

PORTSMOUTH HOTEL DEVELOPMENT ASSESSMENT

Prepared for:
Portsmouth City Council

September 2019



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Portsmouth Hotel Development Assessment

The Scope of the Assessment

The following report sets out the key conclusions from a programme of research modules that Hotel Solutions completed for Portsmouth City Council between May and September 2019 to provide guidance to the Council on the potential for hotel development in Portsmouth, and to help inform the Council's forward approach to hotel development.

The modules of research were as follows:

- An audit of current hotel supply, recent changes, and current hotel development proposals.
- A survey of the city's hotel managers to compile detailed information on hotel performance and markets. We also purchased hotel performance data for Portsmouth 3/4-star and upper-tier budget hotels from STR Global to supplement the survey and fill gaps where hotel managers declined to take part.
- An assessment of the potential for future growth in hotel demand in the city and of the key drivers that will deliver hotel market growth.
- Projections of future demand for hotel accommodation in the city.
- A telephone survey of hotel developers to gauge their interest in opening new hotels in Portsmouth.
- An assessment of identified potential hotel sites.

The findings of each module of research are reported at Appendices 2 to 5.

Hotel Development Opportunities

Our hotel demand projections (Appendix 3) and the findings of our other research modules show the following potential for hotel development in Portsmouth through until 2036:

- No need for further **budget hotels** before 2030 beyond the new Travelodge and Premier Inn and the additional bedrooms at the Premier Inn Port Solent that are currently under construction and should open in 2020. In the longer-term, post 2030, there could be scope for another two budget hotels in Portsmouth by 2036, if there is sustained strong growth in demand for hotel accommodation in the city.
- Market growth should support the proposed **Hampton by Hilton** upper-tier budget hotel by 2025.
- The potential for **a new full-service 3 or 4-star** is longer-term (closer to 2030) unless the city's hotel market grows more strongly than we have projected and/or a new hotel at these levels is able to attract significant new business because of its brand and facilities. With corporate demand for full-service hotel accommodation set to grow only slowly, a new hotel at this level needs to be a conference and leisure driven hotel. In order to help achieve the City Council's vision of Portsmouth as 'A Great Waterfront City' the priority needs to be a flagship international 4-star waterfront hotel of around 200 bedrooms with significant conference and banqueting facilities and a spa, that would be capable of bringing significant levels of new business to the city. Unless an opportunity to accommodate a development of such scale could be found at Gunwharf Quays, Clarence Pier is the strongest site for a hotel of this scale and nature, with the space and outlook to create a real USP with a statement building with outstanding views. Securing such a hotel for the city will require strong leadership from the City Council. The market will not deliver it by itself due to nervousness around achievable room rates in the city. Direct investment from the City Council will be needed to give confidence and reduce risk for the hotel developer and operator, which in turn can generate an income stream to the Council. UK local authorities are increasingly doing this. Further information is provided at Appendix 6.

- In the longer-term, post 2030, the hotel demand projections show potential for a further full service 3 or 4-star hotel in Portsmouth by 2036, given sustained strong growth in the city's hotel market.
- While we were not able to run any demand projections for boutique hotel accommodation, we believe that the potential for full-service hotel development could equally be met through the development of one or two **branded boutique hotels** that should be capable of attracting new leisure business to the city because of their offer, brand profile and customer following. IHG expressed interest in Portsmouth for a Hotel Indigo and Artists Residence are also interested in the city. There are a number of hotel sites that could meet their requirements, the strongest being the Naval Academy, The Point/Wightlink workshops & car park in Old Portsmouth, and potentially Gunwharf Quays.
- The downturn in the performance of boutique hotels in **Southsea** suggests that the market for small, independent boutique hotels here may be saturated for the time being. The opportunity in Southsea currently appears to be for a lower-priced, more basic accommodation offer: the Southsea Rocks hotel/hostel has been very successful and its owners are looking for opportunities to open similar properties in Southsea. The other key opportunity in Southsea is the restoration and development of the Queen's Hotel.
- There could be scope for further provision in terms of **serviced apartments** to cater for the long-stay corporate market, and perhaps scope for **a branded aparthotel**. We are unable to say with any certainty however whether there is sufficient high-rated long stay corporate demand to support an aparthotel. This would require further research.

A Locational Strategy for New Hotel Provision

Our hotel sites assessment (Appendix 5) shows that there are many more sites that are currently being mooted for hotel development than our hotel demand projections show market potential for new hotels. This points to a need to prioritise sites to ensure that the optimum standard and type of hotel is delivered in the optimum location and that hotel development supports strategic objectives.

Our research shows that the strongest opportunities for growing the city's hotel market lie in developing the leisure and cruise markets, and that the location with greatest appeal to these markets is the waterfront. Developing hotels on waterfront sites also provides an added value opportunity to help build the city's destination offer and image as 'A Great Waterfront City'. On this basis the strongest hotel sites are the Naval Academy and Gunwharf Quays for branded boutique hotels, Clarence Pier for an international 4-star hotel with conference and spa facilities, and the Wightlink car park and the workshop site at The Point in Old Portsmouth for a smaller scale boutique or aparthotel development. This locational strategy would also help to develop a cluster of hotel rooms to support a large conference hotel at Clarence Pier in bringing sizeable conferences to Portsmouth.

Whilst the City Council has an aspiration for hotels to support major regeneration schemes in the city centre and at Tipner, there is a danger that hotels coming forward in these locations will undermine the potential for hotels to be delivered on waterfront sites by eating into their market. The City Council will need to decide whether to continue to promote hotel development in these locations or whether its priority should be to favour waterfront hotel development.

Requirements for City Council Intervention

If the City Council is to achieve its vision of Portsmouth as 'A Great Waterfront City' we believe that there is a clear case for it to take a strong lead in trying to secure an international 4-star hotel with conference, banqueting, restaurant, bar, spa and leisure facilities on a key waterfront site, that would be capable of attracting new conference and leisure business to the city and enhancing its profile as a leisure destination and cruise turnaround port. This would be a more realistic proposition than a conference centre. Clarence Pier is the strongest site for such a hotel. Our research shows that the market will not deliver a hotel of this scale and nature by itself. City Council intervention will be required in terms of instigating and facilitating negotiations with site owners, developers and hotel companies, alongside direct City Council investment that will generate an ongoing income for the Council.

Given that there are only a limited number of other sites for waterfront hotel development, the City Council may also need to consider ways of protecting the prime waterfront hotel sites (the Naval Academy, Gunwharf Quays and The Point) which could be in danger of going to other higher value uses, in particular residential. This will require further work to determine whether these sites can realistically be brought forward for hotel development and how the City Council might intervene to protect them for this use.

City Council support for the restoration and development of the Queen's Hotel should also be a priority, to bring this hotel up to a 4-star or boutique standard. This would be in terms of granting planning permission (assuming compliance with planning policy) and perhaps some form of financial assistance.

Hotel development can otherwise be left for the market to determine. There is plenty of market interest and more than enough hotel sites to meet the market potential for additional hotels. The most constructive role that the City Council can play is to continue to share the research data that we have compiled in the Portsmouth Hotel Market Fact File, to help inform the feasibility assessments and decision-making processes of hotel developers and operators. The City Council has successfully done this for many years and should continue to do so, periodically updating its content. The City Council could consider whether it wishes to promote a stronger narrative that promotes waterfront hotel development, rather than hotel development in the city centre or at Tipner, in line with its 'Great Waterfront City' vision.

The other way that the City Council can help to bring forward hotel development in the city is to support the growth of the city's hotel market in terms of:

- Continuing to promote Portsmouth for leisure breaks, particularly at off-peak times;
- Developing/ supporting the development of Portsmouth's cultural, attractions, leisure and retail offer to help the city to develop as a short break destination;
- Further developing the city's events programme, in particular in terms of events that will drive off-peak business for hotels;
- Progressing the investment in Portsmouth's cruise berth and promoting Portsmouth as a turnaround port for cruises;
- Promoting The Guildhall for conferences and events;
- Progressing/ supporting office development and attracting new companies to the city;
- Progressing/ supporting major regeneration schemes that will generate contractor business for budget hotel accommodation during their construction;
- Local initiatives to promote hospitality as a career and to assist hotels in addressing the staff recruitment challenges that they face.

APPENDICES

GLOSSARY OF HOTEL DEFINITIONS

Types of Hotel

Budget

Branded limited service hotels with clean and comfortable standardised en-suite bedrooms with TV and tea and coffee making facilities and paid for Wi-Fi but otherwise limited in-room provision or services such as guest toiletries or room service. Will locate in a wide range of locations from major cities to smaller towns, seaside resorts and airport locations. Size will vary significantly by location. Tend to be larger hotels (100-200 bedrooms) in major cities and smaller hotels (50-60 bedrooms) in provincial town locations.

Key budget hotel brands in the UK are Travelodge, Premier Inn, Ibis

Economy budget brands (with a more basic bedroom product) include Ibis Budget, Zip by Premier Inn, Campanile and Easyhotel

Upper-Tier Budget

Branded limited service hotels that have a higher quality, 3-star standard bedroom offer than standard budget hotels, but still few hotel services and facilities.

Key brands are Holiday Inn Express and Hampton by Hilton.

3 Star

A full-service hotel that offers a restaurant and bar also open to the public, usually function/conference/banqueting facilities, and often leisure. Branded offers would tend to be 120-150 rooms+, but independent hotels may be smaller in size. Will locate in city centres and out of town where there are significant drivers of demand such as business parks.

Brand examples include Holiday Inn, Hilton Garden Inn, Village, Jury's Inn, Park Inn

4 Star

A full-service hotel but with a higher specification and larger bedrooms than 3 star hotels, usually offering bath and shower, telephone, internet connection, and a wider range of services including full room service and portage, 24-hour reception, a quality restaurant, bar, a range of meeting rooms and business services, and a health and fitness centre. These tend to be large hotels, over 150 rooms, and sometimes up to 250 rooms+. Major city centres are the preferred locations.

Brand examples include Marriott, Crowne Plaza, Hilton, Radisson Blu, Novotel, Doubletree by Hilton, Copthorne, Millennium, Pullman, Macdonald

Boutique

High quality hotels that feature contemporary design and a good food offer, although not usually fine dining. They are often relatively small independent hotels or part of small local of boutique hotels. National brands are also developing larger format branded boutique hotels (100+ rooms) and compete with 4-star hotels but achieve a premium on their rate due to their style and service.

Brand examples include Malmaison, Hotel du Vin, Hotel Indigo

Lifestyle

Design-led, full-service hotels that feature contemporary interior design; open public areas that allow guests to socialise, work and eat and drink in relaxed, integrated spaces; and the latest mobile-enabled technology. They are targeted very much at the Millennials/ Generation Y age group.

Brand examples: Radisson Red, Aloft, AC by Marriott, Tribe

APPENDIX 2
PORTSMOUTH HOTEL MARKET FACT FILE

PORTSMOUTH HOTEL MARKET FACT FILE

September 2019

INTRODUCTION

The Portsmouth Hotel Market Fact File provides the latest available information on:

- The current hotel supply in Portsmouth and Southsea;
- Recent hotel development;
- Current hotel development proposals;
- Recent hotel performance (2016-2018)
- The key markets for hotel accommodation in Portsmouth and Southsea;
- The prospects for growth in demand for hotel accommodation and what will drive this.

All of the data and information included in the Fact File is drawn from a survey of Portsmouth hotel managers undertaken by consultants Hotel Solutions between May and July 2019, supplemented with hotel performance data for the city purchased from STR Global.

For further information and contacts or to discuss your requirements contact:

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PORTSMOUTH HOTEL SUPPLY

Current Hotel Supply

- Portsmouth is currently served by 37 hotels in Portsmouth and Southsea, with a total of 2,162 letting bedrooms. In addition, there are an estimated 150 residential apartments that are currently being let as serviced apartments through Airbnb, HomeAway, Holiday Lettings and serviced apartment letting agencies such as Town or Country; Work, Rest & Sta; Starlight Serviced Apartments; Citybase Apartments; Silverdoor Apartments; ESA; SITU; and SACO.
- Portsmouth's hotel supply is split between the city centre (9 hotels/ 745 bedrooms) and M27 Corridor (8 hotels/ 773 bedrooms). Its is dominated by 3-star and budget/limited service hotels, which account for 75.4% of the city's total hotel supply. Portsmouth only has one 4-star hotel – the Marriott in the M27 Corridor – although there is a further 4-star hotel at Southsea (the Holiday Inn Portsmouth). The city only has one small boutique hotel and does not have any aparthotels.

