

MAYOR OF LONDON

London Plan Guidance

Development Viability

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London Plan policies	<p>Policy DF1 Delivery of the Plan and Planning Obligations</p> <p>Policy H4 Delivering affordable housing</p> <p>Policy H5 Threshold approach to applications</p> <p>Policy H6 Affordable housing tenure</p> <p>Policy H8 Loss of existing housing and estate redevelopment</p> <p>Policy H11 Build to rent</p> <p>Policy H13 Specialist older persons' housing</p> <p>Policy H15 Purpose-built student accommodation</p> <p>Policy H16 Large-scale purpose-built shared living</p> <p>Other policies where relevant</p>
Local plan-making	<p>Planning authorities should take this guidance into account when preparing and undertaking viability testing of Local Plans, and other planning policy and guidance documents. It is likely to be of particular relevance for policies and guidance on affordable housing, infrastructure delivery and planning obligations, but may also be relevant for other Local Plan policies and documents including area planning frameworks, Infrastructure Delivery Plans and development briefs.</p>
Planning application type and how the London Plan Guidance (LPG) will be applied	<p>The guidance is relevant for all applications where an applicant, the local planning authority (LPA) or the Mayor wishes to rely on viability information, including schemes that follow the Viability Tested Route (VTR). This guidance should be used to determine when it is appropriate consider viability and how viability assessments should be undertaken. It should be read alongside the Mayor's Affordable Housing LPG (2023).</p>
Who is this guidance for?	<p>All relevant parties (for example, landowners, developers, decision-makers) should use this guidance when considering viability as part of the planning process and undertaking or reviewing a viability assessment.</p>

1 About this document

1.1 What is development viability?

- 1.1.1 The assessment of the viability of development is the process of considering the financial viability of development across the area covered by a Development Plan, or the financial viability of a specific development.
- 1.1.2 Area-wide viability assessments provide evidence to inform plan-making and Community Infrastructure Levy (CIL) rate setting. Application-stage assessments may be undertaken in specific circumstances, where accepted by the LPA or required by policy, to test the viability of a specific development site.

1.2 The Threshold Approach to application

- 1.2.1 Details of the Threshold Approach are set out in Policy H5 and other relevant policies of the London Plan and in the Affordable Housing LPG. These specify the criteria for following the Fast Track Route (FTR) and set out that, where the criteria are not met, applications must follow the VTR.
- 1.2.2 **Applicants should follow the FTR by committing to provide the relevant threshold of affordable housing wherever possible.** This route provides greater certainty to the land market; has helped to speed up decision-making; and increased the level of affordable housing secured through the planning process.
- 1.2.3 This guidance should be read alongside the Affordable Housing LPG where this is relevant. Applications that follow the VTR should be assessed in line with this viability guidance.

1.3 When should viability testing be undertaken?

- 1.3.1 At the plan-making stage, viability assessments are carried out as part of the evidence base to inform the development of policies, including those for affordable housing. They test the financial viability and deliverability of the plan as a whole. Viability assessments can also be used to inform CIL charging rates.
- 1.3.2 The development typologies tested (including strategic/specific sites, where relevant) should represent the type of developments likely to come forward in the area. Viability assessments should test an appropriate range of value and cost assumptions. This will help to ensure that the viability assessment is robust, and the policies in the plan are deliverable.

- 1.3.3 At the application stage, applicants should take account of all relevant Development Plan policies when forming their proposals and when acquiring land.¹ Landowners should also take account of these requirements when applying for planning permission or selling sites.
- 1.3.4 Where relevant policies in the local Development Plan documents are up to date, it is expected that applications will comply with Development Plan policies and guidance, and that site-specific viability assessments will not be required. Reducing the number of viability assessments required at application stage will speed up the planning process and increase certainty for applicants and planning authorities, whilst supporting the implementation of planning policies and the delivery of sustainable development.
- 1.3.5 In setting Local Plan policies and associated guidance, LPAs should consider whether there are circumstances in which it may be acceptable to test the viability of a development on a site-specific basis. These should be limited to circumstances where there is a significant variation in costs or values from the assumptions used in viability testing the Plan that negatively impacts on viability. This could be where an applicant is required to provide significant infrastructure improvements to facilitate delivery of a development (beyond the level that would typically be required for the scale of development), resulting in exceptionally high development costs; or where the value generated by a development would be exceptionally low.
- 1.3.6 This LPG provides guidance on the viability assessment process (section 2), principles for undertaking viability assessments (section 3), viability assessment information, inputs and sense-checking (section 4) and review mechanisms (section 5). Further details on review mechanisms are set out in Appendix 1, and a glossary of terms is provided at Appendix 2.

¹ London Plan Policy DF1 A

2 Viability assessment process

2.1 Application process

- 2.1.1 Applicants should engage with the LPA and the GLA (for referable applications) at pre-application stage to determine whether a scheme can follow the FTR. Where the affordable housing threshold and other relevant criteria are met, the scheme may follow the FTR.
- 2.1.2 If an applicant considers that a scheme is not capable of providing the threshold level of affordable housing and meeting other relevant criteria, this should be evidenced at an early stage and as part of pre-application stage discussions, where possible. This should be fully justified with the evidential burden falling on the applicant.²
- 2.1.3 Where relevant policies in the local Development Plan are up to date,³ if an applicant wishes to make the case that viability should be considered on a site-specific basis, they should provide clear evidence of the specific issues that would prevent delivery, in line with relevant Development Plan policy, prior to submission of an application.⁴
- 2.1.4 This should set out any site-specific circumstances that would prevent delivery of a policy-compliant development.⁵ It should fully evidence all inputs used in the proposed site specific assessment, and include a schedule of which viability inputs differ from the assumptions used when the local Development Plan was assessed for viability. Viability testing at application stage is not likely to be acceptable unless there has been a material change in economic conditions or sites; or typologies similar to the application scheme were not tested as part of the plan-making process.
- 2.1.5 The LPA and the GLA (for referable applications) should consider whether the information provided by the applicant demonstrates that there are genuine barriers to delivering the proposed development and meeting relevant policy requirements. If it is considered that an applicant has not demonstrated clear evidence of specific barriers to delivery, the scheme should meet the policies of the Development Plan including providing the relevant threshold level of affordable housing.

² Parkhurst Road Ltd v Secretary of State for Communities and Local Government and London Borough of Islington (2018)

³ Under the National Planning Policy Framework, Paragraph 33, plans should be reviewed to assess whether they need updating at least once every five years.

⁴ London Plan Policy DF1 B

⁵ London Plan Policy DF1 C

2.2 Viability Tested Route process

- 2.2.1 Where it is accepted that the applicant can submit a viability assessment as part of the application process, this should be provided to the LPA and the GLA (for referable applications) at an early stage and no later than submission of the application.
- 2.2.2 Viability assessments should be prepared by a suitably qualified viability expert. Specialist advice relating to construction costs and the development programme, sales values, and an assessment of existing use value (EUV) will usually be required and additional information may be requested.
- 2.2.3 Viability assessments should include detailed evidence that should be transparent and itemised to demonstrate that all inputs are justified. The role of the LPA and the GLA (for referable applications) is to scrutinise submitted viability information; the evidential burden⁶ lies with the applicant.
- 2.2.4 The LPA should undertake its review of the assessment at an early stage. For referable applications, this review should be provided by the LPA to the GLA alongside other application documents when referring a scheme at Stage 1 of the referral process under the Town and Country Planning (Mayor of London) Order 2008, wherever possible, so that the GLA can consider this when undertaking its assessment.

2.3 Outcome of assessment

- 2.3.1 The LPA and the GLA (for referable applications) will scrutinise submitted information, and provide comments that set out: whether the assessment has been undertaken in line with relevant policy and guidance (including the Development Viability LPG); and whether the methodology, inputs, assumptions and outcomes of the assessment are considered to be appropriate and realistic.
- 2.3.2 These comments should be taken into account by the applicant and additional information or testing should be provided as requested. Amendments to the development proposal, such as an increase in the level of affordable housing and/or an improvement in tenure or affordability, may be required, based on the comments provided by the LPA and/or the GLA (for referable applications).
- 2.3.3 Where it is accepted that the viability of a site should be considered as part of an application, the decision-maker should determine the weight to be

⁶ Parkhurst Road Ltd v Secretary of State for Communities and Local Government and London Borough of Islington (2018)

given to a viability assessment having regard to whether the local Development Plan and the viability evidence underpinning it are up to date, and considering the transparency of the evidence supporting the viability assessment.

- 2.3.4 If a scheme has been viability tested, and the level of affordable housing or other requirements is less than the level set out in the Development Plan, the proposal will deliver fewer benefits than a scheme that is fully policy-compliant, and may not fully mitigate its impacts or be sustainable in planning terms. This should be considered as part of the ‘planning balance’ when assessing the benefits of the scheme, and whether the application is consistent with the Development Plan as a whole.
- 2.3.5 As set out in London Plan Paragraph 4.4.5, given the extent of housing need in London, the delivery of overall housing targets should not be relied on as a reason for reducing affordable housing delivery.
- 2.3.6 If the LPA or the GLA have raised concerns that the applicant’s approach is not considered to be objective, evidence-based or realistic, and these concerns have not been adequately addressed, the applicant’s viability assessment may be given less weight by the decision-maker as part of the decision-making process.
- 2.3.7 Where an application fails to provide the maximum viable level of affordable housing, or fails to meet other planning requirements, or to include effective review mechanisms aimed at achieving a greater level of policy compliance over the lifetime of the development where viability improves, the application should be assessed as being contrary to London Plan Policy H5.
- 2.3.8 For applications that are referable to the Mayor, if the GLA’s viability comments have not been taken into account by the applicant and/or the LPA, or reflected in the affordable housing provisions and review mechanisms proposed within the Section 106 (S106) agreement, this may be taken into account when considering whether the requirements within the Town and Country Planning (Mayor or London) Order 2008 apply with regards to directing refusal of the application or directing that the Mayor will call in the application for his own determination.

2.4 Transparency of information

- 2.4.1 The Mayor’s approach, previously set out in the Affordable Housing and Viability Supplementary Planning Guidance, has helped to ensure greater openness and transparency in viability testing. Boroughs now routinely make viability information, submitted as part of the planning process, publicly available alongside other application documents.

- 2.4.2 This is consistent with the Environmental Information Regulations 2004, which relate to environmental information held by public authorities. The guiding principle is that all information should be accessible, although the legislation sets out certain exceptions to this general rule. These exceptions are, however, qualified by a public interest test; and decisions by the Information Tribunal have demonstrated that the public interest in maintaining confidentiality rarely outweighs the public interest in disclosing the information.
- 2.4.3 Given this, applicants and LPAs should treat viability information – including information on review mechanisms – transparently. Viability assessments and associated information, and the LPA's review, should be made publicly available in full unless there are statutory grounds not to. Where viability information is not published by the LPA as part of the application documents, the GLA reserves the right to publish the information.
- 2.4.4 In very exceptional circumstances, prescribed by legislation, there may be legitimate reasons for withholding elements of this information. For this to be the case an applicant should provide a full justification of the reasons for withholding this information as soon as these are known. These reasons should be carefully reviewed with reference to the overriding public interest.
- 2.4.5 In submitting viability information, an applicant does so in the knowledge of the approach set out in this guidance, and knowing that the LPA or the GLA may not accept the applicant's view that information should not be made publicly available.

