FURTHER REPRESENTATIONS AND RESPONSE
TO THE EXAMINER'S MAIN ISSUES AND QUESTIONS
ON BEHALF OF THE UNIVERSITY OF LEICESTER
IN RELATION TO THE PROPOSED LEICESTER CITY COUNCIL
COMMUNITY INFRASTRUCTURE LEVY

The University of Leicester ("the University") maintains its original representations that the CIL would render the provision of student accommodation unviable. The position of the University as a charity should also be recognised by Leicester City Council ("the Council").

The University makes the further responses set out below to the Examiner's main issues and questions.

Notwithstanding the suggestion in the Council's response, the University was not consulted on the viability appraisal or the viability update ("VU"). Had it been so a number of fundamental issues would have been raised.

Question 3

Should the introduction of CIL be delayed in order to co-ordinate it with the forthcoming Local Plan which will replace the Leicester City Council Core Strategy (2014)?

The University submitted a response to Leicester's Local Plan Issues and Options Document for Consultation on the 13th February 2015 following a positive meeting with Grant Butterworth, Head of Planning and his colleague Nick Logan in December 2014.

As part of its response the University made representations regarding the student residential product and offer in the city of Leicester. This was a direct response to the following issues and options included within the Council's consultation document:

- A Thriving City Centre: "should we have more student housing schemes and how can we encourage new housing for other residents in the city centre?"
- Housing Growth: "do we continue the current policy of only allowing limited new student accommodation, do we need stricter controls or should we relax the current policy?"
- Housing Growth: "Support new student accommodation in key locations to support our universities"

This response was also made in the context of the commitment made by the Council within its adopted Core Strategy (2014) at paragraph 4.4.33 to work closely with both universities to assess future student housing needs, providing guidance on appropriate locations and recognising that the success of this strategy will be in a large part due to the ability to build the quality accommodation priced at a level that attracts students to study in Leicester.

The University's representation (13th February 2015) therefore made the suggestion that there is a need for a comprehensive city wide student residential strategy, with an emphasis on the coordinated delivery of the right quality, of the right type, in the right location that responds to the changing nature of the product and provision. The University's representation also suggested that any strategy that comes forward should seek to consider the legacy of surplus/out dated stock. This would serve to protect the reputation and profile of the University, Council and its partners where student residential areas become obsolete and require regeneration/reinvention, and/or the market reaches saturation and there is a need to restrict provision.

This evidence, alongside a review of the Council's evidence base for its adopted Core Strategy and forthcoming Local Plan, confirms that such a strategy does not exist. In light of this strategy vacuum in relation to an up-to-date and comprehensive approach to dealing with student housing within the city, it is difficult to understand how it is possible for the Council to be able to justify a CIL charge when this is clearly an issue that has not been fully and comprehensively explored through an independently examined local plan process. The first opportunity for third parties to see how the Council will seek to respond to the provision of new student accommodation within the city and the associated implications of old and obsolete stock will be within the Pre-Submission Local Plan planned to published for consultation in late Autumn 2015 (Local Development Scheme 2014-2017) with adoption proposed in 2016.

In relation to student housing there is a clear disconnect between the strategy required to address this critical Local Plan issue and the proposed levy for student housing proposed within the CIL Charging Schedule. This is contrary to the provision of National Planning Policy Guidance (NPPF) paragraph 175 and National Planning Practice Guidance (ID 10-004-20140306).

Document EX5 submitted by the Council in response to the Examiner's question on this matter relies upon Mr Justice Dove's high court decision to justify why they are justified in introducing CIL ahead of the preparation and adoption of their Local Plan, confirming that this will review the CIL Charging Schedule once the new Leicester Local Plan has been adopted.

The case does not establish a legal principle; it is a decision on its own facts. The Planning Practice Guidance requires charging schedules to be "consistent with and support its implementation of up-to-date relevant plan". Whether a plan is up-to-date and relevant is a matter for the judgment of the Examiner. Here the Core Strategy is to be replaced shortly in recognition that it is not relevant and up-to-date. The Core Strategy does not deal with infrastructure provision in a CIL sense. It only addresses student accommodation in a very general way in Policy CS6, which says an SPD will be prepared. No SPD has been produced post the Core Strategy. Thus it is not relevant and up-to-date in general, and specifically in relation to CIL. It will be reviewed in the emerging local plan.

