AM:PM hotels
Hotel data and intelligence

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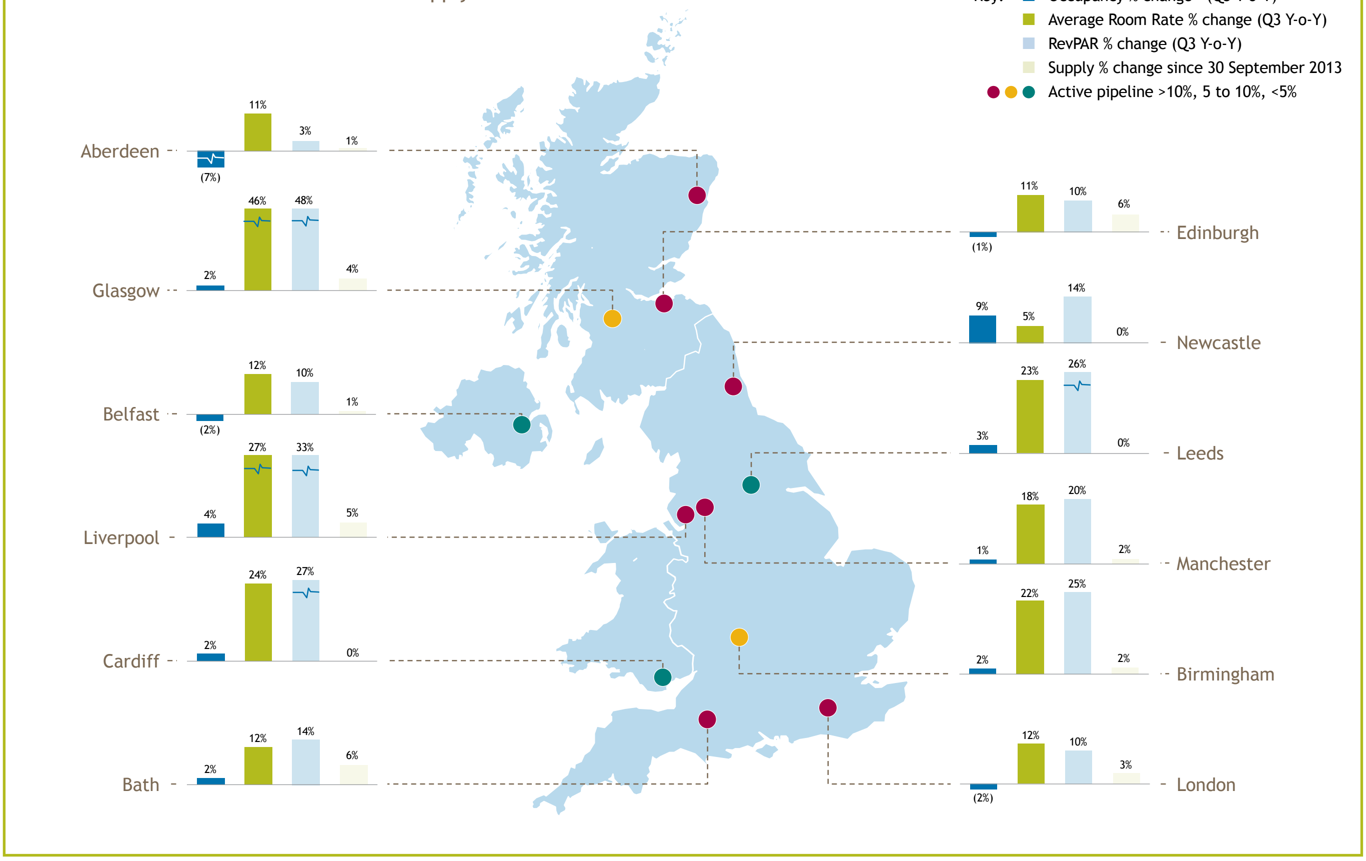
Hotel Bulletin: Q3 2014

This edition of the Hotel Bulletin highlights continued rate driven RevPAR growth in the UK hotel market. All cities analysed have now recorded RevPAR growth for each of the last four quarters. Q3 2014 was a bumper quater for hotel transactions, in fact, the total transaction value for 2014 has already surpassed 2013's total. This quarter's focus analyses hotel closure information to determine how major events in the last 150 years have impacted the shape of the UK hotel market.

