VIABILITY IN PLANNING: COPING WITH COVID-19

A Valuer's View - Robert Fourt

Landmark Chambers' Webinar
20 May 2020

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AGENDA

PROFESSIONAL GUIDANCE

- RICS professional statement – financial viability in planning; conduct and reporting (May 2019; effective 1 September 2019)
- RICS guidance note: valuation of development property (October 2019; effective February 2020)
- RICS guidance note: comparable evidence in real estate valuation (October 2019)
- RICS guidance note: Financial Viability in Planning (New edition forthcoming)

COMPONENTS OF DEVELOPMENT PROPERTY VALUATION AND VIABILITY

HIGHLIGHTS OF PROFESSIONAL GUIDANCE

BENCHMARK LAND VALUE – FVIP

VALUATION OF LAND AND VIABILITY: CURRENTLY & POST COVID -19

CONCLUDING COMMENTS

RISK & RETURN: ECONOMICS OF DEVELOPMENT

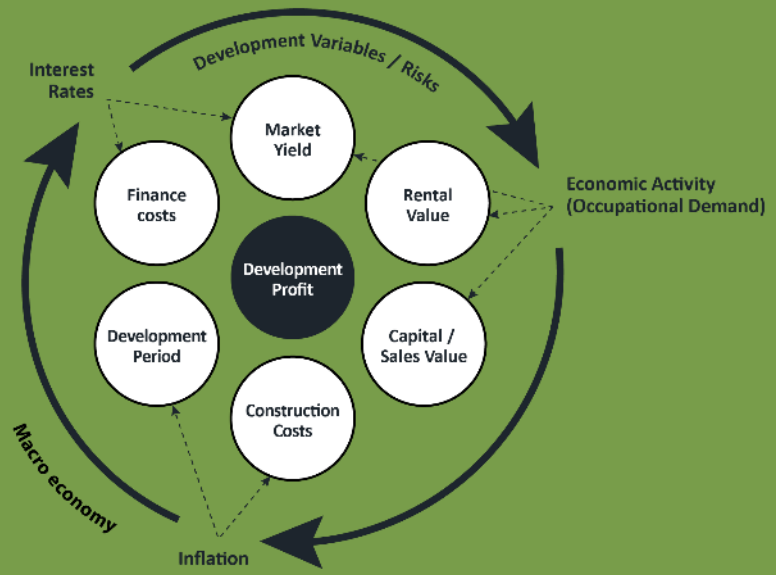
KNOWN KNOWNS; KNOWN UNKNOWNS; AND UNKNOWNS UNKNOWNS

“ Reports that say that something hasn't happened are always interesting to me, because as we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns – the ones we don't know we don't know. And if one looks throughout the history of our country and other free countries, it is the latter category that tend to be the difficult ones ”

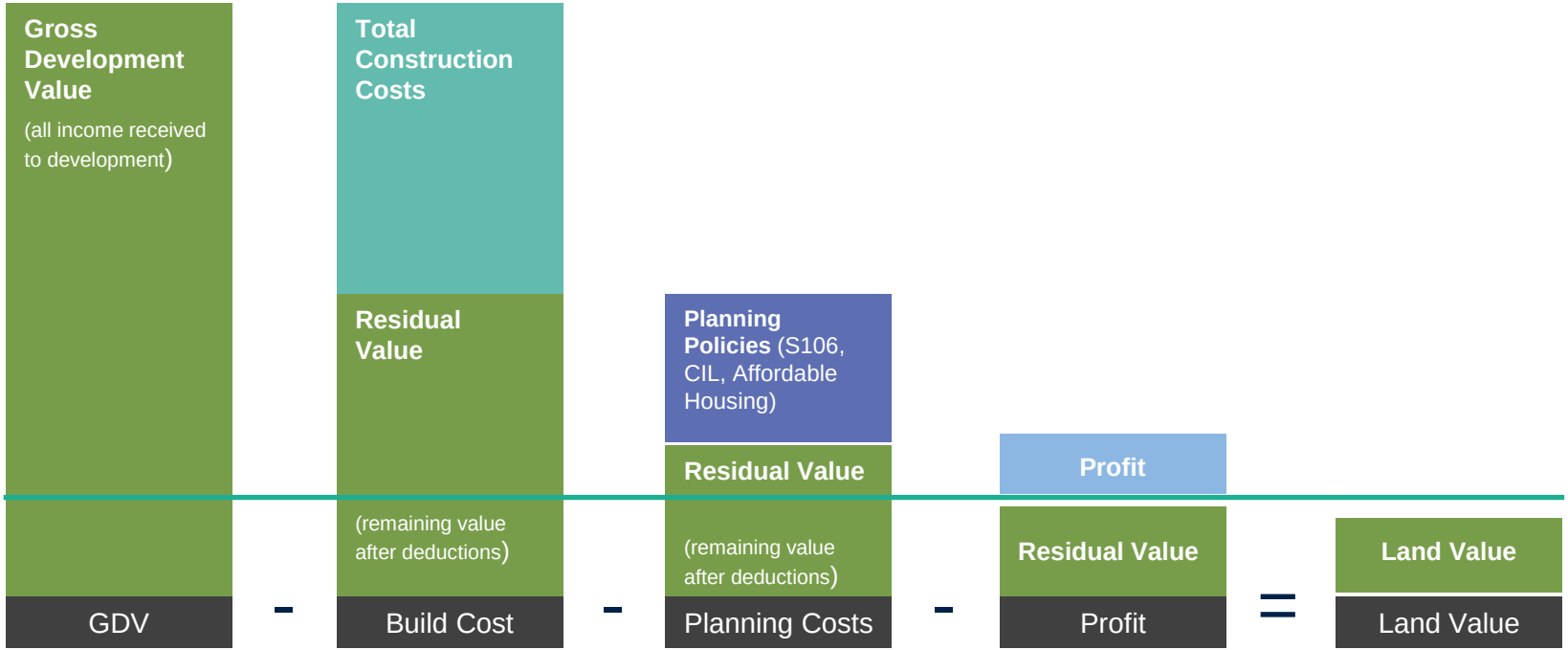
Donald Rumsfeld, United States Secretary of Defence
News Briefing February 2002

