

MAY 2017 | RESTAURANTS, HOSPITALITY & LEISURE

Q1 2017 Hotel Bulletin: RevPAR continues to increase, development outstrips acquisition activity

In the first quarter of 2017, the majority of the 12 cities we analyzed for this edition of the Hotel Bulletin reported strong RevPAR growth, albeit against weak comparators from the previous year. Hotel transaction levels remain low, which is unsurprising given the uncertain political climate. Data in the upcoming quarters will soon reveal how triggering Article 50—marking the start of Britain’s exit from the European Union—has affected these trends.

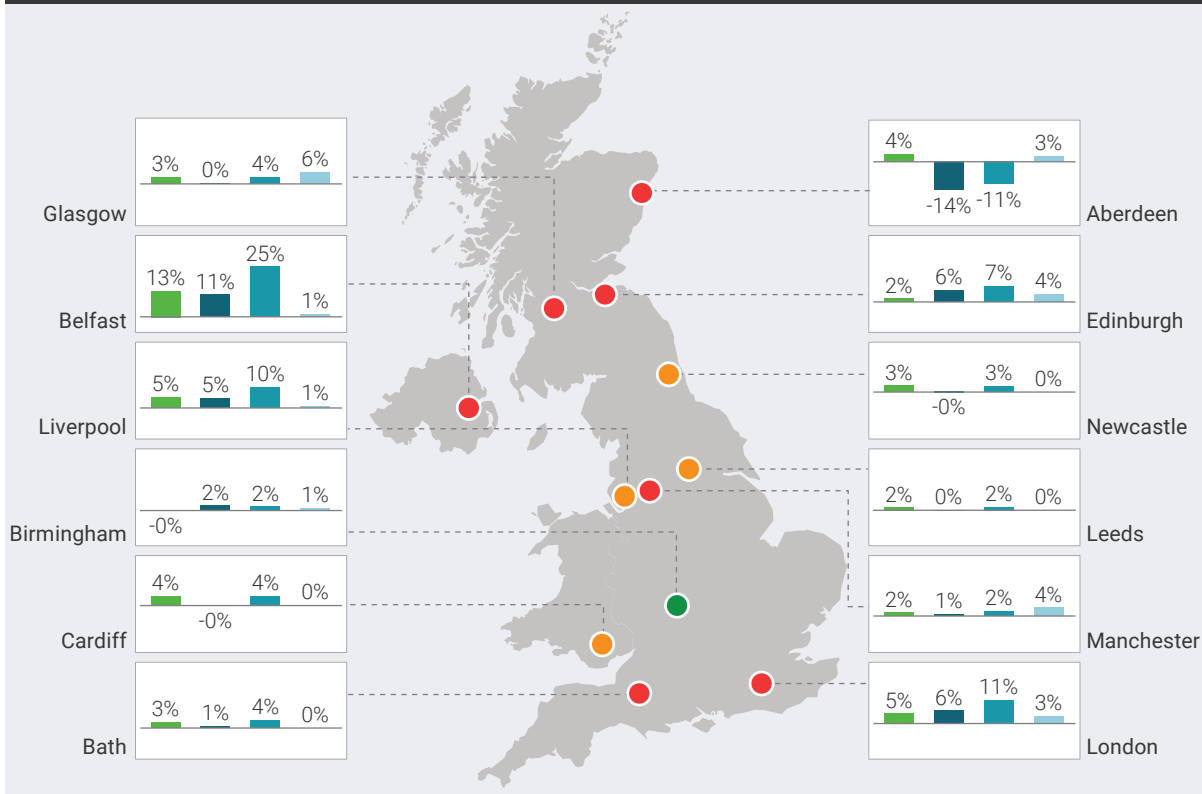
DEMAND

Q1 2017 demand data from STR shows strong growth for all cities reviewed for this bulletin apart from Aberdeen. RevPAR grew compared with Q1 2016 for the 11 remaining cities, with an average RevPAR growth of 7% (excluding Aberdeen).

