Faced with strong headwinds, London achieves respectable GOPPAR growth, but regional UK endures a tougher trading climate, as payroll costs soar.

Knight Frank

UK Hotel Trading Performance Review

Research, 2019

knightfrank.com/research

FORWARD

Knight Frank delivers its third annual review of trading performance in the UK Hotel sector

PHILIPPA GOLDSTEIN
HOTEL ANALYST

At a time of accelerating costs and a reduction in profit margins as the UK Hotel sector endures a sustained period of challenging market conditions, at Knight Frank we endeavour to unleash the power of data through our detailed analytical review and visual graphics, enabling greater knowledge and understanding in order to navigate through these unsettled times, and from which to improve strategic decision making.

In partnership with HotStats, we have produced our latest comprehensive review of the UK's hotel trading performance, which provides a unique and detailed review of hotel revenues, costs and profitability. HotStats data allows us to report to GOP, therefore, our analysis excludes any costs relating to management fees and fixed charges, such as property tax and insurance and FF&E reserve.

We continue to use a range of datasets which focuses on hotel class, market positioning and which distinguishes between London and regional UK. In addition, we have undertaken further detailed analysis of the regional UK hotel market, using HotStats data for individual markets which they can report on and we have differentiated between the Top 15 Regional UK towns/cities (based on a period of 12-months TRevPAR performance) and other major Regional UK Secondary markets.

Our sample of hotels, totalling some 117,000 rooms, is geographically spread across the UK, with London comprising the greatest concentration of hotels, with 35% share of the total sample. Our sample represents approximately 28% of the total London hotel supply and 25% of the total UK regional hotel supply. The sample exhibits a strong bias towards predominantly branded hotels within the upper midscale, upscale, upper upscale and luxury hotel sectors, representing approximately 25% of the total UK branded hotel supply.

The polarisation between the top performing UK regional cities and other secondary markets is one of the key takeaways from this year's analysis.

Despite slower growth in the UK during 2019, in part the result of 15,000 new rooms which opened in 2018 and a further 11,000 new rooms opening in the first nine months of this year, the resilience of the sector must be commended, driven by strong inbound tourism demand, the growth in staycation and more frequent, short-stay leisure trips. Nevertheless, given that operating costs are currently rising faster than revenue growth, the importance of having a disciplined approach to cost management, executing a business plan in line with strategic objectives and exploiting identified growth opportunities cannot be undervalued and are essential measures to be employed by a competent owner or operator to prevent the erosion of profit margins.

Monkey Island Estate, Bray

LXR Biltmore, London Mayfair

Rolling 12 months to September 2019

LONDON

REVPAR	TREVPAR	GOPPAR	PAYROLL % (OF TOTAL REVENUE)
5.8% ▲	4.6% ▲	4.7% ▲	5.1%* ▲
£150	£390	£90	26%

UK REGIONAL

REVPAR	TREVPAR	GOPPAR	PAYROLL % (OF TOTAL REVENUE)
2.1% ▲	1.5% ▲	-2.6% ▼	3.3%* ▲
£66	£108	£35	30%

TOP 15 UK REGIONAL CITIES

REVPAR	TREVPAR	GOPPAR	PAYROLL % (OF TOTAL REVENUE)
3.7% ▲	3.8% ▲	-0.6% ▼	6.3%* ▲
£80	£121	£43	28%

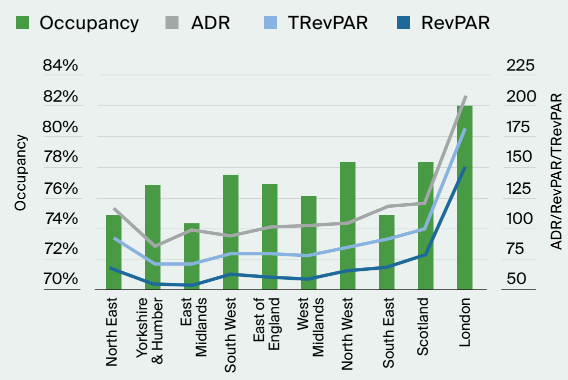
SECONDARY REGIONAL UK CITIES

REVPAR	TREVPAR	GOPPAR	PAYROLL % (OF TOTAL REVENUE)
-0.2% ▲	-1.0% ▲	-5.6% ▲	1.0%* ▲
£53	£78	£23	30%

Source: HotStats. * Payroll (% change PAR)

Key performance indicators by UK region

Rolling 12 months to September 2019



Source: HotStats. Note: Wales excluded due to limited total regional data available

TOPLINE PERFORMANCE INDICATORS

As the unabated Brexit storm continues, with torrents of political disharmony and ongoing economic uncertainty, the resilience of the UK hotel market has faltered somewhat in 2019, with decelerating RevPAR growth across regional UK and London's strong growth weakening.

Occupancy, Average Daily Rate (ADR) & RevPAR

High levels of new hotel supply in certain markets, continued weakening of corporate demand and reduced numbers of European visitor arrivals, are all factors contributing to a challenging operating market. As a result, across much of regional UK as at year-to-date (YTD), growth in occupancy and average room rates have softened and in some datasets declined. Where average room rates have held up, growth has often underperformed inflation and thus in real terms rates in these markets have declined.

London

Despite a challenging operating environment, London's resilience continues despite weakening growth levels, albeit off the back of strong RevPAR growth for the full year 2018. As at September YTD 2019, London recorded RevPAR growth of 3.5% (3.9% YTD in 2018), achieved through ADR growth of 4.3%, whilst occupancy has softened by 0.6% of a percentage point.

Nevertheless, London's performance is impressive, given the volume of new supply entering the market. By the end of 2019, some 11,000 new rooms will have opened in London since the start of 2018, equating to year-on-year growth of 3.7% over the past three years, with supply growth in the four-star sector outperforming the growth of the budget sector.

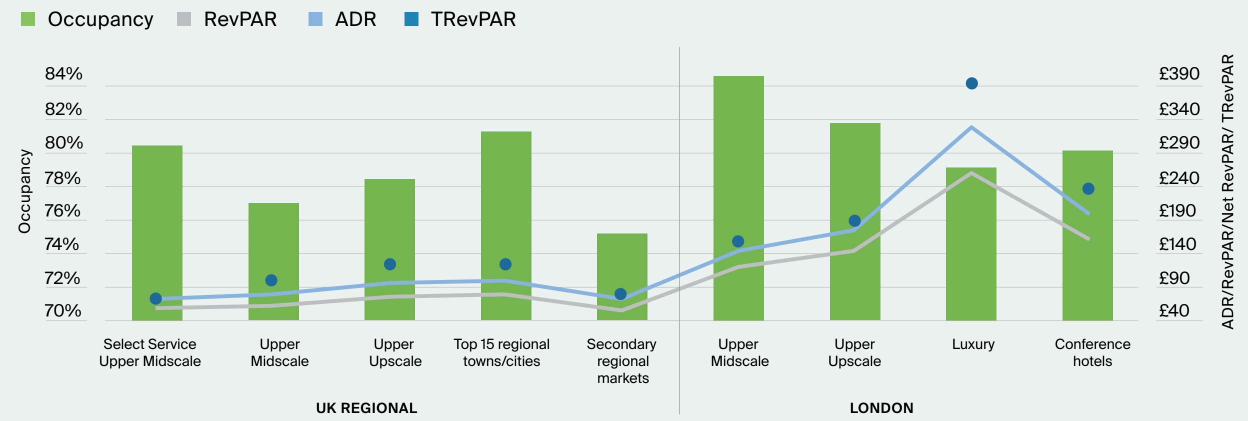
London's occupancy level at 81.4% YTD, remains one of the highest in Europe with the city continuing to be a magnet for international visitor arrivals. With Brexit continuing to serve as a barometer for sterling's movements, the depreciation of the pound has made the UK a more affordable place to visit, with Visit Britain recording strong growth in US visitor arrivals during the first six months of 2019. However, with fewer European visitor arrivals to the UK, total YTD visitor arrivals to the UK have declined by 1% and spending is down by 2%.

In contrast to 2018, where London hotel performance strengthened considerably during the second half of the year, in 2019 growth across all hotel segments performed strongly in Q1 2019, weakened considerably in Q2 and has rebounded somewhat in Q3. As at September YTD, datasets for London's Upper Midscale hotels and London's Conference hotels, have achieved RevPAR growth in excess of 5%, driven by strong ADR growth as occupancy has marginally declined. Meanwhile, the dataset of Luxury London hotels, affected by fewer international visitors from outside of the USA and Europe, has witnessed declining occupancy levels of 1.7 percentage points, but with continued strong ADR growth of 6.3%, has achieved respectable RevPAR growth of 4.1%.

Our forecast for London for the full year 2019, envisages a continuing marginal decline in occupancy of 0.7% to finish the year at 81.8%, whilst we forecast an ADR of £186.00, equating to 4.6% growth, driving RevPAR growth of 3.7%, resulting in London achieving a highly respectable RevPAR of £152.10.

Key performance indicators by UK region

Rolling 12 months to September 2019



Source: HotStats

Regional UK

Trading performance in regional UK has been far more challenging with only modest growth in RevPAR of 1.5% to £66.50 as at September YTD 2019, achieved through marginal growth in both occupancy and ADR. The modest growth in RevPAR is a positive outcome given the quantum of new supply that has entered the market, with some 12,500 new rooms forecast to open in regional UK by the end of 2019, a rise in supply of 2.5%, leading to a certain level of over-supply in the short-term in some markets.

From a detailed review of HotStats datasets, it is apparent that the gap between the performance of the Top 15 Regional towns/cities and Secondary Regional UK cities is widening. The Top 15 Regional UK markets have achieved a RevPAR of £80.40 for the period to September YTD 2019, equating to growth of 3.4%.

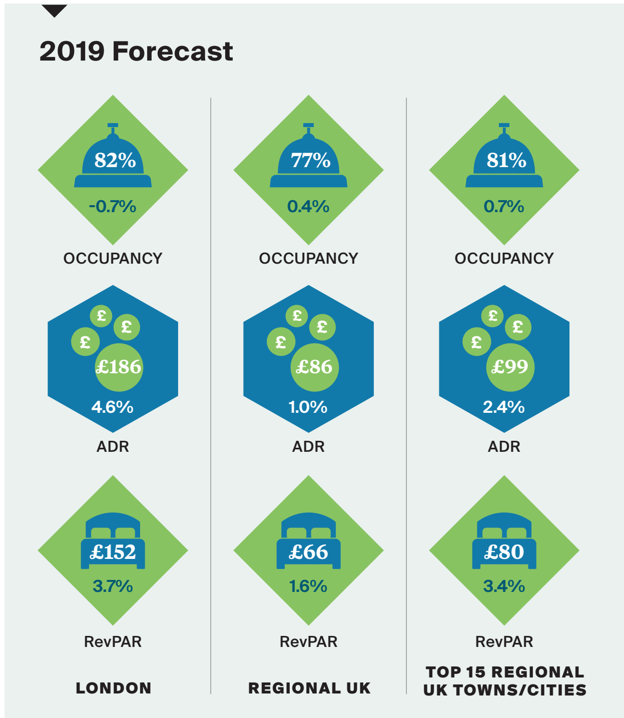
By contrast, for the same period, Secondary Regional UK markets have achieved RevPAR of £53.50, a decline of 1.6% and under-penetrating the Top 15 Regional UK markets by 67%, compared to a penetration of 79% four years earlier. Despite only a marginal fall in occupancy, increased competition and a change in the segmentation mix has led to a decline of room rates, with Secondary Regional UK markets, witnessing a fall in RevPAR of 1.6% to £53.50 for the September YTD period.

