



**BNP PARIBAS  
REAL ESTATE**

| Real Estate for a changing world

# **Viability appraisals and planning decisions**

Anthony Lee



- How viability is determined
- What are the key drivers in the market?
- The issue of 'static' nature of viability
- Impact of Starter Homes on 'traditional' affordable supply



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## How viability is determined



# What are the key drivers for landowners

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- ▶ Common ground – LPA and developers need land
- ▶ Landowners therefore need to release it into the market
- ▶ Mayoral candidates *'we are going to enforce AH targets'*



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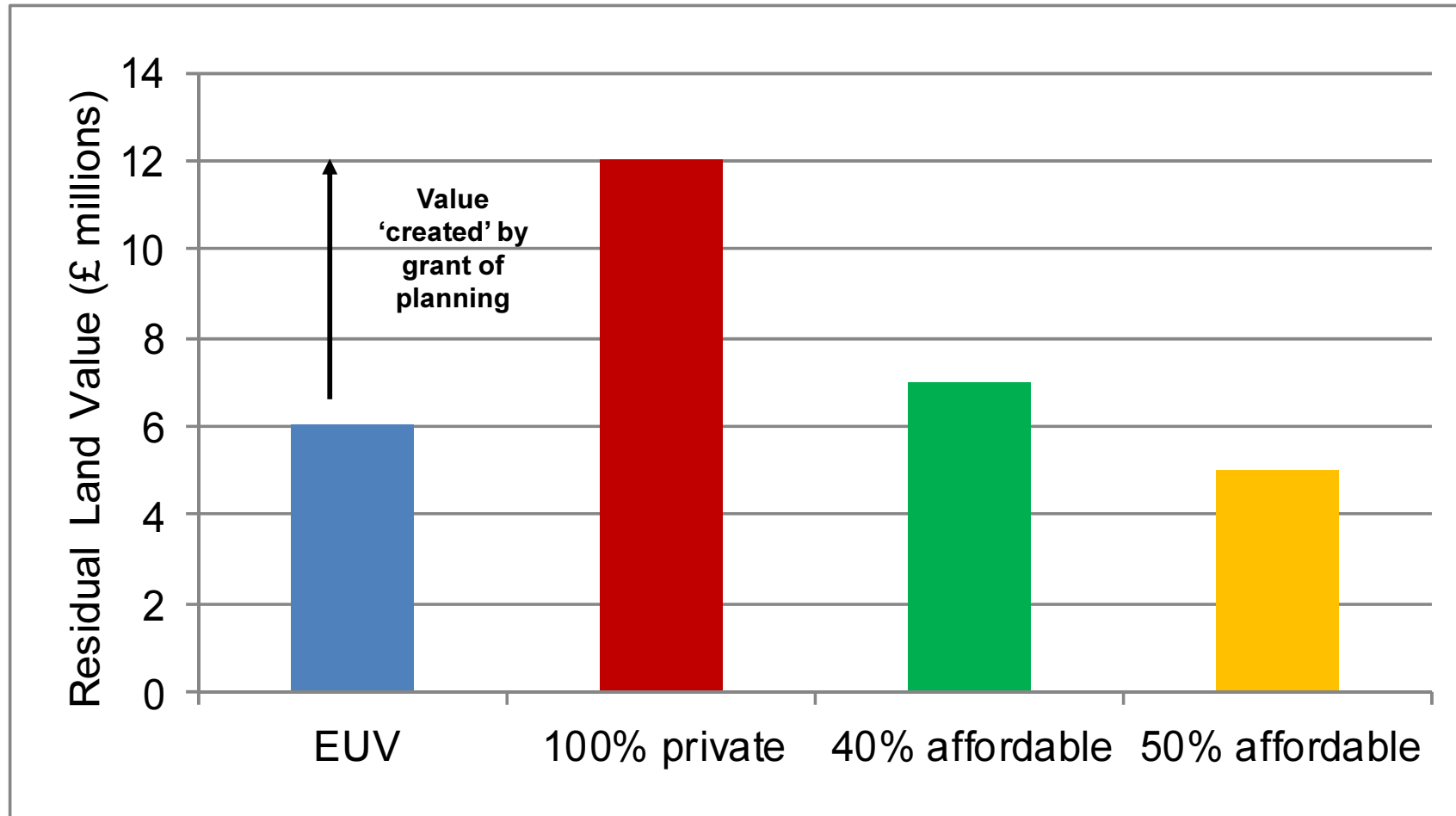
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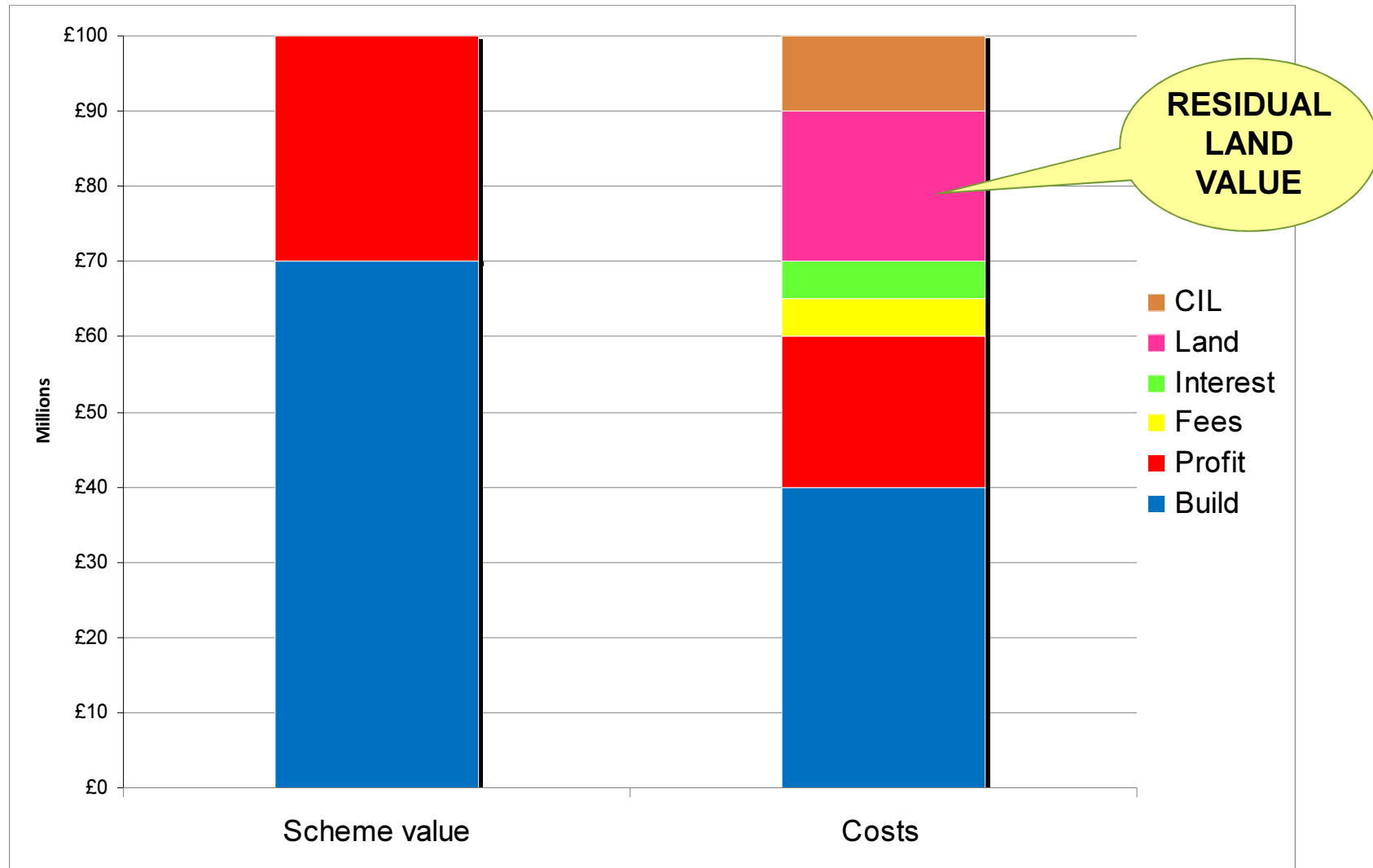
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# Viability and sharing in land value uplift



