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Delivered by email

CIL Consultation
Infrastructure Planning Team
London Borough of Tower Hamlets
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Dear Sirs,

LONDON BOROUGH OF TOWER HAMLETS COMMUNITY INFRASTRUCTURE LEVY (CIL): DRAFT CHARGING SCHEDULE (March 2013)

We act on behalf of Travelodge Hotels Ltd (Travelodge) and write in response to the current consultation being undertaken by the Council in respect of the Community Infrastructure Levy (CIL): Draft Charging Schedule (March 2013).. The next stage in the process is to submit the Draft Charging Schedule for Examination, following consideration of comments to the current consultation. The content of the enclosed representations is focused upon the proposed charging rate for hotel development within the Borough based on the detail contained within the CIL: Draft Charging Schedule (2013) and CIL: Viability Study (2013)

It is also noted that the Council is consulting on its *Planning Obligations Supplementary Planning Document* which seeks to define where S106 will be sought and where CIL will be sought, with respect to the delivery of infrastructure in the Borough.

Travelodge, as a national budget hotel operator, has a clear interest the Borough's proposed CIL charge rates and its impact on the feasibility of delivering development. Throughout the recession, Travelodge has developed new hotels alongside its development partners. However, as well as for other property sectors, development is becoming increasingly difficult and frustrated through the increasing demands of property legislation, planning, availability of funding and now CIL.

Overall Travelodge consider that CIL is an onerous requirement on development projects through its inherent inflexibility. Borough wide CIL charging schedules coming forward, combined with site specific S106 contributions and the already adopted Mayoral Crossrail CIL levy means that hotel development within London will be severely impacted upon and will become unviable in most instances. This includes within the London Borough of Tower Hamlets. In fact, particularly within Tower Hamlets due to the very high rate proposed for hotel development compared to other London Boroughs and hotel development viability generally.

CIL: Draft Charging Schedule (March 2013)

Section 5 of the Draft Charging Schedule sets out the 'Rates of CIL' proposed by the Council for the Borough. It is noted that *'the Council intends to charge differential rates of CIL, which are to be determined* *by the land use of a proposed development (expressed as pounds per square metre) and by the area where a proposed development is situated'.*

The proposed CIL rate per square metre (GIA) of development for hotel use is £210 and it is noted that this is exclusive of the London Mayoral CIL applicable to Tower Hamlets at £35 per square metre. The proposed CIL rate for hotel use is £210 across the whole Borough. However, the text above, taken from the Draft Charging Schedule at paragraph 5.1 states that a differential rate should be applied dependent on where the proposed development is situated. This clearly is not the case in its application to hotel use.

It is considered that additional CIL charging zones should be created for hotel development with corresponding mapping to illustrate the differential rates of CIL charge (and with much lower rates than currently proposed) for hotel development, as is the case for other development uses, such as residential. This would demonstrate that an appreciation of the diverse economic context that exists within the Borough has also been accounted for in respect to hotel development. Leaving the CIL charge rate unchanged across the entire Borough, will most certainly mean in many instances that no development will take place in particular areas, such as areas that are increasingly further from the City fringe.

The CIL Charging Schedule has therefore failed to appropriately consider the economic disparities that exist within the London Borough of Tower Hamlets and has resulted in a single charge rate being proposed across the whole Borough for hotel development. The proposed CIL charge and lack of variation depending on location will be responsible for adversely impacting on hotel development proposals; which is clearly not the intention of CIL.

Further, in Appendix 2, Section 5 'Reporting and Review' it states that '*the Council will keep the operation of the CIL and the position regarding the funding and economic viability evidence under continual review and where necessary, will seek to renew the Charging Schedule in accordance with the latest Government guidance and legislation'.* From this statement it is unclear what is meant by 'continual review'. It is also not clear if this information will be available for public viewing. It is our view that any updated economic viability information informing the Council's position with respect to the viability of development proposals should be made available at an early stage with the development industry. It should also be acknowledged that CIL is not flexible and can only be charged based on an adopted Charging Schedule and any revised rate can only be used if the Charging Schedule is renewed and consulted upon. To avoid the need to renew the Charging Schedule in the very short term, it is considered that the issues raised above and below, with respect to hotel use should be addressed now, based on further and more detailed evidence.

