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MEASURING IMPACT: Measuring Land Value Uplift benefits / impacts

Measuring Land Value Uplift benefits / impacts

Introduction

We welcome you to join the first event in our Measuring Impact series. This series of workshops aims to provide you with a more detailed guidance and support for measuring impacts in your Business Cases across six topic areas. During each session, the presenters will identify key resources and guidance to help you measure benefits and impacts in your Business Cases.

The session will include a short presentation, with plenty of time allowed for discussion.

This session, on **Measuring Land Value Uplift benefits / impacts** will cover:

- General principles and approaches to assessing LVU impacts
- Advice on the type of evidence needed to calculate LVU impacts
- Advice on how LVU impacts can be used in business cases and BCR analysis
- Case studies and examples on where LVU has been used



Source: Capital and Centric, 2020

Measuring Land Value Uplift benefits / impacts

Why LVU?

Definition

Land value uplift: Land value uplift (LVU) is the change in overall land values in an impact area arising from an intervention/change.

It is assumed to represent most/all of the impacts of an intervention/change as these impacts are translated via market signals to land values.

LVU is the recommended mechanism by DLUHC (DCLG appraisal guide 2016) to capture the net additional economic gain of a development and/or land-use based intervention.

*Therefore the land price reflects the value of the land in its new use (the GDV) less the expected development costs and minimum required profit. In appraisal terms, the difference between this new land value and its previous land value represents the net private benefits of the development. This is the final value of the site, less development costs, less the value of the land in its “old” use. **Any increase as a result of a change in use reflects the economic efficiency benefits of converting this land into a more productive use.***

HMT Green Book 2020, Page 81/82

The key point is that the land value is derived demand and means the land value includes the returns to all factors of production less economic costs *i.e. returns to capital, land and labour ... less construction costs ... less fees ... less expected profit ...*

Therefore, changes in land values as a result of a change in land-use for a development reflect the economic efficiency benefits of converting land into a more productive use.

DCLG Appraisal Guide 2016, Page 32

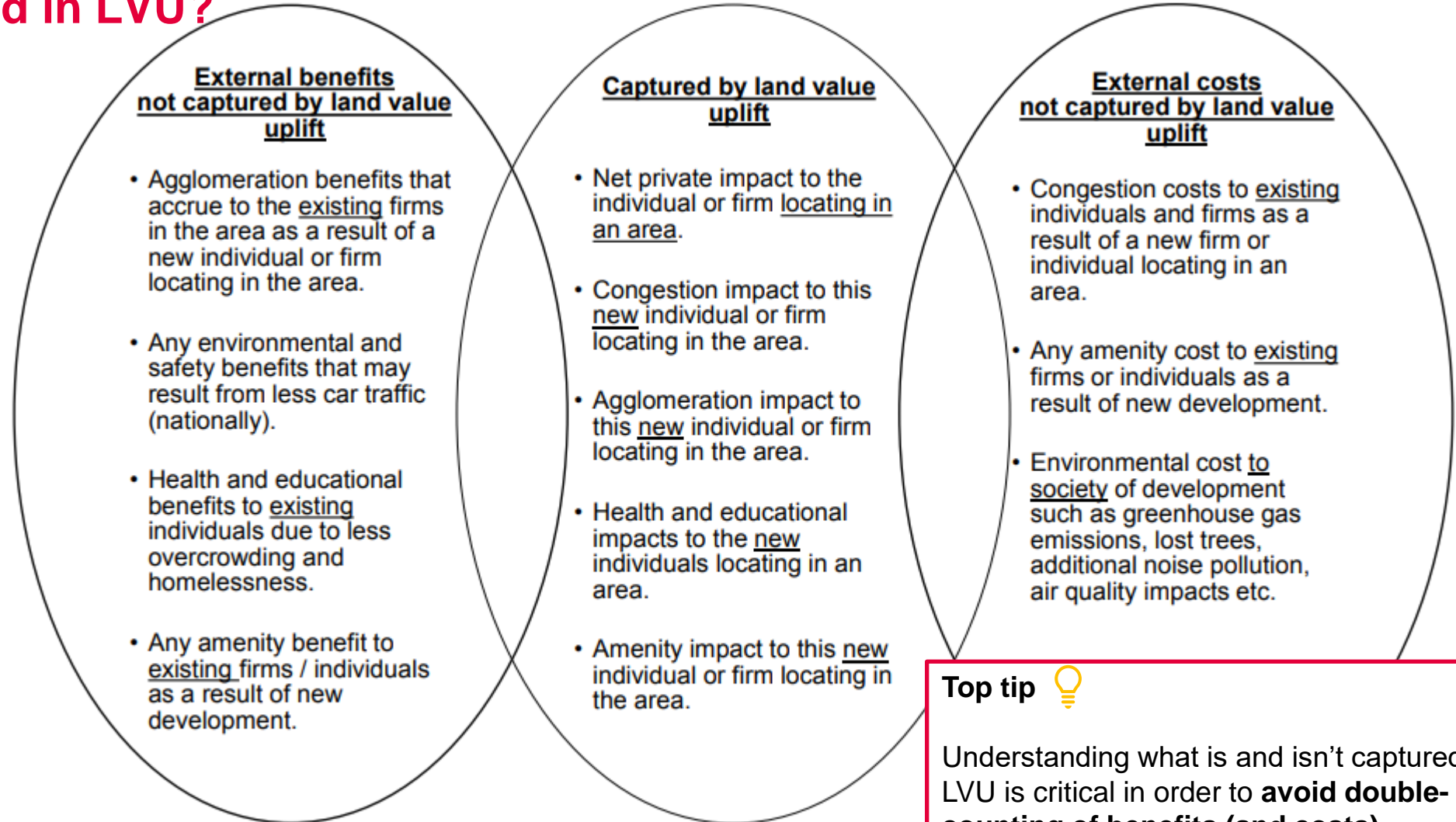
Measuring Land Value Uplift benefits / impacts

What is captured in LVU?

Although LVU represents a significant proportion of private benefits, for e.g. willingness to pay for a home, there are a number of external benefits (and costs) that may not be accounted for in LVU, depending on how perfect/imperfect the market is.

These external impacts could for example include health impacts and environmental impacts.

The figure on the next page summarises the benefits and costs included (and excluded) in LVU according to the DCLG Appraisal Guide.



