# HIGHLY VALUED, HARD TO VALUE

## Towards an integrated measurement of real estate development


OXFORD BROOKES UNIVERSITY

trowers & hamlins

# Introduction from Trowers & Hamlins

Our work at Trowers & Hamlins is rooted in the belief that real estate is the backbone of society, where culture, communities and commerce meet. We stand at an interesting point in the development landscape, one in which the built environment contributes to some of the most significant and engaging conversations happening today.

In the United Kingdom we are, to some extent, seeing the interests of the public and private sectors becoming aligned. Developers need the land held by local authorities, while in the wake of spending cuts, local authorities are looking to make a profit on that land, and at the same time ensure long-term benefit for communities.

We see this as an opportunity to ensure that new developments are initiated and appraised for more than just their monetary worth. In many instances, current methods of valuation look solely at the financial bottom line, falling short of considering the broader value of a place that incorporates other factors such as cultural, social, and environmental value. This led us to ask, why isn't there a measurement of best practice in real estate development?

To find out, we realised that we needed to go back to first principles, to look at the important factors which make developments great – those that are highly valued, yet hard to value. As such, we decided to undertake research with the School of the Built Environment at Oxford Brookes University, seeking to reconsider value in real estate. As part of the research we conducted a roundtable debate with leading industry professionals and a national market poll of members of the public to gain a broad understanding of what key stakeholders deem most important in the places they live and work. What follows in this document is an overview of our work and some initial thoughts for the next steps. The complete report can be downloaded at **trowers.com/highlyvalued**.

Our findings indicate that a broader definition of value will lead to long-term financial success. Our ultimate goal is to build a metric or scorecard that can help developers and investors to identify commercial opportunities, and can support local authorities to create places for business, industry and communities. We are not seeking to create more obstacles to development, in fact quite the contrary; we are seeking to create a tool that will enable development and address the interests of all parties involved by providing a more informed picture of a development's true value.

Whilst this research focuses on the UK real estate industry, the ideas and challenges translate to property industries across the world that are involved in delivering successful and sustainable economies and communities. We see this research extending in a number of ways and we want to hear your views. Let's have an informed conversation about development and be part of delivering a better and prosperous future. If you would like to be part of the conversation email us at **highlyvalued@trowers.com**.

We look forward to talking to you.

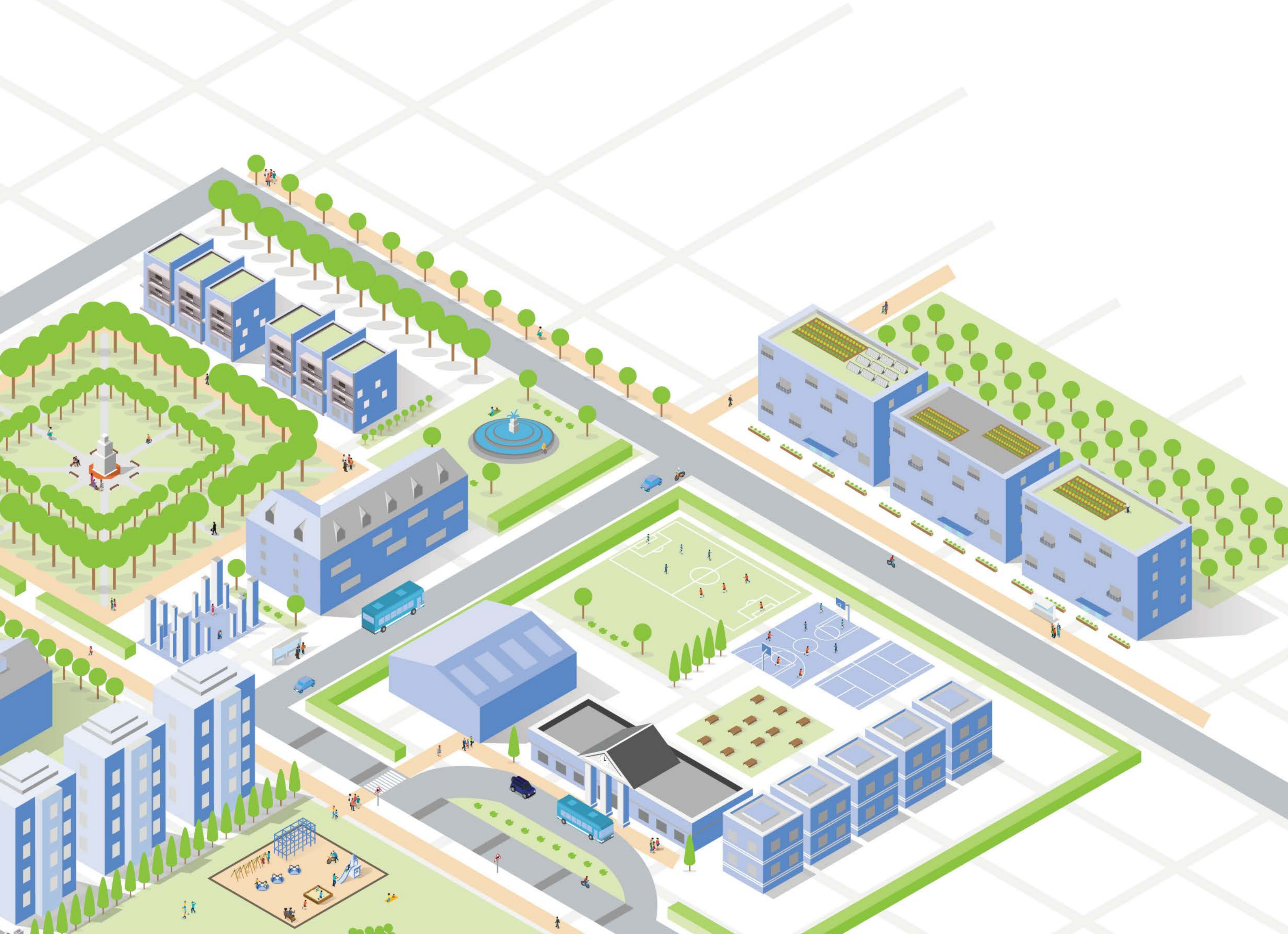
**Sara Bailey**
Partner and Head of Residential Real Estate, Trowers & Hamlins

