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Hotel data and intelligence

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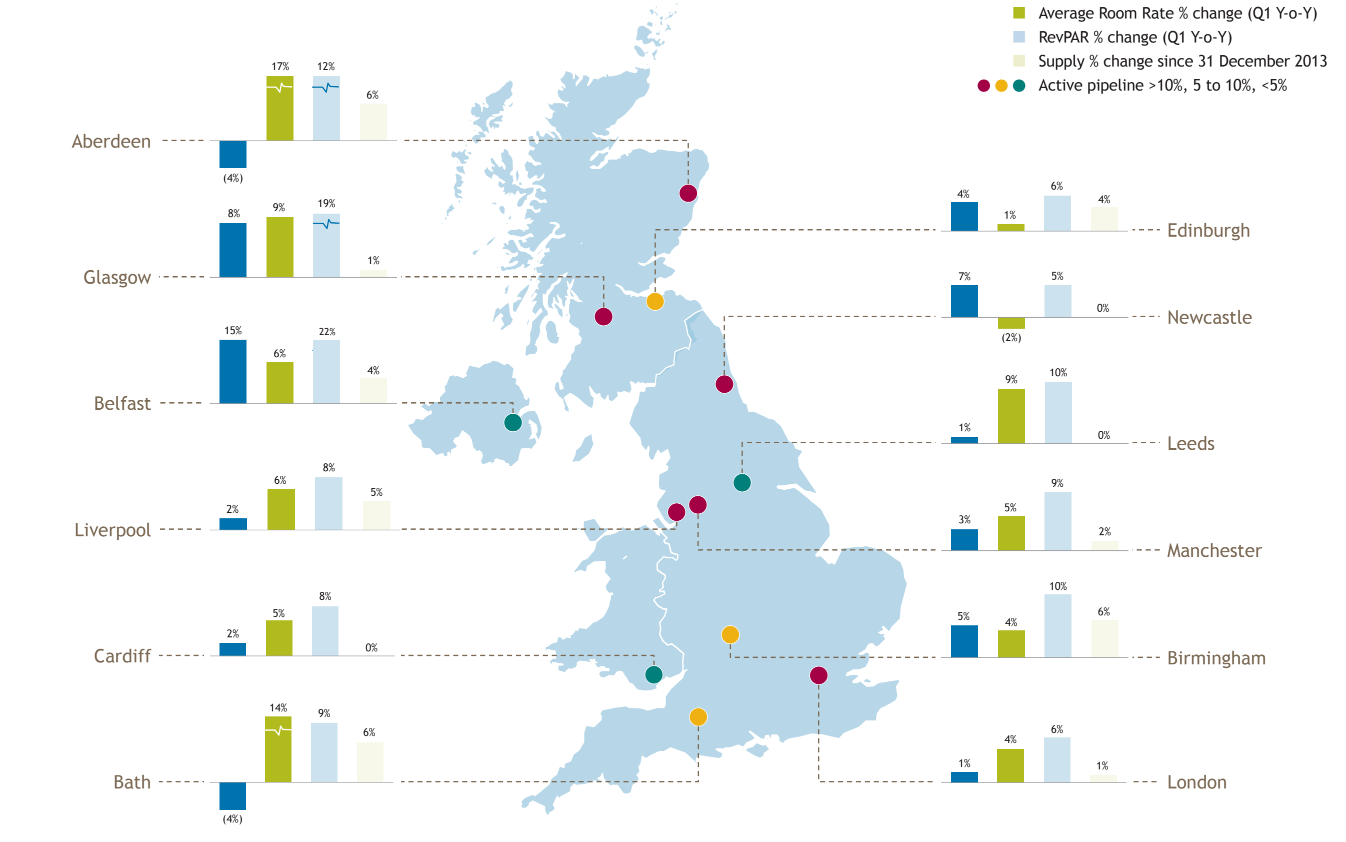
Hotel Bulletin: Q1 2014

The Hotel Bulletin has been refreshed for the first quarter of 2014. For the first time we have taken a closer look at quarterly transaction values, considered whether there are gaps in the hotel market by star-rating and highlighted indicators that may influence investment decisions. This edition's City focus is on Leeds, where traditionally corporate driven demand is being boosted by the city's growing leisure offering.

