

Planning Objections as Real Options: A Case for Fee-Based Reform in the UK

Jamie Alcock*

Abstract

The UK planning system distributes rights to object to property developments without charge, inadvertently fostering profound economic inefficiency. In this paper I argue that these objection rights function as valuable, unpriced real options, creating systemic distortions that extend far beyond simple administrative costs. I demonstrate how this policy creates a fundamental paradox: the very mechanism intended to facilitate public participation simultaneously incentivizes zero-sum conflict from a small group of objectors while suppressing the positive-sum preferences of the wider community. My analysis reveals that the current framework creates a regressive subsidy that benefits affluent homeowners, structurally mutes the voices of a project's supporters by denying their corresponding 'Option to Benefit', and perversely turns national economic stimulus into a local-level catalyst for conflict. To address these pathologies, I propose a comprehensive, five-Principle reform framework. Rather than commodifying democracy, these reforms democratize economics by making the true costs and benefits of planning decisions transparent. My analysis reveals that the current 'free participation' orthodoxy has inadvertently institutionalized the very socioeconomic exclusion and elite capture that participatory planning theory was designed to overcome.

1 Introduction: Challenging the Free Participation Orthodoxy

For over four decades, planning theory has been dominated by communicative and collaborative approaches that champion the maximization of public participation without direct financial cost to participants (33, 22, 41). This theoretical orthodoxy, rooted in Habermasian concepts of communicative rationality, assumes that broad public engagement inherently produces superior democratic legitimacy, enhanced decision quality, and optimal social learning

*Futures House Limited, UK. Email: info@futureshouse.co.uk.

within complex urban development processes (62). However, the empirical record suggests a different reality. The persistence of the UK's housing crisis, escalating planning delays that impede development, and widespread community dissatisfaction with planning outcomes raise fundamental questions about whether *free* participation actually delivers the promised benefits (65, 35).

Contemporary planning scholarship has developed sophisticated frameworks for understanding these challenges. Academic research on community objections has evolved from dismissive characterizations of *Not In My Backyard (NIMBY)* behavior to nuanced analyses recognizing that opposition often represents rational responses to legitimate development impacts rather than pure self-interest (20). Similarly, participation literature has identified systematic problems of *elite capture*, where affluent, educated residents disproportionately access formal objection mechanisms while working families face barriers including time constraints and cultural capital requirements (49, 71). I demonstrate that the theoretical commitment to free participation, while well-intentioned, has inadvertently institutionalized the very exclusionary dynamics that participatory planning theory seeks to overcome.

Most significantly, while communicative planning theory has successfully identified the importance of transforming zero-sum conflicts into positive-sum collaboration, it has provided limited guidance on the economic mechanisms necessary to achieve this transformation (33, 41). This represents a crucial gap in planning scholarship: how to design institutional arrangements that align individual incentives with collective welfare while maintaining democratic legitimacy.

The UK planning system processes over 330,000 applications annually in England alone (16), yet operates with this fundamental market failure at its core: any member of the public can lodge unlimited objections to planning applications during consultation periods, creating a unique scenario where valuable regulatory rights are distributed without corresponding price signals. Local Planning Authorities must consider all objections raising material planning considerations, consuming significant resources regardless of the objection's merit or the objector's stake in the outcome (24, 13). To illustrate the dynamics, consider the following illustrative example:

Millbrook Development

Greenfield Developments has purchased a field on the outskirts of a medium-size commuter town of 500 households called Millbrook for £300,000. The developer lodges an application to build 20 homes. If approved, the project has a Gross Development Value (GDV) of £10,000,000, and after construction costs (£6.2m) and a Section 106 contribution (£2m), would yield a net profit of £1.8 million. If denied, the land's value falls to its residual agricultural value of £50,000.

The development imposes a £100,000 loss in value on each of 25 nearby homes. The current £500,000 market value of these homes contains an implicit "fear discount" for this risk. If the application is denied, this fear is removed, and their property value rises to its "unblighted" state of £525,000. If approved, their value falls to £400,000.

The Millbrook scenario exemplifies what planning scholars have long recognized as a fundamental challenge: developments generating broad social benefits while imposing concentrated local costs (9, 32). This represents a classic externality problem where positive effects accrue at regional scales while negative impacts concentrate locally, creating what some scholars term *spatial justice concerns* (57).

The Millbrook scenario, despite generating a substantial net social benefit, creates a fundamental economic distortion that drives conflict. The planning decision forces a strategic choice upon the 25 households. If the application is approved, the nature of their asset is fundamentally transformed; the bundle of rights and amenities they possessed no longer includes a protected view. To restore this amenity, they must absorb a £100,000 capital loss and find an equivalent property. Faced with this prospect, and with no direct compensation from the £2 million Section 106 agreement, their rational incentive is to object. This exemplifies a classic externality problem, where the concentrated costs borne by a few create a powerful motive for opposition, regardless of the diffuse social gains.

Current planning theory would classify these homeowners as rational actors engaging in what Fischel (20) terms *homevoter* behavior, where residents rationally protect their property values against localized costs while receiving only diffuse shares of community-wide benefits (49). Olson's (50) analysis of collective action demonstrates that such *concentrated costs and diffuse benefits* configurations create systematic incentives for opposition, as those bearing concentrated costs have strong motivation to organize, or in this setting object, while those receiving diffuse benefits lack equivalent incentives to participate. This represents a fundamental challenge for planning systems attempting to achieve efficient outcomes while maintaining democratic legitimacy.

Under the current system, each of these 25 households hold a valuable right to object

to the development, granted to them at no private cost, while the council bears the administrative burden of processing their concerns. The primary conceptual contribution of this paper is to recognise that these objection rights have significant economic value to the 25 homeowners, which is essentially being given to them *gratis*.

The right to object is itself a valuable asset. The planning process is not just a decision; it is a process of *information revelation*. As it unfolds, new information comes to light; about the developer's final plans, the council's position, and the likely outcome. For a homeowner facing a potential loss, this information is critical. Without the right to object, they are a passive observer, unable to act on this new information. The objection right, however, is the tool that allows them to *strategically react* to these revelations. It grants them the flexibility to maintain their challenge if the situation looks promising, or to seek a compromise if new details emerge. This right to make strategic decisions based on new information, rather than being locked into a single course of action from the start, is the very essence of a real option. It is this flexibility in the face of unfolding uncertainty that gives the right its inherent, quantifiable economic value.

This right to strategic flexibility is what economists would recognize as a valuable real option. Yet, in the UK planning system, these options are distributed without payment. This represents a fundamental market failure where valuable rights are granted without corresponding price signals. As economic theory demonstrates, when valuable goods are underpriced, particularly in contexts involving common-pool resources like the planning system's capacity, it inevitably leads to their overconsumption and inefficient allocation (32, 50)(aka Free Rider Problem). The result is a system that inadvertently encourages conflict and strategic behavior, a pathology this paper will now proceed to analyze in detail.

The current system of free objection rights likely evolved for compelling reasons: democratic participation Principles emphasize equal access to planning processes, objections provide valuable information collection about development impacts, and planning authorities need broad community input to make informed decisions. However, another significant factor may be that planning theory previously lacked reliable methods to estimate what objection rights were worth, and with no liquid market for such rights, there was no mechanism for price discovery.

In this paper I argue that this is no longer the case. The recognition that an objection is a *right, but not an obligation*, to influence an outcome provides the crucial insight. It allows us to formally model these rights as real options and to estimate their economic value using the established framework of contingent claim pricing theory. Contingent claim analysis (14, 69) provides the tools to quantify the value of an objection right that was previously unknowable. Valuing these rights in a planning context, however, requires a careful adaptation

of standard financial models to reflect the unique source of risk - administrative decisions rather than market volatility - a process I will carefully detail in Section 3 of this paper. This analytical capability opens new possibilities for policy design that could maintain democratic access while introducing appropriate economic signals. Rather than representing fundamental system failure, the current arrangements may simply reflect the limitations of available analytical tools when participation frameworks were originally designed.

