

SALISBURY

Assessing the Impact of New Hotel Development

Prepared for Wiltshire Council

July 2015



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Please Note:

Our findings are based upon both published information sources, and information provided to us by consultees. The conclusions and recommendations set out in this report are made in good faith. Whilst

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all reasonable steps have been taken to ensure the validity of these results, we take no responsibility either for the accuracy of the information given to us by our respondents, or for the achievement of the levels of business forecast.

1 INTRODUCTION

1.1 Background

1.1.1 A planning application has been lodged with Wiltshire Council for the development of a 65 bedroom Premier Inn budget hotel on Southampton Rd on the outskirts of Salisbury. This comes on top of an unimplemented permission granted in 2014 for a 65 bed Premier Inn on Castle St in central Salisbury, and currently submitted proposals for an extension of 42 bedrooms to the existing Premier Inn hotel at Salisbury North. There are also other hotel permissions for new hotels and extensions to existing hotels in Salisbury city centre, although it is not clear when or if these will come forward.

1.1.2 As part of the planning process, Wiltshire Council (Core Strategy policy CP40) needs to be clear about the impact that the current planning applications that are for hotels beyond the city centre boundary might have on the vitality of the city centre.

1.2 The Brief

1.2.1 The brief for this study was to assess the potential impact of the out of centre hotel proposals (proposed Premier Inn at Southampton Rd together with the proposed extension at the Premier Inn North) on the performance of hotels and other serviced accommodation (guest houses and B&Bs) in the city centre. The assessment was to be undertaken to demonstrate the impact of these proposals in two different scenarios, both with and without the city centre Premier Inn being delivered.

1.2.2 In terms of the parameters of the brief, the following definitions were agreed:

- In terms of geographic coverage, the town centre is the Salisbury City Centre boundary as defined on the Core Strategy proposals map; the 'market area' equates to an area that is roughly 1.5 miles from the city centre, within which hotels are competing for and serving similar markets;

- The range of accommodation that is the subject of the impact assessment covers serviced accommodation generally i.e. hotels, inns, guest houses and bed and breakfast establishments;
- Impact on vitality and viability, given definitions within the NPPF, covers impact on planned public and private sector investment in the city centre, including the impact on the retail-led mixed use developments proposed on the Maltings and Central Car Park sites, plus a consideration of local consumer choice and trade in the town centre up to 5 and 10 years from the time of the application. This includes a cumulative assessment of the proposal together with committed and recently completed developments plus anything under construction. Detrimental impact on public and private sector investment involves consideration of a number of factors:
 - The state of the project;
 - The extent of expenditure capacity to accommodate new provision;
 - Whether the proposal and investment are competing for the same market opportunity;
 - Whether there is evidence that impacted parties are concerned over the proposals;
 - Whether the cumulative impact of both out of centre Premier Inn hotel proposals would be a cause for concern for the town centre or if the proposal would prevent town centre hotel schemes coming forward.
- The impact assessment should also consider an assessment of the trade diversion from competing facilities to the proposed development, an assessment of the severity of the impact taking into account the current health of the city centre, and the ability of the proposal to benefit the town centre via linked trips and wider benefits and spin offs.

- Whilst we understand from local planners that 'significantly adverse' impact is defined for retail as greater than 10%, there is no one measure to determine hotel impact or assess whether a hotel investment would go ahead or not. The decision-making process for any hotel development is complex and covers market, potential yield, financing, development and brand-related issues. However, in terms of a healthy level of trade for hotels, 70% occupancy is an industry-recognised 'norm' at which point hotels are usually denying some levels of business/at capacity for some of the time, so there is an excess of demand over supply at certain times in this scenario.
- It is for this reason that most hotel developers and operators would want to see occupancy averages of at least this level in the market if they were going to develop/invest in new supply, and most would be looking to achieve a stabilised occupancy in year 3 of 70% minimum, ideally 75%+. If occupancies were to remain below 70% for any length of time, it could therefore have an impact on investment decisions and on the viability of existing businesses, depending upon the particular circumstances of each business, particularly the need to service debt and make profit.

1.3 Approach

1.3.1 Whilst national and local planning policies call for an assessment of impact there is no established methodology for carrying this out. National planning guidance relating to hotels and tourism development has been formally cancelled, though in the absence of any other guidance may still be considered. PPS4 Practice Guidance did set out guidance on the assessment of need and impact for leisure, office and cultural uses – including hotels - and how the principles used to assess retail need and impact may, where appropriate, be applied to such uses. The method advised focused on hotel gap analysis refined via evidence of occupancy performance by standard (including denials/turn-away business) as an indication of capacity and the need for additional hotel provision, together with projecting staying visitor nights from a baseline of demand relating to existing and proposed stock

1.3.2 This analysis has been conducted for Salisbury as part of the Wiltshire & Swindon Visitor Accommodation Futures Study (2014)¹ alongside which a Salisbury Hotel Futures Report was also produced. The report found potential for:

- The expansion of existing 4 star hotels;
- The up-grading/repositioning of existing 3 star hotels;
- The development of new boutique hotels, through the conversion of suitable buildings;
- Immediate potential for a budget hotel in Salisbury city;
- Potential for a second budget hotel (60 rooms) by 2020.

1.3.3 In terms of the impact of budget hotel provision, the report found:

- In terms of location, budget hotels should ideally be in the city centre in order to maximise their contribution to supporting the development of the city's evening economy through generating business for restaurants and bars, and in terms of minimising traffic movements from an edge of city hotel; the Castle St Premier Inn proposal was seen as meeting this requirement;
- In terms of impact:
 - Based on an understanding of budget hotel demand being lost from Salisbury, knowledge of how budget hotel openings have impacted on hotels, guest houses and B&Bs in other historic cities, the likelihood of new business being generated by a city centre Premier Inn, and the fact that its impact would be spread across the city's serviced accommodation supply, its impact is likely to be marginal on any single accommodation business.
 - However, a second additional budget hotel could have a greater impact, depending on its scale and when it comes on stream.

¹ Hotel Solutions for VisitWiltshire and Swindon & Wiltshire LEP

- The impact of new budget hotels in the city is likely to be greatest during the winter when demand for accommodation is much lower;
- Less well-located and poorer quality hotels and guest houses/B&Bs are likely to be most affected.

