

Mayfair Hotel: Performance Appraisal



The future options for continued use within Tourism.

August 2011.

Report Prepared for DH Moyle Properties Ltd:

Introduction to those who have worked on report:

Sheryl Tipton: Marketing Consultant

For the past ten years Sheryl Tipton has worked as a Marketing Consultant in and around Sussex. Advising many companies, both large and small, who have decided to reassess their business and improve sales and marketing to increase company profile, secure new business and ultimately increase their revenue.

Working extensively in the Hotel and Tourism industry, with many Hotels and Visitor Attractions, and a recent contract included a five year consultancy project with Mr M Clinch, Owner of Chatsworth Hotel, Worthing and Deans Place Hotel, Alfriston. During this time Sheryl Tipton worked closely with the Worthing & Adur Chamber of Commerce, and is now an active member of their Marketing Group; also worked with the local Tourist Information Centre, the Worthing Town Centre Initiative, many industry and business magazines, tourism and networking groups. This has given her an excellent experience of the local area and broadened ability to bring thoughtful, well supported knowledge to all aspects of business development. More information on website at www.salesandmarketinguk.com.

Cardens Accountants & Business Advisors:

Barry Carden FCCA, V Mason FCCA, Carden Business Advisors.
Registered to Audit work by the Chartered Association of Certified accountants.

Cardens Accountants and Business Advisors are a leading professional accounting firm based in Sussex, providing accountancy services, financial Planning, business advice to both business and private clients throughout Sussex. They have experience with operators within the tourism industry and provide business plan and financial advice to these and other businesses.

Castle Consulting:

Andrew Lally BSc Hons is the principal and managing partner and has been in the property industry for over twenty years with extensive experience in construction, development, building surveys and cost appraisals.

During this time Andrew has worked in several chartered Surveying Partnerships across Sussex before running his own RICS Consultants Practice.

Castle Consulting was formed in 2004 and continues to provide development consultancy to commercial and residential clients alongside building surveying. Projects range up to multi million pound developments of mixed commercial and residential.

AMC

Adrian Marmont is the principle and managing partner offering construction consultation and project management services throughout Sussex. With over twenty year experience accreditations include NHBC, NRW, CGLI and CDM along with awards from the Sussex Heritage, RIBA, FMB and Local Authorities.

Trading since 1987 projects and roles have included the renovation and conversion of Historic and Listed Buildings, with large mixed developments of Commercial / Residential and Project Manager and advisor for the BBC.

History of Report:

Initially the extensive background investigation including initial Market Research, discovery of the past trading figures for the Mayfair and Burlington and investigations with Castle Consulting into the structure / fabric of the Mayfair was mainly carried out by Amc. A draft report 'The Mayfair Hotel: Past & Future within the Tourism Industry' was prepared and presented to the Planning Officers and Tourism Officer. After receiving feed back it was felt occupancy levels and room rates should be increased as the findings shown in SPG Reports may not reflect the potential of the Mayfair; with the possibility of it becoming a Boutique Hotel or offering serviced accommodation. These higher rates have been used within this report although there is a strong evidence in (xi, xiii & xiv) to suggest lower occupancy, ARR (average room rates) particularly in the service / self catering type accommodation.

The draft report was also give to Cardens Business Advisors for their review, comments and examination. They commented on the choice to operate a Guest House in some cases being a 'life style choice' not purely driven by profitability so felt cash flow would be an equally defining factor. The P&L accounts etc were checked and found to be consistent with what they would normally expect of operators. Cardens felt that generally business should expect to be charged interest rates of 7%; this rate has been used within the current report. It could be considered optimistic but reflects current lending rates; but for viable and secure ventures and not investment into high risk negative returns such as the Mayfair. Enquires where made with three Commercial Banks Managers; the HSBC, Lloyds TSB and Barclays all considered funding would not be likely even if alternative security was offered.

Further work was carried out in response to Cardens and the Planning and the Tourism Officers recommendations. A further consultant with direct local experience with Hotels in Worthing was asked to assist with this current report.