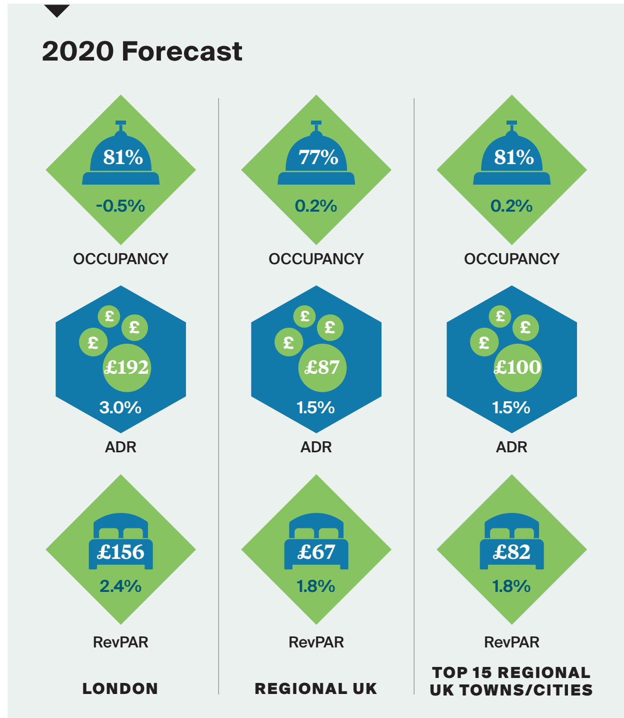
121%

RevPAR penetration of Top 15 performing Regional UK cities markets versus Total Regional UK

Given the polarisation between the top performing towns/cities and other secondary markets, it is evident that secondary, smaller hotel markets have significantly greater downside risk for reasons such as having a less balanced mix of core room nights, greater fragmentation in the local market in terms of brands, operators and owners and the increased likelihood of an ageing bedroom stock due to a lack of investment.

Our forecast for Regional UK for the full year 2019, envisages occupancy to remain stable, with minor growth of 0.4% growth to 77%. We project ADR growth of 1.0%, taking ADR to £85.60 and RevPAR of £65.90, with growth of 1.6%. Meanwhile the Top 15 Regional UK markets, will achieve stronger growth, as we forecast a rise in occupancy by 0.7% to 81.2%; combined with 2.4% growth in ADR to £98.80, which translates into 3.4% RevPAR growth, to £80.30.





Source: Knight Frank Forecasts

UK HOTEL TRADING PERFORMANCE REVIEW 2019

TOP 15 PERFORMING REGIONAL HOTEL MARKETS

RANKED BY TREVPAR

A review of the top 15 performing regional hotel markets for the rolling 12-month period to September 2019, reveals a huge variation in performance between the various cities, with size of the hotel market, new hotel supply opening, the depth of the revenue streams and business mix all impacting upon performance.

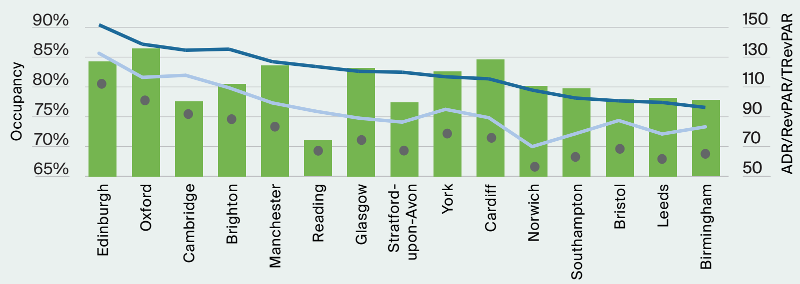
Since the beginning of 2018, Edinburgh, Manchester and Glasgow have all had over 1,000 new rooms opening, but despite this level of growth the resilience of these major regional hubs during challenging times has been strong, with TRevPAR growth in all three markets.

Markets such as Cambridge, Oxford and Bristol have fared less well. Despite growth in leisure-demand, these markets have experienced weakening high-value corporate demand and conference business.

The city of York is shown to be a star performer, achieving double-digit growth in all three performance measures, buoyed by strong leisure demand. Over the past ten years, the city's hotel supply has grown by over 30%, adding over 1,000 rooms, but from a low supply base and combined with strong city marketing, York has benefitted from a thriving leisure demand.

Key Performance Indicators – Top 15 Regional UK towns/cities

Rolling 12 months to September 2019 (£)

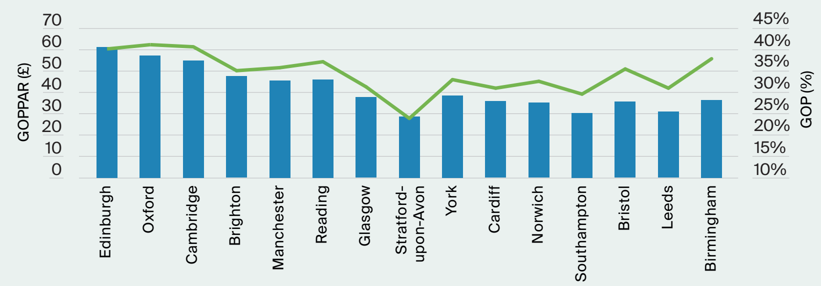


Source: HotStats

Southampton is another example of a city performing strongly, as a result of significant citywide regeneration and investment, off a low base of supply, new hotels opening have significantly contributed to an uplift in marketwide performance. However, as new supply enters these regional markets and the supply base grows, having a strong mix of year-round leisure and corporate drivers is essential to maintain the current level of performance.

GOPPAR & GOP Margin – Top 15 Regional UK towns/cities

Rolling 12 months to September 2019 (£)



Source: HotStats

Sharpening yields in the sector have masked the full impact of increasing operating costs on market value.

185%

GOPPAR Penetration of Top 15 performing Regional UK cities versus Regional UK Secondary markets for the 12-month fiscal period to September 2019

Top 15 Regional UK towns/cities (ranked by TRevPAR, £)

Rolling 12 months to September 2019

Rank	Town/city	TRevPAR	TRevPAR % change PA	GOPPAR	GOPPAR % change PA
01	EDINBURGH	152.3	3.0%	61.3	0.8%
02	OXFORD	139.1	-3.2%	57.3	-7.1%
03	BRIGHTON	135.7	6.8%	47.6	1.9%
04	CAMBRIDGE	135.0	-1.9%	55.0	-8.4%
05	MANCHESTER	127.2	3.7%	45.6	-4.5%
06	READING	123.9	7.9%	46.0	7.9%
07	GLASGOW	120.6	3.1%	37.7	-7.2%
08	STRATFORD-UPON-AVON	120.0	1.9%	28.7	-8.4%
09	YORK	116.9	16.3%	38.5	11.0%
10	CARDIFF	115.5	5.3%	35.8	0.4%
11	NORWICH	107.8	-0.4%	35.1	-4.3%
12	SOUTHAMPTON	102.4	6.2%	30.3	8.3%
13	BRISTOL	100.5	-0.5%	35.6	-0.4%
14	LEEDS	99.4	1.8%	30.9	-0.6%
15	BIRMINGHAM	96.0	0.3%	36.4	-2.1%

TRevPAR GOPPAR % change PA

HOTEL REVENUES

The rise in rooms RevPAR outpaces growth in other revenue generating departments. Nevertheless, the pace of growth has slowed as at September YTD 2019, when compared to a fiscal 12-month period to September 2019.

- Regional UK city centre hotels typically contribute between 66% and 68% of their total revenue from the rooms department, compared to between 76% and 78% for London hotels. London's high occupancy levels allow operators to leverage the ADR and achieve a high RevPAR which computes into a rooms profit contribution averaging 86% of total departmental income.
- In regional UK, Select-Service Upper-Midscale hotels are the most dependent on rooms revenue, driving 83% of their total revenue from the rooms department. With the limited food and beverage offering, Select Service Upper-Midscale hotels typically generate 88% of their departmental profit from the rooms department. In contrast, the rooms division for full-service, UK Regional Upper-Upscale hotels typically generates around 62% of total revenue, which generates 77% of total departmental income.
- In regional hotels where ancillary services to the core rooms product act as strong demand generators, the rooms revenue contribution is much lower, with golf hotels generating only 36% of their revenues from the rooms department. Datasets of Regional UK Golf, Spa, Conference and Luxury Independent hotels all on average drive the greater proportion of their total revenues from the Food & Beverage (F&B) department, averaging between 38% and 42% of the total revenue. During a period of weakening demand in regional UK, these specialist operators have all achieved stronger TRevPAR growth than compared to the wider regional UK average.

Rooms Segmentation (by Volume of Occupied Rooms)

A well-defined set of market segments and insight into the distribution channels, provides greater control and the foundation for setting a hotel's pricing strategy correctly, from which successful revenue management techniques can be implemented. HotStats groups together these numerous segments into broad categories, from which it is possible to analyse key trends.

UK HOTEL TRADING PERFORMANCE REVIEW 2019

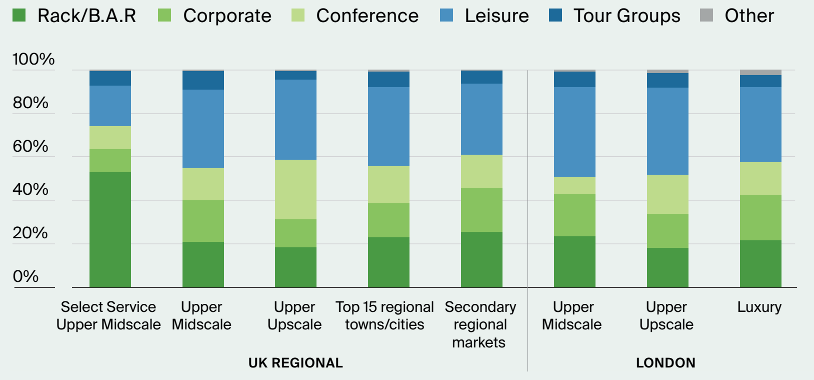
For the fourth consecutive year, for the 12-month period to September 2019, both Regional UK and London have recorded an increase in occupied room nights in the leisure segment, with a notable reduction in corporate demand. The fall in the value of the pound, resulting in the increasing cost to travel abroad, combined with a buoyant short-stay leisure market have contributed to a significant rise in leisure demand in regional UK, particularly during the summer months. The datasets of Select Service and Full-Service, Upper-Midscale hotels, Spa hotels and the Top 15 Regional UK town/cities are all enjoying a particularly strong uplift in the share of leisure room nights.

Regional UK hotels have witnessed on average a 2.3 percentage point increase in the volume of room nights in the leisure segment during the YTD period to September 2019, rising to over 31% of occupied room nights. However, for certain segments, the rise in leisure related demand has been far more pronounced, with the Regional UK Spa hotels dataset witnessing a six percentage point increase in the leisure segment, accounting for nearly 44% of total occupied room nights. Meanwhile, hotel markets representing the Top 15 Regional UK towns/cities, have seen a rise of over four percentage points in the leisure segment, accounting for over 36% of total occupied room nights for the same YTD period. In contrast, hotel markets located in Secondary Regional UK towns/cities capture less than 33% of their annual volume of room nights from the leisure segment.

