement.

This process of constructive engagement is crucial in ensuring the reasonableness and accuracy of the inputs to viability assessments. Even if a developer is not promoting a site for allocation in an emerging development plan, engagement in respect of development viability is still very important. This is because any non-allocated sites for which planning permission might be sought during the lifetime of a development plan will be assessed against the various typologies that are established at plan preparation stage. As detailed below, the bar has been raised in terms of the basis for deviation from such policies at planning application stage – for both allocated and non-allocated sites.

The implication for developers is therefore to work with local planning authorities to ensure that the assumptions that inform their site typologies and the viability assessments that inform their emerging development plans are robust and reasonable. A failure at this stage could be fatal for the future deliverability of a site.

Revisiting viability at application stage

The PPG explains (Reference ID: 10-006-20190509) that it is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. It identifies the following circumstances in which it might be appropriate to revisit viability considerations at the planning application stage:

1. Development is proposed on unallocated sites of a wholly different type to those used in the viability assessment that informed the plan;
2. Further information on infrastructure or site costs is required;
3. Particular types of development are proposed which may significantly vary from standard models of development for sale (for example build to rent or housing for older people); or,
4. A recession or similar significant economic changes have occurred since the plan was brought into force.

Where a viability assessment is submitted to accompany a planning application, the PPG states that this should be based upon and refer back to the viability assessment that informed the plan, and that the applicant should provide evidence of what has changed since then. Critically, the weight to be given to the viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including:

1. Whether the plan and viability evidence underpinning the plan is up to date;
2. Site circumstances including any changes since the plan was brought into force; and,
3. Transparency of assumptions behind evidence submitted as part of the viability assessment.

Planning Policy Wales (paragraph 4.2.21) sets out a similar approach and states that it is either for the applicant or the planning authority to demonstrate that particular **exceptional** circumstances exist to justify a viability assessment at application stage. The weight to be given to a viability assessment is again a matter for the decision-maker, having regard to the specific circumstances of the case, including whether the development plan and the viability evidence underpinning it are up to date, and any change in circumstances since the plan was adopted.

As set out above, the expectation is that there will be a much greater level of discussion regarding the need for a reconsideration of viability matters at planning application stage during times of economic stagnation and decline. Local planning authorities should be alive to that reality and should seek to support the industry in bringing forward beneficial development. However, the fact that circumstances can change significantly over time will also have the potential to necessitate a review of viability evidence. This underlines the importance of flexibility – at both policy preparation and implementation stages – and ensuring that development plans are kept up to date.

03 Research and methodology

Lichfields has reviewed 93 Local Plan and Community Infrastructure Levy ('CIL') viability assessments and Inspector's Reports from across England and Wales to ascertain what assumptions have been made and deemed appropriate by the Inspector in relation to viability. The research, which gains a firm grasp of what is considered a reasonable assumption and why in some cases a more bespoke approach is required, has been undertaken to provide robust evidence for all involved in the preparation and review of plan-wide viability assessments – whether local planning authorities, developers and landowners. It is also designed to inform application-specific viability assessments.

Methodology

Our methodology is based on a thorough review of the viability assessment prepared to underpin a local plan or a CIL charging schedule as well as any comments that the Inspector may have made in relation to viability matters in their report. The evidence base that we tested comprises a wide geographical spread across England and Wales (see Figure 3).

We identified the approach taken in each viability assessment in respect of key assumptions. Comparisons were made between the assessments in order to identify any trends and understand the variations that emerged.

The key metrics that we considered include:

1. Site typologies;
2. Build costs;
3. Externals;
4. Contingencies;
5. Abnormal costs;
6. Opening-up costs;
7. Sales values;
8. Developer profit;
9. Professional fees;
10. Development finance;
11. Sales and marketing costs;
12. Land acquisition fees;
13. Land value; and,
14. Viability buffer.

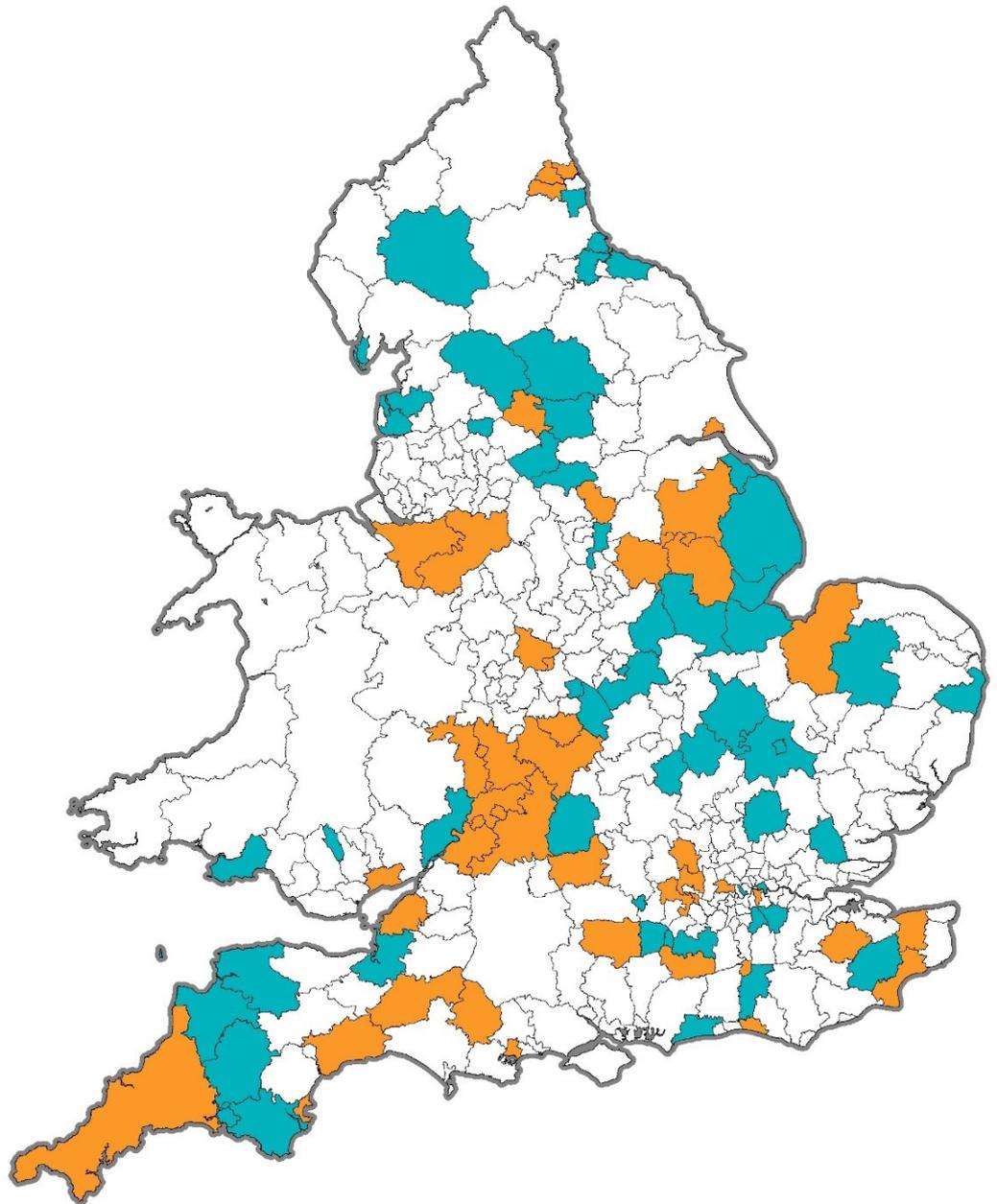
The research has not sought to assess policy factors, such as Section 106 and affordable housing requirements, CIL charging rates, environmental standards, or enhanced build/design standards. This is because these are the outputs of an iterative testing process in terms of what can be supported by development and will depend on market factors and policy choices. The focus instead is the process of viability testing, and particularly the input factors that go into that process.

The evidence base that we have reviewed is dated between January 2016 and March 2020 for CIL charging schedules and between January 2018 and March 2020 for development plans. This includes all plans and charging schedules adopted prior to the Covid-19 pandemic.

We are aware that all of these plans (in England) would have been prepared in accordance with the original (2012) version of the NPPF rather than the revised version. However, we consider that this purely a factor of timings and we will need to wait several years to get a similar sample of revised NPPF examined plans. Although the revised NPPF introduced an important change in the way that viability is dealt with in the planning system, the general approach to viability testing remains largely the same (save for the policy approach to Benchmark Land Value). As set out below, whilst the policy has now been crystallised in terms of EUV+, the evidence that we have looked at demonstrates that the approach is not new.

Figure 3: Geographical spread of viability assessment evidence

- CIL adopted (January 2016-March 2020)
- Local Plan adopted (January 2018-March 2020)



Source: Lichfields analysis

04 Viability modelling inputs

Viability appraisals can be undertaken in a variety of ways, with varying degrees of complexity and using different software packages. Common to all approaches, however, is a general modelling framework that considers all the factors that contribute towards the value and cost of delivering a development. It is typical in viability appraisal that a 'residual valuation' approach is used. This approach essentially works on the premise that the costs of a proposed scheme (including developer profit) are netted off against the scheme's total value, with the value remaining – the 'residual' – representing the value of the land. If the land value is too low (or indeed negative) then the scheme is theoretically unviable. This is demonstrated in Figure 4 in which three scenarios that differ in terms of gross development cost are compared to a constant gross development value.

