RESEARCH

UK HOTEL

DEVELOPMENT OPPORTUNITIES **2019**

HIGHLIGHTS

UK hotel supply is forecast to grow by 2.9% in 2019, with approximately 19,300 new hotel rooms opening. London is expected to contribute 34% of the new supply, with growth forecast at 4.2%.

Hotel build costs (per m^2) have increased on average by 3.8% per annum (as at April 2019), with year-on-year build costs rising by 4.6% over the past five years.

Edinburgh, London, Brighton, York and Birmingham are ranked as the Top 5 most attractive cities in Knight Frank's UK Hotel Development Index 2019.

UK DEVELOPMENT HOTSPOTS

The metrics applied to the index include:

1. GVA per head
2. Tourist density
3. Marketwide Occupancy and RevPAR 2018
4. Three-year RevPAR trend (CAAG Rate)
5. Three-year Rooms Revenue Growth (CAAG Rate)
6. Three-year percentage increase in occupied rooms and rooms available
7. New supply opened in 2019, plus pipeline under construction, as a percentage of supply 2018
8. Market sentiment – Future Trading Prospects
9. Build cost and marketwide RevPAR in relation to build cost
10. Value per room / Valuation exit yield / Investor market sentiment

The Knight Frank UK Hotel Development Index records Edinburgh, London, Brighton, York and Birmingham as the UK's top 5 most attractive cities for hotel investment and development in 2019.

The index compares a total of 42 UK cities and major towns via a bespoke analytical model containing fifteen varied indices which seek to address relevant and pertinent considerations of a hotel investor or developer.

With supply growth estimates and new hotel openings underpinned by STR data, the defined metrics applied to the index, were used to analyse, measure and assess each market. All participating UK towns and cities were then ranked against each variable on a score of 1 to 10 and weighted to provide an average overall index score. The index scores indicate a city's total score relative to the national average, with indices above one implying above average scores. Our forecasts further assume that the UK will leave the EU with an agreement in place and thereby avoids a recession.

The top five cities for hotel development in the UK in 2019, all achieved index scores of between 1.30 and 1.35. Our analysis reveals that Edinburgh has secured the top ranking position, having held a position within the top three most attractive cities for the third consecutive year. London leap frogged the index, moving up the rankings by ten places to achieve the second most attractive UK city for development with an index score of 1.34. While, Brighton retained its position in the top three, despite falling one place in the ranking, with a score of 1.32.

Despite significant new hotel supply opening in Edinburgh in both 2018 and 2019 and with a continued strong pipeline of new hotels opening, the city outperformed the index, enjoying a high score in a number of indices, profiting from growth in its total occupied room nights and rooms revenue and benefiting from strong economic and tourism fundamentals. Nevertheless, due consideration of the volume of new supply and pipeline continuing to enter the market is important, as this is likely to result in a short-term downturn in trading performance

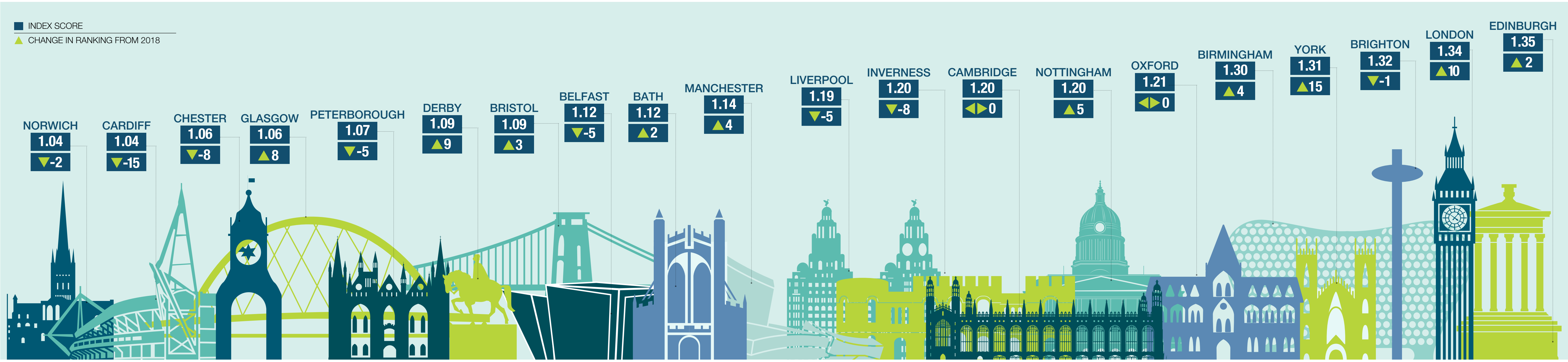
Lincoln Plaza London, Curio Collection by Hilton – Opened Q1 2019