# What information does an appraisal generate?





- ▶ Lewisham Core Strategy policy – 50% AH *subject to viability*
- ▶ Schemes providing less than 50% can be policy compliant
- ▶ Viability ‘caveat’ essential to convince Inspector to accept policy
  
- ▶ Onus on developer to prove why policy target cannot be met
- ▶ Independent analysis to scrutinise case put forward



## ► Evidence

- Sales values (unit by unit pricing; average for development)
- Affordable housing values (tenure mix; affordability criteria)
- Commercial rents and yields
- Build costs
- Fees

## ► Benchmark land values

- Rent levels
- Demand
- Yield
- Premium

## ► Timing

- Sales and sales rates; off-plan sales
- Affordable housing payments from RP
- CIL – fixed and no scope for varying timing on individual developments
- Section 106 payments and delivery of other obligations



# 2

## **‘Shelf-life’ of appraisals**



### ➤ **LPAs' negotiating position severely weakened by**

- ▶ NPPF (prioritises delivery)
- ▶ RICS guidance (prioritises returns to landowners over planning)
- ▶ Lack of grant
- ▶ Recovering demand for and value of commercial floorspace

### ➤ **LPAs increasingly turning to review mechanisms**

- ▶ Members sceptical of viability
- ▶ Perception that developers doing very well 'down-stream'
- ▶ A means of redressing the imbalance

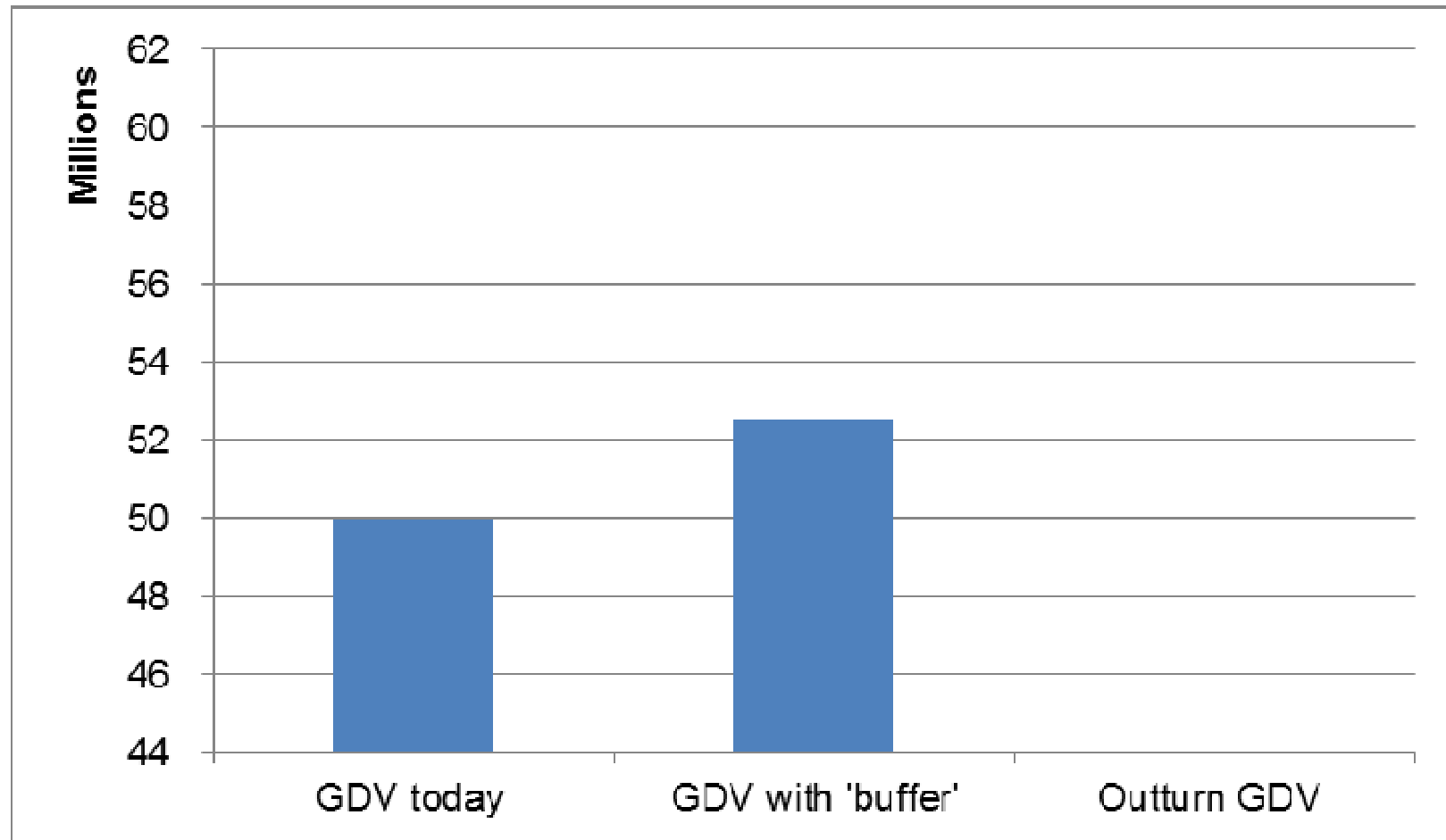
### ➤ **Growth/sensitivity analysis an alternative**