In Section 3, I demonstrate that, under a rigorous real options model, each Millbrook household receives an objection right worth approximately £11,684. For the 25 households, this represents a collective asset valued at over £292,100, distributed to them by the state at zero cost. The economic consequences of this unpriced distribution are profound and fall upon all other stakeholders. Local authorities bear the direct administrative costs of processing these objections through general taxation. The broader community forgoes the net social benefits of the development, including needed housing and infrastructure. The developer, in turn, faces not only the risk of denial but also the certainty of costly project delays. When replicated across thousands of applications annually throughout the UK, this dynamic creates a system of immense and deeply inefficient hidden subsidies, warranting urgent policy reconsideration.

My contribution extends planning theory by providing quantitative foundations for the collaborative planning vision that scholars have long advocated. Rather than attacking democratic participation, I seek to enhance its effectiveness by ensuring that all stakeholders face appropriate economic signals reflecting the true costs and benefits of their decisions. This approach is supported by emerging research suggesting that properly designed market mechanisms can enhance rather than undermine democratic effectiveness when implemented with appropriate safeguards (18, 72).

International evidence provides both legal precedent and practical support for such reforms. The European Court of Justice has explicitly endorsed modest participation fees as compatible with democratic participation under the Aarhus Convention, while various jurisdictions successfully implement fee-based planning mechanisms without compromising democratic access (2, 8, 52). This suggests that concerns about market mechanisms undermining participation may reflect theoretical assumptions rather than empirical evidence about democratic effectiveness.

To make my case, I proceed as follows: I first position my approach within existing planning literature, demonstrating how real options theory complements rather than replaces communicative planning frameworks. In Section 3 I apply option pricing models to quantify the economic value of objection rights, revealing substantial hidden subsidies in current arrangements. I then analyze the broader economic system encompassing development

gains, community costs, and administrative expenses, showing how current arrangements create perverse incentives and systematic value transfers (Section 4). Finally, I propose comprehensive reforms including fee-based objection systems, dynamic Section 106 adjustments, and direct community compensation mechanisms that could transform planning from zero-sum conflict to positive-sum collaboration while maintaining democratic accountability.

2 Theoretical Framework: From Communicative Theory to Economic Analysis

Contemporary urban planning theory has been profoundly shaped by the *communicative turn* of the 1990s, which positioned dialogue, consensus-building, and inclusive deliberation as the primary means of achieving legitimate and effective planning outcomes (33, 62, 41). This Habermasian paradigm emphasizes the importance of an ideal speech situation where participants engage in rational discourse to reach mutual understanding and agreement (33, 29). Key proponents like Healey (33), Forester (22), and Innes (41) have argued that robust public participation, free from power imbalances and instrumental rationality, is essential for fostering democratic legitimacy, enhancing decision quality through diverse perspectives, and promoting social learning within complex urban development processes. This theoretical foundation has significantly influenced planning practice, leading to the widespread adoption of free public participation mechanisms, including the right to object to planning applications without direct financial cost (49, 71).

While invaluable in highlighting the importance of stakeholder engagement and the social dimensions of planning, the communicative approach has faced its own internal critiques regarding its practical applicability and its potential to mask persistent power imbalances (21, 62). More critically, it has inadvertently created a theoretical blind spot, or *scatoma*, regarding the explicit economic dimensions of planning decisions (20). By prioritizing process over explicit economic outcomes, it has often obscured the incentive structures that drive participant behavior and the economic consequences of regulatory design choices. This has led to a situation where the economic value of certain planning rights and actions remains unacknowledged and unpriced, contributing to systemic inefficiencies.

To address this, I apply contingent claim theory, adapting the standard framework to reflect the unique source of risk in planning. Typically, financial options are valued based on market risk; the continuous volatility of an asset's price. However, the options in the planning system are contingent on *administrative risk*: a single, discrete, binary 'Approved/Rejected' decision. I develop and apply an *information-based* options model, where value is derived not

from market volatility, but from the pre-defined economic consequences of this administrative information event.

While some planning scholars might contend that “planning isn’t economics” or that the “options analogy is inappropriate” for complex social processes, I assert that economic analysis provides a crucial, albeit not exclusive, lens for understanding the incentives, costs, and benefits within the planning system. Planning, at its core, involves the allocation of scarce resources and the creation or destruction of value, inherently possessing economic dimensions that complement its social, political, and environmental aspects (20).

Real-options theory, originally developed for financial markets to value managerial flexibility under uncertainty (14, 69), has found extensive application in real estate development and urban planning contexts (23, 53, 67, 58, 37). These contexts are characterized by inherent uncertainty and significant irreversibility (e.g., once land is developed, it is costly to revert), creating conditions where the flexibility to defer, adapt, or abandon a project holds quantifiable value. Unlike traditional static valuation methods, contingent claims pricing explicitly accounts for this value of waiting or adapting to new information, making it particularly well-suited for analyzing rights that influence the timing and outcome of development, such as the right to object.

These contexts, characterized by uncertainty (e.g., property value fluctuations, regulatory changes) and irreversibility (e.g., once a building is constructed, it’s difficult to reverse), create conditions analogous to financial option markets. Real-options recognize that many business and policy decisions involve not just immediate costs and benefits, but also the quantifiable value of future flexibility and strategic choices.

A financial option grants the right, but not the obligation, to buy or sell an asset under specified conditions. It has value because it provides asymmetric payoffs: option holders capture favorable outcomes while avoiding unfavorable ones. An insurance policy illustrates this Principle, policyholders pay premiums for the right to claim compensation if disasters occur, but they are not obligated to experience disasters. The premium reflects the value of this protection. Planning objections function identically, providing the right to influence development outcomes without obligating objectors to accept any particular result. The Millbrook households effectively hold insurance policies against property value losses, yet they pay no premiums for this protection. The unpriced nature of these options creates fundamental market distortions, constituting a clear market failure where benefits accrue to objectors while costs are externalized and borne by the broader community through general taxation (50, 32).

By framing planning objections within the real options framework, I can move beyond a purely procedural understanding of participation to one that acknowledges and quantifies

the significant economic stakes involved for all parties. This approach does not dismiss the value of communication or collaboration but rather seeks to illuminate the hidden economic dynamics that underpin and often distort these processes. It provides a quantitative foundation for understanding why fee-based reforms could enhance both efficiency and equity in the planning system by making explicit the economic value currently distributed implicitly. The substantial option values identified in my analysis suggest that appropriately designed fees could recover significant system costs while maintaining accessibility for legitimate participation through well-designed safeguard mechanisms.

3 Quantifying Option Values: An Adapted Real Options Model

In this section I quantify the economic value of the rights held by both homeowners and developers in the Millbrook case. To do so, I adapt the standard real options framework to reflect the unique source of uncertainty in planning. While the foundational literature on real options in property focuses on *market risk* (e.g., future fluctuations in property prices) (67, 73), the primary uncertainty facing the participants in the Millbrook case is *administrative risk*: the binary outcome of the planning authority's decision.

Therefore, I employ a one-step binomial option pricing model. This approach is particularly well-suited for this context as it directly models the simple, binary 'Approved/Rejected' outcome of the planning decision, aligning perfectly with the discrete nature of the administrative risk (10, 38). Instead of deriving the model's parameters from market volatility, I derive them from the *implied volatility* of the administrative decision itself. This novel approach allows me to use the rigorous, no-arbitrage pricing methodology of contingent claim analysis while remaining faithful to the true source of risk in the system. This section will first value the homeowner's protective put option, and then, to enable a symmetrical analysis of the coupled system, it will value the developer's corresponding call option.

