

**Leicestershire 175 Unit Student Scheme - Appraisal Based on Viability Study Appendix 8**

VS = January 2013 Viability Study  
VU = December 2014 Viability Update

Main Appraisal Heading	Elemental Value and Cost Breakdown	Cost Calculator (%)	Viability Study Adopted Assumption	DTZ Commentary	DTZ version of Viability Study Assumption
<b>Income</b>	Assumed development floor area (sq m)		3,625 sq m	3,625 sq m does not match the VU, where floor area is calculated at 175 x 20 sq m beds. VU net area = 3,500 sq m and should have been adopted within the appraisal. No mix of unit types provided. 20 sq m is large for a cluster but small for studio.	3,500 sq m
	Capital Value (£/sq m)		£2,225 per sq m	VU states that this is calculated at £3,000 net rent x 6.5%. This calculation provides a capital value per bed, not a £ psm value.  VS floor area: 3,625 sq m * 2,225 = £8,065,625 (£46,089 per bed), however, VU floor area: 3,500 sq m * 2,225 = £7,787,500 (£44,500 per bed)  The calculation should multiply the net rental by the yield multiplier to give a Capital Value per bed, which is multiplied by the number of beds: £3,000 * 15.385 (6.5%) = £46,154 per bed * 175 units = £8,076,923 (£2,228 psm based on 3,625 sq m or £2,308 per sq m based on 3,500 sq m).  DTZ assessment of Capital Value: Gross Rent (£5,000 per bed) minus Outgoings (£1,600 per bed) = £3,400 per bed £3,400 * 15.385 (6.5%) = £52,309 per bed  Total capital value = £52,309 * 175 = £9,154,075 (£2,615.45 psm based on £3,500 sq m)	£2,615 per sq m
	Capital Value (£)		£8,065,625	Purchaser's costs at 2.8% (assuming Multiple Dwelling Relief available) must be deducted. £8,078,000 minus 2.8% = £7,839,788.  DTZ Capital Value after purchaser's costs = £8,897,760 (£9,154,075 - 2.8% = £8,897,760). This equates to £2,542 psm	£8,897,760
<b>Costs</b>	Value of Land Used				
	Assumed Site Area (ha)		0.3 hectares		0.3 hectares
	Assumed Benchmark Land Value (£ per ha)		£440,000 per hectare	Is industrial land value appropriate for use as a land value benchmark? Landowner's expectation for student beds in this location circa £5,000 per bed	
	Uplift from existing use (% of Benchmark Land Value)	30%	£132,000	Uplift stated at 20% in VS but 30% uplift adopted with no reasoning.	
	Land Value including Uplift		£171,600	Landowner's expectation for student beds in this location circa £5,000 per bed. 175 x £5,000 = £875,000.	£875,000
	Strategic Promotion		£2,500	Basis of cost not defined but accepted as acceptable	£2,500
	Planning		£2,500	Basis of cost not defined but accepted as acceptable	£2,500
	Misc. Land		£2,500	Basis of cost not defined but accepted as acceptable	£2,500
	Construction (£ per sq m)		£1,179 per sq m	Construction cost is based on BCIS. Both the VS and VU adopt March 2013 BCIS costs. Residential costs increased in the VU but student costs unchanged despite cost inflation of 8.65% from £1,179 psm to £1,281 psm.	£1,281 per sq m
	Total Base Construction Cost (£)		£4,273,875 (£24,422 per bed)	In the VS and VU this is calculated at 1,179 sq m * 3,625 sq m. HOWEVER, BCIS costs relate to the Gross Internal Area (GIA) of the property, and the VU states that costs are calculated on gross development area calculated at 3,500 sq m plus 35% = 4,725 sq m.  The construction cost adopted is, therefore, considerably understated and does not match the methodology stated in the VU. Using March 2012 BCIS costs the construction cost should have been £5,570,775 (4,725 sq m * 1,179 = £5,570,775). Inflating the cost to BCIS data as at August 2014 produces a cost of £6,052,725 (4,725 sq m x £1,281 psm = £6,052,725). Even at this level, we regard the bed cost equating to £34,587 as low.	£6,052,725 (£34,587 per bed)
	Infrastructure	15%	£641,081	Infrastructure usually anticipated at 15-20% of base cost. 15% was adopted and is, therefore, at low end of range but acceptable. Base costs are understated in the VS and VU, therefore, infrastructure costs are understated.	£907,909
	Abnormals	10%		Student accommodation sites can be anticipated to be in urban locations. Likely to be brownfield sites, therefore, likely to be impacted by some abnormal costs. Abnormal costs applied at 10% of base costs, in line with the majority of brownfield sites in the VS.	£605,273
	Fees	8%	£341,910	Fees are relatively high, and contingency low. Circa 10% total is reasonable, therefore, costs adopted are acceptable. However, the VS states Brownfield contingency = 5%, so 2.5% potentially low. Fees and contingency should be applied to all construction costs, that is, base, prelims, infrastructure and abnormal costs.	£605,272.50
	Contingency	2.50%	£106,847	See fees above.	£189,148
	Finance Costs		£5,000	Basis of cost not defined but accepted as acceptable	£5,000
	Sales	3%	£241,969	Sales fees on a student investment scheme are not appropriate. Letting fees will be included in the Outgoings deduction from Gross rental.	deleted
	Misc. Financial		£5,000	Basis of cost not defined but accepted as acceptable	£5,000
	Subtotal		£5,794,782		£9,252,826
	Interest	7%	£405,635	Broad brush' approach to calculation at 7%. Acceptable on basis of 'high level nature' of the appraisal.	£405,635
	Profit % Costs	20%	£1,240,083	The VS states profit at 20% on cost. The VU states profit calculated at 20% of GDV. BUT for student in the VU it is calculated at 20% of all costs (15.37% of GDV). The reports are confusing, but 20% profit on cost is appropriate, as adopted.	£1,931,692
	Costs		7,440,500		11,590,154
<b>Additional Profit</b>			<b>625,125</b>	The description as Additional Profit is questionable. Student accommodation development appears significantly unviable when the errors in the VS and VU are corrected.	<b>-2,692,394</b>
<b>Residual Land Worth (APPROX)</b>			804,225	This is 'Additional Profit' less total costs. Capital Value minus Total Costs (excluding land used, strategic promotion, planning and misc. land)	-1,809,894
	£/sq m		172	The VS adopts a floor area of 3,625 sq m, producing an 'additional profit' equating to £172 / sq m. However, the VU adopts a floor area of 3,500 sq m, increasing the figure to £179 psm.	-769
<b>Revised residual calculation using only HDH assumptions in the VU Update report</b>				The above appraisal includes some assumptions derived from DTZ's student housing experience.  We have undertaken an additional residual calculation using <u>only</u> the confirmed assumptions as stated by HDH in their January 2013 VS and December 2014 Update reports (except for the deduction of purchaser's costs). The results of the additional appraisal show the errors which HDH have not picked up in their calculations. The additional residual appraisal shows that using only the HDH assumptions of income/value and costs there is no Additional Profit or Residual Land. In fact, the calculation produces a negative result of some magnitude. We attach the additional appraisal calculation sheet for review.	