

22 April 2014  
**By Email and Post**

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Tower Hamlets CIL Examination  
London Borough of Tower Hamlets  
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Dear Sir

## **TOWER HAMLETS CIL EXAMINATION - RESPONSE TO EXAMINER'S QUESTIONS**

As invited I write on behalf of my client, Travelodge Hotels Ltd, to provide a response to the Examiner's questions in respect of hotel development. I also write to confirm that Travelodge wish to take part in the hearing.

The Examiner's questions are set out below as subheadings with a response provided under each one.

The enclosed hearing statement is further to the representations submitted on 5 June 2013 and 2 December 2013, respectively, to the Draft and Revised Draft Charging Schedules published for consultation.

### **Is the hotel charging rate informed by and consistent with the available evidence?**

- **Has a sufficient number/range of appraisals been undertaken?**

As has been raised previously (in June and December 2013), only two hotel appraisals have been undertaken for the entire Borough to form the basis for CIL charge setting. This is not sufficient.

Furthermore the two appraisals both relate to hotels located within the highest value areas of the Borough (Hotel 1 within Canary Wharf and Hotel 2 within City Fringe). No appraisals have been undertaken for any other locations despite transactional information no doubt being available (e.g. Travelodge Bethnal Green).

Canary Wharf and the City Fringe are not representative of the entire Borough and this is reflected (and demonstrated) in the rents that Travelodge would typically pay in various locations within the Borough. These are set out below for their current site requirements within Tower Hamlets.

- Aldgate East - Rent £7250-£7750 per bedroom (150 bedroom target)
- Canary Wharf - Rent £7000-£7500 per bedrooms (200 bedroom target)
- Whitechapel - Rent £6250-6750 per bedroom (150 bedroom target)
- Stepney /Mile End – Rent £5250-£5750 per bedroom (100 bedroom target)
- Limehouse/Shadwell - Rent £4750-£5250 per bedroom (80 bedroom target)
- [Bethnal Green open for trading has a rent of £5250 and comprises 131 bedrooms]

To understand this further we need to examine the hotel appraisal undertaken for the Ibis Hotel on Commercial Street (Hotel (2)). This is done under the second question of the Examiner.

**Is the hotel charging rate informed by and consistent with the available evidence?**

- **Do the appraisals (and thus the rates) take appropriate account of the budget hotel sector?**

The appraisals undertaken do take account of the budget hotel sector, as the second appraisal is for a budget hotel in the form of an Ibis Hotel. However, as set out above this is only for one location (City Fringe high value location), but more fundamentally we do not believe that the rent per square foot adopted is appropriate for the budget hotel sector or indeed correct for the Ibis in this case. This is examined below. Before doing so we would like to make a general point that the appraisals presented come with little explanation as to their detailed methodology and data sources, making their interpretation somewhat difficult. Our comments are therefore made against this backdrop.

The rent per square foot adopted for Appraisal 5 (base) is £30.59. This rental figure has presumably been informed by the rental figure per sqft calculated for the Ibis. The total floorspace within the Ibis key data can be calculated by multiplying the number of rooms (348) by the assumed total area per room (221 sqft) which equals 76,908 sqft. Then dividing the passing rent (£2.6m) by this (76,908 sqft) gives a rent per sqft of £33.81. These figures are therefore close to one another, but there is still over a £3 difference. It is not clear how the £30.59 has been arrived at as the (base) rent and this is critical given that the whole appraisal is then based on this.

Even more importantly, we understand from reviewing the online planning application details that the total floorspace of the Ibis is 9,290 sqm (or 99,997 sqft). Attached is a summary of floor areas as obtained from the on line application file. If this total floorspace is correct and adopted the total rent per sq ft is in fact £26.00.

We believe that 99,997 sqft must be correct total floorspace and therefore in turn £26.00 must also be the correct rental figure per sqft. The reasons being that as well as being the quoted floorspace on the application file, this figure for the gross internal hotel area also accords with what Travelodge would anticipate, as it breaks back to 287 sqft (26.60 sqm) per bedroom. Travelodge's evidence to the Islington CIL Examination refers to 300sqft as an appropriate average budget hotel figure to adopt, but rising to 330sqft in some London location depending upon hotel efficiencies. In comparison BNPP on behalf of Islington were promoting a lower average room size of 248 sqft (23sqm) GIA based on recent applications within the borough. Both average figures are in excess of the 221 sqft (20.5 sqm) quoted for the Ibis.

If considering the capital value per bedroom, this would be reduced from £498.65 to £383.44 after applying the revised floorspace of 99,997 sqft. This would then be less than the "Goal seek" capital value per bedroom.

