

Representations by Danehurst Developments Ltd in respect of proposed CIL charge of £495/m2 for purpose-built student accommodation (PBSA)

6 April 2020

EXECUTIVE SUMMARY

██████████ were the first private provider of PBSA for students at RHUL, and has so far completed 3 schemes, with a 4th currently in construction. We are a little surprised at not having been invited to offer evidence to the Council in respect of setting a CIL rate applicable to PBSA.

Runnymede Borough Council is in our view mistaken to consider that extant planning permissions will provide sufficient supply of PBSA.

Demand for PBSA in the area around university campus remains very strong and will continue to be strong as the university grows. In granting planning permission for Danehurst's current scheme in Harvest Road, the continuing strong demand weighed heavily on the Inspector's decision to grant permission.

The Council is basing its proposed CIL Rate of £495.00 per sqm on evidence/ assumptions in Table 6.46 of its technical submission which it will have great difficulty justifying as applicable to any area around the university campus, indeed to any site in the Egham/ Englefield Green area.

In particular, the base land value assumed in the Council's 'evidence' bears no relationship to market realities.

Should the Council persist with its proposed CIL Rate, it will simply prevent any further PBSA being developed for students at RHUL and only increase pressure on local housing stock as these will increasingly be rented out to students which would be a very bad outcome for the locality.

██████████ has provided calculations based on its actual developments which demonstrate:

- a) A cluster based PBSA development will not be able to pay CIL to the same level as a PBSA providing only studios;
- b) PBSA providing mainly cluster based accommodation may in individual circumstances be able to support a CIL rate of £55psqm; and,
- c) PBSA providing mainly studio-based accommodation may in individual circumstances be able to support a CIL rate of £125psqm.

INTRODUCTION

██████████ ██████████ ██████████ have undertaken 3 medium-sized student accommodation developments abutting the university in Egham and Englefield Green, to serve students from Royal Holloway University of London (RHUL) since 2011, with the last scheme completed August 2017.

Apart from a development known as Hox Park, operated by CRM Students, as of March 2020, [REDACTED] is the only private developer to have provided purpose-built accommodation for students at the university. So far, we have provided accommodation for 398 RHUL students, with accommodation for a further 166 students due to open in September 2021.

All other purpose-built student accommodation has been provided by the university.

With our track record of assembling sites in locations close to the university, we are acutely aware of the economics of providing student accommodation in an area of very high residential land values. It should be noted that all [REDACTED] subsequent developments to the 1st phase of The Pad in 2012/13 have occurred because property owners have approached us with opportunities to acquire their properties for this purpose. These properties were all located in close proximity with the university campus, but in areas of high residential values. This has necessitated [REDACTED] having to pay over and above existing residential use value to acquire sites for student accommodation; there are no greenfield sites identified for student accommodation.

In this submission, we will explain why a CIL levy of £495 per sqm on student accommodation will simply halt any further development of private PBSA developments in the area, with the inevitable result that the local housing stock will continue and increasingly be occupied by students; housing stock that were originally designed and intended for single family occupation as the university continues to grow.

The area around the university has suburban characteristics, with Egham being a town of less than 13,000 population in 2011. As a consequence, large numbers of family houses have become occupied as student HMOs to the detriment of the housing market and social cohesion.

RHUL is identified in the Runnymede Local Plan as having a major positive impact on the economy of Runnymede. Its impact spreads far wider than the borough. In order for the context to be understood, we set out below the recent history of purpose-built student accommodation provision.

RHUL AND STUDENT ACCOMMODATION

The university was founded in 1879 by the Victorian entrepreneur and philanthropist Thomas Holloway as a college for women. It was not until 1965 that the first male undergraduates were admitted. In 1985, Royal Holloway merged with Bedford College, London, with most activities transferring to the campus at Egham. Since then the university has grown rapidly and now has over 10,000 students. Its current masterplan for future development envisages a student population of 12,000 by 2031.

At the time of the University's 2002 Development Plan, the student population was still only 5,300. There were 2,472 bed spaces on or near the campus, with 47% of students living in accommodation provided by RHUL. As the university expanded further, however, the proportion of students living in university accommodation dropped with more and more students having to turn to the private rented market for accommodation during their studies, creating large concentrations of family housing being converted into student lets in an area where there was no history of significant private renting. It has artificially lifted residential property prices as a large number of private property investors acquire properties which were originally built as family dwellings being let to students. The rental income from a student household is higher than what can be earned from a letting to a family.

