

## HBLP Examination – Matter 7 – Viability

### Follow-up “homework” to hearing session on 16<sup>th</sup> July 2021

### Further note on benchmark land values (BLVs) used within EB48 & EB49 – Provided by Dixon Searle Partnership on behalf of Havant BC

#### Context

1. In response to the Inspector’s request made at the above hearing session, this note provides information supplementary to EB48 & EB49 on the matter of land values research informing the assumptions made in selecting the range of BLVs (benchmark land values); and particularly in respect of the key BLVs representing brownfield sites (PDL – previously developed land). The BLVs are a broad measure against which the many assessment appraisal residual land values (RLVs) are compared.
2. Review of a range of suitable information, as far as available, is behind the consideration of appropriate BLVs. Ultimately their positioning requires judgment and is informed by experience from a large number of similar assessments – long developed experience of this. EB48 sets out the approach made to considering the BLVs, which has been undertaken in accordance with the Planning Practice Guidance (PPG) at the time of the relevant assessment processes and remains so.
3. During the hearing, reference was made to evidence or indications from transactions (or similar) that are available to support the selected BLVs. However, this element is very much secondary to other considerations – it is an additional step that can (our underlining emphasis) be taken to help inform judgements where appropriate, but may be flawed unless the details of any comparables are entirely appropriate. The PPG<sup>1</sup> is clear on this. Within one of the few representations made on the topic of viability (R256 C01), our view is that the selected phrasing placed an inappropriate emphasis on cross-checking BLVs using market evidence. In practice, this is not required and is very challenging. We regularly find that there are no or very few examples (“comparables”) that can be clearly and reliably used to inform BLV in the

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<sup>1</sup> PPG on Viability: Paragraph: 014 Reference ID: 10-014-20190509 Revision date: 09 05 2019  
(What factors should be considered to establish benchmark land value?) – See PPG extract at para 4, following page - below

terms of the PPG; i.e., the ‘EUV plus’ approach, with no development, hope value or similar reflected and on the basis of policy compliance. Aside from the general comparability or otherwise of a site, other matters to consider include the planning status and scope of planning obligations, the exact nature and condition of the site, and so on. This all needs to be done in the context of a typologies approach, fundamentally making the nature of comparisons less specific.

4. On this, the PPG says:

*‘Viability assessments should be undertaken using benchmark land values derived in accordance with this guidance. Existing use value should be informed by market evidence of current uses, costs and values. Market evidence can also be used as a cross-check of benchmark land value but should not be used in place of benchmark land value. 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.*

*This evidence should be based on developments which are fully compliant with emerging or up to date plan policies, including affordable housing requirements at the relevant levels set out in the plan. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.*

*In plan making, the landowner premium should be tested and balanced against emerging policies. In decision making, the cost implications of all relevant policy requirements, including planning obligations and, where relevant, any Community Infrastructure Levy (CIL) charge should be taken into account.’*

Source: Extract from PPG on Viability:

Paragraph: 014 Reference ID: 10-014-20190509 Revision date: 09 05 2019

(What factors should be considered to establish benchmark land value?)

5. The PPG states on existing use value:

*‘Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield (excluding any hope value for development).*

*Sources of data can include (but are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence.'*

Source: Extract from PPG on Viability:

Paragraph: 015 Reference ID: 10-015-20190509 Revision date: 09 05 2019

*(What is meant by existing use value in viability assessment?)*

6. And on premium (the 'plus' element considered over EUV):

*'The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements.*

*Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration. Market evidence can include benchmark land values from other viability assessments. Land transactions can be used but only as a cross check to the other evidence. 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. Policy compliance means that the development complies fully with up to date plan policies including any policy requirements for contributions towards affordable housing requirements at the relevant levels set out in the plan. A decision maker can give appropriate weight to emerging policies. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).'*

Source: Extract from PPG on Viability:

Paragraph: 016 Reference ID: 10-016-20190509 Revision date: 09 05 2019

*(How should the premium to the landowner be defined for viability assessment?)*

7. The approach taken to the assessment is fully consistent with the guidance within the PPG as highlighted above and with DSP's experience of these matters, closely considered, explored and tested through a wide range of strategic viability studies for LP and CIL purposes. For example, the same methodology including approach to BLV assumptions has been used in examined cases (Inspectors'/Examiners' report dates) including in the recent period Rugby LP (March 2019), Nuneaton & Bedworth LP (April

2019), Chiltern & South Bucks CIL (December 2019), Brighton & Hove CIL (February 2020), London Borough of Bromley LP (December 2018) and CIL (February 2021), Worthing CIL (May 2021).

