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AUGUST 2017 | RESTAURANTS, HOSPITALITY & LEISURE

Q2 2017 Hotel Bulletin: cheap pound enables double-digit growth for UK capital cities

The UK capital cities were among the top performers of the cities reviewed in this issue of the Hotel Bulletin, suggesting that overseas holiday makers are continuing to take advantage of the depreciated pound. The transaction value breached the one billion pound mark this quarter, although this may be due to deals dragging into Q2. In this issue, we take a closer look at the performance of London and Manchester in the wake of recent terrorist attacks.

DEMAND

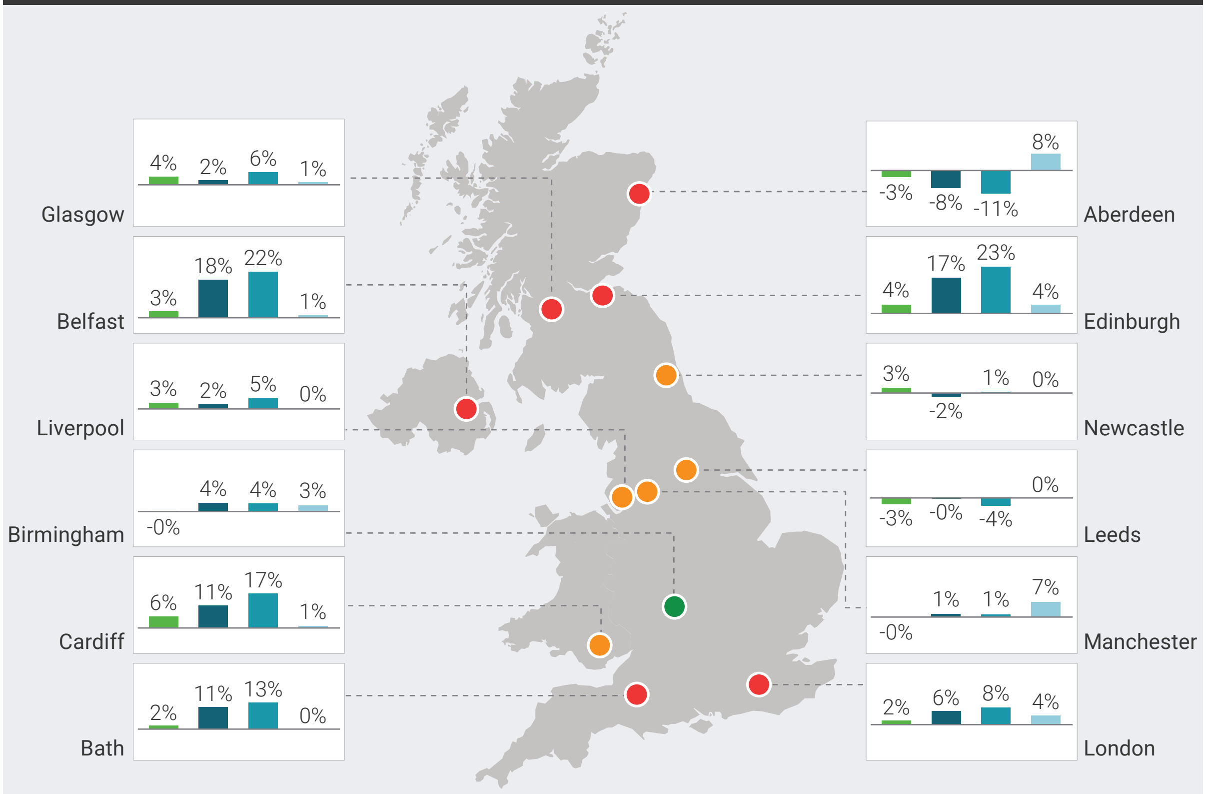
Q2 2017 demand data from STR demonstrates further growth for most of the 12 cities we examined in this Bulletin. Aside from Aberdeen and Leeds, all cities reported RevPAR growth.