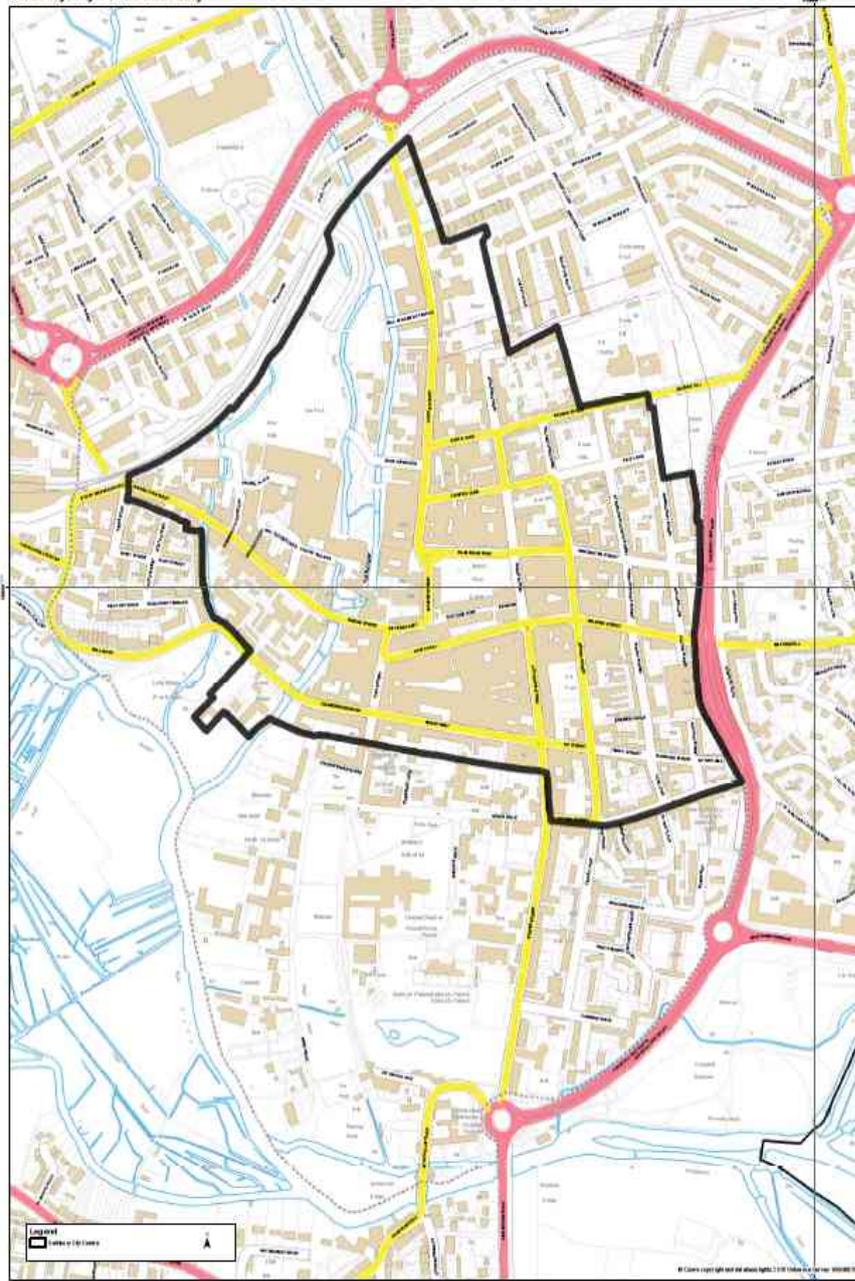
1.3.4 As the above research is now 12 months old, and based primarily on 2013 data, our approach to assessing impact in this study requires an up-date of supply and demand indicators to provide a revised baseline for any analysis. The hotel market and economy generally has improved since 2013, and there have been some changes to Salisbury’s serviced accommodation stock as well as other proposals coming forward which need to be reflected in any analysis.

1.3.5 Beyond this, our approach has been to conduct a Fair Share Analysis, based upon an up-dated picture of 2015 supply, performance and growth prospects. Whilst the methodology is explained in more detail in section 3 of this report, in outline it models how current levels of roomnights might grow over a 5-10 year period, and what this would mean for average establishment occupancy with different levels of supply. It can demonstrate therefore how the introduction of one or more hotels might affect average occupancy, assuming that all hotels get their fair share.

1.3.6 The Salisbury market area covers the urban area up to approximately 1.5 miles from the centre; based on our research at unit level, hotels within this area are catering for similar markets. However, the Council’s primary concern in relation to this planning application is the impact of new supply outside the defined city centre on hotels and other forms of serviced accommodation within this city centre core (see map of city centre boundary below). The fair share analysis (for the whole market area) has also therefore been refined to more closely model this.

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Salisbury City Centre Boundary



1.3.7 We have reviewed the Planning Statements for the three Premier Inn proposals – Castle Street, Southampton Road and Pearce Way/London Rd. Whilst they all refer to need and an under - supply of hotel accommodation to serve Salisbury, none of them have taken a holistic approach to factoring in other potential hotel schemes (including each other) and the combined impact this could have, even though they all involve the same operator. They have taken a very narrow view in only looking at hotels and not including guest houses and B&Bs in their impact reviews, and have also drawn a number of conclusions about impact without evidence, making some major assumptions about relative market positioning of city centre hotels and concluding that because they are different types of hotel they will not be impacted by a budget hotel² opening. This fair share analysis attempts to overcome these arguments by providing an independent assessment of combined impact both on hotels and other forms of serviced accommodation, based upon hard performance data and a sound understanding of the market.

² 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.

