
Lambeth borough Council

Hotel Development Planning

SUBMISSION TO PLANNING STRATEGY

OCTOBER 2020

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1.1 INTRODUCTION

This note has been prepared with a view to commenting on the planning strategy for the Borough of Lambeth which appears to seek to reduce the new development of hotel stock in the Borough – especially in the vicinity of Waterloo Station. This has been prepared as an addition to our summary submission report of March 2020.

The current pandemic has caused a great deal of disruption to the hotel market and the hotel sector has been as hard hit as any during the crisis. With between 70-80% of visitors to London at any time being from overseas – markets which are currently not allowed to visit London without quarantine it is hardly surprising that the sector has been hard hit. With the absence of a tourism economy in London it has brought home just how important a thriving tourism industry is to London. Room occupancies have plummeted. Fortunately this is most likely to be a hiatus rather than a structural decline – such as that being experienced in retail. Following a poor 2020 we expect to see a good level of recovery in 2021 to 60-80% of levels achieved pre-Covid on the assumption that either a vaccine or a cure – or both is secured during the first half of the year. By the end of 2021 the hotel sector should be close to 2019 levels if not actually fully recovered.

1.2 LAMBETH COUNCIL POLICY – EVIDENCE BASE

The policy of Lambeth Council with regards to visitor accommodation appears to have been based on a number of documents which they refer to in their Topic Paper. These include:

- London Draft Plan - Intend to Publish
- PI-Topic Paper – 5 Visitor Accommodation – May 2020
- Working paper 88 – Report by GLAEconomics

1.2.1 LONDON PLAN - INTEND TO PUBLISH VERSION

The relevant section of this report can be found under the heading of Policy E10 Visitor Infrastructure beginning on page 310.

The report acknowledges the important role played by tourism in providing economic benefits and regeneration and seeks to encourage attractions and supporting infrastructure **including visitor accommodation**.

6.10.2 of the report stresses the need to ensure that London is able to **meet the accommodation demands of tourists**. It goes on to suggest a need for 58,000 new rooms by 2041 (an average of 2,230 bedrooms per annum and this refers to “GLAEconomics – Working Paper 88 as the source of this requirement.

Notwithstanding the issues that we have with GLAEconomics Working Paper 88 (discussed in more detail in section 1.2.3 below) the figure quoted is inaccurate.

It seems that the author of the London Plan – Intend to Publish version has mistakenly adopted the wrong figure from this study. They have used the Net Requirement figure rather than the Gross requirement figure. The Net figure does not take account of the expected attrition rate and so the actual number of new rooms required to reach the Net requirement is actually 77,019 or 2,962 new rooms per year – a difference of some 32%.

The table below is an extract from GLAEconomics' Working paper 88 and shows clearly the Gross and net number in Table 13 to be found on page 13 of their report.

The difference between the two is the amount of attrition – ie. Existing hotel rooms being subjected to changed use – such as residential. It is absolutely clear that the figure for new building required is the Gross amount NOT the net amount as the London Plan – Intend to Publish version mistakenly suggests.

Table 13: Projected number of additional rooms required in London (demand projection)

2041	Total	Average per year
Net additional	58,140	2,236
Gross additional	77,019	2,962
2050	Total	Average per year
Net additional	77,743	2,221
Gross additional	104,326	2,981

Source: GLA Economics calculations

This being the case and on the assumption that the London Plan is based on this erroneous assumption it is clear that the London Plan is in effect a plan for a significant under-shoot in the number of rooms required and that the number of rooms suggested will contradict the desired aim **to meet the accommodation demands of tourists**. This is before my other concerns with this report as highlighted below.

The paragraph goes on to suggest that we need to consider the needs of business travellers including provision of suitable facilities for meetings, conferences and exhibitions but no evidence is provided to support the need for such facilities.

In 6.10.3 the plan indicates a preference for larger hotels to be built within the CAZ opportunity areas and suggests avoiding new accommodation where this might constrain the development of other strategic land uses or erode the mixed-use character of an area. This would tend to suggest that a site already committed to a particular use (such as visitor accommodation) could indeed be extended as it is not denying the site for another use (it already has a use) neither is it eroding the mixed-use character of the area – since this is already an established use.

E10 C makes it absolutely clear that **a sufficient supply and range of serviced accommodation should be maintained**.

