Response to Smith Jenkins' Response to Supplementary Evidence Requested by Examiner

Smith Jenkins on behalf of Travelodge comments	BNPPRE Response
Travelodge remain concern with the proposed hotel CIL rate of £210 borough wide with no adjustment for location. This is a particular concern as those locations within the Borough located away from the City Fringe, Canary Whalf and Bethnal Green that is very well located on the Central Line for the City are less able to support development values and CIL rates, with all hotel appraisals undertaken within the higher value areas.	BNPPRE appreciates that there is potential for values of hotels developed in less accessible parts of the Borough to differ from those in Borough. However, recent planning applications for hotels in the Borough are identified as predominantly being located in the city fringe (57%) and Isle of Dogs areas (28%) with the remaining developments (15%) being situated in locations with good accessibility. This is clearly demonstrated in the Council's most recently published Annual Monitoring Report 2012/2013 (page 32). Our appraisals have demonstrated that schemes in the Isle of Dogs and City fringe as well as those well located near public transport in the Borough are able to support the proposed CIL rate. We would highlight that Travelodge has not provided any evidence to the contrary.
We do not wish to further scrutinise all figures within the updated hotel appraisal but it does appear to be somewhat of a moving feast in terms of the appraisals selected by Tower Hamlets to support their proposed hotel CIL rate and some of the inputs to them. The various appraisals undertaken do show wide variations in the maximum CIL rates that are apparently able to be supported by them. For example the Ibis appraisal undertaken (ED2.2) shows that such hotel developments could accommodate a maximum CIL of between £539 and £112 dependant on the current use of the site. The updated Ibis appraisal (ED5.21) provides figures of between £672 and £213 per sq m, Given that the proposed hotel CIL rate is £210 this doesn't sit comfortably alongside these appraisals, relying upon CUV1 or CUV2 being adopted. Similarly the Bethnal Green appraisal undertaken identifies that the scheme could support a CIL charge of between £441 and £193 per sq m depending on the current use. Again relying upon CUV1 or CUV2 being the appropriate input in order to be able to "afford" the £210 CIL rate. We also note that construction costs for the scheme will be a little light as we are advised that the scheme did have cost overruns. Whilst we didn't quantity these in the information we provided to the Council, as we don't have the figures, it does require	BNPPRE undertook the appraisals as requested by the Examiner. 1) Re-running the appraisal of Hotel 2 at £26 per square foot as a result of Travelodge's representations and comments at the Examination. 2) Appraising the Bethnal Green scheme adopting the actual costs provided by Travelodge. The first appraisal amending the rent to £26 per square foot was based on an analysis of the rent on a gross internal floor area basis. It stands to reason that we removed the gross to net allowance in the appraisal given that the build costs are applied to the gross internal floor area, which the figure of 9,290 square metres (99,997.56 square feet) represents. The appraisal identifies that a maximum CIL charge of between £672 and £213 per square metre , dependant on the current use of the site is viable. The second appraisal was based on scheme specific costs and rent of the Bethnal Green Travelodge Scheme. BNPPRE took note of Travelodge's comments in their response highlighting that there has been overruns in the build costs and in this regard and in-line with market practice we allowed for a 5% contingency over and above the build costs and abnormal costs they

