GN 94/2012

RICS Professional Guidance, England

Financial viability in planning

1st edition, guidance note

rics.org/standards

Financial viability in planning

RICS guidance note

1st edition (GN 94/2012)

RICS
the mark of property professionalism worldwide

Published by the Royal Institution of Chartered Surveyors (RICS)

Surveyor Court

Westwood Business Park

Coventry CV4 8JE

UK

www.ricsbooks.com

Produced by the Planning and Development Professional Group of the Royal Institution of Chartered Surveyors.

ISBN 978 1 84219 801 8

Typeset in Great Britain by Columns Design XML Ltd, Reading, Berks

Printed in Great Britain by Page Bros, Norwich

Contents

Acknowledgments

This guidance was produced by the Working Group supported by a consultant team.

Core Working Group

Simon Radford (Chair), Lothbury Investment Management

Robert Fourt, Gerald Eve

Bruce Duncan, Huggins Edwards & Sharp

Nigel Jones, Chesterton Humberts

Charles Solomon, DVS

Jeremy Edge, Edge Planning and Development

Tony Mulhall, RICS

Consultants to the Working Group

GVA: Jacob Kut, Lorraine Hughes, Stuart Morley

University of Reading: Neil Crosby, Peter Wyatt

Extended Working Group

Alan Gray, Planning Inspector

Simon Greenwood, Savills

Ben Hudson, Greenhill Brownfield

Georgiana Hibberd, RICS

In producing this guidance RICS has undertaken extensive consultation with the planning and development community in both the public and the private sectors. A wide range of views was expressed and the working group considered comments and submissions from the following individuals and bodies.

We would like to express our thanks to all who participated and state that inclusion in this list does not imply agreement with all aspects of the final guidance.

Arthur Whatling, RICS Red Book Editor; Graham Chase (Past President RICS); Robin Purchas QC; Homes and Communities Agency; Association of Chief Estates Surveyors; Law Society; Royal Town Planning Institute; National Housing Federation; Planning Officers Society; Greater London Authority; Planning Advisory Service; British Property Federation; Planning Inspectorate; Home Builders Federation; English Heritage; House Builders Association; Richard Asher, Jones Lang LaSalle; James Brown, Strutt & Parker; David Henry, Savills; Andrew Martinelli, Nottingham Trent University; Stephen Ashworth, SNR Denton; Tim Smith, Berwin Leighton Paisner; Michael Gallimore, Hogan Lovells; Simon Ricketts, SJ Berwin; Hugh Bullock, Gerald Eve; Yvonne Rydin, University College London; Michael Beaman, Michael Beaman Ltd.; Janet Montgomery, Brimble, Lea & Partners; Janice Morphet, University College London; Dominic Williams, Hewdon Consulting; Lawrence Chadwick; Peter Mail, Land Securities; John Oldham, Countryside Properties; Kathleen Dunmore, 3 Dragons; Anthony Lee, BNP Paribas Real Estate; Richard Wickins, Savills; Andrew Golland, Three Dragons (AG) Ltd; Chris Cobbold, DTZ; Keith Thomas, AECOM; Gerald Harford, Chesterton Humberts; Nicholas Falk, Urbed; Nigel Hawkey, Quintain.

RICS guidance notes

This is a guidance note. Where recommendations are made for specific professional tasks, these are intended to represent 'best practice', i.e. recommendations which in the opinion of RICS meet a high standard of professional competence.

Although members are not required to follow the recommendations contained in the note, they should take into account the following points.

When an allegation of professional negligence is made against a surveyor, a court or tribunal may take account of the contents of any relevant guidance notes published by RICS in deciding whether or not the member had acted with reasonable competence.

In the opinion of RICS, a member conforming to the practices recommended in this note should have at least a partial defence to an allegation of negligence if they have followed those practices. However, members have the responsibility of deciding when it is inappropriate to follow the guidance.

It is for each surveyor to decide on the appropriate procedure to follow in any professional task. However, where members do not comply with the practice recommended in this note, they should do so only for a good reason. In the event of a legal dispute, a court or tribunal may require them to explain why they decided not to adopt the recommended practice. Also, if members have not followed this guidance, and their actions are questioned in an RICS disciplinary case, they will be asked to explain the actions they did take and this may be taken into account by the Panel.

In addition, guidance notes are relevant to professional competence in that each member should be up to date and should have knowledge of guidance notes within a reasonable time of their coming into effect.

Document status defined

RICS produces a range of standards products. These have been defined in the table below. This document is a guidance note.

Type of document	Definition	Status
RICS practice statement	Document that provides members with mandatory requirements under Rule 4 of the Rules of Conduct for members	Mandatory
RICS code of practice	Standard approved by RICS, and endorsed by another professional body that provides users with recommendations for accepted good practice as followed by conscientious practitioners	Mandatory or recommended good practice (will be confirmed in the document itself)
RICS guidance note	Document that provides users with recommendations for accepted good practice as followed by competent and conscientious practitioners	Recommended good practice
RICS information paper	Practice based information that provides users with the latest information and/or research	Information and/or explanatory commentary

Statement from Chair of Working Group

Financial viability has become an increasingly important material consideration in the planning system. While the fundamental purpose of good planning extends well beyond financial viability, the capacity to deliver essential development and associated infrastructure is inextricably linked to the delivery of land and viable development.

The Government's recent National Planning Policy Framework (NPPF) emphasises deliverability and the provision of competitive returns to willing land owners and developers to enable sustainable development to come forward. This guidance note seeks to elaborate on how this can be achieved.

RICS acknowledges that the planning authority is responsible for promoting policies for sustainable development and for decision taking on schemes based on their compliance with sustainable development policies. We also recognise that where development proposals can not be made to comply with sustainable development policies, the planning authority may refuse planning permission.

The NPPF sets out to achieve growth through attracting investment and implementing plans. This guidance note starts from the premise that the private sector will continue to be relied upon to deliver the majority of commercial, residential and mixed-use developments, together with consequential planning obligations. It further recognises that development for which there is no plausible business case, on viability grounds or for other reasons, will not take place which is clearly recognised in the NPPF. A shared understanding of development viability for planning purposes by all those involved is, therefore, essential to achieve consistency in both approach and assessment.

Throughout the guidance we refer to the market value which is a key benchmark to investors in all areas of land transactions, development and investment. Whether investors are using their own funds or are relying on borrowings, their assessment of viability will be based on obtaining a market risk adjusted return having regard to prevailing market conditions. Plan implementation and planning objectives are delivered through development projects which in turn need to achieve a competitive return. In this way plan viability and delivery are closely linked to the market.

The purpose of this guidance note is to enable all participants in the planning process to have a more objective and transparent basis for understanding and evaluating financial viability in a planning context. Arriving at an outcome which is satisfactory for all should be much easier where there is an agreed framework and basis for evaluation. It is acknowledged that the market is constantly moving, however the principles set out in the guidance should be applicable in all states of the economy and property sector.

While this guidance note provides practitioners with advice in undertaking and assessing viability appraisals for planning purposes, it will also be helpful to users of these assessments, be they planners, developers, investors, landowners, interested parties, individuals or community groups.

Financial viability assessments for planning purposes should be approached on an objective and best practice basis to the extent that the conclusions are capable of unbiased objective scrutiny. This may occur during all stages of the development management process, including to an appeal at a public inquiry, or, in the case of policy making, through to an examination in public.

The guidance note sets out a methodology framework and set of principles for financial

viability in planning. These have been formulated mainly for development management purposes at a scheme-specific level but the principles apply equally to plan making and to the viability testing that underpins Community Infrastructure Levy (CIL) charging schedules (area wide viability studies).

We have consulted widely within the industry in producing the guidance note. It is fundamentally grounded in the statutory and regulatory planning regime as it should operate in England. We have deliberately avoided reference to planning appeals and case law where viability has been an issue, given the lack of previous guidance in this area for decision makers to refer to and rely upon in formulating their views. It will, however, be apparent that elements of the guidance closely reflect certain decisions as financial viability in planning has evolved.

The guidance note, for the first time, defines financial viability for planning purposes; separating the key functions of development, being land delivery and viable development (in accordance with the NPPF). It highlights the residual appraisal methodology; defines Site Value for both scheme-specific and area-wide testing in a market rather than hypothetical context; indicates what to include in viability assessments; defines terminology and suggested protocols, and explains the uses of financial viability assessments in planning.

The guidance note is also consistent with and has regard to the recently released NPPF.

Importantly the guidance note does not seek to introduce new approaches to such matters as Site Value, for example. Well understood and recognised terminology and definitions are highlighted and clarification provided within the context of the guidance.

This guidance note is divided into various sections to assist both practitioners and users. Sections 1 and 2 and accompanying appendices A, B, C, F and G should assist users of viability assessments, but also contains important guidance for practitioners. Section 3 and accompanying appendices D and E are principally aimed at practitioners. Section 4 provides further professional advice on the production of viability assessments for both users and practitioners. Appendix G provides a summary of FAQs together with references to various parts of the guidance. The guidance note proper starts with an executive summary which follows this statement and highlights a number of its key aspects.

The working party wishes to highlight that it is not the purpose of this guidance note to tell practitioners how to carry out a financial viability assessment. This will inevitably vary in each instance. The guidance, however, provides a framework, methodology and principles to apply, without seeking to be prescriptive. The guidance note, for example, does not suggest a particular financial model, ranges of input/benchmark outcomes, etc. It is up to the practitioners to advise accordingly in each case. It is also intended that a 'Viability Community' will be established online by RICS to facilitate continued debate in this important area.

It is stressed that this guidance note encourages practitioners at all times to be reasonable and objective in their approach, whether undertaking viability assessments or scrutinising them, and, where possible, to seek to resolve differences of opinion in order to assist the planning process where it is relying on financial viability as a material consideration.

Finally, I would like to thank the consultants to the working group, GVA and the University of Reading; my fellow members of the working group and all those who contributed and provided comments in producing this guidance note.

Simon Radford, Chair
RICS Working Group
Financial Viability in Planning

Executive Summary

The guidance note provides all those involved in financial viability in planning and related matters with a definitive and objective methodology framework and set of principles that can be applied mainly to development management. The principles are however applicable to the plan making and CIL (area-wide) viability testing.

The National Planning Policy Framework (NPPF) sets out to achieve growth through attracting investment and development. RICS acknowledges that the planning authority is responsible for promoting policies for sustainable development. We also recognise that where development proposals can not be made to comply with sustainable development policies the planning authority may be obliged to refuse planning permission.

The guidance note is grounded in the statutory and regulatory planning regime that currently operates in England. It is consistent with the *Localism Act* 2011, the NPPF and *Community Infrastructure Levy (CIL) Regulations* 2010.

The most common uses for financial viability assessments as set out in this guidance note are for development management (including affordable housing, enabling development, land use, Section 106 Agreement planning obligations) and plan making (policy and CIL viability testing).

Financial viability for planning purposes is defined by this guidance as follows:

> *An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project.*
>
> (Where viability is being used to test and inform planning policy it will be necessary to substitute 'a development project' into the wider context)

The guidance note separates the two key components of development: land delivery and viable development. This is in accordance with the NPPF. Fundability is also an intrinsic element of both.

The residual appraisal methodology for financial viability testing is highlighted where either the level of return or residual Site Value can be an input and the consequential output (either a residual land value or return respectively) can be compared to a benchmark to assess the impact of planning obligations or policy implications on viability.

The guidance note does not recommend any particular financial model (bespoke or otherwise) or provide indications as to inputs or outputs commonly used. It is up to the practitioner in each case to adopt and justify as appropriate.

Site Value, either as an input into a scheme-specific appraisal or as a benchmark, is defined in the guidance note as follows:

> *Site Value should equate to the market value[1] subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan.*

When undertaking Local Plan or CIL (area-wide) viability testing, a second assumption needs to be applied to the Site Value definition:

> *The Site Value (as defined above) may need to be further adjusted to reflect the emerging policy/CIL charging level. The*

level of the adjustment assumes that site delivery would not be prejudiced. Where an adjustment is made, the practitioner should set out their professional opinion underlying the assumptions adopted. These include, as a minimum, comments on the state of the market and delivery targets as at the date of assessment.

The guidance note encourages practitioners to be reasonable, transparent and fair in objectively undertaking or reviewing financial viability assessments. Where possible, practitioners should seek to resolve differences of opinion.

In undertaking scheme-specific viability assessments, the nature of the applicant should normally be disregarded, as should benefits or disbenefits that are unique to the applicant. The aim should be to reflect industry benchmarks in both development management and plan making viability testing.

Viability assessments will usually be dated when an application is submitted, or when a CIL charging schedule or local plan is published in draft; exceptions to this may be pre-application submissions and appeals. Viability assessments may occasionally need to be updated due to market movements during the planning process.

The guidance note highlights where re-appraisals, i.e. viability reviews prior to scheme or phase implementation, or projection (growth) models may be appropriate as an alternative to current day methodologies. It is assumed that for CIL charging schedules and local plan testing this will be undertaken on a current day basis, subject to suitable margins/buffers.

It is strongly recommended that financial appraisals are sensitivity tested as a minimum, and with more complex schemes further scenario/simulation analysis should also be undertaken. This is to ensure that a sound judgment can be formulated on viability.

The guidance note sets out what should usually be included in viability assessments, common terminology and definitions, together with additional technical guidance for practitioners.

Confidentiality protocols and suggested non-binding mediation/arbitration mechanisms for resolving disputes are set out in the guidance note.

1 Introduction

Key issues: purpose of the guidance note; viability context in national and local planning policy; use of viability appraisals in planning, and an effective framework for viability testing.

1.1 Overview

1.1.1 This guidance note provides all those involved in financial viability in planning and related matters with a definitive and objective methodology framework and set of principles for application to development management.

Box 1: Purpose of the guidance note
The guidance note provides all those involved in financial viability in planning and related matters with a definitive and objective methodology framework and set of principles primarily for application to development management.

1.1.2 The motivation for undertaking this guidance note arose from the gap (partly as a result of a lack of clear published guidance) that often occurs between what local planning authorities consider viable to provide, and what development proposals are actually capable of supporting financially, in terms of planning obligations, while seeking to meet policy requirements. This does not just relate to the 'development management' stage of the planning process where section 106 agreements are negotiated, but also to the beginning of the spatial planning process where policy is formulated in local development plan documents. Viability is also relevant to local planning authorities when drafting Community Infrastructure Levy (CIL) charging schedules. The Local Housing Delivery Group recently published advice on area-wide viability testing entitled 'Viability Testing Local Plans'. Both this and the RICS guidance can be seen as complementary. The RICS provides significantly more technical guidance (see section 3 of this guidance) on arriving at Site Value and therefore meeting NPPF compliance, with regard to this matter, than the LHDG advice which focuses more on policy and process.

1.1.3 The importance of enabling sustainable development has been underlined in the National Planning Policy Framework. This RICS guidance recognises the role of the planning authority in achieving sustainable development and supports the implementation of development plans. The guidance does not seek to determine policy. It sets out to bring clarity to the decision making by facilitating evaluation of the critical elements that may impact on viability and therefore delivery in an open and explicit way.

1.1.4 The guidance aims to satisfy the following requirements:

- outline the statutory/regulatory/policy background in considering viability assessments in a town planning context
- clearly define terminology in a way that is consistent with existing RICS usage
- clearly define financial viability in the context of planning and development
- enable an objective evaluation of financial viability to be made
- set down the parameters within which issues of financial viability are to be considered
- establish the principles upon which these will be evaluated
- be applicable at all stages in the economic cycle; and
- be applicable to all scales of site whether greenfield or urban.

1.1.5 The intention of this guidance note is to provide local planning authorities, developers, investors, land owners, interested parties,

individuals or community groups and all professionals, including chartered surveyors, with definitive and impartial objective guidance on viability in a development management and plan making context. In respect of development management, this includes evaluating the impact of planning obligations, including affordable housing and other section 106 requirements, CIL including the application of tariffs/levies, and planning policy, on the financial viability of a proposed development. While the focus of this guidance is on the development management stage, dealing with site specific applications, the principles can be applied equally to area-wide viability in respect of local plans and CIL charging schedules.

1.2 Viability in national planning policy context

1.2.1 While always central in the development process, viability has become an increasingly important consideration in town planning. Whether preparing policy or considering a specific proposal scheme, viability is inherently linked to the ability to satisfy planning policy, and to deliver regeneration objectives and economic development. The significance of viability has increased during periods of economic downturn when the delivery of new development has been threatened and the relative burden of planning obligations and policy requirements on developers and landowners has increased. Striking the right balance to deliver development in the right place at the right time is, therefore, essential.

