HAMPSHIRE HOTEL FUTURES

Site Assessment, Developer Testing & Issues Paper

Final Report

Prepared for
Hampshire County Council
& Tourism South East

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1. INTRODUCTION

1.1 Background to the Study

The Hampshire Hotel Trends Survey (2005) - which reviewed the performance of hotels and assessed the market potential for hotel development - detailed the need for a proactive and co-ordinated approach to securing new hotel development. In terms of moving forward recommendations included:

- The preparation of **hotel investment materials** for locations with identified hotel development potential;
- **Proactive targeting** of hotel companies that are actively developing the types of hotel product for which potential is identified in Hampshire;
- Identifying a **central point of contact for hotel developers in each local authority to facilitate enquiry handing;**
- The identification, promotion and possibly allocation of **sites for hotel use to address the difficulties being experienced securing hotel sites.**

Since the 2005 study was published, Hampshire County Council and its partners have worked with TSE to begin the development of hotel investment materials based on the performance review, and have held an investment seminar to begin disseminating the findings of the study both to colleagues within the local authorities, and to private sector hotel developers and investors.

The launch at the beginning of March 2006 of an inward investment website and materials by TSE provides an ideal tool for local authorities to promote identified hotel potential and sites to hotel developers and investors. Hampshire's performance data from the Hotel Trends study has now been added to this, and local authorities are being asked to put together key employment and tourism factsheets to support the hotel data.

Unlike other partnership studies that TSE has undertaken, however, the 2005 study did not incorporate any testing of investment interest with hotel developers, or work to identify and assess sites for hotel development. These modules or work have a clear role to play in moving the potential identified forward into action on the ground.

Tourism Solutions and ACK Tourism were commissioned to fill this gap, and the findings of this research are presented in this report.

1.2 The Approach

There were two distinct strands to the work, although an inter-relationship between them.

(1) The identification and **assessment of hotel sites** in the county.

The market appraisal identified 10 destination locations with potential for new hotel development. Two of these (Havant and Petersfield) had been the subject of detailed local studies that included site assessments. The remaining 8 however, required sites work to be undertaken. The locations were Southampton, Portsmouth, Basingstoke, Winchester, Farnborough/Aldershot/Fleet, Fareham/Gosport, Eastleigh, Andover/Stockbridge/Romsey.

The research involved:

- Meeting with the key officers in the local authority – including estates, economic development, tourism and planning - to identify and discuss potential sites with them;
- Viewing and assessing the sites;
- Feeding back these assessments to the local authority in each case;
- Conducting follow up research on sites where required;
- Agreeing a list of sites to be included on the TSE website
- Compiling site information to a set format on each of the sites

(2) **Testing hotel developer interest** in Hampshire.

This module of work involved approaching a range of hotel operators and investors across the range of products matching the identified market potential, and testing out their interest in each of the key locations. The list was drawn from our own database, plus any information supplied by local authorities on enquiries received from hotel companies. The research was conducted primarily via structured telephone interview, plus a number of face to face meetings with hotel companies where this could be scheduled in the timeframe of the study.

The developer and operator testing made a valuable input into the site assessment process also, as hotel companies:

- Gave their views on whether they wished to be in town or out of town in each location;
- Identified specific sites or general locations of search, some of which had not been identified by the local authority teams;
- Provided feedback on the obstacles hotel companies face in identifying and securing sites for hotel development;
- Shed some light on the types of deal they are seeking, and what works or will not work for them in each case.

1.3 Reporting

This report is a final report of the research findings. During the course of the work, each Local Authority has also been fed back a list of hotel sites discussed with a view on these and associated commentary, with the purpose of working up some sites for inclusion on the TSE hotel investment website. These were in essence working documents that have been drawn together in a confidential appendix, together with hotel developer/operator contacts.

This report presents:

- An overview of the key issues emerging from the site assessment process; we also include in this section at the request of local authority officers some information on developer requirements and types of deal that hotel companies will look at, as this clearly affects their likely interest in particular sites;
- A summary of developer interest expressed with some associated commentary;
- Some concluding thoughts on moving forward.

