Purpose-built student accommodation

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30 November 2023

What we'll be covering

- Introduction to BKL
- Opportunities and challenges in the market
- How can BKL help

ESG

- ESG and its financial implications
- What's a sustainable building?
- Risk and opportunities

VAT

- VAT at early stage
- Tax and complications
- Zero rated construction

About BKL

ESTABLISHED 1980

24 Partners

Over 200 people

agn INTERNATIONAL

Based in London – international network

xero PLATINUM PARTNER

Certified B Corporation

Winners of Tolley's TAXATION Awards 2023

Committed Member of Inclusive Employers

BKL

Opportunities and challenges of PBSA

- Is it a good place to invest for property developers and investors?
- How is the market looking?
  - In 2021, the government's international education strategy announced plans to grow international student numbers to at least 600,000 by 2030.
- What are the challenges in the sector?

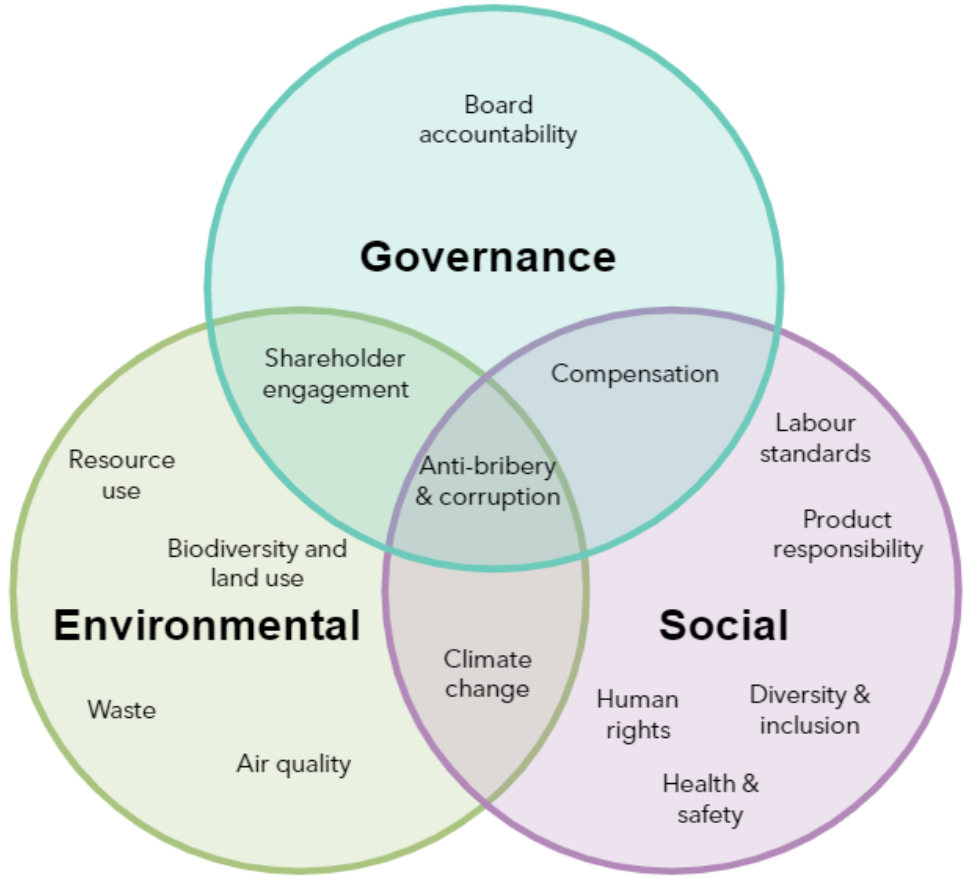
How can BKL help

- Planning and structuring
- ESG and consideration for the future

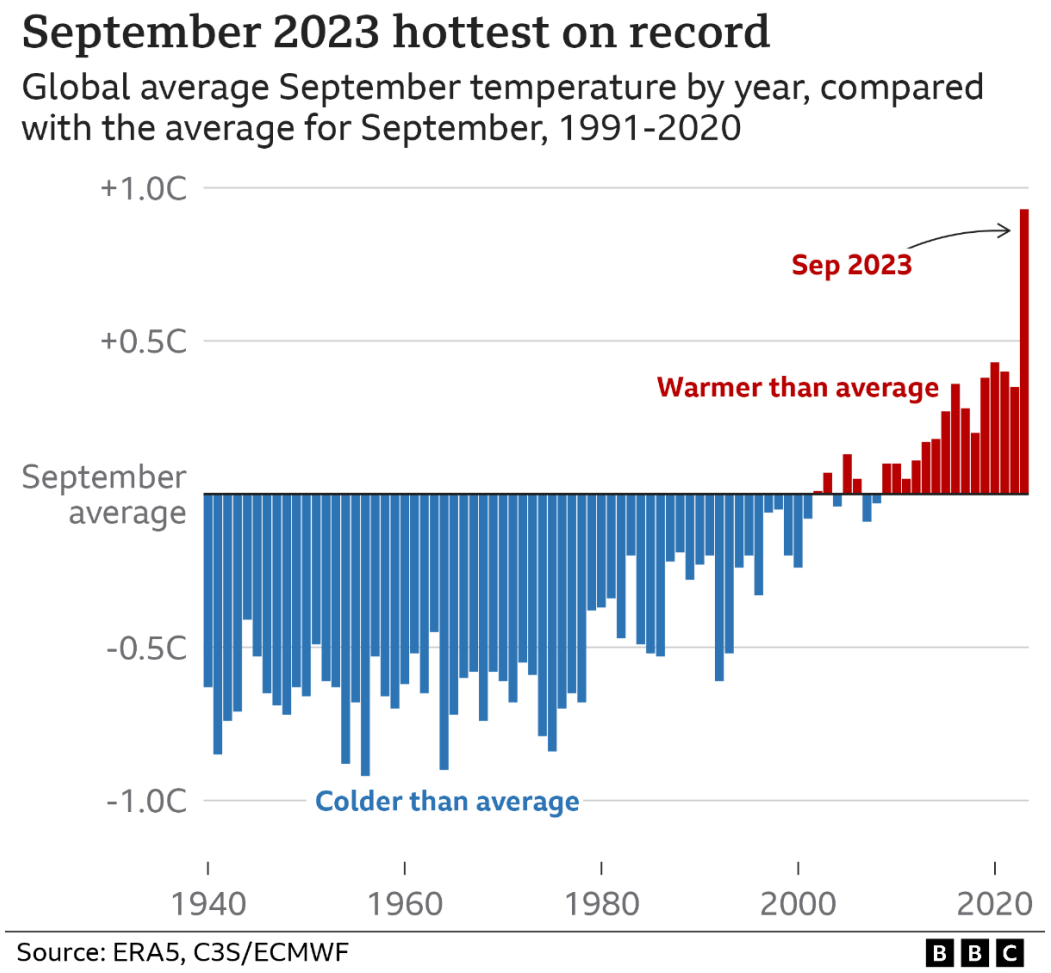
What is ESG, and why are investors, insurers and bankers interested?

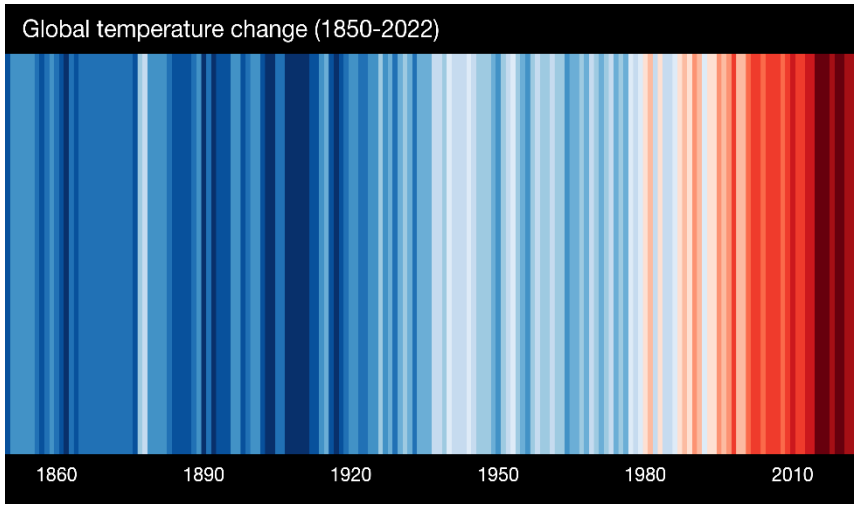
ESG is a monetary measure used by investors to contextualise how risky an investment is for them from a long-term sustainability perspective.