Policy E10 F is somewhat at odds with E10 C but seems to be saying that intensification is only bad where it denies other strategically important uses – this would seem not to apply to a site which is already in visitor accommodation use requiring asking to be extended.

This policy is also at complete odds with how hotel demand works. There is an adage in the hotel sector which says that the three most important drivers for a successful hotel are: Location, Location and Location. Policies which seek to divert tourists from where they want to stay are at odds with the legitimate requirements of tourists to stay in their favoured location. If they wish to visit a particular attraction it makes sense for the accommodation to be nearby and attempts to resist this will just create additional unnecessary journeys and pressures on the transport system which could easily be avoided.

1.2.2 LAMBETH LOCAL PLAN -TOPIC PAPER – 5 VISITOR ACCOMMODATION – MAY 2020

This document was prepared to inform the Lambeth Council policy towards visitor accommodation and is the rationale behind Policy ED14.

Early in this document there is reference to the National Planning Policy Framework 2019, which makes it clear that local planning policies should **help create the conditions in which businesses can invest, expand and adapt**.

It goes on to stress that policy should allow each area to **build on its strengths**...It seems obvious that one of the key strengths of Lambeth is being home to the UK's busiest rail terminal by passenger volume in Waterloo, where in excess of 90 million passengers use the terminal on an annual basis

The paper then mis-quotes the London Plan policy E10 C **A sufficient supply and range of serviced accommodation for business should be maintained**. In actual fact the London Plan does not limit this to "...for business.." this has been adapted by the author of this paper. This is important as it is requiring a sufficient Range of accommodation. So it is not enough to simply have met the target by only providing rooms of one quality – it is important across the range. In previous documents we have shown that there is a particularly short supply in Lambeth of 3 * or premium budget rooms – well below the London-wide average.

In 2.7 of this paper the author acknowledges that the London Plan does not set a target for new hotel rooms but refers specifically to the figure of 58,000 rooms by 2041 – equivalent to 2,230 new rooms per year which is clearly a reference to the GLAEconomics Working Paper 88 which we have already shown in 1.2.1 above is a mistaken reference to an incorrect figure.

Whilst making it clear that they understand that this is not a target set by the London Plan they do then seem to use it as just that. What the London Plan actually requires (Policy E10-C) is that there a sufficient supply and range of accommodation is maintained – there is no numerical target.

Section 3 sets out the evidence base for Lambeth visitor accommodation supply and demand. The first document referred to is the GLA Economics Working Paper 88 on which their policy decision heavily rely.

In 3.1 they refer to Working paper 88 as providing “..an estimate of the net additional number of rooms expected to be needed in London between 2015 and 2041.

In 3.5 there is a reference to a comment in Working Paper 88 regarding the impact of Air BnB.

In 3.7 there is a table presented which shows the number of rooms delivered or in the pipeline in Lambeth and compares this to the GLA Economics estimates but of course these are not correct because they were based on the Net amounts and not the Gross number of new rooms required and so accordingly are at least 32% under-stated. The message seems to be that we are doing our bit and have provided enough rooms and therefore do not need any more. In fact this could not be further from the truth.

In 3.9 there is a proud conclusion that “ This record of delivery and development pipeline demonstrates Lambeth’s positive approach to serviced visitor accommodation in recent years. It also justifies a managed approach going forward.

Since we have proven that the figures used by Lambeth are not the correct ones and as we describe below the deficiencies of the GLA Economics Working Paper 88 then Lambeth is not doing as much as it thinks it is and there is certainly no proven justification for a “managed approach” going forward.

This is not to decry the efforts that have been made and the fact that Lambeth’s share of new accommodation is increasing is a positive – but also to be expected given the very small share of existing accommodation that the borough provides for such a centrally located borough containing one of the nations busiest rail terminals and some of London’s key attractions.

The report highlights the concentration of visitor accommodation around Waterloo and the policy implication is that this is an over-concentration.

What the report does not mention is that Waterloo is the UK’s busiest rail terminal and hosts in excess of 94 million passengers per annum. This is double that of Euston Station and more than King’s Cross and St. Pancras combined. It is a major entry point to London for tourists and as such it is little surprise that there is tourist demand in this area.

Far from being an over-concentration of hotel rooms there is actually a chronic shortage of supply in this area. As part of our own research we commissioned a bespoke set of data for some mid-scale hotels in this area which included The Hampton by Hilton at Waterloo, Novotel Waterloo, Ibis Styles and Holiday Inn Express (physically located in Southwark).

