GLOSSARY: DEVELOPMENT

Understanding terminology most commonly used by the development sector

1. **LIQUIDITY** – how quickly a property asset can be turned into cash.

2. **COST OF CAPITAL** – the cost of financing. This is usually expressed as the costs involved in borrowing money, but can also include the "opportunity cost" of a developer inputting his own equity into a development.

3. **OPPORTUNITY COST** – where you have a choice between a variety of options and one is chosen, the "opportunity cost" is the risk that you could have achieved greater benefits (monetary or otherwise) by choosing a different option.

4. **GEARING** – (or "leverage ratio") is an indicator of a company's measure of indebtedness. Gearing is the level of debt (ie money borrowed) compared against the value of the company's assets. A company described as "highly geared" is one with a large amount of debt in proportion to its assets/equity.

5. **COST BENEFIT ANALYSIS (CBA)** – a technique to help appraise the case for a project or proposal.

6. **YIELD** – the level of return required by an investor on its capital over a period of time. The level of the yield reflects the level of risk eg high yield reflects high risk.

7. **DEVELOPMENT APPRAISAL** – ("feasibility study") an assessment of a project's viability that includes investigation into all project aspects and anticipated outcomes. Appraisal techniques may include Residual Valuation or Discounted Cash Flow analysis.

8. **RESIDUAL LAND VALUATION** – a valuation appraisal approach which assesses the gross development value, less all the costs of development (including profit and bank interest). The balance (residual) is the market value of the development land and reflects the maximum bid a developer can offer set against these calculations.

9. **GROSS DEVELOPMENT VALUE** – the market value of the completed proposed development, assuming it is sold to a willing purchaser(s). It is based on current market values, not those pertaining when the property is actually completed. GDV represents the estimated gross income **before** deducting the development expenditure.

10. **DISCOUNTED CASH FLOW** – a business planning tool which models income and expenditure cash flow. This can be a means of valuation which shows cost and income over the life of a project, discounted at a rate which reflects risk, and the cost of capital.

11. **SENSITIVITY ANALYSIS** – a technique used to assess the impact of different variables within a development appraisal. Sensitivity analysis involves modelling different scenarios, to determine the project's viability. Eg the impact of rising construction costs.

12. **HOPE VALUE** – the price paid for land, in excess of its existing use value, when a purchaser believes there is a chance of obtaining consent to carry out an alternative, more valuable form of development.

13. **MARRIAGE VALUE** – where the financial sum total of two, or more, individual property interests amounts to more than the value of the individual interests eg two adjacent sites which can deliver a greater return if they are stitched together.

14. **RANSOM VALUE** – where a land holding prevents a development being exercised. This is typically where a development proposal needs a road or service access over land which is not in the ownership of the developer.

15. **OPTIONS** – an option agreement is a financial contract which allows the buyer of the option, the right to purchase the asset at some time in the future if they wish to do so. Options arrangements are commonly used where there is no planning designation for a proposed use. The option to purchase is often triggered by achieving an enhanced planning designation ie from agricultural use to residential use.

16. **RED BOOK** – the name for Royal Institution of Chartered Surveyors (RICS) Valuation Standards– the reference book surveyors use for formal valuations which sets out mandatory procedures and processes.

17. **BURDENS** – obligations within a contract which may impact on development.

This glossary has been produced in partnership with RTPI Scotland, Scottish Property Federation (SPF), Homes for Scotland (HfS) and the Royal Institution of Chartered Surveyors (RICS)