Scenario C is shown to be unviable since the gross costs exceed the gross development value and therefore no residual value remains. Scenarios A and B both yield a residual land value, however, in B it is smaller than in A. The assessment of viability in both instances is determined through comparison of the residual land value (RLV) to an appropriate benchmark

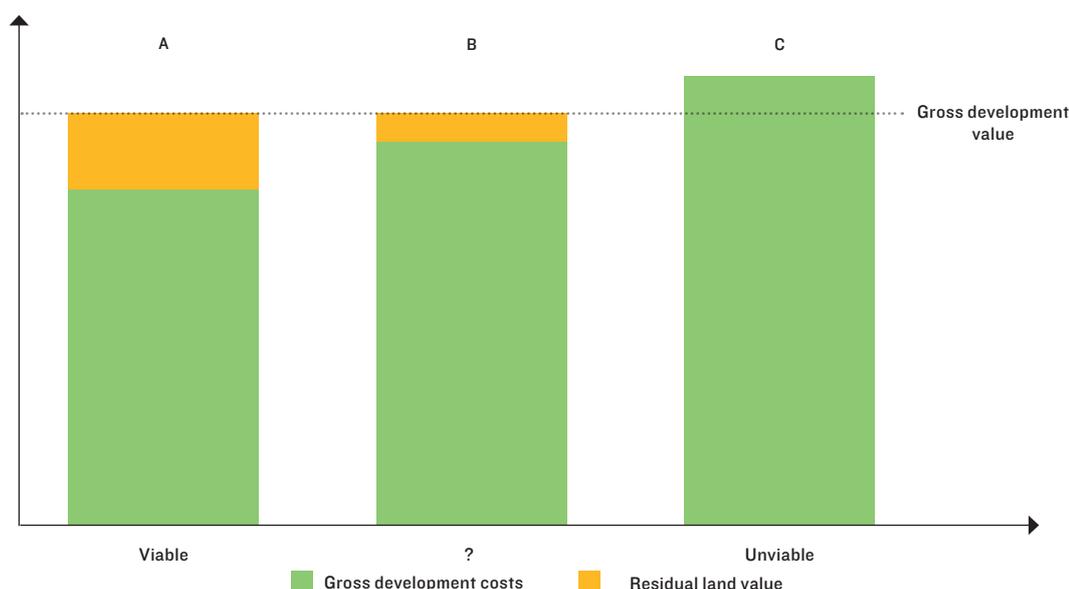
land value (BLV). In the case of Scenario A, it is more likely that this higher RLV will result in a viable scheme whereas the lower residual in Scenario B increases the risk that the scheme would be unviable. The BLV is a concept that our analysis explores in Section 6.

In essence, Figure 4 condenses a viability appraisal down to three key questions:

1. How should Gross Development Value (GDV) be determined?
2. What development costs should be accounted for?
3. How should an appropriate Benchmark Land Value (BLV) be defined?

Naturally, this simplified approach masks its complexity. There is firstly a requirement to consider a large number of inputs, all of which can be subject to high variability in any given place and time. Secondly, because of this variability, viability appraisals can often be highly sensitive to change, with small changes in inputs resulting in very different outcomes. As such, sound viability appraisal practice rests heavily on the careful consideration of its inputs but also on undertaking sensitivity analysis to ensure that the impact of anomalies/variability is minimised.

Figure 4: Simplified residual valuation method of viability appraisal



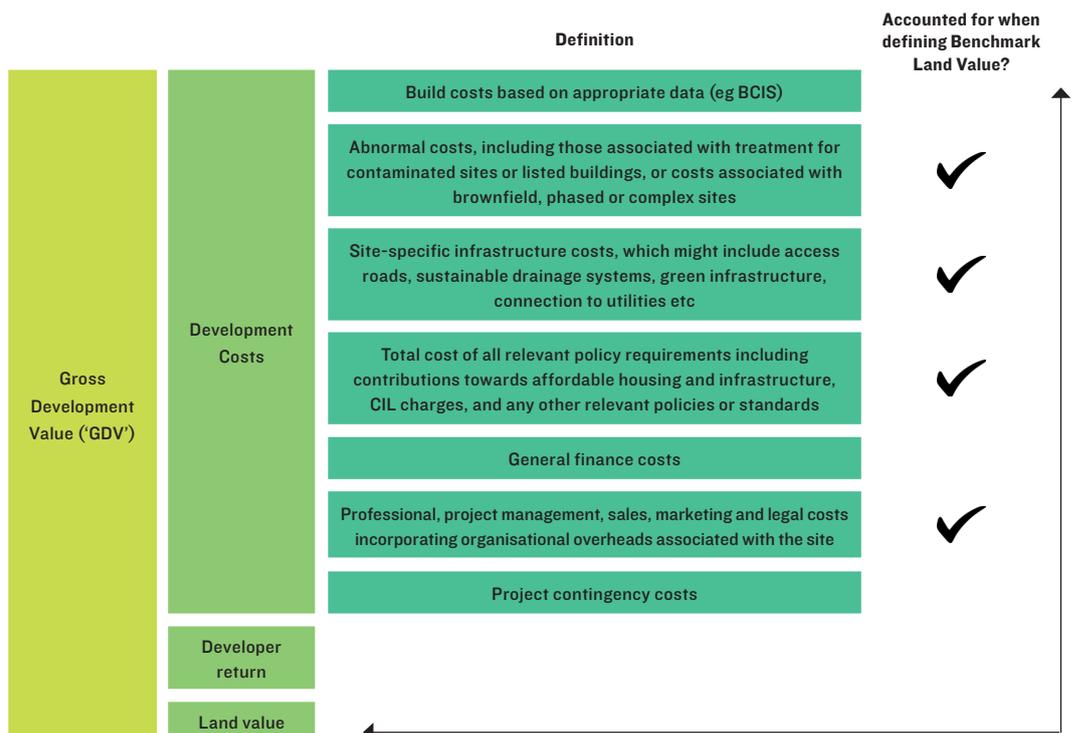
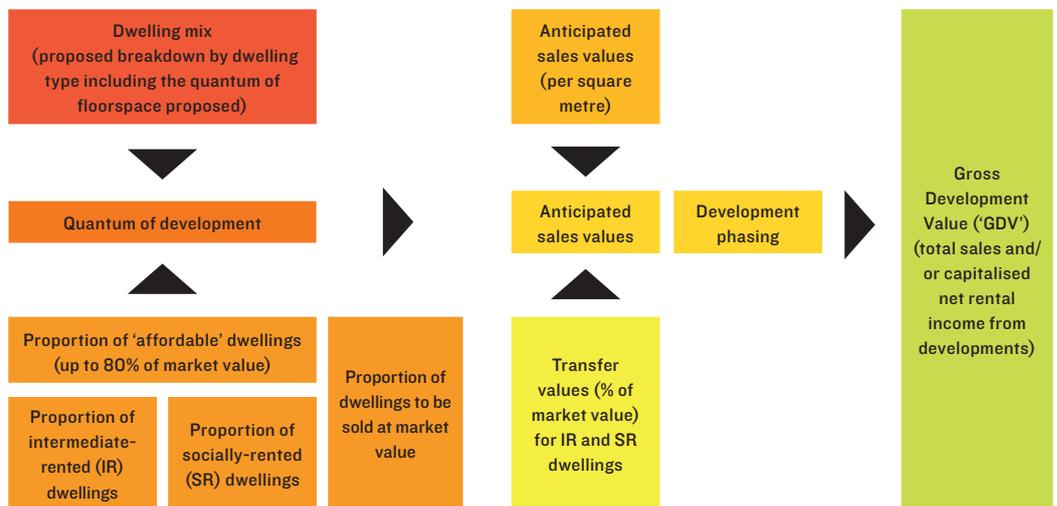
Source: Lichfields analysis

The PPG in England and DPM in Wales set out some of the inputs that viability appraisals should consider, albeit as guidance this is not comprehensive. Based upon our understanding of the inputs, the flow diagram (Figure 5) illustrates these and the interrelationships between them in an idealised viability appraisal. As our research has focused around viability

within a residential development context, the flow diagram refers mainly to values/cost inputs that are relevant to residential development rather than commercial development.

Our analysis now focuses on the constituent elements of this flow diagram to explore themes, patterns and commonalities of approach.

Figure 5: A typical viability assessment for a residential scheme



Source: Lichfields analysis, Planning Policy Guidance (England) and Development Plans Manual (Wales).

The typology approach

Definition

Grouping together of sites based on their shared characteristics such as size (either by area or by dwelling numbers), existing use (e.g. brownfield/greenfield) and site context (rural/urban/suburban).

The PPG describes the typology approach to viability as :

“a process plan makers can follow to ensure that they are creating realistic, deliverable policies based on the type of sites that are likely to come forward for development over the plan period.” (Reference ID 10-004-20190509)

Acknowledging that specific site information may not be available at the plan-making stage, the purpose of a typology approach is to test a number of representative sites that could be realistically delivered and then allowing plan makers to assess appropriate policy requirements and benchmark land values according to each typology.

We found that a typology approach to development plan / CIL viability testing appears to be widespread. This is in line with PPG and DPM which both advocate a typology-based approach. We only found one local planning authority (London Borough of Croydon) that took an alternative approach of undertaking a series of site-specific viability appraisals. A number of authorities also tested real allocations alongside notional sites. Often these were subject to bespoke, location specific assumptions which deviate from the wider viability assumptions used for the notional sites. This approach reflects the guidance set out in the PPG and DPM and recognises how strategic sites are critical to the delivery of the strategic priorities of the plan.

