

Academic Forum

Meeting 26 June 2013: notes

Attendees – Jo Goodman (NUS), Jonathan Seager (London First), Asif Zaman (Unite Group PLC), Julia Bond (Kingston University); Andrew Bull (LB Westminster); Colin Plank (UCL); William Wilson (UCL); Roland Shanks (University of London Housing Services); Paresh Shah (London Higher); Angela Steward (LB Lewisham); Tom Clarke (LB Tower hamlets); Gareth Smith (University of East London); Brian Welsh (Knightsbridge Student Housing Company); Allan Hilton (Cass and Claredale Halls of Residence Association Limited); Robert Farnsworth (LB Camden); Sakiba Gurda (LB Islington) Trevor Wills (University of Westminster); Andrew Barry-Pursell (GLA), John Lett (GLA); Jennifer Peters (GLA); Zhuoya Ling (GLA)

The third forum meeting addressed issues of affordability and social mix. The group explored measures to make student housing more affordable. It started with the review of the last meeting notes (31 May 2013) and followed by a keynote presentation on 'Student Housing Affordability' that helped initiating a group discussion. Key points raised at the meeting are summarised below:

1. Comments on the last meeting notes (31 May 2013)

- 1) The numbers of 'Full time students not covered by HESA (London)' were estimates based on the HESA survey of 2009/10. Therefore, the year of data should be changed from 2011/12 to 2009/10. A corrected table is as below:

2009/10	Estimated Student No.
Private and alternative providers	23,000
Erasmus	3,500
Association of American Study Aboard Programme	5,000
Campus Branches (approx. 20 campuses branches) e.g. UEA London, Glasgow Caledonian London, Coventry London, Northumbria London	15,000
Total students not covered by HESA for London	46,500

- 2) The chair clarified that the 2013 student numbers projection would adopt the same methodology as last time, using the rolling average based sensitivity tests.
- 3) It was suggested that boroughs' administrative boundaries should be used to distinguish 'strategic' and 'local' need – demand from institutions within the boundary represent local need while those outside the boundary are 'strategic' need. The universities considered that the concept of 'local' need was not helpful. For example, even if a university was located only 10 minutes beyond the borough border, the local authority might justify refusal to grant planning permission for accommodation because it was not generated by a 'local' HEI. Borough representative responded that 'strategic' need would put too much pressure on the central boroughs where most universities were currently concentrated. This would undermine capacity for these boroughs to deliver conventional homes – though, beyond central London, this might be more acceptable if university based/generated employment was provided as well as student accommodation. Boroughs already subject to substantial student accommodation pressures felt that these should be shared more equitably across London, perhaps by dividing the strategic targets for accommodation needs (currently 1,800 – 2,700 pa) equally by 33 boroughs. New London Plan policy should allow boroughs to demonstrate their local circumstances in their development plans. Neither the universities, private providers, students nor boroughs with little accommodation pressure thought this a practical proposition.

2. Discussion of 'affordability and social mix'

- 1) Characteristics of accommodation providers;

- There are significant differences between education institutions and the private sector. Institutions tend to have a lower percentage of ensuite bed spaces. Currently 49% of their stock falls into this category, compared with 74% for the private sector (including both bed spaces let directly and through nomination arrangements). 'Catered accommodation' is provided almost exclusively by education institutions;
- To reflect the market realities, a more affordable product such as ensuite cluster flats has been increasingly provided in the private sector;
- Private halls currently target a small share of the market. Issues not only lie in the rents above £200 pppw (per person per week), but also the longer length of tenancy (e.g. 51 weeks).
- The student housing survey showed that the amount of support students could get from the institution was a key determinant in their choice to HEI; while affordable rent was important in this, other factors like the extent of pastoral care were also significant. The survey showed that student renting preferences were : 1. university halls; 2. institution managed properties; 3. direct let private halls. University representatives suggested that the private sector should target the mid-tier market, providing more reasonable rent for the location with a reasonable length of contract.
- It was agreed that there was a need for more joint working between private providers and universities to address this issue – a third of new private provision was already associated with nomination agreements, demonstrating that there was an appetite for joint working. This was in both their interests. The private sector wished to address their voids/secure their income streams to underpin funding while the universities required a more affordable product.
- It was acknowledged that, in the short term at least, there was reputational damage to the sector as a whole if a private provider became bankrupt taking with it pre-paid fees, though for the longer term it usually meant that the accommodation returned to the market at a lower rent. With over 3,000 rooms let at over £200/wk, this was a particular issue for smaller scale providers, and especially if they ventured into 'Zone 3' – a more marginal location for highly rented accommodation. Despite these effects of the long term operation of the market, universities bidding for land for their own accommodation still faced land prices set by the private sector, and especially if they had only 39/40 week occupancy. It was noted that care should be taken in comparing rents – some included extensive 'extras' while others did not.
- The group debated 'significant voids' in the private sector halls. The private sector representatives considered that the void rate in the private sector halls approximated to 5% (including those with nomination agreements), while university representatives considered it was at least 10%, and higher if 'nominated' places were excluded. A major private provider did not consider that it faced issues of excessive voids. Some anecdotal evidences of significant voids are provided by Housing Services, University of London (see Appendix 1).
- There was concern by the charitable sector, that, from the student perspective, partnerships between the private sector and some universities effectively created a cartel, driving out smaller and charitable providers. Universities also operated as businesses, driving up rents at the bottom of the market

