



Supplementary Planning Guidance

Assessment of Financial Viability of Tourist Accommodation

**Adopted
December 2004**



Assessment of Financial Viability of Tourist Accommodation

Supplementary Planning Guidance
Adopted 10 November 2004

**Planning Policy Unit,
Economy, Tourism and Environment
Eastbourne Borough Council,
1 Grove Road, Eastbourne,
East Sussex, BN21 4TW**

Tel no: 01323 415250
Fax: 01323 641842
Mincom: 01323 415111
E-Mail: planning.policy@eastbourne.gov.uk

Date: November 2004

Price: £10.00

1.0 Introduction

1.1 This supplementary planning guidance explains how the Council will apply policy TO2 of the adopted Eastbourne Borough Plan 2001-2011 when planning permission is sought for the change of use of hotels, guest houses and unserviced tourist accommodation that are in the defined tourist accommodation area to other uses.

1.2 Policy TO2 reads:

Policy TO2: Retention of Tourist Accommodation

Within the tourist accommodation area identified on the Proposals Map planning permission will not be granted for the redevelopment or change of use of tourist accommodation to any other use. In this Policy "tourist accommodation" means serviced tourist accommodation (Class C1 use) and unserviced tourist accommodation.

Only in exceptional circumstances will planning permission be granted for any other use. This means that the applicant must demonstrate that the continuing use of land as tourist accommodation is not viable.

In determining viability the following factors will be taken into account:

- a) the location of the premises;
- b) the physical condition and cost of repair of the premises;
- c) the potential for refurbishment, including the cost of works;
- d) the potential for conversion to other tourist uses, including the cost of works;
- e) the market valuation of the property reflecting the above factors;
- f) whether the direct costs of running the business can be covered; and
- g) whether a commercial rate of return on investment can be achieved.

However, factor g) above will be excluded from the viability analysis in all instances where the operator has private accommodation on the premises comprising at least 10% of the building (defined in terms of the proportion of the total habitable floor area, excluding hallways and landings).

2.0 Using this Guidance

2.1 This guidance is aimed at prospective applicants for planning permission to redevelop or change the use of hotels, guest houses and unserviced tourist accommodation that are located within the defined tourist accommodation area, set-out on the proposals map which accompanies the adopted Eastbourne Borough Plan 2001-2011. The guidance sets-out the information the Council will require to assess such applications and the reason why such information is sought.

2.2 The Council is requiring prospective applicants for planning permission for the loss of hotel, guest house and unserviced tourist

accommodation to complete a special form as part of their planning application. The information requested on this form will enable clear and consistent assessments of why a proposal is acceptable or not. The form is based on the considerations set-out in this supplementary planning guidance. A copy of this form is included as appendix A.

- 2.3 It is considered that local agents, all owners and prospective owners of hotel, guest houses and unserviced tourist accommodation in the town should be aware that within the defined tourist accommodation area the strict tests set-out in this guidance will apply to deter speculative and ill-justified proposals.

3.0 Consultation

- 3.1 The draft supplementary planning guidance was the subject of consultation with the general public, business and other interested parties. Comments received were considered and taken into account before the Borough Council formally adopted the guidance.

4.0 Status of the Supplementary Planning Guidance

- 4.1 Supplementary planning guidance may be taken into account as a material planning consideration when reaching a decision on a planning application. Government guidance indicates that substantial weight can be attached to supplementary planning guidance where it has been prepared in accordance with the tests set-out in paragraphs 3.15- 3.18 of PPG12¹. (See Appendix B for further details).

5.0 Background

- 5.1 Since 1976 the Borough Council has consistently applied planning policy to restrict the loss of hotels, guest houses and unserviced tourist accommodation, within defined tourist accommodation areas, to support the town's role as an important seaside resort. This has meant that the town still retains a significant stock of accommodation and, that in comparison to many other resorts, it has been better equipped to face the challenges of the changing market.
- 5.2 Policy TO2 of the adopted Borough Plan is the latest evolution of this approach and is based on the premise that hotels, guest houses and unserviced tourist accommodation should be retained in the area where visitors would expect to find such accommodation. In itself the loss of one such establishment in this area would not appear significant, but it is the cumulative effect of such losses that it is of concern. The Council, therefore, considers it appropriate to scrutinise such proposed losses carefully in order that

¹ Planning Policy Guidance Note 12: Development Plans.

establishments that are commercially viable are not lost from the stock of accommodation available to visitors.

