THE REAL VALUE REPORT

Establishing the real value of development

Summary

REAL WORTH

trowers & hamlins

Contents

"There is an urgent need to inform people across the industry in a simple, transparent, standardised way about how to forecast the social value that a scheme is intended to create and then to measure how it actually performs on completion."

Liz Peace CBE, Formerly CEO British Property Federation

Foreword

In undertaking this research some have asked us: why would a law firm commission research about measuring societal value? We work with clients across the private and public sector and on a wide variety of projects, from city scale masterplans to individual restaurants. We believe that real estate as an industry is a critical driver not only for the economy but for society. As an engaged and interested part of this industry we see the benefits that good development can bring. We believe that establishing a better measurement of the wider impact of development will allow financial value to be written into feasibility studies, viability studies and planning applications, and will result in a greater commitment to long term quality as a means to societal value and financial return.

This is the rationale behind linking financial return to societal value. But we have also been asked who does this research benefit? This is about providing a catalyst for a greater tendency in real estate to build for long term value not short term gain; that a development agenda based on the needs of people and society makes financial sense. This research is about giving the industry the means to look beyond the property cycle.

This is the second research report we have published on this subject. The first was launched in March 2016 and initiated an incredible range of discussions across the industry. There was a huge amount of interest and we discovered many others working in this area. This document is a natural extension of those conversations.

With this study we commissioned RealWorth to go into more depth about the techniques and tools to measure social value and makes suggestions and recommendations for both the public and private sector. We welcome discussion and debate with the industry and encourage you to get in touch around the ideas of change that are explored in this work. While ideas and proposals have been put forward, the issues are complex and we welcome dialogue with anyone who feels this research is relevant to them and which contributes to better development in the future.

This is a short version and you can download the full report from our website at **trowers.com/realvaluefullreport.**

We look forward to talking to you.

To join the discussion follow **#RealValue** or **@Trowers** on Twitter or email us at **realvalue@trowers.com**.

Sara Bailey
Head of Real Estate
Trowers & Hamlins

Executive summary

This report seeks to make the case that the greatest financial return on investment is achieved by creating buildings and places in which people and communities thrive.

For this to occur, we believe that real estate projects have to be both financially beneficial to the investor, and generate sufficient long-term societal benefit for those who experience the development. If both these factors are to be established, then societal value needs to be understood, measured and reported in a way that is transparent and understandable to all of those affected.

This report follows on from the 2016 publication 'Highly Valued Hard to Value: Towards an Integrated Measurement of Real Estate Development'. The 2016 research identified key aspects of value in international real estate including cultural, design, functional, social, environmental, accessibility, brand and long-term benefits. It also investigated the ways in which these aspects were measured in the real estate industry and asked whether it was possible to create an integrated methodology for both financial and societal value. The report identified four avenues of action to achieve a better, holistic understanding of valuation in the built environment. These included:

- Inform industry about the tools to provide a broader understanding of urban quality and development
- Enhance current valuation methods
- Provide policy back-up and influence, and a refinement to planning policy in particular
- Introduce performance metrics that correspond to what is valued by stakeholders

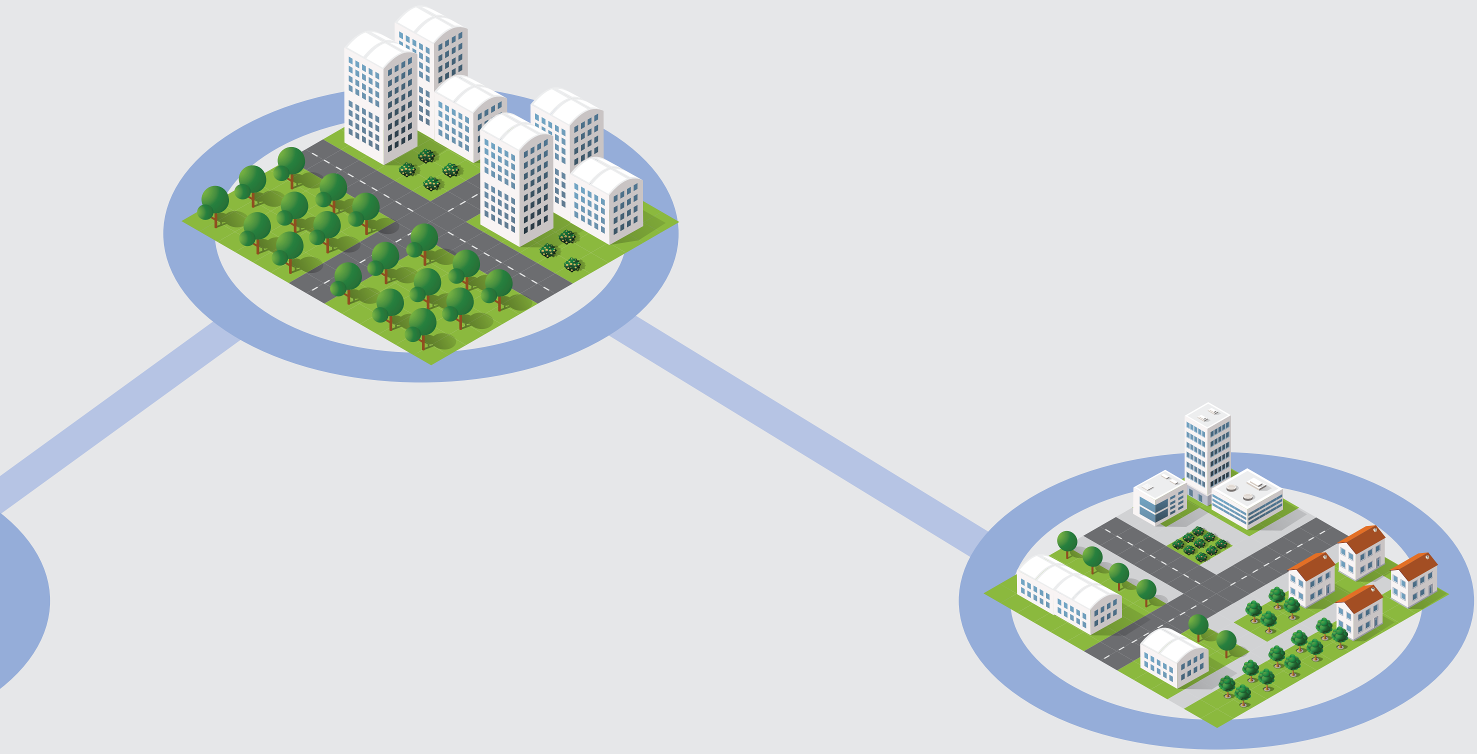
The ultimate goal of our ongoing initiative has always been to help remove the barriers to creating better built environments by helping government and the industry to take a fresh look at valuation methods, review planning policy and to work towards better performance metrics. These measures will, we believe, help to change the way society views the true value of development.

In the process of our investigation, we explored a number of sub-issues, including the reasons why a more comprehensive or inclusive valuation method for real estate is not, as a rule, being adopted as common practice by the sector.

