

# TEES VALLEY HOTEL FUTURES

## Full Report

Prepared for:

Visit Tees Valley, Tees Valley Joint Strategy Unit,  
Darlington Borough Council, Stockton Borough Council  
Middlesbrough Council, Hartlepool Borough Council  
Redcar & Cleveland Borough Council  
Tees Valley Regeneration

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## 1. INTRODUCTION

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### 1.1 Background to the Study

- The Tees Valley is set to see major economic regeneration and growth in the next 15-20 years, with regeneration focused on 6 major projects – Middlehaven in Middlesbrough, North Shore in Stockton-on-Tees, Victoria Harbour in Hartlepool, Central Park in Darlington, Durham Tees Valley Airport and Wynyard Park. The development of the petrochemicals industry, new energy sector and Teesport will also play a key role in the development of the City Region's economy. This economic growth is likely to result in significantly increased demand for hotel accommodation across the Tees Valley, giving rise to opportunities for new hotel development. There are already a significant number of proposals for new hotels across the City Region, including hotels as part of all of the major regeneration projects. The Tees Valley Joint Strategy Unit, Visit Tees Valley and the Tees Valley local authorities thus wish to more fully understand the future potential for hotel development across the City Region in order to establish a clear strategy for public sector intervention to support the development of the sector in terms of planning policy formulation through the Local Development Framework process, hotel investment marketing and responding to hotel developers and hotel planning applications.
- The Tees Valley Joint Strategy Unit (on behalf of the Tees Valley local authorities and Visit Tees Valley) has thus commissioned Hotel Solutions to undertake a study of the future development potential of the hotel sector in the City Region.

## 1.2 Uses and Limitations of the Study

- The study findings will be used to:
  - Inform the preparation of statutory planning documents for each local authority area (i.e. the Local Development Frameworks) regarding planning policies for the development of hotels.
  - Guide the location of hotel development and support development control functions in assessing hotel planning applications.
  - Inform the plans for the major regeneration schemes in relation to the potential for them to include hotel development projects.
  - Support hotel investment marketing activity to attract and manage hotel developer interest to ensure that new hotel investment helps to underpin and deliver the wider vision for the City Region and its constituent parts.
  - Identify barriers to hotel investment and how to overcome them.
  - Inform other actions needed by the public sector agencies to support the development of the hotel sector in the Tees Valley.
- A number of limitations to the use of the study should be borne in mind:
  - Projections of future demand for hotel accommodation do not factor in demand that could be generated by new drivers of demand e.g. a major conference centre or large casino.
  - In some areas the number of proposed hotel schemes may outstrip projected demand. However in reality some proposed schemes are unlikely to be implemented or will be delayed.
  - The nature of supply and demand in the hotel sector is cyclical, but the market normally sorts itself out and will ultimately determine which new hotels are built.

### 1.3 Objectives of the Study

- The objectives of the study were as follows:
  - To assess the current level and nature of demand for hotel accommodation across the Tees Valley.
  - To assess the potential for growth in demand for hotel accommodation over the next 15-20 years.
  - To determine the sustainable level of new hotel development across the Tees Valley over the next 15-20 years.
  - To establish the level of new hotel development that is likely to take place in the Tees Valley in the next 5 years in terms of current hotel development proposals and hotel developer interest in the City Region.
  - To identify broad locations and locational criteria for new hotels.
  - To provide advice on how the planning system can influence the development of the hotel sector in the City Region.
  - To assess the need to retain, upgrade, reposition and develop existing hotels.

## 1.4 Scope of the Study

- The study has thus sought to assess:
  - The potential for the development of new hotels of all standards and types:
    - 4 star
    - 3 star
    - Budget
    - Upper-tier Budget<sup>1</sup>
    - Boutique hotels<sup>2</sup>
    - Suite hotels<sup>3</sup>
    - Serviced apartments<sup>4</sup>
    - Country house hotels
    - Golf hotels/ resorts
  - The scope for upgrading and expanding existing hotels;
  - The need to retain existing lower grade hotels and large guesthouses.

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<sup>1</sup> Brands such as Express by Holiday Inn, Ramada Encore, Hampton by Hilton that offer a 3 star standard bedroom product but limited hotel facilities and services.

<sup>2</sup> High quality hotels, usually relatively small and often independently operated, that feature contemporary design and high standards of service. They usually have a good quality but fairly informal dining offer and generally few other hotel facilities and services.

<sup>3</sup> Hotels that offer 1 and 2-bedroom suites, usually with separate living and working areas and sometimes kitchens. The concept has developed in the US. Staybridge Suites opened its first UK hotel in Liverpool in 2008 and will open a second in Newcastle in 2009.

<sup>4</sup> Serviced apartments are an emerging alternative to hotel accommodation in the UK. They are either residential apartments or purpose-built serviced apartment blocks that are let out on a nightly basis and serviced daily, sometimes with breakfast provided, usually for guests to prepare themselves in the apartment.

- The assessment of hotel development opportunities has focused on market areas where there are clusters of hotels serving the same corporate market, rather than local authority areas. These are as follows:
  - Darlington
    - Including Darlington town, the rural parts of Darlington Borough and immediately surrounding areas, Newton Aycliffe and Durham Tees Valley Airport
  - Stockton/Middlesbrough
    - Including Stockton-on-Tees, Egglescliffe, Wynyard, Wolviston, Yarm and the immediately surrounding rural area, Middlesbrough and Guisborough.
  - Hartlepool
    - Including Hartlepool and Seaton Carew
  - Redcar/ Saltburn
    - Including Redcar, Saltburn and East Cleveland, other than Guisborough (which is included in the Stockton/Middlesbrough market area).

## 1.5 Study Methodology

- The study methodology has involved the following modules of research:
  - An initial **commissioning meeting** with the client group to set the scene for the study, agree the objectives, and gather relevant documentation and contacts.
  - **A review of national trends in hotel performance and development in UK** (provided as a separate report to the client group).
  - **Stakeholder consultations** with the relevant officers of the five Borough Councils (Tourism, Planning Policy, Estates, Development Control and Economic Development) and other stakeholders including Tees Valley

Regeneration, Wynyard Park, Peel (re. Durham Tees Valley Airport) and the North York Moors National Park.

- **A review of relevant policy and research documents** including:
  - The Local Plans for each local authority area;
  - Latest drafts of LDF core strategies;
  - Tees Valley City Region Business Case;
  - Tees Valley Regional Development Programme;
  - Tees Valley Growth Point Proposal;
  - The Regional Spatial Strategy;
  - Hartlepool Tourism Strategy and Action Plan;
  - Hartlepool Central Area Investment Framework;
  - Redcar & Cleveland Strategy for Tourism Development;
  - Redcar & Cleveland Activity Tourism Initiative – Action Plan
  - Audit & Mapping of Tourism Facilities in East Cleveland
  - Hartlepool Visitor Accommodation Study.
  
- An **audit of the existing supply** of hotels in the City Region. This has included both assessed and non-assessed hotels and identifies recent changes in hotel supply in terms of new openings, extensions, re-brandings and closures. The audit has been based on information provided by the five councils supplemented by our own Internet searches and site visits to the area. Where discrepancies have been identified establishments have been contacted by telephone to check information.
  
- **Interviews with the managers and owners of existing hotels** to gather information on current performance and future prospects and plans. A total of 38 hotels and large guesthouses were interviewed (listed at Appendix 1) through a programme of face-to-face and telephone interviews. The only major hotels that did not take in the research programme were the Thistle and Express by Holiday Inn in Middlesbrough and the Hall Garth, Walworth Castle and King's in Darlington. Hotel Solutions has estimated how these hotels are performing based on the intelligence gathered from other hotels.

- The preparation of **projections for potential future growth in hotel demand** in Darlington, Stockton/Middlesbrough and Hartlepool<sup>1</sup> through to 2011, 2016 and 2021. Appendix 5 provides information on the methodology and assumptions used for these projections.
  - A **review of current proposals for new hotels** in the City Region.
  
  - Telephone **consultations with a sample of hotel developers and operators** to establish their interest in the Tees Valley; site requirements; view of the market; obstacles faced; and view of the planning framework, both in terms of policy and process.
  
  - **Site visits** to assess potential locations for new hotel development. A more detailed assessment of potential hotel sites in Redcar & Cleveland has been undertaken for Redcar & Cleveland Borough Council. This is reported separately to the Borough Council.
  
  - A **telephone survey of companies in Redcar & Cleveland** to assess their current and potential future requirements for hotel accommodation. This work was commissioned by Redcar & Cleveland Borough Council and is reported separately to them.
- These modules of research have then been drawn together into a series of conclusions and recommendations regarding:
    - Current hotel supply;
    - Current hotel performance;
    - The prospects for growth in demand for hotel accommodation;
    - The market potential for new hotel development;
    - The future for existing hotels;
    - Hotel developer interest;
    - Our assessment of hotel development locations;
    - Conclusions and recommendations regarding implications and requirements for planning policy formulation and public sector intervention to support hotel development in the City Region.

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<sup>1</sup> The base supply of hotels in the Redcar/Saltburn market area is insufficient for us to run meaningful growth projections for this area.

## 2. TEES VALLEY HOTEL SUPPLY

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### 2.1. Current Supply

- There are currently 94 hotels and large guesthouses and pub accommodation establishments in the Tees Valley with a total of 3,419 letting bedrooms. Appendix 2 provides a full list of these establishments. The Tees Valley hotel supply is split between 4 key market areas<sup>1</sup>: Stockton/Middlesbrough, Darlington, Hartlepool and Redcar/ Saltburn. The Stockton/ Middlesbrough area hotel supply includes hotels in the Yarm and Guisborough areas as these hotels trade largely in the Stockton/ Middlesbrough/Wilton corporate market (although the country house hotels in these locations have stronger appeal for weekend leisure break and weddings business). Hotels in Sedgfield are also included in the Stockton/ Middlesbrough area supply, as we understand that they draw business from Wynyard Park. Hotels in Redcar and Saltburn also partly trade in the same market area as Stockton/Middlesbrough hotels but have been included under a separate Redcar/Saltburn market area. The Darlington area hotel supply includes hotels in Newton Aycliffe and at Durham Tees Valley Airport.
- The Stockton/Middlesbrough area has the largest concentration of hotels in the City Region. The Darlington area also has a significant hotel supply for a town of its size. The supply of hotel accommodation is more limited in Hartlepool, Redcar and especially Saltburn. Durham Tees Valley Airport has a very limited supply of hotels currently.

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<sup>1</sup> The market areas are based on clusters of hotels that serve common corporate markets (as corporate demand is the key driver of hotel performance). They do not coincide exactly with Borough Council boundaries and include some hotels in surrounding areas. Appendix 2 provides an analysis of serviced accommodation supply by Borough Council area and just outside each Borough.

- The current hotel supply in the Tees Valley is dominated by 3 star hotels mostly operated independently or by small hotel chains. None of the UK's leading 3 star hotel brands are currently represented in the Tees Valley. The standard of 3 star hotels across the City Region appears to be variable. There are some good quality hotels and a number that have been refurbished recently, but a few hotels that appear to be in need of investment, including two large hotels in Stockton-on-Tees and Middlesbrough.
- There is only one branded 4 star hotel in the Tees Valley – the Thistle Middlesbrough.
- The Stockton/Middlesbrough area and Darlington are served by a number of upmarket country house hotels that offer high standards of facilities and food (Crathorne Hall, Judges, Gisborough Hall, Redworth Hall and Headlam Hall). These hotels also appear to draw top end corporate business from Hartlepool and Redcar. Wynyard Hall has started to operate as a luxury country house hotel in 2008. The 5 star Rockcliffe Hall country house hotel is currently under construction at Hurworth near Darlington.
- Very few of the City Region's hotels currently have spa and/or leisure facilities.
- Branded budget hotels currently account for around 17% of the total supply of hotel accommodation in the Tees Valley. Premier Inn is currently the main budget hotel operator represented in the City Region following the company's acquisition of the Stockton and Middlesbrough Express by Holiday Inn hotels in August 2008. The main concentration of budget hotels is in the Stockton/ Middlesbrough area, which now has 5 Premier Inn hotels, a Travelodge at Sedgefield and a newly opened Travelodge at Middlesbrough. Darlington and Hartlepool each have one Premier Inn. The Stockton West and Darlington Premier Inns have both extended in recent years and a bedroom extension was completed at the Stockton/Middlesbrough Premier Inn at the beginning of October.
- Stockton/Middlesbrough, Darlington, Redcar and Hartlepool have a significant supply of non-inspected hotels, and large guesthouses and pub accommodation establishments that cater primarily for the contractor market. The standard of such accommodation appears to be low generally, with many establishments having few or no en-suite rooms.

**TEES VALLEY HOTEL SUPPLY – FEBRUARY 2009**

| Standard of Hotel                                 | Stockton /Middlesbrough <sup>1</sup> |             | Darlington <sup>2</sup> |             | Hartlepool |            | Redcar/ Saltburn |            | TOTAL TEES VALLEY |             |
|---|--------------------------------------|-------------|-------------------------|-------------|------------|------------|------------------|------------|-------------------|-------------|
|   | Hotels                               | Rooms       | Hotels                  | Rooms       | Hotels     | Rooms      | Hotels           | Rooms      | Hotels            | Rooms       |
| Luxury Country House                              | 1                                    | 9           |                         |             |            |            |                  |            | 1                 | 9           |
| 4 Star Country House                              | 2                                    | 108         | 1                       | 143         |            |            |                  |            | 3                 | 251         |
| 3 Star Country House                              | 1                                    | 26          | 1                       | 40          |            |            |                  |            | 2                 | 66          |
| 4 Star  | 1                                    | 132         |                         |             |            |            |                  |            | 1                 | 132         |
| 3 Star  | 5                                    | 287         | 10                      | 540         | 4          | 117        | 4                | 115        | 23                | 1059        |
| Lower Grade 3 Star                                | 2                                    | 261         |                         |             |            |            |                  |            | 2                 | 261         |
| 2 Star  | 3                                    | 45          |                         |             |            |            |                  |            | 3                 | 45          |
| Budget  | 7                                    | 400         | 2                       | 123         | 1          | 60         |                  |            | 10                | 583         |
| Economy   | 1                                    | 64          |                         |             |            |            |                  |            | 1                 | 64          |
| Non-Inspected Hotels/ Lge Guest Hses <sup>3</sup> | 14 <sup>4</sup>                      | 346         | 11                      | 222         | 13         | 171        | 11 <sup>5</sup>  | 210        | 49                | 949         |
| <b>TOTAL</b>                                      | <b>37</b>                            | <b>1678</b> | <b>25</b>               | <b>1068</b> | <b>18</b>  | <b>348</b> | <b>15</b>        | <b>325</b> | <b>94</b>         | <b>3419</b> |

Notes:

1. Included hotels in Guisborough, Yarm and Sedgfield
2. Includes hotels in Newton Aycliffe and the rural areas surrounding Darlington Borough
3. 10+ bedrooms
4. Includes 2 pub accommodation establishments, each with 12 bedrooms
5. Include one pub accommodation establishment with 26 bedrooms

## TEES VALLEY HOTELS – FEBRUARY 2009

## STOCKTON/MIDDLESBROUGH

| Hotel                                       | Standard                          | No. Rooms |
|---|-----------------------------------|-----------|
| <b>Middlesbrough</b>                        |                                   |           |
| Thistle                                     | 4 star                            | 132       |
| Best Western Middlesbrough (Highfield)      | 3 star                            | 32        |
| Baltimore                                   | 3 star                            | 31        |
| Premier Inn Middlesbrough South (Marton)    | Budget                            | 76        |
| Travelodge                                  | Budget                            | 55        |
| Sporting Lodge Inn                          | 3 star (Lower grade) <sup>1</sup> | 136       |
| Blue Bell Lodge                             | n/a                               | 60        |
| Marton                                      | n/a                               | 52        |
| The Ash Tree Hotel <sup>2</sup>             | n/a                               | 28        |
| White House Hotel                           | n/a                               | 19        |
| Beech Guest House                           | n/a                               | 18        |
| Longlands Hotel                             | n/a                               | 17        |
| Laurel Hotel                                | n/a                               | 12        |
| Treebridge, Nunthorpe                       | n/a                               | 11        |
| Cambridge Hotel                             | n/a                               | 11        |
| <b>Stockton</b>                             |                                   |           |
| Wynyard Hall                                | Luxury country house              | 9         |
| Best Western Parkmore                       | 3 star                            | 55        |
| Swallow                                     | 3 star (Lower grade)              | 125       |
| Sunnyside                                   | 2 star                            | 21        |
| Clairville                                  | 2 star                            | 20        |
| Mount Pleasant Country House                | 2 star                            | 3         |
| Premier Inn Stockton-on-Tees North          | Budget                            | 51        |
| Premier Inn Stockton-on-Tees/ Middlesbrough | Budget                            | 90        |
| Premier Inn Stockton-on-Tees West           | Budget                            | 68        |
| Metro Inn Teesside                          | Economy                           | 64        |
| Billingham Arms, Billingham                 | n/a                               | 40        |
| Golden Eagle Hotel, Thornaby                | n/a                               | 34        |
| The Courtyard Hotel                         | n/a                               | 18        |
| Kingswood Hotel                             | n/a                               | 14        |
| The Garrick Hotel                           | n/a                               | 12        |
| <b>Yarm Area</b>                            |                                   |           |
| Crathorne Hall <sup>3</sup>                 | 4 star country house              | 37        |
| Judges                                      | 3 star country house              | 26        |
| Tall Trees                                  | 3 star                            | 118       |
| <b>Guisborough Area</b>                     |                                   |           |
| Gisborough Hall                             | 4 star country house              | 71        |
| Premier Inn Middlesbrough South             | Budget                            | 20        |
| <b>Sedgefield</b>                           |                                   |           |
| Hardwick Hall                               | 3 star                            | 51        |
| Travelodge Sedgefield                       | Budget                            | 40        |

## Notes:

1. Graded as 4 star Inn
2. Currently closed for refurbishment
3. Outside Stockton Borough

**DARLINGTON**

| Hotel   | Standard                       | No. Rooms |
|---|--------------------------------|-----------|
| <b>Darlington</b>                                 |                                |           |
| Redworth Hall                                     | 4 star country house           | 143       |
| Blackwell Grange                                  | 3 star                         | 108       |
| King's <sup>1</sup>                               | 3 star                         | 86        |
| Bannatyne   | 3 star                         | 60        |
| Hall Garth  | 3 star                         | 51        |
| Headlam Hall, Headlam <sup>2</sup>                | 3 star country house           | 40        |
| Walworth Castle, Walworth                         | 3 star                         | 33        |
| Devonport, Middleton One Row                      | 3 star                         | 15        |
| Best Western Croft, Croft-on-Tees <sup>2</sup>    | 3 star                         | 20        |
| Premier Inn Darlington                            | Budget                         | 79        |
| The George, Piercebridge <sup>2</sup>             | Awaiting (3 star) <sup>3</sup> | 28        |
| The Greenbank                                     | 3 star GA                      | 27        |
| Harewood Lodge Guest House                        | 3 star GA                      | 11        |
| Harrowgate Hill Lodge                             | n/a                            | 36        |
| The Coachman Hotel                                | n/a                            | 29        |
| Central Guest House                               | n/a                            | 27        |
| Dalesman Hotel                                    | n/a                            | 19        |
| Centenary Guest House                             | n/a                            | 16        |
| The Cricketers Hotel                              | n/a                            | 15        |
| Arcadia   | n/a                            | 12        |
| Coronation Guest Hotel                            | n/a                            | 11        |
| <b>Durham Tees Valley Airport</b>                 |                                |           |
| St George   | 3 star                         | 59        |
| Spa   | n/a                            | 19        |
| <b>Newton Aycliffe</b>                            |                                |           |
| Aston Darlington <sup>2</sup>                     | 3 star                         | 80        |
| Premier Inn Durham (Newton Aycliffe) <sup>2</sup> | Budget                         | 44        |

Notes:

1. Currently closed following a fire in August 2008
2. Outside Darlington Borough
3. Recently refurbished – aiming to achieve a 3 star grading

**HARTLEPOOL**

| Hotel                         | Standard  | No. Rooms |
|-------------------------------|-----------|-----------|
| <b>Hartlepool</b>             |           |           |
| <b>Hartlepool</b>             |           |           |
| Grand                         | 3 star    | 47        |
| Hillcarter                    | 3 star    | 25        |
| Premier Inn Hartlepool Marina | Budget    | 60        |
| York House                    | 4 star GA | 13        |
| The Douglas                   | 3 star GA | 16        |
| Brafferton Guest House        | 2 star GA | 10        |
| Melbourne Hotel               | n/a       | 10        |
| Cosmopolitan Hotel            | n/a       | 5         |
| <b>Seaton Carew</b>           |           |           |
| Marine                        | 3 star    | 25        |
| Staincliffe                   | 3 star    | 20        |
| Altonlea Lodge                | 4 star GA | 11        |
| The Norton                    | n/a       | 23        |
| Seaton Hotel                  | n/a       | 20        |
| Durham Hotel                  | n/a       | 16        |
| Rothbury Guest House          | n/a       | 13        |
| Sea View Guest House          | n/a       | 11        |
| New Stafford Hotel            | n/a       | 10        |
| <b>Dalton Piercy</b>          |           |           |
| The Windmill                  | Awaiting  | 13        |

**REDCAR/ SALTBURN**

| Hotel                                 | Standard  | No. Rooms |
|---------------------------------------|-----------|-----------|
| <b>Redcar</b>                         |           |           |
| Park                                  | 3 star    | 33        |
| Armada Guest House                    | 3 star GA | 15        |
| Kastle Hotel                          | 3 star GA | 25        |
| Claxton                               | n/a       | 30        |
| O' Grady's                            | n/a       | 26        |
| Kastle Inn                            | n/a       | 20        |
| Red Barns                             | n/a       | 19        |
| Central                               | n/a       | 14        |
| Sands Guest House                     | n/a       | 14        |
| Tudor Lodge                           | n/a       | 12        |
| Clarendon                             | n/a       | 10        |
| <b>Saltburn Area</b>                  |           |           |
| Hunley Hall, Brotton                  | 3 star    | 28        |
| Rushpool Hall <sup>1</sup> , Saltburn | 3 star    | 34        |
| Grinkle Park, Easington               | 3 star    | 20        |
| Spa, Saltburn                         | n/a       | 25        |

Notes:

1. Rushpool Hall is primarily a wedding venue. It does not actively seek business from other markets.

## 2.2. Recent and Planned Changes in Supply

### 2.2.1. New Hotels

- Wynyard Hall started trading as a luxury country house hotel in 2008, with 9 bedrooms currently open and a further 8 bedrooms and a restaurant due to open by the end of the year.
- A 55-bedroom Travelodge budget hotel opened in Middlesbrough in November 2008.