The four UK capital cities (London, Edinburgh, Cardiff, and Belfast) recorded strong performances in Q2 2017, with all apart from London (8%) recording double digit RevPAR growth. These cities were able to attract international visitors thanks to a combination of an attractive weaker pound and high profile events.

Edinburgh (23% RevPAR growth) was the top performer in Q2 2017. Edinburgh's hotel market benefits from strong leisure and corporate demand – it is the UK's most popular conference destination outside of London,[1] hosting 12 annual festivals that collectively attract more than four million visitors each year.[2] This quarter, the city hosted a 1,200 strong delegation at the Microbiology Society Annual Conference, the Edinburgh International Science Festival and Melrose Sevens Rugby which contributed to a 4% increase in occupancy and enabled hoteliers to increase rates by 17%.

[1] International Congress and Convention Association, [2] BBC News.

FIGURE 1: SELECTED UK HOTEL MARKETS – DEMAND AND SUPPLY



- Occupancy percentage change[1] (Q2 YoY)
- Average room rate percentage change (Q2 YoY)
- RevPAR percentage change (Q2 YoY)
- Supply percentage change since 30 June 2015
- Active pipeline[3] >10%, 5 to 10%, <5%

Notes: Q2 covers the three months to the end of June | Q2 YoY compares the average of Q2 2017 to the average of Q2 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 recorded 22% RevPAR growth in Q2 2017, a fourth consecutive quarter of double digit RevPAR growth. Belfast's leisure offering has steadily developed in recent years as it added new attractions including a renovated Titanic Quarter. Belfast is also uniquely positioned to take advantage of the weak pound as it attracts visitors from over the border in the Republic of Ireland. Northern Ireland reported a 36% increase in visitors from the Republic of Ireland in 2016 following the drop in value of the pound halfway through the year.[3]

Cardiff also recorded double digit RevPAR growth in Q2 2017 (17%). The hotel market in the Welsh capital is relatively small (approximately 4,700 bedrooms) and has recorded only limited supply growth in recent years, with only 60 hotel bedrooms opening since 2011. This lack of new supply has allowed Cardiff's existing hoteliers to benefit from increasing room night demand in the city. That demand received an additional boost in Q2 2017 from the 170,000 fans who travelled to the city[4] for the 2017 UEFA Champions League Final at the Principality Stadium.

London has recorded strong RevPAR growth to date in 2017 (8% in Q2 2017). This edition's Focus considers London's performance compared to other European gateway cities following the recent terrorist attacks in the city.

In Q2 2017, Leeds recorded its first decline in RevPAR (4% decrease) since 2012. Only eight new hotel bedrooms opened in Leeds' hotel market between the beginning of 2013 and 2016 and, during this time, Leeds recorded average quarterly RevPAR growth of 10%. In March and April 2017, 220 new bedrooms opened (4% of current supply). Despite having 3% more room nights sold in Q2 2017 than Q2 2016, RevPAR declined as new hotels took market share. Given that the city has been relatively untested in recent years, it remains to be seen whether this decline is temporary or the start of a longer term trend, especially as new hotels grow towards performance maturity and Leeds' active pipeline of hotel bedrooms (6% of current supply) comes onto the market.

Aberdeen's hoteliers recorded a tenth consecutive quarter of falling RevPAR (11%). Despite weak demand metrics, Aberdeen still has an active development pipeline of 12% of current supply.

[3] Tourism NI, [4] BBC.