The recommendations are intended to have a positive impact on development and thereby alleviate some of the challenges currently being faced by those active in the real estate sector.

The report contains examples of practical tools, advice and sources to help those interested in doing more to understand, maximise, measure, calculate and report on the combined financial and societal value of development. This includes a number of case studies which help to illustrate the way pro-social and pro-environmental elements have been incorporated into designs to ensure inclusive benefits for a wide range of people.

We have also summarised current methods of property valuation. We look at financial returns and market valuations before moving on to an exploration of how alternative approaches to measuring the societal value of development is being adopted in the industry.



Key findings

The link between financial returns and creating buildings and places in which people and communities thrive

- Accounts from the practitioners who were interviewed for this report show there is strong evidence that property and development which creates societal value can produce higher levels of financial return compared to schemes that do not.
- A search through the literature and accounts from interviewees for this report shows that the information needed to prove that development rich in societal value is worth more on the open market is not being routinely collected and so, at present, this assertion is difficult to prove.
- The industry has identified a number of challenges that limits the ability to deliver societal value in many types of development schemes.
- A key technical barrier to establishing societal value is the erroneous belief that it is not possible to place a monetary value on social and environmental change in the built environment. Using methods of valuation based on the accounts of those who are directly affected by development, it is now possible to provide transparent and evidence-based societal values to compliment conventional financial valuations of property and development.
- Societal value needs to be discussed at the early stages of the development process, and between all parties that are going to be involved in the establishment of the development.
- Many local authorities face multiple barriers when seeking to increase the societal value of proposed development and address the needs of their communities. These include under-funded planning and regeneration teams, concern about risk in relation to public expenditure, perceived legislative constraints around the disposal of land and assets, and in the formulation of legal agreements.

Common features of developments that create significant societal value

The case studies featured in this report share the following aspects of development:

- A strong (often ambitious), clear, aligned and well communicated long-term vision between local authority, developer, investor, local community and local businesses.
- One (or more) stakeholders with the aspiration and drive to create a legacy asset.
- An investor who is prepared to accept a patient approach to achieving long-term, low-risk returns.
- A developer who is intimately acquainted with the needs and wishes of the local and adjacent communities, and who is committed to enhancing existing public assets to generate a sense of place in the short, medium and long term.
- A public sector partner who is able to take a flexible long-term interest and involvement in a development and has the skills, experience and resources to actively participate and steer a scheme toward inclusive goals.

The need for more and better techniques, metrics and ways to understand the societal value of development

- There is an opportunity for a change of culture among all those involved in the development process that favours an interest to maximise societal value in every proposed scheme.
- Existing (conventional) methods used to value real estate and property are effective, but tend to undervalue or overlook the impact development has on people.
- New economic thought such as the inclusive growth or good growth (as described in the Draft London Plan) suggests that investment in development should benefit the widest number of people which infers both financial and societal value.
- Measuring and reporting societal value in the built environment could be carried out as a parallel exercise to financial valuation. Separate guidance could be drafted to standardise some techniques and assist those who wish to adopt the new discipline.
- Short-termism presents barriers to the creation of societal value. For example, some private sector investors are unable to wait for social and environmental benefits to pay dividends, while the electoral cycle and the need to supplement falling central grants affects the decisions made by the public sector.
- For those organisations that are seeking assistance with societal value, there is a small but growing group of experts utilising an approach based on social return on investment that is capable of monetising societal value. The approach is based on stakeholder accounts and socio-economic statistical data.
- There is the potential for new financial mechanisms to overcome the gap between conventional development, and development that maximises societal value. Encouragement of impact investment and patient capital into property, and the ability of government to guarantee impact bonds are a few examples of how these mechanisms might take shape.

Key recommendations

Shifting current practice to include reporting on societal value

- There is a need for a fresh impetus across the industry to create accepted methods to define societal value and to embed a wider understanding of societal value into the training qualifications of the industry's professional bodies. Accountants and the RICS in particular, are well placed to use their considerable influence and expertise to accelerate the acceptance and use of societal value. They can do this by issuing guidance that societal value should feature as a standard chapter in every report that members of professional bodies produce. Commissioning new research, cross-discipline debates, and working with HM Treasury on new guidance would contribute to this aim.
- A review of the Green Book led by HM Treasury would enable the industry to revisit the advice on non-market valuation methods. The Green Book could add to the technical advice on how to monetise social and environmental change and suggest that all appraisals of proposals should include an attempt to report on societal value before committing funds to a policy, programme or project. An evaluation mechanism that confirms whether the value was actually created once the project is completed should also feature in this advice.

Improving techniques to understand how people feel about their surroundings

- Skills, training and qualifications could be developed for valuers, planners and designers to understand the experiences of stakeholders and what is important to communities so that an accurate assessment of the societal value of projects can be made. There are differing views on who should provide this training, but there is consensus that there is a need for a formal accredited programme which is accessible to all parts of the industry.
- Funding for continuing development of both financial and non-financial valuation methods for the property and development sector could be made available to higher education and research establishments.
- A review of how public consultation is carried out during the development process could result in a more effective partnership between communities and developers.
- The nature of information required by planning authorities could include a report on the existing socio-economic and social infrastructure of the receiving area, and an accurate and representative understanding of the community's aspirations for themselves and their area.

What can be done by central government?

- A Green Paper on Societal Value and Development could be commissioned and published by the Ministry for Housing, Communities and Local Government. This could set out a new approach on how to establish the viability of development and regeneration projects, so they conform to the inclusive growth model. The Green Paper could also cover proposals on how to reform planning law and the Social Value Act to ensure societal value is incorporated into every planning proposal.
- Develop a common framework on how to forecast and evaluate societal value. Encourage or legislate for this to be an accepted industry practise in the way that BREEAM and LEED have been adopted for environmental performance.
- A programme to reform planning law (S106, best consideration etc.) and the Social Value Act could be tabled to ensure societal value is incorporated into the development process at the earliest opportunity. This includes a new interpretation of viability where both financial and societal value are considered in the determination of what is deemed a viable project.
- Develop a standard approach to forecasting potential and measuring actual societal value created by development. Consider how to introduce accountability and reward for investors for under and over performance in terms of the creation of societal value.
- Consider expanding the UK Guarantees Scheme and the Home Building Fund to include support for developers and social impact investors who are funding high societal value projects.

What can be done by developers and local authorities?

- Those involved in establishing development could ensure that they fully understand the need to maximise societal value in every project.
- All parties in the development process should carefully and meticulously align the community's views with the aspirations and ambitions of other stakeholders.
- Work should be done in association with central government to explore ways of improving, standardising and mandating pre-application consultation regarding the integration of societal value. There are examples of this in design panel review processes and opportunity areas which could be encouraged to areas beyond London.
- Widely adopt the concept, language and ambition of good growth set out in the Draft London Plan across other areas in the UK.
- All parties to agree on the preparation of an inclusive design statement evidencing how proposals meet the needs of people with protected characteristics (including age, race, gender, disability, race, religion, pregnancy, etc.). The definition of protected characteristics should be extended to include people experiencing social and economic deprivation.

