

*Assessing financial viability in planning  
under the National Planning Policy  
Framework for England, guidance note,  
1st edition*

Acknowledgements

Foreword

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## RICS professional standards and guidance

### RICS guidance notes

#### Definition and scope

RICS guidance notes set out good practice for RICS members and for firms that are regulated by RICS. An RICS guidance note is a professional or personal standard for the purposes of RICS Rules of Conduct.

Guidance notes constitute areas of professional, behavioural competence and/or good practice. RICS recognises that there may be exceptional circumstances in which it is appropriate for a member to depart from these provisions – in such situations RICS may require the member to justify their decisions and actions.

#### Application of these provisions in legal or disciplinary proceedings

In regulatory or disciplinary proceedings, RICS will take account of relevant guidance notes in deciding whether a member acted professionally, appropriately and with reasonable competence. It is also likely that during any legal proceedings a judge, adjudicator or equivalent will take RICS guidance notes into account.

RICS recognises that there may be legislative requirements or regional, national or international standards that take precedence over an RICS guidance note.

## Document status defined

The following table shows the categories of RICS professional content and their definitions.  
Publications status

Type of document	Definition
<i>RICS Rules of Conduct for Members and RICS Rules of Conduct for Firms</i>	These Rules set out the standards of professional conduct and practice expected of members and firms registered for regulation by RICS.
International standard	High-level standard developed in collaboration with other relevant bodies.
RICS professional statement (PS)	Mandatory requirements for RICS members and RICS regulated firms.
RICS guidance note (GN)	A document that provides users with recommendations or an approach for accepted good practice as followed by competent and conscientious practitioners.
RICS code of practice (CoP)	A document developed in collaboration with other professional bodies and stakeholders that will have the status of a professional statement or guidance note.
RICS jurisdiction guide (JG)	This provides relevant local market information associated with an RICS international standard or RICS professional statement. This will include local legislation, associations and professional bodies as well as any other useful information that will help a user understand the local requirements connected with the standard or statement. This is not guidance or best practice material, but rather information to support adoption and implementation of the standard or statement locally.

## Glossary

Abnormal costs	Costs associated with treatment for contaminated sites or listed buildings, or costs associated with brownfield, phased or complex sites.
Affordable housing	Housing, for sale or rent, for those whose needs are not met by the market (including housing that provides a subsidised route to home ownership and/or is for essential local workers), and which complies with one or more of the definitions set out in the NPPF Glossary relating to either affordable housing for rent, starter homes, discounted market sales housing or any other affordable route to home ownership.
Alternative use value (AUV)	The market value, or any other appropriate basis, with the special assumption of an alternative use to the existing use or permitted highest and best use.
Area-wide assessment	Relating to a viability assessment of a locality or typology, rather than a specific site.
Assessor	The valuer instructed to undertake the Financial Viability Assessment (FVA).
Assumption	A valuation assumption is a supposition taken to be true. It involves facts, conditions or situations affecting the subject of, or approach to, a valuation that, by agreement, do not need to be verified by the valuer as part of the valuation process. Typically, an assumption is made where specific investigation by the valuer is not required in order to prove that something is true.
Benchmark land value (BLV)	The land value element of an FVA. It should be established on the basis of the EUV plus a premium for the landowner (PPG, paragraph 013).
Brownfield land	Land that is or was occupied by a permanent structure, including the curtilage of the developed land (although it should not be assumed that the whole of the curtilage should be developed) and any associated fixed surface infrastructure (NPPF Glossary).
Build to rent	Purpose-built housing that is typically 100% rented out. (See the NPPF Glossary for a more detailed definition.)
Cash flow	The movement of money by way of income, expenditure and

	capital receipts and payments during the development.
Comparable transaction evidence/comparable evidence	A property used in the valuation process as evidence to support the valuation of another property.
Conservation (of heritage assets)	The process of maintaining and managing change to a heritage asset in a way that sustains and, where appropriate, enhances its significance (NPPF Glossary).
Construction cost	All costs of base construction and construction breakdown, from project start to the earliest lease start date.
Cost change	The amount of growth or decline in the capital or rental value of elements of the project, normally projected for the purposes of the valuation/assessment.
Design code	A set of illustrated design requirements that provide specific, detailed parameters for the physical development of a site or area (NPPF Glossary).
Designated heritage asset	A World Heritage Site, Scheduled Monument, Listed Building, Protected Wreck Site, Registered Park and Garden, Registered Battlefield or Conservation Area designated under the relevant legislation (NPPF Glossary).
Developer contributions	Obligations, often tied to the grant of development permissions, providing a benefit to the community, either generally or in a particular locality.
Development appraisal	A financial appraisal of a development. It is normally used to calculate either the residual site value or the residual development profit, but it can be used to calculate other outputs.
Development cost	The total cost of undertaking a development, excluding profit and land.
Development profit	The amount by which, on completion or partial completion of a development, the estimated income of a development exceeds the total outlay. This can be expressed in various forms.
Developer return/return to developer	In viability assessments, for the purpose of plan-making, an assumption of 15% to 20% of GDV may be considered a suitable developer return in order to establish the viability of plan policies. Plan-makers may choose alternative figures where there is evidence to support this (PPG paragraph 018).
Development risk	The risk associated with the implementation and completion of a

	development, including post-construction letting and sales.
Development yield	The rental income divided by the actual cost incurred in realising the development. This can be based on either current or future estimates of the rental value of the completed development.
Deliverability	To be considered deliverable, sites for housing should be available now, offer a suitable location for development now and be achievable with a realistic prospect that housing will be delivered on the site within five years (NPPF Glossary).
Discounted cash flow/cash flow	A method of valuation explicitly setting out the inflows and outflows of an investment/development. See also <i>Internal rate of return (IRR)</i> and <i>Net present value (NPV)</i> .
Discount rate	The rate, or rates, of interest selected when calculating the present value of some future cost or benefit.
Emerging policies/plan policies	Policies in emerging plans that are going through the statutory procedure.
Enabling development	Development that would be unacceptable in planning terms, but for the fact that it would bring public benefits sufficient to justify it being carried out – benefits that could not otherwise be achieved.
Environmental Impact Assessment	A procedure to be followed for certain types of project to ensure that decisions are made in full knowledge of any likely significant effects on the environment (NPPF Glossary).
Existing use value (EUV)	The market value, or any other appropriate basis, assuming the property continues in its existing use with no expectation of that use changing in the foreseeable future.
Financial Viability Assessment (FVA)	The assessment of viability (see <i>Viability</i> ), sometimes referred to as a development viability assessment. A report assessing the financial viability of a development or development typology. Any viability assessment should follow the government's recommended approach to assessing viability as set out in Planning Practice Guidance (PPG, paragraph 010).
Gross development value (GDV)	The aggregate market value of the proposed development, assessed on the special assumption that the development is complete on the date of valuation in the market conditions prevailing on that date. Where an income capitalisation

	approach is used to estimate the GDV, normal assumptions should be made within the market sector concerning the treatment of purchaser's costs. The GDV should represent the expected contract price.
Heritage asset	A building, monument, site, place, area or landscape identified as having a degree of significance meriting consideration in planning decisions, because of its heritage interest. It includes designated heritage assets and assets identified by the local planning authority, including local listing (NPPF Glossary).
Highest and best use	The use of the property that would produce the highest value of the asset. It must be physically possible, financially feasible and legal. For more information, refer to <i>International Valuation Standards</i> (IVS) 104 paragraph 140.
Hope value	An element of market value in excess of the existing use value (EUV), reflecting the prospect of some more valuable future use.
Interest rate	The rate of finance applied in a development appraisal. This can vary within a project for different levels of senior and mezzanine finance.
Internal rate of return (IRR)	The rate of interest (expressed as a percentage) at which all future project cash flows (positive and negative) will be discounted in order that the net present value (NPV) of those cash flows, including the initial investment, be equal to zero. IRR can be assessed on both gross and net of finance.
Local plan	A plan for the future development of a local area, drawn up by the local planning authority in consultation with the community. In law, this is described as the plan documents adopted under the <i>Planning and Compulsory Purchase Act 2004</i> . A local plan can consist of either strategic or non-strategic policies, or a combination of the two (NPPF Glossary).
Local planning authority (LPA)	The public authority whose duty it is to carry out specific planning functions for a particular area, responsible for preparing the local plan. References to local planning authority include district council, London borough council, county council, Broads Authority, National Park Authority, the Mayor of London and a development corporation, to the extent appropriate to their responsibilities (NPPF Glossary). See also <i>Decision-</i>

	<i>taker/maker.</i>
Market comparison approach	Assessment of appraisal inputs and outputs by reference to comparable transaction evidence, which can include land, values and costs.
Market rent	Defined in <i>International Valuation Standards</i> (IVS) 104 as ‘the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion’.
Market risk	The uncertainty resulting from unknown future changes in the economy and financial and property markets, irrespective of the property being developed. See also <i>Property- or project-specific risk</i> .
Market value	Defined in <i>International Valuation Standards</i> (IVS) 104 as ‘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 proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion’.
Minimum return	The amount of the premium above the EUV that it is considered a reasonable landowner would be willing to accept for their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements (PPG para 013).
Neighbourhood plan	A plan prepared by a parish council or neighbourhood forum for a designated neighbourhood area. In law, this is described as a neighbourhood plan in the <i>Planning and Compulsory Purchase Act 2004</i> (NPPF Glossary).
Net development value (NDV)	The gross development value (GDV) minus assumed sale costs.
Net present value (NPV)	The sum of the discounted values of a net cash flow, including all inflows and outflows, where each receipt/payment is discounted to its present value at a specified discount rate. Where the NPV is zero, the discount rate is also the internal rate of return (IRR).



Optionality	Often referred to as a real option, it is the right but not the obligation to pursue a particular course of action, e.g. sell, hold/retain or develop a property.
Planning obligation	A legal agreement entered into under section 106 of the <i>Town and Country Planning Act 1990</i> to mitigate the impacts of a development proposal. See also <i>Developer contributions</i> .
Plan policy-compliant	A development that fully complies with up-to-date plan policies.
Pre-lets and pre-sales	Where a developer of a project, usually prior to implementation, has agreed lettings with occupiers or sales of part or the whole of the development prior to commencement or during development.
Premium	The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with plan policy requirements (PPG paragraph 013).
Property- or project-specific risk	The uncertainty attached to the intrinsic development of a site or property, in addition to the general market risk.
Projections of values and costs	Projecting from a base rent, sales value or cost to reflect estimated out-turn levels in an appraisal.
Residual method of valuation	A valuation/appraisal of a development based on a deduction of the costs of development from the anticipated proceeds. The residual is normally either development profit or land value.
Residual site value/residual land value	The amount remaining once the gross development cost of a project is deducted from its gross development value (GDV) and an appropriate return has been deducted.
Return (on capital)	The ratio of annual net income to capital derived from analysis of a transaction and expressed as a percentage.
Risk-adjusted return	The discount rate as varied to reflect the perceived risk of the development.
Scheme typology	Represents the type of development likely to come forward as part of the plan. Scheme typologies relate to development schemes with similar characteristics, such as proposed use,

	location, scale and value.
Sensitivity analysis	A series of calculations resulting from the residual appraisal involving one or more variables – rent, sales values, build costs, etc. – that are varied to show the differing results.
Simulation	A simulation considers the probability of outcomes given certain variances applied to key inputs within the financial assessment through a stochastic process. It can quantify the level of variation in the valuation of the development based on input variation.
Site promoters	Includes all landowners, developers, infrastructure and affordable housing providers, and any other stakeholders with interests in securing development across the LPA area or on specific sites.
Site-specific assessment	Relating to the viability assessment of a single development site or project.
Site typology	Relating to sites with similar characteristics, such as existing land use, location, scale, brownfield or greenfield.
Special assumption	A valuation special assumption is made by the valuer where an assumption either assumes facts that differ from those existing at the valuation date, or would not be made by a typical market participant in a transaction on that valuation date.
Speculative developments	Developments that are generally commenced prior to any agreed sales or lettings.
Statement of Community Involvement (SCI)	A document that sets out how an LPA will engage with the community in the delivery of its planning functions.
Strategic Environmental Assessment	A procedure (set out in <i>The Environmental Assessment of Plans and Programmes Regulations</i> 2004) that requires the formal environmental assessment of certain plans and programmes which are likely to have significant effects on the environment (NPPF Glossary).
Target return	The level of commercially-acceptable return considering the risk of the particular project, expressed as a periodic rate of return.
Decision-taker/maker	The local planning authority (LPA), planning inspector or any other body required to make decisions based on the evidence and reports of the assessor(s).

Value change	The amount of growth or decline in the capital or rental value of elements of the project, normally projected for the purposes of the valuation/assessment.
Valuation variation	A range of possible valuation outcomes based on different estimates of inputs and/or different methodologies applied.
Viability	The process of assessing whether a site is financially viable by looking at whether the value generated by a development is more than the cost of developing it (PPG paragraph 010).
Yield	Yield can be applied to different commercial elements of a project, for example office, retail, leisure, etc. It is usually calculated as a year's rental income as a percentage of the value of the property. Depending on jurisdiction, variations include capitalisation or cap-rate, all-risks yield, equivalent yield, income yield and initial yield.

## 1 Introduction

The UK government's planning policies for England and its expectations of how these are to be applied, including the consideration and treatment of viability, were previously contained in the *National Planning Policy Framework* 2012 and in the *Planning Practice Guidance* 2014. RICS published the first edition of the *Financial viability in planning* guidance note in 2012 to provide practical guidance to its members on the implementation of these policies, in a format that would prove accessible and useful to all other stakeholders in the planning process.

In 2018, the government materially revised the *National Planning Policy Framework* (NPPF) and also published new *Planning Practice Guidance* (PPG), the latter including more detail on the specific issue of viability. All references to the PPG can be taken to refer to the Viability PPG, unless expressly stated that they relate to other parts of the PPG.

Some further refinements have been made since. The rationale for the 2018 changes to the NPPF and PPG was to address matters of concern or doubt identified during the practical implementation of the previous policy and guidance, particularly in relation to decision-taking, and to improve the transparency of the viability process overall.

In response, the RICS has published two documents:

- (a) *Financial viability in planning: conduct and reporting*, RICS professional statement, in order to address professional behavioural matters and to clarify reporting requirements. This statement includes mandatory requirements for RICS members carrying out viability assessments.
- (b) This guidance note, which replaces the 2012 *Financial viability in planning* guidance note. It provides guidance for carrying out and interpreting the results of viability assessments under the new NPPF 2018 and PPG 2018 (with revisions in February (NPPF) and May (PPG) 2019).