For some cities, including London, Newcastle, and Glasgow, RevPAR growth follows disappointing performance in Q1 2016. Notably, Newcastle recorded 3% RevPAR growth this quarter against a RevPAR decline of 11% in Q1 2016 following a significant increase in supply (10% growth in the previous 12 months). Newcastle RevPAR levels remain 10% below that of Q1 2015, highlighting the effect of new supply on the market.

In Q1 2017, Belfast was the top performer for the third consecutive quarter with 25% RevPAR growth, albeit against a 6% decline in Q1 2016. Demand metrics in Belfast have increased dramatically in the last five years. In Q1 2012, RevPAR levels were 15% lower than the second lowest of the 12 cities. In 2017, Belfast’s RevPAR levels have surpassed those of Birmingham, Newcastle, Glasgow, and Aberdeen.

FIGURE 1: SELECTED UK HOTEL MARKETS – DEMAND AND SUPPLY



■ Occupancy percentage change¹ (Q1 YoY) ■ Average room rate percentage change (Q1 YoY)
■ RevPAR percentage change (Q1 YoY) ■ Supply percentage change since 31 March 2015
● ● ● Active pipeline³ >10%, 5 to 10%, <5%

Notes: Q1 covers the three months to the end of March | Q1 YoY compares the average of Q1 2017 to the average of Q1 2016 | Supply and pipeline analysis relate to numbers of hotel bedrooms | 1 Occupancy percentage change represents actual rather than absolute percentage change | Active pipeline refers to hotel bedrooms with an opening date in the next three years

Belfast's top-flight performance has not come with an increase in bedroom supply. Other than Bath, Belfast is the smallest hotel market of the 12 cities we examined (less than 4,000 bedrooms) and only two hotels (with a cumulative 78 bedrooms) have opened in the last three years. In contrast, and perhaps unsurprisingly given the city's performance improvement, Belfast's active pipeline has dramatically increased since 2015 with 1,359 bedrooms (35% of the current supply) due to enter the market in the next three years. Current hoteliers, who have enjoyed relatively little competition in recent years, may soon see more challengers enter their market.

Edinburgh's hotel market recorded 7% RevPAR growth in Q1 2017. Although these results fall below the double digit growth of this quarter's top performers, this performance is still notable given that it follows 6% RevPAR growth recorded in Q1 2016. Edinburgh airport reported its busiest ever March this year, with a 6% rise in international passenger numbers and 3% growth in domestic.⁴ This year also happens to be Scotland's "Year of History, Heritage, and Archaeology," with events and installations like the Georgian Shadows lightshow being held in Edinburgh and other Scottish cities to celebrate the occasion, likely attracting many visitors.

After five quarters of flat or declining RevPAR performance, London recorded the second highest RevPAR growth in Q1 2017 (11% RevPAR growth against 3% decline in the previous year). Total visitor numbers to the capital were boosted by US and Chinese travellers, with bookings from these groups for travel in Q1 2017 reportedly up 25% and 40% respectively from Q1 2016.¹ Early indications suggest that the March 2017 Westminster terrorist attack has not had an immediate impact on London as a tourist destination. In fact, London saw a 61% increase in international travellers during Easter 2017 compared with the previous year.²

Aberdeen was the only city to record falling RevPAR this quarter (11%). Aberdeen has recorded declining RevPAR for nine consecutive quarters, and as a result, RevPAR is now 53% lower than Q1 2014 levels. Although some analysts have expressed convictions that oil prices are "turning a corner"⁵, they remain turbulent, falling again to below \$50 a barrel near the end of April this year.⁶ It remains unclear how quickly a resurgence in oil prices and thus the city's economy will translate into RevPAR growth for the city's hoteliers.

¹ Forward Keys. ² eDreams ODIGEO. ³ The R&A. ⁴ BBC News. ⁵ Citigroup. ⁶ Financial Times.

