

Institution: University of Reading		
Unit of Assessment: UoA13 Architecture, Built Environment and Planning		
Title of case study: Improving Community Benefit by Driving Policy and Practice in the Financial Viability Assessment of Property Developments		
Period when the underpinning research was undertaken: 2010–19		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s):	Role(s) (e.g. job title):	Period(s) employed by submitting HEI:
Neil Crosby Peter Wyatt	Professor Senior Lecturer Professor	1994 - present 2009 - present
Patrick McAllister	Senior Lecturer Professor	2006 - 2012; 2015 - present
Period when the claimed impact occurred: 2014–20		
Is this case study continued from a case study submitted in 2014? No		
<p>1. Summary of the impact</p> <p>Developer contributions within housing planning consents have fallen consistently during the REF period. Such contributions are intended to benefit the local community, and include affordable housing. In contrast, housebuilder profits have increased significantly within a system that allows for economic viability testing of developments. Research at the University of Reading has identified deep flaws in development appraisal methodology in general and its application to viability assessments within the English planning system in particular. It has also identified flaws in Central Government guidance, primarily the Viability Planning Practice Guidance (PPG) of 2014. The research identified the mechanisms through which developers gamed the system. These findings have been instrumental in major changes to national and local government housing and planning policy and guidance. The research has also underpinned the development of enhanced global and UK practitioner practice through major industry Guidance Notes. These changes are designed to safeguard community benefit through developer contributions and improve applications of development appraisal technique globally.</p>		
<p>2. Underpinning research</p> <p>Research context</p> <p>A major policy initiative of successive governments in England and Wales has been to maximise community benefit from “planning gain” in the form of developer contributions and affordable housing. Developer contributions are estimated to be worth a total of GBP6,000,000,000 per year, of which GBP4,000,000,000 is credited to affordable housing. Planning gain is essentially the resultant increase in land value from the granting of planning permission. It is the difference between the existing use value (for example, agricultural land value for greenfield sites or a commercial use on an inner-city site) and the site value, assuming development (that is, the value of the completed new development, less the costs of development). The vehicle by which the three elements of landowner return, developer return and return to the community, in the form of developer contributions, are determined is a Financial Viability Assessment (FVA). This is basically a valuation of the development. These are negotiated between landowner, developer and Local Planning Authority (LPA); therefore, the three stakeholders have an incentive to use the FVA as a vehicle to maximise their individual return at the expense of the other stakeholders. The main issue to be negotiated is the value of the development land.</p> <p>Research at the University of Reading</p> <p>Property valuation is a core research activity at Reading, and research on FVAs sits within a wider research agenda on land-value capture. One aspect of this wider research agenda is the valuation of development property globally and the application of development valuations to FVA</p>		

in England and Wales.

In 2010, the Reading team were consultants on the original [Guidance Note on Financial Viability in Planning \(2012\)](#) published by the Royal Institution of Chartered Surveyors (RICS) and responsible for the insertion of the assumption that the land-value component should assume compliance with Local Planning Authority's developer contribution policy. At the same time, the Reading team was undertaking academic research into both development appraisal [Section 3, ref 1] and viability testing [see, for example, refs 2–5]. Using a mixture of research techniques, including theoretical modelling, case studies of published appraisals, and analysis of court, tribunal and planning appeal decisions, the Reading team identified flaws in the general application of the FVA model. These included both inconsistencies within the basic modelling of developments and manipulation of the model when applied to viability testing in England. General inconsistencies concerned the identification of profit, the use of finance inputs and the application of value and cost growth. Regarding the manipulation of the modelling within FVA, the research identified how it was possible for the landowner and developer, and their expert advisers, to exploit these flaws in the basic model, together with ambiguities in the 2014 Viability PPG. Landowners and developers were therefore able to persuade local authorities, and planning inspectors upon appeal, to increase their allocations (land value) at the expense of developer contributions. These flaws introduced an element of circularity into the process, whereby, if a developer paid an additional amount for the land, they could in effect reclaim it in reduced developer contributions. This resulted in a higher return to the landowner, a stable return to the developer and a lower return to the community in reduced developer contributions.

In addition, the research programme led to the identification of further flaws in the FVA modelling process. Crosby's article in *Town Planning Review* [ref 5] showed how the combination of static value/cost modelling in a dynamic market environment could explain prices that looked to be overbids, but were not, a situation they originally identified in the RICS (2012) guidance (Appendix D). These findings have underpinned the development of MHCLG-supported RICS Guidance on FVAs due to be published early in 2021.

Summary

The research was critical to the identification of "circularity", whereby developers knew that any overbid for land would be returned to them in reduced developer contributions, maintaining their own profits [ref 4]. Furthermore, they identified the hypothesis that a continuation of this circularity within the system would lead ultimately to the elimination of developer contributions by higher land prices, a situation accepted by government and the High Court (Section 5, source 3) in 2018. It is principally these two research outputs [refs 4 and 5] that have informed 2018/19 changes in PPG and [with ref 1] new editions of global and national professional guidance on valuation from RICS set out in Section 4.