RISK & RETURN: ECONOMICS OF DEVELOPMENT

COMPONENTS OF DEVELOPMENT: THE MACRO & MICRO ENVIRONMENT

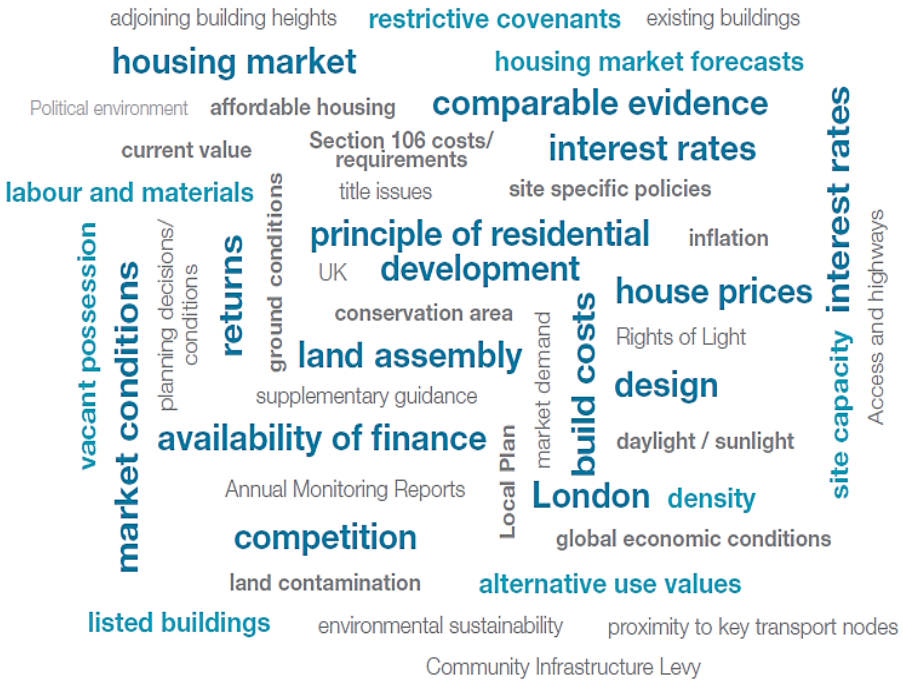


WHAT ARE THE BASICS?