### 2.2.2. Hotels Under Construction

- There is one hotel currently under construction in the Tees Valley:

#### Tees Valley - New Hotels Under Construction – 2008

| Hotel           | Location                   | Standard             | No. Rooms | Opening Date |
|-----------------|----------------------------|----------------------|-----------|--------------|
| Rockcliffe Hall | Hurworth Place, Darlington | 5 star country house | 61        | 2009         |

### 2.2.3. Hotel Extensions and Refurbishment

- Our research has identified the following hotel extensions and major refurbishment projects over the past 3 years:

#### Tees Valley – Hotel Extensions and Refurbishment 2005-2008

| Hotel  | Project  | Year |
|--|--|------|
| <b>Darlington</b>                            |  |      |
| Barcelo Redworth Hall                        | Complete refurbishment + 43 bedroom extension  | 2006 |
| Headlam Hall                                 | Spa + 7 new bedrooms                           | 2007 |
| Premier Inn Darlington                       | 20 bedroom extension                           | 2007 |
| Blackwell Grange                             | Refurbishment of 43 bedrooms                   | 2007 |
| The George, Piercebridge                     | Full Refurbishment                             | 2008 |
| Spa, Durham Tees Valley Airport              | Full Refurbishment                             | 2008 |
| <b>Middlesbrough</b>                         |  |      |
| Best Western Middlesbrough                   | 9 new bedrooms                                 | 2007 |
| Baltimore                                    | Full refurbishment                             | 2008 |
| Sporting Lodge Inn                           | New health club, pub and restaurant            | 2007 |
| <b>Stockton</b>                              |  |      |
| Premier inn Stockton-on-Tees West            | 28 bedroom extension                           | 2006 |
| Premier Inn Stockton-on-Tees/ Middlesbrough  | 28 bedroom extension                           | 2008 |
| Wynyard Hall                                 | 8 new bedrooms + a restaurant                  | 2008 |
| Crathorne Hall                               | £1 million refurbishment programme             | 2007 |
| <b>Hartlepool</b>                            |  |      |
| Hillcarter                                   | 5 new bedrooms                                 | 2007 |
| Grand  | Complete refurbishment                         | 2007 |
| The Windmill, Dalton Piercy                  | £1.5 million refit – formerly the Dalton Lodge | 2008 |
| <b>Redcar &amp; Cleveland</b>                |  |      |
| Hunley Hall                                  | 20 bedroom extension                           | 2006 |
| Grinkle Park                                 | New banqueting suite                           | 2007 |
| O’Grady’s, Redcar                            | Refurbishment                                  | 2007 |
| Armada Guest House (formerly Seacroft Hotel) | Complete refurbishment and upgrade             | 2008 |

## 2.2.4. Hotel Re-Branding

- The following hotels have recently been re-branded following a change in their ownership:
  - Barcelo Redworth Hall – formerly Paramount Hotels
  - Premier Inn Stockton-on-Tees North – formerly Express by Holiday Inn Stockton (taken over by Premier Inn in August 2008)
  - Premier Inn Middlesbrough South (Marton) – formerly Express by Holiday Inn Middlesbrough (taken over by Premier Inn in August 2008)
  - Best Western Middlesbrough – formerly the Highfield Hotel, became part of the Best Western marketing consortium following its acquisition by Tavistock Leisure
  - Best Western Grand, Hartlepool – also now part of Best Western following its acquisition by Tavistock Leisure.

## 2.2.5. Hotel Closures

- Our research has identified the following hotels that have closed in the Tees Valley in the last 5 years:

### Tees Valley – Hotel Closures 2003-2008

| Hotel                         | Rooms | New Use                                 |
|-------------------------------|-------|---|
| <b>Darlington</b>             |       |   |
| Newbus Arms, Neasham          | 25    | Private hospital for people with autism |
| <b>Stockton</b>               |       |   |
| Stoneyroyd, Stockton-on-Tees  | 18    | n/a                                     |
| <b>Redcar &amp; Cleveland</b> |       |   |
| Royal Hotel, Redcar           | n/a   | Not currently trading                   |

### 2.3. Summary of Key Points

- There is a good supply of hotels currently serving the Stockton/ Middlesbrough area and Darlington. Darlington has a significant supply of hotel accommodation for a town of its size. The hotel supply is much more limited in Hartlepool, Redcar and especially Saltburn. Durham Tees Valley Airport has a very limited supply of hotels currently.
- The current hotel supply in the Tees Valley is dominated by 3 star hotels mostly operated independently or by small hotel chains. The standard of 3 star hotels is variable, with some hotels having been refurbished recently but others still in need of investment, including two large hotels in Stockton-on-Tees and Middlesbrough. There is only one branded 4 star hotel in the Tees Valley – the Thistle Middlesbrough. The Stockton/Middlesbrough area and Darlington are served by a number of upmarket country house hotels in the surrounding rural areas. Tees Valley has a relatively limited supply of branded budget hotels. Stockton/Middlesbrough, Darlington and Redcar have a significant supply of non-inspected hotels and large guesthouses and pub accommodation establishments that cater primarily for the contractor market. The standard of such accommodation appears to be low generally, with many establishments having few or no en-suite rooms.
- There has been very little recent activity in the Tees Valley in terms of the development of new hotels. Wynyard Hall started operating as a luxury country house hotel in 2008, initially with just 9 bedrooms, with a further 8 due to open by the end of the year. The 5 star Rockcliffe Hall country house hotel is currently under construction at Hurworth, near Darlington. A 55-bedroom Travelodge budget hotel opened in Middlesbrough in November 2008. A number of hotels across the City Region have extended, upgraded and/or added spa and leisure facilities. A number of small hotels have closed in the Tees Valley in the last 5 years.

### 3. CURRENT DEMAND & PERFORMANCE

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- Appendix 3 provides a detailed assessment of current hotel demand and performance in each of the four key market areas in the Tees Valley – Stockton/Middlesbrough, Darlington, Hartlepool and Redcar/Saltburn based on the findings of our survey of hotel owners and managers. The following sections summarise the key findings from the survey across the City Region.

#### 3.1. Occupancy and Achieved Room Rates<sup>1</sup>

- The tables overleaf set out our estimates of average annual room occupancies and achieved room rates and weekday and weekend occupancies for Tees Valley hotels for 2006 and 2007 and projected for 2008, based on our research, and the information provided to us by the managers and owners of existing hotels. The key findings regarding current hotel occupancies and achieved room rates in Tees Valley are summarised as follows:
- 3/4 star hotel occupancies are reasonably good in the Darlington area (only slightly below the national average for provincial 3/4 star chain hotels in 2008) and have grown strongly in the last 3 years. Achieved room rates are relatively low however and more in line with budget hotel performance. This is largely due to the relatively low corporate rates that Darlington hotels are currently achieving midweek and the strength of group tour business in the market mix for a number of the area's 3 star hotels.
- 3/4 star hotel performance is much stronger in the Stockton/Middlesbrough area, with occupancies above the national average here and the average annual achieved room rate for 3/4 star hotels estimated at around £69 in 2008. Achieved room rate performance varies significantly between hotels however.
- 3 star hotel occupancies and achieved room rates are low in Hartlepool although have increased substantially in 2008 following the upgrading of The Grand.

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<sup>1</sup> The net amount of rooms revenue that hotels achieve per room sold after deduction of VAT, breakfast and any other meals included in the price, discounts and commission charges.

- Occupancies are reasonably strong for 3 star hotels in the Redcar/Saltburn area. Achieved room rates are higher here than in Darlington and Hartlepool, due primarily to the stronger weekend demand here on double occupancy rates.

**TEES VALLEY HOTEL PERFORMANCE 2006-2008**

| Standard of Hotel/ Location                   | Average Annual Room Occupancy % |             |                         | Average Annual Achieved Room Rate £ |              |                          |
|---|---------------------------------|-------------|-------------------------|-------------------------------------|--------------|--------------------------|
|   | 2006                            | 2007        | 2008 <sup>1</sup>       | 2006                                | 2007         | 2008 <sup>1</sup>        |
| <b>Provincial UK Chain Hotels<sup>2</sup></b> | <b>71.5</b>                     | <b>71.3</b> | <b>71.3<sup>3</sup></b> | <b>69.35</b>                        | <b>72.28</b> | <b>73.82<sup>3</sup></b> |
| <b>Darlington<sup>4</sup></b>                 |                                 |             |                         |                                     |              |                          |
| 3/4 Star                                      | 66                              | 68          | 70                      | 48.86                               | 51.63        | 53.45                    |
| 3 Star  | 65                              | 68          | 71                      | 43.15                               | 45.38        | 48.11                    |
| Budget <sup>5</sup>                           | n/a                             | n/a         | n/a                     | n/a                                 | n/a          | n/a                      |
| <b>Stockton/ Middlesbrough<sup>6</sup></b>    |                                 |             |                         |                                     |              |                          |
| Urban 3/4 Star <sup>7</sup>                   | 72                              | 75          | 76                      | 63.99                               | 68.28        | 69.06                    |
| Urban 3 Star                                  | 70                              | 74          | 74                      | 58.87                               | 64.91        | 65.58                    |
| Country House Hotels                          | 72                              | 69          | 72                      | 77.18                               | 81.16        | 83.93                    |
| Budget  | 80                              | 79          | 80                      | 42.35                               | 45.07        | 46.58                    |
| Lower Grade 3 Star/ 2 Star                    | 60                              | 61          | 63                      | 39.50                               | 40.48        | 43.00                    |
| <b>Hartlepool</b>                             |                                 |             |                         |                                     |              |                          |
| 3 Star  | 58                              | 57          | 67                      | 38.45                               | 39.40        | 45.29                    |
| Budget <sup>5</sup>                           | n/a                             | n/a         | n/a                     | n/a                                 | n/a          | n/a                      |
| <b>Redcar/Saltburn<sup>8</sup></b>            |                                 |             |                         |                                     |              |                          |
| 3 Star  | n/a                             | 68          | 70                      | n/a                                 | 52.41        | 53.68                    |
| <b>Tees Valley</b>                            |                                 |             |                         |                                     |              |                          |
| 3 Star  | 65                              | 68          | 71                      | 47.05                               | 50.56        | 52.88                    |
| Budget  | 83                              | 83          | 81                      | 43.77                               | 45.98        | 47.62                    |
| Country House Hotels                          | 70                              | 68          | 69                      | 72.84                               | 74.38        | 75.73                    |

Source: Hotel Solutions – Survey of Tees Valley Hotel Managers – August/September 2008

Notes:

1. Based on projected figures provided by hotel managers
2. Source: TRI Hotstats UK Chain Hotels Market Review
3. Source: Price Waterhouse Coopers Hospitality Directions February 2008
4. Including Durham Tees Valley Airport and Newton Aycliffe
5. Insufficient sample of hotels to publish data
6. Including hotels in the Yarm area, Guisborough and Wolviston
7. Excluding country house hotels in Guisborough and the Yarm area. Sample excludes Swallow Stockton and Sporting Lodge Inn as these two hotels trade at a lower level than other Stockton/Middlesbrough 3 star hotels – these two hotels are included in the sample for Lower Grade 3 star/ 2 star hotels
8. Excluding Guisborough hotels (included in Stockton/ Middlesbrough samples)

**TEES VALLEY HOTELS - WEEKDAY/ WEEKEND OCCUPANCIES – 2007**

| Standard                                   | Typical Room Occupancy<br>% |        |          |        |
|--|-----------------------------|--------|----------|--------|
|  | Mon-Thurs                   | Friday | Saturday | Sunday |
| <b>Darlington<sup>1</sup></b>              |                             |        |          |        |
| 3/4 Star                                   | 73                          | 62     | 81       | 48     |
| 3 star                                     | 77                          | 55     | 76       | 48     |
| Budget <sup>2</sup>                        | n/a                         | n/a    | n/a      | n/a    |
| <b>Stockton/ Middlesbrough<sup>3</sup></b> |                             |        |          |        |
| Urban 3/4 Star <sup>4</sup>                | 95                          | 53     | 62       | 40     |
| Urban 3 Star                               | 95                          | 49     | 62       | 40     |
| Country House Hotels                       | 86                          | 57     | 60       | 30     |
| Budget                                     | 94                          | 51     | 74       | 39     |
| Lower Grade 3 Star/ 2 Star                 | 77                          | 52     | 63       | 25     |
| <b>Hartlepool</b>                          |                             |        |          |        |
| 3 star                                     | 88                          | 32     | 52       | 32     |
| Budget <sup>2</sup>                        | n/a                         | n/a    | n/a      | n/a    |
| <b>Redcar/ Saltburn<sup>5</sup></b>        |                             |        |          |        |
| 3 Star                                     | n/a                         | n/a    | n/a      | n/a    |
| <b>Tees Valley</b>                         |                             |        |          |        |
| 3 Star                                     | 83                          | 50     | 67       | 43     |
| Budget                                     | 94                          | 55     | 76       | 40     |
| Country House Hotels                       | 72                          | 71     | 82       | 42     |

Source: Hotel Solutions – Survey of Tees Valley Hotel Managers – August/September 2008

Notes:

1. Including Durham Tees Valley Airport and Newton Aycliffe
2. Insufficient sample of hotels to publish data
3. Including hotels in the Yarm area, Guisborough and Wolviston
4. Excluding country house hotels. Sample excludes Swallow Stockton and Sporting Lodge Inn as these two hotels trade at a lower level than other Stockton/Middlesbrough 3 star hotels- these two hotels are included in the sample for Lower Grade 3 star/2 star hotels
5. Excluding Guisborough hotels (included in Stockton/ Middlesbrough samples)

- Budget hotel occupancies are very strong across Tees Valley, typically running at over 80%.
- Country house hotels achieve reasonably good occupancies and high average room rates, particularly in the Yarm area.
- Lower grade 3 star and 2 star hotels in the Stockton/ Middlesbrough area achieve relatively low occupancies and low average room rates.
- Reliable occupancy data was not available from non-inspected hotels/ large guesthouses.
- Hotel occupancies and achieved room rates have grown steadily in the last 3 years across Tees Valley at all levels in the market.
- Midweek occupancies are generally strong for Tees Valley hotels, especially hotels in the Stockton/ Middlesbrough area, budget hotels across the City Region and non-inspected hotels/ large guesthouses in Hartlepool and Redcar (due to the strength of contractor demand in these locations) . They are not as strong for 3/4 star hotels in the Darlington area and for lower grade 3 star and 2 star hotels in the Stockton/ Middlesbrough area. Tuesday and Wednesday night occupancies are the strongest, with hotels in most parts of the City Region generally filling on these nights. Monday, and especially Thursday night occupancies are not as strong for most hotels.
- Weekend occupancies are generally weaker over much of the Tees Valley. Saturday occupancies are the strongest. Sunday occupancies are very low. Weekend occupancies are stronger for 3/4 star hotels in the Darlington area as a number of hotels here attract significant group tour business at weekends. This is low-rated business however that reduces the achieved room rates for hotels in this part of the City Region. Weekend occupancies are generally strong for country house hotels and 3 star hotels in the Saltburn area as a result of weddings business. Saturday occupancies are strong for budget hotels.
- Hotel demand is not particularly seasonal in the Tees Valley. Midweek occupancies dip for most hotels in July and August and Bank Holiday weeks, when corporate and contractor business reduces. Weekend occupancies are generally stronger between April and October.

## 3.2. Key Markets

### 3.2.1. Midweek Markets

- The key midweek market for 3/4 star hotels, country house hotels and budget hotels is local corporate demand, which typically accounts for 90-95% of midweek business. Our research suggests that companies in Stockton-on-Tees, Middlesbrough, Redcar and Hartlepool tend to use country house hotels for their VIP visitors and senior executives in preference to hotels in urban locations.
- Residential conferences are a minor midweek market for most 3/4 star hotels in the Tees Valley, generally accounting for no more than 5-10% of midweek business. Only two country house hotels in the Darlington area attract a higher level of residential conference business than this.
- Contractors are the main midweek market for lower grade 3 star and 2 star hotels and non-inspected hotels/ large guesthouses. They are also a secondary source of midweek business for budget hotels and for some of the better quality 3 star hotels. The petrochemicals companies at Wilton, Billingham and Seal Sands, the Corus steelworks at Redcar and the nuclear power plant at Hartlepool generate significant accommodation demand from contractors.
- A few hotels in the Darlington area and Stockton/ Middlesbrough attract some midweek demand from aircrews flying out of Durham Tees Valley Airport. The flying school and air ambulance generate some demand for hotel accommodation at the airport related to training courses that they run here. The airport does not currently generate significant midweek business however.
- Country house hotels and some Darlington 3 star hotels attract some midweek leisure break business, typically accounting for around 5-10% of their midweek trade.
- Some 3/4 star hotels in the Darlington area and lower grade hotels in the Stockton/ Middlesbrough area take group tours during the week. This is very low-rated business.

### 3.2.2. Weekend Markets

- The key weekend market, and in many cases the only significant source of weekend business, for Tees Valley hotels is people attending weddings, family parties and other functions. This market accounts for 75-95% of weekend trade for many hotels.
- Group tours are the main weekend market for some 3 star hotels in the Darlington area, lower grade 3 star hotels in Stockton/Middlesbrough and one 3 star hotel in Hartlepool. Coach tour operators use these hotels as a base for tours to Beamish, Durham, Alnwick Gardens/Northumberland, Whitby/ North York Moors and the Edinburgh Tattoo and as a stop-off point en-route to Scotland.
- Weekend leisure break demand is limited for hotels across the City Region, accounting for no more than 5-10% for most 3 star hotels. Leisure break business is primarily rate-driven, attracted by leisure break offers that hotels and hotel companies promote through the Internet and national newspapers. Some country house hotels and hotels with golf reported attracting higher levels of weekend leisure break business accounting for 15-40% of weekend occupancy. Weddings block out weekend leisure break business for one country house hotel in the Stockton/Middlesbrough area and two 3 star hotels in the Saltburn area. Most 3 star hotels in Hartlepool and Redcar reported attracting no leisure break business at all. Budget hotels and lower grade 3 star hotels in the Stockton/ Middlesbrough area attract very little leisure break business.
- People visiting friends and relatives are an important weekend market for budget hotels.
- Some hotels in the Darlington and Stockton/Middlesbrough areas attract aircrew business at weekends from Durham Tees Valley Airport. Air passengers departing on holiday flights appear to generate very little demand for hotel accommodation.
- Some Darlington 3 star hotels, budget hotels in the Stockton/Middlesbrough area and Hartlepool hotels attract some demand from away team supporters for Middlesbrough, Darlington and Hartlepool FC home matches. Two country house hotels in the City Region attract away football teams.

- A number of events generate demand for hotel accommodation. Events that create significant demand are:
  - Great North Run – for hotels across the Tees Valley;
  - Croft race meetings – for Darlington and Stockton hotels;
  - The recent Elton John concert at Darlington football stadium – for Darlington and Stockton hotels;
  - Redcar race meetings – for Redcar hotels.
  