In the case of Leicester, the publication of its Pre-Submission Local Plan is imminent, planned for Autumn of this year with adoption in 2016. The adoption of a CIL Charging Schedule for a particular land use that has not been robustly and comprehensively tested through the full and independently examined Local Plan process runs the risk of being considered 'premature' in the context of the guidance on this issue within the NPPG whereby the development concerned would prejudice the outcome of the plan-making process:

> *Such circumstances are likely, but not exclusively, to be limited to situations where [both]:*
>
> *b) the emerging plan is at an advanced stage but is not yet formally part of the development plan for the area.*
>
> *Paragraph: 014 Reference ID: 21b-014-20140306*

Furthermore, NPPF paragraph 177 states that it is equally important to ensure that there is a reasonable prospect that planned infrastructure is deliverable in a timely fashion. To facilitate this, it is important that local planning authorities understand district-wide development costs at the time Local Plans are drawn up. For this reason, infrastructure and development policies should be planned at the same time, in the Local Plan. Any affordable housing or local standards requirements that may be applied to development should be assessed at the plan-making stage, where possible, and kept under review.

Further guidance in this respect is provided within the NPPG (ID 12-018-20140306) stating that Councils must identify what infrastructure is required and how it can be funded and brought on stream at the appropriate time; and ensuring that the requirements of the plan as a whole will not prejudice the viability of development The evidence which accompanies an emerging Local Plan should show how the policies in the plan have been tested for their impact on the viability of development, including (where relevant) the impact which the Community Infrastructure Levy is expected to have. Where local planning authorities intend to bring forward a Community Infrastructure Levy regime, there is a strong advantage in doing so in parallel with producing the Local Plan, as this allows questions about infrastructure funding and the viability of policies to be addressed in a comprehensive and coordinated way.

The University consider that a Regulation 123 list that was produced as a result of the Leicester and Leicestershire Growth Infrastructure Assessment in 2013 to support the preparation and adoption of the Core Strategy cannot be considered to have been tested for its impact on the viability of development proposed within the proposed Local Plan, particularly given a number of crucial areas, such as student residential have only been explored as issues and options, and were also not explored in the context of the current student market conditions through the Core Strategy process.

Further to this, it is also considered likely that the infrastructure requirements included within the submitted Regulation 123 list are no longer appropriate and/or considered as priorities given the proposed development the new Local Plan will promote. It is therefore considered that this is contrary to the relevant provisions of the NPPF and NPPG.

In this context, and under the provisions of the National Planning Policy Framework (NPPF) paragraph 175, National Planning Practice Guidance (ID 10-004-20140306), and in response to the Inspectors question 3., it is clear that in respect of the levy for student accommodation, the introduction of CIL should be delayed in order to coordinate it with the forthcoming Local Plan. In this way charges can be robustly worked up and tested alongside the policies that will dictate the location and quantum of student residential floorspace across the city in future. This will ensure that the CIL Charging Schedule and Local Plan are in accordance with NPPF paragraph 173 so that future investment in student accommodation, which is critical to the continued success of the city's universities and their valuable contribution to the city and city region economy can continue to be developed viably.

<u>Question 4</u>

Was the Leicester, Leicestershire and Rutland Viability Study ("VS") January 2013 carried out in accordance with an appropriate methodology?

The VS and VU were carried out on the basis of a residual appraisal, with a residual land value compared with a "*cost of land*". If the result of the comparison was a positive number this was described as *"additional profit"* and this additional profit is regarded as the viable amount which was available for CIL payments.

VS para S.6 states that:

> The approach we have used is in line with the CIL Guidance (December 2012) and the two main sources of guidance *Viability Testing in Local Plans – Advice for planning practitioners. (LGA/HBF – Sir John Harman) June 2012* and *Financial viability in planning, RICS guidance note, 1st edition (GN 94/2012)*.

In our opinion, the general principles of the VS and VU do follow the guidance papers. Certain assumptions move well away from at least one of the guidance papers and we regard the statement at para S.6 as a broad-brush.

One example of variance from the guidance papers is in respect of the assessment of land value, which is discussed later in respect of question 35.

Question 5

Was it appropriate to update certain data in the Viability Study in 2014 whilst leaving other inputs in the model unchanged?