until the new supply is absorbed and as a result, the Return on Investment on a number of projects will be lower than originally forecast. Given the positive fundamentals of the Edinburgh market, Edinburgh's top ranking position in the index, remains justified, as in the longer term, market sentiment remains strong, with continued appetite to develop and invest in the Edinburgh market.

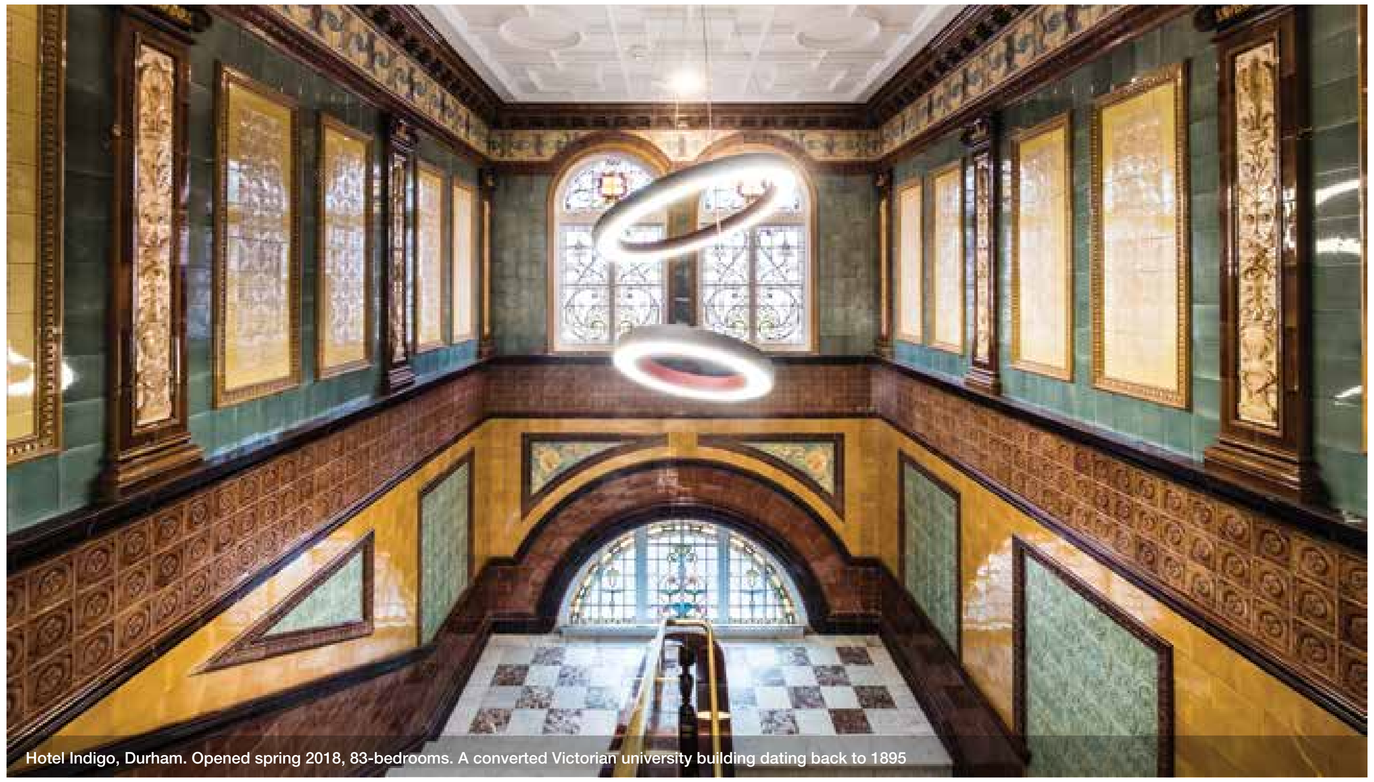
London, meanwhile has weathered the Brexit storm and has proven its resilience, achieving an impressive trading performance despite the significant quantum of new hotels opening and the ongoing pipeline of hotels under construction. Despite expensive land values, build costs and competition from other development uses, London has secured its high ranking in the index due to its long-term market strength, with solid fundamentals across a wide range of indices, giving developers and investors the continued confidence to invest in the capital.

