

A stylized, light brown map of the North West Cambridge area is positioned on the left side of the page, partially overlapping the dark brown background and the light blue background. The map shows the irregular shape of the region with some internal lines representing roads or boundaries.

NORTH WEST **cambridge**

Hotel Needs Statement - Clarification
March 2012

Hotel Needs Assessment Clarification

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1. Introduction

A Hotel Needs Assessment has been prepared on behalf of the University of Cambridge to accompany the planning application for the Proposed Development of land at North West Cambridge ("the NWC Hotel Needs Assessment").

This Clarification to the NWC Hotel Needs Assessment responds to requests for clarification made by the local planning authorities and corrects any misapprehension apparent from the comments received from the local planning authorities.

The NWC Hotel Needs Assessment specifically examines whether there is a need for and the implications of any hotel element at the Proposed Development given Policy NW30, the Phasing & Need section of the North West Cambridge Area Action Plan (October 2009). As recognised by the local planning authorities' planning policy teams the NWC Hotel Needs Assessment has not been provided as a requirement of PPS4. PPS4 does not require a needs assessment nor an impact assessment for hotels.

2. The Cambridge Hotel Market

2.1 Hotel Supply

2.1.1 Existing and Future Hotel Supply

In terms of assessing hotel supply, the analysis in the NWC Hotel Needs Assessment bases the centre of the search on the Application Site itself, in contrast to the local planning authorities' assessment which use the geographical centre of Cambridge as the centre of the search. In addition the Hotel Needs Assessment uses different selection criteria to that used by the local planning authorities i.e. only hotels with over 20 bedrooms are captured and hence, therefore, the difference in the supply figures.

2.2 Current Hotel Operating Performance

The local planning authority has noted that average occupancy rates of 69%-72% represent a reasonable balance of supply and demand. This fails to acknowledge that Cambridge has, however, remained a robust market in comparison to other non-London hotel markets in England where many have seen occupancy dropping close to 60% and in certain cases into the 50% zone. Cambridge occupancy, despite the global recession, remains generally high at 73%. This is a strong performance indicator for the overall set and one that suggests positive development potential for new hotels to enter the market where there are perceived gaps – positioning and geographically. Furthermore, the occupancy figures quoted in the NWC Hotel Needs Assessment represent estimated average performance. As noted in section 2.4 of the NWC Hotel Needs Assessment, data submitted on behalf of Premier Inn for their proposed hotel at Intercell House in fact suggests stronger overtrading than these average occupancy rates with average midweek occupancy rates of 96% at Girton and 86.6% at Orchard Park and, therefore, significantly higher than the estimated occupancy rate of 76.8%.

The average occupancy figures also fail to recognise that occupancy figures vary greatly month on month with, as previously noted, significant peaks in demand around the time of University events (graduations, interviews and open days), festivals, race meetings, events such as the Duxford Air Show and the main holiday period. Anecdotal evidence suggests that supply during these peaks is insufficient to meet demand and the room rates during these periods command a significant premium..

2.3 Future Demand

Future demand for hotel accommodation within the area is expected to continue to increase with different market segments experiencing different future growth. Over the 2011-2018 period RGA computed that market growth will be around 23%. The local planning authorities have asked for further clarification on how this figure has been derived.

RGA have developed their market growth factors based on an examination of the Cambridge market and their experience of its hotel performance. Underpinning some of these assumptions is an examination of the Cambridge market undertaken by SQW on behalf of EEDA IN March 2011, "Cambridge Cluster at 50 the Cambridge Economy: Retrospect and Prospect" ("the SQW Report"). The work undertaken by SQW examines the relationship between interconnected sectors which have principle 'Roles' driving the local economy. SQW identifies five 'roles' for Cambridge as a destination and which underpins its economy. They are:

- Role 1: Cambridge as a hub for high tech business
- Role 2: Cambridge as a "research community"
- Role 3: Cambridge as a city centre economy
- Role 4: Cambridge as a regional centre for the public sector
- Role 5: Cambridge as an international visitor destination

SQW note that the hotel demand is generated particularly from activity associated with Roles 3 and 5. Roles 1 & 2 also play an important part in generating commercial demand in the hotel market and are also relevant to this hotel project given its proximity to the West Cambridge Site and key transport nodes. It should be noted that the University investment within the city and emphasis on research activities(which will increase in the future) has been and will continue to be an important growth driver for both the high tec and research community roles.