further caution to be applied to any appraisal outputs.	had identified. Thereby allowing for an additional £307,993 worth of build costs in our appraisal. Our appraisal of the Bethnal Green Travelodge identifies that the scheme could support a CIL charge of between £441 and £193 per square metre depending on the current use. As highlighted in our previous information (Appendix U: Further Hotel Appraisals) given the current use value of the site prior to the development of the hotels (the Fymfyg Comedy Club and Bar, a part two storey building which was formally a warehouse/clothing manufacturer), adopting benchmark CUV 2 would not be unreasonable. CUV 2 identifies a maximum CIL charge of £389 per square metre would be viable. In light of the above BNPPRE and the Council are of the view that the proposed CIL charge of £180 per square metre strikes the appropriate balance required by Regulation 14 between raising money to support necessary infrastructure whilst not impacting on the viability of such development.
In respect of the Travelodge Corrinader Avenue appraisal (either original or updated) we do not believe that a rent of £9,760 per bedroom or £26.86 p/sqft is the correct input due to the specific nature in which the current rent passing has been arrived at (as explained by Travelodge at the Examination). A more appropriate rent to adopt would be £7,500 per bedroom or £21 p/sqft. As again explained by Travelodge at the Examination and in their representations dated 22 April 2014. The outputs of the appraisal will be fundamentally different as a result.	BNPPRE disagrees with Travelodge and further has provided publically available evidence to support the level of rent that was agreed by Travelodge on the scheme (See Collier's International's Prime Freehold Hotel Investment Brochure for Travelodge Bethnal Green in ED5.14: Additional Appraisal Evidence – Hotel). In this regard Smith Jenkins' comments in relation to 'a more appropriate level of rent' are unsubstantiated assertions. We would highlight that this is the same approach taken in Travelodge's earlier representation in response to the Examiner's questions (dated 22 April 2014) which also contained unsubstantiated assertions in relation to rents i.e. it identified levels of rent that Travelodge would typically seek to pay and not details of actual transactions that Travelodge or other operators had actually paid.
In respect of the updated Premier Inn Goodmans Fields appraisal, we consider that construction costs remain too low for a complex scheme of this nature and for a Premier Inn, with a cost of £175p/sqft more appropriate. Again this will fundamentally affect the appraisal outputs.	Once again Smith Jenkins comments are unsubstantiated assertions as no evidence is provided to support this. Notwithstanding this position BNPPRE have re-run the appraisal allowing for a build cost of £175 per square foot, to consider the impact of such an increase in build costs. This identifies that a maximum CIL charge of

	Between £443 and £0 per square metre could be levied on such space dependant on the current use of the site, with CUV 2 identifying a maximum CIL of £233 per square metre. Given this position BNPPRE and the Council remain of the opinion that the proposed CIL charge of £180 per square metre for the LB Tower Hamlets strikes the appropriate balance required by Regulation 14.
In respect of the note provided on yields, again we do not wish to run through all of these, but it is firmly not Travelodge's experience that *"Transactions of hotels in outer London indicate that yields are at or just above 5%"* . City Fringe hotels may be able to command yields of 5.5% but strictly subject to site specific circumstances and covenants.	BNPPRE provided a schedule with a significant number of transactions across London (see Appendix T(2): Transactions) which supports the yields adopted in the viability assessment and the fact that transactions of hotels in outer London can achieve yields sub 6% and just above 5%. We would highlight that Smith Jenkins has not provided any evidence to support their position and in their regard their comments remain unsubstantiated assertions. We would highlight that in our assessment based on somewhat historic transactional evidence (both in 2011) we have adopted yields of 6.4% for the IBIS assessment and 6.3% for the Bethnal Green assessment. Both of these identify that schemes can support the CIL charge as proposed. BNPPRE notes that the market has improved, as demonstrated by the details of transactions submitted to the Examiner. We note that Savills report in their UK Hotel Investment Report Q3 2014 publication that yields compressed further over the first half of the year with further compression of yields expected over the remainder of 2014 and into 2015.
The hotel CIL rate should be reduced as a result of the above, to try and ensure that future hotel development is not prejudiced and that "some" CIL is collected also.	It is highlighted that Smith Jenkins have not identified what rate the hotel rate would need to be reduced to ensure *'that future hotel development is not prejudiced and that "some" CIL is collected also'* and further have not provided any evidence to support the need to reduce the proposed hotel CIL rate. We also note that Smith Jenkins appear to consider the rate to £210 per square metre and in this regard the proposed rate is lower at £180 per square metre. In light of this and the above responses to Smith Jenkins' comments, BNPPRE and the Council remain of the opinion that the proposed CIL charge of £180 per square metre for the LB Tower Hamlets strikes the appropriate balance required by Regulation 14.