SUPPLY AND PIPELINE

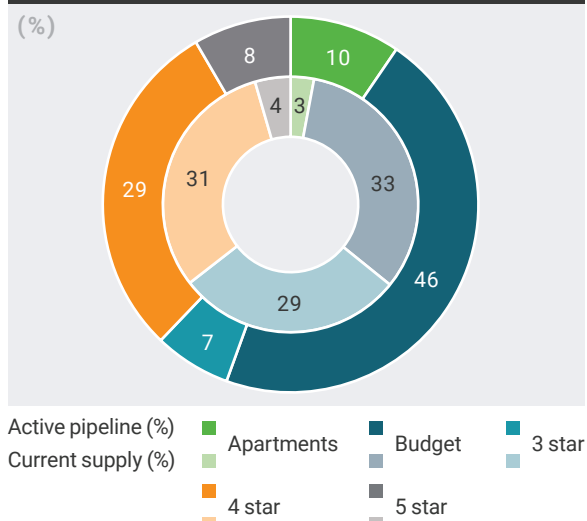
In figure 2, we compare the proportion of current supply (inner circle) and active pipeline (outer circle) in the UK market by sector. Global brands like Hilton and Marriott are continuing to diversify from their traditionally more upmarket offerings by increasing their foothold in the budget segment.

Development activity, in contrast to transaction activity (see opposite), continues to flourish. A significant premium is achievable on businesses with a demonstrable cash flow, so development investors in this space have been able to generate a greater return on the right sites.

Notable new openings and developments this quarter include:

- Whitbread opened ten new hotels in Q1 2017 (929 bedrooms), including the 136 bedroom Premier Inn Leeds City Centre, the first opening in the city since 2012 (aside from an eight bedroom hotel that opened in 2016).
- Queensway Group's budget brand Point A Hotels launched in the UK this quarter, opening two new hotels in Glasgow and London Shoreditch. The five existing Tune Hotels in London will be rebranded under Point A, leaving three hotels operating under the old Tune brand.
- Yotel confirmed plans to open its first UK city centre hotel and its third UK property. The 212 bedroom hotel is due to open in London Farringdon in 2019.

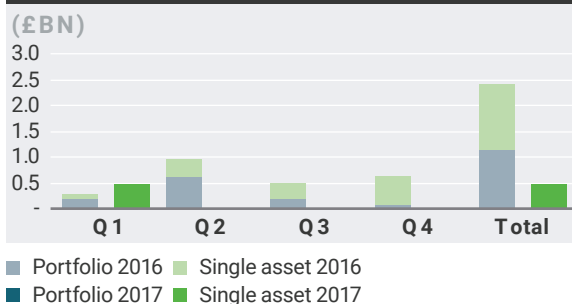
FIGURE 2: UK CURRENT BEDROOM SUPPLY (INNER CIRCLE) AND ACTIVE PIPELINE (OUTER CIRCLE) BY GRADING



Source: AM:PM

Note: Active pipeline includes developments with a confirmed opening date in the next three years; the budget category includes hostels, budget, and two star hotel

FIGURE 3: UK TRANSACTION VALUE



Source: HVS

Note: Only disclosed hotel transactions over £6 million included in this analysis

TRANSACTIONS

Transaction values in Q1 2017 totalled £0.5 billion, of which £0.4 billion related to single asset transactions. This is an improvement on the £0.3 billion of transactions that took place in Q1 2016. Yet this total is still significantly below the £1.5 billion plus quarterly levels recorded in previous years.

The UK hotel market currently has a valuation disparity. It's likely that, given demand growth in the last four quarters, many sellers are holding out for more significant prices while buyers are conscious of overpaying, particularly given expected operating cost challenges.