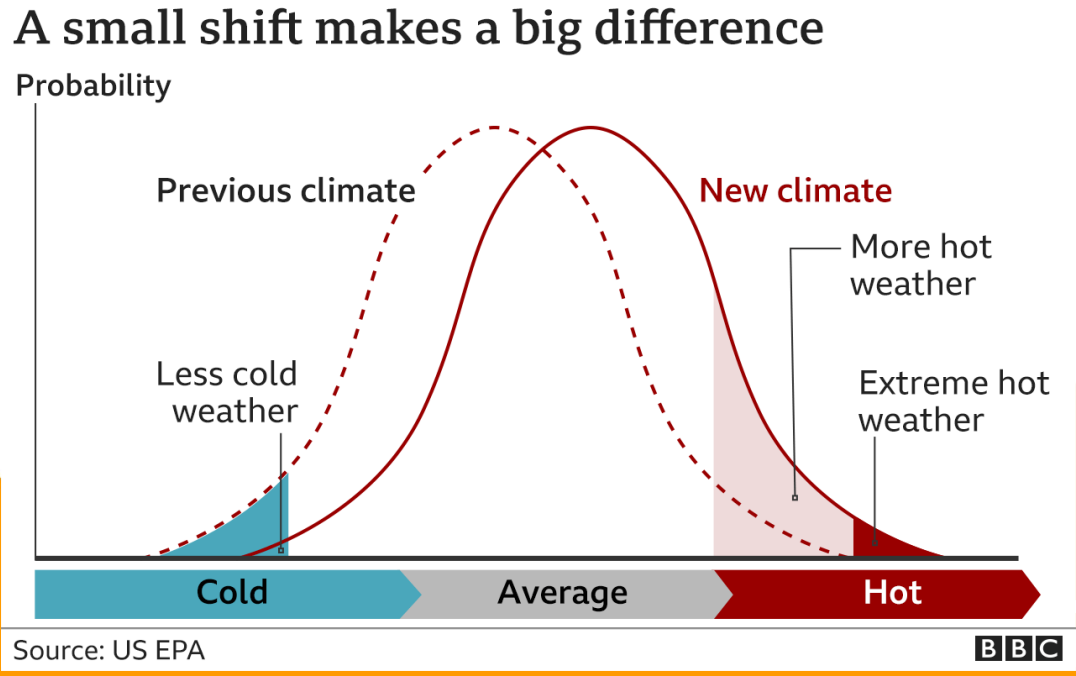
- Do these investments and assets stack up in tomorrow's world?
- Are they insurable in tomorrow's world?
- Does it make sense to finance those businesses?
- Are the businesses aware of, and able to navigate these new challenges?