London has observed a 3.5 percentage point change in its share of leisure room nights, however datasets for Luxury London hotels, Conference hotels and Upper-Midscale properties have experienced an even greater shift in segmentation mix, with leisure room nights increasing by almost five

Market segmentation by occupied room nights

Rolling 12 months to September 2019



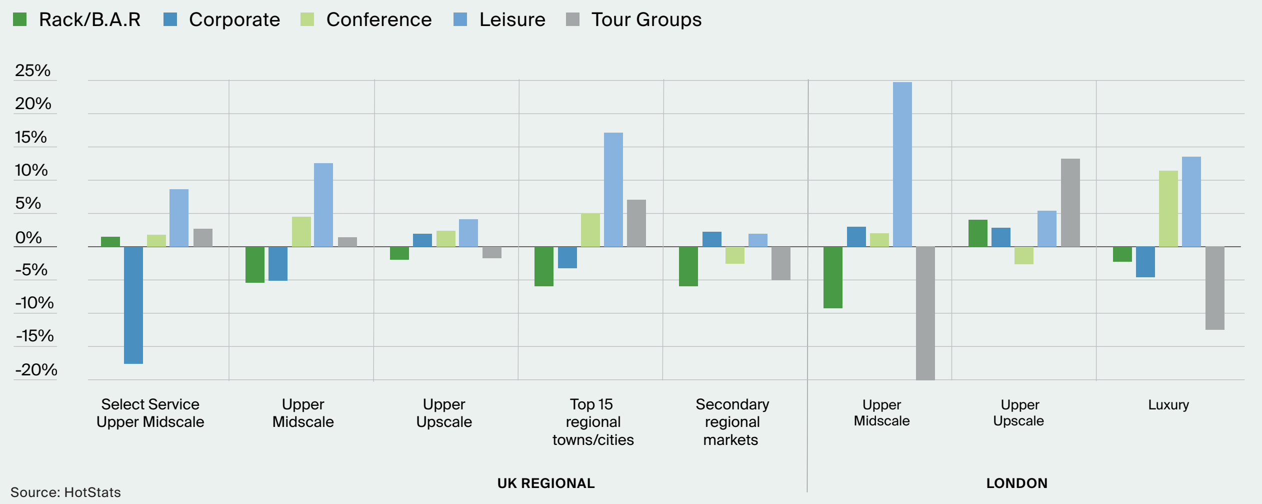
Source: HotStats

Revenue mix % (POR)

Rolling 12 months to September 2019

Source: HotStats

Regional UK – RevPAR contribution, % change by market segment September YTD 2019



Source: HotStats

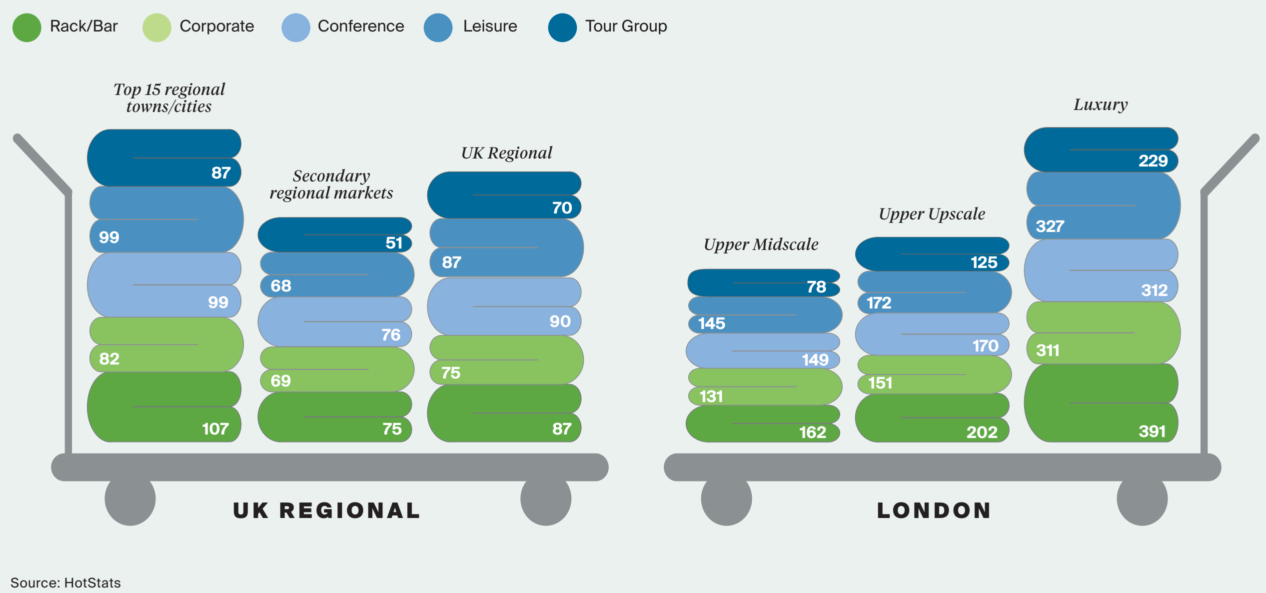
percentage points for the YTD period to September 2019. Visit Britain is forecasting growth in inbound visitors of 2.6% to the UK in 2019 compared to the previous year, with 38.9 million visits. Through active yield management, London hotels in particular have shown to be proactive in capturing the higher paying leisure business, whilst squeezing out the lower rated tour operator segment. In terms of the overall segmentation mix, whilst the conference segment has remained stable, the growth in the leisure segment has compensated for a fall in demand in both the corporate and transient Best Available Rate (BAR) market segments.

Rooms Revenue

In line with the growth in the volume of occupied room nights generated by the leisure segment, an analysis of the composition of rooms revenue for the YTD period to September 2019, reveals that across all hotel categories there continues to be a strong rise in the proportion of rooms revenue driven by the leisure segment, which is up by almost 12% in London and by nearly 10% in regional UK on a PAR basis, compared to the same period in 2018.

Certain categories of hotels have performed more strongly in the leisure segment than others, with the dataset of London's Upper-Midscale hotels, witnessing a rise in leisure revenue PAR by 25%, as at September YTD. Leisure

Average daily rate by market segment London & Regional UK (£)
Rolling 12 months to September 2019



Source: HotStats

UK HOTEL TRADING PERFORMANCE REVIEW 2019

room nights for this dataset accounted for 35% of total occupancy, which is the equivalent of a five percentage point increase in occupancy, whilst growth in the average room rate increased by over 8%. Datasets for London Conference hotels and Luxury London hotels also witnessed strong growth in leisure revenue, with the contribution to total RevPAR increasing by 13.5% and 15% respectively as at September YTD.

With continued strong demand for short-stay leisure trips and for staycation, the Top 15 Regional UK towns/cities have reported a 17% increase in the contribution to RevPAR from the leisure segment as at September YTD 2019, compared to the same period in 2018. This has been achieved through a four percentage point increase in the leisure segment's contribution to occupancy, with the leisure segment accounting for 30% of total occupancy, as well as a rise of 3.9% in the average room rate. In contrast, the dataset for Secondary Regional UK hotel markets, witnessed a rise of only 1.9% in rooms related leisure revenue.

This growth stemmed exclusively from a rise in occupied room nights, whilst the average room rate actually declined by 5% as at September YTD 2019. In contrast, the corporate segment, which accounts for 20% of total room nights, witnessed ADR growth of 7.8% for the YTD period. Secondary Regional UK towns/cities remains the only dataset which commands a higher average room rate in the corporate segment than that of the leisure segment.

In regional UK, the RevPAR contribution from corporate room nights has declined for the datasets of both Full-Service and Select-Service Upper-Midscale hotels, by 5% and 17% respectively. However, for the midscale sector, the premium in the average room rate of a leisure visitor more than offsets the loss of revenue in the corporate segment. Meanwhile, for London's Upper-Midscale hotels, corporate demand has remained stable, with the shift in leisure revenue as a result of a declining RevPAR contribution from the BAR and Tour Operator segments.

Whilst a base of cheap-rated tour operator business is required to fill room nights during periods of lower demand, this change in segmentation mix, has played a significant contribution to the sector's overall growth in RevPAR of 5.7% as at September YTD 2019, driven exclusively through the premium in the average room rate of the Leisure segment.

Prolonged uncertainty over Brexit, the fall in the value of the pound giving rise to strong overseas visitor arrivals and the growth in staycation, as well as changing consumer habits, leading to a vibrant short-break leisure market, are all factors that have led to an alteration of the segmentation mix. Certain markets, have witnessed significant change to their market segmentation and subsequent revenue mix, and the stimulus behind their respectable levels of growth during a challenging trading environment.

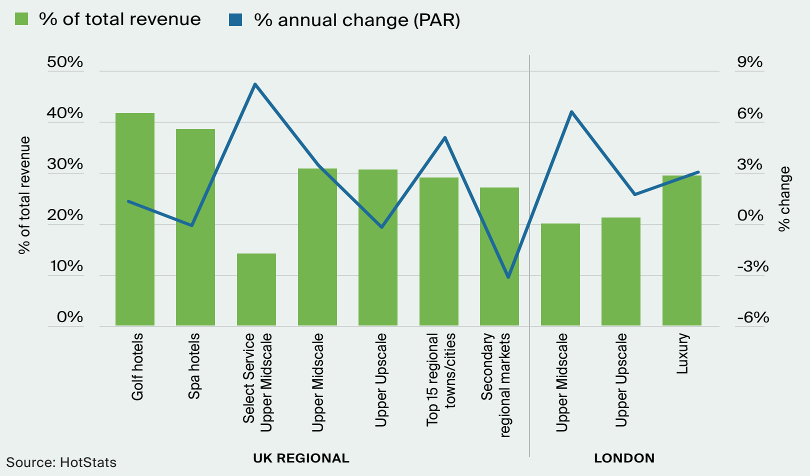
Food & Beverage Revenue

As global and independent hotel operators strive to capture a share of the boutique, design and lifestyle market, with our research forecasting some 25,000 lifestyle hotel rooms to be operational in the UK by 2021, food and beverage trends are forever evolving. There is a growing emphasis by hotel brands to provide informal, flexible new

Hare & Hounds Hotel, Tetbury (Cotswold Inns & Hotels acquired by Fuller's Group)

Food & Beverage revenue as a % of total revenue

Rolling 12 months to September 2019



Source: HotStats

food and beverage concepts, workspace, and socializing experiences, in spacious and connected public areas of the hotel.

Furthermore, there has been a shift in the food and beverage offering, with upscale properties reducing multiple outlets in favour of focusing on specialty restaurants and the provision of an all-day dining lounge / bar, hotel operators are seeking to attract guests and extend revenues in a captivating way. Self-service concepts and grab-and-go concepts continue in their popularity for select-service and as an extension of service provision by full-service upper-midscale operators.

◆◆

As at September YTD 2019, our analysis reveals that whilst total F&B revenues as a percentage of total revenues have been declining, total F&B revenue PAR is on the rise.

◆◆

F&B revenues makes up 30% of total revenue across all regional UK hotels, rising up to 40% of total revenue for conference, golf and independent luxury hotels.

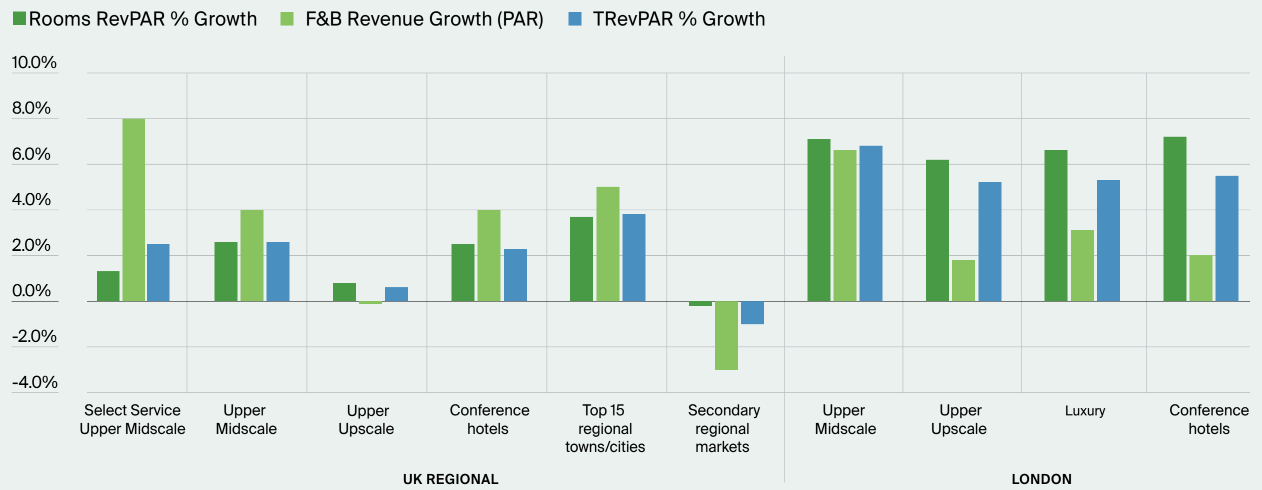
Our analysis further reveals that whilst total F&B revenue from hotel restaurants accounts for the greatest share of F&B revenue, its share of total departmental revenues across all hotel categories is reducing. Meanwhile the F&B revenue contribution from hotel bars is increasing, representing 22% of total F&B revenue as at YTD 2019, compared to 20% the previous year. A similar trend has emerged in London, albeit upper upscale and luxury hotels have maintained their restaurant revenues whilst also witnessing strong growth in the share of bar revenues.

Regional UK as a whole has generally witnessed respectable growth in F&B revenues, in particular the dataset of the Top 15 Regional UK towns/cities has recorded strong growth of 4.8% on a PAR basis, as at September YTD 2019 and has experienced significantly stronger growth than compared to the regional UK as a whole. Datasets for Conference hotels and full-service Upper-Midscale in regional UK are two further hotel categories which have enjoyed strong F&B revenue growth as at YTD 2019, with a rise of 3.4% and 2.7% respectively on a PAR basis.

