

# Neighbourhood Planning

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## Viability toolkit for neighbourhood planning

A toolkit for neighbourhood  
planners

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## Viability testing

Testing viability is an important part of the plan-making process. This toolkit will help neighbourhood planning groups preparing Neighbourhood Plans and Neighbourhood Development Orders (NDOs) who are engaging with viability issues. The toolkit uses non-technical language wherever possible. Groups facing a range of complex viability issues may be eligible for further support from the Government funded technical support programme – visit [neighbourhoodplanning.org](http://neighbourhoodplanning.org).

Only a draft Neighbourhood Plan that meets each of the basic conditions can progress to a referendum. Plans should have regard to national policies and advice; and be in general conformity with the strategic policies contained in the development plan of Local Planning Authorities. The Government's National Planning Policy Framework (NPPF) and Planning Practice Guidance (PPG) require plan makers to consider viability and deliverability.

Neighbourhood Plans also need to be in general conformity with the strategic policies in the corresponding Local Plan, such as affordable housing targets. Neighbourhood planning groups introducing new policy requirements (that carry costs to development) over and above Local Plan policy, allocating sites or bringing forward NDOs should ensure development remains deliverable during the plan period or the timeframe stipulated for the NDO.

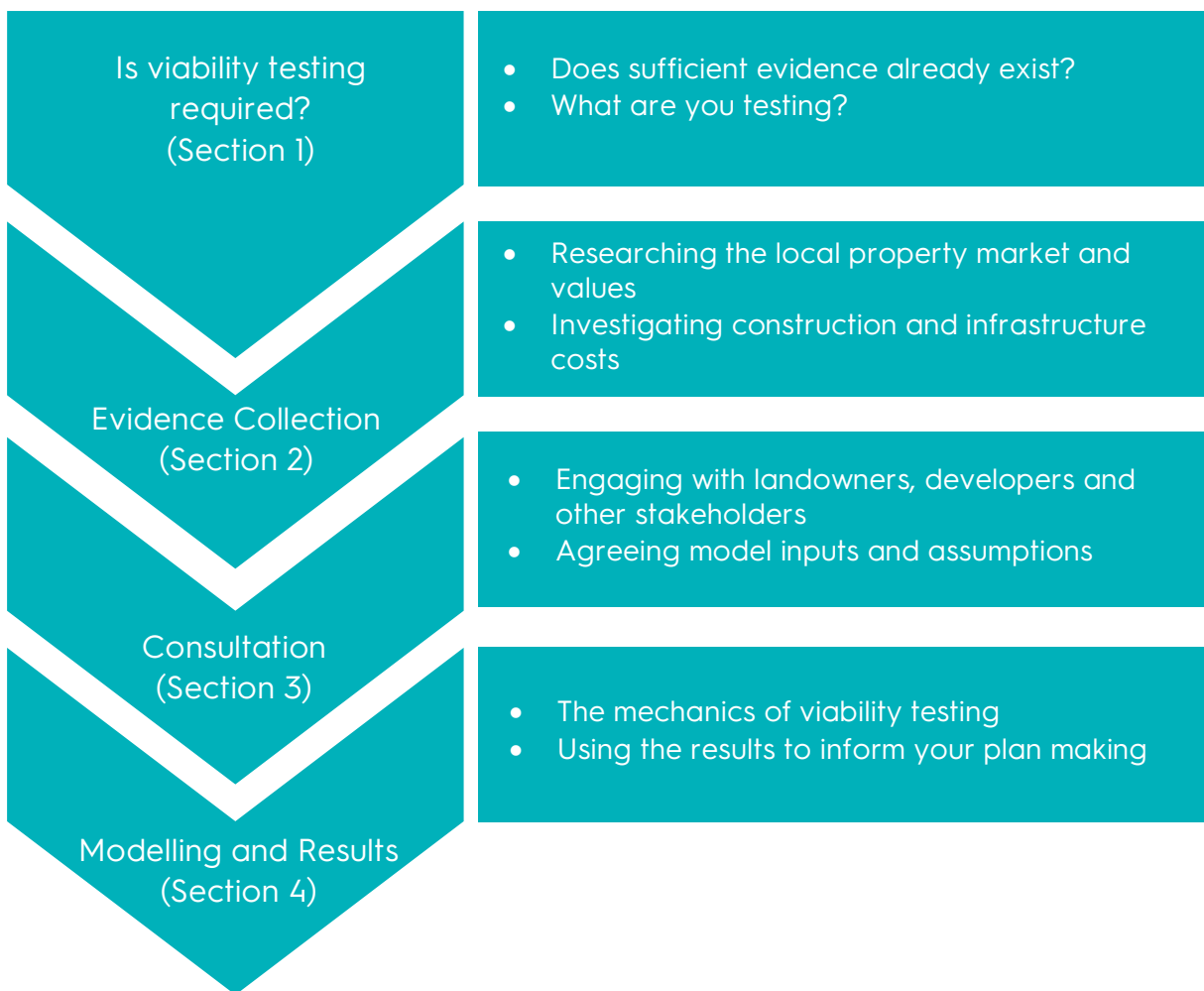
The PPG is clear that viability must be considered when preparing Neighbourhood Plans policy requirements and standards sought, should not undermine deliverability of the development set out in the Plan and strategic policies.

# Introduction

## How to use this document

Viability testing can be broken down into four key stages (see Figure 1). **Section 1** of this report highlights instances when viability evidence may or may not be required and helps groups to establish if existing evidence is already sufficient to support their emerging proposals. **Section 2** describes the data and sources used to test for viability. **Section 3** outlines the importance of consulting with landowners, developers, the Local Authority and other key stakeholders. **Section 4** sets out the mechanics of viability testing and how to use the results.

**Figure 1: Four Key Stages in Viability Testing**



# 1. Is Viability testing required?

The NPPF (paragraph 35) emphasises that a proportionate evidence base should inform plans, based on ‘positive vision for the future of each area; a framework for addressing housing needs and other economic, social and environmental priorities; and a platform for local people to shape their surroundings’ (paragraph 15). Policies should be: ‘underpinned by relevant and up-to-date evidence. This should be adequate and proportionate, focused tightly on supporting and justifying the policies concerned, and take into account relevant market signals’ (paragraph 31). Crucially, ‘policies should not undermine the deliverability of the plan’ (paragraph 34) and ‘planning policies should identify a sufficient supply and mix of sites, taking into account their availability, suitability and likely economic viability’ (paragraph 67).

It is very likely that your Local Planning Authority will already hold some form of viability evidence. This is usually in the form of viability assessment that has informed plan making and/or Community Infrastructure Levy. District-wide viability studies prepared by Local Planning Authorities often include; analysis of land values, alternative use values and what may constitute a typical level of return locally for developers and landowners. These reports will often provide an assessment of the viability of different ‘typologies’ of site within the Local Authority Area, e.g. brownfield town centre infill, or Greenfield strategic site. Typologies are theoretical sites that are modelled to represent the types of development that are most likely to come forward in the locality (and form the basis of viability testing). The typology site results can be applied to similar sites in the neighbourhood area to give an indication of whether a site would be viable.

