Leicester City Council - Leicester CIL

Student Accommodation – Response to Adjournment Note

These are the University of Leicester's comments relating to most recent response from LCC / HDH on the Adjournment Note after the joint meeting of 25 September 2015.

In their amended Adjournment Note at paragraph 6, the City now states that the purpose of the viability testing is not to calculate CIL but "to assess the effect of CIL on viability". However this ignores the fact that the two are inextricably linked, without additional profit there is an adverse impact on the viability margin for the landowners receipt and hence impact on delivery of development.

On the main heads referred and noted in the Adjournment Note we would make the following observations:

Development Activity

Point 1, It is our view that there are continued wrong assumptions made in HDH's model which leads to the conclusion that there is no viability for all six assumed models in student development.

We, however do accept that developers are bringing forward applications and developments which indicate that some student schemes are viable; however just because of the fact that they are coming forward now that it is not right for the city to assume that scheme's will still come forward in the future with the CIL in place; there is no evidential basis for such an assertion.

Modelling

Point 2, The room sizes and circulation space are now a fair reflection of the market, with the new information and evidence recently provided. However, in Table 4 there is an issue as the calculations appear to have an error.

When the circulation percentage is added to the room size the total GIA figure is higher than the calculation if worked out properly. HDH have included the higher figures of GIA into their appraisal for build cost which partly explains the viability position in their models.

Values

Point 3, the rental analysis now seems reasonably realistic with 51 weeks let for studio and a 3% void and bad debts for both studio / cluster.

If the gross method of value was to be used then there is a need for comparable "gross yield evidence" from transactions, you cannot just use a "higher yield" adjusted without market evidence. The market does not use a gross yield to calculate value. The Harman Guidance suggests "appropriate available evidence" is to be used and a gross yield basis is not appropriate.

The values per bedspace now put forward but amended to exclude the rental error appear acceptable based upon realistic assumptions and adjustment, however there is an error in the rental calculation at paragraph 20 page 9 ie.

Studio: £133.33/week x 51 weeks = £6,799 less 3% should therefore be £6,595.84 / year
(and not £6,725/year as stated in their note)

We have done further analysis and believe that as the scheme height increases the value of the land per hectare increases yet value per bedspace remains relatively constant, this maybe one reason to explain the land values differential for the market student accommodation schemes, yet HDH insist that the value per hectare should be the benchmark to test viability (Attachment 1).

Point 4, The management costs adopted are now reasonable and reflect the market position.

Table A: Value of Student Accommodation is also wrong as it states the starting rent as £6,725 for the studio rents, see comment above.

Table A Value of Student Accommodation

		Studios		Cluster Flats	
		Small Schemes	Large Schemes	Small Schemes	Large Schemes
Rent		£6,725	£6,725	£4,609	£4,609
Management etc	£	£1,700	£1,700	£1,425	£1,425
Net Rent		£5,025	£5,025	£3,184	£3,184
Yield		6.75%	6.25%	6.75%	6.25%
Value per room	**£**	**£74,444**	**£80,400**	**£47,170**	**£50,944**

Wrong starting rent

Point 5, The rental calculation in Table A for Studio rent calculation is wrong, therefore the Value per Student room is wrong. We have already pointed out the starting gross rent for Studio should be £6,595 per annum not £6,725, therefore the capitalised value for the studio is overstated.

<u>Buyers Costs</u>

Point 6, HDH appear to now concede the point that stamp duty and purchaser costs are applied with them confirming they have adjusted the value for stamp duty and investor costs.

We would point out that Viability Assessments might not be “valuations” but they need to reflect “appropriate available evidence” and what the market does. If they do not they can have no validity, because the market delivers development and if market assumptions are ignored the exercise can tell you nothing about deliverability. The “purchaser costs” issue is not a matter of professional disagreement between HDH and Cushman & Wakefield. The deduction of stamp duty and purchaser costs is what the market assumes and deducts, therefore it should be in the viability appraisals irrespective of who is developing and how the asset is to be held.

Development Costs

In our view infrastructure costs should not be at 5% and should be at 10% of base build.

Paragraph 56

The remodelled HDH appraisals provided in the update are all negative when the assumptions as suggested by University and CODE are taken into account yet there are still errors, especially with bedspace size and circulation percentage, there is no recognition of Multiply Dwelling Relief (MDR) which has been previously referred to which would adjust the viability calculations.

HDH and LPA conclude that as the viabilities HDH ran show them all as negative they argue this conflicts with market – therefore they feel little weight should be given to the results. The City concludes the University's and CODE's assumptions are not reliable. Rather it is the HDH viability work that is unreliable as evidenced by the continued flaws in it.

If HDH had checked its model and assumptions it would have picked up certain key areas.

Modelling Area Rooms – calculation wrong	
MDR – adjusted	2.8%
Remove sale cost	1%
Reduced stamp duty for under £500,000 for land site values etc	

We attach the revised viability appraisals with these adjustments.

Point 7, We would point out however that the additional acquisition costs on the calculated residual land values have not been taken into account, they are only applied on Existing Use Value plus position which is technically wrong.

Point 8, The University did engage and its response was lodged with the programme officer.

Conclusion: Even in the best case scenario with our adjustments it is only two schemes which are viable which is consistent with some schemes coming forward on the ground. If you add the proposed CIL charge at the proposed £30/m2 this is a significant percentage of the residual value; it would be a substantial proportion of the "residual land worth". The CIL charge impact should not be just tested based upon percentage of development costs as this is a low percentage and a landowner would not test the impact in this way. The land owner would look to the impact on his likely land receipt. If that is not acceptable the land will not come forward for development.

The HDH sense check in its Viability Statement dated December 2014 was based on GDV, Residual Land Worth, Assumed Benchmark Land Value and Bedspace.

Their own evidence at paragraph 4.45 of the VS then reference that CIL would typically fall in the range of 9% to 16% of the residual value yet in this case the percentage of £30 sq m CIL to land residual which are viable are at 17-27%. However HDH's position suggesting a fall in land value per hectare of £650,000 or so is significant especially when this is converted back to the value impairment to residual value ie at £32,500 for the 0.05 hectare site, £162,500 for the 0.25 hectare site and £487,500 for the 0.75 hectare site especially when the base land values are taken into account as determined by HDH at £120,000, £600,000 and £1,800,000. This would accord to a percentage position of 27% which is above the stated benchmark and consequently impacts on deliverability.

The net impact is that with the proposed CIL charge in place development viability will be impacted to an extent where it will not come forward in the limited number of instances where there is viability with no CIL charge in place. The charge cannot therefore be justified; contrary to the HDH assertion there is no other evidence supporting the imposition of the charge.

To put this in a policy context: The NPPF paragraphs 173-177 make it clear that the ability to develop viably to ensure deliverability should be protected. The proposed CIL charge on student accommodation conflicts with this policy and fails to strike the "appropriate balance" required under regulation 14.