By contrast, the dataset of hotels located in Secondary Regional UK towns/cities has experienced a decline in F&B revenues, more in line with

RevPAR v TRevPAR growth – annual % change

Rolling 12 months to September 2019



Source: HotStats

the widely publicised woes of the UK restaurant sector, recording a fall of 3.3% as at September YTD 2019. This suggests reduced consumer confidence and a squeeze on disposable incomes. Certain secondary regional hotel markets may also have a less balanced client base and a bias towards business clientele. Strong competition in the casual dining market, reduced demand for conferences as well as hotels poorly promoting and investing in their food and beverage provisions are further reasons for reduced F&B growth.

With the exception of the dataset for London Upper-Midscale hotels, the various London datasets are showing weaker F&B revenue growth as at September YTD 2019, than the same period the previous year. F&B revenues in London have remained static, increasing by a nominal 0.4% PAR as at September YTD 2019, compared to 3.2% growth for the same period in 2018. By contrast, the dataset for London Upper-Midscale hotels has out-performed the market, showing strong growth of 5% as at September YTD 2019, compared to the datasets of London Upper-Upscale and Luxury London hotels, which reported 1.6% and 1.5% growth respectively.

Ancillary Revenue Streams

In the 12-month period to September 2019, total ancillary revenue streams, (all revenues excluding rooms revenue and food and beverage revenue) have declined in regional UK by 3% on a per occupied room basis (POR). Ancillary revenues equate to approximately 8% of total revenue on average in regional UK, but this reduces to approximately 5% of total revenues for the Top 15 regional UK hotel markets and below 5% for Secondary Regional UK hotel markets. Over the past three years ancillary revenues across regional UK have been slowly declining, by approximately half a percentage point of total revenue. The datasets for Regional UK Spa and Golf hotels, however, have maintained their contribution of ancillary revenues to total hotel revenue, at around 21% and 23% respectively.

Ancillary revenues in London have remained relatively unchanged for the 12-month fiscal period to September 2019, albeit with their contribution to total hotel revenue slightly falling. However, with ancillary revenues in London averaging 3.4% of total revenue, any change in ancillary revenues, has no significant impact on a hotel's total revenue stream.

Rooms RevPAR v Total RevPAR Growth

In both London and Regional UK, the growth in rooms RevPAR for the 12-month fiscal period to September 2019 has outperformed the growth in Total Revenue PAR (TRevPAR) in the majority of all datasets analysed, with the exception of regional UK Select Service Upper-Midscale hotels and the Top 15 Regional UK towns/cities, with both datasets performing particularly strongly in the generation of F&B revenues.

Across all datasets in London, for this same fiscal period, F&B growth has averaged 2.0% PAR, compared to significantly stronger rooms RevPAR growth of 5.8%. As at YTD 2019, across London, growth in TRevPAR has slowed, as a result of slower growth in room RevPAR and only marginal growth in F&B revenues.

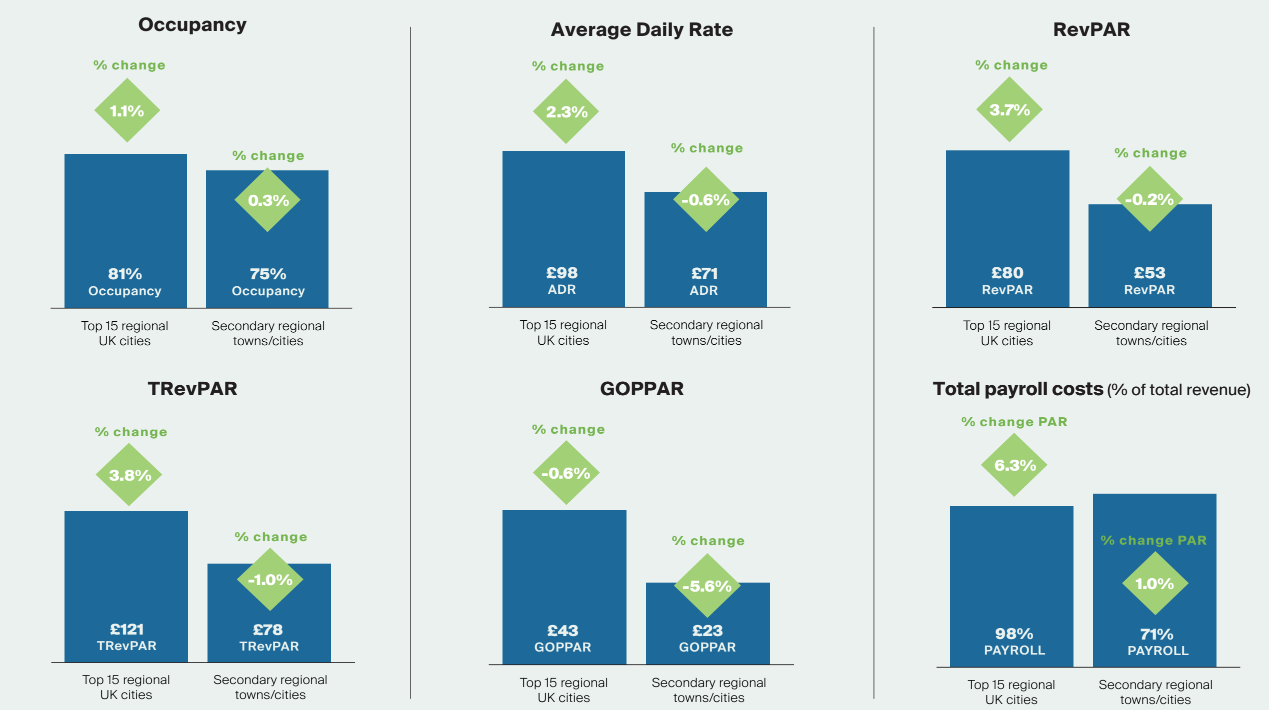
A fall in F&B revenues in London is significant due to the contribution of F&B Revenues, equating to 23.8% of total revenue for the rolling 12-month period to September 2018/19, versus 25.5% three years earlier. Leisure

Kimpton Blythswood Square Hotel, Edinburgh revenue PAR across the various London datasets has also shown respectable growth averaging 2.5% as at YTD 2019, however, with the contribution of leisure revenue at 1% of total hotel revenue, any change is insignificant upon overall revenue growth.

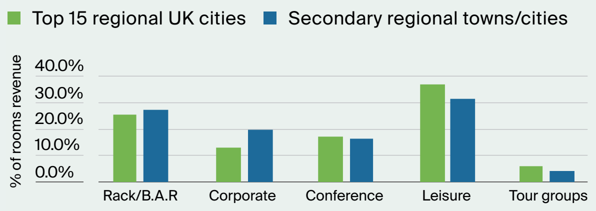
Across regional UK, TRevPAR growth has mostly stayed aligned to RevPAR, however in certain hotel datasets, TRevPAR growth has exceeded RevPAR, including the Top 15 UK Regional towns/cities and the Select Service Upper-Midscale hotels. Meanwhile, Regional Spa hotels, which as a dataset has recorded the strongest RevPAR growth in regional UK of 4.4% as at YTD 2019, has seen a 3.4% fall in leisure revenue PAR. With the significant contribution of leisure revenue equalling approximately 12% of total hotel revenue, this has led to slower TRevPAR growth of 1.9% as at YTD 2019 (compared to 3.4% TRevPAR growth as at YTD 2018). The dataset for Secondary Regional UK towns/cities has witnessed a significantly weaker trading environment and as at YTD 2019 has suffered a 1.6% fall in RevPAR and an even steeper decline in TRevPAR of 2.0%.

Top 15 regional UK cities v secondary regional UK towns/cities – A review of key performance measures

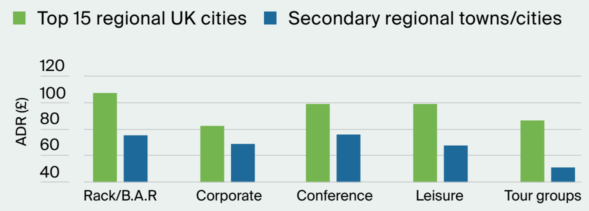
12 months to September 2019



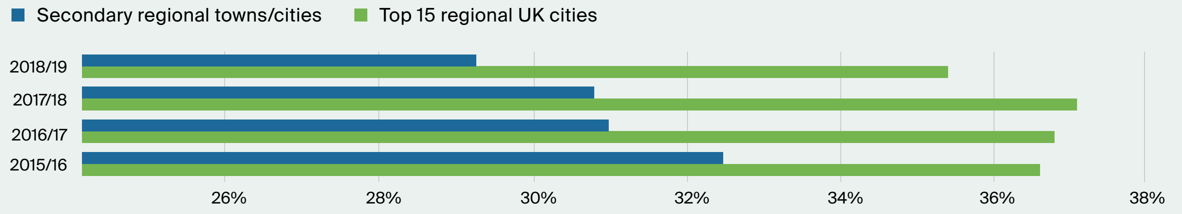
Rooms revenue mix by segment



ADR by segment



GOP as a % of total revenue



Source: HotStats

DEPARTMENTAL COSTS

Departmental expenses are increasing at a faster pace than hotel revenues, due to the strong rise in payroll costs, combined with a rise in the cost of sales, caused in part by the depreciation of the pound.

Rooms Cost

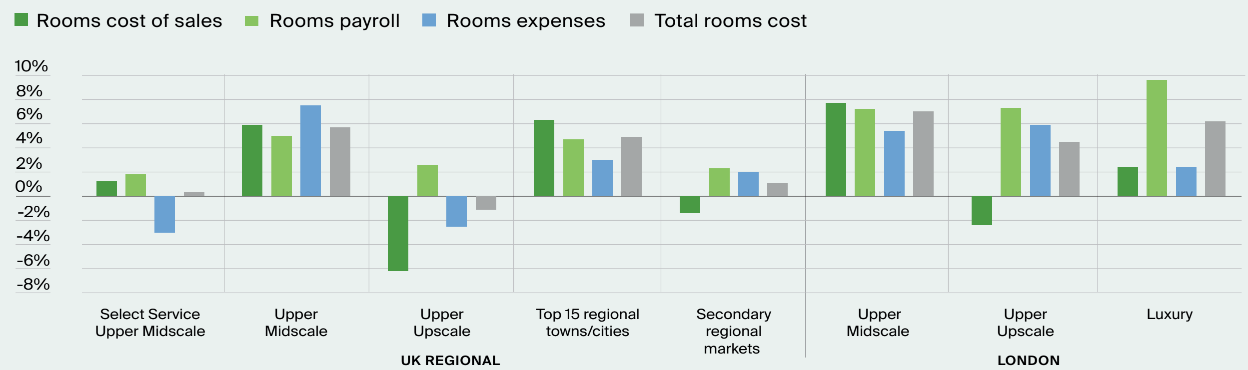
Rooms expenses are typically categorised into three areas: payroll costs, departmental expenses and cost of sales. For the fiscal period to September 2019, total rooms cost have increased by 2.5% in regional UK, by 4.7% for the Top 15 Regional UK cities and by 4.1% in London; compared with a three-year compound annual average increase of 1.9% for regional UK, 2.4% for the Top 15 Regional UK cities and by 3.0% for London for the same fiscal period.

Despite a growing emphasis on direct booking in order to procure best available rates through an operator's own website, the increasing proportion of leisure-related room nights has resulted in an increase in the rooms cost of sales, due largely to an increase in travel agency commissions and reservation expenses.

As at September YTD 2019, the cost of sales, per occupied room (POR), increased on average by 1.8% in regional UK, but has risen by 5.9% for full-service Upper-Midscale hotels and by 6.3% for the Top 15 Regional UK towns/cities. This is significant when the cost of sales makes up 33% of the total rooms cost for full-service Upper-Midscale hotels and 32% for the Top 15 Regional UK towns/cities. In contrast, the datasets for Regional UK's Upper-Upscale hotels and Luxury Independent hotels, have shown the cost of sales to decline by 6% and 8.8% respectively.