In respect of student accommodation, the 2014 update did not alter any of the assumptions within the viability model. However, slightly greater clarity of development detail was provided in the VU in comparison to the negligible development information in the VS. Some of the detail contradicted the assumptions adopted in the VS, but the appraisal was not updated or altered.

Neither the VS nor the VU set out the assumed mix of room type which may have been adopted in establishing the basis of student development viability.

The 2014 update provides a brief overview of the assumptions relating to the assumed size of development upon which costs were based. The size of the assumed development differs from that set out in the VS appraisal and an update of the development size in the appraisal should have been regarded as appropriate. It appears that the gross internal area adopted in the VS was calculated at a circa 3.5% increase on the net internal area rather than the 35% as stated in the VU. A 3.5% addition is not appropriate, whereas a 35% addition is appropriate. This adjustment has a fundamental impact upon the viability appraisal.

The VU provides no commentary in respect of the increase in student accommodation construction costs as determined by BCIS. From the appendices it is clear that BCIS student accommodation costs increased from £1,179 psm in the 2013 VS to £1,281 in the 2014 VU. This equates to an increase of 8.65%, which we regard as significant and worthy of discussion, especially as the 2014 VU determines that the student rents adopted remain unchanged from January 2013.

It is obvious that where rental and yield assumptions remain the same, a significant increase in construction costs will create a negative impact on viability through a reduction in the residual land value.

Para 8.10 of the 2014 VU stated that build costs of £1,179 psm were adopted, having been taken directly from BCIS cost estimates. At this point, the increase in BCIS costs should have been discussed and, in our opinion, it would have been appropriate for the costs dated 23 August 2014 to be adopted, in favour of the VS costs which were dated 24 March 2012.

Residential construction costs were increased within the VU following a BCIS cost increase of 9.6%. It should therefore, have been appropriate to increase the student accommodation costs in a similar way.

Considering that the VU is dated almost 2 years after the original VS it is surprising that it is found within the VU that the student rental assumptions adopted in January 2013 remain sound, that is, student rents in the Leicester City Council area had not increased during an almost 2 year period. This appears contrary to the financial models adopted by the majority of student accommodation providers, who rely on annual rental increases.

Question 6

Are the proposed charging rates informed by and consistent with the viability evidence?

The draft CIL charging schedule includes a proposed CIL rate equating to £100 psm for student accommodation. The 2013 VS does not recommend rates of CIL, instead the "*maximum potential for CIL"* is reported at £172 psm for student accommodation and the VS provides a recommendation to adopt a cautious approach for setting CIL at a level well within the margins of viability so that it can be borne by most development sites.

It would appear that the City Council have followed the recommended approach, proposing a CIL rate which is 41.9% lower than the maximum level indicated within the VS.

The proposed charging rate does appear to be informed by, and consistent with the Viability Evidence, however, we are of the opinion that the viability evidence is neither reasonable or appropriate.

Question 29

What is the definition of "student accommodation" as intended by the draft Charging Schedule?

This relates to accommodation which is built for, or converted to accommodation to be occupied primarily by students.

Question 30

Is student accommodation a use that can be distinguished from other forms of residential development?

Student accommodation is of a different nature to general residential accommodation due to the temporal nature of its occupation for only certain parts of the year.

Question 32

Approximately what quantity of student accommodation is likely to take place in the period to 2026 by (a) universities and (b) private sector?

The University's Emerging Strategic Plan will support the implementation of improvement of a significant number of existing student bed numbers that it provides in the city. This will result in some 800 new bed spaces being developed over the next 2-3 years. The University will plan further development in the period to 2026.

Question 33

What percentage of the maximum potential rate (additional profit) identified in the Viability Study amended, if appropriate, to take account of the viability update at a proposed rate of £100 to represent for student accommodation?

The VU does not amend the assessment of Maximum Potential for CIL, stating that they have *"not reviewed the analysis of student accommodation further as the main assumptions remain cautious but appropriate"*.

The VS assessed the Maximum Potential for CIL at £172 psm. The proposed rate of £100 psm equates to 58.14% of the maximum potential rate. The Maximum Potential for CIL is, however, calculated on flawed assumptions and the percentage of maximum potential rate is not an appropriate basis of assessment or comparison.

Question 34

Approximately what percentage of total development cost and development value would the proposed £100 rate represent for student accommodation?

