

## BATH AND NORTH EAST SOMERSET ('BANES') – COMMUNITY INFRASTRUCTURE LEVY ('CIL')

### ADDENDUM NOTE ON STUDENT HOUSING – 2 DECEMBER 2014

1. The May 2014 Viability Assessment ('VA') omitted a commentary on the inputs to the appraisals of student housing that were incorporated within Appendix 2 of the VA. This addendum note addresses this omission.
2. Student housing developments in the District typically generate reasonably good residual land values, although the level of rent charged is a critical factor. Unlike C3 residential development, student housing does not attract an affordable housing requirement.
3. Universities developing and managing their own accommodation tend to set lower rents than those charged for schemes developed by private sector organisations such as Unite. Given the financial constraints that universities now operate under, it is likely that some student housing will be developed in the future by the private sector. It is therefore necessary to test both the university (sub market) model and the private sector (market rent) student housing models.

#### Appraisal inputs

4. Table 4.1 summarises the inputs to the student housing appraisals.

**Table 4.1: Appraisal inputs**

Appraisal input	Assumption	Comments
Weekly rent – university scheme	£140	Based on current charges at University of Bath
Weekly rent – private sector scheme	£183	Based on rents at Charlton Court (Unite scheme in Bath) which range from £189 per week to £229 per week.
Length of tenancy – University	42 weeks	Based on current University of Bath arrangements
Length of tenancy – Private	48 weeks	A cautious assumption in light of current 51 week tenancies offered by Unite in Bath.
Vacation income – both University and Private	Nil	Cautious in light of 42 week University tenancies – at least some vacation income likely to be received.
Gross floor area	299 per unit	Based on average floorspace provided in studio schemes
Build costs	£1,426 per square metre	Mean average BCIS cost, adjusted for Bath
External works	10% of build costs	Estimated based on BNPPRE experience
Contingency	5% of build costs	In line with standard market practice
Residual Section 106	£5 per sq ft / £53.82 per square metre	Estimate to reflect the possibility that the Council may seek modest contributions after CIL has been adopted.

### Appraisal results

5. For completeness, the original appraisals included in the May 2014 VS are attached to this Addendum Note as Appendix 1 (University Scheme) and Appendix 2 (Private Sector scheme).
6. The appraisal of private sector student housing schemes indicates that a CIL of up to £447 per square metre (in addition to circa £50 per square metre for residual Section 106 obligations) could be absorbed. It should be noted that the appraisal adopts cautious assumptions in relation to both the number of weeks per tenancy (48 against the Unite tenancy of 51 weeks) and rents (£183 per week across all units, whereas Unite is currently advertising rents *from* £189 per week, rising up to £229 per week. Amending the appraisal to reflect these two assumptions would increase the maximum CIL from £447 to £801 per square metre (Appendix 3).
7. The appraisal of the University developed scheme with lower rents and shorter tenancy periods (£140 per week and 42 weeks respectively) generates a negative residual land value. Consequently, these schemes have no capacity to make a CIL payment.

### Additional appraisal – cluster accommodation

8. The Council has requested that we run an additional appraisal that reflects the provision of cluster-type accommodation, with a rent of £135 per week. The key difference is the gross internal floor area, which would be significantly lower for a scheme of cluster flats (typically 200 sq ft in comparison to the 299 sq ft assumed for studios). Assuming a private sector rent of £135 per week, the appraisal indicates that the scheme could viably absorb a CIL of up to £674 per square metre. The proposed CIL will therefore not have an adverse impact on viability of student housing provided as cluster accommodation, with significant 'headroom' below the maximum rate. The appraisal is attached as Appendix 4.

