

**LEICESTER CITY COUNCIL'S RESPONSES TO THE INSPECTOR'S QUESTIONS – 3rd
November 2015**

Issues and Questions to be Discussed at the Hearing Session on 6 November 2015

General

Q43. Is the methodology used in the FRASA appropriate (leaving aside detailed issues to do with input assumptions)?

Yes - The methodology used is the Residual Value method which is in line with the PPG. The PPG does not prescribe a detailed method so, as agreed through the consultation process, the viability assessments have been carried out in accordance with the Harman Guidance. This allows for a competitive return for the willing land owner and the willing developer. (Chapters 2 and 3 of the CIL Viability Study – January 2013)

We understand that the developers' of student housing are in broad agreement with the methodology used.

Q44. Are the types of student accommodation development appraised in the FRASA representative of development likely to take place in the city in accordance with the core strategy?

The Core Strategy is not specific on the types of student housing.

As with all types of development it is difficult to be firm about what is or is not a typical scheme. The modelling is based on a review of recent planning applications – although it is noted that the vast majority of current and future development is expected to be in the form of studios – see Q45 below.

The sizes of the rooms (paragraph 14) and amount of circulation space (Table 3) has been informed by recent and current planning applications.

We understand that the developers' of student housing are in broad agreement with the modelling used.

Q45. What proportions of total student accommodation development are likely to be in the form of (a) clusters and (b) studios?

It is expected that the vast majority of new development will be studio development.

Between October 2013 and October 2015, 93% of student accommodation units in planning applications received by the City Council were studios. We have no evidence to suggest that this trend will change in the future.

Q46. Is the proposed charge of £30 per m² based on the appraisal and assumptions set out in Appendix 4 and Table 12 (rather than those set out in Tables 8, 9 or B)?

No.

It is evident from activity on the ground that the development of student accommodation is viable as it is coming forward on a range of sites and without public subsidy (paragraphs 7 to 11)

The viability of student housing is supported by the fact that the developers of student accommodation are paying substantially over and above the Existing Use Value (EUV) of land for development sites. The amount being paid by developers of student accommodation is in the region of £7,500,000/ha to £11,500,000/ha (paragraph 65). The value of land in its existing use is in the region of £2,000,000/ha (paragraph 71).

It has not been possible to agree the inputs for the development appraisals. When the assumptions put forward by the developers are used in the appraisals the results are negative Residual Values. If these were correct, this would indicate that not only can the developer not bid for the land, but even if the developer acquired the land for a nil charge the development would lose money.

As it was not possible to reach an agreement on the assumptions with the developers that produced a credible result (i.e. one that reflected the current activity in the market) the CIL was considered in the context of EUV and typical value of land for Student Accommodation.

We note that both the University and CODE suggest that the fact that development is coming forward is not an indication of viability. This highlights one of the limitations of plan-wide viability assessments highlighted in paragraph 2.19 of the 2013 CIL Viability Study. Viability Testing as outlined in the PPG assumes that all development comes forward for purpose of making a profit from the activity of the property development. Much development does not come forward on this basis, supermarket operators and other retailers build distribution depots to enhance their operational efficiency, manufacturers extend industrial premises to enable them to make more product, brewers build pubs to sell more beer etc.

All the comments made by the University are based on the premise that a developer buys a site, develops it and then sells it and that is the purpose of development. This is not a representation of the market – and well-illustrated by the University's own activities where student accommodation is held and operated with the purpose of providing a service for students. Others develop accommodation with the purpose of operating the accommodation, either independently or as part of a larger business (as in the case of CODE).

Development Value

Q47. What assumptions should be made about rooms sizes and circulation space?

Cluster Flat Room size 15m², Circulation Space 35%

Studio Flat Room size 23m², Circulation Space 26%

These assumptions were informed by recent planning applications (paragraph 14).

We note that the university believe that there is an error in the calculation of net and gross areas saying that the in Table 4 the net area plus the circulation space comes to more than the total building area (the GIA). The calculation is set out in the following table. These have been checked and are correct (note the areas are rounded to the closest m²).

		Cluster Flats			Studios		
Rooms		60	175	500	60	175	500
Room size	m ²	15	15	15	23	23	23
Lettable Area	m ²	900	2,625	7,500	1,380	4,025	11,500
Circulation	%	35%	35%	35%	26%	26%	26%
	m ²	485	1,413	4,038	485	1,414	4,041
GIA	m²	1,385	4,038	11,538	1,865	5,439	15,541
Site	ha	0.05	0.25	0.75	0.05	0.25	0.75

Q48. What assumptions should be made about rents per room?