Macro to micro - real world data





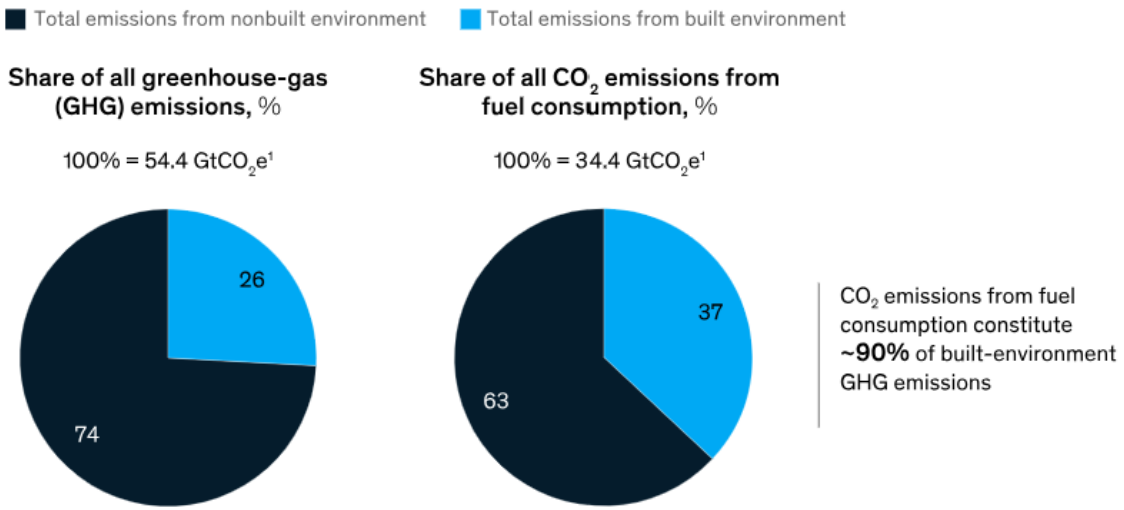


Macro to micro – real world implications

To achieve this – global emissions need to fall by 42% by 2030

	<2°C		3°C	5°C
Physical Impacts	1.5 °C	2 °C		
Sea-level rise	0.3-0.6 m	0.4-0.8 m	0.4-0.9 m	0.5-1.7 m
Chance of ice-free Arctic summer	1 in 30	1 in 6	4 in 6 (63%)	6 in 6 (100%)
Frequency of extreme rainfall	+17%	+36%	+70%	+150%
Increase in wildfire extent	x1.4	x1.6	x2.0	x2.6
People facing extreme heatwaves	x22	x27	x80	x300
Land area hospitable to malaria	+12%	+18%	+29%	+46%
Economic Impacts				
Global GDP impact (2018: $80tn)	-10%	-13%	-23%	-45%
Stranded assets	Transition: fossil fuel assets (supply, power, transport, industry)		Mixed: some fossil fuel assets and some physical stranding	Physical: uninhabitable zones, agriculture, water-intense industry, lost tourism
Food supply	Changing diets, yield loss in tropics		24% yield loss	60% yield loss, 60% demand increase

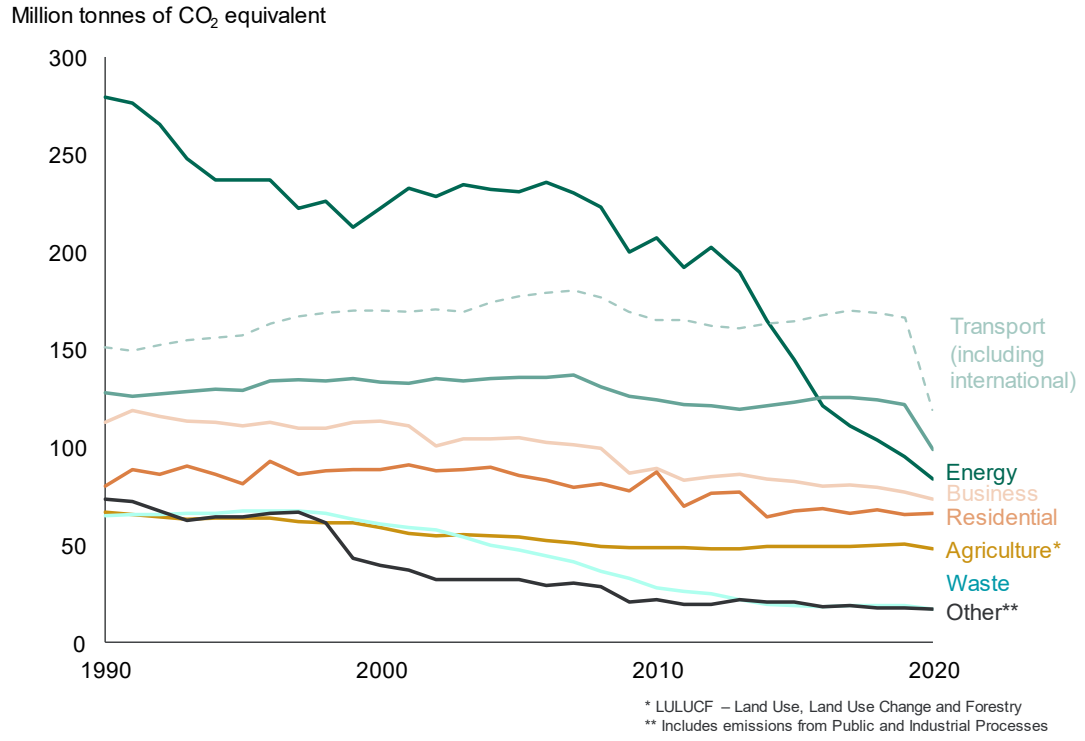
The built environment contributes a significant share of the world's emissions, particularly those related to fuel consumption.