6.0 What Constitutes Tourist Accommodation

6.1 For planning purposes tourist accommodation is not precisely defined. However in Eastbourne it is an establishment that has a room, or rooms, to rent for a fixed period generally no greater than three months.. This accommodation is not the renters primary residence and the renter generally contributes to the revenue of the town, is not registered to vote in the town and is not a burden on local social services.

7.0 Information Required in Support of a Proposal for the Loss of Hotel, Guest House or Unserviced Tourist Accommodation.

7.1 This guidance follows the structure of policy TO2 to indicate the information the Council will require when considering planning applications for the loss of hotels, or guest houses or unserviced tourist accommodation. Applicants should note that a reasoned justification based on just one of the factors identified in the policy is unlikely to demonstrate that the tourist accommodation use is not economically viable. Applicants are, therefore, advised to address all the criteria set-out in the policy. **In particular applicants should be aware that planning permission for the change of use of tourist accommodation is unlikely to be granted without evidence that the accommodation has been available on the open market for a reasonable period of time and that prospective buyers have not come forward.**

7.2 Where the Council does not consider a full and reasoned case has been prepared at the time of the submission of the planning application it will indicate to the applicant that it is unable to determine the application and seek its withdrawal. Where the applicant does not withdraw the application planning permission is likely to be refused. All information provided should be capable of independent verification and corroboration. The Council will treat all financial information on a confidential basis within the constraints of the legal processes in which it is engaged.

7.3 Applicants may consider the requirements of this guidance to be onerous but the Council considers that they reflect sound business practice, reflecting all the options an operator should consider before contemplating leaving the market. Operators should understand that once tourist accommodation is lost from the market it is unlikely to be available again in the future and that the Council is, therefore, counselling prudent use of the resource.

The Location of the Premises:

7.4 All streets within the accommodation area defined on the proposals map are considered to be suitable for hotels, guest houses and

unserviced tourist accommodation as they are within immediate proximity to the sea front. Visitors would reasonably expect to find such accommodation close to the sea in a coastal resort. The Council will, therefore, require:

- substantiated evidence that the nature of the immediate area has changed significantly since the base date (September 2003, when the Borough Plan was adopted) and that it no longer remains a location where visitors might expect to find accommodation.

The Physical Condition and Cost of Repair of the Premises:

7.5 The Council will require the following information from applicants in order to ascertain whether the physical condition of the premises is so poor and the cost of any repairs are so great as to affect the viability of the on-going tourist accommodation use :

- Professional evidence relating to the physical condition of the building and the costs of any repairs. As a minimum the Council will expect applicants to provide a structural survey report prepared by a suitably qualified surveyor (RICS or equivalent) and three quotations for the remedial works identified based on an identical specification.
- Evidence of maintenance/capital expenditure carried out on the premises over the past five years (whether in the ownership of the applicant or not)

The Potential for Refurbishment, Including the Cost of Works:

7.6 There is strong evidence to suggest that refurbishment has a positive outcome for business health, with local hoteliers indicating increased occupancy and visitor spend from refurbishments carried out. Applicants should, therefore, thoroughly investigate the opportunities for refurbishment before making a case for the loss of tourist accommodation. The Council will require applicants to provide:

- An assessment of the refurbishment potential supported by a specification of the works required prepared by a suitably qualified architect or surveyor (RIBA, RICS or equivalent chartered body) with three quotations for the works involved based on this specification. Where appropriate this assessment may be the feasibility study or cost/benefit analysis to support a loan application to a lending bank/financial institution to source the funds for the refurbishment.
- Evidence of capital expenditure on up-grading of facilities over the past five years (whether in the ownership of the applicant or not).