Selected UK hotel markets – demand and supply



Source: AM:PM, HotStats

Notes: Q3 covers the three months to the end of September
Q3 Y-o-Y compares the average of Q3 2014 to the average of Q3 2013
Supply and pipeline analysis relates 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

Widespread profitability growth likely as hoteliers push rates

Good news for the hotel market continued in Q3 2014 as all 12 cities recorded RevPAR growth for the fourth consecutive quarter. This growth is most pronounced in cities which have hosted major international sporting events over the three months, such as Glasgow.

RevPAR growth this quarter has been predominantly driven by rates. Hoteliers have taken advantage of sustained high occupancy to push average room rates which will undoubtedly bolster the bottom line.

UK hotel market surpasses 2013 transaction levels

With one quarter of 2014 remaining, the total transaction value for 2014 has already surpassed that of 2013. With KSL Capital's acquisition of De Vere Village Urban Resorts and other transactions in progress, the total value for the year may even be comparable to pre-downturn levels.

Several high value portfolio transactions completed in Q3 2014. The highest valued of these was the acquisition of 144 Travelodge hotels by a consortium of investors including Avenue Capital, Goldentree Asset Management and Goldman Sachs for an estimated £520 million.

Demand

Significant RevPAR increases as international sporting events stimulate growth

All of the 12 cities reviewed recorded RevPAR growth in Q3 2014, with RevPAR increasing by an average of 20% over Q3 2013. In the year-to-date, RevPAR has grown for every quarter and in every location analysed in this bulletin. RevPAR growth is almost exclusively driven by rates in the cities analysed, with rates increasing by an average of 19% in Q3 2014.

In London, hoteliers increased rates by 12% with only a 2% decline in occupancy. Overall, RevPAR increased by 10% in the quarter. Although rate driven RevPAR improvements enhance profitability, a material reduction in footfall can impact ancillary revenue streams.

The top performers this quarter included Glasgow, Liverpool and Leeds where major international sporting events boosted the cities' hotel and tourism industry. In addition, Cardiff's Q3 RevPAR increased by 27% as the city hosted the 2014 NATO Summit. At the opposite end of the scale, Aberdeen's 3% RevPAR increase was the lowest of the cities reviewed.

RevPAR in Glasgow increased by 48% in Q3 2014 as the city hosted the XXth Commonwealth Games. Over 600,000 people visited the games, with 1.2 million tickets (96% of those available) sold for events predominantly held in Glasgow.

In Liverpool, Q3 RevPAR increased by 33% compared to the previous year. This increase was underpinned by the Open Championship, which was held at Royal Liverpool Golf Club in July. Liverpool's performance was further bolstered by 75,000 delegates attending the International Business Festival 2014 which also took place in July.

Leeds recorded Q3 RevPAR growth of 26% due to Yorkshire hosting the Tour de France's Grand Depart. Millions of tourists lined the 190km route of the first stage of this year's tour.

London, Birmingham, Cardiff, Manchester, Leeds and Newcastle are likely to record similar increases in Q3 2015 as they host Rugby World Cup matches. However, it remains to be seen if these cities can capitalise on these events to drive longer term growth.

Hoteliers push rates to drive RevPAR growth

Average occupancy across the cities reviewed (83% in Q3 2014) was the highest achieved on a quarterly basis since the downturn. Recent data, however, suggests that occupancy is plateauing. As such, the challenge for hoteliers is to increase rates without cannibalising occupancy. Hoteliers are likely to benefit from improvement in the macroeconomic environment and certain cities will find it easier to command higher prices. For example, the majority of consumers are now regularly paying over £200 per night in Central London.

