



# **Bristol City Council**

## **Community Infrastructure Levy**

### **Hotel & Student Housing Levy Rates**

#### **Paper responding to Position Statements and the Examiners Questions**

**13 June 2012**

## **Background**

This paper comprises two sections.

Section 1 responds to the Position Statement received in respect of the proposed Community Infrastructure Levy (CIL) rates for Hotel and Student Housing. The statement was from GVA on behalf of the Unite Group Plc.

Section 2 responds to the Examiner's Questions as set out in the Examination Hearings Timetable.

## Section 1

### Statement ED511 – GVA on behalf of the Unite Group Plc

#### Build Costs

Paragraph 2.1 of the statement questions the assumptions made over build costs and the use of a “one fits all” approach.

The BNP Paribas study assumes that Student Housing schemes will be provided on brownfield sites and that they will involve a more intensive use of the site. Consequently the assumptions include demolition costs at £5 per sq ft (£53.80 per sq m) and build costs at £140 per sq ft (£1,506.40 per sq m). In addition, external works have been included at a cost of 10% of build costs. It is also assumed that CIL will be charged on all floorspace, when in practice any existing floorspace in use at the time of a consent being granted will be exempt from CIL.

No evidence has been provided to the Council that suggests that the demolition costs, build costs or external costs used in the BNP Paribas CIL study are unreasonable, or that alternative costs should have been included.

It is accepted that there may be lower costs on greenfield sites and that there may be a small number of brownfield sites that have additional costs. However, it is important to note that the BNP Paribas CIL Study is an area wide study, and the Council considers that it forms a robust basis from which to derive a CIL rate. This is because it is based on a relatively high cost scenario, i.e. the demolition of an existing building and its replacement with a building that intensifies the level of development on the site, and it assumes that all floorspace will be liable for CIL, which will not be the case in many Student Housing development scenarios.

It is also pertinent to note that Table 7.7.1 of the BNP Paribas CIL Study shows that the proposed CIL rate of £100 per sq m is only 45% of the maximum viable rate, and it equates to only 3.2% of Total Development Costs and 2.8% of Gross Development Value (GDV). Therefore, the Council concludes that there is a significant viability buffer to deal with site specific costs that may occur on some sites, and that the imposition of CIL will be only a marginal issue when considering whether to bring forward Student Housing schemes.

#### Impact of Student Housing

Paragraph 2.5 questions the reasonableness of applying a CIL rate of £100 per sq m to Student Housing schemes, when their impact is claimed to be lower than other forms of residential development.

The Council considers that the statement misunderstands a key principle underpinning the introduction of CIL, which is that CIL removes the relationship between impact and mitigation. It requires development to make

CIL payments towards infrastructure to support the growth of an area, based on the viability of that particular type of development, i.e. its ability to pay.

#### Rates proposed by other Councils

Paragraph 2.7 notes that Exeter City Council are proposing a rate of £40 per sq m for Student Housing schemes, and considers that the rate proposed by Bristol may threaten its attractiveness as a place to invest in Student Housing.

The Council is firmly of the view that CIL rates must be predicated solely on viability. Therefore if the viability study undertaken for Exeter City Council indicated that a CIL rate of £40 per sq m for Student Housing should be applied, then it is right and proper that Exeter City Council apply a rate at that level. The purpose of CIL is not to equalise costs across the country, as evidenced by the significant variations in CIL rates proposed for residential development by different Councils.

The Council is satisfied that its proposed CIL rate of £100 per sq m for Student Housing schemes is based on the BNP Paribas CIL Study. It should also be noted that the BNP Paribas CIL Study incorporates a developer's profit of 20% of GDV. Therefore the imposition of CIL should be neutral to the developer and it should be accounted for in the price paid for the development site. If the developer is achieving an appropriate profit level be it in Bristol or Exeter, then the level of CIL should have a neutral impact provided that the developer took it into account in their land purchase.

In summary the Council concludes that:

- It has received no evidence to suggest its build costs are unrealistic;
- GVA have misunderstood the nature of CIL in respect of the relationship between development impact and CIL rate, and
- It's Student Housing CIL rate is based on the viability of Student Housing schemes in Bristol, and is not influenced by rates proposed by other authorities.

Consequently, the Council remains of the view that its proposed CIL rates for Student Housing are viable.

## Section 2

### Response to Examiner's Questions

The examiner has identified two questions that he wishes to consider in relation to the proposed CIL rates for Student Housing and Hotel development. The questions and the Council's responses are set out below.

***Are the local levy rates for new hotel and student residential accommodation justified by appropriate available evidence, having regard to national guidance, local economic context and infrastructure needs, including in relation to the Council's adopted Core Strategy?***

The Council considers that the answer to this question must be "yes", for the following reasons.

Bristol's Core Strategy was adopted in June 2011, and is accompanied by an Infrastructure Delivery Programme, which contains an Infrastructure Schedule. This Schedule was updated in February 2012, and based on this, the Council produced a Funding Gap Background Paper that showed an infrastructure funding gap of in excess of £270,000,000. Consequently, the Council considers that it is justified in setting a CIL in order to contribute towards the delivery of the infrastructure required to support the growth of the city.