SUPPLY AND PIPELINE

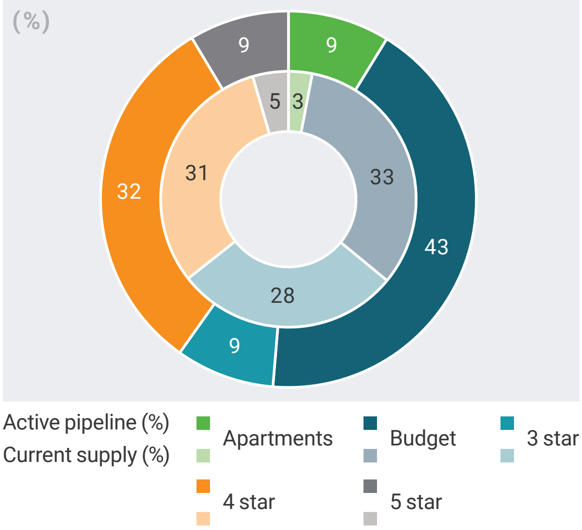
In figure 2, we compare the proportion of current supply (inner circle) and active pipeline (outer circle) in the UK market by sector. More than 7,500 hotel bedrooms have opened during the first half of 2017, which is the highest H1 figure since 2012 and over 40% higher than H1 2016.

Premier Inn continued its unyielding brand roll-out in Q2 2017, with two new Premier Inn hotels (613 bedrooms) and its fifth hub by Premier Inn hotel in London at King's Cross opening in the quarter.

In certain markets, independently branded hotels are gaining traction by offering unique propositions to their discerning customer base. There was notable development activity in Q2 2017 of independently branded hotels, including:

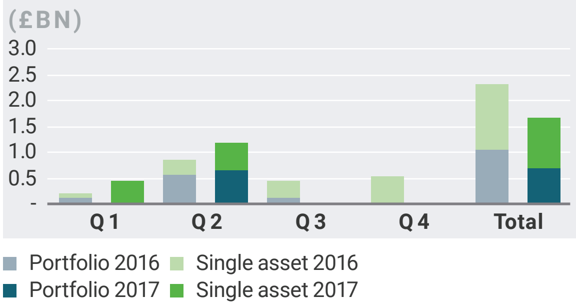
- Soho House opened its five-star independent hotel The Ned (252 bedrooms). The luxury hotel, converted from the former Midland Bank, includes nine different dining venues and has a bar located in one of the bank's former vaults.
- Norlake Hospitality submitted plans for a four-star 214 bedroom Hoxton Hotel in Shepherd's Bush. The proposed hotel will have an attached café and leisure scheme. Boutique operator Hoxton Hotels already operates two hotels (384 bedrooms) in London.

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 Q2 2017 totalled £1.2 billion, of which £0.7 billion related to portfolio transactions. This is significantly higher than the £0.5 billion of transactions which took place in the first quarter of the year, and an uplift on the £1.0 billion of transactions in Q2 2016.

Although the increase in total transaction values may indicate that investor confidence is returning following global political uncertainty in recent months, these results should be read with a degree of caution. A number of transactions completed in Q2 2017 had dragged over from previous quarters.

Notable transactions in Q1 2017 include:

- Aprirose Investments acquired the 26-hotel (3,683 bedroom) Qhotels portfolio from Bain Capital Credit and Canyon Capital for a reported £520 million. Bain Capital Credit and Canyon Capital acquired the portfolio in 2014 when they bought the debt from the Irish Banking Resolution Corporation. The portfolio was originally put on the market in 2015 with a £650 million guide price.
- Queensgate Investments completed its acquisition of Generator Hostels from Patron Capital for a reported €450 million. Generator Hostels operate 14 properties in Europe and the US including one 212-bedroom property in London.
- Singaporean investor CLD Hospitality acquired the iconic five star Lowry Hotel in Manchester from Westmont Hospitality for a reported £53 million. Westmont had previously acquired the 165-bedroom hotel from Rocco Forte Hotels in 2014, reportedly for approximately £45 million.

IN FOCUS

In this quarter's Focus we have analysed London and Manchester's hotel markets in the wake of the Manchester Arena bombing in May 2017 and the Westminster, London Bridge and Finsbury Park attacks in March and June 2017. We have compared these markets to other European cities which have faced similar incidents.