The VS adopts total developments costs of £7,444,500 and development value of £8,065,625, meaning that the proposed CIL rate of £100 psm would equate to 4.87% and 4.5% respectively on the basis of the assumed 3,625 sq m development. The development costs and development value are calculated on flawed assumptions and the percentage of costs and value are not appropriate bases of assessment or comparison.

Question 35

Does the Viability Study make appropriate assumptions for student accommodation development, carried out by both universities and the private sector, about:

(a) land cost;
(b) development cost;
(c) developer profits;
(d) development value?

The VS does not differentiate between student accommodation development carried out by universities or the private sector. Student accommodation development is treated as being the same for all parties. Whilst universities in the City Council area may adopt development assumptions which differ from those adopted by a private developer we are of the opinion that the market facing assumptions of a private developer are appropriate in the assessment of CIL viability. Due to the charitable status of the University, its inherent desire to care for its students, and the recycling of any profits, it could be judged that the University would adopt assumptions which are less market facing than a private developer, and assessment of viability in line with the University's assumptions could be argued as unreasonable. Therefore, the approach adopted within the VS appears appropriate.

(A) Land Costs

The VS provides minimal detail in respect of the assumptions relating to the assumed size of student accommodation development and no reasoning for such assumptions. The scale of development can only be assessed from review of the development appraisal included at Appendix 8 – Non-Residential Appraisal Results, wherein it can be seen that a site area of 0.3 hectares (ha) was assumed. The cost of the development land is included within the development appraisal as a fixed cost which is assessed within Appendix 8 as equating to £440,000 per hectare plus a 30% uplift to incentivise the owner to sell the land (instead of the stated 20% uplift). No reasoning is provided within the VS as to why student accommodation land is worth £440,000 per hectare plus 30%.

The VU states: "*In the CIL Viability Study it was assumed that industrial land in the City had a value of £440,000/ha or thereabouts. Agents report a considerable increase in confidence in the market and activity, however this has not yet fed through into increases in prices.*"

Considering the importance of industrial land values to the viability assessment approach, a more comprehensive breakdown of comparable land transactions, and comparison to the VS position would have been appropriate.

Within section 6 of the VS and section 4 of the VU, the reports provide relatively lengthy discussion in respect of appropriate land values to reflect the existing use of land. At para 6.24 of the VS it is stated that "This is a controversial part of the viability process and the area of conflicting guidance (the Viability Testing Local Plans versus the RICS [Viability and Planning] Guidance."

Despite stating at para 6.24 that *"It is therefore appropriate and an important part of this assessment to have regard to the market value of land"*, the VS and VU follow the line of guidance proposed within the Viability Testing Local Plans rather than the RICS Guidance.

Viability Testing Local Plans recommends the use of existing use value plus a premium (rather than market value) to incentivise the landowner to release land for development whereas the RICS Guidance discounts the use of existing use value as land does not trade on such basis. The RICS recommend the use of land values with reference to market transactions.

The land value adopted for student development in the VS falls in line with the value determined within para 6.17 of the VS as being appropriate for industrial land in Leicester, Oadby and Wigston.

Whilst the use of existing use value plus uplift is in line with one Viability Guidance paper, the use of industrial land value plus an uplift does not appear remotely appropriate for the assessment of the value which a reasonable landowner would expect for the release of their land for a high density student accommodation scheme.

The land value adopted within the VS is £171,600 (0.3 ha x £440,000 = £132,000 + 30% uplift = £171,600). Para 6.34 of the VS states that the incentive required for a landowner to release their land was increased, following consultation, from 15% to 20% for all sites. It is, therefore, confusing to see a 30% addition (instead of 20%) applied to industrial land for student development.

From our experience of providing agency, valuation and consultancy advice in respect of many thousand student rooms during the past twelve months we are of the opinion that a reasonable landowner's expectation for the development of student accommodation in Leicester City Centre currently equates to circa £5,000 per room.

Within the VU it is stated that the assumed total scheme has 175 rooms. Therefore, we calculate the reasonable land value at £875,000 (175 x £5,000 = £875,000), a substantial increase on the land value adopted within the VS, satisfactorily reflecting the added value that would be generated from a high density scheme.

