INSIGHT

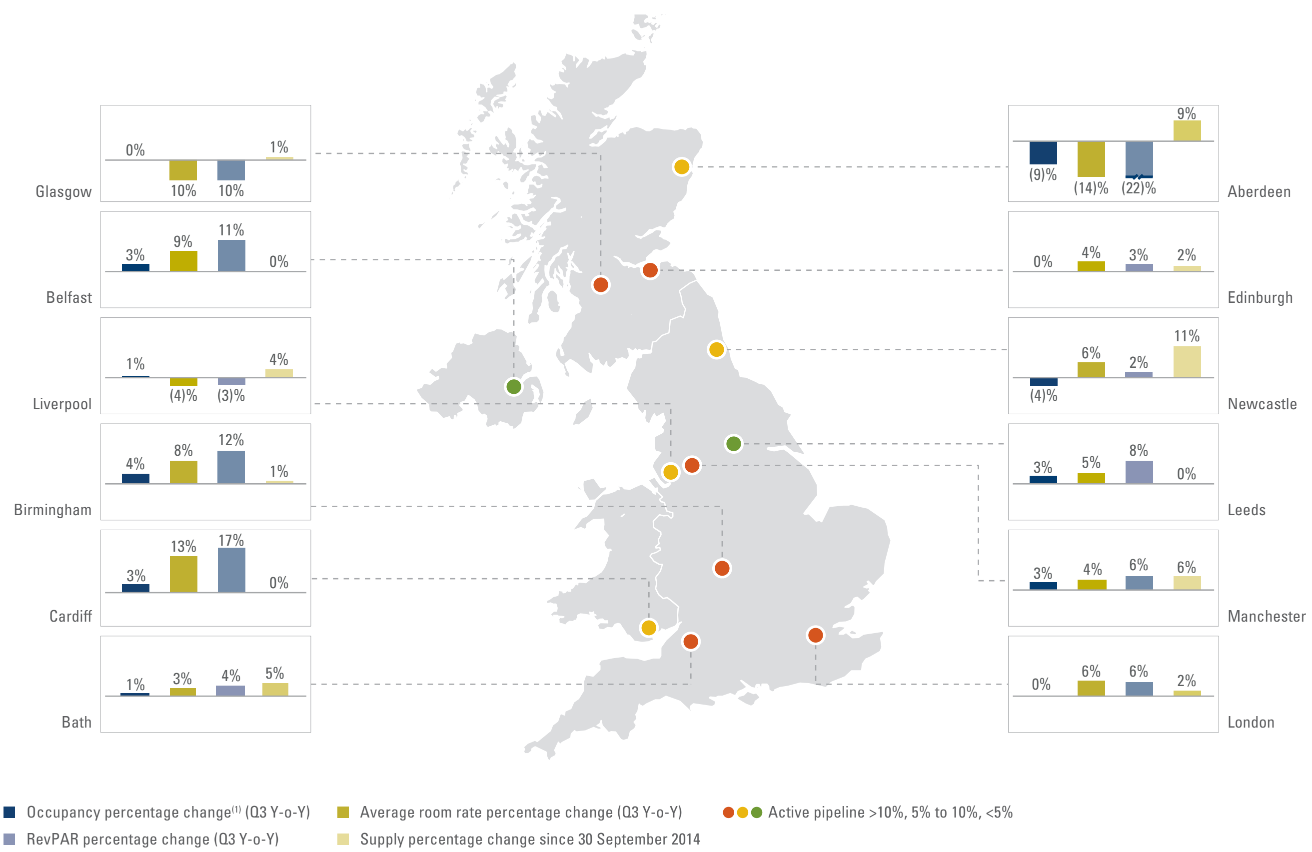
Leisure

AM:PM hotels — Hotel data and intelligence | HVS | AlixPartners — When it really matters.