Hotel transaction trends are in line with those we saw in the wider M&A market. Both the volume and value of Q1 2017 global M&A activity were down on Q4 2016 and Q1 2016 comparators (drops of 18% and 23% by volume and of 32% and 5% by value respectively).⁷

Notable transactions in Q1 2017 include:

- Westmont Hospitality Group acquired the DoubleTree by Hilton Westminster from Blackstone for a reported £190 million (£413,000 per room). The 460 bedroom hotel was part of the former Mint portfolio, which Blackstone acquired from Lloyds Banking Group in 2011.
- Whitbread completed the sale and leaseback of two development sites—the planned 339 bedroom hub by Premier Inn Westminster due to open in 2017 and the planned 326 bedroom Premier Inn West Smithfield due to open in 2018. The hotels were sold to M&G Investments and Aviva Investors respectively for a reported £205 million.
- Starwood Capital Group acquired the Holiday Inn, Manchester City Centre for an estimated £58 million (£195,000 per room), shortly after the end of the quarter. Kew Green Hotels will manage the 298 bedroom hotel.

⁷ Bureau van Dijk.

FIGURE 4: BEDROOM SUPPLY AS AT 31 MARCH 2017 - UNITED KINGDOM

| | 2016 | Brand | Owner | 2016 supply growth (%) | Supply | Budget | 2 to 3* | 4 to 5* |
|--------------|------|----------------------|------------------------|------------------------|----------------|----------------|---------------|---------------|
| 1 | (1) | Premier Inn | Whitbread | 2.1 | 67,516 | 67,516 | | |
| 2 | (2) | Travelodge | Full Moon Holdco | 0.2 | 39,531 | 39,531 | | |
| 3 | (3) | Holiday Inn | IHG | -0.9 | 20,707 | | 12,751 | 7,956 |
| 4 | (4) | HI Express | IHG | 0.5 | 16,272 | 16,272 | | |
| 5 | (5) | Hilton | Hilton | 0.0 | 14,793 | | | 14,793 |
| 6 | (6) | Britannia | Alex Langsam | 1.5 | 10,202 | 34 | 8,564 | 1,604 |
| 7 | (7) | Best Western | Independent consortia | -6.0 | 9,963 | 21 | 9,323 | 619 |
| 8 | (8) | Marriott | Marriott International | 0.0 | 9,029 | | | 9,029 |
| 9 | (9) | Ibis | AccorHotels | 0.0 | 8,637 | 8,637 | | |
| 10 | (11) | DoubleTree by Hilton | Hilton | 1.8 | 8,519 | | | 8,519 |
| Total | | | | | 205,169 | 132,011 | 30,638 | 42,520 |
| | | | | | 100% | 64% | 15% | 21% |

Source: AM:PM

FOCUS ON:

Following our recent review of the historical evolution of UK supply and pipeline, in this quarter's edition we take a closer look at brands that currently, and are set to, shape the UK hotel market.

The composition of the top ten hotel brands by current bedroom supply in the UK has changed little in the past year, with nine of them holding their 2016 positions and only one (DoubleTree by Hilton) nudging its way into the first division, displacing AccorHotels' Mercure. Budget hotels now represent nearly two-thirds of all these rooms, with Premier Inn and Travelodge between them accounting for 52% of all the top ten brands' rooms (see figure 4).

The pipeline top ten, however, shows an altogether different picture. Only Premier Inn and Travelodge held their positions as the two most active developing brands in the country, and together they represent almost half of the active pipeline. Only one other brand, Holiday Inn Express, from the supply top ten features in the top pipeline listing. As many rooms as are being actively developed remain on the drawing board, suggesting a potentially healthy future growth in supply as time progresses and these projects become firmer (see figure 5).

Some of the more aggressively growing brands have opened relatively few rooms so far. For example, Hampton by Hilton sits in third place as far as pipeline activity but only 25th in existing supply. Hub by Premier Inn is in fourth place but also much lower down in current supply (98th). Only six brands have an active pipeline of more than 1,000 rooms, and all of them are at the budget end of the quality spectrum.

This trend will likely continue for the foreseeable future. Smaller budget brands will continue their relentless drive for greater distribution while the two giants slug it out to maintain their growth trajectories, with Premier Inn—along with its fledgling "Hub"—continuing to outpace its main rival, Travelodge.

