Lincolnshire COUNTY COUNCIL
Working for a better future

Policy and Scrutiny

Open Report on behalf of Richard Wills,
Executive Director for Environment and Economy

Report to:	**Environment and Economy Scrutiny Committee**
Date:	**27 February 2018**
Subject:	**Hotel Strategy**

Summary:

This report describes the work that LCC and the Greater Lincolnshire Local Enterprise Partnership have done to understand what should be done to attract more hotels to the county.

Actions Required:

Members of the Environment and Economy Scrutiny Committee are invited to:

1) Consider and comment on the work being undertaken to attract hotel development in Greater Lincolnshire and the associated barriers attracting development due to the county's size and population, and,
2) Endorse further discussions with developers and the ongoing work to attract hotel development in Greater Lincolnshire.

1. Background

The shortage of visitor accommodation in Lincolnshire has been of concern for some time. In 2008 a Hotel Demand Study was commissioned for Greater Lincolnshire and this did lead subsequently to new developments, such as the Hilton Double Tree and Premier Inn in Lincoln. However we were disappointed not to have achieved more, particularly as the two new hotels in Lincoln indicated that the £22m redevelopment of the Castle was a contributory factor. Hotel occupancy rates in 2015 and 2016 have been extremely high and this has rolled out across the county as the city has not had the capacity to cope.

Lincolnshire is notably missing a luxury hotel brand/spa, with only three 4 star hotels within the whole of the region: DoubleTree by Hilton in Lincoln, Belton Woods Hotel in Grantham and Forest Pines Hotel near Brigg.

Additionally it is proven that Greater Lincolnshire is losing valuable business from the MICE (Meetings, Incentive, Conference and exhibitions) industry. A piece of work commissioned by Meet Lincoln in 2014 & 2015, specifically focussed on raising awareness of Lincoln as a destination for business tourism activity and driving enquiries to MICE venues. It is estimated that in the year 2014 – 2015 over

£500,000 of business tourism was lost in the city of Lincoln, of which a lack of accommodation was a major factor in failing to convert business.

High occupancy rates may seem like a desirable position, but apart from the loss of business it does appear to imbue the sector with a sense of complacency and a disinclination to invest. In 2016 through funding from the GLLEP it was decided to commission a refresh of the 2008 Hotel Demand Study, but learning from that experience we felt that it needed to be far more focussed on identifying locations across Greater Lincolnshire that are suitable for hotel investment; examining the current supply of serviced accommodation; recommending solutions to the removal of the apparent barriers to development and providing evidence to present to potential hotel investors.

Greater Lincolnshire Hotel Study: Key Findings

Greater Lincolnshire has 106 hotels providing 4,459 bedrooms with a capacity for 3.3 million overnight stays per year. The most significant supply is in Lincoln, with Grantham having a sizeable hotel stock for a town of its size; other concentrations of hotels are to be found in Grimsby, Skegness, and Scunthorpe and there is very limited hotel provision in Gainsborough and Sleaford.

Hotels are predominantly rated 3 star and are described as being of mixed quality; there is a growing stock of budget hotels and very few 4 star and boutique hotels.
As far as recent and planned developments are concerned there are budget hotel openings in Lincoln, Grimsby and Humberside Airport; new budget hotels planned for Lincoln, Humberside Airport, Skegness and Gainsborough and boutique hotel openings in Lincoln, Stamford and Scunthorpe.

National trends that we need to be aware of are the:

- Continuing rapid growth of Premier Inn and Travelodge, as the clear market leaders in the budget hotel sector
- Holiday Inn Express, Hampton by Hilton and Ibis also expanding as budget brands
- Emergence of budget boutique hotels in major cities
- Boutique hotel development, particularly in historic cities and attractive market towns – independent boutique hotels + boutique brands in major cities (Hotel Indigo, Malmaison, Hotel du Vin)
- 4 star hotel development focused on major cities
- Holiday Inn, Village, Hilton Garden Inn, Countryard by Marriott expanding at the midmarket level – major towns and cities + business park locations
- Aparthotels and serviced apartments developing in major towns and cities
- Some new country house hotel and golf hotel openings

There are currently a number of hotel business models. There may be a split between the property and the operators where the bricks are in effect separated from the brains. There may be multiple players in any delivered hotel: Owner/investor; Developer; Franchisor; Operator - and they will all have different objectives. There are a number of options of how this could work:

- Invest, develop and operate (all one company)
- Invest & develop then bring in an operator/management company
- Separate investor, developer and operator
- If the operator is not branded, a franchise can be bought for any of the above options
- To fund a development a property company requires the hotel operator to take an institutional lease guaranteeing income over 25 years – only Travelodge + Premier Inn have the covenant to do this
- This impacts on which sites can be matched to which hotel brands
- Getting the optimum brand to the optimum site might need some intervention

Hotel companies have their development criteria, although on occasion they can sometimes be opportunistic:

Population levels

- 100,000+ for larger (100+ rooms) branded hotels, especially upscale
- Budget brands 50,000 and below, 40-60 rooms
- Critical mass of infrastructure & demand drivers

Locations of strong and growing corporate demand

- Mid-week high rated business required.