2.5 Resourcing and expertise

- 2.5.1 Where schemes are subject to the VTR, this has resource implications for planning authorities. These costs of resourcing should be met by the applicant. The applicant should be notified of these costs as soon as possible, although it may be necessary to update this following further consideration of the information submitted.
- 2.5.2 The cost of any additional expertise needed by the LPA and/or the GLA to inform its review in relation to specialist matters such as construction costs, the development programme or property valuation should also be met by the applicant.
- 2.5.3 If significant additional information is provided during the application process, or the scheme or assessment are subject to issues or changes that result in protracted discussions that require multiple reviews and/or meetings, the additional costs of this work should also be met by the applicant.
- 2.5.4 These costs are separate and in addition to those incurred by the LPA and the GLA relating to the monitoring and implementation of S106 agreements,

including viability review mechanisms. Arrangements for meeting these costs should be secured within the S106 agreement.

Internal expertise

2.5.5 Given the importance of securing policy-compliant development and obligations that ensure said development is sustainable, authorities are recommended to develop and enhance internal expertise in S106 agreements, affordable housing, viability and related matters. Specialist officers and teams can speed up and improve the planning process for councils, communities and applicants by:

- providing advice and developing or informing Development Plan policies and guidance on affordable housing and other planning obligations, viability and CIL
- leading on, and/or coordinating area-wide viability testing to establish evidence for Local Plans, CIL Charging Schedules, masterplans and infrastructure funding studies
- working with, and improving the capacity of, development management case officers
- enhancing expertise and capacity to secure affordable housing, infrastructure and other planning obligations
- better resourcing the negotiation and drafting of S106 agreements including the instruction of legal teams
- providing additional evidence on affordable housing, planning obligations, infrastructure planning and development viability including local development values, costs and land values
- promoting consistency and best practice, and being a known contact for applicants, external consultants and communities
- better resourcing the commissioning of external advice and coordination of the assessment process
- providing specialist expertise and coordinating evidence at appeals
- monitoring and implementing planning obligations and CIL contributions.

Commissioning external advice

2.5.6 When commissioning external advice, it is important to clearly set out the scope of advice required, including gathering, analysing and testing evidence.

2.5.7 LPAs should ensure that viability consultants are properly qualified, experienced and resourced; and have capacity to undertake a thorough

assessment. The quality of consultant's proposals should be given significant weight when evaluating tenders. Viability assessors and LPAs should ensure that there is no conflict of interest.

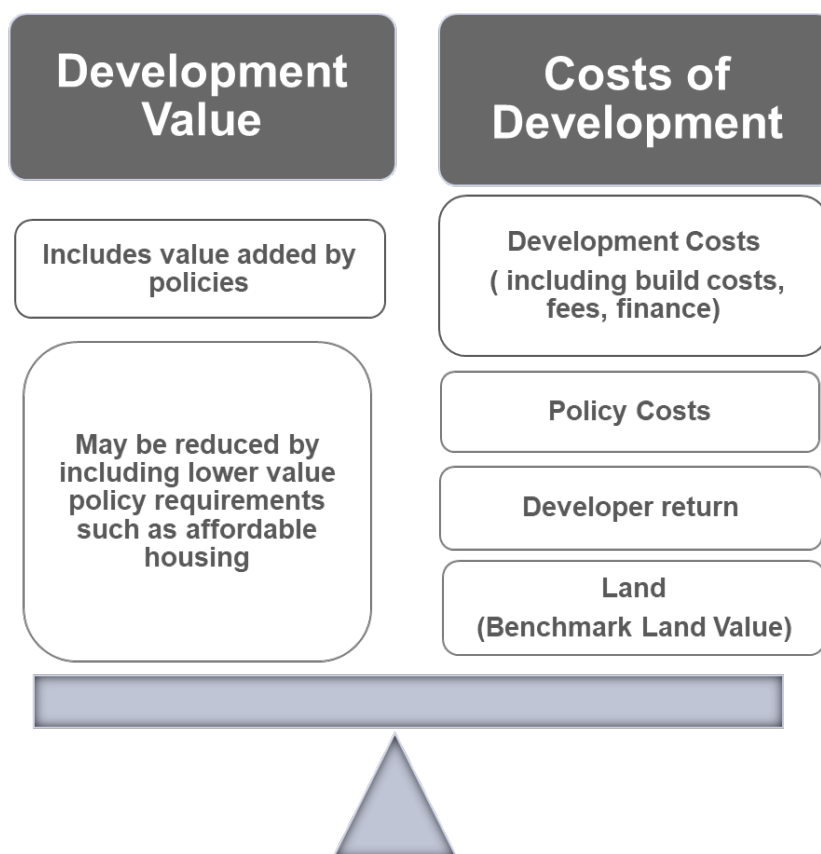
- 2.5.8 It is also important to ensure that consultants are engaged to review any additional information provided later in the application process; and to inform the inputs and approach to review mechanisms.

3 Principles for undertaking viability assessments

3.1 Reflecting policy requirements in the assessment

- 3.1.1 Viability assessments assess whether a development can meet the policy requirements set out in adopted and emerging plans, alongside minimum reasonable returns for a landowner and developer. Some policy requirements are reflected in development value where they will increase or decrease the value of future sales or lettings. Requirements that affect the cost of building the development, such as infrastructure or sustainability measures, are included in development costs.
- 3.1.2 Figure 1 shows that when all the costs of development are equal to (or exceeded by) development value, the scheme is considered to be viable.

Figure 1: Balancing development value and costs



3.2 Viability assessment methodology

- 3.2.1 Viability assessments use the residual valuation method, which deducts the costs of development from the value that it will generate through sale and lettings of the development to assess whether the scheme is viable. The output of these assessments can be either of the following:
- The residual land value (RLV), which is the amount of money available to purchase the site after allowing for all other development costs. This is then compared with the benchmark land value (BLV), which is the minimum return required for a reasonable landowner to make the site available for redevelopment. If the RLV is equal to or higher than the BLV, the scheme is viable. However, if it is lower, it is unviable.
 - The residual developer's return, which is the output after all other development costs (including the BLV) have been deducted from the development value. This is then compared with the target return, which is the minimum return required for a developer to bring forward a scheme for development. If the residual developer's return is equal to or higher than the target return, the scheme is viable. However, if it is lower, it is unviable.
- 3.2.2 There should always be an assessment of the RLV to allow the outcome to be sense-checked against land transactions. It may also be helpful to assess the overall viability position, including an allowance for the BLV and the developer's return as fixed inputs to the appraisal.
- 3.2.3 Residual valuations are highly sensitive to changes in value and cost assumptions. As such, inputs should be fully justified and evidence-based; and should always be subject to sensitivity testing and, where appropriate, growth testing. Outputs should also be sense-checked to ensure that they are realistic. Further details are set out below.

3.3 Objective, evidence-based and realistic

- 3.3.1 Viability assessments should provide an objective and realistic valuation of the development site; be based on evidence; and follow the approach in this and other related guidance.
- 3.3.2 Assessors should be suitably qualified, and should act in accordance with professional standards, including the need to ensure objectivity and professional integrity. Assessors and consultancy firms must act in the public interest and take responsibility for their actions to maintain public confidence in the process.
- 3.3.3 Assessors undertaking planning viability assessments also have a duty of care that is particularly significant given the public interest and reliance that

third parties may have on the content of viability assessments, as part of the planning process.⁷ Assessors must establish that no conflicts of interest or risks of conflict exist, which includes stating what other advice has been provided to the parties in respect of the application site.

- 3.3.4 Professional guidance acknowledges that undertaking a viability assessment is a complex process. Valuation and cost inputs and outputs should reflect professional judgment and result in a rational, reasonable and realistic conclusion with an overall viability judgement⁸ applied to the outcome of a report. In view of this it is important that assessors disregard any approach, assumptions or inputs that do not represent the most effective and efficient way to deliver the optimum development,⁹ and that may artificially reduce viability and policy requirements. This includes any 'downside' assumptions that, individually or collectively, do not result in a balanced assessment.
- 3.3.5 Viability assessments should include a declaration by the assessor that these standards have been met, and in particular that: the assessment is objective and a true and fair valuation of the site; no conflicts of interest have arisen when undertaking the assessment; any other advice that has been provided to the parties has been declared; the valuation has been prepared in the public interest with a duty of care; and it contains no misleading information.
- 3.3.6 The assessor should also confirm that: they have acted impartially and with reference to all appropriate sources of information; no performance-related or contingent fees have been agreed; the report has been prepared on the basis that it can be made publicly available; where the assessment relies on external contributors, they are considered to be competent¹⁰ and understand that they must comply with professional standards; and adequate time was taken to produce the assessment, proportionate to the scale and complexity of the application.

3.4 Scheme delivery

- 3.4.1 Applicants should demonstrate that their proposal is deliverable and their approach to viability is realistic. The assessor should provide evidence to show how the scheme is likely to be delivered, which should include an appraisal with supporting explanation and evidence.

⁷ RICS, Financial Viability in Planning: Conduct and Reporting Professional Statement 2019

⁸ Defined in Glossary

⁹ RICS Assessing viability in planning under the National Planning Policy Framework 2019 for England Guidance Note 2021

¹⁰ RICS Global Rules of Conduct 2021 Rule 2

- 3.4.2 Viability assessments should take into account the way that the development would actually be carried out. It is not appropriate to assume a speculative development model in all cases.
- 3.4.3 Assumptions should be based on the type of development model that would be appropriate for bringing forward the proposed scheme on the application site. Different approaches and assumptions in respect of the development and sales programme, finance, the developer's return and the BLV may be appropriate for some schemes. These include, but are not limited to, owner-occupier schemes, residential investment typologies, estate regeneration developments and other proposals led by the public sector.
- 3.4.4 Value and cost assumptions should be consistent with those relied on by the applicant for the purposes of commercial decision-making and securing development finance.
- 3.4.5 The weight given to the assessment should be considered alongside the proposed level of affordable housing and other planning obligations. If an assessment indicates that the proposed development is less viable than alternative options, including the value of the site in its current use, or an alternative development proposal, the decision-maker may give it less weight.
- 3.4.6 Appraisals are expected to indicate that the target return and the BLV can be achieved with the level of planning obligations proposed. If a deficit and/or shortfall in land value or developer's return is assessed by an applicant, this may indicate that development values have been understated, costs have been overstated and/or that the scheme has been sub-optimally designed. If this is the case, it is likely that viability inputs and assumptions will need to be amended to ensure that the assessment is realistic.