Selected UK hotel markets – demand and supply



Source: AM:PM, HotStats

Notes: Q1 covers the three months to the end of March
Q1 Y-o-Y compares the average of Q1 2014 to the average of Q1 2013
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

Key highlights of the quarter

Performance improvement throughout the UK

The performance story in Q1 2014 is once again positive with all of the cities reviewed recording RevPAR growth. Seemingly relentless improvement in the UK hotel market is particularly impressive given the relatively strong comparators in Q1 2013.

The current challenge for hoteliers is to push rates after years of chasing occupancy. The majority of the cities reviewed achieved this in Q1 2014 without sacrificing occupancy. This change is bolstering the bottom line.

For the first time in the quarter we introduced a system of indicators which provides a useful starting point when considering investment decisions.

Star-rating refocus, more transactions to come

A fresh look at room gradings this quarter reveals marked differences in the proportions of each grade of bedroom in the current supply and active pipeline. Traditional focus on the three star market has almost disappeared with developers instead preferring budget and high-end hotels.

Transaction values were lower in Q1 2014 than Q1 2013, although the previous year was skewed by the completion of a trio of large portfolio deals. Notable transactions in Q1 2014 included Starwood Capital's acquisitions of Four Pillars and De Vere Venues and ADIA's acquisition of the 173 bedroom London Edition.

Advisory & Restructuring

Demand

Yet another stellar quarter

The UK hotel sector recorded yet another positive quarter in Q1 2014. For the second consecutive quarter, all of the 12 cities reviewed recorded RevPAR growth. The average RevPAR increase of 10% is the highest since the downturn.

In London, RevPAR increased by 6% in comparison to Q1 2013. For the first time since August 2013 London's profitability grew on an annual basis, despite comparators including the unprecedented profitability recorded during the 2012 Olympic games.

Outside London, the 11 regional cities reviewed recorded an average RevPAR increase of 11%. The majority of cities recorded both occupancy and rate improvements. This trend has contributed to continued regional profitability growth.

The cities that recorded the highest RevPAR growth in the quarter were Belfast, Glasgow and Aberdeen.

Belfast was the top performing city in the quarter, recording RevPAR growth of 22% on the top of strong comparators in Q1 2013. The city received a significant amount of investment prior to the Centenary year of the sinking of the Titanic, including the development of the £97 million Titanic Belfast attraction which opened in 2012. Average RevPAR increases of over 11% since then suggest that this investment is likely to have a prolonged impact on the city's hotel market.

Glasgow's RevPAR increased by 19% in Q1 2014 in comparison to Q1 2013. Demand was bolstered by record conference bookings in 2014 and the opening of the 12,000 seat SSE Arena in September 2013.

The 2014 Glasgow Commonwealth Games provide the opportunity for further performance improvement this summer. Whether Glasgow maintains this growth remains to be seen; with supply set to increase by 5% before the Games and by 14% in the next three years, current hoteliers may be concerned that the city could suffer over-supply.

Aberdeen was not the top performer in Q1 2014 for the first time since December 2012, despite recording RevPAR growth of 12%. As new supply and active pipeline levels continue to creep up, occupancy has decreased by 4%. It will be interesting to see how this develops and whether the city recovers occupancy in Q2.

Bath was the only other city to record an occupancy decrease, however, rate improvement resulted in RevPAR increasing by 9%.

Newcastle's RevPAR increased by 5% in Q1 2014, the lowest of the 12 cities reviewed. Hoteliers who have experienced two years of flat or declining performance are likely to be encouraged by the return of a solid rate of growth. Hoteliers in the city still appear to be reducing rate to boost occupancy which is at odds with the other cities reviewed. An active pipeline of 14% of current supply suggests that medium term performance will remain under pressure.