Aim and context of the report

The aim of this report is to make the case that the greatest financial return on investment is achieved by creating buildings and places in which people and communities thrive. For this to occur, we believe that real estate projects have to be both financially beneficial to the investor and generate sufficient long-term societal benefit for those who live, work and experience the development. If both these factors are to be established, then societal value needs to be understood, measured and reported in a way that is transparent and understandable to all of those affected.

This report seeks to explore the questions raised in the 'Highly Valued Hard to Value: Towards an Integrated Measurement of Real Estate Development' study published by Towers & Hamlins in March 2016 with Oxford Brookes University and ING Media. The report investigated the aspects of development that people valued, and asked whether it was possible to create an integrated methodology for measuring both financial and societal value.

Following the 2016 report Towers & Hamlins convened a Working Group consisting of industry leaders chaired by Sara Bailey, Head of Real Estate at Towers & Hamlins.

The Group has, to date, focused its attention on larger scale projects that involved (at least in part) a commitment to regeneration and involved a partnership between the public and the private sector. In the process of fact-finding for this report, the Working Group invited sustainable value experts RealWorth to give evidence based on their experience in the field. This led to an invitation to work more closely to help the Group to progress its work. Information used in this report includes a review of recent literature, interviews with selected experts and practitioners in the built environment, and the experiences of RealWorth in practice.

A full list of definitions of the terms used in the report can be found in the full report **trowers.com/realvaluefullreport.**

Project team

Authors – Main author - Prof. Erik Bichard (RealWorth) with contributions from Phil Higham (RealWorth) and additional research from Dr. Anthony Higham and Kevin Aspen (University of Salford)

Project team – Sara Bailey, Nicholas Barrows, Charlotte Judge (Trowers & Hamlins), and Tom Elliott (ING Media)

Working group

Sara Bailey, Head of Real Estate, Trowers & Hamlins – Chair

Gareth Blacker, General Manager – Infrastructure and Complex Projects, Homes England

Adam Challis, Head of Residential Research, JLL

Tom Elliott, Associate Director, ING

Richard Fagg, Project Director, Lendlease

Peter George, Assistant Director – Regeneration & Planning, Enfield Council

Ciaran Gunne-Jones, Senior Director and Head of Economics, Lichfields

Debbie Jackson, Assistant Director of Regeneration, Mayor of London

Adrian Leavey, Partner and Head of Commercial Property, Towers & Hamlins

Jonathan Smith, Director (Residential Advisory), JLL

Andrew Turner, Project Director, Argent

Andy Von Bradsky, Chair, Housing Forum & Advisor, Ministry of Housing Communities and Local Government

Nicholas Barrows, Director of Marketing, Towers & Hamlins

Katherine Evans, Solicitor, Towers & Hamlins

Additional interviewees

Tatiana Bosteels, Head of Responsible Property Investment, Hermes Investment Management

John Carleton, Executive Director, Orbit Housing Group

Philip Farrell, Development Director, Urban Growth Company

Pete Gladwell, Head of Public Sector Partnerships, Legal & General

Julie Hirigoyen, Chief Executive, UK Green Building Council

Andrew Knight, Head of City Engagement, RICS

Ian MacLeod, Assistant Director – Planning and Regeneration, Birmingham City Council

Liz Peace CBE, Formerly CEO, British Property Federation

Lee Treanor, Head of Development – Manchester City Centre, Bruntwood

What people value

This report seeks to explore how an understanding of positive change can be translated into actual value. Previously this has been described (by those marketing developments) primarily in narrative. People's stories were collected and used as evidence that development had benefited those in and around it. This can be effective, but can also be ad-hoc, promotional and unreliable in the eyes of some local people. Now, the growing discipline of the monetisation of social and environmental change, based on stakeholder accounts, has offered a quantitative alternative to this approach.

The attribution of value through new and emerging methods could allow the societal value of development to be measured, compared and communicated to give a greater understanding and involvement of those who are directly affected by development. The influences on people's lives can be divided among a number of factors including the opportunity to:

- Live with a reduction or the absence of crime
- Improve levels of health
- Gain education skills
- Get a job, or to progress to a better job
- Meet individual human needs
- Experience more and better open and green spaces and cultural enrichment

All of these influences should have the potential to help people reach their full potential.

The contention of this report is that unless property and development is valued by a combination of both its financial return, and its return to society, it will be difficult to gauge or understand its real value. The consideration of combining financial and societal value as a single sum would provide a more accurate valuation of property and development, but it also offers an evidence-based approach with which to make decisions about the best combination of elements to include in a scheme, or whether to build at all.

The rise of inclusive or 'good' growth

Opposition to austerity policies are often rooted in a reaction to the injustice of the impact it has on the low paid and the vulnerable. Since the Highly Valued, Hard to Value report was published in 2016, there have been a number of attempts to define an alternative economic strategy. Two of these; the RSA's Inclusive Growth Commission, and the 'good growth' proposals set out in the Draft London Plan can be used to illustrate how this alternative might operate in practice.

The need for a new economic vision was summarised by the Inclusive Growth Commission (RSA, 2017) when it stated that "Reducing inequality and deprivation can itself drive growth. Investment in social infrastructure – including public health, early years support, skills and employment services – should go hand in hand with investment in physical infrastructure, and in business development. This will have a first order impact on productivity and living standards."

The Mayor of London's office has published a number of documents that describe the intention to establish 'good growth'. In summary 'good growth' means:

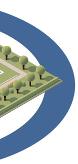
- Building a more inclusive city (which is defined as an inviting place to live, work and visit)
- Supporting health and wellbeing for all Londoners
- A balanced mix (including between the young and the old, between people from different cultures and backgrounds, of housing tenures and different types of workplaces)
- Support and enrichment of the city's public and civic spaces including the streets and routes that connect them
- A contextual approach that allows for vitality and change whilst sustaining and strengthening the character of London's existing neighbourhoods
- Partnerships between the public and private sector
- Resilient to a changing climate
- Green and healthy, with clean air, easy access to green space and more efficient buildings supplied by cleaner energy
- A place that enables everyone to fulfil their potential, by providing inclusive access to transport and other public services, by ensuring that communities see the benefits of growth, and by enabling broader public participation in how the city changes

The London vision (GLA, 2016) includes an emphasis on a long-term approach to investment that is designed to yield the wider benefits of change. These policies suggest a potential new emphasis on the way society could and should value economic growth differently.

While not explicitly defining the need to maximise societal value in the built environment, inclusive economic policy provides an important context to the argument that it is too expensive to invest in development that benefits the widest number of people who are affected by its establishment.

"There is potential for some greater flexibility in public sector procurement to give value to place-making. This might assist all parties to move beyond a purely financially-driven approach and allow developers more freedom to shape how desired outcomes can be achieved."

