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2 December 2019
**By email: CIL@camden.gov.uk**

London Borough of Camden
Development Management
Regeneration and Planning
London Borough of Camden
Judd Street
London
WC1H 8ND

Dear Sir

**Partial Review of Camden's Community Infrastructure Levy Charging Schedule**
**Representations on behalf of Travelodge Hotels Ltd**

On behalf of our clients, Travelodge Hotels Ltd, we write to provide representations on the draft revised charging rates for hotels within Zone A.

At present within Zone A the charge is £40 p/sqm (or £49.11 index linked) and outside Zone A £30 p/sqm (or £36.88 index linked). These rates were based on evidence gathered in September 2012 and incorporated within a Charging Schedule adopted in 2015.

As set out within the Viability Update Study, on account of there being an apparent increase in applications for hotels within the Central Area of the Borough (Zone A), and an apparent significant growth in values for hotel development (as well as offices), an increase in the hotel CIL charge for Zone A is proposed, subject to viability appraisal.

The Viability Study undertaken by BNP Paribas Real Estate reviews the potential for developments of B1 uses and hotels to accommodate CIL rates in the Central Area/CIL Zone A of the Borough.

As set out in the Executive Summary:

*"The viability analysis in this study provides a high level understanding of the viability of potential development sites in the CIL Zone A of the Borough within the context of the cumulative impact of the Council's planning policies. It should be noted that some schemes may still require more detailed site and scheme specific viability analysis when they come forward through the development management process where further detailed information on infrastructure or site costs becomes available."*

We fully agree that the viability analysis only provides a high level understanding and should be treated with a high degree of caution, particularly as only one hotel development appraisal has been undertaken as the basis for informing the new hotel CIL rate. Fundamentally a CIL rate shouldn't be informed by a sample of 1. Once a CIL rate is adopted it is fixed and not a matter legally possible to negotiate during the planning process.

We therefore have further difficulty with the second half of the above quoted paragraph where it sets out that "*some schemes may still require more detailed site and scheme specific viability analysis when* *they come forward through the development management process….".* However, at this stage it's too late as the CIL rate has been set.

In considering the financial burden of CIL upon any scheme it's important to not lose sight of the fact that Mayoral CIL has increased considerably since 2015 with the rate increasing within the Central Area of Camden from £50 p/sqm to £140 p/sqm. Therefore an increase of £90 p/sqm is already in force.

We do not seek to comment upon the development appraisal methodology undertaken by BNP Paribas Real Estate, as set out within section 3 of the report, however, we do query some of the appraisal inputs used in the hotel appraisal. In looking at the appraisal inputs we have confined out comments to the most significant inputs that will have the biggest influence upon the outcome.

As set out already we do also query the robustness of a single hotel appraisal. The report states that the Central Area has seen a significant quantum of new hotel developments delivered and consented since the current CIL charging schedule was adopted. If this is the case, there should be a greater pool of evidence available to BNP to review; certainly, more than a single hotel scheme to establish some of the key appraisal inputs.

We note that the hotel scheme used is Travelodge Kings Cross (Grays Inn Road). The hotel appraisal assumptions are set out in Table 4.19.1 and we comment as follows:

[the end column says "Student accommodation" but this is an obvious typo]

<u>Capital Value</u> – This is obviously a very important input, with a figure adopted from a single transaction, however, these are always subject to site specific considerations so caution still needs to be applied. In this instance £40,000,000 is taken with this breaking back £266,667 per room (150 bedrooms). To be at such a capital value with a quoted yield of 3.25% requires rents to be at £8667 per room as per Appraisal 5 (base). Such a yield is considered to be too sharp and would be more like 3.75% at best and possibly 4% if the rent was felt to be on the high side. It may be the case that a 3.25% yield has been adopted from Travelodge Euston as this sold at this yield, but that hotel was under rented. If a yield of 3.75% was applied to a rent of £8667 this would provide a gross value of £34.7m. Alternatively, if a rent at the higher end of this range used in the appraisals (£7733/room to £9600/room) was taken (£9333/room) and a yield of 4% adopted, the capital value would be £35m gross and just less than £33m net, as shown below.

| | | | |
|---|---|---|---|
| Net Income | | | £1,400,000 |
| Net Initial Yield | | | 4.000% |
| Gross Value | | | £35,000,000 |
| | **Rate** | **Applied to** | |
| Stamp Duty at | 2.00% | £100,000 | £2,000 |
| Stamp Duty at | 5.00% | £32,531,367 | £1,626,568 |
| Total Stamp Duty | | | £1,628,568 |
| Agent & Legal fees (incl. VAT) | 1.800% | £32,781,367 | £590,065 |
| Total Purchaser's Costs | 6.77% | | £2,218,633 |
| **Net Value** | | | **£32,781,367** |

This shows how sensitive the capital value is to a change in yield and the degree of caution that needs to be applied. Equally the capital value of the single King Cross transaction may not be representative as stated.

<u>Base Construction costs</u> – The cost quoted at £237.55 per sqft that equates to £63,300 per room is too low. We are advised that the costs in BCIS are being skewed with non-London sites and not reflecting the complexity's associated with working in London. They also do not reflect the quality of elevations that Camden will no doubt want in their Borough as part of any scheme. Further, none of the scheme detailed in the BCIS analyses are Travelodge projects so are not representative of the construction cost. Information held by Travelodge and current tender information within London suggests that construction costs should be upwards of £80,000 per room (£300 per sqft), representing a significant 33% increase. Construction costs we believe are fundamentally too low.

<u>Benchmark Land Value</u> – It is clear from the analysis here that the benchmark land values established are hugely variable. The outcome of this, as stated in para. 6.15 of the report is that the results of the hotel development appraisals in the Central Area (CIL Zone A) suggest a maximum CIL charge of between £0 p/sqm (CUV3) and £1,246 p/sqm (CUV1) (with the CUV2 in the middle being £270). This is clearly a huge variance that will be further influenced by changes in gross development values and costs for the hotel appraisal scheme, that we believe could be significant as detailed above.

Para. 6.15 goes on to states that *"We recommend that the Council consider setting an increased CIL rate of £110 per sq m for such developments in the Central area (CIL Zone A) which accounts for a suitable buffer from the maximum CIL charge of £270 per sq m".* This is quoted as allowing a buffer from the maximum rate, however, given the uncertainty over many of the key inputs we do not consider it reasonable to conclude at this stage that a revised CIL rate of £110 p/sqm for Zone A [combined with Mayoral CIL at £140] will ensure the viability of hotel schemes.

A combined "hotel CIL rate" of £250 p/sqm would be a very significant cost to development.

Travelodge request to appear at the Examination.

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

Yours faithfully

**Nick Jenkins MRICS**
Director
Smith Jenkins Ltd