Hotel Bulletin: Q3 2015

For the 13th consecutive quarter, the majority of cities reviewed in the Hotel Bulletin experienced RevPAR growth. Top performers, including Cardiff and Birmingham, have recorded strong increases due to hosting high profile international sporting events such as Rugby World Cup matches. In contrast, Aberdeen continues to decline; however, new hotel investment plans in the city indicate investor confidence in the longer term outlook. Asian investors, attracted to relatively stable economies and higher yields in overseas markets, such as the UK, have bolstered the transaction market this quarter. This edition's Focus examines the increasing footprint of branded hotels and the power of brand margin as a consideration for investors.

FIGURE 1: Selected UK hotel markets – demand and supply



Notes: Q3 covers the three months to the end of September | Q3 Y-o-Y compares the average of Q3 2015 to the average of Q3 2014 | 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

Demand

International sporting events support demand growth

In Q3 2015, three of the 12 cities reviewed in this Bulletin recorded double digit RevPAR growth when compared to Q3 2014. RevPAR growth has decelerated, as demonstrated by the average rate growth (3%) being the lowest since Q1 2013. Four of the 12 cities reviewed in this Bulletin recorded falling occupancy levels in Q3 2015; however, rate growth more than compensated for this decline.

In London, RevPAR increased by 6%. Falling occupancy in July and August was mitigated by rising room rates and the impact of the Rugby World Cup in September.

Looking forward, hotels surrounding either Heathrow or Gatwick are likely to benefit significantly from the planned additional runway. This quarter the Airport Commission recommended Heathrow. It is likely that this debate will continue; however, the current active pipeline of 1,200 bedrooms in Heathrow compared with none in Gatwick suggests that hotel investors expect expansion in Heathrow.

The top performer in this quarter was Cardiff (17% RevPAR growth). The Welsh capital benefited from hosting an Ashes test match in July in addition to hosting three Rugby World Cup matches in September.

Birmingham's hotels also recorded strong demand growth in Q3 2015 (12% RevPAR growth). Like Cardiff, the city hosted an Ashes test at Edgbaston in July, with over 100,000 tickets sold. Following the airport's runway extension last year, Birmingham is proving increasingly popular with Chinese tourists. The number of charter flights between Beijing and Birmingham International in Q3 2015 was double that in the same period in 2014. An estimated 4,000 tourists arrived in the city over the summer months.

In Q3 2015 Belfast was again among the top 3 performers of the 12 cities reviewed. The city's tourism industry has grown significantly despite a small downturn following the flag protests of 2012. The regeneration of the Titanic centre in 2012 and hosting of high-profile events, including the Giro d'Italia, have contributed to the development of Belfast.

For the third quarter in a row, Aberdeen was the worst performer of the 12 cities reviewed with a significant fall in RevPAR (22%). A combination of strong new supply and a lack of recovery in the oil industry continues to weigh on demand. There is evidence, however, that investors remain confident of the city's longer term recovery. Active pipeline remains at 8% of current supply and over 200 rooms have been added to Aberdeen's development pipeline in H1 2015.

Aside from Aberdeen, the only other cities to record RevPAR decreases were Glasgow (10%) and Liverpool (3%). This is primarily due to strong comparators in both cities in the previous year. In 2014, Glasgow hosted the Commonwealth Games in July and August and Liverpool hosted the Open Championship at Royal Liverpool Golf Club in July.

