Towns Fund Delivery Partner

Making the Case for Public Realm Investment

June 2022

Source: Place North West

ARUP · nichols · FUTUREGOV · copper · Grant Thornton · savills

Terms & Conditions

- This document has been developed by the Towns Fund Delivery Partner, a consortium led by Ove Arup & Partners Ltd with our partners, Grant Thornton UK LLP, Nichols Group Ltd, FutureGov Ltd, Copper Consultancy Ltd and Savills UK Ltd (collectively 'we'). The content of this document is for your general information and use only.
- Neither we nor any third parties provide any warranty or guarantee as to the accuracy, timeliness, performance, completeness or suitability of the information and materials found in this document for any particular purpose. You acknowledge that such information and materials may contain inaccuracies or errors and we expressly exclude liability for any such inaccuracies or errors to the fullest extent permitted by law.
- Your use of any information or materials contained in this document is entirely at your own risk, for which we shall not be liable.
- This document contains material which is owned by or licensed to us. This material includes, but is not limited to, the design, layout, look, appearance and graphics. Reproduction is prohibited other than in accordance with the copyright notice which can be found at townsfund.org.uk
- Unauthorised use of this document may give rise to a claim for damages and/or be a criminal offence.
- This document may also include links to other materials, websites or services. These links are provided for your convenience to provide further information. They do not signify that we explicitly endorse these materials, websites or services.
- Your use of this content and any dispute arising out of such use of the content is subject to the laws of England, Northern Ireland, Scotland and Wales.
- For formal Government guidance on Towns Fund please visit gov.uk

How to appraise Public Realm Investments?

This document provides guidance on how to appraise public realm interventions by demonstrating how to monetise schemes' wider economic benefits. The information provided will be particularly useful to develop Business Cases and more specifically to:

- Identify market failure.
- Identify benefits.
- Ensure benefits are quantified in line with Green Book Guidance.
- Demonstrate overall Value for Money considering there is no 'one size fits all' way of monetising benefits.
- Link monetised benefits back to strategic rationale.
- Promote a scheme as a catalyst for other wider projects.

Introduction

Public realm investments play an important role in connecting different parts of town centres, attracting visitors, increasing footfall, and encouraging local residents and workers to use sustainable modes of transport such as cycling and walking. Thus, improvements to public realm have the potential to create an environment in which people enjoy spending time and which helps a town centre to thrive.

These improved environments raise the quality of areas as places to live and work in, which is a core factor in enabling commercial and residential developments.

However, without setting out a compelling case for public realm investments and the benefits delivered, there is often the danger these types of investment are perceived as 'beautification' works. This document will give readers the tools to demonstrate the value of public realm improvements.

The challenge

The Challenge

Monetising benefits

The economic and social benefits of public realm are well known, however placing a monetised value on public realm interventions has not been historically straight forward.
Public realm itself doesn't generate revenue, leading to a challenge when trying to demonstrate the investment is good Value for Money. It is also challenging to coordinate who pays for public realm improvements and who benefits from them.

In order to identify the type of benefits the public realm interventions will deliver, it is critical to firstly determine a scenario without government intervention, i.e. the reference case. This will allow you to clearly identify what the negative impacts from poor quality public realm are, who is negatively affected, and how these negative impacts play out so that the benefits from improved public realm can be better understood.

In addition to negative impacts, opportunities to maximise benefits should be sought, e.g. health and wellbeing impacts, improving local pride and placemaking.

Source: Progress in Planning , 2015

The Challenge

Towns Fund Delivery Partner

Market Failure – definition and types

Within economic theory, government action is justified where market imperfections lower overall wellbeing. In a perfectly competitive market, the optimal level of goods and services are bought and sold, and no one can be made better off without making someone else worse off. This is because the price is right. In all other cases – all real cases – market failure is present and the overall wellbeing of society is not maximised. This is typically because:

- The good or service cannot be supplied profitably (public goods).
- Buyers or sellers aren't completely aware of the availability, quality or price of the good or service (imperfect information).
- The production or consumption of the good or service has an effect on a third party (externalities).

For more detailed guidance, please see the TFDP guidance Demonstrating Market Failures. However, public realm interventions tend to address the following market failures:

Public Good/Free Rider Problem – as public realm interventions are typically considered a public good, i.e. the supplier is the public offering the service at no cost, public realm cannot generate revenues and, thus, cannot be supplied profitably.

Negative Externalities – residents living in the area around the respective public realm cannot control whether they are affected by the quality of that public realm. Poor quality public realm affects the amenity provided by the site and, thus, impacts on the property market in the area around the respective site.