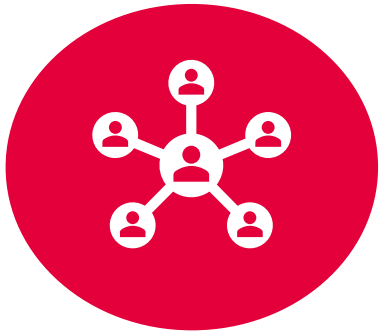
Top tip 💡

Understanding what is and isn't captured in LVU is critical in order to **avoid double-counting of benefits (and costs)**

Measuring Land Value Uplift benefits / impacts

Market Failure

The scale of Market Failure can have an impact on the potential risk of double counting.



COORDINATION FAILURE

Are there multiple owners or ransom strips?

E.g. breakdown in relations between multiple scheme promoters / stakeholders preventing or delaying development?



PUBLIC GOOD / FREE RIDER PROBLEM

Are there high strategic infrastructure costs reducing the viability of the scheme?

E.g. the Local Planning Authority requires a significant amount of off-site infrastructure benefiting multiple scheme promoters



MARKET POWER

Is the site large and/or complex reducing the no. developers who would take on such a project (reducing competition)?

E.g. up-front costs are of a scale such that the rate of return is not sufficient to attract large developers and prohibitive to smaller firms



INSTITUTIONAL FAILURE AT LOCAL GOVERNMENT LEVEL (PLANNING INFLEXIBILITY / UNCERTAINTY)

Is there a high level of uncertainty around securing consents?

E.g. uncertainty around the risk of securing consents prevents the site from being promoted through to consents.



IMPERFECT INFORMATION

Is there a high level of uncertainty in terms of future costs and values?

E.g. sales and rental values in a particular submarket are unproven, preventing (or slowing) development despite demand for the scheme.

Measuring Land Value Uplift benefits / impacts

LVU - inputs

Inputs	Description	Source / Assumption
Existing Use Value (EUV)	Existing Use Value considers the value of the land (the development / intervention site) in its current state. This can be based on standard benchmarks. However locally derived land value estimates should be used where possible. The existing use value should not include any 'hope value' (eg. redevelopment potential) for the site, but rather consider its current economic use. For commercial uses this can often be covered by dividing appropriate rents by yields.	<ul style="list-style-type: none"> Local market analysis Land value estimates for policy appraisal 2019 (MHCLG, 2020) Value Office Agency (VOA)
Future Use Value (FUV)	The Future Use Value of the site should be estimated based on a Residual Land Value (RLV) appraisal. This considers the Gross Development Value (GDV) of the scheme, minus the costs associated with development. However this differs from the Financial Case (development appraisal) as for example it excludes abnormal costs and treats affordable housing as if it were market housing in terms of value, and also excludes taxes including CIL and S106 costs.	
Impact Area	Research on the current, and potential future impact that the site has on the wider area is required to assess: the current negative externalities of the site on the town (eg. derelict sites may depress values of neighboring sites); and the future wider land value uplift impacts of the site (eg. redevelopment may increase demand and values on neighboring sites).	<ul style="list-style-type: none"> Land value uplift research Catchment areas Local market analysis
Number of dwellings / development site area	The number of dwellings/units to be delivered, and/or the site area.	<ul style="list-style-type: none"> Developers
Land value growth rate	Land values may be inflated in real terms. For residential development DCLG's appraisal guide (pg. 62) recommends a default assumption of 0% growth per annum. However more recent practice is to assume a lower uplift to avoid this being higher than the Green Book discount rate of 3.5% p.a. HE recommends a 0% growth rate.	<ul style="list-style-type: none"> The DLCG's Appraisal Guide, pg. 62 Local market analysis
Phasing of development	This is the projected/planned delivery of the development across the construction period.	<ul style="list-style-type: none"> Developers
Development costs	The cost of development, plus the professional fees and developer's reasonable profit.	<ul style="list-style-type: none"> Developers
Additionality adjustment - Deadweight	<p>What would have happened on the sites without government intervention.</p> <ul style="list-style-type: none"> Dealt with through appropriate definition of "do nothing" option, against which impacts of "do something" options should be calculated incrementally. Alternatively, dealt with through an application of a single "additionality coefficient" inclusive of displacement 	<ul style="list-style-type: none"> Additionality Guide (English Partnerships, 2008) Benchmark case studies Developers
Additionality adjustment - Displacement	<p>Crowding out of other private sector investment, or preventing other new sites coming forward in the planning system.</p> <ul style="list-style-type: none"> Choice of suitable "displacement coefficients", reflecting evidenced market displacement assessments. Possibly as part of a single "additionality coefficient", inclusive of displacement 	<ul style="list-style-type: none"> Benchmark case studies Developers

Measuring Land Value Uplift benefits / impacts

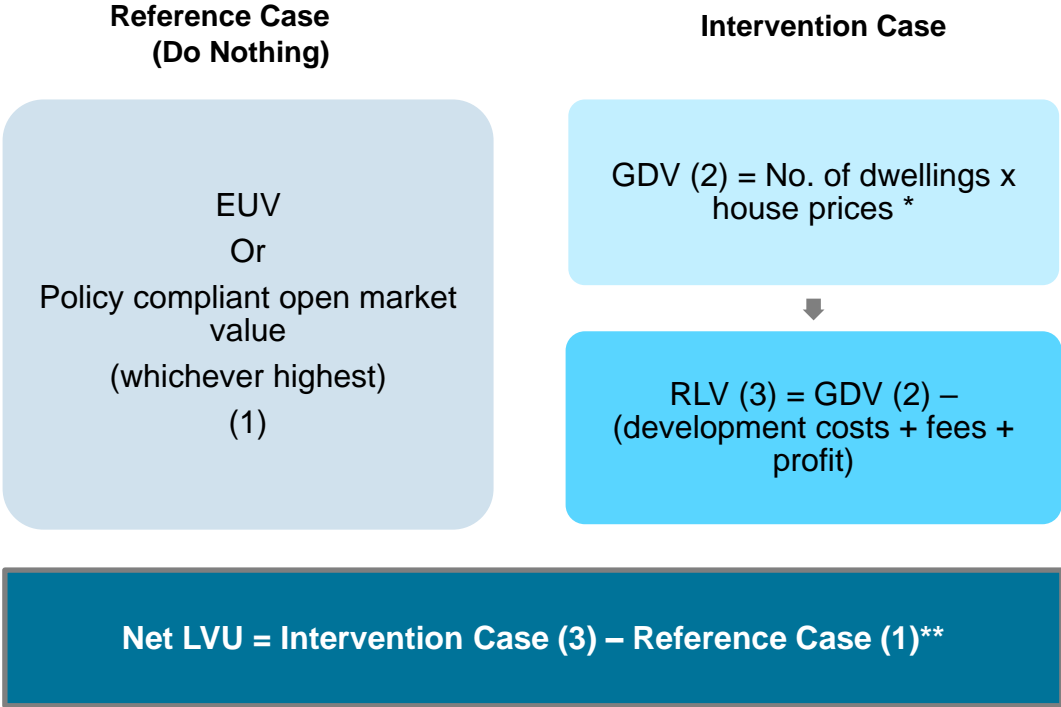
Direct, Site Specific LVU

How to calculate site-specific LVU (using local land value estimates)

In line with DCLG’s Appraisal Guide (2016), the methodology to calculate LVU is set out in this section. For the purpose of the economic appraisal, it’s important only the **additionality** of LVU, i.e. the net LVU is captured (and eventually feeds into the BCR calculation). Therefore, estimating the counterfactual, also known as the reference case, is essential and deducted from the Do Something scenario, i.e. the intervention case.