(B) Development Costs

Other than land value, the VS student accommodation appraisal includes costs under the following headings:

1. Strategic promotion.
2. Planning.
3. Misc. Land.
4. Construction.
5. Infrastructure.
6. Abnormals.
7. Fees.
8. Contingency.
9. Finance costs.
10. Sales.
11. Misc. financial.
12. Interest.

Our assessment of the appropriateness of the cost assumptions is set out below:

1, 2, 3, 9, 11

The derivation of the above costs is not explained within the VS or VU, but the amounts applied to these costs are minimal, have little impact upon viability and costs relating to site promotion, planning and financial costs other than interest are appropriate for inclusion within the residual appraisal and are, therefore, acceptable.

4 Construction

Section 7 of the VS sets out methodology in respect of construction costs, with base line costs set in line with BCIS data. BCIS data is widely accepted for viability purposes as being a reasonable and appropriate basis for the assessment of base construction costs (including preliminaries).

Para 3.12 of the VU states that residential BCIS costs *“have increased by about 9.6%”* between March 2012 and August 2014 and in para 3.17 it is stated that, within the update appraisals, “*the BCIS costs for residential development has been rebased (increased) using the August 2014 costs”*.

A similar increase in costs equating to 8.65% is shown in the BCIS breakdown at Appendix 1 of the VU but development costs in relation to student accommodation development were unchanged in the VU and we regard such a disparity of approach as inappropriate.

It is important to ensure that the BCIS costs are applied to the appropriate floor area in order to calculate the overall base construction cost.

There is a significant disparity between the appraisal shown at Appendix 8 of the VS and the wording at para 8.3 of the VU.

The VS Appraisal includes a total construction cost of £4,273,875 based on a construction cost of £1,179 psm, from which it can be calculated that the adopted development floor area was 3,625 sq m (£4,273,875 divided by £1,179 = £3,625). 3,625 sq m is the same area adopted within the appraisal for the calculation of development income. There is no explanation within the VS in respect of the assumptions leading to the adopted scale of development.

3,625 sq m does not match the scale of development set out in para 8.3 of the VU, where the development floor area is stated as 175 rooms x 20 sq m = 3,500 sq m. Para 8.3 states that the assessment of costing is based on the GIA (gross internal area), which is calculated at 3,500 sq m plus 35% = 4,725 sq m.

BCIS costs should be applied to the gross internal area of the scheme, meaning that construction costs are significantly underrepresented in the VS Appraisal.

When construction costs are calculated in line with the GIA of the development they increase to £5,570,775 (4,725 sq m x £1,179 psm = £5,570,775), a £1,296,900 (£5,570,775 - (£4,273,875 = £1,296,900) increase on the costs adopted within the VS.

As previously mentioned, the BCIS costs as at August 2014 were £1,281 psm, which produces a base construction cost of £6,052,725 (4,725 sq m x £1,281 psm = £6,052,725), a £1,778,850 increase (£1,778,850 - £6,052,725 = £1,778,850) from the base costs adopted in the VS. It is clear that the use of the correct floor area for calculation of base construction costs would have a significant negative impact upon the viability position.

5 Infrastructure

Infrastructure costs are stated as falling within the range of 15-20% and 15% as adopted for student accommodation which, on a broadbrush basis, we regard as acceptable. However, the under-costing of base construction costs mean that infrastructure costs are also too low as 15% of the additional construction cost will need to be allocated to provide an appropriate level of infrastructure works.

6 Abnormals

No abnormal costs are applied in the VS Student Accommodation Appraisal, but no reasoning is provided for this omission. In our opinion, student accommodation is likely to take place in an urban setting, where greenfield development is unlikely and the inclusion of abnormal costs would be a reasonable assumption.

Para 7.22 of the VS states that *"where the site is on previously developed land then the costs are increased by an additional 15%."* However, abnormal costs on brownfield sites in the VU appraisals are set at 5% for residential schemes and 10% for non-residential. Residential Site 3 is categorised as a brownfield site but does not have abnormal costs included. There is inconsistency in the recommendations and appraisals within the VS and VU.

We regard the inclusion of a 10% allowance for abnormal costs on student development is appropriate. The inclusion of abnormal costs would have a negative impact upon the viability of student accommodation development.

7 & 8 Fees and Contingency

Total cost for fees and contingency equate to 10.5% of base construction cost only. Fees and contingency should be calculated with reference to Fees and contingency should be applied to all construction costs, that is, base, prelims, infrastructure and abnormal costs and are, therefore, under-costed. We regard a 10.5% allowance for fees and contingency as appropriate.