3. References to the research

Refereed journal papers

1. Coleman, C., Crosby, N., McAllister, P. and Wyatt, P. (2013) '[Development appraisal in practice: some evidence from the planning system](#)'. *Journal of Property Research*, 30 (2). pp. 144–165. doi: <https://doi.org/10.1080/09599916.2012.750620>
2. McAllister, P. (2017) '[The calculative turn in land value capture: lessons from the English planning system](#)'. *Land Use Policy*, 63. pp. 122–129. doi: <https://doi.org/10.1016/j.landusepol.2017.01.002>
3. McAllister, P., Street, E. and Wyatt, P. (2016) '[Governing calculative practices: An investigation of development viability modelling in the English planning system](#)'. *Urban Studies*, 53 (11). pp. 2363–2379. doi: <https://doi.org/10.1177/0042098015589722>
4. Crosby, N. and Wyatt, P. (2016) '[Financial viability appraisals for site specific planning decisions in England](#)'. *Environment and Planning C: Government and Policy*, 34 (8). pp. 1716–1733. doi: <https://doi.org/10.1177/0263774X16636118>. Developed from Crosby, N. and Wyatt, P. (2015) [Financial Viability Appraisal in Planning Decisions: Theory and Practice](#). Project Report. RICS Research Trust, London.
5. Crosby, N. (2019) '[Development viability assessment and the provision of affordable](#)

[housing. A game of “pass the parcel”?](#) *Town Planning Review*, 90 (4). pp. 407–428. doi: <https://doi.org/10.3828/tpr.2019.27>

6. Sayce, S., Crosby, N., Garside, P., Harris, R. and Parsa, A. (2017) [Viability and the Planning System: The Relationship Between Economic Viability Testing, Land Values and Affordable Housing in London](#). Project Report. Royal Agricultural University, Cirencester.

The outputs range across the width of the research agenda of development appraisal in general [ref 1] and FVA in particular [refs 2, 3, 4 and 5]. The industry-funded research has been developed into high-quality international academic publications spanning both planning and real estate appraisal disciplines. The research is innovative, in that it was the first to identify why the FVA system was failing and how that could be rectified. It includes the first major modern critique of development appraisal modelling of inputs and of why current practice varies from finance theory. The research uses a rigorous mixture of theoretical modelling, surveys and case study analysis methodology and includes the collation of new databases. In so doing, it adds significantly to the theoretical and applied knowledge base of development appraisal globally. Uptake of the research has resulted in changes in government policy and the development of industry practice.

4. Details of the impact

Falling developer contributions at a time of rising developer profitability including major bonus payments requires investigation and a policy and practice response. Research at Reading has been at the forefront of the investigation and has played a major role in the development of government policy and industry practice responses. It identified the problem, informed central and local government consultations and discussions, and underpinned national and local government policy changes and global industry guidance. As a result, revised policy and industry guidance aim to stop the system being gamed and protect developer contributions for the benefit of the community as well as improving development appraisal practice globally.

Safeguarding developer contributions in FVA - Impact context

Economic viability is at the heart of the current English planning system. Viability assessments are used to identify the level of developer contributions. In its 2018 consultation paper ‘Supporting housing delivery through developer contributions: Reforming developer contributions to affordable housing and infrastructure’, the UK government stated that reforming the viability assessment process was “a vital step towards fixing our broken housing market and ensuring that it delivers for everyone”.

The UK housing market was relatively depressed in the aftermath of the Global Financial Crisis. However, in the economic recovery, the profitability of the seven largest housebuilders in the UK rose from an average 9% Return on Capital Employed in 2011 to 33% in 2017. It would be expected that an increasingly profitable industry would have been able to deliver more, not less, affordable housing. But the amount of affordable housing delivered by the same seven largest UK housebuilders reduced from 44% of completions to 20% between 2011 and 2017. As detailed in Section 2, the research had identified the flaws in the viability assessment process that were causing these anomalies and contributing to shortfalls in the levels of developer contributions.

Changes in planning policy and guidance in the London housing market

The first major sign that policymakers and practitioners were engaging with the research at Reading came from within London, in the Borough of Islington. It amended its supplementary planning guidance [source 1] in January 2016, citing Crosby and Wyatt’s research [Section 3, ref 4] in paras 6.67, 6.69 and 6.75 as reasons for their revised approach in addressing the circularity issue. They also used the research outputs in evidence statements at planning appeals. Using the research as a basis, with Crosby providing written expert witness evidence [source 2], Islington Borough Council successfully took a landmark case in Parkhurst Road through appeal and ultimately to the High Court ([2018] EWHC 991 (Admin)) [source 3]. Crosby and Wyatt’s research [Section 3, ref 4] was cited in the Planning Appeal and High Court decision

as the source of the identification and explanation of the circularity issue within viability assessments, the central issue in the case.