It is advisable to speak with your Local Planning Authority before producing your own viability evidence to gauge what is already available and to understand how applicable the existing evidence is to your area/site(s). Equally, some Local Planning Authorities may be willing to assist you on matters of viability under their ‘duty to support’ role for neighbourhood planning. Your Local Authority planners will have a good working knowledge of what is generally deliverable in the area and the recurrent viability issues encountered locally. Tapping into this knowledge will be invaluable.

The Planning Practice Guidance includes a section devoted to viability (section 10). This forms essential reading for those making Neighbourhood Plans and can be found at <https://www.gov.uk/guidance/viability>. This part of the PPG was entirely rewritten in July 2018.

## What are you testing?

It is a common to confuse site assessment with viability assessment. Site assessment is the process of using a wide range of evidence to identify potentially suitable sites for development. You can [download a separate toolkit covering site assessment](#).

Viability testing is different insofar as it is looking very specifically at the financial viability of development for a specific site or typologies of sites. The assessment is purely concerned with whether or not the proposals for a site or the policy requirements within an emerging Neighbourhood Plan would render development unviable. Viability assessment outputs can be used (if necessary) to amend proposals or policies to help facilitate development and to consider the total cumulative cost of all relevant policies, to check whether policies will undermine deliverability of the plan and thus the Neighbourhood Plan and Local Plan's vision, objectives and strategic policies.

It is not a requirement of the NPPF that every site should be able to bear all of the Local Plan and Neighbourhood Plan requirements. Some sites will simply not be viable even without any additional requirements imposed upon them due to the prevailing market conditions or specific site characteristics. The typical site should be able to bear whatever target or requirement is set and plan makers should be able to show, with a reasonable degree of confidence, that the plan remains deliverable. The NPPF requires plan makers to take a 'proactive role in identifying and helping to bring forward land that may be suitable for meeting development needs', including 'identifying opportunities to facilitate land assembly...to bring more land forward for meeting development needs and/or secure better development outcomes' (paragraph 119). Only sites deemed suitable, available and with good prospects for development should be subject to viability testing (i.e. potentially deliverable or developable<sup>1</sup> sites usually identified through an earlier site assessment process).

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<sup>1</sup> Deliverable: To be considered deliverable, sites for housing should be available now, offer a suitable location for development now, and be achievable with a realistic prospect that housing will be delivered on the site within five years. Sites that are not major development, and sites with detailed planning permission, should be considered deliverable until permission expires, unless there is clear evidence that homes will not be delivered within five years (e.g. they are no longer viable, there is no longer a demand for the type of units or sites have long term phasing plans). Sites with outline planning permission, permission in principle, allocated in the development plan or identified on a brownfield register should only be considered deliverable where there is clear evidence that housing completions will begin on site within five years.

Developable: To be considered developable, sites should be in a suitable location for housing development with a reasonable prospect that they will be available and could be viably developed at the point envisaged.

## Limitations of viability testing in the context of the NPPF and PPG

For plan making, the assessment of viability is a largely high-level quantitative process based on financial appraisals at a snapshot in time. In addition, there are types of development where viability, measured at a snapshot in time, is not at the forefront of the developer's mind and they will proceed even if a 'loss' is shown in a conventional appraisal (i.e. development appears unviable). For example, a business owner of an industrial or logistics building may build a new factory or depot that will improve its operational efficiency even if, as a property development, the resulting building may not be viable.

Whilst viability testing has limitations, it can help to de-risk development by providing an indication on whether a plan (its policies and/or site allocations) are deliverable. Viability Testing in Local Plans – Advice for planning practitioners prepared by the Local Housing Delivery Group Chaired by Sir John Harman (LHDG)<sup>2</sup> (sometimes referred to as the 'Harman Guidance') defines viability as follows (overleaf):

An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that the development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered.

When preparing plans different methods and models are deployed to assess for viability – please see overleaf for an explanation of one such method.

Viability testing is about adding up all the potential income from a scheme i.e. sales and/or capitalised rental income (the Gross Development Value) and then subtracting all the costs associated with the creation of the product. The output of this calculation is the Residual Value, this is the top limit of what a developer could offer to pay a landowner for their site and still make a satisfactory profit margin. The Residual Value is compared to the Existing Use Value ('EUV') of the land. To be viable the Residual Value must exceed the EUV by a sufficient amount (the 'premium' or 'uplift') to induce the landowner to sell. This is known as Benchmark Land Value (BLV). The residual valuation method is one valuation method widely used by developers and is the recommended for use when testing viability.

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<sup>2</sup> Viability Testing in Local Plans has been endorsed by the Local Government Association and forms the basis of advice given by the, CLG funded, Planning Advisory Service (PAS).

## Residual valuation method

**Gross Development Value**  
(The Combined value of the complete development)

Less

**Cost of creating the asset**  
(Including profit margin for developer  
+ construction + fees + finance  
charges, etc.)

= RESIDUAL VALUE

The availability and cost of land are matters at the core of viability for any property development. Section 4 addresses how to quantify what level of return may be acceptable for landowners and developers.

## 2. Evidence Collection

To make the calculations as accurate as possible it is necessary to collect robust income and cost data. It is very much a case of 'rubbish in, rubbish out' if you get this stage wrong or your data is unreliable. This chapter introduces the key data and sources used for compiling your viability modelling. Many data sources are free but others you may have to pay for. The cost for acquiring some data may be prohibitive for the purposes of a Neighbourhood Plan assessment. It is good practice to speak with your local authority, local agents and developers to see if they can share any data with you. Developers and agents in particular may be forthcoming if they are promoting a site for inclusion in your plan or the Local Plan.

The PPG<sup>3</sup> sets out that where '*a viability assessment is submitted to accompany a planning application this should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then*'. It is firmly recommended that the same approach is taken for neighbourhood planning and that the Local Authority's most recent plan-wide viability study (Local Plan or Community Infrastructure Levy) is used as a starting point. The PPG advises that different methodologies and assumptions should only be used where there is a compelling and well evidenced reason to do so e.g. particular types of development which may significantly vary from

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<sup>3</sup> How should a viability assessment be treated in decision making? (Reference ID 10-008-20180724)



standard models of development for sale (build to rent, housing for older people or large-scale commercial or mixed use developments) or where economic conditions have altered markedly such as following a recession.

Although all development schemes have similarities, every scheme is unique, even schemes on neighbouring plots. For example, a three-storey town house is costlier to construct than a three-storey terrace house with a room in the loft (and their value would also be different). Market conditions broadly reflect a combination of national economic circumstances and local supply and demand factors, however even within a town there will be particular localities, and ultimately site-specific factors, that generate different values and costs. Up to date evidence should be used to inform income and cost inputs and assumptions.