The Ministry for Housing, Communities and Local Government may change the content of the PPG at short notice and/or without consultation. Changes to the NPPF may also take place, albeit typically at longer intervals and with considerably greater advance notice. It is important that practitioners and other stakeholders in the process are aware of any changes to government policy and guidance, and the effect it may have on the advice contained in this guidance note. Following any relevant amendments to the PPG and/or NPPF, where RICS considers it necessary to clarify the extent to which existing advice remains applicable, revise that existing advice and/or provide new advice, notification of this will be published on our website at [link to be inserted prior to publication] and will have the same regulatory status as this guidance note. Unless and until such notification is published, this guidance note should be treated as having continued unaltered effect.

### 1.1 NPPF 2018 and PPG 2018

The NPPF sets out the government's planning policies for England and how these should be applied. It provides a framework within which locally-prepared plans for housing and other developments can be produced. It reinforces the delivery of sustainable development in accordance with up-to-date local

plans. It asserts the plan-led system as the main determinant when it comes to exercising choices about what and where to develop. Plans should be both aspirational and deliverable (NPPF paragraph 016). This is in accordance with section 38(6) of the *Planning and Compulsory Purchase Act 2004*, which requires that 'If regard is to be had to the development plan for the purpose of any determination to be made under the planning Acts the determination must be made in accordance with the plan unless material considerations indicate otherwise'.

To achieve deliverability, plans need to contain policies that, taken as a whole in the context of the development envisaged by the plan, are not likely to make that development financially unviable.

A key determinant of financial viability is the balance between housing delivery and the provision of developer contributions. If developer contributions are set too high, landowners may not release land. The extent to which landowners may decide to hold on to land will depend on various factors: the supply of, and demand for, housing in the locality; the location of the land relative to other developments in the area; whether the land is a strategic site essential to plan delivery; and landowner expectations in relation to a changing planning regime. Paragraph 002 of the PPG states that an FVA 'should not compromise sustainable development but should be used to ensure that policies are realistic, and that the total cumulative cost of all relevant policies will not undermine deliverability of the plan'. Plan-makers will need to consider these factors when setting developer contributions at levels that allow a 'suitable' return for the developer (PPG paragraph 018) and a 'minimum return at which it is considered a reasonable landowner would release the land for development' (PPG paragraph 013).

Landowner expectations may be unrealistic, and landowners and developers will need to respond to a changing planning regime. PPG paragraph 002 states that the 'price paid for land is not a relevant justification for failing to accord with relevant policies in the plan'. It also states that landowners and site purchasers 'should consider this when agreeing land transactions'. This may take time to achieve, and plan-makers will need to balance these influences through successive plans in order to maximise developer contributions.

FVAs are undertaken to determine the balance between housing delivery and developer contributions. The PPG sets out the framework for carrying out FVAs for both plan-making and decision-taking.

The most common uses of FVAs are:

- formulating planning policy through local plans (and other relevant plans)
- assessing the composition, quantity and timing of planning obligations, including on- and off-site affordable housing, affordable housing credits and payments in lieu of affordable housing
- estimating viable compositions of affordable housing tenures
- assessing applications that incorporate enabling development for heritage assets and other forms of 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
- carrying out pre-commencement viability reviews, and reviews throughout the delivery period of the development
- confirmation of Compulsory Purchase Orders on viability grounds and
- testing Community Infrastructure Levy (CIL) charging schedules.

CIL charging schedules are not formally part of the relevant plan, but they should generally be consistent with that plan and should be viability tested in a similar way. There are benefits to undertaking infrastructure planning for the purpose of plan-making and setting the levy at the same time (*The Community Infrastructure Levy (Amendment) (England) (No. 2) Regulations 2019* ('CIL Regulations 2019') paragraph 012, reference ID 25-012-20190901).

Paragraph 002 of the PPG states that FVAs are required primarily at the plan-making stage. Once policies on developer contributions have been set in the plan, planning applications that comply with them should be assumed to be viable (NPPF paragraph 57). Where applicants do not feel that plan-compliant obligation levels are viable, it is up to them to demonstrate whether particular circumstances justify the need for an FVA at the decision-taking stage. Guidance on FVAs at the plan-making stage is set out in chapter 3, and at the decision-taking stage in chapter 4.

Paragraph 57 of the NPPF also gives guidance to plan-makers regarding the weight to be placed on FVAs when making decisions: 'The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force.'

The assessment of the BLV is an important part of the FVA. The PPG prescribes the existing use value (EUV), plus a premium, as the starting point for assessing the BLV, but recognises that the alternative use value (AUV) can also be used in some circumstances. Chapter 5 and related appendices provide guidance on how to assess the BLV based on the principles set out in PPG paragraphs 013 to 017. This includes advice relating to the assessment of the AUV, EUV and premium.

Regarding transparency, NPPF paragraph 57 and PPG paragraph 010 state that 'any viability assessment should follow the government's recommended approach to assessing viability as set out in this Planning Practice Guidance and be proportionate, simple, transparent and publicly available'. This applies to FVAs carried out to support plan-making and decision-taking. Paragraph 010 states that 'Improving transparency of data associated with FVA will, over time, improve the data available for future assessment as well as providing more accountability regarding how viability informs decision-taking.'

## 2 FVAs in planning and development

### 2.1 The FVA framework

Viability has become an increasingly important consideration in planning in England. Whether preparing policy or considering a specific site proposal or scheme, viability is inherently linked to the ability to satisfy planning policy, and to deliver regeneration objectives and economic development as well as meeting housing need. It is important therefore for all decision-makers – including government, local planning authorities, the Planning Inspectorate and all those involved in neighbourhood plans – to have a good understanding of land and property markets and the viability process. Developers, landowners and valuers should also understand and give proper consideration to the legal and policy framework of the planning system, and fully reflect planning policies in commercial decision-taking and the pricing and valuation of development land.

The new NPPF and PPG set the framework for the FVA. That framework is applied alongside national and international standards for valuation published by RICS, commonly referred to as the Red Book.

Paragraphs 010 to 019 of the PPG – under the general heading of ‘Standardised inputs to viability assessment – what are the principles for carrying out a viability assessment?’ set out how an FVA should be approached. The PPG provides guidance on each of the main inputs into the viability assessment, and also discusses the different approaches that can be taken to the input data in either plan-making or decision-taking. Paragraph 010 of the PPG sets out the FVA framework and states that ‘Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return’.

Requiring assessments of the GDV, the costs of development, the value of the land and a return to the developer, the FVA process represents a residual valuation framework as set out in [Valuation of development property](#), RICS guidance note. The FVA must be supported by appropriate evidence and that evidence is informed by engagement with developers, landowners, infrastructure and affordable housing providers. Chapters 3 to 5 of this guidance note give detailed advice on the application of these principles, which are set out in paragraphs 011 to 018 of the PPG.

Practitioners should note the comment in PPG paragraph 014 that states ‘There may be a divergence between BLVs and market evidence; and plan-makers should be aware that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners’.

### 2.2 Application of the Red Book and related RICS guidance

The PPG forms the primary reference point for undertaking viability assessments. However, an FVA and report contain valuation elements that come under the scope of the Red Book, incorporating *International Valuation Standards* (IVS), when carried out by members of RICS.

RICS members carrying out FVAs must adhere to the relevant mandatory requirements and guidance set out in *RICS Valuation – Global Standards* (‘Red Book Global’) when carrying out those elements. No departure is permitted from Red Book Global PS1 and PS 2 where a written valuation is provided,

except where allowed under Red Book Global PS 1, paragraphs 6.2 to 6.4. Any departure must be confirmed and agreed with the client, and included in the terms of engagement, report and any published reference to it.

The application of VPS 1–5 in Red Book Global is subject to the NPPF and PPG, which are ‘statutory, regulatory or other authoritative requirements’ as identified in PS 1 paragraph 4.2, and so take precedence. In particular, the form of the report – for which mandatory requirements are set out in [Financial viability in planning: conduct and reporting](#), RICS professional statement – will be heavily modified from that set out in VPS 3 (correspondingly, the terms of engagement will be heavily modified from the requirements set out in VPS 1, since they will need to mirror the required form of the report). Where the requirements of the NPPF and PPG differ from Red Book Global in VPS 1–5, compliance with those requirements does not constitute a departure from the valuation standards, although the specific requirements must be made clear in the report. Exceptions, as set out in PS 1 section 5, also apply in the normal way.

Red Book Global includes requirements in VPS 4 relating to the adoption of bases of valuation, and also relating to assumptions and special assumptions. In some instances, the parameters within which assumptions are to be made may be prescribed by the PPG; where this is so, the PPG takes precedence. The basis and assumptions must be stated in the report.

Additional mandatory requirements specific to valuers producing FVAs are set out in the [Financial viability in planning: conduct and reporting](#) professional statement. These must be adhered to and are supplemented by advisory material in this guidance note.

There are guidance notes of more general application that are also relevant. The [Valuation of development property](#) and [Comparable evidence in property valuation](#) RICS guidance notes, both with new editions in 2019, should be consulted when undertaking valuations of development property.

### 2.3 Viability principles

The planning process works within a market context to deliver sustainable development supported by appropriate infrastructure. Successful planning policies are intended to improve place and enhance value for all stakeholders in the process, and developer contributions add to that value enhancement. Land and property markets are driven by many factors, but planning policies are a major element and markets adjust to revised planning policies over time. Equally, given that planning policies can affect markets, planning requirements should be set at levels that enable the market to function and plan policies to be delivered.

Land and property markets are cyclical, and the impacts of developer contributions change in periods of both economic/market upturn and downturn. In a downturn, the delivery of new developments can be threatened, and the relative burden of developer contributions and policy requirements on developers and landowners will increase. Conversely, in rising markets fixed contributions may also produce additional returns for both landowners and developers. Viability assessments are an important mechanism within the existing planning system in striking a balance to promote the delivery of housing needs, and the fair distribution of benefits generated by development, between the



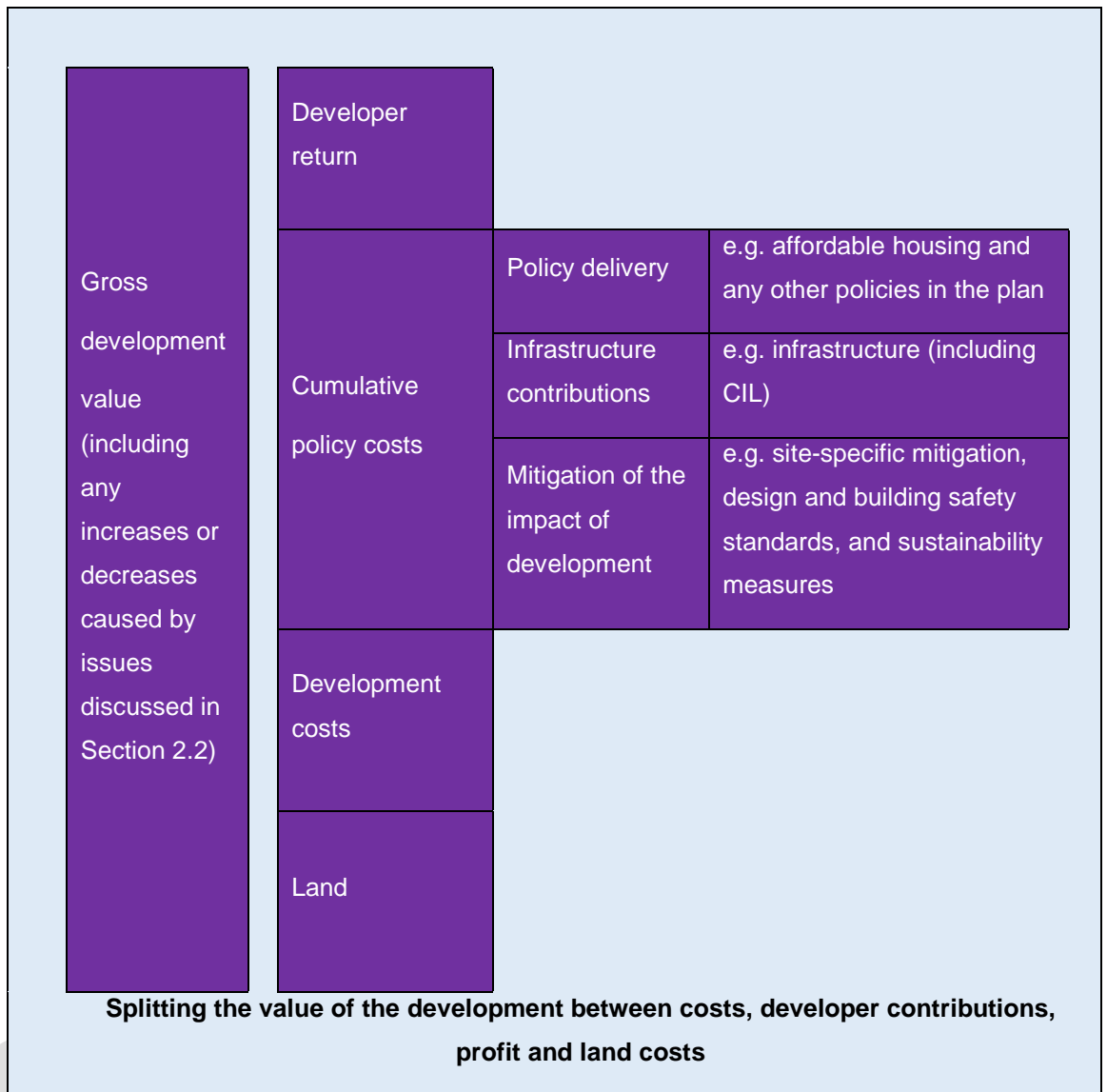
landowner, developer and community over the whole life of the plan.

Development land value is a function of the residual value of the development potential of the site, including all options, once all relevant costs have been deducted. It is particularly prone to valuation variation at the date of valuation, caused by a range of input assumptions at the valuation date. It also changes over time due to cyclicalities in housing markets over the plan period. The two types of valuation variation can have a significant impact on the distribution of development revenues. All FVAs should address this issue, whether over the plan period at the plan-making stage or the development period at the decision-taking stage. The assessor should sense-check the final assessment and use a number of tests to support that process. All FVAs should include testing of alternative economic scenarios and the sensitivity of individual inputs (see chapter 6 for additional guidance concerning the use of projections of values and costs, the testing of alternative scenarios and sensitivity testing). The use of sensitivity testing within an FVA is a mandatory requirement in [Financial viability in planning: conduct and reporting](#), RICS professional statement. In summary, the outcome of an FVA should not be viewed as a financial certainty, and marginal unviability in both plan-making and decision-taking should not be used to reduce plan requirements.

