

SOUTH HAMPSHIRE HOTEL FUTURES

EXECUTIVE SUMMARY

Prepared for:
Partnership for Urban South Hampshire (PUSH)
Tourism South East

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1. Study Objectives and Purpose

The South Hampshire Hotel Futures Study was undertaken by Hotel Solutions between January and April 2010 for the Partnership for Urban South Hampshire (PUSH) and Tourism South East. The objective of the study was to build on previous hotel sector research covering South Hampshire to provide a comprehensive and up-to-date understanding of the future potential for hotel development across the Sub Region and to determine how PUSH can best support and inform the development of the hotel sector in South Hampshire as the Sub Region's economy and tourism offer develop over the next 20 or so years.

The report was completed before the general election in May 2010 and before the coalition government's announcement in July 2010 regarding the abandonment of regional spatial strategies. Information relating to development sites and economic growth is under review and may need to be revised.

2. Current Hotel Supply

There are currently 98 hotels in South Hampshire with a total of just over 6,400 letting bedrooms. South Hampshire has a mix of branded and independent 3 and 4 star hotels, Holiday Inn Express upper-tier budget hotels and branded budgets hotels spread across the Sub Region. Small boutique hotels have also started to develop in Southampton and Southsea and serviced apartments have begun to develop in Southampton and Portsmouth. South Hampshire's 4 star hotel supply is located primarily in the M27 Corridor. There is only one 4 star hotel in Southampton city centre and no 4 star hotel in Portsmouth city centre. There have been relatively few new hotel openings in South Hampshire in the last 5 years. The only significant new hotels have been the Jury's Inn in Southampton, which opened in 2005, and Etap economy budget hotels in Southampton and Portsmouth, which opened in 2008. The Dolphin will reopen in Southampton in May 2010 as a 4 star hotel following a major refurbishment and expansion programme.

3. Hotel Development Proposals

There are currently proposals for at least 43 new hotels across South Hampshire, which could deliver almost 5,000 new hotel bedrooms if they all went ahead. Many already have planning permission. Others are at earlier stages of consideration and some are longer-term possibilities as part of planned employment zones and strategic development areas. No hotel schemes have yet announced start dates and some have been put on hold as a result of the current economic climate. It is unlikely that all of the proposed hotel schemes will proceed. The main focus of proposed hotel development activity is on Southampton and Portsmouth. Many of the proposals in the two cities are at the 4 star level. Hotels are also proposed or being considered in most other parts of South Hampshire.

4. Current Hotel Performance

Hotel performance in South Hampshire varies substantially by location and standard of hotel. 4 star hotels and some 3 star hotels in Southampton achieve high levels of room occupancy and achieved room rate¹. The cruise market and the Boat Show provide a significant boost to hotel demand here. 4 star hotel performance is not as strong in Portsmouth. Achieved room rates for 3 and 4 star hotels in Portsmouth are relatively low due to the nature of corporate demand here. 3 and 4 star hotels in other parts of South Hampshire are generally trading at comparatively lower levels of occupancy achieved room rate. Southampton is the only location in South Hampshire where hotels are trading at the levels required to support new build 4 star hotel development. Budget hotels across South Hampshire trade at very high levels of occupancy and consistently turn away business because they are full both during the week and at weekends in most parts of the Sub Region, at times to a fairly significant degree. Business turned away from budget hotels has increased substantially since November 2009 in many locations. The small boutique hotels in Southampton and Southsea are trading well and can achieve high room rates. Serviced apartments in Southampton and Portsmouth are achieving high levels of occupancy. In line with the national trend, hotel performance in South Hampshire has clearly been affected by the recession in 2009, with most hotels of all standards reporting a fall in occupancy and achieved room rate. The budget hotel sector appears to have been less affected.

¹ The net price that hotels achieve per room sold after deduction of VAT, breakfast (if included in the room rate), discounts and commission charges)

5. Future Market Prospects

South Hampshire is set to undergo transformational change over the next 20 years that will result in significant employment and population growth. The development of the Sub Region's economy and major office and business park developments will drive significant growth in corporate demand for hotel accommodation, which will be a key driver for new hotel development. Planned construction and infrastructure development projects should generate significant demand for budget hotel accommodation from the contractors market. The development of the Rose Bowl could drive growth in conference tourism in this part of the Sub Region. The cruise market is set to continue to grow strongly in Southampton. The planned investment in the South Hampshire leisure tourism offer, particularly in Southampton and Portsmouth, will help to boost weekend leisure demand. The expansion of Southampton Airport should result in increased demand for hotel accommodation from air passengers and aircrew. Demand from people attending weddings and family parties and people visiting friends and relatives will increase as South Hampshire's population grows.

