

Jennifer Howard

From: Ian Sowerby <[REDACTED]>
Sent: 22 July 2015 15:05
To: EHDC - Local Plan
Subject: CIL EXAMINATION - LAMRON ESTATES' RESPONSE TO EH 06
Attachments: is7337july2215rebuttal.pdf; Highlighted Appraisal.pdf; E-Mails from Travelodge and Pl.pdf

Good afternoon.

Please find attached our response to CIL examination document EH-06, on behalf of Lamron Estates.

Regards.

Ian Sowerby BA MSc MRTPI
Partner



BELL CORNWELL LLP, Oakview House, Station Road, Hook, Hampshire, RG27 9TP
[REDACTED]

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Background

A meeting was held at EHDC offices on 10th June 2015 between representatives of Adams Integra (on behalf of EHDC), Lamron Estates and Bell Cornwell, at which various elements of the former's commercial development appraisal were discussed.

We were surprised to find that Document EH-06 and the associated development appraisal ignored much of the factual evidence provided by Lamron Estates at that meeting.

General Comments

Firstly, the covering note suggests that the case put forward by Lamron Estates was based on their proposed budget hotel at Alton. This was not the case. The empirical evidence was derived from their actual developments at Fleet, Basingstoke & Newbury, each of which has been completed in the last 2-3 years.

In terms of site area, the 4-storey, 70-bedroom, Premier Inn at Fleet – built on an edge-of-centre brownfield site – occupies a site of 0.32 ha, with undercroft car parking. For a comparable 100-bed hotel (this being Adams Integra's model size) the minimum site area would be 0.45-0.5 ha. Consequently, the site area of 0.342 ha suggested in Adams Integra appraisal is wholly inadequate for a 100-bed hotel.

Adams Integra have admitted that their experience of Premier Inn developments is based solely on figures set out on the PI website. Such generalised figures are notoriously unreliable as they are designed to attract investors. Based on those figures, Adams Integra assume a land price of £580,490 per hectare (£234,921 per acre) for a 0.5ha site, which is significantly below current land values in the south east.

Detailed Comments

Our detailed comments on the commercial development appraisal are set out in the table, overleaf.

Summary & Conclusions

Simply deducting the rent-free concession (Item 2) produces a negative land value. When the other additional costs are added in (Items 3-7), plus the reduced room rental (Item 1), a zero CIL charge is clearly appropriate.

On the above basis, we strongly refute that the budget hotel sector can support any CIL charge at all; imposing a charge of £70m² as suggested will preclude the provision of any much-needed additional budget hotel accommodation in the District. It is relevant that none have been built in the area recently in the absence of that additional financial constraint.

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22nd July 2015

Commercial Development Appraisal – Detailed Comments

Item	Subject	Comments
1	Room Rate	The maximum room rate for a non-city location is £4,750, based on the market evidence provided at the examination. Adams Integra produced no counter evidence and confirmed that their data is based on a Winchester example – a city with significant tourist visitor levels
2	Capital Value	The deduction of 6 month's rent free from the tenant has been ignored, despite Lamron providing Adams Integra with written confirmation from both Travelodge & Premier Inn that this is standard practice. <i>Further copies are attached hereto</i> . In the Adams Integra appraisal, the rent free amount would equate to £250,000
3	Build Costs	Lamron produced evidence at the examination that the new build cost for a Premier Inn – based on the recently completed projects at Fleet and Basingstoke – is £65,000 per bedroom = £6.5 million for a 100 bedroom hotel, <u>not</u> £5.64 million as suggested in the Adams Integra appraisal
4	Professional Fees	The 12% fee should be based on the demolition + build costs + external works. This equates to £722,953, rather than £689,073. If the Lamron £6.5m build cost is inputted, that figure increases pro rata.
5	Letting Legal Fees	These should be 5%, not 2.5%
6	Agents Fees	There will be agents for both the buyer and the seller, so the fees will 2 x 1% = 2%. On the legal fees, these will also be doubled up to 1% rather than 0.5%.
7	Developer's Profit	It is widely accepted that a reasonable developer's profit is 20%, which was the figure used in Adams Integra's original appraisal. There is no explanation as to why the lower figure of 15% has been introduced into the revised appraisal.
8	Residual Land Value	Developer's profit on the land price of 20% should be deducted from the RLV, which results in a figure significantly less than £240,245. In any event, a RLV of £240,000 will not be sufficient to acquire a site for a hotel development. As Lamron advised in their previous submissions to EHDC (June 2014), a realistic site price for a 100-bed hotel is £900,000
9	Existing Site Value	The ESV figure appears to be based on an industrial site in an industrial zone – this is a totally inappropriate location for a budget hotel.
10	Surplus to Fund CIL	The above items mean that there is no surplus available to fund CIL. Simply deducting the rent-free concession (Item 2) produces a negative land value. When the other additional costs are added in (Items 3-7), plus the reduced room rental (Item 1), a zero CIL charge is clearly appropriate.

NB – for ease of reference, the items in the table are highlighted and numbered on the attached version of the Adams Integra appraisal.