[REDACTED] first student accommodation development, The Pad opened in 2013 on Egham Hill on a site abutting the university. This followed a planning appeal, at which time it was estimated that over 4,400 students relied on the local private rental market in or around the Egham/ Englefield Green

localities for accommodation. As early as December 2018, some 9 months before the next term, 453 dwellings were found to be on the market for student lets in Englefield Green alone for the 2019/20 academic year. Additional properties were offered as the year progressed.

By 2014/15, RHUL, with a student population of almost 8,900 could only accommodate 2,904 of its students (32.5%) in its own accommodation. As the RHUL campus is not in or near a major town, this puts particular stress on the areas of suburban family accommodation around the campus, where large numbers of houses have been converted into HMOs.

In January 2015, outline planning permission (RU.14/0099) was obtained by RHUL for its future development needs up to 2031, accompanied by a masterplan, which illustrated how it might be built out, taking into account the various planning constraints, especially its Green belt location. The key proposals - 55,000m² new academic/ academic related buildings and c.71,000m² student accommodation (c.2,650 bed spaces) were to allow for the expansion of the university from 8,600 students in 2012 to 12,000 in 2031. Of the additional 2,650 student bed spaces proposed, 1,500 of these were stated to be provided in a first phase by 2021.

Following the masterplan, in September 2017, 621 new student bed spaces were opened on the university's land at Harvest Road, approved in principle under the Master Plan consent. We understand that some 15,400m² of the additional 55,000m² academic buildings have now been completed with more buildings planned and/ or have planning permission. The growth of the university is moving forward apace.

George Eliot Hall on Harvest Road provided the first increase in student accommodation owned by RHUL since 2006. During this period Danehurst were the only private provider of PBSA for private let at The Pad, Egham Hill, a second phase of which opened in 2015, providing 220 bed spaces overall.

In September 2017, ██████ opened its third development, Podium, adjacent to the university on Egham Hill and opposite The Pad, providing a further 178 bed spaces. This was at the same time as the university opened their George Eliot Hall. Despite 800 new student bed spaces coming forward at the same time, the rooms at Podium were taken up quickly. In September 2018 a further 499 private student bed spaces opened at Hox Park on what is referred to as the former Brunel university site and despite it being less convenient for the campus, being over a mile away, we understand that this has also let well.

█████ obtained planning permission on appeal in August 2019 for a further 166 student bed spaces next to George Eliot Hall. Demand for private built purpose-built student accommodation was a significant factor in support of our application. Construction has commenced for opening in September 2021.

There is continued and strong demand student accommodation even with the university provision, and this will only intensify as the university continues to grow.

Runnymede Local Plan

As set out in the Runnymede Community Infrastructure Levy (CIL) Technical Background Document, table 2-1, the charging authority presumes that student accommodation will not generate any CIL during the plan period because sufficient provision is made with the 'local plan requirement' made up of existing planning permissions or completions.

As stated above, and highlighted further in this submission, even if they were implemented there is a strong need for further PBSA. Given current circumstances relating to the RHUL proposals, however, we think it unlikely that the extant permissions will be implemented in full. Therefore, any further student accommodation will be subject to the new CIL charging schedule.

By 2021 the outline planning application RU.14/0099 showed that the student population would have grown from 8,600 to 10,500. To accommodate this growth an additional 1,500 bed spaces were to be provided. The university has recently submitted an application (RU.20/0098) to develop an alternative, previously developed site in the Green Belt, occupied by Proctor and Gamble's research operation, which the university has purchased. The application seeks a maximum of 2,000 bed spaces, with 1,400 in a first phase.

It is evident that RHUL will not achieve the 1,500 additional bed spaces by 2021 that were suggested in the outline planning permission, even if the proposed outline application for Rusham Park was approved. Proctor and Gamble still have a lease on Rusham Park which expires in 2021 and RHUL will need to prepare reserved matters submission(s), so that allowing for the construction period, the earliest it can realistically be expected that RHUL will provide additional accommodation will be by September 2023.

A key component of the Rusham Park application is that the university would not bring forward the purpose-built student accommodation for which it has outline planning permission within the campus and to the north, within Englefield Green. The Planning Statement accompanying application RU.20/0098 explains that one reason for this has been due to pressure from residents of Englefield Green, due to their perception of the impact of additional students living in family dwellings in the village. Another reason for not having been able to deliver additional student accommodation so far, according to the Planning Statement, is the *'pressure placed upon the academic estate, the result of slight changes in course development, student projections and external factors beyond the direct control of the university (such as, but not limited to, Brexit, the recommendations outlined in the Auger Review on student tuition fees, and its Higher Education Intuition competitors)'*.

Furthermore, the application states that the university wants to dispose of Kingswood hall, currently providing some 400 bed spaces, and it is expected this will be offered for residential housing, so this capacity will be lost.