Occupancy in these four hotels has grown from 88.1% in 2015 to 92.9% in 2019. So, while Lambeth Council is congratulating itself on providing more accommodation and justifying a limited approach going forward it is clear that “on the ground” the situation is getting worse. For clarity any market averaging over 80% is indicative of a market that is under-supplied and creating displacement. This is clearly the case in and around Waterloo Station. Evidently there will have been a correction in 2020 as hotels closed due to the pandemic but as indicated in 1.1 above we see this as a hiatus rather than a structural change.

At the same time average rates have risen from £122.54 to £136.68 – far in excess of inflation.

If we look at the 12 month moving average the lowest figure of occupancy in the 2015 – 2019 data series was in February 2015 and the highest was in November 2019 – clearly demonstrating a worsening situation.

In terms of Day of the week only Sunday nights show a dip in occupancy below 80%. Tuesday and Wednesday nights show occupancies in excess of 97.5% which will have resulted in very significant displacement.

All of these factors point to a chronically under-supplied market for this internationally branded mid-scale offering.

Section 3.24 of the report appears to show pride in the fact that Lambeth has a high number of Air BnB type accommodation. **“these findings demonstrate that Lambeth has a very strong supplementary supply of non-serviced visitor accommodation in addition to the large stock and pipeline of serviced accommodation”**. There is no recognition here that a large stock of Air BnB type accommodation is representative of complete market failure as tourists are driven into non-serviced accommodation due to a lack of better alternatives. There is also no recognition that many of these units will not be paying VAT or business rates and they are unlikely to be paying employees in the correct manner and safety standards will not match those that serviced accommodation units are obliged to meet. It is concerning that a local council seems to be proud of the fact that it has a large stock of accommodation that is contributing much less to the tax base than would be the case with more formal accommodation offerings that it seeks to restrict. This is also before the social impacts of having tourists sporadically scattered across primarily residential units.

In section 4 the paper sets out the policy decisions and seeks to justify them.

Section 4.1 Indicates that the council seeks to restrict accommodation development in Waterloo – the very place that is currently under-supplied and the very place that tourists wish to stay. This appears to run contrary to National Framework policy which enables areas to build on their strengths. Waterloo is the busiest Railway terminal in the UK and a magnet for tourists and business visitors alike – this is the areas key strength and this policy seeks to undermine this – not help it.

In this section 4.4 there is some nice ideology about wanting to spread the benefits across the borough but this is not economically sane. Tourists will want to stay close to what it is that they have come to visit or experience or close to the main rail terminal – a tourist visiting wanting to stay close to Waterloo will not be choosing a hotel in Norbury, nor for that matter Nine Elms!

Section 4.15 claims that Waterloo and neighbouring Southwark provide a “strong stock “ of hotels but the evidence that we have presented here demonstrates clearly that this is wholly inadequate and has led to a big rise in alternatives.

Section 4.17 We entirely refute that Waterloo is at capacity and dispute that mixed uses are excluded – if there was demand for these facilities they would have been built instead of hotels. The pictorial comparison of hotel supply at Waterloo compared with other major rail termini in London on page 13 of our report belies this conclusion.

Section 4.19 also calls for acknowledgement that Waterloo is well supplied. We refute this and would also point out that many of the negative impacts on availability of housing in this area have been caused more by the proliferation of Air BnB units that have reduced the availability of accommodation for residential dwellings and caused more blight on the local residents that well managed serviced accommodation premises.

Section 4.20 Calls for a full range of employment opportunities – office jobs. In fact a full service hotel is like a small town and provides a full range of jobs from executive and management jobs (general Manager), through skilled manual jobs (Chefs and Restaurant managers), clerical jobs (receptionists, sales executives and accounts clerks), through to basic skill employment, chambermaids, cleaners, porters etc. we therefore refute that hotel jobs are not varied, moreover hotel workers are more likely to live locally rather than office workers who impose on local transport and facilities at peak times and then spend their money outside the borough.

In 4.21 Policy e) ought not to apply to the extension of existing properties.

Section 4.24 misquotes the London Plan. This plan does not require the provision of business or meeting facilities just that they should be considered.

The issues consultation appears not to have been objectively carried-out.

Question one AirBNB is phrased to give a positive response it does not attempt to address any of the pitfalls of this type of accommodation. It is not surprising that the majority agreed with this but even that majority raised some of the issues.

