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Dear Ms Butcher

LAMBETH CIL – TOPIC PAPER 2 - HOTEL RATES

As invited by your email sent on 3 February 2014 on behalf of the Examiner, we provide comment upon the hotel rates topic paper. This paper has been prepared in response to the representations submitted by Turley Associates on behalf of Travelodge Hotel Ltd to the modifications to the Draft Charging Schedule.

This letter has been prepared on behalf of our client Travelodge, with input provided by them.

The comments set out below respond to each of the seven points responded to within the topic paper. We confine our comments to these specific points rather that reiterating all earlier points raised within our earlier letters responding to the Draft Charging Schedule in August 2013 and modifications to the Draft Charging Schedule in December 2013.

Point 1

The retail and yield information quoted by the Council is not disputed now that further information has come to light which Travelodge has also verified. However, Travelodge Vauxhall is very much a prime CAZ location being located next to mainline and underground stations combined with being a prime development accommodating a Waitrose supermarket. This is reflected in the rent, long lease term (more commonly 25 years is taken by Travelodge) and low yield. It is therefore very much at the upper end of any CAZ comparable that could have been selected.

Furthermore, whilst the rent per bedroom quoted is correct the floorspace assumed for the hotel at 250 sqft GIA per bedroom is incorrect.

From reviewing the Lambeth CIL viability work (and other CIL viability work) by BNP Paribas we understand that the 250 sqft figure has been adopted incorrectly by taking a figure from Travelodge's development website. However, this is not the correct figure to adopt as the quoted 250 sqft per bedroom inclusive of circulation space, does not in fact include all floorspace such as public areas (reception, bar/café etc) and back of house areas (kitchens and staff offices); it is a figure for the bedroom and length of corridor only. It is accepted that the figure that appears on line is misleading but it was never intended to be adopted by others in undertaking hotel valuations.

The total GIA of Travelodge Vauxhall is 4,889 sqm, which divided by the number of bedrooms of 148, gives a total GIA per bedroom of 355.5 sqft (or 33 sqm).

This is consistent with the evidence submitted by Travelodge to the Islington Examination, when the misleading information on Travelodge's development website first came to light, with Travelodge advising that a figure of 300 sqft (27.87 sqm) is a more appropriate average figure to adopt, but that within London this can often be higher rising to circa 330 sqft (30.66 sqm). Travelodge Vauxhall is slightly in excess of this as the building shape resulted in a higher than average (for London) common areas to bedroom ratio.

In turn this affects the rent per square foot, reducing it from the £25.05 used in the BNP Paribas appraisal to £17.60. The overall result being that the capital value of the development is significantly reduced.

The build costs will also be affected by the change in floorspace with the total floorspace of Vauxhall Travelodge being 52,625 sqft whereas 37,000 sqft has been adopted in the appraisal.

In short the incorrect floorspace for the development that has been adopted by BNP Paribas means the viability appraisal cannot be relied upon. The floorspace figure we quote has been provided by the quantity surveyor that acted for the developer who in turn also acts for Travelodge.

Point 2

It is not possible to comment further in the absence of a reliable hotel development appraisal with correct inputs.

Point 3

As noted above a yield of 6% is at the very top of the range expected and also partly reflects a 35 year lease term which is uncommon. It doesn't therefore reflect a cautious approach which we believe should be adopted.

Point 4

Travelodge <u>do not</u> have a preference for modular build. Very few of their hotels are modular build and there is no basis for BNP Paribas or the Council to assume from the statement *"….entire modular build schemes are very uncommon especially in Central London"* that this means outside the CAZ that modular build would therefore be an option in many parts of the borough. Turleys are not silent on the use of modular build outside central London. Central London was referred to meaning Central London Boroughs which includes the whole of Lambeth and in any event we were not silent on the issue outside central London (however defined) as we clearly stated *"entire modular build schemes are very uncommon"* and then emphasised "*especially in Central London".*

Point 5

Our comment that the location of the 'lower value area' is unknown and therefore Travelodge is unable to comment on this appraisal and the assumptions made remains valid. No further information has been forthcoming in this respect. Furthermore the issues raised above in respect of floorspace and the knock on consequences for build costs and rent per sqft will also apply to this appraisal.

Point 6

We remain of the view that one CAZ location hotel appraisal and one non CAZ hotel appraisal is an insufficient number to form the basis of setting CIL rates. At least two appraisals in each 'category' should be undertaken.

Point 7

It is unreasonable to suggest that *“Turleys appear to criticise the Council’s approach and we therefore assume that their preference is for a single hotel rate across the Borough at £250 per square metre”.*

For the avoidance of doubt we do not object to differential rates between Zone A and Zones B/C.

Furthermore we do not necessarily agree with the logic that the *“alternative would be to adopt a single rate of £250 per square metre across the Borough (based on the limited evidence available), which the Council considers would be undesirable.”* The alternative could be a single rate of £125 per sqm across the Borough.

Our client remains concerned that the rates proposed within Zones A and B/C will adversely impact upon the viability of hotel development, preventing such development from coming forward.

Given the issues raised with the viability appraisal we do not believe its possible for BNP Paribas and the Council to quote with any certainty what proportion of overall development costs CIL is likely to comprise, or to make any accurate assessment of whether the proposed CIL rates are in fact discounted substantially below the maximum CIL rates that development could bear.

We do not attach any weight to the list of CIL rates of other Boroughs, as not all of these rates are adopted and it would be equally possible to produce a list of Boroughs where lower CIL rates are proposed, as follows: Bexley (£40 and £60), Camden (£40 and £30), Hackney (£85 and £55), Haringey (zero), Hillingdon (£40), Kingston Upon Thames (£20), Lewisham (£80), City of London (£75), Merton (zero), Richmond Upon Thames (£25), Wandsworth (zero).

Overall

As set out previously Travelodge remain concerned with the approach adopted to the hotel viability work, with the evidence used in the appraisals considered to be unsafe and unsound.

In light of the above we do not believe that appropriate evidence has been used to inform the proposed hotel CIL rates within the Draft Charging Schedule in accordance with section 212(4)(b) of The Act.

We believe the viability appraisals need to be re-run using all correct inputs and supplemented if possible by further appraisals based on market evidence.

As its stands we believe that the proposed charging rates for hotel development will adversely impact hotel development within Lambeth, or at the very least it is not possible to confirm that CIL will not adversely impact upon hotel viability and delivery.

We trust this letter will be taken into account by the Examiner.

Yours sincerely

Associate Director