International travel to cities impacted by terrorist attacks has been curtailed in recent years. The Île-de-France region recorded one million fewer visitors in the first half of 2016 compared with the previous year[5], with nightly hotel stays down by 9% in the same period. This impact was not restricted to the cities where the incidents occurred. In the week following the March 2016 bombings in Brussels, occupancy rates in London fell by 24% and in Paris by 15%.[6]

Although the medium and long-term impacts of the attacks in London and Manchester remain to be seen, demand metrics for May and June 2017 indicate that the impact has been less significant than expected. In the first week after the London Bridge attack, flight bookings from overseas travellers were down by 12% compared with the previous year; however, the following week this deficit had dropped to just 5%.[7] In the week after the Manchester bombing, flight bookings were only down by 4%.[8] In the week after each attack, RevPAR was up in Manchester by 4%, while in London it was up 2% when compared with the same week the previous year.

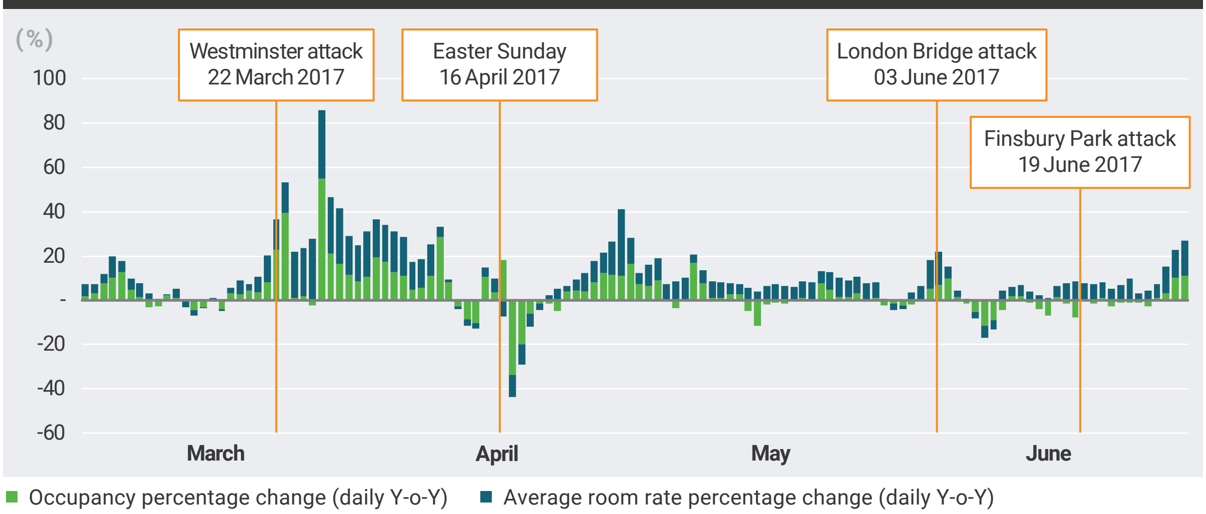
Figure 4 below shows that, after a small dip from 6-9 June, London's hotel market was quick to recover and return to growth following the London Bridge attack. In contrast, Paris and Brussels, following the respective attacks in November 2015 and March 2016, suffered noticeable RevPAR declines, with RevPAR down by as much as 23% in April 2016 in Paris, and by 32% in August 2016 in Brussels. Paris recorded a decline in RevPAR in every month following the attack until December 2016. Brussels suffered a severe decline in RevPAR in the summer of 2016, although demand metrics did recover later in the year.

Recent currency movements may have helped shelter the UK from a similar level of impact to Paris and Brussels. The weaker pound resulted in a surge in foreign visitors to the UK in 2017—there was a 10% rise in overseas visitor numbers in Q1 2017 compared with the previous year.[9] This boost, which appears to have continued into Q2 2017, is likely to have mitigated the impact on London and Manchester's hoteliers. American and Chinese visitors in particular, groups that are likely to incur higher cancellation costs, have shown strong growth (16% and 27% in Q1 2017 respectively[10]).