The following report represents the work of various different consultants, offering an in-depth and extensive review of the future prospects of the Mayfair Hotel. The main changes to the draft include:

- To reflect a *'life style choice'*
- Lower interest rates
- Self funding by 30% without return on this investment
- Cash flow appraisal
- Increased occupancy levels ranging from 65 to 80%
- Increased room rates
- More extensive research to rates and other operators

The revised report now offers a wider view, including the recommendations of the Planning and Tourism Officers that also takes account of the current dilapidated condition of the Hotel. It could be argued the position may have been improved with better management and investment, although there is little evidence within the trading figures to support this.

Within the appendix (ii) is Cardens Chartered Accountants review of the draft document along with the draft document as it forms part of the appraisal process.

Scope of Work:

Projections of future performance for The Mayfair, under various scenarios, are based on the following information:

- The past Profit & Loss Accounts of The Mayfair
- Past Profit & Loss Accounts of The Burlington
- Research information taken from the 2008 'Costal West Sussex Hotel & Visitor Accommodation Futures' report
- The 2006 'Here to stay? Tourist accommodation retention and loss' report
- Visitor Statistics supplied from the Tourist Information Office
- Worthing Visitor Guide 2011
- Known Occupancy rates for other hotels
- Field Research with other operators
- Local Chartered Accountants familiar with Hotel Operators
- Future Hotel Development plans
- Market Research and current trends
- Work valuation by AMC & Castle Consulting.

The size of accommodation offered lends itself to an Owner Operator based business by either purchase or long term lease. As the condition of the building requires high levels of investment before realising revenue, it is considered only suited for freehold purchase base business and we have based the following scenarios on this.

- Trading as Guest House.
- Trading as upgraded Guest House.
- Trading as Boutique Hotel.
- Trading as Serviced Accommodation

LIMITATION: Although the research and investigations have been extensive certain areas have been restrictive and therefore are not fully compliant with the guidelines set out within the RICS Valuations Standards 7th Edition 'Red Book'. However, regard has been given to these areas but due to the nature of the proposal accurate calculations are difficult to forecast and cannot be guaranteed.

Location:

The Mayfair Hotel is a Grade II Listed building and is located in a prominent location on Worthing's seafront and was originally built as two separate houses set within Heene Terrace. To the immediate South are public landscaped gardens, Marine Parade and then the sea. Marine Parade lies to the West of the town centre and the Pier. Parking restrictions are in place directly outside the property.

Hotels, Guest Houses and Serviced Accommodation providers, nearby or soon to be constructed include:

The Burlington - 4 star guest accommodation with 26 ensuite rooms.

The Burlington also offers a good proportion of Sea View rooms, a bar, a restaurant, function space and a nightclub. The hotel also attracts events and weddings.

The Beach Hotel - 3 star Hotel with 79 ensuite rooms, soon to be replaced with a Boutique Hotel.

The Beach, as it currently stands, offers a high proportion of Sea View rooms, a bar, a high quality restaurant and plenty of function space again attracting large groups, events and weddings.

The Ardington Hotel – 3 star Hotel with 46 ensuite rooms

Popular for its Indigo Restaurant, attracting business travellers and a younger clientele.

Chatsworth Hotel - 3 star Hotel with 98 ensuite rooms.

Popular with Coach Holiday companies, but also with business travellers.

Limited Sea View rooms available, but with large function space attracting events, conferences and weddings.

The Cavendish Hotel - 17 ensuite rooms, self assessed 3 star guest accommodation

Recently refurbished, Sea View rooms available and offering a bar, restaurant and free parking.

The Kingsway Hotel- 36 ensuite rooms

Offers Sea View rooms, and conference facilities.

The proprietors also own the adjacent Queens Lodge Guest House with a further 7 rooms.

The Travel Lodge - 90 rooms. Budget accommodation - Not star rated

Offers a good proportion of Sea View rooms, offers Room Only rates as standard but also has a bar and cafe.

Beechwood Hall Bed & Breakfast – 8 rooms, 3 star Hotel

Offers a popular bar and restaurant and free parking, situated in the north of the town but likely to attract a similar guest type as The Mayfair.