The level of developer return is related to the risk of the development. Market cyclicalities are a development risk and are accounted for in the risk-adjusted return required by the developer. At the date of valuation, these risks are based on expected out-turns that may turn out to be different to the actual achieved return in the future. The development cash flows that are modelled in the FVA should be those cash flows that are expected (subject to the detailed guidance in chapters 5 and 6 on costs, values and any projections). The developer's target return in the FVA takes account of any *unexpected* variation away from this cash flow (i.e. an actual outcome that varies from the expected outcome). The risk-adjusted return has already compensated the developer for taking on that particular risk. Therefore, inputs into the viability assessment should not be adjusted to conservative estimates; they should be the best estimate of what is expected. These principles are fully supported in [Valuation of development property](#), RICS guidance note.

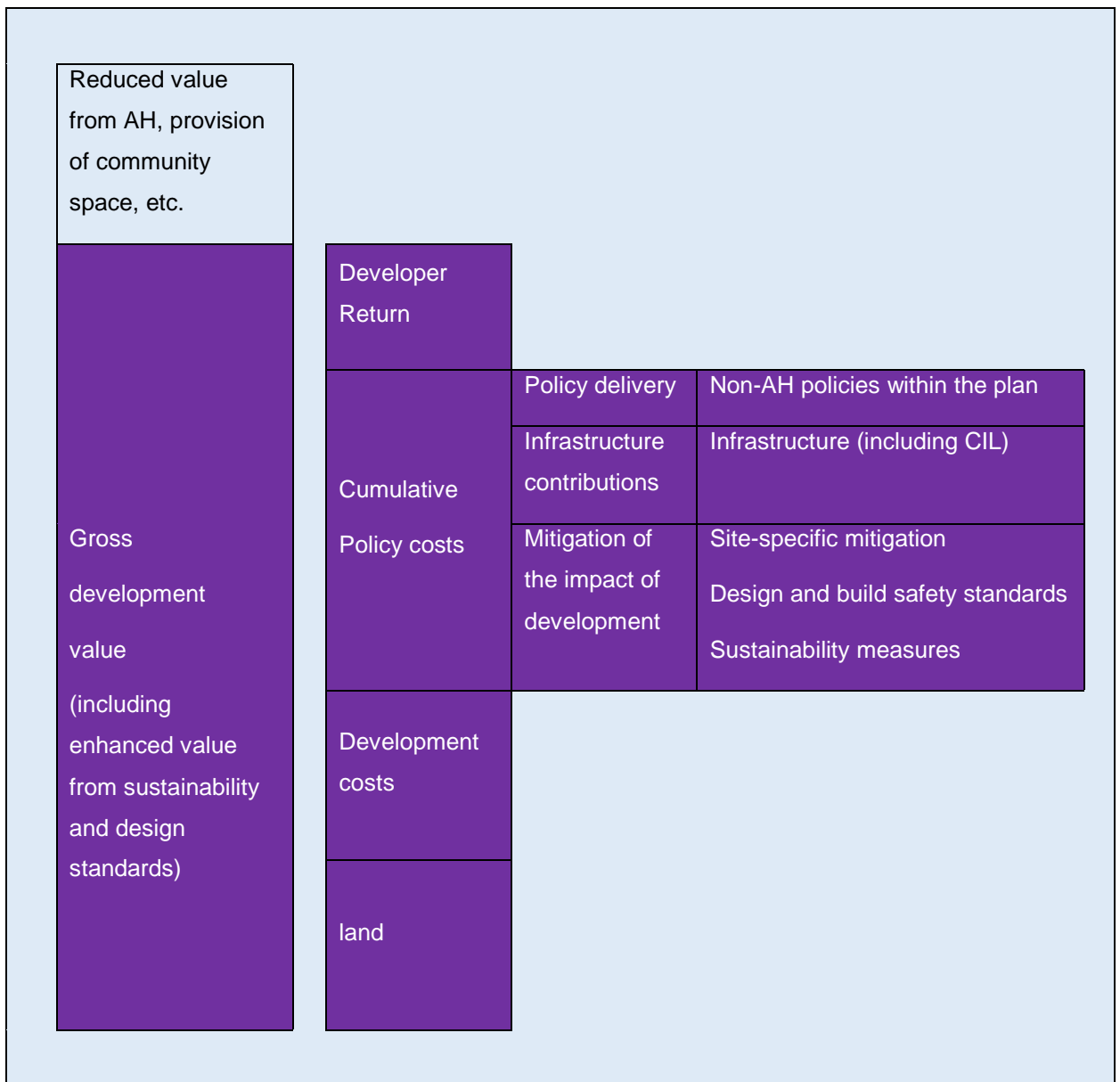
PPG paragraphs 007 and 009 reflect on the impact of market cyclicalities during the life of the plan. Paragraph 007 gives market downturns as one example of the justification for a site-specific FVA. Paragraph 009 requires plans to set out the circumstances in which review mechanisms may be appropriate, and to provide a clear process and terms of engagement regarding how and when viability will be reassessed over the lifetime of the development. Review mechanisms are to help facilitate development to come forward and if possible secure contributions up to a policy-compliant level over time, in tune with economic cycles (see chapter 4 for a definition of policy-compliant). They are not a tool to protect the developer return. The potential risk to developers of market movements is already accounted for in the risk-adjusted return in the FVA. Realisation of risk does not in itself necessitate a further FVA or trigger a review mechanism (PPG paragraph 009).

The residual valuation framework is set out in Figure 1. In many instances, an FVA will have regard to not just single policy's impacts, but a cumulative impact of policy requirements and developer contributions.



**Figure 1: The residual valuation framework**

It is important to note that many policy requirements enhance the value of the development as well as increasing costs (for example design and infrastructure), while some others do not increase the costs of the development (for example the provision of affordable housing (AH)) but may reduce the overall value of the development. These variations from the basic model are illustrated in Figure 2.



**Figure 2: Cumulative policy benefits and costs**

The purpose of an FVA is to determine whether developments are capable of providing levels of developer contributions that comply with policy in both emerging and up-to-date plans. More specifically, an FVA estimates whether planned developments with policy-compliant levels of developer contributions are able to provide:

- a minimum reasonable return to the landowner (defined as the EUV plus a premium), and
- a suitable return to the developer.

If the FVA shows that the specified landowner and developer return are not enough to satisfy these benchmarks, the development typology is unviable at the level of developer contributions being tested at the plan-making stage. Similarly, a development site is unviable at the level of developer

contributions set out in the plan at the decision-taking stage. If the FVA illustrates that the typology or scheme is not viable, the plan-maker will need to adjust policy requirements (for example by reducing developer contributions or changing design standards) to return the typology or scheme to one that is viable. Amendments to the scheme (such as increasing density or altering the mix of uses) may have a similar result.

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

- land is realistically priced and released for development by landowners to achieve plan delivery
- developers are capable of obtaining appropriate market risk-adjusted returns for delivering developments
- 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.

The CIL PPG 2019 explains that when deciding the levy rates, an authority must strike an appropriate balance between additional investment to support development and the potential effect on the viability of developments (paragraph 010, reference ID 25-010-20190901).

The PPG envisages a policy and practice environment whereby all stakeholders engage in an iterative process regarding the development of plans and the determination of the amount of developer contributions. An FVA carried out by a suitably qualified practitioner (called the assessor in this guidance note) informs the process and provides evidence for the decision-maker.

## 2.4 Transparency

All FVAs should be prepared on the basis that they will be made publicly available in full to ensure that FVAs follow the principles set out in paragraph 010 of PPG.

Paragraph 021 of the PPG makes it clear that developers should expect all evidence presented in an FVA to be placed in the public domain. Information used in an FVA is not usually specific to that developer and therefore should not contain commercially sensitive data. Valuations should be based on market information. LPAs should publish complete FVAs received from any source so that they can be fully scrutinised by third parties.

FVAs/reports should include an executive summary containing key/headline data. FVAs should be reported in an open data format, in line with the government's data format on developer contributions (forthcoming).

### 3 Application of FVAs: area-wide plan-making

#### 3.1 Background

The revised 2018 NPPF and PPG placed the emphasis on FVAs at the plan-making rather than the decision-taking stage of the planning process. This chapter provides detailed guidance on FVAs at the plan-making stage.

Spatial development strategies, local plans and other development plan documents, including area action plans that relate to a specific local area, are brought forward by both strategic and local planning policy-making authorities. These include councils (counties, cities, boroughs and districts), National Park Authorities and metropolitan mayors. For the purposes of this guidance, such documents will be referred to as plans and the policy-making authorities as local planning authorities (LPAs). These plans set out a strategy for the proper planning and sustainable development of a specific location within an LPA's area and for a specified timescale.

Once adopted, a plan forms part of the statutory development plan for an area. Under the statutory framework for planning, the development plan forms the primary basis of decision-taking by the LPA (section 38(6) of the *Planning and Compulsory Purchase Act 2004*, as indicated previously).

At the plan-making stage, FVAs support the development of policies and should test them effectively. FVAs are usually carried out as part of the evidence base for an emerging plan. They test the financial viability and deliverability of the plan as a whole and of individual strategic sites.

A Strategic Housing Land Availability Assessment (SHLAA) underpins the local plan's five-year housing land supply, and PPG guidance requires that this supply should be tested to ensure that sites are viable and can come forward within the time period.

Neighbourhood plans may also require an FVA. These plans are created by parish/town councils or neighbourhood forums. They contain more detailed priorities for development, such as the provision of low-cost housing or the preservation of green space, and can promote more development than is set out in the local plan. However, they cannot conflict with the strategic policies in the local plan prepared by the LPA or be used to prevent development that is included in the local plan.

Since *The Community Infrastructure Levy Regulations 2010* ('CIL Regulations 2010') were introduced, LPAs may put forward a draft CIL charging schedule that will require an FVA before adoption. Where there is a requirement for a draft charging schedule to be tested alongside other policy requirements, generally only one FVA will be required. The advantage of a single assessment may be that it enables CIL and infrastructure delivery to be assessed alongside other policy requirements, such as affordable housing. Where these assessments are carried out separately to area-based plans, this should be based on the same approach and data as set out in this guidance note. Where a CIL charging schedule is already in place, these charges should be included in the FVA as development costs. The CIL Regulations 2010 have been amended by the CIL Regulations 2019.

Although they are technical documents, FVAs should be accessible to a wide audience, including officers and elected members in LPAs, planning inspectors, developers, landowners, businesses and

community groups.

Transparency and accountability are very important when carrying out FVAs. At the plan-making stage of the planning process, this relates to both the FVA process and the contents of any reports.

### 3.2 Role of the assessor

The appointment of an FVA assessor should be undertaken at a very early stage of the plan-making process. For plan-making FVAs, assessors should particularly note the mandatory requirements set out in section 2.5 of [Financial viability in planning: conduct and reporting](#), RICS professional statement.

The assessor should propose an appropriate testing approach in line with national and other relevant guidance, and respond to the brief provided by the LPA. The approach should be set out in an initial scoping document for approval by the LPA. Other guidance or advice notes for LPAs on drafting invitations to tender for FVAs should also be considered.

The assessor should refine the original brief with the LPA to ensure that it meets the requirements of the NPPF and PPG, and provide additional support where the LPA does not have specialist viability knowledge or experience.

The assessor will need to be involved early in the process, working with planning officers, reviewing evidence, gathering information and agreeing the FVA approach and assumptions, including specific/strategic sites and typologies for testing.

Scoping the FVA is an important stage and should set out:

- the purpose of the FVA: testing an area-wide plan and/or the CIL
- any key assumptions and information to be used, including draft policy requirements (or policy options)
- the method: the approach to site selection and typologies, taking into account the projected housing supply over the plan period
- any modelling assumptions: baseline and policy tests
- the approach to modelling growth and
- a process to refine policies during the testing period.

Development typologies should be representative of the development that is planned and reflect the characteristics of groups of sites identified within the proposed land supply. These typologies will be a combination of 'site' typologies (e.g. greenfield or brownfield) and scheme typologies (e.g. houses or flats for sale or build to rent, other specialist housing, and commercial or mixed-use schemes).

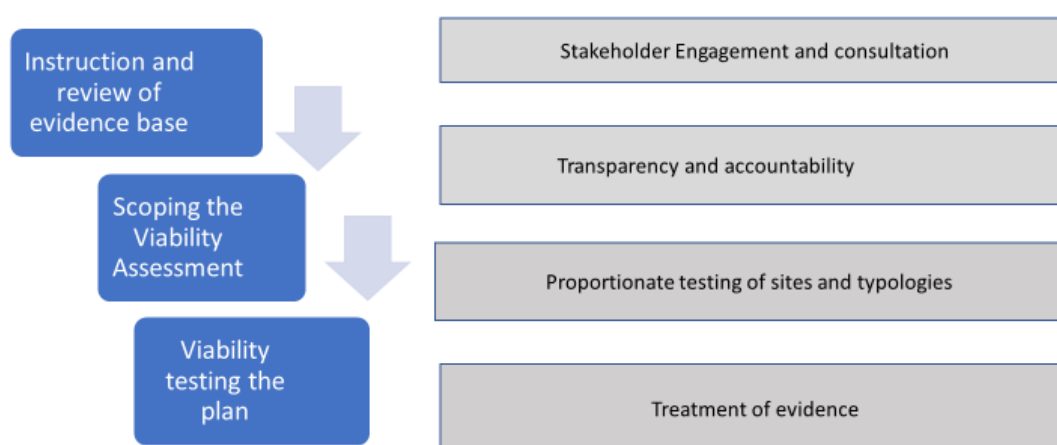
The assessor will also need to consider the approach to consultation in respect of the FVA unless this is already prescribed by the LPA.

The LPA will rely on the FVA assessor to identify and quantify key elements in the development that will generate value and enable delivery of planning policies as part of this process. These are likely to include changes to land use, increasing density and delivery of infrastructure requirements.

The assessor should then collate evidence, conduct the FVA and prepare a draft report on the overall viability of the emerging plan. Evidence may take the form of local information provided by the LPA and other stakeholders, market evidence, emerging plan policy options and site-specific assessments.

Appendix 1 provides a task checklist for the production of an area-wide FVA. Figure 3 illustrates the key parts of the process.

## Process and themes



**Figure 3: Plan-making viability process and themes**

3.3 The plan-making viability process: consultation and stakeholder engagement Stakeholder engagement and consultation are key components of transparency and accountability, and help planning authorities reach sound judgments on the deliverability and policy compliance of proposed allocations. They provide an opportunity for stakeholders to offer evidence and to gain consensus through the iterative process envisaged by the PPG. The NPPF and associated PPG expects the transfer of information regarding strategic and key development sites between parties engaged in planning policy development. It is expected that landowners and developers will share information with the LPA to inform the process of identifying suitable land to allocate for development.

### 3.3.1 Consultation

The consultation process should be documented to provide an audit trail of the approach and process for examination. Both stakeholder engagement and consultation should be proportionate.

The assessor should understand the policy context in their approach to stakeholder engagement. The policy objectives need to be stated and explained, and should consider the importance of addressing need as well as delivery.