2 CURRENT MARKET SITUATION

2.1 Market Up-Date

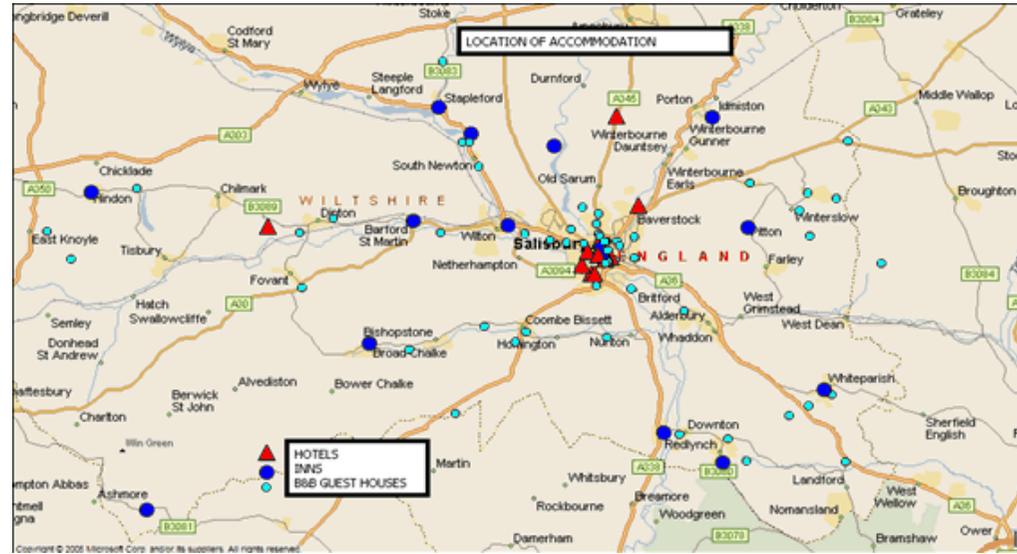
2.1.1 This section of the report reviews the Salisbury hotel and other serviced accommodation demand and supply information as at 2014 and up-dates this to provide 2015 baseline figures upon which to run the fair share analysis.

2.2 Current Supply at 2015

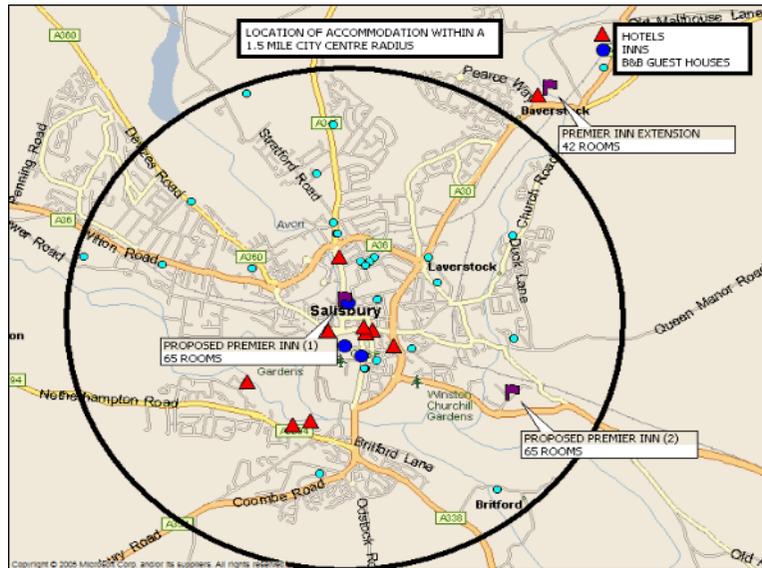
2.2.1 The 2014 Hotel Futures study analysed demand and supply data for Salisbury hotels and other forms of serviced accommodation over a wide geographic area, as illustrated in Map A overleaf. As the parameters and objectives of this study are somewhat different, we have concentrated initially on the supply within a market area of approximately a 1.5 mile radius of the city centre as illustrated in Map B overleaf, which also illustrates the location of the key potential projects. In addition, we have identified those establishments in the defined city centre, see Map C. The quantum of this supply at different spatial levels and by type is summarised in the table below. The full list of establishments is included as an Appendix. These figures provide the baseline supply for the fair share analysis.

SALISBURY HOTEL SUPPLY						
Type of Accommodation	Total Supply per Hotel Futures Audit June 2014		Hotels, Inns Guest Houses & B&B's			
	Properties	Rooms	This Study – 1.5 mile Market Area		This Study – Defined City centre	
	Properties	Rooms	Properties	Rooms	Properties	Rooms
Hotels	12	422	9	334	6	251
Inns	17	133	4	40	4	40
B&B, Guesthouse, Farms	61	245	26	120	7	33
TOTAL	90	800	39	494	17	324
<i>% of Total Supply</i>			43%	61%	19%	40%
<i>% of 1.5 mile Market Area</i>					44%	66%

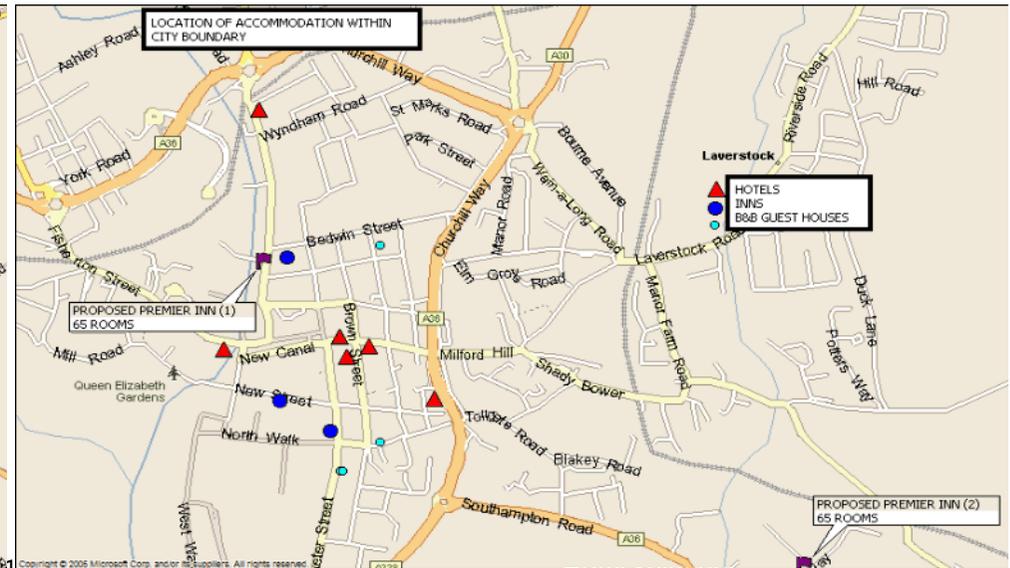
MAP A



MAP B – MARKET AREA - 1.5 MILE RADIUS



MAP C – DEFINED CITY CENTRE



2.2.2 While the Premier Inn Salisbury North (London Rd) clearly serves the Salisbury market, its performance is not typical of the rest of the market: it achieves very high occupancies and turns away significant levels of business because it is at full capacity on most nights throughout the year. For this reason we have not included this hotel in the demand and supply fair share analysis as we believe it would present a distorted view of the market, in particular:

- It would over-inflate average occupancies; the levels of occupancy that it achieves are rarely achieved in unbranded hotel product;
- The proposed extension to this hotel is likely to mop up much of its currently denied business; this is demand for a branded budget hotel from loyal customers that would not in reality be fairly shared across the supply, which is what the model does. We believe including this in the fair share analysis would mask the underlying performance of the rest of the supply.
- This hotel turns away levels of business that are considerably in excess of the number of rooms proposed, and these denials take place throughout the week and year. On this basis we believe that it will continue to provide overspill business to the wider 1.5 market area even once the extension is in place.

