

13 March 2020

By Email: cil@lambeth.gov.uk

London Borough of Lambeth
CIL Team
PO Box 734
Winchester
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Dear Sir

Draft Charging Schedule – Community Infrastructure Levy Representations on behalf of Travelodge Hotels Ltd

On behalf of our client, Travelodge Hotels Ltd, we write to provide representations on the Draft Charging Schedule 2020 in respect of the rate for hotels within Lambeth.

At present the CIL charge in Lambeth for hotel development is £100 p/sqm (or approximately £139 p/sqm index linked) for Zone A and a zero rate for Zones B and Zone C. These rates came into force in 2014.

Travelodge submitted representations to the proposed hotel rates originally proposed in 2013 and appeared at the Examination in 2014. These rates were originally £250 p/sqm for Zone A and £125 p/sqm for Zones B and C. The Examiner in his report dated May 2014 concluded in respect of hotel rates that *“The proposed rates for student accommodation and hotel developments rely on assessments which have been shown not to be sound, but with modifications which will not put developments at risk, can be recommended for approval”*. (Non Technical Summary)

The required modification was to *“Reduce the CIL Rate for hotel development in Zone A from £250 to £100 per square metre, and for Zones B and C to Nil”*. (Non Technical Summary)

The CIL rate now proposed for hotel development is £200 p/sqm borough wide.

This rate is therefore in excess of the current rate for Zone A and obviously significantly in excess of the zero rate for Zones B and C.

The revised proposed rates are based on updated viability work undertaken by BNP Paribas Real Estate, with the latest Viability Review report dated December 2019. For hotel development this represents new viability work as opposed to updating the work first undertaken in 2013 that undertook a single hotel appraisal of Travelodge Vauxhall that we raised issues with at the time.

As a point of clarification, the Viability Review refers in tables 1.7.1 and 7.5.1 to the existing hotel rate being £100 borough wide. This is not correct as is more accurately reported in table 4.23.1.

The viability work appraises 29 development typologies on sites across the Borough, two of which are budget hotel schemes (sites 27 and 29). Site 27 is a 150 bed budget hotel with a floorspace of 4,200 sqm across 6 floors. Site 28 is a 150 bed budget hotel with a floorspace of 5,250 sqm across 10 floors.

Site 29 is then a 4* luxury hotel with a floorspace of 12,500 sqm across 20 floors. Site 27 is closely aligned with a Travelodge hotel as we would expect the floorspace per room to be approximately 28 sqm as quoted. Whilst some key details for each site are provided, it's not possible to review all details of the site appraisals including their geographical location, meaning they cannot be fully interrogated.

In this letter we don't seek to comment on the overall appraisal methodology adopted or the hotel appraisals, including because not all details are provided. Instead we focus on a few of the key inputs for hotel development, as if these are materially incorrect any appraisal prepared using them is of reduced accuracy.

We focus on the key hotel inputs of rent, investment yield and build cost. The Viability Review (Dec 2019) sets these assumptions out in paragraphs 4.12 and 4.13.

The draft charging scheme divides the Borough into four Zones, so this in itself is slightly at odds with the appraisal methodology of dividing the Borough into three areas (that aren't defined on a map). We refer to Zones below and work on the basis that Zone A and B is North, Zone C is Mid- borough and Zone D is South.

Rent

The assumed rent per sqm is North: £450, Mid-borough: £400, South: £350.

For Site 27 this would equate to a rent of between £1.47m and £1.89m, depending on location. On a per room basis this would equate to between £9,800 and £12,600.

For Site 28 this would equate to a rent of between £1.83m and £2.36m, depending on location. On a per room basis this would equate to between £12,200 and £15,750.

Whilst such rents may be achievable in Zone A, and to some extent Zone B, they certainly wouldn't be realistic in Zones C and D.

Travelodge advise that rents between £9,000 and £12,000 are realistic for Zones A and B. This equates to a rent of between £321 p/sqm and £428 p/sqm for Site 27 and between £257 p/sqm and £343 p/sqm for Site 28. These levels of rent therefore lag behind the quoted assumed rent of between £400 and £450 for mid Borough and North.

Travelodge advise that for Zones C and D rents would be more like £8000 to £9000. This equates to a rent of between £286 p/sqm and £321 p/sqm for Site 27 and between £229 p/sqm and £257 p/sqm for Site 28. In these zones a similar pattern emerges in that the rents are less than the assumed level of between £350 and £450 for South and mid Borough.

In light of the above, the assumed rent per sqm for each of the three areas is considered to be too high. Having regard to Site 27, the closest comparable to a Travelodge the rent is up to 25% too high.

Yield

An investment yield of 5% is assumed for every location.

This not realistic as yields will be lower in Zones A and B than Zones B and C for example.

In Zone A Travelodge advise that a yield of 5% would be achievable 5%, but it would then tend to rise to 5.5% in Zone B and then within Zones C and D would start to approach 6%.

It is therefore considered that on a conservative basis that a yield of 5% is appropriate for Zone A, but that the yields should be higher for Zones B, C and D.

More conservative yields should be adopted, as opposed to a blanket very best case. A small change in yield can have a dramatic change in the capital value of a scheme.

Construction Costs

The construction cost quoted is £1982 p/sqm is considered to be far too low. For Site 27 on a per bedroom basis this works out to be about £55,500

Information held by Travelodge and current tender information within London suggests that hotel construction costs in Greater London should be upwards of £90,000, which breaks back to £3,214 p/sqm. Construction costs are therefore far too low.

Paragraph 4.13 of the Viability Review sets out the build cost assumptions and states:

"We have sourced build costs from the RICS Building Cost Information Service (BCIS), which is based on tenders for actual schemes. Base costs (adjusted for local circumstances by reference to BICS multiplier) are as follows ..."

However, we are advised that the costs in BCIS are being skewed with non-London sites and not reflecting the complexity's associated with working in London. Further, none of the schemes detailed in the BCIS analyses are Travelodge projects so are not representative of the construction cost. Taking such average and low figures is not a robust construction cost input for the appraisal work.

In summary, the rent, yield and construction cost inputs used casts some doubt on the robustness of the hotel appraisals, and particularly in Zones C and D where rents will be lower and yields higher, combined with similar construction costs.


Given this, Travelodge are of the view that the hotel CIL rate should be reduced to a lower rate in Zone A and B and significantly reduced for Zones C and D, to assist in the future viability of hotel development in the Borough. Furthermore, a single hotel CIL rate across the whole Borough doesn't appear to be a sensible or justified approach.

Travelodge request to appear at the Examination.

Should you have any queries please do not hesitate to contact me.

Yours faithfully



 **MRICS**
Director
Smith Jenkins Ltd