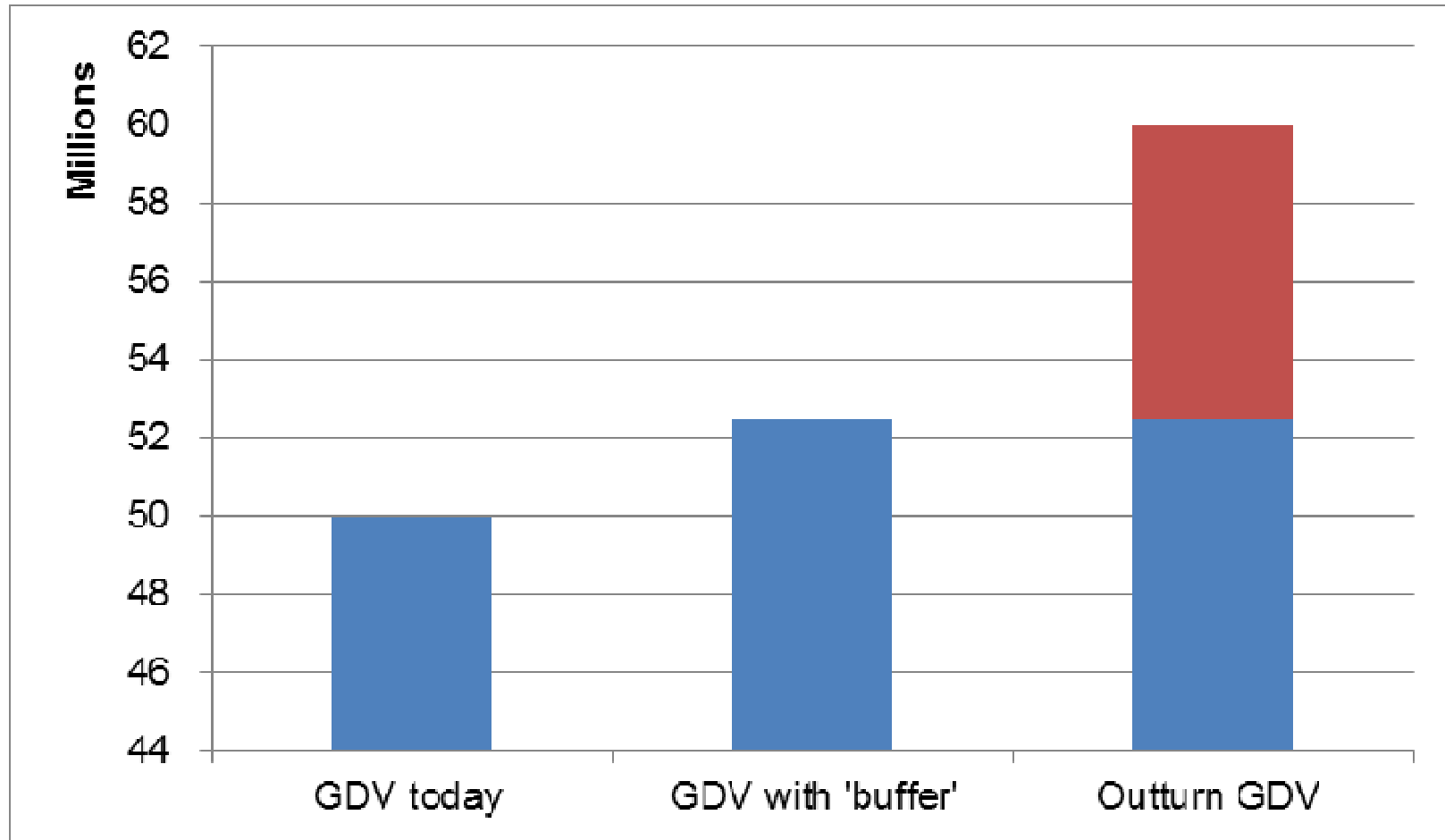
- **Unpopular with developers but carry no risk**
- **Must be structured to share 'super-profit'**
- **Capped payments – replacing lost AH, not profit share**
- **No funding problems – understanding is key**
- **BUT how open book is the end of scheme appraisal?**
- **Where/how to invest the payment (if any)?**
- **Upwards only now, but will they remain so?**