All these points demonstrate the need for the private sector to make a bigger contribution to finding students accommodation in purpose-built accommodation instead of in HMOs.

If that was not sufficient evidence, the Inspector in her appeal decision letter for The Garage, Harvest Road (APP/Q3630/W/18/3219397) stated that *'irrespective of any differences in rent levels, the proposal would meet a market need for student housing in the area and would increase choice and quality in the market for student accommodation. The need for student housing has placed pressure on the local housing market. The proposal would also support the University's growth and development with convenient access to the RHUL campus. This weighs heavily in support of granting planning permission'*.

If planning permission is not approved at Rusham Park before the introduction of the CIL levy, as may well be the case, the university's residential strategy may need to be reviewed and further delay will ensue. The university itself will then have to consider the implications of the CIL levy.

The university's difficulties in building its own student accommodation have been a key reason why private developments have been so successful in filling the void.

A CIL rate which undermines the deliverability of student accommodation will be detrimental to the housing market in the area as it will only lead to more private family housing being offered to students.

CIL Tests

PPG for CIL states that the examiner should establish that:

- the charging authority has complied with the legislative requirements set out in the Act and the Regulations;
- the draft charging schedule is supported by background documents containing appropriate available evidence;
- the charging authority has undertaken an appropriate level of consultation;
- the proposed rate or rates are informed by, and consistent with, the evidence on viability across the charging authority's area; and
- evidence has been provided that shows the proposed rate or rates would not undermine the deliverability of the plan (see NPPF paragraph 34).

We make no comments to make as to whether the charging authority has complied with the legislative requirements. We wish to make representations in respect of consultation, the inappropriateness of the evidence, the implications of the proposed rates on viability, and their impact on the deliverability of the plan.

Appropriate Level of Consultation

We would comment that, as one of only two developers who have real experience of the difficulties of delivering student accommodation schemes in the area, the charging authority should have sought information from us to assist in setting an appropriate CIL levy on student accommodation. We shall demonstrate that Andrew Golland Associates' 'fair assessment' at 6.46 of their report bears no relationship to the cost of developing and delivering student accommodation where it needs to be - close to the university.

Inappropriateness of the Evidence

The CIL rate has been put forward based on evidence that bears no relation to fact.

The evidence uses a hypothetical 1 hectare site upon which to base its evidence.

The assessment assumes 30% site coverage and a 5-storey development. This fails entirely to acknowledge the planning issues of developing at high density in the vicinity of the university, with its low-rise buildings, low density, extensive tree cover, ecological and local amenity considerations. In order to be appropriately located for pedestrian and cycle access and to ensure that car parking in the area can be reduced to a minimum, sites for student accommodation need to be close to the university.

From the table at 6.46 of the [REDACTED] report, we understand the net lettable floorspace assumption to be 12,000m². If the average size for each unit is 20m², this implies 600 student bed spaces per hectare.

Actual densities from [REDACTED] developments are, in comparison, as follows:

TABLE 1 – Density Comparisons

Site	Site Area	Total Floorspace Built (GIA)	Lettable Space	Bed spaces	Net lettable Floorspace /hectare
The Pad (phase 1 & 2), Egham Hill	0.53 ha	5,550	3,768 (68%)	220	7,109
Podium, Egham Hill	0.52ha	4,902	3,214 (65%)	178	6,181
The Garage (Harvest Road)	0.65 ha	4,920	3,373 (69%)	166	5,189
Andrew Golland Associates	1.0 ha	15,000	12,000 (80%)	600	12,000

As can be seen from the table, the density assumptions made by [REDACTED] bear no relation to what will be considered acceptable density for new PBSA in Egham and Englefield Green.

We show separately in Table 2 below our calculations of surplus based on actual information for The Garage and Podium developments. We make some brief comments below the table to explain and justify our figures.