CURRENT HOTEL SUPPLY – PORTSMOUTH SEPTEMBER 2019

Standard ¹	Hotels	Rooms	% of Rooms
4 Star	1	174	10.4
Boutique	1	13	0.8
3 Star	5	315	18.9
2 Star	1	74	4.4
Upper-tier Budget ²	2	280	16.8
Budget	7	662	39.7
Serviced Apartments ³		150	9.0
Total Hotels	17	1668	100.0

Notes:

1. AA, booking.com and Expedia ratings
2. Brands including Holiday Inn Express, Ramada Encore and Hampton by Hilton
3. Hotel Solutions' estimate

PORTSMOUTH HOTEL SUPPLY

- Southsea has one 4-star hotel (the Holiday Inn Portsmouth), two 3-star hotels (the Queen's and Royal Beach), and a cluster of 11 small boutique hotels, seven of which are operated by the Southsea-based Mercer Collection. It otherwise has two small 2-star hotels (the Ocean and Southsea Rocks), a Premier Inn budget hotel, and the ungraded Sandringham Hotel. Solent Forts also operates two forts off Southsea as exclusive use luxury venues.

CURRENT HOTEL SUPPLY – SOUTHSEA – SEPTEMBER 2019

Standard ¹	Hotels	Rooms	% of Rooms
Luxury venues	2	31	4.8
Boutique	11	113	17.5
4 Star	1	165	25.6
3 Star	2	197	30.6
2 Star	2	40	6.2
Budget	1	48	7.5
Ungraded	1	50	7.8
Total Hotels	20	644	100.0

Notes:

1. AA, booking.com and Expedia ratings
2. Brands including Holiday Inn Express, Ramada Encore and Hampton by Hilton

- The quality of Portsmouth and Southsea hotels is generally good. A few hotels (the Keppel's Head, Farmhouse Innlodge and Sandringham) are receiving only average ratings on Tripadvisor and frequent comments about them being tired and dated.
- In addition to this hotel supply, the Student Housing Company lets 165 en-suite student bedrooms at Catherine House on a bed and breakfast basis through booking.com and other OTAs in the summer vacation period (late June to early September). Unite Students also does the same with 250 en-suite student rooms at its Chaucer House student accommodation operation and 50 en-suite rooms at its Greetham Street site. These student rooms thus add to the competitive accommodation supply for Portsmouth's hotels during the summer. The University of Portsmouth also rents out 890 standard and en-suite student bedrooms in the summer. These are used primarily for language schools and university group bookings and conferences, so do not really compete with the city's hotels.

PORTSMOUTH HOTEL SUPPLY

PORTSMOUTH & SOUTHSEA HOTEL SUPPLY – SEPTEMBER 2019

Hotel	Standard/Type	Bedrooms
Portsmouth		
Marriott Portsmouth	4 Star	174
Ship Leopard Boutique Hotel	Boutique	13
Village Hotel Portsmouth	3 Star	153
Royal Maritime Club	3 Star	101
Keppel's Head	3 Star	30
Duke of Buckingham	3 Star	15
Red Lion Hotel Innkeeper's Lodge, Cosham	3 Star	16
Farmhouse Innlodge	2 Star	74
Holiday Inn Express Gunwharf Quays	Upper Tier Budget	130
Holiday Inn Express Portsmouth North	Upper Tier Budget	150
Premier Inn Portsmouth City Centre	Budget	84
Premier Inn Portsmouth North Harbour	Budget	65
Premier Inn Portsmouth Port Solent	Budget	108
Travelodge Portsmouth	Budget	108
Travelodge Portsmouth Hilsea	Budget	33
Ibis Portsmouth	Budget	144
Ibis Budget	Budget	120
Southsea		
Spitbank Fort	Luxury Venue	9
No Man's Fort	Luxury Venue	22
Holiday Inn Portsmouth	4 Star	165
Number Four	Boutique	10
Somerset House	Boutique	7
Florence House	Boutique	7
Florence Gardens	Boutique	6
Florence Suite	Boutique	8
Stattons	Boutique	9
The Clarence	Boutique	8
G! Boutique	Boutique	14
Ashby's	Boutique	9
Seacrest	Boutique	28
Q8 Boutique	Boutique	17
Queen's	3 Star	73
Best Western Royal Beach	3 Star	124
Southsea Rocks	2 Star ¹	20
Ocean	2 Star	20
Premier Inn Southsea	Budget	48
Sandringham	n/a	50

Notes:

1. While the Southsea Rocks Hotel is graded as a 3-star hotel on Expedia it describes itself as an 'economically-priced hotel' so is shown as a 2-star hotel

PORTSMOUTH HOTEL SUPPLY CHANGES

Changes in Supply 2015-2019

New Hotels

- Three new hotels have opened in Portsmouth over the last 4 years – the midmarket Village Hotel at Lakeside North Harbour, a third Premier Inn, and the 3-star Southsea Rocks Hotel. With a combined total of 257 bedrooms, these three new hotels have increased Portsmouth's hotel supply by 13.5%.

NEW HOTELS IN PORTSMOUTH 2015-2019

Hotel	Location	No. Rooms	Date Opened
3 Star Hotels			
Village Hotel Portsmouth	Lakeside North Harbour	153	Nov 2017
2 Star Hotels			
Southsea Rocks ¹	Southsea	20	May 2018
Budget Hotels			
Premier Inn Portsmouth City Centre	City Centre	84	Oct 2015

Notes:

1. Although graded on Expedia as a 3-star hotel, the Southsea Rocks Hotel describes itself as an 'economically-priced hotel' so is shown as a 2-star hotel
- In addition to these new hotels, the Student Housing Company started to let the 165 en-suite student bedrooms at its new Catherine House hall of residence in Portsmouth City Centre on a bed and breakfast basis during the summer vacation period from June 2018. Unite Students also started letting en-suite student bedrooms at its Chaucer House and Greetham Street sites.

Changes in Hotel Ownership/ Hotel Rebrandings

- The Queen's Hotel in Southsea was sold to a consortium headed by local property developer Farid Yeganeh in April 2017. The new owners are planning to restore, expand and upgrade the hotel to a 4-star standard.

PORTSMOUTH HOTEL SUPPLY CHANGES

Investment in Existing Hotels

- The former Portsmouth Park Hotel reopened in spring 2016 as the Holiday Inn Express Portsmouth North following a redevelopment and expansion programme undertaken by its new owners, Atlas Hotels. The development included an additional 31 bedrooms.
- The former Palm/Saville Hotel was converted into the Q8 Boutique hotel and seven residential apartments in June 2018.
- The bedrooms and public areas of the Holiday Inn Express Gunwharf Quays were refurbished in 2017.
- The Portsmouth Marriott completed a £5m refurbishment programme in 2018, which has included the recladding of the hotel's exterior, new windows, and the upgrading of the hotel's bedrooms, conference facilities and public areas.
- The Royal Maritime Club has upgraded to a 3-star standard and refurbished its swimming pool.
- The public areas of the Ibis Budget hotel were improved in 2018.

Proposed Hotel Development

Hotels Under Construction

- There are two new hotels currently under construction in Portsmouth:
 - A 152-bedroom Travelodge budget hotel is being built next to the Catherine House student accommodation building in Stanhope Road.
 - A 120-bedroom Premier Inn is under development at Queen Street opposite the Historic Dockyard.

Opening dates for the two hotels have not yet been announced.

PORTSMOUTH HOTEL SUPPLY CHANGES

Proposed Hotels

- There are currently 7 proposals for new hotels in Portsmouth (listed in the table below) at various stages in the planning system, which have a combined total of 296 letting bedrooms.

PORTSMOUTH & SOUTHSEA– PROPOSED HOTELS (AS AT SEPTEMBER 2019)

Proposed Hotel/Site	Standard	No Rooms	Status	Details
Hampton by Hilton, Portsmouth Point, Stanhope Road	Upper Tier Budget	180	Planning permission lodged October 2017. Awaiting decision	THAT Group is seeking planning permission for a mixed-use development spilt across two towers, to include 140 residential apartments, a 180-bedroom Hampton by Hilton hotel, 18,000 sq ft of office space, an event space, sky bar and retail and restaurant units at ground and first floor level. The planning application is for a 222-bedroom hotel, but THAT Group's website refers to a 180-bedroom hotel.
Knight & Lee building, Southsea	Boutique	43	Planning application submitted 9 September 2019	THAT Group proposal for a mixed-use scheme to include a 43-bedroom boutique hotel, bars, café, retail, gym, cinema and offices.
Keppel's Head Car Park, The Hard	Unknown	23	Planning permission granted January 2018	Outline consent for a 6-storey hotel with a café at ground floor level.
Lord Palmerston, Palmerston Road, Southsea	3 Star	24	Planning application lodged November 2018. Awaiting decision	Proposal to convert upper floors above the pub into hotel bedrooms. J D Wetherspoon
20 Elphinstone Road, Southsea	Unknown	10	Planning permission granted April 2019	Change of use from HMO to hotel
22 St Helen's Parade, Southsea	Unknown	8	Planning permission granted February 2017	Change of use of dwelling house to hotel
10 Victoria Road, Southsea	Unknown	8	Planning permission granted August 2016	Change of use of dwelling house to hotel

PORTSMOUTH HOTEL SUPPLY CHANGES

Planned Development of Existing Hotels

- In terms of planned investment in existing hotels:
 - A 48-bedroom extension is currently underway at the Premier Inn Portsmouth Port Solent. It is due to open in February 2020.
 - The new owners of the Queen's Hotel in Southsea are in the process of restoring and upgrading the hotel. They plan to re-establish it as a landmark 4-star hotel. This will involve upgrading all of the hotel's bedrooms and public areas, adding up to 30 new bedrooms and penthouse suites, and introducing leisure facilities and possibly new conference rooms.
 - The Royal Maritime Club is converting 18 single bedrooms into 9 twin/double rooms in the first quarter of 2020, and plans to refurbish 40 other bedrooms.

PORTSMOUTH HOTEL PERFORMANCE

Occupancy, Achieved Room Rates and Revpar

- Average annual room occupancies, achieved room rates and revpar figures for Portsmouth hotels for 2016, 2017 and 2018 are summarised in the table overleaf, alongside the UK provincial averages for 3/4-star chain hotels (as a benchmark for Portsmouth 3/4 -star/ upper-tier budget hotel performance) and all standards of hotel (as a benchmark for overall hotel performance in Portsmouth and Southsea for all standards of hotel).
- Hotel occupancies are very strong overall for Portsmouth and Southsea hotels, ahead of the national averages in 2017 and 2018, and achieved room rates are broadly in line with the national averages for all standards of hotel.
- Portsmouth 3/4-star/ upper-tier budget hotel occupancies were on a par with the national averages for UK provincial 3/4-star chain hotels in 2017 and 2018, but achieved room rates were some way behind the national norms. The average figures mask significant differences in achieved room rate performance between hotels, with two hotels posting results that are well ahead of the national averages, and two reporting much lower achieved room rates. The Americas Cup provided a boost to achieved room rates in 2016, which was not maintained in 2017, with 3/4-star/upper-tier budget hotel achieved room rates dropping back a little. They reduced further in 2018, largely as a result of the opening of the new Village Hotel, which traded at very competitive room rates in its first year of operation, and impacted on the achieved room rate performance of existing hotels. 3/4-star/upper-tier budget hotel occupancies increased in 2018 however, indicating that the Village Hotel has attracted significant new business to the city and recaptured corporate and leisure business that was previously being displaced to hotels in surrounding areas.
- Budget hotel occupancies are very strong in Portsmouth, and achieved room rates are in line with the norms for budget hotels in other UK cities. Occupancies and achieved room rates were lower in 2016, largely as a result of this being the first operating year for the Premier Inn Portsmouth City Centre, which was still getting established in the market, and took some business from the city's existing budget hotels. Budget hotel occupancies dropped back a little in 2018 for some of the city's budget hotels, due to internal marketing issues at one hotel and the impact of the Village Hotel.