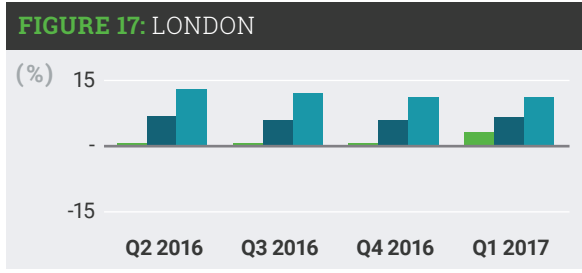
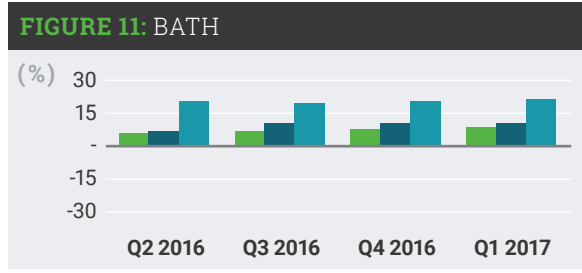
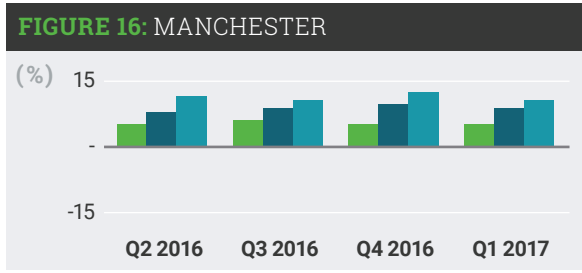
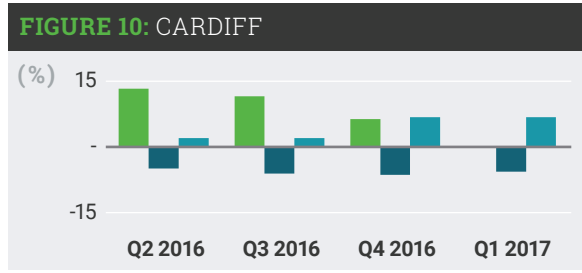
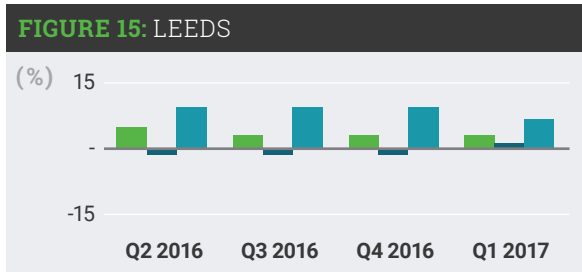
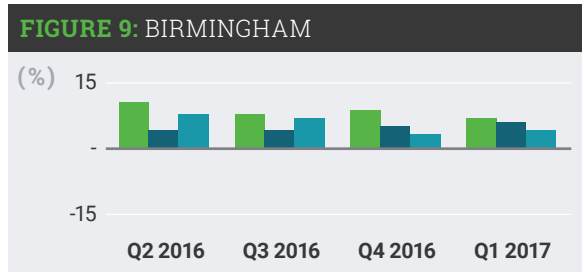
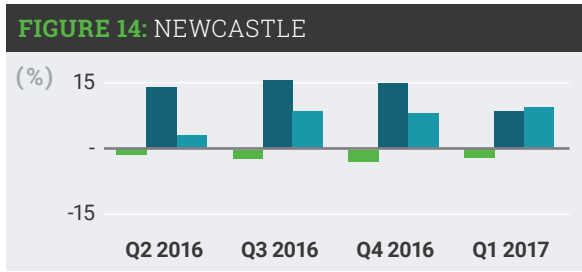
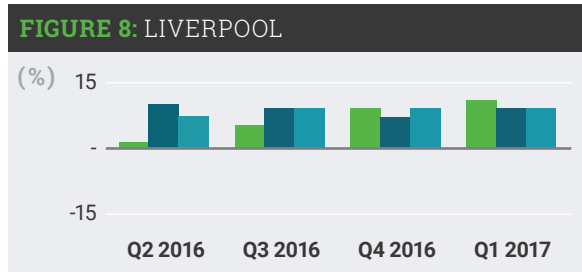
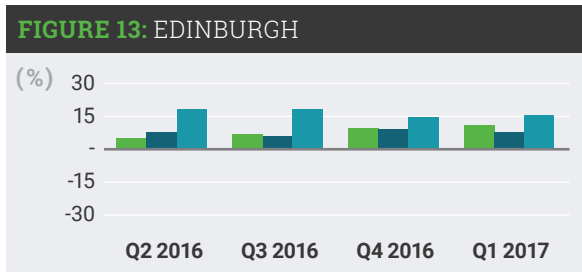
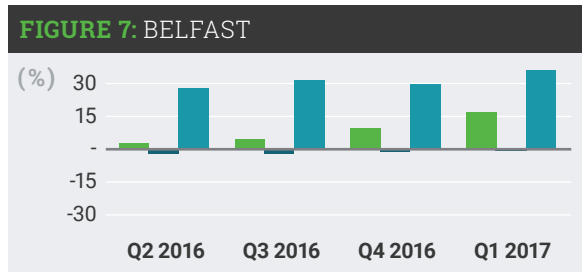
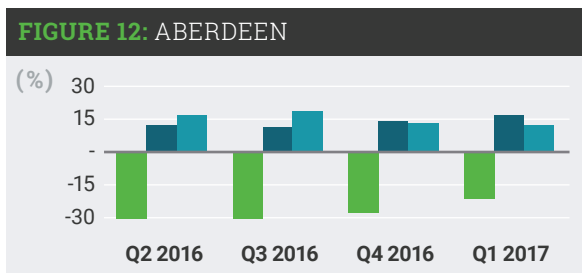
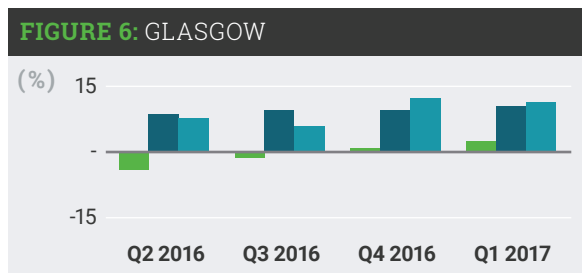
What's more concerning, however, is the lack of pipeline growth expected for the other top-ten supply brands. Third-place Holiday Inn's active pipeline is only 430 rooms, while Hilton (fifth) has only 200 rooms. Although management is clearly focused on developing other IHG and Hilton brands (and this article does not analyze how brands are pursuing growth by rebranding existing hotels), it begs the question as to whether the core brands risk stagnating if they don't address this issue now. **A**