# Executive summary

This booklet summarises the findings of a research project undertaken by the School of the Built Environment at Oxford Brookes University for Trowers & Hamlins aimed at going beyond purely financial assessments of success in international real estate toward a holistic measurement that considers a range of aspects of value. Central to this work is a belief that some new developments and regeneration projects go ahead because they offer financial returns in excess of their costs but, if a wider assessment were to be made of the benefits and whether 'Best Value' was being achieved, then alternative outcomes might be sought in some cases.

This booklet examines what features of new developments or regeneration projects are valued. It examines those that are identified in urban design practice literature, the results of a YouGov survey commissioned by Trowers & Hamlins, and a forum of property professionals. There is a good deal of agreement between these and also with the factors that have been identified in economics literature as to what people and businesses are prepared to pay for or are prepared to pay to avoid. There are developments which embody the principles of urban quality and some examples are presented in the booklet. Why then do developments get approved which do not adopt these principles? The reasons are complex and are explored at greater length within this report.

A multi-pronged strategy is needed to tackle the problem. Valuation can involve a broader understanding of the impact of good urban design, and developers, promoters and designers can usefully inform the valuation process. There are ways valuations might be enhanced to reflect a wider range of attributes that are valued by households, businesses, and communities. Certain policy improvements to encourage the selection of projects that offer 'Best Value' would also help. There are metrics that enable schemes to be assessed and benchmarked and their use would assist decision makers to achieve 'Best Value'. There is enough evidence to support the notion that doing things differently doesn't automatically lead to loss of value or cost more.



# The problem

We have identified some generally accepted principles of urban design and planning that reflect what people and businesses value highly in urban areas. So why do some developments and regeneration schemes go ahead that do not incorporate them? What are the constraints that work against embodying into developments the characteristics people and businesses value? No one deliberately sets out to produce something that is sub-optimal, yet sometimes this is the result. We need to understand why this happens so it can be prevented.

No development can go ahead unless the expected returns to the developer exceed the expected costs of land acquisition, construction, design, finance, community infrastructure levy and planning obligations and generate a profit. It is important to recognise that at the outset of a development neither the benefits from it nor the costs are known – they are projections. As the development proceeds, the costs become fixed as land is acquired and construction takes place, but the benefits often remain uncertain, though are generally received later.

The initial benefit is Gross Development Value, but over time this can increase due to uplift in capital values and potential spillover effects, for example: the creation of employment, reduction in crime and anti-social behaviour, improved access and traffic management and improvements in physical and mental well-being. Some of these benefits may impact on neighbouring areas and so may not be confined to the development itself. Some potential benefits are difficult, if not impossible, to monetise.

*Local authorities can assemble sites in regeneration schemes using their compulsory purchase powers and are under an obligation to secure best consideration for their citizens. They are also under obligation, by central government, to yield best prices as a bottom line; they should not dispose of public assets for less than their market value, and they must create employment opportunities and generate economic prosperity. Increasingly local authorities will be expected to be self-sufficient and to finance their expenditure from local taxes and revenues. To do this they must generate tax income through business rates and council tax.*

It is generally accepted that well-designed developments that incorporate the attributes that are valued by people and businesses can enjoy a premium in property prices or rents or experience capital value uplift as well as producing beneficial spillover effects. The office rental market, for example has demonstrated in recent years that significantly higher rental can be achieved through the provision of lifestyle led environments which create a sense of community and integration within a shared space. Surely this should mean that such developments are preferred as producing best value for all the stakeholders?

*“Good placemaking versus timing of the market requires a delicate balance of creating sustainable pieces of city alongside achieving the desired economic results.*

*“The King’s Cross development follows the principles set out in Argent’s 2001 publication Principles for a Human City, which set out our ‘vision’ for what an authentic place should be. From this basic philosophy we have been able to deliver significant value in the form of increased rents and house prices and the speed with which offices became occupied, combined with building a real community.”*

– David Partridge, Managing Partner, Argent

# What makes for a good development?

In our research we have found a high degree of consensus about what is valued by the industry and individuals in new or regenerated residential or commercial developments. Desirable characteristics for creating better places and economic success include:

| | | Current measurement techniques |
|---|---|---|
| **Character** | • Promotes character in townscape and landscape by responding to and reinforcing locally distinctive patterns of development and culture<br>• Character reflects factors such as architectural style, density of development, height to width and floor area ratios, vegetation types and number, fluctuations in building line, building dimensions, block and plot sizes, scale, materials and variety of land uses<br>• Historical and culturally important buildings and monuments are protected and preserved | Building for Life 12; LEED 2009 for Neighborhood Development; National Trust for Historic Preservation “Older, Smaller, Better: measuring how the character of buildings and blocks influences urban vitality”. |
| **Continuity and enclosure** | • Promotes the continuity of street frontages and the enclosure of space by development, which clearly defines private and public areas | National Trust for Historic Preservation “Older, Smaller, Better: measuring how the character of buildings and blocks influences urban vitality”; The Urban Design Compendium. |
| **Quality of the public realm** | • Promotes public spaces and routes that are attractive, safe, uncluttered and work effectively for all in society, including disabled and elderly people, and attract people in (consumers or residents)<br>• Public, private and service zones and their uses are clearly defined<br>• Streetscape has access to and facilitates interaction with public spaces | Manual for Streets; Secured by Design Guidelines; National Trust for Historic Preservation “Older, Smaller, Better: measuring how the character of buildings and blocks influences urban vitality”. |
| **Ease of movement** | • Promotes accessibility and local permeability by making places that connect with each other and are easy to move through, putting people before traffic and integrating land uses and transport | Building for Life 12; Manual for Streets; The Urban Design Compendium. |
| **Legibility** | • Promotes places that people instinctively understand through recognisable routes, intersections and landmarks that help people find their way around the buildings, spaces and features | Building for Life 12; National Trust for Historic Preservation “Older, Smaller, Better: measuring how the character of buildings and blocks influences urban vitality”; The Urban Design Compendium. |
| **Adaptability** | • Responds to changing social, technological and economic conditions<br>• Buildings and spaces can be reused rather than become derelict as a result of obsolescence | BREEAM Communities; LEED 2009 for Neighborhood Development. |
| **Diversity** | • Promotes diversity in community<br>• Offers choice through variety and a mix of compatible developments and uses that work together to create viable places that respond to local needs | Building for Life 12; National Trust for Historic Preservation “Older, Smaller, Better: measuring how the character of buildings and blocks influences urban vitality”. |
| **Sustainability** | • Promotes high levels of energy efficiency, minimises waste, minimises pollution, protect and enhances the natural environment<br>• Offers protection of ecosystems<br>• Allows for increased flexibility of buildings over their lifetime | BREEAM; BREEAM Communities; LEED 2009 for Neighborhood Development. |
| **Healthiness** | • Promotes high levels of mental and physical well-being | A new emerging aspect of good place design yet no specific assessment standards. Aspects such as noise management, emission control, climate management, water management and food production are addressed in BREEAM Communities and LEED 2009 for Neighborhood Development. |
| **Participation** | • Engages with those affected by development so that they may be active participants in the decision-making process | Building for Life 12; BREEAM Communities. |
| **Economic prosperity** | • Promotes an economically viable location in which businesses seek to locate and people want to live<br>• Promotes long-term economic prosperity in the area and its surroundings<br>• Creates employment opportunities (particularly for local residents) through construction phase and long-term commercial options | Economic impact analysis; statistical analysis of businesses starting up or relocating; population growth; indices of deprivation; GDP change. |
| **Revenue generation** | • Generates local authority income streams through business rates, council tax and the retention of a stake in future rental and price growth<br>• Commercial gain through price growth and higher rental yields | Historic analysis of business rates, council tax and house prices. |

Additional existing assessment mechanisms include: Barton et al (2003) Shaping Neighbourhoods, and Pelsmaker S (2014) The Environmental Design Pocketbook

# THE IMPACT OF THE DEVELOPMENT PROCESS IN THE UK

Historically, many developments (such as Saltaire Village in West Yorkshire and the great London estates) that are admired today were undertaken by a large landowner who also acted as the promoter of the development. They were the masterplanners and, in some cases, were altruistic, seeking to provide good quality housing for their workforce. Yet, in many other instances the motivation was commercial. Financially they were rewarded for taking a long-term perspective of the development and were not obliged to dispose of their interest in the development at the outset.

For residential property, the legal landscape that facilitated this type of development and enabled landowners to retain long-term control has changed and is now much more complex and less predictable because of the implications of leasehold enfranchisement law. Leasehold enfranchisement means that promoters of developments can no longer retain a reversionary interest in residential property. If there is a lengthy build out period, it may be worthwhile for the developers to invest in features that produce capital uplift or a new build premium during this time. Otherwise, it may not be rational for landowners and promoters of residential-led developments to invest in factors that enhance value over the medium to long term. Many of the benefits are likely to accrue to subsequent owners or even to spill over into neighbouring areas which benefit from proximity to an area undergoing regeneration. The developer is unable to share in these unless they are able to retain a long-term interest or sell the value of that long-term interest through inclusion of built-to-rent properties in a development.

The Right to Buy scheme means that local authorities and soon housing association landlords can no longer expect to retain ownership of the more desirable social housing. Moreover local authorities do not have any means of capturing value uplift of residential properties through local taxes. Once the properties have been assessed and placed into the relevant council tax band, there is no provision for revaluation as residential property prices rise. Limited ability to share in the long-term growth resulting from residential-led developments is likely to encourage local authorities to maximise short term gain through accepting tenders that produce the highest initial price and minimise the investment they must make in the development. If the longer term gain could be quantified it might enable local authorities to make different decisions.

These issues apply less to commercial properties which are generally leased. Here the promoter and landowner can retain an interest in the property through leases and share in the uplift in values through rent reviews. Local authorities as ground landlords can share in any uplift in property values and from the impact rising rents have on business rates. It may therefore be worthwhile investing in features that produce long-term growth even though the investment costs will be front-end loaded.

Having a long-term vision for a development and its surrounding areas should be financially beneficial, resulting in higher property prices and rents, speedier take-up of tenancies and properties for sale, as well as being a better place to live and work.

> *“What developers are prepared to pay for a site may be similar but their visions can be very different. Best economic value is not necessarily the same as best value and local authorities need a mechanism – and encouragement – to better value the quality of life resulting from a good development.”*
>
> – Adam Challis, Head of Residential Research, JLL

# What is valued in developments?

A survey carried out by YouGov PLC[1] for Trowers & Hamlins in February 2016 identified the characteristics that people value in a property. The percentage of respondents who rent or own their home stating that it was important or very important (4 or 5 on the scale out of 5).