3.5 Modelling sensitivity testing of assumptions and inputs and value growth and cost inflation

- 3.5.1 Assessments should include sensitivity testing of inputs on a current-day basis. This might include testing different sales values, construction costs or developer's return.
- 3.5.2 Where required by the LPA or the GLA, for schemes that are referred to the Mayor, growth in development values and costs should also be modelled and taken into consideration when assessing the maximum amount of affordable housing and other policy requirements that the scheme can provide. Growth rates should be informed by recognised relevant market sources. Higher target returns that offset the benefits of this approach should not be assumed.

- 3.5.3 Viability review mechanisms will be required even where the assessment is based on growth testing, given the uncertainty in determining viability at the application stage.

3.6 Optimising the viability of development

- 3.6.1 Applicants should demonstrate that the proposed scheme optimises site capacity through a design-led approach,¹¹ and should also demonstrate that the proposed scheme optimises viability. This should include considering the application site in the wider context of adjoining sites to ensure the optimal delivery of development.
- 3.6.2 The assessment should reflect the most realistic and viable option available in the context of Development Plan policies. To achieve this, the applicant should demonstrate that viability has been considered at an early stage in the planning process. Different design options should be tested to ensure that the provision of onsite affordable housing is maximised and viability is optimised.
- 3.6.3 Assumed gross and net floor areas should be clearly set out. It is expected that buildings are efficiently designed and that the 'net-to-gross' floorspace ratio falls within typical parameters for the type of development. The relationship between scheme values and costs should be optimised, taking into account the site location, specification and appropriate development typologies.
- 3.6.4 Schemes should exclude elements that do not make a positive contribution to viability unless these are required for other planning reasons, for example, the provision of community facilities. Schemes should not include elements with significant costs that have a negative impact on viability, such as basements, unless there is a planning reason to do so. It may also be necessary to test different residential typologies, such as build to rent (BtR) and build for sale.
- 3.6.5 Prior to considering any reduction in the level of affordable housing at application stage, the timing of financial contributions should first be reviewed to determine whether the phasing of payments would assist viability.
- 3.6.6 When assessing outline and hybrid planning applications, an illustrative masterplan should be tested that reflects the upper parameters of the permission being sought. If the application seeks consent for a flexible range

¹¹ See London Plan policy D3

and proportion of different uses, the assessment should be based on the most viable overall mix.

3.7 Sense-checking

- 3.7.1 Assessors should undertake a 'stand back and check' exercise to consider whether the outputs of the residual valuation are realistic based on experience and the market. This could include a cross-check of the reported RLV with comparable market bids and transactions, including the development site and the wider market. This is considered further below.

3.8 Viability appraisals and models

- 3.8.1 Viability assessments should include clear summary appraisals showing all value and cost inputs including allowances for land, finance and developer's returns, and the outputs of the assessment.
- 3.8.2 The applicant should also provide the full working viability appraisal model, which should use commercially available software; and provide all underlying assumptions and calculations so that these can be tested and interrogated.
- 3.8.3 This will help to ensure transparency and allow the LPA and the GLA (for referable applications) to carry out additional testing, where necessary, to inform their assessment. Without this, it is not possible to properly consider the validity of the appraisal and the assumptions that underpin the applicant's assessment.

4 Viability assessment information, inputs and sense-checking

4.1 What information should be included in viability assessments?

- 4.1.1 For area-wide assessments at the plan-making stage, assumptions and supporting evidence and valuations should reflect the market and typical development approach for the development typologies being tested. Average figures are generally used for assessing the value and costs of development.
- 4.1.2 For site-specific viability assessments, all relevant details of the proposed scheme including site area should be provided. Residential unit numbers, the number of habitable rooms, and unit sizes for the proposed tenures should be set out in a clear table(s). Floorspace figures should also be provided for both residential uses (by tenure) and non-residential uses by gross internal area (GIA) and net internal area (NIA) or Net Sales Area.
- 4.1.3 All value and cost assumptions should be clearly set out and fully justified based on specific market evidence, adjusted to take into account land use, form, scale, location, rents and yields. The construction programme and marketing and sales/lettings periods should be clearly stated and fully justified.
- 4.1.4 There should be a clear summary of the viability assessment, which outlines key findings, inputs, and assumptions and conclusions to assist review by the LPA, the Mayor and members of the public.

4.2 Development values

- 4.2.1 The development value of a scheme is generally known as the gross development value (GDV), which is the combined market value derived from:
- the sales values of residential units, parking spaces and any other buildings or land to be sold
 - the capitalised rental value of any investment elements of the scheme before any deduction for purchaser's costs
 - the value of the freehold interest.
- 4.2.2 Any other income to be derived from the site, such as income received during the development period, should also be included in the appraisal.

- 4.2.3 The value of the investment elements of a scheme are usually known as the net development value (NDV), which is the GDV less any allowance for the deduction of the purchaser's costs.

Sales values

- 4.2.4 Assumptions relating to sales values should be based on market value and justified with reference to up-to-date transactions for comparable properties and other forms of relevant market evidence. Where bulk sales of residential units have taken place, the assessor should consider whether the value should be adjusted to remove any discount applied in relation to the bulk sale.
- 4.2.5 The value of other future receipts should also be included where this is market practice – for example, payments to the landlord on sale of leases in specialist older persons' housing.
- 4.2.6 Values should be adjusted to take account of any differences between the comparable evidence and the application scheme, with a clear justification provided for any differences. On detailed applications, a unit-by-unit pricing schedule should be provided, if requested. The methodology used to make adjustments for location, facilities, quality of construction, height, aspect and specification should be provided. This should clearly link the proposed values to the comparable evidence.
- 4.2.7 Where comparable residential evidence included ground rents within leases, sales values should be adjusted accordingly.

Investment values

- 4.2.8 Where the investment approach is used for the valuation of commercial or residential property, rents should be based on market evidence. Other income from the property, such as car parking, laundries or gyms, should be separately assessed where they are not included in the unit rents.
- 4.2.9 Assumptions on pre-lets, rent-free periods and letting voids should be supported by market evidence, and the impact on value clearly set out.
- 4.2.10 Residential investments such as BtR, student accommodation and shared living should include a breakdown of gross rents and operating expenses (OPEX) to evidence the net rental income assumed.
- 4.2.11 OPEX should be supported by detailed information, including an itemised list of cost headings based on comparable completed and occupied schemes. The figures should be provided as a percentage of gross rent, on a per-unit and per-square-foot/metre basis.

- 4.2.12 Investment yields should be based on market evidence with the nature of the transaction stated where known – for example, whether this was forward-funded or a sale at practical completion. Yield evidence should be consistent with the development model appraised, which should usually reflect the most common types of transactions taking place in the market. The transactions referred to should be for comparable properties, based on market value¹² and should be analysed on a per-unit and per-square-metre/foot basis to enable accurate comparison.
- 4.2.13 The NDV of an investment property is generally used in viability modelling, and in this guidance, to describe the value to the developer after appropriate purchaser's costs have been deducted, including fees and stamp duty, where these are likely to be incurred by the purchaser of the investment. These costs should be fully justified and take account of the value of the transaction to which they relate.

Affordable housing values

- 4.2.14 The primary approach to assessing affordable housing values should be through the use of comparable market transactions. This will include the sale of affordable units to registered providers (RPs) where the price paid is available through Land Registry data. Applicants should engage with RPs at an early stage, and affordable housing values should reflect discussions with, and the offers made, by RPs.
- 4.2.15 However, where there is only one offer or the transaction is not arm's-length – for example, where the RP and the developer are in a partnership arrangement – this evidence should be given less weight and cross-checked against open-market transactions.
- 4.2.16 Values can also be evidenced through an investment approach using rental income; adjusted for OPEX; and capitalised at an appropriate yield or through the use of a discounted cash flow. Where this approach is used, the working version of the model used should be provided and all inputs should be clearly set out and justified including management, major repairs and maintenance costs. Values should also include capital receipts (including staircasing receipts for shared-ownership units) and RP cross-subsidies where applicable. Values assessed through this route should be cross-checked against open-market transactions and this process should consider the extent to which public subsidy was available.
- 4.2.17 In build-for-sale developments, London Living Rent homes should generally be assumed to be sold on a shared-ownership basis, to either a tenant (or

¹² With clear assumptions on purchaser's costs, income timing and funding arrangements, as well as assumed rents, OPEX and yields

tenants) renting the home within 10 years, or to another eligible purchaser at the end of that period. In BtR schemes, London Living Rent and Discount Market Rent (DMR) homes should be valued on an investment basis in perpetuity.

- 4.2.18 The timings of payments by RPs should be agreed at an early stage, and should be clearly set out and used in the appraisal. It is expected that payments by RPs for affordable units will be timed to improve cashflow and overall viability.
- 4.2.19 If no offers have been received, details regarding the terms of marketing and the procurement process should be provided.

Commercial property

- 4.2.20 Where consent is sought that would allow a range of commercial uses to be provided, the most valuable use should be included in the viability assessment.
- 4.2.21 Agreed or likely pre-lettings should be taken into account with any assumed rent-free periods fully evidenced. If commercial development is speculative, assumptions on rent-free periods and voids should be combined and evidenced. Income from commercial property should be assumed at practical completion of the relevant block unless evidence is provided to support a different approach.

Grant and public subsidy

- 4.2.22 Grant and any other form of public subsidy should be included in the appraisal cashflow when this is or is likely to be made available by the relevant authority. No developer's return should be applied to this.
- 4.2.23 Further details of the Mayor's Affordable Homes Programmes are provided in the Affordable Housing LPG.

4.3 Development costs

Build costs

- 4.3.1 Applicants should submit elemental cost plans that are consistent with the level of detail provided in the drawings in support of planning applications (i.e. RIBA Plan of Works Stage C). The gross-to-net floorspace ratio of the development should be clearly set out.
- 4.3.2 They should be detailed and set out the separate costs for:
- preliminaries

- demolition/site clearance/site preparation
 - base build costs
 - abnormal costs
 - onsite infrastructure and utilities
 - offsite infrastructure (where delivered by the developer and directly related to the scheme)
 - contractor's overheads and profit.
- 4.3.3 Cost details should generally be provided based on GIA floor areas, clearly apportioning costs to different elements of the development (i.e. commercial, market residential, affordable housing, etc).
- 4.3.4 There should be a clear alignment between a development's specification, assumed build costs, and development values, and there should be consistency with comparable sites. Wherever possible, such assessments should be benchmarked against other similar projects as well as sources such as the RICS Build Cost Information Service (BCIS). If an appraisal is based on current-day values, costs should not include build-cost inflation.
- 4.3.5 An appropriate construction contingency can be added to cost plans to reflect build-cost risk but should not be double-counted within the wider assessment.
- 4.3.6 LPAs are strongly encouraged to use cost consultants to rigorously assess scheme proposals and verify whether costs are appropriate, taking into account pricing, quantities, specification and assumed development values. Consideration should also be given to scheme design and programme, and whether development costs could be reduced as part of a value-engineering or cost-reduction exercise. Cost-consultancy advice provided to LPAs should also include benchmarking against costs of comparable schemes and should check that the cost plan submitted is based on correct floor area information.
- 4.3.7 Any site-specific abnormal costs should be disaggregated and supported by robust evidence. Abnormal costs would be expected to reduce the BLV.

