

**ACUHO-I SAC Accreditation Workshop  
23 March 2023**

**PBSA Cost Benchmarking Analysis: Background**



*Creating Markets, Creating Opportunities*

# CORE VALUES OF STUDENT HOUSING

## CONSIDERATIONS

- Physical Infrastructure and Architectural Specifications
- Health, Safety And Safety
- Furnishings, Fittings and Equipment
- Student Well-Being and Support
- Staffing Levels
- Lease Agreements with Private Service Providers
- Financial Control and Management of Student Housing
- Compliance With Minimum Norms and Standards

Core value	Focus
Value for money	<ul style="list-style-type: none"> <li>• Optimal use of resources to achieve intended outcomes</li> <li>• Effective, efficient, and economic use of resources</li> </ul>
Health & wellbeing	<ul style="list-style-type: none"> <li>• Safety</li> <li>• Comfort</li> </ul>
Protection of the environment	<ul style="list-style-type: none"> <li>• Energy savings</li> <li>• Recycling</li> <li>• Water recycling</li> </ul>
Student life	<ul style="list-style-type: none"> <li>• Part of academic life</li> <li>• Housing and an extension of academic space</li> </ul>
Manageability	<ul style="list-style-type: none"> <li>• Management of facilities in use</li> <li>• Protection against unwanted intrusion</li> </ul>
Affordability	<ul style="list-style-type: none"> <li>• Affordable for students to access</li> <li>• Affordable for students to maintain and operate</li> <li>• Fundable</li> </ul>



## **NSFAS PERSPECTIVE:**

1. MAXIMIZE EDUCATION OUTCOMES AND INCREASE RETURN ON NSFAS ACCOMMODATION SPENDING

2. LEVEL THE PLAYING FIELD FOR TVET STUDENTS

3. NSFAS RATES THAT ENCOURAGE:

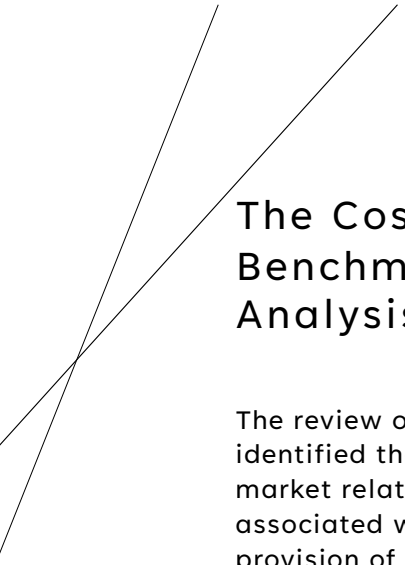
a. NSFAS Students to access existing MNS accredited bed market:

- ❖ Encourage existing upper market to avail beds to NSFAS students at a rate which is not a loss leader- integrated student experiences
- ❖ Encourage mid-market (incl. Universities) to maintain and increase supply of beds, where necessary upgrade existing stock to MNS standards.
- ❖ Mass market, rate should incentivise small and local providers to upgrade existing stock to MNS standards.

b. Developers to provide new MNS accredited beds to under-served markets:

- ❖ Developers in urban areas require a market related rental or an ability for NSFAS students to top-up to commit to new beds
- ❖ Mid-market (incl. Universities): Significant demand to 2030, large opportunity to improve existing stock and also new builds that harness a degree of State support
- ❖ Mass market: NSFAS, TVET and Universities in peri-urban and rural areas support for large scale PBSA will catalyse supply. This is the sector that requires the largest degree of state support

**Does one standard NSFAS rate achieve the primary objectives?**



## The Cost Benchmarking Analysis (CBA)

The review on MNS which identified the need for more market related data on the costs associated with the supply and provision of decent accommodation for students at tertiary institutions.

The IFC and other industry stakeholders identified the need for more fact-based dialogue amongst industry participants. Providing the industry with more detail on the actual costs associated with land, construction, and operations of PBSA is considered both valuable and necessary to allow for high level dialogue between private, university and state institutions.

## CBA Scope

1. A benchmark of market related capital costs require to construct a PBSA bed that is fully compliant with the Draft Minimum Norms and Standards, including location as a variable, as well as the operating costs required for the responsible operation of residences;
2. Interviewing a minimum of 15 developers of various sizes across various provinces (ideally including TVETS)

## Outputs

A final report will summarise the outputs of quantitative financial model (Excel) and findings

# COST BENCHMARKING: ASSESSMENT IS WELL ADVANCED BUT NOT COMPLETE

## CONSTRUCTION

- ❖ Greenfield, Brownfield, Rural, Urban, Private, University owned
- ❖ Area schedules including:
  - ❖ Number of beds, room areas, common areas, kitchen areas, common living areas, warden areas and laundry areas
- ❖ Construction costs including:
  - ❖ Shell & core, internal finishes, site and external services, fitting and furniture, security & access control, renewable energy & sustainability
- ❖ Professional fees
- ❖ Other costs
- ❖ Land cost (if applicable)
- ❖ Finance charges
- ❖ VAT
- ❖ EQUALS- Total development cost, comparable across above dimensions