There are also several excellent quality Guest Houses, many very close by to The Mayfair, ranging in size and room price and most offering en-suite facilities, parking, and wi-fi access. Many are within the town centre, and along the seafront in general. Guest Houses in Worthing are of a good standard, with proprietors taking care of their property's and interested in marketing and tourism opportunities.

Serviced accommodation is also widely offered within Worthing from budget to luxury.

Facilities Offered:

Prior to closure the standard of accommodation on offer at The Mayfair was poor and operated on a HMO basis for long term homeless.

Opportunity to Improve Facilities:

There is scope to improve the current arrangement by altering the current bedrooms so they offer more en-suite facilities and upgrading the hotel throughout. The quantity of sea-view rooms, which may command higher rates, are limited by the nature of the terrace, as sea views are only offered to the front elevation.

There is a kitchen, dining room and bar area but these facilities could not offer the required space for functions and events or enlarged dining opportunities should the Mayfair be converted into a Boutique Hotel.

Market Overview:

Worthing benefits from being a centrally located town on the Sussex Coast and it lends itself to being a well positioned base from which visitors can explore the County. It is also within close proximity to Brighton, Lewes, Arundel and Chichester.

However, the current facilities on offer in Worthing, such as cinemas, leisure amenities and attractions for families are not on the same scale as neighbouring larger towns. Plans are in place for development of some of these areas which should help to boost the tourist economy to the town, and hoteliers and guest house owners will welcome the opportunity of increasing their occupancy levels.

The local Tourist Information Centre and the Town Centre Initiative both work tirelessly to reach out to potential visitors, both day and overnight, and there is also a less formal social media presence in the town hosted by independent 'splinter' tourist groups. The council's recent decision to open the Tourist Information Centre in the Dome on the promenade will be of huge benefit to both day and overnight visitors, as all tourist attractions will have the opportunity to promote themselves through this office. The Worthing business community, supported by the Worthing Chamber of Commerce and other significant networking organisations, is also very strong, and every effort is made by small and large businesses throughout the town to promote Worthing in the best possible light and trade locally where appropriate.

Worthing also benefits from many regular town events such as The Worthing International Birdman Competition, the Worthing Festival, and the Ice Rink in Steyne Gardens. The Bowls England Men's and Mixed National Championships also bring good business to the town as do other events from sporting associations. There are two new events also planned for Worthing this autumn, which will hopefully again boost overnight stay requirements in the town.

However with all this in mind Andreas Scrivem of Christie & Co. commented recently in Hotel Magazine (03/11) that "trading conditions have been tough for hotel businesses across the UK since the middle of 2008, when the effects of the global economic crisis first started to filter through to the hotel sector". This economy has had a devastating effect on the tourism market, with most travellers now over cautious and price sensitive. Coupled with the climbing popularity of sites such as Trip Advisor, accommodation providers have to work very hard to secure reservations. Consumer sites such as LateRooms.com and Booking.com, who offer heavily discounted rates to online bookers, expect high commission rates from accommodation providers, which unfortunately lowers the profits from the room rates that are normally expected.

The business travel market is also of consideration to Worthing accommodation providers, and mid-week bookings can be expected from both Contractors working in the town on development sites, and other business travellers visiting some of Worthing's larger businesses. However more and more large corporate companies are now using contracted agents to book their rooms, and as these Agents 'buy' rooms nationwide through the Global Distribution System, quantity discounts are expected and room rates are once again lower than the norm.

Coach business is still strong in Worthing, with groups visiting all year around. However, again this is very low rated business and if an accommodation provider is swamped with coach travellers, usually elderly, this can be off-putting to even the most seasoned business traveller.

An annual report collated by the Tourist Information Centre (iii) shows that the average stay (nights) in Worthing has reduced from 3.87 nights in 2006 to 3.52 nights per traveller in 2009.