- Most 3/4 star and budget hotels attract corporate demand at weekends from long stay corporate visitors staying over the weekend and corporate arrivals on Sunday nights.
  
- Lower grade 3 star and 2 star hotels and non-inspected hotels/ large guesthouses attract weekend business from contractors on long stay contracts staying over the weekend.
  
- Other weekend markets are:
  - Parents of university students;
  - Hospital visitors;
  - Golf, fishing and shooting parties;
  - Transient tourists.

### 3.3. Market Trends

- Market trends in the Tees Valley hotel market have been as follows over the last 3 years:
  - The corporate market has generally grown across the City Region, particularly in 2008.
  - Demand from the contractors market has also increased, especially in Hartlepool as a result of current work at the power station
  - In common with the national trend, the residential conference market has declined as companies have cut back on training and meeting budgets and developed their own in-house conference facilities. Residential conferences have become fewer in number, smaller in size and shorter in duration.
  - Aircrew business from Durham Tees Valley Airport has reduced in 2008 following the decision of Thomson Fly to base its crews in Spain.
  - A number of hotels have taken more group tour business in 2008. Other hotels reported a drop in group tour demand, with reduced numbers on tours and increasing numbers of tours cancelling as a result.
  - A number of hotels reported a downturn in leisure break business that they attributed to the Credit Crunch. Some hotels have attracted increased leisure break business through tactical offers promoted through the Internet. This remains a small market for Tees Valley hotels.
  - The weddings market appears to be have been largely stable but has become more competitive and price conscious. 3 star hotels in the Saltburn area and some country house hotels reported good growth in weddings business.

### 3.4. Denied<sup>1</sup> and Lost Business

- 3/4 star hotels in the Stockton/Middlesbrough area regularly deny business on Monday to Wednesday nights but not generally to a significant extent. Midweek denials are increasing. Weekend denials are rare.
- Lower grade 3 star hotels in the Stockton/ Middlesbrough area rarely deny business either during the week or at weekends.
- Most Darlington 3 star hotels occasionally deny business on Tuesday and Wednesday nights but not generally to a significant degree. Two hotels reported more frequent and significant midweek denials however. Weekend denials are rare, other than for major events.
- Hartlepool hotels and large guesthouses regularly deny business on Monday to Wednesday nights. Denials are significant when there are shut downs at the power station. Weekend denials are rare other than for one 3 star hotel that attracts good weddings business.
- Redcar hotels and large guesthouses regularly deny business during the week to a reasonably significant extent in some cases. Denials are significant when there are major shut downs at Corus or the Wilton chemical plants. Weekend denials are rare other than for race meetings at the racecourse.
- Some 3 star hotels in the Saltburn area regularly deny business at weekends as a result of their weddings trade.
- Budget hotels across Tees Valley consistently turn away significant business during the week. Weekend denials are less common other than in Hartlepool.
- Some country house hotels regularly deny business during the week, but not usually to a significant extent. One country house hotel regularly denies weekend business because of the strength of its weddings trade.

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<sup>1</sup> Business that hotels turn away because they are fully booked

- Some of the Tees Valley country house hotels and 3 star hotels in the Darlington area deny some large residential conferences (100 delegates +), which they are unable to accommodate alongside their regular corporate business. Visit Tees Valley also indicated that Tees Valley loses large conferences because it does not have sufficient hotel accommodation in any one location to be able to cater for their accommodation requirements.
- There is some evidence to suggest that urban locations, in particular Middlesbrough, Stockton-on-Tees, Hartlepool and Redcar, lose top end corporate business to the country house hotels in the Yarm and Guisborough area due to the quality of hotel accommodation that they offer and their less attractive environment. Hartlepool may also be losing some top end corporate business to the Thistle Middlesbrough because of its lack of a 4 star hotel. Such 'lost' business does not appear to be significant however. The survey of Hartlepool companies undertaken by the Tourism Resources Company in 2005 as part of the Hartlepool Tourism Audit showed that the levels of top end corporate business that Hartlepool was losing to other locations due to the quality of its hotel stock were not significant. These levels are likely to have reduced since the upgrading of the Grand. Our survey of Redcar & Cleveland companies (undertaken for Redcar & Cleveland Borough Council alongside the Hotel Futures Study) similarly showed relatively low levels of 'lost' top end corporate business from Redcar and Wilton.
- There is also evidence that some business from overseas corporate visitors to companies in Stockton, Middlesbrough, Hartlepool, Redcar and Wilton is lost to Yarm hotels because of their proximity to Durham Tees Valley Airport.

### **3.5. Serviced/ Self-Catering Apartments in Urban Areas**

- There are a number of residential apartments in Darlington, Yarm and Middlesbrough that have started to be let out as serviced or self-catering apartments. They appear to be attracting strong midweek demand from the corporate and contractors markets, in some cases for longer term lets. They also attract a few holiday lets. Weekend demand is not as strong. It comes primarily from people attending weddings and family parties, visiting friends and relatives or attending major events such as the Great North Run at motor racing events at Croft Circuit. There is evidence of increasing levels of denied midweek business for such accommodation. A number of current owners indicated that they are looking for additional apartments to let.
- There are a number of residential apartments at Hartlepool Marina that are let out primarily as corporate lets. One owner has attracted good demand for holiday lets over the summer months.

## 4. FUTURE MARKET PROSPECTS

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### 4.1. Strategic Context

- Tees Valley Vision is a strategic investment framework that seeks to raise the economic performance of the Tees Valley and provide a policy context and coherent long-term programme for the economic regeneration and development of the City Region. It focuses on creating sustainable jobs, attractive places and confident communities. Its spatial strategy concentrates on the River Tees Corridor (the urban core of Stockton and Middlesbrough and the river in between) taken forward as the Stockton-Middlesbrough Initiative; the Coastal Arc, linking Hartlepool and Redcar; and the Western Corridor, including Darlington Gateway and Durham Tees Valley Airport.
- The framework sets out a 10 point plan for the economy, with a focus on 7 priority clusters for growth – chemicals/process industries, renewable energy and environmental technology, business/financial services and call centres, civil and mechanical engineering, health research, digital media technology, and tourism.
- Tees Valley Regeneration is leading a £2 billion investment programme to deliver 5 strategic regeneration schemes across the City Region that will deliver a step change in economic growth as well as making a visual statement that will transform perceptions of the Tees Valley. The schemes are:
  - Middlehaven, Middlesbrough – a flagship project covering 100 acres of reclaimed dock that will add iconic structures to the Riverside Stadium and Transporter Bridge that sit at either end of the site. The scheme will deliver 47,000 sq m of offices; leisure and entertainment facilities, bars, restaurants and hotels; 2,400 residential units/apartments and accommodation for 1,500 students. The new home for Middlesbrough College is now open and the first tranche of office space has been let to the Crown Prosecution Service. An estimated 3,000 jobs will be created here.
  - North Shore, Stockton – a 50 hectare site extending along the river from the town centre that will deliver a research-based business and education park, hotels, restaurants, waterfront homes and public spaces. A promenade along the waterfront will lead to a £4million landmark pedestrian and cycle bridge connecting the site to the Teesdale Office Park and Durham University campus

across the river. The scheme will incorporate 1million sq ft of commercial space and create 2,500 jobs.

- Central Park, Darlington – a 30-hectare site bordering the railway and town centre. The centrepiece of this development, a new home for Darlington College, has now opened. Further phases will deliver 25,000 sq m of offices, 600 apartments and town houses and a hotel and conference centre. The scheme is set to create 1,600 jobs.
- Victoria Harbour, Hartlepool – an 80 hectare site between the marina and Headland that will provide 3,000-3,500 residential units, 600,000 sq ft of new commercial and retail space, plus a major water leisure centre , and a bridge link across the harbour. A hotel may also be included in the scheme.
- Durham Tees Valley Airport - £20 million of investment in new terminal facilities, plus the development of the Skylink Business Park to provide 200,000 sq ft of commercial development, primarily for airport-related uses. .£110 million will be invested in the business park, which is expected to create 2,000 jobs. Hotels are also planned around the airport.

## 4.2. Future Market Prospects

### 4.2.1. Corporate Demand

- Growth in the corporate market will be the key driver of new hotel development in the Tees Valley. It is the key market that will deliver year-round high-rated midweek business for hotels in the City Region.
- Corporate demand for hotel accommodation in the Tees Valley is set to grow significantly over the next 15-20 years given the anticipated economic regeneration and growth in the City Region. The latest employment projections for the Tees Valley<sup>1</sup> project an increase of just over 20,000 jobs in the City Region between 2008 and 2020. Employment in the service sector is projected to increase, while employment in manufacturing is forecast to further decline. The business services sector is projected to grow at the highest rate, increasing by almost 34%, with an additional 14,700 new jobs. This is a sector that is often very productive in terms of generating demand for hotel accommodation. The strongest growth in employment is projected in Darlington, Stockton and Middlesbrough.

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<sup>1</sup> Source: University of Warwick/ Cambridge Econometrics Local Economy Forecasting Model – data provided by the Tees Valley Joint Strategy Unit

- Office development will be a key driver behind new hotel development. Offices usually generate greater levels of demand for hotel accommodation than manufacturing or distribution uses, depending on the type of users they attract. National, regional and especially international corporate headquarters offices will generate strong, high-rated demand for hotel accommodation. Call centres and back office functions do not generate much demand for hotels. Demand generated by public administration uses is usually low-rated.
  
- The Tees Valley is set to see significant growth in office provision over the next 10 years, with almost 495,000 sq m of new office space currently in the pipeline. Wynyard Park is the single largest location for new office development in the City Region, with over 150,000 sq m of office space planned by 2016 and an eventual total of some 465,000 sq m of office space on the site. Other key office development locations are:
  - North Shore/ Stockton Town Centre - 67,750 sq m of office space planned by 2016;
  - Middlehaven - 47,000 sq m planned by 2016;
  - Darlington - 101,000 sq m of office space planned by 2016 on 4 key sites (Central Park , Morton Palms, Lingfield Point and Faverdale East) together with longer term development of the Darlington Great Park sites (a further 28,000 sq m of offices);
  - Amazon Park, Newton Aycliffe (with plans for up to 1.4 million sq ft of offices and industrial warehousing).

17,000 sq m of offices for airport-related companies are also planned as part of the planned Skylink Business Park at Durham Tees Valley Airport.

35,000 sq m of office space is also planned as part of the Victoria Harbour and Hartlepool Southern Business Zone projects. Recently developed offices at Hartlepool marina have been primarily taken for call centre uses.

- The chemicals/petrochemicals industry is set to see major expansion over the next 10-15 years with new developments at Wilton International and potential development at Billingham, North Tees, Seal Sands and South Tees. Tees Valley Regeneration and ONE North East are currently working with the North East Process Industries Cluster (NEPIC) on inward investment projects in the sector totalling £4.5 billion, with another £2.5 billion of investment projects in the pipeline.

- The Tees Valley is at the forefront of the new energy economy in the UK in terms of renewable energy and low carbon technologies. Some £3 billion of investment in the sector is planned in the next 10 years.
- The logistics sector is also set to see significant expansion with the growth of Teesport, the development of airfreight services from Durham Tees Valley Airport and major distribution facilities at Darlington and Wynyard Park. This sector is not particularly productive in terms of generating demand for hotel accommodation however.
- The digital media industry is identified as a growth sector in Middlesbrough and Stockton. Growth appears likely to be in terms of small business development. This does not appear to be a sector that will deliver significant employment growth. It may however generate some additional demand for hotel accommodation, possibly for boutique hotels.

#### **4.2.2. Residential Conferences**

- There could be some growth in the local and regional residential conference and training course market in the Tees Valley as new companies are attracted to the City Region. This is generally a declining market however, with a trend towards smaller and shorter conferences and companies increasingly holding training courses and meetings in-house. This suggests at best only slow growth in demand from this market.
- Wynyard Hall may begin to attract top end residential conferences as it becomes more established as a hotel. Rockcliffe Hall should also be able to attract top-end residential conferences given its anticipated 5 star rating, leisure and spa facilities and golf course. A new golf hotel in the City Region should also be able to attract residential conference business: golf hotels generally trade well in the residential conference market. The Wynyard Rooms may be able to attract residential conference business if new hotels are built at Wynyard Park. Conferences at the new Excel Conference Centre may also start to generate demand for hotel accommodation in the Darlington area.

- The proposed 4 star conference hotel at Central Park (should it go ahead) may be able to attract residential conferences that are specifically looking for a hotel that is accessible by rail. It may be less attractive for residential conferences where the majority of delegates will be arriving by car however.

#### **4.2.3. Large Association and Corporate Conferences**

- There may be scope for Middlesbrough to begin to attract large association and corporate conferences if the Thistle hotel is supported by the development of other hotels within walking distance. While the hotel has the meetings facilities to cope with such conferences it does not have the bedroom capacity.
- The development of a conference centre with supporting 4 star hotel or large 4 star conference hotel may also be able to develop this market. The viability of such proposals would need to be carefully considered. They would also need to be supported by other hotels within walking distance.
- The Excel Conference Centre at Newton Aycliffe will have the capacity to host large association and corporate conferences but is not currently supported by sufficient hotel accommodation to be able to develop anything other than day conferences.

#### **4.2.4. Universities & Colleges**

- The expansion and development of universities and colleges in the Tees Valley could generate increased demand for hotel accommodation from visiting academics, visiting parents and conferences held at the universities.

#### 4.2.5. Contractors

- Demand for hotel accommodation from the contractors market is likely to grow significantly in the Tees Valley over the next 15-20 years, given:
  - The planned projects in the chemicals/petrochemicals industry and new energy sector. These will create enormous demand for engineers and contractors involved in their construction and ongoing maintenance and overhaul.
  - The possible development of a new nuclear power plant at Hartlepool and decommissioning of the existing power station. The construction of the new power plant would create some 3,000 jobs during its construction.
  - The number of major construction projects planned across the City Region.
  - The proposed development of a new North Tees super-hospital at Wynyard Park;
  - The planned investment in the Tees Valley rail network and development of the Tees Valley Metro.
  
- The growth in the contractor demand is likely to create increased demand for budget hotel accommodation and will continue to provide significant business for lower grade and non-inspected hotels, guesthouses and pub accommodation businesses across the City Region.

#### 4.2.6. Airport-Related Demand

- Durham Tees Valley Airport is set to see significant expansion in passenger numbers and freight traffic. This should generate increased demand for hotel accommodation from aircrew. Growth in demand from holidaymakers departing from the airport requiring accommodation the night before they depart appears to be less likely unless the airport starts to draw holiday passengers from further afield. This will depend on the new destinations it begins to serve and whether these destinations are served by other nearby regional airports.

#### 4.2.7. Leisure Demand

- There is likely to be some growth in leisure demand across the Tees Valley given the planned investment in the City Region's leisure, cultural, sports and events product and Visit Tees Valley's focus on promoting the Tees Valley as an events destination. Our research shows that major events can generate significant demand for hotel accommodation. A focus on promoting events to attract overnight stays and developing and attracting major new events should help to generate increased leisure business for hotels.
  
- Major leisure, cultural, sports and events development projects that could generate increased leisure demand for hotels are as follows:
  - The cultural quarter in Middlesbrough – mima has already started to attract some new leisure demand;
  - The proposed development of a large casino in Middlesbrough;
  - Middlehaven as a new waterside destination;
  - The Temenos public artwork at Middlehaven and the other Tees Valley Giants artworks;
  - The development of the Tees Barrage White Water Course, which is likely to be used as an Olympic training centre in the run up to the London 2012 Olympics;
  - Victoria Harbour in Hartlepool and the H2O water leisure centre;
  - Tall Ships Races in 2010 in Hartlepool;
  - The Saltholme International Nature Reserve;
  - The possible development of Redcar Racecourse;
  - The development of the Tees Motorsports Park;
  - The Coatham Enclosure development at Redcar.
  
- While these developments should generate new leisure demand for hotels, we are doubtful that they will build a sufficient critical mass of attractions in any one location to develop significant sustainable leisure break demand, other than possibly in Middlesbrough.

- New hotels, particularly country house hotels, golf hotels and boutique hotels, should be able to develop leisure break business because of their offer, resulting in some supply-led growth in leisure break demand. New branded hotels may also be able to attract leisure break business through corporate marketing of leisure break offers, particularly if their brand has a strong profile in the leisure break market.
- There may be scope for hotels in Guisborough, Saltburn and the rural parts of Redcar & Cleveland to develop more leisure break business. These parts of the Tees Valley have the strongest appeal as leisure break destinations due to the proximity of attractions such as the North York Moors National Park, Cleveland Way and Heritage Coast. One hotel is planning to target midweek break business. The strength of weddings business for some hotels may make it difficult for them to develop weekend break business however.
- There could be potential for hotels in the Tees Valley to develop leisure break business by positioning themselves as a base for visiting attractions and destinations in other parts of the North East, given the position of the Tees Valley as a southern gateway to the Region.
- There are signs that the 'Credit Crunch' could result in a decline in leisure break business for Tees Valley hotels at least in the short term.

#### **4.2.8. Weddings and Functions**

- Demand for hotel accommodation related to weddings and functions is likely to grow as the population of the Tees Valley increases. The latest population forecasts for the City Region project a growth in population of 10.9% between 2006 and 2021, equivalent to an average annual growth rate of 0.73%.
- Luxury country house hotels such as Wynyard Hall and Rockcliffe Hall may be able to attract weddings from outside the Tees Valley that will also generate demand for other nearby hotels.

#### **4.2.9. Visits to Friends and Relatives**

- The visiting friends and relatives market is also likely to grow in line with the growth in population across the City Region.

#### **4.2.10. Group Tours**

- There are signs currently of a decline in group tour business for Tees Valley hotels with falling numbers on tours and an increasing number of tours cancelling as a result. This appears to be largely due to the 'Credit Crunch'. In the longer term this market should recover, with the group tour market set to grow in the UK as the country's population ages. This is low-rated business that hotels only usually take to boost occupancies at quieter times or in the absence of higher-rated business. Hotels may therefore reduce the levels of business that they take from this market if other sources of demand start to increase. The anticipated growth in the City Region hotel supply is however likely to mean that group tours will be a key market that many hotels will continue to target.

### **4.3. Serviced/ Self-Catering Apartments in Urban Areas**

- Demand for serviced and self-catering apartments in Darlington, Stockton/Middlesbrough and Hartlepool is likely to increase as the corporate and contractor markets grow in these locations. Companies are increasingly looking for such alternatives to hotel accommodation, particularly for long stay visitors and contract staff.

## 5. HOTEL DEVELOPMENT OPPORTUNITIES

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### 5.1. Projected Future Requirements for Hotel Development

- In order to provide an indication of the number of new hotel bedrooms that might be needed in each part of the Tees Valley through to 2026, Hotel Solutions has prepared projections of possible future growth in hotel demand to 2011, 2016, 2021 and 2026 based on our assessment of current hotel performance, levels of denied business and the potential for future growth in the demand for hotel accommodation. Projections have been prepared for the Darlington area (including Durham Tees Valley Airport), Stockton/Middlesbrough (including Yarm and Guisborough, but excluding Wynyard) and Hartlepool. With only one small budget hotel currently serving Wynyard Park we have been unable to prepare meaningful growth projections for the Wynyard area. Given the level of office and business development planned here however this area clearly offers good potential for hotel development. The current stock of hotels in Redcar & Cleveland is too limited for meaningful projections to be made for this part of the City Region. For the Stockton/Middlesbrough area we have reported separate projections for 3/4-star<sup>1</sup> and budget/upper-tier budget<sup>2</sup> hotels, as there is a sufficient differential in the current performance of hotels of these standards in this area. In the Darlington area and Hartlepool however there is no difference currently in the achieved room rate performance of 3 star and budget hotels. We have thus reported combined projections for these two locations.
- The detailed methodology and assumptions used for these projections are set out at Appendix 5. The projections are based on applying assumed low, medium and high growth rates to current levels of satisfied and denied demand. The growth rates used are intended to reflect the potential growth in demand for hotel accommodation that could result from the major regeneration projects; the growth potential of the chemical and energy sectors, Teesport, Durham Tees Valley Airport and the universities; and increased destination marketing activity. The projections do not attempt to factor in the potential demand for hotel accommodation that could be generated by significant new drivers of demand, such as a conference centre or the proposed large casino. Further research would be needed to fully assess the potential demand for hotel accommodation that such projects might generate. The projections also do not attempt to factor in supply-led growth in terms of new leisure

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<sup>1</sup> Including country house hotels

<sup>2</sup> Brands such as Express by Holiday Inn, Ramada Encore and Hampton by Hilton that offer a good quality 3 star standard bedroom product but limited hotel facilities and services.

break or residential conference business that could be attracted by new country house, golf or boutique hotels or branded hotels that have a strong profile in the leisure break market. The projections assume that both existing and new hotels will achieve a sustainable level of occupancy in line with industry norms (70% for 3/4 star hotels and 80% for budget/upper-tier hotels).