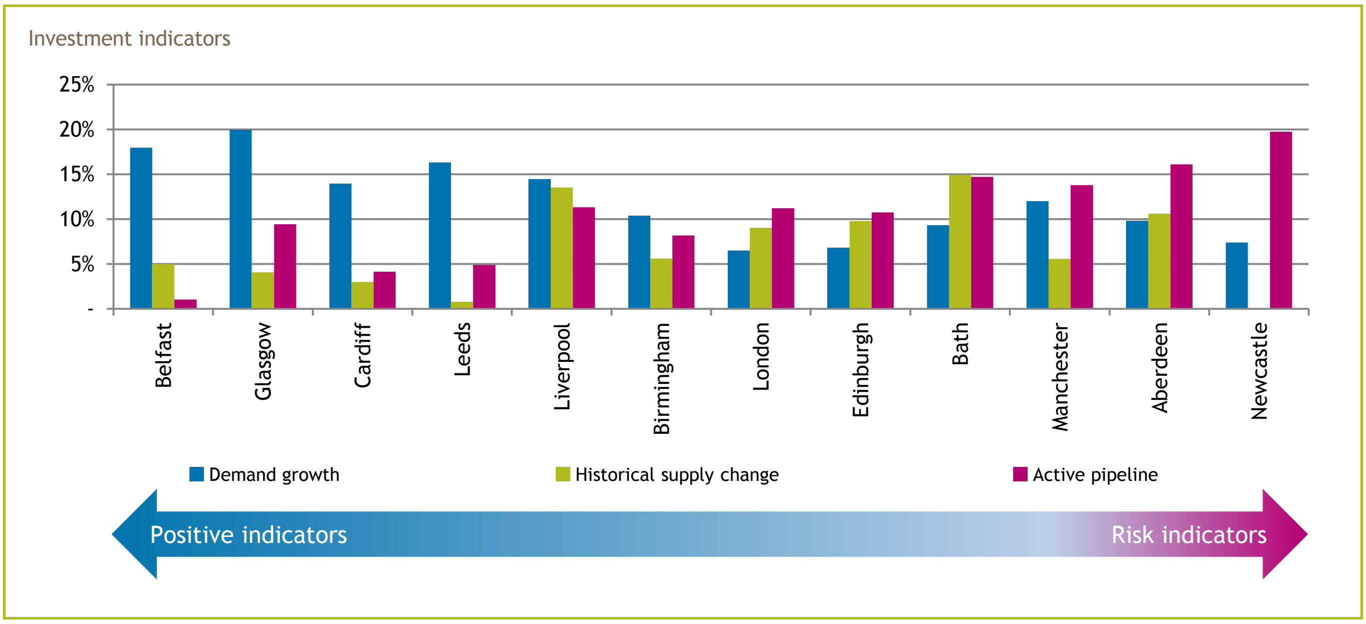
This quarter's data demonstrate that hoteliers are meeting this challenge. 11 of the 12 cities reviewed achieved double-digit RevPAR growth and Cardiff, Birmingham, Liverpool, Leeds and Glasgow increased rates by over 20% compared with the previous year. Material rate growth with limited impact on occupancy is a sign of performance maturity and is likely to have a significant positive impact on the bottom line.

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.

Characteristic of a cyclical upturn, demand has continued to grow strongly in spite of additional supply in Q3 2014. On average, active pipeline is 10% of current supply in the 12 cities reviewed.



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 June 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

Aberdeen supply risk

In the graph below (left), we compare the proportion of current supply (inner circle) and active pipeline (outer circle) in the UK market by sector. It is evident that budget hotels continue to dominate both supply and active pipeline with 33% and 50% of the total population respectively.

Aberdeen now has active pipeline of 16% of current supply. Developers have been attracted to the city by performance improvement driven by significant corporate demand from the oil and gas industry. However, in Q3 2014, occupancy in the city decreased by 7% on the previous year. With supply set to increase by 16% in the next three years, there is a risk of oversupply which may lead to flat or declining RevPAR performance.

Notable new openings and developments in the quarter include:

- Accor Group opened two Ibis hotels in Edinburgh with a total of 264 bedrooms. These openings form part of Accor's plans to open five new hotels in London and Edinburgh by the end of 2015.
- The 153 bedroom luxury Titanic Hotel in Liverpool opened in July in the Grade II 19th Century North Warehouse after a £36 million regeneration. The development was partly funded by BPRA investors.
- Ennismore Capital opened its second Hoxton hotel after the conversion of former BT offices on High Holborn, London. The 174 bedroom Hoxton Holborn features two restaurants operated by Soho House.
- Z Hotels opened the 104 bedroom Z Glasgow following the conversion of Gladstone House next to George Square. The group also operates three hotels in London and one in Liverpool and has a hotel in Bath and two additional London sites in the active pipeline.
- IHG announced plans to open a new 130 bedroom Crowne Plaza on Albert Embankment in London in 2015.