Our analysis found that the most common approach was to distinguish between typologies on the basis of site size (or housing capacity). This appears logical given that

some of the underlying viability assumptions attributed to smaller sites are likely to be different to that of much larger sites. However, there are clearly other factors besides size which are appropriate considerations in the context of viability: density, previous use classification, site character and housing market value area. Our review has shown that local authorities have generally adopted a bespoke set of typologies (as advocated by the PPG and DPM) that reflect a combination of all these considerations. As such, it is clearly not possible to set out a ‘one size fits all’ primer for implementing a typology approach since the appropriate way will vary from one authority area to another. The PPG summarises this efficiently at Reference ID 10-004-20190509:

“The characteristics used to group sites should reflect the nature of typical sites that may be developed within the plan area and the type of development proposed for allocation in the plan.”

What our review does show is that it is critical to ensure that the final choice of site typologies is an accurate and realistic reflection of the types of sites that could come forward during a plan period in the local authority area.

Although there is no certainty that sites will not be delivered if the typologies assessed at the plan-making stage were not representative, there is perhaps a more fundamental risk that the development plan will not be found sound if it fails to adequately reflect the nature of local development in the area.

Lichfields perspective on typologies

The use of representative typologies, using average costs and values is a sensible and pragmatic way of conducting viability appraisals on an area-wide basis and across multiple sites. The potentially onerous information requirements associated with the preparation of multiple site-specific viability appraisals at the plan-making stage would be likely to have significant resourcing implications for many local authorities. Indeed, on the developer side of the equation it would perhaps be unrealistic to expect such detail to be forthcoming for all potential sites vying for a local plan allocation. The need to consider the potential viability implications of as yet unidentified sites that are not being promoted for allocation further increases the logic of this approach. However, for strategic sites that are individually fundamental to the delivery of the plan strategy, there is a greater imperative to consider viability on a site-by-site basis – not least that there may not be any other sites that would fit into the same broad typology.

Whilst this approach addresses the practical challenge of setting appropriate policy requirements and benchmark land values at an area-wide level, there remains the issue that some sites will inevitably fall through the cracks by virtue of their particular characteristics or – perhaps most pertinently – by changing circumstances. Through extrapolation of the typology approach, once a development plan is adopted, planning applications that come forward for sites that sit within the typology framework tested (and that accord with all relevant policy requirements) are deemed to be viable. However, what of sites that do not fit within any of the typologies that were tested and does national policy provide any flexibility in this regard?

Reference in the PPG and DPM to ‘particular circumstances’ to justify the need for a viability assessment at the application stage suggest that flexibility does exist; however, ultimately it will be for the decision maker to decide on the weight afforded to the applicant’s case. It also remains to be seen to what extent the current pandemic-induced economic uncertainty will constitute particular circumstances. Whilst the focus of changes to the guidance has very much been to ‘frontload’ viability assessments this has the potential to fundamentally undermine the premise of plan-led viability.

05 Unpicking the typologies

In this section we discuss each factor in turn, providing commentary on the general trends found in relation to that factor across the country. We also provide our thoughts on what a reasonable approach should take.

In so doing, we have categorised the metrics into three broad categories:

1. Factors with a common methodology – where there was general conformity in the method that was applied by the majority of local planning authorities, even though specific values may have differed;
2. Factors with a narrow range of values/figures; and,
3. Factors with a broader range of values/figures.

Factors with a common methodology

Build costs

Definition

In a residential context, the base build cost is the cost of constructing a dwelling from the ground up but excluding the cost of external works.

The build cost is a key input that evidently forms a significant proportion of the gross development cost. It is therefore an important consideration that needs to be included as part of a robust viability assessment. It is also important as we have found that other costs (e.g. externals, abnormals, contingencies, professional fees and finance) can be based on a percentage of build costs. Therefore, higher build costs would result in other costs being higher which will inevitably have an impact on the viability appraisal.

The PPG and DPM both state that build costs should be based on 'appropriate data' and specifically cite the Building Cost Information Service (BCIS). Provided by the Royal Institution of Chartered Surveyors, BCIS is a cost and price information service for the

UK construction industry. Our analysis of Local Plan and CIL viability assessments has identified that 95% of the studies relied upon data sourced from BCIS (77 out of a total 81 studies where the source of build costs was made explicit). Only two authorities were found to have used an alternative method.

A number of local authorities sought to adjust BCIS costs to reflect a number of specific variations, including:

1. Geography – i.e. urban/rural and low/high value areas within the authority area;
2. Size of scheme – Higher build costs for smaller schemes with an uplift of up to 10% for smaller schemes and reduction of up to 8% for larger schemes including strategic sites reflecting economies of scale (the use of the BCIS lower quartile is a common approach for large schemes); and,
3. Inclusion of other costs such as environmental standards, building regulations Part M, building regulations enhancements, preliminaries and contractor's profits. It is important that if these costs are considered in the build costs that they are not double counted in other sections of the assessment.

North Devon and Torridge Council used a combination of BCIS costs alongside discussions with developers, valuers, agents and others to inform build costs. This approach sought to use a range of data inputs to result in a base build cost that it considered to be reasonable. Whilst recognising that there are a number of methods for the calculation of build costs, a range of data sources, and a multiplicity of opinions, the Council considered that its multifaceted approach resulted in robust costs being set.

Barrow-in-Furness was the only local planning authority to move away from BCIS completely. Instead, it used a range of build costs based on quantity surveyor assumptions which were presented/costed differently based on different scheme densities, adjustments for quantum and for brownfield and greenfield sites (inclusive of externals).

95%

relied on build cost data sourced from BCIS

75%

used a methodology that cross-referenced HM Land Registry price paid data with data sourced from the Energy Performance Certificate (EPC) register

Lichfields perspective on build costs

Although not without its limitations, the use of BCIS – potentially adjusted to take account of various factors – is commonplace in area-wide viability assessment. It is also endorsed explicitly within PPG and DPM. However, this is not to say that alternative approaches cannot be applied with appropriate justification. BCIS, however, has the advantage of being widely accepted as well as its transparency and accessibility.

Sales values

Definition

The market value of a completed development, typically presented on a per unit area basis. When aggregated, net of appropriate reductions for social and affordable rented housing, this forms the basis of the Gross Development Value (GDV).

As is the case with construction costs, the sales values (or revenue) from a completed development are subject to locational variability. For individual districts, the area-wide viability assessment needs to factor in this variability by applying differential revenue assumptions to different locations and/or typologies. This needs to be based upon a robust understanding of the local housing market and sub-markets. Due to the inherent geographical variation, our analysis has focused on the central methodology employed by each authority when determining sales values. It has also focused on the methodology used to define the core market value assumptions since both the level of affordable housing (by definition, up to 80% of market value) requirements and their associated transfer values will differ from one local authority to the next.

Our analysis indicated that approximately only half of the 93 local authorities studied provided information on their adopted methodology for assessing revenue. Of those that did, 75% (33/44) used a methodology that cross-referenced HM Land Registry price paid data with data sourced from the Energy

Performance Certificate (EPC) register. This approach is widely-used within the industry and its purpose is to ensure a consistent basis of analysis by allowing the value (price paid data) to be divided by the size of dwelling (EPC) – thus presenting the data as a rate per square metre (£/sqm). This approach relies on the use of data for new-build residential development (rather than all house sales) and is therefore subject to data lags in both the availability of Land Registry and EPC data from the completion date.

Despite being widely-used, there are a number of alleged limitations associated with this approach. A review of local plan viability representations in Durham has indicated that developers expressed concerns that the approach can over-inflate sales values by understating the role of sales incentives and through undermeasurement of floor areas. Whilst it is true to say that the approach based solely on unit size may represent an over-simplification of the factors that affect value it is however appropriate within a plan-making context where exact types of houses may not be known.

In the small number of alternative approaches detailed, these included the use of asking price and dwelling size data from sales particulars reviews of data provided by local authorities or on platforms such as Rightmove and Zoopla, and discussion/consultation with developers.

Lichfields perspective on sales values

The value in the Land Registry/EPC approach is that it provides a straightforward mechanism for assessing sales values on an area-wide basis and one that can be applied consistently (e.g. £/sqm). The use of the method to assess average sales values helps to mitigate anomalies that might otherwise push the bounds of achievability in practice. The absence of clear alternative approaches that can standardise sales values to the same extent is also another important practical consideration.

Whilst the approach is useful in many ways, there are a series of related questions that have the potential to affect local plan viability assessment work going forwards:

1. Since the approach relies on new-build data, what approach should be adopted in areas where only a few (if any) new houses have been built recently? How far back in time should you go?
2. Despite the resilience of house prices during 2020, there is widespread uncertainty about how the UK property market will fare in 2021 and beyond as Coronavirus financial support schemes and Stamp Duty holiday come to an end. What are the implications of potential house price changes associated with Covid-19 for achieving a suitable quantity of new-build comparables and for preparing viability assessments more generally?
3. Against the backdrop of rising build costs (increasing cost of labour and materials, and environmental sustainability requirements etc), to what extent could house price reductions nationally threaten the viability of local plans and individual sites?

82%

assumed 20% of GDV as the target profit margin for housing delivered on the open market

Factors with a narrow range

Developer profit

Definition

The amount by which the estimated income of a development exceeds the total outlay in order to provide a return to the developer.

The PPG states that:

“Potential risk is accounted for in the assumed return for developers at the plan making stage. It is the role of developers, not plan makers or decision makers, to mitigate these risks.” (Reference ID: 10-018-20190509)

Developer profit margins are applied as a fixed input to viability appraisals and are, in most cases, applied as a percentage of GDV. This approach appears to be the appropriate basis in the context of residential viability appraisal although alternative means were also observed in a minority of cases, such as profit on cost. A small number of studies included a separate allowance for developer overheads but we have found that generally these costs are wrapped up within the overall profit allowance.

Significantly, our analysis has shown that 82% of studies (76/93) assumed 20% of GDV as the target profit margin for housing delivered on

the open market. Only 11% of studies (10/93) adopted a lower target profit margin (typically between 15%-20% - the range identified in the DPM in Wales) whilst one study (North East Lincolnshire) assumed a 25% margin.