Assessors should set out their approach to consultation and engagement with stakeholders on the FVA as early as possible, and agree this with planning officers. It is the responsibility of the LPA to

lead the overall consultation, but it may also be appropriate for assessors to take the lead on technical aspects. Assessors can lead the consultation at the request of the LPA, provided the LPA sets the scope of the consultation.

The assessor should state the purpose and focus of the consultation in the scoping document, and set the objectives for consultation. The assessor should also reference the LPA's commitments in their Statement of Community Involvement (SCI). The assessor should take account of relevant provisions of *The Town and Country Planning (Local Planning) (England) Regulations 2012*, insofar as they relate to consultation and the submission of representations (Regulations 18–22).

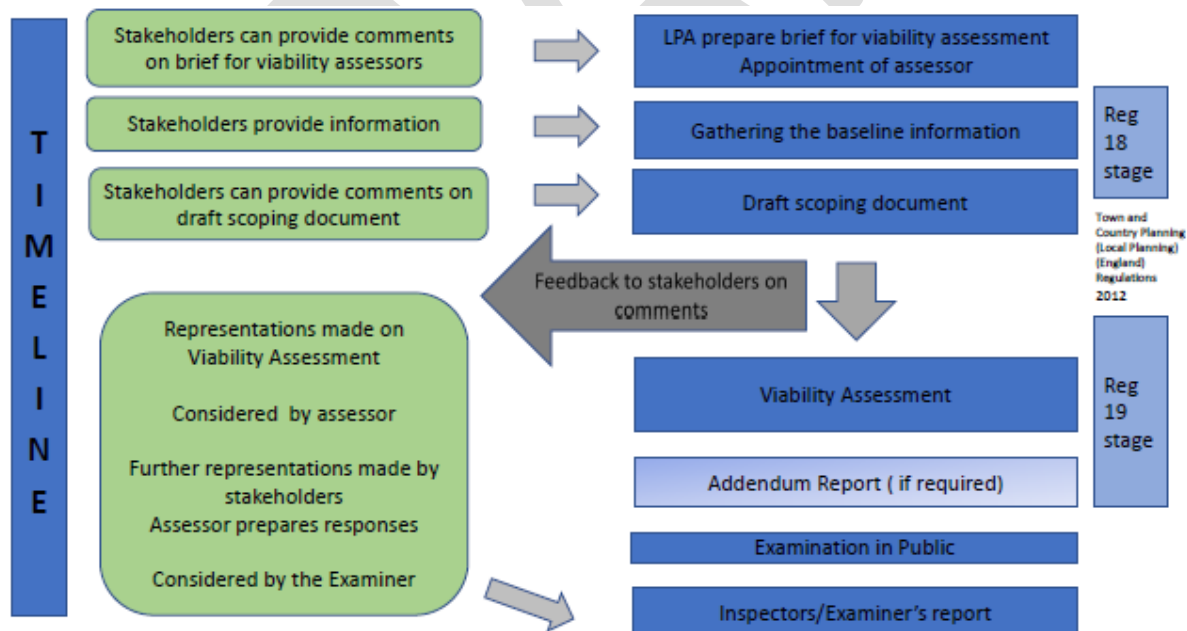
Evidence from recent relevant consultation exercises can be reviewed as part of the evidence base for determining the objectives, but not duplicated unless appropriate.

### 3.3.2 Stakeholder engagement

An important part of the consultation process is the identification of key stakeholders. The assessor could prepare a stakeholder map and should ensure that groups and individuals who may be stakeholders, or have an interest in the outcome of the FVA, are included.

The assessor should also consider how to consult with individual stakeholders and determine what information is required.

The assessor should map the key points at which stakeholder consultation should take place. Figure 4 sets out an illustrative diagram of the consultation process.



**Figure 4: The consultation process**

The assessor should plan the format of the consultation. Different approaches may be appropriate at different stages of the programme, both informal and formal. Informal consultation may be the most appropriate at the evidence gathering and scoping stages.



The FVA should be published alongside the draft plan. As part of the formal consultation process, stakeholders will be able review the methodology, inputs and results, and provide comments. This can be an important part of the iterative process, as noted in the Local Delivery Housing Group report chaired by Sir John Harman in 2012 and envisaged in the PPG.

Assessors should update the FVA if the consultees provide new information that causes the assessor, using their professional judgement, to adjust their assumptions, inputs and outputs. Any reassessment should be based on an open and transparent process with the LPA and other engaged stakeholders, providing further evidence in a timely way and being kept fully briefed on the revised outputs.

Assessors should make stakeholders aware that their role is to provide technical advice to officers in the LPA, and ultimately their local council and/or the Planning Inspectorate/Secretary of State, who will then be the decision-makers in respect of setting policy requirements.

3.4 The plan-making viability process: proportionate testing of sites and typologies  
At the plan-making stage, FVAs involve testing representative development typologies and testing actual strategic sites. This ensures proper consideration of the financial impact of policy requirements on different locations, types of site (such as greenfield or brownfield), types of development and specific (usually strategic) sites.

Development typologies are a combination of sites and schemes. They may include:

- representative development typologies, covering a range of sites and schemes likely to come forward over the life of the plan and
- actual (usually strategic) development sites, identified because of their scale and/or by the fact that the plan relies on delivery of development on these sites to meet policy objectives.

Assessments of these development typologies should provide a profile of viability across a range of sites and schemes.

Development typologies should respond to the emerging plan policies and be representative of the expected development, with particular regard to the five-year housing land supply and the forms of development the plan relies on.

The assessor should consider both the range of sites and the schemes likely to come forward during the plan period when designing development typologies. They should include sites identified in planning policy for development, with particular regard to sites with specific viability characteristics or infrastructure requirements, and any strategic sites on which the delivery of the plan depends.

Hypothetical site typologies should have characteristics that are shared with a number of typical sites within the plan area. The assessor should establish whether site typologies can be grouped based on similar development characteristics, existing use and values, and whether sample sites or completely hypothetical sites need to be tested to establish a range of values across different sites in the area.

Actual sites should reflect proposed land uses in the plan as well as the likely density, height and massing. It may be appropriate (depending on the stage of the wider plan-making) to test variations,

such as alternative land use mixes.

Site typologies should take account of possible abnormal costs, perhaps testing a range of cost scenarios. Abnormal costs may also have an impact on existing use and/or land value, and should be taken into account when assessing the BLV (see chapter 5). The assessor can make generic assumptions about abnormal costs relating to, for example, contamination, and these should in most instances reduce the BLV rather than be treated as development costs. If abnormal costs are not taken into account at the plan-making stage, they may need to be taken into account in any decision-taking FVA, if applicable. Where contamination remediation works are taken into account, the availability of land remediation relief may reduce the net cost of remediation and should be explored.

Having established site typologies, the range of scheme typologies appropriate for those sites should be considered. Some schemes may not be appropriate in certain locations as they may be unviable regardless of the policies applied, e.g. speculative office development in secondary locations. Consideration of these options may however inform the strategic approach in the plan, rather than the nature and level of policy requirements, and their relevance to delivery of the plan.

The assessor and LPA should agree the development typologies, ensuring they:

- include a range of sites and build typologies that reflect the range of sites likely to come forward for development during the plan period
- include an appropriate mix of strategic sites, specific local sites identified as within the land supply and hypothetical sites
- link development to transport and other infrastructure requirements and
- test a range of cost and value assumptions based on appropriate available evidence.

The assessor should bear in mind that testing all permutations for typologies may not be proportionate. More detailed guidance on the assessment of development typologies is given in appendix 1.

### 3.5 The plan-making viability process: testing the CIL

The CIL PPG 2019 sets out requirements in respect of the testing of sites and typologies, and the latest guidance should be considered in detail by the assessor when scoping the proposed FVA. Much of the CIL PPG mirrors the Viability PPG, but the following elements of the CIL PPG are particularly relevant for FVAs:

- Where the CIL is tested alongside a draft plan, this should be used as the basis for testing (CIL PPG paragraph 012).
- It is important for the assessor to consider the guidance on setting differential rates across an area, either within geographical zones or by type or scale of development (CIL PPG paragraph 022).
- Levy rates can be set to reflect differences in land value uplift created by development across an area. For example, viability may show that rates can be set at a higher level in existing low-value areas where high-value uses will be created (CIL PPG paragraph 025).
- Although testing for the CIL is a broad test of viability across an area, a sample range of sites

should also be assessed in line with the CIL PPG (CIL PPG paragraph 020).

- The approach to testing and setting rates for strategic sites should be considered (CIL PPG paragraph 026).

The assessor should ensure that strategic sites and sample sites, or development typologies identified, should be considered alongside those used to test the plan and aligned where appropriate.

More detailed information in respect of FVAs for the purposes of setting the CIL is included in appendix 1.

### 3.6 The plan-making viability process: evidence

The assessor should construct an evidence base for the cost and value inputs to the FVA. The review can include a number of sources, as set out in appendix 1.

Assessors will be aware of the limitations of both the sources and quality of property market data, and should set out these limitations clearly in the FVA report. These are part of the reason for the mandatory requirement for sensitivity analysis and other appropriate methods, to test a range of values, costs and returns for each typology and strategic site.

Since value is often highly location-dependent, assessors should identify the high- and low-value locations within a plan area.

For each scheme typology, it may be appropriate to test a range of development cost and value assumptions, or it may be appropriate to use averages for a typical scheme.

For actual sites, it is more likely that more specific cost and value evidence can be found. However, there will be no detailed design so average values and costs can be assumed.

Development costs and values should be assessed based on the likely built form and specification of space. For example, building height should be taken into account where evidence shows that values change with height.

Cost should be based on evidence of actual construction costs from similar local schemes where this information is available. The Building Cost Information Service (BCIS) can be used if appropriate.

Infrastructure costs associated with a specific site should be considered, e.g. highway improvement, district heating, etc.

Abnormal costs for brownfield sites and typologies should also be taken into account where it is not appropriate to reflect these costs in the BLV (see chapter 5).

Survey, design and cost analysis work may be required in order to obtain a greater degree of certainty in allocating site development plans and setting strategic policies. This should be considered and discussed with the LPA, and potentially with landowners.

When assessing hypothetical typologies, average costs can be assumed for build costs as well as for items such as demolition and abnormal site costs, although the use of averages can be very misleading where the distribution of the underlying data is not even. Existing studies of the area that reflect the current built form, and any historical issues with contamination or increased flood risk,

should be referred to. BCIS can be used if appropriate, but supporting evidence of costs and duration should be used where available.

Where a CIL charging schedule is in place, the relevant rates can be applied to the development typology, with appropriate adjustments for any reductions for existing buildings and relief allowable under the CIL Regulations 2019.

Costs and values should be tested with stakeholders as set out in the section on consultation. The consultation should include the approach in the FVA to anticipated changes to costs and values during the plan period, including projections and mandatory sensitivity testing (see references to the inclusion of projections, and scenario and sensitivity testing, in chapters 5 and 6).

PPG paragraph 018 identifies the return to the developer in plan-making FVAs. An assumption of 15–20% of GDV may be considered a suitable developer return. However, PPG paragraph 018 states that ‘Plan-makers may choose to apply alternative figures outside of this range where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk’. Alternative figures may also be applied for different development types, such as commercial development or build to rent.

The developer return includes compensation for risk. The assessor should consider the relative level of risk attached to the development of the different strategic sites and hypothetical typologies. When estimating the appropriate return for each typology and site, the assessor should consider evidence from other stakeholders and relevant FVAs.

Where inputs or outcomes are known or subject to little expected variation (for example the forward sale of the affordable housing component, or development by an owner-occupier), development risks are reduced significantly and much lower rates of return should be used.

The BLV is an important part of the assessment of viability in plan-making and setting the appropriate level of developer contributions. Detailed guidance on the assessment of the BLV and the treatment of evidence to support that assessment is set out in chapter 5 of this guidance note.

### 3.7 The plan-making viability process: reporting

Assessors should refer to [Financial viability in planning: conduct and reporting](#), RICS professional statement for mandatory reporting requirements.

The assessor should ensure that the evidence base, the approach and rationale behind the viability testing, and the findings are presented clearly and in a way that will also support the decision-taking stage of the planning process.

The report should include the examination of all relevant policies, both national and local; feature a market assessment; set out the assessment methodology; and report the results, including the sensitivity analysis and the conclusions.

The assessor should consider whether to structure the report by site or typology (with the approach, assumptions and outcomes for that site all together), or whether it is more logical to set out the

approach to all the testing, followed by the assumptions and then the findings at the end.

The approach to testing sites or typologies should be explained, with a summary of the cost and value assumptions, and viability findings, included in the main body of the report.

It should be straightforward to find the assumptions used in testing development typologies so that, when detailed applications come forward, they can be easily compared.

Sensitivity analysis will be particularly important, and the basis of this testing should be clearly set out (see chapter 6 for further details).

Reporting should be relevant and proportionate to the emerging plan policies. The level of testing and the number of tests reported should be proportionate to the level of complexity in the plan and the locality. For example, having reviewed the results, it may be appropriate to report a small number of tests of the overall level of affordable housing but more tests with different tenure mixes, as this has a significant impact on viability. Reporting on the testing of different cost and value assumptions is mandatory.

The reporting of BLVs will be an important part of the report. A range of methods and outcomes will be generated from the approach to testing viability set out in chapter 5 of this guidance note, based on the PPG.

[Financial viability in planning: conduct and reporting](#), RICS professional statement, sets out the mandatory requirements for reporting. FVA findings can be reported in a variety of ways to meet the LPA's requirements.

The FVA should demonstrate whether emerging plan policy requirements would make the plan undeliverable and enable the decision-maker to choose between different policy requirements if this is required to ensure the overall deliverability of the plan, bearing in mind the land market adjustment process with respect to changing policies. The report should indicate the level at which policies would be viable.

A statement of the limitations of the FVA should be appended to the report.

Area-wide FVAs may report that certain development typologies are unlikely to come forward in some areas regardless of the policies that are applied. This does not provide an indication of the relevant policies that should be applied, but should be helpful in informing the strategic approach adopted in the plan.

The impact on viability of a CIL, whether proposed or existing, should be considered alongside the policy requirements of the plan. Charging authorities should be able to show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant plan and support development across their area (CIL PPG paragraph 010, reference ID 25-010-20190901). This should be clearly set out either in the FVA or a separate LPA document.

The principles of transparency and accountability should be paramount in the assessor's mind while undertaking and reporting FVAs. Area-wide FVAs will be made publicly available in accordance with

NPPF paragraph 57 and PPG paragraph 010, and in line with *The Environmental Information Regulations* 2004. The assessments are market-based, using standardised inputs, so the assessor and stakeholders should presume that the report will be published in full, with no redactions on account of confidential information.