- The results of our calculations in terms of future numbers of hotel bedrooms and hotel sites required by standard and location are summarised in the tables overleaf. As with most types of projection, the projections in this study are intended to provide a guide to possible future requirements, to allow informed decisions to be made.

a) Requirements for New Hotel Rooms

**Tees Valley  
Projected Requirements for New Hotel Rooms - 2011-2026**

| Standard of Hotels/Year                       | Projected New Rooms Required <sup>1</sup> |               |             |
|---|---|---------------|-------------|
|   | Low Growth                                | Medium Growth | High Growth |
| <b>Darlington/ Durham Tees Valley Airport</b> |   |               |             |
| <b>All Hotels</b>                             |   |               |             |
| 2011  | 56  | 83            | 102         |
| 2016  | 135                                       | 206           | 255         |
| 2021 <sup>2</sup>                             | 222                                       | 346           | 437         |
| 2026 <sup>2</sup>                             | 319                                       | 509           | 617         |
| <b>Stockton/ Middlesbrough<sup>3</sup></b>    |   |               |             |
| <b>3/4 Star<sup>4</sup></b>                   |   |               |             |
| 2011  | 78  | 98            | 115         |
| 2016  | 129                                       | 179           | 224         |
| 2021 <sup>2</sup>                             | 186                                       | 272           | 356         |
| 2026 <sup>2</sup>                             | 268                                       | 426           | 515         |
| <b>Budget/Upper-Tier Budget</b>               |   |               |             |
| 2011  | 73  | 85            | 97          |
| 2016  | 102                                       | 130           | 162         |
| 2021 <sup>2</sup>                             | 132                                       | 183           | 240         |
| 2026 <sup>2</sup>                             | 166                                       | 243           | 334         |
| <b>Hartlepool<sup>5</sup></b>                 |   |               |             |
| <b>All Hotels</b>                             |   |               |             |
| 2011  | 68  | 78            | 94          |
| 2016  | 96  | 118           | 128         |
| 2021 <sup>2</sup>                             | 126                                       | 165           | 185         |
| 2026 <sup>2</sup>                             | 161                                       | 221           | 252         |

Notes:

1. Including any hotels/ hotel extensions currently under construction.
2. It is very difficult to project change over a 15-20 year period. The projections for 2021 and 2026 should be treated with caution, therefore.
3. Including the Yarm and Guisborough areas but excluding Wynyard
4. Including country house hotels
5. Excluding Wynyard

b) Requirements for Hotel Sites

Tees Valley - Required Hotel Sites – 2011-2021

| Standard of Hotels/Year                       | Projected Hotel Sites Required <sup>1</sup> |               |             |
|---|---|---------------|-------------|
|   | Low Growth                                  | Medium Growth | High Growth |
| <b>Darlington/ Durham Tees Valley Airport</b> |   |               |             |
| <b>Total Hotel Sites Required</b>             |   |               |             |
| 2011  | 1   | 1             | 1           |
| 2016  | 1   | 2             | 2           |
| 2021 <sup>2</sup>                             | 2   | 3             | 4           |
| 2026 <sup>2</sup>                             | 3   | 4             | 5           |
| <b>Stockton/ Middlesbrough<sup>3</sup></b>    |   |               |             |
| <b>3/4 Star</b>                               |   |               |             |
| 2011  | 1   | 1             | 1           |
| 2016  | 1   | 1             | 2           |
| 2021 <sup>2</sup>                             | 1   | 2             | 3           |
| 2026 <sup>2</sup>                             | 2   | 4             | 4           |
| <b>Budget/Upper-Tier Budget</b>               |   |               |             |
| 2011  | 1   | 1             | 1           |
| 2016  | 2   | 2             | 2           |
| 2021 <sup>2</sup>                             | 2   | 3             | 4           |
| 2026 <sup>2</sup>                             | 3   | 4             | 4           |
| <b>Hartlepool<sup>4</sup></b>                 |   |               |             |
| <b>Total Hotel Sites Required</b>             |   |               |             |
| 2011  | 1   | 1             | 2           |
| 2016  | 1   | 1             | 2           |
| 2021 <sup>2</sup>                             | 1   | 2             | 2           |
| 2026 <sup>2</sup>                             | 2   | 2             | 2           |

Notes:

1. Including hotels currently under construction
2. It is very difficult to project change over a 15-20 year period. The projections for 2021 and 2026 should be treated with caution, therefore.
3. Including the Yarm and Guisborough areas but excluding Wynyard
4. Excluding Wynyard

- In terms of the potential for new hotel development in the Tees Valley these projections, together with the other findings of our research, suggest market potential for the following hotel development projects:

### **Darlington/ Durham Tees Valley Airport**

- Immediate potential for the expansion of the Darlington Premier Inn.
  - Scope for one and possibly two new budget/upper-tier budget hotels by 2016, depending on how strongly the market grows, and potential possibly for a further two or three budget/upper-tier budget hotels by 2026.
  - Potential for existing 3 star hotels to upgrade, expand and add leisure and spa facilities.
  - Possible scope for a small boutique hotel in Darlington.
  - Possible potential for serviced/self-catering apartments in Darlington (residential apartments being let to corporate, contractor and leisure markets).
- Our research clearly suggests that the strongest market potential for new hotel development in the Darlington area is for budget/upper-tier budget hotels: the area has a limited supply of budget hotels currently; there is evidence of significant denied budget hotel demand in the area; and achieved room rates for existing 3 star hotels are largely in line with budget hotel developer targets. It is difficult to see scope for new 3 and 4 star hotels in the Darlington area unless particularly favourable deals can be offered to hotel and property developers: occupancies and achieved room rates are not strong enough or likely to grow sufficiently to support new hotels of these standards, other than possibly a small boutique hotel. The residential conference business that a 4 star conference hotel at Central Park might potentially attract will not be sufficient in itself to support the development of such a hotel. The Rockcliffe Hall hotel will trade at the top end of the corporate, conference and weddings market, attracting business from across Tees Valley, together with golf parties and golf breaks. It is likely to further weaken the potential to attract a 4 star hotel to Darlington.
  - Significant new budget/ upper-tier budget hotel development could put some of the area's 3 star hotels, lower grade hotels and larger guesthouses under pressure, possibly to the extent where they are no longer viable.

### **Stockton/ Middlesbrough (including Yarm and Guisborough)**

- Potential for further 3/4 star hotels in the urban core of Stockton/ Middlesbrough, with at least one hotel by 2016 and up to 2 or 3 additional hotels by 2026, depending on the size of hotels that are developed and how strongly the market grows.
  
- The market potential in the urban area is currently stronger for branded 3 star than 4 star hotel development, primarily because of the average room rate levels that can potentially be achieved here and the weakness of weekend demand. New branded 4 star hotels typically have 150-200 bedrooms and need to achieve average room occupancies of at least 70% and average room rates of at least £80-95+. There would need to be significant growth in high-rated corporate business in the urban core or major new drivers of hotel demand, such as a large casino or a conference centre which could generate additional weekday and weekend demand, to enable a branded 4 star hotel of this size to achieve these performance targets. The development of a cluster of hotels within walking distance of hotels and venues with large capacity conference facilities could enable Middlesbrough to attract large association or corporate conferences. A casino/conference hotel combining all of these drivers of demand into one project may merit further investigation. The further development of country house hotels and a golf hotel potentially at Wynyard Golf Club (see below) could make it more difficult to attract a new branded 4 star hotel in the urban core of Stockton/ Middlesbrough as these types of hotel will continue to compete strongly for the top end of the Stockton/ Middlesbrough corporate market. Some form of incentive, e.g. a favourable land deal or grant aid, may be necessary to attract a 4 star hotel to the urban core in the short term, should this be seen as a strategic priority by the local authorities.
  
- No potential in the short to medium term for a suite hotel as such hotels require a mature 4 star market.
  
- Potential for at least one further budget/upper-tier budget hotel in the urban core by 2016, over and above the new Travelodge in Middlesbrough and the extension to the Premier Inn Stockton-on-Tees/ Middlesbrough. Longer term potential for at least a further two or three new budget/upper-tier budget hotels by 2026, depending on how strongly the market grows.

- Potential for the expansion of the Premier Inn Middlesbrough South at Guisborough or for a second small budget hotel here.
- Scope to upgrade and expand existing 3 star hotels. Significant new hotel development may however undermine the ability of existing hotels to reinvest.
- Potential for existing country house hotels to expand and add leisure and spa facilities.
- Possible scope for small boutique hotels in Middlesbrough, Yarm and Guisborough. Boutique hotels generally trade at the upper end of the corporate market and can attract leisure break business due to the appeal of their offer to leisure break markets. They have particular appeal for corporate users in media, fashion and creative industries. Boutique hotels in Middlesbrough, Yarm and Guisborough should be able to compete well for corporate business from the Stockton/Middlesbrough area and may be able to develop their own leisure break business. The proposed Psyche hotel in Middlesbrough would meet this opportunity.
- There could also be potential for the development of serviced/self-catering apartments in Stockton/Middlesbrough (residential apartments being let to corporate, contractor and leisure markets).
- Yarm and Guisborough could offer potential for the development of restaurants with rooms and quality pub accommodation.

### **Wynyard**

- There is strong potential for the proposed 4 star golf hotel/resort at Wynyard Golf Club. Such a hotel should be able to draw top end corporate business from Wynyard Park and is likely to be able to attract residential conferences, golf parties and golf break business and weddings to enable it to achieve high occupancies and average room rates.

- There is good potential for Wynyard Hall to develop further as a luxury country house hotel. It should trade well at the top end of the Tees Valley corporate market and should be able to attract residential conferences and strong demand from weddings and functions held at the Hall. It should also be able to develop leisure break business given the quality of its offer.
  
- The level of hotel provision required at Wynyard Park will be linked to the scale and nature of future development on the site. Key drivers of hotel demand will be:
  - the development of the business park and the corporate users it attracts;
  - the development of conference business at the Wynyard Rooms;
  - the development of the new super- hospital in terms of generating demand for hotel accommodation from visiting consultants and hospital visitors.
  
- The business park is likely to attract additional demand for hotel accommodation dependent upon the corporate users that locate here. Hotels in this location would also help to support the development of the business park and add value to it. A level of hotel provision to meet the needs of business park users would therefore seem to be appropriate at Wynyard Park.

## **Hartlepool**

- Immediate potential for the Premier Inn to expand.
  
- Scope for a further budget hotel by 2016, depending on the size of the Premier Inn extension and how strongly the market grows. Achieved room rates are unlikely to grow sufficiently to support upper-tier budget hotel development in Hartlepool we feel.
  
- Possible scope for a second new budget hotel by 2026 if the market grows strongly.
  
- Potential for existing 3 star hotels to upgrade and possibly add some further bedrooms.
  
- Possible scope for serviced/self-catering apartments (residential apartments being let to corporate, contractor and leisure markets).

- It is difficult to see market potential for a new 3/4 star hotel in Hartlepool. The market is not strong enough currently and unlikely to grow sufficiently to support a new hotel of this standard, particularly in terms of the average room rates that we think are achievable in Hartlepool.
- There is likely to be only limited scope to encourage existing non-inspected hotels, pub accommodation businesses and guesthouses to upgrade or become inspected: they will continue to cater primarily for the contractors market and have little need therefore to reposition or become graded.

### **Redcar/ Saltburn**

- While we have been unable to run growth projections for Redcar and Saltburn our research suggests the following opportunities for hotel development in Redcar and Saltburn:
  - Scope for existing 3 star hotels in the Saltburn area to upgrade, expand and/or develop leisure and spa facilities and conference and banqueting facilities.
  - Potential for the development of a budget hotel in Redcar. Such a hotel is however likely to take business from existing hotels, guesthouses and pub accommodation businesses in the town centre and on the seafront, possibly forcing the closure of some establishments.
- There is likely to be only limited scope to encourage existing non-inspected hotels, pub accommodation businesses and guesthouses in Redcar to upgrade or become inspected: they will continue to cater primarily for the contractors market and have little need therefore to reposition or become graded.

## 5.2. Hotel Developer Interest

### 5.2.1. Hotel Developer Requirements

- Hotel companies generally work to a set of key investment criteria that they use to help them put together their national development strategy and trawl for sites. The variable nature of the hotel product results in a range of site requirements, associated costs and investment approaches being adopted by hotel operators for different types of hotel. However, there is also much commonality between them. Below, we set out some of the key criteria, indicating ranges, and drawing out differences between hotel types where appropriate.

#### (i) Target Locations

- One of the main trends to emerge in the hotel sector is that of achieving critical mass together with geographic spread. The types of location that a hotel group will target will be a function of what levels of market penetration they have, how far along the product lifecycle they are and the scale of funding available.
- Operators such as 3 star Jurys Inn group have an initial target of 20-50 hotels in the UK, which will need to be strategically positioned across the country in locations that will give them maximum exposure. They are, therefore, currently targeting gateway locations and large cities such as Bristol, Leeds, Glasgow and London to achieve this aim. The leading UK budget hotel operators, Premier Inn and Travelodge, with hundreds of hotels in their current portfolios, can now look at secondary and tertiary locations, as well as investing in larger hotels (150 rooms +). They are also now targeting seaside resorts. Niche hotel groups, such as small boutique chains that are independently owned, may only be looking for 10-12 hotels across the country, and so will target only 1-2 towns per region, looking for characterful cities, often with a heritage base, and a strong destination draw for both business and leisure markets.

**(ii) Site Requirements**

- Most hotel companies have a set of criteria that they normally adhere to in terms of identifying and acquiring sites for new hotel development. They include:
  - A strategic location in terms of communications, with good access from a main route (motorway, dual carriageway, main A road), or alternatively a profile town centre site.
  - Visibility, particularly to passing traffic.
  - A strong business base (with the business market being the main driver of hotel demand) and site proximity to sources of business demand (offices, business parks, factories and industrial estates).
  - Proximity to leisure drivers e.g. events, attractions, speciality shopping, and facilities such as cafes and bars to make a destination interesting to stay in and generate weekend business.
  - Proximity to centre of population to generate demand from visits to friends and relatives and weddings and functions, and to provide membership for associated leisure clubs.
  - Site areas which vary on average from 0.5-6 acres, depending upon the type of location, the size and nature of the product, the range of facilities, and car parking requirements, as well as the ability to develop vertically.
  - Land values that reflect hotel development economics.
  - Redevelopment sites where opportunities are limited and land values high, including office conversions and the development and re-branding of existing hotels.
  - A reasonably attractive environment.
  - Some developers also target locations by population, focusing on a minimum resident population of 50,000-100,000 for smaller units and budget/mid-market offers and 100,000-150,000+ for larger hotels and products at the quality end of the market.

- The criteria will necessarily vary according to hotel type. Boutique hotels for example often require a character building and location, and a strong catchment for their restaurant offer. Budget hotels of 40-60 rooms with minimal central facilities will have a much smaller land take than a 150-200 bedroom four-star hotel with restaurant, conference and leisure facilities. Parking requirements and the opportunity for shared parking can also significantly affect the land take. There will be many more locations where market conditions will support a small budget hotel compared to a larger 4 star hotel with premium tariffs. Some typical requirements by product types are set out in the table below.

#### Developer Site Size/Space Requirement by Hotel Type

| Hotel Type    | Site Area        |             | No of Rooms | Gross Floorspace per Room | Facilities  |
|---------------|------------------|-------------|-------------|---------------------------|---|
|               | Town/City Centre | Out-of-town |             |                           |   |
| <b>Budget</b> | 0.5-0.7 acres    | 1-2.5 acres | 40-100      | 32-35m <sup>2</sup>       | <ul style="list-style-type: none"> <li>• 21 m<sup>2</sup> room size</li> <li>• limited restaurant and meeting rooms</li> </ul>  |
| <b>3 star</b> | 0.75 acres       | 1-3 acres   | 120-150     | 55-65m <sup>2</sup>       | <ul style="list-style-type: none"> <li>• 24 m<sup>2</sup> room size</li> <li>• restaurant, bar</li> <li>• conference facilities</li> </ul>  |
| <b>4 star</b> | 1 acre           | 3-6 acres   | 150-200+    | 75m <sup>2</sup> +        | <ul style="list-style-type: none"> <li>• 30 m<sup>2</sup> room size</li> <li>• restaurant, bar</li> <li>• banqueting</li> <li>• conference facilities</li> <li>• leisure</li> </ul> |

Source: Hotel Solutions

- Locations both on the outskirts of towns and cities, and on the town centre fringe (e.g. inner ring road) have been the priorities for many of the branded chains, together with business parks and similar employment areas. However, more recently, there has been renewed interest in city centres, reflecting also planning policy guidance, sustainable development principles, and the requirement for sequential testing.
- Where operators look at city centre locations, their site requirements become less easy to classify. Developments are often more opportunity-driven. Hotel companies are adapting development scenarios and are now commonly clearing sites and erecting high rise buildings where this is economically viable. In some locations, where the right sorts of buildings are available and the price is right, office buildings are being converted, both for hotels and serviced apartments.

- In locations such as this, and elsewhere where land values are high, hotel companies are also adapting the development mix, for example, developing with a free-standing or integral branded restaurant, pub or other use, to boost land values. For the same reasons, hotels are going into mixed-use schemes that might include retail, residential, office or other commercial uses. Planning authorities are often keen to encourage this approach as it helps to introduce vitality into the city centre at night. In central locations also, car-parking requirements can often be significantly reduced if public parking is available nearby, and a railway station is within easy reach.
- Certainly, the fight for sites has become increasingly competitive over time. Operators such as Premier Inn and Travelodge had the advantage of land banks and opportunities to develop adjacent to existing pubs and restaurants when they first began their development programmes. Now these sites are used up, and there are numerous hotel operators out there searching for sites. Added to which, in city centres there is often fierce competition for land from other users – offices, residential, other leisure – many of which out-value hotels. Whilst current market conditions have lessened this pressure to some extent, it is likely to re-emerge as an issue as the property market recovers.

### **(iii) Development Costs**

- The control of costs is critical to the viability of hotel development, but a number of factors have served to drive costs upwards. Land costs have increased with additional pressure for sites from hotel companies, as well as competing employment and residential land uses. Construction costs have also risen.

- Some typical land and building costs for different hotel types (excluding Central London) are detailed in the table below:

### Hotel Land and Building Costs – Provincial Locations

| Hotel Type   | Typical No of Rooms | Land cost provision per room | Building costs and FFE <sup>1</sup> per room | Total Development Costs |
|--------------|---------------------|------------------------------|--|-------------------------|
| Budget hotel | 40-100              | £8,000-£12,000               | £35,000-£50,000                              | £1.5-£6 million         |
| 3 star       | 120-150             | £12,000-£17,000              | £85,000-£100,000                             | £11-£17 million         |
| 4 star       | 150-200+            | £20,000-£30,000              | £120,000-£160,000                            | £21-£38 million         |

Source: Hotel Solutions

Notes:

1. Fixtures, fittings and equipment

- The cost ranges reflect variations between different location types (town centre and out-of-town locations), and variations in the mix and range of additional on-site facilities such as conferencing and leisure.
- The increase in hotel development costs is driving a number of changes in the sector:
  - **A move towards larger hotels.** The budget sector clearly demonstrates this. In the early phases of budget hotel development hotels averaged 40-60 bedrooms. Budget hotels that are now being built average 80-100 bedrooms, with a new strain of larger budget hotels of 150 + bedrooms beginning to emerge in large city centres, airports and other premium locations. As hotel development costs are allocated on a per room basis, a larger hotel enables a more competitive price to be offered for sites. Upper tier budget brands like Express by Holiday Inn and Ramada Encore do not develop smaller units, with their hotels averaging 80-120 rooms.
  - **Tailoring of the hotel product to the site** to enable maximum value to be achieved. This has enabled hotel developers to secure land in prime locations, but on the downside has served in itself to increase costs as unique solutions and designs have to be found. Standardised products, and the cost savings these can deliver, have become increasingly difficult to implement.

- **The development of hotels in association with other uses.** These may be associated leisure brands such as themed restaurants, bars and leisure clubs – hotel companies operating across the leisure sector can take full advantage of this by securing sites for several of their operations. Where a parent company operates a range of hotel offers from luxury and four-star brands through to budget hotel products, these will on occasion be developed on shared or adjacent sites, for example in premium locations. Accor have done this in several locations, locating Ibis, Etap and Novotel brands in an Accor 'village'. Again, this multi-use approach to site development enables a better price to be paid for land, and sites to be secured. Increasingly, hotels are also being developed as part of mixed-use schemes incorporating residential, office and other commercial uses, particularly in town/city centres, and the planning system has promoted this approach.
- These adaptations have enabled the hotel sector to continue to compete and develop at a time of increasing pressure on land. However, any increase in cost brings with it the danger of reducing margins in relation to profitability.