## OPERATING COSTS

- ❖ Municipal charges
- ❖ Repairs and maintenance
- ❖ Contracted services including:
  - ❖ Security, facilities, cleaning, wifi, air conditioning, transport, lifts, pest control, insurance
  - ❖ Student Services as per MNS including wardens and other student wellness support mechanisms
- ❖ Administration
  - ❖ Accreditation fees, bad debts, property management, audit, marketing etc
- ❖ Finance & other charges (Not explicitly)
- ❖ EQUALS- Total operating cost



## MARKET PARTICIPATION IN CBA

### “Current” data set

- ❖ 9 companies
- ❖ 14 projects (1 Peri-urban)
- ❖ 13,800 beds
- ❖ No TVETs and limited peri-urban / rural universities
- ❖ Regional representation across Western Cape, Gauteng and North west

### “To be” data set (Additional projects)

- ❖ 6 companies
- ❖ 18 projects
- ❖ 12,000 plus beds
- ❖ Regional representation across Western Cape, Gauteng, Eastern Cape, Kwa Zulu Natal, Limpopo, OFS and North west

# OPERATIONAL COSTS\*: APPROACH TO UNDERSTANDING THE BASIS OF PROVIDING PBSA SERVICES

<b>Municipal</b>			
Rates & CID Levies	5%		
Electricity	12%		
Water & Sewerage	11%		<b>30%</b>
Refuse	1%		
<b>Repairs &amp; Maintenance</b>			
Repairs and Maintenance	4%		<b>8%</b>
Asset Replacement costs (furniture, lifts, OHS, heat pumps, etc.)	5%		
<b>Contracted Services</b>			
Security	5%		
Cleaning of common areas	4%		
Cleaning/toiletries Consumables	1%		
Fuel/Diesel	1%		
Building Insurance	2%		<b>27%</b>
WiFi/Internet Access	3%		
Student Life Services	2%		
Elevators	1%		
Pest control	1%		
On-site staff costs	7%		
<b>Administration</b>			
NSFAS Intermediary Fees	0%		
Bad Debts	2%		
Property Management Fees	24%		<b>34%</b>
Lease administration	2%		
General expenses	2%		
Marketing	1%		
			100%

More data required to come up with conclusions but some initial findings below:

- Municipal costs vary to a very large degree between urban and rural rates
- Maintenance is not always at the levels required to maintain asset value
- Student services are not provided by all providers
- Transport services are not always provided
- Security costs also differ widely
- MNS should guide acceptable service levels, particularly in respect of safety, travel, wifi, student services etc

THERE APPEARS TO BE LESS PRESSURE ON PERI URBAN & RURAL DEVELOPMENTS TO PROVIDE SECURITY, STUDENT LIFE SERVICES & DECENT WIFI. ON TOP OF THIS TRANSPORT COSTS & HIGHER MUNICIPAL RATES FURTHER INCREASE COSTS OF PBSA IN HIGH COST

URBAN LOCATIONS  
PRESENTATION TITLE

# TOTAL DEVELOPMENT COST

\*This example cites a specific building and should not be seen as representative of the industry.

This specific case is included to illustrate what costs are typically included in the definition of construction costs.

TOTAL CONSTRUCTION COST	60%
PROFESSIONAL FEES	8%
OTHER DEVELOPMENT COSTS	6%
LAND COST (including bulk services contributions)	8%
FINANCE CHARGES (EXCL. EQUITY CONTRIBUTIONS, ETC)	5%
TOTAL DEVELOPMENT COST EXCL. VAT	87%
15% VAT	13%
TOTAL DEVELOPMENT COST INCL. VAT	100%



# IMPACT OF NSFAS CAP ON PBSA OPERATOR CASHFLOW

	Low Operating Cost	Medium Operating Cost	High Operating Cost
Operating cost* (Ex Vat)	14 000	20 000	26 000
Interest & capital payment	31 105	31 105	31 105
Income required per bed per year	45 105	51 105	57 105
NSFAS rate	45 000	45 000	45 000
Over / under (Ex Vat)	(105)	(6 105)	(12 105)
<b>Funding assumptions</b>			
Tenor	15		
Total Development Cost per bed	240 000		
Interest rate per annum	9,75%		
Repayment per year per bed	31 105		



## FURTHER CONSIDERATIONS

- ❖ VAT remains a large challenge for an industry which is providing a social good
- ❖ A differentiated rental rate that takes into account the cost of MNS compliant accommodation in urban areas will allow for market growth and uptake of private beds by NSFAS students
- ❖ The need to align MNS with market realities, decent accommodation needs to be allowed to be cheaper
- ❖ NSFAS Portal rates of 5% have not been factored into costs
- ❖ Accreditation fees also not included in costs
- ❖ What are the NSFAS plans for accommodation subsidy increases in future years?

Thank You



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