SQW's projections of economic forecasts are based on the East of England Forecasting Model (EEFM) – a respected methodology. SQW's projections are based on examining historical data from 1991-2008 and using this to project how the market may perform from 2008 to 2030. SQW's forecasts also take into account the impact of the recent recession.

Roles 3 and 5 (those most associated with hotels) are expected to increase at an average annual growth rate forecasts (GVA) of 4.4% and are described as looking set for the fastest growth rate going forward. Meanwhile forecast growth rates amongst the businesses in the High Tech / Research sectors (Roles 1&2) over the period to 2030 are forecast an average annual growth rate of 3.9% which is also positive in terms of a hotel on the Application Site.

Overall, the SQW report highlights that GVA in Cambridge is expected to increase in all of these Roles, but much more rapid growth is expected in relation to Roles 3 and 5, which the hotel sector plays a large part in.

Based on SQW's work and their experience of hotel performance RGA have predicted that that demand for hotel rooms will increase: slightly in 2011 (1.7%) and thereafter by just over 2.0% annually 2012 to 2018 for the Cambridge Market., Taking into account the demand that is "frustrated" (i.e. not satisfied by the hotels), currently 25 nights annually (6.85%) this represents a total growth in demand from 2011 to 2018 of 23 percent. Given the GVA figures quoted by SQW this is a conservative assessment of the potential growth in hotel demand.

In terms of how that growth will be distributed among the hotel market segments Table 2.5.1. shows the percentage of that growth for each market segment. How this translates into demand for particular categories of hotel is set out in the final column of table 2.5.1. The table highlights that there is sustained growth across all market segments for which a 3 star hotel could cater for this increased demand.

The seven sources in table 2.5.1 (corporate, commercial transient, conference, independent leisure, short break, groups and tours, other) can be categorised into two broad categories “commercial” (the first three sources 55.4% of the total hotel demand) and “leisure” (44.6%). In 2010 RGA estimated this to be 1,499 rooms sold nightly out of 2,059 available in the identified hotels.

In terms of future demand RGA’s computation of forecast nightly rooms sold (reflecting future albeit conservative increases in demand growth) in this market setor of hotels are:

	2010	2012	2015	2018
Commercial	830	866	1,001	1,082
Leisure	669	696	797	854
Total	1,499	1,562	1,798	1,937

Although there are a range of new Cambridge hotel projects that have the potential to be developed, not all of these hotel developments will necessarily follow through to completion, not least given the difficulty with developments attracting bank finance. Even if all of the proposals were to come forward the assessment of need for a hotel at Northwest Cambridge has identified that there remains a gap in the market for mid tier accommodation i.e. three star accommodation to service demand in the west and northwest areas of the City and a clear gap in the market for new product to fulfil current and future demand for mid tier accommodation which offers visitors (leisure and business) more variety.

There are only two three-star hotels in Cambridge which have more than 100 rooms – the Arundel House Hotel and the Holiday Inn Cambridge, with a further potential hotel on Station Road. Besides the Holiday Inn, Cambridge currently lacks a quality, standard nationally and internationally recognised mid tier, branded property.

In addition to market need the Proposed Development generates its own need for a hotel in terms of a hotel contributing to the creation of an early sense of place in relation to the development providing the initial residents with a variety of facilities including a bar and restaurant and hotel guests and visitors contributing towards the overall street life and activity of the Proposed Development. The Hotel will also provide a range of facilities in a different hotel market segment than the Felix or Premier Inn for residents in the surrounding areas.

A Hotel on the Application Site would also provide sustainable accommodation and facilities not only for the needs of those who live or work or are visiting University or employment uses within the Proposed Development but also neighbouring areas, particularly West Cambridge

providing a sustainable and local offering to the world-class research institutes which West Cambridge is home to.

A further site specific need for the hotel is as an enabling development by providing an early capital receipt offsetting the very large early stage land formation and infrastructure costs; and offsetting the overall negative cash flow generated by the scheme at the outset of development and thereby the overall financial borrowing costs of the University.