1.2.2 In undertaking development, the private sector is often called upon by local planning authorities (LPAs) to deliver and/or contribute towards the provision of infrastructure and mitigate potential harm arising from a proposed development. Scheme viability is a material consideration in deciding the appropriate level of contribution. It is important, therefore, for LPAs to have a greater understanding of viability as it is relevant to planning in both the formulation of planning policy, as well as in the determination of planning applications. In the former, the emphasis is upon deliverability of an authority's vision/infrastructure or community requirements during the plan period; the latter relates to an authority's willingness to allow a scheme to proceed after relaxation of policy and/or planning obligations in the context of viability. A full assessment of the implications for planning is provided in Appendix A and a summary is provided in 1.3.

1.2.3 Reference is made throughout this guidance note to national planning guidance set out in the NPPF, the CIL Regulations and other relevant national policy.

1.3 National Planning Policy Framework

1.3.1 In the context of achieving sustainable development the Draft NPPF refers to ensuring viability and deliverability at sections 173–177.

> *… To ensure viability, the costs of any requirement likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking into account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable*

(NPPF, 2012, paragraph 173)

1.3.2 The NPPF also refers to the use of planning conditions and obligations at sections 203–206 and advises that where obligations are being sought:

> *…local planning authorities should take account of changes in market conditions over time and, wherever appropriate, be sufficiently flexible to prevent planned development being stalled.*

(NPPF, 2012, paragraph 205)

1.3.3 This RICS guidance fully recognises the wider role of the planning authority in achieving sustainable development and that the planning authority may refuse planning permission in order to achieve its objectives.

1.4 Community Infrastructure Levy Regulations

1.4.1 Since April 2010, the tests for determining the lawfulness of planning obligations are set out in regulation 122 of the *Community Infrastructure Levy Regulations* 2010. The 2010 Regulations provide that a planning obligation may only constitute a reason for granting planning permission if it is: (a) necessary to make the development acceptable in planning terms; (b) directly related to the development; and (c) fairly and reasonably related in scale and kind to the development. These three prerequisites are the same as three of the five policy tests for planning obligations in Annex B to Circular 05/ 2005.

1.4.2 CIL should be set at a level that assumes the development plan requirements are being delivered and not prejudiced. Also, in setting an appropriate CIL, a local authority as the decision maker may conclude it is acceptable that some development will not be viable. Further background information on the CIL Regulations and other relevant planning considerations upon which this guidance note has been based are set out in Appendix A.

Box 2: Legal and policy basis
The guidance note is grounded in the statutory and regulatory planning regime that currently operates in England. It is consistent with the Localism Act 2011, National Planning Policy Framework of 2012 and Community Infrastructure Levy (CIL) Regulations 2010.

1.5 The use of viability appraisals in planning

1.5.1 Viability appraisals may be used in connection with a number of planning-related issues in respect of both policy assessment and development control. It is usual to apply a 'reasonableness' test in development control; this may take the form, for example, of the maximum reasonable amount of affordable housing in terms of the economic viability of a development. Reasonableness should be considered of utmost importance in all instances where viability appraisals are undertaken. In certain instances, financial viability may also be relevant in the context of seeking to depart from planning policy. This is emphasised in paragraph 187 of the NPPF.

1.5.2 The most common uses of viability appraisals include:

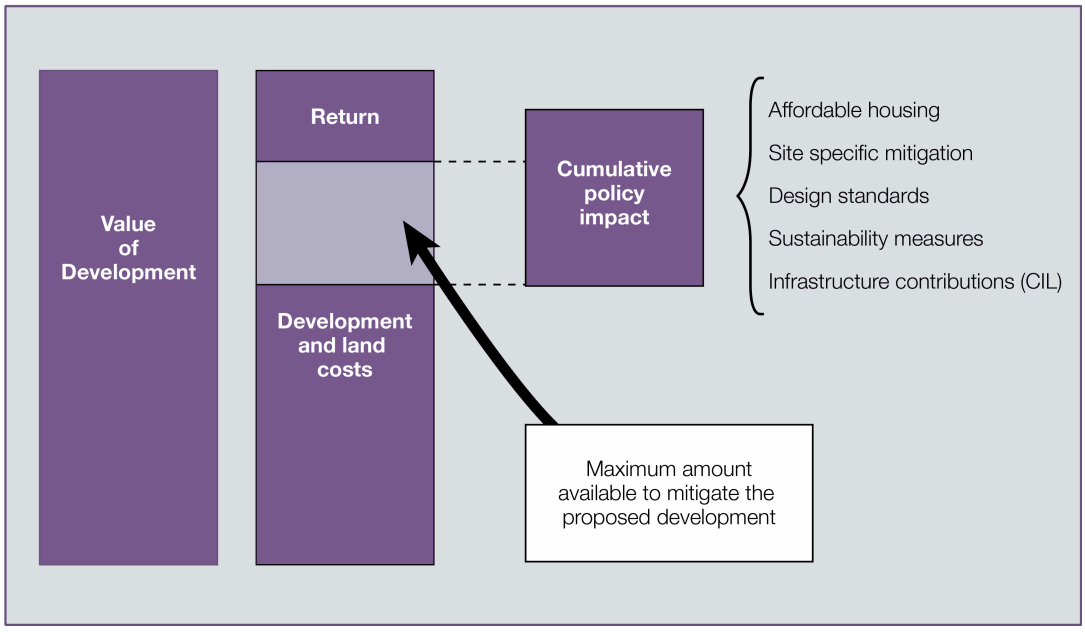
- assessing the nature and level of planning obligation contributions/requirements
- establishing the level of affordable housing
- identifying the split between affordable housing tenures
- establishing off-site affordable housing levels including the quantification of overprovision and affordable housing credits
- assessing contributions in lieu payments for affordable housing
- the timing of planning obligations contributions and affordable housing delivery
- applications incorporating enabling development
- assessing the bulk, scale and massing (and specification relative to cost and value) of a proposed scheme
- reviewing land uses
- assessing continuing existing uses in terms of obsolescence and depreciation
- dealing with heritage assets and conservation issues
- formulating planning policy through local development plans; and
- consideration by local authorities when drafting and viability testing CIL charging schedules.

Box 3: Uses of viability assessments
The most common uses for financial viability assessments as set out in the guidance note are for development management (including affordable housing, enabling development, land use, section 106 Agreement planning obligations) and plan making (policy and CIL viability testing). The guidance note has a particular focus on development management (scheme specific assessments) although the principles set out are equally applicable to plan making and CIL (area-wide) viability testing.

1.5.3 In many instances a viability assessment will have regard to not just single policy impacts but a cumulative impact of policy and planning obligations as illustrated in figure 1.

1.5.4 This guidance note is intended to provide an effective framework within which financial viability may be assessed, having regard to the regulatory regime in place and at whatever stage of the economic cycle the evaluation is being carried out (Appendix B provides a property market context overview). It seeks to provide a rigorous approach to evaluating financial viability and reaching an appropriate professional judgment in the context of assessing the introduction of planning obligations, formulating planning policy and establishing CIL charging schedules.

Figure 1: Cumulative impact of policy and planning obligations



2 Key features of a development viability assessment

Key issues: definition of viability for planning purposes; an appraisal framework; definition of Site Value for scheme specific appraisals and area wide studies; using a viability assessment to arrive at a professional judgment; and indicative outline of what to include in a viability assessment.

2.1 Why are viability assessments important in planning?

2.1.1 Viability, in the context of undertaking appraisals of financial viability for the purposes of town planning decisions, can be defined as:

> *An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project.*

(Where viability is being used to test and inform planning policies or CIL charging schedules, it will be necessary to substitute 'project' in to the wider context of development for which viability is being assessed).

2.1.2 The fundamental issue in considering viability assessments in a town planning context is whether an otherwise viable development is made unviable by the extent of planning obligations or other requirements. This is illustrated in figure 2 (opposite) in terms of comparative development viability. As can be seen, the development economics of Scenario 1 is such that policy can be met in delivering all planning obligations while meeting a Site Value for the land, all other development costs and a market risk adjusted return for the development. In this case it is unlikely a financial viability assessment would be required. Under Scenario 2, costs have increased, while development values have remained static. In arriving at Site Value, the development return, and the ability to meet the planning obligations, a financial viability assessment would be required to objectively resolve what could viably deliver the development while meeting the viability definition in 2.1.1. It follows, for example, that land value is flexible and not a fixed figure to the extent that Site Value has to be determined as part of the viability assessment.

Box 4: Financial viability definition

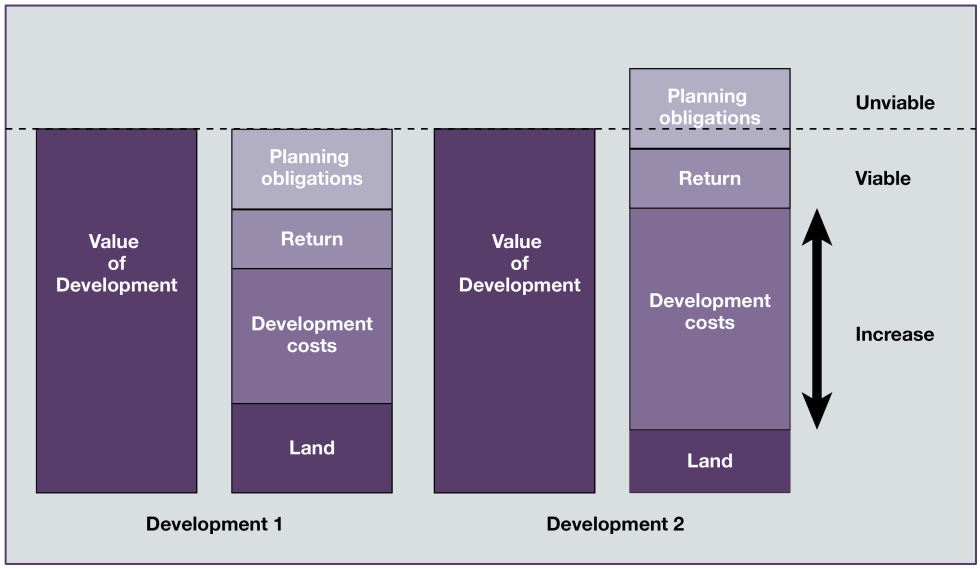
Financial viability for planning purposes is defined as follows:

'*An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project.*'[2]

2.1.3 A proper understanding of financial viability is essential in ensuring that:

- land is willingly released for development by landowners
- developers are capable of obtaining an appropriate market risk adjusted return for delivering the proposed development
- the proposed development is capable of securing funding
- assumptions about the quantum of development that can be viably delivered over the course of the plan period are robust; and
- CIL charging schedules are set at an appropriate level.

Figure 2: Comparative development viability



2.1.4 Where planning obligation liabilities reduce the Site Value to the landowner and return to the developer below an appropriate level, land will not be released and/or development will not take place. This is recognised in the NPPF (see paragraph 1.3 above and Appendix A).

Box 5: Land delivery and viable development
The guidance note separates out the two key components of development: land delivery and viable development. This is consistent with the NPPF. Fundability is also an intrinsic element of both.

2.2 Appraisal framework

2.2.1 An objective test of financial viability for projects should be placed in the context of a well-established set of appraisal techniques and their applications. An accepted method of valuation of development schemes and land is set out in RICS Valuation Information Paper (VIP) 12. This approach, called the residual method, recognises that the value of a development scheme is a function of a number of elements: the value of the completed development (gross development value (GDV)); the direct costs of developing the property (gross development cost (GDC)); the return to the developer for taking the development risk and delivering the scheme; the cost of any planning obligations, and the cost or value of the site. The residual approach is used for development situations where the direct comparison with other transactions is not possible due to the individuality of development projects. However, practitioners will seek to check residual development appraisals with market evidence.

2.2.2 The residual appraisal method can be used in two basic ways; first, to assess the level of return generated from the proposed project where site cost is an input into the appraisal, and second, to establish a residual Site Value by inputting a predetermined level of return.

2.2.3 The financial viability test can use the level of developer's return or the Site Value as the benchmark for assessing the impact of planning obligations on viability. While the majority of financial viability assessments use the residual approach, there may be certain circumstances where other appraisal methodologies are appropriate and should be used by the practitioner (for example, when assessing continuing existing uses in terms of obsolescence and depreciation an investment appraisal may be more appropriate). In order to maintain the residual approach as a market

based exercise, as the NPPF also advocates through seeking a competitive return, it will be important to both benchmark and have regard to the available comparable market based evidence. The practitioner may have to analyse and form a judgment on this evidence as appropriate to the circumstances.

Box 6: Residual appraisal

The residual appraisal methodology for financial viability testing is normally used, where either the level of return or Site Value can be an input and the consequential output (either a residual land value or return respectively) can be compared to a benchmark having regard to the market in order to assess the impact of planning obligations or policy implications on viability.

2.3 Definition of Site Value

2.3.1 Site Value either as an input into a scheme-specific appraisal or as a benchmark is defined as follows:

> *Site Value should equate to the market value[3] subject to the following assumption: that the value has regard to development plan polices and all other material planning considerations and disregards that which is contrary to the development plan.*

2.3.2 Any assessment of Site Value, however, will have regard to prospective planning obligations and the point of the viability appraisal is to assess the extent of these obligations while also having regard to the prevailing property market. This point is discussed further in Section 3.

Box 7: Site Value definition

Site Value either as an input into a scheme specific appraisal or as a benchmark is defined in the guidance note as follows:

'*Site Value should equate to the market value[4] subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan.*'

2.3.3 When undertaking Local Plan or CIL (area-wide) viability testing, a second assumption needs to be applied to the definition of Site Value in 2.3.1:

> *Site Value (as defined above) may need to be further adjusted to reflect the emerging policy/CIL charging level. The level of the adjustment assumes that site delivery would not be prejudiced. Where an adjustment is made, the practitioner should set out their professional opinion underlying the assumptions adopted. These include, as a minimum, comments on the state of the market and delivery targets as at the date of assessment.*

Box 8: Site Value – area-wide assessments

When undertaking Local Plan or CIL (area-wide) viability testing, a second assumption needs to be applied to the above:

'*Site Value (as defined above) may need to be further adjusted to reflect the emerging policy / CIL charging level. The level of the adjustment assumes that site delivery would not be prejudiced. Where an adjustment is made, the practitioner should set out their professional opinion underlying the assumptions adopted. These include, as a minimum, comments on the state of the market and delivery targets as at the date of assessment.*'

2.4 Using a viability assessment to arrive at a professional judgment

2.4.1 Valuation and formulating appropriate judgments is an intrinsic part of appraisals that contain a significant number of variables. These variables may change over time and will reflect the movement in the property market generally (see Appendix B). The appraisal date should therefore be clearly stated and inevitable uncertainty addressed through sensitivity or similar analysis. **It is for the practitioner to decide in each specific case if the advice being provided falls within the ambit of the *RICS Valuation – Professional Standards (Red Book)* or its exceptions.**

2.4.2 The residual approach can be applied with differing levels of information and sophistication and it is for the practitioner to decide upon the most appropriate application of any financial model, bespoke or otherwise.

2.4.3 The basic residual concept is straightforward, but difficulties can arise, not only in the method itself, but also in estimating the values of the many variables that go into the appraisal. The residual answer can also be sensitive to small changes in some variables. It is appropriate and strongly recommended, therefore, for some form of sensitivity (scenario and/or simulation) analysis to be undertaken. This would examine the effect of changes in the level of individual variables on the residual land value (or developer's return) to test the key assumptions in order to ensure that they are soundly based, before a judgment is finalised and the residual land value (or return required) is finally determined and a full picture of development viability ascertained. As explained in 2.2.3 the residual approach should be market based as envisaged by the NPPF in undertaking viability assessments.

Box 9: Sensitivity testing

It is strongly recommended that financial appraisals are sensitivity tested, as a minimum, and with more complex schemes, further scenario/simulation analysis should also be undertaken. This is to ensure that a sound judgment can be formulated on viability.

2.4.4 It is also recommended that additional checks are undertaken on the estimated residual land value when this is the purpose of the calculation. These checks should include comparison with the sale price of land for similar development, where such evidence exists, based on land value per hectare or per unit of development, particularly for greenfield development, and calculation of the ratio of the residual land value to the capital value of the scheme and how this ratio compares to other evidence of similar transactions.