Question 2 is also leading as it implies that evidence **does** show that Lambeth has enough hotels. In fact, as we have shown, the evidence does not point to there being sufficient supply to meet future demand and so the replies to this question are not helpful

Question 3. This is also a leading question and the answer was what the question setter wanted to hear.

Question 4. Interestingly the majority disagreed with the answers that the question was trying to prompt!

Question 5 is almost the definition of a leading question – there is no justification for a separate policy to govern serviced apartments or apart-hotels.

Question 6 is also leading but is harmless as all large hotels already provide very significant training opportunities for their staff and generally employ local people.

1.2.3 WORKING PAPER 88 – REPORT BY GLAECONOMICS

Both the London Plan and the Lambeth Council rely heavily on the findings of the GLA Economics report known as Working paper 88 and entitled “Projections of demand and supply for visitor accommodation in London to 2050.

The report was prepared by economists with relatively limited tourism background and no direct experience of visitor accommodation operations.

The report was conducted in April 2017.

In the third paragraph of the executive summary the authors make it clear that the current supply of serviced accommodation in London is “tight” by which they mean under-supplied. They highlight the fact that London has the highest hotel room occupancies amongst European Cities and the fourth highest room prices.

On the fifth paragraph of the first page of their executive summary they indicate the overall findings of their report and they estimate that London will need an additional 58,140 of serviced accommodation by 2041. They then go on to clarify: **In terms of the number of new serviced accommodation rooms that will need to be delivered (ie, accounting for closures) it is projected that 77,019 new rooms will need to be provided, at an average of 2,962 per annum.**

Both the London Plan and Lambeth Council have, mistakenly, decide to use the lower Net figure of 58,140 rooms rather than the required figure indicated by this report of 77,019.

This is a serious error in the evidence base and has led to both The Mayor of London and Lambeth Council under-estimating the required level of new rooms

according to the report. The difference is 18,879 rooms or 32.5% less than the number adopted.

In its introduction the report says **“London needs to ensure that it is able to meet the demands of tourists that want to visit the Capital, and a most important aspect of that is to provide suitable accommodation for those that wish to visit”**. They clearly realise the economic importance of ensuring that London has enough serviced accommodation rooms.

The report was never intended to and does not set a target – this was the responsibility of the London Plan but they did prepare projections which led to an **“...estimation of the number of rooms expected to be needed..”** to be used **“...to inform the target in the new London Plan”**.

The report begins by analysing data from a variety of sources on historical levels of demand and supply. An interesting take-away from this is that despite Lambeth being very centrally located and home to the UK’s busiest rail terminal the borough provided just 2.9% of the total supply of serviced accommodation in London. It ranked only tenth in share of supply out of London’s boroughs.

Neighbouring Southwark has added the most new hotel rooms between 2011 and 2015 with 1,951 new rooms or 10.2 per cent of the London-wide increase. Lambeth remained in 10th spot in spite of adding 4.0% of new rooms.

The report adds a dialogue box of information on non-serviced accommodation characterised by Air BnB. It highlights the proliferation of this form of accommodation but does not address any of the drawbacks of such accommodation such as:

- The fact that they often pay no VAT, Business rates or payroll taxes;
- They are not required to match the fire, life safety obligations imposed on serviced accommodation;
- Adequate insurance is not always in place;
- They can cause significant displacement of permanent letting opportunities.

While the report does quote Colliers own report into this accommodation it does not acknowledge the significant drawbacks and lack of level playing field created.

The report hints at but provides no evidence of the impact on hotel demand. In page 11 above we have shown that hotels in the area around Waterloo station have increased their occupancy at the same time that there has been a proliferation of Air BnB accommodation suggesting that this is not a displacement from hotels but rather a supplement which has emerged due to the serious shortage of serviced accommodation. This is a phenomenon witnessed elsewhere in the UK, such as Edinburgh.

The report has adopted the forecasts of future international visitor numbers estimated in the Airport Commission's report on airport expansion plans in the London area. They do however, acknowledge that the forecasts contained in the commissions report had already been exceeded by 2015 and therefore are likely to be an under-estimate. Given that these estimates are used as a direct bases for the estimates of the number of rooms required it is clear that these estimates may have under-estimated the number of rooms required – and they identify this as a risk factor.

