



SCOTTISH
PROPERTY
FEDERATION

The background of the slide is a photograph of a building's wooden frame under construction. The structure is made of light-colored wood beams. A semi-transparent purple and blue horizontal band is overlaid across the middle of the image, containing the title text. The sky in the background is a pale, overcast blue.

A Simple Guide to
Development Viability and
why it matters to Scotland.

Table of Contents

- 1. Introduction**
- 2. Development Viability**
- 3. Why is viability under pressure?**
- 4. What can we do about it?**
- 5. Why does it matter for Scotland**
- 6. Conclusion**

2
3-4
5-6
7
8
9

A simple guide to viability

In any free market the simple business approach is to sell a widget for more than it costs to make the widget. This creates a profit. Sometimes this profit is paid out as a return for those who invested, but often profit is reinvested into the business. That reinvestment is used to employ more people to make more widgets; in research to better understand the ecosystem around widgets; in innovation to make the widgets better, faster, more efficiently, or more sustainably.

Profit isn't money extracted from the system, it's the fuel that keeps it running. It's what allows businesses to improve, to innovate, and to grow.

The same applies to property development.

In creating **new homes, offices, shops or factories**, those developing need to ensure that the value of the completed building is greater than the cost to create. That allows a profit, which provides a return for investors, but crucially also provides for further investment into our future homes, workplaces and shops, and into the people and the businesses that help create them.

But we are at a point in time where property development is increasingly difficult, and the primary reason for this is that the values of the completed developments are not matching the cost to produce.

This is what we mean by development viability.

Viable development underpins almost every national priority. It creates jobs and apprenticeships, delivers new homes, it regenerates communities and creates places of work. It strengthens supply chains, supports tax revenue, and drives growth.

This balance is under pressure as a result of a wide range of factors converging at the same time. Build costs have risen, finance is more expensive, there are fewer building firms, planning takes longer, and investor confidence is fragile.

This short guide explains:



Development Viability

What We Mean by Development Viability?

Development viability is the point where value is greater than cost, by a margin that is enough to cover the risk of doing the work.

Every project has two sides:

The Cost Side



Land: either bought or agreed with the owner based on what might be built.



Finance: borrowing costs from day one until sale or letting.



Design and planning: architects, engineers, environmental reports, consultation, and fees. This is often undertaken at risk and long before approvals are in place.



Tax and levies: Land and Buildings Transaction Tax, VAT, and Corporation Tax.



Policy requirements: affordable housing, Section 75 contributions, schools, roads, green space, transport, community facilities



Marketing and letting: Cost of marketing for sale or letting, and associated agency costs.



Construction: materials, labour, energy, and compliance with building and energy standards.



Transaction costs: Legal and agency fees for acquisition and/or disposal.

Profit and Risk

Developer's profit is usually around 15 - 20% on cost for commercial developments, but lower for less risky developments, where an occupier is in place, or where there is significant market confidence. For conventional housebuilding, this is generally 20% on Gross Development Value for residential homes, but marketing and sales costs would be paid from this profit and not accounted in the appraisal.

When considering investment into development, it is important to consider that the investor has a choice about where to place capital.

- A bank deposit might return around 4 % with almost no risk.
- Government bonds or gilts might return 4-5 % with low risk.
- The stock market might deliver 5-10 %+ depending on volatility.

By comparison, property development carries far higher and longer-term risk. Capital is tied up for several years before any income is received, and the outcome depends on planning decisions, construction costs, market values, and policy changes. The profit output is predicted at the outset, but is subject to a number of variables through the process.

To attract capital into this market, the expected return has to be higher than these safer alternatives, and be relative to the level of risk. If that balance is lost - if profit is squeezed below a competitive level - investors and lenders simply place their money elsewhere.

Without that capital, the homes, workplaces, and regeneration projects Scotland needs do not get built.

The Value Side

Value is what the completed development is worth:
For sale - the total price buyers are willing and able to pay.
For rent - the value of the income it produces, with the value then based on the yield investors expect.

If costs rise or values fall, the margin between the two shrinks.

Time Matters

Development takes time - often five to six years from land purchase to completion. Every delay adds cost through interest, inflation, and overheads.

That's why time, cost and value are all connected. Change one, and the others move.



Financing

1 year +

From land acquisition through to financing, substantial time and cost are committed to a development long before planning begins. To assess viability and land value, developers and investors rely on certainty around costs and returns, yet frequent tax and regulatory changes increasingly undermine early appraisals and investor confidence. Recent shifts such as changes Housing (Scotland) Act and rise in construction cost materially altered cost and income assumptions, directly impacting viability and highlighting the need for long-term stability and certainty in the regulatory and tax environment.



Planning

2-5 years

In Scotland, the planning system inherently carries risk due to new policies under NPF4, developer contributions, statutory requirements and the length of the process, with large schemes often taking 2-5 years to secure consent (this is beyond the formal determination process recorded by the planning authorities). We need early engagement and further intervention by the Scottish Government to ensure contributions are agreed and statutory consultees respond within set timeframes. Accelerating planning decisions is critical, as unlocking planning consent is essential to unlocking development and economic growth.



Development

2 - 3 years +

Lengthy planning timeframes mean that key financial assumptions, particularly construction and development finance costs, can change significantly between appraisal and delivery, increasing viability risk. Reducing planning times would help limit exposure to cost inflation and shifting lending conditions. Infrastructure is the key to quicker development journey. We require clearer and simpler approaches to funding enabling infrastructure, alongside greater use of innovative construction methods, would also support a faster and more efficient development process across Scotland.