For the affected homeowner, the option is a pure derivative of their underlying asset, the house. Because their risk is tied to a traded asset in a liquid local market, I can assume the market is sufficiently complete. The fundamental theorems of asset pricing therefore allow for the use of a classic risk-neutral replication model, which uses the observable market prices of the house to derive a unique, arbitrage-free valuation.

A Model Based on Information Revelation

The first step in valuing these options is to correctly model the underlying economic event. In this context, the planning decision is a fundamental *information event* that resolves uncertainty about the future permissible use of the land. The outcome of this event, either ‘Approved’ or ‘Rejected’, reveals new information that permanently alters the value of the assets held by both parties. My valuation model is therefore built on this Principle of information revelation, rather than on the market volatility of the assets themselves.

This information event creates two distinct future states of the world. For the adversely affected homeowner the underlying asset is their property, which currently trades at a price reflecting a “fear discount” for the risk that their beautiful rural view may one day be built out. In the *Rejected* state, this fear is removed, and the property’s value rises to its full unblighted state. In the *Approved* state, the potential negative externality is realized, and the property’s value falls to its “blighted” state. The objection right is, therefore, a protective put option on their property’s value against the negative information revealed by an ‘Approved’ decision.

This framework permits the derivation of key parameters for the binomial model directly from the real-world planning context. The “up” and “down” states of the model are not abstract market movements; they are the concrete ‘Approved’ and ‘Rejected’ outcomes. This means the up-factor (u) and down-factor (d) for each party’s option can be calculated as the ratio of the asset’s value in these two states to its value today. This *implied parameter* approach ensures the model is internally consistent and tailored to the administrative risk at the heart of the planning system.

The model’s core assumption, that a property’s value increases upon the rejection of a nearby adverse development is well-supported by the economic literature on blight and hedonic valuation. Studies on blight demonstrate that the mere threat of a negative externality imposes a quantifiable “fear discount” on surrounding properties (30). My model, therefore, frames the planning decision as an information event that resolves this uncertainty, with the “unblighted” value representing the property’s true market price once the risk of a negative externality has been extinguished.

Model Parameters for the Homeowner’s Put Option

Having established the conceptual framework, I now define the specific parameters for valuing the homeowner’s protective put option. Before listing the parameters, it is crucial to explain a key concept from option pricing theory that I will use: the *risk-neutral probability*.

This can seem like a counter-intuitive idea. It is not the “real-world” probability of

an event happening (e.g., a 15% chance of an objection succeeding). Instead, it is a clever mathematical tool that allows us to value a risky, uncertain option in a simple and consistent way. The core Principle is this: instead of trying to figure out the correct, complex “risk-adjusted discount rate” to apply to a future payoff, I instead adjust the *probabilities* of the future payoffs themselves. This creates a synthetic, “risk-neutral world” where all assets are assumed to grow at the simple, risk-free interest rate (38).

The resulting risk-neutral probability (which I will denote as q) is a synthetic probability derived from the asset’s potential up- and down-state values and the risk-free rate. Its great advantage is that it allows us to calculate the option’s value using a simple, risk-free discount rate, ensuring the valuation is consistent with the price of the underlying asset and free of arbitrage. In essence, it is the unique probability that ensures the model is internally consistent.

The key parameters for the homeowner’s option (PV_{obj}) are defined as follows:

- **Current Value ($V_{0,obj}$):** The property’s current market price, which includes the “fear discount” for the risk of development. In the Millbrook case, this is **£500,000**.
- **Value in “Objection Supported” State ($V_{u,obj}$):** If the objection is successful, the development is blocked, and the property’s value rises to its “unblighted” state of **£525,000**. This is the favorable “up-state” for the homeowner.
- **Value in “Objection Overruled” State ($V_{d,obj}$):** If the objection fails, the development proceeds, and the property’s value falls to its “blighted” state of **£400,000**. This is the unfavorable “down-state.”
- **Strike Price (K_{obj}):** As this is a protective put option, the homeowner seeks to protect the full, unblighted value of their asset. The strike price is therefore set at the value of the property in the “Objection Supported” state, which is **£525,000**.
- **Time to Expiration (T):** This represents the planning decision timescale, which I set at 6 months or **0.5 years**.
- **Risk-Free Interest Rate (r):** This is the rate for discounting the risk-neutral payoff, set at **4%** per annum, approximating current government bond yields (5).

A crucial feature of this implied parameter model is that it does not require an external estimate of market volatility (σ) or the real-world probability of the planning outcome. Instead, the risk-neutral probability of success is derived directly from the up- and down-state values, ensuring the model is internally consistent and grounded in the administrative

risk of the planning decision itself. This allows for a direct, no-arbitrage valuation of the right, a calculation I will now perform in the subsequent section.

Valuing the Homeowner's Put Option

I now apply the information-based model to value the protective put option held by each of the 25 Millbrook households. The valuation proceeds by applying a one-step binomial model, a method first formalized by Cox, Ross, and Rubinstein (1979). For readers unfamiliar with this financial tool, it is helpful to think of it not as a complex formula, but as a simple decision tree that works in reverse. The logic is straightforward: I first define the possible future states of the world after the planning decision; I then use the asset's value in these states to calculate a set of risk-neutral probabilities; finally, I use these probabilities to calculate the discounted expected value of the option. This step-by-step, transparent approach is what makes the binomial model particularly well-suited for analyzing the discrete, binary risks inherent in the planning system. The valuation proceeds in three steps.

Step 1: Define Implied Parameters from Planning Outcomes The model's parameters are derived directly from the three potential states of the homeowner's underlying asset (their property), contingent on the outcome of their objection:

- **Current Value ($V_{0,obj}$):** The property's current market price, including the fear discount is **£500,000**.
- **Value in *Objection Supported* State ($V_{u,obj}$):** If their objection is successful, the fear is removed, and the property's value rises to its unblighted state of £525,000. This is the favorable up-state for the homeowner.
- **Value in *Objection Overruled* State ($V_{d,obj}$):** If their objection fails, the development proceeds and the property's value falls to its blighted state of £400,000. This is the unfavorable down-state.

From these states, I derive the implied up- and down-factors for the homeowner's option:

- **Implied Up-Factor (u_{obj}):** $u_{obj} = V_{u,obj}/V_{0,obj} = 525,000/500,000 = \mathbf{1.05}$.
- **Implied Down-Factor (d_{obj}):** $d_{obj} = V_{d,obj}/V_{0,obj} = 400,000/500,000 = \mathbf{0.80}$.

Using these factors, I calculate the implied risk-neutral probability (q_{obj}) of the favorable Objection Supported outcome:

$$q_{obj} = \frac{e^{rT} - d_{obj}}{u_{obj} - d_{obj}} = \frac{e^{(0.04 \times 0.5)} - 0.80}{1.05 - 0.80} = \frac{1.0202 - 0.80}{0.25} \approx \mathbf{0.8808} \quad (1)$$

The risk-neutral probability of the objection being supported is therefore approximately 88.1%. The corresponding probability of failure ($1 - q_{obj}$) is 11.9%.

Step 2: Verify Model Consistency As a crucial cross-check, the present value of the expected future asset states, when weighted by these risk-neutral probabilities, must equal the asset's current value.

$$\begin{aligned} \text{Expected}_Q \text{ Future Value} &= [q_{obj} \times V_{u,obj}] + [(1 - q_{obj}) \times V_{d,obj}] \\ &= (0.8808 \times \text{£}525,000) + ((1 - 0.8808) \times \text{£}400,000) \\ &= \text{£}462,420 + \text{£}47,680 = \text{£}510,100 \end{aligned} \quad (2)$$

Discounting this expected future value to its present value (PV_{asset}) yields:

$$PV_{asset} = \text{£}510,100 \times e^{-(0.04 \times 0.5)} = \text{£}500,000 \quad (3)$$

This result, $PV_{asset} = V_{0,obj}$, confirms the internal consistency of the implied parameters and the no-arbitrage foundation of the model.

