

## London Borough of Lambeth Response to Topic Paper 5: Student Accommodation CIL Rates

**Client name:** King's College London

**Date:** 18 February 2014

### 1. Introduction

On behalf of our client, King's College London, we write to respond to "Topic Paper 5: Student Accommodation CIL Rates", published by the Council.

### 2. 'Student Housing – let at submarket levels'

We are disappointed to see that our proposal has not been incorporated by the Council for a refined Charging Schedule which simply acknowledges situations whereby student accommodation is let at sub-market levels. This is a simple amendment to the Charging Schedule which would be in line with the Council's own evidence base.

#### (a) Charitable relief

As the Council is aware there are instances where 'affordable or nominated student housing' may be delivered by parties which fall outside the Charitable Exemption / Charitable Relief regulations. The provisions in Part 6 of the CIL Regulations dealing with exemptions and reliefs for charities are subject to a series of important qualifications (notably Reg 43(2)(a) and (b), which will remove the exemption where a charity enters into structured commercial arrangements to operate student accommodation; and Reg 44(3)(b), (which is in any case a discretionary relief, only applicable where the relief is in fact made available), which likewise removes the relief in similar circumstances.

These are constraints on the availability of the charitable exemption and relief. Mechanisms for the provision of student accommodation are evolving to adapt to a changing market, and there may well be instances whereby the availability of exemption or relief may not apply.

#### (b) Discretionary relief for exceptional circumstances

Whilst King's welcomes the Council's statement that it will consider electing discretionary relief in exceptional circumstances, by definition, the relief is discretionary and can only be implemented if the Council makes a statement on its website that exceptional relief is available. The relief may also be switched on or off at the Council's discretion and this does not provide a sufficient safeguard to King's.

### 3. Recommendation

The Draft Charging Schedule could be adjusted to take into account the comments made within the Topic Paper and this paper. The Council acknowledges on p. 6 of its Topic Paper that it would clearly seek to exclude student housing schemes let at sub-market levels. In order to do so, we propose the following changes:-

Use	Proposed CIL rate (£ per sq m)
Student Housing*	£100

***\*Student Housing does not include student accommodation let at submarket rents which would be charged a nil rate. Such accommodation is defined as student accommodation which is granted permission and subject to a Section 106 agreement, nomination agreement, or a planning condition which restricts the amount of rent that can be charged.***

In addition, as can be seen from the table above, we have proposed a CIL charge of £100 psm for all other student accommodation, for the following reasons:-

#### 'Market Student Housing'

### 4. Purchaser's Costs and Disposal Costs

Purchaser's Costs are made up of the following elements:

- Stamp Duty Land Tax (4% for property or land worth over £500,000)
- Agent's Fees (1%)
- Legal Fees (0.5%)
- VAT payable on fees (20%)
- Total: 5.8% payable on the Gross Development Value (GDV) of the development.

It is not correct for the Council to suggest that these costs should not be "borne by a scheme to the detriment of raising funds for essential community infrastructure". SDLT and VAT are set by Central Government, and fees are a standard requirement; they are not 'optional' costs.

By the same token, Disposal Costs (or Seller's Costs) should also be included. These reflect Agent's fees and Legal fees at 1% and 0.5-0.75% of GDV, respectively.

The evidence we have provided demonstrates that the majority of student accommodation schemes are sold on the open market. Even those which are transferred to a fund of the same institution name will be required to pay these costs. We note reference to only one scheme is acknowledged in the Council's Topic Paper. We repeat our evidence of transactions below:

- UNITE sells to Unite Student Accommodation Fund (USAF) on completion
- Watkin Jones sells to the open market (e.g. Mailcoach Yard sold to Quintain)
- Cathedral and Wilmott Dixon sold 'The Movement' in Greenwich to Legal & General

We also note that BNPP has included Purchaser's Costs in all other commercial appraisals (offices, hotels, retail, and industrial uses), however it is incorrectly omitted for Student Accommodation.

## 5. Interest rates

The total development costs within the appraisal have reduced based on an artificial change in build costs. As a result, there has been an overall reduction in interest costs from £2,475,691 in the VS to £2,195,952 in the AVS. Despite a small increase in the interest rate, the point we have raised is that the total interest costs have reduced.

The fluidity of changes being made to the appraisal, without justification, call into question the credibility of the evidence base.

## 6. Build Costs

We highlighted that BNPP's assumption of £146.78 per sq ft (reference: AVS Appendix 4) is inconsistent with the build costs assumed for student accommodation, by the same consultant, for other London Boroughs. These range from £160 - £180 per sq ft which we do not agree is an adequate assumption based on current market information.

The Topic Paper appears to ignore the market evidence provided. As such, we are obliged to repeat this below:

- Market evidence suggests that the most recent comparable for student accommodation within Central London was built at £90,000 per room (c. £315 per sq ft).
- In addition, we have collated more recent build cost evidence from other schemes including King's. The Mulberry Scheme has a base build cost of £191 per sq ft. The scheme comprises 770 units, it is consented, and construction will commence in 3-4 months.

We note the table prepared within the Topic Paper includes a list of changes which "Deloitte suggests". For the avoidance of doubt, the build cost of £45,000 per room (c. £160 per sq ft) has never been a Deloitte suggestion. It is not clear why a build cost of £45,000 per room (c. £160 per sq ft) has been tested in the Topic Paper; we assume it is a reflection of the lower end of the range adopted by BNPP for other London Boroughs.

As part of our evidence, we wish to bring to the Examiner's attention, the following information:

	Build Cost adopted	Maximum Surplus available for CIL	Notes
BNPP Viability Study (VS) April 2013	£190 psf	£553 psm	
BNPP Addendum Viability Study (AVS) November 2013	£146.78 psf	£1,158 psm	<i>Despite BNPP taking on board a number of comments in respect of the representations made, the maximum surplus for CIL in the AVS has more than doubled. This is a direct result of the artificial reduction in build cost.</i>
Assuming all errors are corrected, and maintaining the original build cost assumption*	£190 psf	£123 psm	<i>As be seen from the evidence, the maximum CIL afforded is £123 psm, even if the original 6.5% interest rate is adopted.</i>

\*A Deloitte appraisal showing the impact on viability is enclosed. The CIL Surplus within the appraisal has been divided by the net additional area of 9271 sq m to arrive at a maximum CIL rate of £123 psm.

## Enclosures

- 'Market Student Housing' appraisal, prepared as per the AVS Appendix 4, assuming all errors are corrected, and maintaining the original build cost assumption of £190psf. Rent per week assumed to be £200 per week term time, and £230 per week vacation time.
- 'Student Housing let at submarket rents', prepared as per AVS Appendix 4, assuming all errors are corrected, and maintaining original build cost assumption of £190 psf. Rent per week illustratively assumed to be £158 per week term time, although King's also has accommodation at £120 per week. No surplus for CIL in these submarket rent scenarios.