

The Planning Interchange

Development Economics Workshop 28th October 2011

The development economics workshop brought together three complementary perspectives on promoting development, exploring the financial viability issues, the scope for innovative public sector action, and the issues around resolving conflicting objectives through the planning consent/S 75 obligations process.

Graeme Reay of the RICS set out the basic principles of development appraisal. Two key methods are used:

- Comparative valuation – using similar transactions in the marketplace to value a site or development
- Residual valuation – a method of deducting all likely costs and charges from the gross open market value of the land or property to arrive at the residual value, which is the maximum payable to the owner

Graeme highlighted some of the benefits and drawbacks of both methods (summarised on his slides) and advised that both should typically be used to provide a cross-check.

The RV method is the more usual method used by developers to assess project viability. It was clear that, by the time a project is ready to proceed to planning application or an offer is made to a landowner, most costs are known and essentially fixed. The traditional areas of flexibility were profit, land price and developer obligations. Profit levels are no longer flexible as lenders now require developments to show sound profit potential. Land values have dropped anyway, so that excessive deductions will make the residual value unattractive to the seller. That only leaves developer obligations as a negotiable cost element.

It was suggested during discussion that there is distrust between Councils and developers over the accuracy of “open-book” viability submissions. An example quoted suggested that minor increases in the appraisal costs had been introduced to render a development “unviable”. Against this, it was suggested that the Council is in no position to know details of tendering rates, company overhead costs, material costs or, crucially, finance costs. What this discussion did show was the sensitivity of any appraisal to modest changes in assumptions. The degree of sensitivity of an appraisal will be scrutinised by funders, and the level of risk demonstrated by that sensitivity will be crucial to the project.

Murray Collins described a number of ways in which North Lanarkshire Council is seeking to promote or facilitate development. His fundamental starting point was that the planning and development process is about promoting economic development, thereby creating jobs and investment, while having regard to social and environmental objectives. A Council’s intervention is ideally based on asset-based development or regeneration, creating value, generating income streams and recycling money – in fact, the same basic model as commercial development. His view was that Councils traditionally have

adopted this approach where the market has not taken forward opportunities i.e. in cases of market failure. However, in the current climate it was suggested that a wider role is for Councils to become partners with other public and private interests to share risks and spread costs of development.

Murray described the process by which public investment in remediating the Ravenscraig site and funding key infrastructure had created sufficient confidence in the value of the site for a lead developer to assume control of implementing the housing and commercial aspects of the site. Other public sector assets such as the regional sports facilities are also important in creating momentum. The town centre is the next crucial element of creating a distinctive place which will attract further investment.

More innovative sources of finance were discussed, including JESSICA and Tax Incremental Finance, and the issues and pitfalls are summarised on the slides. The key messages throughout were to look for additional sources of funds, seek partners and look for ways to recycle funds into new developments.

Sandy Telfer presented the viewpoint of a lawyer often charged with brokering workable agreements between parties who may have differing objectives and priorities. He talked through the changes to the S75 Planning Obligations regime. He identified those areas of negotiation which cause regular issues, such as proportionate and reasonable contributions to infrastructure, payment scheduling, and affordable housing contributions. On the latter, he highlighted the often-neglected principle of equal value contributions inherent in paragraph 22 of PAN 2/2010.

He also highlighted the increasing examination of project viability as a material planning consideration in England, both at individual appeals and at the development plan stage. A further aspect of viability emerging there is the CIL and the development of charging schedules to identify developer contributions. The questions raised for Scotland are whether such viability considerations need to be brought into play in, for instance, determining site effectiveness in housing audits, assessing the viability/effectiveness of land allocations in plans, and exploring viability early enough in the planning application process.

Summing up, **Blair Melville** suggested that the principle of an interchange of ideas amongst professionals in different sectors implied a need for all involved to question assumed truths and established practices, in order to secure the developments which will assist the recovery of the Scottish economy.