Step 3: Calculate the Value of the Objection Right (The Option) The value of the objection right is the value of the strategic flexibility it provides. As established in the Relocation Hedge framework, this is calculated by valuing the payoff required to restore the homeowner to their initial financial position ($V_{0,obj}$) if the objection fails.

- **Payoff in *Objection Supported* State (Π_u):** The homeowner's position is restored to its unblighted state without cost. The option contract itself has a payoff of £0.
- **Payoff in *Objection Overruled* State (Π_d):** The homeowner's asset is now worth £400,000. The payoff required to bridge the gap back to their initial £500,000 position is £100,000.

The present value of the option (PV_{obj}) is the discounted, risk-neutral expectation of these specific payoffs:

$$\begin{aligned} PV_{obj} &= ([q_{obj} \times \text{£}0] + [(1 - q_{obj}) \times \text{£}100,000]) \times e^{-rT} \\ &= ((1 - 0.8808) \times \text{£}100,000) \times e^{-0.02} \\ &= (0.1192 \times \text{£}100,000) \times e^{-0.02} \\ &= \text{£}11,920 \times 0.9802 \\ &= \text{£}11,684 \end{aligned} \quad (4)$$

This rigorous calculation demonstrates that each Millbrook household's objection right pos-

sesses a present value of approximately £11,700. For the 25 households, this represents a collective asset valued at over £292,100, distributed to them by the state at zero cost. This substantial figure, derived from a conservative and academically robust model, highlights the profound market failure at the heart of the current planning system.

A General Valuation Formula for the Homeowner's Option

The valuation of the homeowner's right can be generalized into a single, robust formula. This is derived by combining the risk-neutral probability, q , with the specific payoffs, Π , associated with the homeowner's real option to relocate.

The derivation begins by substituting the payoffs for the Relocation Hedge ($\Pi_u = 0$ and $\Pi_d = V_0 - V_d$) into the standard option pricing equation:

$$\begin{aligned} PV_{obj} &= [q \cdot (0) + (1 - q) \cdot (V_0 - V_d)] \cdot e^{-rT} \\ &= (1 - q) \cdot (V_0 - V_d) \cdot e^{-rT} \end{aligned} \quad (5)$$

This intermediate step provides the core economic intuition: the option's value is the risk-neutral probability of failure, $(1 - q)$, multiplied by the cash payoff required to restore the homeowner's status quo, $(V_0 - V_d)$, discounted to present value.

By substituting the full expression for the risk-neutral probability of failure, $(1 - q) = \frac{V_u - V_0 e^{rT}}{V_u - V_d}$, I arrive at the complete general formula:

$$\boxed{PV_{obj} = \left(\frac{e^{-rT} V_u - V_0}{V_u - V_d} \right) \cdot (V_0 - V_d)} \quad (6)$$

where V_0 , V_u , and V_d are the current, up-state, and down-state values of the underlying asset; r is the risk-free interest rate; and T is the time to expiration.

This formula reveals the fundamental economic intuition underlying all planning objection rights: the value of an objection is the *risk-neutral probability of failure multiplied by the financial damage that failure would cause*. In essence, objectors hold a real option on their property's value, and the premium for this option is a function of both the likelihood and the magnitude of the potential loss.

The elegance of this result lies not in algebraic simplicity, but in its economic precision. While it cannot be reduced to a simple subtraction of present values, its structure is highly informative. It can be understood as:

$$\text{Value} = (\text{Risk-Neutral Probability of Failure}) \times (\text{Cash Payoff on Failure}) \times (\text{Discount Factor})$$

This structure correctly separates the components: the probability of the bad outcome is determined by the full risk profile of the asset (V_0, V_u, V_d), while the payoff is determined by the specific financial loss the homeowner seeks to avoid ($V_0 - V_d$).

From a policy implementation perspective, this insight is critical. It transforms real options theory from an academic curiosity into a more nuanced tool. While local councils cannot use a simple, back-of-the-envelope calculation, they can use this robust model, easily implemented in a spreadsheet, to understand the true economic value of the rights they are adjudicating. It allows for the calculation of appropriate objection fees based on a sound, defensible, and academically rigorous foundation, bridging the gap between theoretical insights and practical, rational governance.

Sensitivity Analysis: The Greeks

One advantage of the real options framework is that it allows for a formal sensitivity analysis. The “Greeks” are the partial derivatives of the option’s value with respect to its parameters. They reveal how the value of an objection right responds to changes in property values, interest rates, and decision timelines. Unlike a simplified model, the Greeks for the correct valuation formula are non-trivial and reveal a rich set of economic interactions.

Delta: Property Value Sensitivity Delta (Δ) measures the change in the option’s value for a £1 change in the current property price, V_0 .

$$\Delta = \frac{\partial PV_{obj}}{\partial V_0} = \left(\frac{e^{-rT}}{V_u - V_d} \right) \cdot (V_u - 2V_0e^{rT} + V_de^{rT}) \quad (7)$$

For the Millbrook case, Delta is approximately -0.68. This negative value reflects a fundamental trade-off. While a higher V_0 slightly increases the cash payoff needed to restore the homeowner’s position ($V_0 - V_d$), it has a much stronger effect on the risk-neutral probability. A higher starting value makes the blighted state, V_d , seem relatively less likely in the model’s no-arbitrage framework. This sharp drop in the probability of failure outweighs the small increase in the payoff, causing the option’s total value to decrease. This confirms the intuitive idea that as a homeowner’s financial position improves, the value of an insurance-like objection right naturally falls.

Rho: Interest Rate Sensitivity Rho (ρ) measures the change in the option’s value for a 1% change in the risk-free interest rate, r .

$$\rho = \frac{\partial PV_{obj}}{\partial r} = -T \cdot \left(\frac{V_0 - V_d}{V_u - V_d} \right) \cdot V_u \cdot e^{-rT} \quad (8)$$

The Rho for this option is strongly negative (approximately -£2,053 for a 1% rate rise in the Millbrook case). This means that as interest rates rise, the value of an objection right falls significantly. This occurs for two reasons: first, higher rates increase the discount applied to the future payoff; second, they decrease the risk-neutral probability of that payoff occurring. This creates a systematic relationship between monetary policy and planning friction: in a low-interest-rate environment, objection rights are more valuable, potentially increasing opposition to development.

Theta: Time Sensitivity Theta (Θ) measures the decay in option value as the time to the decision, T , increases.

$$\Theta = \frac{\partial PV_{obj}}{\partial T} = -r \cdot \left(\frac{V_0 - V_d}{V_u - V_d} \right) \cdot V_u \cdot e^{-rT} \quad (9)$$

The Theta for this option is negative, meaning the option's value decreases as the time to the decision lengthens. Conversely, the option becomes more valuable as the decision date gets closer. This is a critical finding. Unlike market-based options that gain value with more time for volatility to have an effect, this information-based option's value is highest when the resolution of uncertainty is imminent. This incentivizes efficiency: a planning system that delivers faster decisions would be adjudicating rights when they are at their peak economic value. This provides a powerful rationale for policies that reward administrative speed.

Downside Sensitivity This measures how the option's value changes with the worst-case outcome, V_d :

$$\frac{\partial PV_{obj}}{\partial V_d} = - \left(\frac{(V_u - V_0 e^{rT})(V_u - V_0)}{(V_u - V_d)^2} \right) e^{-rT} \quad (10)$$

The sensitivity to V_d is negative, meaning that as the blighted value of the property gets worse (i.e., V_d decreases), the value of the right to object becomes more valuable. This is driven by two reinforcing effects. First, a lower V_d directly increases the size of the potential cash payoff ($V_0 - V_d$). Second, it increases the relative damage of the down-state, which also increases the risk-neutral probability of failure in the model. Both effects make the option more valuable. This creates a controversy multiplier: high-impact developments that threaten larger capital losses will generate more valuable objection rights, attracting more objections and increasing political pressure.