Something for the weekend

- Attractions, events, VFR (visiting friends and relations), weddings, year round

Target performance levels

- Occupancy 75% (80%+ for budgets)
- Achieved room rates (ARR) from £50 (budget) to £100+ (4 star)

Evidence of demand

- Existing supply/take market share
- Performance data/market studies

Hotel Demand Opportunities in Greater Lincolnshire

Lincoln

- City centre hotel occupancies are high (80.4%), particularly for branded hotels
- ARRs for city centre budget hotels are strong (because no Travelodge)
- 3/4 star ARRs are £10 below the national average (£73 cf £83)

- Strong demand + denials on Tuesday, Wednesday and Saturday – but spare capacity on other nights
- Independent 3 star hotels in the city centre and outer locations have seen a drop in occupancy and ARR – due to local market factors and the increase in city centre hotel supply
- The market should absorb the additional bedrooms at the Doubletree and the Holiday Inn + the new Travelodge
- The priority beyond this additional provision is hotel products and brands that will help to grow the Lincoln hotel market
- The priority then is additional boutique hotel provision – including potentially a branded boutique hotel – a Hotel Indigo could work in Lincoln – a Hotel du Vin would be good for the city but room rates are an issue and there is no suitable site

Scunthorpe

- Potential for a budget hotel as part of the regeneration of the town centre – would impact on independent hotels
- Corporate market does not appear to be strong enough to support a new 3 or 4 star hotel + challenge of weekend demand
- Possible scope for adding bedrooms to Hirst Priory (to be investigated)
- Scope for development of Scawby Hall as a wedding venue.

Grimsby

- Potential for further budget hotel provision – Cartergate is the strongest site – likely impact on independent hotels
- Rate an issue for a 3 star hotel + challenge of weekend demand

Grantham

- The Designer Outlet Village if delivered should generate demand for a budget/limited service hotel or pub/lodge
- Grantham otherwise unlikely to be able to support additional hotels

Stamford

- Budget hotel interest + site at Exeter Park
- Boutique hotel potential – but no current conversion opportunities

Other Locations

- Upgrading existing hotels
- Budget hotel/ pub lodge potential: Skegness, Boston (The Quadrant),Spalding (Lincs Gateway) and Sleaford (Sleaford West)
- Independent hotels: Sleaford, Boston, Spalding Gainsborough (PING)
- Pub accommodation

Barriers and Issues in Lincolnshire

- The size of the market for some hotel brands (including Lincoln)
- The relative weakness of the corporate market
- New demand drivers – but hotels won't precede the market they bring
- Deliverability of sites
- Land values – competition from residential and student
- Below average ARRs
- Viability and the returns sought by Private Equity investors
- Planning (including Member buy-in)
- Opportunistic strategies – competition from other destinations with strong metrics
- Developer driven schemes looking for leases

How local authorities can support hotel development

1) Putting in place a clear hotel development strategy which can be used to influence developers and agents. It would seem appropriate that these should be prepared on an area basis where we know there are opportunities, for example Lincoln, Stamford.
2) Disposal of suitable council-owned sites and buildings
3) Through direct investment. This could be by a number of means: whole ownership by a council funded through a public works loan; joint venture, land contribution; public realm or highways contributions; gap funding to reach viability and return on investment thresholds.
4) Taking a head lease on a strong site to secure a particular hotel product or brand that the market might not otherwise deliver.
5) Providing well presented evidence to influence developers and agents. This might include a hotel investment fact file, hotel performance data and market studies.
6) Through Planning local authorities can provide the right policy framework which gives certainty to the market and a cooperative approach.
7) Work on growing the local market. This could be by attracting businesses to the area who will then have a need for accommodation; by marketing the destination to attract visitors, particularly driving off-peak business; investigating conference market potential.
8) Through funding to support the upgrading of existing accommodation. This might be through promoting currently available funding (EAFRD) or through new funding bids.
9) As part of the development strategy identify a pub accommodation programme. This could be by identifying pub properties with potential and then targeting pub accommodation operators (e.g Ever So Sensible Group, Green Welly Inns).

Hotel development is ultimately a matter for the market to determine. The case for public sector intervention to support hotel development is where there is evidence of market failure in terms of the commercial sector failing to deliver the new hotels that are needed to support economic development and tourism growth, and

investment in existing hotels. Our consultants Hotel Solutions' research has shown evidence of such market failure.