Amongst a focus group of the UK's leading property professionals, journalists and opinion formers held by Trowers & Hamlins in January 2016, the characteristics identified as being most highly valued in developments were:

- Access to good public transport
- Community participation and engagement
- Affordable and diverse housing
- Adaptability to changing social, technological and economic conditions
- Environmental sustainability
- Quality of design
- Creation of jobs for local people
- Presence of safe and appealing streets
- Attractive public spaces
- Protection and preservation of historic buildings and cultural monuments
- Promotion of high levels of physical and mental well-being

These lists of what is valued by the industry and the public are very similar to the values expressed in academic literature on placemaking and urban design, suggesting a high level of consensus about the values developments should aspire to achieve. Overall, we see a demand for a certain type of physical infrastructure – connected streets and spaces, a grain and quality of routes that supports walking, a critical density of residences and businesses to support facilities and services in close proximity and a built form that supports that density and can host a variety of uses over time.

*Findings from the YouGov survey suggested that people who own outright and those who rent social housing care most about there being a local sense of community.*

# Round table

*“When we talk about place we must consider authenticity.”*

– Alex Lifschutz, Director, Lifschutz Davidson Sandilands

## Introduction

In January 2016, Trowers & Hamlins brought together high-level industry leaders and opinion-formers from across the built environment to discuss and debate the importance of integrated – not just financial – value in real estate. The resounding consensus, from developers, government representatives, academics and agents, is that a long-term vision and approach needs to permeate government, local authorities and the private sector.

## List of participants

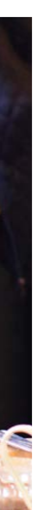
| | |
|---|---|
| **Estates Gazette** | Damian Wild, Editor (Chair) |
| **Argent** | Anna Strongman, Partner |
| **Argent** | David Partridge, Managing Partner |
| **British Property Federation** | Patrick Brown, Assistant Director (Sustainability & Construction) |
| **Dolphin Living** | Jonathan Gooding, Chief Executive |
| **Greystar** | Jeff Manno, Senior Director |
| **Hull UK City of Culture 2017** | Rosie Millard, Chair |
| **ING Media** | Dominic Morgan, Director |
| **JLL** | Adam Challis, Head of Residential Research |
| **Lifschutz Davidson Sandilands** | Alex Lifschutz, Director |
| **Oxford Brookes University** | Dr Jon Cooper, Senior Lecturer, Urban Designer |
| **Oxford Brookes University** | Richard Grover, Senior Lecturer in Real Estate |
| **Regeneration Investment Organisation** | Paul Marsh, Head of Projects and Finance |
| **Transport for London** | Graeme Craig, Director of Commercial Development |
| **Trowers & Hamlins** | Adrian Leavey, Partner |
| **Trowers & Hamlins** | Sara Bailey, Partner |
| **UK Green Building Council** | Julie Hirigoyen, Chief Executive |

*“Think about the whole, not the parts, when creating valuable places. You wouldn’t buy a Ferrari without the engine.”*

– Jonathan Gooding, Chief Executive, Dolphin Living

*“Local authorities want to deliver best value developments to their communities and we need a guide that allows the private sector to effectively collaborate with them.”*

– David Partridge, Managing Partner, Argent



# What are people and businesses prepared to pay for?

*"I am a fan of measuring real money. I also, however, like to measure quality. It's difficult, but not impossible, to quantify."*

– Graeme Craig, Director of Commercial Development, Transport for London

It is one thing to say that one values something – it is quite another to be willing to pay for it.

However, there is evidence that many of the attributes that are valued in new developments and regeneration projects do influence property prices[2], the rent that tenants are willing to pay, and the level of voids and speed of take up in a development. Most of the research so far has been undertaken on residential or residential-led properties. There is an opportunity for further work on what influences the choices businesses make between commercial properties other than location.

The research tends to make use of hedonic price models. The idea is that purchasers cannot buy the goods they want directly but can buy them indirectly by purchasing or renting housing or locating a business in an area that incorporates them. For instance, one cannot buy safety but one can choose to pay for or rent a property for a higher price in an area with a low crime rate. Statistically, it is possible to isolate the value placed on an attribute either through analysing the prices paid or by interrogating people and businesses as to what they are willing to pay to achieve them or willing to accept to give them up.

Based on hedonic pricing methods[3], we understand that residential property prices and rents respond positively to factors such as:

- Proximity to rail links
- Waterside locations, coastal and lakeside views
- Being in the catchment area of a good school - but not being in close proximity to a school
- Good air quality
- Overlooking a park or at least in proximity to one
- Forests, tree cover, flowers and lawns - but adversely to proximity to dense vegetation
- Location in a national park
- Good quality public realm
- High density of historic buildings
- Elevation and views
- Renewable energy
- Distinctiveness resulting from good urban design
- Quality of masterplanning

But respond negatively to factors such as:

- High neighbourhood crime rates and anti-social behaviour
- Proximity to high voltage overhead lines
- The visibility of wind turbines
- Proximity to landfill sites
- Risk of flooding
- Views on to multi-storey apartments
- Traffic noise

Studies of developments which incorporate the values of good urban design and high environmental quality tend to show that the desirable features are affordable. The costs may be front-end loaded but can produce capital value uplift in the longer term.

*"Public engagement is critical in securing long-term value. It needs to be relevant and genuine."*

– Adrian Leavey, Partner, Trowers & Hamlins

# Examples of good urban development

There are many examples of new schemes and regeneration projects that incorporate the generally accepted principles of good development we have mentioned, in which design quality results in economic advantage and monetary gain.