## 4 Application of FVAs: site-specific decision-taking

### 4.1 Background and PPG requirements for decision-taking FVAs

The general approach to FVAs has been set out in the previous two chapters. FVAs at the decision-taking stage focus on a specific property/development and will be subject to the planning requirements set out in the plan. The FVA report should include information on relevant plan policy requirements that need to be taken into account in assessing viability.

PPG paragraph 007 states the expectation that, where up-to-date policies have set out the contributions expected from development, planning applications that fully comply with them should be assumed to be viable and no FVA will be required. It also states that it is up to the applicant to justify an FVA at the decision-taking stage of the planning process.

Where an up-to-date plan, tested under the approach set out in chapter 3, is in place, testing for decision-taking should be the exception. Examples of circumstances where a developer might prepare an FVA for submission to the LPA are set out in paragraph 007 of the PPG. These include:

- where development is proposed on unallocated sites of a wholly different type to those used in the FVA that informed the plan
- where further information on infrastructure or site costs is required
- where particular types of development are proposed that may significantly vary from standard models of development for sale (for example build to rent or housing for older people)
- where a recession or similar significant economic change has occurred since the plan was brought into force
- where there is enabling development for heritage buildings or
- where the plan is out of date.

Where an FVA is provided at the decision-taking stage, it must be based upon, and refer back to, the original FVA at the plan-making stage and identify what has changed since then to justify the assessment. Although not all sites will have been assessed at the plan-making stage, and not all sites will have been covered by the development typologies, it is only where the development is of a 'wholly different type' to those assessed at the plan-making stage (PPG paragraph 007) that a decision-taking assessment will be allowed. The expectation is that site owners and land promoters will have engaged at the plan-making stage and, if this did not occur, the onus is on the applicant to demonstrate why.

PPG paragraph 008 identifies the responsibilities of the decision-maker. It is up to them to decide on the weight to be given to an FVA. They should have regard to:

- whether the plan, and viability evidence underpinning the plan, is up to date
- site circumstances, including any changes since the plan was brought into force, and

- the transparency of assumptions behind evidence submitted as part of the FVA.

Paragraph 009 of the PPG relates to review mechanisms within a specific development, and also defines policy compliance. PPG paragraph 009 states that 'Plans should set out circumstances where review mechanisms may be appropriate, as well as clear process and terms of engagement regarding how and when viability will be reassessed over the lifetime of the development to ensure policy compliance and optimal public benefits through economic cycles'.

Paragraph 002 of the PPG states that 'policy compliant means development which fully complies with up-to-date plan policies. A decision-maker can give appropriate weight to emerging policies'. Policy compliant does not mean a lower level that has been agreed in viability testing under a plan that is not up to date.

In site-specific cases, policy requirements may be reduced or relaxed to provide flexibility in the early stages of a development. In those cases, there should be clear agreement as to how policy compliance can be achieved over time.

Paragraph 009 states that review mechanisms are not a tool to protect a return to the developer. Review mechanisms are primarily to strengthen local authorities' ability to seek compliance with relevant policies over the lifetime of the development scheme (for example by agreeing to a lower level of developer contributions in the early stages of a scheme with the prospect of a review if viability changes). Paragraph 009 also identifies the optimisation of public benefits through economic cycles.

Increased returns for risk associated with value and cost change during the period of development are already accounted for in the assumptions for developer return. A review based solely on reduced income or increased costs would be an attempt to protect the developer return and is precluded under PPG paragraph 009. In the event of a prolonged market downturn or other significant economic change, the LPA may wish to review the plan to ensure plan delivery.

Where a review takes place on a partially completed development, [Valuation of development property](#), RICS guidance note, has a section on how to approach land in the course of development.

#### 4.2 The valuation

The principles of the FVA at the decision-taking stage are similar to those at plan-making. A site-specific FVA tests whether the residual land value of each development, assuming policy-compliant developer contributions, is sufficient to allow the reasonable landowner a minimum return.

The mandatory requirements concerning the conduct of the assessor and reporting, discussed in chapters 2 and 3 and set out in [Financial viability in planning: conduct and reporting](#), RICS professional statement, apply to plan-making and decision-taking FVAs equally.

The FVA framework is as set out in chapter 2. The application of that framework in decision-taking is similar to that set out in chapter 3 for plan-making. The assessor will need to provide evidence regarding the value of the completed development, costs of developing the site (including any abnormal costs affecting both development costs and land values), developer return and BLV.

The main differences in FVAs for decision-taking, compared to for plan-making, are that:

- the level of planning requirements has been determined in the plan
- the scheme may be specified in more detail
- any abnormal costs can be identified, including any remediation costs and related land remediation relief tax allowances that may be available, and
- the evidence base can be more specifically related to the actual site (where the site was not assessed at the plan-making stage).

Under the general heading of 'Standardised inputs to FVA', paragraphs 010 to 019 of the PPG set out how to undertake an FVA. The PPG provides guidance on each of the main inputs into the viability assessment, and also discusses the different approaches that can be taken to the input data in either plan-making or decision-taking. Additional detailed guidance on the individual inputs is provided in [Valuation of development property](#), RICS guidance note. The PPG also gives guidance on the hierarchy of evidence and the different sources in property and construction markets (for example direct market evidence versus indices or market intelligence).

Assessors should refer to [Valuation of development property](#), RICS guidance note, for guidance on potential issues with the valuation of development land that could impact on the FVA. These could include double-counting of contingency allowances in both cost estimates and separate allowances in the assessment, the incorrect treatment of finance costs and developer's profits in cash flow approaches, inconsistent applications of projections of costs and values in cash flows, and double-counting of cost projections in tender price estimates and in the valuation approach.

The approach to the assessment of GDV is set out in PPG paragraph 011. At the site-specific level, market evidence (rather than any average figures used for the area-wide assessment) from the actual site or from comparable developments should be used. The assessor should be aware of the provisions of Red Book Global and [Valuation of development property](#), RICS guidance note, regarding assumptions around the optimum policy-compliant development and the actual or assumed development. Planning requirements should not be reduced on account of a sub-optimal scheme development value used in an assessment based on an optimal development BLV assessment.

PPG paragraph 012 refers to cost indices as a source of cost information for both plan-making and decision-taking FVAs. The basis for the construction of any cost indices or other data used should be fully explored and reported, and limitations noted.

PPG paragraph 012 also states that 'explicit reference to project contingency costs should be included in circumstances where scheme specific assessment is deemed necessary, with a justification for contingency relative to project risk and developers return'.

For a decision-taking FVA, a specific site is appraised using developer return. Paragraph 018 of the PPG identifies a standardised input of 15% to 20% of GDV as a suitable return for the purpose of plan-making, subject to the right of plan-makers to apply alternative figures if they think it appropriate. Paragraph 018 is silent on decision-taking developer return. The principles and parameters relating to developer return at the plan-making stage could be applied at the decision-taking stage; however, the



PPG distinguishes between standardised inputs and evidence for plan-making, and site-specific evidence for decision-making, when discussing other inputs into the FVA. The onus should be on the applicant to identify and evidence the developer return in a decision-taking FVA. The situation where inputs or outcomes are known or subject to little expected variation (for example, the forward sale of the affordable housing component, or development by an owner-occupier) applies equally to plan-making and decision-taking, and in these cases where development risks are reduced significantly, lower rates of return should be used.

Evidence of returns could be derived from land transaction evidence in a residual valuation framework, taking care to ensure there is no circularity in that process. Assessors should note the guidance in chapter 5 to avoid this issue. Where land is overpriced in relation to plan policy, profitability will have been sacrificed and it is not the role of an FVA to protect the developer return in these circumstances.

The BLV is addressed in paragraphs 013 to 016 of the PPG, and section 5.1 of this guidance. These paragraphs apply equally to plan-making and decision-taking, with one exception. There is a specific reference to decision-taking FVAs in paragraph 014, where it states that the cost implications of all relevant policy requirements, including developer contributions and, where relevant, any CIL, should be taken into account.

Additionally, under no circumstances will the price paid for the specific site be a relevant justification for failing to comply with relevant policies in the plan. However, local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement) if they feel it is appropriate.

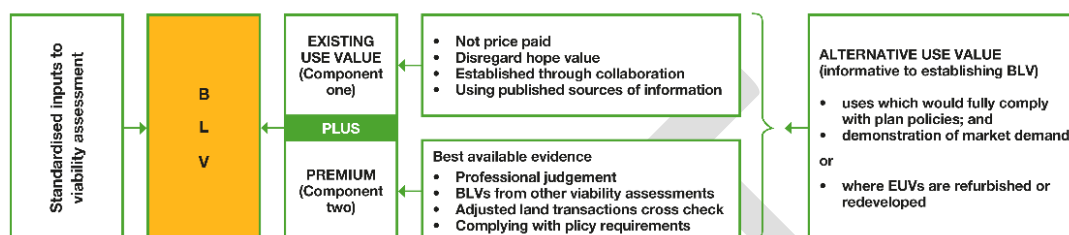
The primary approach to the BLV at the decision-taking stage is therefore the same as for plan-making: EUV plus a premium. Where appropriate, the BLV can be informed by the AUV. Guidance on the assessment of the BLV is included in chapter 5.

## 5 FVAs and the BLV

### 5.1 Introduction

Paragraph 010 of the PPG sets out the residual valuation framework on which FVAs are based.

Paragraph 013 sets out the approach to the determination of the BLV within that framework, summarised in Figure 5. The BLV will usually be based upon the EUV plus a premium (EUV+), but may sometimes be based on the AUV.



**Figure 5: Benchmark land value (BLV)**

There are three approaches to the assessment of the BLV. All three should be calculated and reported to the decision-maker separately to counter arguments that BLVs from one method of valuation have been used as an input into another method, in order to reduce developer contributions artificially. If applied correctly, the recommended approach will nullify this possibility.

The primary approach is EUV+ (or AUV where appropriate). The other two approaches are cross-checks.

- The first cross-check is the residual BLV, found by applying the residual valuation approach set out in [Valuation of development property](#), RICS guidance note.
- The market comparison approach can be used to provide a further cross-check. Where the evidence allows, land transactions can be used. The normal valuation approach to the analysis of transactions is set out in [Comparable evidence in property valuation](#), RICS guidance note.

The decision-maker will establish a reasonable premium to the landowner and determine the BLV informed by the professional judgement of the assessor, based on these three approaches, using the best evidence as set out in the PPG.

### 5.2 BLV and market value

The valuation process set out for the BLV does not accord directly with the valuation process adopted for the market valuation of development property. Therefore, the BLV in an FVA for planning purposes in England may not accord with market value as defined in IVS 104 and Global Red Book VPS 4 section 4. This is for a number of reasons, including the use of standardised inputs at the plan-making stage, coupled with variations in both the hierarchy of methods and evidence.

Paragraph 014 of the PPG states that 'There may be a divergence between benchmark land values and market evidence; and plan makers should be aware that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners'.

What is important is that the applicable basis of value is set out clearly and that the methods, assumptions and/or special assumptions adopted are made explicit in the report.

In the case of development valuation, [Valuation of development property](#), RICS guidance note, and [Comparable evidence in property valuation](#), RICS guidance note, suggest that two valuation methods should normally be applied: the market comparison approach and the residual method. In the case of development property, unlike some other property types, applying the market comparison approach only is rarely adequate. The two valuations are set out in [Valuation of development property](#), RICS guidance note.

In the case of the BLV in FVAs, these two methods are not the primary approach, which is the EUV plus a premium. They are therefore cross-checking mechanisms only.

Despite the particular basis of valuation for the BLV set out in the PPG, FVAs are still to be carried out under the mandatory and advisory framework of Red Book Global, and the application of the PPG is not a departure from those standards. Paragraph 6.3 of PS 1 states 'If the valuation falls to be provided in compliance with prescribed statutory or legal procedures or other authoritative requirements then provided those requirements are mandatory in the particular context or jurisdiction, compliance does not by itself constitute a departure – though the requirement to do so must be made clear.'

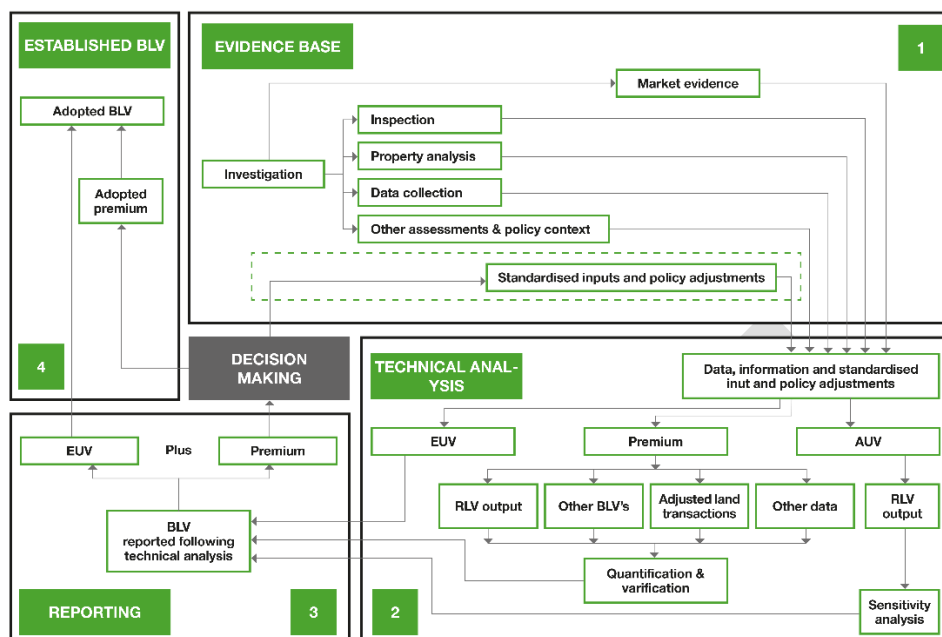
The PPG specifies the framework for the valuation task. It sets out policy parameters that will themselves influence the market(s) within which development property is traded. It both specifies an overall framework for FVAs and includes specific guidance on how to assess a BLV. It sets out detailed assumptions, including standardised inputs and policy adjustments.

PPG paragraph 013 specifies that, for the purpose of defining land value for any FVA, 'a benchmark land value should be established on the basis of the EUV of the land, plus a premium for the landowner'. It goes on to state (in paragraph 016) that the 'premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements'. It is therefore a minimum return that would persuade a reasonable landowner to sell the land.

An important difference between market value and BLV is the weighting of the evidence base. While the evidence base for the market value is grounded in transactions, and in comparative values and costs of the developed property in a residual valuation, the PPG reduces the status of comparable land transactions to that of a cross-check of the BLV, which may be undertaken to help inform the BLV established by reference to the EUV plus a premium.

PPG paragraph 020 sets out the expectation that the FVA will be carried out by a suitably qualified practitioner. Figure 6 sets out the basic valuation process necessary to satisfy the requirements of the PPG based on the collection of appropriate evidence, technical analysis of the evidence, carrying out the necessary calculations and reporting the valuations. This provides the evidence base for the

decision-maker to assess the BLV.