2) Affordable rents;

- Universities turning their halls into visitor accommodation in the summer to subsidise their income.
- Should the Housing SPG specify a 'letting' term – e.g. a S106 or condition determining occupancy by non-students during the summer. It was noted that some community groups in neighbourhoods with high concentrations of university based halls considered that the shorter term tenancies granted by the universities allowed the halls to become de facto 'back packer hostels' during the vacations, contrary to policy which exempted halls from affordable housing

requirements because they met a distinct form of housing need. It was pointed out that, like the private sector, universities operated halls as businesses, and that in letting them out in vacations they were able to keep rents lower for bona fide term time students.

- What is 'affordable' in London? Though this issue affects all students, it is particularly acute for UK domiciled students. What is affordable to many (but by no means all) overseas students is generally not affordable to those from the UK.
- Is affordable student housing different to conventional affordable housing? Student provision usually did not meet all the NPPF affordability tests (while it addressed a specific need, this was not defined on the basis of the relationship between incomes and housing costs; it was usually not provided by a designated body like a registered provider (though it could be provided by a charity like a university), and it was not secured in a way in which the proceeds on sale could be recycled to provide affordable housing in perpetuity). There were also more practical issues, such as securing a proportion of a private development as 'affordable' in the NPPF sense, and how those units should be allocated (what would be the criteria for deciding who deserved lower rents?). However, it was recognised that the latter point might be secured through a S106 agreement attached to predominantly private/market let development.

3) Use of Section 106/CIL to make provision more affordable;

Andrew Barry- Pursell provided advice on the application of section 106 and CIL to student housing:

- Most universities are registered charities, so, in principle, the student housing they develop can benefit from the CIL exemption for charities (see regulation 43 of the Community Infrastructure Level Regulations 2010). To qualify, the organisation must be a charity which has a material interest in the land concerned (a freehold or lease for more than 7 years), and the development has to be used wholly or mainly for charitable purposes. It does not apply where the part of the building to be used for charitable purposes will not be occupied by, or under the control of, a charitable institution, where the material interest in the land is owned jointly with a non-charity or where an exemption would represent a State aid. There is some guidance on this in paragraphs 4.14-4.15 of the 'Use of Planning Obligations in the Funding of Cross rail, and the Mayoral Community Infrastructure' SPG (see attached).
- Using Section 106 to limit rents depends on what is meant by limiting rents. Any S106 agreement has to meet the three statutory tests (necessary to make the development acceptable in planning terms, directly related to the development and fairly and reasonably related in scale and kind to the development) and has to be reasonable in all other respects. Setting a crude rent cap ('no more than £125 per calendar month') is probably not reasonable, though some kind of formula might be – but in every case it would be necessary to meet the three tests.
- In summary, student accommodation can in principle be exempted from CIL, but it has to meet all the regulations exactly. For example, letting it out to visitors during vacations is not a charitable purpose, and also might raise tensions with state aid rules (essentially, any state entity must not give a subsidy to a business which operates in the Common Market). Similarly, if a private developer sought to lease out accommodation to a university for 7 years, it might not be exempt from CIL because exemption only applies to the 'owner of the interest'. To address this, the developer would have to assign the lease to the university before planning permission was granted.
- It was noted that while one university (a registered charity) had received legal advice that it was exempt from CIL, this did not appear to be appreciated by all boroughs and lengthy negotiations could ensue. Was there a mechanism to secure a consistent approach to implementation of CIL? In short, yes. There was a borough CIL Forum, and the Mayor had published guidance on implementation of CIL. However, it should be borne in mind that the

GLA (for the Mayoral/Xrail CIL), was a charging but not a collection authority – collection was a borough function.