2.3 Proposed Hotel Development

2.3.1 An up-date of hotel development proposals and other changes to the supply since 2014 was also undertaken to identify the potential number of new hotel bedrooms that have and could come forward, both in terms of extensions to existing hotels and new hotel developments. The key schemes are summarised in the table below.

CHANGES & PROPOSALS TO SALISBURY SUPPLY (since June 2014 study)				
Updated notes from calls to relevant properties				
Hotel	Changes identified	Potential	Actual Added	Reduced Rooms
Red Lion	Rooms extension. Refurbished half of hotel. May consider Spa development in the future		9	
Legacy Rose and Crown	Extra 2 rooms over original supply. PP for +12 rooms but no immediate plans although possible. New owners seeing how business develops	12	2	
Chapter House/Lazy Cow	Rebranded as Chapter House and upgraded		0	
Grasmere	Has pp but unlikely to have finance to implement it - says bank funding is difficult	15		
Cricket Field House	Owners are retiring so have reduced the number of rooms but enlarged those that remain so now only 10 from 18			-8
Mercure White Hart	Live plans for an extension with new function rooms, entrance and bedrooms; on-going discussions with Council Planners. Estimate 2017.	28		
Chapter House	Looking at possible extension; no confirmed plans in place			
Milford Hall	New Spa recently opened			
Abode	Planning permission granted in 2009 for the conversion of the post office building on Castle Street into a 50-bedroom boutique hotel; We have been informed that it is likely a smaller 40 room scheme could go ahead in 2017	40		
Stones	New hotel. Good quality but located well outside the market area	44		
Castle St/Tesco	Premier Inn proposal with planning; 22 month build period. We have been informed that this is unlikely to take place before 2019	65		
Premier Inn North	Hotel extension, planning pending; could come forward 2016	42		
Southampton Rd	Proposed new Premier Inn, planning pending; could come forward 2016	65		
YHA	Hostel to close; could be relevant for the bottom end of the market in terms of some additional demand for low priced accommodation			
TOTALS		311	11	-8

2.3.4 This provides an input to the fair share model in terms of providing a holistic view of total rooms that could be introduced, and their potential timing, rather than looking at the impact of one scheme/planning application alone, as individual Planning Statements tend to do.

2.4 Hotel Performance & Demand Indicators

2.4.1 The 2014 study found the following levels of performance in hotels in the wider Salisbury area in 2013 and 2014.

Standard of Hotel/Location	Average Annual Room Occupancy		Average Annual Achieved Room Rate		Average Annual Revpat ³	
	%		£		£	
	2012	2013	2012	2013	2012	2013
National						
All standards (4 star/ 3 star/ Budget) ¹	69.8	72.6	59.22	59.94	41.32	43.53
UK Provincial 3/4 Star Chain Hotels ²	70.2	71.9	69.72	70.71	49.05	50.81
Salisbury⁴						
All standards (4 star/3 star/Budget)	72.9	76.3	59.43	59.83	43.34	45.62
4 Star	73.7	76.7	69.44	70.58	51.18	54.10
3 Star	65.2	69.5	57.44	56.68	37.48	39.40

2.4.2 We have contacted hotels plus a wider range of serviced accommodation establishments in the market area to up-date and re-run these figures for the more geographically limited 1.5 mile Salisbury market area and the city centre. This has produced an occupancy (rounded) of 71% for the market area and 72% for the defined city centre.

2.4.3 The lower comparative performance in 2014 reflects the inclusion of guest houses and B&Bs, which have a much more variable performance, and occupancy levels can be erratic in such establishments; also many don't keep accurate records. Some are professionally run and

³ Revenue per available room

⁴ Insufficient cell sample of supply for budget hotel performance to be reported alone

marketed, others are lifestyle businesses. The 2014 study found the more commercially run establishments produced occupancies of 60%-74%, but the wider data set for guest houses and B&Bs in Wiltshire showed occupancies ranging from 30%-88%. All demonstrated seasonality to the market with peak months between May and October, and stronger weekends compared to mid-week, a reflection of a leisure-led market. We spoke to a sample of inns, guest houses and B&Bs in Salisbury to up-date our 2014 data; where recorded occupancies were available we used these; where not, we have assumed average occupancies of 60-62%, which is typical for the sector.

2.5 Growth Forecasts – Hotel Demand

- 2.5.1 The forecasts of potential growth in the market used in the 2014 study⁵ were revisited in the light of a generally improving economic climate, and consultations undertaken with Wiltshire Council and VisitWiltshire to understand whether there were any material changes that would impact upon how the Salisbury hotel market might grow in the next 5-10 years.
- 2.5.2 Since 2013 and in line with our views at that time our interviews do indicate that the Salisbury hotel market generally has benefitted from the economic recovery that has taken place (in line with the UK hotel sector generally) and this has led to growing revenues. Whilst this is encouraging it is relevant to note that this has also been accompanied by rising costs and neither revenues nor profit have achieved pre -recession 2007 levels.
- 2.5.3 On the down side, mention was made during our consultations of the fluctuating levels of demand emanating from Porton Down (which vary dependent upon whether there is any major project on) and also to redundancies planned at Friends Life which will affect some but not all hotels.
- 2.5.4 We don't consider any of these to be a significant change to the issues identified in 2014 and generally our conclusion is that this presents a steadily encouraging picture for the area's hotels and their future performance.

⁵ Based upon employment growth forecasts for South Wiltshire, population growth forecasts for Wiltshire, and national forecasts for domestic and overseas tourism growth.

