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How to maximise the chance of getting schemes started when the economics are marginal

Most of what follows works on the principle that when schemes are in the balance risks and cash flow can matter more than the margin which is in any event difficult to forecast accurately. This margin is less important than you might think; especially for volume builders who are less dependent on bank finance. If they invest money now and have to wait five years for their return, an apparently whopping margin of say 25% only equates to 4.5% a year i.e. a scant reward, given the risks involved. So keep in mind that housebuilders aim to maximise the ANNUAL return on their capital. This implies postponing costs and accelerating receipts in order to minimise the average amount of capital invested in a scheme at any one time. It can pay to divert effort from haggling over theoretical numbers, towards actively helping to make the prospect of development more attractive. As they say, "when there is no wind, row"

Don't front load development contributions

At present, developers are rationing their capital and optimising their cash flow so they haven't got much interest in schemes that offer jam the day after tomorrow. The most attractive schemes will enable an early start on development which can be sold to meet phased infrastructure and other costs as they are incurred. This minimises the amount of capital that the developer has to invest at the outset.

Avoid gold-plating the infrastructure requirements

The highways engineers are often guilty in this respect. The best is sometimes the enemy of the good.

Facilitate site assembly

Site assembly is time consuming and risky for a developer. You can facilitate it by using (or threatening to use) CPO powers to reduce costs and risks.

Use public funding when you can

In my experience, the education & health departments are rarely as impecunious as they claim and are often reluctant to contribute to the costs of their facilities simply because they want to effectively preserve Section 106 contributions as a net addition to their existing budgets. This risk is reduced by good infrastructure planning and the prioritisation necessitated by the introduction of a CIL.

Make sure that utilities are aware of what is proposed as early as possible

The utilities are more likely to programme their own investment to facilitate new schemes, if the

Local Authority actively nags then to do so. It also helps to convince them that the scheme in question will actually happen.

Share market risks where you can

For instance, don't tie down the developer to fixed dates for implementation of later phases. Some Planning Authorities tie the amount of affordable housing and Section 106 provision to the achievement of market benchmarks such as house prices. (You can't use S106 as a way of sharing in profits but you are free to subsidise the cost of the infrastructure that it is intended to pay for. This can be useful where this is non-essential.

Think about affordable housing requirements

It isn't just the percentage of dwellings that matters. What about the percentage of floorspace? Do you have to insist on a certain mix of types at the outset? And pepper-potting? It reduces the value of the market housing and many RSL's don't like it because they claim that it increases their management burden.

And the affordable housing providers?

Has there been proper competition to buy the affordable housing from the developer? Very often the developer will initially rely on the first figures quoted by the major local provider. Intangible factors such as the RSL's approach to financing can alter the price that can be paid.

But if you must haggle.......

Know your sites.

The biggest 'grey area' in most viability assessments is the cost of preparing and servicing a site. Local Authorities often have access to a lot of information on land ownership, ground conditions and access requirements but they fail to collate it or use it. In contrast, consultants hired on limited budgets often just make a (cautious) guess and thus predict viability constraints where in reality there are none.

Know your market

The biggest single variable in a viability assessment is usually the predicted sale values and this is where developers will 'pull the wool' in negotiation. But coming from a country that obsesses over house prices, and a housing market that is very granular at a local level, there is no reason why planners should not be able to debate issues of value with developers on an equal footing. In the same vein, it is worth actively tracking and following local land sales and gathering as much information as follows on the values achieved. You might be surprised how much these differ from the predictions of viability models, suggesting that some schemes are viable in practice but not in theory!