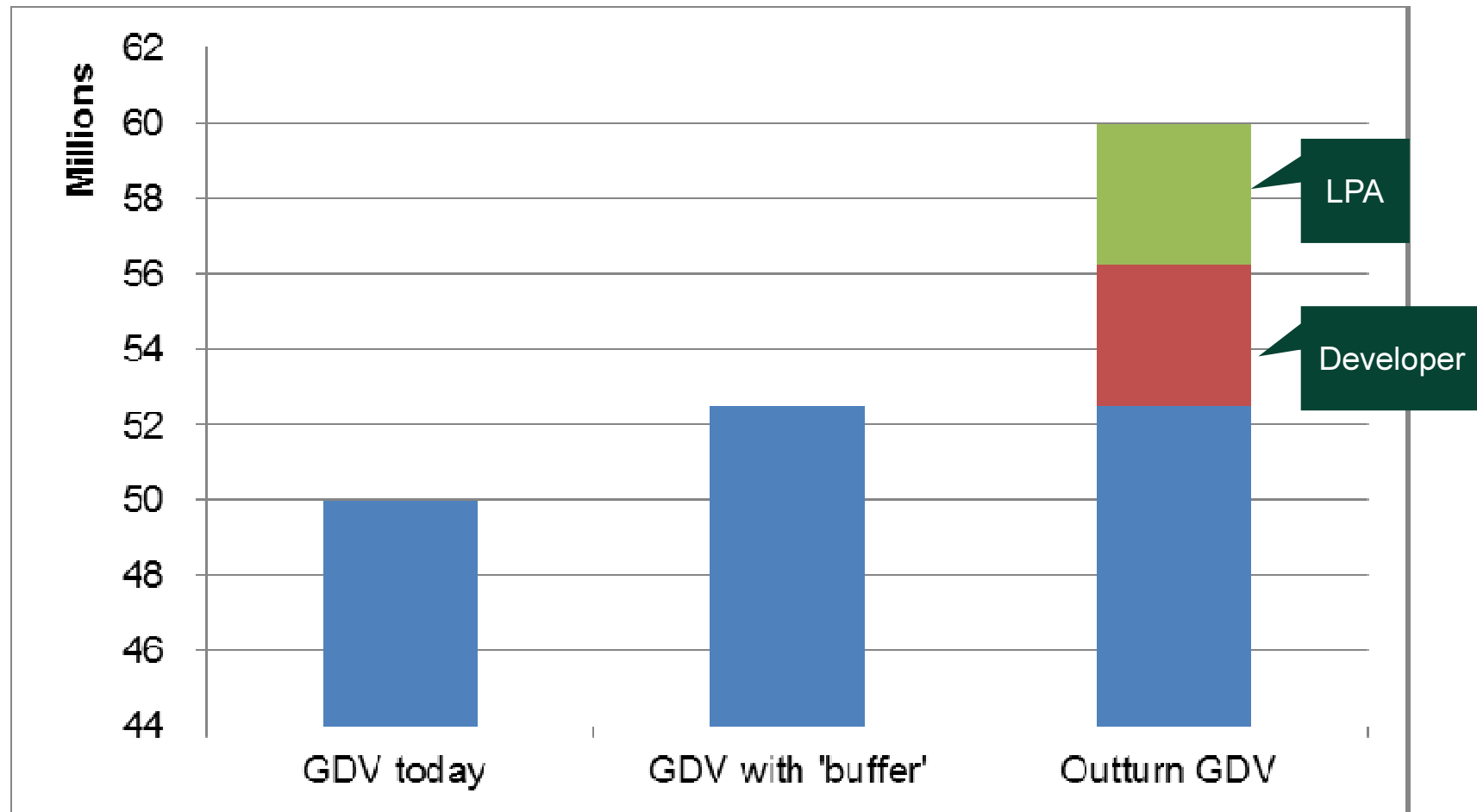
# Growth and review mechanisms



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# Growth and review mechanisms





# 3

## **The Housing Bill: ‘Starter Homes’**



## ➤ Details so far

- Aim to deliver 200,000 Starter Homes for FTBs under 40
- 20% discount with £450k cap in London
- Statutory duty upon LPAs to '*promote supply*' of Starter Homes
  - In Local Plans
  - In decision making on planning applications
- PP can only be granted if Starter Homes included
- Requirements may differ between types of sites/areas
- Compliance directions if LPA does not cooperate



## ➤ Ministerial comments

- Brandon Lewis
  - Govt still expects delivery of rented and intermediate housing
  - Starter Homes will not replace other tenures
- David Cameron
  - Expects some homes to be available below price caps
  - £150,000 and £200,000, not all at £450,000 / £250,000



# 4

## **Potential impact of Starter Homes on delivery of 'traditional' affordable housing**



# What impact will Starter Homes have on viability?

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## ► Key issues:

- Do Starter Homes improve viability?
- Will Starter Homes squeeze out other tenures?
- What impact will affordability have on Starter Homes?