57% of studies (53/93) utilised a blended profit approach that typically comprised of a 20% GDV assumption for open market housing and 6% GDV for affordable housing. Where such an approach has been used, it is important to recognise that the ‘blended’ profit allowance will vary depending on the level of affordable housing sought by the local authority. These findings accord with the PPG which states that in order to establish the viability of plan policies an assumption of 15-20% of GDV may be considered as a suitable return¹. It is noted, however, that in Wales the DPM refers to a range of 15%-20% as a suitable profit margin for the open market component of development.

We found that 6% of studies (6/93) applied lower profit levels to smaller sites, on the basis that the delivery of larger sites can inherently carry greater risk (and therefore developers seek a greater return to reflect the added risk). As previous Lichfields research² has demonstrated, larger sites take far longer to deliver and thus expose developers to added risk, possibly over the course of multiple economic cycles. This is recognised in the DPM which states that *“larger sites can carry more risk where they take a long time*

Lichfields perspective on developer profit

Area wide viability assessments are required to set profit at a level that reflects developer risk and therefore incentivises housing delivery. This inevitably varies according to economic conditions, delivery timings and site typologies – with larger, more complex sites generally exposed to higher levels of risk. If developer profit is set too low it can act as a deterrent to investment.

Our analysis has shown that the most common approach was to set target profit levels for market housing at 20% of GDV, and typically 6% of GDV for affordable housing. However, the adoption of a single area wide standard/benchmark can be inappropriate, and it is recommended that flexibility is built in to account for the differential levels of risk across site typologies. This is particularly true of larger, strategic sites where significant upfront investment is required and where their delivery could be integral to development plan delivery.

¹Reference ID 10-018-20190509

²Lichfields Start to Finish (2020) https://lichfields.uk/media/5779/start-to-finish_what-factors-affect-the-build-out-rates-of-large-scale-housing-sites.pdf

to build out and an increased profit margin may be required, whereas smaller sites being developed quickly may not.” (Page 145).

Given that profit can reflect risk, there is also a likelihood that macro-economic conditions might influence profit margins, with higher levels being sought at times of recession. The DPM identifies a potential link between profit margins and interest rates, and there is also some evidence that some lenders will stipulate a certain profit margin as an additional layer of flexibility to be added into the financial modelling of a scheme.

Externals

Definition

The cost of works surrounding a dwelling including gardens, estate roads, sewers, landscaping, boundary treatments, incidental open space etc.

Our analysis showed that 77% (72/93) of local authorities utilised an allowance for external costs within their viability assessments. We have identified a range of approaches in relation to externals works: from singular, flat rates to tiered systems whereby sites varying in nature or size had differential allowances. The tiered approach acknowledges that the amount of external works that are required will vary between different site typologies. For example, larger, strategic (often greenfield) sites are likely to require proportionately greater levels of external works compared to smaller, urban infill sites.

Lichfields perspective on externals

Our analysis suggests that a rate of between 10% and 20% is most commonly used within viability assessments to account for external works. We consider that the use of a range is reasonable to take account of variations in external costs between different sizes of schemes and different forms of development. It must also be noted that if an alternative basis is used for base build costs (i.e. other than BCIS) then externals may or may not be required as a separate element. In such cases, consideration should be given to the scope of what is included in the base build costs.

Of the 72 studies that applied an allowance for externals, 63% (46/72) applied a flat rate, whereas 23% (17/72) applied a range or tiered approach. Flat rates were typically set at 10-15% of base build costs, whereas the tiered approach tended to span a wider range – typically between 10% and 20% of base build costs.

Irrespective of approach, the overwhelming majority of studies (93% of those that made an allowance) employed an externals allowance within the range of 10-20% of base build costs. Very few (less than 10% of studies) used assumptions lower than 10%, with such levels more commonly applied for flatted/high density typologies which typically involve less external works.

Contingency

Definition

An allowance for any unexpected cost increases due to unforeseen circumstances, usually reflected as a percentage of buildcosts.

It is common practice to include a contingency allowance to help mitigate delays and additional unforeseen costs throughout the construction period. Importantly, this allowance can be distinguished from other potentially uncertain costs such as abnormal development costs (see below). The latter, whilst not incorporated into base build costs or externals, can generally be identified at the outset whereas contingencies cater for situations in construction that cannot reasonably be foreseen.

93%

employed an externals allowance of between 10-20% of build costs

89%

made a contingency allowance of between 2.5% - 5% of build costs

A contingency allowance is linked to the risk associated with development projects and is therefore also linked to developer profit. This is reflected in both RICS valuation guidance³ and PPG⁴ with the latter stating that “a justification for contingency relative to project risk and developers return” should be provided. The DPM similarly states that:

“Plan makers should not plan to the margin of viability but should allow for a contingency to respond to changing markets and avoid the need for frequent plan updating. Including a contingency within the viability study will de-risk the plan in that there is room to accommodate a change in economic circumstances / site specific issues.” (Page 145).

Our analysis shows that over 88% of local authorities (82/93) made a contingency allowance of some sort, the majority of which made an allowance as a percentage of the base build cost. In a small number of cases, an allowance was made as a percentage of the base build cost plus other costs such as external works and professional fees.

Contingency allowances were shown to sit within a relatively narrow range: we have found that of the local authorities that did make a contingency allowance, 89% of the studies made an allowance within the range of 2.5%-5% of build costs, although 5% was by far the most common assumption. Both 3% and 5% have been cited as reflective of industry norms. Very few contingency allowances sat outside this 2.5%-5% range and are therefore not deemed significant for the purposes of this exercise.

Bradford Council utilised a contingency of 6% whilst Cambridge and South Cambridgeshire applied contingency rates of 5% and 7% respectively. Hull Council applied the lowest rate of just 2%.

Of the local authorities that did make a contingency allowance, 24% applied a higher allowance for brownfield sites than for greenfield sites. Brownfield site contingencies tend to sit towards the 5% end of the range. By contrast, the risk in delivering greenfield sites is lower and therefore necessitates a smaller allowance (typically 2.5-3%).

Professional fees

Definition

The cost of professional inputs to planning, design and project management in the development process.

There are a range of professional services that are required in the development process and that need to be accounted for in viability appraisals. The precise composition of services required will vary according to the characteristics of any given development. To simplify this, it is common practice to combine these costs together and factor them into the viability assessment through the application of a percentage of base build costs. The PPG states that the cost of professional fees should be taken into account when defining benchmark landvalue⁵.

Lichfields perspective on contingency

The choice of either a flat rate contingency or a tiered system depends heavily on the array of sites needing to be tested, with authorities with a greater mix of greenfield and brownfield sites perhaps being more inclined to adopt the latter approach. In either case, our research has demonstrated that an indicative range of 3-5% of base build costs is reflective of industry norms across England and Wales. In line with the PPG and the DPM, the application of an appropriate contingency allowance should be assessed within the context of the risk profile that is also reflected by developer profit margins.

³RICS Professional Guidance Note (2019) Valuation of development property, 1st Edition

⁴Reference ID 10-012-20180724

⁵Reference ID 10-012-20180724

Our analysis found that almost all studies (94%) explicitly included an allowance for professional fees. 83% of these studies (72/87) applied a professional fees assumption within a tight range - 8-10% of build costs considered. Only 17% of studies (15/87) relied upon assumptions that were outside this range with a maximum of 12% and a minimum of 5% of build costs.

The effect of economies of scale is an important consideration in the application of a professional fees allowance. The cost of preparing a planning application, designing and project managing a scheme is likely to be disproportionately higher for smaller schemes. Despite this, our analysis demonstrated that only approximately 10% of studies applied a differentiation on the basis of size of site/total number of units.

Development finance

Definition

The cost of borrowing to finance a development, usually referring to interest rates and arrangement fees.

Development appraisals should account for the timing of developer expenditure and revenue during the construction period. At the start of the construction period the balance between expenditure and income is heavily skewed in

favour of costs as site preparation works take place and there are no completed units that can be sold. As more units are completed and sold the balance gradually shifts up to a point where a developer's net cash flow is positive (see Figure 6).

It is common practice in conventional development appraisals to assume that all costs incurred by developers are financed by borrowing and therefore subject to an interest rate. This is a reasonable assumption and even if only some of the scheme was to be debt financed, it would be appropriate to make some allowance for the opportunity cost associated with investment in the project.

An interest rate is therefore applied to the net cash flow throughout the development lifespan until the inflection point of a positive net cash flow is reached. At this point, development appraisals may assume that the surplus generated may be re-invested and therefore subject to a credit balance interest rate. The level of sophistication of cash flow models used will, to a degree, dictate whether or not a credit balance interest rate is accounted for. Additionally, the point at which a scheme starts to turn a profit will vary and is therefore more difficult to generalise on an area-wide basis. As a result, our analysis focuses only on the assumptions used around debt financing. In general, we found that very few area-wide

Lichfields perspective on professional fees

Our analysis provides a strong basis for 8-10% of build costs being a typical range for professional fees assumptions in a local plan viability context. However, it should also be noted that there are a range of factors – including site size – that can affect the appropriate rate to apply. A point that is not clear from the analysis is the extent to which professional fees vary between types of sites, e.g. brownfield/greenfield and location. In sensitive areas, or where the site is heavily contaminated etc, there might be a need to do more by way of technical assessment/justification for the development. By comparison, greenfield sites (even when allocated) may also require higher professional fees to support potentially a more controversial and drawn-out planning case. Due to this complexity it is perhaps unrealistic to expect that a professional fees allowance – particularly within an area-wide context – can adequately reflect this granularity.