6. Hotel Development Opportunities

The growth in demand for hotel accommodation that the development of the Sub Region's economy and tourism offer and increase in its population is set to deliver will create opportunities for significant new hotel development across South Hampshire. Hotel Solutions' analysis suggests that the Sub Region could see the development of up to 38 new hotels and an additional 3,645 new hotel bedrooms over the next 21 years, creating around 1,500 direct jobs, together with indirect jobs in the catering, entertainment and retail sectors. These could include some of the currently proposed hotels together with others that may come forward. The envisaged increase in the Sub Region's hotel supply would equate to an average increase of 174 new hotel bedrooms per year across South Hampshire between 2010 and 2031, which compares to the average annual increase in hotel bedrooms in the Sub Region of 172 between 2004 and 2009. 4 star hotel development will be focused primarily on Southampton. Portsmouth could also see the development of a 4 star hotel in the longer term and the proposed Hilton 4 star hotel at the Rose Bowl may go ahead. 3 star hotel development will also be focused at Southampton and Portsmouth. There could also be an opportunity for a 3 star hotel at Eastleigh Riverside. Elsewhere in the Sub Region, the opportunities will primarily be for budget and possibly upper-tier budget hotels. There is also scope for hotels of these standards in Southampton and Portsmouth, together with potential for boutique hotels and serviced apartments to develop here.

The table overleaf sets out Hotel Solutions' assessment of the new hotels that might possibly be developed across South Hampshire in the next 21 years and the new jobs that they would create. In addition to these hotels, small boutique hotels could also develop in some parts of South Hampshire e.g. Southsea, South Hayling and Romsey; pub accommodation may develop across the Sub Region; and country house hotels could develop in rural/ non-urban locations, given suitable properties for conversion.

SOUTH HAMPSHIRE – POSSIBLE NEW HOTELS & JOBS 2010-2031

Location/Standard of Hotel	New Hotels	New Hotel Bedrooms	New Jobs
Southampton City Centre			
4 Star ¹	3	490	392
3 Star	1	150	50
Boutique	3	150	120
Budget/Upper-Tier Budget	4	400	89
Serviced Apartments	3	150	33
Southampton City Centre Total	14	1340	684
Portsmouth			
4 Star	1	150	120
3 Star ²	2	350	117
Boutique	1	50	40
Budget/Upper-Tier Budget	5	500	111
Serviced Apartments	1	50	11
Portsmouth Total	10	1100	399
Southampton/Eastleigh M27 Corridor			
4 Star ³	1	175	140
3 Star	1	150	50
Budget/Upper-Tier Budget	4	300	67
Southampton/Eastleigh M27 Corridor	6	625	257
Fareham/Whiteley			
Budget/Upper-Tier Budget	2	200	44
Country House Hotel ⁴	1	50	40
Fareham Total	3	250	84
Havant/A3 Corridor			
Budget/Upper-Tier Budget	2	200	44
Havant/A3 Corridor Total	2	200	44
Gosport			
Budget	2	100	22
Gosport Total	2	100	22
Hythe/Marchwood/Totton			
Budget	1	30	7
Hythe/Marchwood/Totton Total	1	30	7
TOTAL SOUTH HAMPSHIRE	38	3645	1497

Source: Hotel Solutions

Notes:

1. Includes The Dolphin that reopens in Southampton in May 2010 with 90 bedrooms
2. Includes the proposed Jury's Inn
3. Assuming that the Hilton at the Rose Bowl will go ahead
4. Assuming that the proposed hotel at Coldeast Hospital will be progressed

In terms of timing, South Hampshire is likely to see relatively few new hotel openings in the next 5 years. Hotel development activity should then accelerate after 2015 as the major regeneration and development schemes are progressed and completed.