Note: Our analysis was based on McKinsey research undertaken around decarbonization in construction and checked against the sources listed below.
[1]Metric gigatons of CO_2 equivalent.
Source: "Emissions Database for Global Atmospheric Research (EDGAR) v5.0 (1970-2015)," European Commission, November 2019; "Fuel share of CO2 emissions from fuel combustion, 2018," IEA, October 26, 2022; *Key world statistics 2020*, IEA, August 2020; OECD; Steel Construction Encyclopedia

McKinsey & Company

The UK government has been working behind the scenes to cut emissions…. Business and Resi are next…

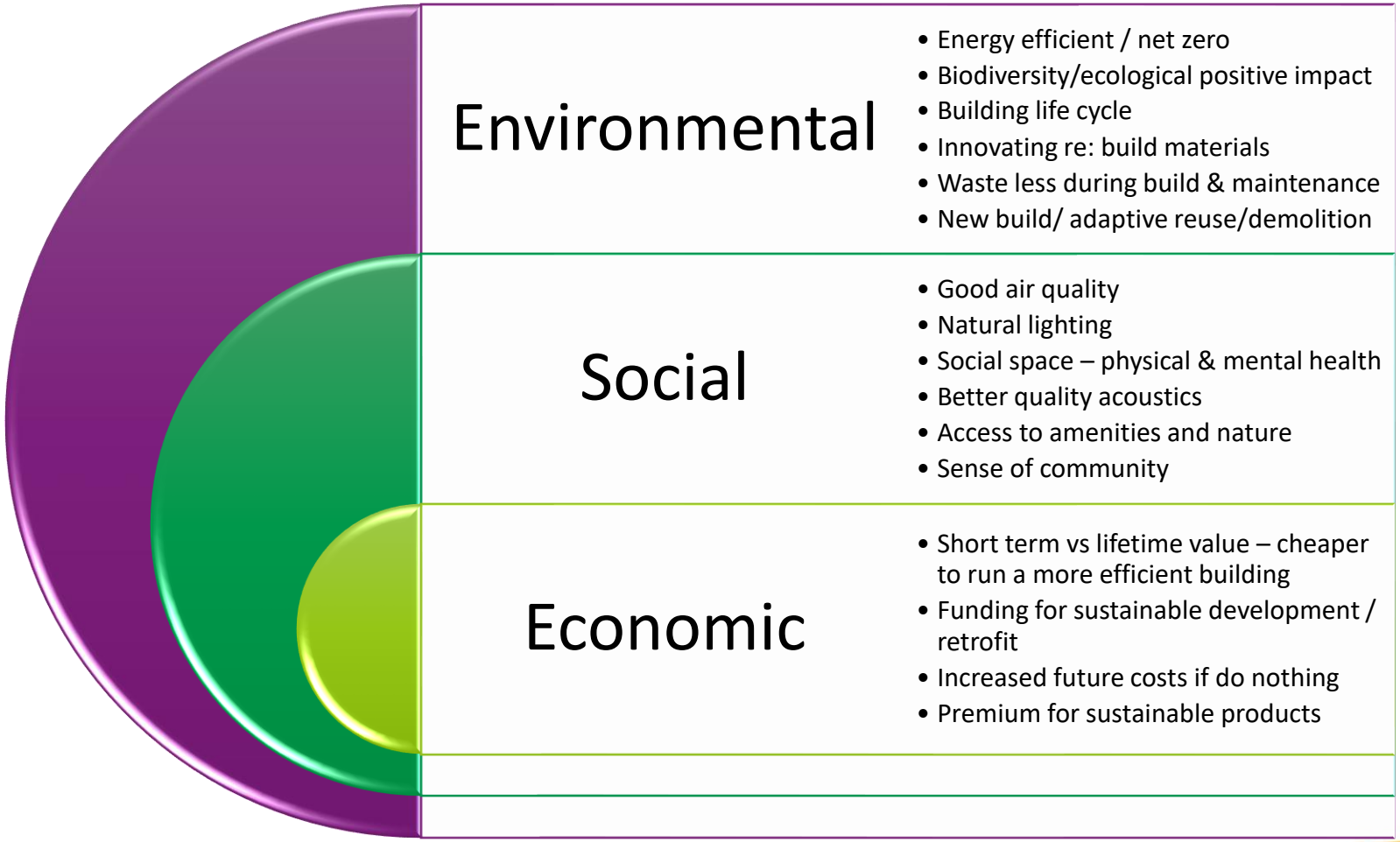


* LULUCF – Land Use, Land Use Change and Forestry
** Includes emissions from Public and Industrial Processes

All large and listed companies in the UK must now track and report their carbon.