Towns Fund Delivery Partner

Identifying and estimating benefits

Identifying and estimating benefits

Towns Fund Delivery Partner

How to identify benefits

Public realm improvements can deliver a wide range of benefits. Linking the improvements back to the case for change outlined in the Strategic Case will help to identify:

- benefits associated with the project
- beneficiaries of the project

To further the understanding the economic benefits of the project, logic mapping is recommended to summarise the project need, the benefits sought and the strategic responses and changes required to address the service need while achieving the benefits.

Table 1 provides an overview of the links that should be made between the strategic case and economic case as well as examples of conventional benefits.

These should be used as a guide. The left column includes some of the typical issues that might drive a need for development and land based intervention.

Project Drivers / Problems / Opportunities	Example of benefits delivered by public realm improvement
Poor access to the town centre	• Wider land value uplift • Economic growth and additional, high quality jobs • Economic diversification • Wider regeneration and new investments/developments • Reduction in anti-social behaviour such as crime and dumping • Improved accessibility • Improved community cohesiveness • Improved physical activity
Poor utilisation and/or maintenance of buildings/open space	
High commercial (office and/or retail) vacancy rates	
Poor provision and maintenance of public realm infrastructure	
Inadequate supply of housing	
Negative perception of security and safety	

Table 1: Project drivers and example benefits delivered

Identifying and Estimating Benefits

Towns Fund Delivery Partner

How to estimate (wider) LVU benefits

Improvements to the public realm improves the desirability of an area to live, work and visit. That in turn increases demand for property in that area, including residential, office, retail and even industrial space in some cases.

To value this impact we can use an estimation of **Wider Land Value Uplift (WLVU).**

The Green Book advocates the use of land value as a way of capturing the change in land from less productive to more productive use. Land values are reflective of the price people would pay to access better amenity, public realm, jobs, transport. As such increases in land values of surrounding properties reflect the value people place on the public realm improvements.

Thus, economic benefits should be estimated and monetised primarily using the **WLVU methodology** as per TFDP guidance.

Definition

Wider Land Value Uplift: WLVU is the change in overall land values in an impact area arising from an intervention. It is assumed to represent most of the impacts of the intervention as these impacts are translated via property market signals to land values.

There are a number of factors to consider when deciding how WLVU benefits can be monetised including:

- Is the required data/input available and is it robust?
- If assumptions need to be applied, how robust are they? Can they be supported by evidence or benchmarked against other case studies?
- Is the methodology to be adopted recommended by the Green Book and/or supplementary guidance?

Identifying and Estimating Benefits

How to estimate WLVU benefits

What is captured in WLVU?
Although WLVU represents a substantial proportion of private benefits – e.g. willingness to pay for a home – there are a number of external costs that may not be accounted for in WLVU, depending on how perfect/imperfect the market is. These external costs could, for example, play out via health impacts.

It is important to understand the mechanisms of how poor quality public realm results in low property values. This should link back to the Logic Chain and Theory of Change.

The extent to which poor quality public realm affects property values should be informed by detailed property market analysis.

Top tip

Avoid double-counting! If the public realm improvements are part of a wider development, there's a risk the WLVU is partly driven by the rest of the development. WLVU should be applied to the whole of the wider development, rather than attempting to estimate uplifts separately.

To estimate the LVU impact of public realm improvements:

1. **Define the study area** – the boundary of the area in which land value is impacted by the public realm improvements needs to be defined.
2. **Assess the incremental improvements** – this involves assessing the design quality of the public realm improvements. This assessment can be undertaken using the PERS tool.
3. **Convert the PERS score into LVU factor** – the outcome of the PERS audit will need to be translated into an LVU factor. For more details on how to do this, please refer to study "Paved with gold: the real value of good street design" (CABE, 2007).
4. **Calculate net LVU** – the uplift factor is applied to the existing land use. Ensure the net LVU is additional to the counterfactual (i.e. deducts existing land values and additionality adjustments such as deadweight).

Identifying and Estimating Benefits

Towns Fund Delivery Partner

How to estimate WLVU benefits

WLVU must consider:

- The size of the impact area.
- The current impact of the site (e.g. negative externalities) and the 5-year historic trend in the area; does this show that the area is performing worse than comparable areas?
- The scale of the potential positive impacts of the intervention informed by annual price growth in a comparable town after receiving investment.
- Total impact needs to account for displacement and discounting.