7. The Hotel Developer Perspective

There was interest from 26 hotel developers, investors and operators in developing hotels in South Hampshire, with requirements for 40 brands. The interest expressed covered the range of offers from 4 star/luxury through to budget and pub accommodation. It also included a number of innovation brands, new to the UK and Europe, and niche offers including country house/spa and emerging long stay brands. Nine locations across South Hampshire were identified as targets for new hotel development. Southampton attracted the greatest amount of interest with 31 brands seeking representation here, followed by Portsmouth with 25 brands. Eastleigh and Fareham attracted interest from 9 and 10 brands respectively, with Havant, Gosport, Southsea, Waterlooville and Hythe/Marchwood attracting interest from 1-4 brands. 4 star, boutique and long stay interest was focused on Portsmouth and Southampton, with some 3 star and upper tier budget interest here and at Fareham and Eastleigh. In the majority of other target locations the interest was at budget level.

Hotel companies face a number of challenges when seeking to acquire and develop hotels in South Hampshire, and more widely. Securing finance is currently at the top of their agendas, followed by the difficulty of acquiring sites. Securing planning remains a major obstacle, particularly in terms of the application of the sequential test when demand drivers are located out of town. Planning conditions and design and car parking requirements were also identified as barriers, increasing the cost of hotel schemes, often to a point where they may no longer be viable. The application of BREEAM standards has had a similar effect. The impact of flood risk and policies to protect employment land are also constraining the delivery of sites with hotel development potential. Unrealistic expectations on value from site owners, and a mismatch between destination aspirations and hotel market potential were identified as further challenges, as was access to good, focused information on destinations and a responsive and joined up approach on behalf of local authorities to investment and development enquiries.

8. Requirements for Supporting the Development of the South Hampshire Hotel Sector

Key requirements for supporting the development of the hotel sector in South Hampshire as the Sub Region's economy and tourism product develop are as follows:

- **A positive planning policy framework** that:
 - Recognises the importance of hotels in supporting business development and tourism growth and the contribution that they can make to employment growth in terms of both direct and indirect jobs;
 - Responds appropriately to the market potential for hotel development across the Sub Region and market demand in terms of the location of new hotels;
 - Recognises the economics of hotel development and the commercial implications of planning conditions and planning delays.

The South Hampshire Hotel Futures Study provides a lot of detailed evidence and guidance about hotel development opportunities and requirements for supporting hotel development for the Sub Region's local authorities to consider as they move forward with their Local Development Frameworks in terms of:

- Finalising and reviewing their Core Strategy DPDs;
- Preparing site allocations and development management policies DPDs;
- Developing Area Action Plans, development briefs and masterplans for specific locations and sites.

Appendix 12 to the main Hotel Futures Study report sets out a schedule of the DPDs, AAPs and SPDs that the Sub Region's local authorities are developing over the next 2 years and highlights the issues that each of these documents will need to consider in relation to hotel development.

- **A spatial strategy for hotel development** across South Hampshire that seeks to focus new hotels at each level of the market to where they will have the greatest fit with market potential and can best support regeneration objectives, recognising the need for a balance between town and city centre hotel development and new hotel provision in out-of-town locations where there are new drivers of demand such as business parks and major sports stadia, visitor attractions and events venues. The table overleaf sets out a suggested spatial strategy for hotel development in South Hampshire identifying the key locations that are likely to be able to support hotel development across the Sub Region and the standard of hotel that is most suited to each location (indicated by a tick in the relevant column). This is not intended to be a prescriptive 'straight-jacket' nor a basis for allocating sites for hotels, which is not generally seen as being required other than in very specific circumstances where the allocation of sites or properties for hotel development may be desirable.

The strategy is intended more as a market-based guide to help focus hotel development in line with market potential and to locations where new hotels can make an optimal contribution to wider destination and economic development initiatives. There should be an element of flexibility around this spatial strategy to accommodate opportunities that cannot readily be categorised or anticipated at this stage, but which can demonstrate a clear destination benefit and market foundation.

