GL Hearn
Part of Capita Real Estate

St Mary's Land Hotel Study, Warwick: Economic Impact Assessment

Warwick District Council

March 2017

Prepared by

GL Hearn
280 High Holborn
London WC1V 7EE

T +44 (0)20 7851 4900
glhearn.com

Contents

Section		Page
1	EXECUTIVE SUMMARY	4
2	INTRODUCTION	5
3	CONSTRUCTION PHASE	6
4	HOTEL OPERATIONAL PHASE	8

List of Tables

TABLE 1: DIRECT CONSTRUCTION JOBS 6

TABLE 2: DIRECT AND INDIRECT/INDUCED TEMPORARY CONSTRUCTION EMPLOYMENT SUPPORTED 7

TABLE 3: DIRECT HOTEL EMPLOYMENT SUPPORTED 8

TABLE 4: DIRECT AND INDIRECT/INDUCED TEMPORARY CONSTRUCTION EMPLOYMENT SUPPORTED 9

TABLE 5: ILLUSTRATIVE MARKET MIX – 100 KEY BRANDED HOTEL – WARWICK RACECOURSE 9

TABLE 6: RACECOURSE FACILITY CAPACITY AND EVENT FORECAST 10

TABLE 7: GUEST ANCILLARY EXPENDITURE FORECAST 11

Quality Standards Control

The signatories below verify that this document has been prepared in accordance with our quality control requirements. These procedures do not affect the content and views expressed by the originator.

This document must only be treated as a draft unless it is has been signed by the Originators and approved by a Business or Associate Director.

DATE	ORIGINATORS	APPROVED
20 November 2012	[Insert Name] [Job title]	Matt Kinghan Planning Director

Limitations

This document has been prepared for the stated objective and should not be used for any other purpose without the prior written authority of GL Hearn; we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.

1 EXECUTIVE SUMMARY

1.1 GL Hearn with Bridget Baker Consulting have been commissioned by Warwick District Council to undertake a hotel needs and economic impact assessment for St Mary's Lands, Warwick.

1.2 This report comprises the economic impact assessment and is supplementary to the Hotel Study by Bridget Baker Consulting. The key findings of this report are:

1.2 The hotel once operational will make a positive employment and economic contribution being:

- Direct Hotel employment of around 40 full time equivalent jobs.
- Hotel multiplier effects of around 12 jobs at the District level and 20 jobs regionally.
- Displacement in the hotel market at a rate of 5-10%.
- Facilitating an increase in demand of around 200% for events and conferences at the racecourse resulting in 5-10 full time equivalent jobs at the racecourse.
- Supporting 10-14 town centre full time equivalent jobs through ancillary guest spending of around £1.55m per annum in Warwick on restaurants, shopping and entertainment.
- The indicative total of up to 76 jobs[1] could generate around £3.02m GVA per annum in the long term for the District.

1.2 The construction phase of the hotel will also make an employment and economic contribution of:

- Construction spending of around £8.5m over 2 years.
- Temporary construction employment of around 55 temporary full time equivalent construction jobs or around 28 per year.
- Multiplier effects are expected to support around a further 6 jobs in the town, 17 for the District and 27 for the West Midlands.
- The development will contribute £3.0m of direct GVA in Warwick and multiplier effects could generate £2.8m GVA nationally.

[1] Excludes any consideration of any displacement generated in the hotel market and assumes all ancillary spend of hotel guests is captured in the town centre.

2 INTRODUCTION

2.1 GL Hearn with Bridget Baker Consulting have been commissioned by Warwick District Council to undertake a hotel needs and economic impact assessment for St Mary's Lands, Warwick.

2.2 This report comprises the economic impact assessment and is supplementary to the Hotel Study by Bridget Baker Consulting.

2.3 This report considers the following:

The employment and economic of the construction phase

- Construction spending.
- Temporary construction employment.
- Multiplier effects.
- Gross Value Added.