**(iv) Financial and Performance Criteria**

- The viability of any hotel development will be a function of the development cost, the occupancy rate (how full the hotel is throughout the year), and the achieved room rate (the average rate per room let, taking into account discounts on the published tariff). Most hotel companies have performance targets in each of these areas.
  - Occupancy targets are typically to achieve 70-75% + by year three of operation. For smaller, budget hotels, the target may be slightly higher than this, around the 80% level. Boutique hotels – many of which are smaller units appealing to niche, high value, business and leisure markets – commonly aim at occupancies in excess of this and can achieve 85-90%.

- Achieved room rate targets range from £40 - £50 (net of VAT) in the budget sector to £80 - £95 for 4 star hotels. In general, budget hotel discounting is limited, though many now offer reduced weekend rates, particularly where the leisure market is weak. At the top end of the market, boutique hotels average £100 - £125, luxury brands often considerably in excess of this.

### Hotel Development Performance Targets

| Hotel Type        | Occupancy | Achieved Room Rate |
|-------------------|-----------|--------------------|
| Budget            | 80-85%    | £40 - £50          |
| Upper tier budget | 75-80%    | £55 - £70          |
| 3 star            | 70-75%    | £70 - £80          |
| 4 star            | 70-75%    | £80 - £95          |
| Boutique          | 85-90%    | £100 - £125        |

Source: Hotel Solutions

#### (v) Deal Structures

- There are four main types of deal structure for hotel development:
  - Some hotel companies wholly own, develop and manage their hotels themselves;
  - Other hotels are run via management contract – an agreement between the owner of the hotel and a hotel company for the latter to run the hotel. The hotel would still appear to the public to be part of the operating chain. The hotel operator gets a fee for this task, usually a percentage of turnover;
  - A further option is a lease, whereby a hotel operator pays a rent for use of the building or land that is owned by an investor or developer; the risks are then with the operator not the owner, as the latter has a fixed return;
  - Franchise agreements are also commonly used in the hotel industry, giving a hotel developer/operator the right to use a brand name although the hotel is in separate ownership from the chain. Fees are charged for this relating to royalties, reservations and marketing.

- It can be seen from the above that the owners of hotels need not themselves be hotel companies, and include property and institutional investors. The levels of risk and capital outlay required by a hotel company therefore vary considerably between these options. Many more operators, particularly at the 4 star level (which is much more capital intensive), are likely to be interested in options put to them that involve management contracts than in building and funding development themselves, as access to capital will naturally restrict the latter and require hotel companies to prioritise their investment locations. Many of the chain hotel companies will have a mix of the above structures in place, though some do prefer a single route. Often franchisees are looking to build the asset value of the company with a view to exit within a 5-10 year period, and in such situations are less likely to be interested in lease options.

### **5.2.2. Hotel Developer/Operator Interest in Tees Valley**

- As part of the study, Hotel Solutions contacted a sample of hotel companies to get feedback from them on:
  - Current or potential interest in developing in Darlington, Stockton, Middlesbrough, Hartlepool, Redcar and surrounding areas;
  - Image of the towns/Tees Valley as a hotel investment location;
  - Views on the hotel market in each location;
  - Key issues influencing hotel investment decisions;
  - The size and standard of hotel they would seek to develop;
  - Preferred locations for hotel development;
  - Progress with site acquisition or obstacles faced;
  - Type of deal they would be interested in;
  - Support required in furthering any interest;
  - In the case of those companies not interested in investing in Tees Valley, the reasons behind this, and the conditions that would be required for this to change.

- Over 25 hotel developers and operators were contacted, plus a number of agents known to be acting for operators or developers and therefore aware of outstanding requirements and interest. More than 20 responses were received. This represented a much larger number of hotel brands, as several companies develop and operate a range of brands, either directly themselves e.g. Accor ( with brands including Adagio, Suitehotel, Mercure, Novotel, Ibis, Etap), or as franchisees of a number of hotel brands e.g. Starboard which has franchise agreements for a range of Hilton, Marriott and InterContinental Hotels Group brands. The companies that responded covered the full range in terms of standard and type of hotel including economy budget, budget, upper tier budget, 3 star, 4 star and luxury brands as well as suite hotels.
- To put the developer testing in context, it is fair to say that the national and international turmoil in the financial markets has worsened considerably during the period over which we have been conducting this study. Whilst consultees were encouraged to take a longer-term view, attitudes are clearly less buoyant than they were 6 months ago and acquisitions teams more cautious. This climate makes establishing firm interest more difficult, particularly in more marginal and unproven locations.
- The table overleaf summarises developer interest in new hotels in the Tees Valley by brand, location and standard. It should be noted that some of this interest, particularly from 3/4 star hotel developers may not necessarily be informed by an in depth of understanding of the hotel market in each part of the City Region and may not therefore be progressed by developers following further investigation.

## HOTEL DEVELOPER AND OPERATOR INTEREST IN TEES VALLEY – OCTOBER 2008

| Location                              | 4/5 Star  | 3 Star  | Upper Tier Budget   | Budget  | Boutique/<br>Town House    | Suite/ Long<br>Stay | Country<br>House /Golf<br>Hotel                           | Quality Pub<br>Rooms   |
|---------------------------------------|---|---|---|---|----------------------------|---------------------|---|------------------------|
| <b>Darlington</b>                     | Copthorne <sup>1</sup>  | Holiday Inn?<br>Hilton<br>Garden Inn<br>Park Inn  | Holiday Inn<br>Express<br>Purplehotels  | Premier Inn<br>Travelodge                                   |                            |                     | Rockcliffe Hall <sup>2</sup><br>Hall Garth<br>(extension) |                        |
| <b>Durham Tees<br/>Valley Airport</b> | Copthorne   |   | Holiday Inn<br>Express <sup>3</sup><br>Hampton by<br>Hilton                                     |   |                            |                     |   |                        |
| <b>Hartlepool</b>                     | Copthorne   | Park Inn<br>Courtyard by<br>Marriott <sup>3</sup>   | Hampton by<br>Hilton<br>Purplehotels  | Premier Inn <sup>4</sup><br>Travelodge                      |                            |                     |   |                        |
| <b>Stockton</b>                       | Copthorne<br>Hotel Tall Trees <sup>5</sup><br>(Maher<br>Developments) | Holiday Inn?<br>Hilton<br>Garden Inn <sup>6</sup><br>Park Inn<br>Courtyard by<br>Marriott | Holiday Inn<br>Express <sup>6</sup><br>Ramada<br>Encore<br>Hampton by<br>Hilton<br>Purplehotels | Travelodge  |                            |                     |   | Harrisons <sup>8</sup> |
| <b>Middlesbrough</b>                  | Copthorne   | Holiday Inn?<br>Hilton<br>Garden Inn<br>Park Inn  | Holiday Inn<br>Express?<br>Ramada<br>Encore<br>Purplehotels                                     | Ibis<br>Premier Inn <sup>7</sup><br>Travelodge <sup>2</sup> | Psyche (Steve<br>Cochrane) |                     |   |                        |

| Location                | 4/5 Star | 3 Star      | Upper Tier Budget         | Budget                    | Boutique/<br>Town House | Suite/ Long<br>Stay | Country<br>House /Golf<br>Hotel               | Quality Pub<br>Rooms |
|-------------------------|----------|-------------|---------------------------|---------------------------|-------------------------|---------------------|---|----------------------|
| Redcar                  |          | Park Inn    |                           | Premier Inn<br>Travelodge |                         |                     |   |                      |
| Wynyard                 |          | Holiday Inn | Express by<br>Holiday Inn |                           |                         |                     | Wynyard Golf<br>Club (Jomast<br>Developments) |                      |
| Teesside Retail<br>Park |          |             | Purplehotels?             | Travelodge                |                         |                     |   |                      |
| Guisborough             |          |             |                           | Travelodge?               |                         |                     |   |                      |

Notes

- ? Possible interest
- 1 Millennium & Copthorne would consider a management contract for one hotel in the Tees Valley but expressed interest in several locations
- 2 Under construction
- 3 Interest identified by developer/site owner
- 4 Extension to Premier Inn Hartlepool Marina
- 5 Major redevelopment and expansion of hotel
- 6 Interest from 2 franchisees
- 7 Developing 2 hotels here
- 8 Agent acting for a national pub chain that also develops integral rooms and has a requirement in Stockton

- Hotel companies that were not currently interested in developing hotels in the Tees Valley were as follows:

**Hotel Companies/ Brands Not Currently Interested in the Tees Valley**

| Company           | Brand/s  | Standard                               |
|-------------------|--|--|
| BDL               | Crowne Plaza<br>Staybridge Suites                | 4 star<br>4 star Suite Hotel           |
| Accor             | Novotel<br>Suite Hotel                           | 4 star<br>4 star Suite Hotel           |
| New World Leisure | Ramada Plaza<br>Ramada<br>Days Hotel<br>Days Inn | 4 star<br>4 star<br>3 star<br>Budget   |
| Jurys Doyle       | Jurys Inn  | 3 star                                 |
| De Vere           | Village  | 3 star                                 |
| Aston             | Aston  | 3 star                                 |
| Apex              | Apex   | Boutique                               |
| Base2Stay         | Base2Stay  | Boutique Serviced Apartments           |
| Big Sleep         | Big Sleep  | Budget Boutique                        |
| Bropar            | Hoxton Urban Lodge                               | Budget Boutique                        |
| Sleeperz          | Sleeperz   | Budget Boutique                        |
| Somerston         | Holiday Inn Express<br>Hampton by Hilton         | Upper-tier Budget<br>Upper-tier Budget |

**(i) Perceptions of Tees Valley as a Hotel Investment Location**

- Hotel developers and operators gave a mixed response when asked about their perceptions of Tees Valley as a hotel investment location:
  - Some saw the City Region as a significant area of opportunity that has not been penetrated to any great extent by the main national brands (Premier Inn excepted). There was therefore a perceived ‘window of opportunity’ to get into the marketplace here and take more than a fair market share by offering a modern offer with the assurance, affirmation and awareness that comes with a well-known national brand. One developer/operator summarised this with the comment:

*‘ We see Teesside as an area ‘on the up’ and feel there is great potential here, particularly compared to other parts of the North East like Newcastle which in our judgement is in danger of going into oversupply. Here we can come in with a brand and be the newest and the best without the intense competition of many other hotels opening on our doorstep’.*

- However, there were other developers who felt that Tees Valley destinations were very much in the shadow of NewcastleGateshead. Those brands developing smaller numbers of hotels nationally may only require one hotel in the North East and would tend to focus on NewcastleGateshead for this as the largest conurbation. Other developers indicated that they would look in Tees Valley, but not until they were represented in NewcastleGateshead – indeed at least one consultee indicated that it would be very difficult to get their Board to agree to anything else in the North East until they were established in NewcastleGateshead, especially as they had had problems with a development in the North East which had made them more nervous about the market here.
- The Tees Valley was perceived by hotel developers and operators to be a reasonable business area in terms of driving demand midweek, but to have a weak leisure market, and there was concern about what would fill hotel rooms at weekends. Again Newcastle has an advantage here in terms of its image as a party city with an expanding cultural offer.
- Hotel companies identified good access as an asset of the Tees Valley, with the A19, A66 and A1 corridors all seen to be important routes for business traffic.
- There was some confusion about the geography of the Tees Valley – developers were less aware of the coastal and rural parts of the Tees Valley, although Middlesbrough, Stockton and Darlington were widely understood to be part of the City Region. To the north there was a blurred perception of where the Tees Valley ended, with hotel requirements being identified in Durham and Peterlee for example.
- Relatively few hotel developers were aware of Wynyard Park and the scale of office development planned here.

- A number of developers indicated that whilst they may have looked at opportunities in Tees Valley towns at various points in the past 5 years, this area was not a priority in the current economic climate - a reflection perhaps of an unproven market, locations that are perceived to be more marginal compared to the big cities that make all the acquisition target lists, as well as developers and operators being more averse to risk and therefore seeking the security of destinations with a more mature and diverse hotel market. In some cases, this perception has become a reality when they had worked up schemes on specific sites in Tees Valley and pulled out having been unable to make them stack up.
  
- One 4 star operator identified that according to the indicators that they use to prioritise target locations for new hotel development nationwide, Teesside ranked 43<sup>rd</sup> on one list and 32<sup>nd</sup> on another. This demonstrates quite clearly the challenge faced in getting the interest of the key brands and then sustaining this to delivery over and above competitor destinations.

**(ii) Hotel Developer Interest by Location**

- There was developer interest in all 5 major towns in the Tees Valley, plus interest in developing hotels in the rural area, at key destination hubs (business parks, retail parks), and along major routeways – particularly the A66 and the A19 corridors. The strongest level of interest was in Stockton and Middlesbrough, followed by Darlington. Fewer hotel developers were interested in Hartlepool, Redcar, Wynyard (probably to do with the lack of awareness of the plans for Wynyard Park) and Durham Tees Valley Airport. There was no interest in Saltburn. Only one budget hotel operator was interested in Guisborough. Some of the destinations had been identified on the hit lists of major branded hotel operators, and many of them had been to look at the area and at specific sites and schemes. In terms of the larger hotel products, delivering 100-150 rooms plus, Redcar and to some extent Hartlepool were felt by some operators to be too small in terms of population and business base to support such a sizeable hotel, particularly for higher quality offers.
  
- Within these destinations, the majority of operators wanted to be in town centre locations, although some would also consider out-of-town sites if they were located close to drivers of demand such as business parks.

- At the time of our consultation work with hotel developers and operators, there were active negotiations on-going in several locations, with operators indicating that they were close to signing deals on sites in Middlesbrough (4 sites), Stockton-on-Tees (1 site), and Darlington (1 site), and other negotiations at an advanced stage at Wynyard Park and Durham Tees Valley Airport.
- Below we provide some feedback on each of the key locations in Tees Valley:

### **Middlesbrough**

- Middlesbrough together with Stockton-on-Tees had the strongest level of interest from hotel developers/operators, with potential interest from 11 brands/operators. Many perceived it to be the biggest centre and were aware that it was the only town centre with a 4 star hotel. There was one hotel company that would only currently look at Middlesbrough in the Tees Valley, whereas a number of the others were considering multiple locations. Middlesbrough was the only location with any boutique hotel interest.
- Middlehaven and the town centre/cultural quarter were the preferred locations for hotel development together with the A66 corridor. There was no real interest in the industrial areas to the east of the town or sites to the south, which were felt to be too remote, or of poor quality in terms of environment.

### **Stockton-on-Tees**

- Consultees had mixed views on Stockton-on-Tees. Some preferred it to Middlesbrough because it lacks a quality hotel in the centre currently. The improvements to the Riverside and the development of offices and the college here were also plus points in the town's favour. There was also a sense that the Tees Barrage and associated events might generate some leisure business at weekends for a hotel here. On the down side, there were some developers that felt Stockton-on-Tees was the 'poor relation' to Middlesbrough, and that although there was relatively new corporate presence in the centre, it had been incentivised to go there and probably wasn't a sign of the strength of the market.

- As with Middlesbrough, overall the town centre was preferred as a location, particularly along the Riverside. Outside the town centre sites close to business and leisure hubs are of appeal to hotel developers, particularly sites along the A66 and A19, most notably Teesside Retail Park, the Tees Barrage and Preston Farm Industrial Estate.

## **Darlington**

- Darlington's locational advantages from a hotel developer's perspective are its gateway role and significance as a railway interchange, together with its strategic location in relation to the A1 and A66. Some consultees also identified the lack of branded hotel representation in the town centre as an advantage. However, for others the town was felt to be too small in terms of population. As a result levels of interest were slightly less than those identified for Middlesbrough and Stockton, with 8 brands targeting the town, primarily of budget, upper tier budget and 3 star standard. In addition, an independent operator is currently developing a luxury hotel and an existing hotel is planning a major extension, both outside the town.
- The inner ring road was the focus of site search for a number of operators, particularly budget and upper-tier budget operators. However, the fact that much of the commercial activity in Darlington is located to the east of the town centre, along Yarm Road and out to the A66 means that there is also strong developer interest in locations like Morton Palms and Morton Park. These sites also offer the ability to pick up business relating to Durham Tees Valley Airport.

## **Hartlepool**

- Hartlepool missed the target acquisition lists of many of the branded hotel operators as it was seen as too small and being coastal, more remote than some of the other key towns in Tees Valley. A coastal location is seen by many as delivering only a 180-degree hinterland therefore making it harder to access a sizeable market. The marina development was seen as a plus particularly in terms of delivering an attractive environment for hotel development and driving demand at weekends. The presence of a budget hotel here already has demonstrated a market in the town centre, and as there is no other branded presence here some did see this as an opportunity to establish a presence in the market here. Interest from 7 brands was identified for Hartlepool, although 3 of these relate to a specific site that has been put to the market.

- The town centre and in particular the marina would appear to be the favoured location for hotel developers, although the budgets had looked at roadside sites particularly where they were close to business uses or on business parks.

## Redcar

- Redcar is perhaps the least known of the 5 key Tees Valley towns, and is the only town without a branded budget hotel currently. As a result it is on the target acquisition lists of both Travelodge and Premier Inn, although both need to be convinced about the market here. In addition there was potential interest from a 3 star operator, although we suspect this is largely uninformed interest. There are a number of reasons why Travelodge and Premier Inn are seeking representation in Redcar when other operators largely are not:
  - The extent of their current market presence across the UK is key. Awareness of their brands in the marketplace is high, and they can drive business to new units through the power of their central marketing and reservations units as well as referring business from other units in the surrounding area or further along the coast.
  - For these reasons they have begun looking at resorts in the last few years. Success in some of the larger resorts has meant they are now prepared to consider smaller resort destinations.
  - The lower room rate that these brands need to achieve is also a significant factor. It means that their hotels are affordable to the contractor market and other price-sensitive markets including visits to friends and relatives and the family holiday market. They can also compete well on price with existing hotels and guesthouses.
- On balance, the town centre and seafront are likely to be the preferred locations for hotel development as opposed to sites along the main arterial routes into and around the town. An associated driver of demand such as the racecourse or other attraction/hub of activity are likely to be important to create the right environment for the hotel and a critical mass of activity around it. Coatham Enclosure would be a good site for a budget hotel development for these reasons.

### **Durham Tees Valley Airport (DTVA)**

- o There was interest from three potential brands in DTVA, at upper tier budget and 4 star level. However, in the majority of cases, those consulted felt that there was not enough activity at the airport – both in terms of passenger throughput and associated airport-related business activity – to support a new hotel currently. The fact that crew are not based here and that passengers are travelling mostly from within a 1-1.5hr catchment limits rooms demand, and the business parks planned for the airport are yet to be developed. One operator indicated that a minimum passenger throughput of 2-3 million would be required before they would consider a regional airport location.

### **Wynyard**

- o There are currently 2 schemes proposed by local developers at Wynyard – the extension of Wynyard Hall and the proposed golf resort at Wynyard Golf Club, in addition to which two national operators have expressed interest in 3 star and upper tier budget hotel development here. Its advantages are seen as its strategic location on the A19, with easy access making it a good meeting point. In addition, there are already businesses located here generating demand but the significant scale of development proposed and levels of employment that will be on site are seen by those developers backing this location as major drivers to rooms demand here. For some operators however, Wynyard was seen to be ‘too roadside’ for them; many want a critical mass of development around their hotel both providing facilities for their guests to use and drivers to feed other aspects of the business e.g. food and beverage and leisure club membership.

**(iii) Hotel Developer Interest by Brand/Type of Offer**

- A total of 10 national operators expressed interest in Tees Valley destinations for 12 different brands. The majority of this interest was for budget, upper-tier budget and 3 star brands. Only one 4 star operator (Millennium & Copthorne) expressed interest in a management contract opportunity in the Tees Valley: although this company expressed interest in a number of locations it indicated that it would only be interested in operating one hotel in the City Region. There were however several national hotel developers/operators who were prepared to consider developing hotels in more than one location in Tees Valley. In some cases this interest was not necessarily informed by an in depth understanding of the hotel market in each part of the Tees Valley. There was no interest from budget boutique hotel brands or from suite hotel operators.
- In addition to the interest from national hotel chains there is also interest in new hotel development and the expansion and development of existing hotels from a number of local developers, entrepreneurs and hotel owners. This includes the Rockcliffe Hall country house hotel currently under construction at Hurworth Place near Darlington, a proposal for a boutique hotel in Middlesbrough by the owners of the Psyche fashion store and a proposal for a major golf hotel at Wynyard Golf Club by its new owners, Jomast Developments. Maher Developments also has plans for a major redevelopment, expansion and upgrading of the Tall Tree hotel at Yarm. We have been unable to establish how serious the company is about taking these proposals forward however.