SOUTH HAMPSHIRE – PROPOSED SPATIAL STRATEGY FOR HOTEL DEVELOPMENT

Location	Most Suitable Standard of Hotel							
	4 Star	3 Star	Boutique	Upper-Tier Budget	Budget	Serviced Apts	Pub Accom	Country House
Southampton								
Southampton City Centre/Waterfront	✓	✓	✓	✓	✓	✓	✓	
Woolston				✓	✓			
Portsmouth								
Portsmouth City Centre	✓	✓	✓	✓	✓	✓	✓	
Gunwharf Quays/The Hard	✓	✓	✓	✓	✓	✓	✓	
Southsea			✓		✓	✓		
M27/A27 Corridor	✓	✓		✓	✓			
Eastleigh								
Eastleigh Town Centre					✓			
Eastleigh Riverside		✓		✓	✓			
Rose Bowl	✓							
Fareham								
Fareham Town Centre					✓			
North Fareham SDA				✓	✓			
Gosport								
Daedalus/Gosport Waterfront/Holbrook/Haslar/Priddy's Hard					✓		✓	
Winchester								
Whiteley (Solent Business Park/Whiteley Outlet Village)				✓	✓			
West of Waterlooville MDA					✓			
Havant								
Havant A27/A3 Corridor				✓	✓		✓	
Waterlooville					✓			
Dunsbury Hill Farm				✓	✓			
Hayling Island			✓				✓	
Test Valley								
Romsey			✓				✓	
M27 Corridor					✓		✓	
New Forest								
Hythe/Marchwood/Totton					✓		✓	
Rural/ Non-Urban Areas								
Rural Test Valley, Winchester, Fareham. East Hampshire							✓	✓

Source: Hotel Solutions

The suggested spatial strategy focuses new hotel development in Southampton and Portsmouth, particularly in terms of 3 and 4 star hotels, boutique hotels and serviced apartments, with hotel development in other parts of the Sub Region being primarily at the budget or upper-tier budget level, with the exception of Eastleigh Borough, where 3 and 4 star hotel proposals may be progressed. This is very much in line with the 'cities first' strategy that PUSH is now pursuing.

The spatial strategy shows potential for hotel development in a wide range of locations across South Hampshire. In most parts of the Sub Region these opportunities are on an either/or basis. It is not suggested that hotel development can take place at every level in the market in every single location. What is likely to happen in practice is that potential opportunities for hotel development in some locations will fall away or be pushed into the longer term as new hotels are progressed in other locations.

- **The provision of good quality, up-to-date factual data and information to hotel companies** to help them to objectively assess hotel development opportunities and alert them to future growth and new drivers of demand that could give rise to opportunities for hotel development.
- **A co-ordinated approach to dealing with hotel developers across South Hampshire** with designated lead contacts at PUSH and within each local authority and the possible establishment of the South Hampshire Hotel Investment Forum of local authority officers.
- **Support for the development of the South Hampshire hotel market** in terms of:
 - Effective destination marketing;
 - Inward investment to attract the type of companies and business functions that will generate strong corporate demand for hotels;
 - The possible development of a purpose-built conference centre in Southampton and/or Portsmouth;
 - Continued investment in the Sub Region's leisure tourism offer;
 - Addressing transport infrastructure barriers for Gosport;
 - Supporting staff training and development in the hotel sector.

9. Next Steps

Key next steps in progressing the recommendations of the Hotel Futures Study (once it is finalised and agreed) will be to:

- Disseminate the study findings effectively to local authority partners and other relevant public sector bodies;
- Decide how best to progress and resource work to help inform and support hotel developers community that are interested in progressing hotel projects in South Hampshire;
- Provide appropriate feedback to the managers and owners of existing hotels in South Hampshire;
- Put in place a plan and resources to keep the require information on the hotel sector up to date.

10. Concluding Summary

The South Hampshire Hotel Futures Study identifies significant potential for new hotel development and investment in existing hotels as the Sub Region's economy and leisure tourism offer develop and major regeneration and development schemes are progressed. The development of hotels in South Hampshire will play a key role in supporting economic development in the Sub Region and will contribute to PUSH employment growth targets. PUSH and its local authority partners can play a role in supporting and managing this future hotel development by establishing a positive and market-responsive planning policy framework for hotel development and providing information and support to hotel developers that are interested in developing hotels in South Hampshire. The Hotel Futures Study provides much of the information and analysis that PUSH and its partners will need to fulfil these roles. It is now for PUSH and its partners to translate the study findings and recommendations into a sustainable strategy and policy framework for hotel development in the Sub Region.