### Additional commentary on representation from Unite

9. In light of the explanation above and the proposed further modifications to the Draft Charging Schedule<sup>1</sup>, we consider that the issues highlighted by Unite in their representation have been addressed. As noted above, the two rent levels reflect the differences in rents between private sector schemes and university led schemes (or schemes with nomination agreements in place).
10. The Unite representation cites rents for two schemes; one of which is let on a long term nominations agreement with Bath Spa University and would be covered by the proposed nil rate for sub-market rented scheme. The second (Charlton Court) is the same scheme identified above, which the representation incorrectly states as having rents of £138 per week. As noted above, the rents are now £189 per week, as shown on Unite's website (see Appendix 5).
11. The Unite representation incorrectly asserts that schemes with higher rents cannot absorb the proposed CIL. It is clear that where rents for private sector schemes are set at the levels charged at Charlton Court (or similar schemes), the proposed CIL is viable. The Council does not dispute that if rents are lower, student housing schemes are not able to absorb CIL. The proposed modification to the Draft Charging Schedule provides greater clarity on how this dual charging is intended to operate.
12. We note that the representation criticise the use of BCIS data, but this has already been adjusted for Bath. Furthermore, Unite who are a student housing provider, have not provided any alternative costings that the Council could have relied upon.
13. The representation also comments on comparisons of CIL rates with those applied to other types of development. Such comparisons are not valid unless one considers the proposed CIL rates alongside other Local Plan policies. Comparing CIL rates for residential and student housing is

---

<sup>1</sup> Namely the amendment to definitions that will

an erroneous comparison unless one also considers the impact of the Council's affordable housing requirements on residential development. These requirements do not apply to student housing. The representation is therefore somewhat misleading in seeking to allege that there is not a 'level playing field' between student housing and other types of development.

**Appendix 1: Sub-market rent scheme**

## DEVELOPMENT APPRAISAL

### Commercial Development

Use class: **STUDENT HSG**

Nomination schemes

DEVELOPMENT VALUE		Term rent	£140 per week	
		Vacation rent	£180 per week	
<b>Rental Income</b>				
Annual rent per unit - term time (95% occupancy)	42 weeks	95% occupancy	33,250	1,396,500
Annual rent per unit - summer (50% occupancy)	8 weeks	50% occupancy	22,500	180,000
Operating costs	250 units		£1900 per unit	(475,000)
Net annual rents				1,101,500
Total revenue, capitalised (including all costs)			6.25%	17,624,000
Purchasers costs			5.8%	(1,022,192)
<b>GROSS DEVELOPMENT VALUE</b>				<b>16,601,808</b>

DEVELOPMENT COSTS				
<b>Development Costs</b>				
Demolition costs	£5 psf	22,405 sqft		112,025
Building costs	£132.48 psf			9,893,950
Area per unit (incl common areas)	299 sqft pu	74,683 sqft		
External works			10.00%	989,395
Contingency			5.00%	549,769
Professional fees			10.00%	1,154,514
Residual S106			£5.00 psf	373,417
Mayoral CIL				-
<b>Disposal Costs</b>				
Letting Agent's fee (% of rent)			0.00%	-
Agent's fees (on capital value)			1.00%	166,018
Legal fees (% of capital value)			0.75%	124,514
<b>Interest on Finance</b>				
Total development duration	24 months			
Loan arrangement fee			1.00%	130,731
Interest on Construction Costs	24 months		6.50%	849,750
<b>Profit</b>				
Developer's profit on total costs			20.00%	2,868,816
<b>TOTAL DEVELOPMENT COSTS</b>				<b>17,212,898</b>

LAND VALUE				
Land surplus				(611,090)
Stamp duty			4.00%	24,444
Agent's fees			1.00%	6,111
Legal fees			0.80%	4,889
Interest on land finance	24 months		6.50%	74,834
<b>RESIDUAL LAND VALUE</b>				<b>(500,813)</b>

<b>Existing use value</b>				
Existing space as % of new	30%	22,405 sqft		
Rent per sq ft		£15.00 psf		
Rental income per annum		£336,075		
Rent free/voids (years)		3.0	0.7994	
Total revenue, capitalised (including all costs)			7.75%	3,466,433
Refurbishment costs		£50 psf	1,120,251	
Fees		7%	78,418	
Purchaser's costs		5.80%		131,530
<b>Existing use value</b>				<b>2,136,235</b>
EUV including Landowner premium		20%		2,563,482
Residual Land Value less EUV plus premium				(3,064,295)
Borough CIL Per sqm (net additional floorspace)				-£442