PORTSMOUTH HOTEL PERFORMANCE

PORTSMOUTH HOTEL PERFORMANCE 2016-2018

Location/ Standard of Hotel	Average Annual Room Occupancy %			Average Annual Achieved Room Rate ⁶ £			Average Annual Revpar ⁷ £		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
UK Provincial 3/4 Star Chain Hotels¹	75.6	76.5	76.7	83.22	86.43	88.95	62.66	66.14	68.19
UK Provincial Hotels (All Standards)²	76	76	76	69	71	72	52	54	55
Portsmouth 3/4 Star/ Upper Tier Budget ³	72.8	75.3	76.5	83.63	81.51	80.53	60.91	61.42	61.59
Portsmouth Budget Hotels ⁴	81.7	85.3	83.2	53.36	58.50	59.42	43.58	49.91	49.43
Southsea Hotels ⁵	74.1	71.1	73.6	72.86	73.68	75.12	54.02	52.38	55.31
Portsmouth & Southsea Hotels (All Standards)	75.3	78.0	83.0	68.83	70.07	71.98	51.83	54.26	59.72

Source: Hotel Solutions survey of Portsmouth hotels May-July 2019 + hotel performance data purchased from STR Global

Notes

1. Source: TRI Hotstats UK Chain Hotels Market Review
2. Source: STR Global
3. Sample: Marriott Portsmouth, Village Portsmouth, Holiday Inn Portsmouth, Holiday Inn Express Gunwharf Quays, Holiday Inn Express Portsmouth North, Royal Maritime Club
4. Sample: Premier Inn Portsmouth City Centre, Premier Inn Portsmouth Port Solent, Travelodge Portsmouth, Ibis, Ibis Budget
5. Sample: Queen's, Best Western Royal Beach, Holiday Inn Portsmouth, G! Boutique, Seacrest
6. The amount of rooms revenue (excluding food and beverage income) that hotels achieve per occupied room net of VAT, breakfast (if included) and discounts and commission charges.
7. The amount of rooms revenue (excluding food and beverage income) that hotels achieve per available room net of VAT, breakfast (if included) and discounts and commission charges.

PATTERNS OF DEMAND

- Southsea hotel occupancies and achieved room rates are lower than for the rest of Portsmouth and behind the national averages. Occupancies dropped in 2017 following the boost that was provided by the Americas Cup in 2016. Occupancies improved in 2018 for some hotels, but have reduced for most of Southsea's boutique hotels. This is likely to have been due to the increase in hotel provision in Southsea. One boutique hotel owner also felt that the increased availability of apartments through Airbnb and the letting of en-suite student accommodation in the summer months were also factors that had contributed to a fall in occupancy and achieved room rate.

Patterns of Demand

- Estimated average weekday and weekend occupancies for Portsmouth hotels in 2018 are summarised in the table below.

PORTSMOUTH HOTELS - WEEKDAY/ WEEKEND OCCUPANCIES – 2018

Location/Standard of Hotel	Typical Room Occupancy %			
	Mon-Thurs	Fri	Sat	Sun
Portsmouth 3/4 Star / Upper Tier Budget Hotels	83	75	85	55
Portsmouth Budget Hotels	86	87	93	64

Source: Hotel Solutions survey of Portsmouth hotels May-July 2019/ STR Global

- Midweek hotel occupancies are high in Portsmouth at all levels in the market. Demand is strongest on Tuesday and Wednesday nights, with the majority of hotels consistently filling and turning business away and commanding high room rates on these nights. Monday occupancies are also high (85%+) for some hotels, but not as strong for others. Thursday occupancies are generally lower for all hotels, typically dipping to around 70%.
- Friday and Saturday occupancies and achieved room rates are very high for Portsmouth hotels between May and September, with most hotels consistently trading at, or close to, full occupancy and denying business on these nights during this period. Saturday occupancies remain high in the winter but room rates are lower. Friday occupancies and room rates reduce between November and April. Sunday is the quietest night of the week for the city's hotels. Sunday occupancies are a little stronger in the summer but can be very low in the winter.

PATTERNS OF DEMAND

- Midweek occupancies are not as strong for most of the hotels in Southsea, due to the market here being more leisure-driven. Weekday occupancies are generally higher between June and September, but can be very low in the winter. One hotel achieves very high midweek occupancies all year round however by targeting the group tour market. Weekend demand for hotel stays in Southsea is much stronger, with most hotels consistently fully booked and turning business away on Friday and Saturday nights between May and September. Saturday occupancies are also high throughout the winter. Some hotels also achieve high Friday occupancies in October, November and December. Friday occupancies are lower between January and March. Sunday occupancies are generally very low, other than for one 3-star hotel that attracts contractors arriving for the week ahead.

Midweek Markets

- The key midweek markets for Portsmouth's 3 and 4-star and upper-tier budget hotels are corporate demand from Portsmouth companies and government business from the MoD. The corporate market in Portsmouth is dominated by a small number of large companies that are able to command very competitive room rates from the city's hotels because of the volumes of business that they are placing with them. Government business is also lower rated. A lot of corporate business in Portsmouth is project-related. Corporate demand can therefore fluctuate from one month to the next and year to year. There is a strong long-stay corporate market in Portsmouth from international business visitors and those working on company projects for extended periods.
- Residential conferences are a secondary midweek market for some of the city's 3 and 4-star hotels, accounting for around 10-15% of their midweek occupancy.
- Midweek break stays are the primary weekday market for one city centre hotel, and a secondary source of midweek business for other 3 and 4-star and upper-tier budget hotels.
- Other minor midweek markets for the city's 3/4-star and upper-tier budget hotels are:
 - Ferry passengers;
 - Overseas tourists;
 - Group tours for one 3-star hotel;
 - Contractors working on construction projects;
 - University visitors and delegates attending conferences on the university campus;
 - University graduations.

PORTSMOUTH HOTEL MARKETS

- Key midweek markets for Portsmouth's budget hotels are contractors, government business from the MoD and business visitors. Contractors are the main source of weekday trade for some budget hotels. Others attract a more balanced mix of midweek markets. Ferry passengers are the key weekday market for one budget hotel and a secondary source of midweek trade for others. Other sources of weekday business are midweek leisure break stays, cruise passengers, overseas tourists, university students, university graduations, and people that need rehousing that are placed in budget hotels by the City Council's Housing Department.
- The midweek market for hotel accommodation in Southsea is more leisure-driven than in Portsmouth. Hotels here attract a mix of weekday business in terms of midweek leisure breaks, corporate demand from Portsmouth companies, and government business from the MoD. Group tours are a key midweek market for one 3-star hotel. Other midweek markets are ferry passengers, contractors, overseas tourists and people that need rehousing.

Weekend Markets

- The main weekend market for Portsmouth 3 and 4-star and upper-tier budget hotels is weekend breakers coming to visit the Historic Dockyard, the Mary Rose Museum, Gunwharf Quays, the Emirates Spinnaker Tower, and the Isle of Wight. This is also the key weekend market for hotels in Southsea and a weekend market for the city's budget hotels.
- Events are the other key driver of weekend demand for Portsmouth and Southsea hotels, at all levels in the market. Events that generate strong weekend demand for hotel accommodation are:
 - The D-Day 75 commemorations in June 2019
 - The Americas Cup in 2016
 - Great South Run
 - The Victorian Festival of Christmas at Portsmouth Historic Dockyard
 - Portsmouth Comic Con
 - Portsmouth Tattoo Extravaganza
 - Concerts and comedy nights at The Guildhall
 - Music gigs at the Pyramid Centre
 - Productions at the New Theatre Royal and Kings Theatre Southsea

PORTSMOUTH HOTEL MARKETS

- Portsmouth FC home matches – particularly for budget hotels
- Victorious Festival, Southsea
- Portsmouth International Kike Festival, Southsea
- Isle of Wight Festival
- Cowes Week
- Goodwood Festival of Speed, Revival and Glorious Goodwood
- South Central Festival, Cosham
- Boxing tournaments at the Mountbatten Centre
- Southampton Boat Show

There are numerous other smaller events that enhance the appeal of a weekend stay in Portsmouth and Southsea, although may not be the main motivation for a visit.

- Ferry passengers are a key weekend market for budget hotels between June and August, and a minor source of weekend trade for some 3/4-star and upper-tier budget hotels.
- Other minor weekend markets are:
 - Group tours for some 3-star hotels – UK and overseas groups visiting Portsmouth as part of a tour of the South Coast, or stopping off before or after a ferry journey. Due to its low-rated nature, this market is currently largely constrained in Portsmouth, as hotels are able to fill with business from other more lucrative markets;
 - Stag and hen parties/clubbers – for budget hotels and one 3-star hotel;
 - People attending weddings and family parties;
 - People visiting their friends and relatives and Navy personnel in the city – primarily a market for budget hotels;
 - Parents of university students dropping off and collecting their children at the beginning and end of term, or visiting during term time;
 - Overseas tourists;
 - Cruise passengers;
 - Navy reunions – for one 3-star hotel;
 - Masonic lodge weekends – for one 3-star hotel;
 - Weekend conferences;
 - Contractors and business visitors staying over the weekend or arriving on Sunday night.

MARKET TRENDS

Market Trends

- Corporate demand for hotel accommodation in Portsmouth has increased over the last 3 years as the city's economy has grown and employment has increased. The new Premier Inn City Centre and Village hotels have evidently recaptured a lot of the corporate business that was previously being displaced to hotels in surrounding areas.
- One budget hotel reported an increase in MoD business.
- At a national level, the UK conference market grew strongly in 2018, following a downturn in 2017 compared to 2016. Those hotels in Portsmouth that have good conference facilities are likely to have seen a similar trend in residential conference business over the last three years. One 3-star hotel reported growth in residential conference business in 2018. Others are also likely to have seen some growth.
- Contractor demand for budget hotel accommodation in Portsmouth has increased as a result of construction projects in the city.
- Portsmouth hotels appear to have benefited from the national growth in the staycation market. A number of hotels reported growth in midweek and weekend break stays. The new Premier Inn City Centre and Village hotels have increased capacity for weekend breaks and events-related demand. One budget hotel and one Southsea hotel reported lower levels of leisure break business, which they attributed to a loss of business to the new hotels that have opened in the city and the increased provision of accommodation that is available through Airbnb.
- One hotel has successfully targeted the group tour market to maintain its occupancy levels.
- Ferry passenger demand reduced in 2017 and again in 2018. The number of ferry passengers travelling through Portsmouth reduced by 2% in 2017 and a further 0.65% in 2018.

DENIED BUSINESS¹

Denied Business¹

- Most of Portsmouth's hotels regularly fill and turn business away on Tuesday and Wednesday nights, often to a significant degree, especially in the summer months. Some budget hotels also deny business on Monday nights, although not usually to the same extent as on Tuesday and Wednesday nights.
- Most of the city's hotels also consistently fill and turn business away on Saturday nights for much of the year. Budget hotels and some 3/4-star and upper-tier budget hotels and Southsea hotels also frequently deny business on Friday nights during the summer months.

1. Business that hotels have to turn away because they are fully booked.

FUTURE GROWTH PROSPECTS

Prospects for 2019

- The Village hotel is likely to see strong growth in occupancy and achieved room rate performance in 2019 as it becomes more established in its second year of operation.
- Portsmouth's other hotels generally expect to see strong growth in both occupancy and achieved room rate in 2019. 3/4-star/upper-tier budget hotel occupancies were significantly up in the first four months of the year and there was some growth in achieved room rates in March and April, although still some way to go before they return to 2017 levels. The city's budget hotels also reported a strong start to the year. The D Day 75 commemorations in June will have boosted hotel occupancies, and especially room rates in the city.
- In contrast, Southsea's boutique hotels have been having a tough trading year in 2019, with a drop in occupancy and little improvement in achieved room rates.