4) Use of 'Nomination Agreements' to make provision more affordable;

- University representative said 'nomination agreement' should be operated in a flexible way. So that universities can negotiate with private providers for appropriate rents, providing university the mean to control housing costs for students.
- It was noted that, at a minimum it costs some £50,000 to build a bedspace; a further £30,000 for the land and to these must be added further costs to cover finance and profit. On this basis it is not possible to provide a space in a cluster flat which will let at £150/week – the level regarded reasonable by the universities.
- The current 'nomination regime' moderates rents for about 30% of private sector output, but universities want this extended and, ideally, at lower rents. This will require 10 year nomination agreements just to cover capital costs but universities may not be in apposition to cover this.
- One way out of this conundrum could be dispersal to Zones 3 & 4 (see below) eg Newham and Haringey. Most private provision is currently provided in and around central London, frequently at rents around £300/week, but further out eg Stratford, these can drop to £200/wk – though this is still above the universities £150 target. The ultimate test is the UK student loan package of £7,500 – rents set at £200 wk will exceed this by a significant margin for a 51 week year, and will leave very little to live on even for a 30 week year.
- However, there may be ways to get the £200 wk cost down – cluster flats were a step in the right direction but there are variants on this (non-ensuite, even sharing rooms), and even traditional halls with shared rooms and communal facilities.

5) Dispersal options

The debate on the contribution of dispersal to affordability was intertwined with those outlined above. Overall, there was a consensus that there was a need for a varied range of products in different parts of London, probably with nomination agreements attached to an increasing proportion of new output, and it was more realistic to expect that these could be applied to development beyond central London. A decreasing quantum of development capacity in central London, coupled with increasing resistance to new student development from boroughs who were beginning to use London Plan policy (to resist student development which constrained provision of conventional housing) is likely to drive this process.

Universities could do more to incentivise it by relocation of facilities/jobs as well as students to the next wave of host boroughs. London Plan policy should support this. However, it should be borne in mind that dispersal in itself is not the answer – rents of £340/wk were reported in Kingston. Affordable land is the key. One private sector agency wondered whether the Mayor could support this through his land holdings.

Appendix 1

Three examples of data that substantiate significant voids in private sector halls (direct let).

Evidence 1 – Price Drops

Please find attached a spreadsheet pieced together by reviewing private developers websites. It only covers a fraction of the developers. For example it doesn't include Pure Student Living who we know had significant voids last year.

This comes from data provided by Allan Hilton at Cass and Claredale.

In October of last year, all of the developers were still advertising vacancies (see column F). Almost all Universities will have started their terms by October and students will have already found their housing. There is a very limited intake in January but clearly not enough to go round. In other words if you have voids in October, you are likely to have voids for the rest of the year.

The voids led to some startling price drops (see column G). Developers would not have dropped their rents so sharply if they didn't have voids.

In May of this year some developers have begun to put their prices back up but many are still dropping their prices compared to last year.

Discounting charitable Halls and those with nomination agreements, 15 developers have dropped prices or have kept price increases below RPI (with one dropping prices by over 30% in their Halls). 14 have increased prices.

Evidence 2 –Council Tax Exemptions

Cross-referencing exemption certificates against bed-spaces was used to find out occupancy levels in the private halls. The attached response shows some evidence of significant voids and properties not being let to full time students. The year in question would cover 2011 when most developers, including UNITE, reported that they had close to full occupancy.

Only obtained data from Camden as most other local authorities at the time were not collecting Exemption certificates from private Halls. Only able to ask for evidence on 4 Halls under FOI (more and they would have charged). Overall there were about 30% voids (and this is assuming one council tax exemption certificate per bed-space, per year).

Two of the Halls matched bed-spaces against certificates.

- UNITE Bartholomew Road, 111-113 Bartholomew Road, Kentish Town, NW5 2BJ - 54 - actually one more than the number of bed-spaces.
- UNITE Kirby Street, 36-43 Kirby Street, Camden, EC1N 8TE - 128 – OK

However, there were two properties with big discrepancies:

- UNITE Somerset Court, Aldenham Street, Euston, London NW1 1AS – 47
168 Bedspaces => 121 voids

- UNITE Woburn Place, 19-29 Woburn Place, Bloomsbury, WC1H 0AQ – 333
455 Bedspaces => 122 voids

27% voids is credible as this was their most expensive property.

Evidence 3 HESA stats

The HESA stats are collected at the start of term. The sample size is 70,000.

Students are asked what type of housing they are living. Of those students that said they were living in Halls of Residence, just 21% identified their Hall as being a Private sector Hall rather than institution maintained property.

However, in terms of bed-spaces owned by private sector Halls, this is actually 46% of the overall stock. Why is there such a huge discrepancy between the 2 figures?

Even if you allow for all properties subject to nomination agreements being identified as Institution maintained property (unlikely) then there is still a discrepancy.

There are still left with 21% of students saying that they are living in private sector halls when the true amount should be 36% (based on bed-spaces).

There are some explanations for this that would not have to involve voids but none can account for such a large discrepancy. There has to be an element of voids in this.