3 A FAIR SHARE ANALYSIS OF FUTURE DEMAND AND SUPPLY

3.1 Introduction

3.1.1 With a focus on both the market area and the defined city centre, Hotel Solutions has been instructed to update the previous research work carried out for Salisbury as set out in the Hotel Futures Report (June 2014 using 2013 data) and then conduct a fair share analysis to model how the average levels of room occupancy might change under various scenarios according to the number of new hotel bedrooms that might open. Although hypothetical and based necessarily on assumptions, it provides a valuable indicator of how the market might respond under defined scenarios, which has been usefully applied to model potential impacts in similar situations, including Oxford and Bath. The detailed approach adopted and results of this work are set out below.

3.2 Methodology

3.2.1 To assess the baseline demand and subsequent changes to supply and demand we have carried out the following work:

- Reviewed the 2014 report and interviews carried out with hoteliers at that time (based on 2013 data);
- Identified the accommodation of relevance to this study in the wider market area (approximately 1.5 mile radius of the centre) within which hotels and guest houses are competing for and are serving similar markets;
- To address the specifics of our brief, we have also identified those hotels within the central area as defined by the city centre boundary;
- Mapped the supply of hotels, guest houses and inns in both defined areas;
- Interviewed a sample of hotels, guest houses and inns to understand any changes in operating performance within the market area since 2013, including levels of denials, and also to obtain a baseline demand that we could then use for our fair share analysis and projections;

- Spoken to Visit Wiltshire about changes to demand and supply since the 2013 study and any concerns of their members about additional hotel proposals coming forward;
- Reviewed relevant planning application documents relating to hotel proposals;
- Followed up with contacts involved in various hotel development proposals to ensure we have the up-to-date position in terms of the status of these schemes and their timing.

3.2.2 In order to run the fair share analysis we have:

- Isolated the relevant supply (roomnights available) and by applying estimates of occupancy per unit (based on research with operators) calculated a baseline of demand for 2014 in the form of roomnights sold.
- These figures have then been broken down into estimates of roomnights sold at weekends and mid-week.
- We have then applied assumed market growth rates to calculate potential future roomnight demand for hotels, guest houses and B&Bs for the next 10 years.
- These levels of estimated demand have been applied against the supply of total rooms available to calculate a fair share occupancy across:
 - The Salisbury market area as a whole;
 - The defined city boundary provided to us by Wiltshire Council.
- Using the future projections of demand as described in para. 2.5.1, we have assessed how that fair share occupancy might evolve in future years assuming different increases in supply to reflect an assumed pattern of identified hotel development proposals going ahead.

3.2.3 The assumptions used as the basis for running the fair share analysis are summarised below.

3.3 Assumptions

Base Supply of Hotels & Other Serviced Accommodation

3.3.1 We have used the following supply figures, broken down into the market area and the defined city centre, and updated with the limited changes that have taken place in recent years. A full list of the relevant hotels, guest houses, Inns and B&Bs can be found in the Appendix.

REVISED SERVICED ACCOMMODATION SUPPLY 2014

Type of Accommodation	Market Area		Defined City Centre	
	Properties	Bedrooms	Properties	Bedrooms
Hotels	9	334	6	251
Inns	4	40	4	40
Guest Houses/B&Bs	26	120	7	33
Total	39	494	17	324
% of Market Area			44%	66%

Baseline Roomnight Demand

3.3.2 Against the base supply we have assessed average annual room occupancy figures which indicate that the Salisbury market⁶ has grown steadily by about 2.3%-2.5% over the 2011-2014 period, from around 68.5%-69% to nearer 71%-71.5%, an average growth of just under 1% per annum. Taking 2014 as our new baseline demand, this indicates a market occupancy for these samples, (assuming mid-week demand averaging in the mid-60s% and higher average occupancies at weekends in the mid-80s%) as follows, illustrating a marginally higher performance of those in the city centre:

- City Centre: 71.6%;

⁶ Demand measured in roomnights at a local level, based on supply within the market area and city centre

- Wider market area : 70.9%

Denied Business

3.3.3 Whilst Salisbury hotels generally experience strong demand over and above their capacity on key peak nights and months (notably Saturdays and high season), we believe it is highly concentrated on these peak nights in which there is under-capacity – i.e. all the hotels are full – and not spread throughout the year, which the model would assume. The other concern around this displaced demand back into the model is the impact this would have on non-fill nights. For the purposes of this fair share we have therefore ignored this displaced demand, in order not to over-inflate the roomnights baseline.

Market Growth Rates

3.3.4 As described in para 2.5.1, we have produced forecasts of how hotel demand might grow by applying growth rates to baseline demand, and have taken account of the patterns of demand across the week by treating mid-week demand and weekend demand separately, believing leisure related demand is likely to have higher growth rates, as follows:

AVERAGE ANNUAL GROWTH RATES 2014-2020	
MID WEEK DEMAND	WEEKEND DEMAND
%	%
1.0%	1.5%

3.3.5. These are conservative growth rates, bearing in mind that national tourism forecasts project and average annual growth in domestic tourism of 3% between 2011 and 2020 and put growth in inbound tourism at over 6% per year. We believe however that it is prudent to take a more conservative approach for the fair share modelling exercise.

3.3.6 We have also assumed that market growth is unconstrained by supply i.e. the difficulties of delivering new hotels, and by peaks and troughs in the patterns of demand.

New Supply and its Competitive Impact on City Centre Accommodation

3.3.7 The following table makes an assessment of when various hotel commitments and outstanding applications could be delivered if they were approved. This assessment has been made based on knowledge of current planning negotiations, consultations with developers/operators, and ease of deliverability, accepting that an out of centre greenfield site would be easier to deliver than town centre regeneration schemes. However a key consideration from a planning perspective is whether delivery of an out of town hotel would impact on already planned private sector investment in the town centre.

SALISBURY – PROPOSED HOTEL SUPPLY

Hotel/Bedrooms Proposal	Assumed No Rooms	Cumulative Rooms	Assumed Delivery
Salisbury Premier Inn North extension	42		2016
Southampton Road Premier Inn	65	107	2016
Abode Castle St	40	147	2017
White Hart extension	28	175	2017
Castle St/Tesco's Premier Inn	65	240	2019
TOTAL POTENTIAL NEW ROOMS	240		

3.3.8 In assessing the impact of new bedroom proposals, we have assumed that due to the levels of business that we know that the Premier Inn Salisbury North is already denying (consistently well over 42 rooms per night) the proposed extension to this hotel will have no impact on city centre accommodation. We have also made an assumption that all new hotels will generate approximately 20% of their own new demand i.e. that will not take away from the existing market. To factor this in we have only added 80% of their new rooms in each case into our calculations.