Prospects for 2020 and Beyond

- Looking ahead to 2020 and beyond, the opening of the new Travelodge and Premier Inn and extension to the Premier Inn Port Solent are likely to impact on hotel performance in Portsmouth in 2020 and 2021, especially at the budget level. The proposed Hampton by Hilton is also likely to affect hotel performance for a period, depending on when it opens, and how the city's hotel market has grown and recovered following the opening of the Travelodge and Premier Inn.
- Going forward, there are positive indicators of likely future growth in demand for hotel accommodation in Portsmouth that will support these and further new hotels:
 - The **regeneration of Portsmouth** is set to deliver transformational change for the city over the next 15 years. The new economic and regeneration strategy 2019-2036 aims to make Portsmouth Britain's premier waterfront technology and innovation city, and to build on the 'Great Waterfront City' brand. This includes creating a marine/maritime engineering and/or clean growth quarters, building on the strengths of the manufacturing and engineering cluster; putting the right infrastructure in place, particularly in terms of transport and the waterfront; creating the right business environment, including strengthening the visitor, cultural and creative economy and knowledge-based sectors. The strategy targets a growth of 7000 jobs as well as increased productivity.

FUTURE GROWTH PROSPECTS

- Some of the key strategic developments planned to deliver this transformational change include:
 - **City centre regeneration** (Gross Development Value £1bn) – the Council has ambitious plans for the city centre, particularly the northern part, previously known as the Tricorn site, which is at a key gateway to the city. The area is currently being masterplanned, and the Council will take an active role in delivery here and in stitching the city centre back together. Due to the air quality and health and wellbeing issues this development will be built on excellent public transport, cycling and walking. The Council has signed a Joint Venture with Delancey to bring residential and leisure led regeneration forward and is also working with partners to bring renewed retail and leisure offers to Commercial Road and the Cascades shopping centre, investing in high quality public realm around Portsmouth & Southsea train station, expanding the range and quality of the city centre market, and introducing new street food options to the area – all to help create a vibrant and economically successful and business led high street and city centre.
 - **Tipner regeneration** (Gross Development Value £1bn+) – Tipner is an ambitious development scheme at the gateway to the city which will play a key role in establishing Portsmouth as a beacon of growth and opportunity in the Solent region. Significant levels of government funding have been secured to unlock the Tipner West and Horsea Island sites. The scheme here includes provision for over 4,000 new homes and 1m sq ft of commercial development including a high tech marine and maritime hub. The current Park & Ride's capacity will be massively increased to facilitate fundamental modal shift addressing air quality and health and well-being concerns. The scheme includes 27 hectares of land reclamation from Portsmouth Harbour.
 - **Southsea coastal scheme** (Gross Development Value £110m) - a major engineering project to put in place new sea defences, at the same time stimulating further regeneration by unlocking investment opportunities as well as enhancing Portsmouth's seafront and securing Southsea's future. The vision for Southsea is to create a more vibrant place for residents, businesses and visitors alike, protect the community and preserve the area's unique heritage. Key sites for redevelopment along the seafront that could include visitor accommodation/visitor economy uses include The

FUTURE GROWTH PROSPECTS

Point/Wightlink workshops in Old Portsmouth, Clarence Pier, The Pyramids Centre, and the Royal Marines Museum. A leisure focus will also form part of the development at Southsea Castle, Southsea Common, South Parade Pier, St George's Road, Eastney Swimming Pool and Eastney Point. Key additional themes in taking schemes forward are health & well-being, heritage, the natural environment and transport & access.

- The development of **Portsmouth International Port** is to continue, to grow demand both from passengers and cargo handling. £33m of development funding has been secured from Portsmouth City Council to undertake a series of infrastructure projects to underpin this growth. This includes improvements to cruise berths to accommodate larger ships and additional mooring points to permit 2 liners to dock at once; changes to the terminal building to provide dedicated facilities to handle cruise and ferry passengers more efficiently, and a new passenger boarding tower; plus £15m to improve facilities for the commercial shipping services operated by Portico to enable them to increase the amount and types of cargo they handle. The port handles 2m passengers to continental Europe every year. The Masterplan forecasts growth of 1.5% p.a. in this market. The port also handles 250,000 freight movements, and is forecast to grow by 2.5% p.a. The **cruise market** has seen particularly strong growth, increasing from 14 cruise ships in 2010 to 50 in 2019. These 50 ships used Portsmouth as both a turnaround port for embarkation and disembarkation, and as a port of call (less than 20 ships), visiting the city as part of an itinerary. The ambition is to double this to 100 ships by 2022, and to increase passenger numbers from 50,000 to 150,000, which proposed facilities will permit.
- The **University of Portsmouth** has plans to continue to grow and to invest in its facilities, articulated in its Estate Masterplan (2016). A £400m programme of investment has been identified, to deliver a requirement for an additional 60,000 sq m of space across the campus. This increase in floorspace is required to meet a target increase in student numbers - from 23,000 to 26,000, including an increase in international students from 3,000 to 4,000 – but also to improve the student experience, facilitate collaborative learning, and grow research and innovation facilities. The Plan covers a 10-12-year period and involves redevelopment and intensification of existing sites as well as new development.

FUTURE GROWTH PROSPECTS

- The **development of the visitor economy** is at the heart of Portsmouth's culturally-led regeneration strategy.
 - The City's **Visitor Marketing Strategy 2017-2020** supports the aspiration to identify Portsmouth as the 'Great Waterfront City: a vibrant modern city with a strong positive national and international reputation'. It looks to grow the visitor economy by identifying key target markets that best match the city's unique product offering of maritime heritage and a vibrant seafront. The target for growth is to increase overall visitor numbers by 5% and increase the number of overnight stays by 8% between 2016 and 2019. Primary target markets are day visitors (including groups) from within 2 hours drive time; the short break market from the West Midlands and Northern Home Counties; and overseas visitors particularly from Europe, the US and China. Secondary markets are visitors to friends and relatives, the business and conference market, and overseas visitors from the rest of the world. Attracting younger and higher spending markets is a particular priority. Key messages are about a modern city with 800 years of maritime heritage, with fabulous shopping, dining and culture on the water's edge, ever-changing sea views, and an emerging vibrant culture. Key 'Attack' brands are identified as Gunwharf Quays, Emirates Spinnaker Tower, the Historic Dockyard, and Southsea seafront, all located on the waterfront.
 - **Events** are a key part of the Portsmouth offer, and the city has been developing a growing programme of high-quality events of national and international importance. There is an aspiration to become a global events destination, building on high profile events such as the America's Cup World Series races, and a strategy to develop more major events given their greater benefits to the city's economy. These events, such as the Great South Run and Victorious Festival attract a large proportion of visitors from outside the area who stay overnight. The strategy also seeks to use events to make Portsmouth an attractive year-round destination and to reinforce the vision of 'A Great Waterfront City', and focuses on putting in place the right systems, partnerships and funding to deliver.

FUTURE GROWTH PROSPECTS

- Portsmouth Guildhall is an important venue for events, conferences and functions that has been expanding its programmes and investing heavily in up-grading its facilities. The **Guildhall Renaissance** initiative is an ambitious and exciting plan to transform Portsmouth's Guildhall that envisages a potential £15 million redevelopment prepared by Portsmouth Cultural Trust in cooperation with leading design and architectural firms, Wayne Hemingway and Foster Wilson. The focus of this plan is around creating a commercially sustainable music and heritage venue that would provide a state-of-the-art cultural hub.
- There is potential for Portsmouth hotels to take more **group tour business** to maintain their occupancies if they need to as the city's hotel supply grows. New hotels may also target this market in their initial operating years, as they build demand from other markets. This is however lower-rated business, which hotels will want to limit and phase out as demand from other, more lucrative markets increases.
- **Population growth** will continue to generate demand for hotels in terms of visits to friends and relatives and people attending weddings and family parties. Portsmouth's population is forecast to grow by 17,300 between 2019 and 2036, from 214,700 to 232,000. Portsmouth is looking to deliver over 17,000 new homes over the new Local Plan period to 2036, and has an active housing development programme worth over £80m GDV that will deliver high quality, energy efficient affordable and social homes.
- The major regeneration schemes, infrastructure projects and house building proposed in and around Portsmouth are likely to generate substantial levels of hotel demand, especially at budget level, from **contractors** involved in building and fitting out these schemes, as well as other professionals involved in the design and delivery of development projects.

SOURCES OF FURTHER INFORMATION

For further information and contacts or to discuss your requirements contact:

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**PORTSMOUTH HOTEL DEMAND PROJECTIONS
METHODOLOGY, ASSUMPTIONS & RESULTS**

1. Methodology Used for the Projections

In order to provide an indication of the number of new hotel bedrooms that market growth might support in Portsmouth through to 2036, Hotel Solutions has prepared projections of possible future growth in hotel demand in the city from 2018 to 2020, 2025, 2030 and 2036, using our Hotel Futures hotel demand forecasting model. Projections have been prepared for branded 3/4-star/upper-tier budget hotels and budget hotels, taking the current supply of hotels and 2018 roomnight demand as the baselines for the projections.

In projecting future demand for hotel accommodation in Portsmouth, we have first calculated an estimate of current (2018) baseline roomnight demand for each standard of hotel, based on the information provided by hotel managers, the data that we obtained from our head office contacts in some of the hotel companies represented in the city, and the data we purchased from STR Global. To these figures we have added estimates of the roomnights that the city's hotels are currently denying (based on the information provided to us by hotel managers, the insight that we have on hotel business that is currently being displaced from Portsmouth to surrounding areas from the hotel studies that we have undertaken in 2019 for these locations, and our judgement based on current levels of hotel occupancy in the city) to provide an adjusted baseline figure of the true (unconstrained) roomnight demand for each standard of hotel. We have then applied assumed low, medium and high growth rates to these adjusted baseline figures to calculate estimated roomnight demand for each standard of hotel in 2020, 2025, 2030 and 2036.

Using these projections of future hotel demand, we have calculated the number of hotel bedrooms that our roomnight projections will support, assuming an average annual room occupancy of 75% for branded 3/4-star/upper-tier budget hotels and 80% for budget hotels (as the levels of occupancy that hotel developers and operators will be looking for to support new hotel development in the city). Applying these figures to current numbers of hotel rooms provides figures for the numbers of new hotel bedrooms that future market growth will support for each standard of hotel. The results are shown under Section 3 both including the pipeline additional hotel bedrooms that are under construction (the extra 48 bedrooms at the Premier Inn Portsmouth Port Solent and the new Travelodge and Premier Inn hotels), and additional to this new hotel supply, the latter scenario thus showing the potential for further hotel bedrooms beyond 2020.

Making any sort of market forecasts is an uncertain process: all forecasts are based on judgement and assumptions, and are susceptible to unforeseen changes. The projections we have prepared should thus be taken as indicative only. They have been prepared to provide an illustration of the numbers of new hotel bedrooms that might be needed under different growth scenarios. They are not intended to be accurate projections of how the market will grow, targets for hotel development, or limits on new hotel provision. Clearly the further ahead that one looks, the more difficult it is to project growth accurately. Projecting much further ahead than 5 years is very difficult. The projections to 2025, and certainly to 2030 and 2036 should thus be treated with some caution and should be periodically reviewed.

2. Assumed Growth Rates

In setting our assumed growth rates for hotel demand in Portsmouth, we have taken account of the following indicators of potential growth in demand:

- Employment forecasts, as a proxy measure for growth in midweek corporate demand, which show employment growing in Portsmouth at an average annual rate of 0.13 - 0.35% through to 2036;
- Some scope for growth in residential conference business;
- Potential growth in midweek contractor demand for budget hotel accommodation as a result of construction activity;
- The City Council's targeted growth in overnight tourist stays of 2.67% per annum.
- The likely growth in the numbers of cruise passengers that will require overnight hotel accommodation before and after their cruise, as cruise ship departures from Portsmouth increase;
- The projected growth in car accompanied ferry passenger movements through Portsmouth of 1.5% per annum;
- The potential for hotels to target the group tour market to boost their occupancies if they need to, albeit that they will want to limit the levels of business that they take from this market due to its low-rated nature;
- Population growth, at an average 0.48% per annum through to 2036, as a proxy measure for growth in demand from the weddings, family party and VFR markets;
- The likely increase in university-related demand as the University of Portsmouth expands, student numbers and research activity increase, and the University develops global partnerships.

