2011: A year in review

The UK was the most active hotel investment market in Europe, underpinned by a number of significant deals such as Blackstone Group’s acquisition of the Mint hotel portfolio in September 2011. Overseas investors and UK Institutions were the only net investors in UK hotels in 2011, with the latter focusing on budget operations.

Whilst events in London in 2011 such as the royal wedding, state visit of President Obama and riots caused the nation and its capital to rejoice or recoil, the London hotel market continued to buck the economic trend with a 4.7 per cent increase in profit per room. In addition, ahead of the Olympic year, hotels in the capital were achieving records of their own with a 92.4 per cent average room occupancy in July and the city recording a 26th consecutive month of average room rate growth in December 2011.

In 2011, Key Note estimates that the UK hotel industry increased in value by 4.5%. This healthy growth in the value of the hotel industry follows 2 years of decline, in which the market was significantly impacted by the economic recession in the UK, and the effect of the global economic downturn on international tourism. London hoteliers record a 4.7% increase in profit per room in 2011.
Despite the challenging economy and lack of consumer confidence, the number of domestic and international overnight stays increased during 2011 with ‘Staycations’ being a significant driver of demand during the summer holiday period as UK-based tourists continued to swap their overseas holidays for the UK regions.

The England hotel market remained stable in terms of key performance indicators during 2011 with a marginal increase in average annual room occupancy to 68.6 per cent (+0.7 percentage points) at an achieved average room rate of £66.82 (+0.3 percent), resulting in a RevPAR increase of 1.3 per cent to £45.82.

Investment volumes held in 2011 being only 0.8% up on the previous year to £1.5bn. While this did not mark a resurgence in investor activity it did buck the wider investment trend as total investment volumes in the UK saw a 7.1% fall over the same period.

Following a strong 2010 for both London and the regions, 2011 saw smaller levels of growth in average occupancy and Revenues per Available Room (RevPAR). In the case of RevPAR’s, London reported a 6.1% growth, with the regions seeing a 1.5% increase, which was marginal but a growth nevertheless and this despite difficult trading conditions.
2012: Outlook and First Six Month Review

In 2012, we would forecast significant growth in the hotel market, with major events, such as the London 2012 Olympic and Paralympic Games and the Queen’s Diamond Jubilee celebrations expected to draw an influx of international visitors and domestic short-breaks. These events also provide the UK with a huge opportunity to advertise itself as a key tourist destination, with significant global television audiences expected throughout the Olympics and, to a lesser extent, the Diamond Jubilee.

After suffering a period of decline in Q4 2011, hoteliers in London are back to their best in the first month of 2012, recording a 6.3% increase in profit per room, according to the latest HotStats survey of approximately 560 full-service hotels across the UK by TRI Hospitality Consulting. Whilst hotels in London were heavily reliant on increases in average room rate to fuel Revenue per Available Room (RevPAR) growth in 2011, the 2.5 percentage point increase in volume in January suggests that the capital has the capacity to increase volume in 2012, despite hoteliers achieving an impressive 81.4% room occupancy in 2011.

We expect that the provinces will enjoy some overspill effect from London. While we would not anticipate that it would have as considerable an effect as for London, it should prove to be a stable year for many provincial hoteliers. The anticipated boost to towns close to Olympic events such as the sailing in Weymouth and Portland, rowing near Windsor, football in Coventry, Cardiff, Manchester, Glasgow and Newcastle as well as other events in Essex was fairly evident. The training camps and visiting officials will also generate some demand and there will no doubt be related events that draw crowds. Some visitors to the UK will choose to visit popular tourist centres outside London, while events around the Queen’s Diamond Jubilee should also generate additional interest. There will also be uplift in 2012 from the biennial Farnborough International Airshow which will be held a week earlier than usual to avoid a clash with the Olympics.

Hotel guests to become more reliant on third party bookers in 2012. 87% of London hoteliers and 80.8% of provincial hoteliers believe that customers will change the way they book their hotel in 2012.

The biggest move will be towards web based technologies with 25.5% of provincial and 29% of London hoteliers expecting more bookings to be made directly with the hotel’s website. Additionally, hotel bookers are also expected to become increasingly reliant on high-commission online travel agents such as Expedia, eBookers and TravelSupermarket, as well as third party bookers such as Lastminute.com, Laterooms and Bookings.com with 41.1% of hoteliers in the provinces and 44.9% of London managers anticipating more reservations through these channels.
Conclusion and Summary

CONFIDENCE

Hoteliers in both London and the Provinces successfully achieved growth in room occupancy, ARR and RevPAR compared with Q1 2011, and growth expectations for 2012 remain positive. Expectations of growth in headline performance figures in London for Q2 2012 are positive with 61.9% of hoteliers polled forecasting an increase in room occupancy and 71.4% anticipating growth in average room rate. In the Provinces, 49.8% of general managers are expecting an improvement in occupancy and 70.4% are expecting an increase or, at least, no change in average room rate compared with Q2 2011.

SUMMARY

- Recent operational performance has generated slight concerns. However, the Olympics should provide a boost to London performance this year. Regionally, the feel good factor associated with the Games and the Queen's Diamond Jubilee may also bolster domestic tourist demand.
- Consolidation set to continue in the market place with larger players looking to take advantage of the UK’s undervalued assets.
- Banks continuing to alter their exposure to this sector with a heavier weighting towards the top end of the market.
- Alternative funding sourcing e.g. insurance companies and smaller private investors is set to continue after 2012.
- The “staycation”, as it has become known, has become a buzzword in the UK with many hoteliers believing that UK residents will be happier to holiday in the UK adding a new segment to their market share.
- Savills, which reports a £1.5bn investment volume for the sector in 2011, notes a total transactional rise of 0.8% year on year (yoy) against All Property which saw a 7.1% fall.
- IBISWorld forecasts that industry revenue will grow at an average annualised rate of 2.6% in the five years through 2016-17, to reach £18.0 billion. Demand for accommodation from international visitors will be boosted by a global economic recovery.
- Both London and provincial hotels are expected to keep salary increases to a minimum with some reporting a lower salary for 2012. A number of other cutbacks have been put into place in line with the general economic outlook such as contracted services for catering, laundry, landscape & gardening and maintenance services. These cost cutting measures should help ensure healthier profits through 2012 and beyond.

London Demand

Indeed as demand in London sky rockets, this year numerous hotel brands including Holiday Inn Express have been popping up around the city, particularly in east London, fuelled not only by the new Olympic Park but also by the creation of new Special Enterprise Zones including the Royal Albert Dock, launch of Westfield shopping centre in Stratford and expansion of ExCel exhibition centre and London City Airport.

With tourists spending in excess of 9.3 billion a year in the city and an increase in visitor numbers, new hotels in the east of London are a welcome addition with a very rare opportunity having emerged for investors.