Worthing offers a very good range of hotels, guesthouses and serviced accommodation but it is fair to say that dependant on which scenario is chosen The Mayfair will be in direct competition with the not only adjacent Hotels and Guest Houses, but also those more centrally placed and in some occasions those on the outskirts of the town too.

There are also three properties in the town which have been awarded Green status, Chatsworth Hotel, The Moorings Guest House and Nash Manor. This prestigious award takes a lot of investment, both in time and money but can be seen to secure business from another target market.

To promote a Hotel or Guest House requires a healthy marketing budget. With the internet at most buyers fingertips, there are numerous 'sites' to advertise on, most which charge the hotelier a registration fee. Search engine optimisation tactics also need to be considered, as potential guests often do not look further than the first page on Google, and along with hard, printed literature being required by guests who call in, a good marketing plan is essential. Customer Service is a key staff training concern too in the hospitality industry as a whole, and whilst organisations such as Tourism South East offer very good courses, again a budget does need to be put in place. Philippe Rossiter, Chief Executive of the Institute of Hospitality recently wrote an article in the Caterer & Hotelkeeper about developing and retaining a skilled workforce, and how this should be a key priority to any hospitality business.

Both the AA and Visit Britain offer a visitor recognition scheme, which it would be advantageous for any hotelier to achieve, but again this does come with a yearly, renewable fee, as does an online booking system, which again is a must in today's competitive marketplace.

The introduction of the Travel Lodge replacing the former Berkeley Hotel has directly impacted on all accommodation offered in Worthing. The Travel Lodge aggressively competes, offer high volume and low rates but based on brand this hotel competes across all areas of the market, taking customers away from both budget guest houses and those offering higher quality accommodation. Hoteliers have seen a reduced occupancy following the launch of the Travel Lodge

A further budget site hotel has been proposed within the mixed use scheme for the redevelopment of Teville Gate adjacent to Worthing Railway Station, and there is also a hotel currently there, the Grand Victorian which is popular with some business travellers.

Along with the reduction in the amount of nights guests are staying, occupancy and ARR has declined in recent years and this is generally the expected trend. Studies and reports undertaken in 2006 & 2008 validate a low occupancy of 60% and a general downward motion.

Many visitors to Worthing are elderly and this seems to remain strong with tour groups and those visiting friends, relative etc. When comparing Worthing's market to the nearby seaside resort of Brighton which attracts a broad and diverse range of visitors the market for Worthing remains budget driven. Market research in this area also confirms Worthing hoteliers favour a more traditional approach and no Hotels to date have embraced the concept of the Boutique Style, possibly due to the lack of confidence of demand.

The Beach Hotel however is set to trial this market and will soon be replaced with a high quality Boutique hotel offering 76 high quality rooms combined with good facilities including well being, swimming pool and restaurant etc. This will be in direct competition with The Mayfair should a Boutique type development be followed. Boutique Hotels have proved popular in certain seaside resorts and is not the current market Worthing offers or caters for, this is not to say there will be no demand but rather the area is unproven. The nature of the Beach Hotel development has allowed the Hotel to be heavily subsidised by the residential parts. The implications are looked at in more detail further on and clearly are an area to be fully considered.

In recent years some of Worthing's small hotels and guesthouses have closed and we understand that a number of guest houses have applied for change of use to revert to residential. Larger Hotels including the Eardly and The Warnes have been closed and converted to residential use. This confirms the market downward trend that has been the case for many years. We are not aware of any other Hotel Development.

Mayfair's History of Hotel Use:

The exact date The Mayfair was converted into a 'Hotel' is not clear but it is known to have been trading for many years, with some indications that the conversion took place in the 1920's. It is important to remember the title of Hotel cannot be given to the Mayfair as it does not meet this standard. Disabled access to the property is also limited, and in today's market will put the establishment at a disadvantage.

In 1986 the Freehold was purchased by the long term and recent owners and the property remained within the ownership of the family until 2010.

At the time of purchase in 1986 the accommodation offered by The Mayfair needed investment and the property needed upgrading, which would have strengthened its offering in the marketplace, but market conditions and profitability of the Hotel did not allow this.