The employment and economic of the hotel operational phase

- Direct Hotel employment.
- Hotel multiplier effects.
- Displacement in the hotel market.
- Benefits to the racecourse in terms of increased events and conferences and resulting jobs.
- Benefits of guest spending on ancillary items (restaurants, shopping and entertainment).
- Gross Value Added.

3 CONSTRUCTION PHASE

3.1 This section considers the economic and employment effects of the construction phase of the development.

3.2 The construction cost of the proposed development is estimated to be £8.5m [2] and the duration around 2 years.

Direct employment

3.3 Drawing on the ONS Annual Business Survey Regional Accounts and Business Register and Employment Survey 2014 data on construction industry West Midlands turnover to employment ratios, the anticipated construction employment requirement for the scheme is around 55 temporary full time equivalent construction jobs or around 28 per year. This takes into account the proportion of construction spend on labour, the remainder being on materials, goods and services. The number of individuals involved in the development is likely to be higher however these may not be employed on a full time basis.

Table 1: Direct construction jobs

West Midlands Construction Turnover	West Midlands Construction Employment	Turnover to Employment Ratio	Scheme Construction Spend	Scheme Construction Employment
£16.89m	**109,000**	**£155,000**	**£8.5m**	**55 (28 pa)**

Source: ONS Annual Business Survey Regional Accounts / Business Register and Employment Survey 2014

3.4 Of the jobs supported by construction, around 48% of these are expected to be taken by those living in the District, assuming existing commuting patterns (Census 2011).

3.5 Construction involves a wide range of trades and specialist skills who are involved with the site as it develops. With some 2,500 construction sector jobs in Warwick District[3], the development will help support existing local and regional trades and contractors. Given the development's requirements compared to the scale of the labour pool, displacement of other schemes is considered to be negligible.

Multiplier effects

3.6 In addition to directly supporting construction employment, the supply chain requirements for goods, services and materials from other sectors will generate 'indirect' employment, for example in the manufacture and transportation of materials. The 'induced effect', being the expenditure of wages from both construction and supporting sectors, will also drive further benefits across the economy.

[2] RLB Digest 2016, upper scale of Birmingham area costs for 3 star hotels at 100 beds
[3] Nomisweb / ONS Business Register and Employment Survey 2015

3.7 The HCA Additionality Guide (2014) provides 'ready reckoners' which combine indirect and induced multiplier effects. For typical activities a medium level of linkages is applied. This indicates that multiplier effects will support around a further 6 jobs at the local neighbourhood / town level, 17 for the District, 27 for the West Midlands and 121 jobs at the national level.

Table 2: Direct and indirect/induced temporary construction employment supported

	Direct employment	Composite multiplier	Indirect / Induced employment	Total employment
Neighbourhood / town	55	1.1	6	64
District	55	1.3	17	72
Regional	55	1.5	27	82
National	**55**	**2.7**	**121**	**176**

Source: HCA Additionality Guide (2014) (District level estimated, GL Hearn)

Economic output

3.7 The construction phase will also make a significant contribution to economic output or Gross Value Added (GVA). The ONS Business Register and Employment Survey Regional Accounts provide information on the West Midlands ratio of turnover to GVA which indicates that the development will contribute £3.0m of GVA in Warwick.

3.8 This will be further increased through the composite multiplier effect supporting output in other related industries. Using a UK average of £24,616 [4] the 121 national induced and indirect jobs could generate £2.8m GVA creating a combined construction total of £5.8m GVA for the national economy[5].

[4] ONS 2014
[5] The HM Treasury net present discount rate has been applied at 3.5% for year 2

4 HOTEL OPERATIONAL PHASE

4.1 This section provides an assessment of the economic impacts arising from the proposed development. This will quantify the economic benefits which are be expected from on-site and related jobs generated through the development, as well as the benefits associated with the expenditure and wider economic activities of hotel users.

Onsite employment benefits

4.2 The hotel will directly support new employment opportunities, namely through the operation and servicing of the hotel beds and any supporting leisure and restaurant facilities.