Professional fees and sales and marketing costs

- 4.3.8 Professional fees should be justified with reference to comparable evidence taking into account the nature and scale of the scheme. Costs applied on a percentage basis should be realistic and justified taking into account the total monetary cost assumed and the complexity of the scheme. Economies of scale would be expected to apply to larger schemes. Professional fees should be assumed to include costs such as project insurances.

- 4.3.9 Sales agent, marketing and legal fees should be based on the likely costs of disposing of the scheme, with detailed marketing budgets provided on larger schemes. The total monetary cost should also be sense-checked as realistic and should reflect the scale of the scheme. This should also take into account discounts that may be available where an agency or solicitor is appointed to manage the disposal of a substantial number of units.

Development programme and finance costs

- 4.3.10 Finance costs should be justified according to the specific development proposal. The total finance cost should be sense-checked as a percentage of overall development costs and cross-checked against evidence of the actual or assumed costs on other schemes.
- 4.3.11 The finance costs should be evidenced with reference to:
- the likely interest rate throughout the development period, taking into account the type of development and the likely structuring of finance for the scheme
 - the cash flow including assumptions on the timing of income and expenditure, including any pre-sales or forward-funding of the development.
- 4.3.12 Finance rates should take into account the likely type of developer of the site. For example, for estate-regeneration schemes where the council or an RP is the developer, or in a partnership arrangement, it may be the case that lower finance rates would be applicable that are more closely aligned to public-sector borrowing or bond finance rates. In addition, where a scheme is likely to be delivered by a large developer who will have access to preferential rates of finance, this should be reflected.
- 4.3.13 The timing of income should take into account the type of residential development proposed and the way the scheme will be funded. When assessing build-for-sale schemes, this should be based on off-plan sales and post-completion sales rates evidenced with reference to comparable schemes. Income from residential investment developments should be assumed in line with expected delivery models, with income generally received over the development period from the end occupier/investor.
- 4.3.14 Income for affordable housing should normally be assumed at different stages over the construction period in line with typical arrangements between developers and RPs.
- 4.3.15 The income from commercial properties should generally be assumed at practical completion. It is unlikely a developer would look to hold an asset until it is fully let, if the impact on the cashflow resulted in a more negative

outcome than disposing of the property at practical completion, with the investor letting the unit.

- 4.3.16 The timing of construction costs should be evidenced, based on a detailed construction programme, comparable to similar schemes. The payment of development contributions should reflect phasing and any CIL instalment policies that apply.
- 4.3.17 Where a scheme is phased, the BLV should be assumed to be drawn down at the start of each phase. If evidence is provided that this is unlikely to be the case, and the full land cost is included at the start of the development programme, then any income from the site before phases are developed should be included as additional income to the scheme.

Planning obligations and Community Infrastructure Levy

- 4.3.18 Applicants and landowners should take account of relevant planning obligations and CIL, or any other CIL replacement regime's requirements for the scheme.
- 4.3.19 The likely cost of planning obligations should be determined in accordance with the Development Plan and related guidance. These should be secured in the S106 agreement.
- 4.3.20 CIL charges should take account of borough and Mayoral CIL instalment policies, phased payments, reductions for occupied floorspace and affordable housing relief under the CIL Regulations. The assumed timing and value of payments and should be calculated in accordance with borough/Mayoral Charging Schedules and the CIL Regulations or any CIL replacement regime.
- 4.3.21 These costs should be fully evidenced in the viability assessment and checked and verified by LPAs as early as possible.

Other development costs

- 4.3.22 Any other costs included in the assessment should be fully justified and evidenced.
- 4.3.23 Where **furniture and fitting-out costs** are included, they should be clearly reflected in sales values or rents.
- 4.3.24 **Purchaser's costs** should be based on costs likely to be incurred, taking account of the probable nature and timing of any transaction, economies of scale and any reliefs that may be available (for example, multiple dwellings relief on Stamp Duty Land Tax). Percentage-based allowances for fees should always be sense-checked with reference to the overall monetary amount. Purchaser's costs are not always incurred if the developer and

operator are the same entity so it may be appropriate to carry out sensitivity testing without purchaser's costs or at lower rates. The total monetary cost should also be sense-checked as realistic, and should reflect the scale of the scheme.

- 4.3.25 **Land assembly costs** can be included in assessments for estate-regeneration schemes, including the buy-back of residential leasehold interests, and tenant and leaseholder compensation costs where it is likely that a compulsory purchase order will be required. These should be applied as development costs (rather than BLV) and should be clearly itemised and evidenced.
- 4.3.26 On schemes where there are existing non-residential uses, the cost of acquiring leases cannot be included as this value is generally accounted for in the EUV. However, tenant compensation for the loss of premises under the Landlord and Tenant Act 1954, where the lease has protection, can be included if fully evidenced. Compulsory purchase compensation such as disturbance can be included where appropriate.
- 4.3.27 Risk items such as Rights of Light costs or potential asbestos removal cannot be generally included as development costs, as they are assumed to be allowed for in the construction contingency or the developer's return.

Developer's return

- 4.3.28 Evidence should be provided by applicants to justify the target return, and to demonstrate that this is in line with the minimum level of return necessary for the scheme to proceed. This should take account of the individual characteristics of the scheme, including the type of development proposed, the approach to delivery and funding, and whether it provides pre-sold/pre-let accommodation.
- 4.3.29 The percentage and total monetary amount of target return should be cross-checked and evidenced with reference to market evidence including comparable land transactions.
- 4.3.30 The level of return required for affordable housing should reflect significantly lower levels of risk when compared to private residential units. Where affordable housing or community uses are to be re-provided, any developer's return would be expected to be nominal as there is little or no sales risk.
- 4.3.31 Returns for rented market tenure residential proposals should reflect typical delivery models. For example, a forward-funded scheme might require a different approach when compared with other models, such as a scheme that is developed and operated by the same entity or speculative schemes. Assumptions on finance costs and values will also be impacted by the

delivery model and it may be appropriate to test a number of different models.

- 4.3.32 Lower levels of return would normally be expected for commercial uses than for sale residential.
- 4.3.33 The likely type of developer should also be taken into account. For example, where councils and RPs bring forward estate-regeneration schemes as the lead developer or as part of a partnership, they are able to do so without requiring the levels of returns required by private developers, and these schemes are often supported by grant and other forms of subsidy. The level of return assumed in this scenario should reflect this, considering the need to maximise affordable housing provision on public land.
- 4.3.34 Where a landowner or business will retain ownership or occupation of part of the development, and/or they will benefit from new or improved premises or facilities, the target return for this element of the scheme should be nominal as there is no risk associated with the sale or letting the premises.
- 4.3.35 The GLA will normally consider developer's return as a factor of the GDV, although a cost-based approach can be used if fully justified.
- 4.3.36 An 'internal rate of return' (IRR) approach of measuring profitability may also be considered as a measure on larger, or longer-term, or phased schemes. A full justification must be provided for the assumed development programme and the timing of cost and value inputs. The target IRR should be evidenced and cross-checked against other measures of return.
- 4.3.37 As noted above, assessments should include growth testing, reflecting the operation of the market, but higher-percentage returns should not be assumed where growth is modelled.
- 4.3.38 All target returns should be cross-checked through analysis of land transactions.

4.4 Benchmark land value

- 4.4.1 As set out in section 3, in planning viability assessments, there are two assessments of land value that are undertaken to determine whether a proposal is viable:
- The **residual land value (RLV)** is often the output of the viability appraisal. It is determined through deducting development costs from development value to ascertain the underlying land value available for the landowner. Land transactions should be used to determine whether the RLV of the scheme, and value and cost assumptions within the assessment, are realistic. This is considered further below

- The **benchmark land value (BLV)** is the minimum return required for a reasonable landowner to make the land available for development and should reflect the costs of compliance with planning policy.
- 4.4.2 The process for establishing an appropriate BLV for a viability assessment is important because this indicates the threshold for determining whether a scheme is viable or not. A development is typically deemed to be viable if the RLV is equal to or higher than the BLV.
- 4.4.3 When assessing the BLV, the application site should be considered as a whole. Where some parts of the site are a liability to the landowner, any negative value should be offset against the value of other parts of the site. In the event that a BLV is assessed on the basis of a number of different alternative use values (AUV) for different parts of the site, these should meet the tests outlined below and be capable of being delivered alongside each other.
- 4.4.4 Under no circumstances should price paid be used as the basis for the BLV. This is because if it is assumed that the granting of planning permission will increase the value of the site, but the costs of fully complying with policy requirements are not reflected in the price paid, the BLV will be inflated. If the price paid was then included in the assessment as the BLV, or as a development cost, this would make it inevitable that planning requirements would be found to make developments unviable. This is known as the ‘circularity issue’, which has previously been found to undermine the implementation of Development Plan policies and the ability of planning authorities to deliver sustainable development.¹³
- 4.4.5 As such, the primary approach to determining the BLV is the EUV plus a landowner’s premium where appropriate, which should reflect the circumstances of the site including the market demand for the existing use.

Existing use value plus a landowner’s premium

- 4.4.6 EUV-plus is based on the current use value, or on the EUV, of a site plus a premium where appropriate. The principle of this approach is that a landowner should receive at least the value of the land in its ‘pre-permission’ use, which would normally be lost when bringing forward land for development.
- 4.4.7 The EUV should be fully justified based on the income-generating capacity of the existing use, with reference to comparable evidence on rents, yields and capital values that exclude any hope value associated with development

¹³ Parkhurst Road Ltd v Secretary of State for Communities and Local Government and London Borough of Islington (2018)

- of site or alternative uses. This evidence should relate to sites and buildings of a similar condition and quality, or otherwise be appropriately adjusted.
- 4.4.8 Where existing buildings are in a poor condition or do not meet current standards, or where there is limited demand, it is expected that the EUV would be nil or very low. The reason for this is that the capital expenditure required to maintain the income stream is likely to be close to or exceed the value of that income stream.
- 4.4.9 The applicant will need to fully justify any value attributed to existing buildings that are proposed for demolition and replacement. A detailed assessment of any likely major maintenance works required over at least a 30-year period should be provided alongside the costs of routine maintenance. This should include a year-by-year projection of the major repairs/refurbishment costs required by block, informed by a detailed planned preventive maintenance report prepared by an appropriately qualified surveyor. It is expected that costs of refurbishment/major repairs should be consistent with options-appraisal exercises carried out by the landowner, and include a detailed breakdown of all fees and other costs.
- 4.4.10 Where existing housing does not meet housing need in terms of unit sizes, an EUV approach may not be acceptable. Depending on the scope of the reconfiguration required to provide the appropriately sized units, this may require an assessment based on AUV for an alternative mix of units. In these cases, the costs should be based on detailed drawings and cost plans.
- 4.4.11 Any premium or uplift over EUV should be fully justified, reflecting the circumstances of the site, and should allow the development to be policy-compliant. For a site that does not meet the requirements of the landowner or creates ongoing liabilities/costs, a lower or no premium would be expected.
- 4.4.12 When considering the requirement for a premium, the RLV of the proposed scheme should also be assessed based on a policy-compliant scheme. If the RLV is lower than the EUV, it is unlikely that a premium would be justified as any premium needs to both take into account a return to the landowner and allow a sufficient contribution to fully comply with policy requirements. The presence of abnormal costs would also be expected to result in a lower BLV.
- 4.4.13 In area-wide testing, a range of BLVs should be considered, including EUV with no premium, and tested against a range of policy requirements so the policymaker can take an informed view on an appropriate balance between a minimum return to the landowner and policy requirements.
- 4.4.14 Where an existing use and its value to a landowner is due to be retained in a development (and not lost, as is usually the case), no premium should be applied.