Investment indicators

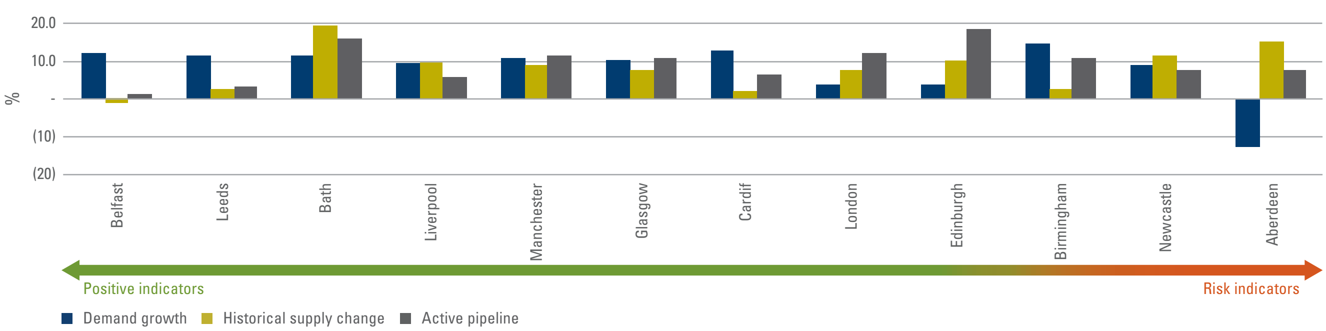
Although high-level demand and supply metrics alone will never fully inform an investment decision, the chart below is intended to highlight demand and supply data for cities that may attract, or concern, investors.

The interaction of demand growth, historical supply change 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 change has been calculated as the increase in rooms in the last two years 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 into each city's hotel market in the upcoming years. Only hotel bedrooms with confirmed opening dates are included.

Birmingham has recorded the highest average demand growth over the past year (15%), making it an attractive prospect for investors. However, significant active pipeline (11% of current supply) may be a cause for concern for investors, given recent limited new supply (3% growth in the last two years).

Source: The Telegraph, Birmingham Airport website

FIGURE 2: 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 September 2013 and 2015 | Active pipeline calculated as the active pipeline as a percentage of current supply | The shading of the arrow reflects positive (green) or risk (red) indicators

Supply and pipeline

In Figure 3 below, we compare the proportion of current supply (inner circle) and active pipeline (outer circle) in the UK market by sector. For the first time, budget bedrooms account for more than half of the total UK active pipeline. More than 1,500 bedrooms were added to the budget market pipeline in Q3 2015.

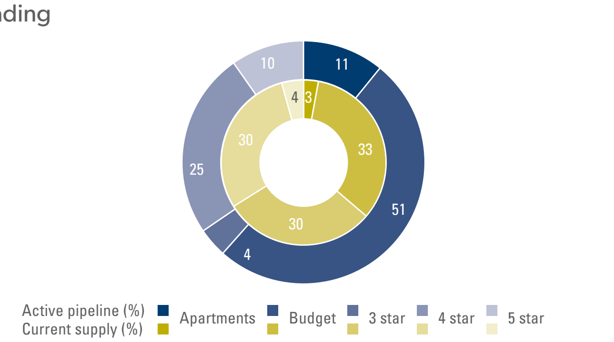
Of the 3,000 new bedrooms that opened in the quarter, 2,500 were branded. Many groups are looking to broaden their brand reach. For example, IHG acquired the San Francisco based Kimpton brand last year in order to expand its boutique hotel offering.

Whitbread added over 500 bedrooms to their portfolio in Q3, bringing its total number of UK bedrooms to over 60,000. The group remains on track to achieve its goal of 85,000 bedrooms by 2020. Travelodge opened three hotels (260 bedrooms) in the same period. We discuss increasing brand market share further in the Focus section.

Notable new openings and developments this quarter include:

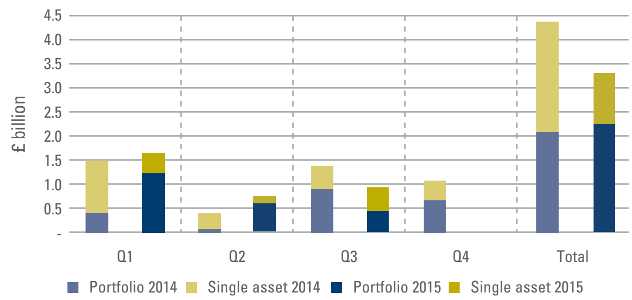
- A number of Malaysian investors have opened hotels in Q3 2015. YTL Corporation opened the five star Gainsborough Bath Spa hotel, made up of three Grade II listed properties in Bath. Budget hotel group Tune Hotels, backed by Queens Park Rangers FC Chairman Tony Fernandes, opened its eighth UK hotel, the 100 bedroom Tune Hotel Liverpool City Centre.
- Dominvs Hospitality opened the 165 bedroom Crowne Plaza Aberdeen Airport, next to its recently opened Holiday Inn Express. 506 new bedrooms have opened in Aberdeen in the past 12 months.
- The £20 million 83 bedroom Shankly Hotel has opened in Liverpool, commemorating former Liverpool FC manager Bill Shankly. The football themed hotel appears part of an emerging trend, along with Hotel Football in Manchester. Although not expected to be themed, Brighton & Hove Albion FC submitted a planning application for a 150 bedroom hotel next to its AMEX Stadium in Q3 2015.

FIGURE 3: UK current bedroom supply and active pipeline 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 hotels

FIGURE 4: UK transaction value



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

Transactions

£0.9 billion of transactions completed in Q3 2015, of which £0.5 billion were single assets. Singha Estate and Fico Corporation's acquisition of Jupiter Hotels has brought the total 2015 transaction value towards 2014's total, which was the greatest since before the downturn.

As with the previous quarter, the Q3 2015 transaction market was dominated by Asian investors, including the acquisition of Kew Green Hotels by Chinese hotel group HK CTS Metropark Hotels.

This is likely due to two key factors for Chinese investors. Firstly, a number of Chinese tour operators have acquired hotels to vertically integrate with tour operations. Secondly, the Chinese economy is experiencing a period of uncertainty, leading investors to focus on overseas markets such as the UK which are considered more stable.

There have been several acquisitions from Singaporean investors in the quarter, including CDL Hospitality Trusts acquiring the Cambridge City Hotel from London & Regional Properties for a reported £62 million. The UK market offers higher yields than Singapore. In addition, real estate valuation increases in Singapore are being restricted by government policy.

Notable transactions include:

- HK CTS Metropark, subsidiary of China Travel Service, acquired Kew Green Hotels from Goldman Sachs and TPG for a reported £400 million. The collection of 44 owned and 10 operated hotels (over 6,500 bedrooms) is the largest Holiday Inn franchisee in Europe.
- Ennismore Capital, the owner of the Hoxton Hotels brand, has acquired the 232 bedroom Gleneagles Hotel for an undisclosed sum. The five star golf resort was recently redeveloped in advance of hosting the 2014 Ryder Cup.
- A joint venture between Thai companies Singha Estate and Fico Corporation agreed to acquire Jupiter Hotels for a reported £160 million. RBS and Patron Capital had previously acquired the collection of 32 hotels in 2011 for around £110 million. The transaction represents a price per key of £56,000.

Focus on: brand penetration

In this edition we focus on the increasing market share of branded hotels in the UK and the impact of brand margin on informing investor decisions.

Branded hotels commanding UK market

Figure 5 shows a breakdown of branded and independent bedroom supply and active pipeline in the UK. 37% of current UK bedrooms are independent; however, branded market share is set to increase as this accounts for 84% of active pipeline. This shift reflects the preference of investors, developers and lenders for the relative safety of branded investments. The ability of a brand's reservation system to drive room nights provide comfort over revenue forecasts.

Global and international brands, including those owned by Accor, Hilton and IHG, are the largest segment of active pipeline (46%). The national brand segment (27%) almost exclusively consists of the Premier Inn and Travelodge brands.