Brighton consolidated its position in the index by performing strongly across all indicators, but excelling in the supply indices, having experienced minimal growth in new supply, combined with a

FIGURE 1 **Knight Frank UK hotel development index 2019 – top 20 cities**



Source: Knight Frank Research & Projections


Hotel Indigo, Durham. Opened spring 2018, 83-bedrooms. A converted Victorian university building dating back to 1895

very limited pipeline of hotels currently under construction.

York, voted the third best UK city in the Conde Nast Traveller 2018 Readers' Travel Awards, is this year's rising star, jumping up 15 positions to become the fourth most attractive city in the UK for hotel development. Over the past three years, the city has absorbed 14% growth in its total room supply, whilst continuing to perform strongly in terms of occupied room nights, recording over 80% annual occupancy. The city has performed strongly across the range of indices and further benefits from only a limited pipeline of hotels either under construction or with detailed planning permission.

Birmingham enjoyed a stellar performance in this year's index, moving up the index by four spaces to secure fifth position, having achieved respectable scores across the majority of parameters. As the UK's fourth largest city, the trading performance has been consistently strong and the city has generally absorbed the level of new supply opening over the past 18 months, albeit the pipeline of hotels with a scheduled opening date is somewhat more significant. Birmingham, however, is benefitting from an increasingly diverse and dynamic business mix, with strong leisure and business demand and market sentiment is positive.

Elsewhere, Cambridge and Oxford continue to be attractive for hotel investment, positioned within the top ten of the index. Oxford now ranks above Cambridge in 6th position despite showing weaker growth in 2019 and new supply in Oxford, since the start of 2018, combined with pipeline under construction equating to 20% of the existing supply. Cambridge, now ranks in seventh position, albeit penalised for the strong pipeline of hotels under construction, some 23% of the existing supply and no growth in trading performance as at June YTD 2019.

The Nottingham market has performed well in this year's index, rising up five positions to be ranked in joint seventh position with Cambridge. The city has benefited from minimal supply growth and no significant new hotel supply planned to open. Consequently, Nottingham was the second best performer in 2018, with respect to % change in RevPAR, achieving 5.8% growth and importantly has consolidated this performance in 2019 with 3.8% RevPAR growth as at June 2019.

Both Liverpool and Inverness remain in the Top 10 ranking for hotel development, despite losing out on position. Liverpool has performed strongly, but has been penalised due to the exceptionally strong level of new hotels opening since the start of 2018, which together with the pipeline under construction, equate to approximately 2,500 new rooms. Nevertheless, with a strong base of business and leisure demand and outperforming the UK average city on a number of indices, the city is well placed to move higher up in the index in future years once the new supply is embedded in the market.