- 4.4.15 A premium should not be applied in the case of estate-regeneration schemes, given that the typical owner of a housing estate will not require an additional monetary incentive to release a site for development. This is because the proposed scheme will be fulfilling their primary objective of enhancing affordable housing provision.
- 4.4.16 The level of premium can be informed by BLVs that have been accepted for planning purposes on other comparable policy-compliant schemes, where determined on a basis that is consistent with this guidance. This is so that historic BLVs for non-policy-compliant developments are not used to inflate values over time.
- 4.4.17 If land transactions are used to cross-check BLVs, they must fully reflect the cost of policy compliance, including for affordable housing at the levels set out in the Development Plan or be adjusted to fully reflect Development Plan policies. They should only be used as a cross-check to other evidence and should not be used in place of BLV.
- 4.4.18 It would not be appropriate to use the market evidence to justify a higher BLV without first also using the same market evidence to cross-check value and costs-input assumptions to arrive at the RLV for the proposed scheme. This should ensure the correct assumptions are made in respect of values and development costs, including land, when assessing the viability of development sites. This is explained further in section 4.5.

Alternative use value

- 4.4.19 Alternative use valuations are assessments of land value for an alternative development proposal using the residual valuation method. Caution should be applied when considering AUV. This should reflect the full costs of policy compliance, including affordable housing, at the levels set out in the Development Plan; and should apply a consistent methodology to that used within the application scheme appraisal.
- 4.4.20 If an applicant considers that AUV should be used as a basis for establishing BLV, they should demonstrate that: there is market demand for the use; the alternative use has gained, or would gain, planning permission; and it would be delivered if the proposed scheme was not granted consent. The applicant should also explain why the proposed scheme is being pursued rather than the alternative use.
- 4.4.21 The applicant should provide a detailed alternative proposal based on architect's plans and floorspace schedules; and a detailed cost plan with a similar level of detail to the cost plan for the proposed scheme. This should be robustly assessed on behalf of the LPA to the same extent as the cost plan for the application proposal.

- 4.4.22 If an applicant proposes to use the refurbishment of existing buildings as a basis for establishing BLV, this should be assumed to be an AUV and assessed accordingly.
- 4.4.23 Where all these conditions are met, and the LPA and the GLA (for referable applications) accept that AUV can be used, this is an alternative to the EUV-plus premium approach. No premium should be added to AUV and this should not be used to determine a premium above EUV.

4.5 Sense-checking the outcome of viability assessments

- 4.5.1 Given the sensitivity of residual valuation models to changes in value and cost assumptions, it is important to consider whether the approach and outcome of the appraisal as a whole is realistic.
- 4.5.2 In addition to sensitivity testing and growth modelling, all viability assessments should include a 'stand back and check' or 'sense-check' exercise in relation to the RLV output of the appraisal. As set out in section 3, if the output of an assessment is the residual developer's return (with the BLV included as a development cost), an appraisal should also be provided that assesses the RLV, enabling this to be sense-checked.
- 4.5.3 The assessors for the applicant and LPA should stand back from any modelling results and objectively assess whether they are reasonable and would pass a sense-check. This could include comparing RLV with comparable land transactions (including agreements for sale), which provide an alternative method for assessing the value of development sites. If the RLV is lower than comparable market transactions, including the application site, this may indicate that the value and cost assumptions applied within the viability assessment do not reflect the market and need to be reviewed.
- 4.5.4 For example, if a site with similar characteristics to the application site was sold following the grant of planning consent for a policy-compliant scheme at £10m, yet the RLV assessed for the proposed scheme is £1m, it is likely that the valuation of the application site is not realistic and that the assessment will need to be reviewed.
- 4.5.5 When analysing land-transaction evidence, the circumstances of the sites and assumptions that may have been made by purchasers should be considered. This may include, for example, whether there is an existing planning consent and the extent to which it is policy-compliant, or the extent of abnormal costs. Land transaction evidence may also give an indication of growth assumptions, minimum developer's return and the finance costs that were assumed when the site was purchased. Viability information provided to support planning applications on comparable sites may provide useful information to support this analysis.

- 4.5.6 If a scheme generates a low RLV or is in deficit, the value and cost assumptions may not be realistic and/or the scheme may not be optimally designed. The applicant, the LPA and their assessors should review and revise the assessment to ensure that the value and cost assumptions, and the valuation approach, are consistent with market evidence. It may also be appropriate to consider other approaches to the delivery of the site if these would be acceptable in planning terms. This could include whether residential accommodation is more viably delivered as BtR rather than for sale (or vice versa), or whether standard residential typologies are more viable than typologies such as student accommodation or shared living.

5 Review mechanisms

5.1 Key principles

- 5.1.1 Review mechanisms assess development viability after permission has been granted to enable the maximum level of affordable housing provision over the lifetime of a development. They provide the opportunity to ensure policy compliance and optimal public benefits, recognising the potential for changes in values and build costs between the application stage and different stages of the development programme.
- 5.1.2 London Plan policies H4 and H5 require the use of review mechanisms which vary depending on whether a scheme is following the FTR or the VTR. Schemes that follow the FTR are subject to an Early Stage Review if substantial implementation is not reached within two years of grant of planning consent, or a period agreed with the LPA and (for referable applications) the Mayor. They are not required to provide Mid-Term or Late Stage Reviews. All VTR schemes are subject to Early and Late Stage Reviews. Larger phased schemes that follow the VTR are also required to provide Mid-Term Reviews.
- 5.1.3 Review mechanisms can help to address uncertainties that cannot be addressed as part of an application stage assessment of viability. However, they should not be used as an alternative to a robust and realistic assessment at application stage for VTR schemes that should ensure the scheme is policy-compliant where possible.
- 5.1.4 Where the scheme is delivered in a way that is consistent with how it was assessed at application stage, development values and development costs should be assessed on the same basis in review mechanisms as at application stage. Where this is not the case, appropriate adjustments may be required. This is to ensure that viability reviews are equitable and robust.

5.2 Early Stage Reviews – Fast Track and Viability Tested Routes

- 5.2.1 Fast Track and VTR schemes are subject to an Early Stage Review mechanism to determine whether additional affordable housing and a higher proportion of Social Rent or London Affordable Rent housing can be provided.
- 5.2.2 Viability is more likely to change the longer the period between the grant of consent and when a development is built out. In view of this, Early Stage Reviews are triggered where substantial implementation has not been reached within two years of the planning permission, or a period agreed with

the LPA and (for referable applications) the Mayor. This should reflect a reasonable level of progress by that stage in the programme. For example, substantial implementation could comprise the completion of all ground-preparation works, the foundations for the core of the development, and construction of the ground or first floor. If substantial implementation is achieved within the agreed period, the review will not be triggered.

- 5.2.3 Provisions that seek to delay the trigger date for an Early Stage Review should not be included in the S106 agreement, as this review is intended to secure additional affordable housing where viability allows – regardless of the reason development may have been delayed.
- 5.2.4 Where the Early Stage Review is triggered, this will take place at the point that substantial implementation is reached.¹⁴ Increases in affordable accommodation should be provided on-site prior to occupation of a specified proportion of market units. Information that identifies which homes will be provided as additional affordable accommodation should be submitted to the LPA for approval.
- 5.2.5 Where a review identifies a surplus that is insufficient to support on-site affordable housing, this should be paid to the LPA as a financial contribution following the review, and prior to the occupation of specified proportion of market units. Where this is the case, the payment amount can be included as a cost in subsequent viability reviews.
- 5.2.6 Schemes that follow the FTR are not required to submit viability information at application stage. It is not appropriate to input application stage build cost or value information into Early Stage Review formulas for FTR schemes, even if this is submitted as part of the application.
- 5.2.7 Where the Early Stage Review is triggered, viability is assessed at the point of the review and considers changes in development values and build costs between the point of planning permission and the review.

5.3 Late Stage Reviews – Viability Tested Route

- 5.3.1 Schemes that follow the VTR are subject to Late Stage Reviews, which usually take place once 75 per cent of homes are occupied. The benefit of this approach is that the review can be based largely on values achieved and costs incurred. The review takes place prior to occupation of the whole

¹⁴ For example, where a review is triggered because substantial implementation has not been reached within two years of the grant of permission, and is achieved after three years, the review will take place three years after the grant of permission.

development to ensure that the review itself, and the payment of additional contributions that arise, can be enforced.

- 5.3.2 For phased or larger schemes, the Late Stage Review should take place on occupation of 75 per cent of homes in the final phase or plot; or at an alternative level of progress (which may include at occupation of a specific number of units) as determined by the LPA or (for referable applications) the Mayor. The review should take place at an advanced stage in the development process at an appropriate point prior to completion.

5.4 Mid-Term Reviews – Viability Tested Route

- 5.4.1 Under London Plan Policy H5, Mid-Term Reviews are required prior to the implementation of phases for larger phased schemes that follow the VTR. These enable the delivery of additional onsite affordable housing in the next and subsequent phases. LPAs and the GLA (for referable applications) should consider the nature of the application when determining whether Mid-Term Reviews will be required.
- 5.4.2 Mid-Term Reviews should be provided for larger phased schemes including those that propose 500 or more residential units (or for mixed-use schemes, the equivalent amount of development in floorspace, taking into account proposed residential and non-residential uses). There may also be other circumstances where Mid-Term Reviews are required, for example, where the overall construction programme is five years or longer, or for estate-regeneration schemes.
- 5.4.3 Mid-Term Reviews take place throughout the course of a development at points to be agreed with the LPA or (for referable schemes) the Mayor. These should assess the scheme as a whole, taking into account actual values and costs for earlier phases, and estimated figures for subsequent phases. Unlike Early Reviews, Mid-Term Reviews take place whether or not the development has reached a specific level of progress by the trigger date.
- 5.4.4 More than one Mid-Term Review may be required depending on the size of the scheme and the number of phases, plots or buildings.¹⁵ For outline or hybrid schemes it may be appropriate for reviews to take place as part of reserved matters applications, to enable affordable housing to be included within the design of the relevant phase or future phases.

¹⁵ For example, a 500-unit scheme would require at least one Mid-Term Review; and a 1,000-unit scheme would require at least two Mid-Term Reviews.

5.5 Other reviews

- 5.5.1 In addition to the reviews referred to above, for larger schemes that follow the VTR, LPAs should consider whether a review should be required that takes place if development stalls for a specific period.

