

CIL Statement of Common Ground Meeting – 21/09/15

Meeting between CODE and Leicester City Council

Present:

Jamie Lewis – Code

Chris May – Marrons Shakespeare

Hannah Raven – Marrons Shakespeares

Rick Moore

Ian Jordan – Leicester City Council

Fabian D'Costa – Leicester City Council

Blue text: LCC Comments

Red Text: CODE Comments

Notes from Meeting

Following adjournment of the CIL hearing, the Inspector asked the City Council to clarify its position in a document (in response to further representations submitted at the hearing from Code and University of Leicester) which it did on the 27th August. Code have responded to the document and have set out their comments below. Key aims of the meeting were to:

1. Set out areas which are agreed between the parties as common ground
2. Set out areas which are in dispute

Point 1

Student development can be made viable by developers seeking to minimise costs through keeping the construction contract term to a bare minimum to reduce prelims, avoiding extras and contingency payments by identifying potential costs and remedies prior to the instruction of a main contractor and potentially accepting reduced profits.

Response: Both parties agree that student accommodation is viable and continues to come forward at the current time.

Point 3

It is considered that the mean rent that the Council's consultants have presented for a studio flat is significantly over valued due to the approach taken to ascertaining the mean rent. The current model assumes that all schemes should be given the same weight in arriving at the mean rent rather than considering, which we say is the more appropriate basis, the mean average of the rent of bedspaces. For example, a scheme which has just 7 studios within the building which are rented at a rate far in excess of the average market rent is weighted exactly the same as a scheme of 660 beds. The correct approach should be to seek to identify the average rent paid by bed rather than by scheme. We have calculated the mean rent for beds in some of the largest schemes in Leicester (see attached schedule) and the average rent is £6,042. This is clearly a more accurate measure for ascertaining the value of student accommodation costs and should be the basis of the model.

Response: Disagree on methods used to calculate average rents. The Council relies on an average annual rent per scheme whilst Code relies on an average rent per studio across the 10 largest studio schemes within the City.

Point 4

It is considered that management costs should reduce gross rent by 30% to arrive at net rent. This approach is preferred to utilising gross rents.

Response: Both agree that it preferable not to use gross rent. However, the City Council believes that figure of 25% should be used, and CODE believe that 30% management costs should be used from its own experience.

Point 5

Given that the gross mean rent for studios is too high, the £81,000 per studio flat is too high. Based on a more realistic mean rent, with 25% management costs, the net rent should be £4,532 (rounded up). Applying a yield of 6.25% gives a value per room of £72,512. Using the same figures but with 30% management costs gives net rent of £4,229 (rounded down) and a value per room of £67,664.

The issue with regard to "height and density" relates to the site acquisition costs rather than capital value.

Response: Agree with the methodology with the main concern being the variables used in relation to mean rent, management costs and yield. CODE believes that the error identified by the University for the secondary regional yield changes the yield that should be used in the calculations given that the City Council rely on the Savills figures. The City Council believe that this error should not impact on the yield figure that has been used. CODE disagree with the Council's view

Point 7

Applying a more realistic rental value for studios (£72,512) results in all studio schemes having a negative residual value (given that Capital Value is reduced by £509,280 for 60 units; reduced by £1,485,400 for 175 units and by £4,244,000 for 500 units).

It is also considered that the 'Land Used' costs are significantly below the actual value that landowners require to sell. This is considered below in relation to point 9.

Response: Only points of disagreement relate to points covered in points 3, 5 and 9.

Point 9

The Leicester student market is very competitive. Landowners current hold power in the market and simply will not sell land for an uplift of 20% against the best alternative use value especially given that the actual value of land for proposed student housing is derived from the potential density of the scheme rather than simply the land area. Whilst an argument may be made that a landowner would accept a 20% uplift rather than nothing at all, in the real market, landowners are in a position whereby they are able to demand a significant greater price than simply a 20% uplift. The student market is very different to the usual residential market and must be considered as such. Please see email attached from CBRE confirming that all student accommodation land values are based upon a per bed space basis and never per acre / hectare as clearly building heights play an important factor which results in density.

Response: Disagreement over use of land values and methods of calculation ie whether the student land values should be approached on a best alternative use value plus 20% uplift or on what experience demonstrates landowners would be willing to sell for (based on proposed number of beds).

The City asked whether it was agreed that brownfield sites in Leicester have a 'next best' value in the region in of £2,000,000/ha. By 'next best' we mean the value if that land was not in student accommodation use. Also, if the value of land for student housing is generally in the range of £7,500,000/ha to £11,500,000/ha – depending on the site specifics.

Response: CODE considered 'next best' value of brownfield land irrelevant for student appraisals due to the nature of the market and that the student industry values both land and built out accommodation on a per bedspace basis

Point 10

Student development is clearly contemplated within the Development Plan and the above indicates that a CIL rate of £30/m² would render student schemes unviable based on the Council's own appraisals. As such, student development would not come forward and the development plan would be put at serious risk.

Response: Disagreement over impact on viability and therefore effect on development plan.