## King's Cross, London

Developed by Argent in accordance with the principles set out in Argent St George's Principles for a Human City (2001): a robust urban framework; a lasting new place; promotion of accessibility; vibrant mix of uses; harness the value of heritage; work for King's Cross; work for London; commitment to long-term success; engage and inspire; secure delivery; and communicate clearly and openly.

This vision added value to the development and aided communication. These principles converted into a financial return in the form of higher rents and house prices and the speed with which offices became tenanted with sought after tenants. One of the promoters, London and Continental Railways, who bought into this vision, has been able to convert this into cash through the recent sale of their share in the development. (Masterplan architects: Allies and Morrison, Porphyrios Associates; Landscape architects: Townshend)

© David Barbour/BDP

## Liverpool One

Developed by Grosvenor using a masterplan by BDP. The retail element opened in 2009. The decision was made to develop a shopping centre based on a high street design with good linkages to other parts of the city rather than a self-contained shopping mall. The commissioning of more than 25 different architectural practices to design the main buildings meant that there was a diversity of styles, thereby enhancing the streetscape into which the historic buildings in the area and around it have been absorbed. The development transformed Liverpool's position in the retail hierarchy, resulting in new employment and a reduction of the leakage of consumer expenditure to other towns. Initially the project experienced asset write-downs, but in 2015 the Grosvenor Liverpool Fund posted the highest annual return of any unlisted property fund.

© James Brittain

## Kidbrooke Village, London

Kidbrooke Village is a 20-year project which will deliver an entire new London suburb - over 4,000 homes of different tenures in squares, around courtyards, in apartment blocks and streets. The project is a major regeneration scheme for the UK, led by Berkeley Homes with partner Greenwich Council. Described by CABE as "an exemplar for sustainable suburbs", it will cost £1bn to deliver and transform a deprived area just smaller than Hyde Park into somewhere people love to live.

The new development consists of 109 hectares of land, with over ten hectares allocated as Metropolitan Open Land to form a new 'green river' running through the centre of the masterplan. This project brings together new ideas on the 21st century suburb, in areas such as housing, landscape, employment, stewardship, community and financial institutions. (Masterplan: Lifschutz Davidson Sandilands; Urban Design: Jon Rowland; Landscape Architect: Gillespies)

© BM3

## Birmingham Municipal Housing Trust

Established in 2009 to build new council houses on council-owned land for the first time in the city for 30 years, the aim was to apply good urban design principles to regenerate poor areas of municipal housing.

The project has been expanded to build market homes for sale. The layout features such as active frontages, properties backing on to each other, clear demarcation between public and private space, well connected permeable road layouts and avoidance of dead space. Property types and sizes are mixed together and are tenure blind.