In order to calculate net LVU the following steps should be followed:

1. Calculate the **Existing Use Value (EUV) or reference case** – this is the value of the site in its current use or in its future policy compliant use if that is viable
2. Calculate the **Gross Development Value (GDV)** – this is the estimated value of a property or new development site.
3. Calculate the **Residual Land Value (RLV)** – also referred to as the ‘land price’, this is the remaining value of the *GDV (2)* once development costs, professional fees and profit has been deducted.
4. Calculate the **Land Value Uplift (LVU)** – this is the incremental value of *RLV (3)* once the *Existing Use Value (EUV)* is deducted and deadweight has been deducted.



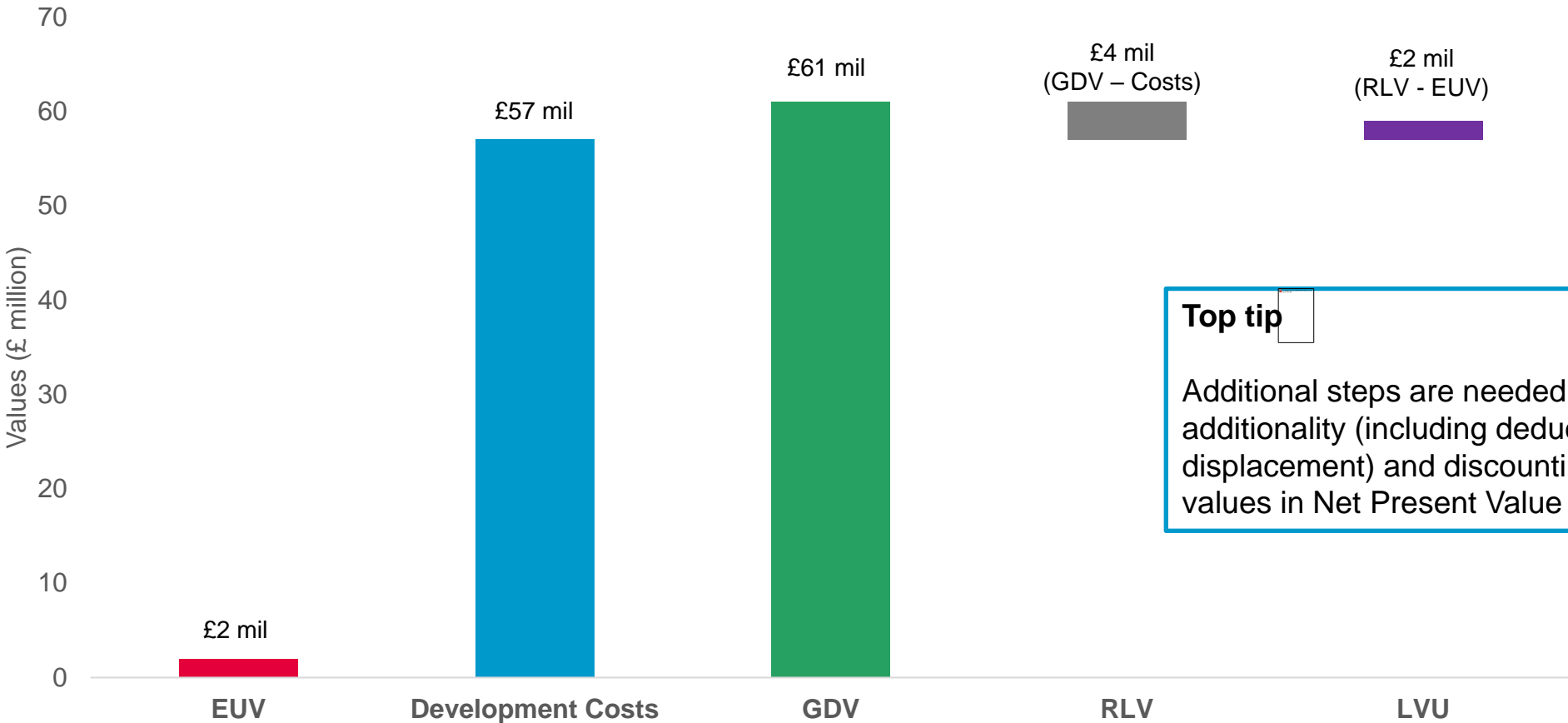
*within context of residential development and assuming development under reference case.

** Including additionality factors

Measuring Land Value Uplift benefits / impacts

Direct, Site Specific LVU

This graph provides a simple illustration of the key steps in estimating site specific Land Value Uplift.



Top tip

Additional steps are needed to account for additionality (including deduct deadweight and displacement) and discounting to consider values in Net Present Value terms.

Source: Savills, 2021
* Note that values and costs are not those used in the case study and are illustrative

Measuring Land Value Uplift benefits / impacts

Example of falling EUV



Bootle Strand more than halves in value since council acquisition

Sefton Council leader Ian Maher defended the authority's decision to buy the shopping centre for £32.5m in 2017 but revealed it is now worth only £14.24m.