The Potential for Conversion to Other Tourist Uses, Including the Cost of Works:

7.7 In view of the importance the Council attaches to supporting and maintaining the local tourist economy the Council requires applicants to investigate the possibility of conversion of the premises to other tourist uses compatible with the location in the tourist accommodation area. This may mean, for instance, that hotels or guest houses could be converted to unserviced tourist accommodation. Also premises close to the town centre or other commercial areas could be converted into residential language schools (policy TO10 of the adopted Borough Plan applies). The Council will, therefore, require applicants to provide:

- An assessment of potential for conversion to other tourist uses supported by a specification of the works required prepared by a suitably qualified architect or surveyor (RIBA, RICS or equivalent chartered body) with three quotations for the works involved based on this specification. Where appropriate this assessment may be the feasibility study or cost/benefit analysis to support a loan application to a lending bank/financial institution to source the funds for the refurbishment.

7.8 Applicants should note that the Council is concerned to ensure that any unserviced tourist accommodation created is genuinely available as tourist accommodation and that it will, therefore, seek a unilateral undertaking² to ensure that it is used for tourist accommodation purposes only.

The Market Valuation of the Property Reflecting the above Factors:

7.9 In order that the Council can make an informed decision regarding viability open market valuations of the property are required. These valuations should be on the following basis:

- Physical condition- valuations before and after remedial works;
- Refurbishment- valuations before and after refurbishment works;
- Conversion to other tourist use- valuations before and after conversion.

The Council considers that, wherever possible, valuation should be on the basis of a "going business concern" rather than a simple building valuation since this will more accurately reflect the impact of the proposed expenditure.

7.10 Where applicants seek to demonstrate that there is no market interest in their operation the Council will require evidence of the

² A unilateral undertaking is a legal obligation made under s.106 of the Town and Country Planning Act 1990 (as amended).

marketing strategy employed. Typically this will include a breakdown of the approach used to bring the availability of the premises to market and should include:

- The open market price;
- Any reductions made in open market price during the course of marketing;
- Where and how often the site was advertised;

The Council expects applicants to have marketed the operation through a RICS accredited agency specialising in the sale of such premises and to have sought valuations from more than one agency to establish that the market price reflects those prevailing in the market for operations of this type. It is widely accepted that there is a limited market for guest houses, hotels and unserviced tourist accommodation and that it may take 2-3 years to find a buyer, even at more buoyant times. The Council will, therefore, have regard to this time frame when considering proposals where lack of market interest is an expressed concern.

Whether the Direct Costs of Running the Business can be Covered:

7.11 The Council has prepared a methodology to enable the comparison of the viability of hotel/guest house and unserviced tourist accommodation on a consistent basis. Applicants will, therefore, be required to provide information to input into this methodology. The following information is required for the past three financial years on a year-by-year basis.

- Type of establishment (guest house or hotel)
- Number of operating days allotted for tourism use
- Number of beds
- Number of rooms
- Average bed occupancy during operational period
- Average room occupancy during operational period
- Minimum and maximum rates per room (per unit in the case of unserviced tourist accommodation)
- Revenues (net of VAT):
 - Average revenue from rooms
 - Average revenues from beds
 - Average revenue from unit (unserviced tourist accommodation)
 - Revenue from food
 - Revenue from beverages
 - Other revenues
- Operating expenses:
 - Wages
 - Cost of sales (food, beverages etc.)
 - Laundry, linen and guest supplies
 - Energy
 - Sales and marketing

- Insurance
- Business rate
- Maintenance
- Administration (daily administration cost, stationery and telephone charges)
- Other operating expenses
- Depreciation
- Loan interest (where applicable)
- Owner's or shareholder's dividends paid

(unserviced tourist accommodation need only provide revenue information on a per unit basis).

Whether a Commercial Rate of Return on Investment can be Achieved:

7.12 The Council does not consider it appropriate to indicate a specific rate of return that should be achieved by hotels, guest houses or unserviced tourist accommodation operating in Eastbourne as different entrepreneurs will have different expectations and the rates are affected by the prevailing economic circumstances.