The government announced this is to apply to all SMEs by 2025 – transitioning us to a net zero economy by 2050.

What is a sustainable building?



Environmental

- Energy efficient / net zero
- Biodiversity/ecological positive impact
- Building life cycle
- Innovating re: build materials
- Waste less during build & maintenance
- New build/ adaptive reuse/demolition

Social

- Good air quality
- Natural lighting
- Social space – physical & mental health
- Better quality acoustics
- Access to amenities and nature
- Sense of community

Economic

- Short term vs lifetime value – cheaper to run a more efficient building
- Funding for sustainable development / retrofit
- Increased future costs if do nothing
- Premium for sustainable products

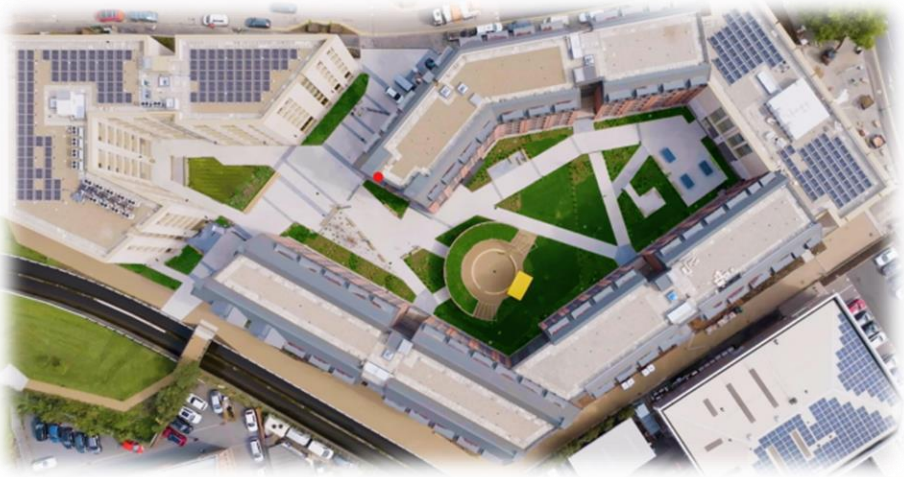
PBSA construction is further behind in net zero builds than others