Taking account of these factors, we have assumed the following average annual growth rates for demand for hotel accommodation in Portsmouth through to 2036. Budget hotels are likely to benefit more from the anticipated growth in demand from contractors and ferry passengers. We have thus assumed higher growth rates for budget hotels:

**PORTSMOUTH HOTEL DEMAND PROJECTIONS
ASSUMED GROWTH RATES FOR HOTEL DEMAND**

GROWTH SCENARIO	AVERAGE ANNUAL GROWTH RATE 2018-2036 %	
	Branded 3/4 Star/ Upper Tier Budget Hotels	Budget Hotels
Low	1	2
Medium	2	3
High	3	4

For simplicity's sake, we have based our projections on an average annual growth rate. Clearly growth in demand will fluctuate from one year to the next. There is insufficient data to factor in different growth rates per year, however.

3. Results

The results of our hotel demand projections are set out in the tables below.

**PORTSMOUTH HOTEL DEMAND PROJECTIONS 2020-2036
(Including pipeline new hotel bedrooms under construction in 2019)**

Year	Potential New Rooms Needed ¹		
	Low Growth	Medium Growth	High Growth
Branded 3/4 Star/ Upper-Tier Budget Hotels			
2020	66	83	100
2025	110	173	241
2030	155	272	403
2036	212	405	633
Budget Hotels			
2020	101	116	134
2025	180	240	303
2030	268	383	512
2036	385	586	823

Notes:

1. Including the additional 48 bedrooms that are currently being built at the Premier Inn Portsmouth Port Solent and the new Travelodge (152 bedrooms) and Premier Inn (120 bedrooms) hotels that are currently under construction

The table below shows the projected requirement for new hotel bedrooms in addition to the new Travelodge and Premier Inn budget hotels and the extra bedrooms at the Premier Inn Portsmouth Port Solent.

**PORTSMOUTH HOTEL DEMAND PROJECTIONS 2020-2036
(Additional to the new hotel bedrooms under construction in 2019)**

Year	Potential New Rooms Needed ¹		
	Low Growth	Medium Growth	High Growth
Branded 3/4 Star/ Upper-Tier Budget Hotels			
2020	66	83	100
2025	110	173	241
2030	155	272	403
2036	212	405	633
Budget Hotels			
2020	0	0	0
2025	0	0	0
2030	0	63	192
2036	65	266	503

Notes:

1. Additional to the extra 48 bedrooms that are currently being built at the Premier Inn Portsmouth Port Solent and the new Travelodge and Premier Inn hotels

Note:

Our hotel demand projections are not intended to be targets or limits on new hotel provision: they merely provide an indication of the level of new hotel development that market growth might support, assuming that all hotels receive their fair share of available business. They do not take account of the new demand that new hotels might be able to generate as a result of their brand, or the extent to which new hotels might take more than their fair share of the market through competing well with existing hotels. New hotels could therefore be developed ahead of our growth projections if hotel companies feel that they can compete well and/or they are confident of attracting new business.

4. Conclusions – Hotel Development Potential

Budget Hotels

Unless we have significantly underestimated the levels of business that the city's existing budget hotels are currently denying and/or the potential for future growth in budget hotel demand, Portsmouth's budget hotel market looks set to go into oversupply in the next few years following the opening of the new Travelodge and Premier Inn hotels and the additional bedrooms at the Premier Inn Port Solent. Budget hotel occupancies are likely to drop and may not recover much before 2025, depending on how strongly demand for budget hotel rooms increases. Achieved room rates may also drop back.

The projections suggest that Portsmouth is unlikely to be able to support further budget hotel development much before 2030, and then only if there is sustained high growth in demand for budget hotel accommodation. Beyond 2030 the projections show that Portsmouth may be able to support at least another two budget hotels by 2036 if the medium and high growth scenarios are sustained. This conclusion needs to be treated with caution however and should be periodically reviewed through updated hotel demand projections, as it is impossible to project hotel market growth so far ahead with any degree of certainty.

3/4 Star/ Upper-Tier Budget Hotels

The projections show that market growth at the 3/4-star/ upper-tier budget level should support the proposed Hampton by Hilton upper-tier budget hotel by 2025. Hotel performance at this level may reduce however if this hotel opens earlier than this.

The projections indicate that Portsmouth should be able to support a further 3/4-star/upper-tier budget hotel by 2030 under sustained medium and high market growth, and possibly another one or two new hotels at these levels if the city's hotel market continues to grow strongly. Again, caution is urged when considering these longer-term projections. Depending on whether the Hampton by Hilton hotel goes ahead, this suggests that the potential for a new full-service 3 or 4-star hotel is longer-term (closer to 2030), unless a new hotel at these levels is able to attract significant new business to the city because of its brand and facilities.

Note

We have not made any projections for boutique hotels or aparthotels.

CONFIDENTIAL

HOTEL DEVELOPER INTEREST IN PORTSMOUTH

Testing interest from hotel developers, investors and operators provides an opportunity to gain a live perspective from the hotel development market. It can highlight issues around destination image, profile and market knowledge, as well as obstacles that might be preventing schemes coming forward and interest being progressed. It also provides an opportunity to flag up market potential where there is more limited knowledge of the opportunities, the destination or a specific location, and to warm up interest to be taken forward by Councils and their partners.

In testing interest across Hampshire, we made contact with 25 hotel developers, operators and investors and received responses from 17. They were selected on the basis of fit with market potential, fit with destination aspiration, local developer/operators some of whom were known to have looked at opportunities in Hampshire, and the four big multi-branded hotel companies with offers from budget/limited service through to upscale and luxury brands. From the 17 responses received, only two of the sample were not interested in any location in Hampshire currently, both for reasons to do with their current business models and growth strategies.

Portsmouth attracted a high level of interest from hotel developers and operators, second only to Southampton amongst all Hampshire destinations, as might be expected given that they are both larger destinations with the greatest critical mass in terms of demand drivers and other infrastructure. There was interest in Portsmouth and Southsea from 22 brands from budget through to up-scale hotels.

In terms of Portsmouth as a hotel investment location, it is clearly perceived as a city of regional significance, and makes the target list of a number of brands including some that are newcomers to the market who will only target such locations in the early stages of the brand roll-out. It is also seen to have a proven hotel market given its scale and range of current hotel provision (1833 rooms in and around Portsmouth and a further 479 in Southsea). Several of the interested hotel companies already had representation in and around Portsmouth with other brands, and so had direct knowledge of the market, performance and business being denied. The sphere of influence of the city extends to the Portsmouth stretch of the M27 corridor, where hotels serve Portsmouth demand drivers, including those on the business parks here, as well as more local and transient markets. The fact that the city is a gateway to and from the south via its port and good accessibility via the M3 and M27 motorways further enhances its appeal as a hotel development location.

Several of the companies consulted had been actively looking at sites in Portsmouth and a number were still working up schemes on specific sites, including sites around the station and waterfront. These remain the preferred locations for hotel development, though several were prepared to consider other locations on their merit, the city centre and Southsea included. Most were looking for hotels of scale, c. 100 bedrooms or more, which is typical in city centre locations where there is often a need to spread the high costs of city centre development across a greater number of revenue generating rooms. Respondents were looking for a mixture of opportunities in terms of deal type, from freehold purchase to lease, franchise/manchise and management.

Those hotel companies with multiple brands from limited service to luxury were more likely to place their budget and mid-scale offers in Portsmouth, expressing some nervousness about the potential to secure a sufficient volume of high-rated business to support their more upscale brands that would need to achieve an average room rate of £100+. One aparthotel company that had looked at several opportunities in the city had been unable to make schemes stack up financially here because revpars were not high enough to meet their requirements.

The issue of rate, together with a significant increase in building costs experienced generally over the past 2 years and also the deliverability of sites are all challenges to bringing hotel development forward in Portsmouth. In such situations, public sector intervention could be key to getting the right hotel into the right location (see Appendix 6 on public sector funding of hotels).

The interest identified is summarised in the table overleaf by brand and type of offer.

**HOTEL DEVELOPER OPERATOR & INVESTOR INTEREST IN PORTSMOUTH
BY BRAND & STANDARD/TYPE**

STANDARD/TYPE	BRAND INTEREST
4 Star	Crowne Plaza Mercure Novotel
Boutique	Hotel Indigo Artist Residence Ibis Styles THAT Group ¹
Lifestyle	AC by Marriott Tribute
3 Star	Courtyard Hilton Garden Inn Southsea Rocks
Upper Tier Budget	Hampton by Hilton ²
Budget Boutique	Moxy
Budget	Easyhotel Mollies Diner Travelodge ³
Aparthotel/ Serviced Apartments	Quest Room2 ⁴ Staybridge Suites
Pub Rooms/ Inn	Wetherspoons ⁵ Local ⁵

Please note that these tables contain information that is commercially sensitive which should be treated in confidence.

-
1. Knight & Lee
 2. THAT Group – Portsmouth Point
 3. Published requirement for Portsmouth Harbour/Gunwharf Quays
 3. Active site interest
 4. The Lord Palmerston
 5. Sally Port Inn

APPENDIX 5

PORTSMOUTH HOTEL SITE ASSESSMENTS

Having sites that fit with the requirements of developers and operators as well as market potential is key to being able to deliver the identified hotel opportunities on the ground. Councils are generally interested in this strand of the work programme both to input into broader strategic and master planning (so that the sector's needs can be prioritised and balanced against demand for land and property for other uses) as well as to consider how the Council might make optimum use of its own assets and generate capital receipts and new income streams.

The sites in the table below were suggested by City Council Officers at the Stakeholder Workshop held in June. They have been assessed in the light of the market potential the consultancy team has identified from our market performance review, demand forecasting and developer/operator testing work. In addition, we have taken into account the site requirements that hotel developers generally look for in identifying and assessing sites in terms of their suitability for hotel development, which include (where known):

- Visibility and profile;
- Easy access and parking;
- An attractive environment and setting;
- Destination appeal;
- Demand drivers – attractions, events, corporates;
- Critical mass of population, 'attractors', supporting facilities/f&b;
- A chance of planning;
- Ability to do the right deal (will vary by operator and owner/developer objectives);

The consultancy team has also been mindful in assessing these sites of the contribution to wider regeneration objectives that a particular site/scheme could deliver as well as its potential role in a broader locational strategy for hotels where appropriate.

In overview, there are a lot of potential sites for hotel development in and around Portsmouth and Southsea. Indeed, there are many more sites than there is identified market potential for in our demand forecasting model, and that points to a need to prioritise sites to ensure that the optimum standard and type of hotel is delivered in the optimum location. Also, given that a number of the sites put forward for assessment were available and being considered for hotel development over 10 years ago, it suggests that there are potentially some issues around deliverability that will need to be addressed and that could affect which sites are prioritised.

Our research shows that the strongest opportunities for growing the city's hotel market lie in developing the leisure and cruise markets, and that the location with greatest appeal to these markets is the waterfront. Developing hotels on waterfront sites also provides an added value opportunity to help build the city's destination offer and image as 'A Great Waterfront City'. On this basis the strongest hotel sites are the Naval Academy and Gunwharf Quays for branded boutique hotels, Clarence Pier for an international 4-star hotel with conference and spa facilities, and the Wightlink car park and the workshop site at The Point in Old Portsmouth for a smaller scale boutique or aparthotel development. This locational strategy would also help develop a cluster of hotel rooms to support a large conference hotel at Clarence Pier in bringing sizeable conference to Portsmouth.