Commercial Development Appraisal

Use Class: Hotel

DEVELOPMENT VALUE			
Capital Value	Area sq m	£	
No of Rooms	100	£5,000	1
Rental value per room		£500,000	
Investment Yield	5.00%	£10,000,000	3
Total Capital Value			
Gross Development Value			
		£10,000,000	
Less Purchaser's Costs			
		5.75%	£575,000
			£9,425,000

DEVELOPMENT COSTS			
	Area	£ per sq m	Total
Demolition/Enabling Costs	1,909	£50	£95,450
Building Costs		£1,479	£5,646,822
Area	3,818		
Contingency		5%	£282,341
External Works		5.00%	£282,341
Professional Fees		12%	£689,073
Community Infrastructure Levy		70	£267,260
Total			£7,263,287
Disposal Costs			
Letting Agent's Fee (% of Rent)		10%	£50,000
Letting Legal Fees		2.50%	£12,500
Agent's Fees (on capital value)		1%	£100,000
Legal Fees (% of capital value)		0.25%	£25,000
Total			£187,500
Interest on Finance			
Total Development duration	12	Months	% Total
Loan arrangement fee		1%	£36,316
Interest on Construction Costs		6.5%	£472,114
Total			£508,430
Profit			Total
Developer's Profit on Total Development Cost		15%	£1,193,883
Total Development Costs			£9,153,099

LAND VALUE			
		%	Total
Land Surplus		4%	£271,901
Stamp Duty		1.00%	£10,876
Agent's Fees		0.50%	£2,719
Legal Fees		0.50%	£1,360
Total			£14,955
Interest on land finance		6.50%	£16,701
Total			£31,656
RESIDUAL LAND VALUE			
			£240,245

Existing Site Value			
	%		
Assumes existing space is % of new	50%	1,909	
Rent per sqm		£48	
Rental Income per annum		£91,632	
Rent free/voids (Years)	2	0.82644	£75,728
Total revenue, capitalised (Incl all costs)		10%	£757,284
Refurbishment costs (per sqm)	£260		£496,340
Fees	7%		£34,744
Total			£531,084
Purchaser's Costs	5.75%		£43,544
			£574,628
Existing Site Value			£182,656

Site Value Incl Landowner Premium 20% £36,531 £219,187

Surplus available to fund CIL £21,057

Surplus to fund CIL - sensitivity

Construction costs	£1,379	£1,479	£1,579	£1,679	
Investment Yield	4.50%	£1,729,251	£1,222,820	£716,388	£209,956
	4.75%	£1,249,679	£743,248	£236,816	£269,615
	5.00%	£818,065	£311,633	£194,799	£701,230
	5.25%	£427,556	£78,876	£585,307	£1,091,739

Surplus after CIL Charge £21,057

CIL Charge as % of GDV 2.67%

Malcolm McPhail

From: David Huck <[REDACTED]>
Sent: 04 June 2015 17:42
To: Malcolm McPhail
Subject: Fwd: Community Infrastructure Levy

FYI

From: Alan Oliver <[REDACTED]@travelodge.co.uk>
Date: 4 June 2015 16:51:31 BST
To: David Huck <[REDACTED]>

Let me know if there's anything else you need on CIL but I would confirm that 6 months rent free is standard, as is a Tech Services Fee of £2.8k per room. We also charge the developer between £2.5k and £3.5k per room for loose fixtures fittings and equipment.

Regards

Alan Oliver
[REDACTED]

On 4 Jun 2015, at 15:20, David Huck <[REDACTED]> wrote:

Thanks Alan , very helpful

I'm ok now having snapped my
Achilles' tendon up in Scotland back in Jan . Only just got rid of my crutches
and learning to walk again !

Regards

David

Sent from my iPhone

On 4 Jun 2015, at 14:34, Alan Oliver
<[REDACTED]@travelodge.co.uk> wrote:

David

Good to hear from you - trust all is well.

We have been very successful in opposing CIL proposals in the London

Boroughs and it may be worth you or your client speaking to Nick

Jenkins (copied in) as he co-ordinated the whole process and is probably the world's leading expert on the subject!

Regards

Alan Oliver



On 4 Jun 2015, at 14:09, David Huck
<[redacted]> wrote:

Hi Alan , can you help please ?

A developer client of mine is objecting to the proposed CIL charge rate on hotels .

To assist him can you please confirm the standard requirement of Travelodge in respect of rent free on leasehold transactions .

Also please confirm that a Technical Assistance Fee of £. is also paid by the Developer to Travelodge on all Leasehold transactions

Many thanks , and trust you are keeping well ?

Regards

David

Sent from my iPad

Malcolm McPhail

From: Peter Spelman <[REDACTED]>
Sent: 02 June 2015 07:58
To: Malcolm McPhail
Subject: RE: PI - LEASE DEALS.

Malcolm,

I confirm the minimum requirement for Premier Inn is a 6 month rent free period on any new leasehold deals.

This has been achieved at Fleet, Basingstoke, Winchester, Portsmouth, Newbury, Slough, Woking, Maidenhead and Slough.

Regards

Pete

From: Malcolm McPhail [REDACTED]
Sent: 01 June 2015 19:34
To: [REDACTED]
Subject: PI - LEASE DEALS.

Pete.

As the main retained agent for PI for the Hampshire area - can you please confirm that it is a standard requirement of PI to achieve a minimum of 6 months rent free on any new leasehold deals.

Can you also please confirm the number of transactions over the last 2/3 years where you have achieved that and more.

Thanks.

Regards.

M.