Following the London bombings in 2005, several news publications claimed that a number of hoteliers were increasing rates to profit from those stranded in the city.[11] In London and Manchester in 2017, rate metrics did not indicate similar actions. In fact, average daily room rates were 19% lower in the London Bridge area compared with the same day the previous week, and there was no change in Manchester rates. Many hotels were even reported to have offered free rooms for people left stranded by these attacks, including the Hotel Gotham and Holiday Inn in Manchester.[12]

Historically, London and Manchester have been two of the most robust hotel markets in the UK. However, given the impact on the European gateway cities noted above, investors may be concerned about a similar negative impact on London and Manchester's hotel markets in the immediate aftermath of the terrorist incidents. It appears from the data that there is little cause for alarm. Although performance in these markets can suffer as a result of global political insecurity as a whole, they are sufficiently robust that these one-off incidents did not to cause any more than a small knock to otherwise strong performance. **A**

FIGURE 4: LONDON DAILY OCCUPANCY AND AVERAGE DAILY RATES



Source: STR

Source for all data is STR unless otherwise specified.
[5] Head of Paris Tourism, [6] MarketWatch, [7] Financial Times, [8] Financial Times, [9] Office of National Statistics, [10] VisitBritain, [11] BBC News, [12] Metro.

INVESTMENT INDICATORS FOR Q3 2016 TO Q2 2017

FIGURE 5: GLASGOW

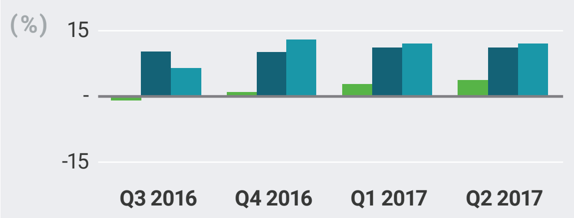


FIGURE 6: BELFAST

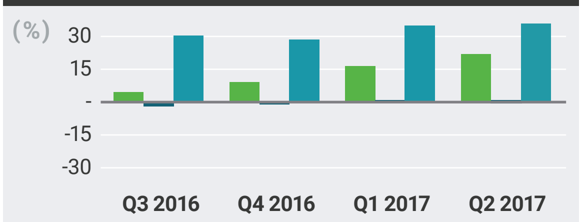


FIGURE 7: LIVERPOOL

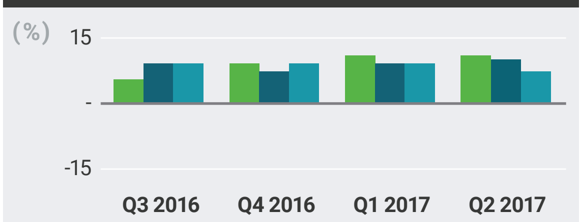


