

**M92. Would the cumulative cost of the policy requirements set out in the Plan, along with any other national and local requirements, threaten the economic viability of development and put implementation of the Plan at serious risk?**

92.1 No. The Policies in the draft London Plan, together with other national and local requirements, have been subject to a viability assessment that has tested the cumulative impact of relevant standards, obligations and requirements to ensure they do not put implementation of the draft Plan at serious risk.

92.2 The viability testing undertaken is described in the following evidence documents:

- NLP/VI/001: Three Dragons/Turner & Townsend/Housing Futures, London Plan Viability Study, Dec 2017 ('LPVS');
- NLP/VI/002: Three Dragons/Turner & Townsend/Housing Futures, London Plan Viability Study Technical Report, Dec 2017 ('LPVSTR');
- NLP/VI/004: Three Dragons/Turner & Townsend/Housing Futures, London Plan Viability Study Addendum Report, Nov 2018, ('LPVSA'). This provides additional information and supplements the LPVS and the LPVSTR.

92.3 The viability testing was undertaken with particular regard to:

- the requirements of the 2012 National Planning Policy Framework (NPPF) in relation to plan viability testing;<sup>1</sup>
- 2014 Viability Planning Practice Guidance (2014 Viability PPG); in particular the 'plan-making' section;<sup>2</sup>
- The Viability Testing Local Plans Advice for Planning Practitioners guidance produced by the Local Housing Delivery Group (LHDG Guidance) in 2012, which sets out principles that represent best practice for viability testing development plan documents.<sup>3</sup>

92.4 The approach taken is also consistent with the 2018 NPPF<sup>4</sup> and the 2018 Planning Practice Guidance on Viability<sup>5</sup>.

92.5 Furthermore, information relating to development proposals referred to the Mayor and considered since publication of the draft Plan indicates that the Policies of the draft Plan, which have been material considerations for applications, have not threatened viability or put implementation of the Plan at serious risk.

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<sup>1</sup> NLP/GD/03: DCLG, National Planning Policy Framework (NPPF), March 2012

<sup>2</sup> DCLG, Viability Planning Practice Guidance, 2014

<sup>3</sup> Local Housing Delivery Group, Viability Testing Local Plans Advice for Planning Practitioners, 2012

<sup>4</sup> MHCLG, NPPF, 2018

<sup>5</sup> MHCLG, Viability Planning Practice Guidance, 2018

### *Testing Approach*

- 92.6 The LPVS adopted a residual land value methodology. This calculates the difference between development value and costs to give a residual land value that is compared with benchmark land values to determine whether development is viable.
- 92.7 A range of development typologies have been tested, comprising representative development types and sizes for different market areas across London. These include residential for sale, build to rent, student residential, purpose built shared living, specialist accommodation for older people, mixed use development (residential/commercial/community uses), offices, hotels, and industrial uses. Overall, twenty-five residential, eight mixed use and nine commercial use typologies, ranging from small to large scale developments, have been tested in the LPVS and the LPVSA.
- 92.8 The use of a residual methodology and development typology approach within area wide viability testing is consistent with 2014 Viability PPG, which states that ‘...*site typologies may be used to determine viability at policy level*’<sup>6</sup>, as well as with LHDG Guidance, which states ‘*We recommend that the residual land value approach is taken when assessing the viability of plan-level policies*’<sup>7</sup>.
- 92.9 The typologies were tested in five value bands for residential and mixed uses<sup>8</sup> and three bands for commercial uses<sup>9</sup> to determine whether the typologies are viable when the Policies and standards of the Plan are applied. Development values were determined based on appropriate available evidence from a range of sources, including Land Registry residential transaction data, databases of residential and commercial values, market reports produced by agents and data held by the GLA.
- 92.10 Build costs were determined based on advice from cost consultant Turner & Townsend and were informed by data from their cost benchmarking database, as well as information from the Build Cost Information Service. A range of other costs were applied in accordance with Viability PPG and LHDG Guidance, including professional fees, marketing costs and fees, finance costs and developer’s return.
- 92.11 Values and costs were applied on a current day basis for the first five years of the Plan. The 2014 Viability PPG states that ‘*Current costs and values should be considered when assessing the viability of plan policy. Policies should be deliverable and should not be based on an expectation of future rises in values at least for the first 5 years of the plan period.*’<sup>10</sup> Given that the Plan period runs to 2041, sensitivity tests were also undertaken based on projected values and costs. Further

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<sup>6</sup> DCLG, Viability Planning Practice Guidance, 2014, paragraph 6

<sup>7</sup> Local Housing Delivery Group, Viability Testing Local Plans Advice for Planning Practitioners, 2012, page 25

<sup>8</sup> NLP/VI/001: Three Dragons/Turner & Townsend/Housing Futures, London Plan Viability Study, Dec 2017, paragraph 5.4.2

<sup>9</sup> NLP/VI/001: Three Dragons/Turner & Townsend/Housing Futures, London Plan Viability Study, Dec 2017, paragraph 7.1.3

<sup>10</sup> DCLG, Viability Planning Practice Guidance, 2014, paragraph 8

sensitivities were undertaken accounting for abnormal costs and the availability of affordable housing grant.