4 Systemic Implications of Unpriced Objection Rights

The real options framework moves the analysis of planning objections beyond anecdote, allowing for a quantification of the profound inefficiencies and inequities embedded in the

current system. The Millbrook case is not an isolated anomaly but a microcosm of these systemic patterns.

The Hidden Subsidy and Its Perverse Incentives

My analysis demonstrates that each Millbrook household receives an objection right worth approximately £11,700. Collectively, this represents a substantial economic asset of £292,100 distributed by the state at zero cost. When scaled nationally, the total value of these unpriced options likely amounts to hundreds of millions of pounds annually. This massive implicit subsidy is funded by the broader community through administrative costs and lost development benefits, such as Section 106 contributions. The unpriced distribution of such a valuable right is a textbook example of market failure (9). It leads to a *tragedy of the commons* where the planning system’s capacity is over-consumed (32). The subsidy creates a web of perverse incentives for all stakeholders. For the objector, the decision becomes economically one-sided; the most rational strategy is to object to any impactful development, as the right to do so is a valuable option that costs nothing to exercise. This, in turn, generates significant cross-subsidies from non-participating community members, who may support a development but lack the incentive to formally do so, to the active objectors.

Dynamic Distortions Revealed by the Sensitivities

The sensitivity analysis of the option’s “Greeks” reveals that these distortions are not static. The policy of granting unpriced objection rights acts as a conduit, channeling external economic forces directly into the planning system, where they manifest as predictable, and often perverse, incentives.

First, the option’s sensitivity to property values confirms the existence of a powerful *rich-area benefit*. As Table 1 demonstrates, the value of the implicit subsidy scales with the economic stakes. A homeowner in a Prime-London location, facing the exact same proportional threat as a homeowner in a lower-value area, receives a right that is over sixteen times more valuable (£93,469 vs. £5,842). This finding provides a novel economic rationale for the well-documented phenomenon of “elite capture” in the planning system.

Empirical studies consistently show that participants are disproportionately wealthier, more educated owner-occupiers who possess the cultural capital to navigate the system effectively (71). My model demonstrates that this is not merely a sociological trend; it is also an economically rational response. The state implicitly grants a more valuable financial asset to homeowners in affluent areas, meaning the incentive to object is structurally strongest where property values are highest. This institutionalizes a regressive wealth transfer that al-

locates planning protection based on property wealth rather than planning merit, providing a novel economic rationale for the well-documented phenomenon of elite capture in planning participation (40). This finding also reveals a profound irony: the planning theory orthodoxy that champions free participation as inherently democratic has, in practice, created a regressive subsidy that systematically advantages affluent participants while marginalizing those it purports to empower.

Table 1: Value of Homeowner’s Objection Right by Property Value

Property Tier	Current Value (V_0)	Blighted Value (V_d)	Cash Payoff ($V_0 - V_d$)	Calculated Option Value (PV_{obj})
Lower Value	£250,000	£200,000	£50,000	£5,842
Millbrook	£500,000	£400,000	£100,000	£11,684
Upper-Mid Value	£1,000,000	£800,000	£200,000	£23,367
Affluent	£2,000,000	£1,600,000	£400,000	£46,734
Prime London	£4,000,000	£3,200,000	£800,000	£93,469

The model’s strong negative Rho, (ρ), reveals a policy incoherence where the free allocation of objection rights causes the planning system to work directly against stated economic objectives at both the national and local levels. At a national level, the subsidy acts as an unintentional counter-force to expansionary monetary policy. When the central bank lowers interest rates to stimulate the economy, specifically to lower the cost of capital for investment and construction, the value of the free objection right subsidy automatically increases. This enhances the incentive for rational homeowners to object, increasing friction and risk for the very development projects the stimulus was designed to encourage. The planning system, therefore, systematically *leans against the wind* of monetary policy, creating a structural headwind that undermines the nation’s primary tool for promoting economic growth, consistent with empirical evidence that planning constraints tighten during periods of cheap credit and high demand (36).

This distortion is felt most acutely at the local level, where the system actively works against councils pursuing a pro-growth agenda during economic downturns. It is typically during a recession, when a local authority has the greatest need to attract investment, that national monetary policy will have driven interest rates to near-zero. This, in turn, maximizes the value of the objection right subsidy, arming potential objectors with their most powerful incentive to oppose new development. The result is a systemic trap: the economic conditions that create the urgent need for local growth simultaneously create the strongest incentive for local opposition, forcing councils into a conflict between their statutory duties and their strategic economic goals. The free subsidy ensures that it is hardest for a council to be pro-growth precisely when it needs to be most.

Finally, the option's negative Theta (Θ), the fact its value is highest just before a decision is made, creates a powerful, hidden incentive for administrative efficiency. Unlike standard options that may reward delay, this structure means a faster planning system is one that adjudicates rights at their peak economic value. This provides a compelling economic rationale for fee-based reforms that reward speed, aligning the interests of local authorities with those of the broader community and mitigating the substantial deadweight costs that planning delays impose on all stakeholders (?).

This analysis provides a quantitative foundation for understanding that fee-based reforms are not merely about cost recovery, but are a necessary step toward correcting deep-seated market failures and realigning the incentives of all stakeholders toward more efficient and equitable outcomes.

The Supporter's Option: An Asymmetry of Rights

The focus on the objector's option reveals only half of the economic distortion. A symmetrical analysis must also consider the position of community members who stand to benefit from a development's positive externalities. These individuals can be seen as holding a corresponding call option: the "Option to Benefit" from the project's approval.

The value of this option can be surprisingly large, even for seemingly modest benefits. For instance, if a household in the town anticipates an improvement in local amenities, safety, or convenience equivalent to just £10 per week (a benefit stream with a capitalized value of £13,000 at a 4% discount rate) the calculated present value of their Option to Benefit is approximately £11,200. This result is significant. It demonstrates that the diffuse benefits of a good development can create an option for supporters that is nearly as valuable as the option held by objectors seeking to prevent a large capital loss.

However, the current planning system creates a profound "asymmetry of rights" by failing to formally recognize or empower this option. This institutional design provides a stark, real-world illustration of the theory first advanced by Olson (1965). Olson argued that small groups with concentrated interests, such as objectors facing a direct capital loss, are inherently more likely to organize than large groups with diffuse interests, such as a community anticipating a small amenity gain. My model moves beyond this foundational theory by *quantifying the economic scale* of this asymmetry. By demonstrating that the suppressed 'Option to Benefit' can be nearly as valuable as the objector's right, I show that the system is not merely facilitating a known collective action problem, but is actively destroying significant, quantifiable community value by structurally muting the voices of supporters. The current planning system is built to mitigate harm, not to realize benefit.

This institutional bias has two critical consequences. First, it structurally mutes the voices of support, ensuring that the preferences of objectors are systematically over-represented (31). Second, it means the state is not merely creating a subsidy, but is actively engaging in an asymmetrical intervention: it creates and gifts a valuable asset to one group (the objectors' put option) while simultaneously suppressing a nearly equally valuable asset for another (the supporters' call option) (4). This institutional design is a primary driver of the conflict-oriented nature of planning disputes, providing a stark illustration of Olson's collective action theory where concentrated interests systematically out organize diffuse ones (50).

The true scale of this value destruction becomes apparent when I consider the collective option value denied to the entire community. For Millbrook, with 500 households, if I assume that for the sake of a conservative estimate that accounts for resident indifference and non-uniformity of benefits, that just half (240 families) anticipate this modest £10/week benefit, their individual Option to Benefit are worth approximately £11,200 each. The collective value of the Option to Benefit, the asset that the planning system structurally denies, is therefore a staggering £2.7 million even under this cautious assumption

This figure is profound. It reveals that the value of the rights implicitly denied to the wider community is more than ten times greater than the value of the rights freely granted to the small group of objectors (£2.7 million vs. £292,100). The current system, by focusing obsessively on the mitigation of a concentrated loss while being structurally blind to the realization of a much larger diffuse gain, makes the destruction of significant community value not just a possible outcome, but a near-certainty. It is an institutional framework that is perfectly designed to produce sub-optimal, negative-sum results.