Ciaran Gunne-Jones, Lichfields



How property is currently valued

- Societal value is challenging to measure and report because it accrues after the development is realised and mainly to occupying stakeholders. Pressures on capital costs mean that value accruing to end-users is rarely considered at the design stage.
- Market-based valuation techniques such as cost benefit analysis do not accurately reflect the societal value accruing to people associated with development.
- While not discounted in the guidance given to valuers in official documents, the calculation of societal value is given less emphasis and support compared to market-based methods. This may dissuade valuers from incorporating societal value in their reports.
- Checklists, codes and frameworks designed to help designers to incorporate pro-social and environmental elements into their schemes are helpful. However, they do not replace societal valuation as they cannot quantify these features or allow an understanding of the relative merits of the impacts on stakeholders.

Alternative approaches to societal valuation

- Measuring social and environmental change allows the added value of a scheme to be considered alongside conventionally assessed financial returns. This is a comparable method to employ as it is expressed in terms of monetary value and makes it easier for non-technical stakeholders to understand the implications of the options and trade-offs that might be considered in the design stage.
- Understanding societal value is important, not just to ensure equity across society, but also for the financial sustainability of the economies in which they are built.
- There is a growing desire in some parts of the real estate sector to better understand and report on the societal impact of development. There is also growing recognition of the need to provide appropriate legal incentives to encourage broader appreciation of the impacts of organisational and policy decisions on people.
- Tools are being developed to measure, monetise and report societal value in the built environment. Some reports on the societal value of development have already been released, but the discipline is young and is in development. Many in the real estate industry have yet to explore societal value approaches, and this would explain the modest adoption rate to date.
- Many practitioners recognise that elements of some development do generate societal value but accept that there are very few schemes that systematically collect the information required from stakeholders that could confirm this belief.
- Changes in working practices and culture, legislation, and investment mechanisms would accelerate the adoption of societal value into common practice in the built environment.
- While existing practice is sufficient to calculate societal value, there is a need to regularise the approach, possibly in the form of a parallel guidance document to be used in addition to existing market-based guidance.
- Specific changes to planning law (such as Section 106 agreements and the justification of the disposal of land and assets under best consideration) would allow societal value to become part of the definition of viability, thus ensuring that a wider number of people benefit from investment in property.
- An extension of the Public Services (Social Value) Act to include the development and planning process could lead to a requirement for applicants to submit a social value statement on how their development will add to the social and environmental value of the area.
- A common response to proposals to add pro-social and pro-environmental elements to development projects is that the increase in costs is uncompetitive and is not justified in terms of the return on investment. Monetising the benefits of these features and integrating them into the wider local economy changes the nature of this conversation.
- An understanding of potential added societal value could be the precursor to a discussion about how to fund the ‘gap’ between conventional and sustainably enhanced development.

We have selected the following projects as great examples of those which incorporate societal value. The full details can be found in the full report at **trowers.com/realvaluefullreport.**

- **City Islands** – London
- **Western Harbour** – Malmo, Sweden
- **Develop Croydon** – Croydon
- **Peddimore Industrial Development** – Birmingham
- **Peckham Levels** – London
- **Blue House Yard** – Wood Green, London
- **Wood Wharf** – Isle of Dogs, London
- **Chilmington Green** – Ashford, Kent
- **Elephant Park** – London
- **Deptford Market Yard** – London
- **New Street Square** – London
- **Bilston Urban Village** – Wolverhampton
- **Old Oak, Park Royal** – London
- **UK Central Solihull** – Urban Growth Company – Solihull

Tools to aid better understanding of societal value

- There is a common misperception among those who are concerned about the practically of producing societal value calculations that there are insufficient metrics available to do this work. In fact, numerical and monetary data that can be used for this purpose is widely and freely available.

- Sustainable valuations rely upon gathering information from people who are affected by the intervention. Where possible these people should be questioned to understand how their lives have changed or might change before a project has started.

- Existing consultation arrangements to establish societal value are inadequate because they do not make time or provision to understand the underlying factors that influence the lives of the local community. Without this, commissioners, developers and designers can have no reliable way of knowing how their scheme will affect the lives of those that experience their developments.

- The development and application of societal value tools help all those involved in the development process to understand the full reach of the value created by development. These could, at the very least, better inform negotiations about the merit of proposals and alternatives. These tools should be linked to existing processes rather than create new ways of working that would need to be retrofitted to existing practices.

- A common question that arises from the calculation of societal value is; where does the money that is generated in development that improves people's lives go? Some undoubtedly flows to developer in the form of higher rents, reduced management fees, void turn-around expenditure. However, much of the societal value that is produced as a result of improvements to people's lives is distributed elsewhere in the economic system. This is a valid concern as it affects the long-term viability of the scheme.

- This section of the report includes a number of tools and approaches to advance the thinking and practices of those open to improving the way that societal value is understood, maximised and measured in the real estate sector.

"Understanding the existing make-up and assets of places is fundamental to successful, inclusive and good growth."

Debbie Jackson, Mayor of London

The seven principles of social value

Many practitioners of social return on investment follow the seven principles set out by Social Value International, the membership group and advocate organisation for social return on investment or SROI). These principles are:

- Involve stakeholders
- Understand what changes
- Value the things that matter
- Only include what is material
- Do not over claim
- Be transparent
- Verify the result

The principles preserve the goal of monetising change to human lives by ensuring they are involved in creating the data set in a way that everyone can understand, and then making sure that only the most important information is used to calculate the return on investment. Monetising social and environmental change allows the added value of a scheme to be considered alongside conventionally assessed financial returns. Not only is this a more comparable method to employ, but it also makes it easier for non-technical stakeholders to understand the implications of the options and trade-offs that might be considered in the design stage.

Sustainable return on investment

RealWorth uses an approach it has developed called Sustainable Return on Investment or SuROI to evaluate the social and environmental changes caused by projects, programmes and investments. Other practitioners (Social Value Portal, Social Profit Calculator, nef for example) offer alternative approaches. The aim of SuROI is to allow the environmental and social value of a project to be made explicit through evidence, and then monetised to show the value relative to the amount of investment. The approach classifies both environmental value and social value as an economic benefit. For example, value arising from employment outcomes is classified as a social value and monetised to create an economic benefit in the same way that savings in CO_2 are monetised to create an economic benefit (albeit using different indicators and proxies). SuROI gives an overall sustainable value in financial terms and a return on investment ratio which can be used by decision-makers in a variety of ways.

The SuROI approach assesses the degree to which change has occurred (whether positive or negative) both in terms of the significance of the change, and the numbers of people that experience the change. A sustainable value study relies upon the information from people who are affected by the intervention, and/or those who have an insight into the effect of the intervention. Where possible these people are questioned to understand how their lives have changed or might change (before a project has started).

