

# Section 106: A Private Sector Perspective

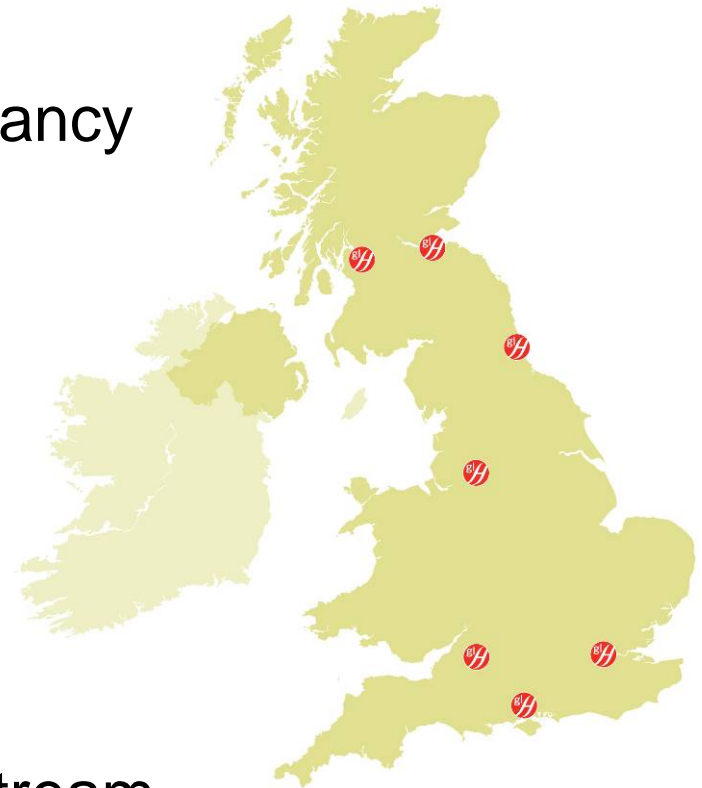
**Stuart Baillie – Associate Director, GL Hearn**

## STUART BAILLIE, MRTPI

- Planning consultancy since 2004
- 5 years - Local Government
- **S106 Monitoring officer**
- Government Office for London

## GL HEARN

- Multi disciplinary property consultancy
- Established 1928
- c200 employees
- Planning is now core business
- S106 is an expanding business stream



A QUESTION...

- What's the most important tool in a Planner's armoury?









## WHAT'S GOING ON?

- Falling values affect viability of development schemes & ability to support 'infrastructure' provision
  - Fall in investment property values **almost 45%** since July 07 peak
  - Fall in capital values of development sites **as much as 50%** from July 07
  - Fall in residential values **minus 17% on average** (£30k per property) from July 07
  - A range of projects have 'stalled' including complex regeneration projects
  - There have been casualties – there may yet be more

## WHERE WE WERE GOING ...

- A rising market provided opportunities to increase developer contributions to infrastructure and demand higher standards
  - Affordable Housing
  - Social Infrastructure
  - Physical Infrastructure
  - Flood attenuation
  - Code for Sustainable Homes, BREEAM, Zero Carbon



# BUILD COSTS

## HOW DOES IT WORK? A BASIC RESIDUAL APPRAISAL

SCHEME REVENUE (ie sales value)

Less COSTS (Including DEVELOPER'S PROFIT)