Investment indicators

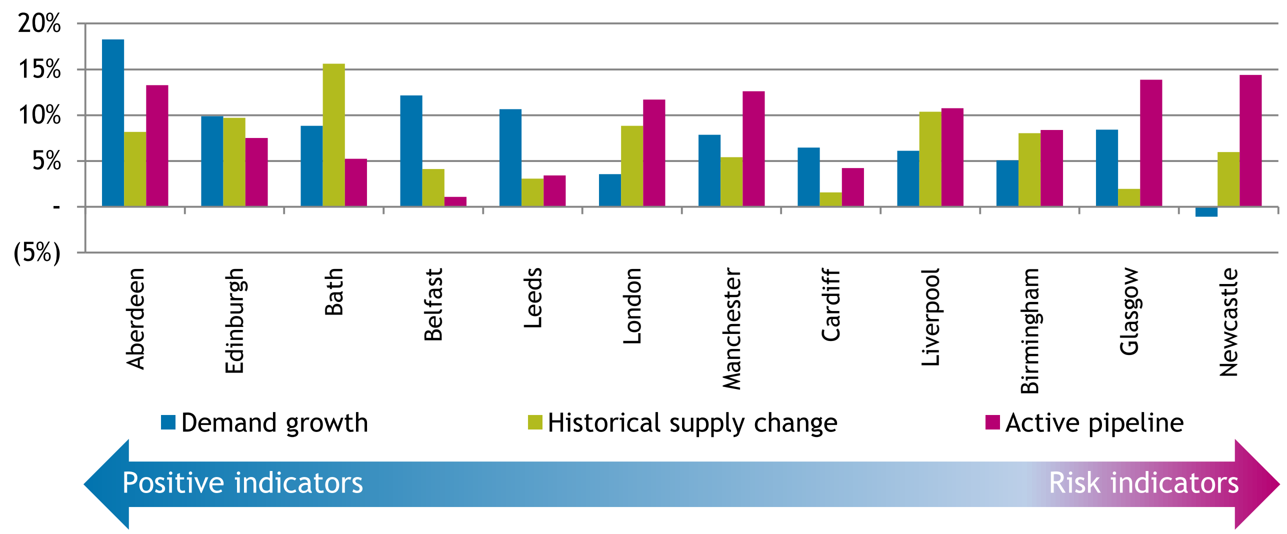
Although high-level demand and supply metrics alone will never fully inform an investment decision, the graph below is intended to highlight demand and supply data for cities that may attract, or concern, investors.

The interaction of demand growth, historical supply and active pipeline are considered. Demand growth has been calculated as the average RevPAR growth for the last four quarters to provide an indication of recent demand trends. Historical supply has been calculated as the increase in rooms in the last two years in order to allow for an appropriate amount of time to contextualise recent trading performance.

Active pipeline has been included in the analysis to provide an insight of each city's hotel market in the upcoming years. Only bedrooms with confirmed opening dates are included.

The UK hotel market remains very location specific and each hotel should be considered on a case-by-case basis.

Investment indicators



Source: AM:PM, HotStats

Notes: Demand growth calculated as the average quarterly RevPAR change for the last four quarters
Historical supply change calculated as the change in hotel bedrooms between March 2012 and 2014
Active pipeline calculated as the active pipeline as a percentage of current supply
The majority of the 12 cities reviewed appear to be displaying positive indicators - the arrow has been shaded to reflect this

Supply and pipeline

Room for growth in aparthotels, budget focus continues

In the graph below (left), we compare the proportion of current supply (inner circle) and active pipeline (outer circle) in the UK market by grading.

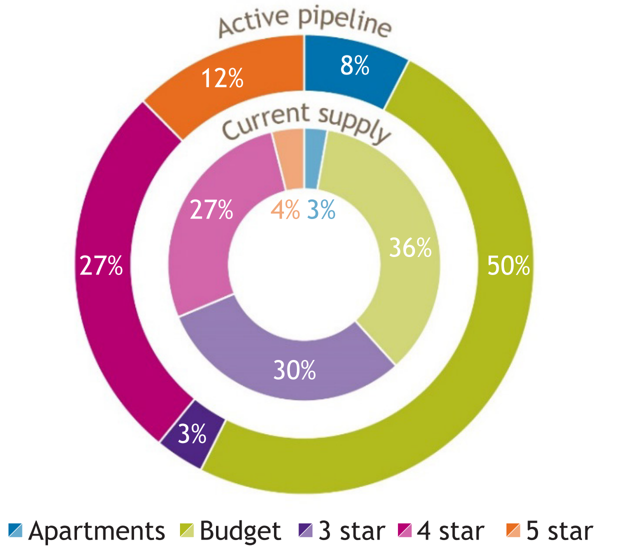
The budget market is already the largest in the UK. This shows no signs of changing with 50% of active pipeline in this space. The other end of the market is also attracting a significant amount of investment. The four and five star markets combined account for 39% of active supply; the five star market alone is set to grow by approximately 4,000 rooms in the next three years.

The UK market continues to move away from the traditional three star hotel. Despite having 30% of current supply, only 3% of the active pipeline is in the three star market. Budget offerings such as Hampton by Hilton and newer brands like CitizenM are continuing to draw investor attention away from this sector.