## Testing the impact of Starter Homes

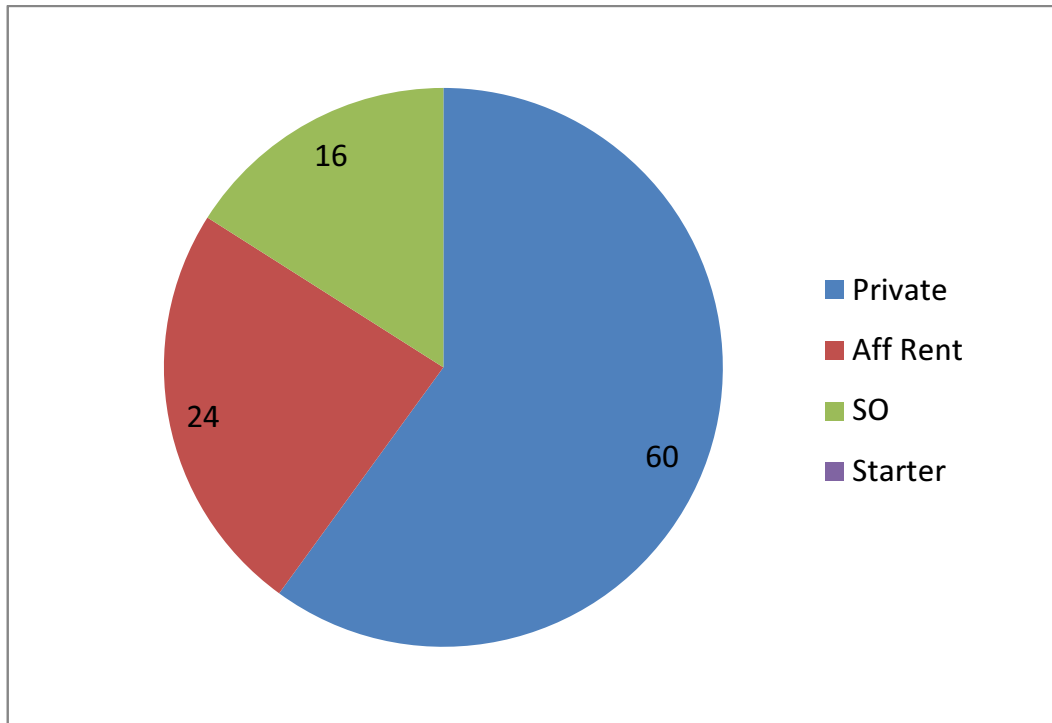
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- **100 two bed units**
- **Current policy requirement 40% affordable housing**
- **Market values = £800 psf**
- **Affordable rent values = £240 psf**
- **Intermediate = £352 psf**
- **Starter Homes = 80% of MV (just under £450,000)**
- **Benchmark land value = £12.5 million**



# Testing the impact of Starter Homes

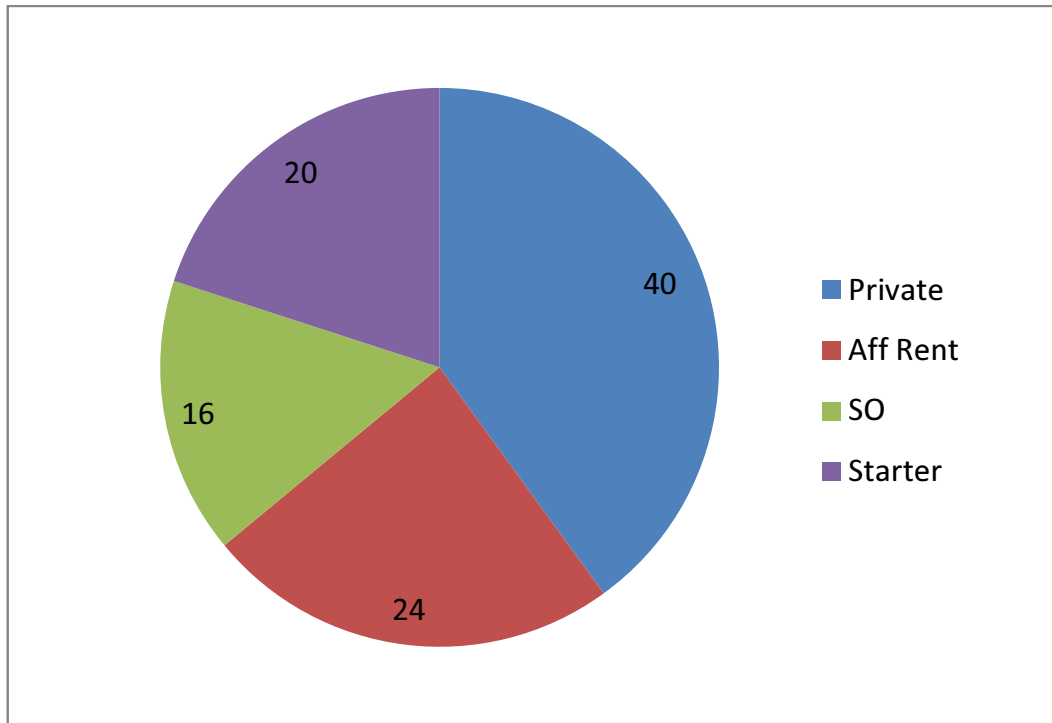
## ▶ Base viability



Private	33,600,000
Rented	4,032,000
Intermediate	3,942,400
Starter Homes	-
<b>Total income</b>	<b>41,574,000</b>
Development costs	21,914,751
Profit	7,198,464
Residual	12,460,785