The following figures were used:

Cluster: £108/week x 44 weeks £4,750 less 3% £4,609/year

Studio: £133.33/week x 51 weeks £6799 less 3% £6595/year

These figures are lower than those suggested by HDH and corroborated by Matthews Goodman (paragraphs 19 and 20). HDH remain of the opinion that £6,800/studio flat and £4,750/cluster flat are appropriate.

The HDH position is based on a survey of rents across the City.

We agree with CODE that it is not appropriate to simply pick the luxury high value studios to inform the rental assumptions and this is not what has been done. Having said this is also not appropriate to simply take an average of all rents across the City and use that figure. It is well understood that there is accommodation of varying standards, some of which is in need of refurbishment / renewal (such as some of the University's accommodation). It is necessary to base the assumptions on the type of accommodation coming forward in the City at the current time.

Q49. What assumptions should be made about management costs?

HDH proposed that an assumption of 25% should be used (paragraph 23). This was corroborated by Matthews Goodman (paragraphs 23).

The university argued that a percentage did not reflect operators' inefficiencies so was inappropriate and a fixed amount should be used of £1,700/room/year and cluster flats £1,425/room/year. CODE suggested a simple 30% management cost over both forms. In the re-run appraisals we used the university's figures.

HDH's position remains that 25% is the appropriate assumption.

Q50. What assumptions should be made about yields?

HDH put forward a yield of 6% but increased this to 6.25% having consulted Mathews Goodman (Paragraph 26). The university contended that this should be increased to 6.75% for smaller sites (Table A).

Q51. Based on your answers to the above questions, what is the capital value of cluster and studio developments in terms of (a) £/room and (b) £/hectare?

HDH put forward the following values (paragraph 30):

Studio £81,600 per room

Cluster £57,000 per room

These equate to the following values per ha (this value has not been presented specifically before so the workings are shown):

		Cluster			Studio		
£/ room	£	57,000	57,000	57,000	81,600	81,600	81,600
Rooms		60	175	500	60	175	500
Scheme Value	£	3,420,000	9,975,000	28,500,000	4,896,000	14,280,000	40,800,000
Site	ha	0.05	0.25	0.75	0.05	0.25	0.75
	£/ha	68,400,000	39,900,000	38,000,000	97,920,000	57,120,000	54,400,000

These figures are higher than those used in the appraisals.

Q52. Should this value be adjusted to take account of "purchaser's costs" (stamp duty and agents/legal fees)?

The methodology for undertaking the development appraisals was agreed through the consultation process and as such does not include purchasers' costs. In the residential development no adjustment is made for stamp duty and other costs, although they are quite plainly payable by the purchaser.

It is accepted that when carrying out a formal valuation for the purpose of, say a bank security valuation, purchasers' costs are normally deducted in the calculation. The

purpose of the viability assessments is not to undertake a formal valuation but to assess the 'effect of CIL' (as required by CIL Regulation 14).

On balance and to be consistent across the whole study we believe that the purchasers' costs should not be factored in. See the second part to the response to Q46 above. The inclusion of the fees would be appropriate if the sole purpose of the development of student accommodation was for the sale of the completed units and not for the operational purposes.

It is notable that the CIL Viability Study for Oxford (CBRE) does not deduct the buyer's costs. The only CIL examination where this appears to have been an issue is Lambeth where it is clear that there was a discussion on the topic, however the inspector did not address this specifically.

We have reviewed the assumptions used in other viability evidence prepared for and by university towns/cities, outside London, to support CIL Charging Schedules.

The following Councils' studies do not deduct the buyer's costs:

Oxford City Council	2011	CBRE
Birmingham	2012	GVA
Cardiff	2013	PBA
Sheffield	2014	BNP Paribas
Warwick	2013	BNP Paribas

The following Councils' studies do deduct the buyer's costs:

Cambridge	2013	Dixon Searle
Exeter	2011	RTP/3 Dragons
Newcastle/Gateshead	2014	In House

Q53. Based on your answers to the above questions, what is the net value of cluster and studio developments in terms of (a) £/room and (b) £/hectare?