In light of this apparent misapplication of floorspace for the development, which generates a much higher rental value per sqft than would otherwise be expected, this throws the whole basis of hotel appraisal no.2 into doubt as its centred around a rental figure much higher than that experienced in the market. This was raised in Travelodge's previous representations when it was set out that the rent assumed per sqft is significantly more than they could pay both across the Borough as a whole and within the City Fringe location.

For the hotels listed already and based on an average room size of 300 sqft (GIA) inclusive of all hotel areas, the following range of rents per sqft would result.

- Aldgate East - Rent £24.17 - £25.83
- Canary Wharf - Rent £23.33 - £25.00
- Whitechapel - Rent £20.83 - £22.50
- Stepney /Mile End – Rent £17.50 - £19.17
- Limehouse/Shadwell - Rent £15.83 - £17.50
- [Bethnal Green open for trading – Rent £17.20]

All are considerably less than £30.59 per sqft which the Hotel (2) appraisal is based on and furthermore all are less than the revised figure of £26.00 per sqft discussed above.

Reviewing the results of maximum CIL rates per sqm table reveals that adopting a rental level of £27.75 or less and CUV2 shows that £0 CIL could be paid. This is the result of only a 10% reduction in rent from base, with all of the above quoted rental levels including the revised calculation for the Ibis at £26.00, representing a 10% or greater decrease.

The other main operator in the budget hotel sector is Premier Inn. However, they would not be paying rents approaching £30.59 either, with the rent they pay generally being 10% more than Travelodge.

As a result of the above, the appraisals (and thus the rates) do not take appropriate account of the budget hotel sector.

In the Table of detailed responses to DCS consultation representations, the Council's response to this issue is stated as follows:

*"BNP PARIBAS The rates have been set having taken account of comparable market transactions for Hotel uses. As such, we consider the rates assumed to be appropriate". (row 249)*

However, if our assessment of rental levels is correct for the Ibis comparable market transaction this statement cannot hold true.

Furthermore only two market transactions have been used to inform the rates, with one of them being an Ibis budget hotel and the other being a 4 star Radisson Blu Edwardian.

As set out within the Statement of Modifications Appendix 1 (para. 2.15), the updated hotel development appraisals indicate that "hotel" development could absorb a maximum borough CIL rate of between £57 and £734 per square metre, dependant on the type of hotel and current use value of the site. Between the two types of hotel the maximum borough CIL rates are quoted as £57-£517 for the budget hotel and £277-£734 for the 4 star hotel. The analysis concludes by stating that a maximum borough CIL rate of £304 per square metre would be reasonable for hotel developments in Tower Hamlets based on CUV 2 of the second appraisal.

However, this is notwithstanding it being stated earlier in the paragraph that the analysis is sensitive to small changes in the rent or yield i.e. if the yield were to shift out by 0.25% the maximum levels of CIL would be £0 - £590 per square metre, whilst a reduction in the rent by circa 10% would result in a maximum CIL of £0 - £361 per square metre.

Therefore whilst the Council may argue that a robust position has been adopted in taking the maximum CIL rates per sqm from the budget hotel appraisal (the second appraisal), and thus taking full and proper account of the budget hotel sector, two fundamental issues remain. Firstly, the Ibis budget hotel is located in the City Fringe location so cannot be taken as being representative of the Borough with it commanding higher values (rents and capital values) than other locations. Secondly, the rent per sqft that has been adopted as the (base) Appraisal 5 appears too high for a budget hotel (in this or any location), with a reduction of 15%-20% required which will significantly reduce the maximum possible CIL rates per sqm, as the analysis is sensitive to small changes in the rent (and yield). A 15% reduction would reduce the rent to £26 and a 20% reduction would reduce the rent to £24.40, levels more recognisable to Travelodge for a City Fringe location.

**Is the hotel charging rate informed by and consistent with the available evidence?**

- **Is there evidence to justify variations in the hotel rate in different zones of the borough?**

Travelodge believes there is evidence to justify variations in the hotel rate, as set out above in terms of the lower levels of rent that are payable for non City Fringe and non Canary Wharf locations. Furthermore the yield applicable to these more peripheral locations will also be higher, which will reduce the capital value of hotels in these locations further.

At present the Council is presenting hotel appraisal 2 as being the suitable market comparable, with the lowest maximum CIL rate per sqm metre adopted from this appraisal for the purpose of setting the Borough hotel CIL rate (after applying a buffer). This cannot be a robust approach even with the sensitivity testing undertaken, which in fact shows the very high level of sensitivity of the appraisal to small changes in the inputs. The relevant inputs for hotel appraisals located within Travelodge's target

locations of Stepney /Mile End and Limehouse/Shadwell (as well as the completed scheme at Bethnal Green) will be very different to those for the Ibis City Fringe location.