**5.2.3. Barriers to Investment**

- For those hotel developers and operators that said ‘no’ to locating in Tees Valley, there were a number of location-specific reasons:
  - Some of these relate to developers’ perceptions of the City Region as a secondary, more marginal location than NewcastleGateshead, and the need to be represented in what they see to be the larger and more mature market in NewcastleGateshead first.

- Other factors relating to the market include the paucity of leisure drivers to fill rooms at weekends, and the overall issue of rates in Tees Valley. A number of developers referred to *'the stats/data for this area not being great'*, by which they mean that the indicators they use to assess hotel demand and potential are weak here compared to other development locations they are considering. This will cover occupancy, achieved room rate, population, nature and density of businesses and other corporate drivers as well as potential leisure drivers.
- In relation to 4 star hotel development, hotel operators in all but one case did not feel that Tees Valley was *'quite there yet'*. In terms of the corporate market, hotel companies would want to see significant levels of new office development in the town centres that will deliver high-rated weekday business in volume if they are going to locate here. However, large 4 star hotels also need a source of substantial levels of food and beverage business and conferencing, all of which are part of the model. Again, consultees did not feel this business was there currently in any of the Tees Valley towns, and explains why large 4 star hotels are only being developed in the biggest regional cities. Whilst the development of a conference centre and casino would provide additional sources of business, this was seen as *'icing on the cake'* and not enough on its own to deliver a 4 star hotel.
- Values are also an issue, and several developers that had worked up schemes in some of the Tees Valley towns had failed to make them stack up as a result. One developer/operator summarised this with the comment:

*'The current climate makes it difficult to do anything other than in the absolute prime locations. End values have fallen and returns are being hit by the need to offer more competitive rates to customers; it is increasingly difficult to get schemes to stack up, especially where the statistics are not great'.*

- For Hartlepool and Redcar, as coastal locations their relative remoteness is also an obstacle - accessibility to a wider catchment and the ability to pick up footloose/strategic business is important to many upper-tier budget and 3/4 star hotel developers/operators, particularly as they tend to deliver larger hotels of 100+ rooms.

- Other barriers commonly experienced by hotel developers and operators that are not unique to this area include:
  - Problems with planning, particularly in relation to:
    - Restrictions on developing in out-of-town and edge of town locations. Most hotel companies are happy to consider town centre locations if this is where key business users and leisure attractions are located. They will not however want to be in a town centre if such drivers of demand for hotel accommodation are not present there. Hotel operators thus often favour business park or leisure park locations on the edge of towns or on major arterial roads into towns as they provide a ready market for a hotel on the doorstep. A number of developers had considered locations like Wynyard Park and Morton Park/Palms and pulled back from them because pre-application planning discussions were discouraging, and they were not prepared to take a gamble on planning being forthcoming;
    - Restrictions on building design and external treatments, including adhering to BREEAM standards, all of which push costs up, in some cases to the point of making a hotel development unviable. This is even more important in locations that developers consider to be marginal in terms of financial viability.
  - Site availability and deliverability:
    - Hotels often have to compete with other land uses, especially in town centres, often uses that can command a higher land value, such as residential. Hotels can thus often get squeezed off sites and mixed-use schemes.
    - With fewer sites around and demand from many uses, more and more hotel opportunities are being presented as part of mixed-use schemes. These are more complicated to deliver, and the hotel operator does not have control over the scheme. As a lower value use, hotels can sometimes get pushed to less favourable parts of a site. Depending on their business models, some companies will not lease, so these opportunities are not open to them.
    - In the current financial climate, with the demand for residential falling away, several schemes that include a hotel alongside residential development are now starting to be mothballed.

- Larger, more complex mixed-use schemes take longer to deliver, and sometimes are contingent on major infrastructure works. This means they are not immediately available for the hotel operator. Much of the focus for hotel companies, particularly for the main budget hotel brands that have ambitious national targets and funding in place to deliver them, is on their next financial year's programme. Companies are thus currently lining up sites for 2009/10 and less interested in longer-term opportunities.

### 5.3. Hotel Development Proposals

- There are a significant number of hotel development projects proposed or being considered across the Tees Valley. The tables overleaf summarise these. They represent the potential future supply pipeline, although clearly some proposals are at a more advanced stage than others and some are likely to fall by the wayside as construction commences on other hotel projects. The proposals have been divided into two categories:
  - Under Construction
  - Planning Granted/Pending
- Taking only those sites with planning or within the planning system, these proposals represent 31 hotel projects and potentially 2,532 new hotel rooms that could come on stream. If we add to this other proposals with strong developer, operator or landowner interest that are likely to come forward but have not yet come into the planning system, the figure across Tees Valley is 40 projects and 3,131 potential hotel rooms. This compares with an existing supply in Tees Valley of 69 hotels and 2862 rooms. In addition, there are other potential schemes and sites, which have been the subject of informal enquiries or pre-application discussions with local authority planning departments that could come forward over time.

## DARLINGTON AREA – PROPOSED HOTELS &amp; SITES– AS AT JANUARY 2009

| Project/ Site                     | Location           | Developer/Owner/Brand   | No. Rooms     | Status  | Opening Year |
|-----------------------------------|--------------------|---|---------------|---|--------------|
| <b>DARLINGTON</b>                 |                    |   |               |   |              |
| <b>Under Construction</b>         |                    |   |               |   |              |
| Rockcliffe Hall                   | Hurworth Place     | Middlesbrough FC  | 61            | 5 star hotel, spa and golf course.<br>Under construction  | 2009         |
| <b>TOTAL ROOMS</b>                |                    |   | <b>61</b>     |   |              |
| <b>Planning Granted/Pending</b>   |                    |   |               |   |              |
| Central Park                      | Darlington         | Tees Valley Regeneration<br>Developers Commercial Estates<br>Group/ Keepmoat/ Yuill Homes | 30-40/<br>150 | Outline approval for mixed-use<br>scheme including hotel,<br>conference, office, leisure,<br>residential. Potentially 2 hotels<br>within the scheme (a small<br>training hotel linked to the college<br>and a 150-bedroom 4 star hotel) | 2011/2013    |
| Morton Park                       | Darlington         | Dean & Chapter/PPG Land   | e. 75         | Outline application approved for<br>mixed use scheme including hotel  |              |
| Topspin Racquet Centre            | DTVA               | CR Leisure  | 128           | Planning permission approved  |              |
| Skylink Business Park             | DTVA               | Peel Holdings   | 100           | Planning approved for an £8.5m<br>100-room hotel, 3 star<br>international brand.  |              |
| North of Cleveland Motor<br>Homes | DTVA               | Northcare   | 80            | Outline approval for 80 room<br>hotel   |              |
| Lancaster House                   | DTVA               | CJ Leonard & Son<br>Hampton by Hilton   | 130           | Full planning approved for 130<br>room hotel  |              |
| Spa Hotel                         | DTVA               | Fitwide Ltd   | +36           | Outline planning for 36 room<br>extension, not implemented  |              |
| Hall Garth                        | Coatham Mundeville | Folio Hotels  | +54           | Planning permission for 54-<br>bedroom extension  |              |
| <b>TOTAL ROOMS</b>                |                    |   | <b>788</b>    |   |              |

## MIDDLESBROUGH – PROPOSED HOTELS &amp; SITES– AS AT JANUARY 2009

| Project/Site                    | Location                  | Developer/Owner/Brand          | No. Rooms  | Status   | Opening Year |
|---------------------------------|---------------------------|--------------------------------|------------|--|--------------|
| <b>MIDDLESBROUGH</b>            |                           |                                |            |  |              |
| <b>Under Construction</b>       |                           |                                |            |  |              |
|                                 |                           |                                |            |  |              |
| <b>TOTAL</b>                    |                           |                                |            |  |              |
| <b>Planning Granted/Pending</b> |                           |                                |            |  |              |
| The Mall                        | Albert Rd                 | Cleveland nominees             | 94         | Approved for change of use to 94 room hotel  |              |
| Middlehaven phase 1             |                           | Tees Valley Regeneration/Entec | 125 (160)  | Outline approval for 125 room hotel – operator now lined up, 3 star, 160 rooms   | 2011         |
| Middlehaven phase 2             |                           | Tees Valley Regeneration/Entec | 75         | Outline approval for 75 room hotel   |              |
| Gateway Middlehaven             | Former Asda site          | Terrace Hill                   | 60         | Planning permission for hotel, food and drink and leisure development  |              |
| Psyche                          | Linthorpe Rd              | S Cochrane                     | 42         | Planning permission for a 42 room boutique style hotel   |              |
| Former Police Station           | Dunning Rd                | JR Property Development        | 120        | Approval for 120 room hotel  |              |
| Central Square East             | Middlesbrough town centre | Terrace Hill                   | 100-120    | Terrace Hill has agreed the principles of a scheme for Central Square East that includes a high quality hotel adjacent to mima at the eastern end of Centre Square |              |
| Teesside Retail & Leisure Park  | A19/A66                   | Clivara Ltd                    | 66         | Planning permission for a 66 room hotel and A3 units   |              |
| <b>TOTAL</b>                    |                           |                                | <b>727</b> |  |              |

**STOCKTON – PROPOSED HOTELS & SITES– AS AT JANUARY 2009**

| Site                            | Location                     | Developer/Owner/Brand                          | No. Rooms  | Status   | Opening Year |
|---------------------------------|------------------------------|--|------------|--|--------------|
| <b>STOCKTON</b>                 |                              |  |            |  |              |
| <b>Under Construction</b>       |                              |  |            |  |              |
| Wynyard Hall                    | Wynyard                      |  | +8         | 8 additional rooms currently being developed   | 2009         |
| <b>TOTAL</b>                    |                              |  | <b>8</b>   |  |              |
| <b>Planning Granted/Pending</b> |                              |  |            |  |              |
| Wynyard Golf Club               | Wynyard                      | Wynyard Golf Club Ltd                          | 150        | Outline approval for a golf hotel  |              |
| Tall Trees                      | Yarm                         | Maher Developments                             | +70        | Planning approved for an extension, leisure, conference, banqueting and 250 apartments, 6 star hotel   |              |
| North Shore                     | Riverside/Church St car park | English Partnerships/ Tees Valley Regeneration | 150        | Outline planning for mixed use scheme including a hotel – hotel site is within the town centre. Active discussions with 3-star/ upper-tier budget operator. Start end 2009 | 2010         |
| Premier Inn Stockton North      | Wolviston                    | Whitbread                                      | +29        | Extension approved   |              |
| <b>TOTAL</b>                    |                              |  | <b>399</b> |  |              |

**HARTLEPOOL – PROPOSED HOTELS & SITES– AS AT JANUARY 2009**

| Project/Site                    | Location                               | Developer/Owner/Brand | No. Rooms  | Status  | Opening Year |
|---------------------------------|--|-----------------------|------------|---|--------------|
| <b>HARTLEPOOL</b>               |  |                       |            |   |              |
| <b>Under Construction</b>       |  |                       |            |   |              |
|                                 |  |                       |            |   |              |
| <b>Planning Granted/Pending</b> |  |                       |            |   |              |
| Elwick services (southbound)    | A19                                    | R Perry & Sons        | 120        | Planning permission for 120 room lodge  |              |
| Elwick services (northbound)    | A19                                    | R Perry & Sons        | 40         | Variation of planning permission for 40 room hotel  |              |
| Trincomalee Wharf               | Land north and south of Maritime Drive | Jomast Development    | 150        | Redevelopment of land for retail, restaurant, office, cafes bars, hotel (150 room+), residential – outline permission granted subject to S106 |              |
| Premier Inn                     | Marina                                 |                       | +54        | Application for floating extension submitted  |              |
| Staincliffe Hotel               | Seaton Carew                           |                       | +5         | Redevelopment proposal – application submitted – existing 20 room hotel to be replaced by a new 25 room hotel and apartments                  |              |
| Victoria Harbour                | North of Hartlepool Marina             |                       | e.100      | Planning for a mixed use scheme on 200 acres to include hotel – outline permission granted subject to S106                                    |              |
| <b>TOTAL</b>                    |  |                       | <b>469</b> |   |              |

**REDCAR & CLEVELAND – PROPOSED HOTELS & SITES– AS AT JANUARY 2009**

| Project/ Site                   | Location  | Developer/Owner/Brand | No. Rooms | Status  | Opening Year |
|---------------------------------|-----------|-----------------------|-----------|---|--------------|
| <b>REDCAR/SALTBURN</b>          |           |                       |           |   |              |
| <b>Under Construction</b>       |           |                       |           |   |              |
|                                 |           |                       |           |   |              |
| <b>Planning Granted/Pending</b> |           |                       |           |   |              |
| Grinkle Park Hotel              | Easington |                       | +32       | Planning permission for an additional 32 rooms. |              |
| <b>TOTAL</b>                    |           |                       | <b>32</b> |   |              |

- With so many sites being put forward for hotel development – and with many having planning permission – hotel developers looking at entering the market here are naturally concerned about the potential for excessive competition and the ability of the market to keep up with this. If Tees Valley destinations do go into oversupply, this is not good for the viability and sustainability of individual hotel businesses, or for the reputation of the area as a hotel investment location. Indeed some potential investors had already walked away from sites for this reason. Others indicated that once a new hotel went into the locations they were considering, they would want to wait some time before following with a second development, especially as the performance indicators are not strong here.
- From the destination perspective, there are clearly many alternative hotel sites to those being offered as part of the key regeneration schemes, and therefore the potential to undermine delivery on these key sites, especially as timing is an issue in terms of when the hotel component of some of the major regeneration schemes might come forward.
- The impact of the ‘Credit Crunch’ and tightening financial markets has already been referred to, together with falling values and the difficulty of making schemes stack up. The implication of this in terms of sites is that it is more important than ever to be able to offer/secure a clean and easy site to develop, and potentially an attractive deal, especially as developers and operators are indicating that Tees Valley destinations are seen on the national scale as marginal and secondary locations.

#### **5.4. Matching Hotel Development Proposals and Market Potential**

- The tables overleaf provide a comparison between our projections of future requirements for new hotel bedrooms (under the Medium Growth scenario) and proposed additional hotel bedrooms for the Tees Valley market areas of Darlington/Durham Tees Valley Airport, Hartlepool (excluding Wynyard), and Stockton-Middlesbrough (excluding Wynyard). We have been unable to undertake this exercise for the Redcar/Saltburn area as growth projections could not be prepared for this area.

**Darlington/Durham Tees Valley Airport  
Projected Market Requirements Compared to Proposed Future Supply  
2011 – 2026**

| <b>DARLINGTON/DURHAM TEES VALLEY AIRPORT</b> |   |  |   |  |                             |
|--|---|--|---|--|-----------------------------|
| Year   | Projected New Rooms Required <sup>1</sup> | Schemes Most Likely to Come Forward (2-5 Years) <sup>2</sup> | Other Firm Hotel Proposals <sup>3</sup> – New Rooms | Other Proposals <sup>4</sup> – New Rooms | Total Proposals – New Rooms |
| 2011   | 83  | e. 306<br>(DTVA 130)   | 723<br>(DTVA 344)                                   | -  | e. 1029                     |
| 2016   | 206                                       |  |   |  |                             |
| 2021   | 346                                       |  |   |  |                             |
| 2026   | 509                                       |  |   |  |                             |

Notes:

1. Medium Growth scenario
2. Rockcliffe (61), Central Park training hotel (35), other budget/upper tier budget (55), Lancaster House (130), Premier Inn extension (25)
3. Other proposed hotel projects with planning permission, in the planning process or with firm operator interest – Central Park (150), Darlington FC (100), Morton Park (75), Hall Garth (54), Topspin (128), Skylink (100), North of Cleveland Motor Homes (80), Spa Hotel (36)
4. Strong developer/operator/landowner Interest (not progressed to planning) – here schemes are included under 2.

**Hartlepool  
Projected Market Requirements Compared to Proposed Future Supply  
2011 – 2026**

| <b>HARTLEPOOL<br/>(excluding Wynyard)</b> |   |  |   |  |                             |
|---|---|--|---|--|-----------------------------|
| Year                                      | Projected New Rooms Required <sup>1</sup> | Schemes Most Likely to Come Forward (2-5 Years) <sup>2</sup> | Other Firm Hotel Proposals <sup>3</sup> – New Rooms | Other Proposals <sup>4</sup> – New Rooms | Total Proposals – New Rooms |
| 2011                                      | 78  | 205  | 260   | -  | 465                         |
| 2016                                      | 118                                       |  |   |  |                             |
| 2021                                      | 165                                       |  |   |  |                             |
| 2026                                      | 221                                       |  |   |  |                             |

Notes:

1. Medium Growth scenario
2. Trincomalee Wharf (150), Premier Inn extension (50), Staincliffe redevelopment (5 rooms)
3. Other proposed hotel projects with planning permission, in the planning process or with firm operator interest – Elwick Services south (120), Elwick Service north (40), Victoria Harbour (100)
4. Strong developer/operator/landowner Interest (not progressed to planning)

**Stockton/Middlesbrough  
Projected Market Requirements Compared to Proposed Future Supply  
2011 – 2026**

| <b>STOCKTON/MIDDLESBROUGH<br/>(excluding Wynyard)<sup>13</sup></b> |   |  |  |   |                                    |
|--|---|--|--|---|------------------------------------|
| <b>Year</b>  | <b>Projected New Rooms Required<sup>1</sup></b> | <b>Schemes Most Likely to Come Forward (2-5 Years)</b> | <b>Other Firm Hotel Proposals<sup>5</sup>– New Rooms</b> | <b>Other Hotel Proposals<sup>12</sup> – New Rooms</b> | <b>Total Proposals – New Rooms</b> |
| <b>3 / 4 Star</b>  |   |  |  |   |                                    |
| 2011   | 98  | M 312 <sup>2</sup><br>S 150 <sup>3</sup><br>Total 462  | M 94 <sup>6</sup><br>S 70 <sup>7</sup><br>Total 164      | M -<br>S 20 <sup>10</sup><br>Total 20                 | M 406<br>S 240<br>Total 646        |
| 2016   | 179   |  |  |   |                                    |
| 2021   | 272   |  |  |   |                                    |
| 2026   | 426   |  |  |   |                                    |
| <b>Budget/Upper Tier Budget</b>                                    |   |  |  |   |                                    |
| 2011   | 85  | M 235 <sup>4</sup><br>S -<br>Total 235                 | M 141 <sup>8</sup><br>S 29 <sup>9</sup><br>Total 170     | M 75 <sup>11</sup><br>S -<br>Total 75                 | M 451<br>S 29<br>Total 480         |
| 2016   | 130   |  |  |   |                                    |
| 2021   | 183   |  |  |   |                                    |
| 2026   | 243   |  |  |   |                                    |
| <b>Total</b>   |   |  |  |   |                                    |
| 2011   | 195   | M 437<br>S 150<br>Total 587                            | M 235<br>S 99<br>Total 334                               | M 185<br>S 20<br>Total 205                            | M 857<br>S 344<br>Total 1126       |
| 2016   | 341   |  |  |   |                                    |
| 2021   | 512   |  |  |   |                                    |
| 2026   | 760   |  |  |   |                                    |

Notes:

1. Medium Growth scenario
2. Middlehaven 1 (160), Psyche (42), Central Square East (110)
3. North Shore (150)
4. Travelodge (55), Gateway Middlehaven (60), Budget town centre (120)
5. Other proposed hotel projects with planning permission, in the planning process or with firm operator interest
6. The Mall
7. Tall Trees
8. Middlehaven 2 (75), Teesside Retail Park (66)
9. Premier Inn Stockton North extension
10. Judges
11. Middlehaven 3
12. Strong developer/operator/landowner Interest (not progressed to planning)
13. Schemes at Wynyard propose an additional 422 rooms (Wynyard Hall (38), Wynyard Business Park (234), Wynyard Golf Club (150))

The implications of matching the forecasts for market growth against potential new supply are as follows:

- In **Darlington** the hotel schemes that could come forward in the next 2-5 years would meet most of Hotel Solutions' projected market requirement through to 2021 unless the market grows more strongly than under our projected Medium Growth scenario. If the proposed Central Park hotel (at 150 rooms) goes ahead this would then meet most of the market requirement through to 2026. If other hotel projects are also progressed there is clear potential for significant oversupply in the Darlington/ Durham Tees Valley Airport area, with twice the number of rooms proposed compared to forecast market growth.
- In **Hartlepool** the hotel schemes that may be progressed in the next 2-5 years would meet most of Hotel Solutions' projected market requirement through to 2026. Much stronger growth than we have projected would be needed if a hotel at Victoria Harbour were also to be progressed. There would otherwise be a danger of significant oversupply in Hartlepool if this hotel scheme goes ahead and/or many other hotel schemes are progressed in the town.
- In the **Stockton/Middlesbrough** area the 3/4 star hotel schemes that could go ahead in the next 2-5 years would exceed Hotel Solutions' projected market requirement through to 2021 under the Medium Growth scenario. If other firm proposals for 3/4 star hotels are also progressed the market requirement through to 2026 could be exceeded depending on market growth.
- In terms of budget/ upper-tier budget hotel development in the Stockton/Middlesbrough area, there may be a risk of over-supply if the number of schemes currently in the pipeline are implemented. However depending on levels of market growth there is likely to be potential for further budget/upper-tier budget hotel development in the urban core to 2026.