Further to this, a consortium of 13 London boroughs (led by Islington) commissioned research in 2016 on land values and development viability, with the viability part undertaken by Crosby. This research [Section 3, ref 6] was [Highly Commended by the Royal Town Planning Institute](#) in its 2017 academic research awards. Importantly, the research widened the focus across the whole of London. As a result, McAllister, Crosby and Wyatt were invited to give evidence, later deemed “influential” [source 6] to the London Assembly and the Greater London Authority (GLA) Planning Committee (2016). Noting the importance of the Reading-authored RICS 2015 paper on FVA [subsequently ref 4] as “the first significant report to highlight the ‘circularity’ issue”, the GLA highlights that it “was subsequently referred to in guidance produced by London boroughs” [Sources 5 and 4]. Indeed, both the Mayor of London’s 2017 supplementary planning guidance (Para 3.48) [source 4] and the ‘London Borough Viability Protocol’ (Paras 8.8 to 8.13) [source 5] cite the research as the basis for the decision not to accept market values of land within viability assessments. Since then, Crosby, McAllister and Wyatt’s engagement with the GLA has continued through the GLA’s new viability team, established in 2017 [source 6].

Changes in the UK government housing and planning policy

RICS notes that “Reading University’s research drew attention to an underlying contradiction in government’s 2012 national planning policy” [source 8]. [Text removed for publication]. Therefore, “[t]he arguments produced by Reading University and the evidence upon which they were based ... contributed significantly to a change in national government policy in what has emerged as the National Planning Policy Framework/ Planning Practice Guidance 2018/19” [source 8].

Changing industry practice in development appraisal and FVA

In 2018, Crosby and Wyatt were invited onto the industry working group responding to the new PPG. Administered by RICS, but involving the RTPI, the Law Society and the MHCLG, the aim was to rewrite the RICS guidance to valuers undertaking viability assessments and set out a process for the implementation of the new PPG. Revised RICS guidance had previously been requested by High Court Judge Holgate, in Islington Borough Council’s Parkhurst Road appeal, in order to address the circularity issue [source 3 para 147].

Crosby took on the lead authorship for the Guidance Note (GN), and guided it through the RICS Valuation Standards and Regulatory Board and the consultation process in 2019/20. In balancing the views of all stakeholders in the process, the new GN aims to facilitate delivery of government policy on the ground. [Text removed for publication].

These impacts on national housing policy and development viability practice are part of a wider impact on global development valuation. Crosby and Wyatt have used the research into the technical issues of development appraisal [Section 3, refs 1, 4 and 5] to write the RICS Global Valuation Guidance Note *Valuation of Development Property* published in 2019 [source 9]. This Guidance Note forms the basis of the application of development appraisal modelling by all RICS valuation member worldwide (totalling 35,000). “This is a fundamental piece of guidance for practitioners undertaking what is regarded as one of the highest risk valuations. This guidance ... applies to chartered surveyors working around the world ... and is also fundamental in defining methods, data and information relied upon in development viability appraisal” [RICS Testimonial, source 8].

Summary of the impact

With a global membership of valuers, the RICS Guidance Note has a wide-reaching and important international role in improving global professional practice. Nationally, the change in viability policy and practice guidance is very significant in terms of ensuring communities have access to proper affordable housing and wider community benefits. [Text removed for publication].

5. Sources to corroborate the impact

- [S1] London Borough of Islington, (January 2016) '[Development Viability: Supplementary Planning Document](#)', citing [Section 3, ref 4] in paras 6.35, 6.67, 6.69 and 6.75.
- [S2] [Crosby's Expert Witness Statement](#) for planning appeal [in source 3] – Page 169
- [S3] High Court judgement ([2018] EWHC 991 (Admin)). [Parkhurst Road Ltd v Secretary of State for Communities and Local Government and London Borough of Islington](#). Para 60 based on [Section 3, ref 4], Paras 11 and 15 refer to [ref 6]. Evidence Appendices: [APP/V5570/W/16/3151698](#) citing ref 4.
- [S4] Mayor of London (2017) [Homes for Londoners - Affordable Housing and Viability Supplementary Guidance 2017](#). Para 3.48 citing Crosby and Wyatt (2015) [ref 4].
- [S5] '[London Borough Development Viability Protocol](#)' (November 2016). Paras 8.8 and 8.9 citing Crosby and Wyatt (2015) [ref 4].
- [S6] Testimonial from GLA
- [S7] [Text removed for publication]
- [S8] Testimonial from RICS
- [S9] RICS (2019) [Valuation of Development Property, London](#)