# Testing the impact of Starter Homes

## ▶ 20 Starter Home units @ £450k cap

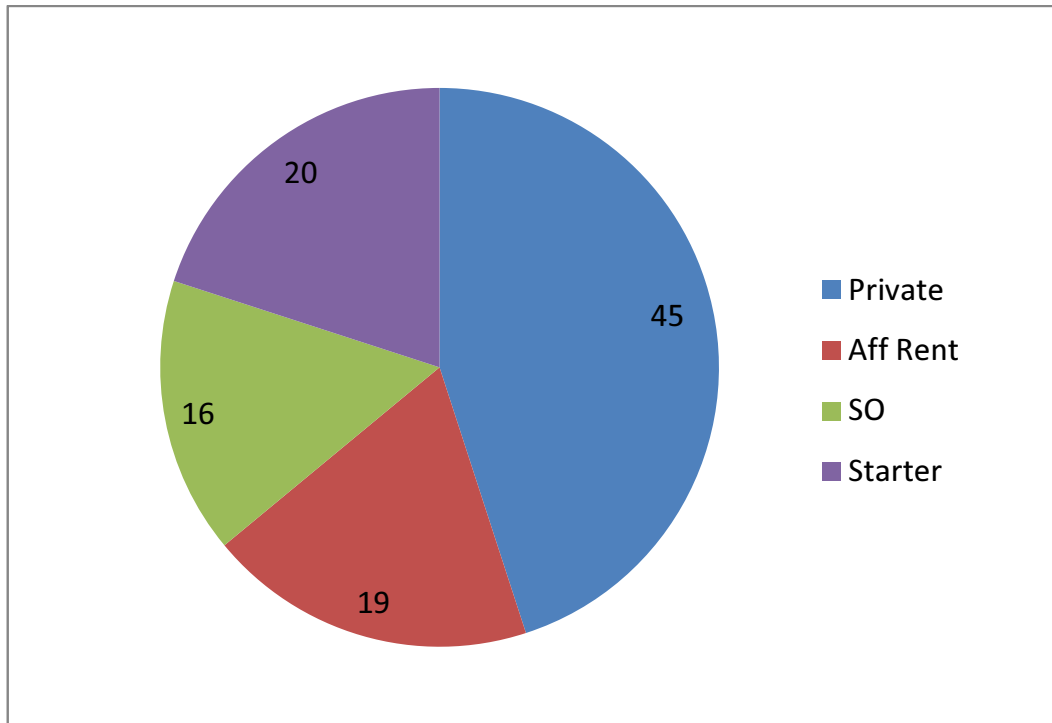


Private	22,400,000
Rented	4,032,000
Intermediate	3,942,400
Starter Homes	8,960,000
<b>Total income</b>	<b>39,334,000</b>
Development costs	21,361,266
Profit	6,750,464
Residual	11,222,670
<b>SHORTFALL</b>	<b>-1,277,330</b>



# Testing the impact of Starter Homes

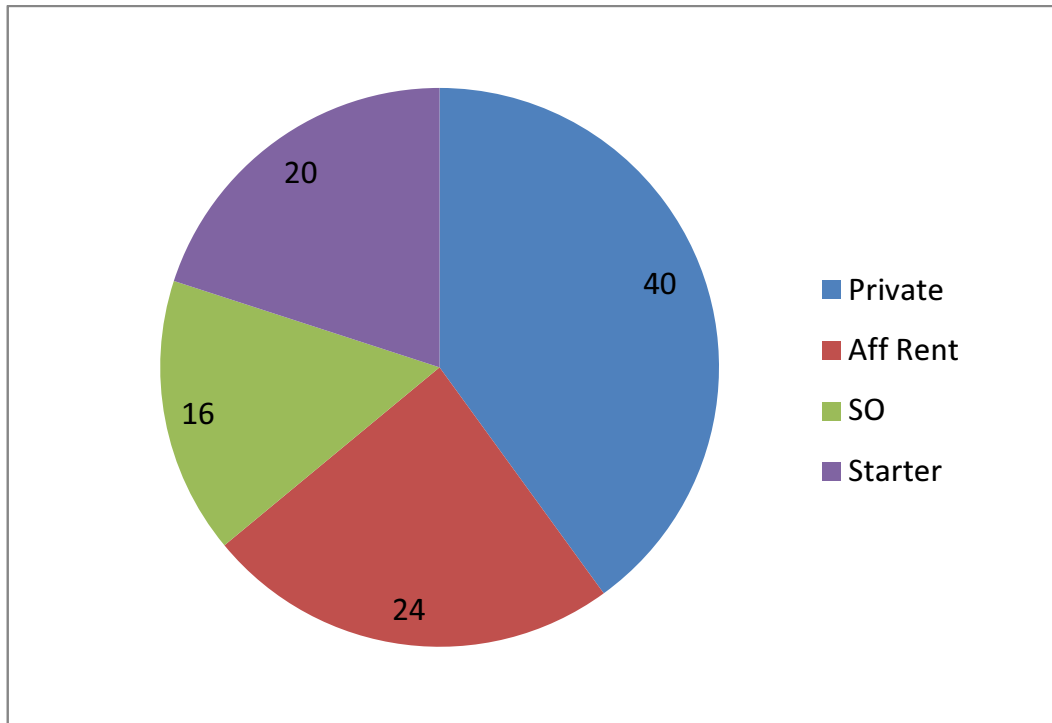
## ➤ 20 Starter Home units @ £450k cap – reduced AH