Following a step-by-step approach, field data can be used to populate an impact map which contains the following information:

- Stakeholders (groups of people, organisations or entities that experience change, whether positive or negative, because of the activity/intervention that is being analysed). A typical stakeholder group might include residents, employees, visitors, beneficiaries of charities or other third sector organisations, and people living close to the intervention.
- Inputs (the cost of the project including capital investment, the monetised value of volunteers, and any other in-kind contributions).
- Outputs (the number of units of delivery where applicable).
- Outcomes (the stated or predicted changes to stakeholder's lives).
- Each of the outcomes are categorised against factors. These are topics that affect stakeholder's lives including crime, health, wellbeing, training and skills, employment and green and restorative space. The outcomes are then monetised by first identifying an appropriate indicator (the unit of measurement), and then applying a suitable monetary value (or proxy) to each indicator. The values are multiplied by the numbers affected (from the survey returns / field data) and the amount of time the influence of the project / intervention was likely to stay with them. The duration of the project is taken as the time in which it occurred – in this case one year.
- Indicators and proxies are typically taken from a wide range of sources including local and national government statistics, research bodies and think-tanks, and representative or accreditation organisations. Ecological value is derived from databases compiled through work on the Millennium Ecosystem Assessment. All the sources that RealWorth use are publicly available.

> *"Local authorities are placing more emphasis on investment in social infrastructure in their procurement rules and award criteria."*
>
> Ian MacLeod, Birmingham City Council

RealWorth also analyses changes to stakeholders in terms of three components. This includes:

- Value to society – saving to the tax-payer
- Value to the individual's economic prospects – increase in income or reduction in expenditure
- Value to the individual's levels of life satisfaction

The monetary implications of these changes are then combined to establish as the gross sustainable return on investment. The net value is derived after adjustments are made for other influences that might have contributed to the outcomes, and the effect of time in terms of lessening affects or depreciation.

There are four main adjustments including:

- Deadweight – the amount of outcome that would have happened even if the project was not carried out
- Displacement – the amount of activity that has moved to another place because of the project
- Attribution – the amount of outcome that was caused by a contribution from other interventions beyond the scope of the project under analysis
- Drop-off – the deterioration of an outcome over time

The results are presented as an overall sustainable value at project level, and on a project-by-project basis. The results are also segmented against stakeholder group and factor. The breakdown of the results assists decision-makers to understand variances in return on investment, and (where appropriate) to focus on the way one stakeholder group or factor (societal issue e.g. crime, health etc.) might benefit from a project.

Tools such as balanced scorecards have been created for a number of purposes to help planners and designers to be systematic and comprehensive in their consideration of the impact that development can have on people. Figure 1 shows and example how a balanced scorecard might be constructed that seeks to capture social and environmental value as reported by the stakeholders who are impacted by a proposal or an established development.

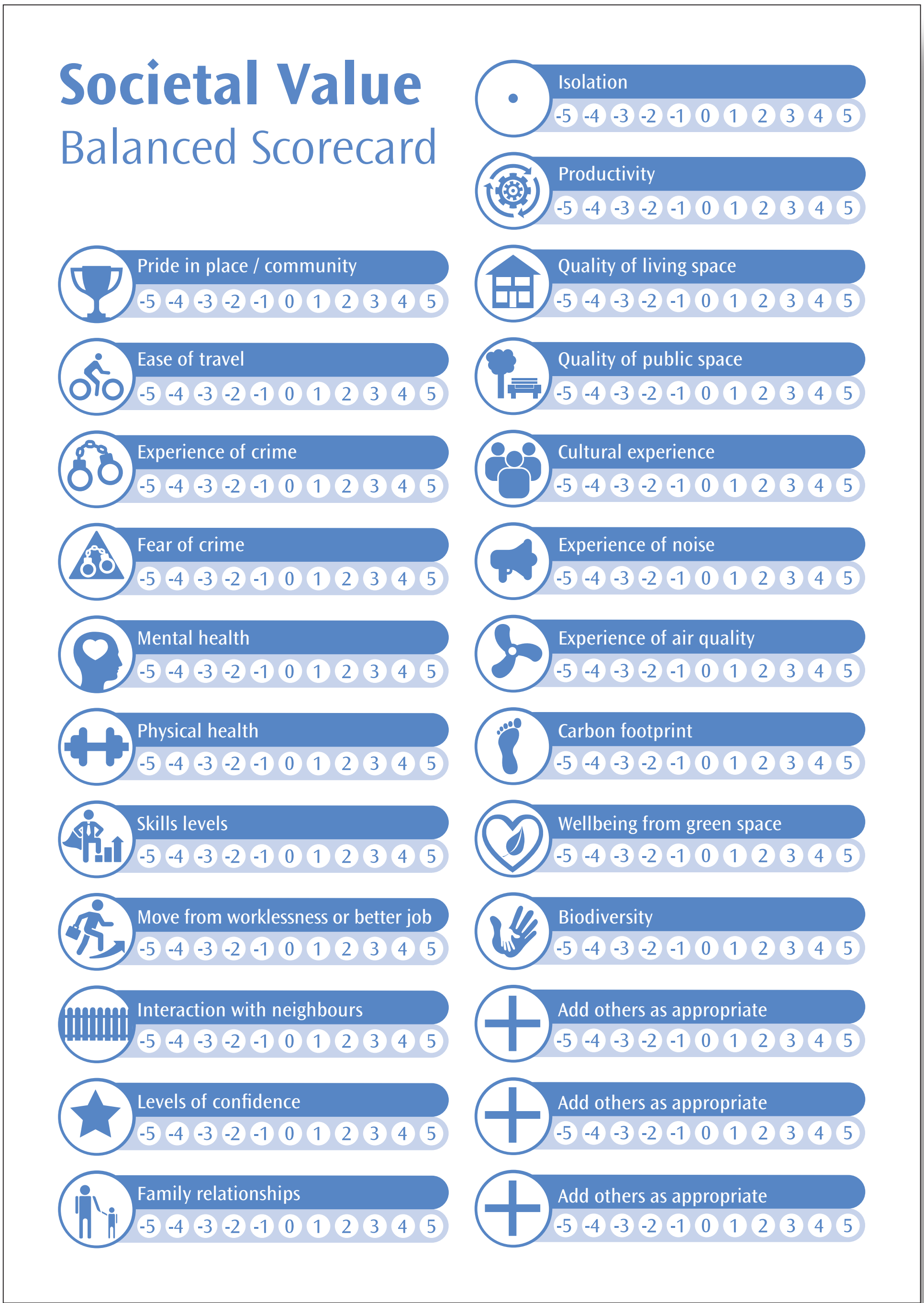
Some of those interviewed for this report thought that a form of rationale or toolkit for the public sector might contribute to a more transparent process of decision-making about what elements go into a development scheme. The feeling was that if this was in place, as a matter of statutory requirement, then short-term political expediency would be less likely to influence decisions.

Widening the understanding of value beyond site boundaries

The value that development creates is cause by the changes it makes to people's lives. These changes not only affect those who live, work and visit the building and grounds of the scheme, but can also profoundly influence those that occupy the space around the development. The construction of tools that help investors, designers, planners and elected officials to understand the full reach of the value created by development could, at the very least, better inform negotiations about the merit of each proposal. At best this approach could accelerate negotiations about the inclusion of features, and the terms of any legal agreements.

Much of the societal value that is produced as a result of improvements to people's lives is distributed elsewhere in the economic system. Figure 2 contains an illustration of what a societal value distribution tool might look like, and some of the factors that could be considered in a discussion about impacts and trade-offs from development projects.

Figure 1: Indicative societal value balanced scorecard



"Delivering social infrastructure earlier helps create a sense of place and supports enhanced financial return."