Whilst the City Council has an aspiration for hotels to support major regeneration schemes in the city centre and at Tipner, there is no market rationale for this, and a danger that pro-active intervention by the Council to deliver hotels on these sites could undermine hotels being delivered on stronger waterfront sites by eating into their market.

SITE/LOCATION	KNOWN INFORMATION (Ownership/Planning Status/Proposed Use)	SITE ASSESSMENT
Tipner West	A major regeneration scheme to be delivered in the longer term. The vision is for an up-scale car-free destination with up to 4000 residential units and also some marine-related employment.	This is not a strong hotel site from a market perspective, being isolated from the main focus of tourist activity around Gunwharf Quays and the Historic Dockyard. Whilst it could serve an element of demand from the port and from companies at Lakeside Business Park, first preference from the market would be to be in closer proximity to those drivers. The development of a hotel here could undermine the deliverability of hotels on stronger sites, as well as the performance of existing hotels in stronger locations, by competing for market share. There would need to be a significant critical mass of on-site corporate demand from the companies that might locate here, and a strong and distinctive leisure offer to support a hotel in this location.
Police Station, Kingston Crescent (confidential)	Pre-app for hotel. Proposed to be released through One Public Estate.	Good location in terms of proximity to the International Port. Established hotel location with Travelodge here which performs very strongly. Gateway location with some views at height of the harbour. A little set back from the M275 so would need some height for visibility. A budget hotel site, but no market potential identified in the short to medium term.
The Guildhall	Currently in use as a music, events, exhibitions and conference/functions venue with major plans for redevelopment and market expansion. Aspiration for a 'social hotel' on top of the Guildhall as part of the Hemingway plans for the building. Focus to date has been on refurbishment and redevelopment of front of house areas, studios and the main concert hall which will continue through to 2022, and attracting more conferences and concerts. Hotel could still be an option for future phases.	Central location and attractive building, though listing and condition of the property are significant constraints in terms of both cost and what might be permissible in planning terms. Funding and planning are major obstacles. Immediate surrounds of the Guildhall unattractive and in need of comprehensive development. This site doesn't further the Waterfront City aspiration.

SITE/LOCATION	KNOWN INFORMATION (Ownership/Planning Status/Proposed Use)	SITE ASSESSMENT
<p>City Centre (various sites) (confidential)</p>	<p>Existing City Centre Masterplan identifies hotel use at:</p> <ul style="list-style-type: none"> • City Centre North/Northern Quarter/Tricorn site • West of Commercial Rd & North of Market Way (including Sainsburys) • Surrey Street West – Post Office building • Surrey Street East – car park south of Debenhams • Guildhall area including office conversions <p>The owners of the former ABC Cinema site have also expressed an interest in bringing forward a hotel proposal on this site.</p> <p>The new City Centre Masterplan in preparation identifies potential for additional hotel provision in city centre at budget level and around the station.</p> <p>There is an aspiration that may or may not be reflected in later stages of the new City Centre Masterplan for a 4-star hotel with conference facilities at City Centre North as a landmark development at an important gateway to the city.</p> <p>There has also been a pre-application enquiry for a 185-room aparthotel for this site.</p>	<p>Soft market testing with hotel developers and operators identified Gunwharf Quays/the waterfront and the city centre area around the station as the favoured locations for hotel investment. Several indicated they would look elsewhere in the city centre, but the environment needs to be right in terms of public realm and associated drivers, as well as good access, visibility and associated parking. Regeneration of the city centre may be able to deliver this in the longer term, but hotels do not want to lead regeneration. The station area has seen considerable investment and is beginning to develop a cluster of uses, hotel included. Continuing development here with Travelodge and Hampton by Hilton will reinforce this, and create a critical mass of rooms that would also be in close proximity to the Guildhall and could support its endeavours to attract more conferences and events.</p> <p>City Centre North is a key priority for the City Council for mixed use that could include a hotel, but we don't see this as a strong hotel site from a market perspective. The development of a hotel here could undermine the deliverability of hotels on stronger waterfront sites, by competing for market share. Hotel development in the city centre will not reinforce the 'Great Waterfront City' branding or be of such appeal to the leisure and cruise markets as hotels on the waterfront.</p>

SITE/LOCATION	KNOWN INFORMATION (Ownership/Planning Status/Proposed Use)	SITE ASSESSMENT
HMS Nelson Ward Rooms, Queen Street	Part of the MoD estate that is likely to be sold off. Adjacent to Portsmouth University which may also have an interest in the site and buildings as part of its estate development plan.	Attractive characterful buildings with grounds, also located on a main route through the city and set between the station and the Historic Dockyard. Suitable for an upscale or boutique hotel. Lacks waterfront location that would help develop the 'Waterfront City' brand. Naval Academy a stronger site from this perspective.
Former Naval Academy, Historic Dockyard	Grade II listed building within the Historic Dockyard providing a conversion opportunity for a hotel of c.100 bedrooms.	Unique opportunity for the development of an up-scale boutique hotel in a quality, characterful property in the heart of the historic waterfront area. Close proximity to Gunwharf Quays and transport hubs also an advantage. Separate access would be required through the dockyard wall. Potentially expensive to develop given the nature of the site and building which could be an issue in view of the rate ceiling in Portsmouth. If this impacts on viability some form of support could be needed, the rationale being the chance to seize a one-off opportunity for a top end hotel in a key location that will significantly enhance the city's hotel offer and help grow the market. A very strong site.
Brunel House, The Hard	Disused office building that has been considering conversion or redevelopment for mixed uses including hotel. Now understood to be being developed for residential use.	The Hard is a strong hotel development location with proximity to Gunwharf Quays and the Historic Dockyard and views over the Solent. Many hotel developers looked at properties here, including Brunel House; Premier inn are currently developing on Queen Street. Feedback on Brunel House was that the value expectations of the landowner were far higher than a hotel could deliver.

SITE/LOCATION	KNOWN INFORMATION (Ownership/Planning Status/Proposed Use)	SITE ASSESSMENT
Gunwharf Quays	Landsec understood to have an aspiration for another hotel here though unclear if there is a site for this and where. Future masterplanning could involve reconfiguring and or intensifying use within the existing space where hotel could be an upper floor use.	A strong site for an additional hotel with high levels of interest from hotel developers and operators in being here. The performance of the Holiday Inn Express is very strong demonstrating a desire by the market to be in a waterfront location with lots of activity, food and beverage outlets, shops and things to do and see. A branded boutique hotel or aparthotel would complement the existing offering.
Wightlink Terminal & Gunwharf Rd Car Park	Some discussion about moving the terminal in the past, plus discussions about the separate car park opposite the terminal.	Extremely strong site with fantastic outlook and scope for major development. However, Wightlink have recently invested in the site with refurbishment work and a new car deck so unlikely to come forward in the short to medium term. The car park site could offer potential if it comes forward – a long thin site that could be constrained in terms of height by neighbouring residential, so potentially for something smaller. Both sites would have strong appeal to hotel developers and operators, and some had already looked at these sites and would be keen to progress if there were to be an opening to do so.
Fish Market/Viviers UK, White Hart Rd	Referred to in the Draft Seafront Masterplan as an important site in terms of area identity, to be retained and supported, potentially by introducing complementary food & beverage uses, artisans' studios/workshops or even some residential.	This is a significantly under-utilised and under-developed site that could be improved and enhanced with added value uses. A hotel or quality bedrooms associated with a restaurant or gastropub could form an upper floor use here, at the same time helping to tell the story of fishing and the heritage of the docks. It would require some separation of uses but could deliver significant place-making benefits.

SITE/LOCATION	KNOWN INFORMATION (Ownership/Planning Status/Proposed Use)	SITE ASSESSMENT
Sally Port Inn, High St, Old Portsmouth	Proposal to develop the inn, which is currently closed, to a high-quality gastropub with luxury boutique suites. Previous plans to deliver a larger number of rooms, c. 20, back into use were put on hold when an extension to the property was refused planning.	Good location and attractive property close to the attractions of Old Portsmouth and the Cathedral. Small boutique hotels and inns that offer luxury rooms and quality f&b have traditionally performed well in Southsea, and whilst there has been some fall back in performance it remains strong at an overall level, and this site will add only a small number of rooms to the total supply.
The Point/former Wightlink workshop/ Council Car park	Planning permission previously granted for residential and restaurant/café uses. Site owned by Westmark (0.18ha/0.44ac). Potential to incorporate the council car park into the site (0.19ha/0.469ac). Aspiration in Draft Seafront Masterplan for a small art gallery to help create a vibrant destination and identity for the area as an arts and cultural hub.	A prime site in a fantastic location with superb views across the Solent and to Gunwharf Quays and the Emirates Spinnaker Tower, as well as proximity to Ben Ainsley Racing and the attractions of Old Portsmouth. Many hotel companies could be interested in this site though typically want something of scale, but it appears small and would need to permit something higher rise than what surrounds it to create critical mass. An alternative would be a smaller boutique hotel also with a wider food and beverage offer – a brand like Artist Residence could have synergy with the art/gallery aspiration in the Seafront Masterplan. Serviced apartments with ground floor retail, cafes, bars and restaurants could also work. If a building of greater height could be developed here as a landmark, some permanent residential might be incorporated that could help with project viability. Need for piling, potential to flood and potentially significant remediation costs a limitation.
Clarence Pier	Features in Draft Seafront Masterplan for developing a wider mix of uses including hotel, restaurants, bars, leisure uses and residential. Complex land ownership situation here with leases on some sites (Hover Terminal, Premier Inn) and some private land ownership, but Council also own here and lease, so not insurmountable.	A strong site for a flagship international 4-star waterfront hotel of scale with significant conference facilities, as part of a comprehensive redevelopment scheme. A more viable option than a dedicated conference centre on the waterfront. Views across the Solent a plus. The site would benefit from improved linkages along the waterfront in both directions and into the city centre by public transport.

SITE/LOCATION	KNOWN INFORMATION (Ownership/Planning Status/Proposed Use)	SITE ASSESSMENT
Pyramids Leisure Centre	Features in Seafront Masterplan for hotel with conference facility. A politically sensitive site in a sensitive location adjacent to Southsea Common and Southsea Castle, and also currently liable to flooding. Leisure would need to be provided elsewhere in this area for the community. Work underway in the background to see how this could be delivered. Land ownership very straightforward as the City Council owns the site and the Pyramids.	This site is too isolated and remote from leisure and business demand drivers to support a conference hotel, and not sufficiently supported by other hotels within walking distance Clarence Pier is a much stronger site.
Knight & Lee, Southsea	Planning application submitted on 9 September 2019 by THAT Group for a mixed-use scheme to include a 43-bedroom boutique hotel, bars, café, retail, gym, cinema and offices.	Reasonably attractive building in the heart of Southsea's retail area. The fact that there is developer/hotel operator interest in this site is indicative of confidence in the market here. However, boutique hotel operators in Southsea are indicating performance dropping back as new supply has come on stream. Any increase in supply needs to be evolutionary, alongside the development of Southsea's destination offer. Unlike the seafront sites this location does not meet the desire for waterfront locations with sea views that also help build Portsmouth's 'Waterfront City' image and profile.
Debenhams, Southsea	Located adjacent to Knight & Lee in the heart of the retail area. Not currently available but could come forward.	Potential would be dependent on how the market grows in Southsea, whether the Knight & Lee building is developed as a hotel, and when the property becomes available.
Fratton Park	Aspiration by the Eisner family owners for a better quality hotel, potentially as part of the development of Fratton Village.	A hotel here could help meet some demand from the stadium but this is unlikely to support a hotel alone. As a hotel location this is not attractive or convenient for the leisure market in terms of tourist attractions and other visitor infrastructure and lacks proximity to major offices and business parks for corporate demand.