Rooms departmental costs – % annual change (POR), London

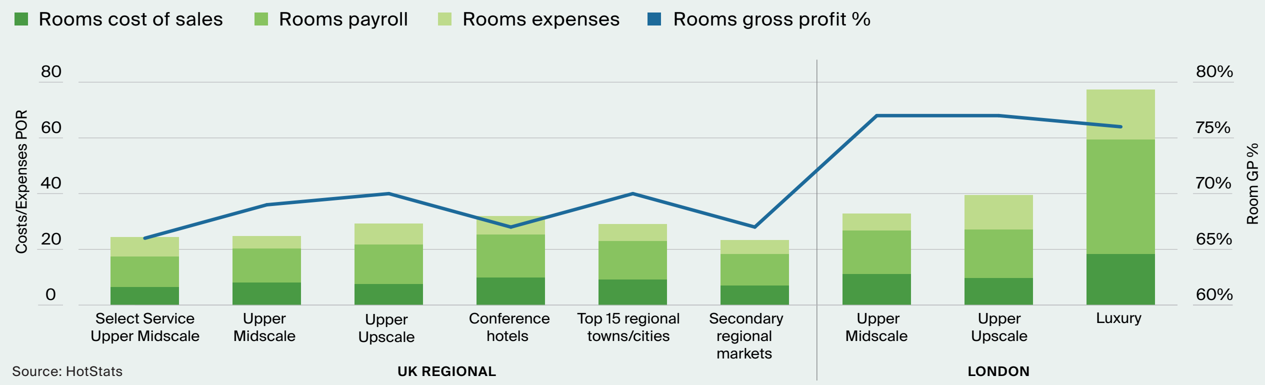
YTD September, 2019 v 2018



Source: HotStats

Breakdown of rooms cost – POR (£)

Rolling 12 months to September 2019



Source: HotStats

UK HOTEL TRADING PERFORMANCE REVIEW 2019

Food & Beverage Costs

F&B expenses are typically categorised into three areas: payroll costs, cost of sales of F&B for all F&B revenue generating departments and departmental expenses, including expenses for conference and banqueting.

For the second successive year, for the fiscal year to September 2019, F&B Costs have increased at a greater pace than growth in F&B revenues, across the majority of all hotel datasets, thereby causing departmental profits to decline. Regulatory changes which include an increase to the National Living Wage are having a significant impact on F&B departmental costs, with F&B payroll costs typically ranging between 38% and 41% of total F&B revenue throughout the UK for full-service hotels and averaging 26% for select-service hotels in regional UK.

Across regional UK, F&B payroll costs represent 56% of the total F&B departmental cost, which is equivalent of 38% of total F&B revenue and 50% of total hotel payroll. In London, F&B payroll costs represent 57% of the total departmental F&B cost, which is equivalent of 41% of total F&B revenue and 52% of total hotel payroll.

Across London, for the rolling 12-month period to September 2019, departmental profits have suffered from weakening F&B revenue growth, combined with rising payroll costs of 5.0% which has contributed to total F&B costs increasing by 4.0% PAR. As such, London has recorded a departmental profit margin of 27.8% for the 12-month rolling period to September 2019, versus 29.2% for the same period the previous year. The dataset of London's Upper-Upscale hotels have fared the worst, with the profit margin declining by 2.7 percentage points, as a result of highly elevated costs across all F&B cost centres, including a 6.6% rise PAR in payroll and an 8.3% rise in F&B expenses.

Mama Shelter, London

Over a three-year period, total F&B costs in London have increased by 12% PAR, which has led to a four percentage point decline in the departmental profit margin. The rising costs can be attributed to the combined cost of wages, salaries, pensions and employee benefits rising by 15% PAR; a 10% increase in F&B expenses PAR and despite only a marginal rise in food costs, beverage costs have increased by a staggering 27%, most likely due to the increasing cost of imports due to the weak pound.

Meanwhile, in Regional UK, for the rolling 12-month period to September 2019, F&B revenues have increased by 1.2% PAR, whilst total F&B costs rose by 2.8% PAR. Payroll costs which account for 38% of total F&B revenues, increased by 3.2% PAR for the period and F&B expenses, which account for 5% of F&B revenues, increased by 4.4%. The control of F&B cost of sales, which represent 24% of total F&B revenue, helped prevent further dilution of departmental profits, with only a marginal rise of 1.8% PAR for the rolling 12-month period. As such, Regional UK has recorded a one percentage point fall in the departmental profit margin to 32.3% for the 12-months to September 2019, versus 33.3% for the same period the previous year.

◆◆

F&B profit margins are under pressure, with slower revenue growth and rising operational costs. Multi-tasking of staff between service functions and the centralising of certain functions are on the rise in the effort to drive efficiences and maintain margins.

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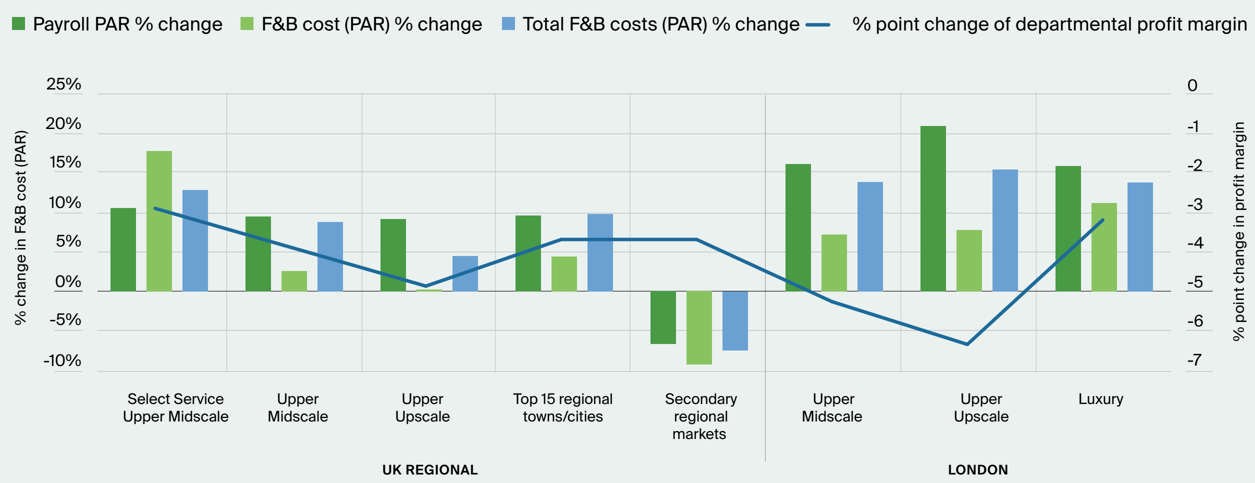
3-year average annual change in food & beverage costs (PAR) and % point change in profit margin

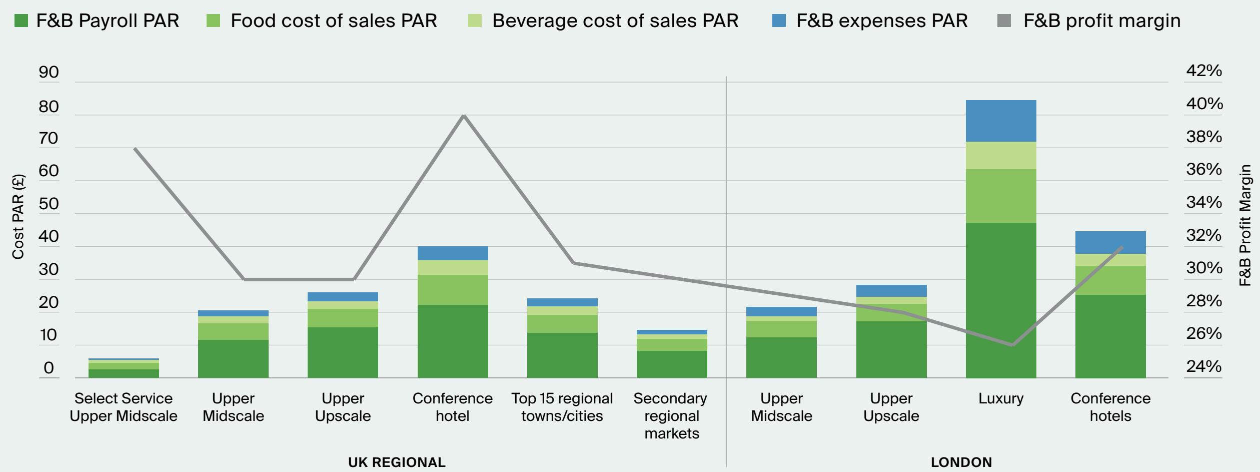
12 months to September, 2018/19 v 2015/16



Source: HotStats

Food and beverage cost breakdown PAR by asset class

Rolling 12 months to September 2019



Source: HotStats

Over a three-year period, total F&B costs in Regional UK have increased by 2.4% PAR, but with declining F&B revenues PAR, profit margins have declined by three percentage points, with some datasets witnessing a steeper decline. During this period, whilst the cost of food sales in Regional UK has reduced by almost 7% PAR, F&B expenses have soared by 18%, the cost of beverage sales rising by 12.5% and payroll costs have increased by 3.2% PAR. Where demand for labour is high, payroll costs have increased much more steeply, with payroll costs for the Top 15 Regional UK towns/cities increasing by approximately 10% PAR during this time.

The Glasshouse, Autograph Collection, Edinburgh

Total Departmental Expenses

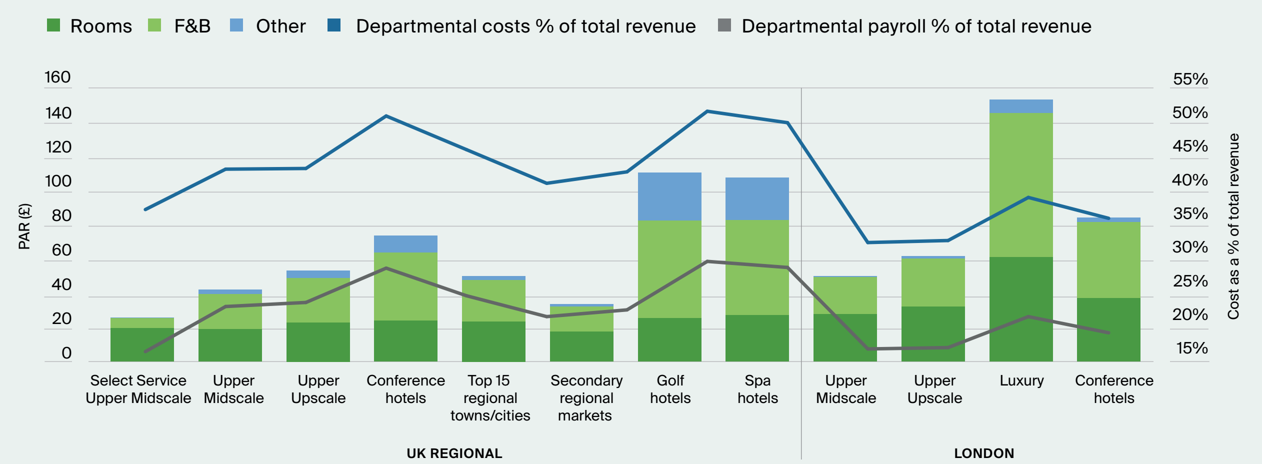
Across all hotel categories, total departmental expenses have recorded a relatively sharp rise for the 12-month period to September 2019. Whilst London witnessed a 4.0% increase and Regional UK a 2.9% PAR, considerable fluctuation between the various hotel datasets exists. The dataset for full-service, Upper-Midscale hotels in both London and Regional UK recorded a 9% and 6% increase respectively, with a sharp rise in payroll, but also the cost of sales and other departmental expenses.

A similar trend has occurred within the Top 15 regional UK hotel markets, having recorded a rise in total departmental operating expenses of 6.5% PAR for the same time period. Factors such as the rising cost of linen and the cost of sales in the rooms department, due to the channels used to book by leisure guests, have significantly contributed to the rising cost of departmental expenses within the upper-midscale hotel segments.

On a PAR basis, total departmental expenses have averaged approximately £73 PAR for London hotels (35% of total revenue), £50 PAR (41% of total revenue) for the Top 15 regional UK cities and £34 PAR (43% of total revenue) for Secondary Regional UK markets.