Leasing

1 - 2 years

For long-term investors significant risk remains until a property is fully leased, making it vital to speed up and de-risk the leasing process. Large multi-let speculative developments, such as Build-to-Rent schemes, can take 1-2 years to fully occupy, during which council tax, HMO license cost and business rates on empty units add substantial and unpredictable costs.



Sell | Refit

Sell - 1 year
Refit - up to 10 years

Eventually when a property reaches the end of its investment cycle, owners or developers must decide whether to refurbish, redevelop, or sell. Any delays or costs previously encountered need to be reassessed for a new project. High VAT costs on residential refurbishment can make renovating a building more expensive than rebuilding, which runs counter to sustainability objectives.

Why Viability Is Under Pressure

Many projects that were viable a few years ago no longer are. The main pressures are:



Rising Cost

Building materials, energy, and labour have all gone up. Tender prices are 20 - 30 % higher than in 2020.



Policy Costs

Affordable housing requirements, higher building standards, net zero requirements and environmental measures add cost, even if they serve good purposes.



Interest Rates

The Bank of England base rate has risen from 0.1% in 2020 to 5.25% in 2023, and has gradually dropped to 4%. This means the cost of development finance has roughly doubled from around 5% to 10%, adding significant cost to projects and sharply reducing viability.



Planning Delays

Long approval processes and uncertainty add to cost and risk.

Flat or Falling Values:

- **House prices:** Growth has slowed across most of Scotland and the UK. Rising interest rates have increased mortgage costs and reduced what buyers can afford to pay. As a result, house price inflation has flattened, and in some areas values are falling.
- **Commercial and income-based property:** Much of the UK's property market - offices, industrial units, retail, hotels, Build to Rent and student accommodation - is valued on the income it produces. The investor buys the rent.
- **Impact of higher returns:** If an investor can achieve a 5% return from low-risk government bonds, property must offer more to be worthwhile - perhaps 6% or 7%. When that required return rises, the value they can pay falls.

For Example:

- A rent of **£10,000** valued at **5%** gives a property value of **£200,000**.
- If the investor now requires **7%**, that same rent only supports a value of **£142,850** - a drop of nearly **30%** for just a **2% shift in required return**.
- This **yield shift** has a major impact on capital values across sectors, including offices, shops, industrial space, hotels, build to rent and purpose-built student housing.

This is exactly what we have witnessed over the last 4-5 years, and is a major reason why there has been a significant drop in commercial development.

Each of these factors might be manageable alone. Together, they can quickly make a project unviable.



The Scottish Context

Scotland faces the same national pressures but with added challenges:

A smaller construction company base with a shortage of skills and trades, and less competition. This has contributed to...

- Higher build costs linked to materials, transport, and building standards.
- A strong but complex policy focus on affordable housing and sustainability to the exclusion of the wider market and other tenures of residential.
- Planning authorities under pressure and often short of resources meaning slower decision making.
- Investor caution of the political environment following rent control legislation.

These factors make it harder to get development, and in particular all strands of rented housing - out the ground, even where demand is strong.

What We Can Do About It

The goal is simple: keep standards high, but make sure projects still add up.

That means focusing on stability, efficiency, and partnership.

Stability

- Developers and investors can handle cost - what they can't handle is uncertainty.
- Keep tax and regulation predictable.
- Avoid mid-project changes that add cost without warning.
- Provide long-term clarity on energy and environmental standards.

A stable environment restores confidence and keeps investment flowing into Scotland.

Efficiency

- Time is money.
- Speed up decision-making in planning and building control.
- Give early, consistent advice on affordable housing and Section 75 requirements.
- Reduce duplication between local and national processes.
- Support better-resourced planning teams.

Shorter and clearer processes mean lower costs, faster starts, and earlier delivery of homes.

Partnership

- Delivering homes and regeneration needs public and private sectors working together.
- Flex how and when developer contributions are paid, especially on large or complex sites.
- Support modern methods of construction (MMC) and sustainable materials, like timber-frame, that can cut both cost and carbon.
- Use targeted incentives - such as tax reliefs or loan guarantees - to unlock stalled brownfield or high-density sites.

Work with investors to ensure rent frameworks are fair, stable, and attract capital for affordable and mid-market homes.

Why It Matters for Scotland

Viable development is significant for Scotland's wider economy.

When development is viable, it delivers:

Jobs and Skills - Construction, design, and engineering employ tens of thousands and train new apprentices.

Growth - Every £1 spent on construction generates around £2 in the wider economy.

Homes - Meeting housing need across all tenures.

Net Zero Progress - Modern, energy-efficient buildings replace older stock.

Tax Revenue - LBTT, VAT, and ongoing council tax income fund public services.

When viability fails, all of this slows down or stops.

Political Relevance

This issue cuts across every party's priorities:

SNP & Greens - Affordable, sustainable housing; net-zero delivery.

Labour - Jobs, skills, and regional regeneration.

Conservatives - Economic confidence and private investment.

Liberal Democrats - Local delivery and community development.

A healthy, viable development industry helps all of these objectives succeed.



Conclusion

Scotland's ambition for more homes, better places, and a fairer, greener economy depends on viable development.

The balance between cost, value, and time is delicate. A small change on either side can decide whether a project happens or not.

Policy that understands and supports that balance will unlock investment, build confidence, and deliver the outcomes we all want:

More homes. More jobs. A stronger, fairer, more sustainable Scotland.



When development is viable, Scotland builds.

When it isn't, we all lose out.

The solution is shared understanding and practical action.



Scottish Property Federation

92-94 Fountainbridge, Edinburgh, EH3 9AQ

spf@bpf.org.uk

www.scottishpropertyfederation.org.uk

[0131 220 6353](tel:01312206353)