SITE/LOCATION	KNOWN INFORMATION (Ownership/Planning Status/Proposed Use)	SITE ASSESSMENT
Royal Marines Museum	The Royal Marines Museum site is being marketed for freehold sale, with plans to move the museum to the Historic Dockyard. A hotel is one identified future use, and there has been interest for this. It is a Grade II listed building of 5,500 sqm in a site area of 3.35ha, also in a Conservation Area.	An attractive building and setting with views over the beach and the Solent. Off-pitch in relation to leisure, cruise and corporate drivers of demand. Would require an upscale or boutique destination hotel to draw its market, with associated facilities such as spa and functions/weddings space. An alternative would be a wedding venue with rooms. Given the nature of the building and its listed status, development costs are likely to be high, and it may be difficult to create the right spaces required for a hotel. In terms of value, alternative uses such as residential are likely to deliver a greater financial return, though a hotel would keep the building open and accessible to the public if this was a priority for the owners.

PUBLIC SECTOR FUNDING OF HOTEL DEVELOPMENT SCHEMES IN THE UK

1. Introduction

Public sector funding in one form or other is increasingly being used to support hotel development schemes across the UK in terms of:

- Local authority borrowing at preferential rates;
- Growth fund grants;
- Heritage grants for the conversion of historic buildings to hotels;
- Local authority freehold purchase of a building for hotel conversion;
- The contribution of local authority owned land or properties for hotel development;
- Public sector pension funding of hotel schemes;
- Local authority taking an income strip lease to secure forward funding;
- Local authority development companies investing in and leasing hotels.

Such public sector investment in hotel schemes is being justified in terms of:

- Finding a new use for a redundant building;
- Enabling a strategically important hotel that cannot secure commercial finance to proceed;
- Place-making - kick starting and enabling key regeneration schemes that include a hotel as a component;
- Generating an income stream for a local authority at no cost to the tax payer;
- Helping to boost tourism growth;
- Job creation.

Examples of these types of public sector funding of hotel projects are given in the following paragraphs.

2. Local Authority Borrowing at Preferential Interest Rates

A number of local authorities across England have used their prudential borrowing powers to take out preferential rate loans to help fund hotel schemes, typically entering into a lease arrangement with a hotel operating company to generate a rental income to repay the loan and in some cases generate a surplus profit for the authority. This has enabled hotel schemes that have been unable to secure commercial funding to go ahead, at no cost to Council tax payers and in some cases giving an investment return to the council. Councils can borrow money from the Government's Public Works Loan Board at a much cheaper rate than available to private sector borrowers from commercial lenders, typically 2.5%, with schemes typically providing a return of up to 8%. They can also keep the business rates generated by the investment. Examples are as follows:

Pullman Hotel, Liverpool

Liverpool City Council funded the £66m Exhibition Centre Liverpool and Pullman Hotel adjacent to the Liverpool Arena and Convention Centre (ACC Liverpool) on Liverpool's waterfront, through borrowing that is being supported directly from the revenue generated by the expanded ACC Liverpool campus. The scheme was funded at no cost to tax payers. The hotel opened in 2016, following the opening of the exhibition centre in September 2015. It has 216 bedrooms and is an upscale 4-star standard. It acts as the headquarters hotel for conferences and exhibitions taking place at the convention and exhibition centres. Exhibition Centre Liverpool was one of Mayor Anderson's priority projects. Having an on-site 4-star hotel was seen as critical to its success. After initial investigations to find a private sector partner to fund and develop the hotel failed the City Council decided to fund the hotel directly itself alongside its funding of the exhibition centre. The hotel is wholly owned by the City Council and operated under management contract by Branded Hotel Management through a franchise agreement with Accor Hotels.

Crowne Plaza Newcastle

Newcastle City Council borrowed £30m to help fund the development of the 250-bedroom, 4-star Crowne Plaza hotel as part of the first phase of the Stephenson Quarter business district scheme in Newcastle city centre. This is a key regeneration project that the City Council sees as being of vital importance to the future development of Newcastle. The developers, Silverlink Holdings (now renamed as the Coulston Group) had secured commercial backing for other elements of the scheme but were unable to secure a loan for the hotel as the banks were reluctant to fund this type of use. With the hotel being a key element of the scheme, the City Council stepped in to borrow the money to help progress the hotel. It has lent a large slice of the money that it has borrowed to the developer to fund the construction of the hotel. The Council will use the rest of the money to buy plots of land near the hotel and kick-start work on buildings that will be sold on at commercial rates. The hotel opened in September 2015. It is being operated under management contract by the InterContinental Hotels Group (IHG). The hotel has added a major new business conferencing and banqueting facility to the city. Its main conferencing suite seats and caters for around 400 people. The hotel also offers eight adaptable meeting rooms that can accommodate small seminars of 12 people up to large private meetings of 32 and delegate meetings of 100. Combining the large conference suites and meeting rooms, the hotel can provide more space to become an ideal venue for exhibitions.

Hilton Ageas Bowl, Hampshire

Eastleigh Borough Council purchased the completed 175-bedroom, 4-star Hilton hotel at the Ageas Bowl cricket ground near Portsmouth, home of Hampshire County Cricket Club. In a deal signed in 2012, the Council agreed to pay £27.5m for the completed hotel to enable it to go ahead. Its construction was funded by Omni Capital. The investment has required the Council to take out a loan, which will be repaid with the revenue from the hotel. The Leader of the Borough Council, Cllr Keith House, has consistently said that the surplus income, particularly in the longer-term once the loan has been cleared, will be used to keep Council Tax down.

Lancashire County Cricket Club 4 Star Hotel

The Greater Manchester Combined Authority and Trafford Metropolitan Borough Council stepped in to help bridge the funding gap for a 150-bedroom 4-star Hilton hotel at Lancashire County Cricket Club's Emirates Old Trafford ground after the club failed to secure a bank loan for the project. A meeting of the Combined Authority in February 2015 agreed a loan of £5m towards the £12m hotel from the Greater Manchester Growth and Growing Places Funds, while Trafford Metropolitan Borough Council agreed to a loan of £4m. The Cricket Club turned to these public sector bodies after being turned down for funding by its bank. The Club had also rejected an offer of a loan from the Greater Manchester Pension Fund because the level of fees and proposed interest rate of 9% could not be supported by the hotel scheme. Trafford Council borrowed the £4m from the Public Works Loan Board resulting in an annual interest cost of £106,000. The Cricket Club will pay the Council £221,000 over the loan period, leading to a net profit for the Council of £115,000. The hotel opened in 2017, and has been part of a £60m investment to position the ground as a major events venue.

Stockport Exchange

Stockport Council used its prudential borrowing powers to access an £18.5m preferential rate loan to forward fund the construction of a 115-bedroom hotel and 50,000 sq ft office building as the second phase of the Stockport Exchange mixed-use development scheme in Stockport town centre in conjunction with its development partner Muse Developments. The Council bought the 10.4-acre site in January 2011. The first phase of the development, which included highways improvements and a 1,000-space multi-storey car park was completed in 2014. The Council saw the scheme as being crucial to the success of Stockport town centre. It took the decision to use its preferential rates of borrowing to kick start phase 2 and attract further investment at a time when commercial funding has proved difficult to secure. The income generated will cover the cost of the loan. The Council did extensive research and financial modelling to ensure its financing of the hotel and office development will be at no extra cost to the Council Tax payer.

Hampton by Hilton Hotel, Stockton

Stockton Borough Council is borrowing £17m to fund the development of a 125 bed Hampton by Hilton hotel on Stockton Riverside. The site is an important part of the town's North Shore regeneration scheme, and the hotel is seen as helping expedite its delivery and provides an opportunity for the Council to use it as leverage to bring external finance into the borough. The investment will also generate revenue for the authority, with projections forecasting that the Council will receive net operating profits of £1.2m per year, more than covering the estimated £830,000 per year needed to pay back the borrowing over 35 years. A hotel of this quality was also seen as a benefit in terms of attracting visitors to stay in the area.

Holiday Inn Express, Middlesbrough

Middlesbrough Council provided £6m of senior debt funding at commercial interest rates (under low prudential borrowing rates) for the development of the Holiday Inn Express in the town centre. The total project cost was £12.4m. A traditional lender couldn't be secured because the debt servicing ratio was considered too risky by mainstream banks. The justifications were that the hotel supported the on-going regeneration of the town centre, particularly as situated in a gateway location, and brought back into use vacant commercial property.

Hilton Hotel, Victoria Square, Woking

Woking Council has borrowed £400m of low interest public funds from the Public Works Loans Board to invest in its Victoria Square regeneration scheme. The scheme is being delivered by Bandstand Square Developments, a joint venture between Moyallen, Woking Council and Surrey County Council. Key objectives have been to secure the long-term future of the town, alongside generating an income and devolved business rates. The development includes a 196-bedroom 4-star Hilton hotel in a 21-storey tower, 120,000 sq ft of shops anchored by Marks & Spencer, 392 build to rent flats, public plazas, and relocation of the fire station. The hotel is due to open in 2021.

Hilton Garden Inn, Hanley

A Hilton Garden Inn 3-star hotel is currently under construction by developer Genr8 in the Smithfield area of Hanley, the emerging city centre for Stoke-on-Trent. £7m of public funding has been committed to the scheme, a combination of a £4.55m loan from Stoke-on-Trent City Council, and a £2.95m grant from the Stoke-on-Trent and Staffordshire Local Enterprise Partnership. The 140-room hotel is projected to generate £150,000 a year in business rates and add £4m to the local economy through visitor spending. Other reasons behind the investment were job creation, the additional footfall it would create to the city centre, the confidence it will create to other investors, and the new markets it can help attract.

Travelodge Partnerships with Local Authorities

Travelodge has been working in partnership with local authorities to develop new hotels with funding from low interest government loans from the Treasury through the Public Works Loans Board. The hotels are built on local authority land and leased to Travelodge on a 25-year term, with the councils repaying the debt using the rental income from Travelodge and any other tenants. Travelodges have so far been developed using this mechanism in Eastleigh, Aylesbury, Bicester, Thetford and Redhill. When complete the local authority can choose whether to retain ownership of the hotel or to sell it with Travelodge as the operator.

Lincoln City Council entered into a similar arrangement with Travelodge, selling the site to developers Harrisons for £1.025m and buying the completed hotel development back at a cost of £13m with a lease in place for 25 years to Travelodge. The loan is secured by the value of the asset and the return will not only cover the cost of the loan but make a surplus to contribute to Council services. The 127-bedroom hotel opened at the end of 2018, and features a number of Superrooms which are classed as 'premium economy' with additional services and features. 40 jobs have been created. The development also contributes to the regeneration of the city centre, sitting in close proximity to the recently opened transport hub, Cornhill Quarter and new East-West relief road.

Leicester City Council is also investing in a regeneration scheme in Leicester city centre that includes a 67-bedroom Travelodge hotel. The Council is investing £10m to secure a 125-year lease on a prominent vacant commercial property, Haymarket House, above the Haymarket shopping centre, which will be refurbished and let to Travelodge on an initial 25-year lease. The funding package includes £8.4m from funds set aside to repay the Council's long-term debt and £1.6m of capital and revenue resources. The scheme will also fund improvements to the

Haymarket car park and pay for new lifts to serve the hotel, car park and recently refurbished Haymarket Theatre. The increased revenue from the car park combined with rental payments from the hotel will generate over £200,000 of revenue a year, giving a better return than banks as well as helping boost Leicester's economy through attracting more visitors and encouraging more investment in the city centre.

Telford & Wrekin Council have funded the development of a 68-bedroom Travelodge as part of Phase 2 of the Southwater development, which is a key element of the Council's wider plans to create a modern and vibrant town centre. The Council has used its Growth Fund to build the hotel of which it is now landlord, generating extra income to protect frontline services as well as attracting business and leisure visitors and helping develop the evening economy. The Council estimates the new hotel will boost the local economy by £2m from overnight visitor spend.