From this time onwards the Hotel operated with low margins and occupancy rates and the property suffered from lack of proper repair as the history of building maintenance expenditure shows (iii).

The general condition of the building began to erode and by the late nineties The Mayfair started operating on a Hostel / HMO basis taking long term residents claiming benefits. Records show many rooms were let to disadvantaged and homeless people. See attached letters from Worthing Council in appendix (viii). At this time net profit did appear to rise above the average 10% but still remained far below the level needed to maintain the building.

All profit and loss accounts have been found from 1988 through to 2001 and provide a good insight into the business, its turnover to profit ratio and funds spent on maintaining the building. Also found at The Mayfair were copies of the profit and loss accounts for the Burlington Hotel, which we assume formed research by the owners of The Mayfair. For clarity these have not been attached to the appendix and general information summarised but will be submitted to the Planning Department for inspection.

At the start of the new millennium The Mayfair further deteriorated and spiralled downwards to its current dilapidated condition. It finally shut around 2007 / 08. From 2007 there is evidence the owner's contacted specialist agents to sell The Mayfair but purchasers were not forthcoming - see correspondence from Knight Frank and Adams and Company (v) who both confirm that purchasers for Guest Houses generally only consider properties that are currently trading and that are in good condition. Please contact Andrew Theobald of Knight Frank and Jacqueline Baigent of Adam & Co for further information. Also attached is the sales brochure and correspondence (vi) sent to the owner dated January 2007 and August 2007.

In August of 2010 The Mayfair was sold on to a property investment company who instructed Michael Jones & Co to market the property through their Commercial Department. After seven months of marketing, using a variety of approaches, The Mayfair was purchased by its current owner D H Moyle Properties. Attached within the appendix is the report prepared by Michael Jones and Co.(vii)

Within the appendix are also details of property marketing, House in Multiple Occupation use and warning notices.(viii)

Accommodation within The Mayfair:

The current layout of the Mayfair allows for:

- 10 double bedrooms
- 3 double bedrooms with en-suite facilities
- 10 single bedrooms
- Two small bar areas
- A first floor lounge and small ground floor lounge
- Dining room
- Various WC's and bathrooms for shared use
- Service rooms
- Small kitchen

A full building Survey was carried out by PDA on the request of the Planning Department and shows the considerable extent of work required. There is a dated lift to all floors inside, but disabled access would be limited as the front steps cannot be altered.

Trading History of The Mayfair:

The long term owners ran The Mayfair as a partnership and divided the profits and losses equally. They did not take a salary, but salaries were paid to other employed staff.

During the first years of trading and until 1992 the property produced regular losses. From this time onwards profit margins were achieved. Turnover varied and reflected the wider economy but generally increased to a peak of £199,000.00 in 1999. Year on year low levels were spent on maintenance and repairs, except in 1988 when repairs to storm damage were made.

The turnover consistently broke down to the following:

50% Bar takings,

40% Accommodation

And the balance made up from catering etc.

Gross profit was usually levelled at 60% with a varying but on average net profit of 10%. These ratios are typical and used generally when calculating forecasts.

Accounts found at the property show that The Burlington, with 26 rooms, had a turnover from 1997 to 1999 of double that of The Mayfair. The Burlington is a larger and better arranged property offering superior accommodation with sea facing aspects and all en-suite bedrooms. These are set alongside a good bar, conferencing facilities, function event and restaurant facilities. The building both internally and externally is in good condition and a high state of repair. Although the Burlington's turnover was much higher over the three years of Audited Accounts an on average loss was made with ratios similar to those for the Mayfair, however reasonably large sums had been spent on maintaining the building when compared to the Mayfair.

In the year 2000 turnover remained constant for The Mayfair, and for the first time a larger sum of £14,000 was paid for maintenance and repairs, but overall a net loss was made and this is the last year we have accurate records.

Summarising from the reports that we do have we can confirm that The Mayfair barely made a profit year on year and suffered substantial losses towards the end. Any profits that had been previously made covered the partner's drawings and did not reflect the input of work that must have been required. Clearly the opportunities to generate further funds were limited, there was not a budget to maintain the Historic Grade II Listed Building and therefore the property could never compete effectively within the Marketplace.