As part of the Hotel Development Study we asked Hotel Solutions to discuss with hotel companies their likely interest in Greater Lincolnshire.

Lincoln is the only location that attracted interest for a wide range of hotel products and brands, including 4 star, 3 star, boutique, budget boutique and lifestyle hotels and aparthotels. Even here however, the room rates that are currently being achieved by the city's 3 and 4 star hotels, and the depth of corporate demand for hotel accommodation, present a challenge for the market to deliver full-service hotels. The more detailed hotel performance and market research and hotel demand projections that Hotel Solutions has completed for Lincoln shows that the city should be able to absorb the additional bedrooms planned for the Doubletree by Hilton, the Holiday Inn and the city centre Premier Inn, and the new Travelodge. Beyond this, the priority in Lincoln is for hotel products and brands that will help to grow the Lincoln hotel market, in terms of additional boutique hotel provision, including potentially a branded boutique hotel; a budget boutique or lifestyle hotel to attract the Generation Y market; and an aparthotel to cater for the extended stay corporate market. Hotel Solutions' research suggests that public sector funding support may be needed to secure such hotels for the city. Continued investment in existing hotels, including potentially the repositioning of some hotels, is also a priority.

There is interest in Scunthorpe, Grimsby and Grantham for upper-tier budget (Hampton by Hilton or Holiday Inn Express) hotels, with the hotel development opportunities at the proposed Scunthorpe United football stadium at Lincolnshire Lakes, the Cartergate site in Grimsby, and the hotel development opportunity at the proposed Grantham Designer Outlet Village attracting the strongest interest for hotels at this level.

In other locations (Boston, Cleethorpes, Gainsborough, Skegness, Sleaford, Spalding and Stamford) the interest is only from Travelodge and Premier Inn for budget hotels and Marston's for pub lodges. These towns are too small to support upper-tier budget or 3/4-star hotel development. While there are strong budget hotel sites in these locations, Travelodge and Premier Inn are struggling to achieve financially viable hotel projects in these places as their hotel markets are unable to support the rental levels that their developer partners are looking for. Investment in existing hotels in these towns is also a priority.

Stamford has the potential for further boutique hotels. No potential boutique hotel development opportunities have been identified here however.

Other towns (Alford, Barton-upon-Humber, Brigg, Bourne, Burgh-le-Marsh, Holbeach, Horncastle, Ingoldmells, Louth, Mablethorpe, Market Deeping, Market Rasen, Spilsby, Wainfleet and Woodhall Spa) are too small to support budget hotel development. The priorities here are the upgrading of existing 3 star hotels and the development of good quality pub accommodation.

Next Steps

In progressing the implementation of the Hotel Development Action Plan there is a clear role for Greater Lincolnshire LEP to play in terms of leadership and co-ordination with regard to:

- Promoting the Hotel Development Action Plan to local authority partners through circulation of the Action Plan and follow-up discussions, meetings, presentations and workshops to agree and monitor the process of implementing the Action Plan.
- Monitoring of hotel development activity and interest, and local authority interventions to support hotel development.
- Developing relationships with hotel companies.
- Commissioning/co-ordinating the commissioning of any further consultancy support that may be required.
- Securing funding for Greater Lincolnshire-wide programmes and initiatives e.g. the suggested Pub Accommodation Development Initiative.

There could be a case for setting up a Greater Lincolnshire Hotel Development Group that periodically brings together all of the relevant officers from the local authorities to review progress and discuss future support requirements.

Progress

Hotel Solutions provided us with four comprehensive and detailed reports: an action plan, a hotel investment fact file, a developer survey and a hotel sites assessment report. Following on from the original studies North Lincolnshire District Council took the decision to commission an additional study providing more detail about their area. The GLLEP also made the decision to support an additional study on Lincoln City and to also produce a Lincoln Hotel Strategy as Lincoln clearly has the most potential. This identified the St Marks re-development as a particularly suitable site. Team Lincolnshire approached Standard Life and a meeting was set up to explore ways that we could work together to secure a branded hotel on the site.

Team Lincolnshire attended the Annual Hotel Conference with a view to engaging interest. A boutique hotel brand was interested in Lincoln as a possible location and they were invited to the city with their visit being very positive. Discussions are ongoing although they have made us aware that there are barriers in that Lincoln is perceived as a relatively small market and that a hotel is unlikely to be as profitable as in a bigger city.

2. Conclusion

It is felt that the work supplied to us by Hotel Solutions has armed us with the necessary background to speak to Hotel developers and brands with confidence and that we know what they are looking for. Attendance at the Annual Hotel Conference in October is clearly very worthwhile.

3. Consultation

a) Have Risks and Impact Analysis been carried out?

N/A

b) Risks and Impact Analysis

N/A

4. Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Mary Powell, who can be contacted on 01522 550612 or Mary.Powell@lincolnshire.gov.uk .