- In reality, some of the proposed schemes are likely fall by the wayside or be delayed, either because developers get nervous about performance levels as new supply comes on stream, or because site owners and property developers see greater value being generated from other uses at a different point in their sector lifecycle.
- If we look at the schemes that could come forward in the next 2-5 years, these would deliver a significant proportion of the rooms needed through to 2026 by 2011 – in Stockton/Middlesbrough exceeding the projected requirement by 8%, in Hartlepool delivering 92% of the forecast market need, and in Darlington 60%. In the short term therefore the growth in hotel supply is likely to be ahead of market growth and will thus impact on hotel occupancy and rate until the new supply is absorbed as the market grows. This is typical of the cyclical nature of demand and supply in the hotel sector, but clearly will affect performance and could also impact on poorer quality and less well-located stock, which may lose business to the new supply.
- In moving forward the big question for the public sector agencies is whether the right hotel products will be delivered on the optimum sites to deliver maximum benefit to each destination - and if not, what can be done about it? There is a danger of the current 'first past the post' situation undermining the regeneration potential of key sites and the added value which key hotel brands and products could bring to Tees Valley destinations and local authority aspirations for the town centres.

## 6. LDF IMPLICATIONS

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### 6.1. National Planning Guidance

- National guidance for tourism development was contained in PPG21 until its cancellation in September 2006. It has been replaced by a '**Good Practice Guide on Planning for Tourism**'. This document contains a specific appendix on tourist accommodation, dealing principally with the location of accommodation.
  
- The sections relating to hotels and other forms of visitor accommodation are provided at Appendix 6. In relation to hotels and serviced accommodation, the guidance covers general locational principles and guidance relating to particular types of serviced accommodation (major hotels, budget hotels/lodges, rural/pub accommodation). Some of the key principles include:
  - Identifying suitable locations for hotel accommodation should be an integral part of the plan making process, and should involve the tourist industry.
  - Major hotel developments should look to the town centre first, because of their transport and regeneration implications.
  - Outside the development plan process site selection should follow the sequential approach.
  - There is a need to recognise the market being served by different types of hotel when allocating sites and considering applications, as this will affect the optimum location.
  - In rural areas new build accommodation should preferably be in or adjacent to market towns and villages; the potential to convert rural buildings should also be favourably considered.
  - Scale and impact are key issues in National Parks and AONBs.
  - New hotel developments in historic towns and cities need to be sensitive to their surroundings; conversions may also be a realistic proposition subject to impact.
  - The potential to convert and re-use historic buildings in the town and countryside should be considered.
  - Extensions e.g. to pubs to add bedroom accommodation can help support the viability of these businesses, but need to be proportionate.
  - Budget hotels catering for longer staying markets should generally be destination focused i.e. in town centres.
  - Lodges catering for stop-over traffic may require a location on a major routeway, ideally edge of town rather than in open countryside.

- The guidance relating to holiday, touring caravan and chalet parks covers holiday chalets, caravan holiday homes, pitches for touring caravans, motor homes, camping and all types of self-catering accommodation. Some of the key points include:
  - The need for facilities should be carefully weighed against landscape protection.
  - Where possible visually intrusive sites and sites in flood risk areas should be re-located.
  - Planners should work with operators to improve the attractiveness of sites.
  - New sites are better located close to existing settlements and services.
  - Economic benefits as well as environmental impacts of developments should be considered.
  - Whilst occupancy conditions are a useful tool to prevent permanent occupation (more detailed guidance is provided on this), planners should be sympathetic to extended opening periods with trends towards year round activity.
  - Staff accommodation may be required on site, ideally using existing buildings/conversions, but accepting there may be a need for new residential development tied to the business.
  - The re-use of farm buildings and cottages for self-catering holiday accommodation should be supported where in line with sustainable development objectives.
  - More detailed guidance can be found in PPS7.
  
- Alongside the cancellation of PPG21 and the publication of the Good Practice Guide, it was intended that the issues surrounding tourism development should be addressed as other relevant PPGs were revised. PPS1 (Delivering Sustainable Development), PPS 6 (Planning for Town Centres) and PPS7 (Sustainable Development in Rural Areas) were all published before the Tourism Good Practice Guidance was brought out, and their key messages in relation to tourism development – and particularly the development of hotels – are reflected in the Good Practice Guide. More recently, Draft Planning Policy Statement 4 – Planning for Sustainable Economic Development – has been issued for consultation. PPS4 builds on the objectives for the planning system set out in PPS1 providing the tools for local authorities to plan effectively for economic growth. It requires local authorities to adopt a positive and flexible approach to economic development (which includes tourism and leisure development). It also emphasises the importance of an evidence base to understand industry/sector needs, using relevant market and economic information,

particularly where proposals are not specifically supported by plan policies. In addition, draft PPS4 states that local authorities should limit the designation of sites for single or restricted use classes and promote mixed-use developments in appropriate locations.

## **6.2. Regional Planning Policy**

- The Regional Spatial Strategy to 2021– The North East Plan - is the strategic planning framework for the region. It focuses on urban and rural renaissance – delivering economic prosperity and growth, sustainable communities, capitalising on the region’s natural and built environment and heritage and improving connectivity and accessibility. It includes a policy on culture and tourism which supports investment in tourist facilities and services, including accommodation, that should be informed by market demand, be accessible by a range of transport modes, and concentrated with related development in sustainable locations to contribute to wider regeneration objectives.
- The locational strategy includes a section on the Tees Valley City Region and a series of policies relating to regeneration, economic prosperity, sustainable communities, connectivity, strategic gaps, and environment which set out a series of development priorities and key projects to be taken forward in LDFs. Wynyard Park and Faverdale are identified as key employment locations in the RSS, Wynyard for prestige electronics and high technology sectors and Faverdale for distribution and logistics.

## **6.3. Current Local Plan Policies for Hotels & Visitor Accommodation**

- The current planning policy framework for hotel and visitor accommodation development in the Tees Valley is largely positive. All five local authorities appear to recognise the economic and social benefits that tourism can bring, from both business and leisure tourism. The sector has frequently been identified in separate sectoral/employment studies as a growth area. The local authorities are at different stages in terms of LDF development – Middlesbrough and Redcar & Cleveland have now replaced their Local Plan policies with Core Strategy and Development/Regeneration Policy DPDs whilst Darlington, Hartlepool and Stockton are moving through Issues & Options and Preferred Options stages.

- The general pattern is for quite detailed tourism policies from Local Plans to be replaced by more generic policies that will enable hotel and visitor accommodation development within the agreed area spatial strategies and subject to impact and access. Hotels are referred to however in some of the more detailed policies relating to key development sites. Hotels are generally seen as a town centre use to which the sequential test would be applied should development proposals fall outside this area. The potential for visitor accommodation development in the rural area and in market towns is also recognised in existing and emerging policies.
- In several instances, other studies have identified the potential for hotels and other forms of visitor accommodation and perceived gaps, although this has not always been based on hard evidence. Key stakeholders were concerned that this Hotel and Visitor Accommodation Futures study should provide that evidence and help inform emerging policies and potentially allocations as part of the LDF process.
- Below we summarise the policy framework by local authority area:

### **Darlington**

- Local Plan:
  - Darlington's Local Plan was adopted in November 1997 and remains the policy framework against which development proposals are considered currently.
  - The existing Local Plan has 3 policies covering visitor accommodation:
    - TO4: Hotels and Guest Houses - directs development to the town centre and built up area, subject to impact. The text identifies a shortage of budget hotels and provision for business visitors, and recognises the potential of employment areas as locations for hotels to serve the business market(e.g. Durham Tees Valley Airport, Faverdale, Yarm Road)
    - TO5: Accommodation in the Countryside - encourages the conversion of existing buildings provided they do not involve extensive rebuilding or additions. Conversion to hotel, holiday cottage and camping barns is identified as acceptable provided they remain for short stay use.
    - TO6: Camping and Caravans - is permissive subject to conditions relating to visual impact, amenity, screening and design. Freestanding chalets and caravans should be concealed in woodland or groups of buildings.

- LDF progress:
  - Darlington's Core Strategy is at Preferred Options stage and is likely to be adopted in 2010. Existing policies are likely to be replaced by a general policy. There is a draft policy covering hotels, culture, tourism and leisure – under 'Prosperous Darlington'. Sites outside the Core Strategy will be dealt with in the allocations document, the timescale for which will likely be 2011. The Hotel Futures Study will inform this more specifically.
  
- Other relevant policies and strategies:
  - 'One Darlington Perfectly Placed' is the spatial vision of the Sustainable Communities Strategy, which recognises the town's location and accessibility as a key asset on which to build.
  
  - Darlington Gateway Sectoral Opportunities Study identifies tourism and leisure as a growth sectors, and the need to improve the hotel stock to develop business and leisure tourism markets.

## **Hartlepool**

- Local Plan
  - Adopted April 2006, Hartlepool's Local Plan has a chapter on tourism and two specific policies relating to accommodation development:
    - TO9: Tourist Accommodation - encourages the improvement of existing accommodation and the development of new visitor accommodation in Hartlepool town centre and marina, Victoria Harbour, The Headland and Seaton Carew
    - TO10: Touring Caravan Sites - is permissive of development where well-screened and appropriate access and infrastructure can be provided. The Tees Forest is identified as an area of potential together with small-scale farm diversification sites.

- LDF:
  - Core Strategy Issues & Options Oct 2007 – tourism features under ‘strengthening the local economy’ – and recognises the need to broaden the accommodation base with appropriate new facilities and ensure existing businesses are not adversely affected. Preferred Options will be early 2009.
- Other documents:
  - The emerging Central Area Investment Framework identifies key regeneration priorities and how these should be delivered. It focuses on the development of an Innovation and Skills Quarter, the town centre retail and commercial core, the Marina and Harbour, and connectivity between these. Tourism is identified as a key economic driver in the local economy.
  - Tourism Strategy (2004)/ Tourism Accommodation Audit (2005) identify potential for a boutique/design-led hotel/ destination hotel within Hartlepool Quays; a resort hotel linked to a golf course; a hotel next to the Samsung Conference Centre at Wynyard Park; a larger 100-150 room conference hotel at Victoria Harbour (2020) if offices are developed here; and ‘innovative self-catering offers’ at Hartlepool Quays – including houseboats, and aparthotels. The strategy and audit were not informed by detailed market research or hotel developer testing however.

## **Middlesbrough**

- Local Plan:
  - Policies have now been replaced by the LDF Core Strategy.
- LDF:
  - Core Strategy approved February 2008, Regeneration DPD, November 2008.
  - Hotels are not specifically featured in the Core Strategy although they are referred to in relation to the casinos policy. Leisure facilities are to be concentrated in the town centre, including Greater Middlehaven, and to some extent in the Green Blue Heart.
  - The Regeneration DPD mentions hotels in relation to specific development areas and sites for example Middlehaven and Central Gardens

## Redcar & Cleveland

- Local Plan:
  - Policies relating to tourism and tourist accommodation have now been deleted and replaced by the LDF Core Strategy and Development Policies DPD as of July 2007.
  
- LDF:
  - The Core Strategy identifies developing the tourism industry as having an important role to play in achieving the objective to strengthen and diversify the local economy. This applies not only to the traditional resorts of Redcar and Cleveland but also to Guisborough, East Cleveland and the countryside, and this is reflected in the area spatial strategies. In the Development Policies DPD, the provision of visitor accommodation is identified as an important part of this strategy. The only accommodation-specific policy (DP16) relates to caravan sites and chalet type development. It permits the development of such accommodation only on sites which protect and enhance the Borough's natural environment and that are considered suitable subject to access and screening. Tourist accommodation development is referred to in other policies e.g. DP17 farm diversification. Occupancy conditions would normally apply.
  
- Other documents:
  - The Tourism Strategy and Action Plan identifies potential for new accommodation for business markets, caravan & camping sites, serviced and self-catering accommodation.
  - The Activity Tourism Audit identifies a shortage of visitor accommodation as limiting development of activity tourism – with specific gaps being facilities for camping in Saltburn, limited overnight stops for caravans and motor homes, and no youth hostel or camping barns.
  - The Guisborough Market Town Distinctiveness Study identifies a lack of overnight accommodation in the town centre as limiting potential for the town to develop as a tourist destination, and refers to potential for pubs to develop rooms and for the development of a hotel. In the previous Local Plan policies there had been an allocation for hotel associated with roadside services on the Guisborough by-pass.

## Stockton

- Local Plan:
  - Stockton’s Local Plan dates from 1997 with alterations in 2006. It features a series of tourism policies within the Economy section, which includes objectives to encourage provision of a range of tourist accommodation. Policies TOUR 3 and TOUR 4 are permissive of new hotel development, conversions and extensions within the built up area, and to conversions outside the limits to development. The potential for caravan and camping development is covered under recreation policies and for converting rural buildings to accommodation uses under environment policies. Alteration No.1 affirms hotels as a town centre use to which the sequential test should apply.
  
- LDF:
  - The Core Strategy is at Preferred Options stage and due to be submitted in 2008. There are no specific hotel or visitor accommodation policies. Hotels area referred to in the Regeneration DPD as a use within the mixed-use scheme proposed at North Shore.
  
- Other documents:
  - The Regeneration Strategy identifies the visitor economy as a key aspect of future regeneration schemes and specifically highlights the development of new hotel and conference facilities in appropriate locations, together with developing the International Nature Reserve at Saltholme, cultural developments in the town centre and Green-Blue heart, festivals and events, and the potential of the River Tees and links to the Olympics.

## North Yorkshire National Park Authority

- Statutory purposes and duties:
  - These are the starting point for consideration of all types of development in the Park, and seek to:
    - Conserve and enhance the natural beauty, wildlife and cultural heritage of the Park;
    - Promote opportunities for the understanding and enjoyment of the special qualities of the Park by the public.
    - Foster the economic and social well being of local communities.
  
- Local Plan and LDF:
  - At the time of writing, the planning policies covering the National Park are about to change. Existing policy is contained in the North York Moors Local Plan 2003. This is being replaced by the Local Development Framework. The Core Strategy and Development Policies have now been approved by a Government Inspector and the new policies will be adopted on 13<sup>th</sup> November 2008, replacing all the policies in the existing Local Plan. Reference to the Core Strategy in this note is to the new policies.
  
  - Rural accommodation – the policy stance:
    - Country house hotels
      - New build hotels in new locations would be resisted, but up-grading and expansion would generally be supported, preferably using existing buildings but permitting new build when these do not exist.

## 6.4. Future Policy Direction for Hotel Development

- The Tees Valley Hotel Futures Study shows good potential for the development of the hotel sector across the Tees Valley both in terms of new hotels and the development, upgrading and repositioning of existing hotels. Moving forward, LDF strategies and DPDs and development control procedures should thus seek to encourage and support the hotel development opportunities identified in the study (subject to other planning regulations). It will be important to ensure that planning policies and conditions are as flexible as possible in order to support the development of the hotel sector in the City Region. Planning conditions or restrictions placed on hotel development projects can often add considerably to development costs, sometimes to the point where schemes are no longer viable.
- The Hotel Futures Study shows a clear danger of hotel oversupply in most parts of the Tees Valley, with many more hotel rooms proposed than our growth projections show market potential for. In reality however the market should eventually sort itself out: not all of the proposed hotels will proceed once hotel projects start on site. There will inevitably be some short-term oversupply as new hotels come on stream until the market grows further. This is typical of the cyclical nature of the hotel market. New hotel development usually follows periods of high occupancies and frustrated demand. Hotel occupancies then drop as new hotels open until the market grows to the point where further new hotels can be supported. The key issue for the local authorities and public sector agencies is whether new hotels will be developed in their priority locations and on the key regeneration sites, and what they can do from a planning point of view to try to ensure that this happens.
- In moving forward each council will thus need to consider its locational priorities for new hotels in each of the key centres. The potential need to allocate sites for hotel development, to encourage the development of hotels in development briefs for key sites for mixed-use schemes, and to build hotel needs into Area Action Plans will also need to be considered. Much will depend on how far hotel development projects have been progressed in each town in the next few years before the LDFs are finally adopted.

- In the following paragraphs we give guidance on the hotel development opportunities and locational priorities for hotel development in each part of the City Region (both from a market and a council perspective) and draw out any issues in relation to hotel development and retention that we feel will need to be addressed by the councils as they move forward with their LDFs.

## **Middlesbrough**

- The Hotel Futures Study has identified market potential for the following hotel developments in the Stockton-Middlesbrough market area:
  - New 3/4 star hotels in the urban core of Stockton/Middlesbrough;
  - Further budget hotel development and upper tier budget hotel potential;
  - Up-grading and expansion of existing 3 star hotels;
  - A small boutique hotel in Middlesbrough;
  - Serviced/self-catering apartments (residential apartments being let to corporate, contractor and leisure markets).

Securing a particularly favourable deal, or linking with a major driver such as a conference centre or large casino could significantly increase opportunities for a new 4 star hotel in Middlesbrough.

- The strongest locations for new hotels in Middlesbrough from the perspective of the market and hotel developer requirements are:
  - Middlehaven as the key transformational project and a focus of office and leisure development;
  - The town centre;
  - The A66 corridor.
- There has been interest from landowners in hotel development in out-of-town locations including the Cargo Fleet area to the east of the town and sites to the south of the town, but these are less favoured by hotel operators.

- The Council's priority locations for hotel development are Middlehaven and the town centre, especially the Cultural Quarter. There is a good fit therefore with hotel developer preferences for these locations. Plans for a hotel as part of Middlehaven Phase 1 are at an advanced stage. Another site at Middlehaven and a number of sites in the town centre also have planning permission and are attracting hotel developer interest. It looks likely therefore that the market will deliver new hotels in Middlesbrough in the priority locations. Interest in other locations is likely to wane as hotels are developed in these locations. PPS6 can however be used to resist hotel development proposals in other parts of the Borough if need be.
- Going forward the Council may wish to re-affirm Middlehaven and other key sites in the town centre e.g. Central Gardens as the priority hotel locations in the town in LDF documents in order to resist hotel development elsewhere in the future.
- Should a large casino/conference centre or large casino/conference hotel be progressed in Middlesbrough it would need to be supported by a cluster of other hotels within walking distance in order for it to compete effectively for large association and corporate conferences and exhibitions. Depending on where such a project might be located, there may be a need to establish a hotel development zone around it as a priority location for further hotel development in the town, in order to ensure that the required mix of hotels are developed to fully support such a project and maximise the contribution that it can make to the development of business tourism in City Region.
- Our research shows no need for hotel retention policies in Middlesbrough<sup>1</sup>. Indeed it may be necessary to allow some of the poorer quality and less well located hotels and large guesthouses to exit the market, particularly as new budget hotel supply comes on stream.

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<sup>1</sup> Hotel retention policies are typically used by local authorities to resist change of use applications for hotels where there is pressure for the conversion of hotels to alternative uses (most commonly residential) and little prospect of new hotels being developed to replace lost hotels. They are most commonly used in seaside resorts where local authorities wish to retain a good stock of hotels.

## Stockton

- The Hotel Futures Study has identified potential for the following hotel developments in the Stockton-Middlesbrough market area:
  - Potentially up to three large (120-150 room) branded 3 star hotels in the Stockton/Middlesbrough urban core;
  - Further budget hotel development and upper tier budget hotel potential;
  - Up-grading and expansion of existing 3 star hotels;
  - Serviced/self-catering apartments (residential apartments being let to corporate, contractor and leisure markets).
  
- The strongest locations for new hotels in Stockton from the perspective of the market and hotel developer requirements are:
  - The riverside area of the town centre;
  - North Shore;
  - Visible sites close to business uses along the A66 and to a lesser extent the A19.
  
- The Borough Council's priority locations for hotel development are North Shore (as the key transformational project in the town) and the town centre and central riverside area. However there has been interest in hotel development on a number of out-of-town sites, at Portrack, Preston Farm and Bowesfield Farm. Although permission has been granted in such locations in the past, e.g. the Premier Inn at Preston Farm, developers have been discouraged from submitting hotel related planning applications for out-of-town sites out of concern that further development might undermine the prospects of delivering a town centre hotel. Given the scale of proposed growth in the market, the research indicates that this could be the case, though possibly less so in terms of the impact of budget hotels on delivering a quality hotel in the town centre.
  
- Plans for a hotel at North Shore are at an advanced stage. As this is the priority location for a hotel in Stockton-on-Tees, proposals for hotels on other sites will need to be resisted, certainly for larger 3/4 star and upper-tier budget hotels, until a hotel is secured here. Proposals on out-of-town and edge-of-town centre sites can be resisted under current Local Plan policies and PPS6. It would however be difficult for the Council to resist a hotel proposal on another town centre site should one come forward.