**Figure 6: The process of establishing the BLV**

The first and second stages of the FVA are evidence collection and analysis, leading to the valuations. This includes the identification of the evidence base set out in chapters 3 and 4, and the analysis of that evidence. Appendix 4 details the process underpinning the analysis of market evidence. A number of valuations based on the evidence are required to provide the information for an informed judgement on viability by the decision-maker. These valuations, which must be individually reported, are the EUV, AUV where appropriate and BLV.

### 5.3 EUV plus premium

The EUV is the first component for the calculation of the BLV. The EUV is defined in PPG paragraph 015 as the value of land in its existing use. Guidance on the determination of the EUV is included in appendix 2.

The landowner's premium is the second component of the BLV. The premium should provide a reasonable incentive for a landowner to bring forward land for development, while allowing a sufficient contribution to fully comply with policy requirements. The BLV will normally be equal to or greater than the EUV.

The PPG identifies the evidence base, which can include BLVs from other FVAs. Any data used should be adjusted to comply with policy levels of planning requirements and reflect differences in the timing of the assessments, quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners. Appendix 4 sets out technical issues appertaining to the adjustment of evidence from other FVAs. There is no standard amount for the premium, and each assessment needs to be properly evidenced.

## 5.4 AUV

Paragraph 017 of the PPG states that the AUV 'of the land may be informative in establishing benchmark land value'. The AUV refers to the value of land for uses other than its existing use. The technical issues behind the determination of the AUV for both plan-making and decision-taking are set out in appendix 3.

The plan should set out the circumstances in which the AUV can be used. For example, this might include evidence that the alternative use would fully comply with up-to-date plan policies if the alternative use could be implemented on the site in question. The market demand for that use, and that it is deliverable, have to be demonstrated. This is particularly relevant where an extant consent is the AUV. In these cases, an explanation as to why that consent has not been implemented should be provided.

The AUV will have to be supported by evidence of the costs and values of the alternative use. The decision-taker will have to decide on the likelihood of that alternative use being implemented if permission for the actual development is not given. This assessment should be set within the context of the other options available to the landowner, including the option to wait. Where the BLV is based on the AUV, no premium should be added. See appendix 3 for additional guidance.

## 5.5 Residual valuations for plan-making FVAs

A residual valuation can be used as a cross-check to the BLV, found by the application of EUV+. The residual valuation requires the assessment of the residual land value after all costs, including developer return, have been deducted. [Valuation of development property](#), RICS guidance note, describes the residual valuation approach and the PPG provides guidance on the determination of key cost and value inputs (paragraphs 010, 011, 012 and 018), which have been covered in chapters 3 and 4.

At the plan-making stage, residual valuations can be used to test the effect of different levels of policy requirements on residual land values for the various development typologies. These residual land values can then be used as a cross-check against BLVs established using EUV+.

The different levels of policy requirements should be based on four sources of information:

1. Paragraph 001 of the revised PPG states that 'The policy requirements should be informed by evidence of infrastructure and affordable housing need'. This evidence should be used in the first iteration of the BLV with a residual valuation, using planning requirements based on the needs assessment.
2. There will be a set of emerging plan policy requirements and the residual valuation needs to be tested, assuming planning requirements within these emerging plan policies.
3. Policy requirements set out in other FVAs or comparable local plans could be tested.
4. Existing policies under the old plan could be tested.

The resulting land values can be cross-checked against the EUV and the evidence of premiums from other FVAs or plans.

In plan-making, the BLV should be established through an iterative and collaborative process by

engaging plan-makers, landowners, developers, and infrastructure and affordable housing providers. PPG paragraph 013 states that a premium (if required) is added to the EUV to provide the incentive to bring the land forward for development. If the proposed level of developer contributions results in a residual land value that does not provide this incentive, when assessing viability at the plan-making stage it may be appropriate for LPAs to reduce the required developer contributions and for assessors to test the impact on the residual land value. Assessors can advise, on the basis of this evidence, whether this would incentivise landowners to bring the land forward for development. However, it is for the plan-maker to assess the BLV from the evidence provided by the assessor.

#### 5.6 Residual valuations for decision-taking FVAs

For a scheme-specific FVA, the policy-compliant planning requirements should be included in the valuation. For example, if the plan has a policy of 40% affordable housing, this is the percentage of affordable housing that should be included in the residual valuation. The effect of any changes to the valuation inputs should be reflected in both development costs and values, as appropriate. The scheme is considered viable at the policy-compliant level of planning requirements, unless the resulting premium above the EUV is deemed to be below the minimum return that a reasonable landowner would be willing to accept.

Where the EUV equals or exceeds the policy-compliant residual land value, the EUV normally establishes the minimum baseline for the BLV.

Where the current plan has not set precise planning requirements, emerging plan policy requirements should be given appropriate weight.

#### 5.7 Market comparison approach

Paragraphs 004, 014 and 016 of the PPG relegate the market comparison approach to the role of cross-checking the BLV.

The RICS guidance notes [Valuation of development property](#) and [Comparable evidence in property valuation](#) recognise that the price paid for the subject property/land can be a useful piece of market evidence, but in the case of an FVA this is subject to the restrictions on its use imposed by the PPG. PPG paragraphs 002, 004, 014 and 018 all state that the actual price cannot be used as a reason not to accord with plan policies. Paragraph 016 states that local authorities may collect data on the price paid (or due to be paid under any option or promotion agreement).

The basis of valuation is the value assuming all plan policy developer contributions have been met. There should be no presupposition that a policy obligation will be waived or reduced by the LPA. For the residual valuation, decision-taking FVAs should assume the developer contributions set out in the actual plan. For plan-making FVAs, the same range of emerging plan policy requirements as set out in section 5.5 can be used.

The best-quality land transaction evidence is for straightforward sites where the assumptions behind the transaction can be verified as being in line with planning policy. In some cases, valuers will be aware of the expectations underpinning transactions. Where these expectations do not comply with emerging or actual planning requirements, land transaction prices must be adjusted to reflect

compliance. Appendix 4 provides guidance on these adjustments. The difficulties in assessing policy compliance within transaction evidence may weaken the evidence base, and paragraph 016 states that local authorities may collect data on the price paid (or due to be paid under any option or promotion agreement).

#### 5.8 Reporting requirements

The specific reporting requirements are set out in [Financial viability in planning: conduct and reporting](#), RICS professional statement. The report must include, where appropriate, the EUV, premium, total BLV, AUV (where it exists), market evidence and all supporting considerations, including evidence of BLVs from other FVAs, assumptions and justifications. Local authorities may also request data on the price paid for land (or the price expected to be paid through an option or promotion agreement). In addition, [Financial viability in planning: conduct and reporting](#), RICS professional statement, requires the reporting of a sensitivity analysis of the results and an accompanying explanation and interpretation of respective calculations on viability, having regard to risks and suitable returns. This is necessary as valuation variation in development is a well-understood phenomenon caused by the individuality of development sites and the residual nature of development land value.

## 6 Other considerations

### 6.1 Date of assessment for decision-taking FVAs

The date upon which the planning authority or the Secretary of State 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 assessment date should be carefully considered and agreed with the LPA. If the FVA is provided before the application, then the date of the assessment will clearly be prior to the submission of an application.

The FVA may subsequently require updating when an application is submitted, when a plan is updated or when a CIL review takes place. If the FVA is submitted with a planning application, the date of the application (not the date of registration) may be the appropriate date. It is important to note that the decision of the LPA regarding a planning application needs to be based on the material considerations at the date of determination, so the findings of an FVA undertaken at the date of application will still be relevant at the date of decision.

FVAs may need to be updated for market movements during the planning process prior to an appeal. This may also be necessary during the plan-making process. Paragraph 009 of the PPG requires plans to set out the circumstances in which review mechanisms may be appropriate, and to provide a clear process and terms of engagement regarding how and when viability will be reviewed over the lifetime of the development. Where a review takes place, the date of valuation needs to be agreed between the parties and the decision-maker.

### 6.2 Projection models for capturing future market change

The PPG is silent over the use of current or projected levels of values and costs. The only exception relates to the assessment of the EUV (paragraph 014, 'Existing use value should be informed by market evidence of current uses, costs and values').

Guidance on valuation in general, and on development appraisal in particular, recognises that while the prospect of future value and cost change may to varying extents be reflected in current market pricing, there is always some uncertainty and therefore market prices cannot be analysed or interpreted in a static environment. Simply using current costs and values, and ignoring changes over the life of a development, can distort the analysis. It is recommended that, where assessors consider that the impacts of value and cost change are a significant factor in the market, these changes are taken into account in the FVA and sensitivity testing of these projections is undertaken in accordance with [Valuation of development property](#), RICS guidance note. Any assumptions made concerning projections of costs and values within FVAs must be explicitly stated, and the evidence used to underpin projections fully explained.

### 6.3 Sensitivity testing

It is now mandatory in [Financial viability in planning: conduct and reporting](#), RICS professional statement, that financial assessments are sensitivity tested in order to examine key variables and



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ensure that a sound judgment can be formulated on viability. Where projection models are used, this is particularly important given the reliance upon forecasting costs and values. Sensitivity testing is a form of risk analysis. It should be used to assess the impact that different economic scenarios may have on key inputs (such as costs) and how adjusting those key inputs can affect the outcome of the FVA.

Sensitivity testing of potential significant changes to key inputs can help to ensure that plan policies are deliverable over the longer term. If plan policies are set at such a level that they can withstand a certain degree of economic change, this will help to reduce the scope for multiple reviews of FVAs over the lifetime of a development.

There are a number of techniques for testing the sensitivity of assessments to changes in inputs, ranging from simple scenarios to simulation modelling.

Sensitivity testing should be proportionate to the site or typology under review, and the reporting of sensitivity should reflect the needs of the various stakeholders in the process, not all of whom will be familiar with the implications of valuation variation. It is important that the assessor sets out and explains the sensitivity testing undertaken when reporting the findings.

As set out in section 2.3, developer return reflects risk. Where there is less certainty over how key inputs (such as costs) may change in the future, this creates risk for developers and a higher developer return may be appropriate to reflect this risk. Similarly, where inputs and future trends are more certain, it may be appropriate to reduce the developer's expected return within the viability assessment to reflect the reduced downside risk (risk of making a loss).

The PPG recognises that while affordable housing may produce a lower GDV, it has more certain sale outcomes and carries less risk for the developer. For schemes delivering affordable housing, a lower developer return may be appropriate to reflect this lower risk.

## Appendix 1: Plan-making viability assessments: guidance regarding the role of the assessor

### Appointment

Mandatory requirements	There are a number of mandatory requirements in <a href="#">Financial viability in planning: conduct and reporting</a> , RICS professional statement, concerning conflicts of interest, suitable qualifications, written instructions, objectivity and transparency. Terms of the appointment must be agreed in writing, in line with these requirements.
Timing of appointment	The appointment should be at the very start of the process.
Terms of engagement	<p>Before appointment:</p> <ul style="list-style-type: none"> <li>• Refine and agree a revised brief in writing with the LPA.</li> <li>• Agree a timescale for the FVA task with the LPA, including adequate time for the consultation, reflection and plan amendment period.</li> </ul> <p>The terms of engagement should clearly set out:</p> <ul style="list-style-type: none"> <li>• purpose of the FVA: testing area-wide plan and/or CIL</li> <li>• timescales</li> <li>• scope of stakeholder engagement</li> <li>• key assumptions and information to be used, including draft policy requirements (or policy options as appropriate)</li> <li>• methodology: logical approach to site selection and typologies, taking into account the projected housing supply over the plan period</li> <li>• modelling assumptions: baseline and policy tests</li> <li>• approach to projections, and scenario and sensitivity testing, and</li> <li>• establishing a process to refine policies during the testing period.</li> </ul>

### Stakeholder engagement and consultation

Planning stakeholder engagement	The assessor should agree the objectives of stakeholder engagement and consultation in the plan preparation period with the LPA. The scope, summarising the purpose and focus of the consultation, should be clearly documented. Planned consultation should be effective and proportionate to ensure that the best possible information is obtained.
Legal framework	<p>As set out in <i>The Town and Country Planning (Local Planning) (England) Regulations 2012</i>.</p> <p><b>Regulation 18</b> relates to the preparation of the plan and requires that</p>

	<p>various bodies and stakeholders be notified that the planning authority is preparing that plan. It invites them to comment on what that plan ought to contain.</p> <p><b>Regulation 19</b> is the second stage of the consultation process when forming a local plan, and it represents the publication of the proposed policies for an area.</p>
Role of the assessor	<p>The assessor should make sure stakeholders are aware of the role of the assessor in the process. The assessor provides evidence and interpretation of data; the decision is with the LPA.</p>
Objectives of consultation	<p>Objectives for consultation may include the following:</p> <ul style="list-style-type: none"> <li>• Gather additional information to support the FVA: this will include site- or area-specific information that might impact on development costs (e.g. rural areas with generally sloping topography, or urban areas with majority brownfield sites).</li> <li>• Research the land market in terms of EUVs and BLVs (EUV plus premium).</li> <li>• Find out about landowners' and promoters' intentions in respect of potential strategic or key development sites within the plan area.</li> <li>• Obtain feedback on the evidence base, including cost and value assumptions, the overall methodology and approach, and the findings of the draft FVA.</li> </ul>
Stakeholder mapping	<p>The assessor should identify stakeholders and agree this with planning officers. The assessor should consider the consultees identified under the provisions of Regulation 18 of <i>The Town and Country Planning (Local Planning) (England) Regulations 2012</i> and identify any additional stakeholders relevant to the FVA.</p> <p>Possible stakeholders could include landowners, developers, utilities, other statutory undertakings, businesses, community groups, housing associations, heritage associations, etc.</p>
Information exchange	<p>The iterative process envisages a significant transfer of information between stakeholders, regarding strategic and key development sites, that will include value and cost evidence. The assessor may not have direct contact with some stakeholders and information will need to be obtained through planning officers to avoid duplication of work. Where an LPA has an up-to-date infrastructure development plan, the information around infrastructure requirements will already have been</p>

	collated, and this information should be utilised.
Type of consultation	The appropriate mode of consultation should be determined by the assessor with planning officers for the particular stage in the process or the type of information required. This can include both formal and informal consultation.
Formal consultation	Formal consultation should include inviting comments on the FVA published as part of the evidence base for the local plan, with a formal process for making representations and with the LPA providing responses.
Informal consultation	<p>Informal consultation could include:</p> <ul style="list-style-type: none"> <li>• landowner and developer meetings for the strategic/key sites</li> <li>• stakeholder events and workshops, and</li> <li>• questionnaires.</li> </ul> <p>The aim is to offer an opportunity for stakeholders to contribute alternative evidence for consideration. This information should however be evidenced, and this should be made clear.</p>
Response to consultation and application of evidence provided	<ul style="list-style-type: none"> <li>• Comments from stakeholders should be grouped into relevant categories, e.g. sales values, build costs, etc. It may then be possible to draft responses that deal with comments from a number of stakeholders on the same topic. This approach ensures consistency.</li> <li>• If clear themes arise from comments from a range of stakeholders, presentation of consultation feedback and actions arising at an open meeting could also be considered.</li> <li>• The assessor should evaluate the information submitted alongside other appropriate available evidence. It is important to set out how responses have been considered and incorporated into the testing.</li> <li>• Consultation responses should be weighted according to the level of supporting evidence that is provided.</li> <li>• Any reassessment should be based on an open and transparent process, with the LPA and other stakeholders playing a full role and being kept fully briefed on the revised outputs.</li> </ul>
Consultation on introduction or	As with the scope of consultation with the FVA for plans, the assessor should agree the scope of the CIL consultation, taking into account the

amendments to the CIL (CIL Regulations 2019)	<p>following requirements:</p> <ul style="list-style-type: none"> <li>• Alongside the draft charging schedule, the charging authority must also publish appropriate available evidence on infrastructure costs, other funding sources and viability.</li> <li>• It is up to charging authorities to decide the length of the consultation, but the CIL PPG suggests a minimum of 4 weeks.</li> <li>• Any person who makes representations in relation to a draft charging schedule can request to be notified when the draft has been submitted for examination, at publication of the examiner's recommendations and following approval of the charging schedule by the charging authority.</li> </ul>
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#### Identifying typologies and strategic sites