FIGURE 5: BEDROOM PIPELINE AS AT 31 MARCH 2017 – UNITED KINGDOM

| | 2016 | Brand | Owner | Percentage of total UK active pipeline (%) | Active | Total | Due 2017 | Due 2018 | Due 2019 | Due 2020 |
|--------------|-------|-----------------------|------------------------|--|---------------|---------------|--------------|--------------|------------|------------|
| 1 | (1) | Premier Inn | Whitbread | 14 | 5,086 | 11,837 | 2,256 | 2,400 | 430 | |
| 2 | (2) | Travelodge | Full Moon Holdco | 7 | 2,660 | 4,882 | 1,162 | 1,435 | | 63 |
| 3 | (25) | Hampton by Hilton | Hilton | 5 | 1,881 | 3,454 | 1,067 | 622 | 192 | |
| 4 | (98) | Hub by Premier Inn | Whitbread | 4 | 1,396 | 2,322 | 1,136 | 260 | | |
| 5 | (4) | Holiday Inn Express | IHG | 3 | 1,244 | 2,533 | 482 | 762 | | |
| 6 | (35) | Ibis Styles | AccorHotels | 3 | 1,140 | 1,251 | 1,011 | 129 | | |
| 7 | (163) | Moxy Hotels | Marriott International | 2 | 911 | 2,478 | 294 | 617 | | |
| 8 | (94) | Courtyard by Marriott | Marriott International | 2 | 876 | 1,023 | 216 | 494 | | 166 |
| 9 | (81) | Hotel Indigo | IHG | 2 | 872 | 1,390 | 589 | 283 | | |
| 10 | (44) | Maldron Hotels | Dalata Hotel Group | 1 | 432 | 432 | | 432 | | |
| Total | | | | | 16,498 | 31,602 | 8,213 | 7,434 | 622 | 229 |
| | | | | | 52% | 100% | 50% | 45% | 4% | 1% |