Andy Von Bradsky, Ministry of Housing, Communities and Local Government

Figure 2: Distribution of societal value

Indicative factors affecting people experiencing change	Public value (the state sees changes in public expenditure and tax revenue because of the intervention)	Private value (businesses, people and other non-public organisations experience change because of the intervention)	
		Income and expenditure (by individuals and organisations)	Wellbeing (including changes in self-esteem, self-confidence, feeling of control and belonging and the impact of changes to physical and mental health)
Crime	Changes to expenditure on policing and judicial system and other local authority services, expenditure on treating patients with physical and mental health problems.	Landlord costs due to changes in voids, management of tenants' complaints, insurance premiums. Local business prosperity changes with incidents of crime.	Fear of crime leading to changes in confidence, anxiety and control.
Health	Changes to expenditure on treating patients with physical and mental health problems, changes to tax revenue and benefit payments due to productivity for those in work, and those on state support, changes to expenditure on local authority services including social work and social care.	Effects on earnings due to changes in productivity and performance and employment status.	Health status leads to changes in confidence, self-esteem, family relations and feeling of control.
Employment	Changes to tax revenue due to employment type and opportunity for those in work, and benefit payments to those moving from worklessness to employment, changes in expenditure on health and crime due to employment status.	Changes in disposable income, changes in local business prosperity due to influences on local spending.	Employment status leads to changes in confidence, self-esteem and control. The nature of workplace environments and the support offered there can influence confidence and feeling of control.

Indicative factors affecting people experiencing change	Public value (the state sees changes in public expenditure and tax revenue because of the intervention)	Private value (businesses, people and other non-public organisations experience change because of the intervention)	
		Income and expenditure (by individuals and organisations)	**Wellbeing (including changes in self-esteem, self-confidence, feeling of control and belonging and the impact of changes to physical and mental health)**
 Educations and skills	Admission on training schemes can lead to changes in tax revenue and benefits expenditure, and can influence expenditure on health and crime due to the potential for better employment status.	Skills and qualifications lead to changes in potential earning power.	Possession of qualifications and credentials leads to changes in confidence, self-esteem and control.
 Local environment (including green and restorative space and cultural significance)	Local environments can influence changes in health, social work and social care expenditure, changes in footfall due to the standard of the local environment can influence the incidence of crime and therefore expenditure on crime.	Attractive environments can influence visitor expenditure and changes to local business prosperity and inward investment. Changes to health can improve productivity and employment opportunities influencing disposable income.	Changes in feeling of belonging, confidence and satisfaction due to surroundings. Activity in open space can influence feelings about state of physical and mental health.
 Climate change (including changes to safety, security, health and livelihood due to the impact on carbon emissions)	Changes to disaster and emergency services expenditure can be influenced by disruption to infrastructure and services, impacts on health expenditure due to heat waves and storms. Disruption to businesses can affect tax revenues.	Damage to property can change business viability, and levels of household savings, disruption can affect individual or organisational earnings.	Loss of property, health, and damage to neighbourhoods can affect confidence, feelings of physical or mental stability, and feeling of belonging.

Metrics

A common misperception among those who are concerned about the practically of producing societal value calculations is that there are insufficient metrics available to do this work. In fact, the numerical and monetary data that can be used for this purpose is widely and freely available. Most of the sources of this information will be familiar to researchers with a background or training in the social sciences.

The collection of social and environmental metrics can take place at two different stages of a review. It is helpful, often as early in the concept stage of a project, to understand the area in which development is taking place in terms of the socio-economic indicators (health, crime, education attainment etc.), and the presence or absence of social infrastructure (clinics, schools, skills and training centres, cultural and leisure facilities etc.). This helps to map the area to identify social and environmental gaps, or assets to be preserved or enhanced. It also helps to characterise the population and identify pockets of need and possibly untapped human capital that would benefit the sustainability of the development. Sources and accessibility to socio-economic and social infrastructure metrics vary from country to country, but in the UK, they can be obtained from (for example):

- Local authority web pages and records
- Office for National Statistics or ONS such as:
  - Official labour market statistics
  - Census statistics
  - Economic output and activity
  - People, population and community
- Government department sites (Home Office, Department of Justice, Department of Health and Social Care, Ministry of Housing, Communities & Local Government, etc.)
- Index of multiple deprivation
- Lower layer super output areas

There are many sources for this type of data, but more detailed or specialised issues may have been covered in greater depth by academic studies or research carried out by think tanks or professional bodies. The combined data from these sources can be compiled to form the base case for any subsequent quantification of the changes that the development will bring about in the area.

Metrics are also collected and used when societal value is monetised. In the field of social return on investment these are known as proxy values as they represent changes to people's lives based on both market and non-market sources. In each case, the valuer is looking for the price of the unit of measurement chosen to represent the change. If the unit of measurement is the number of visits to the family doctor, then the proxy value will be the cost to the NHS to see a patient at a GP surgery for the average consultation time for that area for example.

A large number of metrics can be found on the Global Value Exchange site maintained by Social Value UK. Individual values can be found from a large number of sources, some of which are:

- Unit costs for health treatment: Costs Book (Scotland), Department of Health Reference Costs (England), Kings Fund
- Unit costs for crime: Ministry of Justice, Home Office, Youth Justice Board, academic studies
- Unit costs for the provision and benefits of education and skills: Department for Education, Department for Business, Innovation & Skills, Work Foundation, academic studies
- Unit costs for wellbeing and the effect of poverty: Publications by HACT, academic studies, Department of Work and Pension, Joseph Rowntree Foundation
- Unit costs for ecological impacts: The Economics of Ecosystems and Biodiversity Valuation Database, The Land Trust, academic studies