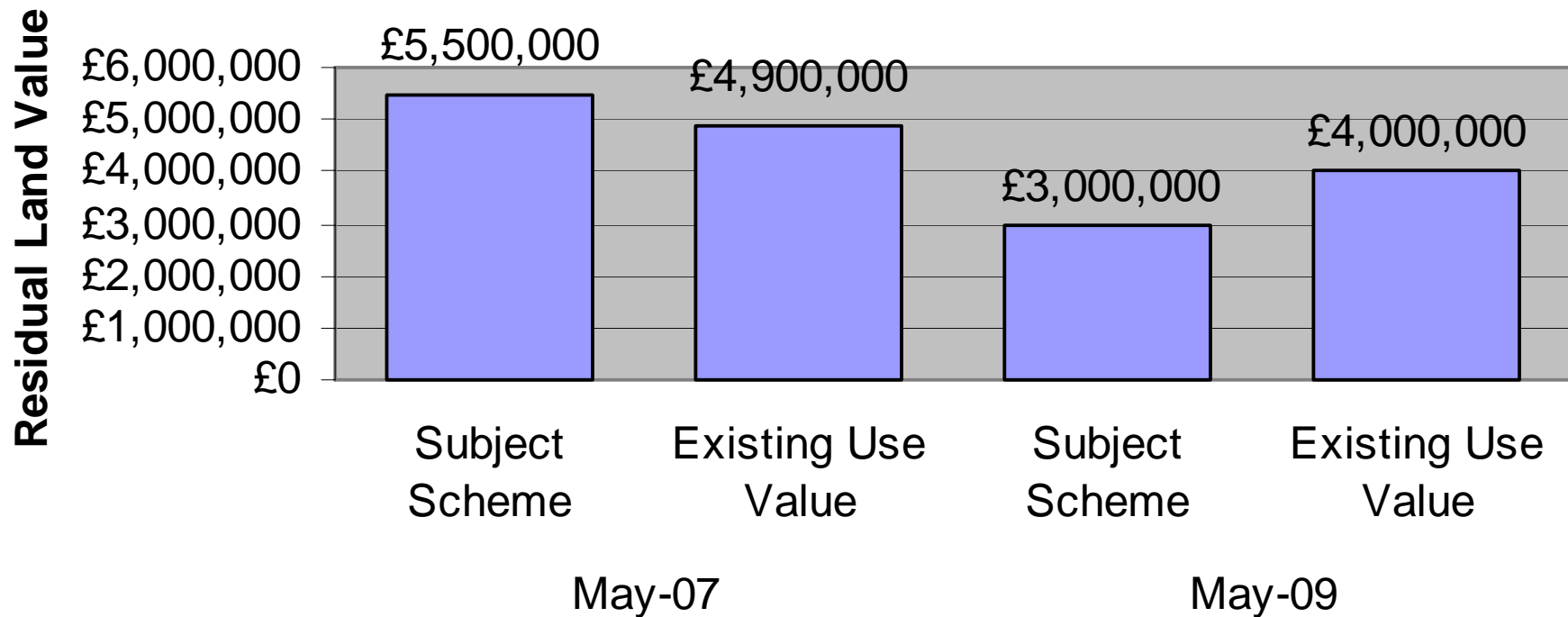
= RESIDUAL LAND VALUE

# HOW DOES IT WORK?

## Sensitivity to changes in inputs

- falling values vs increasing costs – finance, build
- development value must exceed current use value / acquisition cost to make scheme ‘work’
- profit on GDV must be sufficient given development risk –

## Comparison of Existing Use Value and Subject Scheme since acquisition



## A FUNDING GAP?

- Prospect of declining public expenditure in real terms
- Lack of 'new' public money
- Robbing the future to pay for the present?
- Scheme viability limiting developer contributions
- Greater risk for developers
- Where next for S106?

## TIME TO REASSESS EXPECTATIONS?

- Reassessing expectations – the boom is bust
- Importance of mainstream funding
- *Prioritising* investment – some hard choices!!

## EFFECTIVE PLANNING REGIME

- Policy framework which provides certainty
- Setting the 'terms' for discussion
- Planning for recovery / long-term
- Greater flexibility in short-term
  - planning consents beyond 3 years
  - reviewing package / requirements
  - re-phasing infrastructure provision
  - Overage/ clawback mechanisms
- Local authorities need skills in development appraisal

## KEY POINTS

- Viability modelling is key
- Prioritising infrastructure requirements
- Community Infrastructure Levy – 2 hits?
- US style taxation driven investment (eg TIF and LAs borrowing against future Council Tax revenue).
- Conservative's localism agenda and reform of S106??

The End

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