3.3.9 In addition, to assess impact in a more targeted way in terms of impact on supply within the city centre boundary, we have apportioned the proposed rooms according to the in centre/out of

centre supply split of current stock and fed their impact into the fair share model. This ensures that the model takes account of the fact that hotels outside the centre will take their share of impact; it won't all be felt in the city centre. It also takes account of the differing baselines in terms of performance, which is slightly better for the city centre.

- 3.3.10 We note that should these schemes go ahead as assumed this equates to 175 new rooms by the end of 2017 and up to 240 rooms by 2019. This is a significant increase on a baseline of 494 rooms in the market area. Even excluding the Premier Inn North this is still almost 200 new bedrooms, an increase of over 40% on current supply. In terms of impact, much will depend on when this new supply might come on stream, in relation to both natural growth in the market, and to other new hotel schemes.

Average Room Rates

- 3.3.11. It is not possible to model the impact of new hotel supply on the average room rate performance of existing hotels, guest houses and B&Bs, but this will clearly be an issue in assessing impact: if new supply increases to much or too quickly average room rates may drop as well as occupancy. We have therefore taken a conservative approach, particularly in terms of excluding currently denied business from our calculations and the growth rates that we have used, in an attempt to model a scenario where average room rate performance will not be unduly affected by new hotel supply coming on stream.

3.4 Results

- 3.4.1 The results of the fair share analysis should all five proposals come forward between 2016 and 2019 are summarised in the tables at Appendix 3.

- 3.4.2 The fair share analysis has modelled the impact of a range of cumulative increases in supply over time on levels of performance across the Salisbury market area, as well as more specifically on those hotels and other forms of serviced accommodation within the city centre boundary. Albeit that the analysis is built upon assumptions which can be departed from, the modelling exercise is pointing towards a number of conclusions.

- Due to current levels of denials being experienced at the Salisbury North Premier Inn, the proposed extension is unlikely to have a detrimental effect on central hotels and serviced

accommodation establishments. It is also likely to continue to spill out excess demand to other Salisbury hotels and guest houses.

- The building of a new 65 room budget Premier Inn in 2016 (Southampton Rd⁷) would have an effect of reducing occupancies for the market area hotels by 3 percentage points on 2014 occupancies (to 69%) for 2016/17 but with full recovery by 2018 to 72%. In the city centre, where occupancies start marginally higher, the impact is the same in 2016 but the market recovers more quickly to 70% by 2017.
- Additional supply over and above this – potentially in 2017 - in the form of the White Hart extension and/or the Abode site being developed would clearly reduce occupancies further by between 4% and 6% points in the market area (65%-63% depending on whether one or two schemes go ahead) and delay recovery by one year to 2019; again the city centre is marginally less impacted.
- An additional 65 room Premier Inn (Castle Street) coming forward in 2019 would lower occupancies again in 2019 but this quickly recovers, by 2020 for the city centre, and 2021 for the wider market area. If all schemes were to go ahead on the timescales provided/estimated, city centre and market area occupancy should recover to 70%+ by 2020/2021.

3.4.3 Should one or more of the five proposed hotels/extensions not proceed, the impact would be lower, with occupancies reducing less and recovery to 70%+ happening more quickly. If Southampton Rd doesn't happen, occupancies would only dip below 70% in 2017. The table overleaf demonstrates the varying impacts of individual schemes not coming forward on city centre hotel performance⁸. Similar variances could take place should any of these schemes be delayed and so not come on stream over such a concentrated timeframe.

⁷ We have assumed the earliest this would be operational would be April 2016, so impact only modelled for 9 months of 2016)

⁸ The same variances are presented for the wider market area at Appendix 4

SALISBURY – FAIR SHARE ANALYSIS -ALTERNATIVE HOTEL DEVELOPMENT SCENARIOS – CITY CENTRE

Shaded grey shows all years where occupancy drops below 70%; shaded green shows the recovery back to 70%+

SALISBURY - ALTERNATIVE HOTEL DEVELOPMENT SCENARIOS CITY CENTRE Salisbury Hotels Fair Share Occupancies Impact Of Extra Supply On Central Area Accommodation							
	No Rooms	Cumulative New Rooms	Cumulative overall supply				
Base Line Supply 2014	324						
Potential new projects							
Premier Inn Extension to Salisbury North	42	42					366
Premier Inn Southampton Rd	65	107					431
Abode	40	147					471
Extension to White Hart	28	175					499
Castle St Premier Inn	65	240					564
Possible Outcomes							
	2014	2015	2016	2017	2018	2019	2020
Base Case no change	72%	72%	74%	77%	80%	85%	91%
All projects proceed, worst case-extension Premier Inn North and Southampton Rd 2016, Abode and White Hart 2017, Premier Inn Castle St 2019	72%	72%	69%	64%	67%	65%	70%
No Southampton Rd project but all others proceed as above	72%	72%	74%	69%	73%	71%	76%
No Abode project but all others remain as above	72%	72%	69%	67%	70%	68%	73%

Salisbury – Hotel Impact Assessment

All projects proceed except Castle Street	72%	72%	69%	64%	67%	71%	76%
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4 KEY FINDINGS & CONCLUSIONS

4.1 Key Findings

4.1.1 Our research has found the following:

- The Salisbury hotel and serviced accommodation market is relatively healthy: the market area currently has an average occupancy of circa 71%, with the supply in the city centre performing at a slightly higher level closer to 72%. Hotels trade at higher occupancies (an average of 76.3% in 2013) although some hotels are trading at much lower levels of occupancy.
- These levels of trading indicate some excess of demand over supply. The market is forecast to grow steadily going forward. Increased capacity also presents an opportunity to recapture some displaced business. The Salisbury hotel and serviced accommodation market is however seasonal and leisure driven. While there is a need for additional supply to meet peak season shortages, too significant or rapid an increase is likely to dilute low season demand and performance.
- There are proposals that could potentially deliver up to 240 additional rooms in five schemes, combining 3 new hotels with extensions to 2 existing properties. This is equivalent to a 40%+ increase in supply. Three schemes/133 of these rooms are commitments in the city centre that already have planning.
- At an overall level, there would appear to be potential to absorb this increase in supply over the next 5 years (5-6 years outside the city centre), with starting occupancies for the market area of 71% recovering to 70%+ by 2020. In the intervening years, the introduction of new supply, albeit alongside market growth, could cause some pain to existing operators, potentially discouraging or delaying investment: hoteliers and guest house owners will want to see a sustained period of recovery before committing to investment.