2. IDENTIFYING SITES FOR HOTEL DEVELOPMENT

2.1 Developer Site Requirements

Hotel companies generally work to a set of key investment criteria that they use to help them put together their national development strategy and trawl for sites. Clearly there is some variation between different types of hotel product, but below we set out some of the main criteria in outline:

- **Location** – achieving critical mass and geographic spread is important to all national hotel brands. They will target primary locations first, which tend to be larger regional cities, then move on to secondary and tertiary locations, which can be better supported by the rest of the group once brand awareness is high.

- **Site requirements** include:

  - Strategic locations with good access;
  - Visibility to passing traffic;
  - A strong business base close by, with sectors that are productive for hotel roomnights (e.g. financial and business services, regional and national headquarters);
  - Leisure drivers to fill the rooms at weekends (proximity to attractions, speciality shopping, restaurants, events);
  - Site areas of 0.5-6 acres (dependent upon range of offer and ability to develop vertically);
  - Land values that reflect hotel economics (£5,000-£15,000 per room);
  - An attractive environment;
  - Minimum population of 50,000-100,000 for smaller units and budget/ mid-market offers, 100,000-150,000+ for larger developments and products at the quality end of the market;
  - City centre and out-of-town sites;
  - The need for associated development where land values are high;
  - Redevelopment sites where opportunities are limited and competition for sites strong.

- **Development costs** – the control of costs is critical to hotel viability, but land and building costs have been driven upwards since the recovery from the recession of the early 1990s. This has resulted in:

  - A move towards larger hotels
  - The need to tailor the hotel product and design to the site
  - The development of hotels in association with other uses (restaurants, bars, leisure clubs, residential).

- **Financial and performance criteria** – viability is a function of development cost, occupancy and achieved room rate, and performance ranges will vary by product type. Typically:

  - Occupancy targets of 70-75% - or 80%+ for smaller budget hotels;
  - ARR (Achieved Room Revenue, ex discounts, VAT and breakfast)) targets of £35-£45 (budget), £55-£70 for upper tier budget and new generation 3 star offers, and £70+ for 4 star products, with luxury 4/5 star, country house and boutique/ town house hotels often looking to achieve £100+;
  - Return on investment ranges of 15%-25%.

Having identified the criteria that drive hotel company's hit lists, there is one other important point to make – most hotel development is essentially opportunistic; despite their desired locations, ultimately they invest where the sites come up, so there is a real opportunity to influence them, providing you have the evidence base in place to encourage them to take a closer look.

2.2 The Nature of Hotel Investment

As a backcloth to assessing both site suitability and potential hotel company interest in Hampshire, it is important to have an appreciation of the nature of hotel investment and operation, as well as the structures that are used for the financing of hotels. There are four principal vehicles for hotel development and operation:

- Some hotel companies wholly own and manage their hotels themselves. They raise the capital, and as hotel development is capital intensive and returns longer term, this can restrict the pace at which such companies can develop.

- Other hotels are run via management contract – an agreement between the owner of the hotel and a hotel company for the latter to run the hotel. The hotel would still appear to the public to be part of the operating chain. The hotel operator gets a fee for this task, usually a percentage of turnover.

- A further option is a lease, whereby an operator pays a rent for use of the building or land; the risks are then with the operator not the owner, as the latter has a fixed return.

- Franchise agreements are also commonly used in the hotel industry, giving an operator or investor the right to use a brand name although the hotel is in separate ownership from the chain. Fees are charged for this relating to royalties, reservations and marketing.

The levels of risk and capital outlay required by a hotel company therefore vary considerably between these options. Many more operators are likely to be interested in options put to them that involve management contracts than in building and funding development themselves, as access to capital will naturally restrict the latter and require hotel companies to prioritise their investment locations Many of the chain hotel companies will have a mix of the above structures in place, though some do prefer a single route. It can be seen from the above that the owners of hotels need not themselves be hotel companies, and include property and institutional investors. Due to the levels of investment involved in larger high quality 4 star hotels, there is a greater likelihood of these being developed via management contract, franchise and lease. A number of the newer, expanding brands such as Tulip Inn and Days Inn are also going down the franchise route in order to expand the brand quickly

2.3 Emerging Issues

There were a number of issues relating to sites coming out of the consultations with local authority officers conducted by the consultancy team, many of which were similarly reflected in the feedback from hotel developers.