## Appendix 2: Market rent scheme

## DEVELOPMENT APPRAISAL

### Commercial Development

Use class: **STUDENT HSG**

Private schemes

DEVELOPMENT VALUE		Term rent	£183 per week	
		Vacation rent	£ per week	
<b>Rental Income</b>				
Annual rent per unit - term time (95% occupancy)	48 weeks	95% occupancy	43,463	2,086,200
Annual rent per unit - summer (50% occupancy)	weeks	50% occupancy	-	-
Operating costs	250 units		£1900 per unit	(475,000)
Net annual rents				1,611,200
Total revenue, capitalised (including all costs)			6.25%	25,779,200
Purchasers costs			5.8%	(1,495,194)
<b>GROSS DEVELOPMENT VALUE</b>				<b>24,284,006</b>

DEVELOPMENT COSTS				
<b>Development Costs</b>				
Demolition costs	£5 psf	22,405 sqft		112,025
Building costs	£132.48 psf			9,893,950
Area per unit (incl common areas)	299 sqft pu	74,683 sqft		
External works			10.00%	989,395
Contingency			5.00%	549,769
Professional fees			10.00%	1,154,514
Residual S106			£5.00 psf	373,417
Mayoral CIL				-
<b>Disposal Costs</b>				
Letting Agent's fee (% of rent)			0.00%	-
Agent's fees (on capital value)			1.00%	242,840
Legal fees (% of capital value)			0.75%	182,130
<b>Interest on Finance</b>				
Total development duration	24 months			
Loan arrangement fee			1.00%	130,731
Interest on Construction Costs	24 months		6.50%	849,750
<b>Profit</b>				
Developer's profit on total cost			20.00%	2,895,704
<b>TOTAL DEVELOPMENT COSTS</b>				<b>17,374,224</b>

LAND VALUE				
Land surplus				6,909,782
Stamp duty			4.00%	(276,391)
Agent's fees			1.00%	(69,098)
Legal fees			0.80%	(55,278)
Interest on land finance	24 months		6.50%	(846,172)
<b>RESIDUAL LAND VALUE</b>				<b>5,662,843</b>

<b>Existing use value</b>				
Existing space as % of new	30%	22,405 sqft		
Rent per sq ft		£15.00 psf		
Rental income per annum		£336,075		
Rent free/voids (years)		3.0	0.7994	
Total revenue, capitalised (including all costs)			7.75%	3,466,433
Refurbishment costs		£50 psf	1,120,251	
Fees		7%	78,418	
Purchaser's costs		5.80%		131,530
<b>Existing use value</b>				<b>2,136,235</b>
EUV including Landowner premium		20%		2,563,482
Residual Land Value less EUV plus premium				3,099,361
<i>Borough CIL Per sqm (net additional floorspace)</i>				<b>£447</b>

**Appendix 3: Market rent scheme, adjusted to reflect current rent**



## DEVELOPMENT APPRAISAL

### Commercial Development

Use class: **STUDENT HSG**

Private schemes

DEVELOPMENT VALUE		Term rent	£189 per week	
		Vacation rent	£ per week	
<b>Rental Income</b>				
Annual rent per unit - term time (95% occupancy)	51 weeks	95% occupancy	44,888	2,289,263
Annual rent per unit - summer (50% occupancy)	weeks	50% occupancy	-	-
Operating costs	250 units		£1900 per unit	(475,000)
Net annual rents				1,814,263
Total revenue, capitalised (including all costs)			6.25%	29,028,200
Purchasers costs			5.8%	(1,683,636)
<b>GROSS DEVELOPMENT VALUE</b>				<b>27,344,564</b>

DEVELOPMENT COSTS				
<b>Development Costs</b>				
Demolition costs	£5 psf	22,405 sqft		112,025
Building costs	£132.48 psf			9,893,950
Area per unit (incl common areas)	299 sqft pu	74,683 sqft		
External works			10.00%	989,395
Contingency			5.00%	549,769
Professional fees			10.00%	1,154,514
Residual S106			£5.00 psf	373,417
Mayoral CIL				-
<b>Disposal Costs</b>				
Letting Agent's fee (% of rent)			0.00%	-
Agent's fees (on capital value)			1.00%	273,446
Legal fees (% of capital value)			0.75%	205,084
<b>Interest on Finance</b>				
Total development duration	24 months			
Loan arrangement fee			1.00%	130,731
Interest on Construction Costs	24 months		6.50%	849,750
<b>Profit</b>				
Developer's profit on total cost			20.00%	2,906,416
<b>TOTAL DEVELOPMENT COSTS</b>				<b>17,438,496</b>