- Key to the depth of this impact will be timing in terms of when each of the new additions to supply might come on stream; whilst we have made assumptions about these, liaising with the Council, hotel developers and their agents, this could clearly change. Impacts could also be differential within the supply.
- When the impacts of potential new supply are apportioned to the city centre, the marginally higher baseline performance translates into slightly smaller reduction in performance, and quicker recovery to the 70%+ industry norm.
- Hotels, guest houses and B&Bs beyond the city centre core, some of which already trade at lower levels of occupancy and room rate, could be more adversely affected by new hotel openings, both in the city centre and city outskirts. Assessing the impact on such establishments was not however part of the brief for this report, and would not be a material consideration for the Council in considering the Southampton Road Premier Inn planning application.

4.1.2 A fair share analysis is a hypothetical model based on a series of assumptions. There could be many factors that could mean that Salisbury's hotels and other serviced accommodation might be more or less affected by new hotel provision than the analysis shows:

- The levels of business that the city's hotels and serviced accommodation are currently denying could be greater or lower than we have assumed.
- The Salisbury accommodation market might grow at a higher or lower rate than we have shown, or could decline.
- New hotels may generate more or less new business than we have suggested.
- New hotels may have a greater or lesser impact on certain elements of the city's supply than others.
- The analysis assumes that there will be no other change in the city's serviced accommodation supply, which may well not be the case.
- All hotels and guest houses will be equally affected by new supply whereas in reality this is unlikely to be the case
- The effect on achieved pricing, i.e. rates is not taken into account.

4.2 Conclusions

- 4.2.1 The fair share analysis suggests that at an overall level, there is capacity in the Salisbury city centre market to absorb all of the identified hotel proposals in the next 5 years (with slightly longer recovery in the wider area), but that when each scheme might be delivered will determine the depth of the impact and the time taken to recover to a healthy 70%+ occupancy in each case. This is a worst case scenario.
- 4.2.2 Clearly, there is no guarantee that any or all of these schemes will be delivered, and the scenarios table demonstrates how sector performance might vary should one or more of the proposals not happen. The big message from this is that a more staggered introduction of new supply minimises the dips in performance, giving new supply a chance to be absorbed, demand a chance to grow, existing businesses a chance to respond to the competition, and the market generally a chance to recover.
- 4.2.3 Whether the severity of this impact is significant in NPPF terms is for planners to decide. Whilst a combination of occupancy and achieved room rates are the key indicators by which hotel performance is measured, it's not possible to identify a point in the overall market performance at which new investment would be deterred or existing hotel businesses need to exit the market. The decision-making process for any new hotel development is complex and covers market, potential yield, financing, development and brand-related issues. For existing hotels, their vulnerability to a market drop back will be a function of their individual financial circumstances, their exposure to debt and required levels of profitability, which will vary from one business to another.
- 4.2.4 Experience in other destinations where sizeable amounts of new supply have been introduced over a short timeframe causing temporary over-supply in the market is that the less well-located, less well-marketed, less well-managed and under-invested properties tend to be worse hit by this new competition. Sometimes they might seek to exit the market; sometimes it encourages them to re-position and invest. From a locational point of view, all else being equal, this frequently means that out of centre hotels get hit first and harder, because they are less well located.

4.2.5 Whilst the fair share analysis focuses on performance numbers, there are other potential impacts of concern in the NPPF that are less readily measurable:

- Granting permission for bedrooms outside the city centre, particularly in the form of strongly branded, marketed and distributed budget hotels, inevitably takes some of the wider market and could potentially undermine investment coming forward in the central area, whether in the form of new hotels or extensions to existing properties. We have seen evidence of this in other historic cities such as Cambridge, where much needed investment in privately owned independent hotels has been put on hold or abandoned as significant numbers of new budget hotel rooms have come on stream over a relatively short timeframe. There is a potential risk that if permission is granted for the Premier Inn on Southampton Road the Castle Street Premier Inn may not be progressed⁹.
- Having said this, none of the current hotels in Salisbury or proposers of alternative hotel schemes have objected to the Southampton Road Premier Inn, despite there having been considerable resistance to the Castle Street Premier Inn application.
- Whilst strong brands like Premier Inn can help grow the market and bring new business to a destination, there could be an argument that three Premier Inns with between them over 200 bedrooms in a small marketplace would dominate the supply somewhat and limit consumer choice; an ideal product mix might focus on a more diverse hotel offering being developed that would include other brands and some boutique hotel supply. It would be regrettable therefore if 170+ Premier Inn rooms deterred a boutique hotel commitment like the Abode from coming forward¹⁰.

⁹ Premier Inn's agent has fed back that Whitbread would still commit to the city centre hotel even if the Southampton Road proposal and Premier Inn North extension are both granted permission and go ahead.

¹⁰ Abode have not objected to these applications but have indicated they would take into consideration any additions to the Salisbury hotel supply on the rooms market, their potential share, impact on room rates and overall financial viability.

- All the proposed hotel schemes will attract investment, create jobs and additional spending to Salisbury. As identified in the Hotel Futures study, the advantage of centrally located hotels coming forward, particularly budget hotels with limited central facilities, is their ability to spill out into the city, encouraging their clientele to spend in nearby shops, bars and restaurants and so help underpin town centre vitality and support the development of the evening economy. However, delivering suitable sites in a tight, historic city centre is difficult, and often expensive, a factor that will be covered by the sequential test assessment.