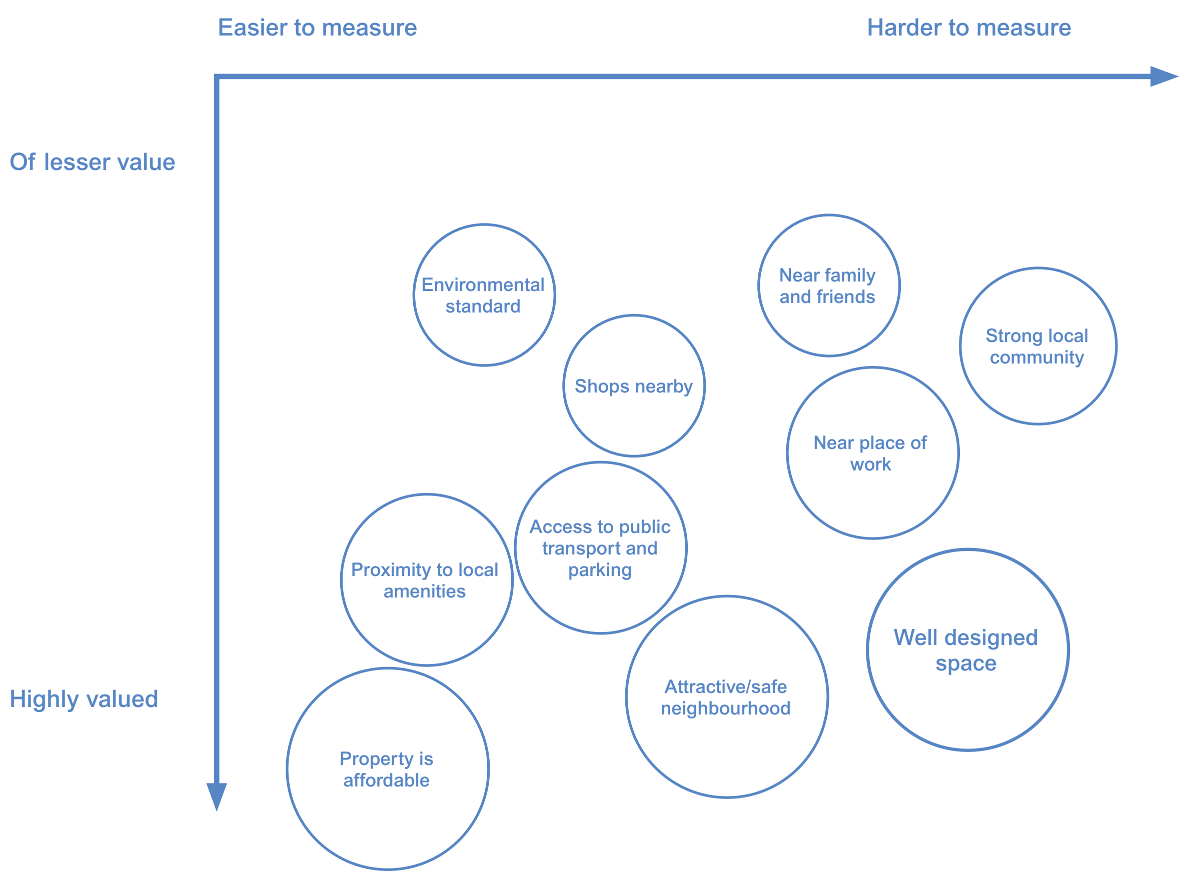
# Hard to value

Promoters of developments need estimates of the Gross Development Value and of the market price of the land in order to assess viability. Public bodies need valuations of the land they are planning to dispose of. A valuation is an opinion about the value, which, according to the International Valuation Standards Council can be either “the most probable price to be paid for an asset in an exchange” or the economic benefits of owning an asset. Valuations are valid for the date on which they are made. They are not forecasts of future value and prices can go up and down. The usual basis of value is the market value; that is the price likely to be paid after proper marketing in an arm’s length transaction between an informed buyer and seller, each party acting prudently in their own interests.

Typically valuers estimate the market value by reference to the transaction prices achieved for comparable properties. An important question is the extent to which valuations reflect what people actually value in developments. Ideally, valuers need evidence from actual transactions in which they can compare the differences in price between properties that contain certain features and those that do not. Such evidence is often difficult to find. It can be difficult to isolate the impact any individual characteristic has on the price paid when the differences between properties may reflect multiple attributes. The evidence may therefore be inconclusive and its interpretation subjective or intuitive because it is so difficult to control all the variables that influence the true value of a property (i.e. the impact on property values of many aspects of good urban quality, such as the scale and density of development, the materials used, ease of movement, diversity of uses, adaptability). What is found in relation to one development may be context-specific and not of wider applicability. This is not to say that these factors are not valued but rather their impact is often difficult to measure and the evidence problematic to interpret.

The problem can be seen diagrammatically as in Figure 1. Some property attributes are easier to measure than others. Some are more highly valued than others. Conventional valuations tend to measure the impact on value of those attributes that are easier to measure. These are not necessarily the ones that are most valued. The task for valuers is how to extend valuations into the lower right hand quadrant – the attributes that are more highly valued but are harder to value.

Figure 1 Highly Valued, Hard to Value[4]



Valuers use evidence from transactions of comparable properties. If these are in the form of development land that has been bought on the basis that the developer knows that there will be a short build-out period and the developer will not benefit from subsequent capital uplift or spillover effects, then the valuations will also implicitly embody those assumptions. The prices achieved on comparable properties are likely to reflect their potential for short-term gain and the fact that the developer will minimise expenditure on features which may result in long-term benefit but do not increase the new build premium. There is no reason why a bid that offers greater long-term value or higher spillover effects should be accepted unless the bidder is prepared to offer a higher initial price. Since the realisation of these may involve greater initial investment on the part of the developer, the probability of this happening is reduced.

Valuers have to operate in a market in which there are considerable uncertainties. Under such circumstances they may use heuristics, or rules of thumb, to reduce the complexities of assessing probabilities into simpler operations. The result is not necessarily the best solution but is sufficient for the immediate purposes. The problem is that heuristics may result in bias. For instance, valuers may make use of price anchors that reflect their knowledge of a particular segment of the market and the quality of the available evidence. Price adjustments will be made to the final result but may still be based on the initial anchoring. Although valuers ought to start with market data and narrow down to property specifics, there is some evidence that the opposite is true, with valuers quickly focussing on specifics and tending to seek information that confirms their beliefs[5].

## Valuers value interest in properties

*For instance, a valuer is asked to value development land in the possession of a UK local authority that is to be used in a residential-led regeneration project which will be sold to a developer. This project is likely to result in a reduction in crime and anti-social behaviour in the area undergoing regeneration and the benefits of this will spill over into neighbouring areas. The resulting uplift in prices in these areas will benefit owners in the neighbouring areas but does not increase the value of the local authority's land. The development could change the reputation of the area so that property prices in the regenerated area rise more rapidly than other comparable areas. The beneficiaries will be subsequent owners but, unless the first buyers are willing to pay a higher price in anticipation of capital growth, there is no influence on the price the local authority can gain from its land.*

*Normally when the public sector undertakes investment in a project, the total benefits, including those to third parties and ones which it is difficult to monetise, should be taken into account in determining whether the investment is cost-effective. The regulatory environment makes it difficult for local authorities to do this in regeneration projects.*

# The ways forward

There is no single way to achieve a better holistic understanding of valuation, but our research has led us to propose four concrete avenues of action, which we believe to be possible and potentially greatly effective:

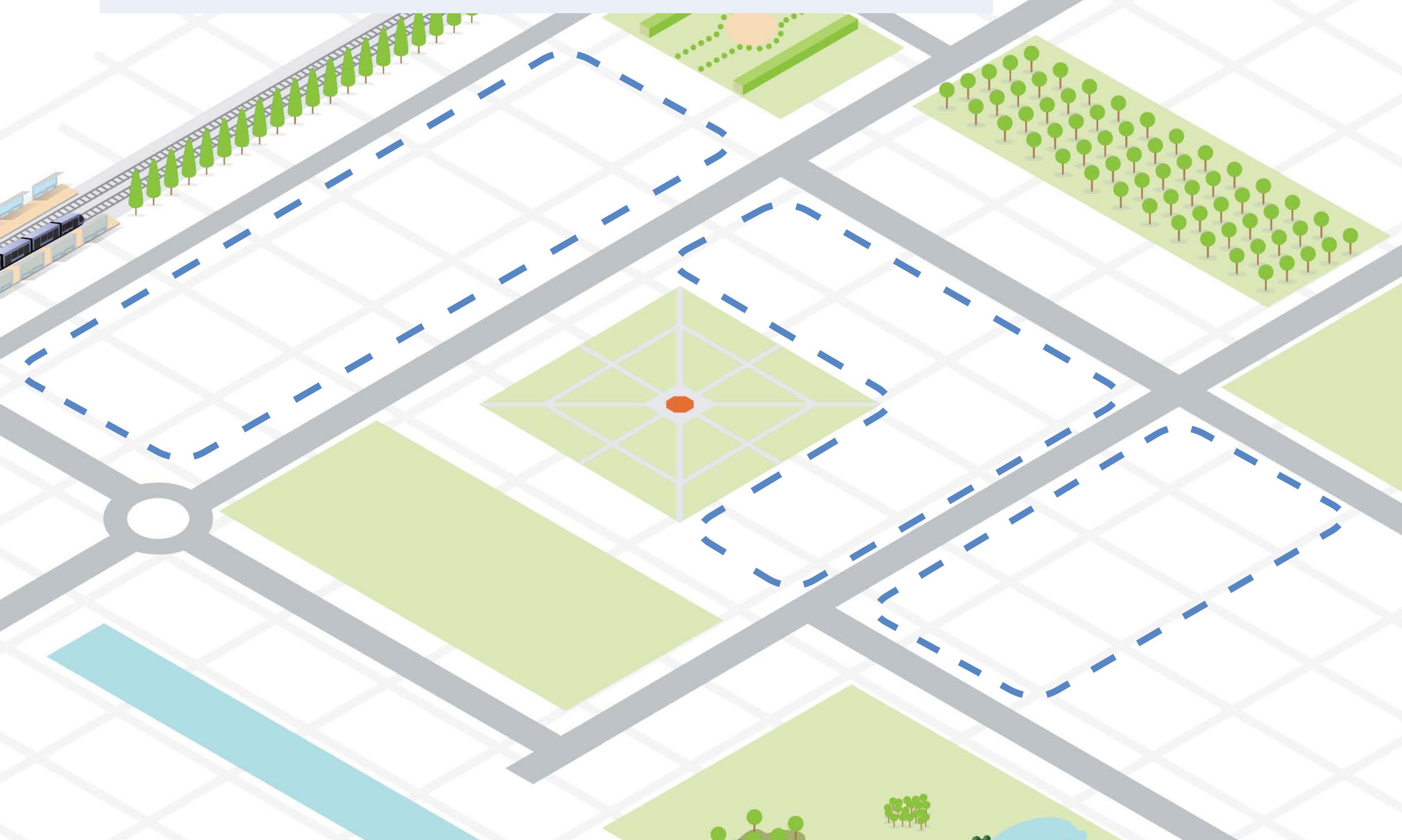
### INFORM THE INDUSTRY

The above material leads to two linked questions: Do valuers understand the potential value of good urban design and placemaking? Do developers, promoters and designers understand how a valuation is carried out and how to enhance value through placemaking? The answer is yes, but our research indicates there are gaps in the information available and as a result there are challenges for the property industry and government to make the right decisions. Valuers need the tools to provide a broader understanding of urban quality and development; stakeholders need the tools to better understand the impact of their decisions on value.

### ENHANCE CURRENT VALUATION METHODS

There are methods that can potentially improve the quality of valuations by seeking to extract people's preferences and the value that is placed on particular characteristics.

- Revealed preference methods analyse property prices statistically by examining how the prices paid correlate with particular characteristics of properties. This is a form of hedonic pricing, based on the assumption that people will pay a higher price for attributes that give them satisfaction and to insulate themselves from ones that are disagreeable. These models have been widely used but can be problematic in their abstractness. They require good data on prices and the characteristics of properties, and isolating the contribution of an individual attribute can be difficult to achieve.
- Stated preference methods such as contingent valuation rely on questionnaires to elicit what people are willing to pay or are willing to accept as compensation. They have a particular use where the attribute is something that has not been traded or is valued by people who have never used it. There is potential for bias in the way the questions are put and the answers may be context specific.