These accounts have been attached within the appendix.(x)

Trading Forecast:

The income and expenditure forecast is based on a sole trader or partnership business with any profits and losses forming the operator's income. It has been assumed that the owners would be competent and able to efficiently manage the hotel, and would have self funded 30% of the Capital Investment, on which they would receive no return. Other Capital loans repaid over 10 years at 7%. ARR (average room rate) information has been gathered and research as attached in the appendix (xi)

The valuation of the freehold has been calculated using 'Investment Method Valuation' which is a form of *Income Capitalization*. *It is noted operators also take on such businesses as a 'Life Style' choice and made allowance for this by showing no Capital Return on 30% of the funding, which normally equate to the investment required from operators.*

Valuations and forecast are advisory only and should not be considered as given. Calculation follows the net profits normally expected from hoteliers in an open market. The last three scenarios range from 20% to 40% and **do not** follow the historic trend proven by the Mayfair of between 10-15%.

Our forecast ARR and occupancy levels have been increased following recommendation received during pre-application consultation with the Council and the guidance from Cardens Chartered Accountants. Previously we had followed the proven trading figures of the Mayfair and calculated the valuation of the whole of the Capital Investment. The new forecast trading figures could be considered both optimistic and short term. Long term impact has to be given in the face of the new Boutique Hotel set to replace The Beach Hotel. The impact of this subsidised high quality development will be *considerable and we would expect to see ARR and Occupancy levels fall far below our given forecast.*

Current and direct competition offered by The Burlington has been used to define the ARR. The Burlington offer superior levels of accommodation and facilities but due to the limited amount of rooms available at peak times The Mayfair should be able to realise trade. Both the Mayfair and The Burlington, alongside other Hotels and Guest Houses within the town, will be directly affected by the Beach Hotel Development.

The following Hotels offer the most direct competition for the Mayfair:

Travel Lodge:

Various saver deals are offered and are consistent throughout the year. Typically the saver deals offer an average room rate through one week in the summer months of £ 28.00 inclusive of VAT and ranged from £15.00 to £99.00 per room per night. The Travel Lodge aggressive discounting represents a large portion of their revenue but is understood that not all rooms are provided at discounted levels so on this basis we have forecast higher rates for The Mayfair.

- Travel Lodge double en-suite £23.00 per room per night including VAT. Breakfast is an optional extra, charged separately.

The Burlington:

They offered 4 nights accommodation from the 18th July 2011 for a double en-suite with Full English Breakfast for £ 90.00 per night including VAT. Deducting VAT and Breakfast would bring the Nett room rate to £65.00 per night. For the same period a single room net of VAT would be £ 50.00. As the Burlington's rates

- Burlington double en-suite room £ 65.00 per night
- Burlington single en-suite room £ 50.00 per night.

Proposed new Boutique Hotel / Beach Hotel Replacement:

- Boutique double en-suite room rate £ 70.00 per night.

The gain in residential accommodation on the Beach Hotel site will help subsidise the construction of the new Boutique Hotel. For the Mayfair facing such subsidised competition will prove difficult.

General Room Rates & Competition in Worthing:

Over a wider view our research shows other hotels including the Beach (as current), Chatsworth, and the Kingsway all offer double en-suite rooms, with sea views and breakfast for an on average charge of under £ 100.00 a night within July 2011. This equates to £ 78.00 a room.

Alongside this there is heavy competition from the many restaurants and bars in and around Worthing. Visitors to the town can enjoy heavily discounted menu prices as dining establishments compete to attract clientele. Bars and public houses are also widespread, and whilst The Mayfair in its day enjoyed a good turnover in bar revenue, we cannot assume that this would be replicated in today's market with a far more variable choice on offer.

Other hotels and catering establishments, such as Lime Cafe and the Denton Lounge, also support their business by catering for Weddings and events. This secures overnight reservations for the hotels, and increased revenue into the nearby hotels from those without bedrooms. However, this business is again fiercely competitive.