Top tip

1. When estimating the WLVU, Towns should endeavour to disaggregate average property prices according to their dwelling type and whether properties are new builds. If datasets are small, median values are more appropriate than average values.
2. WLVU benefits should be uplifted using distributional weighting. This takes into account the extent to which the respective target group's/town's income level is lower than the England Median and uplifts the benefits. For more information, please refer to TFDP's Distributional Analysis Guidance.
3. The analysis should also be undertaken for commercial properties and a comprehensive view of the whole property market affected by the intervention – this is particularly relevant when interventions are in town centres.

Key factors	Reference Case	Intervention Case
Impact Area	200m	500m
No. Properties	100	200
Average price	£110,000	£135,000
Impact on values	-0.3% pa	+3.8% pa
Duration of impact	5 years	5 years
Benefit per annum	-£33,000	£1.03m
Displacement	15%	25%
Total NPV Impact value	-£126,000	+£3.74m

Net Additional PV Impact = +£3.9 million

Dummy values, hypothetical example

Measuring Wider Land Value Uplift benefits

How to estimate WLVU benefits – conducting the analysis

The key components of the analysis informing the WLVU are:

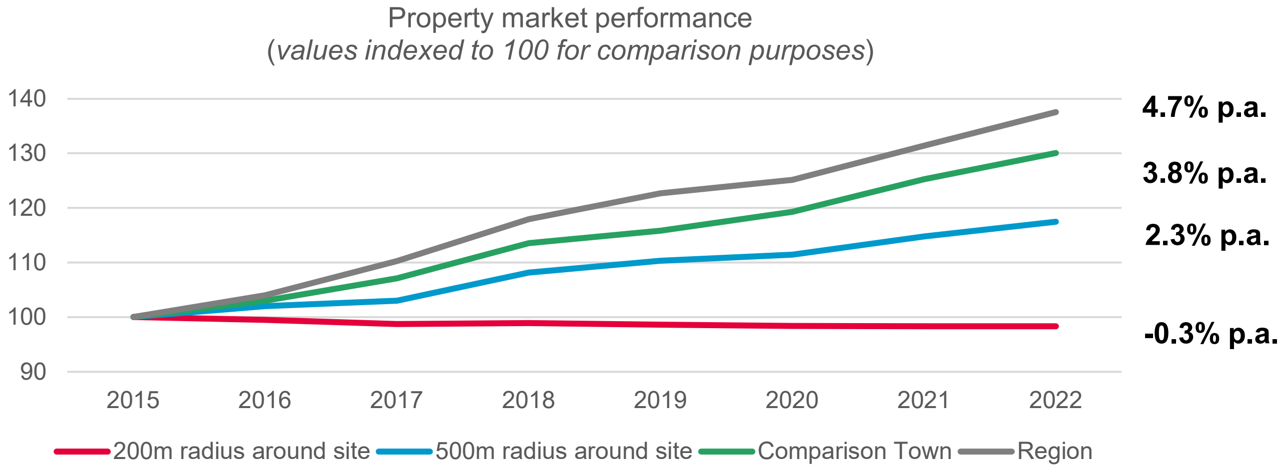
1. the current price levels in the area around the proposed site, the size of which should be informed by detailed property market analysis;

2. the number of homes in that area;

3. the recent property market growth in those areas; and

4. a comparison town or the wider region (which one to compare against shall be informed by an analysis of each market's characteristics).

The recent price growth in the relevant areas and the current price levels may look like the diagrams below demonstrating that both the property prices in a – in this example – 200m and 500m radius are underperforming when compared to other towns or the wider region.



Dummy values, hypothetical example

Measuring Wider Land Value Uplift benefits

Towns Fund
Delivery Partner

How to estimate WLVU benefits – conducting the analysis

It is imperative for the scheme promoter to understand what the constraints in the respective property markets are. Market signals need to be analysed to form a view on whether the market is demand constrained or supply constrained. Market signals differ in commercial property markets compared to residential ones. If commercial vacancy rates fall below certain levels, for example, this indicates that supply constraints are present and implies that regeneration kick-started by public realm improvements is likely to result in economic growth in the wider area.

It is also important to understand who benefits from the investment, what the scale and geographical area of the impact will be, and what evidence can be gathered to support this. It is also key to form a view on appropriateness and quality of data, to identify data gaps, and to find ways of mitigating risks to the robustness of the analysis arsing from poor quality/insufficient data. For example, property data might be based on a small sample of sales so that outliers can easily skew average values, which leads to incorrect assessments of a) the value of stock and b) the growth potential and the respective town's trajectory.