We note that the projection of demand growth is based on a Compound Average Growth rate (CAGR) of just 1.35% from 2015. This is significantly below the actual CAGR of 4.3% in international arrivals between 2009 and 2015. If the report had adopted a figure of, say 3.0% then this would have resulted in a **NET** room requirement of 164,233 or more than three times the estimates in this report.

The Net rooms required estimate of 58,140 suggests a CAGR of just 1.3% of net room growth required. The Gross rooms growth target of 77,019 requires a slightly higher CAGR of 1.6%

In the table below we present alternative evidence which we believe is a more reliable measure of actual performance of London serviced accommodation in the period 2015-2019. This data is taken from STR which is the most respected source of hotel performance data. Their sample does not include very small units but as can be seen from the table below they have a sample of in excess of 70% of all London serviced accommodation units.

Performance Data London Hotels

	Rooms Available	Annual rooms	Rooms Sold	Occupancy	ADR	Rooms Revenue	Sample	Sample %
		365			£	Sample		
2015	124,839	45,566,235	37,455,445	82.2%	143.43	5,372,234,501	88,916	71.2%
2016	129,316	47,200,340	38,373,876	81.3%	143.44	5,504,348,834	93,332	72.2%
2017	138,180	50,435,700	41,205,967	81.7%	149.01	6,140,101,128	97,706	70.7%
2018	140,270	51,198,550	42,648,392	83.3%	149.69	6,384,037,821	102,025	72.7%
2019	143,535	52,390,275	43,745,880	83.5%	154.58	6,762,238,072	109,205	76.1%
CAGR	2.30%	2.30%	2.60%	N/A	3.30%	6.00%		

Source: STR

What the table shows is that rather than the 1.35% growth in rooms demand predicted by GLA Economics, hotel demand (rooms sold) has actually grown by 2.6% between 2015-2019. Growth in supply at 2.3% during this same period has also significantly out-stripped the required rooms total (1.6%). So we can see that even with a faster rate of growth in new supply than predicted by GLA Economics the market supply situation has actually worsened. If we took the 2.3% of new rooms actually delivered between 2015-2019 as the growth target going forward (bearing in mind that even this target is not keeping pace with demand growth) then the net rooms required target would grow from the 58,140 estimated by GLA

Economics to 138,317. At current occupancy levels and current ADR levels this would add a potential £6.5bn to the London hotel economy in rooms revenue alone. By setting a target almost 60% below the market potential the loss of income from rooms revenue alone could be in the order of £3.8bn. If Lambeth had just a 5.0% of that income the lost potential revenue is £190m and at a ratio of 0.5 full-time jobs per room the potential loss of local jobs could be in the order of 40,000. On page 54 GLA Economics show the differences between the projection of Net new rooms required in their forecast compared to a working paper they prepared just three years earlier.

The results of this analysis are extracted from the report below:

Table B3: Projected number of net additional rooms required, London

	Total	Average per year
Current projection (2015-2041)	58,140	2,236
Previous projection (2012-2036)	42,900	1,788

Source: Working Paper 58, GLA Economics Analysis

The first working paper covered the period 2012-2036 (24 years) and this paper covers the period 2015-2041 (26 years). Although there is a small change in the time period the result (just three years after their initial paper is a very significant 35.5% increase in the estimated figure over just a three year period. This would seem to confirm our view that while a useful exercise these estimates ought not to be relied upon without further verification and it is a concern that both the London Plan and Lambeth Council have relied so heavily on these estimates in forming the policies they have.

On page 34 the report clarifies how it has arrived at the estimated room requirement figure and underlines the key and critical assumption of the report which is **“This assumes that the historic supply of rooms in London has been adequate to cope with the existing number of visitor nights...”**. This flies in the face of their own assertion that London hotel supply is “tight” for which we read under-supplied and certainly contradictory to the level of supply in Lambeth which we have shown to be chronically under-supplied.

In making this assumption the authors have failed to acknowledge that there is a shortage of supply in London and that this has caused significant displacement. Displacement occurs when hotels in a particular market or location or room type are effectively full. This means that the demand is displaced which can manifest itself in one of many ways:

- Visitors stay outside the market area;
- Visitors shorten their trips;
- Visitors stay in a type of accommodation not their normal choice;
- In extreme cases they do not visit at all.

There is also a pricing point here that the authors have ignored. They have also effectively assumed that hotel prices in London remain extremely high. Were pricing to lower at all (and this could be by reducing prices or by changes in the value of currency) then demand would be expected to rise significantly – further exacerbating any shortage.