### PROVIDE POLICY BACK-UP AND INFLUENCE

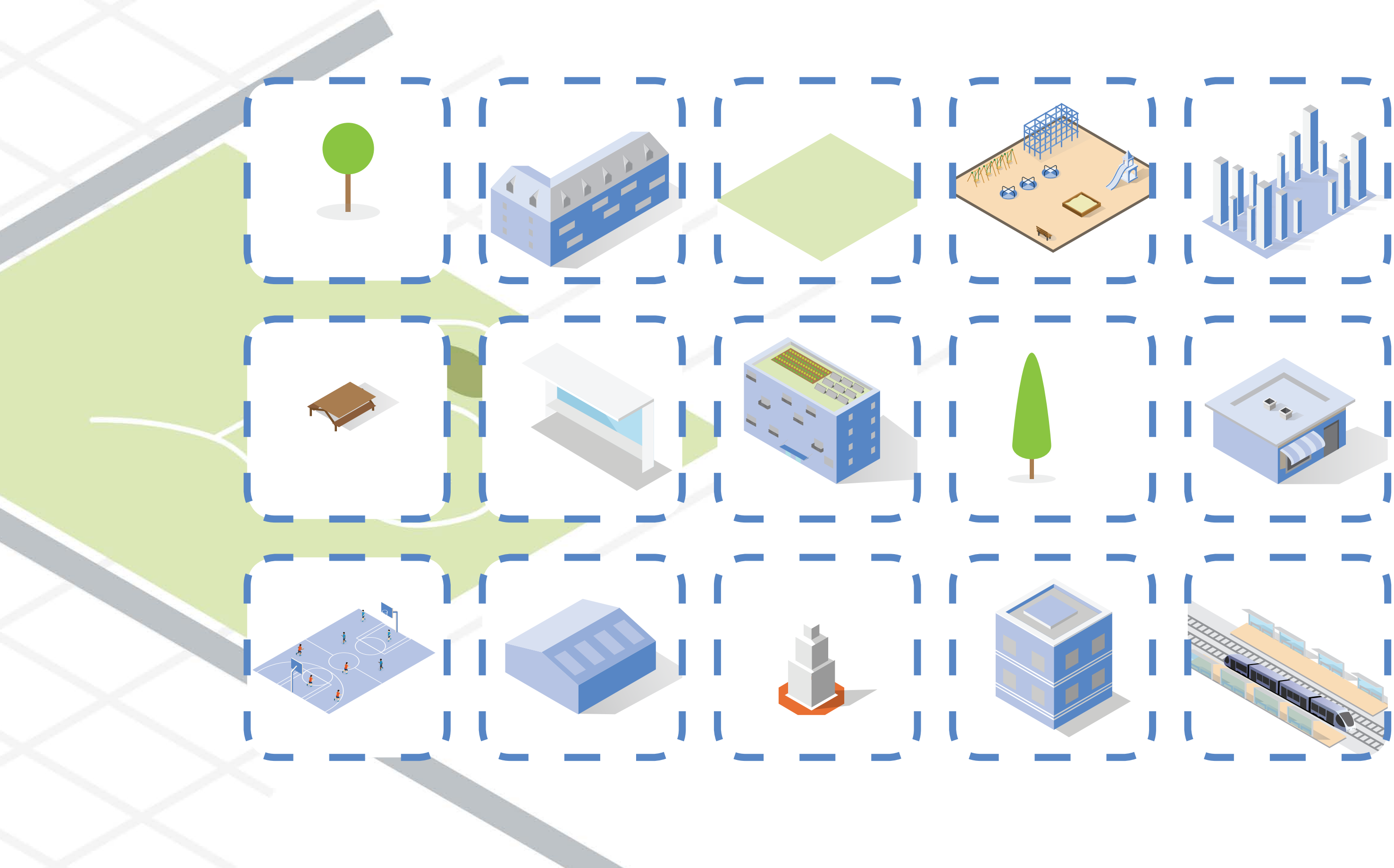
In addition to a change in current valuation methods, a refinement to planning policy is also needed. Just as the imposition of Practice and Policy Guidance Note Three (PPG3) in 1998 resulted in a dramatic change in the character and the density of housing in the UK, perhaps a similar effect could be achieved if planning policy were amended in line with the National Planning Policy Framework (NPPF) presumption in favour of sustainable development, its aim to create good design, and the notion of achieving "Best Value", that specifies the metrics expected in order to achieve the NPPF presumption.

### INTRODUCE PERFORMANCE METRICS

An alternative approach is to develop metrics that measure how developments score against specific criteria, but do not attempt to place a monetary value on them. The desirable features of good urban quality are inherently capable of objective measurement. Such a measurement could be stood alongside current valuation reports so that the trade-offs between bid prices and the extent to which highly valued characteristics are realised is apparent. This approach is currently used for the environmental characteristics of buildings in the form of energy efficiency ratings and environmental impact ratings (EPC) report.

Further work is needed into what criteria should be used, the weightings applied and the extent to which they correspond to what is valued by stakeholders. There is an emerging trend to use such metrics to influence investors looking to make principled investments in developments that score highly against ethical measurements.

Enough evidence exists to support the notion that doing things differently doesn't automatically lead to a loss of value. Perhaps it isn't necessary to append a specific monetary value to each attribute as it is the whole that creates value in the short, medium and long term. This attitude would help decision makers to come to terms with those aspects of developments that are highly valued but hard to value.



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[1]Total sample size was 2,068 adults. Fieldwork was undertaken between 12th - 15th February 2016. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

[2]See for example, Prince's Foundation (2007), Valuing Sustainable Urbanism: A Report Measuring and Valuing New Approaches to Residentially Led Mixed Use Growth, Commissioned by The Prince's Foundation for the Built Environment from Savills plc with support from English Partnerships, London. The design principles outlined above can result in greater densification of development which produces financial advantages – see Homes and Communities Agency (2014), Urban Design Lessons: Housing Layout and Neighbourhood Quality, HCA, London and Savills (2016), Completing London's Streets : How the regeneration and intensification of housing estates could increase London's supply of homes and benefit residents, Savills Research Report to the Cabinet Office, retrieved from http://www.savills.co.uk/_news/article/72418/198106-0/1/2016/more-homes-on-housing-estates-must-go-hand-in-hand-with-better-quality-of-place

[3]With hedonic price methodology, some caution is needed in interpreting the results as this is a complex exercise and the results depend on their context. There can also be distortions resulting from how the data is collected and it is often difficult to isolate the impact of individual attributes.

[4]Based on YouGov survey: Total sample size was 2,068 adults. Fieldwork was undertaken between 12th - 15th February 2016. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

[5]Daly, J. (2001), Consumer Behaviour in the Valuation of Residential Property: A Comparative Study in the United Kingdom, Ireland and Australia. Unpublished Doctoral Thesis. University of Glamorgan, Wales, UK. Completed May 2001.