85%

applied a debt interest rate of between 6%-7%

studies made assumptions in respect of a credit balance interest rate.

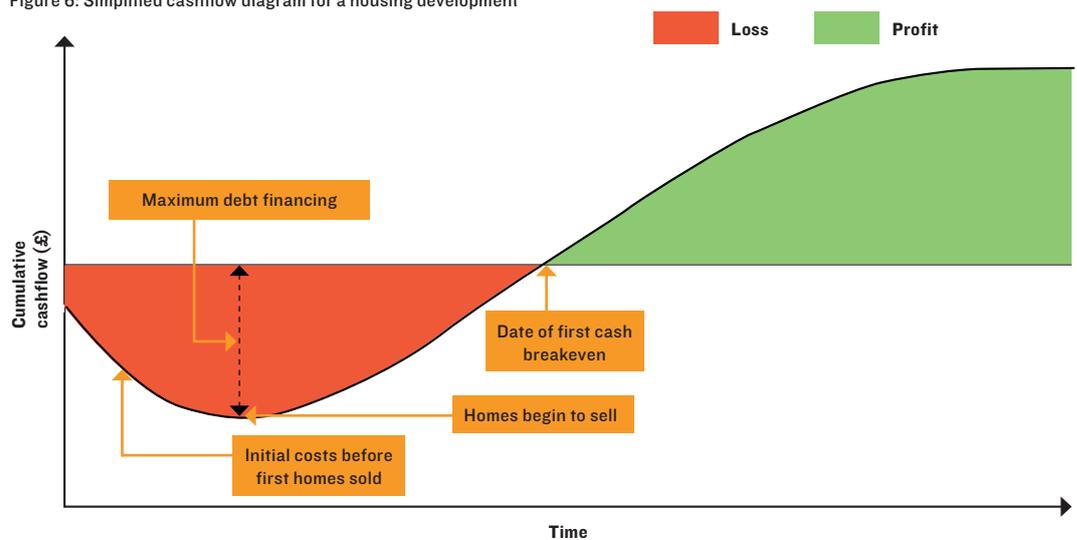
Within the studies assessed, development finance is illustrated as a percentage and occasionally including a separate percentage on top for an arrangement fee. Our analysis has shown that 85% of studies (79/93) utilised a debt interest rate of between 6% and 7%, incorporating an arrangement fee where relevant. A wider view shows a complete variance of between 5% and 9% with only one study (South Downs National Park) utilising a 9% figure (7% plus arrangement fee of 2%). On the other end of the spectrum the lowest interest rate used in the assessment was 5% -

used by three local authorities (Hull, Newark & Sherwood and Newport).

Based on our analysis it appears that a relatively narrow range of values is used in the development appraisals in relation to interest rates (between 6 – 7%) with nine authorities including an arrangement fee of 1 to 2% on top of this. Some authorities did not separate the finance fee from the arrangement fee and provided a single percentage.

The narrow range of values used for development finance appears to be based on standard assumptions of what interest rates banks are willing to lend on which are based

Figure 6: Simplified cashflow diagram for a housing development



Source: Lichfields analysis



Figure 7: 1 Year LIBOR Rate (1986-2020)



Source: www.macrotrends.net

on the LIBOR (London InterBank Offered Rate). Although currently much lower now than it has been in the recent past (see Figure 7), at the time when several of the studies were prepared LIBOR would have been far higher in comparison to the Bank of England base rate which is currently extremely low. This explains why the interest rates applied appear high within the present context but also the variance in rate may be explained due to the fact the studies reviewed have been prepared across a broad timespan. In seeking to understand the fluctuating LIBOR rates, consideration should also be given to the economic climate and willingness of banks to lend. As set out above, this will have a direct impact on any consideration of whether the assumptions that have been made by individual local planning authorities in respect of finance rates are reasonable.

It is also important to consider the period of time that the money is borrowed for. This is of course influenced by the amount of time that it takes for a development site to go through the planning process and deliver completions and sales on site. Lichfields' [Start to Finish](#) research sets out assumptions on development timescales and delivery rates.



Lichfields perspective on finance

Our analysis reveals that debt interest rates applied sit within a relatively narrow range (between 6 – 7%). Within the current context the upper end of this range may seem high, and future applications need to have regard to the prevailing economic conditions and LIBOR rate (or its successor - the Secured Overnight Financing Rate).

91%

adopted a sales and marketing assumption of 2.5-3.5% of GDV

Sales and marketing

Definition

The costs associated with selling completed homes including the costs of setting up show homes, employing marketing staff and advertising as well as associated legal fees.

The costs associated with selling completed homes will vary based upon the scale of development. For larger schemes, most developers incur the costs of opening show homes, operating marketing suites and employing dedicated sales staff. This may not be the case for smaller schemes which might opt for the utilisation of an estate agent to market the properties. Irrespective of scheme size, it is typical that developers incur the cost of digital marketing through online platforms.

Our analysis shows that 96% of assessments (89/93) included an assumption for sales and marketing. Of the assessments that did provide a figure 91% of local authorities (81/89) adopted a figure for sales and marketing between 2.5% and 3.5% of GDV. A wider view shows that the total range was between 2% and 6%. All percentages were based on GDV, with

11 local authorities basing the percentage on open market GDV only. Such an approach is not unreasonable as the transfer of affordable homes to Registered Providers would not necessitate marketing expenses, although there will be some legal costs involved in the process which should be taken into consideration.

The London Borough of Bromley utilised a range of between 3% and 6% with 6% being the highest percentage used by any authority in our study, by a considerable distance. There is no explanation for the higher end of the range, although we might speculate that the use of a range reflects a need to differentiate between larger schemes which may incur far higher marketing overheads compared to smaller schemes.

15 local authorities allowed an extra cost for legal fees (represented as a price per unit) in addition to the percentage figure summarised above. The range of figures applied was between £400 and £750 per unit, with 11 authorities applying a figure of £750 per unit. The authorities that included a separate fixed cost for legal fees tended not to apply a lower percentage figure for sales and marketing costs compared to the authorities that did not include an additional fixed cost for legal work.

Lichfields perspective on sales and marketing

Sales and marketing costs are standard metrics that need to be included within a viability assessment. Our research points towards a general consensus that 2.5%-3.5% of GDV is a typical range, with individual circumstances dictating where within this range a local authority sits. For local authorities with a broad range of typologies, it may be appropriate to apply a differential rate, but within this identified range.

Whilst not common throughout the evidence base, it is not unusual for local authorities to include a cost for legal fees on top of the percentage. The evidence suggests that a figure of £750 per unit is reasonable in this instance.



77%

applied a land acquisition allowance of 1.5-2.25% of the purchase price (excluding SDLT)

Land acquisition

Definition

The agency and legal fees, and stamp duty land tax, associated with the acquisition of land by a developer.

Land acquisition costs generally cover both agents and legal fees. This relates to the cost incurred by developers in the acquisition of land. It is separate to the sales, marketing and legal fees that are associated with the disposal of completed homes to purchases.

Our analysis has shown that the viability assessments have exclusively expressed land acquisition costs as a percentage of the land purchase price. Stamp Duty Land Tax (SDLT) is typically applied as a separate, additional component of the land acquisition fees and is based on the land value at the prevailing rate.

81% of assessments (75/93) provided a figure for agent and legal fees or a combined fee for both elements. For those authorities that provided separate figures for agents and legal fees:

1. The agency fee typically ranged from 0.75% to 2%; and,
2. Legal fees typically ranged from 0.25% to 1%.

Combined, the percentage ranged from 1% to 6.8% of purchase price. It is noted, however, that the upper end of this range represents studies that included an 'all in' land acquisition percentage, comprising agents and legal fees as well as SDLT. Stripping out those local authorities who factored in a SDLT component, it appears that the upper limit of the range was 3.5% (Arun).

Considering the data in the round, 84% of studies (63/75) sat between 1% and 3% of purchase price. A significant majority (77%), however, sat within an even tighter range of 1.5% - 2.25%.

Lichfields perspective on land acquisition

Similar to the sales and marketing costs, the land acquisition costs are fairly standard metrics that need to be included within a viability assessment and there appears to be a general consensus that a combined percentage of between 1.5% and 2.25% of the land purchase price is an appropriate allowance for land acquisition costs (agent and legal fees) with SDLT to be added on top of this.

61%

did not apply an allowance for abnormal costs

Factors with greater variation

Abnormals

Definition

Costs generally that are considered outwith the standard construction requirements of a scheme. This can include a variety costs, including (but not exclusively) site clearance/demolition/remediation, decontamination, enhanced foundations, service diversions, flood mitigation etc.

As the above definition hints at, a precise and all-encompassing definition of what constitutes an 'abnormal' development cost can be hotly contested and different parties involved in viability appraisal will have different definitions. As abnormals are not standard construction costs, often preliminary site investigation work is required to determine their nature and extent. This in of itself can be a time-consuming and costly process and does not necessarily lend itself well to the levels of standardisation that are generally required to input to high level, area-wide viability models.

Perhaps as a result of this inherent uncertainty, 61% of studies (57/93) did not apply an allowance for abnormal costs. We found that there were a variety of reasons for not doing so, although in general terms the authors of many viability assessments suggested that it can be

inappropriate to be building in what can be – by their nature – highly variable and site-specific cost assumptions to a high level, area-wide study. Other justifications for non-inclusion were due to abnormal costs being factored into other input assumptions, such as the land value and within a viability 'buffer' (although to a far lesser extent).