2014 total hotel transaction value surpasses 2013 by Q3

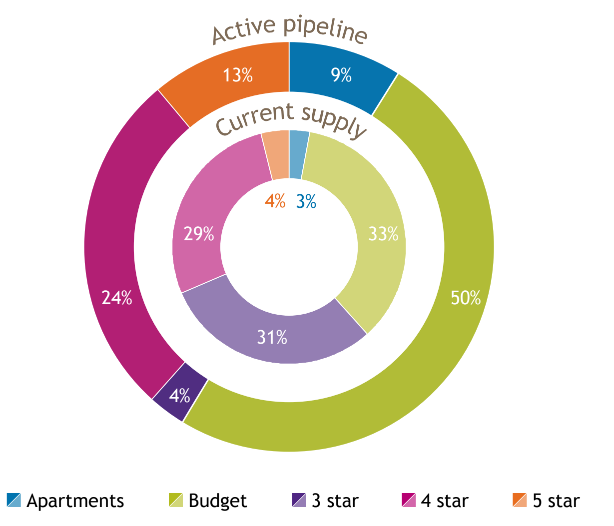
There has been a substantial increase in transaction activity in the hotel sector in Q3 2014. £1.4 billion of transactions completed in the quarter, £1.1 billion more than the same period in the previous year. With one quarter remaining, the total UK hotel transaction value has surpassed 2013, which was the most active year since the downturn.

Transaction values are being driven up by a significant level of investment capital being ta rgeted at the hotel sector by real estate investors. These investors are looking to real estate-linked sectors such as hotels in search of higher yields in comparison to standard real estate. The lack of suitable properties is also contributing to the high values achieved by creating 'price wars' as buyers compete to acquire new sites.

Notable transactions include:

- Kew Green Holdings acquired 19 Holiday Inn hotels from LRG Holdings for a reported £30 million over guide price. Kew Green is now the largest Holiday Inn franchise partner in Europe with a total of 38 hotels.
- Topland Group, advised by Zolfo Cooper, acquired Hallmark Hotels' portfolio of eight four-star hotels with a total of 730 bedrooms for a reported £75 million. Topland now has a portfolio of 30 hotels across the UK.
- Accor acquired a portfolio of 13 Ibis hotels with a total of 1,194 bedrooms from Tritax for £70 million. Three Accor owned F1 hotels adjacent to these properties will be updated as extensions of these hotels.
- 144 leased Travelodge hotels have been sold to a consortium which includes Avenue Capital, Goldentree Asset Management and Goldman Sachs, for an estimated £520 million. The acquiring consortium owns Travelodge after completing a debt-for-equity swap in 2012.
- US investment firm Marathon Asset Management acquired 11 QMH hotels operating under Crowne Plaza, Holiday Inn and Best Western PLUS brands. Seller Goldman Sachs acquired the hotels as part of a group of 80 in 2004.

UK current supply and active pipeline by grading

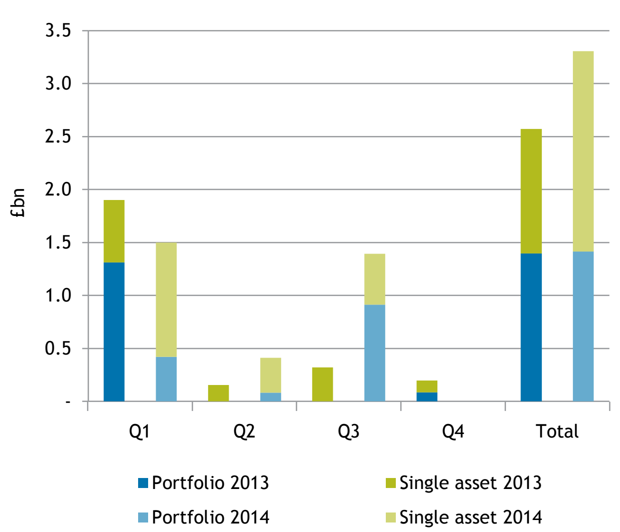


Source: AM:PM

Notes: Active pipeline refers to hotel bedrooms with an opening date in the next three years

