LB LAMBETH COMMUNITY INFRASTRUCTURE LEVY
COUNCIL'S RESPONSE TO TURLEY ASSOCIATES' LETTER OF 18 FEBRUARY 2014

This paper provides additional information to address new information provided by Turley Associates in their letter dated 18 February 2014. This information was not made available to the Council prior to this date and as a consequence, BNP Paribas Real Estate have updated their appraisal with this information and other information that has also become available. This paper addresses the following issues:

- Hotel floor areas
- Investment yields
- Modular build

Investment Yields

After having initially asserted in their representation that Travelodge "do not recognise" the terms of the deal structured for their Vauxhall Hotel, Turleys now acknowledge that the terms are correctly stated in the Council's Topic Paper. However, they continue to assert (without evidence) that the investment yield is too low. They assert that a yield of 6% is too low. They suggest that a 6% yield is only relevant where for 35 year leases, which are "uncommon". We note that the Vauxhall Travelodge has a 35 year lease, as does the Travelodge Hotel at Cambridge Road in Hackney[1].

Further research undertaken by BNP Paribas Real Estate on investment yields indicates that a 6% yield is in fact too high. Savills have recently reported that budget hotel investment yields "*have hardened to sub-5% for the first time since pre-downturn levels recorded in 2008. The international real estate advisor highlights the recent sale of two Premier Inn hotels in Holborn, London and the City of London as well as the Ibis in Brighton that have all achieved sub 5% net initial yields*".

The Council and BNP Paribas Real Estate consider that Savills' position regarding yields should be given more weight than Turleys' assertions, given that Savills are involved in valuing and transacting numerous hotel investment deals.

There are also several deals completed very recently which lend considerable weight to a sub-5% yield, including the following:

- **85 York Road, Waterloo, SE1 7NJ** – deal completed on 15 November 2013 for £48 million representing a yield of 4.35%. This 234 room hotel is operated by Premier Inn. The investment value of the hotel attracted a price of £48

[1] Information on this lease was supplied by Travelodge to London Borough of Hackney during their CIL preliminary draft charging schedule consultation.

million for 234 rooms – a capital value of £205,000 per room (in comparison to the £115,000 per room capital value used by BNP Paribas Real Estate in their appraisal).

- **St Mary's Court, EC3R 8EE** – deal completed on 1 September 2013 for £40 million, representing a yield of 4.6%. This 184 room hotel is operated by Premier Inn. The capital value equates to £217,000 per room.

- **Willing House, 356-364 Gray's Inn Road** – deal completed on 24 July 203 for £54.1 million, representing a yield of 5.2%. Operated by Travelodge.

- **Premier Inn, Brentford** (outer London) - deal completed in 2013, agreed price unknown, yield of 5.08%.

- **Premier Inn, London City** – deal completed in 2013, agreed price unknown, yield of 4.75%.

Clearly the most relevant transaction to Lambeth is the 85 York Road deal, which is located in the Waterloo area (Zone A for the purposes of CIL on hotels). We consider the impact of this recent shift in yields on the appraisal after addressing the other matters in the Turleys letter.

Floor area

BNP Paribas Real Estate's appraisal in the November 2013 Addendum report relies upon a gross internal floor area of 23.23 sqm (250 sq ft) per room, based on advice from Travelodge on the 'Development' section of its website (www.travelodgedevelopment.co.uk). Turleys indicate that this information is now incorrect, although the website remains unchanged when the Council checked the site on 21 February 2014.

BNP Paribas Real Estate have checked the planning documentation and the gross internal floor areas for the scheme are as follows:

- Gross floor area of new hotel: 4,463 sqm
- Gross floor area of the existing secondary office which previously occupied the site: 2,640 sqm

These gross floor areas have been adopted in BNP Paribas Real Estate's appraisal model. The net additional floor space is 1,823 sqm (i.e. 4,463 sqm new hotel less 2,640 sqm existing floorspace), resulting in the following CIL liability, based on the rates proposed in the Council's Draft Charging Schedule:

- Mayoral CIL (£35 per sqm): £63,805

- Lambeth CIL (at DCS rate of £250 in Zone A): £455,750

With the yield updated to reflect the latest evidence outlined above, the maximum CIL rate is now £1,189 per sqm. When measured against ‘current use value 2’ based on a rent for the existing secondary office space of £13 per sq ft, the maximum CIL rate would be £489 per sqm. The proposed CIL of £250 per sqm equates to 51% of the maximum rate – a buffer of 49%. Given that sub-5% yields have been achieved in similar areas, the updated appraisal represents a worst case scenario and the maximum CIL rates are likely to be higher than those stated.

Travelodge’s planning statement submitted with Application reference states that “*the site has been actively marketed as a whole for office use since March 2008. Whilst the marketing campaign has been included flexible lease terms, there has been little interest in the site*”. Current Use Value 2, which assumes rent of £13 per sq ft capitalised at a yield of 8% assumes full occupation of the building, which is unlikely to have been achievable, given Travelodge’s comments. We note that similar office buildings in Waterloo/Vauxhall area that have recently been granted planning permission for other uses were historically let for between £10 to £12.50 per sq ft.

The updated appraisal is attached as Appendix 1. The Examiner will be able to see the impact of the shift in yield on the maximum CIL rates.

Modular build

The Council is surprised by Turley’s comments regarding modular build. We would refer the Examiner to Travelodge’s Development website (Appendix 2) which states very clearly that “*Travelodge has recently introduced modular build as an option for our construction process, which enables us to take advantage of low cost manufacturing, factory quality and reduced construction time*”. The website goes on to note that Travelodge have been using this method of construction as far back as 2008 on its Uxbridge Central Travelodge. It also notes that “*whilst we are not prescriptive about the construction method to be used, a modular build solution may well be advantageous for schemes with over 80 bedrooms, both in terms of cost and programme*”. BNP Paribas Real Estate’s appraisals assume a traditional construction method, both in terms of cost and programme and disregard the potential savings that Travelodge have identified.

The Council’s conclusions

The Council considers that the updated appraisals provided by BNP Paribas Real Estate in response to the new information provided by Turley Associates now address the issues raised. The Council’s considered view is that the CIL rates proposed will not render hotel schemes unviable and are reasonable and proportionate. Based on the revised appraisal, the CIL liability would account for 2.7% of total development costs, which is a marginal factor in terms of overall scheme viability. At the lower rate of CIL of £100 per sqm, the CIL would account for 1.1% of development costs.

The Council also notes that the Travelodge Vauxhall scheme attracted considerably lower capital values than the Premier Inn at Waterloo. The BNP Paribas Real Estate appraisal therefore represents a worst case scenario in terms of the viability of budget hotels.