Two thirds of the studies that did apply an allowance for abnormals adopted a brownfield-only approach (with no allowance applied to greenfield sites). A minority of studies 34% (12/35) applied a blanket abnormals cost allowance to all sites, and in some cases this was supported by a narrative to articulate why this was necessary. Reasons included the presence of abnormal ground conditions, such as sloping sites or a legacy of coal mining activity, across a range of (brownfield and greenfield) typologies.

Reflecting the inherent complexities associated with modelling abnormal development costs as part of an area-wide viability model, a broad spread of approaches was observed, including:

1. % of build costs allowance - 49% (17/35);
2. Cost per hectare (or acre) allowance - 31% (11/35); and,
3. Cost per unit allowance - 14% (5/35).

A percentage of build costs approach was most commonly observed although there was significant variability in the actual percentage applied – and it is therefore not possible to draw any transferable generalisations from this.

Lichfields perspective on abnormals

Abnormal development costs are inherently difficult to standardise for the purposes of area-wide viability modelling. Despite our analysis revealing that the majority of studies did not apply an allowance for abnormals, the potential impact on viability that such costs can exert cannot be ignored, especially in former industrial areas. Local knowledge of site typologies is therefore important to make a balanced judgment on whether it is appropriate to apply an allowance. If applied, assessment authors should set out clear justification for inclusion, ensuring that these would not overlap with other site costs that are already accounted for. In addition, careful consideration needs to be given to the interface between abnormal costs and land value (see Section 6).

Opening up costs

Definition

Initial costs associated with the provision of infrastructure required to open a site up for development.

In discussing costs that need to be considered in a viability assessment, the PPG does not specifically reference opening up costs. However, it does recognise that costs include:

“Site-specific infrastructure costs, which might include access roads, sustainable drainage systems, green infrastructure, connection to utilities and decentralised energy.” (Reference ID 10-012-20180724).

Some of these will be opening up costs such as the cost of creating a site access whilst others would fall under the umbrella of externals, perhaps due to the lack of clear guidance in the PPG. The DPM in Wales is more specific and recognises that greenfield sites may have ‘opening up’ costs.

Within our analysis we found that ‘opening up costs’ is not a term that is in widespread use and there is quite a lot of crossover between costs being incorporated within different cost assumptions such as externals and other general terms. Where this is the case it is difficult to quantify the basis of the opening up costs. For example, one consultant who has prepared a

number of assessments uses a term called ‘other normal development costs’ which includes costs for roads, drainage and services within the site, parking, footpaths, landscaping and other external costs. Due to this and the wide range of costs identified we have concentrated on the method of calculating the cost assumption as opposed to the actual cost. However, we note that for all sites there was an obvious correlation between the costs applied and the number of dwellings on site. However, flatted schemes are generally afforded a smaller sum or percentage compared to houses due to the reduced need for ‘opening up’ costs for a higher density scheme on a smaller site area.

58% of assessments (54/93) did not include a specific reference to ‘opening up’ costs although as explained above, this is not to say that the costs have not been provided as part of another cost input such as externals or a broader definition.

Of the 39 local authorities that specifically referenced ‘opening up’ costs as an assumption in their viability assessment, 28% (11/39) presented this as a cost per hectare allowance, 53% (21/39) presented this as a cost per unit allowance and 19% (7/39) used a different approach.

Of the authorities that specifically referenced opening up costs 67% (26/39) used a differential allowance, i.e. a range of different costs depending on various factors such as size of site, houses/flats and whether it is greenfield or brownfield.

Lichfields perspective on opening up costs

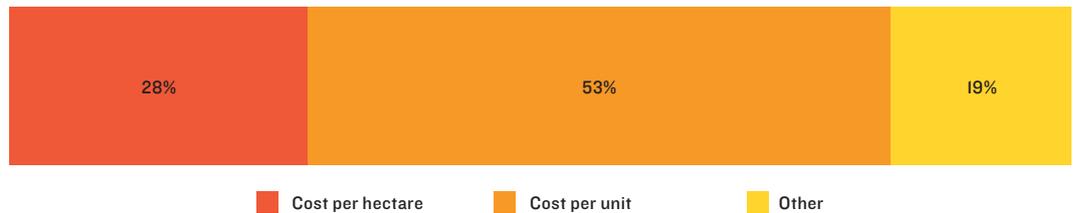
The issues seen in respect of opening-up costs raise an important issue regarding the way in which costs are apportioned to different categories. Local planning authorities should be very clear about their approach to construction costs, externals, abnormalities, contingencies and opening-up costs, including a detailed breakdown of the components of each and the assumptions that have informed their identified rates for each. This will allow proper review at plan preparation stage.

It is sensible for local planning authorities to provide a range of different sums/percentages as it is clear that opening up costs will vary from site to site, based on the nature of the location and the extent of work that is required to facilitate the development of the site. A brownfield site is likely to already have provision for access and utilities, albeit they may need to be upgraded. An approaches based on a per hectare basis or a per unit basis can both be considered appropriate as long as they are justified by evidence.

26%

applied a viability buffer of some form

Figure 8: Opening up costs



Source: Lichfields analysis

Viability buffer

Definition

An allowance that is built into a viability assessment in order to allow flexibility for varying circumstances such as increased costs, reduced values or site-specific costs.

It is important that development plans do not plan to the margin of viability. The concept of a viability buffer is one that seeks to ensure that developments can remain viable should circumstances change in the future. To avoid any risk of development becoming unviable and therefore not being delivered, it is appropriate to proactively plan for a viability 'headroom' which can help to mitigate adverse economic conditions.

The PPG advocates the application of a buffer in relation to CIL⁶:

"A charging authority's proposed rate or rates should be reasonable, given the available evidence, but there is no requirement for a proposed rate to exactly mirror the evidence. For example, this might not be appropriate if the evidence pointed to setting a charge right at the margins of viability. There is room for some pragmatism. It would be appropriate to ensure that a 'buffer' or margin is included, so that the levy rate is able to support development when economic circumstances adjust." (Reference ID 25-020-20190901).

There is no direct equivalent reference in the viability section of the PPG and this is reflected by our analysis which reveals that only 26% of studies (24/93) applied a viability buffer of

some form, and that the majority of these (20) were applied within the context of preparing CIL charging schedules. Just over half of all CIL studies analysed included a viability buffer whereas this was the case for less than 5% of all development plan viability assessments. Furthermore, most of the development plan viability assessments that included a buffer were carried out in conjunction with emerging CIL charging schedules or by referring back to CIL charging schedules adopted in relation to the previous local plan.

Where applied, our analysis has indicated that buffers were typically applied as a percentage (ranging quite dramatically from 20%-70%). The application of a 20% buffer essentially means that proposed CIL rates are 20% less than the maximum level of CIL that could be viably supported. Our analysis also found a more nuanced application of a buffer in a small number of cases, with three studies choosing to apply a higher buffer for larger and strategic sites.

The finding that development plan viability studies have not typically applied a buffer might well be a function of structural differences. It is easier to see why appropriate flexibility margins need to be built into headline CIL charging rates from the outset, as once adopted, CIL rates are non-negotiable. By comparison, studies that aim to assess the viability of local plan policy requirements have been prepared in the knowledge that policy requirements can be subject to negotiation on viability grounds – although the new emphasis on frontloading and an assumption of viability

⁶CIL regulations apply both to England and Wales and therefore PPG applies to Wales in this matter

at the decision-taking stage reduces the scope for this in the future. In addition, it is easier to see how a buffer can be applied to a financial contribution such as CIL than to the types of requirement that might be sought through a Section 106 agreement or environmental/design requirements.

Another possible reason for not including a viability buffer is where flexibility margins are built into other areas of the modelling. One CIL study (North Somerset) did not deem it necessary to set an additional amount as a buffer, “since buffering had been built into the whole approach”. There are several possible viability assumptions where this is theoretically possible, through the use of average values and the necessary adjustments to contingencies and developer profit to reflect risk in the process. In Wales, the DPM identifies an allowance for contingencies as a means by which it will be possible to avoid planning to the margin of

viability, whilst the viability section of the PPG suggests that assumptions on risk in viability assessments are the primary vehicles by which flexibility is ensured over time:

“As the potential risk to developers is already accounted for in the assumptions for developer return in viability assessment, realisation of risk does not in itself necessitate further viability assessment or trigger a review mechanism. Review mechanisms are not a tool to protect a return to the developer, but to strengthen local authorities’ ability to seek compliance with relevant policies over the lifetime of the project.” (Reference ID 10-009-20190509).

Lichfields perspective on viability buffer

Flexibility to account for changing circumstances is a fundamental issue in viability, and particularly so in the current economic climate. Whether or not a ‘buffer’ is directly referred to, that the approach of individual local authorities to addressing flexibility is going to be critical in the success (or otherwise) of the policy approach of frontloading viability considerations to the development plan process. Given the narrowed scope to reconsider viability issues at the decision-taking stage, the inclusion of a buffer provides one way in which flexibility might be achieved in assessing the viability of development plans. However, this involves considerable practical challenges. For instance, to which elements of policy requirements should the buffer be applied? And how could it apply to design/sustainability requirements that are built into the development? Where flexibility is built into other components of the viability assessment, this should be made explicit.

The existing ‘decision-maker decides’ approach to application stage viability assessment may not provide the required flexibility in the current circumstances, and there is a risk of inconsistency between authorities regarding their willingness to adopt a flexible approach in respect of viability considerations. A better way to achieve flexibility may be through the reinstatement of application-specific viability assessments.

06 It all comes down to land value

An undeveloped parcel of land that is granted planning permission for residential use – or indeed most forms of development – will experience an uplift in value. In many cases, this uplift will be fairly significant. This economic phenomenon is central to an age-old question in planning and development: to whom should the lion's share of the value uplift accrue? Should it benefit the developer, the landowner, or the public in the form of planning obligations? This question continues to represent one of the most challenging issues for practitioners engaged in area-wide viability assessments as they attempt to strike the fine balance between demonstrating that a local authority's pipeline of sites can be delivered viably whilst also complying with planning policy expectations.