Viability models will require you to calculate income and costs on a pounds per square metre basis (£/m<sup>2</sup>). The property industry tends to use both imperial and metric data - often working out costings in metric (£/m<sup>2</sup>) and values/income in imperial (£/acre and £/ft<sup>2</sup>). This is confusing and so you should stick to metric measurements throughout your work.

A broad rule of thumb to convert m<sup>2</sup> to ft<sup>2</sup> is to simply add a final zero.

**Table 1: Conversion rates**

Conversion rates	
1 m	3.28 ft (3' and 3.37")
1 ft	0.30 m
1 m <sup>2</sup>	10.76 ft <sup>2</sup>
1 ft <sup>2</sup>	0.093 m <sup>2</sup>

## Researching the local property market and values

### Land Registry prices paid

Income data includes sales income or rental income for residential and commercial property. As local residents, neighbourhood planning groups will already have a good feel for residential values and rental levels in the neighbourhood. To test for viability effectively gathering recent values for new build property is necessary. Gathering information on asking prices for new build (usually found on estate agent websites or large house builder websites) and information for the second-hand market (not new build) from sites like Rightmove and Zoopla helps to build up an accurate picture of values. Triangulating the

data in this way is especially helpful if there have been few transactions recorded in your neighbourhood or local authority area in recent months/years.

It is advisable to search for transactions from the past 12 months, as viability assessments must be based on today's values and costs. However, where the sample size is small you may need to extend the timeframe to 18-24 months or widen the search area. Generally, the further you search back in time and the wider the geographic scope the less reliable your data will be. Price paid data for residential property is available for free on the Land Registry website. There is [guidance on the Land Registry section of Gov.uk](#) that takes you through how to use this resource. You can also access the [Price Paid Data report builder](#).

Depending on the size of the local authority and the neighbourhood area there may be large differences in values between high and low value areas. It is advisable to gather data from areas that share comparable characteristics to your neighbourhood and operate in the same housing market. In the first instance, you should refer to your Local Planning Authority's Strategic Housing Market Assessment and pre-existing viability evidence to gather information on the local housing market.

If the neighbourhood is in a rural location a larger area may be required and more detailed analysis carried out to verify that the properties sold are representative of the homes likely to come forward e.g. you would disregard high density flats in a nearby town centre if your area is a rural village that typically only builds houses.

#### **For sale prices and second-hand market**

It is good practice to supplement price paid data with current for sale asking prices for new build property, marketed by the volume house builders or local developers. Often there may be no new build housing schemes for sale within an area and so it would be sensible to cast your research wider to comparable towns (as like with price paid data). Searching for schemes within a 5km radius is a good starting point and then incrementally widening this area (to say 15km) to get a good sample and variety of products. Asking prices for new build houses will vary considerably across the wider housing market area and by property type but it is a useful exercise as researching for sale prices will give you an indication of today's values. However, this information is not as reliable as sold prices and developers will often include incentives and discounts at the point of enquiry. As such, it would be prudent to apply a 2-3% discount to all asking prices. This information is available on the volume house builder's websites and any specialist websites that deal in new build properties, such as:

- <http://www.smartnewhomes.com>
- <http://www.newhomesforsale.co.uk>

The second-hand market (i.e. not new build) is the final source of information to research, especially useful where there is a paucity of price paid, and asking price data. Second hand market data is available through a plethora of agency websites<sup>4</sup> that offer their own individual analysis tools, and some will include price paid analysis and property history information using the same Land Registry database.

### **Converting prices paid per unit to pounds per square metre**

To calculate the income/values on a pounds per square metre basis (£/m<sup>2</sup>) it will necessary to work out how large the units are. The [Government's Domestic Energy Performance Certificate Register](#) is a free resource that includes the unit size (total floor area in m<sup>2</sup>) of new build properties. Dividing the price paid results by the actual total floor area provides the income/value on a £/m<sup>2</sup> basis for all properties, this will help to provide the mean values for all property types. For example, a 100m<sup>2</sup> 3-bed house sold for £500,000 translates to £5,000/m<sup>2</sup> (500000/100 = 5000).

As with the price paid database and EPC register method, you need to convert the asking prices to £/m<sup>2</sup>. Many developers will include this information as total floor area or Gross Internal Area on advertised floorplans. However, others will not and you may need to use the floorplan provided in the particulars to gather approximations on size (this is a high-level exercise so you should not spend hours trying to calculate to the nearest centimetre).

### **Market housing value assumptions**

It is necessary to form a view about the appropriate prices for the schemes or typologies to be appraised in your study. The additional analysis for marketed for sale prices and the second-hand market will not reveal simple clear patterns. However, by triangulating price paid data, for sale marketing data and second-hand market data you are applying a rigorous analysis of the local market at a snapshot in time in order to inform assumptions on income/values for use in viability testing in order to arrive at accurate Gross Development Values for specific schemes or typologies of sites.

Your judgements will by necessarily broad brush for the purposes of a high-level study to test the sites, as required by the NPPF, and to inform the emerging Neighbourhood Plan. The values between new developments and within new developments will vary considerably in reality based on location, situation, product type, design and finish, and the state of the market at the point of marketing the properties.

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<sup>4</sup> Rightmove, Zoopla, On the Market, Prime Location etc.

## Income data for affordable housing

Paragraph 64 of the 2018 NPPF sets out a requirement for low costs home ownership as part of the affordable housing mix saying that on schemes of 10 or more homes ‘planning policies and decisions should expect at least 10% of the homes to be available for affordable home ownership’. There are some exceptions however this should be factored into any local policy requirements and therefore reflected in the viability testing.

As well as values for market housing it is necessary to collect data (or make assumptions) about the value of affordable housing. Local Planning Authorities will normally have policies for the provision of affordable housing. Viability assessments should first model for affordable housing provision on-site unless the Local Plan takes a different approach. Affordable housing is usually sold to an affordable housing provider. A common affordable housing policy will require a percentage of all units to be affordable e.g. 30%. This is a gross simplification of what may happen in reality as there are many ways in which affordable housing is delivered, including the transfer of land to affordable housing providers, the retention of the units by the schemes overall developer or off-site payments<sup>5</sup>. The NPPF has widened the definition of affordable housing (see Annex 2: Glossary).

As well as an overall percentage of the units on site, Local Plan policy usually specifies a preferred tenure mix/type/size for affordable housing and this should be applied in viability testing at the neighbourhood level too. Unless your Neighbourhood Plan is suggesting an alternative approach, in which case you shall need robust evidence to justify deviation from the Local Plan and Strategic Policies contained therein. Some Local Plans do not specify a percentage target or tenures and may simply state that site-specific matters and case by case negotiation shall inform the final amount and tenure/type/size split of affordable housing based on an assessment of financial viability and local housing need at a point in time. In this situation, the latest Strategic Housing Market Assessment or Neighbourhood Housing Needs Assessment could be used to feed in realistic requirements for affordable housing (in consultation with Local Planning Authority).