10 Sales

Sales costs are included at 3% of the capital value. A student scheme is not marketed and sold in the same way as a housing scheme for which a 3% allowance for sales and marketing could be regarded as appropriate. This cost appears over stated and its removal will improve viability.

12 Interest

Interest costs are included on a ‘high level’ basis. The methodology will provide a short cut approximation of the cost which we regard as acceptable for the purpose of area wide assessment.

(C) Developer Profits

At para 7.36 of the VS it is stated that *“we have assumed a developer’s profit of 20% on total cost to reflect the risk of undertaking the development”*, whereas in the VU it is stated at para 3.36 that *“we have calculated the profit to reflect risk from development as 20% of gross development value”*. Whilst the alteration to assessment of profit may have been applied to other uses within the viability update, the profit adopted within the student accommodation assessment was unchanged and, therefore, remains at 20% on total costs.

Whilst we regard 20% profit on GDV as appropriate for standard residential development, we are of the opinion that student development is viewed more in line with commercial schemes due to the nature of development whereby units are not sold upon completion, instead entering an investment model. We regard profit level equating to 20% on total costs as appropriate for the majority of commercial and student development opportunities and whilst there appears to be a discrepancy between the wording of the VU and the adopted profit level, we regard the basis of profit assessment adopted as appropriate.

(D) Development Value

The development value of a scheme of student accommodation is derived from the investment value of the net rental income which can be generated by the scheme. The student units are not sold, rather they are held as a long term investment which is regarded as secure by the investment industry, and capable of generating an investment value showing a yield which reflects the secure income of such schemes in current market conditions.

The VS provides no evidence to support the assumed level of gross annual rental income (£5,000 per room) or deductions (£2,000 per room) to produce the net income equating to £3,000 per room, and no evidence is provided to support the 6.5% yield which is adopted to produce a stated value equating to £2,225 psm.

The VU provides some context to the rentals adopted but no information in respect of the deductions which are included within the £2,000 gross to net rental income discount. Further commentary in respect of outgoings are provided later within this section.

Based upon our understanding of rental charges across all room types charged by University and private operators we are of the opinion that the rental income equating to £5,000 per annum per room is appropriate.

The assumed scheme of 175 beds is unlikely to be of sufficient mass to generate interest from the largest operators in the market, and a yield of 6.5% is optimistic. However, we acknowledge that the assumed scheme is indicative only, and the values, costs and yields are a broad-brush reflection of the general market in the locality.

Within the VS, the capitalised rent for student accommodation is calculated at £2,225 per sq m, as shown within the following table:

Table 5.1 Capitalised typical rents £/m²

	Rent£/m²	Yield	Capitalised Rent £/m²
Large industrial (+ 500m²)	41	7.0%	586
Small industrial (100m² to 500m²)	48	7.0%	686
Distribution	50	6.0%	833
Large office (+ 250m²)	93	6.5%	1,431
Small office (100m² to 250m²)	100	7.0%	1,429
Large retail - Supermarkets	130	5.0%	2,600
Large retail - Retail Warehouse	120	7.0%	1,714
Leicester Centre Shops	236	7.0%	3,371
Town Centre Shops	150	11.0%	1,364
Hotels		6.5%	2,150
Student Halls		6.5%	2,225
Leisure	75	8.0%	938

Source: HDH/URS Market Survey 2012. See Chapter 9 for definitions of Supermarkets and Retail Warehouses

The reasoning to support the figures adopted are limited to the following paragraph:

5.29 Leicester and Loughborough have vibrant and successful universities and both have active student accommodation markets. For student accommodation a gross annual rental income of £5,000/ room is typical. We have adjusted to reflect the services provided by the provider and assumed a net income of £3,000/room. This has been capitalised at 6.5% to give an value of £2,225/m².

The level of rent per sq m is not stated within the VS and the lack of information in respect of the assumed number of units, average size and unit mix means that it is not possible to comment further on the valuation approach without reference to the VU. Unfortunately, not all assumptions referenced with the VU match those adopted within the VS. For example, the VU states a total scheme size of 3,500 sq m whereas the VS adopts 3,625 sq m.