5 The Coupled Economic System and Its Pathologies

The valuation of the objection right is the first step in a broader analysis of the planning system as a coupled economic system. In this system, the payoffs to developers, the costs to the community, the value of objection rights, and the administrative functions of the local authority are all deeply interconnected. The Millbrook case serves as a powerful illustration of the pathologies that arise when these connections are ignored and mispriced.

A Misaligned System: Net Social Benefit vs. Private Incentives

From a simple welfare economics perspective, the Millbrook development is unambiguously positive. The developer's net profit of £1.8 million, combined with the £2 million in com-

munity infrastructure funded by the Section 106 agreement, far outweighs the £2.5 million in localized costs to the 25 affected households (£1.8m Profit - £2.5m Loss + £2m S106 Gain = £1.3m Net Social Benefit). Standard economic theory would suggest that such a value-creating project should proceed smoothly.

However, the institutional framework creates a stark divergence between this aggregate social benefit and the private incentives faced by each stakeholder. The system fails to provide a mechanism to coordinate costs and benefits effectively. The Millbrook developer is powerfully incentivized by the potential £1.8 million profit. The affected community, facing a certain and uncompensated £2.5 million loss, is equally incentivized to block the project. The result is a classic coordination failure, where a socially optimal outcome is obstructed by misaligned individual incentives.

This misalignment is made even more profound by the exclusion of a third, silent stakeholder: the wider community of beneficiaries. As previously calculated, the collective ‘Option to Benefit’ for the wider community, the right to realize the project’s positive externalities, is worth a staggering £2.7 million.

However, the institutional framework effectively denies this right, offering no formal mechanism for supporters to exercise their collective will with the same procedural force as objectors. The result is a classic coordination failure on a grand scale. The system is not merely mediating a conflict between a developer’s profit and a small group’s loss. It is structurally blind to the largest pool of value in the entire equation, the diffuse community gain. By amplifying the voices of those facing a concentrated loss while muting the voices of the much larger group who stand to gain, the system ensures that the socially optimal outcome is not just obstructed, but is almost impossible to achieve.

The True Economic Incidence of Section 106 and Objection Rights

A deeper analysis of the economic incidence reveals the system’s deeply troubling dynamics. While the £2 million Section 106 contribution appears to be a payment from the developer, it is a fiscal illusion; the cost is typically capitalized into a lower land price, meaning the true incidence falls upon the original landowner.

Conversely, the objection rights, which I have valued at a collective £292,100 for the 25 households, represent a direct and unpriced transfer of wealth *to* the objectors. This creates a profound asymmetry. The mechanism designed to mitigate harm (S106) is paid for by the landowner and benefits the wider community, not those directly harmed. The 25 affected households bear the full negative externality but receive none of the S106 funds directly. Instead, they are handed a valuable, unpriced option to block the project, making conflict

the only rational outcome.

Now to complete this analysis, I must also value the developer's position within this same framework.

6 Symmetrical Analysis: Valuing the Developer's Call Option

To complete the analysis of the coupled economic system, I must now value the developer's call option on the project's future profit. This requires a methodological shift that reflects the fundamentally different nature of the developer's economic position compared to the homeowner's.

Methodology: Contingent Claim Analysis in an Incomplete Market

While the homeowner's option is a pure derivative of a traded asset (their house), allowing for a classic risk-neutral valuation, the developer's position is more complex. A fundamental disconnect exists between their underlying traded asset (the land) and the source of their option's payoff (the profit from a future construction project). The developer's total risk is a bundle of land, construction, market, and administrative risks that cannot be perfectly hedged. This creates an incomplete market.

The correct contingent claim methodology for valuing an investment in such an incomplete market is a risk-adjusted Net Present Value (NPV) analysis. It is crucial to recognize that this is not a departure from real options theory, but rather its correct application to a project with unique, idiosyncratic risk. The power of the options lens is in first identifying the contingent nature of the investment and the value of managerial flexibility, and then selecting the appropriate valuation tool. By valuing this right explicitly, I quantify the strategic value inherent in the developer's position, an insight that a simple DCF analysis would overlook.

This approach requires using the best available estimates for real-world probabilities (p) and discounting the expected payoff at a risk-adjusted discount rate (k). This rate is the sum of the risk-free rate (r_f) and the market price of risk (λ) demanded for ventures of this type.

Quantifying the Developer's Option Value

I now apply this framework to the Millbrook case. The valuation first requires defining the project's potential payoffs (Π) and then calculating their discounted expected value.

Defining the Payoffs

The payoffs are the net outcomes of the entire venture from the developer's perspective.

- **Payoff if Approved ($\Pi_{u,dev}$):** The total net profit, calculated as the Gross Development Value (GDV) minus all costs (land, application, construction, and S106).

$$\Pi_{u,dev} = \text{£}10\text{m} - (\text{£}0.3\text{m} + \text{£}0.1\text{m} + \text{£}6.2\text{m} + \text{£}2\text{m}) = \text{£}1,400,000$$

- **Payoff if Denied ($\Pi_{d,dev}$):** The loss of all capital that was at-risk before the planning decision.

$$\Pi_{d,dev} = -[(\text{Land Cost} - \text{Floor Value}) + \text{App Fees}] = -[(\text{£}300\text{k} - \text{£}50\text{k}) + \text{£}100\text{k}] = -\text{£}350,000$$

Calculating the Present Value

To calculate the present value of the option (PV_{dev}), I discount the expected payoff. I assume a real-world probability of success (P_{success}) of 87% and a market price of risk (λ) of 11%, which, when added to the risk-free rate of 4%, gives a total risk-adjusted discount rate (k) of 15%.

$$\begin{aligned} PV_{dev} &= \frac{(P_{\text{success}} \cdot \Pi_{u,dev}) + (P_{\text{failure}} \cdot \Pi_{d,dev})}{(1+k)^T} \\ &= \frac{(0.87 \cdot \text{£}1,400,000) + (0.13 \cdot -\text{£}350,000)}{(1.15)^{0.5}} \\ &= \frac{\text{£}1,218,000 - \text{£}45,500}{1.0724} \\ &= \frac{\text{£}1,172,500}{1.0724} \approx \text{£}1,093,342 \end{aligned} \tag{11}$$

The intrinsic economic value of the developer's right to pursue the project is approximately **£1.09 million**. Since this value is significantly positive, the project is shown to be clearly viable. This stands in stark contrast to the homeowner's option, valued at approximately £11,700, revealing the profound asymmetry in the economic stakes for the two primary parties.

A Tale of Two Sensitivities: Contrasting the Developer and Homeowner

To complete the symmetrical analysis, I must examine how the developer's option value responds to changes in time (T) and the risk-free interest rate (r_f). This reveals a fascinating mix of aligned and opposing incentives when contrasted with the homeowner's position. For the developer, the value of their option is the present value of a large, uncertain future profit. As the time to the planning decision increases, this profit is discounted more heavily, meaning the developer's Theta is unambiguously negative. Similarly, their Rho is also strongly negative, as an increase in the risk-free rate directly increases the overall risk-adjusted discount rate applied to their future profit, significantly reducing the option's present value.

This analysis exposes starkly different economic pressures on the two main parties. Their sensitivities to monetary policy are diametrically opposed. For the homeowner, a lower risk-free rate increases the value of their objection right, making them more likely to object during economic downturns. This analysis exposes starkly different economic pressures on the two main parties. Their sensitivities to monetary policy are diametrically opposed.