In recent years, Homes England and Local Planning Authorities have aspired to ensure that affordable housing is delivered via Section 106 planning obligations without grant and so an assumption that no grant is available should be your starting point. Homes England maintains a Statistical Data Return (an annual online survey completed by all private registered providers of social housing in England) which includes helpful data on rents<sup>6</sup>.

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<sup>5</sup> Further information - <http://researchbriefings.files.parliament.uk/documents/CBP-7747/CBP-7747.pdf>

<sup>6</sup> Accessed at: <https://www.gov.uk/government/collections/statistical-data-return-statistical-releases>

For simplicity an assumed value (£/m<sup>2</sup>) for all affordable products is sometimes assumed as a broad percentage reduction of the market values. The below assumptions should be discussed with your Local Authority to ascertain if these broad rules of thumb apply for your area.

## Social Rent

The value of a social rented property is strongly influenced by the passing rent – although factors such as the condition and demand for the units also have a strong impact. Social Rents are set at a local level through a national formula that smooths the differences between individual properties and ensures properties of a similar type pay a similar rent. Social Rent could be assumed to have a value of 45% of Open Market Value (OMV) e.g. if a house is worth £100,000 on the open market, it would be valued at £45,000 if it was a Social Rented unit.

This is a simplification of the reality but appropriate in the context of a high-level testing.

## Affordable Rent

Affordable Rent is assumed to be set at ~80% of the full open market rent. It is assumed that, because a typical affordable rent unit will be new, it will command a premium rent that is a little higher than equivalent older private sector accommodation. On this basis it is assumed that affordable rented properties have a value equivalent to 50% to 55% of OMV housing.

## Intermediate Products

Intermediate products for sale include shared ownership and shared equity products. It should be assumed that, to be affordable, a value of ~65-80% of OMV should be used for these types of affordable units.

Please note: For mixed use schemes a blended 60% of OMV for all affordable elements could be assumed for simplicity. For wholly residential schemes it should be possible to assume more specific unit size assumptions and affordable rent / intermediate tenure splits.

## Residential unit size assumptions

Some of the models available for viability testing will allow you to input detailed sizes of units whereas others will come pre-loaded. The Government's optional nationally described space standard<sup>7</sup> (see Table 5) requires viability testing in order to justify its adoption. This document provides sizes based upon the number of bedrooms, bed spaces and storey heights. If the Local Plan does not require these standards, the Neighbourhood Plan needs strong evidence to

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<sup>7</sup> Accessed at:  
<https://www.gov.uk/guidance/housing-optional-technical-standards> f

support their implementation – the PPG includes detailed guidance on this matter<sup>8</sup>.

**Table 2: Minimum gross internal floor areas and storage (m<sup>2</sup>)**

Number of bedrooms(b)	Number of bed spaces (persons)	1 storey dwellings	2 storey dwellings	3 storey dwellings	Built-in storage
1b	1p	39 (37) <sup>2</sup>			1.0
	2p	50	58		1.5
2b	3p	61	70		2.0
	4p	70	79		
3b	4p	74	84	90	2.5
	5p	86	93	99	
	6p	95	102	108	
4b	5p	90	97	103	3.0
	6p	99	106	112	
	7p	108	115	121	
	8p	117	124	130	
5b	6p	103	110	116	3.5
	7p	112	119	125	
	8p	121	128	134	
6b	7p	116	123	129	4.0
	8p	125	132	138	

## Income data for commercial property

For non-residential property, research will need to show what types of businesses are active in the local economy. Local Authorities commission specialist retail studies, employment land reviews and economic development research and strategies in support of their Local Plans. Local Enterprise Partnership and Business Improvement District publications are another good source for understanding the local and regional economy. Understanding what commercial property is likely to come forward in the neighbourhood over the plan period is possible by looking into the demand for commercial space locally. This will help to ensure the uses proposed in the plan, allocations and/or NDO are realistic and subject to viability testing and market evidence.

### Commercial property data sources

A market survey of commercial properties for sale and for rent should be undertaken. Local estate agents, surveyor's and large real estate firm's websites are a good place to start. Websites like Rightmove and Zoopla are increasing the amount of commercial property they market. The most popular subscription-based tools are the Estates Gazette Interactive and CoStar<sup>9</sup>. However, if you do not have access to these tools the Estates Gazette has a free website called EGI

<sup>8</sup> Ibid

<sup>9</sup> <http://www.egi.co.uk/property/home.aspx> as well as <https://www.costar.co.uk/products/costar-suite/costar-property>

Property link. Another useful resource is auctioneer results e.g. [Allsop](#) who provide guide prices, price paid and yield information for second hand commercial property. Whilst it is not always grade-A new build commercial space, it serves as a good proxy for what is happening in particular areas.

It is quite likely that in rural areas there will be low numbers of new build commercial property on the market and so it will be necessary to widen the search area and include second hand commercial properties. However, as with residential properties the focus should be on areas with comparable characteristics to the neighbourhood. There is, in nearly all instances, commercial space that will be available at rents and values that are substantially lower than other property on the market. However, you are attempting to model for the high-level viability of new build commercial properties and so should disregard second hand space that is unlikely to be built in today's market or where there is no demand.

### **Using local rental levels and yields to inform commercial value assumptions**

For most areas, it is likely that research will encompass office, industrial and retail property. In order to provide income on a pounds per square metre basis (£/m<sup>2</sup> basis) it will be necessary to conduct some calculations that will provide values/prices for properties that may only be advertised for rent. You can use rental information and known yields to capitalise rents and calculate a value.

The "yield" is the rent as a proportion of the purchase price. In determining development value, there is an inverse relationship i.e. as the yield goes up, the value goes down. The example below illustrates how a yield is used as the multiplier to calculate a value for a commercial property where the value/asking price is not known or advertised:

#### Yield Example

The formula for calculating value is:  $(100/\text{yield}) \times \text{rent} = \text{Value}$

In this example a commercial unit is let at £12,500 per annum and a property of this type in this location could expect to achieve a yield 5%

Therefore calculation is performed as follows:

$$(100/5) \times 12,500 \text{ p.a.} = \text{£}250,000$$

If we assume the unit is 250m<sup>2</sup>, its value on a £ per m<sup>2</sup> basis = £1000/m<sup>2</sup>

Source: Regenerate Ltd

A 'yield' is a way of classifying how risky a commercial property investment may be. It is a form of benchmark to help classify particular types of commercial property in particular locations e.g. the London office market information for

yields is of great interest to commercial developers in London depending on the type of office and location (City vs. Canary Wharf etc.) The concept of the 'yield' is crucial to understanding the dynamics of investment in commercial property. For example, it may be reasonable to expect a supermarket occupied by a major chain to be relatively low risk, whereas a speculative office development occupied by a start-up in a less desirable (lower demand) area would not offer the same assurances that the tenant will remain solvent or that the owner will be able to re-let the property quickly.