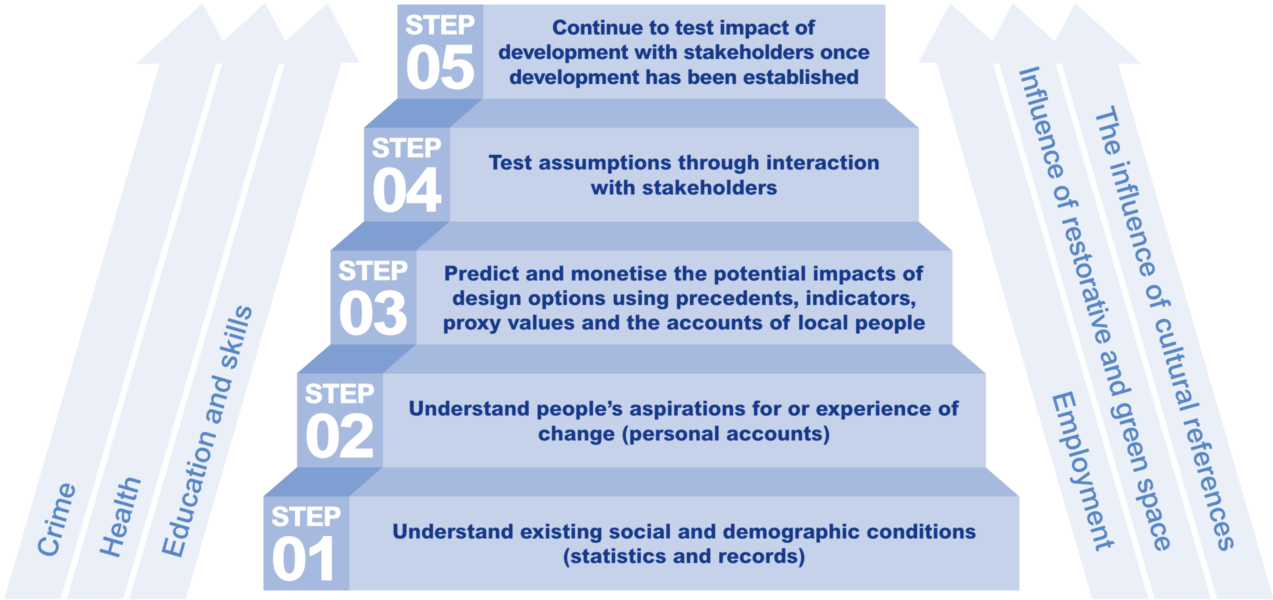
This list of sources is not exhaustive. Indeed, there are many other potential data sites and repositories where metrics may be sourced. For an experienced researcher, the acquisition of the relevant informant to carry out the analysis of societal value need not be complicated or time-consuming. The depth of any analysis will be dependent on the scope of the investigation, the scale of development and the number of stakeholders it is likely to affect. However, the information required to produce well-evidenced, transparent analysis in the UK and many other countries is often readily available to those who are skilled to find it.

Generating societal value from people's experiences and metrics

It should be possible for any built environment valuer to collect and collate information about societal value in the same way that they are used to carrying out a conventional financial return on investment analysis. As this report indicates, the availability of metrics, and the guidance on the skills required to obtain experiential accounts from stakeholders is now freely available.

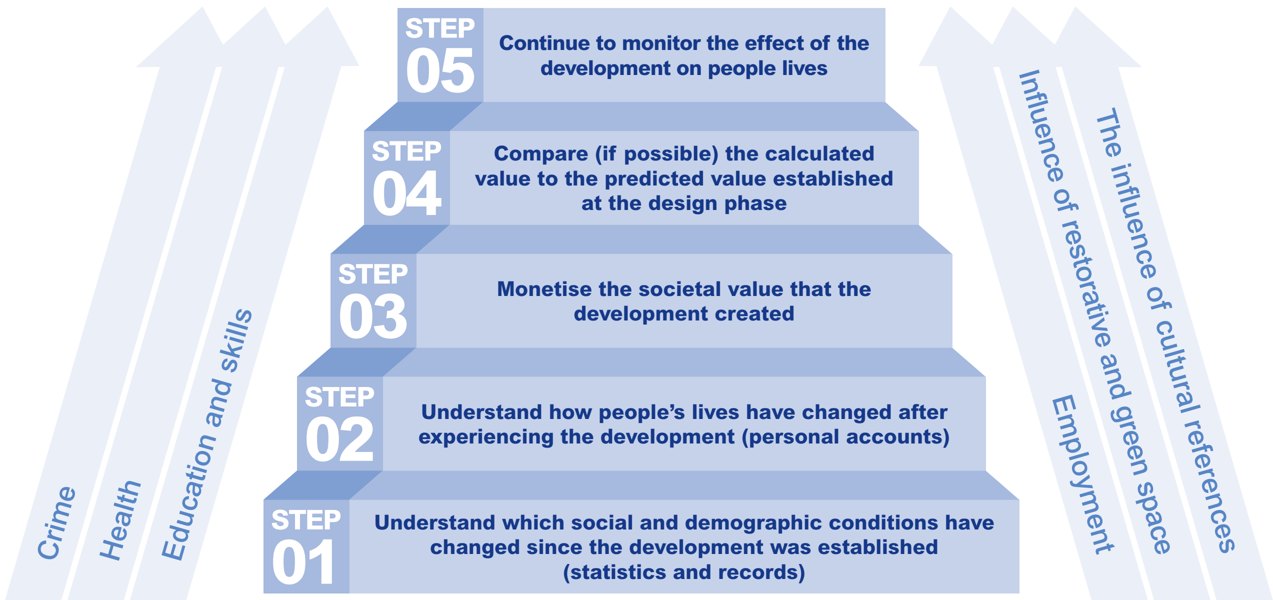
Following a simple step-by-step process set out in more detail by Social Value International, this method can be used to both predict and evaluate post-completion development schemes. Figure 3 shows how metrics, the accounts of stakeholders, and factors that affect their lives can be combined to predict and forecast the societal value of planned development. Figure 4 show a similar process for the evaluation of societal value of completed development.

Figure 3: Linking metrics, accounts and factors to predict the societal value of development



Apply the seven principles of social value at all times during the process, involve stakeholders, understand what changes, value the outcomes that matter, only include what is material, don't overclaim, be transparent, verify the results.

Figure 4: Linking metrics, accounts and factors to evaluate the societal value of development



Apply the seven principles of social value at all times during the process, involve stakeholders, understand what changes, value the outcomes that matter, only include what is material, don't overclaim, be transparent, verify the results.

Case studies: societal value attributed to development

The approach used to measure and report on societal value is young and developing. However, it is possible to see a growing number of completed reports that use the social return on investment approach to calculate the societal value of development schemes. Figure 5 contains examples of four such case studies. The Kings Cross study was carried out by Regeneris while the other three were carried out by RealWorth.

Figure 5: Case studies showing sustainable return on investment

Sheffield

CAPITAL COST

£8m

SOCIAL VALUE GENERATED

£26m

Castle House

Project summary

The redevelopment of the largely vacant 1960s Grade II listed former Co-op department store and headquarters building into use as a digital incubator, a maker space, a music and arts college and leisure space. The project will serve as an anchor point for the regeneration of the wider Castlegate district.

Proposed uses include:

- A street food market, leisure and retail concept
- A variety of open desk co-working and grow-on office spaces
- A music and arts college and auditorium
- An incubator space and an accelerator facility organised into four centres of excellence

Proposed industry sectors include:

- Media
- Medical technology and life-sciences
- Smart materials
- Energy and sustainable buildings

Proposed occupiers include:

- Business tenants interested in locating their innovation-based business in a supportive environment occupied by similar enterprises.
- A new Northern Academy of Music and Dramatic Arts (NAMDA). The academy will use the space for both events and performances and for education.
- Café and food retailers who are sympathetic to the culture of the project and can accommodate blended co-working on a membership model.
- A variety of businesses and other users who wish to rent individual or multiple desks in either co-desk spaces or individual studios. These spaces would have shared facilities and support staff on hand to facilitate the tenants.

Capital cost - £8 million

Main outcomes

People entering new employment is predicted to generate £20 million (78%) of the overall societal value created by the planned scheme. This is largely attributable to the four Centres of Excellence. An additional £4.6 million of value is forecast from the experiences of visitors and the local community, and a further £1.1 million from the occupants of the residential tower which is significant.