Notable new openings and developments in the quarter include:

- The 297 bedroom Hampton by Hilton, London Waterloo. The investment potential of this brand is evidently being favoured by investors with further sites being developed in Bournemouth and Newcastle.
- Marriott's tech-savvy, budget brand Moxy is due to open over 900 bedrooms in the next three years and hub by Premier Inn is set to open over 1,700. Both brands will be competing for a share of a similar market, alongside brands such as MotelOne, which opened the 140 bedroom MotelOne Edinburgh-Princes in Q1 2014.
- A number of themed hotels are set to open in the next three years. Notable examples include Gary Neville and Ryan Giggs' 138 bedroom Hotel Football Manchester and the 153 bedroom Titanic Hotel Liverpool.
- Union Hanover Securities is aiming to grow its hospitality portfolio to over £1 billion, with particular focus on its Urban Villa extended stay offering.

UK current supply and active pipeline by grading



Source: AM:PM

Notes: Active pipeline includes developments with a confirmed opening date in the next three years
The budget category includes hostels, budget and two star hotels

Transactions

Subdued volumes compared to bumper Q1 2013

In the graph below (right), we analyse transactions with sale proceeds above £6 million. Five portfolio transactions completed in Q1 2014 with a combined value over £400 million. This was over £900 million lower than Q1 2013 which was bolstered by the overhang of 2012 deals including the Marriott and Malmaison/Hotel du Vin deals.

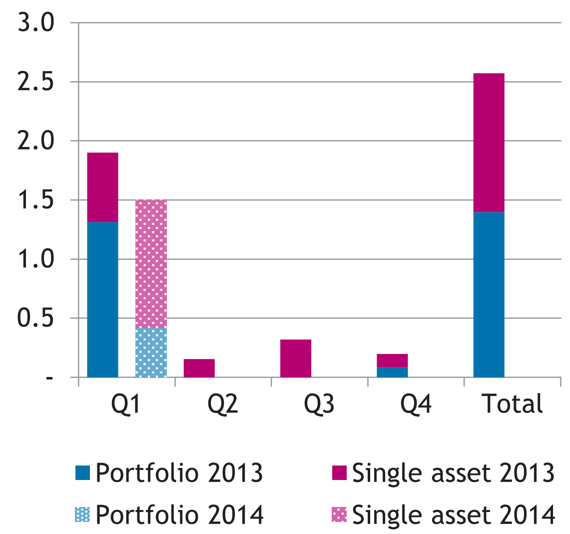
Ten single asset transactions over £6 million completed in Q1 2014 with a value of approximately £1.1 billion. This was approximately £500 million higher than the total single asset transaction value in Q1 2013.

In 2013, over 70% of transactions by value completed in the first quarter. As strong fundamentals fuel investor appetite and an increasing number of purchasers enter the market, we expect total transaction values to grow towards 2013 levels in 2014.

Notable transactions include:

- Starwood Capital Group's acquisition of the six hotel Four Pillars portfolio for an undisclosed sum and the De Vere Venues portfolio for approximately £232 million. These acquisitions follow Starwood Capital's acquisition of the Principal Hayley portfolio last year.
- ADIA's acquisition of the 173 bedroom London EDITION which was marketed via HVS. HVS, alongside Christie + Co., also conducted the sale of the 90 bedroom Abba Queen's Gate Hotel in Kensington to a private investor.
- Kew Green Hotels' acquisition of four Holiday Inn hotels (approximately 500 bedrooms) from Stardon Capital Investments. The hotels, which are already operated by Kew Green, are set to undergo a full refurbishment.
- Eight Premier Inn hotels (1,089 bedrooms) and eight Travelodge hotels (839 bedrooms) transacted in the quarter. Disclosed valuations achieved on these sales ranged from a 4.4% yield on the 234 bedroom Premier Inn London Waterloo to a 6.5% yield on the 52 bedroom Travelodge Hereford.

Transactions by quarter



Source: HVS, AM:PM

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

Focus on: Leeds

Leisure improvements in traditionally corporate led market

Historically, the Leeds hotel market has benefited from strong corporate demand. According to the Financial Times, Leeds is currently the third largest banking centre in the UK.

In more recent years, Leeds has increased its leisure offering significantly. The opening of the Leeds Trinity shopping centre and the First Direct Arena in 2013 as well as the regeneration of areas such as Granary Wharf and the Arena Quarter are noteworthy examples of this. A second high profile shopping centre, Victoria Gate, has begun construction in the city centre.