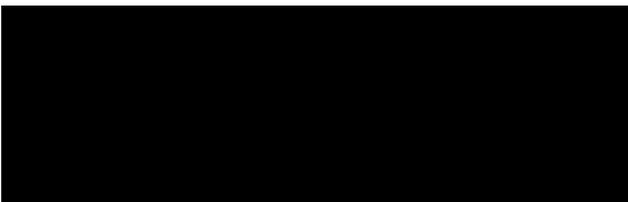


TABLE 2 – Financial Comparisons

	AGA "Scheme"		The Garage		Podium	
Rent Per Week (Average)		£160.00		£225.00		£240.00
Tenancy Period	weeks	40	weeks	48	weeks	48
Rent per SQM	20	£320.00	19.36	£557.79	19.50	£590.79
Less OPEX	15%	£272.00	23.00%	£429.50	23.00%	£454.91
Yield	4.5		5.5		5.5	
YP	22.22		18.18		18.18	
Capital Value/ SQM		£6,044.44		£7,809.09		£8,271.11
Development Costs						
Construction Costs	SQM	£1,500.00		£2,962.00		£3,131.00
Surrey Allowance	SQM	£225.00		£0.00		£0.00
Sub Total per sqm	SQM	£1,725.00		£2,962.00		£3,131.00
Professional Fees - 12% of Construction Costs	12%	£207.00	12%	£355.44	12%	£375.72
Finance	6%	£103.50	6.75%	£199.94	6.75%	£211.34
Marketing Costs	2%	£120.89	2%	£59.24	2%	£62.62
Development Margin - (on GDV)	20%	£1,208.89	20%	£1,561.82	20%	£1,654.22
Total Development Cost	SQM	£3,365.28	SQM	£5,138.43	SQM	£5,434.90
Residual Value per sqm built		£2,679.17		£2,670.66		£2,836.21
Base Land Value						
One Hectare Site	Assumed	10,000.00	Actual	6,500.00	Actual	5,300.00
Coverage	30%	3,000.00	Actual	22%	Actual	24%
Building GIA	5	15,000.00	Actual	4,902.30	Actual	4,920.43
Site Efficiency (Lettable Space of total space)	80%	12,000.00	66%	3,214.10	69%	3,373.36
Number of bed spaces created		600.00	Actual	166.00	Actual	173.00
Residual Value per hectare		£32,150,000.00		£8,583,762		£9,567,549
Base Land Value	Random	£2,000,000.00	Actual	£7,502,700.00	Actual	£7,022,215.00
Land Value Per Bed		£3,333.33		£45,196.99		£40,590.84
Surplus Value		£30,150,000.00		£1,081,061.73		£2,545,333.88
Surplus value per SQM		£2,010.00		£220.52		£517.30
CIL Rebate		50%		50%		50%
CIL Land Value subject to charge		£1,005.00		£110.26		£258.65
CIL Rate Proposed		£495.00		£55.00		£125.00

Revenue

Rent per week

Schemes that we have developed have higher rents, which we have set out as an average for either site. The higher level is partly due to the high standard of the accommodation provided and the

smaller scale of each development, compared with RHUL's operation. It also reflects the scarcity of PBSA accommodation, which is particularly attractive to overseas students. However, as more university and private purpose-built student accommodation becomes available, growth in rents will stagnate, as long as additional PBSA is possible.

The real need is to attract students living in local housing so future private accommodation will need to be more keenly priced which will result with additional PBSA. The Garage, Harvest Road provides primarily cluster accommodation and therefore, the average rental will be lower compared with the Podium, which has a much larger proportion of studios. Accordingly, although our calculations in table 2 above relate to actual developments, the likelihood is that for future PBSA schemes the average rents will be closer to those charged by RHUL. This in turn will reduce the ability of PBSA developments to afford the £55 CIL rate that table 2 suggests would be reasonable, assuming the university is ultimately able to bring forward the bed space numbers proposed in the Master Plan consent.

Management & Maintenance

Our developments incur a higher sum of c £2,500 per bed provided (23%) for ██████ to ensure that the quality of the buildings and environment is maintained and to provide security. Of this amount, typically some £450 is payable for utilities (energy and water).

We do not consider 15% to be an adequate amount for a scheme of 600 beds, which equates in this instance to £960 per bed (based on 600 bed spaces) even allowing for economies of scale.

Yield

██████████, a leading UK PBSA surveyor, stated in a market commentary issued in January 2020, that prime regional direct let yields has stabilised at 5.50% and consider that this may strengthen further.

Egham is not considered as a Prime Regional Area as there is only one university locally but given the lack of supply of PBSA and the expected growth in student numbers, 5.5% is considered achievable for direct let PBSA located close to campus.

Reference to 4.5% is achievable in prime central locations, such as London, where there are a large number of universities whose students wish to live in PBSA. It is not achievable in Egham for PBSA's.

The value assumption adopted by Andrew Golland & Associates is therefore disputed.

Capital Value m2

Overall, you will note that our calculations demonstrate a higher capital value than the AGA assessment. This is largely due to the difference in tenancy durations offered by PBSA compared with university accommodation.

Development Costs

Construction Cost



The construction cost assumed by AGA are significantly less than the actual costs that developers have to pay on private sites where planning and site-specific issues affect costs. Our figures are based on actual costs, where the works are undertaken by a main contractor on our behalf. We have adjusted the Podium figures to take account of construction cost inflation over the last 4 years.