Proportionate testing of sites	Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable.
Identification of strategic sites	<p>The objective for the selection of strategic sites is to identify those on which the plan relies to meet policy objectives. The assessor needs to identify those sites in conjunction with the LPA.</p> <p>It is important for the assessor to consider the specific circumstances of strategic sites. This could include, for example, large sites, sites that provide a significant proportion of planned supply, sites that enable or unlock other development sites, or sites within priority regeneration areas.</p>
Assessment of strategic sites	<ul style="list-style-type: none"> <li>• Assessments of strategic sites should reflect the land uses proposed for that site in the plan, as well as the likely height and massing.</li> <li>• It may be that it is appropriate to test a number of different options or variations to test alternative land use mixes. These will need to be tested in relation to market demand and the identified housing needs assessment to establish an appropriate balance of mixes and/or density.</li> <li>• It will be important to consider phasing and dependency on infrastructure, as well as any abnormal development costs for that site.</li> </ul>
Identification and assessment of sample sites	<p>In some circumstances, more detailed assessment may be necessary for particular areas or key types of sites on which the delivery of the plan relies. It may therefore be appropriate to test sample sites.</p> <p>The characteristics used to group these sites should reflect the nature of</p>

	<p>the sites and type of development proposed for allocation in the plan. Examples might include greenfield sites or sites within an existing industrial area proposed for residential or mixed-use development.</p>
Identification of hypothetical development typologies	<p>It may be appropriate to establish development typologies for the purposes of testing that should respond to the emerging plan policies and be representative of the expected development throughout the timeframe of the plan. They need to be able to provide a profile of viability across a geographical range and/or range of different types of site, and unlike sample sites are not based on actual sites.</p> <p>Development typologies should be a combination of site typologies and scheme typologies (see Glossary).</p>
Assessment of hypothetical development typologies	<ul style="list-style-type: none"> <li>• The viability testing of hypothetical development typologies should include the assessment of the range of site and scheme typologies.</li> <li>• Sites deemed representative of a typology should have as many points of similarity as possible, but should not be considered together where a factor such as a high EUV make a site untypical of the typology. In such a situation, it may be appropriate to test these sites separately.</li> <li>• The assessment should also include a range of rental or capital value bands where these vary across the area (PPG paragraph 004).</li> <li>• The assessor should assess current market demand, and also reflect on land use limitations and development parameters indicated by the LPA.</li> <li>• It may be useful to provide a matrix of different scheme typologies. It is important to assess the quantum of development that each scheme typology will deliver, compared with the overall quantum of development in the plan, to ensure testing is proportionate.</li> <li>• Once the site and scheme typologies have been agreed, it may be useful to set out in a grid how site and scheme typologies can be combined to arrive at development typologies. These need to cover the majority of development typologies in terms of inputs to assessments. When considering the number of hypothetical development typologies to test, the assessor should remember that there is no requirement for individual testing of every site or the need to provide assurance that individual sites are viable.</li> </ul>

	<ul style="list-style-type: none"> <li>• In determining the range of development typologies to test, these need to include a range of residential typologies in terms of density, but also in built form and tenure. However, densities and built form may be combined to reduce the number of typologies and include only a sample of those likely to come forward.</li> <li>• In determining the range of non-residential typologies, it is important that the number of typologies is broadly proportionally representative of the type of commercial development likely to come forward. It will not be possible to test every type of commercial development likely to come forward (e.g. gyms, cinemas, nightclubs, etc.) within the hypothetical typologies, and this should be acknowledged. These are likely to form a relatively small component of mixed used developments, and so are not likely to be of significant scale to warrant separate testing in most cases. In viability testing for the CIL, the limited quantum of development will limit the potential for the CIL in any event.</li> <li>• Assessors will need to design scheme typologies by taking into account the types of development likely to come forward, both in terms of density and build form. Account should be taken of recent local development patterns and other comparable areas, and the density requirements in the plan. Where a new form of development is being proposed, the assessor should ensure their assumptions are based on relevant studies – an example of this may be where the LPA would like to see development coming forward that includes both residential and commercial uses.</li> <li>• Within each typology, assumptions regarding both the values and costs of development and the ranges employed will be necessary. These assumptions need to be clearly articulated, evidenced and reported.</li> </ul>
Additional requirements for testing the CIL	<p>When carrying out an FVA for the purposes of the CIL, assessors should consider the following:</p> <ul style="list-style-type: none"> <li>• It is an area-based approach, involving a broad test of viability.</li> <li>• An appropriate range of types of sites across the plan area should be sampled for testing.</li> <li>• Differential rates may be appropriate in relation to: <ul style="list-style-type: none"> <li>○ <b>Geographical zones</b> within the charging authority's</li> </ul> </li> </ul>

	<p>boundary. This should be granular enough to reflect significant differences in costs and values but not overly complex.</p> <ul style="list-style-type: none"> <li>○ <b>Types of development</b> e.g. residential, office, hotels, etc. This should be based on development likely to come forward within the area.</li> <li>○ <b>scale of development</b> where this is under or over a specific threshold agreed with the LPA.</li> <li>○ <b>uplift in land value</b> where, for example, the site typologies are greenfield or brownfield.</li> </ul> <ul style="list-style-type: none"> <li>• Differential rates can be set for strategic sites, where a more detailed assessment will be required. Rates can be higher or lower, reflecting the viability of that site and taking into account the requirement for the landowner to deliver specific elements of infrastructure.</li> </ul> <p>The assessor should also take into account the following (paragraph 025, reference ID 25-025-20190901).</p> <p>The uplift in land value that development creates is affected by the existing use of land and its proposed use. For example, viability may be different if high-value uses are created on land in an existing low-value area, compared to the creation of lower-value uses or development on land already in a higher-value area. Charging authorities can take these factors into account in the evidence used to set differential levy rates, in order to optimise the funding received through the levy.</p> <p>Charging authorities should set levy rates in a way that takes account of the infrastructure needs of the area and the additional value generated through planning permissions, in a way that does not undermine deliverability of the plan.</p>
Developer contributions and the CIL	<p>If the CIL is to be tested as part of the emerging area-based plan, the impact of the CIL should be considered alongside the impact of other policy requirements. Charging schedules are not formally part of the relevant plan, but charging schedules and relevant plans should inform, and be generally consistent with, each other. If a CIL charging schedule is already in place, this should be included as a fixed development cost. Exemptions and reliefs may apply.</p> <p>Where a charging schedule is not in place and a CIL is to be tested alongside the policy requirements of the plan, assessors should refer to the CIL guidance when scoping the FVA in order to advise on the level</p>



	of CIL to test on strategic sites, sample sites and hypothetical development typologies.
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#### Development Matrix – scheme typologies

Scheme typologies	GIA/units of planned development	Proportion of development capacity
Residential Sale 300 dwl ha		
Residential BtR 150 dwl ha		
Residential 80 dwl ha		
Residential infill		
Specialist housing		
Industrial – B2/B8 large format		
Workspace B1a and B1c		
Retail A1		
Hotel		

**Figure 7: Illustrative matrix of different scheme typologies**

	Site typologies					
Scheme typologies	Greenfield	Industrial Type A	Industrial Type B	Office	Town centre – mixed commercial	Small residential infill
Residential Sale 300 dwl ha	No	No	Yes	Yes	Yes	No
Residential BtR 150 dwl ha	Yes	Yes	Yes	Yes	No	No
Residential 80 dwl ha	Yes	No	Yes	No	No	No
Residential infill	No	No	No	No	No	Yes
Industrial – B2/B8 large format	No	Yes	Yes	No	No	No
Workspace B1a and B1c	No	Yes	Yes	Yes	Yes	No
Retail/Leisure	No	Yes	Yes	Yes	Yes	No
Retail/residential	Yes	Yes	No	No	Yes	No

**Figure 8: Scheme and site typologies**

#### Evidence

Types of evidence	Any FVA should be supported by appropriate available evidence and informed by engagement with developers, landowners, and infrastructure and affordable housing providers.
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	<p>Comparing data from existing case study sites will help ensure assumptions of costs and values are realistic and broadly accurate.</p> <p>Average costs and values can be used to make assumptions about how the viability of each type of site would be affected by all relevant policies.</p> <p>In using market evidence, it is important to disregard outliers.</p> <p>Information from other evidence informing the plan (such as SHLAAs) can help inform the FVA.</p> <p>Evidence needs to be collected relating to both current values and costs, and expected changes over the plan period.</p> <p>Typical types of evidence include:</p> <ul style="list-style-type: none"> <li>• market evidence of rents and yields/sales values, and an understanding of demand and supply relationships across all land uses sourced from public and (where made available) private sources</li> <li>• where appropriate, other market evidence informing the dynamics of values and costs within development markets and existing uses</li> <li>• relevant planning, property and economic studies carried out by the LPA and other bodies</li> <li>• local developers/promoters and land owners, and other stakeholders</li> <li>• other relevant viability studies for similar area-wide plans</li> <li>• assessments undertaken by the LPA of viability information submitted in relation to development proposals, at application stage and as part of section 106 review clauses, and</li> <li>• adjusted land transaction prices to cross-check BLV assessments.</li> </ul>
Sources	<p>PPG paragraph 015 relating to the determination of the EUV notes a specific list of potential data sources and that they can include (but are not limited to):</p> <ul style="list-style-type: none"> <li>• land registry records of transactions</li> <li>• real estate licensed software packages and databases</li> <li>• real estate market reports</li> <li>• real estate research</li> <li>• estate agent websites and property auction results</li> <li>• Valuation Office Agency data, and</li> </ul>

	<ul style="list-style-type: none"> <li>public sector estate/property teams' locally held evidence.</li> </ul>
Assumptions to be evidenced	<p>Assessors should seek evidence to support current and future assumptions on the following over the life of the plan:</p> <ul style="list-style-type: none"> <li>density and building efficiency ratios</li> <li>sales values</li> <li>rental values and yields</li> <li>build costs and professional fees</li> <li>demolition and abnormal site costs</li> <li>finance costs</li> <li>developer return</li> <li>infrastructure costs</li> <li>anticipated grant funding for affordable housing</li> <li>anticipated value of affordable units (with supporting evidence/explanation of how these have been valued and assumptions made) and</li> <li>anticipated sales rates (per month).</li> </ul> <p>It is important that the assumptions are clearly stated, as this will inform assumptions about the appropriate build cost figures and infrastructure cost assumptions.</p> <p>Assumptions must adhere to any statutory or other regulations, for example building and fire regulations or residential space standards.</p>
Additional commercial property value evidence	<p>Commercial values should be assessed based on the likely built form and fit-out of space, and should be reflected in appropriate construction costs. The data collected should include as much as appropriate of the following list:</p> <ul style="list-style-type: none"> <li>any existing income that will continue to be received over the development period</li> <li>anticipated residential sales values and ground rents (and supporting evidence, including deductions for incentives)</li> <li>anticipated rental values and supporting evidence</li> <li>yields for the commercial and residential (where relevant) elements of the scheme, and supporting evidence</li> <li>details of likely incentives, rent-free periods and voids</li> <li>anticipated letting rates (per quarter) and</li> <li>deductions from the commercial GDV to reach the NDV (Stamp Duty Land Tax (SDLT), agents, legal and VAT).</li> </ul>
Construction and other	The data collected on costs should include as much as appropriate of

development costs	<p>the following list:</p> <ul style="list-style-type: none"> <li>• expected build cost (a full quantity surveyor's cost report showing how costs have been estimated may be available for site-specific information, BCIS or other online data may be appropriate to use for plan-level testing)</li> <li>• demolition costs</li> <li>• site preparation costs</li> <li>• planning costs</li> <li>• construction timescales, programme and phasing</li> <li>• any anticipated abnormal costs – generally for strategic sites</li> <li>• details of expected finance rates</li> <li>• professional fees, including architect, planning consultant, quantity surveyor, structural engineer, mechanical/electrical engineer and project manager</li> <li>• letting agent fee/letting legal fee and</li> <li>• environmental standards (e.g. BREEAM or specific policy costs such as urban greening).</li> </ul> <p>In addition, the following information will be necessary when appropriate:</p> <ul style="list-style-type: none"> <li>• length of the pre-build and construction period</li> <li>• length of the marketing period and</li> <li>• any phasing.</li> </ul>
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## Reporting

Structure of the report	<p>All reports need to adhere to the mandatory requirements set out in <a href="#">Financial viability in planning: conduct and reporting</a>, RICS professional statement, and paragraph 020 of the PPG.</p> <p>A sample report may contain the following:</p> <ul style="list-style-type: none"> <li>• executive summary</li> <li>• introduction and background</li> <li>• description of area (with map)</li> <li>• planning policy context</li> <li>• strategic sites and typologies</li> <li>• market information summary</li> <li>• build cost and programme</li> <li>• methodology and approach</li> <li>• outputs and results</li> <li>• sensitivity analysis</li> </ul>
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	<ul style="list-style-type: none"><li>• concluding statement and</li><li>• presentation of results.</li></ul>
Presentation of results	There are potentially a very large number of results that could be reported, and the assessor should ensure that unnecessary tests are not carried out or reported; for example, if a development typology is viable at 35% affordable housing, it will also be viable at 20% affordable housing.