The main issues identified were:

- Concern over the lack of 'joined up approach' within local authorities. Getting senior level staff around the table to meet with us and think across functions was a real challenge, partly due to the extremely heavy workloads of all dealing with development in the South East, but partly also due to the fact that tourism and hotels are often perceived as peripheral rather than mainstream activities;

- As a result, many of the officers either were unaware of the Hotel Futures work or didn't recall receiving a copy of it. Dissemination of research findings like this is critical to future success, and yet so many local authority staff are bombarded with reports that there is a real danger they get overlooked;
- The same can be said in many cases about other reports and guidance issued by TSE which could be extremely valuable to local authority planning, estates, economic development and tourism teams, such as the 'Attracting Hotel Investment' planning guidance and the 'South East Rural Pub Accommodation Study' and associated planning and business advisory guidance;
- Some further thought clearly needs to be given as to how to improve these channels of communication, both from TSE into local authorities, and internally between local authority officers;
- One of the key messages coming out of this and other hotel-related work in the South East is the difficulty of acquiring sites and a failure to plan for hotel development. The preparation of LDFs is an ideal opportunity to address this, and the Hotel Futures study provides the required evidence base to inform these policies and actions Yet there were still some local authorities that we met who did not have any policies relating to hotel development even in the emerging LDF;
- A further issue here relates to the possibility of allocating sites for hotel use. Either as part of a mixed use scheme or as a hotel use only. We found little evidence of a willingness currently to allocate sites for hotel use, despite the problems investors are facing making hotel schemes stack up financially in the face of competition from higher value uses. Many officers felt that hotel needs were not sufficiently high up the political agenda to justify such action, with priorities more focused on issues like affordable housing;
- Whilst hotels were or had been discussed as part of mixed use schemes, we came across several examples of hotels being squeezed out on value, and a danger that this might happen with future schemes currently under discussion;
- Whilst sites in local authority ownership present an opportunity for greater flexibility and control of end use, local authorities themselves are under increasing pressure to achieve the best value they can for land they dispose of to meet other targets;
- In terms of the location of development, the sequential test was a key issue for everyone we spoke to in these consultations Whilst hotels are seen as primarily a town centre use, regional planning guidance does allow for development outside

the town centre where it relates to a particular generator of demand, for example, yet most local authorities are not considering such out of town sites currently believing they would get knocked back;

- Examples of proactivity in relation to hotel development and attempts to attract and facilitate hotel investment in Hampshire were few and far between. Portsmouth stands out as an example of good practice here, having produced their own materials, consulted employers about hotel needs, identified sites and hosted hotel developer visits – although much of this initiative dates back several years. For the most part local authorities in Hampshire remain reactive in terms of hotel investment, often with no-one having the overview of which companies have been in touch or the facility to follow these up at a later date.

Change will be needed in a number of the problem areas identified above if hotel development is to flourish in Hampshire, and indeed there are good reasons to believe from our research that development is currently being held back in many locations in the county as a result of the issues identified here.

3. TESTING DEVELOPER INTEREST

3.1 The Sampling Approach

Interest in new hotel development in an area is by definition an indication of the perceived strength of the market – hotel companies have millions to spend on hotel development, and can seek to locate anywhere in the UK or indeed overseas; if they are interested in developing in a destination, then clearly they have identified that the market exists for their product.