2.4.5 The value of development land (for establishing Site Value) has regard to what can be developed on that land and the value, cost and timing of that development. Furthermore, the value of that development is not directly related to its cost, but is created by the interplay of market forces. These market forces include the supply of and demand for development properties and land in the market (see also Appendix E, figure 5 and paragraph E.1.13). This, in turn, is influenced by the planning system, the availability of funding through the financial system, residential and occupier demand, and the property investment and capital markets.

2.4.6 Where the residual appraisal method has assessed the level of return, it will be necessary to form a professional judgment as to that return's acceptability in respect of the proposed development. This will have regard to both market forces as described above and the intrinsic risks associated with the scheme being appraised (see also Appendix E, paragraph E.3.2.1). A market risk adjusted return may fall within a prescribed range or may be required to seek to achieve a minimum target level for a proposed development. The judgment formulated will, in practice, need to be justified having regard to 2.4.3 and 2.4.4.

2.5 Indicative outline of what to include in a viability assessment

2.5.1 As an illustration of what a viability assessment should comprise, Appendix C provides a checklist. It is stressed that the level and detail of information forming the viability assessment will vary considerably from scheme to scheme, and in the case of plan making and CIL charging schedules. It is up to the practitioner to submit what they believe is reasonable and appropriate in the particular circumstances and for the local authority or their advisers to agree whether this is sufficient for them to undertake an objective review.

2.5.2 When determining planning applications, LPAs are concerned with the merits of the particular scheme in question. They should disregard who is the applicant, except in exceptional circumstances such as personal planning permissions, as planning permissions run with the land. It follows that in formulating

information and inputs into viability appraisals, these should disregard either benefits or disbenefits that are unique to the applicant, whether landowner, developer or both; for example, internal financing arrangements. The aim should be to reflect industry benchmarks as applied to the particular site in question for a planning application or as appropriate for the wider area in the context of the preparation of policy or the setting of the CIL charging schedules. Clearly, there must be consistency in viability principles and application across these interrelated planning matters.

Box 10: Industry benchmarks

In undertaking scheme specific viability assessments, the nature of the applicant should normally be disregarded as should benefits or disbenefits that are unique to the applicant. The aim should be to reflect industry benchmarks having regard to the particular circumstances in both development management and plan making viability testing.

2.5.3 This guidance note does not recommend any particular financial model (bespoke or otherwise) or provide indications as to inputs or outputs commonly used. It is up to the practitioner in each case to adopt and justify as appropriate.

2.5.4 While this section has outlined the basic approach to assessing development viability that is commonly used in practice, Appendix D contains refinements to the basic residual method of assessing development viability. This includes cash flows and DCF analysis (internal rate of return (IRR) and net present value (NPV) approaches) and the effects of inflation and forecasting are set out. Section 3 provides a detailed consideration of development viability and Site Value benchmarks to determine whether the scheme, or planning policy, is viable or not, and therefore the level of planning obligations that can be afforded or compliance with policy met.

2.5.5 Appendix E, sections E.2 and E.3 provide details of the types of developer and the constituent parts of the development appraisal model.

3 Viability and Site Value benchmarks

Key issues: principles that practitioners should take into account; model and approach; developer's return approach; Site Value approach; date of assessment; actual purchase price; holding costs; third party interests; vacant possession and relocation costs; reappraisals, and projection models.

3.1 Overview

3.1.1 This section is intended to provide a more detailed consideration of financial viability assessments for the purposes of the practitioner. It provides an approach to assessing viability, rather than specifying a prescriptive tool or financial model. It therefore does not remove the need for developers, local planning authorities and other interested parties to seek advice from appropriately qualified professionals when undertaking or reviewing viability assessments.

3.1.2 This guidance follows the usual approach of setting down a set of principles that practitioners should take into account. It does not give specific examples but leaves this discretion to the professionals in providing suitably appropriate advice.

3.1.3 As part of providing a viability framework it is necessary to set out clear guidance on Site Value to be used in viability assessments. Much of this section is focused on scheme specific decision taking but the principles are equally applicable to area-wide viability testing. Appendix D sets out further refinements to viability methodology having regard to cashflow, inflation in costs and values and more complex developments.

3.1.4 While the guidance does not specify a prescriptive tool or financial model it does emphasise the importance of using market evidence as the best indicator of the behaviour of willing buyers and willing sellers in the market. It will be necessary for practitioners to examine the available evidence, analyse accordingly and form an appropriate judgment.

3.2 Model and approach

3.2.1 In assessing the impact of planning obligations on the viability of the development process, it is accepted practice that a residual valuation model is most often used. This approach uses various inputs to establish a GDV from which GDC is deducted. GDC can include a Site Value as a fixed figure resulting in the developer's residual profit (return) becoming the output, which is then considered against a benchmark to assess viability. Alternatively, the developer's return (profit) is an adopted input to GDC, leaving a residual land value as the output from which to benchmark viability, i.e. being greater or less than what would be considered an acceptable Site Value.

3.3 Developer's return approach (where Site Value is a cost of development)

3.3.1 When a developer's return is adopted as the benchmark variable, a scheme should be considered viable, as long as the cost implications of planning obligations are not set at a level at which the developer's return (after allowing for all development costs including Site Value) falls below that which is acceptable in the market for the risk in undertaking the development scheme. If the cost implications of the obligations erode a developer's return below an acceptable market level for the scheme being assessed, the extent of those obligations will be deemed to make a

development unviable as the developer would not proceed on that basis (see figure 2).

3.3.2 The benchmark return, which is reflected in a developer's profit allowance, should be at a level reflective of the market at the time of the assessment being undertaken. It will include the risks attached to the specific scheme. This will include both property-specific risk, i.e. the direct development risks within the scheme being considered, and also broader market risk issues, such as the strength of the economy and occupational demand, the level of rents and capital values, the level of interest rates and availability of finance. The level of profit required will vary from scheme to scheme, given different risk profiles as well as the stage in the economic cycle. For example, a small scheme constructed over a shorter timeframe may be considered relatively less risky and therefore attract a lower profit margin, given the exit position is more certain, than a large redevelopment spanning a number of years where the outturn is considerably more uncertain. A development project will only be considered economically viable if a market risk adjusted return is met or exceeds a benchmark risk-adjusted market return.

3.3.3 When considering what Site Value to include, the relevant value should also be in accordance with the definition of viability for planning purposes in 2.1, which is defined as follows:

> *Site Value should equate to the market value subject to the following assumption; that the value has regard to development plan polices and all other material planning considerations and disregards that which is contrary to the development plan.*

3.3.4 In arriving at a Site Value based on the definition in 3.3.3, regard should be given to prospective planning obligations. The purpose of the viability appraisal is, of course, to assess the extent of these obligations while also having regard to the prevailing property market. This point is discussed further in 3.4 below.

3.3.5 When undertaking Local Plan or CIL (area-wide) viability testing, a second assumption, as outlined in 2.3.3 needs to be applied to the definition of Site Value above.

> *Site Value (as defined above) may need to be further adjusted to reflect the emerging policy/CIL charging level. The level of the adjustment assumes that site delivery would not be prejudiced. Where an adjustment is made, the practitioner should set out their professional opinion underlying the assumptions adopted. These include, as a minimum, comments on the state of the market and delivery targets as at the date of assessment.*

3.3.6 The amendment to market value for CIL or Local Plan viability testing has not yet happened in the market, i.e. the effect on the market value of land of the new policy (or changes to existing) or the burden of CIL charge. There is of course a spectrum ranging from CIL testing where there is no planning policy change through to a whole-scale policy change within the local Plan. It follows that if the latter end of the spectrum is being tested, the first assumption in the definition of Site Value would fall away, whereas with the former, it would be necessary to retain this assumption. There must, however, be a 'boundary' placed on the effect on land, to reflect new policy or the burden of CIL charge, in terms of restricting any reduction so that it does not go below what land would willingly transact at in order to provide a competitive return to a willing landowner.[5]

3.3.7 The above definition is therefore not prescriptive and leaves the practitioner to make an appropriate judgment which must be reasonable, having regard to the workings of the property market (see also 3.4.1 below). Clearly, if sites are not willingly delivered at competitive returns to the market, development will not take place, i.e. it will not be deliverable.

Box 11: Site Value definition

Site Value either as an input into a scheme specific appraisal or as a benchmark is defined in the guidance note as follows:

'*Site Value should equate to the market value*[6] *subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan.*'

Box 12: Site Value – area-wide assessments

When undertaking Local Plan or CIL (area-wide) viability testing, a second assumption needs to be applied to the above:

'*Site Value (as defined above) may need to be further adjusted to reflect the emerging policy/CIL charging level. The level of the adjustment assumes that site delivery would not be prejudiced. Where an adjustment is made, the practitioner should set out their professional opinion underlying the assumptions adopted. These include, as a minimum, comments on the state of the market and delivery targets as at the date of assessment.*'

3.4 Site Value approach (including an allowance for developer's return as a cost of development)

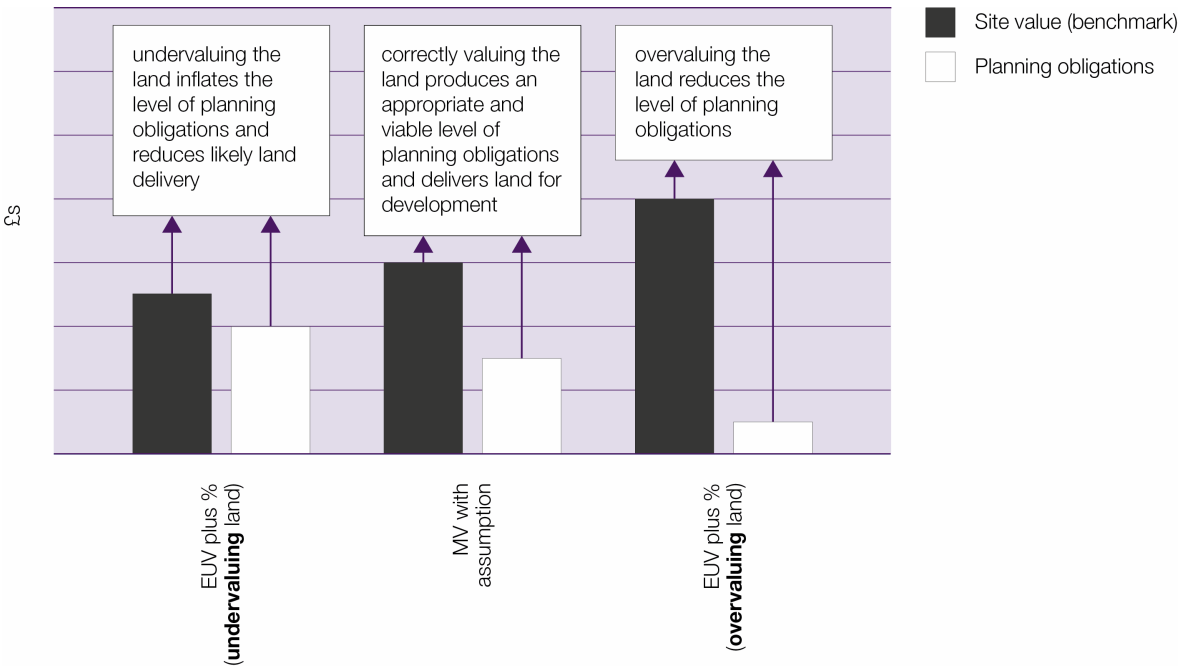
3.4.1 To date, in the absence of any guidance, a variety of practices have evolved, which are used by practitioners to benchmark land value. One approach has been to exclusively adopt current use value (CUV) plus a margin or a variant of this, i.e. existing use value (EUV) plus a premium. The problem with this singular approach is that it does not reflect the workings of the market as land is not released at CUV or CUV plus a margin (EUV plus).

The margin mark-up is also arbitrary and often inconsistently applied in practical application as a result. Figure 3 (overleaf) illustrates how EUV plus a premium can over-value and under-value sites compared to market value with an assumption, and the resultant impact on planning obligations that can be viably afforded. Appendix E sets out further detail on why a CUV approach is not recommended. It is of course possible to show how Site Value (as defined in the guidance), when it has been established, can be disaggregated and expressed in terms of 'CUV plus a premium'. This guidance recognises that some practitioners and users may find this helpful as part of the decision taking process. Again Appendix E comments upon this further.

3.4.2 In a market without planning obligations, the maximum value of a development opportunity would be the residual value of the site with the proposed planning permission after development profit and all development expenses have been deducted from the GDV of the proposed scheme. In this situation, if this value was above the CUV (defined in Appendix F, Glossary of terms) of the site, landowners are more likely to deliver a site for development. The level of uplift arising, which would result in land being released for development, could vary considerably between individual sites.

3.4.3 The residual land value (ignoring any planning obligations and assuming planning permission is in place) and current use value represent the parameters within which to assess the level of any planning obligations. Any planning obligations imposed will need to be paid out of this uplift but cannot use up the whole of this difference, other than in exceptional circumstances, as that would remove the likelihood of the land being released for development.

Figure 3: Market value (with assumption) v existing use (plus)



3.4.4 For a development to be financially viable, any uplift from current use value to residual land value that arises when planning permission is granted should be able to meet the cost of planning obligations while ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project (the NPPF refers to this as 'competitive returns' respectively). The return to the landowner will be in the form of a land value in excess of current use value but it would be inappropriate to assume an uplift based on set percentages as detailed above and in Appendix E, given the diversity of individual development sites.

3.4.5 The Site Value will be based on market value, which will be risk-adjusted, so it will normally be less than current market prices for development land for which planning permission has been secured and planning obligation requirements are known. The practitioner will have regard to current use value, alternative use value, market/ transactional evidence (including the property itself if that has recently been subject to a disposal/acquisition), and all material considerations including planning policy in deriving the Site Value.

3.4.6 The assessment of Site Value in these circumstances is not straightforward, but it will be, by definition, at a level at which a landowner would be willing to sell which is recognised by the NPPF.

3.4.7 Sale prices of comparable development sites may provide an indication of the land value that a landowner might expect, but it is important to note that, depending on the planning status of the land, the market price will include risk-adjusted expectations of the nature of the permission and associated planning obligations. If these market prices are used in the negotiation of planning obligations then account should be taken of any expectation of planning obligations that are embedded in the market price, or valuation in the absence of a price. In many cases, relevant and up-to-date comparable evidence may not be available, or the diversity of development sites requires an approach not based on direct comparison. The importance, however, of comparable evidence cannot be over-emphasised, even if the supporting evidence is very limited, as seen in court and land tribunal decisions.

3.4.8 This guidance has sought to reflect more appropriately the workings of the market. With a definition of viability established, it has been considered appropriate to look at terms the industry is familiar with, rather than invent new ones. Accordingly, the well understood

definition of market value has been adopted as the appropriate basis to assess Site Value, subject to planning policy as set out above in both site specific and area wide assessments.

3.4.9 It has become very common for practitioners to look at alternative use value (AUV) as a land value benchmark. This will come with its own set of planning obligations and requirements. Reviewing alternative uses is very much part of the process of assessing the market value of land and it is not unusual to consider a range of scenarios for certain properties. Where an alternative use can be readily identified as generating a higher value, the value for this alternative use would be the market value. Again, comparable evidence may provide information to assist in arriving at an AUV. Accordingly, in assessing the market value of the land there may well be a range of possible market values for different uses, which could be applicable to the land and buildings, from current use through to a number of alternative use options, each having its own planning obligation requirements. These will be used to derive the 'market value with assumption' (the option with highest value being the Site Value) for input into a viability assessment.

Box 13: Site Value and comparable evidence

The assessment of Site Value with assumption is not straightforward but must, by definition, be at a level which makes a landowner willing to sell, as recognised by the NPPF. Appropriate comparable evidence, even where this is limited, is important in establishing Site Value for scheme specific as well as area wide assessments.

3.5 Date of assessment

3.5.1 The date upon which the planning authority, or the Secretary of State, (see below) resolves to grant or refuse a planning application is the date upon which all relevant information is considered. In practical terms, reports and supporting documentation are prepared well in advance of this date. It follows that the 'appraisal date' should be carefully considered and agreed. If the viability assessment is provided pre-application, then the date of the assessment will clearly be prior to the submission of an application. The viability assessment may subsequently require updating when the application is submitted. If the viability assessment is submitted with a planning application, the date of the application (not the date of registration) may be the appropriate date but it is important to note that the decision of the LPA on a planning application needs to be based on the material considerations at the date of determination, hence the conclusions of a viability assessment undertaken at the date of application will still hold good at the date of decision. Viability assessments may, therefore, occasionally need to be updated to market movements during the planning process.