The values per room and per ha are set out in response to Q51 above. When reduced by 4% for stamp duty and 1% for fees these costs are reduced as follows (these figures have not been presented previously):

		Cluster Flats			Studios		
Rooms		60	175	500	60	175	500
Net Value	£/room	54,150	54,150	54,150	77,520	77,520	77,520
	£/ha	64,980,000	37,905,000	36,100,000	93,024,000	54,264,000	51,680,000

Q54. Any other comments about development value?

No

Development Costs

Q55. What assumptions should be made about the cost of purchasing the land, including stamp duty and agents/legal fees?

It is necessary to make an assumption in this regard. The model calculates the Residual Value, being the maximum amount a developer can bid for a site and still make a Competitive Return.

In the model this is calculated on the EUV. We believe that this is an appropriate assumption bearing in mind the nature of the appraisals.

Q56. What assumptions should be made about build costs?

In line with other development types these are based on BCIS. This approach is set out in the Harman Guidance and was agreed through the consultation process.

Q57. What assumptions should be made about infrastructure costs?

We believe that it is appropriate to allow 5% of the construction costs in this regard. These costs relate to external works and service connections.

All the sites under consideration are city centre sites on previously developed land. By their very nature all are very close to the services.

Q58. What assumptions should be made about abnormal costs?

Generally abnormal costs will be reflected in the land value (Paragraphs 43 to 45). It is however necessary to recognise that most (if not all) sites that are likely to be developed for student accommodation are brownfield sites and will have some additional costs associated with their development – these are ‘normal abnormal costs so it is appropriate to include an allowance in their regard. An additional allowance of 5% of BCIS costs was made in this regard (paragraph 47).

Q59. What assumptions should be made about the costs of strategic promotion and planning?

No allowance should be made with regard to strategic promotion.

This heading is included in the model as much of the development in the Plan is promoted through the normal lengthy Local Plan process. The Council does not allocate land for Student Accommodation in the Plan so it is not appropriate to include an allowance in this regard.

Q60. What assumptions should be made about the cost of planning obligations?

Historically the Council has only required very modest contributions. These have mainly been in relation to public open space and are therefore, now, restricted due to CIL Regulations 122 and 123.

Bearing in mind the Council's Draft 123 list it is not appropriate to make an allowance for developer's contributions.

Q61. What assumptions should be made about professional fees?

8% of construction costs – in line with the wider study (paragraph 48).

Q62. What assumptions should be made about contingency costs?

5% of construction costs – in line with the wider study (paragraph 49).

Q63. What assumptions should be made about finance costs?

An interest charge of 7% of costs is used, with a further allowance of £5,000. These assumptions have not been contentious (paragraph 50).

The 7% assumes that the building takes 1 year to complete and that the average borrowing is half the development cost. Interest is calculated on the total development cost – this is the convention in development appraisals – but in reality most developers use their own equity, at least in part to fund development.

The 7% assumption is inclusive of fees. Typically lenders require a 'set up fee' and there are legal and valuations fees to bear as well. The BoE Base Rate is currently 0.5%.

Q64. What assumptions should be made about sales and marketing costs?

These have been reduced to 1% in line with the University's observation that the initial assumption is too high (paragraph 51).

Q65. What are "miscellaneous costs", and are the assumptions about these appropriate?

Miscellaneous costs are to cover items such as signage. We believe it is appropriate to include an allowance in this regard.

Q66. What assumptions should be made about interest?

See response to Q63 above.

Q67. What assumptions should be made about developer's profit?

Developer's Return is an artificial construct for the purpose of viability testing in the context of the NPPF and PPG. Few developers actually calculate returns as a simple percentage of costs – normally looking at returns on capital invested or in the case of student accommodation in terms of operational returns.

Having said this it is necessary to make an assumption in this regard and based on the consultation process this should be calculated as 20% of costs before interest.

It is not appropriate to calculate the developers return on the interest (paragraph 51)

Q68. Based on your answers to the above questions, what are the total costs, in £/hectare, of each of the types of student accommodation development:

- a) Cluster – 60 rooms = 66,439,105
- b) Cluster – 175 rooms = 38,581,186
- c) Cluster – 500 rooms = 36,674,592
- d) Studios – 60 rooms = 89,289,295
- e) Studios – 175 rooms = 51,910,464
- f) Studios – 500 rooms = 49,269,142

See appendix 1 for calculations of the above

Q69. Any other comments about the costs of student accommodation development?