The city of Manchester despite being ranked outside of the Top 10 most attractive cities, has improved its performance in this year's index, rising up four places to 11th position. With 15% growth in occupied rooms over the past three years the city and has seen positive RevPAR growth as at June YTD 2019, new supply in recently years has been relatively absorbed. Nevertheless, with a strong pipeline of hotels under construction and future trading performance in the short-term likely to be impacted, the city's position within the index remains outside the Top 10 cities. The long-term potential of the city remains positive, with investor sentiment expected to improve once demand exceeds the current high level of growth in supply.

Meanwhile, Belfast has fallen out of the top 10 ranking, to joint 12th position as trading performance has suffered as a result of significant new supply opening. Furthermore, with the uncertainty of Brexit, visitor numbers have been far more subdued in 2019. The outlook for Belfast remains opaque, given the current economic and political instability, with the outcome of the Brexit vote and the potential of a no-deal significant for Northern Ireland's economy.

DEVELOPMENT TRENDS

Our research reveals approximately 19,300 new hotel rooms will enter the UK hotel market in 2019. Budget hotels continue to dominate with some 7,500 new rooms opening, a 17% rise compared to the previous year. Nevertheless, the market share of budget hotels declines to 39% of total supply, as new supply of independent midscale and luxury hotels increases.

Overview

The positive momentum and record amounts of capital targeting the UK hotel sector, with record levels of institutional investment specifically targeted towards hotel development sites, has translated into a strong pipeline of hotel development coming to fruition in 2019. Based upon our latest research and analysis of STR's hotel supply data, the UK saw some 15,500 new rooms opened in 2018, split across 190 new hotels and extensions of existing stock. This represents a 2.4% growth in UK hotel supply, with the volume of new hotel rooms broadly at a similar level compared to the previous year.

However, in 2018, the composition of the new supply altered, with a significant increase in the number of hotels opening as a result of conversion from a different asset class. With the increasing cost of land and scarcity of sites suitable for new build, developers are increasingly seeking alternative ways to enter the hotel sector, as such the demand for hotel conversions has increased significantly. In 2018, hotel conversions represented 34% share of the total new bedroom supply, an increase of 10 percentage points compared to 2017 and approximately 5,200 new rooms. Meanwhile, new build hotels rooms contributed around 9,200 new rooms, but witnessed a fall in market share to 60%, whilst hotel extensions accounted for only 6.5% of new hotel stock, some 1,000 rooms.

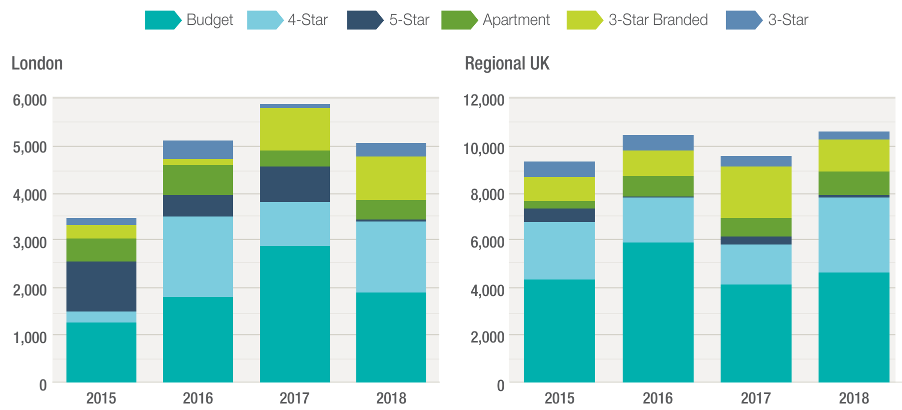
As at the end of July 2019, new hotel openings in 2019 have seen new build hotels continue to be developed at pace, with over 5,600 new hotel rooms added, achieving a market share of 63% of new bedroom stock. Meanwhile, a programme of asset management has seen the budget hotel sector and the branded three-star sector realise a greater number of hotel bedrooms from their existing portfolios, with hotel extensions representing some 15% of new supply, some 1,400 new rooms. Meanwhile, hotel conversions represent 18% of new bedroom stock and hotels reopening following a full renovation equate to 3% of new rooms coming back online in 2019.