These risks need to be considered alongside possible future rewards, which vary depending on the risks involved. A higher yield is normally offered to lure investors into what is perceived as a riskier investment (some investments may appear risky but changes in the economy could make them more secure over time). The market often regards government bonds (e.g. UK 'gilts') as a baseline for risk. These are low risk investments, so it may be reasonable to expect a relatively low return. If on the other hand, there was a property that carried extreme risk an investor may seek a high 'yield' in the form of high returns to compensate for the probability of failure.

Where a commercial developer has pre-let their building and/or identified a potential buyer for the freehold e.g. a pension fund. The investor will have an idea what initial income return or 'yield' they want from particular property investments. This will be higher than they might get from a government bond because the risks are higher. The value of the building depends not just on the rent but on the yield that the investor requires, which provides information on an investor's view of the long-term prospects of the rental income from the investment increasing.

A requirement for a high initial rental return on the capital invested is the result of a gloomy view of future prospects. Conversely an investor will accept a lower initial rental yield from his investment if he expects the rent or capital value of the property to grow in the future, perhaps because the building is located in an improving area or because there is only a minimal chance of problems such the tenant failing to pay the rent or leaving. In some appraisals, there might be a reference to the 'Years Purchase' or Y.P. This is the inverse of the yield and therefore part of the calculation of value; and so multiplying the rent by the Y.P. gives the value of the building. For viability testing, yields are used to work out how valuable new build commercial property may be once it is complete in order to feed in realistic assumptions about the Gross Development Value for a scheme and to ensure your assumptions reflect the commercial property market at the time of the modelling.

To perform the calculation, you need to know the rent per annum, the size of the unit being let and what the yield is for a property of this type in the area in question. Large real estate firms and the RICS provide research on commercial lettings, commercial capital values and prime yields (normally quarterly or



monthly). A good starting point is the research and publication sections of websites of the established real estate firms.<sup>10</sup> The publications will normally break down information on yields by the regions and sectors of the commercial property market. The NPPF only requires proportionate available evidence; therefore, for yields you should be able to demonstrate that your assumptions are broadly correct at the time of the assessment. A judgement is required to arrive at a set of assumptions for each type of commercial property. The assumptions should correlate with the research findings and consultation undertaken (see Section 3). Table 8 is an example:

**Table 3: Non-Residential Assumptions (note: for illustrative purposes only, values vary by area)**

Capitalised typical rents £/m2	Rent £/m2	Yield	Value £/m2
Industrial	180	7.00%	2571
Office	130	7.00%	1857
Small Retail	200	11.00%	1818
Large Retail - Food	180	6.00%	3000
Large Retail - Non-Food	130	5.5%	2363

Inevitably, the data collected will be imperfect. Yields will vary from property to property and will be affected by site-specific factors such as location; terms of the lease; and strength of covenant with the tenant (e.g. do they pay their rent on time or are they likely to go out of business resulting in a letting void).

For the purposes of viability testing for a Neighbourhood Plan only high-level assurance that development is viable is required. Recreating a developer's approach or business model should be avoided. Instead, the requirements of the NPPF/PPG are paramount.

## Investigating construction and infrastructure costs

Recent local development patterns can be analysed to arrive at and test a realistic appropriate built form e.g. current planning permissions or newly completed developments. These in turn can inform assumptions about the appropriate build cost figures and infrastructure cost assumptions. For construction costs (not including landscaping and infrastructure i.e. just the

<sup>10</sup> BGVA, BNP Paribas, CBRE, Cluttons, Colliers, Cushman & Wakefield, DTZ, JLL, Knight Frank, Lambert Smith Hampton, Savills etc.

foundations up to the roof) the best source of information is the [Building Cost Information Service](#) (BCIS). Quantity Surveyors submit this data from tender document submissions for completed developments. It is a subscription-based service that provides £/m<sup>2</sup> for different types of property (flats, houses, offices, supermarkets, hotels etc.) using data weighted by area. Many Local Planning Authorities may already subscribe to the BCIS therefore it is worth checking with your officers to see if they can provide information for the property types you require data for. Many applications will have up to date viability appraisals with cost data and district-wide studies will include cost data too. If this is up to date this can be a useful starting point if you do not have a subscription. Developers may be willing to share construction cost information, but this will need to be verified. Median BCIS figures provide a useful starting point and will generally prevent too much skewing of the data, this approach should be agreed via consultation with stakeholders (see Section 3).

Another key cost on development is strategic infrastructure costs associated with a site. Normally brownfield sites will have services that can be tapped into at their boundary, whereas Greenfield sites will need lots of upfront infrastructure costs. Publications such as '[SPON's Architects' and Builders' Price Book](#)' and '[Spon's Civil Engineering and Highway Works Price Book](#)' provide accurate price data for the UK construction industry, including estimates for different types of strategic infrastructure (but these publications are not free to download). [Building Magazine](#) provides alternative information in the form of cost models for construction and infrastructure projects. This is also subscription-based data source but less costly than BCIS and SPON's (a limited amount of Building Magazine cost models are free to download). Homes England has previously published general guidance on demolition and remediation costs<sup>11</sup> which is also a good benchmark for brownfield sites. Another good source of costs will be the Local Planning Authority, they will have undertaken research for their Infrastructure Delivery Plan or for the purposes of testing the viability of sites and Strategic Policies in their Local Plan. Some authorities will also have subscriptions to the BCIS and publications such as SPON's and will be able to assist with specific queries. Local Planning Authority officers will also have a good feeling for the level on infrastructure costs that may be required for a typical site.

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<sup>11</sup> Accessed at: <https://www.gov.uk/government/publications/guidance-on-dereliction-demolition-and-remediation-costs>

The appraisals should additionally consider all national policy costs, the policy costs of extant Local Plan policies as well as new emerging Neighbourhood Plan or NDO policies/proposals i.e. would the policy introduce an additional cost over and above building to the minimum standards of the Building Regulations. By way of example these may include:

1. Building a specific mix of housing.
2. Building to the Nationally Described Space Standard or Part M of the Building Regulations.
3. Building to higher environmental standards (e.g. BREEAM or incorporating district heating).
4. The use of more expensive vernacular materials (e.g. stone).
5. Building to particular densities.

## 3. Consultation

### Engaging with landowners, developers and other stakeholders

The PPG stresses the importance of working from evidence and in collaboration with the development industry. The process of viability testing will require early conversations with your Local Planning Authority, landowners, developers and other relevant stakeholders:

It is the responsibility of plan makers in collaboration with the local community, developers and other stakeholders, to create realistic, deliverable policies. Drafting of plan policies should be iterative and informed by engagement with developers, landowners, and infrastructure and affordable housing providers.

Policy requirements, particularly for affordable housing, should be set at a level that takes account of affordable housing and infrastructure needs and allows for the planned types of sites and development to be deliverable, without the need for further viability assessment at the decision-making stage<sup>12</sup>

Landowners and site promoters should be prepared to provide sufficient and good quality information at an early stage, rather than waiting until the development management stage. Furthermore, any viability assessment at the application stage should refer back to the Local Plan/CIL viability study and explain any changes (see NPPF paragraph 57). This will allow an informed judgement by the planning authority regarding the inclusion or otherwise of sites based on their potential viability.