Departmental costs PAR by hotel type

Rolling 12 months to September 2019



Source: HotStats

Hilton Aberdeen TECA, Aberdeen

GROSS OPERATING INCOME

The contribution to total departmental income from the core rooms product has increased, with London generating 86% of its total departmental profit from the rooms department and Regional UK 74%. Achieving strong RevPAR growth, in the current climate of rising costs, is critical in order to safeguard the total departmental profit margin.

For the rolling 12-month fiscal period, to September 2019, the profit margin generated by the rooms department equated to 76.5% of total rooms revenue for London hotels, 70.5% for the Top 15 Regional UK cities and averaging 67.2% for Secondary Regional UK hotel markets.

Despite rising costs, the RevPAR growth achieved by London hotels has enabled the rooms profit margin to remain remarkably stable over the past four years. By contrast, the rooms profit margin has declined by one percentage point across the whole of Regional UK, albeit the Top 15 Regional UK towns/cities have experienced a decline in the profit margin of 0.5 percentage points.

Significant variation exists between the various hotel datasets in terms of the total contribution of rooms revenue to total GOI. The rooms department of Select Service Upper-Midscale hotels in regional UK contribute 88% of total GOI. In comparison Regional UK Golf, Conference and Luxury Independent hotels all have significant F&B operations which contribute between 25% and 32% of total GOI, resulting in the rooms profit contribution falling to within a range of 52% to 58% of total departmental profit.

GOI PAR varies considerably according to location, market positioning, hotel class, management, the current market trading environment and condition of the property. For the rolling 12-month fiscal period to September 2019, the Top 15 UK Regional cities achieved a GOI PAR of almost £71.00 and recorded an uplift in GOI PAR of 1.9% compared to the same period the previous year.

In contrast, Secondary Regional UK towns/cities recorded a GOI PAR of £44.30 and suffered a decline in GOI PAR of -1.9% for the same period. The improved performance of these Top 15 UK Regional towns/cities ensures that this dataset outperforms the Secondary Regional UK towns/cities with a GOI PAR index score of 159%.

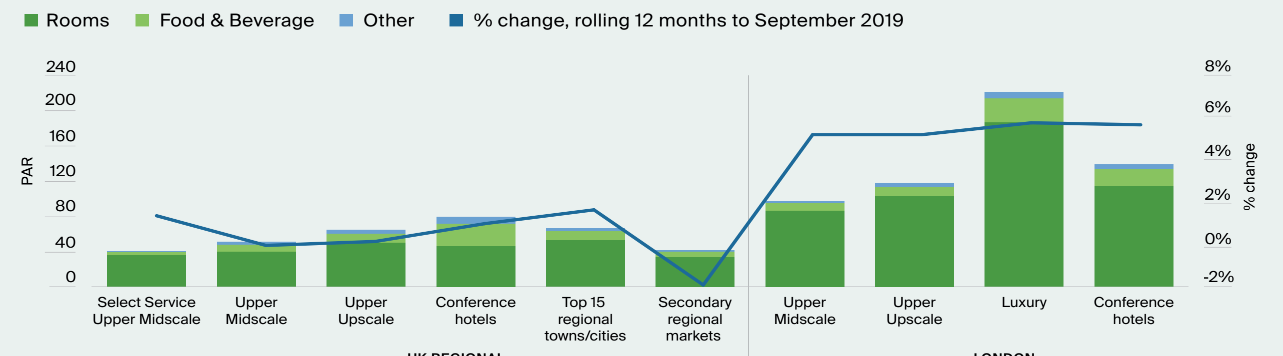
London continues to achieve some of the strongest profit margins, averaging 64.6% GOI as a percentage of Total Revenue, compared with 55.6% in regional UK and 58.5% for the Top 15 regional UK cities. The datasets of London's Upper-Midscale hotels and Upper Upscale hotels both achieved the highest profit conversion at 67.0%, whilst the dataset of Luxury London hotels and London Conference hotels achieved much lower profit margins at 60.6% and 63.7% respectively.

For the 12-month fiscal period to September 2019, London's hotel market achieved a surge in RevPAR and TRevPAR growth of 5.8% and 4.6% respectively, which has translated into GOI PAR of £133.50, recording annual growth of 5.0% and a rise of one percentage points in the profit contribution of the Room department, to 86%. The datasets of Luxury London hotels and London Conference hotels have outperformed the London market, achieving an impressive growth in GOI PAR of 6.2% and 6.3% respectively. Luxury London hotels achieved a GOI PAR of £236.10, with an index score of 177% versus the wider London market.

A cautious outlook, however, is forecast in terms of trading performance for the full year 2019, with London and regional UK witnessing a continued increase in departmental costs, combined with weaker growth in terms of both RevPAR and TRevPAR, as at YTD 2019. Full-service Upper-Midscale hotels in regional UK have witnessed 1.7% growth in TRevPAR as at YTD 2019, but with rising departmental costs, GOI PAR has declined by 0.8%. Meanwhile, the Top 15 UK cities, have recorded 3.5% growth in TRevPAR, however, with rising costs this has translated into GOI PAR growth of 2.0%. In London, weaker RevPAR growth, combined with declining F&B revenues have contributed to lower TRevPAR growth, which has resulted in GOI PAR growth of 2.2%, as at September YTD 2019, this is in contrast to GOI PAR growth of 5.0% for the 12-month fiscal period to September 2019.

Gross operating income PAR by department

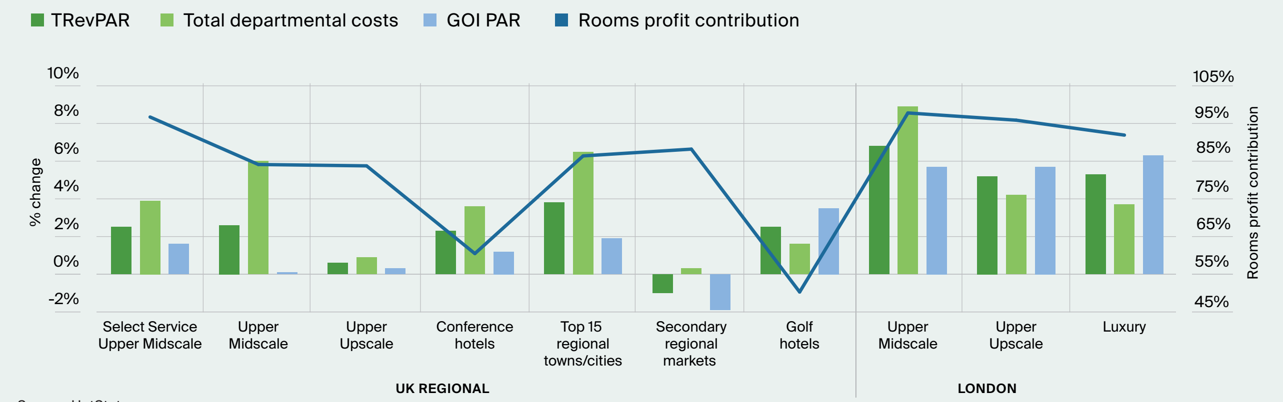
Rolling 12 months to September 2019



Source: HotStats

Total operating departments – Key performance indicators

% change per annum, rolling 12 months to September 2019



Source: HotStats

UNDISTRIBUTED OPERATING EXPENSES

Rising costs throughout all cost centres have led to an increase in total Undistributed Operating Expenses of 4.7% PAR in regional UK, a 6.1% increase in the Top 15 Regional UK cities and a 5.7% increase PAR in London for the rolling 12-month period to September 2019. Rising payroll costs of 3.0% PAR in Regional UK and 4.6% PAR in London, combined with a continued upsurge in energy costs are the over-riding catalysts contributing to the growing cost base.

Administration & General

Administration & General (A&G) total expenses have increased by 4.0% in London on a PAR basis for the 12-month period to September 2019, albeit the YTD data indicates that the pace of the increase has slowed, with total expenses as at September YTD 2019 rising by 2.7%. Nevertheless, the datasets of London Upper-Midscale and Upper-Upscale hotels have both seen a strong rise in total A&G expenses of 6.4% and 5.3% for the rolling 12-month period to September 2019. On average, total A&G expenses in London equate to around £17.90 PAR.

In regional UK, A&G total expenses have increased by 2.2% on a PAR basis, for the 12-month period to September 2019, equating to around £10.20 PAR. However, variations exist with the Top 15 Regional UK cities, witnessing a 4.2% annual increase PAR, compared to only a marginal increase for Regional UK Secondary cities. A&G payroll costs have increased by 3.3% PAR in London, compared to only modest growth in payroll costs in Regional UK, with a rise of 1.8% PAR, for the 12-month period to September 2019. Luxury Independent hotels and Golf hotels have experienced the biggest rises in A&G payroll costs, rising by 12.1% and 6.8% respectively on a PAR basis.

The deconstruction of A&G costs reveals the continuing increase in credit card fees incurred across all hotel categories, as a result of a surge in contactless payments and elevated charges in the process of these transactions. For the 12-month period to September 2019, credit card fees account for 20% of the total A&G expense for the London market and 11.7% for regional UK. In London, over the past three fiscal years, credit card fees have increased by a

InterContinental Edinburgh The George, Edinburgh

No.15 Great Pulteney, Bath

compound annual average rise of 8.5% PAR. The Top 15 Regional UK cities have endured an even stronger rise in fees, rising by 9% PAR for the 12-month fiscal year to September 2019, compared to a three-year fiscal compound annual average rise of 7.4% PAR.

Head Office costs for London hotels have also increased, with a rise of 8.1% PAR for the 12-month rolling period to September 2019, compared to a three-year, fiscal compound annual average rise of 6.3% per annum, PAR. By contrast Head Office costs across Regional UK have declined for the second successive year, with a reduction of 7.3% for the 12-month fiscal period to September 2019.

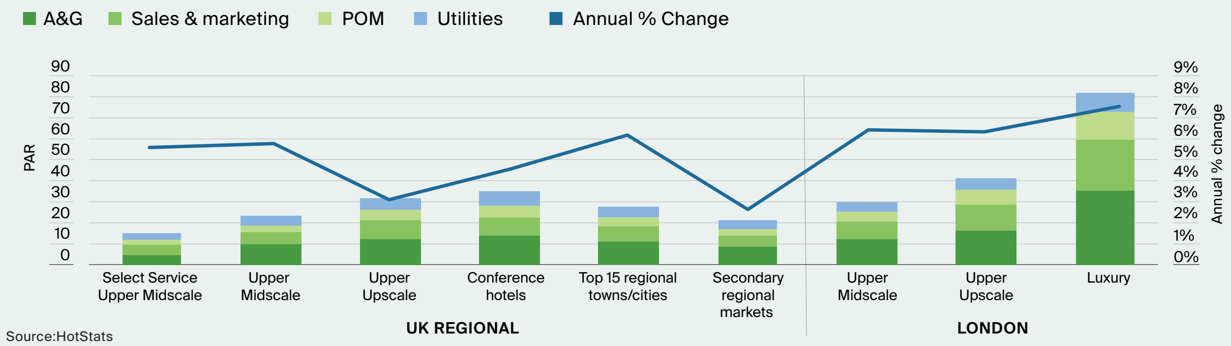
Sales & Marketing

On a PAR basis for the 12-month period to September 2019, Sales & Marketing (S&M) undistributed expenses (which exclude payroll), have increased by 6.6% in London, 8.5% in Regional UK and by 10.4% for the Top 15 Regional UK cities. On average, total undistributed S&M expenses equate to £8.10 PAR for London, £4.0 PAR in Regional UK and £4.60 for the Top 15 Regional UK cities. HotStats include, HotStats include Franchise Fees in this expense line and given the uplift in RevPAR, the rise in these undistributed expenses can be attributed in part to higher franchise fees, with franchise fees and royalty fees calculated on a percentage of rooms revenue.

S&M payroll, which accounts for approximately 28% of total S&M

Undistributed operating expenses PAR by hotel type

Rolling 12 months to September 2019



Source:HotStats

UK HOTEL TRADING PERFORMANCE REVIEW 2019

expenditure in London and 27% in regional UK, increased on a PAR basis by 8.1% in London and by 4.4% in regional UK for the 12-month fiscal year to September 2019. Certain hotel categories have endured a significantly higher rise in S&M payroll, with the datasets of London Upper-Upscale and Luxury London hotels increasing their payroll costs by over 7.6% and 12.2% respectively.