Assuming that the VS was drawn on the basis of 175 rooms, the average room size can be calculated at 20.714 sq m. With an average net rental income of £3,000 the rent per sq m can be calculated at £144.83 psm. A 6.5% yield translates into a rental multiplier of 15.39 (100 ÷ 6.5 = 15.39). Therefore, the capitalised rent can be calculated at £2,229 psm (£144.83 psm x 15.39 = £2,229 psm). This is close to the £2,225 psm adopted within the VS, with the difference possibly due to rounding.

The VS applies the capitalised rental value to the stated development size of 3,625 sq m to produce a capital value of £8,065,625.

However, it is clearly stated within the VU that the total assumed scheme size is 3,500 sq m based on '*a scheme of 175 student letting rooms at 20 m² each, with 35% circulation space on a 0.3 ha site.'.* The reduction in scheme size has a direct impact upon the capital value, reducing it from £8,065,625 to £7,787,500 (£2,225 psm x 3,500 sq m = £7,787,500).
A more appropriate method of calculating the capital value is to multiply the average net room rental income by the yield multiplier to produce a capital value per room, which can then be multiplied by the number of rooms as follows:

Average net room rental income (£3,000) x yield multiplier (x 15.39) = capital value per room (£3,000 x 15.39 = £46,170).

Number of rooms (175) x capital value per room (£46,170) = total scheme Capital Value (175 x £46,170 = £8,079,750).

The above simple methodology produces a value which is very similar to that reported within the VS, however, purchasers will deduct their costs from the gross capital value. Such costs include stamp duty, agent's fees and legal fees and standard levels equate to 2.8% of land value, assuming that Multiple Dwelling Relief is achieved by purchaser upon application to HMRC. At 2.8%, such costs will reduce the gross capital value reported in the VS by circa £225,000. Any reduction in the capital value will have a direct impact upon the Viability Assessment.

There are, therefore, discrepancies in the approach to calculation of Capital Value between the VS and VU. Using the rent and outgoings proposed in the VS and VU, the Capital Value should be reduced to £7,839,788 (£8,065,625 – 2.8% = £7,839,788).

However, we are of the opinion that outgoings equating to 40% of rental income (£2,000 outgoings / £5,000 rental = £40%) does not accurately reflect the costs incurred by student operators.

Based on the extensive knowledge of the student market that is available within the DTZ Higher Education team and DTZ student valuation and agency teams we are of the opinion that an appropriate deduction for total costs would equate to £1,600 per room (32% of rental income). A reduction of costs increases the Capital Value of the assumed scheme, improving the viability position.

Our version of the gross Capital Value calculation increases the figure to £9,157,050, as follows:

- £5,000 rental per room per annum minus £1,600 outgoings per room = £3,400 net rental.

- Average net room rental income (£3,400) x yield multiplier (x 15.39) = capital value per room (£3,400 x 15.39 = £52,326).

- Number of rooms (175) x capital value per room (£52,326) = total scheme Capital Value (175 x £52,326 = £9,157,050).

- Following deductions for purchaser's costs, the net Capital Value is £8,900,652 (£9,157,050 – 2.8% = £8,900,652).

We have attached an appraisal sheet which includes the same format and figures as the appraisal which was attached to the Viability Study. We have added columns to show the DTZ version of the appraisal figures and to comment upon the differences between the VU and the VS along with explanation of the DTZ figures.

Following adjustments to the: floor area; outgoings; cost of land used; and basis of construction cost calculation, it can be seen that the appraisal moves from a positive viability position to one of significant negative viability.

From the attached appraisal it could be determined that the development of student accommodation will not come forward, as the return to the developer/investor will be insufficient.

The Viability Study is based on a relatively arbitrary assessment that a student scheme will provide 175 beds on a site of 0.3 hectares. A higher density city centre scheme will produce different results when compared with a lower density fringe scheme.

Construction costs and rents will vary between the city centre and fringe. Whilst £5,000 per annum room rental is a reasonable representation of average rents in Leicester it is likely to be found that rents in the city centre are higher than the fringe, benefitting viability. The construction costs adopted are more appropriate for a large scale student development scheme of say 500+ rooms, but due to lower specification and other factors, a smaller scheme is likely to incur lower costs, meaning that there is scope to reduce the 175 unit costs, benefitting viability.