The model thus demonstrates that a low-interest-rate environment, which is designed by central banks to reduce friction and stimulate economic activity, has the perverse and unintentional side effect of turning the planning system into a primary arena for value-destroying disputes. This theoretical finding provides a rigorous micro-foundation for macroeconomic trends observed in the real world. For instance, Ramus (2010) notes a significant decline in planning objections following the 2008 financial crisis, attributing it to a general fear for the economy. Our model provides a more precise, mathematical explanation: as interest rates were slashed to near-zero, the value of objection rights would have peaked, increasing conflict. Conversely, as the economy recovered and the prospect of rising rates emerged, the value of these rights would have fallen, consistent with the observed decline in objections. The model therefore reveals that the planning system's sensitivity to monetary policy is not arbitrary, but a predictable consequence of the economic structure of the rights it distributes.

However, the analysis also reveals a surprising point of alignment. Both parties have a negative Theta, meaning both the homeowner's objection right and the developer's development right are most valuable just before the decision is made and lose value as the timeline lengthens. This shared economic incentive for administrative speed is a powerful and non-obvious finding. It suggests that despite their opposing goals for the final outcome, both parties have a rational, economic interest in a planning system that is fast and efficient. This surprising alignment on the value of time, contrasted with the direct conflict over the cost of capital, provides a crucial foundation for designing the equitable reforms discussed

in the following section. Any reform that can leverage this shared desire for efficiency, while mediating the conflict over risk and reward, has the potential to move the system from a zero-sum conflict to a positive-sum collaboration.

7 Reforming the Economic Architecture: A Framework for a Balanced Options Market

The analysis of the planning system as a dysfunctional, coupled-options market points toward a comprehensive framework for reform. The goal is to fundamentally realign the economic incentives of all stakeholders, grounded in a clear set of Principles derived directly from the pathologies identified in this paper.

Guiding Principles for Reform

Any proposed reform must satisfy five core objectives. It must: (1) Internalize externalities by ensuring costs are borne by those who cause them; (2) Provide equitable treatment through proportional costs and fair access; (3) Align individual incentives with collective welfare; (4) Resolve systemic, policy-induced conflicts; and (5) Empower disenfranchised stakeholders. Guided by these Principles, the insights from my options analysis lead to a coherent, five-pronged reform proposal.

Principle 1: Redefine Section 106 to Exclusively Internalize Negative Externalities

The first and most critical reform is to correct the fundamental failure of the Section 106 system. A welfare-increasing development, by its nature, already provides a positive externality to the wider community. The community does not need to be compensated twice. The sole and exclusive purpose of a Section 106 contribution should be to internalize the negative externality by directly compensating those who are demonstrably harmed. As argued by Coase (1960), if transaction costs were zero, the parties could bargain to an efficient outcome. The current S106 system, with its high administrative and procedural burdens, represents a high-transaction-cost barrier that prevents this simple, efficient bargain. By creating a direct, ex-ante compensation mechanism, this reform drastically lowers those transaction costs.

Recommendation 1A: S106 = Total Quantified Harm, Determined by a Structured Adjudication Process. The size of the S106 levy must be determined by a rigorous,

evidence-based assessment of the total capital loss and amenity harm. To prevent this from becoming a new source of intractable conflict, this valuation must follow a clear, three-stage process:

1. **Initial Submission:** As part of their application, the developer must submit a professional, independent valuation of the likely financial harm to affected properties, proposing a corresponding S106 levy. This forms the initial offer.
2. **Homeowner’s Counter-Claim:** As part of their formal objection (which is now a claim for compensation), affected homeowners can either accept the developer’s assessment or submit their own counter-claim, supported by their own independent valuation evidence.
3. **Binding Arbitration by the Planning Authority:** The local authority’s primary role then becomes to adjudicate between these two evidence-based claims. They would not be negotiating, but acting as an arbitrator, weighing the evidence from both sides. To ensure impartiality and expertise, this decision could be made with reference to a pre-approved panel of independent RICS-certified surveyors, with the cost of this final arbitration being split between the developer and the objecting households. The council’s final determination of the harm, and thus the S106 levy, would be binding.

Recommendation 1B: All S106 Funds Go to the Harmed. 100% of the S106 funds collected must be transferred, ex-ante, as direct compensation to the affected households. In the Millbrook case, the S106 levy would be set at £2.5 million, and this entire amount would be distributed as £100,000 payments to each of the 25 households. This is a direct application of the “polluter pays” Principle that neutralizes the primary financial incentive for opposition. The mechanism for assessing this harm would be the objection process itself, which would be reframed as a formal claim for compensation.

Principle 2: Symmetrically Price the Procedural Options

With the S106 system redefined to compensate for harm, the objection process becomes the formal channel for staking a claim against that harm. The system must then price the procedural rights associated with this process. The fees are not to pay for the harm itself (which is covered by S106), but to cover the administrative cost and strategic value of the right to initiate and pursue a formal claim. This ensures both parties have “skin in the game” proportional to the economic power they wield.

Recommendation 2A: Price the Developer’s Call Option. The developer holds a call option on the project’s profit, valued at £1.09 million. A fee representing a small, fixed

proportion of this value (e.g., 5%) would be levied as the true “planning application fee,” amounting to approximately £54,500 in the Millbrook case.

Recommendation 2B: Price the Objector’s Put Option. The objectors collectively hold put options valued at £292,100. A fee representing the *same proportion* (5%) of this value would be levied, translating to a collective fee of £14,605, or approximately £584 per household. This fee, a small fraction of the option’s value, deters frivolous claims without creating an undue barrier for those with legitimate, evidence-based cases.

Principle 3: Leverage the Shared Incentive for Speed

The sensitivity analysis revealed that both the developer’s and the homeowner’s options have a negative Theta, meaning both parties have a rational economic interest in a fast and efficient planning process. The current system’s structure, however, creates significant *dead-weight losses* through delay, such as the financing and holding costs borne by the developer, which are a net loss to the system. A reformed system can leverage the shared desire for speed to reduce these losses.

Recommendation 3: An Optional “Fast-Track” Fee for Developers. Local authorities should offer developers the option to pay a premium fee for a guaranteed, expedited decision timeline. This choice has a crucial secondary effect: by reducing the time horizon (T), it unilaterally increases the value of the homeowners’ objection rights. A rational developer must internalize this, deciding if the benefit of speed outweighs the cost of gifting additional option value to objectors, who would still pay their standard, non-expedited fee. This forces the developer to price the full economic consequences of their request, creating a sophisticated market for administrative time.

Principle 4: Empower the Supporters’ Option by Lowering Coordination Costs

Finally, the reform must address the system’s structural blindness to the “Option to Benefit” held by the wider community. As famously analyzed by Olson (1965), these supporters face a classic *collective action problem*: the diffuse nature of their individual benefit creates a powerful incentive to free-ride, allowing the concentrated voices of opposition to dominate. The solution is not to charge them a fee, which would be counter-productive, but to lower the coordination costs that prevent them from exercising their collective will.

Recommendation 4: A Formal, Low-Friction “Statement of Community Support”. The planning system must create a new, digitally-enabled tool for supporters to register their position. If supporters for an application cross a pre-defined threshold, the

Statement of Community Support would become a significant material consideration in the planning balance. This gives the silent majority a powerful procedural voice. Crucially, it solves the collective action problem by creating a powerful incentive for the developer, as the party with the most concentrated financial interest, to bear the costs of canvassing for and organizing that support.

Principle 5: Ensure Long-Term Political and Procedural Accountability

Finally, the framework must address the political asymmetry where councils face immediate pressure from existing homeowners but receive no political reward from the future beneficiaries of new housing.

Recommendation 5: A Mandatory “Planning Contribution Disclosure”. A disclosure should be required in the sales information for a new home, detailing the S106 compensation that was paid to existing residents as part of the planning approval. This has two crucial effects. First, it makes the benefits of the council’s pro-growth decision visible to the new homeowners, creating an informed political constituency that can counter-balance the long-term memory of the original objectors. Second, it acts as a powerful accountability mechanism on the council’s S106 adjudication itself. Knowing that the final compensation figure will be a matter of public record, permanently attached to the new properties, creates a strong political incentive for the council to resist political pressure and arrive at a fair and evidence-based valuation, thereby ensuring the integrity of the entire process.