Source: Place North West, 2021

Measuring Land Value Uplift benefits / impacts

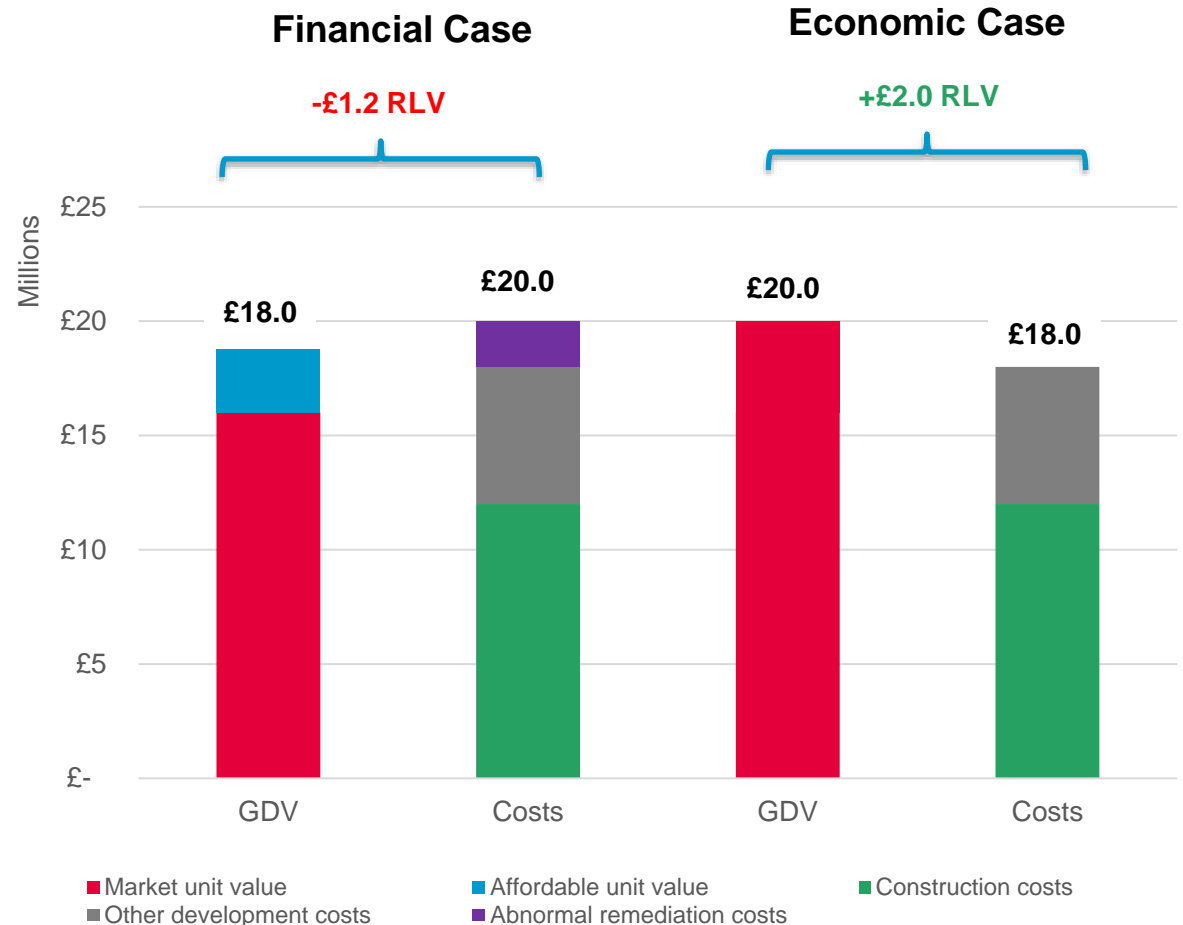
Financial Analysis VS Economic Analysis

The RLV used for the Financial Case differs from the RLV analysis undertaken for the Economic Case. In the Economic Case the RLV can be used to derive the Future Use Value (FUV) of the site and used to estimate LVU. As such it should make adjustments to consider the public and private benefits of the scheme.

This could mean potentially:

- **Excluding abnormal costs** (e.g. land remediation, or new access or public realm improvements)
- **Valuing affordable units as market units.** The difference in value between affordable and market units are equivalent to the societal benefits of providing affordable housing.
- **Excluding taxation such as S106 or CIL**

These adjustments must be considered alongside any wider benefits that may be claimed as part of the Economic Case to **ensure no double counting of benefits.**



Source: Savills, 2021

Measuring Land Value Uplift benefits / impacts

Wider LVU

Land values are impacted and influenced by what is around them. Development sites could have positive or negative impacts on surrounding land uses. When considering the 'Reference Case' (do nothing) the negative 'externalities' of derelict or unsightly land on neighboring sites or the wider market should be considered. The potential positive land value uplift from regeneration of a site on neighbouring sites or the wider market could also be considered, quantified and monetised as wider land value uplift.

- Wider Land Value Uplift must consider:
- The size of the impact area (eg. Just neighbouring sites, or the whole town?)
 - The current impact of the site (eg. negative externalities)
 - The type of intervention proposed and the impacts this could have
 - The current land uses in the impact area
 - The scale of the potential positive impacts of intervention

This should be informed by detailed market evidence for the area; evidence of the potential scale of the impact; ensure LVU benefits are not duplicated by other benefits; and consider additionality of these impacts (including displacement effects).

* Dummy values

Key factors	Reference Case	Intervention Case
Impact Area	200m	500m
No. Properties	100	200
Average price	£150,000	£170,000
Impact on values	-5% pa	+5% pa
Duration of impact	5 years	5 years
Benefit per annum	£750,000	£1.7m
Displacement	15%	25%
Total NPV Impact value	-£2.96m	+£5.92m

