**USG Paper**

**Accommodation Essex – 2013/14 Rents**

**1. Executive Summary**

USG is requested to approve the following rent increases for the 2013/14 academic year:

 5% South Courts, Houses & Wolfson Court

 4% University Quays

 3% Towers

 4% University Square, Southend

**2. Colchester**

**2.1 Meadows & Quays**

2.1.1 The new 648 bedroom residential development at the Meadows is scheduled to open for the start of the 2013/14 academic year, with the main contractor Bouygues formally confirming in November 2012 that the building work is on target. Ownership of University Quays also transfers to Uliving, the PFI partner, on 5 July 2013.

2.1.2 The detailed negotiations with Uliving and Aviva were anchored on an agreed rental level for the first 3 years of the partnership in order to provide funders with visibility on cashflow. This reflected 5% annual increases for Meadows, South Courts, and the Houses; and 4% compound growth for University Quays. A carve out was negotiated for the Towers and Wolfson Court, with the University retaining flexibility for rent setting in respect of these rooms.

2.1.3 The rental table below (Table A), detailing the projected rents for a 4 year period, formed part of the original OJEU procurement which was initiated in Spring 2010 and underpinned the deal including the delivery of a significant capital receipt to the University for reinvestment in the facilities at Colchester.

**Table A**



2.1.4 At the end of the initial 3 year term, the University has fettered the control of Uliving to set rents for Meadows & Quays; and in the absence of a mutual agreement between parties the Uliving rents will default to RPI. The rents for South Courts and the Houses must track and/or not drop below the Uliving increases, but again there is complete freedom for rental levels at the Towers and Wolfson Court.

2.1.5 It is important to appreciate the rental model developed circa 30 months ago in support of the OJEU procurement was based on an entirely different HE sector climate, prior to the inception of £9k tuition fees. Annual rent increases at Colchester, particularly at South Courts and Quays, had tracked circa 2% ahead of RPI as detailed below (Table B)

**Table B**





2.1.6 In the current context of challenges around student recruitment, the rent increases at face value look demanding with RPI at 3.1% in December 2012. However, it is also relevant to note the Savills sector research commissioned by Aviva in support of their funding approval process indicated that University of Essex rents were tracking materially below the direct competitor group identified by C&ER as highlighted in Appendix A.

2.1.7 It is the firm view of Campus Services that there is no prospect of renegotiating the 2013/14 rent increases with Uliving and Aviva, or with Equitix who are the equity investors in the SPV. The deal which achieved commercial and financial close in August 2012 was based on a 50 year financial model derived from these base rents. Any attempt to ‘move the goalposts’ at this stage would not only have a material adverse impact on the level of capital receipt but would undoubtedly cause a significant loss of confidence in the strength of the University covenant.

2.1.8 ***USG is therefore requested to approve the proposed increases of 5% at South Courts and the Houses and 4% at University Quays.***

**2.2 The Towers**

2.2.1 At Colchester, there have been a few recent years of rent increases for North and South Towers tracking significantly below the annual % increases at South Courts and the Quays. Consequently the cash margin is continuing to grow disproportionately and distorting the gap between the highest and lowest weekly rentals. This is not a healthy dynamic, particularly where students may fail to secure their first preference in accommodation selection.

2.2.2 The future development of, and reinvestment in, student residences on campus needs to focus on creating a balanced portfolio of accommodation with a wide range of prices to support student recruitment. This issue is being considered by both the ongoing *Accommodation Essex Operational & Strategic Review* and the *Towers Options Appraisal*.

2.2.3 It is illuminating to note from the data below (Table C) that new UG demand at Colchester is strong for quality accommodation and significantly less price sensitive than the new PG demand, which reflects a requirement for low rents from international and particularly Chinese PGs.

**Table C**





2.2.4 It is essential that the Towers offer sustainable accommodation with a revenue flow to support LTM, both in terms of essential maintenance and refurbishment. However, on balance and following consultation with the Students’ Union, the recommendation of Campus Services is the rent increase for the Towers in 2013/14 should be in line with RPI.

2.2.5 ***USG is therefore requested to approve the proposed increase of 3% for the North and South Towers.***

**2.3 Wolfson Court**

2.3.1 The balanced opinion of Accommodation Essex is that the current rents at Wolfson Court do not accurately reflect the quality of the rooms and facilities when weighed against the other residences.

2.3.2 The initial proposal was to increase Wolfson Court rents by 7% in 2013/14 to begin to address this gap. However, consultation with the Students’ Union highlighted the fact that a 7% increase would not create a positive headline in the current HE funding climate.