### Agreeing model inputs and assumptions

Both the Harman Guidance<sup>13</sup> and the updated PPG require consultation to attempt to gain some consensus and to audit that discussions and requests for evidence have taken place. It is good practice to convene an event and/or to hold bilateral meetings with the key landowners and developers to ensure their views and knowledge feed into matters such as: data and information; testing assumptions; technical modelling; providing site information for sites/typologies; or simply offering a critical friend role during the process.

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<sup>12</sup> How should plan makers and site promoters ensure that policy requirements for contributions from development are deliverable? Paragraph: 002 Reference ID: 10-002-20180724 Revision date: 24 07 2018 Accessed at: <https://www.gov.uk/guidance/viability>

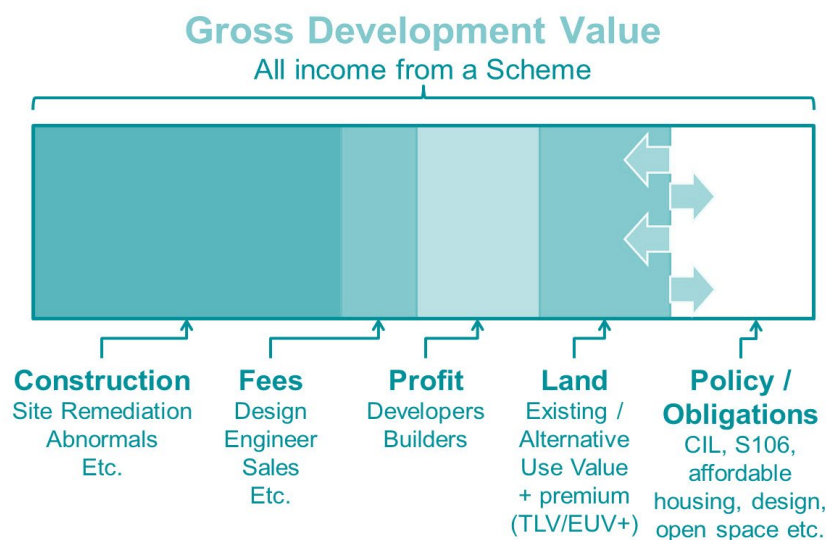
<sup>13</sup> Accessed at: <http://www.nhbc.co.uk/NewsandComment/Documents/filedownload,47339,en.pdf> (see pages 19 to 21)

## 4. Modelling and Results

### The mechanics of viability testing

In Figure 5, the bar illustrates all the income from a scheme (the GDV). This is set by the market (rather than by the developer or local authority) so is, largely, fixed. The developer has relatively little control over the costs of development (construction, fees etc.) and whilst there is scope to build to different standards and with different levels of efficiency, the costs are largely out of the developer's direct control - they are what they are depending on the development proposed (costs of labour and materials). The developer's profit is included as a cost as developers need to be rewarded for taking on the risk of development.

Figure 2: The residual valuation method



Source: HDH Planning and Development

The essential balance in viability testing is whether the land value is sufficient to induce a landowner to release their land for development. Therefore, the more policy requirements and planning obligations the plan asks for the less the developer can afford to pay for the land. The landowner will only agree to sell their land to the developer if they receive a sufficient return to induce them to release their land for development. The return for the landowner and developers, are controversial matters and it is clear that different landowners and developers will have different views depending on their personal and corporate priorities.

The residual valuation method is one approach for testing viability in plan making. This approach compares the residual value generated by the viability appraisals, with the Existing Use Value (EUV) or an Alternative Use Value (AUV)

plus an appropriate uplift/premium to incentivise a landowner to sell. The PPG<sup>14</sup> states that: “The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called ‘existing use value plus’ (EUV+).”

The Benchmark Land Value (BLV) is the point at which a ‘reasonable’ landowner will be induced to sell their land. This concept is difficult since a landowner is unlikely to be entirely frank about the price that would be acceptable to them. This is one of the areas where an informed assumption has to be made. If a landowner owns a field in agricultural use, they will expect a large premium above the EUV/AUV to release it for residential development as agricultural land is typically worth tens of thousands of pounds per hectare whereas residential land is worth hundreds of thousands of pounds per hectare. For brownfield land, the uplift or premium (between EUV/AUV and BLV) is less pronounced. In simple terms landowners (or freeholders) will normally release brownfield sites for 20-30% above their EUV or AUV e.g. if an office building is currently valued at £1m and a developer offers the owner £1.2m a reasonable owner will normally be sufficiently incentivised to sell the property.

The PPG makes it clear that: ‘Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information’<sup>15</sup>

The value of land relates closely to the use to which it can be put and will range considerably from site to site; however, high level studies will typically look at three main uses, being: agricultural, residential and industrial/commercial. The [Ministry of Housing, Communities and Local Government \(MHCLG\)](#) publish useful land value benchmarks for every Local Authority for the purposes of policy appraisal and this is a good starting place in advance of consultation. A key assumption in the MHCLG land values is that affordable housing is not factored in (see pages 14-15 of the MHCLG report). The BLV (premium and uplift above the EUV/AUV) should also be informed by looking at pre-existing Local Authority research, live application viability appraisals or data for land prices within the area.

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<sup>14</sup> How should land value be defined for the purpose of viability assessment? Paragraph: 013 Reference ID: 10-013-20180724 Revision date: 24 07 2018 Accessed at: <https://www.gov.uk/guidance/viability>

<sup>15</sup> What is meant by existing use value in viability assessment? Paragraph: 015 Reference ID: 10-015-20180724 Revision date: 24 07 2018

It is firmly recommended that the BLV in the Local Planning Authority’s viability study is used as the starting point for any BLV utilised in the viability work in support of a Neighbourhood Plan. The only exceptions should be where there is clear and compelling evidence to take a different approach at the neighbourhood level.

**Figure 3: The EUV+ approach is summarised below:**

**Benchmark Land Value (BLV) = Existing Use Value Plus (EUV+)**      The Benchmark Land Value for the purposes of assessing the viability of development for planning purposes. The value above the EUV at which a reasonable and willing landowner is likely to release land for development (the ‘landowner’s return’).

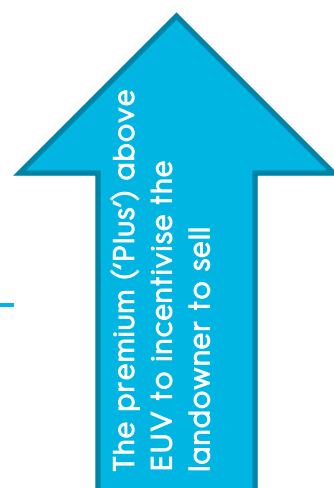
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**Existing Use Value (EUV) / Alternative Use Value (AUV)**      The value of the land in its existing use together with the right to carry out any development for which there are extant planning consents, including realistic deemed consents, but without regard to other possible uses that require planning consent, technical consent or unrealistic permitted development.