5.6 Terms of viability review mechanisms

- 5.6.1 The Mayor's approach to viability review mechanisms is set out in Appendix 1 to this guidance. LPAs are encouraged to use the Mayor's formulas when securing viability reviews for the majority of schemes.
- 5.6.2 Review mechanisms should aim to secure the maximum amount of affordable housing at an affordable housing tenure split in line with the relevant Local Plan.
- 5.6.3 Whenever review mechanisms are used, the S106 agreement should do the following:
- identify the point(s) at which the review(s) should be carried out, in line with the guidance set out above
 - ensure that the application and review-stage development value figures include any public subsidy that is available at the time that they are assessed
 - set out the basis for determining whether a 'surplus developer's return' is generated over and above the minimum return necessary for a scheme to be deemed viable, which is referred to as the target return
 - include the target return agreed by the LPA, and the GLA (for referable applications), at application stage. The target return should not be applied to any public subsidy available to the scheme
 - establish the scope of the review(s) in respect of viability inputs, and ensure that this will be based on the most robust and up-to-date information available – this will generally be the price paid or market value and build costs for the completed unit where available.¹⁶ Where actual build costs are used, no contingency should be applied
 - Ensure that the review is carried out on the same basis, and with the same approach to inputs, as the application stage viability assessment

¹⁶ Where actual values and costs are used in an Early, Mid or Late Stage Review, these should be based on arm's-length transactions; disregard incentives for initial sales or lettings; and take account of market values, with relevant adjustments made if the transaction does not reflect the approach taken to value or costs at application stage.

with arrangements for appropriate adjustments clearly set out.

Adjustments may include, for example, making allowances for different assumptions on profit and finance if a scheme that was assessed as build for sale comes forward as BtR, or where a residential investment typology is delivered using a different model than that assessed at application stage

- Set a ‘cap’ on the additional provision that will be sought, which should be 50 per cent affordable housing at the Local Plan Tenure split for all schemes except those involving the demolition of affordable housing under London Plan Policy H8, which is considered further below.¹⁷ It is not appropriate to include a monetary cap in a S106 agreement, as this may not equate to the shortfall against a requirement for 50 per cent affordable housing at the time of review
- Specify that any ‘surplus return’ above the developer’s target return in Early Stage Reviews is to be used to deliver additional affordable housing on-site. For Mid-Term Reviews, this is also the most appropriate approach; any retention of the surplus return by the applicant should not be considered by the LPA unless the scheme has met or exceeded the appropriate threshold level of affordable housing and other policy requirements.¹⁸ For Late Stage Reviews it may be acceptable for an element of surplus return to be retained by the applicant. No surplus return retained by the applicant for any review should exceed 40 per cent of the surplus, with the remainder to be used for additional affordable housing¹⁹
- Any public subsidy allocated to the scheme should be used to deliver affordable housing in its entirety
- Specify that additional affordable housing secured through reviews should be delivered onsite for Early Stage and Mid-Term Reviews. For Late Stage Reviews on residential build-for-sale schemes, account should be taken of the potential practical implications of delivering an increased amount of affordable housing on-site in which case an off-site or commuted sum contribution would be acceptable.²⁰ Although additional

¹⁷ Where this level and tenure of affordable housing (or higher) has already been secured at application stage, reviews may not be required. Where a scheme is following the Fast Track Route under Policy H5 part D, by providing at least 75 per cent affordable housing with a flexible tenure, no cap should apply.

¹⁸ Schemes assessed under policy H8 of the London Plan are required to re-provide existing affordable housing, and maximise the delivery of additional affordable housing. These sites play an important role in delivering affordable housing to meet the strategic affordable housing target set out in the London Plan; therefore, it is not appropriate for any surplus return identified at a Mid-Term Review on these schemes to be retained by the applicant.

¹⁹ Any surplus retained by the applicant should not include public subsidy.

²⁰ Any surplus identified in Late Stage Reviews for BtR schemes is expected to contribute towards additional on-site affordable housing.

affordable housing must be the priority, the review mechanism may also be used to improve the affordability of secured affordable homes, particularly through the provision of additional Low-Cost Rent housing²¹ or contribute to other policy requirements which may not have been viable at application stage

- Make provision for the full costs for the LPA, and the GLA where relevant, of negotiating, undertaking and assessing a viability review which should be borne by the applicant
- Require reporting of information to the Planning London Datahub on the number and tenure of affordable housing by unit and habitable room secured in the application and the outcome of reviews including additional affordable housing, changes in tenure and any financial contributions.

5.6.4 London Plan Policy H8 requires that developments involving the demolition of affordable housing – including estate-regeneration schemes – must demonstrate that they have maximised the delivery of additional affordable housing. As such, where policy H8 applies, any cap on affordable housing provision should not be less than 50 per cent of the additional housing proposed on the site.²²

5.6.5 For specific applications, the LPA, or the GLA (for referable applications), may require reviews that assess all values and costs at the time of the review except for target return and BLV, which are expected to be determined at application stage. This may be more appropriate where there is significant uncertainty about some elements of value or costs, or where a development is delivered in a different way to that tested at application stage. It may be particularly appropriate on larger schemes, or outline applications where less detail is available at application stage.

5.6.6 Affordable housing requirements are applied where they are required to make an application acceptable in planning terms. As such, review mechanisms should not be used to reduce the base level of affordable housing contributions, additional affordable housing secured in an earlier review or other obligations which are required as part of the planning permission.

²¹ Social Rent wherever possible.

²² This should be determined using the following calculation (figures in habitable rooms):
(total proposed residential accommodation – re-provided affordable housing) x 50 per cent + re-provided affordable housing.

Appendix 1 Viability review formulas

A1.1 The Mayor's approach

- A1.1.1 This Appendix sets out the Mayor's suggested approach for calculating the review mechanisms for Fast Track and Viability Tested schemes.
- A1.1.2 The formula-based approach to review mechanisms assesses changes in development values and build costs, which are the most significant variables within an assessment. This avoids the need for a full reassessment of viability in most cases and reduces information requirements, enabling a shorter review period. Information should be submitted and assessed as part of a review in line with section 4 of this guidance.
- A1.1.3 The GLA has produced standard clauses to assist LPAs and applicants in the implementation of the approach to affordable housing and viability reviews in the Mayor's guidance.

A1.2 Early Stage Reviews

- A1.2.1 The principle of the Early Stage Review is the same for Fast Track schemes and Viability Tested schemes. Formula 1 (Early Stage Review surplus) identifies any surplus return available to increase on-site affordable housing. This is calculated as the difference in scheme value from the time planning permission was granted to the time of the viability review, less any changes in build costs. Formula 1 is calculated differently for Fast Track schemes to Viability Tested schemes as set out below. Formula 2 (Early Stage Review additional affordable housing) calculates how many market homes can be converted to affordable tenures.

Formula 1a: FTR Early Stage Review Surplus

- A1.2.2 Fast Track schemes do not provide viability information as part of the application process for planning permission. In the event that an Early Stage Review is triggered, there will be a requirement to provide viability information relating to scheme GDV and build costs at the time of the review. This information will be used to determine any changes in development values and/or build costs between the grant of planning permission and the date of the Early Stage Review.
- A1.2.3 The Early Stage Review calculates any changes in value for the private residential component of a scheme between the grant of planning permission and the time of the review by reference to the Land Registry House Price Index (HPI) for new-build residential property for the relevant market area and property type, working back from the date of the review. Rental data for the relevant area should be used for BtR schemes as

published by the Office for National Statistics and available on the London Datastore. For mixed-use schemes it may be appropriate to consider changes in the value of commercial or other uses as part of the review with reference to an appropriate market-tracking index or other relevant information sources.

- A1.2.4 The review will calculate any change in build costs of the private residential component (and commercial uses where relevant) between the grant of planning permission and the time of the review by reference to the BCIS All-in Tender Price Index (TPI) (or equivalent). For example, if the TPI shows that build costs have risen by 5 per cent from the time planning permission was granted to the time of the review, it will be assumed that build costs for the scheme would have also risen by 5 per cent since the date planning permission was granted.
- A1.2.5 To calculate the surplus return, the review will subtract any difference in build costs between the date of planning permission and the date of the review from any difference in scheme value over the same period. Following this, a developer's return is subtracted – this is determined in line with the guidance in section 4. The remaining surplus return will be available for additional on-site affordable housing.
- A1.2.6 Schemes that are assessed by the Mayor under the FTR will be assumed to be viable, and any viability information submitted will not be assessed by the GLA. If an applicant considers that an application is unviable and wishes this to be reflected in the Early Stage Review, it will be assessed under the VTR and will be subject to a Late Stage Review and a Mid-Term Review(s) for larger phased schemes.

Formula 1a: Early Stage Review Surplus for FTR schemes

X = Surplus Return available for Additional Affordable Housing Units

$$X = ((A - B) - (D - E)) - P$$

A = estimated GDV for private residential component of development as determined at the time of review (£)

B = $A \div (C + 1)$ – assumed application-stage GDV for private residential component at the date of planning permission (£)

C = percentage change in value for the private residential component of the development from grant of planning permission to review date (HPI) (per cent)

D = estimated build costs for private residential component as determined at the time of review (£)

E = $D \div (F + 1)$ – assumed application-stage build costs for the private residential component of the scheme at the date of planning permission (£)

F = percentage change in build costs for the private residential component from grant of planning permission to review date (BCIS TPI) (per cent)

P = $(A - B) * Y$ – developer’s return on change in GDV of private residential component (£)

Y = developer’s return as a percentage of GDV for the private residential component (per cent)

Notes:

$(A - B)$ = change in GDV of the private residential component of development from the date of planning permission to the date of review (£).

$(D - E)$ = change in build costs from the date of planning permission to the date of review (£).

P = developer’s return on change in GDV excluding public subsidy (£).

For mixed-use schemes, the review GDV and build-costs figures should include the commercial component where relevant. The change in GDV of any commercial floorspace should be estimated using a relevant index or other source of information.

Formula 1b: Viability Tested Route Early Stage Review Surplus

A1.2.7 Viability Tested schemes must provide detailed viability information as part of the application process. This will identify the estimated scheme GDV and build costs at the time of planning permission. These figures should be set out in the S106 agreement. The Early Stage Review will require updated evidence of GDV and build costs at the time of the review.

A1.2.8 This information is used to determine whether any change in development values and/or build costs since the grant of planning permission results in a surplus profit. To calculate the surplus return, the review deducts any difference in build costs between the date of planning permission and the date of the review from any difference in scheme value over the same period. After an allowance for developer's return on the additional scheme value has been deducted, the remaining surplus return is available for additional on-site affordable housing.

Formula 1b: Early Stage Review Surplus for Viability Tested Schemes

X = Surplus Return available for Additional Affordable Housing Units

$$X = ((A - B) - (C - D)) - P$$

A = estimated GDV of development as determined at the time of review (£)

B = application-stage GDV of development as determined at the grant of planning permission (£)

C = estimated build costs as determined at the time of review (£)

D = application-stage build costs as determined at grant of planning permission (£)

P = $(A - B) * Y$ – developer return on change in GDV (£)

Y = developer return as a percentage of GDV as determined at the application stage (per cent)

Notes:

$(A - B)$ = change in GDV from the date of planning permission to the date of review (£). The application and review stage GDV figures should include any public subsidy that is available at the time that they are assessed however this should be excluded when calculating developer return.