3.5.2 There are occasions where the appraisals will require revisions. In certain circumstances, as a result of, for example, fundamental market changes or changes in density of the scheme, between submission of the viability assessment, application and consideration by the planning authority, it will be necessary to review and update the appraisal. This should, however, relate to changes in the market, or changes specific to the scheme, that would not have been known at the time of the original submission. Where there is a planning appeal, the date should be agreed between the parties or taken as the date of the hearing/written representations.

Box 14: Date of assessment

Viability assessments will usually be dated when an application is submitted (or when a CIL charging schedule or Local Plan is published in draft). Exceptions to this may be pre-application submissions and appeals. Viability assessments may occasionally need to be updated due to market movements or if schemes are amended during the planning process.

3.6 Other material issues

3.6.1 Actual purchase price

3.6.1.1 Site purchase price may or may not be material in arriving at a Site Value for the

assessment of financial viability. In some circumstances, the use of actual purchase price should be treated as a special case. The following points should be considered.

- A viability appraisal is taken at a point in time, taking account of costs and values at that date. A site may be purchased some time before a viability assessment takes place and circumstances might change. This is part of the developer's risk. Land values can go up or down between the date of purchase and a viability assessment taking place; in a rising market developers benefit, in a falling market they may lose out.
- A developer may make unreasonable/over-optimistic assumptions regarding the type and density of development or the extent of planning obligations, which means that it has overpaid for the site.
- Where plots have been acquired to form the site of the proposed development, without the benefit of a compulsory purchase order, this should be reflected either in the level of Site Value incorporated in the appraisal or in the development return. In some instances, site assembly may result in synergistic value arising.
- The Site Value should always be reviewed at the date of assessment and compared with the purchase price and associated holding costs and the specific circumstances in each case.

3.6.1.2 It is for the practitioner to consider the relevance or otherwise of the actual purchase price, and whether any weight should be attached to it, having regard to the date of assessment and the Site Value definition set out in this guidance.

Box 15: Purchase price and historic costs
It is for the practitioner to consider the relevance or otherwise of the actual purchase price, and whether any weight should be attached to it, having regard to the date of assessment and the Site Value definition as set out in this guidance. Where historic costs (for example remediation works) are stated it is important that these are not reflected in the Site Value (i.e. double counted).

3.6.2 Holding costs

3.6.2.1 The site will be valued at the date of assessment. Holding costs attributable to the purchase of the site should, therefore, not normally be allowed, as the Site Value will be updated. In phased schemes where land is valued at the beginning of the development and land is drawn down for each phase, it may be appropriate to apply holding costs. Also, where plots of land have been assembled and subject to assessment, it may also be appropriate to include related holding costs. Where holding costs are applicable they should be offset by any income received from the property.

3.6.2.2 Other relevant costs subsequent to purchase, including professional fees and other costs incurred in bringing the application forward, and holding the site including remediation measures, should be reflected in the development appraisal as appropriate and reasonable.

3.6.2.3 Where there has been historic expenditure on a development site prior to receiving planning permission, these can be included in a development appraisal. This is highly relevant with certain regeneration sites, where cost is not reflected in Site Value. Care, however, must be taken in arriving at a Site Value that the effect of this expenditure should be ignored. In many instances the practitioner will note the expenditure as being reflected in the Site Value arrived at and therefore the historic cost (for example remediation works) will not appear explicitly in the appraisal. Clearly, the objective is that there should be no double counting.

3.6.3 Third party interests, vacant possession and relocation costs

3.6.3.1 Often, in the case of development and site assembly, various interests need to be acquired or negotiated in order to be able to implement a project. These may include: buying in leases of existing occupiers or paying compensation; negotiating rights of light claims and payments; party wall agreements, oversailing rights, ransom strips/rights, agreeing arrangements with utility companies;

temporary/facilitating works, etc. These are all relevant development costs that should be taken into account in viability assessments. For example, it is appropriate to include rights of light payments as it is a real cost to the developer in terms of compensation for loss of rights of light to neighbouring properties. This is often not reflected in Site Value given the different views on how a site can be developed.

3.6.4 Re-appraisals (viability reviews)

3.6.4.1 The re-appraisal approach, which may be more applicable to certain schemes, allows for planning applications to be determined but leaving, for example, the level of affordable housing to be fixed prior to implementation of the scheme. Such re-appraisals are generally suited to phased schemes over the longer term rather than a single phase scheme to be implemented immediately, which requires certainty.

3.6.4.2 Where long life planning permissions are granted (five years plus) reappraisals may also be appropriate. As such re-appraisal mechanisms should only be considered in exceptional cases. These appraisals would usually be undertaken during the reserved matters application stage. Careful consideration would need to be given as to how this is set out in a section 106 agreement, although it will be important to the LPA and applicant to express a range for the assessment, i.e. for the applicant to state the level of obligation above which they would not be expected to exceed and for the LPA to state the level of obligation below which the development will be unacceptable, regardless of the benefits that arise from it.

3.6.4.3 The methodology may include, for example, specifying: the process involved, the basis of model, inputs, basis of return, and Site Value. It is stressed that the re-appraisal should always be undertaken prior to the implementation of a scheme or phase in order to fully account at the time for the risk the developer is undertaking, and, therefore, the appropriate return. From a technical perspective, so-called 'overage' arrangements (post-development appraisals) are not considered appropriate, as development risk at the time of implementation cannot be accounted in respect of the inevitable uncertainty of undertaking a development or individual phase. It also undermines the basis of a competitive return as envisaged by the NPPF by introducing uncertainty post the implementation of the development. This may make funding the scheme difficult or unlikely in many cases.

3.6.4.4 It is important to ensure that the drafting of re-appraisal provisions do not result in the earlier phases becoming uncertain as to the amount of development to be provided on site. This would have the unfortunate effect of stifling development. Each phase requires sufficient certainty to be able to provide the required returns and secure development funding.

Box 16: Re-appraisals

Re-appraisals may be appropriate for longer term/multi phased schemes and should be undertaken prior to the implementation of a scheme or phase.

3.6.5 Validity of projection models for capturing future market growth

3.6.5.1 An alternative approach to the re-appraisal approach (and current day appraisals) is the use of projection models. In more volatile market conditions, many planning applications may not be viable for the schemes proposed using present-day values and costs. This reflects a variety of factors that would include the relationship of likely end values to the costs of building the scheme. Inevitably, when such schemes go forward for discussion with the LPA, applicants may look at growth models (see Appendix D) and the likelihood of the proposed development becoming viable over the short to medium term, with the acceptance that it may not be currently viable. This is normally more relevant to large schemes to be built over the medium to longer term than for short term projects.

3.6.5.2 Current day methodologies, for large schemes of a medium to longer term build out duration, may at times give the LPA cause for concern as the case is made that the site is

not currently viable. As a result they may not achieve the desired outturn in terms of planning obligations, etc. The principle and application of projection models is for sites that are non-viable today but where the likelihood is that development would occur at some future date in the life of a planning permission, or where the development is likely to be over a sufficiently long period of time during which the market conditions may vary.

3.6.5.3 It is important to distinguish in cases where projection modelling is used between market value growth and site regenerative growth when preparing appraisals. Larger schemes may be subject to intrinsic/internal value growth as a result of development, achieving a critical mass that may or may not be reflected in the broader market.

3.6.5.4 Projection models are valid in terms of assessing the viability of the site. Advisers for both applicant and local authority should put themselves in the position of looking at the potential of the site in the future and assess the likely obligations and commitments that a particular site can make based on those forecasts, rather than on current day assessments. Such an approach might enable the LPA to achieve a number of its objectives by adopting the 'looking forward' approach, and for both the LPA and applicant to achieve certainty over the level of planning obligations attached to the planning permission. Appendix D provides further information on the effects of inflation and forecasting.

Box 17: Projection models

Projection (growth) models are an alternative to current day and reappraisal approaches for assessing the viability of a site. A 'looking forward' approach for the LPA and applicant can provide certainty in terms of defining planning obligations for both at the time of granting a planning permission.

3.6.6 Sensitivity testing Counterfactuals

3.6.6.1 As highlighted in section 2 it is strongly recommended that financial appraisals are sensitivity tested (including where appropriate scenario and simulation analysis) in order to examine key variables and ensure that a sound judgment can be formulated on viability. When projection models are used, this is particularly important given the reliance upon forecasting costs and values.

3.6.6.2 It is often helpful when demonstrating the capability of a scheme to meet planning obligations, to also test the viability of other development scenarios. These are commonly referred to as 'counterfactual scenarios' and reflect a hypothetical alternative development of a site or property. This should not be confused with sensitivity (scenario or simulation) analysis associated with the actual scheme being proposed, but can help illustrate the rationale for the application scheme in financial terms and an appropriate level of planning obligations. Counterfactual scenarios should also be subject to sensitivity (scenario or simulation) analysis where appropriate so as to be consistent with the testing of the actual proposed scheme. Counterfactual scenarios should not be viewed as alternatives to the development being proposed but can be used to assist in the consideration of the overall viability case.

3.6.6.3 It is recommended that when undertaking area wide viability assessments that sensitivity testing is also undertaken. This is of particular relevance in establishing appropriate variances around the setting of policy and CIL levels, having regard to the market cycle.

3.6.6.4 It is important that the practitioner sets out and explains the sensitivity testing undertaken in justifying the conclusions arrived at, in either development management or area wide viability assessments.

4 Further professional advice

Key issues: planning and viability; viability appraisals and evidence; preparing and scrutinising a viability assessment; confidentiality; and mediation and arbitration

4.1 Planning and viability

4.1.1 While this guidance note acknowledges the current reform of the planning process in England, the consideration of financial viability will in many but not all cases remain an essential element in the determination of planning applications in the application of planning policy and the negotiation of section 106 agreements. Some planning applications are accompanied by a full financial justification assessment, demonstrating, for example, the level of affordable housing that may be viable, and this is linked to the balance of other requirements of the scheme.

4.1.2 A certain degree of knowledge and understanding is required of planners and decision-makers as to the viability implications of all of the requirements placed on development, and independent expert viability input is usually advisable. Certain section 106 contributions and obligations and other requirements may also be necessary to mitigate the impact of development, sometimes referred to as essential planning mitigation, which, if not undertaken, would result in a refusal of planning permission, notwithstanding financial viability considerations. Decision-makers, however, should balance these against ensuring development is deliverable, having regard to scheme viability.

4.2 Viability appraisals and evidence

4.2.1 It is important that viability assessments be supported by adequate comparable evidence. For this reason it is important that the appraisal is undertaken by a suitably qualified practitioner and ideally a suitably qualified surveyor who has experience of the use, scale and complexity of development being reviewed. Equally, with appraisals supporting the formulation of core strategies in local development frameworks a suitably qualified practitioner is recommended. This ensures that appropriate assumptions are adopted and judgment formulated in respect of inputs such as values, yields, rents, sales periods, costs, profit levels and finance rates to be assumed in the appraisal.

4.2.2 It is common practice for the practitioner to rely upon and form opinions in respect of various components of a viability assessment; for example, it may be appropriate that build cost information is prepared by a quantity surveyor (QS). This may be essential for non-standard developments and complex schemes where to adopt build costs quoted by the Building Cost Information Service (BCIS) may lack the level of detail and robustness required. In general, a QS input will be necessary in many instances, to ensure that the cost element of the appraisal is viewed as fully independent.

4.2.3 Planning advice in respect of section 106 (*Town and Country Planning Act* 1990) assumptions and obligations may need specialist advice; for example, the changing nature of affordable housing may require expertise in terms of tenure split, unit size, grant availability and general pricing. This can be achieved by seeking a bid from a registered provider or by appointing a practitioner with expertise in this area as assumptions vary on a case-by-case basis. Reference should be made to the RICS guidance *Valuation of land for affordable housing*.

Box 18: Supporting evidence
Viability assessments should be accompanied with supporting information and evidence. The practitioner will rely upon and form opinions of the various components of a viability assessment in order to arrive at an appropriate professional judgment.

4.3 Confidentiality

4.3.1 Pre-application discussions usually proceed on the basis of treating commercial information provided by a developer (applicant) or their consultant as confidential. In order to encourage openness and transparency in the viability process both at pre- and post-application, it is also often the case that the viability reports submitted to a local planning authority are required to be classified as confidential in part or as a whole. This is to encourage the applicant to disclose the maximum amount of information, which can then be reviewed and reported upon. LPAs should therefore be asked to treat and hold this information on a similarly reciprocal basis and respect that disclosure of confidential information could be prejudicial to the developer (applicant) if it were to enter the public domain. Information will usually be disclosed to the LPA adviser but not to the general public as it may be commercially sensitive.

4.3.2 Transparency and fairness by all parties is to be recommended in assisting in this process.

4.3.3 All parties should be aware of the provisions of the *Freedom of Information Act* and *Environmental Information Regulations* and also mindful of any conflicts of interest that could taint their advice. Reports should therefore contain the following wording:

> *'This viability report is provided on a confidential basis to the Council. We therefore request that the report should not be disclosed to any third parties (other than consultants instructed by the Council to review this report) under the Freedom of Information Act 2000 (sections 41 and 43(2)) or under the Environmental Information Regulations'.*

Box 19: Confidentiality
It is often the case that viability assessments are required to be classified as confidential in part or as a whole as information within them, if disclosed in the public realm, would be prejudicial. LPA advisors, subject to a confidentiality agreement, would be able to scrutinise and report accordingly on such viability assessments.

4.4 Mediation, expert determination and arbitration

4.4.1 Where disputes are unable to be resolved between the applicant's and the LPA's respective consultants, the parties may seek the opinion of a third party. This could be through either mediation, expert determination or arbitration and could arise at various stages in the planning process. The following points highlight the two basic instances.

- In a live or pending appeal, the outcome of any mediation/arbitration can form part of the statement of common ground (SCG). The Inspector (or Secretary of State) is not bound to accept it but parties, if they depart from an SCG, may be at risk of a cost claim.
- If a dispute arises before an appeal, mediation/arbitration could be available to the parties but this would be non-binding on the LPA.

4.4.2 Planning performance agreements (PPAs) may include provisions for resolving viability disputes. Reasonableness and objectivity are therefore inherent within this process, which this guidance note advocates at all times.

Box 20: Planning performance agreements
Planning Performance Agreements may contain provisions for resolving financial viability issues albeit this would be non-binding on the LPA (inspector or Secretary of State)

4.5 Preparing and scrutinising a viability assessment

4.5.1 A practitioner, on behalf of a developer or investor, will review all information within a viability assessment and formulate a professional judgment based on an analysis of the results arising from the appraisal.

4.5.2 Many local authorities will require, in respect of individual developments, an impartial and objective review of the viability assessment submitted as part of a planning application. These should be prepared by suitably qualified practitioners as set out in 4.2. It is recommended that once these reports have been prepared, the applicant is provided with a copy (in draft and final forms) to enable responses, if any, to be made to either the LPA or directly to the consultant undertaking the independent review.

4.5.3 Practitioners should be reasonable, transparent and fair in objectively undertaking or reviewing financial viability assessments. Where possible, practitioners should seek to resolve differences of opinion.

4.5.4 This guidance note discourages the practice of performance related or contingent fees as this would clearly impair objectivity and the ability to resolve differences of opinion to assist the planning process.

4.5.5 Viability in the context of this guidance note should be distinguished from providing valuations as defined by the *RICS Valuation – Professional Standards 2012 (Red Book)*. Those undertaking viability appraisals in accordance with this guidance are free to make all reasonable and necessary assumptions and forecasts in formulating a judgment as to the viability of a proposed development or in connection with supporting the formulation of development plan documents in local development frameworks. Where deviating from the guidance note, it is recommended that this is fully justified and reasoned.

Box 21: Transparency

The guidance note encourages practitioners to be reasonable, transparent and fair in objectively undertaking or reviewing financial viability assessments. Where possible, differences of opinion should be resolved.

Appendix A: Relevance of viability to planning

A.1 Preparation of planning policy

A.1.1 The National Planning Policy Framework (NPPF) emphasises the link between delivery and viability. It states that:

> *' … to ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking into account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable'*

(para. 173, NPPF, 2012)

A.1.2 Good spatial planning should aim to create a framework for private investment and therefore encourage appropriate development in the right locations. If viability is not appropriately considered in setting planning policy objectives and strategies then development can become unnecessarily constrained and policy targets may become undeliverable. Local Plans need to be viable and deliverable in order to be effective and consistent with the NPPF. Key to the concept of effectiveness of planning policy is the requirement that it must be 'flexible' and 'deliverable'. In order to achieve this it is necessary for the viability implications of planning policy objectives to be understood to ensure that they can be delivered. In this sense, the concept of viability is highly relevant to spatial planning.