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**Current Use Value (CUV)**      The value of land in the use to which it is currently being put. It excludes any consented use including deemed consents and any element of Hope Value.

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## Developer return

For developers it is what level of profit would be acceptable, typically expressed as a percentage of the GDV (e.g. 20% of GDV), but reflecting the risks involved. Therefore, some developers will require more or less profit. Property development is an inherently risky business and the development industry is cyclical in nature with peaks and troughs. Profit is the developers reward for taking on financial risk. The PPG states that: ‘For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end

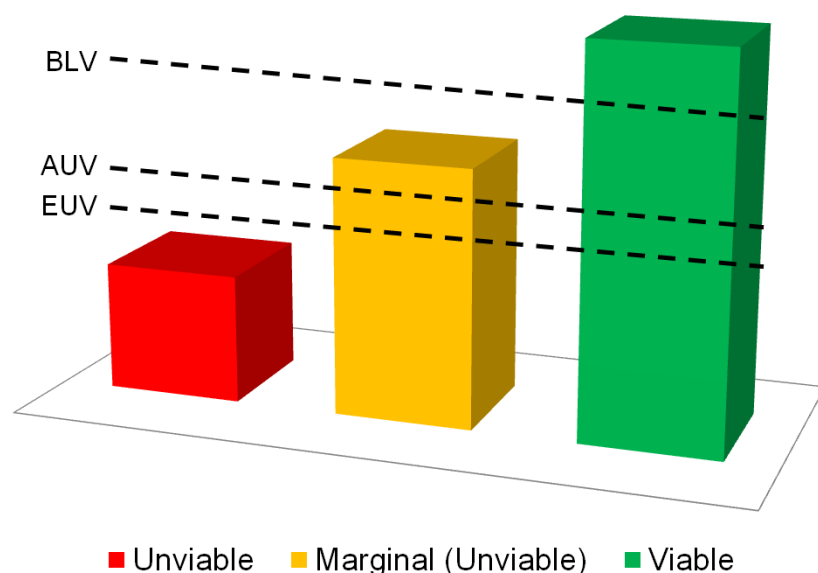
sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.<sup>16</sup>

Where a scheme is relatively small (less than 50 or so units) and straight forward (for example greenfield sites) the assumption should be close to the bottom of this range. Highly complex (e.g. large brownfield sites with significant remediation) should be closer to the top of this range.

## Land values

To assess viability, the value of the land for the particular scheme needs to be compared with the EUV/AUV. If the residual value does not exceed the EUV/AUV, then the development is not viable. If it exceeds the EUV/AUV but does not exceed the BLV (EUV/AUV plus a set premium/uplift) then it is still not viable. Only a residual value in excess of the BLV would represent a viable scheme.

**Figure 4: Viable or unviable: does the Residual Value exceed the Benchmark Land Value?**



In practice, a wide range of considerations could influence the precise EUV/AUV that should apply in each case, and at the end of extensive analysis the outcome might still be contentious. One type of approach is outlined below:

- For sites previously in agricultural use, then agricultural land represents the existing use value
- For paddock and garden land on the edge of or in a smaller settlement you should adopt a 'paddock' value
- Where the development is on brownfield land you assume an industrial value

<sup>16</sup> How should a return to developers be defined for the purpose of viability assessment?  
Paragraph: 018 Reference ID: 10-018-20180724 Revision date: 24 07 2018 Accessed at:  
<https://www.gov.uk/guidance/viability>



- Where the site is currently in residential use you assume a residential value.

The Valuation Office Agency (VOA) up until 2011 produced an annual report on land values for different land uses broken down by region. It noted that land values vary dramatically depending upon the development characteristics (size and nature of the site, density permitted etc.) and any affordable or other development contribution. The MHCLG land values report, albeit historical snapshot in time, can help to act as a baseline for particular areas where little data exists and consultation will be necessary to determine the appropriate premium or uplift required by landowners.

### Things to consider when attempting to determine land values:

The PPG provides a helpful steer on how to treat market data in viability assessment:

1. 'In using market evidence it is important to disregard outliers'<sup>17</sup>
2. 'Any market evidence used should be adjusted to take into account variations in use, form, scale, location, rents and yields, disregarding outliers.'<sup>18</sup>
3. 'Benchmark land value should: be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.'<sup>19</sup>
4. 'data sources to inform the establishment the landowner premium should include market evidence and can include benchmark land values from other viability assessments. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners. Local authorities can request data on

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<sup>17</sup> What is meant by a typology approach to viability? Paragraph: 004 Reference ID: 10-004-20180724

Revision date: 24 07 2018

<sup>18</sup> How should gross development value be defined for the purpose of viability assessment? Paragraph: 011 Reference ID: 10-011-20180724 Revision date: 24 07 2018

<sup>19</sup> What factors should be considered to establish benchmark land value? Paragraph: 014 Reference ID: 10-014-20180724 Revision date: 24 07 2018

the price paid for land (or the price expected to be paid through an option agreement).<sup>20</sup>

### **Residential land**

Be aware that some land values are based on a gross basis (value of whole site) and net basis (value of the net developable area i.e. revenue generating land). The value on a net basis will exclude areas of open space and the like required in a Local Plan. It therefore represents the value of the net area. However, landowners must be paid for the whole site

### **Industrial land**

Industrial land values will vary considerably based on location and the strength of the economy in a particular locality. It is advised that you speak with local agents and the Local Planning Authority to understand typical industrial land values and what premium will be required by owners. Normally a 20-30% increase over the EUV is assumed to induce owners to sell.

### **Agricultural values**

Fields can be valued at anything between £15,000-£25,000/ha depending upon the specific use. A benchmark of £25,000/ha can be assumed. However, sites on the edge of a towns or villages may be used for an agricultural or grazing use but have a value over and above that of agricultural land due to their amenity use. They are attractive to neighbouring households for pony paddocks or simply to own to provide some protection and privacy. You could assume a higher value of £50,000/ha for village and town edge paddocks.

### **Benchmark Land Value assumptions**

It can be challenging collating land value information. Most recent land sales are recorded on the Land Registry where a site plan and the price paid is often available at a modest cost (less than £10 a site). This can be useful information but must only be used in the context of the site, its characteristics and the amount of CIL, developer contributions and affordable housing provided (the policy and planning obligations framework in place at the time).

For Greenfield sites it is incredibly difficult to get agreement from the development industry on what the premium (EUV plus an uplift) should be. It is typical for the premium to be in the hundreds of thousands for Greenfield sites (i.e. agricultural land/paddocks). Whatever level of Benchmark Land Value is consulted upon it will be a simplification of the market (due to the variety of site-specific circumstances and different value areas); however, in a high-level study of this type general assumptions need to be made. Landowners selling a

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<sup>20</sup> How should the premium to the landowner be defined for viability assessment? Paragraph: 016 Reference ID: 10-016-20180724 Revision date: 24 07 2018

Greenfield site, in the event of the grant of planning consent, usually receive over ten times the value compared with before consent was granted.