Travelodge in their representations has previously set out that applying a single charge rate for hotel development fails to address the economic disparities across the Borough and that differential charging should be considered. The Council's response as set out in the Table of detailed responses (row 246) to DCS consultation representations is as follows:

*"The variation in viable hotel rates does not warrant the creation of separate zones. The rate set for hotel development is reflective of the lowest viable rate established for this type of development. The creation of zones would make the charging schedule too complex and the rates of some of the zones would be higher than the current rate proposed."*

We do not accept this approach as we do believe there is indeed a wide variation in rates and furthermore the rate set for hotel development is not reflective of the lowest viable rate established (as the rent per sqft is too high and the location is City Fringe). Further, the creation of charging zones for hotel development would not be too complex, as it is proposed within many other London Boroughs and indeed is proposed within Tower Hamlets for residential and office/small retail development. We also disagree that the rates of some of the zones would be higher than the current rate proposed; the reason being because as it stands the hotel CIL charging rate is based upon hotel appraisals within the higher value areas of the Borough, not from lower value areas.

**If you consider that a change to the schedule is necessary what rate/zone boundary would be appropriate?**

Based on Travelodge's experience of the hotel and wider property market two hotel charging zones would appear reasonable based on the differential zones already proposed for office and small retail development where the City Fringe and North Docklands are defined as specific charging zones, with all other areas defined as Rest of Borough. The approach adopted for small retail is suggested for hotel development where one charge is proposed for City Fringe and North Docklands and another for Rest of Borough. The one alteration to the charging zones required to tailor it for hotels would be to enlarge the defined North Docklands area slightly to the south as far as Marsh Wall and to the east as far as the A102 – creating a wider North Docklands hotel zone or similar.

The appropriate charging rate for the City Fringe and North Docklands could be based on the Ibis Hotel on Commercial Street, but with the rent per sqft updated. We have not attempted to undertake this exercise as the detailed BNPP methodology is not set out or available to us. A CIL charge of less than £180 would be more appropriate in this location, ideally less than £100 per square metre, subject to the viability outputs of course.

The appropriate charging rate for Rest of Borough could be based on the Travelodge transaction at Bethnal Green, with this in Travelodge's experience being broadly comparable to other identified locations such as Stepney /Mile End and Limehouse/Shadwell. To reiterate the rent at Bethnal Green is £5250, the floorspace is 40,000sqft and the investment was sold at a yield of 6.3%. Again as with the suggested City Fringe and North Docklands area we have not attempted to undertake the viability exercise. A CIL charge considerably less than £180 would be more appropriate, below £100 per square metre, again subject to the viability outputs.

## **Summary**

For the reasons set out above Travelodge do not consider that the hotel charging rate has been informed by appropriate available evidence and is not consistent with it. As such the evidence base for hotel use is not considered to meet the relevant tests contained within Section 212(4)(b) of the Planning Act (2008) and Regulation 14 of the CIL Regulations (2010 as amended)

We trust these comments will be taken into account by the Examiner.

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

Yours faithfully

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Smith Jenkins Ltd

**APPROXIMATE SUMMARY OF FLOOR AREAS ( Gross Internal )  
1 COMMERCIAL STREET  
ALDGATE EAST**

January 14, 2002

First Issue

js 0391

**OFFICE & RETAIL**

		m <sup>2</sup>
Basement -01	A1/A2/A3/D2 Retail Units	975
	Ancillary Area	220
	London Underground	65
Ground 00	Office Entry Lobby	170
	A1/A2/A3/D2 Retail Units	990
	Delivery & Holding Areas	200
	Ancillary Area	465
	London Underground	65
First +01	Gross Internal Area ( G.I.A. )	1535
Second +02	G.I.A.	1640
Third +03	G.I.A.	1610
Fourth +04	G.I.A.	1610
Fifth +05	G.I.A.	1610
Sixth +06	G.I.A.	1550
Seventh +07	G.I.A.	1550
Eighth +08	G.I.A.	1355
Ninth +09	G.I.A.	1355
Tenth +10	G.I.A.	1355
Eleventh +11	G.I.A.	1360
Twelfth +12	G.I.A.	1360
Thirteenth +13	G.I.A.	1365
Fourteenth +14	G.I.A.	1365
Fifteenth +15	G.I.A.	1370
Sixteenth +16	G.I.A.	1295
		<b>26,435</b>

**HOTEL**

Levels +01 to +10	Guest Rooms	8330
	Public Areas	470
Ground 00	Administrative Areas	95
All Areas	Service Areas	395
		<b>9,290</b>

**Car Park & PLANT**

Basement -01	Car Park for 30 cars	1060
Hotel Basement -01 & Tenth +10	Plant Area	525
Office Basement -01 & Roof +18	Plant Area	1520
		<b>3,105</b>

Floor areas are subject to modification depending upon; owner's, operator's, statutory authority requirements, development of detailed design; finalisation of external fabric treatment; site survey and definition of structure, M&E and other services