Sustainable buildings boast better retention & productivity and get better PR

Maintenance costs over the life of a building is 3x its build cost – locked in from build

Retrofit is exponentially more costly than to incorporate into design phase

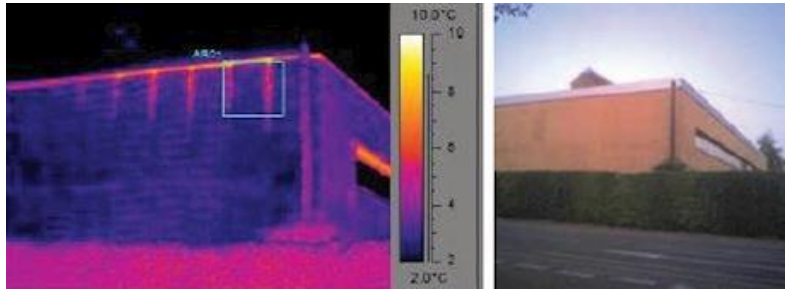
Morriss House - Nottingham Trent University
Completed September 2023

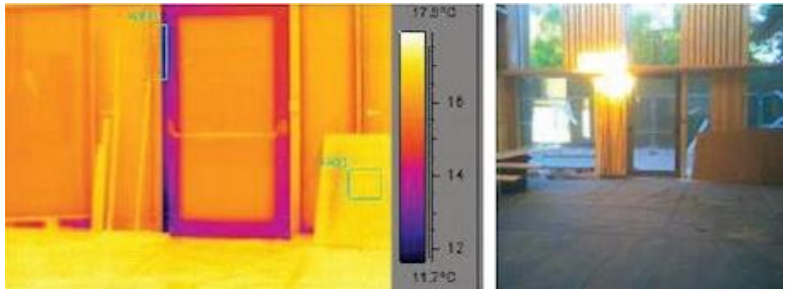


- £57m build on brownfield site
- 705 beds, set over 15,500 sqm
- Key part of Unite Student's net zero by 2030 plan
- Low carbon emissions and low grid reliance
  - 100% renewable energy
  - PV panels & air source heat pumps
  - Build fabric and air permeability managed to reduce in-operation energy waste and reduce running costs
- Outdoor green amphitheatre for student interaction
- Biodiverse outdoor public space for wellbeing
- Large study and social space

University East Anglia – Enterprise Centre
One of the world's most sustainable buildings

- Brownfield development - 70% bio-based materials
  - Local materials
  - Pine and concrete mix and locally recycled sand
  - Thatch and reed cladding mix
  - 100% recycled paper insulation
- 93% BREEAM rating (outstanding),Passivhaus & DEC A
- 75% less embodied carbon than conventional builds
- Biodiversity features – insect hotels / bird and bat boxes
- E shaped building – increasing natural light inside





Horizon scanning for sustainable building risks and opportunities

Immediate Term

Consumer preference – health and energy efficiencies – healthy spaces for social experiences.

Growing regulation – e.g. EPC, Biodiversity net gain, Nutrient neutral.

While regulation is increasing, there's currently no carbon / embodied carbon regulations restricting demolition or large-scale changes.

Larger/institutional investors already making choices to invest or divest less future-proof buildings.

Near Term

Preferential lending for efficient buildings and businesses.

Resource efficiency will become more prevalent (e.g. water and energy use and more efficient building maintenance).

Construction and building practices will start to progress from 'linear' to 'circular'.

Cross border carbon pricing for cement and building materials in the EU will affect cost of building material.

Value chain reporting.

Longer term

Buildings will need to withstand / be resilient to more extreme weather than our current expectation – build standards will change.

Insurance and lending principles will change based on perceived risk of the existing builds.

Net zero economy will change 'norms' with carbon pricing and restrictions.

More regulation in place restricting what can be done with buildings (e.g. demolish)

Valuation principles will change – "brown discount" and "stranded assets".

Start with where you are….