Serviced accommodation is also widely on offer in Worthing, and whilst a little harder to find online than most of the hotels and guest houses, is available from £150.00 per week up to £ 520.00 per week (peak). Luxury serviced accommodation is available at www.thesnugworthing.co.uk, which is in Heene Terrace also. This would be in immediate, direct competition should The Mayfair be developed into serviced accommodation, and does offer a very high standard of accommodation, including a garage.

The current and long term trend of accommodation shows a sharp decline in demand with no real indication this will change at any point in the future. Whilst occupancy rates around the town may improve when The Beach closes for refurbishment, this will be a short term only gain as when it re-opens they may have to work significantly harder, and drop prices potentially lower if they are too comparably compete with a new, fresh, leisure orientated boutique hotel.

See appendix for room price list research (xi)

Refurbishment Costs:

These have been taken from the reports prepared by Castle Consulting & AMC Project Management.

See appendix for Reports (xii)

Potential Operators:

The owner operator market for Guest Houses is understandably depressed. In past years the ability to secure bank funding and interest only finance enabled guest house and small hotel business to operate. Current economic climate and finance structure has had effectively diminished the market for anything other than well placed and profitable guest houses and hotels.

A past and ongoing marketing campaign by Michael Jones and Co failed to attract purchasers. His report notes: *' however, on inspection of the property the operators were dissuaded by the opportunity due to of course the considerable amount of work required to bring the property back up to trading'*

The nature of the dilapidated Listed Building requiring considerable investment will create not only yearly net losses but also a substantial Capital Loss. It is therefore difficult to place the Mayfair within the market or see any likelihood for it to return to Hotel use. This would also be the case if the site had no value.

See appendix for report by Michael Jones & Co (vii)

Forecast Estimate of Income and expenditure First Year Trading

	Guest House	Upgrade Guest House	Boutique Hotel	Serviced Accommodation
Number of rooms	24	22	20	11
Occupancy	65%	65%	65%	80%
Night Room Rate	32	50	60	60
Bank loan 70% of site	1,716,000	1,807,300	1,838,330	2,120,684
Balance self funded	735,900	774,600	786,570	913,151
Total cost of				
Developed site	2,239,900	2,369,900	2,459,000	2,835,400
INCOME				
Accommodation	182,200	260,100	284,700	192,720
Bar / Food	227,750	325,125	355,875	
Other	45,500	65,025	71,175	
Total Income	455,450	650,250	711,750	192,720
Less Cost of sales	182,180-	260,100-	284,700-	77,088-
Gross Profit	273,270	390,150	427,050	115,632
Less Operating Costs	204,952-	260,145-	320,028-	
Profit Before Finance				
Charges	68,318	130,005	142,350	115,632
As percentage of turnover	15%	20%	20%	40%
Less Finance 7%	120,120-	130,611-	128,683-	148,447-
Self Funded Finance	000	000	000	000
NET PROFIT / LOSS	51,802-	606	13,667	32,815-
Capital Repayment				
Over 10 year term	120,000-	122,000-	127,000-	148,000-
Yearly Cash Flow	171,802-	121,394-	113,333-	180,815-
Valuation based on				
10% yield	683,180	1,300,500	1,423,500	1,156,320
Net Capital gain or				
Loss after first year	1,820,522 loss	1,280,794 loss	1,184,733 loss	1,920,330 loss

Pence not show.

Guest House:

To re-open with little change to the building.

Total cost £2,451,900.00 ~ Commercial lending £1,716,400.00

Upgraded Guest House:

To upgrade the accommodation to provide en-suites and standards to allow competition with the Burlington.

Total cost £2,581,900.00 ~ Commercial lending £1,807,330.00

Boutique Hotel:

To further upgrade and aim for a younger market normally associated with resorts like Brighton. ARR and occupancy calculated and in line with the proposed new Boutique Hotel replacing the Beach Hotel.

Total cost £2,621,900.00 ~ Commercial lending £1,835,330.00

Serviced Accommodation:

Provide individual apartments let for holiday use.