Across regional UK, datasets for Regional UK Secondary hotel markets have seen payroll costs rise by 5.3% PAR, Luxury Independent hotels increasing payroll costs by 6.2% and Select-Service Upper Midscale hotels witnessing a 14.1% rise for the same 12-month fiscal period, on a PAR basis. Whilst marketing serves to help increase hotel revenue, this level of increase in payroll costs will have a detrimental impact on a hotel's overall net operating profit.

As a percentage of total revenue, total S&M expenses, which includes central marketing costs and payroll, represents between 5.5% and 6.5% of total revenue in London and between 5.5% and 7.5% of total revenues in regional UK. For the 12-month rolling period to September 2019, total S&M expenses average £12.50 PAR in London, £7.40 PAR in the Top 15 Regional UK cities and £5.00 PAR in Secondary Regional UK towns/cities.

Property, Operations & Maintenance

The rise in costs associated with Property, Operations & Maintenance (POM) as at September YTD 2019 is high, but rising at a slower pace during 2019, than for the 12-month rolling period to September 2019. This is due to the cost of operating expenses slowing, which account for approximately two-thirds of total POM expenses. For the 12-month rolling period to September 2019, the rise in POM expenses (excluding payroll) grew by 9.5% PAR in London and by 4.8% PAR for Regional UK, this compares to a three-year fiscal compound annual average increase of 5.0% and 3.2% respectively.

In regional UK, significant variation exists with the Top 15 Regional UK towns/cities witnessing POM expenses rising by 8.7% PAR for the same fiscal period, above the three-year average rate of 5.1%. Similarly, UK Regional datasets for full-service Upper-Midscale and Upper-Upscale hotels have also seen high increases in POM expenses, rising by 9.3% and by 7.4% respectively.

POM payroll costs, which account for 37% of total POM expenditure in London, increased by 4.0% on a PAR basis for the 12-month rolling period to September 2019. Across regional UK, payroll costs account for 32% of total POM expenditure, with payroll costs increasing by 7.9% PAR in the Top 15 Regional UK cities and by 5.3% PAR in Regional UK Secondary towns/cities.

In 2019, total POM expenses for London have increased by 4.1% to £7.30 PAR, as at September YTD 2019, compared to a 7.4% increase for the 12-month fiscal period. Across Regional UK, total POM expenses increased by 3.8% to £4.10 PAR for the YTD period, compared to a 4.9% rise for the 12-month fiscal period and the Top 15 Regional towns/cities recorded a rise of a rise of 7.3% PAR for the YTD period compared to 8.4% for the fiscal period.

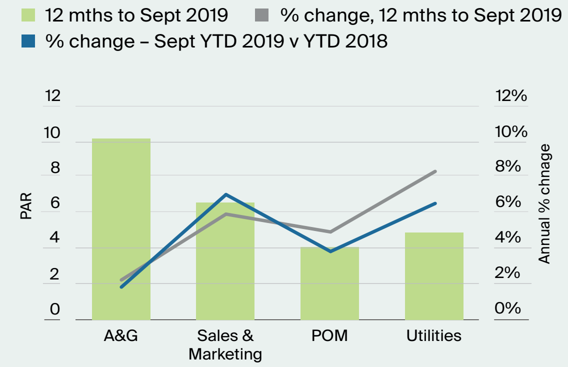
Utilities

Total utility costs average approximately 4.5% of total revenue in Regional UK and 2.7% for London, for the 12-month rolling period to September 2019, a respective rise of 0.3 and 0.1 percentage points of revenue compared to the previous 12 months. This is despite wholesale energy rates having fallen approximately 40% since September 2018, driven by low oil and coal prices, weak demand and fears over a slowing global economy.

Prices and consumption are two components that impact upon utility costs in hotels. Despite a growing requirement by hotels to increase their focus on sustainability and reduce their environmental impact by decreasing the use of energy and pursuing renewable energy sources, managing customer demands and modern day expectations all have a significant impact on consumption use.

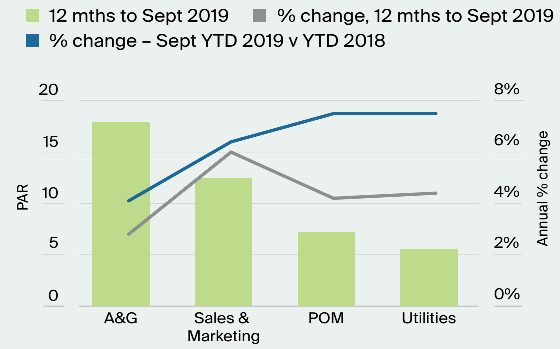
For the rolling 12-month period to September 2019, utility costs PAR have increased by 8.3% PAR in regional UK and by 7.4% in London, albeit with the pace of the increase slowing in 2019, to 6.5% PAR in regional UK and to 4.3% PAR in London for the YTD period to September 2019. With utility costs expected to continue to rise, ensuring an

UK Regional – undistributed operating expenses PAR



Source:HotStats

London – undistributed operating expenses PAR



Source:HotStats

Kimpton Charlotte Square, Edinburgh

energy consumption strategy is in place and to actively encourage guests to reduce consumption, is essential to curb direct leakage of a hotel's EBITDA.

Total Hotel Payroll Costs

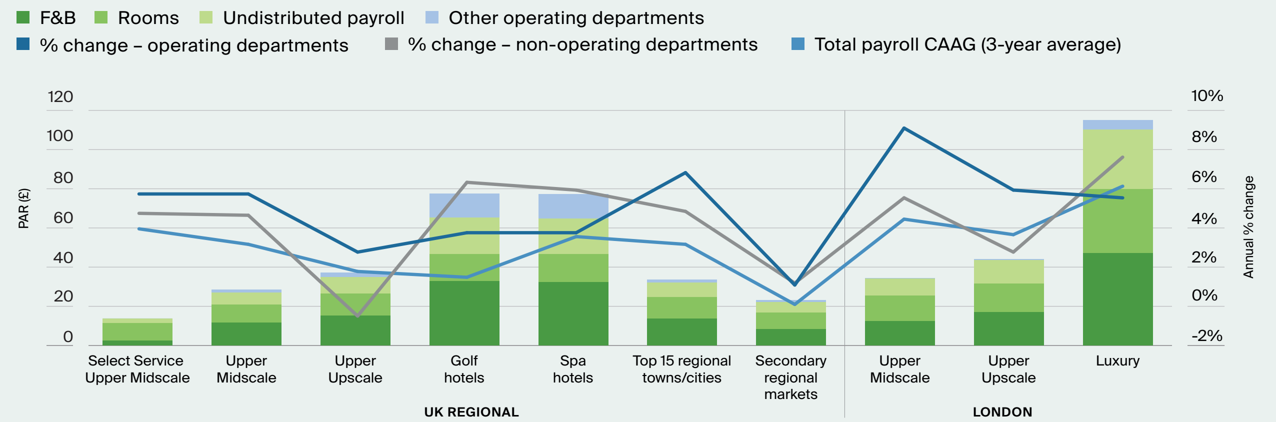
Payroll costs form the largest proportion of costs for a hotel, with total payroll costs equating to 26.6% of total revenue for London hotels and 30.3% for Regional UK, for the 12-month fiscal period to September 2019. Total cost of payroll for the Top 15 Regional UK cities equated to 27.8% of total revenue, rising to 29.6% for Regional UK Secondary markets for the same fiscal period.

Payroll costs have increased across all datasets throughout the UK, over the past year, with the rise of the National Living Wage to £8.21 per hour since April 2019 and changes to the minimum pension contributions both contributing to the rise of payroll costs. For the fiscal year to September 2019, total payroll costs across Regional UK have increased by 3.3% PAR, with the pace of the rise increasing, compared to the previous 12-month period. By comparison, the Top 15 Regional UK cities, have witnessed total payroll costs increasing by 6.3% PAR, suggesting the demand for staff is high from other sectors, leading to the need to pay more in order to attract and retain staff.

Select Service Upper-Midscale hotels in regional UK have the lowest payroll costs, typically due to their limited food and beverage offering, with payroll at 20% of total revenue (approximately £13.85 PAR). This dataset has witnessed a 5.6% increase as for the rolling 12-month period to September 2019. In contrast, the datasets of Regional UK Luxury Independent hotels, Golf hotels and Spa hotels are some of the most labour intensive types of hotels, with total payroll costs accounting between 38% and 39% of total revenue. Golf and Spa hotels have a payroll allocation of between £80.00 to £83.00 PAR, whilst Luxury Independent hotels have a payroll allocation averaging £95.00 PAR. Each of these hotel datasets has seen an annual change in payroll costs of 4.1% for the fiscal 12-month period to September 2019, driven by a significant hike in non-operational departments.

In London, total payroll costs have increased by 5.1% PAR for the 12-month fiscal period to September 2019. Operating departmental payroll costs, which account for 74% of total payroll costs, increased by 5.3% PAR whilst non-operational departmental payroll costs increased by 4.6% PAR. The dataset of London's full-service Upper-Midscale hotels has incurred the greatest rise in payroll costs, rising by 8.2% PAR, compared to a three-year compound annual average rise of 4.4%. Meanwhile, Luxury London hotels have the highest payroll allocation at £115 PAR, of which operating departments account for 73% of payroll costs. This dataset has witnessed an annual rise in payroll costs of 6.1% PAR, attributed to relatively equal growth in the payroll costs of both operational and non-operating departments.

Breakdown of payroll cost PAR by hotel category Rolling 12 months to September 2019



Source: HotStats

GROSS OPERATING PROFIT

Despite positive RevPAR growth, a surge in costs has led to declining profitability across all hotel categories throughout regional UK and significantly reduced growth in London. As the UK hotel sector sustains a prolonged period of uncertainty and a challenging operating environment, a thorough understanding of the cost base and the impact each expense line has on GOPPAR has never been more critical.

Particularly at a time of rising costs, Gross Operating Profit Per Available Room (GOPPAR) offers a much more robust performance measure than RevPAR. Evaluating the various revenue and cost centres provides a deeper, more sophisticated and reliable indication of a hotel's trading performance.

London hotels have a significantly higher profit conversion, achieving a GOP of 44% of total revenue, compared to an average 32% GOP for regional UK hotels, for the rolling 12-months to September 2019. London's strong ADR which drives RevPAR reinforces the importance of the rooms department's contribution to a hotel's overall profitability. Nevertheless, a positive change in RevPAR does not necessarily imply a similar growth in uplift of GOPPAR, as has occurred in the current trading environment.

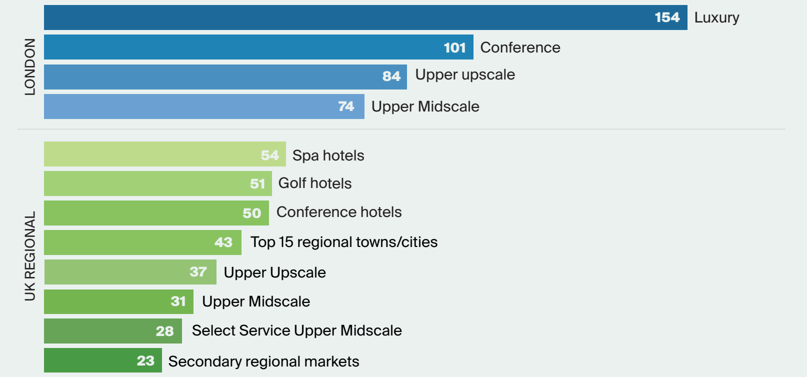
For the nine-month period to September YTD 2019, London has achieved RevPAR growth of 3.5% compared to GOPPAR growth of 1.3%. In contrast, for the fiscal 12-month period to September 2019, London achieved considerably higher RevPAR growth of 5.8% and achieved relatively comparable growth in GOPPAR of 4.7%.

Nevertheless, the various London hotel datasets are proving their resilience and continuing to trade profitably. In particular, the dataset of London's Upper-Midscale hotels, which achieves 90% of its total departmental profit from the rooms division, has enjoyed stronger trading as at September YTD 2019 than compared to the same period in 2018, achieving RevPAR growth of 5.7%, which has helped to secure GOPPAR growth of 4.2% for the period. Meanwhile, the dataset of London Conference hotels has also proved their resilience, with RevPAR growth of 5.4% and GOPPAR growth of 3.0%, as at YTD 2019.