4.3 The HCA Employment Density Guide 2015 provides an indication of employment by bedroom type and number. Taking the mid point of 3 and 4 star hotels this equates to 1 employee per 2.5 beds. Taking part time working into account, the hotel is expected to generate employment for 60 jobs.

Table 3: Direct hotel employment supported

	Employment ratio	Rooms	FTE jobs	Part time working %	Direct jobs
Hotel employment	**1 per 2.5 bed**	**100**	**40**	**50**	**60**

Source: HCA Employment Densities Guide (2015), assumes part time workers employed at 50% rate

4.4 Assuming the current commuting patterns in the District, it is anticipated that 29 of the jobs created would be taken up by residents of Warwick District and the remainder leaked to the wider region.

4.5 It is likely that there will be some limited displacement of hotel activity in existing businesses. The Bridget Baker Hotel Demand Study for this site indicates strong local hotel performance, a potential market opportunity and that the majority of hoteliers considered there to be space in the market for new entrants. Accordingly a low level of displacement is assumed at 5-10% which suggests that 3-6 of the projected jobs may be off set elsewhere, primarily affecting hotels in the corporate market.

Hotel multiplier effects

4.6 Hotels draw on a number of local businesses as part of their supply chain creating indirect effects including through the purchase of food and drinks from local suppliers and the use the services of local laundries, builders, banks, utility companies etc. Not all these effects will arise in the local area since some of this expenditure will go elsewhere in the region or nationally. Similarly the induced effects of employee spend will have further economic benefit. HCA multipliers provide an indication of jobs which are anticipated to be generated at various spatial levels, notably being around 12 further jobs for the District.

Table 4: Direct and indirect/induced temporary construction employment supported

	Direct employment	Composite multiplier	Indirect / Induced employment	Total employment
Neighbourhood / town	40	1.1	4	44
District	40	1.3	12	52
Regional	40	1.5	20	60
National	**40**	**2.2**	**48**	**88**

Source: HCA Additionality Guide (2014) (District level estimated, GL Hearn)

4.7 As with the direct employment scenario, displacement of other hotel sector activity will offset employment generated through multiplier effects at a similar rate of 5-10%.

Effects of hotel: racecourse conference and events

4.8 The Bridget Baker Consulting Hotel Study indicates that there are currently a limited number of conferences and functions at the racecourse despite having a significant range of facilities. Consultation with management indicates that this is partly due to a lack of immediate accommodation. Bridget Baker Consulting forecast that of future hotel guests, 3,010 sleepers are expected to be those attending conferences and functions.

Table 5: Illustrative Market Mix – 100 key branded hotel – Warwick Racecourse

Segment	Rooms	Sleepers
Race days	1,700	2,380
Conferences & Functions at Racecourse	2,508	3,010
Corporate	13,482	13,482
Independent Leisure	11,134	20,041
Total	28,824	38,913

Source: Bridget Baker Consulting

4.9 Further discussions with Bridget Baker Consulting have confirmed that those staying at the hotel are likely to represent around 25% of all attendees at conferences and functions. This indicates that around 12,000 delegates could be expected to participate in such activities utilising the race course facilities. Assuming that events are spread across the range of facilities at the racecourse at an 80% occupancy rate with a classroom layout (medium efficiency) this would result in some 262 events annually. The baseline position is understood to be around 120 events per annum, representing around a 200% increase.

Table 6: Racecourse facility capacity and event forecast

Facility	Theatre (max. eff.)	Boardroom (min. eff.)	Classroom (med. eff.)
Marquee	350	100	250
1707 Suite	200	60	90
King Maker	40	20	20
Dukes	40	20	20
Paddock Suites – Single	20	12	12
Paddock Suites – Double	24	12	20
Paddock Suites – Quad	60	32	46
Total capacity	734	256	458
Total (80% utilisation)	587	205	366
Annual events (12,000 delegates)			**262**

Source: Bridget Baker Consulting / GL Hearn

4.10 A significant increase in demand for conferences and functions at the racecourse will inevitably lead to employment opportunities across full and part time employment. These are likely to include:

- Senior management
- Front desk administration and management
- Catering and service (currently based in Cheltenham)
- Maintenance and cleaning

4.11 This is estimated to generate 5-10 full time equivalent jobs directly or up to 15 part time and full time equivalents. There are currently 4 employees on site.