LAND VALUE				
Land surplus				9,906,069
Stamp duty			4.00%	(396,243)
Agent's fees			1.00%	(99,061)
Legal fees			0.80%	(79,249)
Interest on land finance	24 months		6.50%	(1,213,097)
<b>RESIDUAL LAND VALUE</b>				<b>8,118,419</b>

<b>Existing use value</b>				
Existing space as % of new	30%	22,405 sqft		
Rent per sq ft		£15.00 psf		
Rental income per annum		£336,075		
Rent free/voids (years)		3.0	0.7994	
Total revenue, capitalised (including all costs)			7.75%	3,466,433
Refurbishment costs		£50 psf	1,120,251	
Fees		7%	78,418	
Purchaser's costs		5.80%		131,530
<b>Existing use value</b>				<b>2,136,235</b>
EUV including Landowner premium	20%			2,563,482
Residual Land Value less EUV plus premium				5,554,937
<i>Borough CIL Per sqm (net additional floorspace)</i>				<b>£801</b>

**Appendix 4: Revised appraisal – market rent cluster scheme**

## DEVELOPMENT APPRAISAL

### Commercial Development

Use class: **STUDENT HSG**

Private schemes - cluster flats

DEVELOPMENT VALUE		Term rent	£135 per week	
		Vacation rent	£ per week	
<b>Rental Income</b>				
Annual rent per unit - term time (95% occupancy)	51 weeks	95% occupancy	32,063	1,635,188
Annual rent per unit - summer (50% occupancy)	weeks	50% occupancy	-	-
Operating costs	250 units		£1900 per unit	(475,000)
Net annual rents				1,160,188
Total revenue, capitalised (including all costs)			6.25%	18,563,000
Purchasers costs			5.8%	(1,076,654)
<b>GROSS DEVELOPMENT VALUE</b>				<b>17,486,346</b>

DEVELOPMENT COSTS				
<b>Development Costs</b>				
Demolition costs	£5 psf	14,925 sqft		74,625
Building costs	£132.48 psf			6,590,812
Area per unit (incl common areas)	199 sqft pu	49,750 sqft		
External works			10.00%	659,081
Contingency			5.00%	366,226
Professional fees			10.00%	769,074
Residual S106			£5.00 psf	248,750
Mayoral CIL				-
<b>Disposal Costs</b>				
Letting Agent's fee (% of rent)			0.00%	-
Agent's fees (on capital value)			1.00%	174,863
Legal fees (% of capital value)			0.75%	131,148
<b>Interest on Finance</b>				
Total development duration	24 months			
Loan arrangement fee			1.00%	87,086
Interest on Construction Costs	24 months		6.50%	566,057
<b>Profit</b>				
Developer's profit on total cost			20.00%	1,933,544
<b>TOTAL DEVELOPMENT COSTS</b>				<b>11,601,267</b>

LAND VALUE				
Land surplus				5,885,079
Stamp duty			4.00%	(235,403)
Agent's fees			1.00%	(58,851)
Legal fees			0.80%	(47,081)
Interest on land finance	24 months		6.50%	(720,687)
<b>RESIDUAL LAND VALUE</b>				<b>4,823,058</b>

<b>Existing use value</b>				
Existing space as % of new	30%	14,925 sqft		
Rent per sq ft		£15.00 psf		
Rental income per annum		£223,875		
Rent free/voids (years)		3.0	0.7994	
Total revenue, capitalised (including all costs)			7.75%	2,309,150
Refurbishment costs		£50 psf	746,250	
Fees		7%	52,238	
Purchaser's costs		5.80%		87,618
<b>Existing use value</b>				<b>1,423,044</b>
EUV including Landowner premium		20%		1,707,652
Residual Land Value less EUV plus premium				3,115,406
Borough CIL Per sqm (net additional floorspace)				£674

**Appendix 5: Unite website – Charlton Court rents**

# CHARLTON COURT

OWER BRISTOL ROAD, BA2 3ES

## ROOMS

### ROOM TYPE

CLASSIC STUDIO  
From £189

-

PREMIUM RANGE 1 STUDIO  
From £215

+

PREMIUM RANGE 2 STUDIO  
From £229

+