



Leicester University

Leicester CIL

Overview of Presented Revised Response received 17 August 2015

We have been provided with an update response by HDH to University of Leicester issued 17 August 2015 which includes HDH revised Student Accommodation models at **Table 5 Residual Value, Student Accommodation – Revised Assumptions**.

Having undertaken an initial review of these further revised Residual Value models, we note that there are still fundamental errors / omissions which relate to inputs in the model which need to be corrected. There are also other issues relating to average area size of bedspace relevant to our wider evidence, the rate per sq m build cost being too low with only 5% infrastructure costs applied and potential issues relating to rent and operating costs etc. However for this review we have focused on the four main matters and reserve our position to review in more detail the other matters.

The four fundamental omissions are:

Investor Purchaser Costs: After the net rental is capitalised by the assumed 6% net yield, purchaser costs need to be deducted otherwise the capitalised value is overstated. These Purchaser Costs are the same as the Acquisition Costs which are described and covered in **paragraph 7.52** of the CIL Viability Study dated January 2013 at Page 94.

"The allowance for purchaser costs at 1.5% for acquisition agent and legal fees, and stamp duty to be calculated as at the prevailing rate".

This would add 5.5% under HDH's assumptions although current market costs due to the increase in VAT on solicitors and agent's fees has taken the standard deduction to 5.8% for values in excess of £500,000.

Site Acquisition Costs: Although stated in their assumptions in the CIL Viability Study, **paragraph 7.52** at Page 94, under Site Acquisition and Disposal Costs, HDH have not applied these costs to the calculated residual land values in their viability calculations again leading to an overstatement of land value.

They confirmed that they had taken account of these costs in the Residential Viability calculations so they therefore should be applied on the Student Accommodation viabilities otherwise the residual land values are again overstated.

This would add 5.5% although current market costs due to the increase in VAT on solicitors and agent's fees has taken the standard deduction to 5.8% for values in excess of £500,000.

Contingency Costs: The contingency of 5% is only applied to the base build costs, it is standard market practice to apply the Contingency to Infrastructure costs and Abnormals and Fees. Applying the contingency

appropriately would increase the overall costs and again have a negative impact on the resultant residual land value.

Profit % Costs:

The profit on cost should include and be applied to the interest costs, it is a cost to the scheme and it is standard market practice. By including the interest costs the Land residual would again reduce.

The combination of the two fundamental errors / omissions purchaser and acquisition costs stated overstates the residual value before further adjustment for the contingency and profit.

To illustrate the impact the Residual Land Value in the presented models currently shows an average across all six residuals at **5.93%** of the calculated Gross Development Value. When just these two referred matters are included they amount to approximately **6%** of the Residual Land Value. If these two elements are adjusted they would significantly reduce the Residual Land Worth (RLW) to nil thus making all six schemes unviable.

It would also increase the percentage apportionment of proposed CIL charge to the RLW at the £30 per sq m assumed charge rate to in excess of 20% when all other residuals in the CIL including the residential models are at 10% or below.

Benchmarking Proposed CIL Charge to Residual Land Worth (RLW)

We also went back to review the CIL Viability Study Update report prepared for Leicester City Council dated December 2014 and would refer to Page 46 within Table 4.4 where HDH have sense checked the proposed CIL charges as a proportion of GDV and as a Proportion of Residual Value (RLW) for all land uses.

We note that the Student Accommodation charge was not included in the table for comparison and therefore using HDH calculated CIL charge proposed figure at £100 /m2 figure and at £30 / m2 with and without the errors provided in the following format as Table 4.4. We now show the comparable as follows:

175 Bed Cluster	CIL	GDV		Residual Value Worth		Assumed Benchmark Land Value		Land Value per Bedspace		
£100	£362,500	£8,065,625	4.49%	£804,225	45%	£171,600	211%	Value per Bed £4,596	CIL per Bed £2,071	45%
£30 with errors	£121,140	£10,281,250	1.18%	£593,504	20%	£132,000	92%	Value per Bed £4,146	CIL per Bed £692	17%
£30 without errors	£121,140	£9,684,938	1.25%	£4,598	2,635%	£132,000	92%	Value per Bed £26.27	CIL per Bed £692	2,635%

As calculated by HDH for Student Accommodation

HDH at paragraphs 4.42 and 4.43 of the Update Study reference that the purpose of viability testing is to assess the effect of CIL and to assist the Council in striking the balance and to inform the process further. HDH set out in Table 4.4 on Page 46 the CIL as a proportion of the site Gross Development Value and the Residual Value for the other land uses which excluded student accommodation.

At paragraph 4.45 HDH reference that CIL would typically fall in the range of 9% to 16% of the Residual Value being the maximum a developer can bid and make a competitive return. At paragraph 4.46 HDH suggest that in none of the appraisals in Table 4.4 would result in land values falling by 25%.

What is most striking however is in relation to HDH's calculations for Student Accommodation in the VS and left unchanged in the UVS the proportion of CIL proposed (albeit with errors) was at 45% of the calculated Residual Value. At this level it does not strike any balance and therefore it is obvious that the previous proposed rate of £100/m² would threaten the delivery of Student Accommodation in the city.

The fact that the proposed CIL payment was such a substantial proportion of the development cost and land value should give the council concern that CIL would threaten the delivery and economic viability of Student Accommodation.

Having reviewed the latest received and updated modelling presented on 17 August 2015, the proposed CIL charge has at Pages 12 and 13 been compared to the Residual Land Worth (RLW). Bear in mind that these new appraisals have omissions in respect of Investor Purchaser Costs and Site Acquisition Costs etc which are not included in the calculations, the resultant percentage of CIL to RLW at the proposed £30 per sq m revised charged is still at higher levels of 17% which again would threaten the delivery and economic viability of student accommodation.

However when just the missing Purchase and Acquisition costs are included in the models the percentage of proposed CIL lifts to an average over the six appraisals to 132% which would make the schemes undeliverable.

Review of Balance and Competitive Return

1. **Competitive Return** - the calculated proposed CIL payments for Student Accommodation means that a willing landowner and willing developer would not receive a competitive return to enable development to be deliverable.
2. **Setting Rates**
CIL Regulation 14
 - i) There is no appropriate balance struck at the proposed CIL payment as calculated by HDH
 - ii) The suggested charge rate has the effect of imposition on the economic viability of Student Development across the city at 29-47% of Residual Land Value.
3. **Balance** – there is no balance at the level of suggested charge rates and it is clear that there is no appropriate "balance" as the impact on the development model is significant.
4. **Scale of Obligation** – the scale of obligation of the proposed charging rate is significant at 29-47% of the update viability study and the revised 17 August 2015 paper will still impair development.

Conclusions

Overall in conclusion the effect of the identified omissions and errors in their most recent appraisals is taken account of the schemes are unviable with CIL imposed therefore the applicable rate of CIL must therefore be £0.