FIGURE 8: BIRMINGHAM

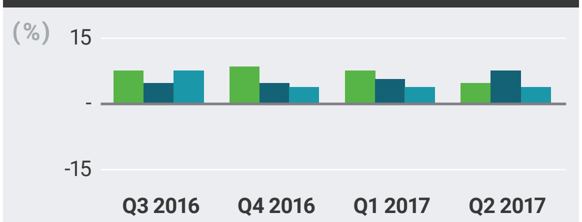


FIGURE 9: CARDIFF

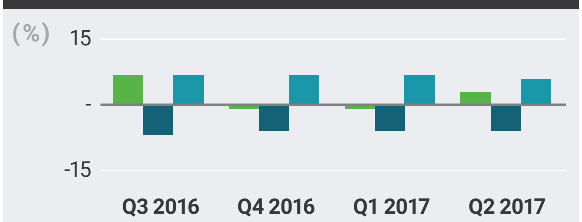


FIGURE 10: BATH

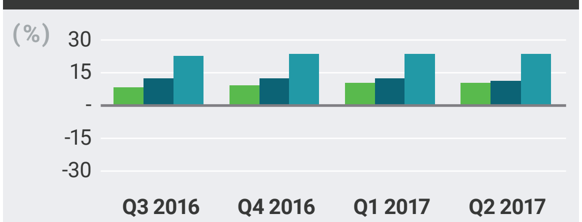


FIGURE 11: ABERDEEN

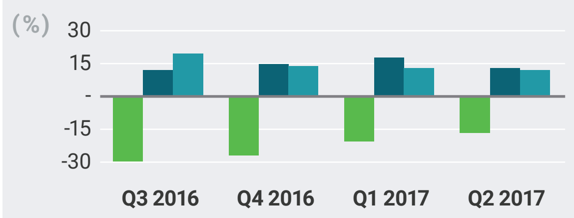


FIGURE 12: EDINBURGH

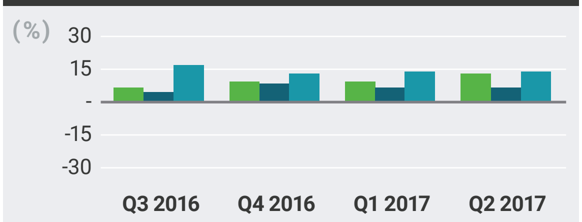


FIGURE 13: NEWCASTLE

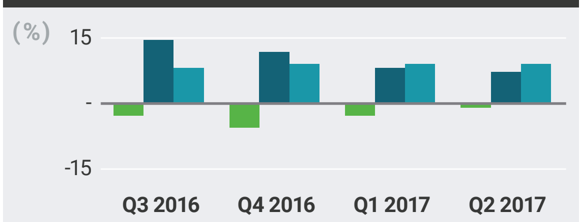


FIGURE 14: LEEDS

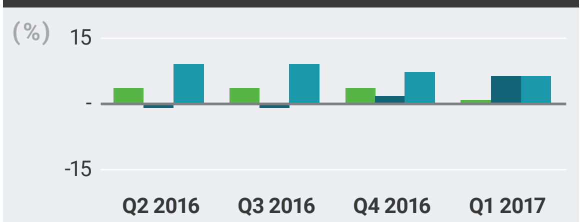


FIGURE 15: MANCHESTER

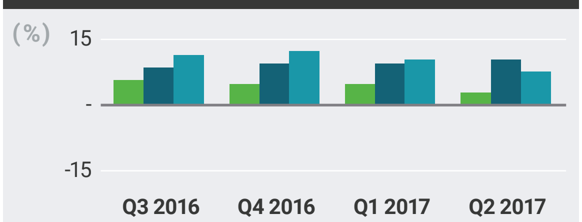
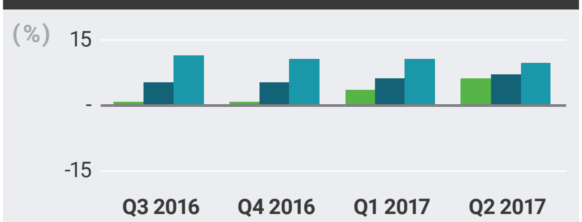


FIGURE 16: LONDON



Key for all: ■ Demand growth[13] ■ Historical supply change[14] ■ Active pipeline[15]
Source for all: AM:PM, STR

[13] Demand growth calculated as the average quarterly RevPAR change for the previous four quarters, [14] Historical supply change calculated as the change in hotel bedrooms in the last two years, [15] Active pipeline calculated as confirmed pipeline bedrooms as a percentage of current supply.

ABOUT AM:PM

AM:PM is the most advanced system for staying on top of hotel supply development. Currently available for the UK and Ireland, AM:PM was acquired by STR in 2016, and is currently being integrated for several markets around the world. With AM:PM, you can stay informed on new hotel openings, pipeline construction and development, closures, rebrands and transactions and access intuitive reports. Beyond the updates, you can visualize this data with our fully functional map tool.

ABOUT HVS

HVS is the world's leading consulting and services organization focused of 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.

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

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