7.13 The Council considers that special circumstances apply where the tourist accommodation is also the home of the owner³ and that such operations are, therefore, ineligible for consideration under this factor. The benefit of home ownership and the saving in accommodation costs that would normally be incurred elsewhere are considered to prevail over the expectation of a commercial rate of return. For such businesses it is considered sufficient for the direct costs to be covered with a return for entrepreneurship at a lower rate than would be anticipated on a full business basis. It is not appropriate to specify the degree of discount as this will depend on individual circumstances.

8.0 Other Considerations

8.1 In addition to the factors identified above the Council considers that applicants should supply the following additional information:

- ***Annual Business Plan***

Competent and efficiently run businesses will normally prepare an annual business plan, which includes a financial budget and a sales and marketing strategy. (Where such a plan does not exist applicants should provide a reasoned justification as to why it has not been prepared).

³ This is defined in policy TO2 where the private accommodation of the premises comprises at least 10% of the building (defined in terms of the proportion of the total habitable floor area, excluding hallways and landings)

- ***Business Plan/Feasibility Study For a Lending Organisation***

Where such documentation has been prepared to obtain funding for the acquisition of the premises or for other business purposes, applicants will be expected to submit it with the planning application. They should also include an explanation as to why the business has been unable to sustain the performance envisaged at the time the documentation was prepared.

- ***Marketing Information***

Marketing forms a vital part of the success of any business and the Council requires information about the efforts made by applicants to market their accommodation over the past five years. As a minimum the Council normally expects applicants to be included in the Eastbourne Accommodation Guide, have their own web-site or be included in an Internet booking service and to justify a case for non-inclusion in these formats.

- ***Marketing and Business Support***

The applicant should demonstrate an active and on-going relationship with organisations and associations that can provide marketing and business support for the benefit of tourism businesses. In Eastbourne these organisations and associations are normally the Tourist Information Centre, the Eastbourne Hotels Association, Tourism East Sussex and Tourism South East. Applicants are required to explain how they have used these opportunities.

9.0 Conclusion

- 9.1 The Council welcomes early discussion with prospective applicants for planning permission the change of use of hotels/guest houses and unserviced tourist accommodation to other uses. Officers of the Planning and Tourism sections will be pleased to offer appropriate assistance and advice in order for a comprehensive assessment of the future of the premises to be made.

Appendix A: Form to be submitted by applicants for planning permission for loss of a guest house, hotel or serviced tourist accommodation to another use.

Application No. official use only.

Applicants are advised to consult the Council's adopted Supplementary Planning Guidance on "Tourist Accommodation: Assessment of Viability" when completing this form.

1. Address

2. Proposal

3. Grounds on which applicant is seeking to demonstrate that the guest house, hotel or unserviced tourist accommodation is no longer viable (please tick as appropriate, applicants should claim under more than one heading):
 - a) The location of the premises. go to question 4
 - b) The physical condition and cost of the repair of the premises go to question 5
 - c) The potential for refurbishment, including the cost of the works. go to question 6
 - d) The potential for conversion to other tourist uses, including the cost of the works. go to question 7
 - e) The market valuation of the property reflecting the above factors. go to question 9
 - f) Whether the direct costs of running the business can be covered. go to question 8
 - g) Whether a commercial rate of return on investment can be achieved. go to question 10

ALL APPLICANTS SHOULD COMPLETE QUESTION 11.

4. Please set-out below or on an attached sheet the reasons why you consider the location of the premises means that the premises are no longer viable (paragraph 7.4 of the supplementary planning guidance applies).

5. Please set-out below or on an attached sheet the reasons why you consider the physical condition and cost of repairs to the premises mean that the premises are no longer viable (paragraph 7.5 of the supplementary planning guidance applies).

Have you attached: supporting information?

6. Please set-out below or on an attached sheet the reasons why you consider that refurbishment of the premises would not contribute to the viability of the premises (paragraph 7.6 of the supplementary planning guidance applies)

Have you attached supporting information?