Net Additional PV Impact = +£8.88 million

Measuring Land Value Uplift benefits / impacts

** Dummy values*

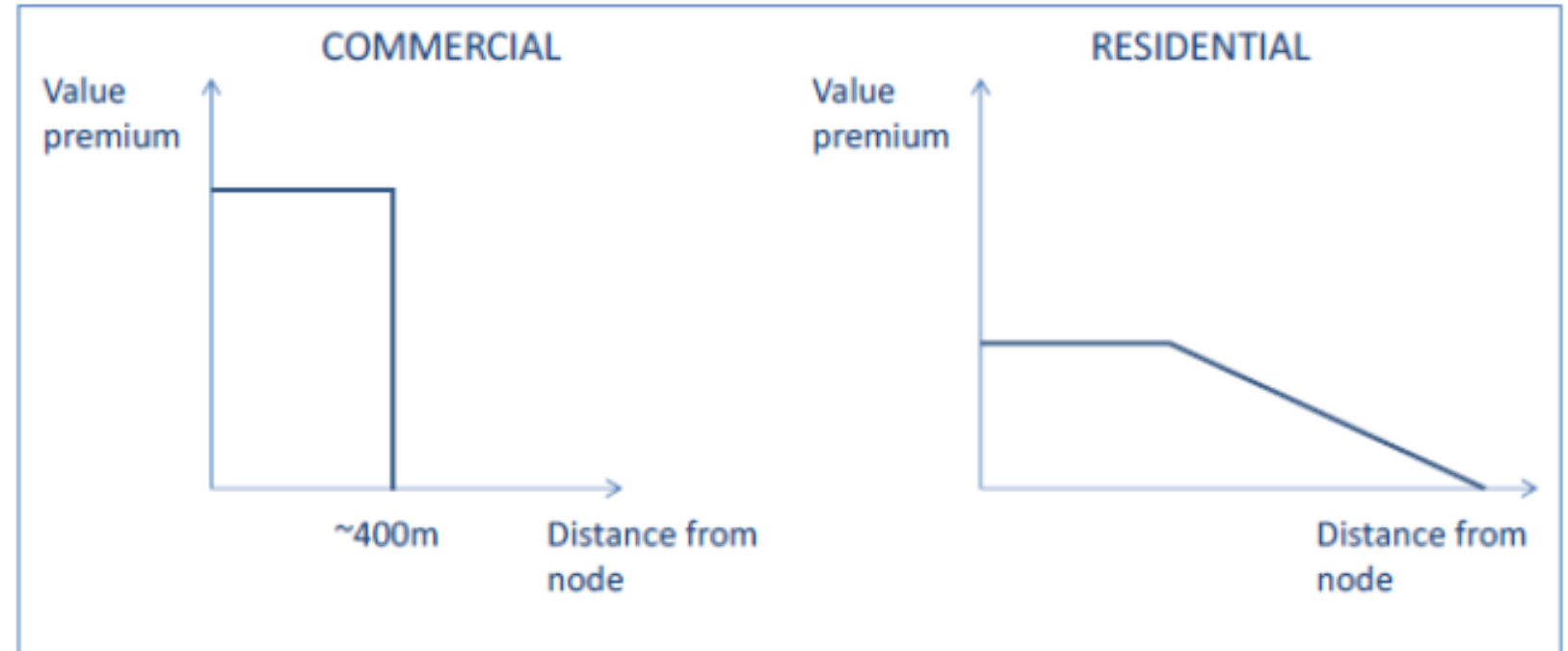
Impact Areas

Development schemes have areas of influence, over which they can create LVU impacts.

The redevelopment of the site can increase the attractiveness and demand of an area resulting in higher values.

The radius is dependent on the scale, type, quality and location of the scheme.

The scale of the uplift diminishes over distance from the impact site.



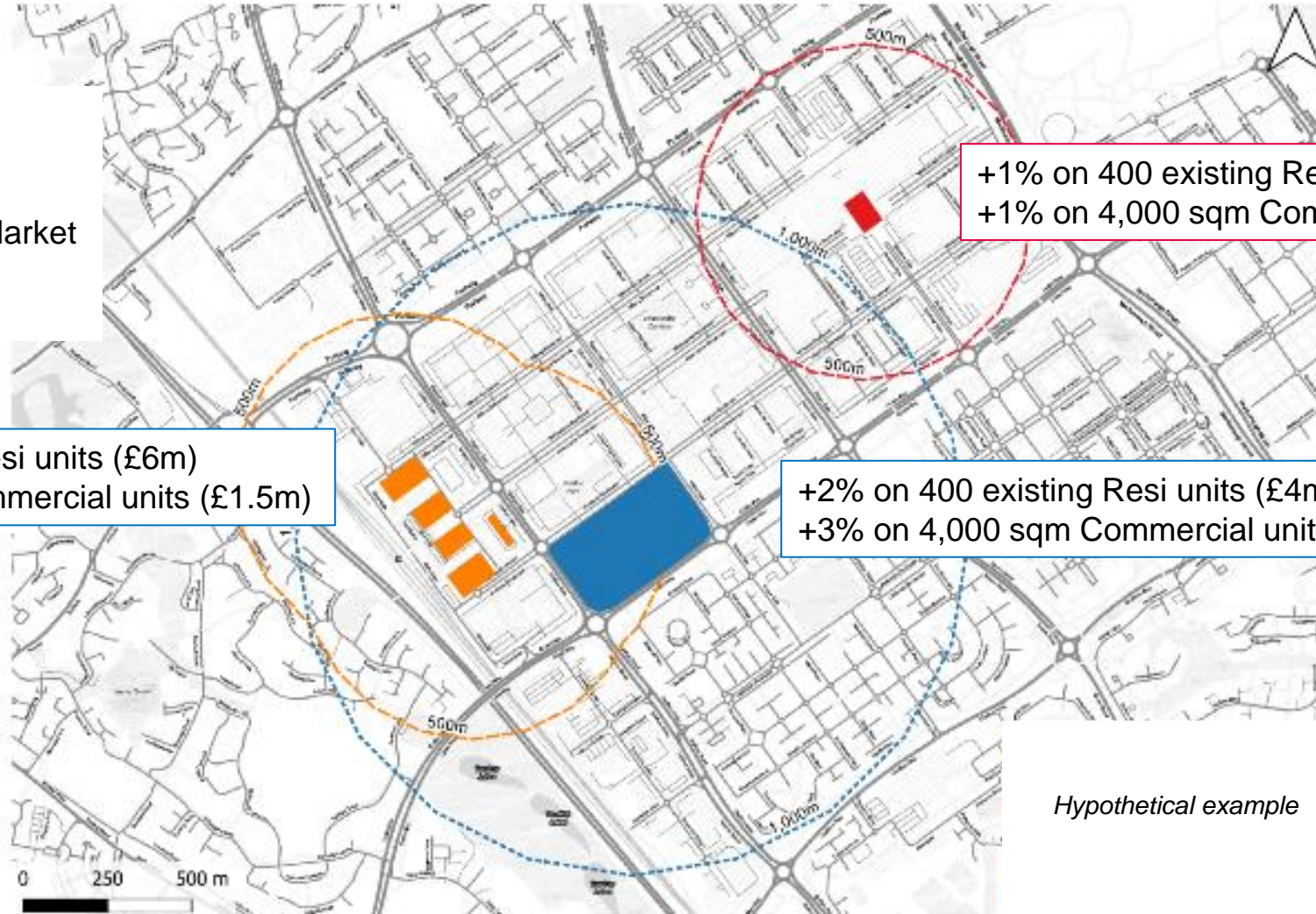
Measuring Land Value Uplift benefits / impacts

* Dummy values

Impact Areas

The scale of the uplift is dependent on:

- Existing land use
- Underlying Property Market and Growth



+5% on 400 existing Resi units (£6m)
+5% on 4,000 sqm Commercial units (£1.5m)