The concept of a Benchmark Land Value (BLV) refers to the middle ground that needs to be found to satisfy both local authority and landowner. The PPG reinforces the need for this balance to be struck through stating that the BLV should be established:

"...on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. 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....while allowing a sufficient contribution to fully comply with policy requirements." (Reference ID 10-013-20190509)

By its nature, a middle ground position is a relative one that is sensitive to both area-wide and site-specific contexts. It is therefore difficult to measure in absolute terms or indeed compare easily between different local authorities. Notwithstanding the obvious complexities associated with this key issue, our analysis focuses on what we have interpreted to be the two areas in which some generalisations may be made:

1. The approach used in determining the BLV; and,
2. The concept of a landowner premium.

Approach

In a previous Lichfields' blog⁷ we discussed the implications of the Parkhurst Road High Court judgment from April 2018⁸. This landmark case dismissed the approach used by the appellant to determine the BLV as it focused solely on the

⁷Reassessing land values: <https://lichfields.uk/blog/2019/june/20/reassessing-land-values/>
⁸Parkhurst Road Ltd (PRL) and Secretary of State for Communities and Local Government and the Council of the London Borough of Islington (2018 EWHC 991)



use of comparable market evidence – evidence which is intrinsically more difficult to compare due to limitations with transaction numbers and also due to lack of transparency regarding how land values are affected by policy requirements. The latter, the judge argued, causes issues of ‘circularity’ whereby policy non-compliant land values may be used to artificially inflate BLVs over time. To avoid such an issue, the case endorsed an approach which centres around the existing use value (EUV) with the application of an appropriate uplift or premium – the so-called ‘EUV+’ approach – and demoting the use of market evidence to a supporting or ‘sense checking’ role. In considering comparable market evidence, it is important to ensure that it is truly comparable in terms of their location, use, and compliance with policy requirements. Taking account of a site that is not actually comparable would undermine its ability to serve any meaningful purpose and could weaken the robustness of a viability assessment and the credibility of its results.

A key element of 2019 NPPF/PPG was the introduction of a requirement to apply the EUV+ approach⁹, but our research shows that this was

being commonly applied prior to the Parkhurst Road judgement and the publication of the 2019 NPPF. Indeed, our analysis shows that 63% of studies (59/93) used the EUV+ approach as the central method for determining BLV. In several instances, this approach was complemented by other strands of evidence such as market evidence and developer consultation. 23% were found to use alternative approaches which in the main focused around analyses of comparable land transactions. Only 14% of studies failed to include any detail regarding the approach to determining BLVs.

Although this finding might be interpreted as a direct response to the Parkhurst Road judgment (with many of the studies analysed as part of this research post-dating it), the underpinning evidence bases are likely to have been developed over a period of time stretching back several years prior. This suggests that practitioners have been employing the EUV+ approach for some time, and that the Parkhurst Road judgment and subsequent modifications to 2019 NPPF/PPG could in fact be reflections of what was already taking place in practice.

63%

Used the EUV+ approach to determine Benchmark Land Values



⁹It should be noted that the DPM similarly adopts a BLV approach and states on page I43 that “the evidence should be clear as to what financial return (or benchmark land value) would realistically entice a land owner to sell for the proposed use”.

Based upon our analysis, it is also interesting to note that EUV+ was being applied widely in spite of the RICS guidance that applied at the time¹⁰ which appeared to distance itself from this approach (however, it is important to note that the latest RICS guidance¹¹, effective from July 2021, now aligns itself with this approach). The 2012 guidance highlighted the approach's arbitrary notion of a premium: how this can lead to inconsistent practical applications, and also how it can lead to instances of both over- and under-valuation.

Premium

As referenced above, there is no explicit policy guidance on the scale of land value uplift to apply in assessing the BLV. It is perhaps unsurprising that the PPG and DPM both stop short of doing so given the complexity involved in establishing the somewhat arbitrary concept of a 'minimum return' for a 'reasonable landowner'. Practitioners charged with the task of setting area-wide BLVs have been faced with the challenge of reconciling an array of quantitative and qualitative data (including market information and developer representations) whilst also attempting to reconcile site-specific interests with factors relevant at a local authority level. Within the framework of EUV+, we recognise that this is a challenging and contentious exercise which has the potential to leave interested parties feeling aggrieved if BLVs are set too low (risking the non-release of sites to the market) or too high (risking the viability of sites and/or potentially failing to comply with policy expectations).

It is also difficult to undertake a comprehensive analysis of the level of premium applied in each study that we reviewed for a variety of reasons:

1. The assessment of a reasonable premium is sensitive to location (it is not the case that one level of premium should be applicable across multiple sites);
2. EUV+ lends itself to a variety of approaches which cannot always be readily compared. For example, some employed an EUV+ %/multiplier whereas others employed an 'uplift split' approach whereby the

increase in land value is shared between the landowner and the public (in line with the approach adopted in the Shinfield Road appeal decision¹²); and,

3. The way in which information is laid out within underlying reports places limitations on our analysis. For example, the issue of premium (over EUV) is not always reported directly and our analysis is therefore contingent on there being the relevant information provided which would allow us to impute the practitioner's approach to the premium. In respect of this point, we note that the judgment of Dove J in *R (Holborn Studios Limited) v London Borough of Hackney*¹³ found that the ability of the public to engage on the issue of viability in an informed basis was compromised by the fact that "no explanation was provided as to how the benchmark land value had been arrived at in terms of establishing an existing use value and identify a premium as was asserted to have been the case." (Paragraph 71). Whether prepared for a planning application or a development plan, the point is that viability assessments must be very clear in explaining how the BLV was derived.

Although the majority of practitioners used the EUV+ method, our analysis shows that the way in which it is applied varies considerably. The most obvious difference – and one that would be expected – is linked to the existing use of individual sites. For brownfield sites, we found that studies favoured a simple percentage uplift over EUV, whereas for greenfield sites a EUV multiplier was typically preferred. Although this subtle difference may not seem significant, the use of an EUV multiplier is reflective of the fact that, typically, the value of undeveloped agricultural and paddock land (vis à vis greenfield land) is lower and therefore the difference between the EUV and the BLV should be considerably higher in order to incentivise a landowner to release their land for residential development (and one for which a % uplift approach would be cumbersome mathematically).

¹⁰RICS Professional Guidance Note: Financial Viability in Planning, 1st Edition (2012)

¹¹RICS Professional Guidance Note: Assessing viability in planning under the National Planning Policy Framework 2019 for England, 1st Edition (2021)

¹²Land at The Manor, Shinfield, Reading (PINS Reference APP/X0360/A/12/217914) 8 January 2013

¹³R (Holborn Studios Limited) v London Borough of Hackney and GH L (Eagle Wharf Road) Limited (2020 EWHC 1509)

Many studies reported ready-reckoners for agricultural land values. Despite being simplifications of the market for commercial agricultural land, these provide helpful benchmarks that provide a starting point for determining an appropriate EUV multiplier for greenfield sites. As one would expect, there was some variation across the country in the value of bare agricultural land, although where reported there was a broad coalescing of values in the region of £20,000/hectare (c.£8,000/acre). Accordingly, a site with a BLV assessed as £400,000/hectare would represent a multiplier of 20 times EUV (20 × £20,000/hectare). Clearly the same generalisations could not be determined for brownfield sites due to the inherent variation in EUVs. In the absence of reported evidence on EUVs, we note that the use of area-specific land value estimates for industrial and agricultural land published annually by MHCLG may be of use for this purpose¹⁵.

Notwithstanding the caution that should be exercised in doing so, a quantitative summary of the premiums applied to brownfield and greenfield sites is set out below:

1. **Brownfield** – generally a more consistent approach was applied for brownfield sites with the majority of studies using percentage uplift over EUV. Of the 26 studies where we were able to discern the brownfield premium, we found that 69% of these (18/26) assessed a reasonable premium as being EUV+ 20%. We found that the maximum percentage uplift over EUV ranged between 10% and 45%, but the most common uplift was 20%.
1. **Greenfield** – of the 29 studies in which a premium was discernible, 52% sat within a range of 15 to 20 times EUV. The maximum level of premium observed was close to 40 times EUV but we found that the premium tended not to be set any lower than 10 times EUV.

It should be stressed, however, that in line with the conclusions of Holgate J in the Parkhurst Road High Court Judgment, a ‘standard’ uplift/premium is not appropriate when assessing

an appropriate BLV and that consideration should be given to local and site-specific factors. Cognisant of this Judgment, we emphasise that the analysis above serves to provide benchmark for the scale of premium – on an area-wide rather than site-specific basis – that has been found sound by planning inspectors at recent development plan and CIL examinations.

Application in practice

Whilst the analysis above intends to set some broad quantitative parameters to the notion of a ‘reasonable incentive’, there are other factors that need to be considered when defining a BLV on a site-specific basis.

Principally, this relates to how the BLV (and more specifically the premium applied to define it) should be adjusted to make allowance for the level of costs associated in bringing the site forward for development. The PPG¹⁵ states that the following costs should be taken into account when defining BLVs:

1. **Abnormal costs** including those associated with treatment for contaminated sites or listed buildings, or costs associated with brownfield, phased or complex sites;
2. **Site-specific infrastructure costs** which might include access roads, sustainable drainage systems, green infrastructure, connection to utilities and decentralised energy;
3. **The total cost of all relevant policy requirements** including contributions towards affordable housing and infrastructure, CIL charges, and any other relevant policies or standards; and,
4. **Any professional site fees** including project management, sales, marketing and legal costs incorporating organisational overheads associated with the site.