Source: AM:PM

INVESTMENT INDICATORS FOR Q2 2016 TO Q1 2017



Key for all: ■ Demand growth⁸ ■ Historical supply change⁹ ■ Active pipeline¹⁰
 Source for all: AM:PM, STR

⁸ Demand growth calculated as the average quarterly RevPAR change for the previous four quarters.
⁹ Historical supply change calculated as the change in hotel bedrooms in the last two years.
¹⁰ Active pipeline calculated as confirmed pipeline bedrooms as a percentage of current supply.

ABOUT AM:PM

AM:PM are a leading source of market intelligence on the UK & Ireland hotel industry. We maintain extensive data relating to hotel supply to help clients gain a comprehensive and unrivalled understanding of the size and structure of the hotel industry.

We offer a suite of subscription-based online products that allow clients to search, analyse and benchmark the hotel sector. This includes access to a unique hotel database with details of over one million hotel rooms covering the past, present and future hotel supply throughout the UK & Ireland.

We're serious about hotels, AM:PM.

ABOUT HVS

HVS is the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming and leisure industries. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, investors, lenders, operators and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 40 offices and 350 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.

Superior results through unrivalled hospitality intelligence. *Everywhere.*

ABOUT STR

STR is the source for premium global data benchmarking, analytics and marketplace insights. Our data is confidential, reliable, accurate and actionable. Our comprehensive solutions, analytics and unrivalled marketplace insights are built to fuel growth and help our clients make better business decisions. For further information, please visit www.str.com, email hotelinfo@str.com or call +44 20 7922 1930.

CONTACT THE AUTHORS:

Graeme Smith (gsmith@alixpartners.com), Russell Kett (rkett@hvs.com), Alan Gordon (alan.gordon@ampmhotels.com), and Alexander Robinson (arobinson@str.com).

FOR MORE INFORMATION, CONTACT:

Graeme Smith

Managing Director
+44 20 7332 5115
gsmith@alixpartners.com

All hotel performance data included in this report was provided by STR unless otherwise indicated.

ABOUT ALIXPARTNERS

In today's fast paced global market timing is everything. You want to protect, grow or transform your business. To meet these challenges we offer clients small teams of highly qualified experts with profound sector and operational insight. Our clients include corporate boards and management, law firms, investment banks, investors and others who appreciate the candor, dedication, and transformative expertise of our teams. We will ensure insight drives action at that exact moment that is critical for success. alixpartners.com

The opinions expressed are those of the author and do not necessarily reflect the views of AlixPartners, LLP, its affiliates, or any of its or their respective professionals or clients. This article regarding Hotel Bulletin Q1 2017 ("Article") was prepared by AlixPartners, LLP ("AlixPartners") for general information and distribution on a strictly confidential and non-reliance basis. No one in possession of this Article may rely on any portion of this Article. This Article may be based, in whole or in part, on projections or forecasts of future events. A forecast, by its nature, is speculative and includes estimates and assumptions which may prove to be wrong. Actual results may, and frequently do, differ from those projected or forecast. The information in this Article reflects conditions and our views as of this date, all of which are subject to change. We undertake no obligation to update or provide any revisions to the Article. This article is the property of AlixPartners, and neither the article nor any of its contents may be copied, used, or distributed to any third party without the prior written consent of AlixPartners.