Appendix 2 Delivery Options – additional information taken from Cushman and Wakefield report

Comprehensive Sale (Option 1: Sale of RMBC owned sites on the open market and Option 2: Joint marketing to achieve comprehensive sale of RMBC and FWE sites on open market)

A direct outright sale to a purchaser provides the simplest means of disposing of the land, resulting in the immediate generation of a capital receipt, and the possibility of an overage provision that would give the landowner the potential for further proceeds in the future. A direct sale could be implemented in a variety of ways:

- Sale prior to planning or after further development cost clarification
- Sale following securing planning permission

Cushman and Wakefield consider that disposal of part of the site at the current time should be resisted as there is a need for a coordinated approach to the site’s delivery and the piecemeal disposal could impact on purchaser appetite and risk for the remainder.

An immediate sale of the site in its entirety should also be resisted as there remains significant uncertainty at the current time that could result in a relatively modest price being paid substantially below the land owners’ aspirations.

A sale following securing of an outline planning permission provides a better scenario in terms of the level of receipts that the land owners would be able to generate. However, the preparation of a planning application would require substantial further investment by the land owners with the attendant risk that the planning permission achieved may not be suitable for prospective purchasers.

Partnering

A partnership arrangement in which a commercial partner is identified to bring resources, skills and funding to the delivery process in exchange of a share of the returns from disposal and/or development is considered the most appropriate given the land owners’ objectives. There are 2 standard routes of partnering:

1. Option Agreement (Option 3)
2. Promotion partner (Option 4)

Delivery Partner Option Agreement (Option 3)

An option agreement is where a partner acquires an option, or a series of options to purchase land, typically conditional on planning and to draw these down in a prescribed timeframe. Where these timescales lapse, the land reverts to the owner (s).
An option agreement represents a well understood and relatively simple mechanism for disposal land is favoured by developers who want to deliver a scheme in whole or in part. Option agreements are particularly popular with house-builders given their desire to establish a broad pipeline of sites to meet long term requirements that can be drawn down largely at their discretion.

For land owners, option agreements require minimum expenditure and transfer the responsibility for planning and delivery entirely onto the purchaser. The disadvantage of option agreements is that the landowner has very little control or certainty over the timing of receipts. Further, the land owner has limited influence in seeking to ensure that their returns are maximised with most agreements making the price for land subject to deductions for planning obligations. Minimum price, overage provisions and independent arbitration to assist land price calculations can assist in these regards; but the general criticism of option agreements is the loss of control for the land owner.

Promotion Partner (Option 4)

A promotion agreement is where a partner is appointed to bring skills and funding to facilitate the delivery of the site. Generally such agreements involve the partner taking on responsibility for securing planning permission, marketing and disposing of the land to end users in exchange for a share of the receipts. This typically is 15-20% of the land receipt plus costs incurred, calculated on a formulaic basis after deducting costs incurred by the partner(s). It may include the installation of certain infrastructure items.

In this scenario, the partner does not take ownership of the site but uses their funds and expertise to maximise value. It favours property speculators rather than developers per se. Because the promotion partner has a vested interest in maximising land value, promotion agreements are particularly favourable for land owners wishing to share in the pursuit of higher land value returns.

There are numerous ways of structuring such an agreement, for instance a straightforward development agreement can be adopted which prescribes dates for achieving certain milestones (e.g. planning). There is potential to build on this by including other timing/drawdown obligations for predetermined parcels across the entire site. Minimum land payments (based either on existing use value plus an arbitrary uplift, or Market Value), or overage arrangements can be agreed. It may also include a single partner, or multiple partners forming part of a consortium.