

RTPI Networks Event  
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# Section 106 Agreements

*Time for Review?*

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## Partner, Development

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- ▶ The World has changed
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# Property Value Implications

## **Residential Sale Values Reduction – 25/30%**

- ▶ Savills Research
- ▶ CBER (Centre for Business & Economic Research)

## **Commercial Values Reduction – 30/40%**

- ▶ Investment yields in all sectors have “moved out”
- ▶ Retail & Commercial & Rents are falling

# Development Viability – Basic Principle: value LESS cost

## Development Appraisal – Residual Basics

1. Gross Sales Value (income) =

£X

2. LESS cost of development:

Construction Costs (*specification materials, labour, remediation*)

Professional Fees (*architect engineer*)

S106 Obligations

Cost of finance (*function of interest & time*)

Promotion Costs (*marketing & incentives*)

Developers Profit (*Risk*)

**TOTAL Development Cost**

£Y

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3. Land Value/Surplus= Viability

£X-Y

**alderking**

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# Land Value (viability) Sensitivity

- ▶ Land Values are relatively VERY sensitive to changes in gross sales values
- ▶ For Example:

Gross sales value 50 houses average sales price of £200k	= £10M
<u>Less</u> Total Development Cost say	= £7M
Site value	<hr/> = £3M

Reduction in sales values of 10% =  
= Reduction in site value of 30%

# Historical/Typical Scenario (Last 10-15 yrs)

- ▶ Land Values: Residential 25/33% of gross sales value  
Commercial 15/25% of gross sales value

Development absorbing increasing levels of “community cost” – “Planning Gain” – S106 Agreements:

- ▶ Infrastructure
  - ▶ Education
  - ▶ POS + Play Areas Equipment
  - ▶ Affordable Housing
  - ▶ Sustainability Agenda
  - ▶ Improved “Quality of Development” – Design & Public Realm
  - ▶ Myriad of other costs – Public Art, Sporting Facilities, Ecological Improvement etc
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- ▶ Everybody has done well – In a rising market

# Zero Development?

- ▶ Loss of Construction jobs skills
- ▶ Loss of Employment in all supporting professions industries
- ▶ Failure to deliver much needed homes, business premises & Economic Activity
- ▶ No contribution at all to other policy areas
- ▶ Public sector capital expenditure programmes stalled – reliant on sales of development land and buildings.

# What is Actually Happening?

- ▶ Many existing consents are now unviable
- ▶ Current Planning Applications stalled by out of date contribution policies?
- ▶ LPA's suspicious of developers taking advantage of circumstances and suspect "banking" of consents with reduced obligations.
- ▶ Increase in Planning appeals?
- ▶ Government has sent a clear message about aspiration for housing delivery in particular.
- ▶ Recent 'Appeal' Decisions - significant weight to viability arguments.
- ▶ Public Sector cannot fill the gap on its own.

# Conclusions

- ▶ The world has changed – There has been a correction
- ▶ Property values will not recover quickly to previous levels
- ▶ If we all want housing delivery, physical regeneration, economic activity;
  - understand & acknowledge situation
  - be realistic about what development can currently fund
  - LA's must respond quickly & decisively with policy changes to S106 contribution levels
- ▶ Need to find S106 mechanisms that enable base contributions with "overage" or claw back to share equitably in Improved Market.