Given the focus by global hotel operators to employ an asset-light strategy, based on management and franchise contracts, a strong development pipeline is often regarded as a means to achieving continued growth and enhance earnings potential. Despite the ongoing Brexit negotiations dampening consumer confidence, the continuing effort by hotel operators to build scale, with the expansion of brands intensifying, has resulted in the branded hotel stock accounting for 85% of the new supply in the UK as at July 2019.

The regional UK market continues to attract significant volumes of development activity, accounting for 68% of total new supply in the UK in 2018. Many of the budget operators in particular have focused a two-fold growth strategy, whereby they are extending their regional presence through new hotel openings in smaller towns and cities which benefit from strong demand generators, as well as reinforcing brand presence through the provision of multiple hotels in larger cities, often capitalising on the regeneration and expansion of some of the UK's major regional cities. London, meanwhile, is forecast to build on its market share in 2019, with 33% share of new supply, attributed to its resilient trading performance and long-term stability and growth prospects.

Our analysis further reveals the continuing dominance of the branded budget hotel market. Premier Inn continues to lead the way in terms of development activity, accounting for 21% of all new hotel rooms added in 2018, increasing its national coverage by some 3,300 new rooms and so far in 2019, for the first seven months, represents 20% of the total new hotel supply, with some 1,900 new rooms. Travelodge has consistently been the second most active operator in terms of development activity, representing over 10% of new hotel supply in 2018 and 9% to date in 2019, adding around 2,500 new rooms to its portfolio since the start of 2018. Meanwhile, brands such as Moxy, Hampton by Hilton and Holiday Inn Express have further enjoyed respectable

FIGURE 2
New hotel rooms by star rating
London & regional UK, 2015-2018



Source: STR[1]

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growth, each adding between 500 and 620 new rooms in 2018. However, with a plethora of new hotel openings from an extended range of brands, the top 5 hotel operators for new hotel supply accounted for just 43% of new hotel openings in 2018, compared to 52% the previous year.

In 2019, the budget hotel sector is forecast to contribute 39% of the total new hotel supply, equating to approximately 7,500 new rooms, an uplift of some 1,100 new rooms compared to the previous year.

Meanwhile, the four-star market is expected to yield a further 26% of the new supply and the branded midscale 3-star sector representing a further 14%, with both sectors witnessing an uplift of some 500 new rooms compared to the previous year. Brands such as Doubletree by Hilton, Hampton by Hilton, Moxy, Courtyard by Marriott, Holiday Inn and Holiday Inn Express have all contributed towards driving the growth in the mid and upscale branded hotel markets.

Whilst the growth of the serviced apartment sector continues at a similar level, with some 1,500 new apartments opening in 2019, it is the growth in market share of unbranded, independent mid and upscale hotels that is further driving growth, with some 2,200 new rooms opening.

Growth trends

The UK hotel bedroom supply has grown at a compound annual average rate of 2.1% per annum between 2010 and 2018, taking into consideration hotel extensions, new hotel openings, branded hotel closures and fully renovated hotels reopening following a period of closure. During this period, as well as taking into consideration the new supply opening during the first seven months of 2019, London has witnessed a net increase of approximately 41,000 new rooms, with a compound annual growth rate of 3.2% per annum. Regional UK, meanwhile, has recorded a compound annual average rate of 2.0% per annum, with the net addition of approximately 80,500 new rooms.

Increased investor confidence and a greater understanding of the fundamentals of hotels as a specialist sector, combined with scarcity of assets for sale and continued yield compression, has helped fuel strong interest in hotel development. In 2018, investors stimulated by the attractive long-term prospects of the hotel sector, have helped attract over £1.1 billion of investment in development projects, of which 60% of the investment volume targeted London and 24% of the total institutional investment in the sector specifically targeted development.