LAND VALUE SHOULD BE CHECKED/COMPUTED VIA COMPARABLE ANALYSIS

MARKET SIGNALS



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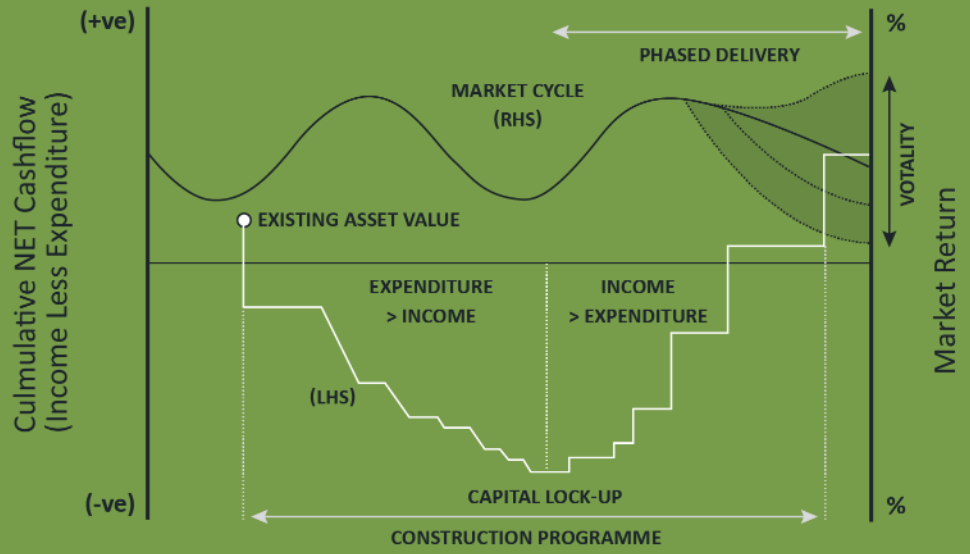
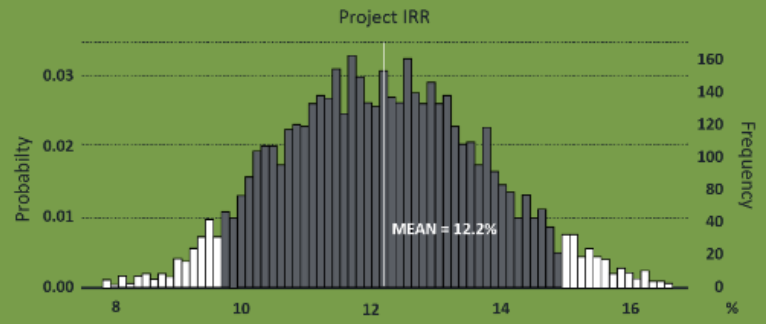
RISK & RETURN: MARKET CYCLE TIMING…& SENSITIVITY TESTING





sensitivity…

…scenario, simulation

timing (cash flow)

projection (growth) modelling

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IDENTIFYING SCHEME SPECIFIC RISKS

Typical stages of residential development

Stage 1: Project conception and evaluation			Stage 2: Planning Process			Stage 3: Pre-Implementation		Stage 4: Building Construction				Stage 5: Sale		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Identify site and land assembly	Evaluate viability	Design and masterplan	Planning feasibility/ source services	Planning	Charges and levies	Procurement	Site works	Assemble build team / materials	Sub-structure/ services	Super-structure	Fitting out	Reservation / bespoke fittings	Completions	Aftersales
Finance									Housebuilding					
	Secure land option / license / conditional or unconditional								External works / public					
											Reservations / bespoke fittings			
			Marketing, branding and expressions of interest											

Source: Adapted from Tunstall et al (2016)

SUITE OF RICS VALUATION, COMPARABLE EVIDENCE AND VIABILITY MANDATORY GUIDANCE

VALUATION OF DEVELOPMENT PROPERTY (OCTOBER 2019 PUBLICATION)

- Development valuation process
- Valuation approach:
  - Comparison and residual
  - Non reliance on a single approach
- Comparable analysis/application
- Residual: basic application and cashflow
- Risk (sensitivity) analysis and residual profit
- Land in the course of development
- Reporting