1. **Review existing portfolio and potential new acquisitions/ developments**
   - Understand and plan for potential lost value/ stranded assets in the portfolio
   - Invest in good advice on retrofits
     - Heating/ ventilation/ air conditioning/ lighting/ water use
     - Electrification of heating systems and better insulation
2. **Start to think differently about new developments**
   - Consider building life cycle – reduce lifetime cost vs initial build cost
   - Net zero/ reduced carbon builds lead to innovative solutions
3. **Aim for highest efficiency standards to future-proof the build**
4. **Consider sources of electricity – clean sources/ on-site generation**
5. **Speak to lenders for alternative funding options**

VAT at early stage

Why do we need to think about VAT at the early stage?

- Minimise VAT leakage
- Dwellings vs Relevant Residential

The key is in the planning permission

Zero rated construction [1/8]

The construction of a new build:

- Dwelling
- Relevant residential building
- Relevant charitable building

Is zero rated

Zero rated construction [2/8]

- Examples of New Residential Dwelling: self-contained house or flat; live part of live/work units
- Must be completely new. Either on bare land, underneath, side or on top of existing block/building but cannot utilise any of existing building (abutting is fine)

Zero rated construction [3/8]

Newly constructed student accommodation may take more than one form.

- The type of accommodation which might be characterised as communal living with shared facilities in a large building); or
- Where the accommodation may have been ‘designed as a dwelling’ such as a flat, ‘cluster flat’ or studio flat.

Zero rated construction [4/8]

What is cluster flat?

- The term ‘cluster flat’ refers to a type of arrangement where a collection of study bedrooms are arranged around a communal kitchen or dining area. Toilet and washing facilities may be communal or en suite.

What is studio flat?

- A studio flat is one which also has a study bedroom but possesses its own kitchen or dining space together with toilet and washing facilities.

Zero rated construction [5/8]

HMRC now accept that buildings containing these flats may satisfy the conditions for zero-rating as being both:

- intended for use solely for a relevant residential purpose [Note (4) of Group 5 to Schedule 8]; and also
- designed as a dwelling or number of dwellings [Note (2) of Group 5 to Schedule 8].

Where this occurs, a developer may rely on either provision to secure zero-rated relief.

Zero rated construction [6/8]

What is a dwelling?

- Self-contained accommodation (toilet, bath, kitchenette) (HMRC v Agudas Israel Housing association)
- No internal access between the flats (communal hallway acceptable)
- Built in accordance with granted statutory planning permission
  - (Make sure work they are doing is on the planning permission!)
- No restriction on separate use and disposal

Zero rated construction [7/8]

What are goods ordinarily incorporated? The following items are examples of what are considered materials ordinarily incorporated into a building:

- Burglar
- Alarms
- Fire Alarms
- Light fittings (including outside lights and chandeliers)
- Power points
- Smoke detectors
- TV Aerials
- Wiring (including power circuits and computers, telephones, TV cabling). However, this is only where the wiring is embedded into the walls and structure of the house

NB This list is not exhaustive and is only an example

Zero rated construction [8/8]

When is construction ‘complete’?

‘Completion’ takes place at a given moment in time. That point in time is determined by weighing up the relevant factors of the project, such as:

- When a Certificate of Completion is issued
- The accordance to approved plans and specifications
- The scope of the planning consent and variations to it
- Whether the building is habitable or fit for purpose

Once construction is ‘complete’, any further supplies of construction services (other than snagging) are no longer ‘in the course of construction’ and are thus ineligible for the zero rate

VAT certificates

- Only for relevant residential or relevant charitable
- If someone asks for a certificate for a dwelling… there isn't one!

Reduced rate of VAT: residential property

Two main areas:

- Refurbishment of existing residential property that has been empty for more than two years before the work starts
- Changing number of dwellings

Reduced rate of VAT: two years empty

- At least two years prior to the work starting on site
- Occupation by guardians (to deter squatters can be ignored)
- **Need reliable third-party evidence**
- Best evidence: council tax bills with empty house discount, two-year premium or letter from empty housing office
- In the absence of best evidence:
  - Electoral roll, utility bills and any other evidence (sales agent's selling brochure etc)
  - Obtain as much info as possible

Thank you and questions

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