Furthermore, whether the identified uplifts are appropriate depends on what areas or towns have been selected as comparators. Here, it is crucial that the comparator – particularly if a specific town was selected – has/had similar market dynamics and has/had similar market constraints.

More guidance on what to consider when conducting WLVU analysis is available here. The specialist nature of the economic assessment requires expert advice to develop strong a economic case for a scheme and to provide decision makers with robust analysis.

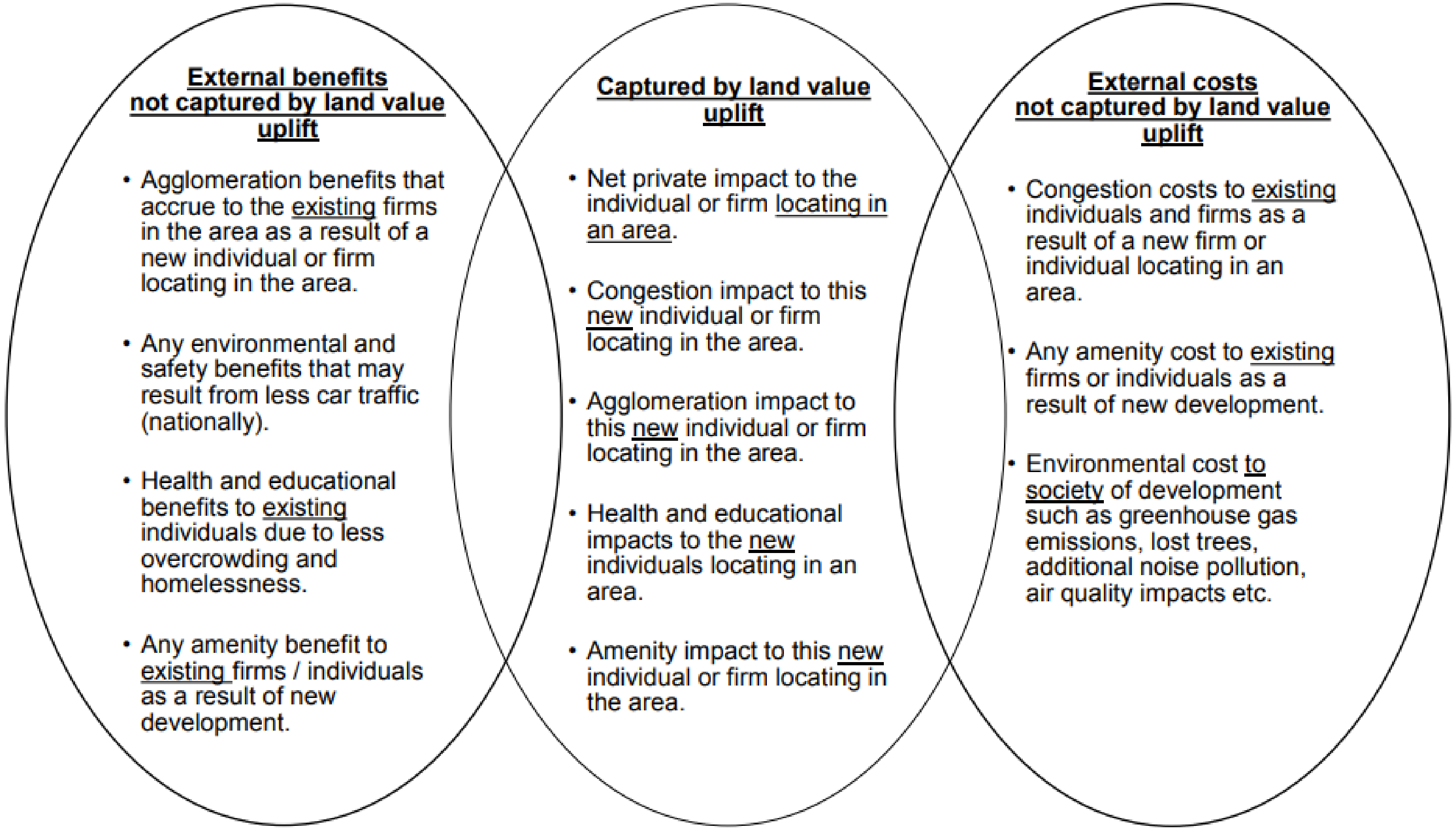
Identifying and measuring further benefits

Avoiding Double Counting

As WLVU analysis captures a wide range of impacts – both costs and benefits – it is important to understand which impacts can be included alongside WLVU without the risk of double counting.