A.1.3 Under the NPPF, Local Plans are considered viable and deliverable by being founded on a robust and credible evidence base as well as being the most appropriate strategy when considered against reasonable alternatives. Viability considerations should form a critical part of the evidence base behind planning policies. In particular, viability is a key consideration when setting affordable housing policy and targets so that targets are deliverable and flexible and set with regard to a robust and credible evidence base including an assessment of economic viability.

A.1.4 Certainty and clarity in policy-making is important, however, at the same time, policies should be able to adapt to changing market circumstances. For example, in considering appropriate levels of affordable housing, policies should allow account to be taken of scheme viability on a site-by-site basis.

A.1.5 The principles of the guidance contained within the NPPF is also relevant to other types of policy documents and guidance, other than simply affordable housing, including in the formulation of area action plans, masterplans and development briefs/frameworks. The mix of land uses advocated and the enabling works set out as being required by area specific guidance documents should be informed by an assessment and understanding of viability.

A.1.6 In recent years it has become common practice for many LPAs to set 'tariffs' or 'standard charges' for section 106 contributions on new developments through supplementary planning documents (SPDs). Circular 05/2005: Planning Obligations (July 2005) is now superseded by virtue of Regulation 122 of the Community Infrastructure Levy Regulations (CIL) 2010 and paragraphs 203 to 206 of the National Planning Policy Framework (NPF). It is therefore necessary to understand how viability is assessed so that obligations are flexible and responsive to changing market circumstances and scheme specific requirements.

A.1.7 The CIL Regulations 2010 also require that by April 2014 tariff-based charges only be levied against development through CIL. With

the exception of affordable housing and site-specific mitigation, in general terms the intention will not be to use section 106 obligations to deliver these kinds of benefits. A prerequisite to the charging of CIL is the adoption by the LPA of a charging schedule. The charging schedule must itself be subjected to an independent examination prior to adoption, and questions of viability will be relevant to determining the credibility of the evidence base used in drawing it up. Clearly there will be certain circumstances where including a planning obligation will still be relevant.

A.2 Determination of planning applications (development management)

A.2.1 Scheme viability is a material consideration in the determination of planning applications as it is inherently linked to 'delivery'. To ensure delivery of planning objectives at all stages of the economic cycle, it is essential that not only planning policy remains flexible but that town planners and other decision-makers have an understanding of how viability is assessed so that consistent decisions can be taken and appropriate weight accorded to viability considerations.

A.2.2 The consideration of financial viability in determining planning applications is particularly important in the context of negotiating section 106 contributions/obligations, including affordable housing. In order for schemes to be delivered, willing landowners require a 'competitive return' to release land in the form of uplift in land value reflective of its market value while allowing the developer an appropriate level of developer profit. Section 106 obligations are often a development cost while the level of affordable housing sought affects the GDV. These in turn impact upon residual land value and profit. Particularly where Local Authorities have allocated land for development it is important for all parties to understand these impacts when negotiating section 106 agreements to ensure that development remains attractive. This is recognised in the NPPF. An inconsistent approach to section 106 negotiations can increase development risk, which can deter development coming forward.

A.2.3 The NPF states in the following paragraphs that:

> *'**204.** Planning obligations should only be sought where they meet all of the following tests:*
>
> - *necessary to make the development acceptable in planning terms*
> - *directly related to the development, and*
> - *fairly and reasonably related in scale and kind to the development.*
>
> ***205.** Where obligations are being sought or revised, local planning authorities should take account of changes in market conditions over time and, wherever appropriate, be sufficiently flexible to prevent planned development being stalled.*
>
> ***206.** Planning conditions should only be imposed where they are necessary, relevant to planning and to the development to be permitted, enforceable, precise and reasonable in all other respects.'*
>
> *Financial viability is a key consideration in the above, particularly in determining whether a planning obligation is 'fairly related in scale and kind to the proposed development'.*

A.2.5 LPAs should therefore be aware of the cumulative impact of all planning obligations and scheme requirements sought on development viability. It is not just section 106 obligations and CIL that can impact on scheme viability. Other scheme requirements and planning benefits sought can have a significant effect, including, for example, sustainability requirements. It is acknowledged that a number of section 106 and other such obligations may be necessary to mitigate the impact of development and make it 'acceptable' and 'sustainable'. It is for decision-makers to

recognise the requirement for sustainable development whilst also ensuring development is 'deliverable' in accordance with the NPPF. However, European and domestic regulatory requirements will have to be met.

A.2.6 Summarised below are key elements that may be required by decision-makers to make the development acceptable but may also impact on scheme viability:

(i) obligations and levies

(ii) the provision of site specific highway improvements

(iii) design standards, including sustainability measures

(iv) land use mix; and

(v) abnormal scheme costs, including remediation of ground contamination and costs associated with managing heritage assets.

A.2.7 Given the range of potential demands on a development scheme, the decision-maker will have to balance these competing requirements within the scope of what is viable to ensure that what is deliverable is sustainable and otherwise acceptable in planning terms.

A.2.8 CIL may also be charged by LPAs who have adopted a CIL charging schedule. After April 2014 LPAs will no longer be able to use section 106 obligations to secure planning obligations that are covered by CIL and so the likelihood is that more LPAs will be adopting charging schedules in the run up to 2014 to enable them to recover through CIL.

A.3 Wider context

A.3.1 In addition to section 106 contributions required to mitigate the impact of development, in recent years there has been an increasing requirement for developments to contribute towards more general local infrastructure improvements. This has been seen as a way of plugging funding gaps such as through a CIL, and other levies, such as the introduction of the Crossrail levy in London, and other more general standard charges/tariffs for infrastructure. Any basis for tariffs needs to rely on sound evidence, and imposed charges need to take account of viability to ensure that infrastructure requirements do not unreasonably prejudice the delivery of otherwise desirable development proposals.

A.3.2 Decisions of the Secretary of State and inspectors have suggested that changing economic circumstances are relevant in the negotiation of affordable housing in assessing viability. Other cases have shown that viability assessments should allow for a reasonable uplift in land value for development to be viable and in order to incentivise 'delivery'. Care should be taken before relying too heavily on guidance from previous cases and appeal decisions.

A.3.3 In the context of development plans, some recent appeal decisions pointed to the importance of considering viability when setting affordable housing policy and targets. These cases established the requirement for affordable housing targets to be deliverable and flexible and set with regard to a robust and credible evidence base, including an assessment of economic viability.

A.3.4 Case law demonstrated the importance of allowing flexible policy application to take account of changing market circumstances, so that in one case, in considering the 'soundness' of a council's core strategy, the inspector concluded that a policy requiring 'at least' 30 per cent of new dwellings to be affordable was not 'justified' on the basis of a robust evidence base and could not therefore be proved to be 'deliverable'. The inspector recommended that the text be amended to delete the words 'at least' and that wording was added to allow site-by-site negotiation, thereby providing for flexibility. This, therefore, allows sufficient flexibility to take account of changing market circumstances, enabling developers the opportunity to negotiate the level of affordable housing to be offered on a site-by-site basis, taking into account scheme viability. Supplementary planning guidance in an adopted supplementary planning document may be appropriate to provide more detailed guidance within the scope of an overarching policy in the core strategy or development policies DPD.

A.3.5 Appeals have been allowed where it has been found that viability reports have convincingly demonstrated that the proposals cannot support any affordable housing and the same held true for a financial contribution in lieu. However, in other instances, appeals have been dismissed if they do not have any, or only minimal levels, of affordable housing, as they were not considered to be able to bring forward sustainable and well-balanced communities. The scale and nature of the proposals will, therefore, be a key influencing factor as to whether no or very low levels of affordable housing can be justified in planning terms.

A.3.6 For smaller scale developments, which may be completed in a single phase, it would be reasonable to consider what may be an appropriate affordable housing and section 106 offer with regard to market conditions at the time of the application. This is because there is no later phase to capture future value growth. Larger schemes may have longer build out periods with multiple phases and, in such cases, appeal decisions have indicated that it may be reasonable for decision-makers to impose requirements for the viability of the scheme to be considered on a phased basis as each phase of the development comes to be delivered.

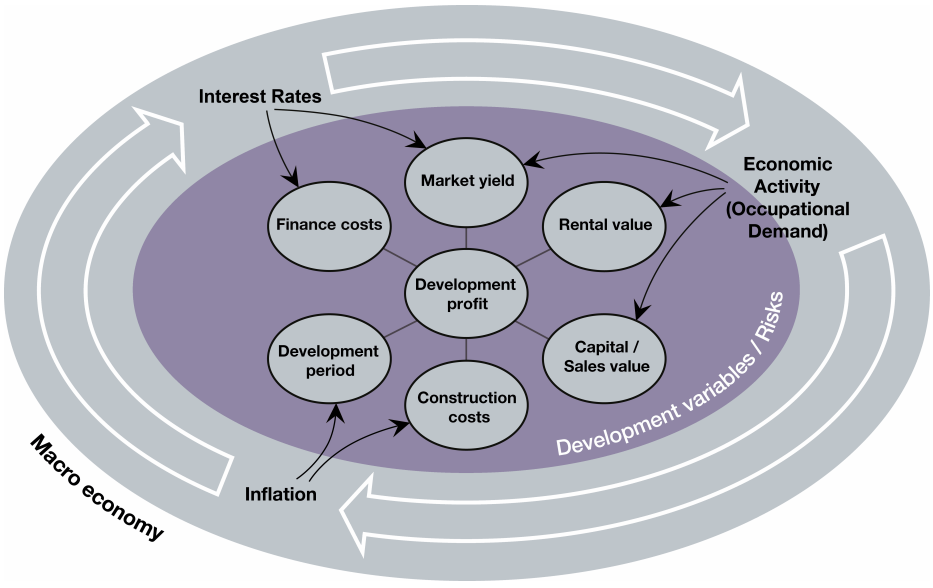
Appendix B: Property market context overview

B.1 Development viability assessments necessitate an accurate evaluation of the key variables in undertaking a development: the estimated value of a scheme when completed, and the building cost and other development costs (including professional fees, finance costs and a return to the developer covering risk, i.e. profit) that will be incurred in delivering a scheme. An appropriate return to the landowner or its equivalent, having regard to the relevant market value of the site, will also need to be taken into account. Clearly, as market conditions change the value and cost of a scheme will also change. Hence, there are considerable risks involved in implementing development for which the developer must make allowances and be rewarded.

B.2 It is also evident that a development viability assessment undertaken when the property market is strong may produce a residual Site Value (or residual profit when the land has already been acquired) that is very different from when the market is weak. An understanding of property market conditions and their effect on development viability is, therefore, important from a planning perspective in both determining planning applications and formulating planning policy. An economic context is also important in considering the impact of the setting of area-wide levies and tariffs (e.g. relating to community infrastructure and affordable housing targets, etc.), as well as site-specific planning briefs, masterplans and other planning obligation requirements.

B.3 The property market, like the general economy, tends to be cyclical. When economic growth is strong, companies expand and this feeds through to an increase in employment, an increase in consumer expenditure and an increase in occupier demand for all types of property. Rental and capital values increase and this triggers an increase in planning applications and general development activity. When development viability improves, the ability to meet planning obligations and planning policy is increased.

Figure 4: Macro-micro effect on development viability



B.4 This cycle goes into reverse when economic growth slows or goes negative, and the impact on the property development market is often magnified due to the time it takes to physically construct buildings, particularly large schemes. Development schemes start to tail off at the end of a boom, when occupier demand is strong, and may complete in a much weaker economic climate, causing an over-supply of floor space when occupier demand is weak. This may cause property values to fall and development viability to suffer noticeably. When development viability suffers, the ability to meet planning obligations and planning policy is reduced.

B.5 All parties to the planning process need to be aware of changing market conditions and the effect on development viability. As most development schemes will take a period of a year or more to undertake, local planning authorities need to consider how economic and property market conditions are likely to change during the development process and hence the inevitable uncertainty of development viability. In some instances, this may require forecasting or re-appraisals prior to implementation of a development (see section 3 of this guidance note).

Appendix C: Indicative outline of what to include in a viability assessment

Proposed scheme details

- Floor areas:
  - commercial: gross internal area (GIA) and net internal area (NIA)
  - Residential: GIA and net sales area (NSA)
- Residential unit numbers and habitable rooms including the split between private and affordable tenures

Gross development value (GDV)

- Any existing income that will continue to be received over the development period
- Anticipated residential sales values and ground rents (and supporting evidence including deductions for incentives)
- Anticipated rental values and supporting evidence
- Yields for the commercial elements of the scheme and supporting evidence
- Details of likely incentives, rent-free periods, voids
- Anticipated sales rates (per month)
- Anticipated grant funding for affordable housing
- Anticipated value of affordable units (with supporting evidence/explanation of how these have been valued and assumptions)
- Deductions from commercial GDV to reach NDV (Stamp Duty Land Tax (SDLT), agents, legal + VAT)

Costs

- Expected build cost (a full QS cost report also showing how costs have been estimated)
- Demolition costs
- Historic costs (as reasonable and appropriate, see paragraph 3.6.2.3)
- Site preparation costs
- Vacant possession costs
- Planning costs
- Construction timescales, programme and phasing
- Any anticipated abnormal costs
- Rights of light payments/party walls/ oversailing rights
- Details of expected finance rates
- Professional fees, including:
  - Architect
  - Planning consultant
  - quantity surveyor
  - structural engineer
  - mechanical/electrical engineer
  - project manager
  - letting agent fee
  - letting legal fee
- Site Value (see Section 3 of the guidance)
- Other costs

Additional details for future phases

- Expected sales growth
- Expected rental growth
- Expected cost inflation
- Credit rate

Development programme

- Pre-build
- Construction period
- Marketing period

- Viability cashflow
- Income/value/capital receipt
- Costs
- Phasing (where appropriate)

Benchmark viability proxies

- Profit on cost
- Profit on value
- Development yield
- Internal rate of return (IRR)

Planning application details

- Plans/sections/elevations (as relevant)
- Design and access statement

Sensitivity Analysis

- Two way sensitivity analysis
- Scenario analysis
- Simulation analysis

Accompanying Report (basic outline)

- Executive summary
- Contents outline
- Introduction and background
- Description of site location
- Planning policy context
- Description of scheme
- Market information summary
- Build cost and programme
- Methodology and approach
- Outputs and results
- Sensitivity analysis
- Concluding statement

Appendix D: Refinements to viability methodology

D.1 Development profit

D.1.1 It is usual practice in a conventional development appraisal to assume a required return in terms of a capital sum, and to include it in the cash flow on the assumption that the development will be sold on completion and a capital profit received. In contrast, in mainstream capital budgeting theory and in property investment appraisal, the required profit is expressed as a required *rate* of return. The expected cash flow, excluding land cost, finance costs and profit allowance, is discounted at the required rate of return in order to assess the surplus available to purchase the land. Alternatively, the cash flow, including land price, can be discounted at a discount rate which gives a zero net present value (NPV). This discount rate represents the scheme's internal rate of return (IRR), which can be compared with the developer's required rate of return or as expressed in this guidance, the market risk adjusted rate of return.

D.2 Development finance

D.2.1 Cash flow approaches are widely used in the development appraisal to accurately reflect the timing of development expenditure and revenue so that the finance costs can accurately reflect the net cash flows or amount that needs to be borrowed at each stage of the development.

D.2.2 It is common practice in conventional development appraisals to assume all-debt financing, i.e. all development costs are financed by borrowing. Again, this is in contrast to mainstream project appraisal where the viability of a project is assessed *before* finance and then the impact of financing on return is assessed *separately*. Typically, this is achieved by discounting the pre-finance cash-flow at a target rate of return to determine whether the project produces a positive NPV or to compare the project IRR against the investor's required return (or market risk adjusted rate of return).

D.2.3 To reflect the use of a combination of debt and equity finance, a tax-adjusted cash-flow can be discounted at a weighted average cost of capital (WACC). Alternatively, a cash-flow adjusted for tax and finance costs can be discounted at a required return on equity. While these approaches are arguably suitable for appraising corporate investment opportunities, their application to development project appraisal is debatable because there is little direct connection between the rate at which a company can borrow and the appropriate discount rate to be applied to a particular project. This is particularly so when the expected cash flows are subject to a high degree of risk, as in many property developments. This is why this guidance refers to a market risk adjusted rate of return which can be considered as an objective profitability benchmark, as envisaged by the NPPF at paragraph 173 in terms of a 'competitive return'.