Challenging conditions throughout Regional UK, however, has resulted in disappointing performance results across all datasets. Despite respectable RevPAR growth of 3.4% for the Top 15 regional UK cities for the YTD period to September 2019, escalating payroll costs of 5.6% PAR and a 5.4% rise PAR in undistributed operating expenses have wiped out any growth in GOPPAR, which has held steady at £42.40. Meanwhile, the GOP % has declined by 1.5 percentage points, achieving a profit margin of 35.5% as at September YTD

Gross operating profit (PAR) (£)

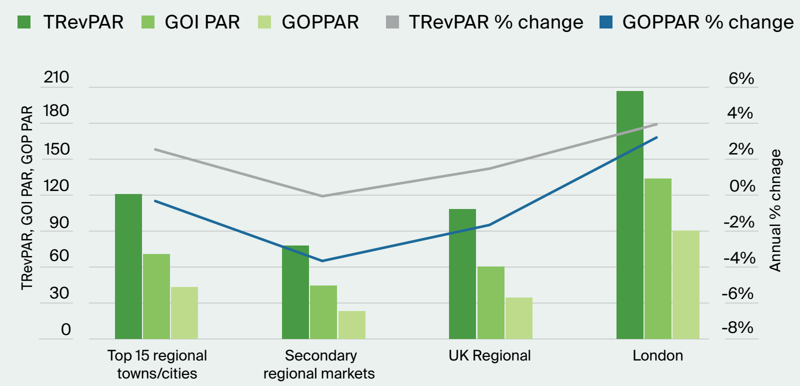
Rolling 12 Months to September 2019



Source: HotStats

Hotel profitability – Key performance indicators

% Change – Rolling 12 months to September 2019



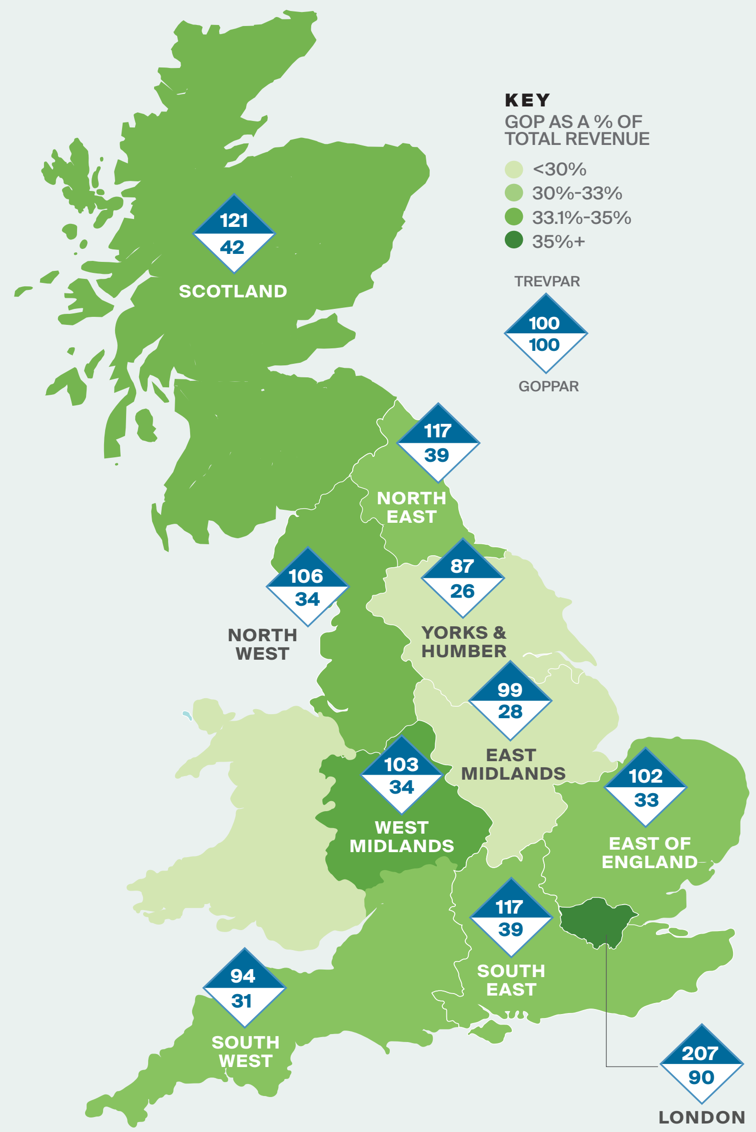
Source: HotStats

2019. Total Regional UK performance has been considerably weaker, with only marginal growth in RevPAR of 1.5% as at September YTD 2019, which translates into a loss in GOPPAR of 2.9% and a 1.3 percentage point decline in the profit margin to 31.8%.

The greatest downturn in regional UK, came from the dataset for the Regional UK Secondary towns/cities, where a 1.6% decline in RevPAR contributed towards a 7.6% fall in GOPPAR, as at September YTD 2019. On a 12-month fiscal year basis to September, over the past three years this dataset has endured a compound annual decline in GOPPAR of 3% to £23.30 PAR. As a result, its GOPPAR penetration versus the dataset of the Top 15 Regional UK towns/cities has declined to 54%, compared to a GOPPAR penetration of 64% three years earlier. This reinforces the polarisation in trading performance between the Top 15 Regional UK markets and the Regional UK Secondary markets.

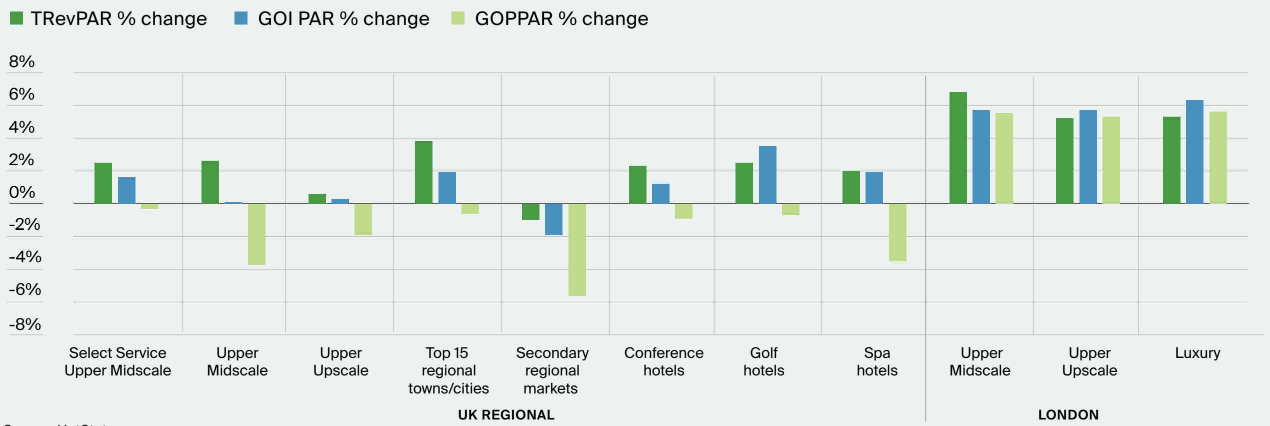
4.2%
London – Upper Midscale hotels GOPPAR growth

Key performance Indicators by UK region (£)
October to September 2018/19



Source: HotStats. Note: Wales excluded due to limited total regional data available.

Hotel profitability – key performance indicators October to September 2018/19



Source: HotStats

TRADING PERFORMANCE OUTLOOK

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HEAD OF HOTEL VALUATION

At this current time, clarity over the UK's exit from the EU remains uncertain, with the prolonged Brexit negotiations, and an upcoming general election, the causes of an extremely intense political and volatile economic climate. However, looking ahead to 2020, we retain a cautious yet optimistic outlook – particularly for London and the Top 15 Regional UK towns/cities. What we do know with a guaranteed level of certainty, is the requirement to improve productivity and the control of all cost centres will become far more prevalent.

At a time of rising costs, understanding the ratio of fixed and variable costs in each department of a hotel is one of the most effective ways in projecting a hotel's performance. Becoming more adept at controlling expenses, through a reduction of both variable and fixed expenses is critical and a guaranteed way for global and third-party hotel operators to differentiate themselves in a crowded market place, through the achievement of GOPPAR growth at a time of weakening RevPAR.

Payroll costs are expected to be put under severe pressure, significantly impacting upon profit margins, with the cost of labour set to continue to rise in both the short and medium term. Both London and the Top 15 regional UK cities have witnessed rising payroll costs of at 5.1% and 6.3% respectively, on a PAR basis over the past twelve months, costs equivalent of over 25% of total revenue in London and 30% in regional UK.

Investing to include best value design can help maximise the opportunities of a hotel's environmental footprint, which in turn can lead to significantly improved energy consumption and opportunities in energy efficiency.

The National Living Wage (NLW) is set to rise to at least £9.00 an hour by 2020, a rise of 9.6% and is expected to steadily rise to £10.50 per hour by 2024, equivalent of a 16.7% increase. Furthermore, the government has pledged to lower the age threshold for the full-rate national living wage from 25 years to 21 years by 2024.

As such, the cost of payroll has the potential to rise significantly, whilst revenue growth is unlikely to rise sufficiently to offset this rise in payroll. Attracting and retaining staff, offering apprenticeships and flexible working practices that work in parallel with the changing demands of the business, should become a priority as hoteliers compete against other sectors.

Investing to include best value design can help maximise the opportunities of a hotel's environmental footprint, which in turn can lead to significantly improved energy consumption and opportunities in energy efficiency. In addition, remodelling the design of communal areas, towards more casual and social dining experiences can also lead to lower staffing costs. Combined with embracing the latest technologies and implementing smarter operating practices, these are all key differentiators in maintaining a healthy bottom line.

Looking forward to the year ahead, we retain a cautious outlook, anticipating continued growth in RevPAR, but with weaker growth in GOPPAR. Aside from the current market uncertainty of Brexit and the General Election in the UK, controlling payroll costs, will be the major challenge facing the industry in 2020 and beyond.

We would like to express our sincere thanks to the HotStats team, our particular thanks goes to David Stephens and Aidan Pugh.

HotStats intelligence has allowed the creation of bespoke datasets. The Top 15 Regional towns/cities and secondary markets (based upon 12-months TRevPAR performance) are limited to those towns/cities where HotStats reporting criteria are met. The individual regional UK hotel markets include: Aberdeen, Birmingham, Bournemouth, Brighton, Bristol, Cambridge, Cardiff, Chester, Derby, Edinburgh, Glasgow, Leeds, Leicester, Liverpool, Luton, Manchester, Milton Keynes, Northampton, Norwich, Nottingham, Oxford, Reading, Sheffield, Southampton, Stratford-Upon-Avon, Swindon and York.

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Front cover picture: Threadneedles Hotel, Autograph Collection, London

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GLOSSARY OF TERMS

BAR	Best Available Rate
POR/PAR	POR/PAR Per Occupied Room / Per Available Room
OCCUPANCY %	The number of rooms sold as a proportion of available rooms for a specified time period.
ADR (AVERAGE DAILY RATE)	Calculated by dividing a hotel's total room revenue by the number of rooms sold for a specified time period.
REVPAR	The total Rooms Revenue divided by the total number of available rooms during the period.
TREVPAR	Total Revenue from all operating departments plus rental income divided by the total available rooms during the period.
GOI % / PAR	Gross Operating Income – Total Revenue less total Departmental Operating Expenses; expressed as a percentage of Total Revenue or divided by the total available rooms during the period.
UNDISTRIBUTED OPERATING EXPENSES	Expenses attributable to the whole hotel, but not allocated to a specific department. These expenses are typically split between Administration & General; Sales & Marketing; Property, Operations & Maintenance; and Utilities.
GOP	Total Revenue less Operating Expenses (Departmental Expenses and Undistributed Operating Expenses).
GOPPAR	Total Gross Operating Profit across all revenue streams divided by total available rooms during the period.
PAYROLL %	Departmental Payroll (or Total Departmental Payroll) as a percentage of departmental revenue (or total revenue).