The complexity of student accommodation development means that an arbitrary and mostly unreasoned assessment of viability should be found to be an insufficient basis for the setting of a CIL charge, and it is clear from the attached appraisal that significant alterations will be required to make any scheme viable, even without the impact of additional costs relating to CIL.

Question 36

If you consider that the proposed charging rate for student accommodation would put at risk the overall development of the area, what specific modifications are you seeking, and what appropriate evidence is there to support it?

As explained above, the imposition of CIL on student accommodation will render it non-viable. The proposed CIL charge for student accommodation should therefore be removed in its entirety from the Charging Schedule.

Summary and Conclusions

The pursuit of a CIL charge in general and specifically in relation to student accommodation should be deferred to be developed concurrently with the forthcoming local plan. The VS and VU are fundamentally flawed for the following reasons:

- In the January 2013 Viability Study (VS), RICS viability guidance in respect of land value is discounted, with Harman guidance favoured. Adoption of the RICS approach would negatively impact viability by circa £703,400.

- Residential BCIS construction costs updated in the December 2014 Viability Update (VU) but student construction costs not updated in the VU. Residential BCIS costs increased by 9.6% and student accommodation by 8.65%. If student construction costs had been increased within the VU in the same way as residential costs, the viability would be negatively impacted by £369,750.

- The proposed CIL rate is informed by, and consistent with the Viability Evidence, however, the Viability Evidence includes incorrect bases of calculation and should not be regarded as an appropriate source of information for the setting of a CIL rate in respect of student accommodation.

- The proposed CIL rate equates to 58.14% of the assessed maximum potential CIL rate and equates to 4.87% and 4.5% of total development costs and development value respectively. However, the maximum potential CIL rate, development costs and development value have been calculated on incorrect bases of calculation and are inappropriate for use in comparison.

- The net internal area of the assumed scheme is not stated in the VS but is stated as 3,500 sq m in the VU. The construction costs in the VS are calculated by applying the BCIS cost to a floor area of 3,625 sq m which appears to equate to close to net internal area of 3,500 sq m plus 3.5%. In contrast, the VU states that "The total scheme size is therefore 175 rooms x 20m2 = 3,500m2, plus 35% circulation space of 1,225m2 to give a total GIA of 4,725m2. This area has formed the basis of our costing." We regard a net:gross addition of35% as appropriate and a circa 3.5% addition as completely insufficient. Application of August 2014 BCIS costs to the correct gross internal floor area negatively impacts the appraisal by £1,778,850.

- Abnormal costs have been applied to brownfield sites but are not applied within the student accommodation appraisal. The majority of student sites can reasonably be assumed to take place on previously developed land, and inclusion of 10% abnormal cost is appropriate, negatively impacting the viability by £605,273.

- The VS applies fees and contingency to base build costs only. These costs should be applied to all construction costs, that is, base, prelims, infrastructure and abnormal costs. This alteration negatively impacts the viability by £345,663.

- The VS states that developer's profits are taken at 20% on total costs whereas the VU states profit as 20% of gross development value. The rationale is not clear, but the appraisal adopts an appropriate approach.

- The VS provides no comparable evidence to support the rental or outgoings adopted within the appraisal. The VU provides limited rental comparable information but no cost data. We are of the opinion that the rental level is appropriate, but costs are too high. Adjustment to costs improves viability by £632,135.

We have attached a version of the student accommodation appraisal which was included at Appendix 8 of the VS. Our version includes the assumptions and results of the VS appraisal along with commentary to explain discrepancies, errors and the DTZ assumption adopted in the final column.

Based on the 175 unit scheme which was assumed in the VS, DTZ calculate a negative *"Additional Profit"* of -£2,692,394 in comparison to the VS assessment of +£625,125, a difference of £3,317,519.

The majority of adjustments made within the DTZ appraisal are factual rather than opinion based, clearly indicating that the conclusions of the Viability Study are not properly founded or appropriate.

The appraisal shows there is a no "additional profit", rather there is a loss of £2.69m on the development model assessed. This demonstrates that the delivery of student accommodation cannot bear the imposition of a CIL charge at any level at all.

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
Income	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
Costs	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
Additional Profit			**625,125**	The description as Additional Profit is questionable. Student accommodation development appears significantly unviable when the errors in the VS and VU are corrected.	**-2,692,394**
Residual Land Worth (APPROX)			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