The report does very little work on hotel occupancies but rather looks at visitor demand as the principal driver – this is an omission in our view.

I would have expected such a report not to arrive at a definitive number but to have looked at differing methodologies and show a range. It is clear to me that whether by briefing or by author selection this report shows the requirement at or very close to the lower end of a range.

Another area of concern is the selection of the ratio of visitor nights to roomnights chart shown on page 35 of the report. This is one of the key inputs in arriving at the estimated number of rooms needed. The chart on this page tracks the ratio from 1991 – 2015. The report uses the average over this period but fails to note that this ranged from 2.32 to 2.95.

Calculation of estimated rooms required assuming high, Low and Average Ratios of “visitor nights to room nights in London”

		High	Average	Low
A	Ratio	2.95	2.64 (used in report)	2.32
B	Visitors by 2041	196,360,203	196,360,203	196,360,203
C	Visitor Roomnights	66,562,781	74,378,864	84,638,018
D	Rooms required per day (C/365)	182,363	203,777	231,885
E	Supply of rooms in 2015	145,737	145,737	145,737
F	NET rooms required	36,626	58,040	86,148
G				

GLA Economics / Colliers

The sensitivity above shows that the output of estimated rooms required is extremely sensitive to this input and yet it is a simple average over an arbitrary period of time.

Looking at historical levels of hotel occupancy and matching these with supply increases would have been an alternative way of looking at this which would have,

in our view, have shown a more realistic pattern. Pricing could also have been brought to play showing volumes of rooms revenue.

On the same page of the report (35) the authors summarise their conclusions:

Table 13: Projected number of additional rooms required in London (demand projection)

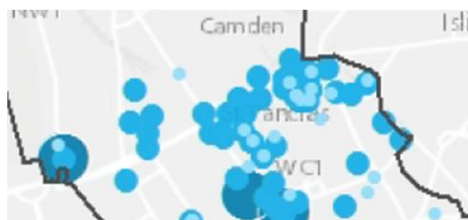
2041	Total	Average per year
Net additional	58,140	2,236
Gross additional	77,019	2,962
2050	Total	Average per year
Net additional	77,743	2,221
Gross additional	104,326	2,981

Source: GLA Economics calculations

From this relatively clear table it is unclear as to why both the London Plan and Lambeth Council have opted to use the incorrect Net Additional rooms as the estimate of rooms required rather than the Gross additional rooms requirement. The text above this table is very clear that the Gross additional rooms is the number of new rooms required to be delivered.

Waterloo accommodation supply compared to other rail termini in London:

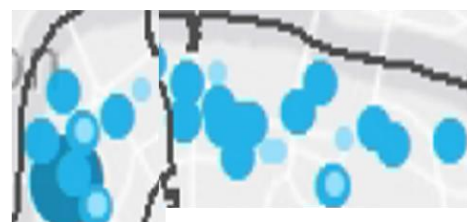
Euston, Kings X and St. Pancras
116.8m



Paddington
38.2m



Victoria
74.7m



Waterloo
94.2m

Contrary to the belief of Lambeth Council the above pictorial representations of current supply of the major rail termini in London does not show Waterloo as an over-concentrated hotel area.

1.3 CONCLUSION

Working paper 88 was always intended to inform the target for new hotel rooms for London. I do not believe that the authors ever believed that it would be the sole document to be relied upon. Were this to have been the case I would have expected a much wider range of scenarios and the adoption of multiple methodologies to arrive at a consensus view.

It seems that the London Plan and Lambeth Council have taken this piece of work totally out of context and relied upon it to an extent that was never intended. They have also mistakenly mis-interpreted it.

What is abundantly clear is that Lambeth Council has used as its evidence base a document that was not intended for this purpose, they have mistakenly used the wrong figures from it and they have failed to provide any local relevant interpretation of it. The evidence base for the serviced visitor accommodation policy of Lambeth Council is not, in our view fit for purpose and should be reviewed. Such a review is likely to conclude that Lambeth will need a great deal more rooms than it currently plans to provide and that its restrictive policies will hinder economic growth of the borough and the wider London area.

Furthermore the particularly restrictive policies for the Waterloo area deny the borough the ability to build upon its key strength as home to the UK's busiest rail terminal which would appear to be contrary to the national policy framework.

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