Each type of benefit needs to be analysed in detail to form a view on whether it double counts with the monetised WLVU.

It is crucial to analyse to *whom* the benefits and/or costs accrue so that the scheme promoter can get an understanding of whether changes in the local property market reflect those impacts, or whether external impacts cannot be internalised by the local market.



Source: DCLG Appraisal Guide, 2016

Identifying and measuring further benefits

Towns Fund Delivery Partner

Place based analysis

The Green Book (2022) update places strong emphasis on 'place-based analysis' and recommends using this where proposed intervention have a focus on a specific part of the UK.

Because public realm improvements have the potential to change the property market trajectory of an area, they can attract additional private investment and act as a catalyst for wider regeneration. If the WLVU is strong, additional investment is likely to be attracted in the form of mixed-use developments further increasing the appeal of the area to other investors.

Attracting more mixed-use developments can also lead to a change in uses (e.g. from retail to residential, leisure, hospitality) in the area and change the face of a struggling high street. Using place-based analysis, benefits arising from the new mixed-use developments can be captured by calculating the number of additional jobs, their expected Gross Value Added (GVA) and multiplier effects. Please note, ensure additionality factors are accounted for, such as displacement (some existing jobs are replaced by new jobs), leakage (some jobs will be taken up by people outside the area) and the extent to which employment impacts reflect welfare impacts, which are used in appraisal.

Top tip

According to the DLUHC appraisal guide (2016, pg. 57), if land value uplift (both site-specific and wider) are included in the calculation of the benefit-cost ratio (BCR), the quantified employment and GVA effects cannot be included as this is treated as double counting.

Identifying and measuring further benefits

Towns Fund Delivery Partner

Quantifying wellbeing benefits

The Green Book (2022) places great emphasis on the concept of 'wellbeing' to be used in appraisal. The guidance suggests the use of direct wellbeing-based responses (in existing data or from research by questionnaire) to estimate relative prices of non-market goods. The Green Book differentiates between community and national wellbeing. In the case of public realm improvements, community wellbeing is more relevant and can be measured through a range of indicators such as health, life satisfaction, happiness and anxiety. These are based on specific questions asked by the ONS to assess subjective wellbeing.

However, similar to employment and GVA impacts, monetising wellbeing of the residents in the respective town is also considered double counting with WLVU, since this reflects the overall appeal of the area. However, wellbeing estimates can still be useful to understand how the intervention impacts on visitors, from elsewhere who are not affected by the WLVU. Thus, wellbeing benefits can be layered onto the other identified benefits to some extent.

Source: Capital&Centric, reGlasgow

Key considerations – “Do’s” and “Don’t’s”

Towns Fund Delivery Partner

“Do’s”

- Use **local land values where possible**. VOA estimates should be used only in the absence of local estimates.
- Economic appraisal must account for **displacement, leakage, and deadweight.**
- The negative impacts of existing uses on a local area or town should be considered in the reference case (e.g. a site may currently have a negative impact on footfall or attractiveness of the town and result in declining rents).
- Wider Land Value Uplift generally (ideally) would **require specific and tailored property market advice** to provide a clear evidence base and rationale for the impacts.
- Estimate cost savings to wider society as a result of reduced anti-social behaviour.
- Use wellbeing estimates – including health, education and amenity – accruing to **existing residents and visitors** to the respective town.

“Don’t’s”

- If WLVU has been estimated, no other impacts should be monetised to assess benefits accruing to **new residents** within the town. This is due to WLVU inherently valuing the benefits of many elements to the **new residents** in the area, for example, health and wellbeing impacts.

Further resources

Towns Fund Delivery Partner

Tools and resources

There are a number of tools and resources available online which provides guidance on estimating economic benefits of development and land based intervention.

Best practice benchmark guidance and toolkits

- Economic Case: Best Practice Annex B – Development (Towns Fund Delivery Partner, 2021)
- The DCLG Appraisal Guide (Department for Communities and Local Government*, December 2016)
- DCLG Appraisal Guide Data Book (Department for Communities and Local Government*, 2016)
- Land value estimates for policy appraisal 2019 (Ministry of Housing, Communities & Local Government, 2020)
- Paved with gold: The real value of good street design (CABE SPACE, 2007)
- Additionality Guide (Homes & Communities Agency, 2014)

(While it is the most comprehensive document some of the guidance in the DCLG Appraisal Guide has been superseded by updated practice).

**now known as Ministry of Housing, Communities and Local Government (MHCLG)*

Towns ©
Fund
Delivery Partner