No

Residual Land Value

Q70. Based on your answers to the above questions, what would the residual land value in £/hectare be for each of the types of student accommodation development without CIL being charged:

- a) Cluster – 60 rooms
- b) Cluster – 175 rooms
- c) Cluster – 500 rooms
- d) Studios – 60 rooms
- e) Studios – 175 rooms
- f) Studios – 500 rooms

The Residual Values are presented in the following table:

		Cluster			Studios		
Rooms		60	175	500	60	175	500
Site	ha	0.05	0.25	0.75	0.05	0.25	0.75
	£/site	98,045	329,703	994,056	431,535	1,302,384	3,773,144
	£/ha	1,960,895	1,318,814	1,325,408	8,630,705	5,209,536	5,030,858

Q71. And what would the residual land value in £/hectare be for each of the types of student accommodation development with a CIL charge of £30 per m2:

- a) Cluster – 60 rooms
- b) Cluster – 175 rooms
- c) Cluster – 500 rooms
- d) Studios – 60 rooms
- e) Studios – 175 rooms
- f) Studios – 500 rooms

The Residual Values are presented in the following table:

		Cluster			Studios		
Rooms		60	175	500	60	175	500
Site	ha	0.05	0.25	0.75	0.05	0.25	0.75
	£/site	46,745	180,078	566,556	362,442	1,100,862	3,197,367
	£/ha	934,895	720,314	755,408	7,248,840	4,403,448	4,263,156

Comparative Land Values

Q72. Is student accommodation development currently viable in the city?

Yes. This is evident from the development activity in the City and the prices being paid for land by developers.

Q73. What is the “existing use value” of land upon which student accommodation development is likely to take place (£/hectare)?

The existing use value of land is about £2,000,000/ha (paragraphs 69 to 71). We do not believe that this is a contentious figure.

Q74. What would be the likely sales price of that land for the “next best” type of development (£/hectare)?

The Existing Use Value and the next best land value are the same at £2,000,000/ha. We do not believe that this is a contentious figure.

Q75. What have been the sales prices of student accommodation development sites in the city in recent years (£/hectare)?

Land for student accommodation is generally in the range of £7,500,000/ha to £11,500,000/ha. (paragraphs 64 to 65). We do not believe that this is a contentious figure.

Q76. What is an appropriate “threshold land value” that a willing landowner would be likely to expect in order to sell their site for student accommodation development (£/hectare)?

Across the CIL assessment it was assumed, as agreed through the consultation process that owners of brownfield sites would seek a premium of at least 20% over and above the EUV on brownfield sites. This equates to £2,400,000/ha.

In the case of Student Accommodation, if CIL was introduced at the proposed rate of £30/m² the Residual Value would be very much above this and still be at least twice the EUV.

The Proposed £30 per m² Charge

Q77. What % of the maximum potential rate (“additional profit”) would the proposed charging rate of £30 per m² for student accommodation development represent?

		Cluster			Studios		
Rooms		60	175	500	60	175	500
Site	ha	0.05	0.25	0.75	0.05	0.25	0.75
Residual Value	£/Site	98,045	329,703	994,056	431,535	1,302,384	3,773,144
	£/ha	1,960,895	1,318,814	1,325,408	8,630,705	5,209,536	5,030,858
Land Value	£/Site	120,000	600,000	1,800,000	120,000	600,000	1,800,000
	£/ha	2,400,000	2,400,000	2,400,000	2,400,000	2,400,000	2,400,000
Additional Profit	£/Site	-21,955	-270,297	-805,944	311,535	702,384	1,973,144
	£/ha	-439,105	-1,081,186	-1,074,592	6,230,705	2,809,536	2,630,858

Q78. What % of total development cost would the proposed charging rate of £30 per m² for student accommodation development represent?

CIL at £30/m² as a proportion of costs (excluding CIL) would be:

	Cluster			Studios		
Rooms	60	175	500	60	175	500
CIL	41,538	121,154	346,154	55,946	163,176	466,216
Cost	3,321,955	9,645,297	27,505,944	4,464,465	12,977,616	37,026,856
Land	46,745	180,078	566,556	362,442	1,100,862	3,197,367
	1.23%	1.23%	1.23%	1.16%	1.16%	1.16%

Q79. What % of total development value would the proposed charging rate of £30 per m2 for student accommodation development represent?