7. Please set-out below or on an attached sheet the reasons why you consider there is no potential for the conversion of the premises to other tourist uses. (paragraph 7.7 of the supplementary planing guidance applies)

Have you attached supporting information?

8. Please set-out below or on an attached sheet details of the market valuation of the premises (paragraph 7.9 of the supplementary planning guidance applies)
9. Please set-out below or on an attached sheet the reasons why you consider that the direct costs of running the business are not being covered (paragraph 7.11 of the supplementary planning guidance applies)

Have you attached supporting information?

For hotels/guest houses the Council requires following the information for the past 3 financial years to verify your case on this ground. Similar information is required for unserviced accommodation save that for revenue information is only required on a per unit basis.

	Previous Financial Year	Previous Financial Year -1	Previous Financial Year -2
<ul style="list-style-type: none"> • Type of establishment (guest house or hotel) • Number of operating days allotted for tourism use • Number of bedrooms • Number of rooms • Average bed occupancy during operational period • Average room occupancy during operational period • Minimum and maximum rates per room (per unit in the case of unserviced tourist accommodation) • Revenues (net of VAT): <ul style="list-style-type: none"> • Average revenue from rooms • Average revenue from beds • Average revenue from units (unserviced tourist accommodation) • Revenue from food • Revenue from beverages • Other revenues • Operating expenses: <ul style="list-style-type: none"> • Wages • Cost of sales (food, beverages etc.) • Laundry, linen and guest supplies • Energy 			

<ul style="list-style-type: none"> • Sales and marketing • Insurance • Business rate • Maintenance • Administration (daily administration cost, stationery and telephone charges) • Other operating expenses • Depreciation • Loan interest (where applicable) 			
--	--	--	--

10 Please set-out below or on an attached sheet the reasons why you consider a commercial rate of return cannot be achieved with this business?

Have you attached supporting information?

11 Applicants are advised that they should supply the following information (section 8.0 of the supplementary planning guidance applies):

- Business Plan (annual and/or submitted to bank/lending institution)

If you are unable to supply this information please set-out our reasons below or on an attached sheet. Also set-out reasons where there is significant divergence from the projections proposed in the Business Plan

- Please supply details of the efforts made to market the accommodation.
- Please supply details of contacts with marketing and business support organisations and associations.

Please return this form to Development Control Manager, 68 Grove Road, Eastbourne BN21 4UH.

Appendix B: Conformity with Planning Policy Guidance Note 12.

This draft SPG is considered to have been prepared in accordance with PPG12 for the reasons set-out below:

Requirement	Relevant paragraph of PPG12	Comment
SPG must be consistent with national and regional planning guidance and the adopted development plan.	3.15	This SPG is consistent with relevant guidance including PPG12: Development Plans and the adopted Eastbourne Borough Plan 2001-2011.
SPG must be cross referenced to the relevant plan policy which it supplements	3.15	This SPG specifically relates to policy TO2 of the adopted Borough Plan 2001-2011.
SPG must be issued separately from the Plan.	3.15	The Borough Plan 2001-2011 was adopted on 17 September 2003. This draft SPG was adopted on 10 November 2004
SPG must be made publicly available	3.15	Copies of the SPG are available from Development Planning, 68 Grove Road, Eastbourne BN21 4UH. It can also be viewed and downloaded from www.eastbourne.gov.uk
Status of the SPG should be made clear	3.15	This is explained in the introduction to the SPG
Consultation should be undertaken with the general public, business and other interested parties with their views being taken into account before the SPG is finalised.	3.16	This draft SPG was subject to consultation, and a list of the main consultees was appended to the g committee report authorising consultation
A statement of the consultation undertaken, the representations received and the local authorities response to those representations must be made available with each copy of the SPG.	3.16	A report to committee was prepared along these lines. This report can be made available with the adopted SPG.
SPG must be subject to a council resolution to adopt it as supplementary planning guidance.	3.16	The Council was asked to adopt the SPG once it had been subject to consultation.