8. EB48 in particular covers the assessment approach to BLV (see for example section 2.1, 2.14, further commentary as relevant through section 3 and covered again within the supporting market research report - Appendix III). DSP continues to use the same methodology in more recent and current studies, which has a number of components (sources) used to inform judgements, as set out below. Here we will not repeat the detail already within the evidence, but will summarise and include further suitable information as far as has been found available in responding with this note.

### **BLV information sources – components of judgements**

9. **MHCLG Land Value Estimates for Policy Appraisal.** DSP has used this source for a few years, and other viability in planning practitioners have done so too. Although one representation (R256 C01) seeks to place doubt on the suitability of this source, its use within assessments of this nature is appropriate and robust, as has been examined. We regard this as a key, suitable source for informing BLVs, which we then consider from the various other angles, as far as is practical for the purpose, in making judgements.
10. For general context, reflected in the EB48 & EB49 use of this information, the August 2020 published edition of the MHCLG Guidance document says:

*‘Whilst the model adopted by the Valuation Office Agency is designed to provide a consistent approach to valuations across local authorities in England, it should be noted that residual valuations are highly sensitive to small changes in model parameters and inputs. As a result the values of a specific site may vary significantly from the typical residential site value for the local authority that is provided in this publication; where land values for a specific site under appraisal are known these should therefore be used over the typical values presented in this document.*

*Additionally these values are not indicative of the market value of land, for example they exclude any developer contributions which would be required in order to develop a residential site. Therefore we would expect the market price to be substantially lower than the values in the spreadsheet. Further details are set out in the annex and should be consulted before using these values.*

*These values were made via desk based surveys of typical sites in 2019, therefore they do not account for any impact on land values arising from COVID-19.'*

11. **Assumptions from other similar assessments.** DSP's viability assessment approach, as used in EB48 and continued into EB49, reviews a range of other assessments for this purpose, as far as available. In this case amongst these we referred specifically to previous viability work carried out for HBC, including that involved in setting the Council's CIL. EB48 covers this at 2.14.11 – 2.14.13 and 3.2.14 picks up on it again as section 3 refers to the use of the BLVs in considering the results and findings overall. This reflected in our judgment regarding a key PDL BLVs range at £1-1.5m/ha, and particularly £1-1.25m/ha, noting that the BNP CIL study had used a range £500,000/ha (for vacant serviced land) to £1.5m/ha maximum (for residential land). As above, the judgements made in the local context are consistent with DSP's wider experience.
12. This element also includes consideration of the premium ('plus' element), whereby viability in planning convention/practice on premiums is most frequently at 10 – 30% over EUV, depending on circumstances. This also reflects our experience of day-to-day work in the decision making (development management) phase of viability in planning (and see below on that). This assessment in common with others of DSP's uses 20% as the 'plus' i.e., added to the PDL EUV levels. Again, in accordance with established practice, a very much greater 'plus' level – more of a multiplier - is reflected in the case of enhancement to greenfield EUVs basis of c. £25,000/ha EUV to £250,000/ha as the key BLV indication for such sites. As a decision making stage example consistent with DSP's established approach to this, we note that a very recent appeal decision<sup>2</sup> extensively covers the use of BLV and premium over EUV in a greenfield situation, also settling on a 10x multiplier applied to EUV.
13. **Market review – research into values, rents and yields – both residential and non-residential/commercial** (as appropriate to the typologies review and sites considered). EB48 summaries this, as informed by extensive research and data included within its Appendix III; approach continued and updated as relevant within EB49. This helps inform both the RLV appraisals and the consideration of BLVs.
14. **Consideration of RLVs reflective of range of uses.** The viability assessment covered by EB48 (developed from earlier published draft work) and EB49 is founded on undertaking a large range and volume of RLV appraisals of residential and non-