As the basis for establishing hotel developer/operator interest in Hampshire, Tourism Solutions/ACK Tourism conducted a series of structured telephone interviews, plus some face0to-face consultations, with key personnel (at Managing Director or Development/Acquisitions Director level) in the principal and emerging branded hotel chains to establish:

- Their current or potential interest in developing in Hampshire, particularly probing those locations where the market appraisals had indicated development potential;
- The locations and specific sites that they were considering;
- Their view of each location as an investment location;
- Key issues influencing their investment decisions;
- The size and standard of hotel they would be seeking to develop in each case;
- Their specific site requirements;
- Obstacles to development and how these could be overcome;
- Support required in furthering any interest they may have;
- In the case of those companies not interested in investing in Hampshire destinations, the identification of reasons behind this, as well as the conditions that would be required for this to change.

Time allocations within the study have not allowed for a total trawl of hotel companies, but sampling has been used to test the water across the spectrum of provision, from budget hotels through to luxury operators. The selection of developer/operators to sample was also informed by our market research, with a particular focus on those products for which the research had identified market potential. Where information was available, we also followed up any past interest expressed by hotel companies directly to local authorities.

3.2 Hampshire As An Investment Location

Before moving on to detail which companies were interested in specific locations in the County, we provide an overview of how the County and its component destinations were perceived by the hotel sector as an investment location:

- Generally Hampshire was seen as a strong investment location for hotels. This is a function of:
    - Good access via motorways like the M3 and M27 and principal A roads like the A3;
    - The benefit of the London influence and in the north of the County the M4/Thames Valley corridor;
    - Some key destinations in terms of corporate development;
- Destinations like Southampton and Portsmouth were on everybody's hit list if their hotel group was not already represented there; they are major regional cities, with a well-developed hotel sector and a strong product base, and there was a range of product interest here, from budget through to luxury hotel offers;
- There was also strong interest in Basingstoke, Farnborough and Aldershot; there was some concern about weaker leisure markets here, although an awareness of strong weekdays with lots of denials. Because of the weaker leisure market, there was less interest from the larger 100-150+ room 4 star operators, but there was interest from larger budgets, upper tier budgets, and 3 star operators;
- There was less awareness amongst the market of smaller towns in the County, but still some interest, primarily from budget and possibly upper tier budget operators where the rates are stronger eg Fareham, Petersfield, Andover;
- Winchester was seen as strong for luxury offers, particularly boutique hotels; this is a reflection of the character and appeal of the city as well as its affluence. The performance of hotels like Hotel du Vin has helped to put the city on the map and build confidence.

At an overall level there was a broad match of developer interest with the market potential identified in the Hotel Futures study; the main variation was where recent development had taken place and perhaps mopped up any immediate undersupply, yet operators remained interested for their medium to long term portfolio needs. 3 star development in Southampton is a good example. In reality, development would go ahead in these locations if sites could be acquired, and the newer stronger hotels would probably take from the weaker elements of supply until the market caught up and demand and supply came back into balance.

There was interest somewhere in the County for the whole range of hotel offers from luxury, boutique and destination hotels/resorts, through to budget hotels and quality pub hotels.

The likelihood of any individual operator being interested in a specific location was a reflection not only of the market but also of their differing objectives as developers, operators and investors Those brands new to the UK will only target major regional cities first; those with a sister brand in a city may not want to compete with an alternative brand (eg Holiday Inn and Express); whilst well-represented brands like Premier Travel Inn will look at tertiary locations and many small towns due to the support their large network can give. At site level, the response of those consulted also varied according to the type of deal being sought and offered.

3.3 Hotel Developer Interest in Hampshire

There was interest in hotel development for over 30 different hotel products in Hampshire, with many of the developers and operators of these hotels interested in more than one location. 18 towns or cities were identified as targets or potential targets, plus there was interest from some developers/operators in sites in the rural area eg for pub rooms, country house hotels.

The table overleaf summarises this interest by location and standard/type of hotel. In some cases, companies were not sure whether a location was suitable for their brand or were unclear between for example a 4 star or 3 star/upper tier budget offer, and in such cases we have marked these up as interest subject to further investigation/review of market evidence

We have also included in this table interest expressed in the previous Hotel Futures study, where a response was not received this time, so that these enquiries can be picked up in future inward investment work.