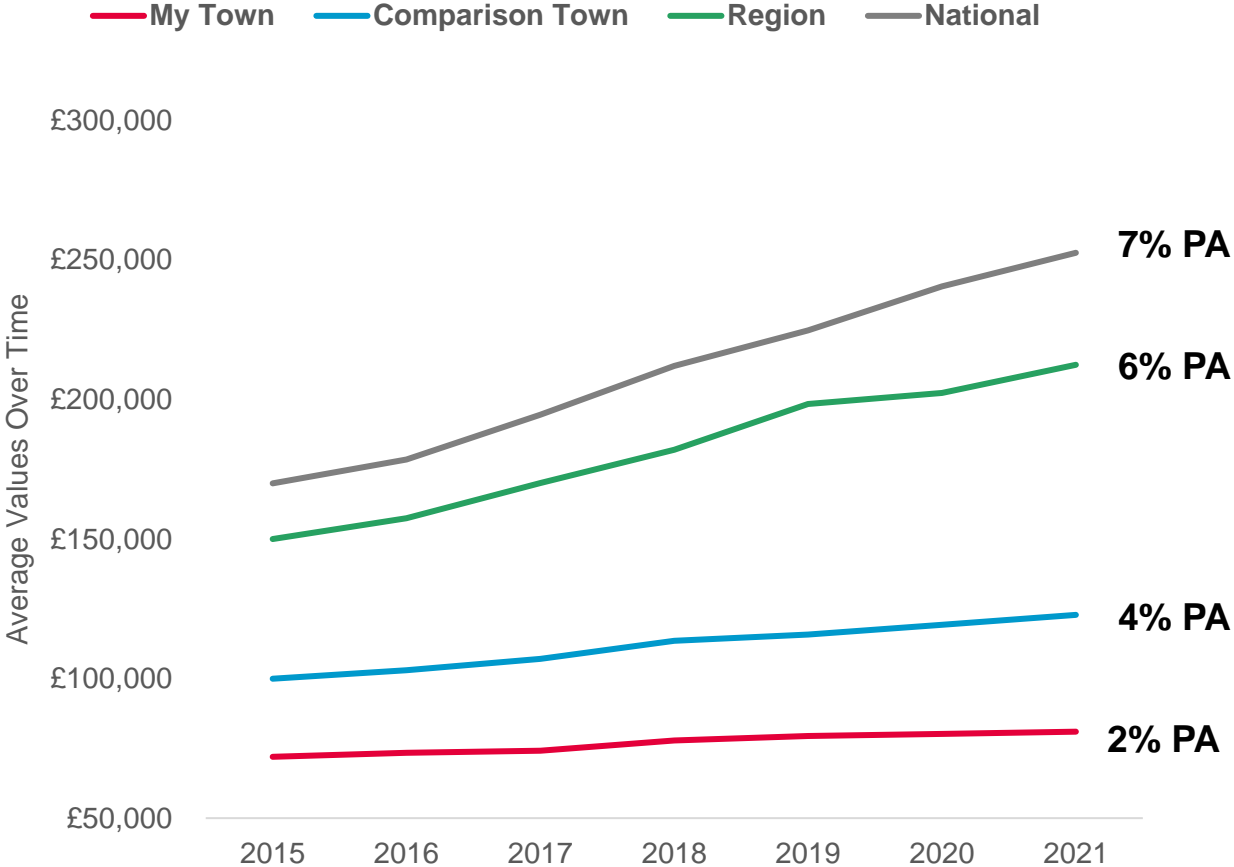
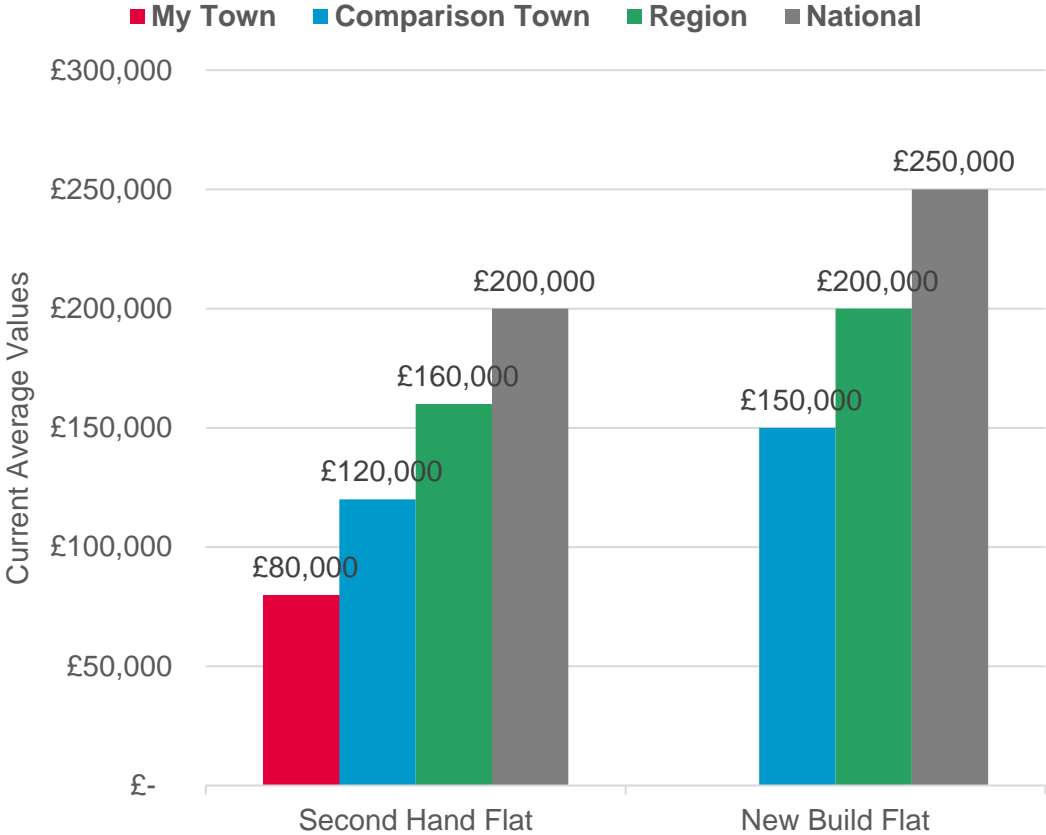
+1% on 400 existing Resi units (£2m)
+1% on 4,000 sqm Commercial units (£0.5m)