Denbighshire County Council and its development partner Neptune Developments are progressing a £25m scheme to regenerate Rhyl Seafront, which includes a 73-bedroom Travelodge hotel alongside a Marston's pub restaurant; the refurbishment of the Pavilion Theatre; the redevelopment of the redundant Sky Tower ride as a static light beacon; the development of an indoor waterpark; new restaurants; and commercial outdoor activity operations. Construction of the Travelodge started in January 2018, and the hotel opened in February 2019. Denbighshire County Council has been instrumental in securing the Travelodge as part of the waterfront regeneration scheme. The Council disposed of the site to Neptune Developments on the condition that a hotel was built. It has then taken a 25-year head lease on the site, which it is sub-letting to Travelodge. At the end of the lease the Council will drop out and the developer and Travelodge will deal direct. This arrangement has allowed the hotel to go ahead at a commercially viable rental level for Travelodge, and will generate an income stream for the Council

3. Grants for Hotel Projects

Grants from the European Regional Development Fund (ERDF), UK Government Growing Places Fund and Regional Growth Fund, Welsh Government, Scottish enterprise agencies and individual local authorities have helped to fund a number of hotel schemes across the UK. Heritage Lottery Fund grants have also been secured to support the conversion of a number of historic buildings into hotels. Examples of grant schemes and grant assisted hotel projects are as follows

Welsh Government Tourism Investment Support Scheme (TISS)

The Welsh Government operates a discretionary capital grant scheme, which is available to both existing and new tourism businesses of all sizes (SMEs and large companies) that are looking to undertake capital investment. Support is available for the purpose of upgrading the quality of existing tourism business premises and increasing capacity where there are clear gaps in the market. The scheme has two elements offering grants of up to £75,000 and £500,000. Grants are non-repayable up to £25k, but may be repayable over £25k, subject to appraisal. The guideline intervention rate is 25% but up to 50% can be considered. A wide range of hotel projects have been supported, including a grant of £500k to support the upgrading of the Ruthin Castle Hotel to 4 stars and a £1.1m investment in the St Brides Hotel at Saundersfoot.

Highlands & Islands Enterprise

Highlands & Islands Enterprise offers a range of financial assistance to support capital investment projects, including grants, loans and direct equity investment, and works with Scottish Development International to develop investment propositions to take to market. The agency has funded a number of hotel projects including investments in 2015 of £217,500 to support a £1.4million expansion of the Isle of Eriska Hotel near Oban, and a £200,000 investment to support the expansion of the Kylesku Hotel in the Highlands.

Titanic Hotel, Liverpool

Liverpool City Council provided a £5.5m grant from the Regional Growth Fund to enable developers Harcourt to progress the conversion of the North Warehouse at Stanley Dock in north Liverpool into a 150-suite 4-star hotel at a cost of £30m. The project is part of the first phase of a £130m plan to regenerate the entire Stanley Dock site. The regeneration of north Liverpool is a key priority for the city's Mayor. The City Council decided that investment in the hotel was justified as a statement of confidence in the area, a means of finding a new use for a building that had been derelict for many years, and in terms of the new jobs that it has created. The hotel has also benefitted from BPPRA (Business Premises Renewal Allowances) tax allowances. It opened in June 2014.

Premier Inn Blackburn

A 60-bedroom Premier Inn budget hotel has been built as part of the £25 million Blackburn Cathedral Quarter development in Blackburn town centre, Lancashire. The scheme also includes an office block, restaurants, shops, a new bus interchange and housing for Cathedral staff. It was funded by the Homes and Communities Agency (£4.75m), European Regional Development Fund (£3.6m), Blackburn with Darwen Council (£3.8m), Blackburn Cathedral (£1.7m), Lancashire LEP's Growing Places Fund (£3.9m) and commercial developer Maple Grove (£7.8m). The hotel has been let to Premier Inn, and opened at the end of 2015. The hotel and restaurant have been bought for £4.8m by Lancashire County Pension Fund from Maple Grove Developers, representing a net yield of 5.8%.

Hampton by Hilton Humberside Airport

North Lincolnshire Council has part funded the development of a £7m, 103-bedroom Hampton by Hilton hotel at Humberside Airport through a Regional Growth Fund grant. The hotel has been developed by regional hotel operator Nightel, who operate it under a franchise agreement with Hilton Worldwide. It opened in July 2017. The Council has supported the development of the hotel on the basis of the contribution it will make to the development of the airport, the continuing expansion of the offshore oil, gas and renewable energy sectors and the new jobs that it will create.

Belfast Titanic Hotel

The derelict office building in which RMS Titanic was designed has been developed into an 84-bedroom 4-star hotel as a result of a £4.9m grant from the Heritage Lottery Fund. The Titanic Foundation used the grant to restore the B+ listed Harland and Wolff headquarters building on Queen's Island, Belfast, which has been vacant since 1989. The grant was awarded through HLF's Heritage Enterprise programme. It is designed to help when the cost of repairing an historic building is so high that restoration is not commercially viable. Grants of £100k to £5million bridge the financial gap, funding the vital repairs and conservation work needed to convert derelict, vacant buildings into new, usable commercial spaces that can have a positive impact on local economies. The hotel opened in 2017.

Buxton Crescent Hotel

The £46m redevelopment of the former St Ann's Hotel in Buxton's Grade I listed Georgian Crescent into a 79-bedroom, 5 star hotel incorporating the neighbouring natural baths into a state-of-the-art thermal natural mineral water spa, is currently being progressed with funding support from a variety of public sector sources, including the Heritage Lottery Fund (£23.8m), English Heritage (£0.5m), Derbyshire County Council (£2.7m), High Peak Borough Council (£2m) and D2N2 LEP (£2m). The developers, the Trevor Osborne Property Group, are contributing £15m. The project first commenced 10 years ago, but stalled after £5m of funding from the East Midlands Development Agency (EMDA) was withdrawn with the demise of the agency in 2011. The delay caused by losing the EMDA funding meant that because of the financial climate at the time the developers were unable to borrow the amount that they needed from the banks. Given the importance of the project to Buxton and the rest of Derbyshire the County Council stepped in with a loan to help bridge the funding gap. Further funding was also secured from the D2N2 LEP and HLF awarded an additional £11.3 m for the completion of the project in November 2014. Construction restarted with the hotel due to open in 2019. It is projected to generate an additional annual contribution of £4m into Buxton's visitor economy.

Cruise Terminal Hotel, Liverpool

Liverpool City Council is developing a cruise liner terminal as part of its vision to create a world class experience for the cruise companies and their passengers, and see the delivery of an upscale 200-bedroom hotel as a vital ingredient to the overall offer. The hotel will be funded, developed and managed by the Council with a 25-year operator agreement in place to run the hotel on a franchise basis. The facilities have been supported by a £20m grant from the Local Growth Fund, awarded to the Liverpool City Region LEP and invested through the Liverpool City Region Combined Authority's Strategic Investment Fund. The site at Princes Jetty where the terminal and hotel will be built has been gifted to the City Council by Peel Land & Property. The project is seen as a core part of the transformation of Liverpool's waterfront which will represent a step-change in the city's tourism industry as well as positively impacting its economy.

Travelodge, Gainsborough

West Lindsey District Council are working in partnership with developer Dransfield properties to regenerate Gainsborough town centre, involving a series of initiatives to improve public realm, refurbish shopfronts, up-grade car parking, create a new Independent Quarter in the town, and attract new businesses. As part of this regeneration scheme, which focuses on the Market Street/Market Place/Church Street/North street gateway to the town, the Council has supported the development of the former Sun Inn site to deliver a 56-bedroom Travelodge hotel with a grant of £1.4m. The hotel opened in November 2018.

4. Local Authority Freehold Purchase of Hotel Sites & Properties

Aloft Liverpool

Liverpool City Council facilitated the conversion of the historic Royal Insurance building in Liverpool city centre into a 116-bedroom Aloft budget boutique hotel by purchasing the freehold of the building for £1.95 million. This unlocked £18million of private sector investment in the project, which has been progressed by Runcorn-based developer Ashall Property. The City Council was keen to bring this landmark building back into use. It had been unoccupied for 20 years and was on the National Buildings at Risk Register. English Heritage also supported the scheme with a grant of £297,500. The hotel opened in November 2014. It is operated by BDL Management under a franchise agreement with Starwood Hotels & Resorts Worldwide.

Coombe Abbey Hotel, Warwickshire

Coventry City Council has bought the leasehold of the Coombe Abbey Hotel, a Grade 1 listed property and estate Binley in Warwickshire. The Council already owned the freehold of the 119-bedroom hotel. The leasehold was owned by Coombe Abbey Park and No Ordinary Hotels. The Council is to set up a company to run the hotel on its behalf.

Croydon Park Hotel, Croydon

Croydon Council has bought the freehold of the Croydon Park Hotel from private equity company Evans Randall for £25m. The 4-star 211-bedroom hotel is to continue to be operated by Kasterlee Ltd.

5. Local Authority Property Contributions to Hotel Development

Park Hotel/East Cliff, Preston

Lancashire County Council is bringing forward a mixed-use scheme to include a 4-star hotel in the centre of Preston in association with Lancashire County Pension Fund. The Pension Fund will finance the development following a deal with the County Council to transfer the asset, which was formerly council offices, and part of it previously the Park Hotel. The hotel will have a total of 154 bedrooms, a mix of converted buildings and new build, together with a spa, meeting and conference facilities. A pavilion will be built to the east of the Park Hotel building to be used as a banqueting suite for up to 500 guests. The rationale for the development was to bring a vacant heritage asset back into use securing its long-term viability, alongside the opportunity to expand the city's hospitality offer and build an ambitious, forward-looking city.

Premier Inn, Rhyl

Premier Inn opened a 70-bedroom hotel and Brewers Fayre restaurant on the site of the former Honey Club nightclub on Rhyl's promenade in January 2018. Denbighshire County Council played a key role in bringing this hotel forward. It owned the site and sold it directly to Whitbread for the Premier Inn and Brewers Fayre development.

6. Public Sector Pension Funding of Hotel Development

Radisson Red, Liverpool

The Grade II listed North Western Hall next to Lime Street station in Liverpool is to be converted by developer Marcus Worthington into a 202 bedroom up-scale hotel. Originally a hotel it has been used as office space and student accommodation and was sold by John Moore's University to the developer in 2018. A £20m loan has been secured from the Merseyside Pension Fund under its Catalyst Fund, which is the Local Government Pension Scheme for the Liverpool City Region. Whilst securing a commercial return from the deal, other benefits were identified as stimulating economic growth in the Liverpool City region and regenerating an iconic building in Liverpool. The hotel is due to open at the end of 2022.

7. Local Authority Underwriting Hotel Development

Hilton Hotel, The Event Complex Aberdeen (TECA)

The strength of a local authority covenant means that there is a role that Councils can play that doesn't involve them in any capital outlay or borrowing. The hotel developer can secure forward funding if the hotel is operated by a third party under an income strip lease to the local authority. By committing to the lease, the Council underwrites the development and operational risk, with the right to purchase the development for £1 at the end of the lease. In this scenario cashflows generated by the business should exceed the rent payable. In Aberdeen, the City Council entered into a 35-year income strip lease agreement for TECA which includes the Hilton hotel with Henry Boot Developments who successfully forward funded it. This scheme was seen by the Council as critical to the economy of the region in its ability to attract major conferences and events. Whilst there is an anticipated shortfall between annual income and rent, this is less than the subsidy the Council would have had to pay to operate the conference centre alone.

8. Local Authority Development Companies Funding Hotel Development

Arch, Northumberland

Arch Corporate Holdings, the development company of Northumberland County Council, has developed a new-build 40-bedroom hotel in Blyth as part of its Commissioners Quay mixed-use development on Blyth waterfront. The £4.5m Commissioners Quay Inn opened in August 2016, and is being operated by expanding North East pub company The Inn Collection Group on a 30-year lease. It has created 35 jobs. The investment by Arch is in line with the County Council's investment programme for Blyth to boost the town's economy and tourism potential.

Following on from the success of the Commissioners Quay Inn, Arch has subsequently developed a 30-bedroom new-build hotel and 150 seat restaurant and pub on the Coquet Enterprise Park in the Northumberland seaside town of Amble. The Amble Inn, which opened in January 2019, is also being operated by the Inn Collection Group under a 30-year lease. Arch see this hotel as the catalyst for the wider regeneration of the enterprise park, and a key element in its strategy to increase tourism and employment in Amble, and its role as the southern gateway to the Northumberland Coast Area of Outstanding Natural Beauty.