The budget category includes hostels, budget and two star hotels

Transactions by quarter

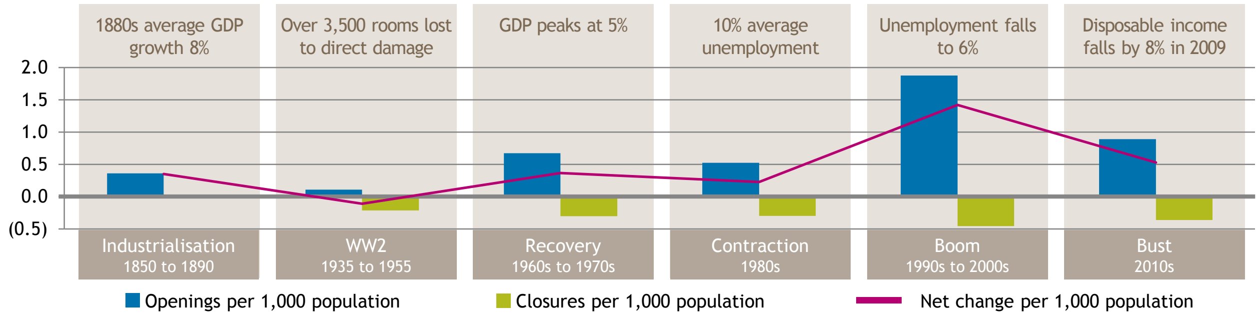


Source: HVS

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

Focus on: hotel closures

Hotel bedroom openings and closures per 1,000 population



This quarter AM:PM launched a database of over 6,000 hotel closures in the UK and Ireland from 1800 to today. As demonstrated in the graph above, there is a general link between macroeconomic trends and net supply changes. These broader movements mask seismic social and industrial shifts in the UK which have materially impacted the shape of the UK hotel market. We examine some of these below.

The highs and lows of the British seaside resort

Industrialisation in the nineteenth century provided workers with more time and money to spend on leisure. Railways, originally built to serve industry, were highly profitable as passenger transport as 'railwaymania' swept Victorian England. The first main passenger line opened in 1837 and within 30 years there were over 10,400 miles of track. The rail network opened up the possibilities for holiday makers and a large number of hotels opened in seaside locations to accommodate. For example, Blackpool, built on textile worker holiday makers, gained a railway line in the 1860s, built its piers in 1863 and 1868, finished its tower in 1894 and opened a significant number of hotels, including the Imperial, Norbeck Hydro and Queens around this time.

The boom in seaside locations was to subside in the 1960s and 1970s with the arrival of the package holiday. Rather than staying in the UK, travellers flocked to the continent in search of sun. As a consequence there was a sustained loss of hotel bedrooms in traditional seaside towns that had previously flourished. Bournemouth, Brighton, Blackpool and Margate closed a substantial amount of hotel bedrooms in this period.

Government intervention

In the late 1960s and early 1970s, the Government acted to stimulate growth in the UK hotel and tourism industry. The launch of the Development of Tourism Act in 1969 committed grants of up to £1,000 per new hotel bedroom. Despite seaside closures, this legislation resulted in the highest rate of hotel bedroom openings of any time up to this period. In addition, developers took further advantage of this subsidy by building larger hotels. On average, closures in this period had approximately 40 bedrooms whereas new openings had over 100 rooms.

Despite initiatives to stimulate the sector, the Government responded in the 1970s to a number of fires in hotels. The Fire Precautions Act was first applied to hotels in 1971 and resulted in hoteliers having to comply with numerous new regulations, including installing fire doors and maintaining fire fighting equipment. Adapting hotels to comply proved too expensive for certain hotels, particularly older ones, and as a result a large number of hotels were demolished or sold for alternative use.

Today, regulation of alternative accommodation providers, such as AirBnB, is often less onerous than for hoteliers in the UK. It remains to be seen whether these providers will be able to offer such competitive rates as legislation is introduced to bring certain standards in line with mainstream hotels.

The rise of the brands

Financial services deregulation in October 1986 established London as a global centre for international finance. The event brought an influx of large international corporations to London and triggered expansion of the services sector across the UK. As a result, there was a rapid increase in the demand for corporate hotels. Before the 'Big Bang' there were chains in the UK, such as Forte Posthouse and Queens Moat Houses, however the concept of global brands was still its infancy. Businesses increasingly value consistent standards and frequent user benefits and, as such, currently the five largest hotel brands (Premier Inn, Travelodge, IHG, Accor and Hilton) account for over 30% of hotel bedrooms in the UK.

Source: AM:PM, HotStats
Note: Supply data only includes hotel bedrooms with a known opening/closing date.

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