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## Appendix 2: Estimating EUV

This appendix provides guidance in arriving at an EUV in accordance with paragraph 015 of the PPG. The EUV is the first component in calculating the BLV.

The EUV is defined by the PPG in paragraph 015 as ‘the value of the land in its existing use. EUV is not the price paid and should disregard hope value’.

‘Existing use’ is a term recognised in the IVS and ‘value in existing use’ is included in the glossary of [Valuation of development property](#), RICS guidance note.

‘Existing use’ is described in IVS as a premise of value, distinguishing it from a basis of value, as it is intended to describe the circumstances of how an asset is used. Thus IVS 104 section 150 states ‘Current use/existing use is the current way an asset, liability, or group of assets and/or liabilities is used. The current use may be, but is not necessarily, also the highest and best use’. [Valuation of development property](#), RICS guidance note, identifies it as ‘The market value, or any other appropriate basis, assuming the property continues in its existing use with no expectation of that use changing in the foreseeable future’.

This ‘element of market value in excess of the existing use value, reflecting the prospect of some more valuable future use’ is defined as hope value in the glossary of [Valuation of development property](#), RICS guidance note. It goes on to note that ‘this term is not specifically recognised by *International Valuation Standards* (IVS) or *RICS Valuation – Global Standards* (Red Book Global Standards) but is a well-used phrase in practice in some jurisdictions and the concept is defined in Paragraph 4.4 of VPS 4’. The PPG exclusion of any ‘hope value’ is in accordance with this identification.

It is clear and unambiguous that Valuation Standards and the PPG are compatible, and that the EUV for the purposes of FVAs is the value in the existing use, ignoring any prospect of future change to that use. Market value may, however, include that prospect where it exists.

The assessment of the EUV for FVA purposes does not involve a departure from Red Book Global and does not need to be formally declared as such.

The issues that arise in the determination of the EUV within the context of FVAs are:

- analysis of transaction evidence
- repair and improvement
- buildings run down in anticipation of development
- a partially completed development and
- specialised property.

There is an expectation that normal valuation methods will be employed, with the appropriate method being applied to the appropriate property type. Where possible and appropriate, the market comparison approach will be used and the analysis of transactions is a major part of that approach, often disaggregated into rent and yield components.

Normal methods of transaction analysis of rents, yields and/or capital values will apply. In the case of

FVAs, the evidence must be adjusted to disregard any hope value that may be present in the transaction price. This will apply to yields and to direct capital value comparisons.

The PPG identifies the evidence base that can be used to support the determination of the EUV and the type of evidence and sources are set out in appendix 1. The normal market comparison approach to valuation practice is set out in [Comparable evidence in property valuation](#), RICS guidance note, which also discusses sources and the hierarchy of comparable evidence. Assessors should make the plan-maker/decision-maker aware of the limitations of some of the data sources, especially where full knowledge surrounding the terms of the transactions is not available and assumptions have been made. These assumptions need to be reported.

PPG paragraph 017 states that 'where it is assumed that an existing use will be refurbished or redeveloped this will be considered as an AUV when establishing BLV'. The PPG assumes no substantial extension or improvement to the property, no enhancement of the existing use and no works requiring substantive planning permission. This does not exclude from the EUV an element of repair.

Repair can be reflected in the EUV in circumstances where, for example:

- there is a need to comply with statute (DDA, EPC, building regs compliance, etc.)
- a lift servicing the building is replaced (but not the sinking of new lift shafts, which would be classified as an AUV, as would reconfiguration of the space within the building) and
- normal asset management is performed.

What constitutes a repair versus a refurbishment will be determined by professional judgement as to whether the works bring the building up to standard within the existing use, or whether they go beyond that and fall into the bracket of refurbishment. In many circumstances, the expenditure in proportion to the building value can be a material consideration in informing this professional judgement. However, a building or site in need of substantial repair would have a lower EUV than a building or site in good repair. Furthermore, a landowner cannot profit from their failure to maintain the building or site.

Works undertaken to comply with building regulations or statutory requirements, such as the *Disability Discrimination Act* 1995 or the need to provide Energy Performance Certificates (EPCs), would generally constitute repairs, as these are required for the continued use of the building. Such works, of course, could represent a significant cost. If the property cannot be legally used for its current use at the date of valuation, that should be reported even if the EUV is based on the assumption that remedial works will be carried out.

All relevant repair and maintenance costs should be reflected in the valuation, and all assumptions made underpinning the assessment of the EUV should be reported.

Where buildings have been run down and possibly let on shorter-term leases with no right to renew, in expectation of future development – or even demolished – the EUV will be depressed below that of similar buildings that have not been so affected. The land value assuming development will not be

affected, or could even be higher for the poorer site (for example if costs of demolition are not required or costs of obtaining possession are lower).

In such circumstances, it would be inappropriate to determine a lower BLV and penalise the landowner for making the site ready for development. That would occur if a lower EUV is coupled with a premium evidenced from similar sites that had not been made ready for development in this way. A balance is required, reflecting the circumstances at the valuation date, but also the costs actually incurred in delivering the site and bringing it forward for development purposes. Such costs would generally sit in the scheme assessment, as necessary to incur in order to bring the scheme forward. Any double-counting (value and cost) should be avoided in the EUV, premium and scheme assessment.

The EUV of a partially implemented development could be nil. The BLV may therefore be more appropriately assessed by reference to the AUV.

The Red Book Global Glossary defines a specialised property as ‘a property that is rarely, if ever, sold in the market except by way of a sale of the business or entity of which it is part, due to the uniqueness arising from its specialised nature and design, its configuration, size, location or otherwise’. Such properties generally have a value to a trade buyer only. They will have an asset value to the entity using the asset for the purposes of its business, but there may be little or no market interest beyond that. The value may therefore lie either in a potential conversion or change of use, which would fall under the AUV (paragraph 017 of the PPG).

The asset value of specialised properties may be derived by reference to the depreciated replacement cost method of valuation. However, this does not necessarily reflect the price a property can achieve in the open market, but rather the value to the operating user if they had to go out and replace that asset. Assessors should take care that they achieve a balance between the EUV, premium and BLV that fairly reflects the criterion in the PPG of a minimum return at which it is considered a reasonable landowner would be willing to sell their land.



### Appendix 3: Estimating AUV

This appendix provides guidance in arriving at an AUV of a site to inform the BLV in accordance with paragraph 017 of the PPG.

PPG paragraph 017 refers to the AUV as ‘the value of land for uses other than its existing use’.

[Valuation of development property](#), RICS guidance note, defines it as ‘the market value, or any other appropriate basis, with the special assumption of an alternative use to the existing use or permitted highest and best use’.

PPG paragraph 017 states that any AUV used to inform the BLV must be limited to uses that ‘would fully comply with up-to-date plan policies, including any policy requirements for contributions towards affordable housing at the relevant levels set out in the plan’.

These uses may include where there is:

- an extant planning consent that can be implemented
- an alternative development that fully complies with up-to-date plan policies
- potential to refurbish the existing property
- any alternative use for the property that would achieve planning consent
- a partially implemented consent, or
- an application under section 73 of the *Town and Country Planning Act* 1990 for a variation or removal of a condition on an existing planning permission.

Plan-makers can set out the circumstances in which the AUV can be used. Application of the AUV is dependent upon it being demonstrated that the ‘alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued’ (PPG paragraph 017).

Extant consents need to meet these tests, and include compliance with up-to-date policy requirements. As the extant consent is capable of being implemented, assessment of the residual value of the consent as permitted should also be provided. Assessment of viability, assuming the residual land value as a benchmark, can then be reported as part of scenario testing to provide the decision-maker with comprehensive details of the alternative options open to the applicant. The weight to be given to an AUV is a matter for the decision-maker, taking into account the relative planning benefits of the proposed and extant development.

Where the AUV is used, it should be supported by evidence of the costs and values of the alternative use to justify the land value.

Valuation based on the AUV includes the premium to the landowner. If evidence of the AUV is being considered to inform the BLV, it includes the premium. PPG paragraph 017 states that the ‘premium must not be double-counted’.

Where the BLV is informed by the AUV, the AUV must be reported ([Financial viability in planning: conduct and reporting](#), RICS professional statement). Where the AUV is being used as the appropriate BLV approach, the applicant does have to demonstrate why the proposed scheme is

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being promoted over the AUV if the AUV suggests greater viability and returns.

As indicated in chapter 5, where a property's EUV is subject to a potential major refurbishment, the value subject to this refurbishment will be considered to be an AUV. Classification as a refurbishment rather than repair is a judgement based upon the significance of the works. It might involve planning permission and a significant structural change (including, say, external cladding works). However, it might also be a major refurbishment that requires internal reorganisation and configuration, for which no consents are needed, and could involve, for example, single- to multi-let occupation and/or substantial internal infrastructure. In these circumstances, the cost of the works compared with the unimproved EUV of the property, the time and effort involved, and the risk attached to the outcome will be important signals.

## Appendix 4: Analysing market evidence

This appendix considers the use and application of market evidence in order to inform the second component, or premium, in arriving at the BLV in accordance with paragraph 016 of the PPG.

Paragraph 016 identifies different forms of adjusted market evidence to inform the premium. These include specific references to:

- BLVs from other FVAs, and
- land transactions, but only as a cross-check to the other evidence.

Chapter 5 identifies three methods of valuation to determine the BLV. These are the primary approach, which is the EUV plus a premium, with cross-checking valuations of the BLV using, where appropriate, a policy-compliant residual land value and comparable land transactions.

Paragraph 016 states that 'Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners'. The data should ideally conform to more general principles regarding data quality set out in [Comparable evidence in property valuation](#), RICS guidance note.

### Market evidence of premiums/BLVs in other FVAs

Paragraph 016 of the PPG identifies BLVs from other FVAs as relevant sources of information to assist in identifying the premium element in an EUV+ approach to the assessment of the BLV.

Using this approach requires identification of the differences between comparable sites and typologies and the subject site or typology, set out in PPG paragraph 016. These adjustments should be made in arriving at the BLV.

The assessor will need to have knowledge of the circumstances and factors that were considered in determining the EUV and premium uplift within each comparator. This also includes the policy considerations, particularly where comparables are from outside the local plan area. The factors underpinning the assessment of EUVs and premiums in BLVs or other FVAs should be explained. If this information is available, conclusions can be reached as to whether or not these factors are similar to the site for which the BLV is required, and adjustments made. Where assumptions have been made concerning information about the comparables, these assumptions must be clearly stated. The more assumptions that have to be made, the less weight that can be put on the evidence.

The circumstances underpinning the assessments of the EUV and premium, and which may require adjustment, could include:

- the date of the determination of the BLV
- landowner optionality, i.e. the range of options open to the landowner
- state of the property, obsolescence and compliance with environmental and building regulations
- site constraints such as ground conditions, contamination, ransom issues, planning factors,

third-party rights and covenants

- uniqueness of opportunity, such as 'one-off' site assembly
- competition from alternative sites
- the weighting of individual BLV/premium evidence relative to the subject property, and
- adjustments made by the plan-maker in arriving at an adopted premium, if any.

Information on BLVs and premiums in other FVAs can be requested but, if it cannot be provided, the practitioner will need to make assumptions and this will have an impact on the quality of that evidence. It is up to the decision-maker how much weight to accord to that evidence.

Where the EUV part of the benchmark is a substantial element of the overall assessed value, the premium is usually stated as a percentage increase of the EUV. This is typical in urban and brownfield sites.

In the case of greenfield, cleared brownfield or some sui generis (unique) sites outside of the normal planning use classes where the EUV is a small proportion of the BLV, the premium is more typically stated as an actual amount.

Where the BLV has been determined directly from evidence of BLVs in other FVAs, the EUV must also be calculated and reported, even if it is zero or trivial (see the mandatory reporting and process requirements in [Financial viability in planning: conduct and reporting](#), RICS professional statement), and the premium reported as the difference between the EUV and BLV in either percentage or absolute terms.

#### Market evidence of land transactions

PPG paragraph 016 states that evidence of land transactions can be used, but only as a cross-check to other evidence. The BLV comprises two components, the EUV and a premium; it is therefore important to state whether the comparable land transaction evidence is cross-checking the EUV component, the premium component or the BLV as a whole.

Many of the same adjustments necessary for all types of market evidence, including the circumstances and factors listed in this section, apply equally to land transactions.

Land transactions should be adjusted to ensure that they are compliant with up-to-date planning policy, including affordable housing requirements, in order to circumnavigate the potential circularity issues identified in chapter 5.

Where transacted sites have planning permission, analysis of the land price will be undertaken assuming that permission. Where that permission is not compliant with up-to-date planning policy (or emerging planning policy), it will be necessary to adjust the price to that which would have been paid, assuming full policy compliance with the up-to-date policy.

In addition, the planning permission may not be optimal for the site. Where that is the case, the land price may reflect optimal rather than sub-optimal permissions. There is a danger here that an optimal land price may be used to evidence a higher BLV within a residual calculation that assumes the sub-optimal permission, reducing developer contributions while protecting developer return. Analysis of

transaction evidence should be undertaken by reference to the optimal scheme, where it is obvious that the actual scheme is significantly less than the optimal scheme on which the price should have been based. Knowledge is required about as many of the relevant factors in land sales as reasonably obtainable, including the sale terms, planning status, date(s) of payment, third-party arrangements and any option agreements. Land transaction information is partly in the public domain (Land Registry and other sources), but rarely is all relevant information available. The same standards of data quality apply to land transactions as to other market evidence. Where some element is not known, assumptions can be made but this will have an impact on the quality of that evidence. The amount of weight given to land transaction evidence will be reduced where the assessment is based on an optimal permission, or any other circumstances where the terms of the planning consent and any other facts are not known.

The analysis of transactions should clearly demonstrate how any adjustment for abnormal site costs was undertaken, and how any additional and unusual costs were treated. This includes contamination remediation works and any related land remediation relief available in the market to prospective purchasers.

The analysis of land transactions is normally undertaken by reference to unit of comparisons. In the case of development land, these units of comparison can be based upon a number of outcomes such as price per developable hectare/acre, price per habitable room, price per unit, price per bedroom, etc. or related to the GDV of the actual, proposed or optimum scheme. Units of comparison can be very misleading where the comparable transactions differ from each other to any great extent by location, property type or tenure. Where the comparable site includes commercial space, consideration should be given to how this element is accounted for in the analysis.

In large-scale greenfield development, a scheme may be required to provide land to facilitate the delivery of public facilities such as schools, open spaces, etc. This may be provided at nil value (being essential in planning terms in order to allow the scheme to proceed). This reduces the residential net developable area of the scheme, which needs to be reflected when determining units of comparison and the BLV. This situation can occur outside of greenfield sites and the approach does not change.

In addition, land transactions should be assessed in relation to viability by adopting a policy-compliant residual approach. The residual element will test the level of developer return in land transactions assuming policy-compliant prices.