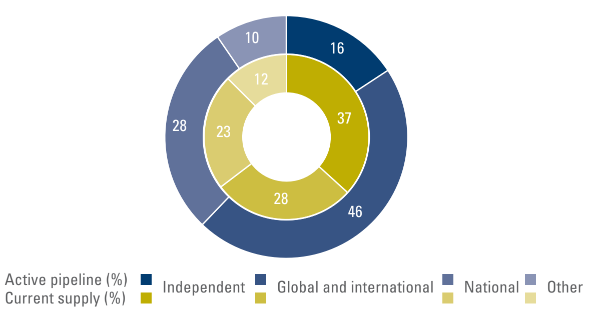
A number of brands currently leading in terms of supply levels have limited active pipelines in comparison to others. In part, this is due to brands like Mercure and Holiday Inn regularly expanding by rebranding existing hotels rather than by construction, and therefore are not included in active pipeline.

Premier Inn is the most prolific hotel brand in the UK, with over 60,000 rooms. Its nearest rival in terms of scale, Travelodge, has 37,500 rooms. Between them, these two giants of the budget market have almost 100,000 bedrooms (25%) of around 400,000 branded bedrooms in the whole of the UK. Once current active pipeline is added, they will have more than a quarter. Including the anticipated 'hub by Premier Inn' properties, these national brands account for 33% of known branded pipeline rooms.

The impact of brand margin

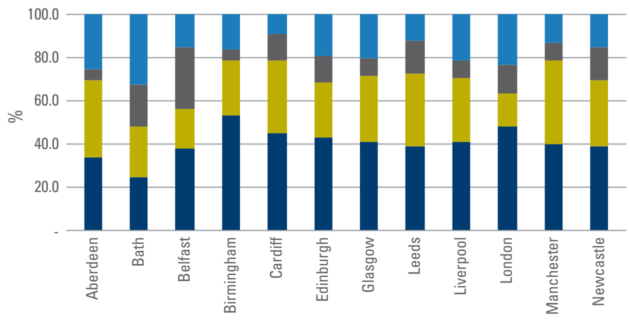
At the 2015 Annual Hotel Conference held in Manchester, Dr Cris Tarrant of BDRC Continental discussed the concept of brand margin – the premium (or discount) each hotel brand achieves when compared with an unbranded hotel in the same tier.

FIGURE 5: UK current bedroom supply and active pipeline by brand type



Source: AM:PM
Note: Other brands include regional brands (domestic presence, with hotels in a single region or small number of locations) and consortia (independent property marketed through a membership consortium)

FIGURE 6: Split of brand type by city



Source: AM:PM ■ Global and international ■ National ■ Other ■ Independent

BDRC has examined 92 hotel brands across four market tiers: luxury, upscale, midscale and budget/economy, which broadly correspond with the ratings used in this Bulletin. In the budget/economy sector, brand margin averages around £3 (£5 in metropolitan areas). While this may appear low, the substantial penetration of budget brands and relatively small number of independent hotels in this tier help to explain this as high levels of competition between brands lead to lower prices.

Moving up the quality line to midscale hotels, brand margin averages almost £10 (£12 in metropolitan areas); while at the upscale level these rise to £21 and £22 respectively; and for luxury hotels, a significant increase to £45 and £46. The difference inside and outside metropolitan areas is relatively lower for higher tiers because there are comparatively fewer luxury hotels outside these cities.

Based on this analysis, BDRC concluded:

- the higher the tier, the higher the consumer added value a brand brings to a hotel – a big opportunity for luxury brands;
- the various brands in any given tier are far from equal, brand margin puts a value on these differences; and
- brands hold more relative value in metropolitan locations.

By creating a financial value for consumer perceptions of brands, BDRC has concluded that brand margin gives the hotel industry a tangible brand metric that can feed into brand and investment decisions.

Although brand margin is a relatively new concept, the increasing branded market share of UK bedrooms, particularly in major cities in the UK, indicates this differential is beginning to permeate through the investment decisions of owners and operators.

Figure 6 shows the mix of brand types in each of the 12 cities reviewed in this Bulletin. Investment decisions are likely to be primarily driven by local market dynamics; however, the chart is intended to highlight gaps in the market for particular brand types.

