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| **Peppermill Court – Prior Information Notice** |

1. **Executive Summary**

This paper illustrates our approach to funding the Peppermill Court student accommodation scheme (as described within section 4 below).

The preferred approach to funding Peppermill Court is a Contractual Joint Venture (**JV**), which we consider provides the best balance between cost and benefit whilst remaining affordable and banking covenant compliant. However, the suitability of the JV approach would depend upon identifying a suitable and capable partner to collaborate with us in delivering the project on terms to be determined through a competitive tender process. The University is open to exploring, through the competitive tender process, other structures which achieve its objectives as set out in paragraph 5 below.

1. **Strategic context**

The provision of good quality, affordable student accommodation is a critical component of the student experience. Guaranteeing first year student accommodation helps the University to meet its student recruitment targets and is vital to YSJ being an attractive destination.

The land and buildings at Peppermill Court were acquired in April 2020. In November 2022, the University’s Board of Governors gave final approval for a scheme to develop a 210 room student residence on the site.

Design for the scheme has been completed, planning permission granted and a preferred contractor identified. Under our current plans, a final cost should be agreed and the main building contract signed in late Summer 2023, with construction scheduled to begin in October 2023. The programme anticipates an 18-month build phase concluding in April 2025, for occupation to commence in September 2025. The University intends to enter into the building contract direct (as sole employer) which the proposed JV agreement will need to reflect.

1. **Risk and environmental impact assessment**

Risk: This scheme impacts, and is impacted by, a number of the University’s strategic and operational risks. Most prominent risks are: financial sustainability; the capital programme; student recruitment; and accommodation.

Environmental: Regardless of the funding route chosen, the resulting buildings would need to comply with the University’s environmental standards and achieve a BREEAM Excellent rating, which is a planning condition.

1. **Background to the Peppermill Court Project**

YSJ acquired the Peppermill Court site from NHS Property Services in April 2020. As the COVID-19 pandemic struck, the site was immediately leased back to the NHS for two years. Plans were initially developed for a student residential development on the site in 2021, ultimately leading to the previous building being demolished in Summer 2022 and the approval of a final 210-bed scheme by the Board of Governors in November 2022.

The University has finalised a design for the scheme and in February 2023 secured full planning permission from the City of York Council. In parallel, an open procurement exercise has identified our preferred contractor, with an initial pricing proposal due by the end of June 2023 and an expectation that a final building contract will be signed by August. Construction of the scheme is scheduled to begin in October 2023 with an 18-month build phase concluded in April 2025, for occupation in September 2025.

The Project is considered critical to the University. Affordable and available student accommodation provision in York is becoming a serious risk. Increased student recruitment, domestically and from overseas at both universities in the city, has boosted accommodation demand and costs are spiralling within private sector provision, with new and existing providers orientating their offer towards affluent international students. In parallel, supply is being squeezed, with a draft Local Plan that will provide only limited scope for significant accommodation development in the city and many private sector landlords moving their properties from student uses to short term holiday lets in search of even higher returns. Demand in the market for this provision is therefore strong.

Following completion of the project, the University proposes to retain management responsibility for the provision of services to student residents, and ongoing maintenance of the asset. The University is open to exploring options or suggestions in this regard.

1. **Objectives**

The University is now seeking a funding path that:

1. Delivers the 210 rooms scheme at Peppermill Court, to open in 2025;
2. Relieves the pressure on the University’s cash resources;
3. Ensures that the University to remain within its banking covenants (and their related restrictions);
4. Puts a portion of the costs off-balance sheet;
5. Allows the University to retain effective control over future ongoing arrangements in respect of Peppermill Court including rents, management costs and the provision to students.
6. Enable the University to appoint the building contractor, in line with its intended timetable.
7. **Financial implications**

Taking into consideration the aspirations of the University to maintain an element of control over the site, which is contiguous with our existing student accommodation, it is our intention that we proceed with a Contractual Joint Venture. This would facilitate the completion of the project to be ready for occupation in September 2025, and whilst reduced, would still provide a sound return on the University’s investment on the site.

## The precise financial implications of a Contractual JV for the Project would depend on the agreed ownership split and the return on investment expected by bidders. The size and scale of the scheme, the anticipated build cost and expected rental levels would be provided to all bidders to make a realistic offer possible. For example, if a JV is created on an equal 50-50 cost split, it would be expected that the University’s share of the total development cost would be reduced from £25.5m to around £12.75m, on the basis that the land value has appreciated since 2020 and given the permission and works already undertaken. In this scenario a partner would contribute approximately £12.75m. Initial soft market testing has suggested that the ownership split is a factor on which bidders would most like to negotiate, so these indicative figures may change. Gross revenues are anticipated to be circa £1.524m from September 2025.

The University would like to understand on what terms the funding would be made available including as to fixed/variable returns, the required security and what commitments or guarantees the University would be expected to sign up to. The University would also like to understand the post completion proposals for ongoing asset management.

1. **Next Steps**

The purpose of issuing a Prior Information Notice (PIN) first is to identify the appetite for such a partnership in the marketplace and to raise awareness of our intentions. It will allow interested parties to approach the university in readiness for the publication of a formal Invitation to Tender (ITT).

It is our expectation that the University will invite bidders to participate in a competitive dialogue, with strictly limited scope for negotiation, from early July 2023. Most of the tender specification will not be open to discussion, as the requirement, the design and contractor for the work are all well established. The only elements of the tender that are likely to remain open to negotiation will be those which pertain to the amount of investment that the bidder wishes to contribute and the value of the return they expect to receive over a time period and upon terms to be discussed. The University will look to negotiate exit dates at 5 year intervals after the build phase completes in summer of 2025.

Whilst in-person visits to the site are not mandatory prior to participation, they are highly recommended. Interested parties should contact the University using the email address procurement@yorksj.ac.uk only, with names and roles of attendees and an indication of suitable dates for you to meet with us. This will facilitate the confirmation of availability from key YSJ personal required to attend, when the timing of the visit(s) can be finalised.

At this early stage, we would invite interested parties to share with us their views on this proposed approach, any challenges they envisage from the project and any alternative proposals as to how the University’s objectives can be met. In particular, we would invite their views on participating in a project whereby the design is already determined and a preferred contractor is in place. Any other matters of concern should also be raised at this point in the process as this will allow us to mitigate them where we are able, prior to the next stage of the process.