The Core Strategy does not directly refer to the need for Student Housing or Hotels in order to achieve the levels of growth identified in it. However Policy DM1 of the Draft Development Management Policies, which were consulted on between March and May 2012, specifically supports the delivery of Specialist Student Housing Schemes. The explanatory text states as follows:

*This type of housing can help to ease demand for student accommodation and relieve pressure on the local housing stock. Continuing provision of this type of accommodation is generally supported.*

The draft policy states:

*Specialist student housing schemes will be acceptable where they are located:*

- i) within the city centre;*
- ii) within reasonable walking distance of the relevant higher education institution; or*
- iii) close to good public transport links serving the higher education institution.*

Therefore, it is clear that the delivery of appropriately located student housing is important to the Council. Consequently it is important that the Council's proposed CIL rate does not preclude such development from coming forward.

The justification for the Council's proposed CIL rates is provided by the BNP Paribas CIL Study, which identifies the maximum levels of CIL that could be applied to various development types. The appraisals have been undertaken using a Residual Land Valuation methodology, which the Council considers is an appropriate mechanism for determining viability and which has been used to inform a number of adopted CIL Charging Schedules.

#### Appropriate Available Evidence

The evidence used to inform the GDV of Student Housing is based on the weekly rental value of rooms from a sample of Unite schemes operating across the city. This takes account of both long established and recently completed schemes, and is therefore considered robust, particularly given that new student schemes tend to have a higher weekly rent than long established student accommodation. This is evidenced by the fact that the BNP Paribas CIL Study uses a rental value of £117.50 per week, whereas the Council's Response to Representations document shows that in recently completed Student Housing schemes rental values are significantly higher than this.

The evidence used to inform the GDV of Hotels is based on the sale of the Novotel Hotel in the City Centre. This was sold for £14,500,000 and has 131 bedrooms, giving a capital value of £110,000 per bedroom. As there is not a broad body of local evidence on which to inform the GDV of Hotels, the Council has taken a conservative approach to setting a CIL rate for hotels and has applied a rate at the bottom of the range recommended by BNP Paribas.

Consequently, the Council is satisfied that it has taken a conservative approach to valuing Student Housing schemes and has used appropriate available evidence in doing so; and that it has used what limited appropriate available evidence there is for valuing Hotel schemes and has set a conservative CIL rate on this basis.

The Council is confident that the appropriate available evidence it has used is in accordance with the statutory guidance contained in the CLG Charge Setting and Charging Schedule Procedures document (March 2010) and that it forms a reasonable basis from which to undertake Residual Land Valuations for Student Housing and Hotel schemes.

#### ***Do they strike an appropriate balance between helping to fund the new infrastructure required and the potential effect on the economic viability of new hotel and student residential accommodation across the city?***

The Council considers that the answer to this question must also be "yes", for the following reasons.

The Council accepts that the current infrastructure funding gap is of such a magnitude that CIL receipts alone could not bridge it.

Therefore, the key issue for the Council in aiming to strike what it considers to be an appropriate balance in respect of a CIL rate for Student Housing and

Hotel schemes; is “How much of the surplus available to fund CIL should be sought?”

The Council has taken the view that it is important to leave a significant viability buffer to deal with site-specific differences in costs and values. Therefore it proposes that, in respect of Student Housing and Hotel schemes, no more than 50% of the surplus should be sought through CIL.

The BNP Paribas CIL Study identifies that Student Housing can afford a maximum CIL payment of £220 per sq m, and that Hotels can afford a maximum CIL payment of £160 per sq m. BNP Paribas have suggested CIL rates of between £90 and £120 per sq m for Student Housing and rates of between £70 and £100 per sq m for Hotels.

Based on this advice, the Council has taken a balanced judgement in proposing a Student Housing CIL rate of £100 per sq m, and a Hotels CIL rate of £70 per sq m.

In the case of Student Housing, the rate proposed is 45% of the maximum viable rate, and it equates to only 3.2% of Total Development Costs and 2.8% of Gross Development Value.

In the case of Hotels, the rate proposed is 44% of the maximum viable rate, and it equates to only 1.9% of Total Development Costs and 1.8% of Gross Development Value.

Whilst it is acknowledged that there may be a small number of developments, across all development types that might be made unviable by the imposition of CIL, the Council considers that the rates proposed are relatively modest given the viability evidence set out in the BNP Paribas CIL study. It is not considered that the imposition of these rates will make Student Housing and Hotel development unviable generally.

The Council estimates that the annual level of CIL receipts from development other than Use Class C3, will be approximately £1,000,000 per year. It is not possible to accurately calculate an annual figure for each development type, as such development comes forward on an ad hoc basis, and there are not consistent year on year patterns to compare. However where such development does come forward, it has the potential to generate significant levels of CIL receipts, as set out in the “Anticipated level of CIL income” section of the Preliminary Draft Charging Schedule.

In conclusion, the Council is proposing CIL rates of less than 50% of the maximum viable rate for Hotels and Student Housing, and it anticipates CIL income from development other than Use Class C3 of approximately £1,000,000 per year. The Council considers that this does strike an appropriate balance between helping to fund the new infrastructure required and the potential effect on the economic viability of new hotel and student residential accommodation across the city.