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<sup>2</sup> Appeal Ref: APP/V3120/W/20/3264500 (20 July 2021)

Havant BC – Local Plan EIP – Supplementary to Viability Assessment on BLVs - "Homework" Note (DSP 21741)

residential/commercial development scenarios. With the HBLP policy related impacts factored in alongside development cost assumptions, these RLVs provide an insight into the levels of land value that developments can support, meaning that the assessment outcomes are also informative in considering suitable BLVs. For example, EB48 Appendix IIc shows that for employment development uses such as offices, the RLVs DSP generated range from negative to a maximum of c. £1.5m/ha (latter only with the most positive combination of assumptions on rents and yields).

15. **Stakeholders' consultation feedback.** Aside from affordable housing provider (RP) responses, a single detailed response was received to DSP's development industry stakeholders' consultation/survey process held early on. The exercise did not provide any information on land values or components thereof.
16. **Review of available examples (comparables) / other sources.** As recognised from the above, this is a challenging area. While comparables sourced from market data may be used to help inform judgements, great care is needed over the actual comparability and adjustment of these. On undertaking the assessment research, none were found that could be used clearly and reliably, bearing in mind that assessing BLV is not about market land values.
17. The same challenge and overall outcome has been found on revisiting this exercise currently. A wide range of web-based resources have been revisited. The Council's estates officers have been contacted.
18. Two generally informative sale examples have been found and are featured on Co Star, the property data resource as was used to inform the EB48 research and assumptions. These are as follows:
  - Havant BC purchase for regeneration purposes (reported date December 2019) from receivers of the Meridian Shopping Centre. North Street in Havant town centre, we understand @ £4.1m and covering circa. 10.4 acres. On our analysis the available information equates to c. £394,000/acre i.e., approx. £973,000/ha equivalent. Example of land in use (EUV) for retail/mixed commercial/car parking.
  - New lane (32) Havant. C. 1980 built industrial facility with significant buildings on c. 16.5 acres – reported sale November 2020 for £11.4m. On our analysis

the available information equates to c. £691,000/acre i.e., approx. £1.7m/ha equivalent. Example of land and premises in industrial use.

19. On a similar basis, another source of potential information for review, subject to any sensitivities at the time of use (hence typically we do not quote details within strategic level assessments) is experience of viability in planning at the decision making (usually pre-planning or planning application) stage. DSP undertakes such work with Havant BC, and does so with other local authorities in the area, as well as nationally. From recent experience of reviewing applicants' viability submissions for this purpose, we are able to note the following, for example:

- Northern suburban area of Havant - circa 0.6 ha cleared industrial/warehousing site (within a mixed commercial and residential area overall) stated to have been purchased by planning applicant at a value equivalent to c. £1.05m/ha. Submitted level used as BLV.
- Redundant commercial depot and other premises in similar area. Site also comprising a commercial/retail unit and a residential dwelling. The submitted BLV equated to c. £1.45m/ha, although with DSP's view being that this could be lower.
- Former commercial site (brownfield site, buildings cleared) of c. 1.7ha towards north eastern edge of Havant urban area, subject of significant redevelopment proposals (residential and commercial). BLV assessed in the submission at a level equivalent to c. £1.6m/ha; but with DSP's site-specific view (opinion on review for HBC) lower than this.

### **Summary – assumptions on benchmark land values (BLVs)**

20. In conclusion, the approach used to consider assumptions on and the use of the BLVs within EB48 and EB49 are confirmed to be suitable and robust. The sources used to inform the BLVs in the viability assessment reports are considered appropriate, in line with the PPG and with those informing other local plans (and CIL charging schedules evidenced using equivalent processes) which have been found sound following examination.

## Notes and Limitations

Notes as per EB48 & EB49 apply.

Note ends — (DSP v1.1)  
29 July 2021