CIL: Viability Study (March 2013)

The CIL: Viability Study has been prepared by BNP Paribas Real Estate. The Study states that *after allowing for Mayoral CIL, a potential Crossrail top up as well as a buffer, which we consider to be appropriate to deal with site specific factors, we suggest the Council considers a rate of £210 per square metre, for such uses across the Borough*. This confirmed in Table 1.9.1 Proposed CIL rates. From reviewing the Viability Study, it is unclear how the *buffer to deal with the site specific factors* has been calculated or considered. As such we are unable to provide any informed comments on this, other than requiring this to be transparent in its application to the proposed CIL charge rate.

The most fundamental issue with the Viability Study and in fact the Charging Schedule is the rate charged for hotel development as this has not been informed by appropriate evidence and by undertaking an appropriate number of viability appraisals,

Table 4.48.1 'commercial appraisal assumptions for each use' sets out the viability consultant's development assumptions. This information has then been used to inform the viability appraisals for use classes. On immediate review of this table with respect to hotel use, it is evident that the rent per square foot assumed for the single hotel appraisal undertaken is significantly more (between 80%-100% more) than what is achievable for Travelodge (and most likely other budget hotel operators) across the Borough. The rate adopted is seemingly for a City Fringe location; however, even then this is still in the order of 60% higher than is realistic for Travelodge in such locations. The rental assumption adopted is not therefore realistic or achievable in practice for any location across the Borough and is therefore not helpful in informing an appropriate CIL charge rate for the Borough. The other assumptions adopted for hotel development are reasonable.

What is noted further is that although it may be useful to undertake discussions with local agents and work from assumptions in respect of these commercial inputs, it would be of greatest benefit to inform commercial appraisals with information provided directly by developers and operators that will deliver development. Gathering an appropriate evidence base to inform CIL charging schedules is being advocated by the Government, in DCLG's latest consultation *'Consultation on Community Infrastructure Levy (CIL) Further Reforms'.* These also require a charging authority to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects of the levy on economic viability of development across an area.

It is Travelodge's view that the evidence base test needs to <u>ensure</u> that in preparing a charging schedule for hotel development that the charging authority has:

a) Undertaken a number of hotel economic viability appraisals, adjusting the various assumptions as appropriate (to provide for sensitivity testing), and to undertake assessments for hotel schemes in different locations across the Borough; and
b) Engaged with the hotel development sector to gather market information to input into the viability assessments.

This clearly has not been undertaken.

From reviewing the hotel appraisals undertaken, it is also unfortunate that Appendix 4 does not include the two viability appraisals for hotel use as intended; instead including the second hotel development appraisal "*Hotel (2)"* twice. It is assumed that a Hotel (1) appraisal has also been undertaken but to what its contents may comprise is unknown. What is also unknown is how this appraisal has informed the proposed CIL charge rate for hotels and where the location of this hotel is within Tower Hamlets.

As per the assumptions noted above, the Hotel (2) appraisal included in Appendix 4 comprises a budget hotel appraisal but its location within Tower Hamlets is on the City fringe. As the appraisal is located on the City fringe it represents the highest values and is not representative of the budget hotel market across the whole of Tower Hamlets. Further, as noted above, the assumptions made in the appraisal are not a real representation of what a budget hotel operator could achieve even in this City fringe location. The use of a single hotel appraisal in this way skews appraisal results significantly and cannot be considered as an appropriately tested evidence base to inform CIL for hotel use. What is also concerning is the lack of evidence for Hotel (1) appraisal, what this hotel type comprises and its location within the Borough.

Overall it is considered that the hotel appraisal that is included within the Study is questionable for the reasons explained and cannot alone inform the CIL charge for hotel development across the Borough; more evidence and viability testing of a greater number of schemes is required.

Conclusion

Overall, CIL should not worsen viability and prejudice development. To enable a charging authority to fully understand the potential effects of a hotel levy on the economic viability of development, a greater number of hotel comparables need to be appraised and with hotel sector input. The supporting text to the Draft Charging Schedule states that a differential CIL rate should be applied dependent on where the proposed development is situated. This is clearly not the case with respect to hotel use. Proposing a CIL charge rate for hotels at £210 across the entire borough will not serve to provide funding for infrastructure as this rate will prevent hotel development coming forward and therefore will not achieve the aim of CIL.

We would welcome the opportunity to further discuss with the Council and its consultant's viability inputs with respect to hotel development within the London Borough of Tower Hamlets.

I trust that these representations will be taken into account in advance of submitting the CIL Charging Schedule for examination. We also request to appear at the Examination.