Professional Fees, Marketing, Development Margin & Finance

With the exception of finance costs, we accept the percentage applied for professional fees in the AGA assessment. Our finance costs are slightly higher at 6.75% compared with those assumed at 6%, and we understand our costs accord with standard valuation assumptions.

The residual value per m2 on AGA's 'typical' scheme is considerably higher than it would be in real conditions due to the very low construction costs assumed.

The residual value of our developments is similar or slightly higher than assumed by AGA, but again, due to the tenancy period differential. This is however more than offset by the bizarre assumption that 'commercial' land value should be used as base land value.

Base Land Value

A further and major flaw in the assumptions used in the [REDACTED] (AGA) assessment is that of the base land value applied in their hypothetical scenario.

House prices in the Englefield Green area, as table 3.2 of the AGA report demonstrates, are the second highest in Runnymede behind Virginia Water, whilst even in Egham with their smaller house sizes, the average house price is £494,000.

[REDACTED] typically acquire sites with an option, which enables us to pay a little more in return for the seller waiting for us to obtain planning consent. Given the high property values, we have to pay very high existing use value together with a premium to enable the owner to sell. We have typically paid between £40,000 - £45,000 per student bed in land value.

This compares with the AGA assessment figure of £3,333. The end value of the council example development will be c £72.5m (Capital Value/ Sqm @ £6,044 x 12,000 sqm). A rule of thumb, and it is only thus, is that a reasonable purchase price is about 30% of the anticipated end value. In more central locations, this can nudge up to 40%. On this basis, AGA's typical site was acquired on that basis, the site purchase value would be c £22m; £ 36,000 land value per bed.

Whilst site specific matters and planning policies and issues will influence the price paid in the end, the example employed by AGA demonstrates that a developer who could acquire a site for £2m to deliver an end value of £72.5m with a total development cost of £27,884,000 ((being Total Development Cost/ sqm @ £3,365psqm less Developer's Profit @ £1,208psqm) x 12,000 sqm + land purchase value @ £2,000,000) would experience a most extraordinary profit of £44,628,000 – or equivalent to a Developer's Margin of 160% on costs.

If one assumes that a developer's margin should be 20%, the residual site value would be, leaving all other AGA assumptions unchanged, in the region of £34.5m. This is too high, as the constructions costs are understated in AGA's worked example and the yield applied to the value too high. What it demonstrates, however, is that the AGA typical site and associated values and costs, with land purchase at £2m belongs in fiction and should not be applied as a sound basis on which to make public policy decisions.

A final point to raise is that the Podium development provided more studios (70% studios/ 30% cluster) than will be provided by the Garage, Harvest Road (80% cluster/ 20% studios). Our table

demonstrates that the more studios is provided, the higher the value and, therefore, an ability to pay a slightly higher CIL rate. However, developing mainly studios is counterproductive in terms of attracting students out of local HMOs, as the rents for a studio is typically 20% more higher per week compared with an ensuite cluster bedroom.

Conclusion

The evidence [REDACTED] has put forward demonstrates that the proposed CIL rate at £495.00 per square meter would remove any developer surplus, except in very exceptional circumstances and this would undermine the deliverability of the plan in respect of PBSA.

Our submission also demonstrates that cluster-based accommodation, which is lower rent PBSA, cannot support the same level of CIL as a studio only/ primarily studio-based scheme.

For a studio based scheme, a CIL rate of £125 could possibly be viable in the Englefield Green area, whereas for a cluster based scheme, it should not exceed £50 psqm. However, if RHUL is able to deliver the number of bedspaces that it proposes, though this would not be viable if RHUL had to pay a £495 CIL rate, rental levels of future PBSA developments will come down, so that even the £50 CIL rate would jeopardise future private student accommodation developments other than for high rental studio accommodation.

The proposed rate or rates are informed by, and consistent with, the evidence on viability across the charging authority's area

The AGA assessment considers one hypothetical site for student accommodation which bears no relation to the area being assessed.

The overriding issue with the AGA assessment is its simple assumption that a site suitable for student accommodation, as outlined in the Draft Local Plan 2030 Policy SL23 can be found locally that will enable the construction of 600 new bed units and that the acquisition of such a site can be achieved at £2,000,000. This is not at all evidence-based decision making. It is so far from the actual situation as to present a completely untenable CIL rate and will prevent further provision of much needed PBSA.

The only area in the borough where student accommodation will be provided is in Egham /Englefield Green, as distance from the RHUL campus is critical. It is apparent that RHUL want to dispose of Kingswood hall, which is in Englefield Green, but is over a mile from the campus.

Student accommodation will not stand a CIL rate except in Egham/Englefield Green.