$(C - D)$ = change in build costs from date of planning consent to date of review (£).

P = developer return on change in GDV excluding public subsidy (£).

Formula 2: Early Stage Review Additional Affordable Housing Requirement (Fast Track and Viability Tested Routes) and Mid-Term Review Additional Affordable Housing Requirement (Viability Tested Route)

- A1.2.9 The second stage of the review (Formula 2) determines the additional amount of on-site affordable housing to be provided where Formula 1 (or Formula 5 for Mid-Term Reviews) identifies a surplus return. This allocates the surplus return to Low-Cost Rent housing and Intermediate housing and calculates the level of additional affordable floorspace based on the difference in average value of the market housing and the relevant affordable housing tenure.
- A1.2.10 This is then converted into habitable rooms based on the average habitable room size for the scheme. The relevant Low-Cost Rent tenure (Social Rent or London Affordable Rent) and intermediate products (London Living Rent, DMR or Shared Ownership) required by the LPA or (for referable applications) the Mayor, should be specified in the formulas.
- A1.2.11 Where a scheme is providing 50 per cent affordable housing, Formula 6 can be used instead of Formula 2 to enable the provision of a higher proportion of Social Rent or London Affordable Rent housing (see below).

Formula 2: Early/Mid-Term Review Additional Affordable Housing Requirement

X = Additional Social Rent/London Affordable Rent housing requirement (habitable rooms)*

$$X = ((E * F) \div (A - B)) \div D$$

Y = Additional London Living Rent/DMR/Shared Ownership housing requirement (habitable rooms)*

$$Y = ((E * G) \div (A - C)) \div D$$

A = average value of market housing per m² (£)

B = average value of Social Rent/London Affordable Rent housing per m² (£)*

C = average value of London Living Rent/DMR/Shared Ownership housing per m² (£)*

D = average habitable room size for scheme (m²)

E = surplus return available for additional affordable housing (as determined in Formula 1a or 1b Early Stage Review or Formula 5 Mid-Term review) (£)

F = percentage of surplus return available for additional affordable housing to be used for Social Rent/London Affordable Rent housing (per cent)

G = percentage of surplus return available for additional affordable housing to be used for London Living Rent/DMR/Shared Ownership housing (per cent)

*delete as relevant based on tenures required by the LPA/GLA.

Notes:

(A – B) = difference in average value of market housing per m² and average value of Social Rent/London Affordable Rent per m² (£).

(A – C) = difference in average value of market housing and average value of London Living Rent/DMR/Shared Ownership housing per m² (£).

(E * F) = surplus return to be used for Social Rent/London Affordable Rent (£).

(E * G) = surplus return to be used for London Living Rent/DMR/Shared Ownership housing (£).

(E * F) ÷ (A – B) = additional Social Rent/London Affordable Rent housing requirement (m²) (£).

$(E * G) \div (A - C)$ = additional London Living Rent/DMR/Shared Ownership housing requirement (m²) (£).

The habitable room size for the scheme (element D) should be specified in the formula in the S106 agreement.

Inputs F and G should accord to the relevant part of the Local Plan tenure split. Input F can be higher where this is not being delivered as part of the base affordable housing provision.

A1.3 Late Stage Reviews

Formula 3: Late Stage Review contribution

A1.3.1 The Late Stage Review calculates the additional financial contribution payable to the LPA for affordable housing or other policy requirements not viable at the application stage.

Formula 3: Late Stage Review Contribution

X = Late Stage Review Contribution

$$X = (((A + B) - C) - ((D + E) - F) - P) \times 0.6$$

A = GDV achieved on occupation of 75 per cent of residential units from parts of the development disposed of and the value of other income receipts (£)

B = estimated GDV for parts of the development that are yet to be disposed of and other income sources (£)

C = application-stage GDV determined as part of the assessment of viability at the grant of planning permission or, if a surplus arose in any previous review, the total GDV in the last review where a surplus was identified, minus the surplus in that review (£)

D = build costs incurred at the time of review (£)

E = estimated build costs of development yet to be carried out as determined at the time of review (£)

F = application-stage build costs determined as part of the assessment of viability at application stage or, if a surplus arose in any previous review, the total build costs in the last review where a surplus was identified (£)

P = $(A + B - C) * Y$ – developer return on change in GDV (£)

Y = developer return as a percentage of GDV as determined at the time planning permission was granted (per cent)

Notes:

$(A + B) - C$ = the change in GDV from the application stage (or a previous review if a surplus was identified) to the Late Stage Review (£). The application and review stage GDV figures should include any public subsidy that is available at the time that they are assessed. However, this should be excluded when calculating developer return.

$(D + E - F)$ = the change in build costs from the application stage (or a previous review if a surplus was identified) to the Late Stage Review (£).

P = developer return on change in GDV excluding public subsidy (£).

0.6 = at least 60 per cent of surplus return, after deducting the developer return (P), should be used for additional affordable housing. The amount of surplus return retained by the applicant should not exceed 40 per cent. Any additional public subsidy included in the review stage GDV (A or B) should be retained by the LPA.

For residential investment schemes, components B and C should be the GDV less any purchaser's costs assumed in the application stage viability assessment.

Where whole or part of the scheme is delivered as BtR, but has been assessed at application stage as build for sale, the GDV-achieved figure (component A of the formula) should be adjusted to take account of the following:

- Timing of any receipt and impact on developer's finance costs.
- Where there is any difference in profit requirement between the residential typology assumed at application stage and the residential typology delivered and transacted, then the Late Stage Review Contribution should be increased by the appropriate profit differential. For example, where the assessment of viability at application stage assumed a build for sale scheme and the profit adopted was 16 per cent on GDV, but the GDV achieved was based on revenue received from a BtR investor where a reasonable standard profit margin assumed would have been 12 per cent on GDV, then the Late Review Contribution should be increased by the application-stage GDV x 16 per cent less GDV achieved x 12 per cent.

Component Y should also be adjusted to reflect the correct blend for the residential typologies assumed at review stage

Component C allows for circumstances where a surplus is identified at an earlier review and additional affordable housing is provided.

Formula 4: Late Stage Review cap

A1.3.2 Contributions determined under the Late Stage Review will be capped by the equivalent of 50 per cent affordable housing provision at the Local Plan tenure split.²³ The following formula sets out the approach to determining the Late Stage Review Cap. This is the maximum affordable housing contribution that will be payable as a result of the Late Stage Review.

A1.3.3 The Late Stage Review Cap is calculated based on the cost of converting a market housing unit to affordable housing as determined by the difference in average value of market housing and average value for the relevant affordable housing tenure per habitable room. This is multiplied by the shortfall in the relevant tenure of affordable housing by habitable room in the consented scheme, when compared with 50 per cent affordable housing provision at the Local Plan tenure split. The formulas used in the S106 agreement should specify the relevant Low-Cost Rent and Intermediate tenures to be provided in line with the Local Plan tenure split.

Formula 4: Late Stage Review Cap

X = Late Stage Review Cap

$$X = (((A * D) - (B * D)) * E) + (((A * D) - (C * D)) * F)$$

A = average value of market housing per m² (£)

B = average value of Social Rent/London Affordable Rent housing per m² (£)*

C = average value of London Living Rent/DMR/Shared Ownership housing per m² (£)*

D = average habitable room size for scheme (m²)

E = Social Rent/London Affordable Rent shortfall on-site (habitable rooms)* (determined at application stage or as updated following previous review)

F = London Living Rent/DMR/Shared Ownership housing shortfall on-site (habitable rooms)* (determined at application stage or as updated following previous review)

* delete as relevant based on tenures required by the LPA/the GLA.

²³ See paragraph 5.6.4 and footnote 22 in relation to schemes assessed under policy H8.

Notes:

The habitable room size for the scheme (element D) should be specified in the formula in the S106 agreement.

E = the shortfall in the relevant Low-Cost Rent tenure of affordable housing by habitable room in the consented scheme, when compared with 50 per cent at the Local Plan tenure Split. Figure to be specified in the formula in the S106 agreement.

F = the shortfall in the relevant Intermediate tenure of affordable housing by habitable room in the consented scheme, when compared with 50 per cent at the Local Plan tenure Split. Figure to be specified in the formula in the S106 agreement.

A1.4 Mid-Term Reviews

Formula 5: Mid-Term Review surplus for Viability Tested Schemes

- A1.4.1 As with Early Stage Review Formula 1b, Formula 5 calculates the surplus available for additional onsite affordable housing but uses actual values and costs for completed parts of the development at the time of the review and estimated figures for the rest of the scheme.
- A1.4.2 It is used to determine whether any change in development values and/or build costs has occurred since the previous viability review was carried out, or where no previous review was triggered, the change in development values and/or build costs since the application stage.
- A1.4.3 Formula 2 is used to determine the additional amount of on-site affordable housing to be provided where Formula 5 identifies a surplus return.

Formula 5: Mid-Term Review surplus for Viability Tested Schemes

X = Surplus return available for additional on-site affordable housing

$$X = ((A + B) - C) - ((D + E) - F) - P$$

A = GDV achieved up to the point of the review (£)

B = estimated GDV for parts of the development that are yet to be disposed of and other income sources (£)

C = application-stage GDV determined as part of the assessment of viability at the grant of planning permission or, if a surplus arose in any previous review, the total GDV in the last review where a surplus was identified, minus the surplus in that review (£)

D = build costs incurred at the time of review (£)

E = estimated build costs of development yet to be carried out as determined at the time of review (£)

F = application-stage build costs determined as part of the assessment of viability at application stage or, if a surplus arose in any previous review, the total build costs in the last review where a surplus was identified (£)

P = $(A + B - C) * Y$ – developer return on change in GDV (£)

Y = developer return as a percentage of GDV as determined at the time planning permission was granted (per cent)

Notes:

$(A + B) - C$ = the change in GDV from the application stage (or a previous review if a surplus was identified) to the Mid-Term Review (£). The application and review stage GDV figures should include any public subsidy that is available at the time that they are assessed however this should be excluded when calculating developer return.

$(D + E - F)$ = the change in build costs from the application stage (or a previous review if a surplus was identified) to the Mid-Term Review (£).

P = developer return on change in GDV excluding public subsidy (£).

For residential investment schemes, components B and C should be the GDV less any purchaser's costs assumed in the application stage viability assessment.

Where whole or part of the scheme is delivered as BtR, but has been assessed at application stage as build for sale, the GDV achieved figure (component A of the formula) should be adjusted to take account of the following:

- Timing of any receipt and impact on developer's finance costs.
- Where there is any difference in profit requirement between the residential typology assumed at application stage and the residential typology delivered and transacted, then the Late Stage Review Contribution should be increased by the appropriate profit differential. For example, where the assessment of viability at application stage assumed a build for sale scheme and the profit adopted was 16 per cent on GDV, but the GDV achieved was based on revenue received from a BtR investor where a reasonable standard profit margin assumed would have been 12 per cent on GDV, then the Late Review Contribution should be increased by the application-stage GDV x 16 per cent less GDV achieved x 12 per cent.