Appendices: assumptions and special assumptions

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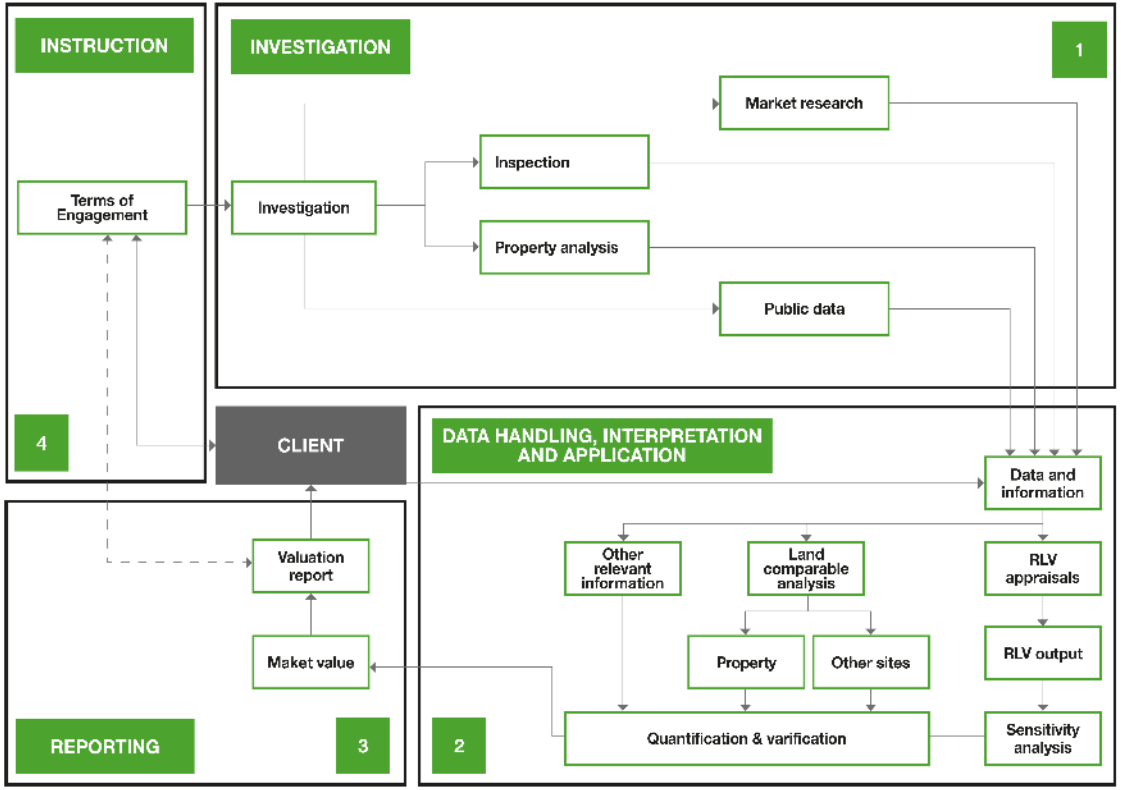
THE VALUATION PROCESS



COMPARABLE EVIDENCE IN REAL ESTATE VALUATION (OCTOBER 2019 PUBLICATION)

- Development valuation process
- General principles of comparable evidence
- Comparable evidence in real estate valuation
- Sources of comparable evidence
- Recording comparable evidence
- Analysis of comparable evidence
- Dealing with a shortage of evidence

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PROFESSIONAL STATEMENT: FVIP – CONDUCT AND REPORTING

GLOSSARY

1. Introduction
2. Reporting and process requirements
3. Legislation, the development plan and professional guidance
4. Duty of care and due diligence
5. Transparency of information

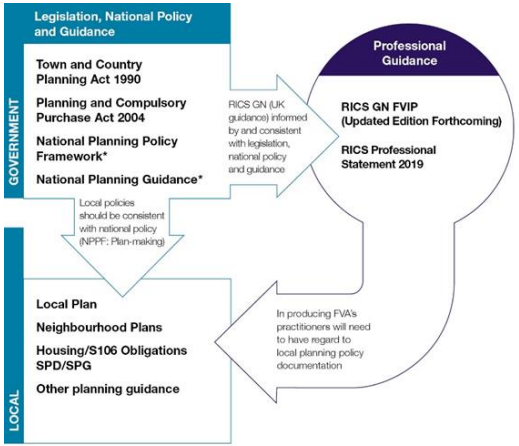
Effective 1 September 2019

FINANCIAL VIABILITY IN PLANNING (2ND EDITION)

(Assessing Financial Viability under the National Policy Framework for England)

- Mandatory requirements for concluding FVAs
- Fundamental Principles of Viability in Planning
- Area-wide Viability Assessments
- Site-specific Viability Assessments
- **Benchmark Land Value**
- Other professional technical advice