4.12 Limited displacement of conference and event activity is expected with the District as a whole based on the research undertaken in the Hotel Report by Bridget Baker Consulting.

Effects of guest spending: town centre

4.13 Hotel guests are expected to support the local economy through a range of local activities and spending, taking advantage of the local restaurant, retail and tourism offer. Research by Bridget Baker indicates that a significant proportion of hotel guests in Warwick town centre eat out, reaching up to 80% in existing hotels. As a result the recommendation for a new hotel at St Mary's Lands does not include a full restaurant offer and the majority of spending is expected to be captured in the town centre.

4.14 Drawing on the Warwick District Tourism Economic Impact Assessment 2009, a profile of the expenditure on ancillary items of overnight visitors can be established. An average is used across the guest profile of guests for business, holiday and visiting friends / relative (a finer grain of data is not published). The resulting spend per bed night, accounting for 2009-2016 inflation and the total number of annual hotel bed nights, indicates that some £1.55m will be spent on non-accommodation ancillary activities. The vast majority of this spending is anticipated to take place in Warwick Town Centre.

Table 7: Guest ancillary expenditure forecast

Type: all ancillary	Total overnight spend ('09)	Av spend per bednight 1,675,000 ('09)	Inc. inflation 2009-2016*	Total hotel spend forecast (38,913 guests)
Catering	£26,382,000	£15.75	£19.45	£605,395**
Entertainment	£12,780,000	£7.63	£9.42	£366,582
Retail	£20,245,000	£12.09	£14.92	£580,709
Total	£59,407,000	£35.47	£34.37	**£1,552,688**

Source: Warwick District Tourism Economic Impact Assessment 2009, GL Hearn analysis / *ONS / ** discounted by 20% for onsite hotel spending

4.15 Expenditure of £1.5m is estimated to support 10-14 town centre full time equivalent jobs, drawing on turnover to employment ratios in the retail and leisure sector in the West Midlands[6]. This could be reduced by up to 10% taking into account displacement in the hotel guest market but counterbalanced by indirect and induced effects in the local area generating a multiplier of around 10%.

4.16 It is noted that some of the spend identified in this model may be captured by race or event activities at the racecourse itself. This is likely to represent a proportion of spend by conference / function guests as well as race day guests which comprise 14% of all guests. Accordingly a final discount of around 10% may be applicable.

Effects of hotel: race days

4.17 Taking into account discussions with stakeholders, it is not anticipated that the hotel in itself will encourage an identifiable increase in race day visitors, rather that existing visitors will be more likely to take the opportunity to stay at the hotel, therefore effects are considered under the town centre impact.

Economic output

4.17 The hotel once operated will also make a significant contribution to economic output or Gross Value Added (GVA) across the various economic and employment benefits, which can be summarised as:

- Direct Hotel employment of around 40 full time equivalent jobs
- Hotel multiplier effects of around 12 jobs at the District level and 20 jobs regionally.
- Generating around 10 full time equivalent jobs at the racecourse through conferences and events
- Supporting 10-14 town centre full time equivalent jobs through ancillary guest spending

[6] ONS indicates turnover of £110,000 per employee in retail and £156,000 per employee for leisure sector (Annual Business Survey / Business Register and Employment Survey, 2014).

4.17 Assuming an average GVA per head of £26,003 (ONS, 2014) the indicative total of up to 76 jobs[7] could generate around £3.02m GVA per annum in the long term for the District.

[7] Excludes any consideration of any displacement generated in the hotel market and assumes all ancillary spend of hotel guests is captured in the town centre.