D.3 Inflation of values and costs

D.3.1 In this guidance note it is emphasised that residual valuations can be sensitive to small changes in the key variables of value and building cost, and how great care needs to be taken when undertaking a residual valuation. Mainstream corporate financial modelling, or more complex property valuations, are equally susceptible to input variables. There is, by definition, uncertainty in any viability assessment, as estimates have to be made of the value of the scheme as completed and the costs of a scheme, which may vary as the development progresses. Where possible, a developer may try and pre-let/pre-sell all or

part of the scheme before development commences and use a fixed price building contract. If this is possible there will be much greater certainty about total scheme values and costs, a lower required return and, hence, greater certainty regarding the residual site value. However, it is rarely possible to achieve all these objectives and where it is possible there is a price to pay in terms of discounts on the rental and capital value, in particular. Where a developer anticipates an improving property market, pre-lets and pre-sales may lessen risks but also lessen the eventual return.

D.3.2 Paragraph D.3.1 highlights the impact that inflation in values and costs can have on a development appraisal. It is common, but not universal, practice that for smaller schemes, where the development period is limited to a year or two, residual appraisals are undertaken using current costs and values as these are easier to estimate and are, therefore, assumed to be more certain/robust. However, the amount that developers allow for their return for risk and profit may vary to reflect how values and costs could potentially change. Nevertheless, this implicit approach is somewhat crude, as even if a scheme takes, for example, two years to develop, rental/capital values may be very different by the time the scheme is completed from when construction commenced. Implementation of a development therefore carries a high degree of specific risk.

D.3.3 For large schemes with a lengthy development period, or for even larger schemes where phased development is likely, the effect of inflation (or deflation) needs to be considered. In theory, if the total percentage increase in building costs and capital values for a development are identical, the residual site value should also increase by a similar percentage amount (in practice this rarely occurs). It follows that where capital values increase, in percentage terms by more than the increase in building costs, there will be a disproportionate increase in the residual site value, and where the reverse occurs, there will be a disproportionate decrease in the residual site value. It is commonly held that the former is more likely to occur than the latter for commercial schemes, as speculative developments tend to be let and sold at the end of the development period, therefore benefiting from growth in values through most of the period, whereas building costs are incurred and paid at stages during the development period and land/site costs are paid as a fixed cost before building commences. The market cycle is clearly an important factor particularly with long term developments.

D.3.4 Predicting or forecasting values for rents, yields (for commercial/industrial schemes) and costs is difficult, even over short time periods. The potential volatility of the market, and the development viability risks which result, are factors that a developer has to consider, either explicitly or implicitly when undertaking a residual appraisal. This inevitable uncertainty is also a factor that planners need to consider when ascertaining the level of affordable housing and/or planning obligation payments the development can support both now and in the future. Development viability will clearly be affected by the level and the movement of capital values and building costs.

D.3.5 For large-scale developments taking many years, to undertake some form of trend forecasting of values and costs is desirable, plus some allowance for an increase up to, or decrease down to, trend levels, so that the effects of inflation can be correctly taken into account in terms of the future market cycle. If current values and costs are used, the residual land value or return on completion of development, or phases of development, when discounted back to the present day will be noticeably lower than if the effects of inflation are taken into account. Arguably, this will not give an accurate assessment of the viability of a scheme.

D.4 Inflation, development, finance and discount rates

D.4.1 A related point to a consideration of the effects of inflation in a development appraisal is the finance or discount rate used.

D.4.2 It should be noted that where the guidance refers to the IRR of a project (see the glossary of terms in appendix G), this is on a without-finance basis, or, in other words, a project IRR being consistent with mainstream capital budgeting theory and therefore what is set out in this paragraph and those that follow is only relevant where finance is taken into account in the return or discount rate.

D.4.3 It is normal practice in a development appraisal to allow for the cost of borrowing money to pay for development costs as they occur (net costs in each cash flow period). The accumulated total costs are then subtracted from the estimated value of the scheme and then this residual site value is discounted at the finance rate to give the present day value of the site. This is the value of land that will be paid when the site is acquired before development commences. An alternative approach, which will give the same residual site value, is to calculate the net cash flow in each period (costs incurred less any sales income received) and then discount each cash flow back to the present day at the appropriate finance rate, i.e. the cost of borrowing money.

D.4.4 The finance rate charged by a bank will reflect current interest rates plus a margin to reflect the risk of lending, etc. The interest charged will be repaid out of the actual income received by the developer from sales of completed parts of the development. These sales will reflect inflation, as will the interest rate charged. If inflation is not explicitly allowed for in the residual valuation, it is, arguably, mathematically incorrect to allow for a finance rate that reflects inflation. Over short time periods this inaccuracy may be small, but for larger schemes, with lengthy development periods, this inaccuracy could be much greater.

D.4.5 Two alternative approaches should be considered for major development schemes in particular. One approach is that some form of explicit inflationary projection of costs and values should be undertaken, either with the same expected inflation rate applied to values and costs or different rates applied where specific forecasts can be undertaken for values and costs separately, coupled with a market finance or discount rate (market risk adjusted rate). Alternatively, current values and costs should be used together with a net of inflation finance rate or discount rate prior to scheme implementation. It will be up to the practitioner as to which of the two approaches is more applicable to the scheme in question. Section 3 of the guidance comments upon this further.

Appendix E: Application of underlying concepts within the guidance

This appendix is aimed at providing further understanding of the guidance in terms of Site Value. There are many uses for viability appraisals in both a policy and development control context (see paragraph 1.5.2 of the guidance). Not all rely upon residual appraisals, but many do use this approach and methodology.

This appendix is set out as follows:

1 Market value and land supply

2 Types of developer; and

3 Constituent parts of the residual appraisal.

Where appropriate, reference is made to the main text of the guidance in respect of terminology and principles.

E.1 Market value and land supply

E.1.1 The *RICS Valuation – Professional Standards 2012 (Red Book)* definition of market value is as follows:

> *'The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after properly marketing and where the parties had each acted knowledgeably, prudently and without compulsion.'*

E.1.2 The Red Book also deals with the situation where the price offered by prospective buyers generally in the market would reflect an expectation of a change in the circumstances of the property in the future. This element is often referred to as 'hope value' and should be reflected in market value. The *RICS Valuation – Professional Standards 2012* provides two examples of where the hope of additional value being created or obtained in the future may impact on the market value:

- *'the prospect of development where there is no current permission for that development'; and*
- *'the prospect of synergistic value arising from merger with another property or interests within the same property at a future date.'*

E.1.3 Section 3.3 of this guidance seeks to provide further clarification in respect of E.1.2 bullet point 1, by stating 'that the (site) value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan.'

E.1.4 Bullet point 2 of paragraph E.1.2 is particularly relevant where sites have been assembled for a particular development. The guidance refers to this at paragraph 3.6.1.1.

E.1.5 It should be noted that 'hope value' is not defined in either the *Valuation Standards* or this guidance (it is referred to in the glossary of terms in Appendix F). That is because it is not a basis of value but more a convenient way of expressing the certainty of a valuation, where value reflects development for which permission is not guaranteed to be given, but if it was, would produce a value above current use.

E.1.6 It follows that even where requirements are restrictive in respect of the planning status of the land, there could be proposed developments that (due to a mix of commercial and residential, the impact of, for example, the affordable housing element), could be absorbed, even where the land value of that part is nil or even negative; it all depends on the circumstances.

E.1.7 To date, in the absence of any guidance, a variety of practices have evolved, which are used by a limited number of practitioners to benchmark land value. The most common approach has been to adopt CUV plus a margin or a variant of this, for example, EUV plus a premium. The margin often is an arbitrary figure ranging from, for example, 10 to 40 per cent above CUV but higher percentages have been used, particularly in respect of greenfield and rural land development.

E.1.8 In formulating this guidance, well understood valuation definitions have been examined as contained within the Red Book. In arriving at the definition of Site Value (being market value with an assumption), the Working Group/Consultant Team of this guidance have had regard to other definitions such as EUV and AUV in order to clarify the distinction necessary in a financial viability in a planning context. Existing use value (EUV) is defined by the Red Book as follows:

> *'The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after properly marketing and where the parties had each acted knowledgeably, prudently and without compulsion assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause market value to differ from that needed to replace the remaining service potential at least cost.'*

E.1.9 It is clear the definition in E.1.8 is inappropriate when considered in a financial viability in planning context. It is an accounting definition of value for business use and, as such, hypothetical in a market context. Property does not transact on an EUV basis.

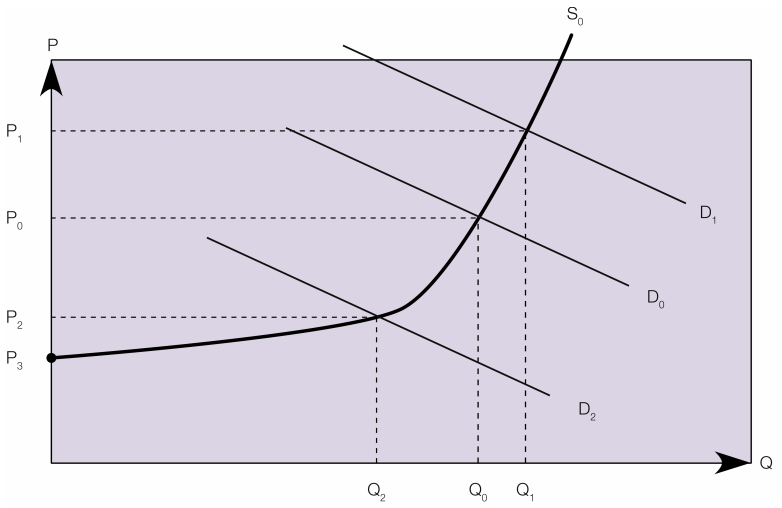
E.1.10 It follows that most practitioners recognise and agree that CUV does not reflect the workings of the market as land does not sell for its CUV, but rather at a price reflecting its potential for development. While the use of CUV plus a margin does, in effect, recognise hope value by applying a percentage increase over CUV, it is a very unsatisfactory methodology when compared to the market value approach set out in the guidance. This is because it assumes land would be released for a fixed percentage above CUV that is arbitrary, inconsistently applied and, above all, does not reflect the workings of the market.

E.1.11 Accordingly, the guidance adopts the well understood definition of market value as the appropriate basis to assess Site Value, subject to an assumption. This is consistent with the NPPF, which acknowledges that 'willing sellers' of land should receive 'competitive returns'. Competitive returns can only be achieved in a market context (i.e. market value) not one which is hypothetically based with an arbitrary mark-up applied, as in the case of EUV (or CUV) plus. Once a Site Value (as defined in the guidance) has been established, and therefore has regard to the market, it is of course possible to show ('back out') how this can be disaggregated in terms of EUV plus the premium element. Practitioners and users will see the significant variance that can occur between different schemes in respect of the 'premium' element. This is why the practice of applying a singular approach, i.e. in the absence of market testing, of so called standard mark ups (the 'premium') to EUV is arbitrary, does not reflect the market, and can result in the over or under valuing of the site in question (see figure 3, section 3).

E.1.12 So far as alternative use value is concerned, the Red Book at VS6.7 states: 'where it is clear that a purchaser in the market would acquire the property for an alternative use of the land because that alternative use can be readily identified as generating a higher value than the current use, and is both commercially and legally feasible, the value for this alternative use would be the market value and should be reported as such'.

E.1.13 In other words, hope value is also reflected and the answer is still market value. Again, in arriving at market value via alternative use value, the planning status of the land/ building should be applied. This is consistent with the NPPF for 'willing sellers' to receive 'competitive' returns.

Figure 5: Price of development land



where:

P =	the market value of the land
Q =	land supplied (delivered) to the market
D_0 =	demand for land at price (P0) and supply at Q0, assuming 35% affordable housing
D_1 =	demand for land at price (P1) and supply at Q1, assuming 25% affordable housing
D_2 =	demand for land at price (P2) and supply at Q2, assuming 45% affordable housing
S_0 =	the supply curve for the delivery of land to the market
P_3 =	where market value is equal to current use value

E.1.14 Figure 5 adapted from Fraser 1993[7] represents the supply and demand curve in economic terms for development land and the prices at which it will transact, assuming changes in demand. As can be seen, there is significant downside inflexibility in terms of Site Values. Owners neither have to sell, nor indeed, wish to sell, at lower prices and therefore will tend to hold on to their land holdings. It follows that the supply curve for development sites is significantly more elastic below the current price than it is above. Changes in demand, having regard to planning policy such as levels of affordable housing, can see relatively sharp rises in values on the upside but relatively small movements on the downside. This would imply that prices in the market cycle are more volatile at the peak of the market than when the market is in recession. Property development, which will influence the price to be paid for a particular site, is, of course, subject to many uncertainties and risk. Developers will have different views (and interpretations on the application and inter-relationship between planning policies) as to how any site will be built out and this will affect the level of pricing and the range which may be bid for individual sites on a competitive basis to a willing seller. Real options analysis also underpins the economic position outlined above in terms of the supply of land to the market.[8]

E.2 Types of developer

E.2.1 This guidance has differentiated between the land owner (delivering land to the market) and the developer (implementing development) in respect of defining viability (see 2.1). In practice, the developer may also be the land owner, and vice versa. Developers also take on many forms, of which the most common are highlighted below.

- **Property company/developer**: A company that selects projects, assesses risk, promotes concepts, secures land, attracts occupiers and achieves a final development for onward sale. This occurs across most

development sectors, including residential, commercial and mixed use.

- **Land and estate businesses**: Companies that manage large estates of land, for example historic estates, national utilities and power companies. While acting as a developer they may have a primary focus on other mainstream activities such as the long term management and improvement of the estate or, for example, the utility function.
- **Public sector**: Central government, local government, agencies and other quasi-public sector parties are all developers of property, often within the objective of some form of owner occupation, but maybe as joint venture partners (see below) as a land owner.
- **Joint ventures**: Companies can be created to pursue development; for example, joint ventures, special purpose vehicles and local asset backed vehicles. Some of these have a direct link to the functions of central or local government to promote beneficial redevelopment and regeneration, and could include Private Finance Initiative or Public Private Partnership schemes.
- **Investment company**: A business that holds long term or strategic investments in land and property; for example, pension funds and insurance companies, where development is a longer term objective.
- **Institutional/Strategic Investor**: long term holders of property with future development potential.

E.3 Constituent parts of the residual appraisal

E.3.1 Viability appraisals will vary according to the project in question. Appendix C provides an indicative outline of what to include in a viability assessment. This section considers some of the general key elements in a little more detail.

E.3.2 Most viability appraisals comprise a summary page as well as a cash flow. The summary page will provide an outline of the Gross Development Value (sales value) and show the various costs which have been deducted to arrive at the residual land value or a profit return. The cash flow sets out the detailed cash movements, including timing of cost outlays (expenditure) and revenue receipts (income). It is an important tool in preparing a development appraisal and in reality will provide the primary focus for the developer.

E.3.2.1 Gross Development Value or sales proceeds

E.3.2.1.1 This is widely referred to as the Gross Development Value (GDV). Different types of development may use different approaches, for example:

- for residential sales, the aggregated values of the individual properties
- for an office block, there may be an additional assumption that the completed development is let and income producing rather than being vacant and available for sale or letting; and
- for commercial property, a slightly more complex investment valuation (rent multiplied by yield) approach to establishing the value may be used.

E.3.2.2 Land/property value (Site Value)

E.3.2.2.1 See section E.1 of this Appendix and section 3 of the guidance.

E.3.2.3 Development costs

E.3.2.3.1 For any development, a critical influence on its viability will be the cost of preparing the surface of the site for development and the contract cost of final construction. A reasonably accurate estimation of the building costs at the valuation date is a major component in a residual valuation.

E.3.2.3.2 Development appraisals are very sensitive to variations in the estimated costs; however, the accuracy with which costs can be assessed may vary greatly according to the specific site characteristics, for example, the intention to retain specific structures.

E.3.2.3.3 The choice of procurement route imposes differing responsibilities. Fixed price

contracts are only fixed to the extent of the works outlined in the contract. It allows for inflation and amendments can be made if variations to the specification are made. It should be noted that even 'current day' build costs (as tendered) allows for some degree of price inflation during the contract. For developments of long duration, additional build cost inflation will need to be allowed for and a growth/projection approach may be more appropriate.

E.3.2.3.4 In all costs, the inclusion of a contingency allowance to cater for the unexpected is essential. The amount is usually reflected as a percentage of the building contract sum and is dependent upon the nature of the development, the procurement method and the perceived accuracy of the information obtained.