Appendices



* subject to periodic additions / amendments

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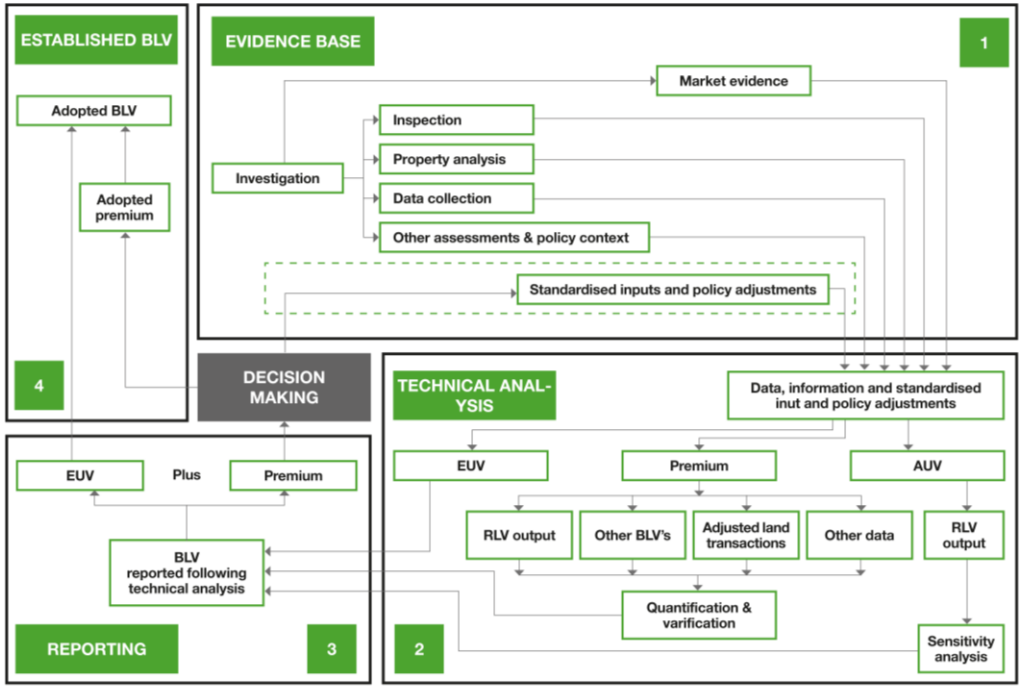
BENCHMARK LAND VALUE CONSTRUCT



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VALUATION AND VIABILITY OF DEVELOPMENT: COVID -19

A functioning market

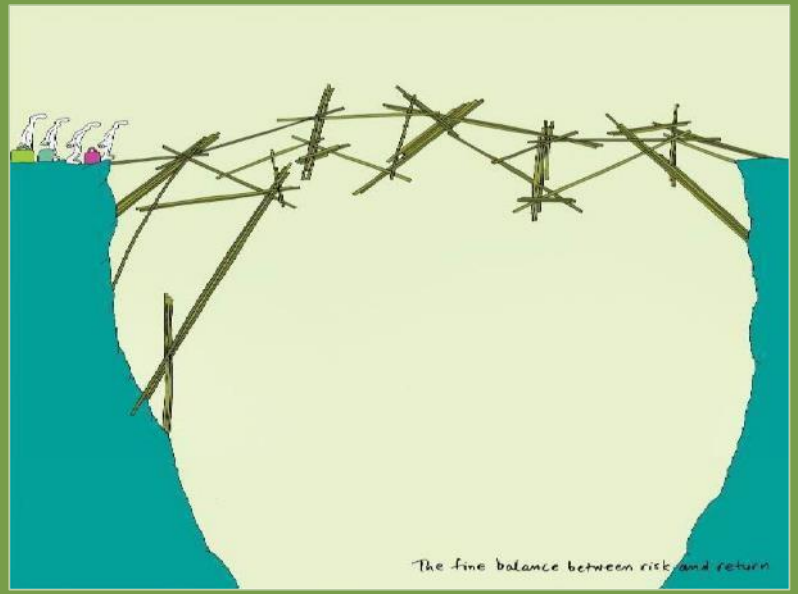
Price discovery – “mark to market”

Valuing with and without planning permission

Marketing Period & Micro–markets

Residual Model:

- GDV
- Construction Risk and Programme
- Finance
- Volatility & Profit



CONCLUDING COMMENTS

- Land value and viability of development will continue to be debated from a political, socio-economic and technical perspective.
- The RICS will lead on the technicalities of land valuation and development viability.
- Land valuation and development viability assessments should be recognised for what they are, highly complex computations undertaken by those with experience and competence.
- New guidance will seek to deal with practitioners' issues, and expected reporting standards.
- Understanding planning policy and application to land valuation and viability will be important components alongside associated planning obligations.
- Deliverability of development and infrastructure will be major government objectives.
- Land values will mean revert but will remain on a long term upward trend (UK).
- COVID-19 will bring different dynamics into play in respect of valuation and viability.
- Market volatility, construction, financing and project risk will be key going forward.

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