One might be forgiven for thinking that this list essentially comprises the majority of the costs that any site may incur, with the exception of base construction costs and externals, and that this feels a rather exhaustive list to factor in. However, what this wording attempts to ensure is that developers and other parties have regard

69%

Reasonable premium: EUV+20% (Brownfield)

52%

Reasonable premium: 15-20 times EUV (Greenfield)

¹⁵ Ministry of Housing, Communities & Local Government: Land Value Estimates for Policy Appraisal (2020)

to the total cumulative cost of development when negotiating land prices. Within a EUV+ context, this means that landowners whose sites are not inherently straightforward to develop (by virtue of their specific remediation, infrastructure, policy-related factors that need to be addressed) should be prepared to accept a land value that reflects a reduced premium above EUV.

This rather important amendment is reinforced with a statement in PPG (on five separate occasions), that:

“Under no circumstances will the price paid for land be relevant justification for failing to accord with relevant policies in the plan.” (Reference ID 10-014-20190509)

How all of this plays out in practice is complicated, but we consider the following points represent the main practical considerations:

1. The absolute scale of reduction in premium that should be applied for a site with high abnormals, infrastructure and policy costs is no clearer from this guidance and still leaves a lot of room for subjective interpretation;
2. Notwithstanding the complexities of making the premium adjustments at a site-specific level, it is perhaps even less clear how can this issue can be dealt with equitably on an area-wide basis across a range of sites with different characteristics;
3. It is evident, however, that there is no such thing as a ‘one size fits all’ uplift to existing use value;
4. Bid prices for land need to be considered even more carefully, and potentially having regard to detailed site investigation work which ordinarily might have been expected at a much later stage of the development process. This cost ‘frontloading’ will need to be undertaken by developers/landowners/site promoters at risk which could potentially prove to be a significant obstacle for SME developers;
5. The requirement for price paid not to be taken into account in viability assessments reflects now-established practice but may still take some more time to filter through the system: there may be some more disappointment before this is fully accepted by all; and,
6. For strategic land promoters and developers that have secured option agreements with a pre-agreed purchase price the implications of the updated guidance is potentially a significant problem and one that could severely undermine site viability and deliverability.

Going forwards, the issue of BLV – and more specifically the application of an uplift to EUV – is likely to be a key argument during local plan examinations and inspectors will be called upon to adjudicate between a range of assumptions. But the one thing that cannot be up for debate is that the price paid cannot be factored into any viability assessment or used as a basis for seeking flexibility in respect of the application of policy requirements.

07 The viability challenge of garden communities

Whilst the PPG and DPM both advocate a typology approach to viability assessments in place of individual testing of every site, they recognise the importance of considering the specific circumstances of strategic sites that are significant to delivery of the strategic priorities of the plan. Whilst many development plans will incorporate strategic sites, the scale of these and their contribution to the strategic priorities of the plan will vary considerably. The challenge associated with assessing the viability of the very largest of strategic sites – garden communities – has been brought into sharp focus by the recent experiences of Hart, Uttlesford and the North Essex authorities.

1. In North Essex two of the three proposed garden communities were found to be neither justified nor deliverable. As a result, the spatial strategy and plan itself were found to be unsound;
2. The Uttlesford inspectors recommended that one of the three garden communities that were proposed should be deleted but considered the scale of changes that would be required meant that withdrawal was the most appropriate option; and,
3. The Hart local plan was only found sound after the proposed garden community had been removed.

A number of key themes can be drawn from these three cases. Whilst these ultimately revolve around the scale and complexity of garden communities and point to the importance of ensuring that robust and justifiable assumptions are made about costs and revenues, they are transferable to all viability assessments as they are essential in order to fully understand whether the scheme would be viable and, ultimately, if it could be delivered.

1. In each case, the inspectors expressed concern about the treatment of costs in the viability assessment. Infrastructure costs are likely to be significant and, despite potential uncertainties, need to be robust and justified, and take account of evidence of funding that has been secured. In North Essex, HIF funding was shown to be

available for two of the three proposed garden communities, but in Uttlesford the inspectors were not convinced about the scale of funding necessary or whether the garden communities could support such costs. As such, they did not feel that it had been adequately demonstrated that the garden communities were viable or deliverable. Other sources of funding – including from Homes England – may continue to be critical to the delivery of garden communities in the future.

2. Reflecting on the complexity of delivering new garden community, the Uttlesford inspectors drew on the 2012 RICS guidance in suggesting that professional fees should be set at a commensurate level (20%). They also expressed surprise that the viability assessment had not included any allowance for contingencies. In respect of this, the North Essex inspectors noted that the level of risk and uncertainty associated with planning for garden communities at the plan-making stage means that an appropriately high level of contingency should be provided. In this case, they considered 40% to be appropriate.
3. The amount of land that is required for the development of garden communities creates difficulties in estimating a minimum land price that would constitute a competitive return. It is important to avoid basing the viability assessment on a land price which is too far below such expectations, if landowners are to be persuaded to sell. However, the EUV+ approach applies to garden communities as well as all other development typologies and basing land values on comparable evidence without adjustment to reflect policy requirements can lead to developers overpaying for land. This may then compromise the achievement of policy requirements if the developer seeks to recover overpayment through a reduction in planning obligations. This is the “circularity” point that was identified by Holgate J in the Parkhurst Road Judgment. A phased approach to the delivery of

such large-scale developments affects the approach to land purchase with individual tranches typically being purchased two years prior to development. The impact of this is that land payments are staged through the development process, significantly (and beneficially) impacting on cash flow.

4. The viability assessment should be based on an appropriate build rate. Basing it on an unrealistically high average rate would not provide an accurate indication of viability as this would assume that revenue would be generated more quickly and interest payments would be reduced. It should also be acknowledged that build and sales rates will be slower in early years and that infrastructure costs to be disproportionately high. This should be reflected in the cost of borrowing and the level of peak debt.
5. The PPG advises that current costs and values should be considered when assessing viability of plan policy. Policies should be deliverable and not based on exception of future rises in values for at least the first five years of the

plan period. This ensures realism and avoids complicating the assessment with uncertain judgments about the future. The Harman Review recognised that forecasting house prices or costs is notoriously difficult over shorter term, and subject to wider inaccuracies over medium and longer term. There is no guarantee that a specified growth rate will be sustained throughout the decades it would take to build the proposed garden communities. Similar uncertainty also exists in respect of building and infrastructure costs. Application of inflation assumptions can result in dramatic (and unrealistic) increases of residual land value and need to be considered very carefully.

To some extent, the approach to modelling viability for garden communities is no different than in respect of any other form of development. However, the scale and timescales create challenges that are unique to garden communities and the recent examples of North Essex, Uttlesford and Hart provide a cautionary tale for all those involved in the promotion of similar schemes.



08

Conclusions and implications

In what the Government itself has branded an opaque area of practice, viability assessment is becoming increasingly intertwined with planning and plan making. This lack of transparency has been cast into sharper focus by the judgment of Dove J in the Holborn Studios case which highlighted the need for a better understanding of what the PPG describes as 'standardised inputs'.

This Insight provides a means by which we can begin to move towards a true standardisation of viability assessments. It is hoped that it helps to overcome concerns about the publication of commercially sensitive data and thereby allows for a more meaningful debate about development viability, at both the plan-making stage but also at the decision-taking stage, where circumstances permit. By its nature, it is acknowledged that standardisation will not account for all eventualities, and there will inevitably be specific circumstances that justify the application of alternative inputs. Given the array of challenges facing housing developers in the midst of a pandemic, we would expect application stage viability assessments to become increasingly common in the short to medium term. Within a climate of continued uncertainty, there is a risk that standardised inputs can rapidly become out-of-date, and we would therefore urge decision-takers to consider more closely the need for flexibility as circumstances change.

Of course, there are financial implications associated with the standardisation and front-loading of viability assessment. Rather than limiting engagement to application stage negotiations, the new system requires more protracted engagement across the entire development plan-making process, necessitating far greater work and expense for developers. Both English and Welsh Governments have recently made clear their desire to promote competition amongst developers and to assist SMEs and new entrants to sector, but it is not clear to what extent the time and cost investment of extensive engagement will militate against this ambition. What is clear, however, is that this system requires developers to engage heavily

in the process of development plan making on viability issues and within the framework of standardisation. As such, we would expect – and are already seeing evidence of – viability issues to play more of a determining role in the success or failure of development plans in the future.

It is unclear yet what the implications of the Government's White Paper proposals will have on viability in planning and plan-making. This is principally due to the fact that the White Paper is, to all intents and purposes, silent on key viability issues that this Insight has highlighted. What does clearly have the potential to have profound implications is the proposal to reform the current system of developer contributions from CIL and Section 106 towards a national flat-rate 'Infrastructure Levy'. More recent (February 2021) messaging, however, from the Chief Planner Joanna Averley among others, would suggest that the proposal could be tempered to allow for 'regional differences' and to develop a more nuanced and localised approach¹⁶. In this context, it seems likely that the White Paper proposals will not signal the end of the current system of Section 106 and that the viability considerations we have assessed as part of this Insight will continue to apply.

¹⁶<https://www.planningresource.co.uk/article/1706515/key-white-paper-proposals-likely-evolve-inclusion-planning-bill>

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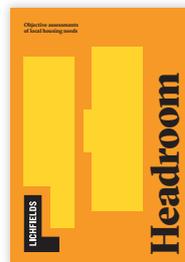
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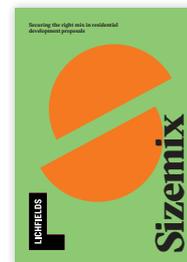
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