+2% on 400 existing Resi units (£4m)
+3% on 4,000 sqm Commercial units (£1m)

Hypothetical example

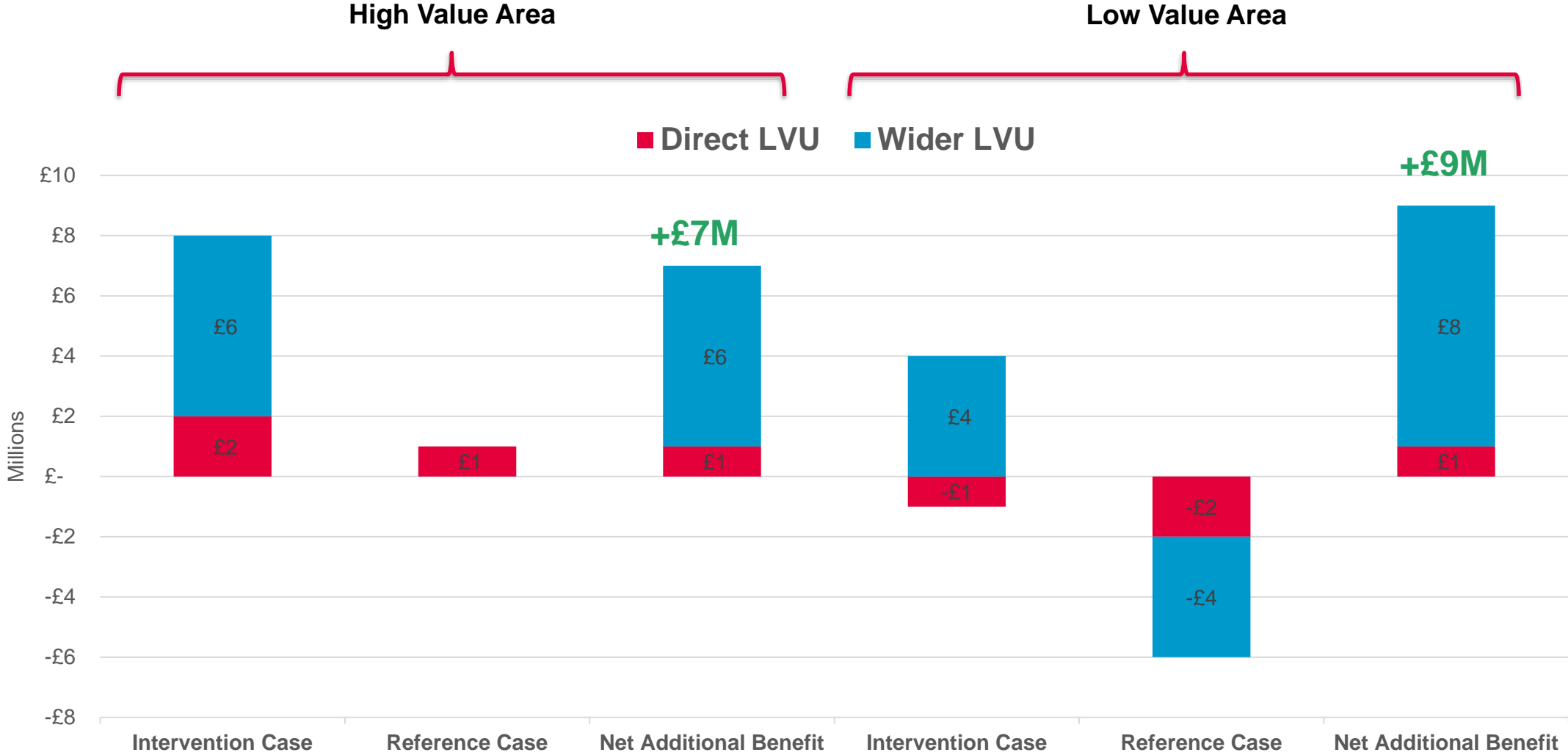
Measuring Land Value Uplift benefits / impacts

Evidence of Wider LVU Impacts



Measuring Land Value Uplift benefits / impacts

Impact of WLUV and Reference Case on High vs Low Value Areas



Case study – Land Value Uplift

Project Overview

- Town Centre in North of England
- Major town centre site has been long term vacant
- Failed retail-led masterplan
- Currently in disrepair and resulting in negative perceptions of the town
- Also contributing to crime and antisocial behavior issues
- Limited market demand, low values, and declining quality in the town
- Redevelopment scheme identified to include 200 residential units, a new community hub, public space would transform the town
- Potentially act as a catalyst for other development sites
- Bid for £20 million of Future High Streets Funding to cover land acquisition and site preparation works



Case study – Land Value Uplift

Key lessons

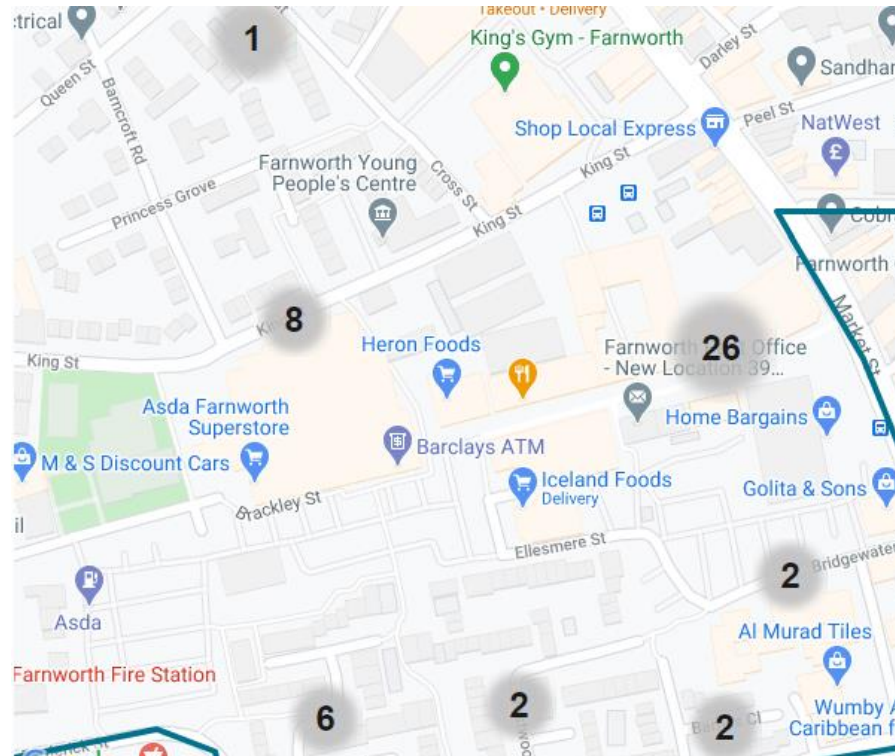
- Existing Use Value (EUV) difficult to define as acquisition costs do not reflect economic value of current use (vacant and derelict)
- Proposal included low value, but important community uses which create viability challenges, but deliver wider benefits
- Not all benefits captured by LVU, therefore Economic Case considered wider impacts including wider LVU, crime, health and amenity benefits
- LVU accrues over time and first phase could have a catalytic impact, as such wider LVU essential to making the case
- Potential for the scheme to put the town on a higher growth trajectory in terms of values, making future schemes more viable and leading to further benefits