In terms of the factors that affect the stakeholders, £24.4 million (95%) of the value is generated as employment or wellbeing. This reflects the experiences of the business tenants in the building. The balance of the value in the remaining factors (health, crime, education, ecology and local economy) amount to £1.3 million.

Social value generated - £25.7 million

Anonymous

CAPITAL COST

£0.8m

SOCIAL VALUE GENERATED

£5m

Anonymous

Project summary

The project is a meanwhile site designed to catalyse a £1 billion town centre redevelopment. The creation of temporary / pop-up facilities established structures, assets and a range of business and leisure activities on part of the site.

Capital cost - £0.8 million

Main outcomes

Employment and wellbeing values of £4.7 million (95%) arise from new jobs associated, particularly in the café where a social enterprise is working with formerly unemployed people being trained to work in the hospitality sector. Health outcomes £0.2 million (5%) come from working in the gardens, while there are reduction in crime outcomes associated with higher levels of employment and the presence of the new facilities in a previous high crime area. Ecosystems (environmental) outcomes are predicted because of the creation of a new garden. These will be assessed at the next stage of the project's development.

Social value generated - £4.7 million

Salford

CAPITAL COST

£12m

SOCIAL VALUE GENERATED

£59m

House for Life

Project summary

Salford City Council asked White Arkitekter to design a concept for an affordable housing scheme in an innercity, on council owned the land. A prospectus for the new scheme stated that "The quality of the home has a substantial impact on health and wellbeing, and poor housing is a contributing risk factor for health inequalities. Ensuring individuals and families have a warm, dry and safe home environment is a key priority for Public Health and Social Care and action is required to reduce inequalities. The Council therefore wishes to see innovative development proposals which will contribute to improved health through a range of measures.

Capital cost - £12.2 million

Main outcomes

Provision of:

- A wide range of public and private spaces, designed to promote active lifestyles and community interaction
- Encouraging walking and cycling and lowering use of the private car through street layouts and the control of car parking throughout the development
- Shared communal gardens / greenhouses to enable local food production and gardening and promote community interaction
- Sports facilities, gym equipment, play spaces and other active social areas to promote community interaction
- Small scale retail facilities which could be linked to local food production across the site

Social value generated - £59 million (a sustainable return on investment ratio of 1:4.9)

King's Cross

Project summary

Located within one of London's most vibrant and rapidly evolving locations, King's Cross is one of London's largest and most high-profile developments. The development has been guided by Argent's (the developer and asset manager) ten 'Principles for a Human City' which places an emphasis on long-term stewardship, high-quality, inclusive design, accessible public realm, diversity, and engagement.

Now in its 9th year of development, King's Cross has already become a thriving residential and commercial hub, visited by over seven million people per year. To date, around 1.4 million sq. ft. of commercial space has been delivered, with 97% of this occupied. King's Cross has succeeded in attracting a diverse range of organisations, from multi-national businesses, to independent arts and culture focused organisations.

The scheme also incorporates 900 new homes 325 affordable 750 student rooms 1,200 working age residents. 3 million sq. ft. commercial offices.

Capital cost - £3 billion construction investment (November 2017)

Main outcomes

An innovative range of housing tenures and models, providing secure and affordable housing options for London's population.

500 jobs supported within local suppliers during construction.

Local and previously unemployed people employed within commercial and amenity uses on site; CSR activities of occupiers; business rates estimated to be in the region of £25 million per annum.

Social and wellbeing benefits via participation in arts and culture activities; wellbeing values associated with reductions in crime behaviour, and increased community interaction.

Social and economic impacts relating to school and education interventions such as the reading buddy scheme; wellbeing impacts relating to wider training and knowledge transfer initiatives.

Social value generated

£4.6 million lifetime uplift NVQ L2 supports £16.8 million lifetime uplift for apprenticeship supports through construction activities.

160 local jobs supported within local services and amenities via resident expenditure (estimated to be in the region of £17 million per annum).

8,500 jobs supported on site in the commercial offices (estimated to generate in the region of £0.5 billion GVA per annum) £20.7 million lifetime uplift for KX Recruit 'into' employment supports (economic uplift for moving from unemployment to employment).

£12.5 million community wellbeing uplift (wellbeing uplift in 2015/16 for regular volunteering, regular attendance at youth club and regular attendance at low cost sport events).

London

CAPITAL COST

£3bn

SOCIAL VALUE GENERATED

£21m
Support for NVQ L2 and apprenticeships

160
Services and amenities jobs

8,500
On site jobs

£12m
Community wellbeing uplift

Estimate uplift

£0.5bn+ ANNUALLY

Implementing change

- The public sector has a role to play in taking a lead for setting out the social and environmental needs of their area, and expectations of the receiving community in terms of the societal value that should be created by development.

- It is more difficult to incorporate societal value requirements into development criteria in places where there is low investor interest. Regardless of market conditions, the needs of the population should be reflected in the requirements of the commissioners or regulators.

- The public and private sectors could start to influence a change in culture by publishing case studies which record the benefits of investing in societal value.

- Investment in societal value presents some serious challenges for investors and developers. This has been described as the split-incentives dilemma where some of the benefits of investment are returned to the investor, but other benefits go elsewhere.

- The creation of societal value is a main driver for the public sector and the private sector is also beginning to embrace this. Some are making this a key part of their branding and marketing offer.

- Institutional investors (especially American funds and pension funds) are now increasingly interested in responsible investment and are therefore looking more closely at social and environmental impact.

- Many occupiers have set high benchmarks for the environmental performance of the places they occupy. There are now signs that this environmental focus is widening to include social value.

- There is real potential for regulation to influence the incorporation of societal value during the planning process. This could be by providing guidance to help all parties focus on the creation of place and societal value. This would assist prospective developers to focus their proposals to benefit the widest number of people in the area.

- There is an opportunity for a thorough review and updating of the guidelines and requirements for public consultation and placemaking. This would align stakeholder needs and aspirations with development proposals. This process should occur much earlier in the process.

- Public authorities in negotiation with developers (including their legal advisors) would benefit from better tools to build in societal value into arguments to justify less than market value. Best consideration could be used to lever more pro-social, and environmental investment into schemes if the was the case.

- There is evidence that investors are becoming increasingly interested in understanding and benchmarking the societal impact of their investments. Many already integrate societal (mainly environmental) factors into their investment models and policies. There is growing desire to improve the way social value is understood, measured and benchmarked.

- There is a need to overcome the tension between preserving financial viability for investors and adding more societal value into development projects. One solution could be to create new funding vehicles to plug the gap between standard and enhanced societal value projects.

A list of references is available in the full report at **trowers.com/realvaluefullreport.**

"Ideally, it begins with investor partners who are prepared to take a long-term 'patient' view. Taking a development-wide long-term view can give weight to the 'softer' social metrics which ultimately make projects and places more resilient thereby reducing investor risk."

Andrew Turner, Argent

Trowers & Hamlins would like to thank Erik Bichard and Phil Higham from RealWorth for their assistance in producing this report. We would also like to thank everyone at ING for their work in developing this project.

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