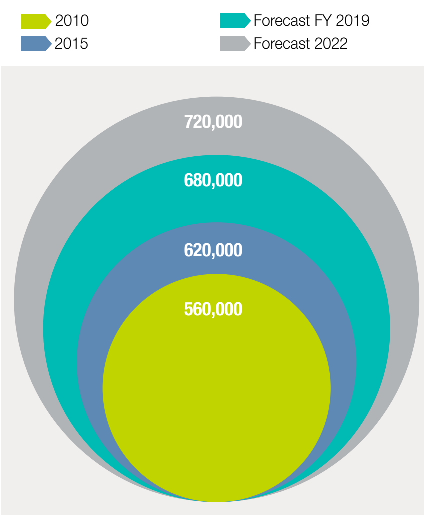
When taking into consideration the loss of over 1,000 rooms currently closed for major renovation, London's bedroom supply in 2018 increased at its slowest rate since 2015, at 2.7%, with total supply approaching 157,000 rooms. The continued strong interest for hotel development in the capital is helping to fuel London's future pipeline, with supply set to rise by 4.2% for the full year in 2019 and 4.5% in 2020. This ongoing level of development activity has resulted in London's share of the UK bedroom supply rising from 21% in 2010 to 23.8% forecast for the full year 2019 and continuing its upward trajectory, rising to 24.3% by 2022.

Heathrow supply boom

After London, the South East of England has witnessed the highest growth in the volume of new supply over the past three years, with some 9,200 new rooms opening since the start of 2016. This growth is largely attributed to the expansion of the Heathrow hotel market, which has contributed 52% of the new supply, some 4,100 new rooms opening since the start of 2016. In doing so, the Heathrow market has increased its regional share of supply in the South East by three percentage points, to approximately 15% as at July 2019, which equates to a compound annual average growth of 6.9%.

Since the start of 2018, the pace of new hotels openings around the Heathrow area has intensified, accounting for 79% of the region's new supply, with the addition of nine new hotels and the expansion of five existing hotels, resulting in the addition of over 3,100 new rooms, equating to 24% growth in supply. During the first seven months of 2019, London and the South East of England have accounted for 36% of new hotel supply.

FIGURE 3
UK hotel supply
Timeline: Actual + Forecast, 2010-2022



Source: STR[1]

FIGURE 4
Total hotel supply – by grade
Existing supply vs pipeline

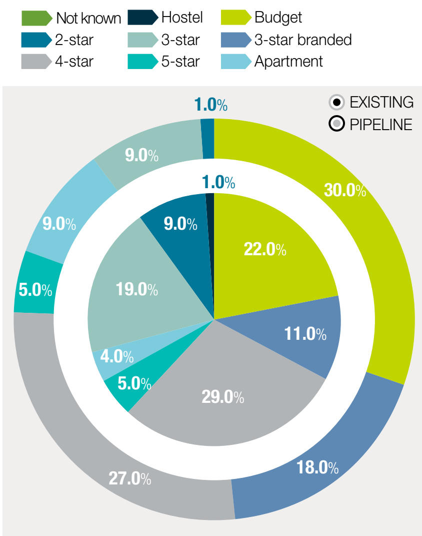
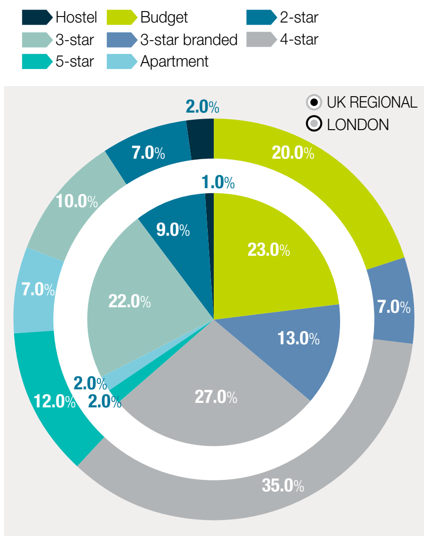