The proportion of global and international brands in Bath (25%) is lower than the average for the 12 cities reviewed (45%). IHG is due to open a Hotel Indigo in Bath in 2016 through the conversion of two existing hotels. It is likely, however, that Hilton, IHG and Accor's expansion in the city has been limited by the availability of appropriate sites.

Year-on-year monthly rolling growth

FIGURE 7: Glasgow

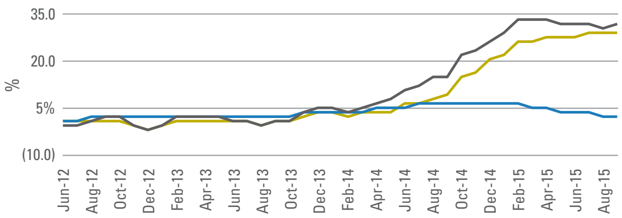


FIGURE 8: Belfast

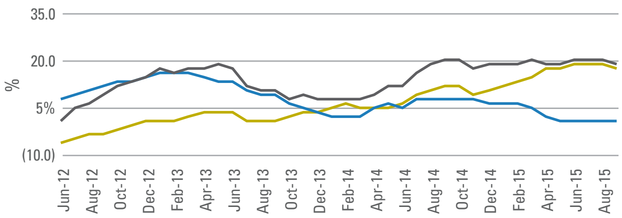


FIGURE 9: Liverpool

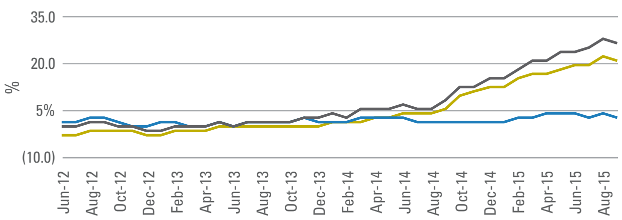


FIGURE 10: Birmingham

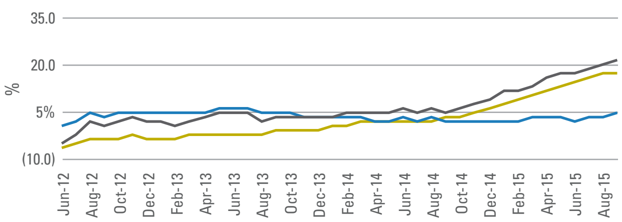


FIGURE 11: Cardiff

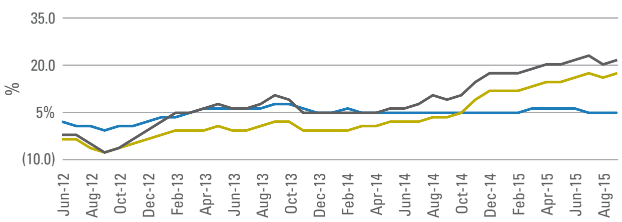


FIGURE 12: Bath

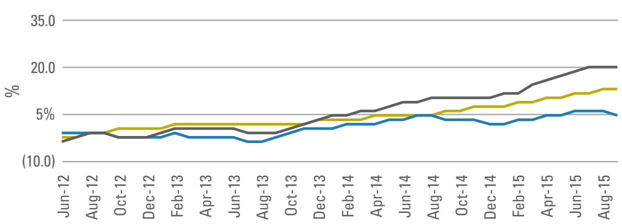


FIGURE 13: Aberdeen

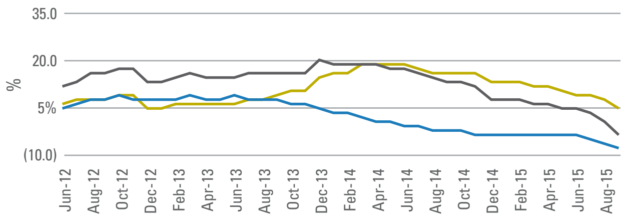


FIGURE 14: Edinburgh

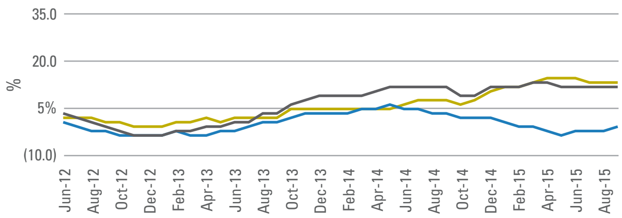


FIGURE 15: Newcastle

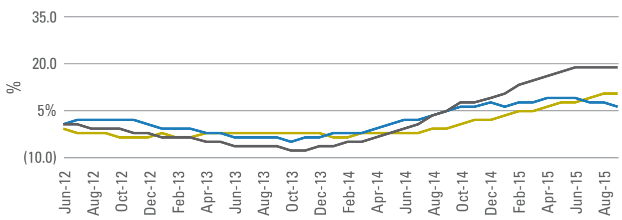


FIGURE 16: Leeds

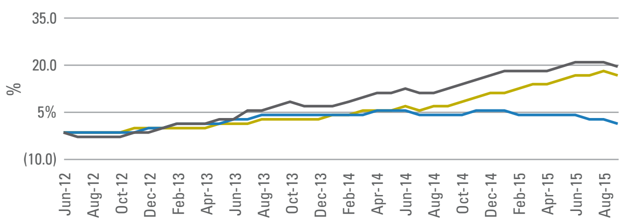


FIGURE 17: Manchester

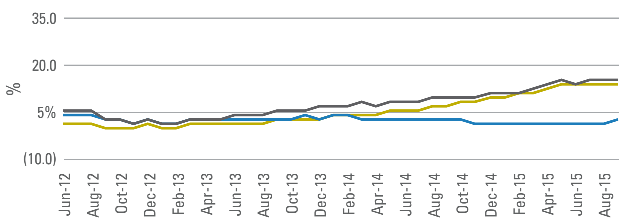
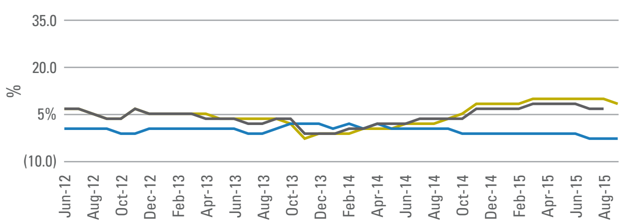


FIGURE 18: London



Key for all: Occupancy Average room rate RevPAR

Source for all: AM:PM, HotStats

FOR MORE INFORMATION, CONTACT:

Graeme Smith
Managing Director, AlixPartners
gsmith@alixpartners.com
+44 (0) 20 7332 5115

Russell Kett
Chairman, HVS
rkett@hvs.com
+44 (0) 20 7878 7701

Alan Gordon
Director, AM:PM
alan.gordon@ampmhotels.com
+44 (0) 188 783 0430

ABOUT ALIXPARTNERS

AlixPartners is a leading global business advisory firm of results-oriented professionals who specialize in creating value and restoring performance at every stage of the business life cycle. We thrive on our ability to make a difference in high-impact situations and deliver sustainable, bottom-line results.

The firm's expertise covers a wide range of businesses and industries whether they are healthy, challenged, or distressed. Since 1981, we have taken a unique, small-team, action-oriented approach to helping corporate boards and management, law firms, investment banks, and investors respond to critical business issues. For more information, visit www.alixpartners.com.

AlixPartners. *When it really matters.*

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 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 35 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.

Superior results through unrivalled hospitality intelligence. Everywhere.

ABOUT HOTSTATS

HotStats is a leading company providing profit and loss data to the hospitality industry in the EMEA. We go beyond RevPAR to focus on total revenues and profits conversion. For further information, please visit www.hotstats.com, email enquiries@hotstats.com or call +44 (0) 20 7892 22 22.

HOTSTATS

AlixPartners
When it really matters.