- 92.12 Various residential tenures, including market and affordable housing products supported by the draft Plan, were also tested. Different dwelling / bedroom mixes were tested according to the density of development and residential dwelling sizes, based on the minimum space standards within Policy D4 of the draft Plan and accessible housing standards in Policy D5.
- 92.13 The impact of specific policies and standards were accounted for in the testing undertaken, including affordable workspace, energy efficiency and carbon offsetting, fire safety, transport standards, MCIL2, S106 mitigation and green and social infrastructure requirements.
- 92.14 To ensure that the benchmark land values (BLV) adopted reflect Development Plan policies and provide a competitive return to the land owner, they were formed using an evidence base of 35 different BLVs from viability appraisals for recent development proposals that were assessed through the planning process and found to be consistent with 2014 Viability PPG and the 2012 NPPF. In addition, a further 27 BLVs from viability appraisals were considered in the formation of the LPVSA. These were calculated on a per residential unit basis to enable comparison between typologies, and per sq m for commercial development. The BLVs varied according to value band and three BLVs (low, medium and high) were considered in each value band.
- 92.15 Overall, 42 development typologies have been assessed with a range of values, policy scenarios and sensitivities, resulting in many hundreds of tests. The assessments undertaken meet the provisions in the 2012 NPPF in that they are based on proportionate and appropriate available evidence.<sup>11</sup>

#### *Results of the LPVS*

- 92.16 The LPVS found that viability for residential schemes is greatest in the highest value areas, and particularly so for higher density schemes. In the lowest value areas, the lower-density schemes are viable, however the report recognises that more developments are likely to be viable (including at higher densities) by avoiding taller forms of development and/or in areas where values are higher owing to other factors; for example, owing to better transport accessibility.
- 92.17 The reports' conclusions support the affordable housing thresholds set out in section 4 of the draft Plan. Commercial typologies tested are viable when policy requirements are accounted for, including CIL, energy standards and affordable workspace, as well as other standard development costs. Other policy requirements represent modest costs as a proportion of development value and typically have limited impact on overall viability. The inclusion of abnormal development costs reduces viability, but the provision of affordable housing grant increases provision in some cases in the mid/lower value bands. Forecasts of values

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<sup>11</sup> NLP/GD/03: DCLG, NPPF 2012, paragraph 174

and build costs indicate the potential for improvements in viability across residential and mixed-use development types within the Plan period.

- 92.18 The studies concluded that most development types can meet the Policy requirements of the Plan. They recognise that where schemes are genuinely unable to meet the Policy requirements of the draft Plan, viability testing on a site-specific basis is able to be undertaken. Overall it was found that the standards and Policies of the draft Plan would not put its implementation at serious risk and should facilitate development throughout the economic cycle, as required by national policy.
- 92.19 The LPVSA provided further information to the LPVS, including a market update, consideration of Minor Suggested Changes to the draft Plan and information on the testing approach. The LPVSA also provided additional testing of smaller scale residential and larger scale development typologies and further sensitivity testing.
- 92.20 Taking into account the market review, the Minor Suggested Changes and the additional testing, the LPVSA concluded that the cumulative costs of the Policies of the draft Plan would not threaten the viability of development and put implementation of the draft Plan at serious risk.

#### *Implementation of the Plan*

- 92.21 Since its publication in December 2017, the draft Plan has been a material consideration in determining planning applications in London.
- 92.22 The Mayor is consulted on development proposals that are referable under the Mayor of London Order 2008 in his capacity as strategic planning authority for London. The GLA publishes reports at 'Stage 1' and 'Stage 2' of the referral process for each referable application.<sup>12</sup> These consider the extent to which applications are consistent with the Policies of the adopted London Plan and, since its publication, the draft London Plan. The reports inform the Mayor's decision as to whether to exercise his powers to 'call-in' an application and become the Local Planning Authority (LPA), whether to direct the LPA to refuse planning consent, or whether to let the LPA's decision stand.
- 92.23 It has been evident that applications referable to the Mayor are meeting the Policies of the draft Plan as well as the adopted one, and in the majority of cases, the Mayor has not exercised his powers to intervene. This indicates that the Policies of the draft Plan, which have been increasing in weight as the draft Plan advances, have not been threatening the economic viability of development.

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<sup>12</sup> Further information is available at: <https://www.london.gov.uk/what-we-do/planning/planning-applications-and-decisions>

*Conclusion*

- 92.24 The viability evidence for the draft Plan tested a range of development typologies and scenarios, providing a broad understanding of the viability of development in London and the impact of draft Plan Policies and other standards, in line with the NPPF, Viability PPG and LHDG Guidance. The study, based on appropriate available evidence, found that most development types can meet the Policy requirements of the draft Plan.
- 92.25 The cumulative cost of the Policy requirements set out in the draft Plan, along with other national and local requirements, will not threaten the economic viability of development and put implementation of the draft Plan at serious risk. The Policies of the draft Plan promote the delivery of sustainable development within London, while including measures to facilitate development throughout the economic cycle.