Private	25,760,000
Rented	3,024,000
Intermediate	3,942,400
Starter Homes	8,960,000
<b>Total income</b>	<b>41,686,400</b>
Development costs	21,780,861
Profit	7,361,984
Residual	12,543,555
<b>SHORTFALL</b>	<b>n/a</b>

# Testing the impact of Starter Homes

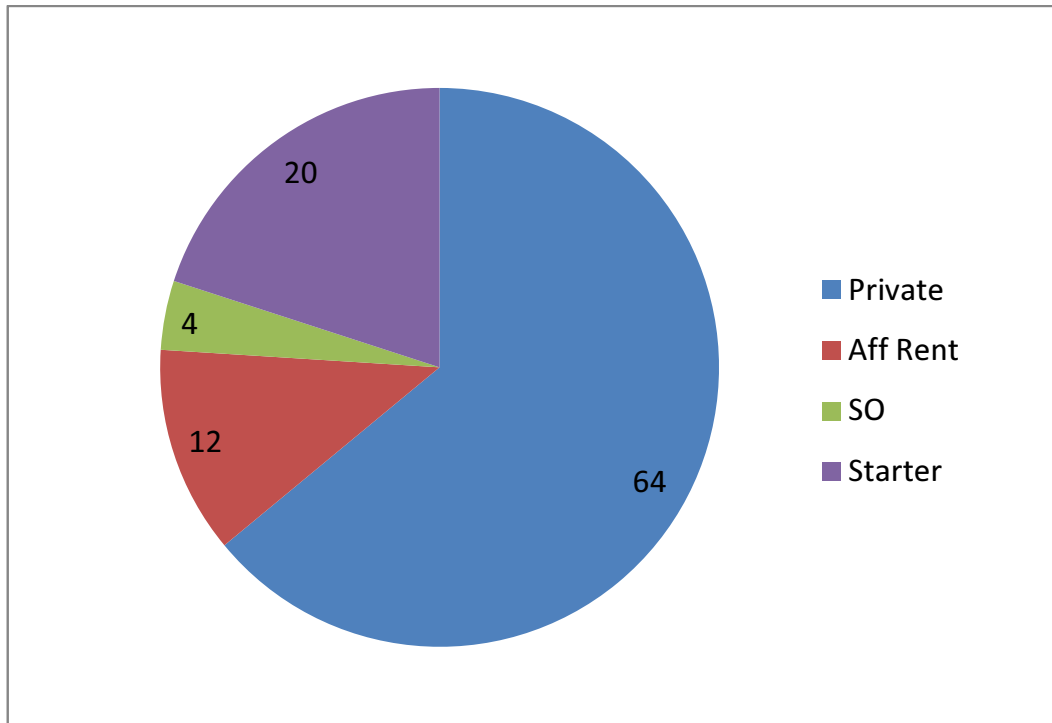
## ▶ 20 Starter Home units @ £200k cap



Private	22,400,000
Rented	4,032,000
Intermediate	3,942,400
Starter Homes	4,000,000
<b>Total income</b>	<b>34,374,400</b>
Development costs	20,763,408
Profit	5,758,464
Residual	7,852,528
<b>SHORTFALL</b>	<b>-4,647,472</b>

# Testing the impact of Starter Homes

## ➤ 20 Starter Home units @ £200k cap – reduced AH



Private	35,480,000
Rented	2,016,600
Intermediate	985,600
Starter Homes	4,000,000
<b>Total income</b>	<b>42,841,600</b>
Development costs	22,376,035
Profit	8,148,096
Residual	12,317,469
<b>SHORTFALL</b>	<b>n/a</b>

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## Key messages



- ▶ Cutting S106 and AH is not the only way of improving viability
- ▶ Planning as an obstacle to growth – land value is also a key factor
- ▶ Considering growth will be increasingly important
- ▶ Delivering Starter Homes AND mainstream AH will be challenging





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[anthony.lee@bnpparibas.com](mailto:anthony.lee@bnpparibas.com)