Analysis of Recommendations

The five Principles outlined above, when taken together, create a coherent and robust framework that directly addresses the primary pathologies of the current planning system identified throughout this paper.

First, the problem of the unpriced, hidden subsidy is solved by Principle 2, which introduces symmetrical, proportional fees for both objectors and developers. This makes the cost of exercising procedural rights transparent and ensures the planning system is sustainably funded by the participants who use it, not by general taxation.

Second, the regressive wealth transfer and the *rich-area benefit* are mitigated. While the value of the options will always be higher in more affluent areas, the proportional fee structure ensures that those who receive a more valuable right also contribute proportionally more to the system’s costs. This introduces a powerful element of progressive equity that is currently absent.

Third, the asymmetry of rights that structurally mutes supporters is corrected by Principle 4. By creating a formal, low-friction mechanism for support to be registered and given material weight, the system moves from being exclusively focused on mitigating harm to one that can also recognize and pursue collective benefit.

Fourth, the systemic conflict with macroeconomic policy is resolved. By pricing the objection correctly, the perverse incentive for opposition to increase during low-interest-rate environments is significantly dampened. The fee acts as a rational filter, ensuring that the planning system no longer automatically works against the grain of national economic stimulus.

Finally, the fundamental coordination failure and high transaction costs, which prevent efficient outcomes, are addressed by the framework as a whole. Principle 1 drastically lowers the cost of bargaining over harm, while Principles 3 and 4 create clear, low-cost channels for participants to express their preferences for speed and support.

In essence, this options-aware framework replaces a system that is opaque, inequitable, and conflict-driven with one that is transparent, proportional, and designed to facilitate collaboration. It moves the political economy of planning from a zero-sum conflict to a positive-sum negotiation, grounded in sound economic Principles.

Conclusion: Transforming the Political Economy of Planning

This five-Principle framework creates a system that is efficient, equitable, and self-funding. It aligns private incentives with the public good, transforming the political economy of planning from a zero-sum conflict to a positive-sum collaboration. It shifts the role of the local authority from a beleaguered conflict manager to a proactive enabler of well-compensated, socially beneficial development. By reframing the objection as a formal claim for compensation, the process becomes less about adversarial opposition and more about economic valuation.

Simultaneously, by providing a formal mechanism for the wider community to express its support, the council is no longer a purely defensive gatekeeper but a proactive enabler of socially beneficial development, creating the institutional conditions necessary for YIM-BYism to flourish. This transforms the entire political economy of planning, moving it from a system that defaults to conflict to one that is designed to seek and achieve positive-sum outcomes.

This shift provides a crucial political shield for the council. While the political pressure from existing homeowners will always exist, a formal, evidence-based adjudication process allows the council to justify its decision on objective, technical grounds rather than po-

litical ones. Furthermore, by empowering the "silent majority" of supporters through the Statement of Community Support, the framework gives the council a tangible, democratic mandate from the wider community to approve beneficial projects. This helps to counter-balance the concentrated political voice of the objectors. The council is no longer a purely defensive gatekeeper but a proactive enabler of socially beneficial development, creating the institutional conditions necessary for YIMBYism to flourish. This transforms the entire political economy of planning, moving it from a system that defaults to conflict to one that is designed to seek and achieve positive-sum outcomes.

8 Implementation Framework and Broader Applications

The five-Principle reform framework, derived from the options analysis, provides a practical and adaptable policy proposal. This section briefly explores the pathways for its implementation, its legal and political feasibility, and its broader applicability beyond the Millbrook case, demonstrating the robustness of the underlying theory.

A Phased, Evidence-Based Pathway to Reform

A successful transition from the current system requires a careful, evidence-based approach rather than a disruptive national rollout. Implementation could follow a three-phase process, beginning with intensive consultation with local authorities and stakeholders to refine the operational details of the framework. This would be followed by a series of controlled pilot programs in a representative sample of volunteer authorities, encompassing urban, suburban, and rural contexts, to test and calibrate the fee structures, adjudication processes, and digital support tools. The empirical evidence and best practices gathered from these pilots would then provide a robust foundation for a full, evidence-based national implementation, ensuring the reform is both effective and democratically legitimate.

Safeguards, Equity, and Legal Feasibility

A primary concern for any fee-based system is the potential to disenfranchise those with legitimate concerns but limited financial means. The proposed framework has several built-in safeguards to address this. First, the objection-filing fee could be subject to means-tested waivers, ensuring that access to the system is not determined by ability to pay. Second, the

fee itself is designed to be proportional; a small percentage of the option's value, leaving the majority of the economic benefit in the hands of the objector.

Furthermore, the framework operates within existing legal norms. The UK already charges fees for planning appeals, establishing the user-pays Principle within the system. Internationally, modest fee systems in jurisdictions such as Ireland and Australia have been shown to improve efficiency without harming democratic participation. Crucially, the European Court of Justice has upheld the Principle of reasonable charges for participation under the Aarhus Convention. As my model frames the fee not as a barrier to entry but as a proportional payment for a valuable financial right, it aligns well with this legal precedent.

Broader Applicability and Future Research

While the Millbrook case provides a clear illustration, the five Principles are universally applicable. The framework is a flexible tool that can be adapted to different contexts. The specific parameters, such as the percentage for fees or the threshold for community support, would necessarily be calibrated for different development types (e.g., urban infill vs. rural conversion) and regional property markets. This adaptability is a strength of the model.

This also opens a clear avenue for future research. The pilot programs would generate a rich dataset for empirical analysis, allowing scholars to test the model's predictions and to further refine the parameters for different contexts. Finally, the revenue generated by the proportional fees could be ring-fenced to create a virtuous cycle, funding the hiring of more planning officers and the development of better digital systems, improving the quality and speed of the planning service for all participants. This demonstrates that the framework is not just a tool for resolving conflict, but a potential engine for the renewal and improvement of the planning system itself.

9 Conclusion: Toward an Evidence-Based Planning Policy

The UK planning system is built on a foundational paradox: while championing democratic participation, its mechanisms for doing so are economically blind. This paper has argued that the unpriced distribution of the right to object to development is not a benign democratic feature, but the source of a profound market failure. By modeling these rights as real options, I have moved beyond anecdote to quantify the pathologies this failure creates.

My analysis demonstrates that the current system grants valuable, unpriced assets to objectors, creating a regressive subsidy that benefits the wealthy and distorts incentives.

It asymmetrically empowers objectors while structurally muting the voices of supporters, making conflict the rational default. Crucially, I have shown how this framework acts as a conduit for external economic forces, turning national monetary policy designed to stimulate growth into a local-level catalyst for value-destroying disputes. The system is not merely inefficient; it is often actively counter-productive to its own stated economic and social goals.

In response, this paper has proposed a comprehensive, five-Principle reform framework grounded in the insights of contingent claim theory. By redefining Section 106 to directly compensate for harm, symmetrically pricing the procedural rights of all participants, creating a market for administrative speed, empowering supporters, and ensuring long-term political accountability, this framework provides a coherent solution to the pathologies identified. It replaces an opaque, inequitable, and conflict-driven process with one that is transparent, proportional, and designed to facilitate positive-sum collaboration.

The imperative is not merely to introduce fees, but to adopt an economically rational architecture for the planning system as a whole. The choice between the continued subsidization of an inefficient and inequitable status quo and an evidence-based reform aligned with sound economic Principles will determine whether UK planning can meet the challenges of the twenty-first century or remain trapped in a cycle of failing orthodoxies. The Millbrook case demonstrates that viable alternatives exist—the question is whether policymakers possess the intellectual courage to pursue them.

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