E.3.2.4 Abnormal site development costs

E.3.2.4.1 A typical viability assessment includes provisions for exceptional costs. This might include an unusual sewerage connection facility, high levels of site contamination and the need for extensive remedial works, flooding, site boundary and stabilisation works, particularly if there are substructure obstacles to overcome.

E.3.2.4.1 These exceptional site costs, or 'abnormals', inflate costs as well as adding to the timeframe for the delivery of a scheme. Historic costs may also be reasonable and appropriate (see paragraph 3.6.2.3).

E.3.2.5 Planning obligations (including affordable housing provision)

E.3.2.5.1 See Appendix A.

E.3.2.6 Professional fees and expenses costs

E.3.2.6.1 Fees and expenses can vary significantly according to the size and complexity of the development. The development team normally includes:

- a planning consultant
- an environmental contractor
- an architect
- a quantity surveyor
- a funding surveyor; and
- a civil and/or structural engineer.

E.3.2.6.2 Specialist services may be supplied as appropriate by mechanical and electrical engineers, landscape architects, traffic engineers, acoustic consultants, project managers, health and safety and other disciplines, depending on the nature of the development.

E.3.2.7 Finance costs

E.3.2.7.1 Most development projects are funded from interest-paying borrowings that are highly sensitive to timescales and risks. Interest arises on land acquisition and development costs. The rate of interest reflects levels in the market for the type of scheme involved. It is either paid when due or deferred (rolled up) throughout the projected programme. Conventionally, the interest is compounded either quarterly or annually, in line with the current market practice. Delay, added complications or shifts in the money markets can all, therefore, have an important impact on finance costs.

E.3.2.7.2 Viability appraisals generally assume that projects are fully funded by borrowing money. This is often referred to as 100 per cent gearing. Even where the funder has provided only part of the finance debt and the developer has used his own funds for the balance (equity), the appraisal should reflect the total cost of the funding.

E.3.2.7.3 Normally, interest is treated as a development cost up to the assumed letting date of the last unit, unless a forward sale agreement dictates otherwise. For residential developments, sales of individual units may occur at various stages during the development and appropriate assumptions have to be made regarding cash flow, both inward and outward. The approximate timings for the pre-construction, principal construction and post-construction periods have to be determined.

E.3.2.7.4 It should be noted that interest costs are relevant when using, in particular, profit on cost and profit on value measures of return. When the internal rate of return (IRR) is used as a project IRR, it is usual to state this excluding finance, in common with normal corporate practice (see Appendix D).

E.3.2.8 Profit return

E.3.2.8.1 The nature of the development and prevailing practice in the market for the sector influences the target profit margin, or rate of return. This varies for each development. Commercial developers tend to seek a return on cost, usually expressed as a percentage of the total development cost. The residential sector seeks a return on the GDV, commonly referred to as the sales margin. Both return on cost and return on value have a direct relationship and are, therefore, interchangeable. Increasingly, and particularly in respect of large scale or lengthy developments, the internal rate of return is used. This is important when using projection (growth) models and further reference is made to this in Appendix D.

Appendix F: Glossary of terms

Affordable housing

All housing provided at below market value or market rental value. May include various forms of tenure, including: social rent, affordable rent, target rent, intermediate housing, shared equity, etc.

Acquisition/Disposal Costs

Cost associated with the acquisition or disposal of property usually including legal, agent and stamp duty land tax (SDLT) costs.

Alternative use value (AUV)

Where an alternative use can be readily identified as generating a higher value for a site, the value for this alternative use would be the market value with an assumption, as defined for Site Value for financial viability assessments for scheme specific planning applications (see also Appendix E).

Benchmark

A comparator for either the outputs or inputs into the appraisal, i.e. Site Value or developer's return, etc.

Building Cost Information Service (BCIS)

A subscriber service set up in 1962 under the aegis of RICS to facilitate the exchange of detailed building construction costs. The service is available from an independent body to those of any discipline who are willing and able to contribute and receive data on a reciprocal basis.

Building costs indices

A series of indices published by BCIS relating to the cost of building work. They are based on cost models of 'average building', which measure the changes in costs of labour, materials and plant which collectively cover the basic cost to a contractor.

Capital value

The value of a building or land as distinct from its rental value.

Cash flow

The movement of money by way of income, expenditure and capital receipts and payments during the course of the development.

CIL

Community Infrastructure Levy.

Clawback

See overage.

Comparable evidence

A property used in the valuation process as evidence to support the valuation of another property. It may be necessary to analyse and adjust in order to put it in a suitable form to be used as evidence for comparison purposes.

Competitive returns

A term used in paragraph 173 of the NPPF and applied to 'a willing land owner and willing developer to enable development to be deliverable'. A 'Competitive Return' in the context of land and/or premises equates to the Site Value as defined by this guidance, i.e. the Market Value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan. A 'Competitive Return' in the context of a developer bringing forward development should be in accordance with a 'market risk adjusted return' to the developer, as defined in this guidance, in viably delivering a project.

Contingent liabilities

See Re-appraisal.

Counter factual scenario

A scheme that is not that which is being proposed by a developer, but reflects alternative interpretation of planning policy, which can then be financially appraised and compared with the proposed scheme.

Current use value

Market value for the continuing existing use of the site or property assuming all hope value is excluded, including value arising from any planning permission or alternative use. This also differs from the Existing Use Value. It is hypothetical in a market context as property generally does not transact on a CUV basis, See Appendix E.

Current use value (Plus a premium)

Used by some practitioners for establishing Site Value. The basis is as with CUV but then adds a premium (usually 10% to 40%) as an incentive for the landowner to sell. However, it does not reflect the market and is both arbitrary and inconsistent in practical application.

Deferred payments

See overage.

Depreciation

The rate of decline in rental/capital value of an asset over time relative to the asset valued as new with a contemporary specification. See also obsolescence.

Discounted cash flow (DCF)

Discounted cash flow. See internal rate of return or net present value.

Development appraisal

A financial appraisal of a development to calculate either:

- the residual Site Value (deducting all development costs, including an allowance for the developer's profit/return from the scheme's total capital value); or
- the residual development profit/return (deducting all development costs, including the Site Value/cost from the scheme's total capital value).

Developer's profit

The amount by which, on completion or partial completion of a development, the estimated value or the price realised on sale of a developer's interest exceeds (or is less than) the total outlay, including such figure for the land as is considered appropriate in the circumstances (including accrued interest).

Developer's return for risk and profit

This return is commonly expressed as profit on cost; profit on value; development yield; and internal rate of return (see individual definitions). There are other, less used, proxies which may be referred to in certain circumstances. Each is appropriate as a method of interpreting viability.

Development risk

The risk associated with the implementation and completion of a development including post-construction letting and sales.

Development yield

Rental income divided by actual cost incurred in realising the development.

Discount rate

The rate, or rates, of interest selected when calculating the present value of some future cost or benefit.

Estimated rental value (ERV)

An estimate of the likely rental income to be generated from the scheme when fully let.

Existing use value

The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after properly marketing and where the parties had each acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause market value to differ from that needed to replace the remaining service potential at least cost.

It is an accounting definition of value for business use and as such, hypothetical in a market context, as property generally does not transact on an EUV basis (see also Appendix E).

Existing use value (plus a premium)

Used by some practitioners for establishing Site Value. The basis is as with EUV but then adds a premium (usually 10% to 40%) as an incentive for the landowner to sell. However, it does not reflect the market and is both arbitrary and inconsistent in practical application.

Gross development value (GDV)

The aggregate market value of the proposed development, assessed on the special assumption that the development is complete as at the date of valuation in the market conditions prevailing at that date.

Gross development cost (GDC)

The cost of undertaking a development, which normally includes the following:

- acquisition costs
- site-specific related costs
- build costs
- fees and expenses
- interest or financing costs; and
- holding costs during the development period.

A full list of typical costs is contained in VIP 12. See also Appendices C and E.

Gross external area (GEA)

The aggregate superficial area of a building, taking each floor into account. As per the RICS Code of Measuring Practice this includes: external walls and projections, columns, piers, chimney breasts, stairwells and lift wells, tank and plant rooms, fuel stores whether or not above main roof level (except for Scotland, where for rating purposes these are excluded), and open-side covered areas and enclosed car parking areas, but excludes: open balconies; open fire escapes, open covered ways or minor canopies; open vehicle parking areas, terraces, etc.; domestic outside WCs and coalhouses. In calculating GEA, party walls are measured to their centre line, while areas with a headroom of less than 1.5m are excluded and quoted separately.

Gross internal area (GIA)

Measurement of a building on the same basis as gross external area, but excluding external wall thicknesses.

Holding cost

The cost involved in owning a site or property, which may include such items as interest on finance used to acquire the asset, maintenance costs, empty rates, etc.

Hope value

Any element of open market value of a property in excess of the current use value, reflecting the prospect of some more valuable future use or development. It takes account of the uncertain nature or extent of such prospects, including the time which would elapse before one could expect planning permission to be obtained or any relevant constraints overcome, so as to enable the more valuable use to be implemented.

Inflation

As measured by the consumer or retail prices index or property related index, including the BCIS index.

Interest rate

The rate of finance applied in a development appraisal. As most appraisals assume 100 per cent financing, it is usual for the interest rate to reflect the total cost of finance and funding of a project, i.e. the combination of both equity and debt in applying a single rate.

Internal rate of return (IRR)

The rate of interest (expressed as a percentage) at which all future cash flows (positive and negative) must be discounted in order that the net present value of those cash flows, including the initial investment, should be equal to zero. It is found by trial and error by applying present values at different rates of interest in turn to the net cash flow. It is sometimes called the discounted cash flow rate of return. In development financial viability

appraisals the IRR is commonly, although not always, calculated on a without-finance basis as a total project IRR.

Local planning authority (LPA)

The determining authority of a given development project.

Market risk

The uncertainty resulting from the movement of the property market, irrespective of the property being developed.

Market risk adjusted return

The discount rate as varied so as to reflect the perceived risk of the development in the market.

Market value (MV)

The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Market value growth

The forecast growth of the capital value of the scheme.

NPPF

National Planning Policy Framework produced by the Department of Communities and Local Government in March 2012.

Net development value (NDV)

The GDV less acquisition costs.

Net cash flows

The free cash flows of the scheme after costs and taxes.

Net internal area (NIA)

The usable space within a building measured to the internal finish of structural, external or party walls, but excluding toilets, lift and plant rooms, stairs and lift wells, common entrance halls, lobbies and corridors, internal structural walls and columns and car parking areas.

Net present value (NPV)

The sum of the discounted values of a prospective cash flow, where each receipt/payment is discounted to its present value at a discount rate equal to a target rate of return or cost of capital. In the case of an investment, the formal definition of NPV is net of the initial investment, but the term is more commonly used colloquially to describe the NPV of the future cash flows (net income) and terminal value, which figure is compared with the purchase price in order to reach an invest-or-not decision. In the case of a development the term is more commonly used colloquially to describe the NPV of the future cash flows (costs less income, i.e. net income) and terminal (i.e. sale) value, which figure is compared with the purchase price of the site in order to reach an invest-or-not decision.

Net present value method

A method used in discounted cash flow analysis to find the sum of money representing the difference between the present value of all inflows and all outflows of cash associated with the project by discounting each at the criterion rate, e.g. the cost of capital.

Opportunity cost

The return or benefit of the next best choice foregone by pursuing an alternative action.

Outturn (growth) model

A development appraisal that has been adapted to forecast various inputs, usually both in respect of values and costs.

Overage (clawback)

A practice referred to as overage, clawback or deferred payments, and employed as a post development appraisal of the scheme in question. The practice is not considered appropriate as it cannot take account of risk, uncertainty and funding at the point of implementation. If re-appraisals are to take place, the guidance recommends this is undertaken prior to implementation (see Re-appraisal)

Oversailing licences

Where a crane, for example, is required to use air space over neighbouring properties.

Party wall costs

All costs and professional fees associated with appointment of the building owner and adjoining owner's surveyors, service and receipt of notices, selection of the third surveyor, negotiation and agreement of the party wall award, taking and recording any schedules of condition, additional consultant's fees (i.e. structural engineer, etc), fees arising in the event of damage occurring as a result of the work described within the award and concluding the award and checking off any schedules of condition.

Planning obligation

Provided for under section 106 of the *Town and Country Planning Act* 1990, usually in connection with the grant of planning permission for a private development project. A benefit to the community, either generally or in a particular locality, to offset the impact of development, e.g. the provision of open space, a transport improvement or affordable housing. The term is usually applied when a developer agrees to incur some expenditure, surrender some right or grant some concession which could not be embodied in a valid planning condition.

Pre-lets and pre-sales

Where a developer of a scheme, usually prior to implementation, has agreed lettings with occupiers or sales of part of the whole of the development.

Profit on cost

The profit of the scheme expressed as a percentage of cost. This has a direct relationship to profit on value.

Profit on value

The profit of the scheme expressed as a percentage of the scheme's value. This has a direct relationship to profit on cost.

Property specific risk

The uncertainty attached to the intrinsic development of a site or property in addition to the general market risk.

Rateable value

The figure upon which the uniform business rate is charged.

Rental value

The income that can be derived under a lease or tenancy for use of land or a building.

Red Book

The *RICS Valuation – Professional Standards 2012* (Formerly *RICS Valuation Standards*).

Re-appraisals

Appraisals undertaken prior to implementation of a development in order to assess viability before actual development.

Residual appraisals

See development appraisals.

Residual Site Value or residual land value

The amount remaining once the GDC of a scheme is deducted from its GDV and an appropriate return has been deducted.

Residual valuation

A valuation/appraisal of land using a development appraisal.

Return (on capital)

The ratio of annual net income to capital derived from analysis of a transaction and expressed as a percentage.

Review mechanisms

See Re-appraisals.

Rights to light

An easement which entitles the owner of the dominant tenement to adequate natural light to a window from the adjoining land. It is appropriate to include as a development cost, compensation for loss of rights of light to neighbouring properties in respect of the particular scheme being appraised.

RSL/RP

Registered social landlord/registered provider.

Sensitivity analysis

A series of calculations resulting from the residual appraisal involving one or more variables, i.e. rent, sales values, build costs, which are varied in turn to show the differing results.

Sensitivity simulation

A simulation analysis considers the probability of outcomes given certain variances applied to key inputs within the financial appraisal through a stochastic process. It can quantify the robustness of a development in terms of various outputs including risk and return.

Site Value (for financial viability assessments for scheme specific planning applications)

Market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan.

Site Value (for area wide financial viability assessments)

Site Value (as defined above) may need to be further adjusted to reflect the emerging policy/CIL charging level. The level of the adjustment assumes that site delivery would not be prejudiced. Where an adjustment is made, the practitioner should set out their professional opinion underlying the assumptions adopted. These include, as a minimum, comments on the state of the market and delivery targets as at the date of assessment.

(For first assumption of Site Value for financial viability assessments for scheme specific planning applications – see also paragraph 3.3.3.)

Social and intermediate housing

As defined by government guidance or in statute.

Speculative developments

Developments which are commenced prior to any agreed sales or lettings.

Standing investments

Properties which are income producing, usually with a tenant in occupation.

Synergistic value

See Appendix E.

Target profit

The level of return considered to be the minimum acceptable.

Tender price indices

A series of indices, published by BCIS, relating to the level of prices likely to be quoted at a given time by contractors tendering for building work, i.e. it reflects the impact of market conditions on the tenderer's decision whether to bid at a high, low or average level relative to building costs.

Threshold land value

A term developed by the Homes and Communities Agency (HCA) being essentially a land value at or above that which it is assumed a landowner would be prepared to sell. It is not a recognised valuation definition or approach.

'Toolkit' appraisal

A generic term often used when undertaking financial viability testing in planning. Sometimes applied to financial models that have been developed to try and standardise the exercise when presenting to local authorities, e.g. the HCA Economic Assessment Toolkit (EAT).

Vacant possession

The attribute of an empty property, which can legally be exclusively occupied and used by the owner or, on a sale or letting, by the new owner or tenant.

Viability assessments/financial viability

A report including a financial appraisal to establish the profit or loss arising from a proposed development. It will usually provide an analysis of both the figures inputted and output results, together with other matters of relevance. An assessment will normally provide a judgment as to the profitability (or loss) of a development.

Weighted average cost of capital (WACC)

The minimum return a company should earn in respect of an asset by reference to relative weight of equity and debt within its capital structure.

Yield

As applied to different commercial elements of a scheme, i.e. office, retail, etc. Yield is usually calculated as a year's rental income as a percentage of the value of the property.