- In moving forward with its LDF the Council may wish to re-affirm North Shore and the town centre as its priority locations for new hotel development, certainly if hotels have not been secured here in the next few years, once a hotel has been secured at North Shore or in the town centre, new hotel development could be considered we feel on edge-of-town centre sites and possibly out-of-town sites where associated with expanding business and leisure activity e.g. Preston Farm Industrial Estate, Teesside Retail Park, Tees Barrage (see comments below) given the potential interest in such locations from hotel developers. The Council may however wish to continue to focus hotel development on the town centre and edge-of-town centre in order to maximise the contribution that hotels can make to improving the viability and vitality of the town. In this case it would need to have policies that resist hotel development on out-of-town sites.
- Our research shows no need for hotel retention policies in Stockton<sup>1</sup>. Indeed it may be necessary to allow some of the poorer quality and less well located hotels and large guesthouses to exit the market, particularly as new budget hotel supply comes on stream.

### **Teesside Retail Park**

- The research established hotel developer/operator interest in Teesside Retail Park for budget or possibly upper tier budget hotel development. This is a strategic location at the intersection of the A66 and A19, and permission exists for a hotel here. The retail and leisure activity on site and proximity to the Tees Barrage are a plus in terms of generating some leisure business for a hotel here and providing an evening offer for hotel guests. The excellent access to the A66 and A19 means that a hotel here could also pick up footloose business visitors to Stockton/Middlesbrough and the wider Tees Valley. Hotel development here could however undermine the potential to secure further hotels in Stockton-on-Tees town centre/ edge of town centre. The Council may therefore wish to resist any further applications for hotel development at Teesside Retail Park if it decides to pursue a strategy that focuses future hotel development purely on the town.

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## **Tees Barrage**

- The development of the Premier Inn at the Tees Barrage and its subsequent extension has demonstrated that there is a market for budget hotel accommodation in this location. Budget and upper-tier budget hotel operators are likely to be interested in any further sites that might become available for hotel development here. It is a strategic location with good access to corporate and contractor markets in the Stockton/ Middlesbrough/ Redcar area and wider Tees Valley. It also offers potential for weekend leisure business related to the expanding programme of water sports events and activity at the Tees Barrage. Additional hotels here are however likely to undermine the potential to secure further hotels in Stockton-on-Tees town centre. The Council may therefore wish to resist further hotel development at the Tees Barrage if it decides to pursue a strategy that focuses future hotel development purely on the town.

## **Wynyard**

- The Hotel Futures Study has identified potential for the following hotel developments at Wynyard:
  - Good potential for Wynyard Hall to develop further as a luxury country house hotel;
  - Strong potential for the proposed golf hotel/resort at Wynyard Golf Club;
  - Potential for hotel development at Wynyard Park, most probably at 3 star, upper tier budget or budget level.
- The development of Wynyard Hall as a luxury country house and the proposed hotel development at Wynyard Golf Club will be unique destination offers that have the ability to draw visitors in their own right. These types of development could not be developed in the urban core. The quality and prestige of these hotels will be an asset to the City Region. They should thus be supported by the planning system in their future development.

- In terms of Wynyard Park, from a planning perspective, there should be flexibility to permit a justifiable amount of hotel development to serve the businesses based here, visitors to these companies and the Wynyard Rooms conference centre. As the RSS, following the Examination in Public, now seeks to restructure the nature of the consents at Wynyard to limit large scale B1 development, it will be important to monitor the situation here and for a case to be made to support hotel development based on demonstrable need from business park occupiers.

## Yarm

- The Hotel Futures Study has identified potential for the development of a small boutique hotel in Yarm or quality rooms associated with pubs and restaurants. These products are likely to be delivered by local entrepreneurs and will be opportunity-related i.e. dependent upon a suitable site or building becoming available.
- The spatial strategy for Yarm focuses on building on its niche role as a speciality retail centre, though the historic fabric and setting are constraining factors. Small-scale hotels and quality rooms onto pubs and restaurants would complement this well and increase spend and length of stay. Tourism only features in the spatial strategy for Yarm in relation to the river. Tourism facilities including visitor accommodation in the built up area could be added to the strategy if it was felt to be insufficiently flexible to permit accommodation development in Yarm should opportunities arise. Tourism and visitor facilities is a key issue being consulted on in the Yarm and Eaglescliffe Area Action Plan including the provision of accommodation and presents an opportunity to build these requirements into the LDF policies.

## Darlington

- The Hotel Futures Study has identified potential for the following hotel developments in Darlington:
  - The expansion of the Premier Inn;
  - Further budget hotel development and possibly upper tier budget hotel potential;
  - Up-grading and expansion of existing 3 star hotels, including the addition of spa and leisure facilities;
  - A small boutique hotel;
  - Serviced/self-catering apartments (residential apartments being let to corporate, contractor and leisure markets).

The study findings suggest that it will be difficult to secure a new 4 star conference hotel in Darlington (because of the rates that such a hotel would be able to achieve in the town) unless a particularly favourable deal can be offered for such a hotel.

- The strongest locations for new hotels in Darlington from the perspective of the market and hotel developer requirements are:
  - The town centre fringe – along the inner ring road;
  - Central Park as the major regeneration project in the town and a key focus for office development;
  - The A66 intersections with arterial routes into and through the town;
  - Sites on/close to the business parks to the east of the town, especially Morton Park and Morton Palms.
- The Borough Council's priority location for hotel development in Darlington is Central Park as the key regeneration site in the town. A 4 star conference hotel is seen as a key element of the Central Park scheme.
- There are however a number of sites around the town and at Durham Tees Valley Airport with planning permission for hotel use. A number of hotel developers have also indicated that they are actively engaged in negotiations on sites both within the town centre/ edge of town centre and outside the town. Should these hotels come forward they could undermine the delivery of a hotel on the Central Park site. If a hotel is critical to the delivery of the Central Park scheme, the Council may need to

resist pressure for hotel development elsewhere until the hotel is achieved here. It should be able to refuse further permissions for hotels on the outskirts of the town under the current Local Plan policies and PPS6. However, it will be difficult for the Council to refuse permission for hotel projects that might come forward elsewhere in the town centre/ edge of town centre locations.

- In terms of the LDF, as the Central Park hotel development opportunity is likely to be 5-8 years down the line, the Borough Council may wish to prioritise Central Park as its preferred location for hotel development in the LDF and to consider how far it should then go in terms of policies that resist hotel development elsewhere until the hotel has been achieved here. The Council is likely to have difficulty in prioritising this site over other town centre and edge of town centre sites that might come forward however. The alternative is to leave future hotel development entirely to market forces. Much will depend upon the strategic importance of delivering a hotel within the Central Park scheme.
- Our research shows no need for hotel retention policies in Darlington<sup>1</sup>. Indeed it may be necessary to allow some of the poorer quality and less well located hotels and guesthouses to exit the market, particularly as new budget hotel supply comes on stream.

### **Durham Tees Valley Airport**

- In relation to Durham Tees Valley Airport, there are several sites here with planning permission for hotel use, and two particular schemes that appear to be moving forward with developer interest. Both are good, well-located sites. There would seem to be a fairly widespread consensus amongst interested parties that there is only room for one new hotel here (most likely to be a budget or upper-tier budget hotel), and that other schemes will fall by the wayside once one is firmed up and developed. We see no need for any planning intervention here, as market forces will prevail.

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## Hartlepool

- The Hotel Futures Study has identified potential for the following hotel developments in Hartlepool:
  - The expansion of the Premier Inn Hartlepool Marina;
  - Further budget hotel development and possibly upper tier budget hotel potential;
  - Up-grading and expansion of existing 3 star hotels;
  - Serviced/self-catering apartments (residential apartments being let to corporate, contractor and leisure markets).

The study findings suggest that it will be difficult to secure a new 3/4 star hotel in Hartlepool (because of the rates that such a hotel would be able to achieve in the town) unless a particularly favourable deal can be offered for such a hotel.

- The strongest locations for new hotels in Hartlepool from the perspective of the market and hotel developer requirements are:
  - Trincomalee Wharf and the marina;
  - Victoria Harbour in the longer term, as the key transformational project in Hartlepool and significant focus potentially for office and leisure development;
  - Business parks along the southern approach routes to the town if frontage sites were to become available.
- Given the limited market potential identified for new hotels in Hartlepool, budget hotel development on the approach routes to the town could undermine further hotel development in the town centre. The Borough Council may wish to resist out-of-town hotel proposals therefore, which it could do under current Local Plan policies and PPS6. The marina and town centre focus for hotel development should be rolled forward in the LDF. Whilst Victoria Harbour is a destination priority, it would seem that a hotel is not critical to this scheme. Trincomalee Wharf and the marina are stronger locations for hotel development we feel. It does not seem necessary therefore to protect a hotel use as part of the Victoria Harbour scheme, although there could be merit in adopting a flexible approach that would allow a hotel to come forward at a later date should other schemes not materialise or should the market expand further.

We found no clear market potential for new hotel development on the Headland or at Seaton Carew, which are identified locations under current planning policies, though up-grading of existing hotels and large guesthouses may continue to be a priority here.

- Our research shows no need for hotel retention policies in Hartlepool<sup>1</sup>. Indeed it may be necessary to allow some of the poorer quality and less well located hotels and guesthouses to exit the market, especially as new budget hotel supply comes on stream.

## **Redcar**

- The Hotel Futures Study has identified potential for the development of a budget hotel in Redcar. Such a hotel is however likely to impact on the existing hotels, pub accommodation businesses and large guesthouses in the town.
- The strongest locations for such a hotel in Redcar from the perspective of the market and hotel developer requirements are:
  - Coatham Enclosure;
  - Redcar Racecourse.
- The town centre is a priority for the Council in terms of regenerating Redcar, and Coatham Enclosure is a key scheme, so there is synergy between market preferences and destination aspirations here. As the market is not strong in Redcar, the Borough Council should seek to resist hotel development on out-of-town sites in order to improve the chances of securing a new hotel in the town centre or at Coatham Enclosure or Redcar Racecourse. A feasibility study for a hotel at Redcar Racecourse has been completed for the owner of the course. A hotel is not currently identified as a use on the Coatham Enclosure site however, although the spatial strategy for Redcar identifies Coatham Enclosure for leisure development and generally supports

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the expansion of tourism facilities in Redcar. As these policies are generally enabling the Council could leave delivery to market forces. However, hotel developers have indicated that they would need a strong, clean site and a good deal to make a new hotel in Redcar stack up. If, having weighed up the potential benefits of attracting a branded budget hotel to the town against its impact on existing hotels and guesthouses, the Borough Council decides that it wishes to encourage a budget hotel development in the town, a more interventionist approach may be required in terms of identifying a hotel use in any Development Briefs, Masterplanning or Area Action Plan.

- The research identifies that new branded hotel development in Redcar could impact on existing accommodation providers. We see no clear case for a retention policy<sup>1</sup> however if new accommodation is coming on stream.

### **Guisborough**

- The Hotel Futures Study has identified potential for the development of:
  - a small boutique hotel in Guisborough;
  - the development of quality rooms within or adjacent to pubs and restaurants;
  - the expansion of existing hotels, and/or the addition of leisure and spa facilities;
  - possibly a second budget hotel.
- Sites for new hotel development are limited. There was some market interest in budget hotel development alongside the services and Atrium Business Park on the Guisborough by-pass and a site had been allocated here under the previous Local Plan. Other opportunities would be dependent upon a suitable building being available for conversion.

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- In terms of the LDF, the Core Strategy and area spatial strategies recognise the importance of tourism development in Guisborough and the Development Policies DPD highlights the need for visitor accommodation development in the town. This is probably sufficiently enabling to permit the development of the products we have identified market potential for.

## 7. MOVING FORWARD

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- The Hotel Futures Study provides a thoroughly researched market perspective on the potential for new hotel development across the Tees Valley. It identifies potential for new hotel development and strong interest from hotel developers in all parts of the City Region. There are however significantly more hotels proposed in some locations than our research suggests market potential for and a danger therefore of oversupply in these locations. The final section of our report includes our recommendations on the actions now needed to act on the study findings in order to capitalise on the opportunities for hotel and rural accommodation development and manage hotel development activity to try to avoid oversupply
- In most locations there is a close fit in terms of standard and type of hotel between market potential, hotel developer interest and local authority, land owner and developer aspirations. The exception to this is the potential to secure full service 3/4 star hotels in Darlington, Middlesbrough, Stockton and Hartlepool, particularly as part of the key regeneration schemes in these locations, although it looks likely that new generation 3 star hotels may be secured at Middlehaven and North Shore. There are however significantly more hotels proposed in Darlington, Middlesbrough, Stockton and Hartlepool and at Durham Tees Valley Airport than our research shows market potential for. The study findings thus suggest that the local authorities, site owners and developers should consider plans and aspirations for new hotels in light of the research in terms of the standard of hotel they should be seeking to attract/ develop and the timescales for hotel development.

- In moving forward, next step actions to progress the development of the hotel sector should focus on:

**a) Using the study findings to inform policy development in emerging LDFs**

- In terms of planning policies and strategies for hotel development each local authority will need to:
  - Agree priority locations for hotel development;
  - Review to what extent the delivery of the types of hotel for which market potential has been identified will be permitted and supported under emerging LDF policies, and supplement policies as needed – in terms of general enabling policies, topic policies, site-specific policies, Area Action Plans and Supplementary Planning Documents;
  - Review the threats - particularly in terms of hotel development in non-priority locations - that could undermine the delivery of hotels on key sites and whether policies are required to resist such proposals.

**b) Reviewing plans for hotels as part of the key regeneration projects and Council priority locations**

- At **Middlehaven and Middlesbrough town centre**, plans for a number of hotels are well advanced and negotiations with operators underway and other possible hotel projects have been mooted. Although this may lead to some concerns about over-supply in reality some hotel schemes are likely to fall away as others start on site. This may require a review of some of the proposed hotel schemes here as other projects go ahead, taking account of how the market for hotel accommodation in Middlesbrough grows and the extent to which new drivers of hotel demand are developed. The location of a large casino and a conference centre (if they go ahead) will have a key bearing on the need for further hotels at Middlehaven or in Middlesbrough town centre.

- o At **North Shore**, negotiations with a 3 star/upper tier budget operator are similarly at an advanced stage, and, as the priority location for hotel development in the town centre, the hotel here should again be progressed as quickly as possible. Although there are no known competing sites in the town centre currently with planning permission, hotel developers have been considering other sites along the riverside. As with Middlehaven, if progress on North Shore is delayed and another town centre hotel scheme comes to fruition ahead of North Shore, it may be necessary to reconsider the plans for a hotel here.
  
- o The **Victoria Harbour** project is longer term and a hotel development opportunity here is probably unlikely to feature in the early phases of the scheme. At this stage it seems likely that a large hotel will go ahead first at Trincomalee Wharf in the short to medium term. We think it likely that this will be a budget or upper tier budget hotel unless Jomast decide that they still want to develop a 3 or 4 star hotel for operation under a management contract. Proposals for a hotel at Victoria Harbour should thus be reviewed at a later date in the light of the impact of the new hotel on the market, future market growth and any emerging proposals for office/business development at Victoria Harbour that might focus demand for a further hotel in Hartlepool on this location.
  
- o At **Central Park**, plans for hotel development here should be reviewed to take on board the findings of the research. The study suggests that budget or upper tier budget hotel development would be a more realistic fit with the market potential for a new hotel in Darlington town centre than the 4 star conference hotel currently proposed at Central Park. There may be a need for further review if other hotels are developed in, or on the edge of the town centre in advance of the Central Park site becoming available. Given the scale of growth envisaged in the Darlington market, such hotels could impact upon the viability of a further hotel at Central Park. If a 4 star conference hotel is still seen as a priority for Central Park a particularly favourable deal will be needed for a hotel or property developer to deliver a viable hotel of this type and standard.

- At **Durham Tees Valley Airport**, despite interest from several parties, it seems likely that only one hotel will be developed here in the short to medium term, and the outcome of this can be left to the market. It may be necessary to reassess the future of the existing hotels here if their viability is negatively affected by a new branded offer coming on stream.
- In Redcar, the Borough Council will need to decide if it wishes to encourage a budget hotel as part of the **Coatham Enclosure** development, weighing up the impact this could have on existing hotels, guesthouses and pub accommodation operations in the town against the benefits that a branded hotel could bring to the town and the Coatham Enclosure scheme.

### **c) Sharing the study findings with property developers and land owners**

- Whilst Tees Valley Regeneration is already actively involved in the five transformational schemes, there are other sites and locations in the City Region where land and property owners and developers are actively considering hotel development projects, including Trincomalee Wharf in Hartlepool, Wynyard Park, Wynyard Golf Club and various sites in Middlesbrough, Stockton and Darlington. The local authorities should consider sharing the study findings with such property developers and landowners in order to inform and influence their proposals.

### **d) Sharing the study findings with hotel developers and operators**

- Making the information in the study on hotel supply and performance, growth prospects and hotel proposals available to hotel developers and operators will help to inform their decision-making in relation to investing in the Tees Valley. While some of the data and information may deter some hotel developers and operators from further progressing interest in certain locations, it would seem be sensible to release the data to hotel companies in order to better manage hotel development activity and avoid the danger of oversupply. It would be most appropriate to focus on factual data that hotel operators can interpret themselves, rather than making the full study findings and conclusions available. We would suggest producing hotel investment fact sheets that can be accessed on-line - possibly through a Tees Valley Hotel Investment website - and also distributed in hard copy, and that can be used to support discussions with hotel developers and operators.

**e) Considering the potential for a casino/conference hotel**

- o We have suggested in the report that there may be scope to consider combining the proposals for a large casino with a conference centre and 4 star hotel into a single project in Middlesbrough. As far as we are aware no research has been undertaken to assess whether a conference centre could be supported in Middlesbrough and the form and scale that this could take or the potential demand for hotel accommodation that a large casino might generate. This study does not meet these requirements.

**f) Monitoring hotel proposals and performance**

- o The client group will need to consider how to keep the data gathered in this study up to date. The study only provides a snapshot of hotel performance and development activity in 2008. Clearly hotel performance will change as the market develops and new supply comes on stream. It will be important therefore to make plans to periodically update the study - usually every 2-3 years depending upon activity in the market - to ensure that the partners have accurate and up-to-date information on the City Region's hotel market.
- o The Tees Valley JSU currently works with the five Tees Valley local authorities to monitor hotel proposals through the planning system, alongside other tourism projects. This should be continued, with regular follow up to check on the progress of schemes and identify which have moved to implementation stage. This will help to provide an up-to-date picture of the hotel supply pipeline.

**g) Setting up a Tees Valley Hotel Investment Group**

- o There is clearly scope for the Tees Valley partners to work together to share knowledge on the progress of hotel schemes and co-ordinate hotel investment activity and public sector response across the Tees Valley, especially as some hotel companies were interested in developing in multiple locations. There may also be scope to work with NewcastleGateshead and Durham and to benefit from the significant interest that these locations attract from hotel operators who might consider other locations in the North East of England.
- o This will require effective co-ordination, ideally with a designated lead responsibility, and some resource to back this up. It will also require mechanisms for feeding through and acting on identified interest from hotel developers, and for regularly following this up and checking on progress with schemes. There could be some value in establishing a Hotel Investment Group for the Tees Valley to take this forward.

**h) Developing the hotel market**

- o The following action is recommended to help further develop the market for hotel accommodation in the Tees Valley:
  - Developing the corporate market through attracting the sorts of companies that will generate good demand for hotel accommodation e.g. financial and business services, pharmaceutical, medical and scientific research companies, ICT and knowledge-based businesses, and national and European headquarters offices.
  - Attracting, developing and marketing major events. Our research has demonstrated that major events can generate business for hotels, often complementing business use by being focused at weekends and holiday periods. Visit Tees Valley has already begun to implement such a strategy, which should be continued we feel.

- We would also recommend that consideration should be given to reviewing the strategy for leisure attraction development in the Tees Valley, which currently spreads development across the City Region. This strategy fails to create a critical mass of attractions in any one location that is strong enough to really make a difference in the leisure break market. Developing an attractions cluster or hub in one central location, possibly Middlesbrough, could potentially do this, with the potential to benefit the wider City Region by acting as the hook that initially captures attention and draws visitors in, helping to change perceptions and put the Tees Valley firmly on the visitor map.
  
- Improving the quality of environment and facilities on offer in the main Tees Valley towns will clearly make them more attractive destinations to stay in, for both business and leisure visitors. Further development of the destination offer could include:
  - Bars, restaurants and nightclubs;
  - The cultural and arts offer;
  - Speciality retail;
  - Visitor attractions;
  - Events and festivals;
  - Public realm, art installations and lighting schemes.

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

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