Visitors are attracted to Leeds by international matches in both cricket and rugby league. During the 2013 Rugby League World Cup, Leeds played host to the Italy and New Zealand teams and the Carnegie Stadium hosted the quarter final between Scotland and New Zealand.

Although Leeds still has a strong corporate sector, successful hoteliers will adjust their offering to accommodate the burgeoning leisure market.

Strong performance looks set to continue in 2014

Leeds' performance over the past year has been very positive with RevPAR increasing in 11 of the last 12 months. Leeds' GOPPAR increased by an average 11% during the period as room rates and ancillary revenue gains were made without sacrificing occupancy.

The first part of the year culminated with 13% RevPAR growth in July, which corresponded with Bruce Springsteen's unofficial opening of the First Direct Arena with an audience of 13,000.

Towards the end of 2013, Leeds hosted Rugby League World Cup games and the sell-out Sports Personality of the Year. These events underpinned GOPPAR increases of 22% and 11% in November and December respectively and the ability of the city to attract these high profile events demonstrates the strength of its leisure offering.

The only month in the year that recorded GOPPAR decline was August (7%). Flat RevPAR was largely due to strong comparators in the previous year where the second test of South Africa's cricket tour of England was held at Headingley. Below average TRevPAR growth of 3% was not enough to mitigate the impact on profitability.

In July 2014, Leeds will host the Grand Depart of the Tour de France. With 1,200 hotel rooms being reserved each night for teams, staff and press in addition to those watching the race, the impact of this event should be significant. The exposure to a worldwide audience of 3.5 billion in some 188 countries should promote tourism in Leeds in the longer term.

Source: yorkmix.com, firstdirectarena.com, letour.yorkshire.com

Limited new supply and pipeline

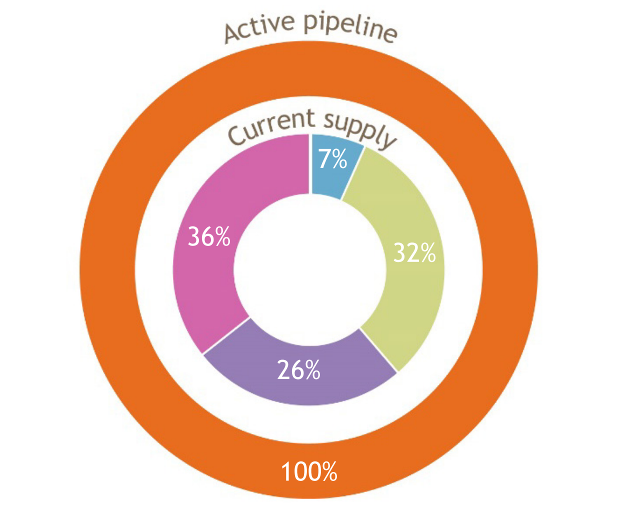
Current supply in Leeds is representative of the rest of the country, with approximately one third of the market in the budget, three and four star segments respectively.

Despite Leeds recording positive recent demand metrics, investors may be wary that the city has not been recently tested by new supply. The last hotel to open in Leeds was the 131 bedroom Premier Inn Leeds City Centre in 2012.

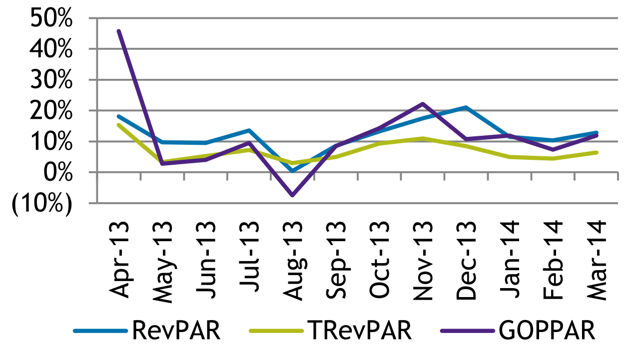
The only hotel in the Leeds active pipeline is the 206 bedroom Hilton Leeds which will be the first five star hotel in the city. The hotel is located next to the First Direct Arena which is a further sign of investors' positive perception of Leeds' leisure offering.

The most recent hotel transactions in Leeds were the 130 bedroom Holiday Inn Express and the 147 bedroom Radisson Blu. With strong demand and a low active pipeline, investors may be taking a closer look at the Leeds market.

Leeds' current supply and active pipeline by grading



Leeds' year-on-year change in demand by month



Source: AM:PM, HotStats

Note: The budget category includes hostels, budget and two star hotels

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