Total cost £3,043,835.00 ~ Commercial lending £2,130,684.50

Summary and Conclusions

Our initial draft report presented a more basic view of The Mayfair's future (ii) but within this report more information has been added with higher average room rate and occupancy levels, combined with the additional option of a Boutique Styled Hotel.

Market research and feasibility has also further been developed and the guidance and recommendations of Cardens Accountants Business Advisors, Sheryl Tipton and Castle Consulting followed.

A more robust appraisal of room rates has been applied and supported within the appendix.

These changes do not alter the forecast outcome of large losses in both Capital and Income.

The introduction of the Travel Lodge combined with the subsidised Boutique Hotel replacement for the Beach Hotel will undoubtedly place huge market pressure not only on The Mayfair but all other operators within the Worthing area. As The Mayfair requires high level of investment it would never be able to compete within the market. Even as a fully functioning Guest House, Boutique Hotel or Serviced Accommodation it would struggle with competition.

Marketing by Michael Jones & Co and the efforts of the last owners failed to secure an operator. On the surface it is clear The Mayfair required substantial building work but the Building Surveyors Report, prepared by PDA on behalf of the Council, shows far more work is required that is obviously apparent. It is clearly beyond the capabilities of the type of operator able to invest in a 22 room guest house.

Any future operator would need to invest their own cash funds at levels from £750K to £1.1 million dependent on which scenario is chosen. Additionally bank or similar funding would also be required from £1.7 to £2.1 million. Within the first year operators would see a complete loss of their own capital and also be liable for up to a further million pound of losses. The Mayfair does not offer any opportunity to operate as a Guest House, Boutique Hotel or serviced accommodation with out a subsidy of between 2 – 3 million pounds.

Most comparable is the Burlington Hotel offering room rates for £ 65.00 per night for a double with en-suite. The Burlington always offers superior accommodation with better facilities as it is better laid out having originally been built as a hotel.

Cardens Accountants and Business Advisors felt the focus for any business should be cash flow and 'life style choice' may encourage occupiers into this type of venture who would not be purely driven by profitability. However on all scenarios not only are losses made but cash flow is negative between 114 to 180K a yearly.

The competition from its competitors will be high and it will take a great deal of investment to get the property up to the level where it can even begin to compete and in its present condition The Mayfair is certainly not contributing to the accommodation offer or image that the town would like to portray with its closure and failure to attract investment over the last five years being testament to its lack of opportunity within tourism.

Within the SPG 2006 & 2008 Reports (xiii & xiv) it is recognised the need to release properties from Tourism use, particularly ones such as the Mayfair Hotel, being grade ii listed, dilapidated and beyond economical repair for use / retention within tourism. The high levels of investment needed to save the building dictate a change of use.

References & Appendix

- (i) Hotel Classifications In Britain
In Britain, hotels are rated from one star to five stars with the grading schemes in operation operated by the AA (Automobile Association) and the national tourist boards i.e. Visit England. The AA criteria is attached for reference.
- (ii) Draft document and findings of Cardens Chartered Accountants
- (iii) Tourism Information Figures
- (iv) Burlington P&L Accounts
- (v) Correspondence from Knight Frank and Adams and Co
- (vi) Sales Brochure and correspondence sent to the owner dated January 2007 and August 2007.
- (vii) Report prepared by Michael Jones and Co
- (viii) Letters from Council, dangerous building, HMO, hygiene and warning notices.
- (ix) A full building Survey was carried out by PDA on the request of the Planning Department and shows the considerable extent of work required. View at Town Hall
- (x) Accounts for The Mayfair: Only parts have been included with this report. The records are extensive and have quarterly trading summaries along with brake downs of expenditure etc. All records are available from Amc.
- (xi) ARR (average room rate) information and research
- (xii) Refurbishment Costs
- (xiii) Costal West Sussex Hotel & Visitors Accommodation Futures. Final Report 2008
- (xiv) Here to Stay Tourist Accommodation Retention & Loss Guidance 2006