Contact details for each developer/operator are included at Appendix 2

HOTEL DEVELOPER AND OPERATOR INTEREST IN HAMPSHIRE

Location	5 Star	4 Star	3 Star	Upper Tier Budget	Budget	Boutique/ Town House	Suite/ Long Stay	Country House Hotel/ Resort	Quality Pub Rooms
Portsmouth		Radisson? Novotel MacDonald[1] Crowne Plaza[2] Thistle[2] Days Hotel	Village Courtyard Jurys Park Inn	Bropar Encore Future Inns	Etap Premier Travel Inn Days Inn	Alias?	Staybridge Executive Roomspace[2] Days Suites	Simon-Matthews-Williams	
Southampton	Millennium Copthorne[1]	Radisson? Days Hotel	Village Courtyard Park Inn	Bropar Encore Tulip Inn	Etap Innkeepers Lodge Travelodge Days Inn	Local[1]	Staybridge Days Suites	Simon Matthews-Williams	
Eastleigh			Village	Bropar	Etap Innkeepers Lodge Days Inn				
Fareham			Village Courtyard?	Bropar Encore	Innkeepers Lodge Days Inn Travelodge				
Gosport					Premier Travel Inn Days Inn Travelodge?				
Havant			Village Courtyard?	Bropar	Days Inn				

Petersfield			Local[2]		Premier Travel Inn (u.c.)			Exclusive[2] Hand Picked[2]	
Bordon			Local[2]						
Aldershot			Courtyard Park Inn?	Bropar Encore	Etap Innkeepers Lodge Days Inn				
Farnborough		Golden Tulip	Village Courtyard Park Inn?	Bropar Encore	Etap Travelodge Innkeepers Lodge Days Inn				
Fleet				Bropar Encore	Days Inn				
Basingstoke		Novotel	Village? Courtyard Park Inn?	Bropar Encore Tulip Inn	Etap Travelodge Premier Travel Inn Innkeepers Lodge Days Inn			Simon Matthews-Williams	
Winchester			Courtyard	Bropar Somerston	Etap Travelodge Premier Travel Inn Innkeepers Lodge Days Inn	Finesse Alias?		Simon Matthews-Williams	
Andover				Bropar	Travelodge Premier Travel Inn (u.c.)			Simon Matthews-Williams	

					Days Inn				
Stockbridge									Old English Inns (existing)
Romsey					Innkeepers Lodge?				
Waterlooville					Innkeepers Lodge?				
Ringwood				Bropar					
Urban Fringe/ Rural Locations								Exclusive Hand-Picked Simon Matthews-Williams Warner Just for Adults?	Gales?[2] Old English Inns?[2]
Other locations					Innkeepers Lodge[3]			Simon Matthews-Williams	

Notes:

1. Interest expressed through contact with the local authority
2. Interest expressed in earlier District surveys for East Hampshire and Havant
3. Currently building at Fontwell Racecourse and Kempshott Park

- Bropar are franchisees of upper tier budget and long-stay brands
- Somerston are franchisees of Express by Holiday Inn
- Ramada Encore franchisees are BDL
- Courtyard interest comes from Harrell Hospitality
- Both Radisson and Park Inn are operated by Rezidor
- Other locations includes racecourses, leisure facilities and attractions
- ? = Possible interest – unclear about potential or insufficient knowledge of the destination

3.4 The Barriers to Investment

Hotel developers and operators were asked to identify the principal obstacles to investment that they face in Hampshire, many of which are in fact common to other locations in the South East. They identified four main groups of difficulties they face:

- A poor understanding of the hotel sector amongst local authorities and potential development partners This can manifest itself in a number of ways:
    - Hotels may not be high on the political agenda, often because there has been no evidence of need; studies like the Hotel Futures report can help address this;
    - If they are on the political agenda, the aspiration may well be for a product that doesn't fit the market – often a 4 star hotel is sought for reasons of civic pride, anecdotal evidence that key employers have nowhere to place their VIP guests, or an identified regeneration benefit. Again this shows the importance of good market information;
    - There is also a mis-understanding of what quality means in the modern hotel offer – often there is an aversion to the term budget or limited service, yet these products will meet the needs of the majority of destinations well;
    - The other way that this misunderstanding manifests itself is with developers of mixed use schemes or those selling land, who have unrealistic expectations of what hotel companies can pay for sites.
- The difficulty of acquiring sites, particularly:
    - The availability of land – many hotel companies have used up their land banks and with restrictions on out of town development much of the green field and town centre land has now been used up also;
    - Site values – even more so with development being pushed into town centres;
    - Competition for sites – hotels find themselves increasingly competing for sites with much higher value uses, especially residential, retail and office.
- The planning challenge, to which there are a number of aspects:
    - Policy and plan-making – getting hotel needs into the local plan has been an issue; hotel companies are concerned that they are not consulted, and they are not good at lobbying as a body;
    - Planning advice, enquiry handing and processing of applications – the main criticism is the time taken to achieve planning, coupled with a lack

of a co-ordinated response – despite the need to consult highways, conservation, tourism, economic development – and inconsistent advice being given between officers and members, and also varying between local authorities for no clear reason

- Sourcing information and contacts:
    - Hotel companies expressed frustration at the difficulty they generally experience in getting information on sites and other information needed as background to their feasibility assessments. The Local Authority is the natural first port of call, but hotel operators frequently have to speak to 6 contacts or more (Tourism Officer, Planning Officer, TIC Manager, Economic Development Officer, Highways Officer, Estates Officer etc) to get the data they want – and still often don't secure what they need

In spite of all the above, some hotel development is still happening in the County and more widely in the South East, but clearly there is considerable room for improvement to create a much more enabling and facilitating framework for hotel development that will benefit both the sector and the destinations concerned.

4. MOVING FORWARD

4.1 Key Principles Action Plan

There are a number of good practice lessons to emerge from this sites review and developer consultation work that should form the basis of a hotel investment action plan for the County, to be delivered in partnership with the Districts, Unitaries and Boroughs, and with Tourism South East.

The key principles of this Action Plan are:

- First, make sure you know your market, to ensure that your aspirations for hotel development are realistic and sustainable;

- Produce an evidence base of hotel performance and need, using the sorts of performance indicators that the hotel sector uses to guide its decision-making;

- Tackle the sites issues, through site identification, allocation and promotion, using all the tools available to the local authority as planning authority and sometimes landowner;

- Plan positively for hotels – think through the policy implications of the research and ensure these are reflected in the new LDF, as well as any Masterplans or Area Action Plans, and translated on a site basis to Development Briefs. Delivering a planning process that is flexible, fair and timely re decisions should be a key objective in meeting hotel development needs;

- Prioritising hotel needs and delivering a joined up approach within the destination – this includes moving the needs of the hotel sector up the political agenda, and across the multi-disciplinary teams that are required to respond to ensure greater focus and integration;

- Armed with market evidence and a more enabling planning framework, there is also a great opportunity to be much more pro-active in dealing with hotel development, targeting those companies and products that can best benefit the destination and identified needs;

- Ensuring you have the right sort of market, economic and tourism data and inward investment materials that can help influence hotel investment decisions will be key to translating generated interest into development on the ground;

- Markets move on, and it will be important to ensure that destinations keep a finger on the pulse of the hotel sector and its performance;

- Learn from good practice elsewhere – Tourism South East has issued planning guidance for local authorities in a number of relevant areas that could be of benefit to planning, tourism and economic development teams in their policy formulation and work planning; many of these can be accessed via TSE's website or Development Team.

4.2 Next Steps

As a result of this work, a number of sites have been prepared for inclusion on the TSE hotel investment website. However, this is not an end in itself- merely a 'taster', a vehicle to communicate with the hotel developer and to provide opportunities to engage with them.

Clearly each local authority needs to work up an individual as well as collective response to the issues raised and find ways to build on this and to work more effectively to facilitate the hotel development process, to the benefit of all involved