2.3.3 The revised recommendation is a 5% increase, which has been agreed with Kaplan as these 28 rooms are entirely occupied by Edge Hotel School students.

2.3.4 ***USG is requested to approve the proposed 5% increase for Wolfson Court.***

**2.4 Residence Life**

2.4.1 An element of the income generated from student rents is reinvested in the Residence Support Network, which delivers social activities, supports welfare and well-being in the accommodation, and assists with student discipline and communal living. The budget for this activity in 2012/13 was £400k managed by Student Support in partnership with Campus Services.

2.4.2 The strategic focus on living and learning, through creating learning communities, enhances the important role delivered by the Residence Support Network.

2.4.3 The US Study Tour to Chicago and Boston in January 2013, led by the PVC (Education), focused strongly on the development of learning communities; and it is likely there will be a firm recommendation that further resource should be directed into this area as part of the financial modelling underpinning the development of a new *University of Essex Campus Services – 5 Year Strategic Plan 2014-18*.

**2.5 Private Sector Accommodation**

2.5.1 With the development of the Meadows, the University will no longer be required to outsource rooms at Avon Way and Forest Road in 2013/14 to support Accommodation Guarantees; and this will have a positive effect on reducing ongoing losses from this activity with the University bridging the gap between 39 week guarantees and 48 week lets.

2.5.2 It has been confirmed the new student residential development at Kings Quays will not be completed for occupation in 2013/14. However, it is likely that returning students who had registered a request to take up accommodation at Kings Quays through the Students’ Union Letting Shop can all be offered rooms on campus to mitigate any disappointment.

**3. Southend**

3.1 There is some negative feedback from returning students at Southend about the price of accommodation at University Square. This partly reflects the deals available in the local private residential market, in which landlords are forced aggressively to drive down rents to around £100 per week or lower, and even to look at promotional offers such as termly lettings to address the significant shortage of demand.

3.2 University Square has delivered significant trading deficits since it opened in September 2010 owing to a high level of voids, as detailed in the table below (Table D).

**Table D**



3.3 The Campus Services team has focused significant resources on developing marketing activity to increase residential occupancy at University Square with annual promotions to returning students linked to rental price freezes, free summer vacation periods and prize draws. Consequently the uptake of rooms in the current academic year is 74% which equates to a very positive 47% of the entire student body at Southend. (NB Sector research undertaken by Accommodation Essex disclosed that comparable ‘satellite campuses’ only provided rooms for an average of 11% of their students).

3.4 It is essential to note that a long-term sustainable financial model for University Square must be anchored on maintaining the integrity of the base rents with annual price increases no less than RPI.

3.5 A significant price reduction, perhaps in the region of 15% to 20%, which would be required to compete directly with the private sector, would de-stabilize the entire financial model and lead to increased trading deficits with no realistic prospect of University Square ever achieving a break-even situation (refer to Table E).

**Table E**



3.6 The focus for 2013/14 has been to achieve an attractive and innovative rental deal, which offers best value and attracts returning students which are the key to increased occupancy, whilst maintaining the integrity of the base rental model.

3.7 Therefore, the proposal developed for 2013/14 is to increase base rents by 4% which is marginally above RPI and in line with the University financial forecast; but also to create a new *‘best deal’* available to all students who sign up to a 2 year commitment of £115.15 per week fixed for 2 years, which constitutes a significant weekly saving of £9.59 in year 1 and £14.63 in year 2. The *‘best deal’* would also include the middle summer vacation period, of up to 10 weeks depending on course length, free of charge.

3.8 This offer of £115.15 per week is genuinely comparable to the private sector as it is fixed for 2 years giving certainty for budgeting; includes broadband, energy bills, on-site security and insurance; does not require a PG, deposit or rental bond; and is based on 42 week tenancies rather than 50+ weeks in the private sector.

3.9 It is believed that the 2 year fixed price deal will increase the number of returners in the University Square accommodation and hence improve the financial model to support sustainability as detailed below (Table F). This forecast assumes 150 students will benefit from the 2 year tenancy.

**Table F**



3.10 ***USG is therefore requested to approve the proposed 4% increase to the base rents at University Square and to endorse the new 2 year fixed price rental offer.***

**4. Summary**

4.1 The full schedule of proposed rents for 2013/14 is included in Appendix B.

4.2 These rents are projected to deliver a surplus in line with the Campus Services 2013/14 draft budget and the University financial forecast.

***23 January 2013***

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**Appendix A**



**Appendix B**



**Southend**