Case study – Land Value Uplift

Interaction between LVU and other benefits

- Crime data available from Police.uk
- Impact of regeneration on crime, including net additional reduction (as opposed to displacement) based on wide range of studies
- Value / cost savings of crime based on a wide range of studies including the Economic and Social cost of Crime, Second Edition (Home Office, 2018).



278 crimes were reported here in June 2019

Violence and sexual offences	102
Anti-social behaviour	42
Criminal damage and arson	27
All other crime	107

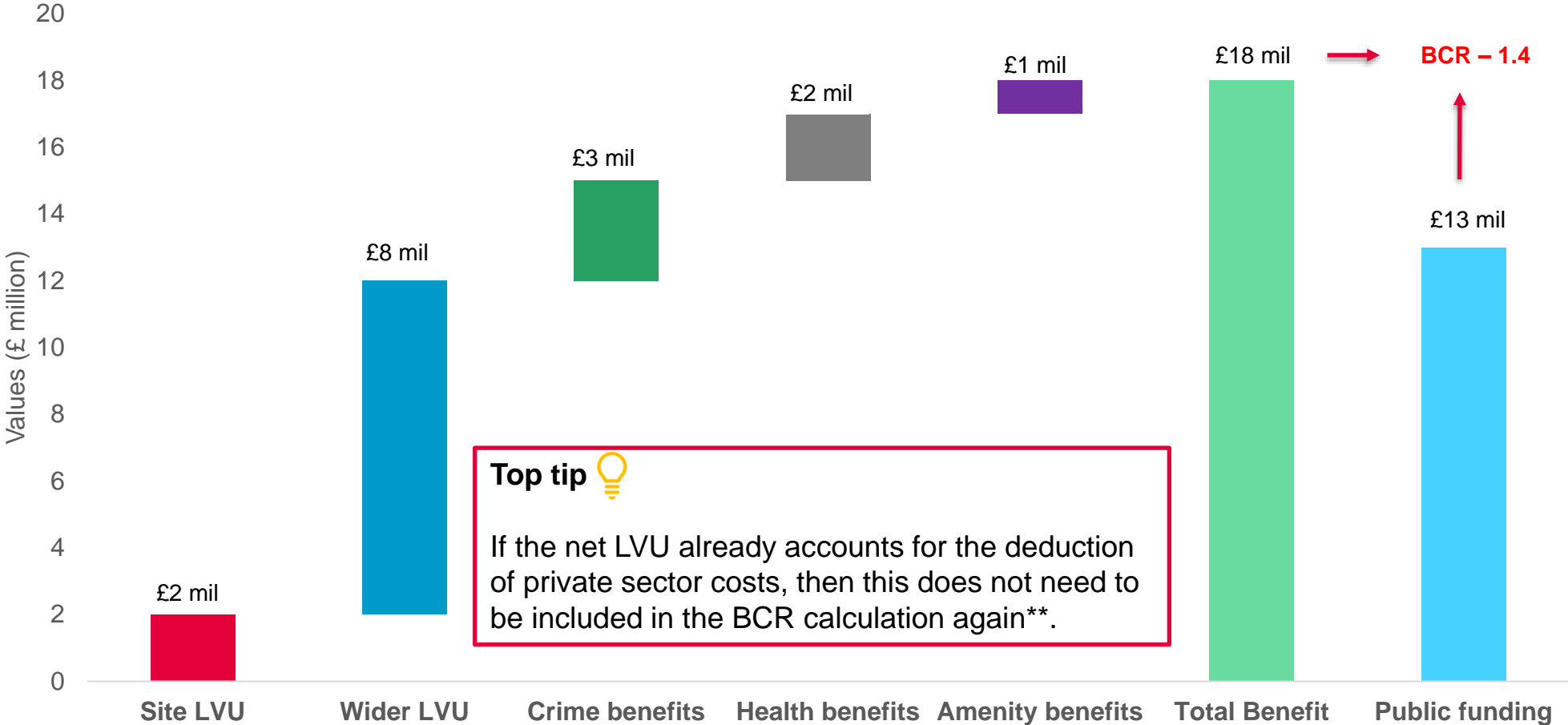
Source: Police.co.uk, 2021

* Note that values and costs are not those used in the case study and are illustrative

Case study – Land Value Uplift

BCR Analysis

This graph provides a simple illustration of how the various benefits can be compared to the costs to deliver a BCR.



Source: Savills, 2021

* Note that values and costs are not those used in the case study and are illustrative. It assumes all values are net additional vs the reference case.

** based on DCLG guide, pg. 19, footnote 14

Key considerations

- Local land values are preferable, if available. VOA estimates should be used only in the absence of local estimates.
- Economic appraisal must account for deadweight (i.e. the proportion of development that would occur anyway under business as usual).
- Take care not to double count: land value uplift inherently values the benefits of many elements to the new firms / individuals e.g. health and educational impacts.
- Towns should be aware of the methodology for assessing additionality for all forms of development. This is described in Section 3 of the DCLG Appraisal Guide. Given schemes are being assessed at the local level, towns should consult with TFDP's Business Case and Delivery team on treatment of displacement and additionally ahead of completion of the BCR.
- If private sector development costs has been accounted for when calculating the net LVU, then any private sector funding towards the development does not need to be adjusted in the BCR calculation.
- The negative impacts of existing uses on a local area or town should be considered in the reference case (eg. a site may currently have a negative impact on footfall or attractiveness of the town and result in declining rents)
- The positive impacts of a proposed scheme on the local area or town should also be considered and this wider land value uplift calculated
- Land Value Uplift and Wider Land Value Uplift generally would require specific and tailored property market advice to provide a clear evidence base and rationale for the impacts.

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