Appendices

- 1 Hotel & Serviced Accommodation Supply – Salisbury 1.5 mile Market Area**
- 2 Hotel & Serviced Accommodation Supply – Salisbury City Centre**
- 3 The Impact of New Hotels on Salisbury Serviced Accommodation - Fair Share Analysis**
- 4 Alternative Development Scenarios – Market Area**

APPENDIX 1**Hotel & Serviced Accommodation Supply – Salisbury 1.5 mile Market Area**

Grade	Hotel	No Rooms 2014
3	City Lodge	25
3	Grasmere House Hotel	38
4	Legacy Rose and Crown Hotel	34
4	Mercure White Hart Hotel	68
4	Milford Hall Hotel	45
3	Old Mill Hotel and Restaurant	11
3	The Cathedral Hotel	20
3	Best Western Red Lion Hotel	60
3	King's Head Inn	33
Inns	Pembroke Arms Hotel	8
Inns	Qudos	10
Inns	The Chapter House (The Lazy Cow)	17
Inns	The New Inn	5
B&B	20 Potters Way	3
B&B	Alabare House	10
B&B	Carp Cottage	2
B&B	Hillcroft	2
B&B	Leena's Guest House	6
B&B	2 Park Lane	6
B&B	Avonlea House	3
B&B	Bridge Farm	3
B&B	Catherdral View	4
B&B	Cricket Field House	10
B&B	Edwardian Lodge	7
B&B	Holly Treehouse B&B	2
B&B	Spire House	4
B&B	St Anns House	8
B&B	The Old House	6
B&B	The Old Rectory Bed and Breakfast	3
B&B	The Rokeby Guest House	8
B&B	Websters Bed and Breakfast	5
B&B	Wyndham Park Lodge	3
B&B	Farthings	4
B&B	Hillside B&B	4
B&B	Merivale House	2
B&B	Number 64	2
B&B	Taylor's Guest House	3
B&B	White Lodge	6
B&B	Wisteria Cottage	4
		494

APPENDIX 2**Hotel & Serviced Accommodation Supply – Salisbury City Centre**

Grade	Hotel	Number of units	Number of Rooms 2014
3	City Lodge	1	25
4	Mercure White Hart Hotel	1	68
4	Milford Hall Hotel	1	45
3	The Cathedral Hotel	1	20
3	Best Western Red Lion Hotel	1	60
3	King's Head Inn	1	33
Inns	Pembroke Arms Hotel	1	8
Inns	Qudos	1	10
Inns	The Chapter House-was The Lazy Cow	1	17
Inns	The New Inn	1	5
B&B	Catherdral View	1	4
B&B	Edwardian Lodge	1	7
B&B	Spire House	1	4
B&B	St Anns House	1	8
B&B	Hillside B&B	1	4
B&B	Number 64	1	2
B&B	Wisteria Cottage	1	<u>4</u>
			324
	Hotel	6	251
	Inn	4	40
	B&B	<u>7</u>	<u>33</u>
	Total	17	324

APPENDIX 3

The Impact of New Hotels on Salisbury Serviced Accommodation - Fair Share Analysis

IMPACT – MARKET AREA

SALISBURY HOTELS FAIR SHARE OCCUPANCIES IMPACT OF EXTRA SUPPLY ON MARKET AREA ACCOMMODATION (HOTELS,GUEST HOUSES AND B&Bs)											
	No Rooms	Cumulative Rooms	Assumed First Year of operation	2014	2015	2016	2017	2018	2019	2020	2021
Baseline Current Occupancies				71%							
Add Premier Inn North Extension	42	42	2016		72%	73%	76%	80%	84%	91%	98%
Add Premier Inn Southampton Rd	65	107	2016		72%	69%	69%	72%	76%	82%	89%
Abode	40	147	2017		72%	69%	65%	68%	72%	77%	84%
Add in extension to White Hart	28	175	2017		72%	69%	63%	66%	70%	75%	81%
Add in Castle St Premier Inn	65	240	2019		72%	69%	63%	66%	64%	69%	75%

Notes

- Shaded grey shows all years where occupancy drops below 70%; shaded green shows the recovery back to 70%+
- Roomnight and therefore occupancy growth assumes unconstrained demand¹¹; in reality, capacity is likely to restrict demand growth, both due to the challenges to delivering new hotel development, and due to the patterns of demand experienced in a destination and market area such as Salisbury – i.e. stronger weekends and summer months, weaker weekdays and shoulder/off peak – which will naturally cap the level at which

¹¹ By this we mean that roominght volumes are grown assuming there is no restriction on their being satisfied.

hotels can trade. Therefore, although top line forecasts are achievable mathematically, practically average occupancies much above 75-80% are difficult to achieve in such a marketplace.

IMPACT – CITY CENTRE SUPPLY

SALISBURY HOTELS FAIR SHARE OCCUPANCIES											
IMPACT OF EXTRA SUPPLY ON CENTRALLY LOCATED ACCOMMODATION SUPPLY (HOTELS, GUEST HOUSES AND B&Bs)											
	No Rooms	Cumulative Rooms	Assumed First Year of operation	2014	2015	2016	2017	2018	2019	2020	2021
Baseline Current Occupancies				72%							
Add Premier Inn North Extension	42	42	2016	72%	72%	74%	77%	80%	85%	91%	99%
Add Premier Inn Southampton Rd	65	107	2016	72%	72%	69%	70%	73%	77%	83%	90%
Add in Abode	40	147	2017	72%	72%	69%	66%	69%	73%	79%	85%
Add in extension to White Hart	28	175	2017	72%	72%	69%	64%	67%	71%	76%	82%
Add in Castle St Premier Inn	65	240	2019	72%	72%	69%	64%	67%	65%	70%	76%

APPENDIX 4 - SALISBURY – FAIR SHARE ANALYSIS - ALTERNATIVE HOTEL DEVELOPMENT SCENARIOS – MARKET AREA

Salisbury Hotels Fair Share Occupancies Impact Of Extra Supply On Market Area Accommodation							
	No Rooms	Cumulative New Rooms	Cumulative overall supply				
Base Line Supply 2014	494						
Potential new projects							
Premier Inn Extension to Salisbury North	42	42	536				
Premier Inn Southampton Rd	65	107	601				
Abode	40	147	641				
Extension to White Hart	28	175	669				
Castle St Premier Inn	65	240	734				
Possible Outcomes							
	2014	2015	2016	2017	2018	2019	2020
Base Case no change	71%	72%	73%	76%	80%	84%	91%
All projects proceed, worst case scenario – Premier Inn North extension and Southampton Rd 2016, Abode and White Hart 2017, Premier Inn Castle St 2019	71%	72%	69%	63%	66%	64%	69%
No Southampton Rd project but all others proceed as above	71%	72%	73%	69%	72%	70%	75%
No Abode project but all others proceed as above	71%	72%	69%	66%	69%	67%	72%
All projects proceed except Castle Street	71%	72%	69%	63%	66%	70%	75%