Component Y should also be adjusted to reflect the correct blend for the residential typologies assumed at review stage.

Input C allows for circumstances where a surplus is identified at an earlier review and additional affordable housing is provided.

A1.5 Residential investment property reviews

A1.5.1 Reviews for residential investment property (such as BtR, student accommodation and shared living) should be undertaken by assessing the change in development value and build costs between application and review stage, and the additional affordable housing that can be provided using any surplus, applying the principles set out in the formulas above (as relevant).

Build to Rent Reviews

A1.5.2 Under London Plan Policies H5 and H11, Early Stage, Mid-Term and Late Stage viability reviews apply to BtR schemes that follow the Fast Track and Viability Tested Routes as set out above.

A1.5.3 The second stage of the review determines the additional on-site affordable housing to be provided where there is a surplus return. This calculates the level of additional DMR housing at or below London Living Rent benchmarks and DMR at other discounts to market rent²⁴ based on the difference in the average value of the market and the affordable housing. The formula can be

²⁴ This must be no greater than 80 per cent of market rent and in line with the Mayor's affordability criteria.

adapted where other affordable housing tenures in line with London Plan Policy H6 are to be provided.

- A1.5.4 Any surplus should contribute towards additional affordable homes in the development. Where this is not achieved, the surplus should allow for the provision of a greater proportion of DMR housing to be provided at or below London Living Rent benchmarks. A cash-in-lieu payment will only be acceptable in exceptional circumstances.
- A1.5.5 Viability reviews for BtR schemes are distinct from, and serve a different purpose to, the clawback amount that arises if rented units are sold out of rented tenure within the covenant period. Separate provisions for review mechanisms and the clawback amount should be included within the S106 agreement.

Purpose-Built Student Accommodation Reviews

- A1.5.6 Under London Plan Policies H5 and H15, Early Stage, Mid-Term and Late Stage viability reviews apply to student accommodation schemes that follow the VTR as set out above. For student accommodation schemes that follow the FTR, only the Early Stage Review applies.
- A1.5.7 Any surplus return should be used to provide additional onsite affordable student accommodation (ASA) based on the average unit size up to a cap of 50 per cent.
- A1.5.8 Because student accommodation schemes are occupied at a similar time prior to commencement of the academic year, the LPA can decide to receive a financial contribution after the Late Stage Review has been undertaken or for the additional ASA units to be provided the following year. To ensure that this is enforceable the applicant may need to provide a bond to the LPA to be held until the ASA units are delivered.

Large-Scale Purpose-Built Shared Living Reviews

- A1.5.9 Under London Plan Policies H5 and H16, Early Stage Reviews apply to shared living schemes, and Mid-Term and Late Stage viability reviews apply for schemes that do not provide a financial contribution that is equivalent to 35 per cent notional on-site affordable units and 50 per cent for public and industrial land.
- A1.5.10 All shared living reviews that identify a surplus return should result in a financial contribution for the provision of affordable housing up to a cap equivalent to 50 per cent notional on-site affordable housing.

A1.6 Converting affordable housing to a more affordable tenure

Formula 6: Formula for converting affordable housing to a more affordable tenure

A1.6.1 This formula can be used where it is agreed by the LPA and (for referable applications) the Mayor, to use a surplus identified through a review mechanism to convert proposed affordable housing to a more affordable tenure. Generally, this will only be acceptable where a scheme is already providing 50 per cent affordable housing at application stage or where this has already been achieved through a review mechanism. The remaining surplus is to be used to deliver a greater proportion of Social Rent or London Affordable Rented housing to achieve the level specified in the Local Plan.

Formula 6: Converting affordable housing to a more affordable tenure

X = Number of affordable housing habitable rooms to convert to more affordable tenure

$$X = (D \div (A - B)) \div C$$

A = average value of original affordable housing tenure, for example, shared ownership (£ per sq. m)

B = average value of Social Rent/London Affordable Rent (£ per sq. m)*

C = average habitable room size for scheme (m²)²⁵

D = surplus available for the provision of more affordable tenures (as determined in Early Stage Review Formula 1a or 1b or Mid-Term Review Formula 5 or Formula 3 for residential investment schemes) (£)

*delete as relevant

Notes:

This formula can also be used to identify the number of market tenure units in a residential investment scheme that can be converted to affordable housing using the surplus identified. Element A would represent the value of the market tenure units and element b would represent the value of the affordable units to which the market tenure housing is being converted.

²⁵ To be specified in the formula in the S106 agreement.

A1.7 Viability deficits in review mechanisms

- A1.7.1 As set out in section 3, applicants should demonstrate that development proposals are deliverable and that viability assessments are realistic. If a deficit and/or a shortfall in land value or developer's return is assessed by an applicant this may indicate that development value has been understated, development costs have been overstated and/or the scheme has been sub-optimally designed.
- A1.7.2 Deficits should not normally be accounted for in review mechanisms, which would reduce the likelihood of delivery of additional affordable housing over the lifetime of the development. As such, this should only be allowed exceptionally where agreed by the LPA and (for referable applications) the GLA, and where a robust application-stage assessment has been undertaken in line with this guidance to determine a true and fair assessment of the viability of the development. A deficit should not be included in review mechanisms for schemes that have been assessed under the FTR by the LPA, or the GLA for referable applications.
- A1.7.3 The extent of any deficit should be determined by the LPA and (for referable applications) the Mayor. Viability deficits may be reduced or overcome through reductions in build costs achieved through a cost engineering exercise and through increases in development values. To reflect this a Breakeven Appraisal can be undertaken at application stage to assess the level of GDV and build costs at which the RLV equates to the BLV.
- A1.7.4 In order that both the build costs and the GDV are adjusted to arrive at the breakeven position, the build costs should first be reduced by a reasonable percentage of the deficit to reflect potential cost savings. The GDV should then be increased until the appraisal reaches a breakeven position. The updated 'Breakeven GDV' and the 'Breakeven Build Cost' should replace the application-stage GDV and build-cost figures in the formulas.
- A1.7.5 Where it is unlikely that changes in build costs or sale values alone will reduce or overcome the deficit, a review of other cost and value inputs may be appropriate.

Appendix 2 Glossary

Cashflow	Movement of money by way of income and expenditure throughout the development and sales period.
Compulsory purchase order	A compulsory purchase order is part of a legal mechanism by which certain bodies (known as ‘acquiring authorities’) can acquire land without the consent of the owner.
Developer’s return	Reasonable minimum return required by the developer to bring forward the scheme.
Development programme	Timeframe required to bring forward a scheme including the pre-construction and construction periods and any post-completion sales period.
Development typologies	Type of sites and schemes likely to come forward over the life of the plan.
Forward-funded	Transaction where a funder acquires the scheme from a developer, prior to or during the asset being constructed and the developer continues to deliver the scheme until practical completion.
Gross development value (GDV)²⁶	Combined market value of the proposed development before allowances for purchaser’s costs.
Growth testing	Assessment of the impact on viability of estimated future value growth (usually tested alongside future estimated cost inflation).
Internal rate of return (IRR)	Discount rate (expressed as a percentage) applied to a cash flow at which the net present value of a development is equal to zero.

²⁶ RICS Professional Guidance uses the term GDV (where an income capitalisation approach is used) to estimate the value of the completed development after the prospective purchaser’s costs are deducted. The difference in approach does not make any material difference to the assessment of viability

Hope value	An element of market value in excess of the existing use value (EUUV), reflecting the prospect of some more valuable future use.
Investment approach	Property valuation method designed to assess the potential return on investment through ongoing income from a property.
Investment yield	Usually calculated as a year's rental income as a percentage of the value of the property.
Letting void	Period of time when an investment property is empty and does not bring in any rental income.
Market value	<p>The price at which the sale of the relevant property interest would have been completed unconditionally for cash consideration based on detailed comparable market evidence assuming:</p> <ul style="list-style-type: none"> (a) a willing seller and a willing buyer (b) that, prior to the date of valuation, there has been a reasonable period of not less than six months for the proper marketing of the interest (having regard to the nature of the property and the state of the market) for the agreement of the price and terms and for the completion of the sale (c) that no account is taken of any additional bid by a prospective purchaser with a special interest (d) that both parties to the transaction have acted at arm's length.
Net development value (NDV)²⁷	The GDV less assumed purchaser's costs.

²⁷ RICS professional guidance uses the term NDV (where an income capitalisation approach is used) to estimate the value of the completed development after both the prospective purchaser's costs and the seller's costs or disposal fees are deducted to obtain the NDV. In this guidance, the disposal costs are separately included in the appraisal as development costs in line with the way these costs are addressed in most development appraisal software. The difference in approach does not make any material difference to the assessment of viability.

Net rental income	Gross income (paid by the tenant) less the landlord's operating costs including management and maintenance.
Policy-compliant	Development that fully complies with up-to-date plan policies including any policy requirements at the relevant levels set out in the plan. A decision-maker can give appropriate weight to emerging policies.
Purchaser's costs	Costs of acquiring a property including (if appropriate) stamp duty and acquiring agents/legal fees.
Project insurances	All project insurances and warranties including National House Buyer Certificates or similar.
Referable application	Application for planning permission of 'potential strategic importance' that meets the criteria set out in the Mayor of London Order 2008.
Registered provider (RP)	Social housing provider registered with the Regulator of Social Housing.
Residual valuation method	Valuation/appraisal of a development based on a deduction of the costs of development and either profit or land cost from the anticipated proceeds.
Residual land value (RLV)	Amount remaining once the costs of development of a project including an appropriate profit are deducted from its NDV.
Residual developer's return	Amount remaining once the costs of development of a project including an appropriate land value are deducted from its NDV.
Sensitivity testing	Series of tests looking at the impact on the residual appraisal of changes to one or more inputs e.g. sales values, build costs, etc.
Stabilised asset	Asset where units have been let and level of rental income, additional rental income and turnover (percentage) established.
Target return	Reasonable minimum rate of return/profit from the project considering its risk, expressed as either a simple ratio of GDV/cost or as an annual return over the development period (IRR).

Value engineering	Review of build costs by developer’s professional team to see if a more cost-effective solution exists that will achieve the same project objectives including development value.
Viability judgement²⁸	An objective, rational and experienced opinion formed having regard to the complexities of the circumstances. A viability judgement may equally apply to individual elements of the appraisal, including the BLV as well as the viability output, including interpretation of the resultant sensitivity analysis.
Viability review mechanisms	A review of development viability included in a S106 agreement enabling the reassessment of development viability after permission has been granted. These reviews occur at an early, mid and late stage in the development process, and address uncertainties in the application-stage assessment of viability to enable the maximum level of affordable housing provision and policy compliance over the lifetime of a development.

²⁸ RICS Financial Viability in Planning Professional Statement 2019