Appendix G: FAQs for users of viability assessments

G1 What should a financial viability assessment (FVA) look like and what should be expected?
A FVA will vary from planning application to planning application. It should, however, contain a level of information that is reasonable and appropriate in the circumstances. The FVA will contain a number of sections and should, in the first instance, clearly set out what is being tested, the methodology and approach, and link it back to the underlying planning policy framework. All inputs should be justified in the financial model with agents and professional reports appended as necessary. The outputs from the appraisal should be analysed and tested in order to reach a fully justified conclusion. (Reference: 2.5.1, 4.2, Appendix C)
G2 Does an FVA need to be undertaken by a chartered surveyor?
No. A suitably qualified chartered surveyor or professional practitioner can undertake FVAs. Where considering the underlying Site Value, a chartered surveyor is likely to be beneficial to the process, given the core skill sets required. (Reference: 3, 4.2)
G3 Does the FVA need to include a 'toolkit' model such as the HCA Development Appraisal Tool or similar?
The guidance does not advocate a particular financial model. It is up to the practitioner in the first instance to use what they consider to be the most appropriate model for the application scheme being financially assessed. (Reference: 2.5.3)
G4 Is it necessary to employ a viability consultant to undertake a review of the applicant's FVA?
Given the complexities of development appraisals, it is recommended in most cases that an applicant and/or local authority seek advice from a suitably qualified practitioner. (Reference: 2, 4.2)
G5 How much influence can be exerted over the consultant in terms of the council's/ applicant's aspiration for negotiation purposes?
The guidance recommends that practitioners are reasonable, transparent and fair in objectively undertaking or reviewing FVAs. Where possible, differences of opinion should be resolved between consultants acting for the applicant and the council. Once the financial position has been established and agreed between consultants, this does not preclude further negotiation between the council and the applicant having regard to all material planning considerations. (Reference: 4.5)
G6 The FVA has used an EUV plus approach to land value. Is this wrong?
The guidance recommends the FVAs should be undertaken having regard to market value with an assumption. While the practice of using EUV plus is flawed, it is possible that both approaches could end up with the same answer as to the Site Value for the purposes of the FVA. (Reference: 3.4, Appendix E)

G7 As an authority, the core housing strategy is based on an EUV plus basis rather than MV (with assumptions), which is used in the site specific appraisal. How are the two reconciled?

The core strategy is an area-wide document, which should be tested accordingly including market value (with assumptions). It should also accord with the NPPF. Site-specific appraisals are, again, appraised, having regard to the intrinsic nature of the development and market value (with assumption). Even where a site-specific appraisal has adopted EUV plus in accordance with a core strategy, values may or may not be reconciled. Professional advice is recommended should this become an issue. (Reference: Appendix E)

G8 The regional authority has intimated they wish to see FVAs based on an EUV plus basis. How does this fit with this guidance note?

The regional authority is entitled to produce guidance or otherwise advocating how they wish to see the basis of FVAs undertaken. This should be in accordance with the NPPF. As the RICS GN is consistent with the NPPF where regional guidance differs from the RICS GN, for example, in respect of Site Value, it is recommended that the authority sets out their reasons and rationale for justifying a departure in order to assist applicants and inspectors at inquiries. (Reference: Appendix E)

G9 Is the RICS GN consistent with the NPPF?

The guidance is in accordance with the NPPF and a number of references are made to this policy and how it relates to FVAs. (Reference: 1, Appendix A)

G10 Can the applicant insist on parts, or the entirety, of the FVA remaining confidential?

FVAs often contain confidential information which, if discussed in the public forum, would be prejudicial to an applicant. It has become standard practice, backed up by recent case law, for commercially sensitive information to be classified as confidential. This may result in parts of the FVA being redacted for the purposes of the public inquiry. It would be unusual for the entire contents of the FVA to be classified as confidential. Confidential information may be passed to the Council's consultant to review and advise upon accordingly. (Reference: 4.3)

G11 How should local authority decision takers be reported to on matters that an applicant considers are confidential?

These may be outlined by the Council's consultant in any report without disclosing the confidential nature of the information. It can be mentioned that advice has been sought on this information, in the context of the FVA, from the Council's consultant. Sometimes information can be reported in aggregate form, thereby avoiding individual figures becoming public. (Reference: 4.3)

G12 The applicant and the council's consultants have not been able to agree on the FVA. How can this be resolved?

The guidance recommends that the participants should seek to resolve differences of opinion. Where disputes are unable to be resolved, the applicant and council may seek the opinion of a third party. (Reference: paragraphs 4.4)

G13 How should the council's consultant be briefed on undertaking a due diligence exercise on the applicant's FVA in the first instance?

During pre-application meetings between the applicant and the council, it is usual for the scope of the FVA exercise to be identified. This will form both the basis of the FVA and the consultant's brief for undertaking the due diligence exercise. (Reference: 2)

G14 Should council officers be attending meetings between the council's consultant and the applicant and their consultant?

This is entirely open to be agreed between the parties as to how to progress matters in the most sensible and appropriate way. It is usual for both parties' professional consultants to meet, without principals in attendance, to discuss technical matters. (Reference: 4)

G15 Is a local authority obliged to let the applicant see a copy of the council's consultant's report before (or after) the committee to consider the application? Is it sensible for this to be in draft form in the first instance?

It is recommended that applicants are allowed to review the contents of a due diligence report. This allows for errors and matters of fact to be corrected. It may also assist in certain instances in reconciling differences of opinion. If the report is kept in draft, this assists in this process. (Reference: 4.5.2)

G16 Is sensitivity checking of the results from an FVA important in my considerations in viability planning terms?

For many, if not most, development proposals that are the subject of planning applications, there remains uncertainty and future risk. It is therefore appropriate to test sensitivities within the financial model in order to form an appropriate judgment as to the robustness of the outcome and likely variance. (Reference: 2, 3.6.6, Appendix D)

G17 Where a 'pot' has been identified as to what the scheme can reasonably deliver and remain viable, should the consultant be expected to divide this up (say between affordable housing and other planning obligations) or is that a matter for the council in negotiation with the applicant?

It is usual for both the applicant's and council's consultant to identify the magnitude of the 'pot'. In certain instances, the consultants may also be able to offer advice on division. In other instances, this may be more appropriate for subsequent negotiation between the council and the applicant (and their advisers). (Reference: 2, 4)

G18 Are FVAs only required for affordable housing applications?

No. There are a number of instances where FVAs may be required to assist the planning process. (Reference: 1.5.2)

G19 When should applicants be providing FVAs based on growth expectations?

This may occur where there are schemes of long duration or could be in instances where a development may have a regenerative impact which will impact on values that cannot be evidenced on a current day basis. (Reference: 3.6.5)

G20 Are there situations where re-appraisals of viability are appropriate?

As with growth appraisals. In addition, where growth models cannot be used, it may be more appropriate to review the viability of the application scheme prior to implementation of development. (Reference: 3.6.4)

G21 Can the council suggest 'overage' clauses in Section 106 Agreements?

No. The guidance sets out why this practice is inappropriate and why re-appraisals prior to implementation are the appropriate way of reviewing the scheme viability in a planning context. (Reference: 3.6.4)

G22 Can the EUV plus or AUV of the land/property input be equivalent to MV (with assumption)?

Yes. In arriving at the market value with assumption, the practitioner will have regard to the current use of the site (and alternative uses). In certain circumstances, market value with the assumption may equate to the EUV plus or the AUV of the site. It should be noted, however, that EUV cannot be evidenced in the market and the mark up ('plus') is arbitrary. (Reference: 3, 3.4, Appendix E).

G23 Is there any empirical evidence to support the appropriate return/profit?

There is very little evidence. It is often an assumed market benchmark based on common practice. The Investment Property Databank (IPD) have recently produced the first and only study on development returns from 1983 to date. There are alternative approaches to seeking to justify an appropriate return based on the specific risk of a particular scheme. Target rates of return should be contra-cyclical. (Reference: Appendix D, Appendix E)

G24 Should the output from the appraisal be a profit/return or residual land value?

It can be either. Both are measures of viability. (Reference: 2, 3)

G25 How important are previous appeal decisions and case law in reviewing FVAs?

The guidance has not sought to reference any appeal decisions or case law. It is recognised that there was a lack of previous guidance in this area for decision makers to rely upon. (Reference: Chair of Working Group Statement)

G26 Are RICS members bound by the RICS GN in producing a FVA? What about other practitioners?

Members of RICS are not bound to follow the guidance note. It is up to individual members to decide on the appropriateness in the circumstances. Where a member does depart from the guidance, they should do so only for good reason. Other practitioners are not bound by the guidance, but in the absence of relevant alternative guidance, again reasons for departure from this guidance should be set out. (Reference: RICS guidance notes).

G27 How does the RICS GN deal with area-wide studies such as producing CIL charging schedules and Local Plan testing?

This is set out in 2.4. Practitioners are also directed to the Local Housing Delivery Group guidance (facilitated by the HCA and produced by the Local Government Association and the Home Builders Federation)

G28 Does the RICS GN prescribe a particular financial model for use with FVAs?

No. This is up to the individual practitioner to adopt as appropriate. In some instances, it may be necessary to set out why a particular financial model is to be used with reasoned justification. (Reference: 2.5.3)

G29 How important is the analysis around the inputs into the model and outputs in FVAs?

This guidance note considers this to be fundamental to justifying both the level and variance of inputs but also the sensitivity around the output in formulating a reasoned judgment on viability. (Reference: 2.4)

G30 Should all inputs be evidenced or backed up with supporting information?

Yes, (Reference: 4.2, Appendix C) but professional opinion and support from suitable qualified practitioners is considered appropriate where there is limited quantitative evidence.

G31 How do viability consultants benchmark the outputs of the financial model in the FVA?

This will often have regard to the risk of a particular scheme, and therefore appropriate return, and/or comparable information such as land values. The professional expertise and knowledge of the practitioner, together with their suitability to deal with a particular application scheme are considered important. Benchmarks need to be fully justified and appropriate to the particular circumstances. (Reference: 4)

G32 How important is comparable evidence in arriving at the land/property value?

It is an essential consideration in formulating an appropriate professional judgment of Site Value for the application scheme. Often, it is necessary to analyse and adjust comparable evidence in order to put it in a suitable form to be used for comparison purposes. (Reference: 3.4)

G33 How much does a due diligence report on a FVA cost and who should be paying?

This depends on the complexity of the exercise. In some cases, the applicant reimburses the council for costs incurred in obtaining a due diligence report on a FVA submitted. (Reference: 4)

G34 Are rights of light payments a legitimate cost?

Yes. It is appropriate to include, as a development cost, compensation for loss of rights of light to neighbouring properties in respect of the particular scheme being appraised. (Reference: Appendix F)

G35 Are vacant possession costs (i.e. to compensate tenants, etc.) a legitimate cost?

Yes. It is a cost incurred by a developer in order to be able to implement a development by agreeing terms to vacate by existing tenants. (Reference: Appendix F)

G36 Should the FVA take account of who the applicant is in terms, for example, of their ability to secure finance, other preferential terms or specific skill attributes?

No. The FVA should disregard who the applicant is, except in exceptional circumstances. (Reference: 2.5.2)

G37 Can the council engage in a pre-application FVA with an applicant and is the outcome then binding?
No. Financial viability is only one of the material considerations in determining a planning application. The council may disagree with their consultant and will need to state why this is the case in any committee report in making a recommendation. (Reference: 4)
G38 Can the council refuse to register an application because of an inadequate FVA or if none is provided?
Yes. The guidance encourages this practice as informing the planning process and reducing uncertainty. The outcome cannot be binding as the council will determine the application in the normal way. In most cases, the outcome of a FVA (following a due diligence report by the council's consultant) will be a material consideration in determining a planning application. (Reference: 4)
G39 Assuming both the applicant's and council's consultants are in agreement, does this mean the applicant and council are bound by the outcome?
This will depend upon the nature of the planning application and importance of the FVA as a material consideration in determining the application. (Reference: 1, 2, 3 & 4)
G40 Does the RICS GN recognise that in order to grant planning permission, essential planning mitigation must be undertaken notwithstanding financial viability?
Yes. This will usually be set out in a FVA as part of the planning application. (Reference: 2)
G41 Will the RICS GN be subject to periodic updates?
Yes. It is intended to be updated as required and necessary.
G42 It has been argued that MV with the assumption is circular in arriving at a Site Value. Is that correct?
No. It is possible to formulate a judgment on Site Value using market value with the assumption. Chartered surveyors regularly provide such valuations in practice. The guidance sets out the methodology framework and considerations in order to arrive at a Site Value including reference to comparable evidence. (Reference: 3, Appendix E)
G43 How does the RICS GN fit with other policy and previous guidance on viability assessments?
The RICS guidance is a standalone document, setting out best and recommended practice in the context of the planning system in England. It has reference to planning policy which forms the framework for the guidance note. (Reference: Chair of Working Group)
G44 Can FVAs be updated during the planning process?
Viability assessments may occasionally need to be updated due to market movements or changes in the scheme during the planning process. (Reference: 3.5)
G45 In obtaining a fee quote for undertaking a financial viability assessment, can these be performance related or conditional on the outcome?
RICS in the context of this guidance note discourages the practice of performance related fees as this would clearly impair objectivity and the ability to resolve differences of opinion to assist the planning process. In addition, this would be contrary to GN20, *Conditional Fees of Surveyors Acting as Expert Witnesses* (2009), should a scheme specific planning application proceed to Appeal. The guidance note also suggests ways to resolve disagreements in respect of viability assessments through either mediation, arbitration or expert determination, which is also subject to the above guidance on conditional fees. (Reference: 4.5.4)

References

1 The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after properly marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

2 Where viability is being used to test and inform planning policy it will be necessary to substitute 'a development project' and 'project' into the wider context.

3 See note 1.

4 See note 1.

5 National Planning Policy Framework (paragraph 173).

6 See note 1.

7 Adapted from W.D. Fraser "Principles of Property Investment and Pricing (2nd Edition, 2003)

8 RICS Research 'A review of the practical uses of real property options' (Volume 5 No. 1 April 2005)

RICS | the mark of property professionalism worldwide

rics.org

RICS HQ

Parliament Square
London SW1P 3AD
United Kingdom

Worldwide media enquiries:

e pressoffice@rics.org

Contact Centre:

e contactrics@rics.org
t +44 (0)870 333 1600
f +44 (0)20 7334 3811

Advancing standards in land, property and construction.

RICS is **the world's leading qualification** when it comes to professional standards in land, property and construction.

In a world where more and more people, governments, banks and commercial organisations demand greater certainty of **professional standards and ethics**, attaining RICS status is the recognised **mark of property professionalism**.

Over **100 000 property professionals** working in the major established and emerging economies of the world have already recognised the importance of securing RICS status by becoming members.

RICS is an **independent** professional body originally established in the UK by Royal Charter. Since 1868, RICS has been committed to setting and upholding the **highest standards** of **excellence** and **integrity** – providing **impartial, authoritative advice** on key issues affecting businesses and society.

RICS is a **regulator** of both its individual members and firms enabling it to **maintain the highest standards** and providing the basis for **unparalleled client confidence** in the sector.

RICS has a worldwide network. For further information simply contact the relevant RICS office or our Contact Centre.

Europe (excluding United Kingdom and Ireland)
Rue Ducale 67
1000 Brussels
Belgium

t +32 2 733 10 19
f +32 2 742 97 48
ricseurope@rics.org

Asia
Room 2203
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

t +852 2537 7117
f +852 2537 2756
ricsasia@rics.org

Americas
One Grand Central Place
60 East 42nd Street
Suite 2810
New York 10165 – 2811
USA

t +1 212 847 7400
f +1 212 847 7401
ricsamericas@rics.org

United Kingdom
Parliament Square
London SW1P 3AD
United Kingdom

t +44 (0)870 333 1600
f +44 (0)207 334 3811
contactrics@rics.org

Africa
PO Box 3400
Witkoppen 2068
South Africa

t +27 11 467 2857
f +27 86 514 0655
ricsafrica@rics.org

Ireland
38 Merrion Square
Dublin 2
Ireland

t +353 1 644 5500
f +353 1 661 1797
ricsireland@rics.org

Oceania
Suite 2, Level 16
1 Castlereagh Street
Sydney, NSW 2000
Australia

t +61 2 9216 2333
f +61 2 9232 5591
info@rics.org.au

Middle East
Office G14, Block 3
Knowledge Village
Dubai
United Arab Emirates

t +971 4 375 3074
f +971 4 427 2498
ricsmenea@rics.org

India
48 & 49 Centrum Plaza
Sector Road
Sector 53, Gurgaon – 122002
India

t +91 124 459 5400
f +91 124 459 5402
ricsindia@rics.org