Care has to be taken when trying to establish what the premium should be and the advice of agents, developers and the Council should be sought.

## Using the results to inform your plan-making

Once all income and cost data is compiled and key assumptions, such as the developers profit and Benchmark Land Value are broadly agreed (or tested via consultation), viability modelling can then take place. The models available for running the testing can vary (see Appendix) and are set up to provide a Residual Land Value. The sites or typology of sites you test will be based on actual sites coming forward or on a typology of site likely to come forward.

## Typology of sites

The PPG<sup>21</sup> confirms that not all sites need to be tested: 'A typology approach is where sites are grouped by shared characteristics such as location, whether brownfield or greenfield, size of site and current and proposed use or type of development. The characteristics used to group sites should reflect the nature of sites and type of development proposed for allocation in the plan.'

The sites modelled should be based on discussions with the steering group, local stakeholders (including landowners and developers) and the Local Planning Authority. Where a group is seeking to test the viability of a whole plan (i.e. the cumulative cost of neighbourhood planning policies) a selection of notional site typologies can be selected for large areas or for plans that do not include allocations. This process ensures that the appraisals are representative of the development that may come forward in the neighbourhood during the plan period. For allocations and NDOs the actual scheme/proposed policy and/or permitted development set out in the NDO should be tested, but using a broad high-level approach as endorsed by the PPG for the purposes of plan making evidence. In some instances, it will be necessary to assess different development scenarios on the same site.

The Harman guidance<sup>22</sup> provides helpful additional advice on how to select your typology of sites; this content is not repeated here but can be found in Appendix A of the Harman Guidance (Characteristics of different types of residential sites).

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<sup>21</sup> What is meant by a typology approach to viability? Paragraph: 004 Reference ID: 10-004-20180724

Revision date: 24 07 2018

<sup>22</sup> Accessed at:

<http://www.nhbc.co.uk/NewsandComment/Documents/filedownload,47339,en.pdf>

## Presenting the appraisal results

Detailed appraisal results for all the sites tested should be provided in an appendix (see Figure 8 on page 39 for an example model sheet). The results can then be summarised in the main body using a simple table that sets out the using a red amber green system:

**Green = Viable** – where the residual value per hectare exceeds the indicative Viability Threshold Value per hectare (being the Existing Use Value plus the appropriate uplift to provide a return for the landowner, sufficient to incentivise them to release their land).

**Amber = Marginal** – where the residual value per hectare exceeds the Existing Use Value or Alternative Use Value, but not Benchmark Land Value per hectare. These sites should not be considered as viable when measured against the test set out – however depending on the nature of the site and the owner may come forward with tweaks to the development scheme, less policy requirements or with the help of subsidy and grant.

**Red = Non-viable** – where the residual value does not exceed the EUV or AUV.

The results should be set out and presented for each site, displayed on pounds per hectare basis (£/ha) to allow comparison between sites. The report should briefly summarise the key assumptions that have fed into the testing.

Viability assessments should be capable of showing whether or not the scale of obligations and/or policy burdens would make the plan undeliverable. Furthermore, the study should show that the cumulative impact of the policies will not put implementation of the Local Plan and strategic policies at serious risk, and will in fact help to facilitate development. Plan-wide viability testing is not an exact science. The process is based on high level modelling and assumptions for income and development costs. In order for the proposed development to be described as viable, it is necessary for this residual value to exceed the Existing Use Value by a sufficient level to induce the landowner to sell.

Therefore, your conclusions should focus on those key tests in the NPPF:

- Does the NDP/NDO identify a sufficient supply and mix of sites, taking into account their availability, suitability and likely economic viability’?
- Policies should not undermine the deliverability of the plan. Will the Neighbourhood Plan, policies and/or NDO help to facilitate development in accordance with the Development plan?

## Appendix 1 - DIY viability models

For simple residential schemes the [Planning Advisory Service](#) (PAS) offer a basic whole plan viability model available on the website which can be used for Neighbourhood Plans:

The model was specifically designed and developed by HDH Planning & Development for whole plan testing. A more detailed version of the HDH Planning and Development model has been deployed for numerous districtwide whole plans and CIL viability studies on behalf of Local Planning Authorities. However, for the purposes of simple residential schemes with a built-out period of less than 5 years this model is an easy to use tool. An undated version of the model is available at <http://www.hdhplanning.co.uk/resources/>

The purpose of viability testing is not to exactly mirror any particular business model used by development companies, organisations and people involved in property development. The purpose is to capture the generality and to provide high-level indication to assist plan makers in assessing the deliverability of their plans. As such these appraisals are not as detailed as those that you might find in use at the development management stage. For site specific testing or NDO testing the Homes England development appraisal tool may be better suited for complex scenarios. In some cases, you may need to seek professional inputs from consultants or officers from your Local Planning Authority.

Homes England's development appraisal tool is a site-specific development viability tool that is freely available.

The development appraisal tool is designed to appraise the viability of specific sites. The development appraisal tool is intended for use on small and medium to medium/large size schemes with a development period of up to 15 years. The tool can be used to:

- analyse whether the level of required planning obligations is viable
- help to consider the balance between affordable housing and other planning obligations
- assess the case for financial support from the Homes and Communities Agency
- assess the potential land value where an organisation is considering a disposal
- Model 5 phases for all tenures and infrastructure, to enable modelling of longer-term schemes

The toolkit comes with a user manual (available at):

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/373365/DAT\\_user\\_guide\\_v4.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/373365/DAT_user_guide_v4.pdf) that gives background information and guidance for those using the Homes England development appraisal tool.

Whereas this guide is aimed at individuals engaging with viability issues for the first time, the Homes England guide provides more detail on some of the topics

contained herein. If you are considering using the Homes England tool there are a series of self-training practice exercises available on the Government's website:

<https://www.gov.uk/government/publications/development-appraisal-tool-self-training-exercise>

The key to using any viability model effectively is frequent use and practice. The PAS and Homes England exercises will help you to become more familiar with the two models described above and will help you to decide which tool is most suited to the job.

This toolkit has been prepared by AECOM and HDH Planning & Development Ltd on behalf of Locality. The content contained herein draws upon the National Planning Policy Framework ('NPPF'), the Planning Practice Guidance ('PPG') and guidance prepared by the Royal Institution of Chartered Surveyors ('RICS'), the Local Housing Delivery Group ('LHDG'), Royal Town Planning Institute ('RTPI'), the Planning Advisory Service ('PAS') and Regenerate Ltd. The advice has been adapted to appeal to neighbourhood planning groups.

**HDH Planning & Development Ltd** is a specialist planning consultancy providing evidence to support planning and housing authorities. The firm was founded in 2011 by Simon Drummond-Hay who is a Chartered Surveyor and associate of the Chartered Institute of Housing. The firm's main areas of expertise are: district-wide and site-specific viability analysis; Community Infrastructure Levy testing; Local and Strategic Housing Market Assessments and Housing Needs Assessments; and Viability and Planning Assessments and Inquiries.

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