CIL at £30/m2 as a proportion the Gross Development Value would be:

	Cluster			Studios		
Rooms	60	175	500	60	175	500
CIL	41,538	121,154	346,154	55,946	163,176	466,216
GDV	3,420,000	9,975,000	28,500,000	4,896,000	14,280,000	40,800,000
	1.21%	1.21%	1.21%	1.14%	1.14%	1.14%

Q80. What % of residual land value would the proposed charging rate of £30 per m2 for student accommodation development represent?

CIL at £30/m2 as a proportion the Residual Value would be:

	Cluster			Studios		
Rooms	60	175	500	60	175	500
CIL	41,538	121,154	346,154	55,946	163,176	466,216
GDV	46,745	180,078	566,556	362,442	1,100,862	3,197,367
	88.86%	67.28%	61.10%	15.44%	14.82%	14.58%

Q81. How much CIL income would a charge rate of £30 per m2 for student accommodation development be likely to generate?

Assuming a minimum of 2879 student units are brought forward by 2029 (this is the number identified in the SHLAA), and based on an assumption of 93% studio / 7% cluster units - a charging rate of £30 per sq m would generate a minimum of £2,916,000 by 2029. This works out at an average minimum of £194,000 per year.

However as we have previously acknowledged, based on trends over the past decade, we would expect other as yet unidentified sites to be brought forward for student accommodation as they become available. This figure should therefore be treated as an indicative minimum only.

93% of SHLAA	2677
7% of SHLAA	202

Studios

2677 x 23 (av studio size)	61571	Gross	Circulation	Net
Gross (26%)	83200	83200	21632	61568
Multiplied by CIL £30sqm	2496000			

Clusters

202 x 45 (15sqm x 3 which is assumed to be average cluster flat)	9090	Gross	Circulation	Net
Gross (35%)	14000	14000	4900	9100
Multiplied by CIL £30sqm	420000			

TOTAL CIL 2916000

Annual amount (divided by 15) 194400

(SHLAA is backdated to 2014/15 so there are 15 years up to 2029)

Specific Modifications

Q82. If you consider that the proposed charging rate of £30 per m2 for student accommodation development would put at risk the overall development of the area, what specific modification are you seeking?

After full consideration of the representations by the University and CODE, the Council has submitted a revised rate of £30 per m2. The Council concludes that the proposed CIL rate for student accommodation is justified by the available evidence and strikes an appropriate balance between helping to fund new infrastructure and its effect on the economic viability of this form of development across the City. The rate would not put at risk the overall development of the area.

Appendix 1 – Calculations behind answer for question 68

Rooms		Cluster			Studios		
		60	175	500	60	175	500
Acquisition SDLT	4.00%	4,800	24,000	72,000	4,800	24,000	72,000
Acquisition fees	1.00%	1,200	6,000	18,000	1,200	6,000	18,000
Strategic Promotion Planning			0	0	0	0	0
		10,000	10,000	10,000	10,000	10,000	10,000
Construction	/m2	1,525	1,525	1,525	1,525	1,525	1,525
	£	2,111,538	6,158,654	17,596,154	2,843,919	8,294,764	23,699,324
Infrastructure	5.00%	105,577	307,933	879,808	142,196	414,738	1,184,966
Abnormals	5.00%	105,577	307,933	879,808	142,196	414,738	1,184,966
Fees	8.00%	185,815	541,962	1,548,462	250,265	729,939	2,085,541
S106			0	0	0	0	0
CIL		0	0	0	0	0	0
Contingency	5.00%	116,135	338,726	967,788	156,416	456,212	1,303,463
Finance Costs		5,000	5,000	5,000	5,000	5,000	5,000
Sales	1.00%	34,200	99,750	285,000	48,960	142,800	408,000
Misc		10,000	10,000	10,000	10,000	10,000	10,000
Subtotal		2,689,842	7,809,957	22,272,019	3,614,951	10,508,191	29,981,260
Interest	7.00%	94,144	273,348	779,521	126,523	367,787	1,049,344
Profit % Costs	20.00%	537,968	1,561,991	4,454,404	722,990	2,101,638	5,996,252
COSTS		3,321,955	9,645,297	27,505,944	4,464,465	12,977,616	37,026,856
Site	ha	0.05	0.25	0.75	0.05	0.25	0.75
	£/ha	66,439,105	38,581,186	36,674,592	89,289,295	51,910,464	49,369,142