FIGURE 5
London vs regional UK
% share of rooms by grading



Scotland's supply growth

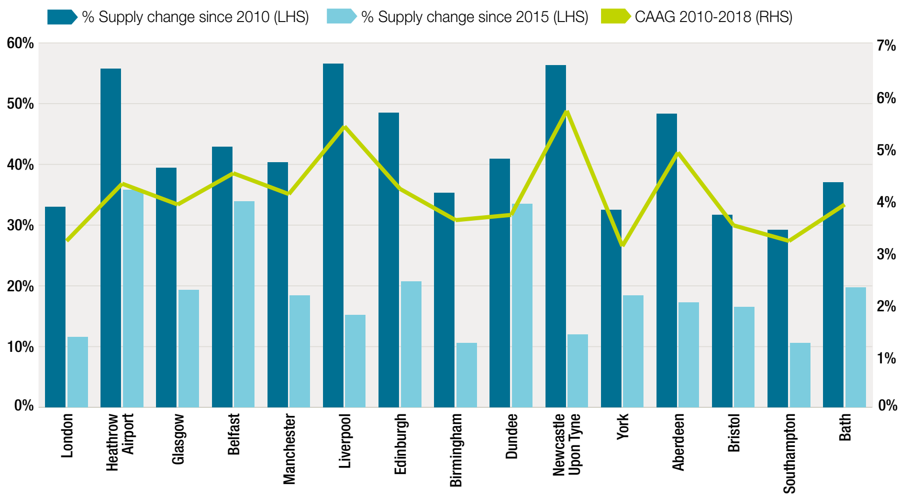
Scotland's hotel capacity has grown to nearly 77,000 rooms in 2019, with a share of over 11% of the UK hotel market and is now the third largest UK region, after London and the South-East of England, representing 12% of total new hotel supply since the start of 2018, equating to over 3,500 new rooms. During this time, Edinburgh has contributed 34% of the new supply, with over 1,200 new rooms and nine new hotel opening; Glasgow accounted for a further 31% of supply, opening nine hotels, adding a further 1,100 rooms. Aberdeen, meanwhile contributed 6% of new supply with over 200 new hotel rooms.

Of particular significance in the Scottish market is the growth in supply of smaller towns or cities, with the city of Dundee adding over 300 new rooms and East Kilbride and Hamilton both adding over 100 new rooms. Each of these destinations have extended their hotel supply by between 25% and 30% since the start of 2018. Our analysis further reveals that in 2018, for all hotel markets with more than 500 rooms, Dundee was ranked 5th and Glasgow ranked 9th in terms of supply growth. The Radisson Red, MOXY, Ibis Styles, Hotel Indigo, Sleeperz and Native were some of the brands extending their UK reach into Scotland during 2018, followed by Staybridge Suites apart-hotel opening in Dundee in 2019.

Belfast transformed yet caution sets in

Belfast has been transformed, with seven new hotels opening and the addition of 1,000 new hotel rooms, increasing its hotel supply by 25% since the start of 2018, with total supply equating to over 5,200 rooms. Despite brands such as AC by Marriott, Maldron and Hampton by Hilton entering the market, over 50% of the new hotel openings are operated independently. Strong growth in overnight tourism, combined with the volume of high quality, new bedroom stock has contributed to growth in marketwide RevPAR and Belfast witnessing a 29% increase in occupied room nights and a 57% increase in total Rooms revenue, for the two-year period to December 2018. However, 2019 has become much more of a challenge for Belfast and Northern Ireland as a whole,

FIGURE 6
Hotel supply growth and % change – by UK city



Source: STR[1] Note: Knight Frank Analysis

nhow London – Opening September 2019, 190 Rooms

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with the impact of Brexit and the potential for a No-Deal having a profound effect on tourism, with falling visitor numbers and a decline in hotel trading performance.

Liverpool shines in the North-West

The North West of England is similar in size to Scotland in terms of hotel capacity, with over 75,700 rooms as at July 2019 and has witnessed a 5.9% increase in its capacity since the start of 2016. The city of Manchester dominates with 24% of total regional supply, followed by Blackpool with a 14% share of supply, then Liverpool with a 13% share of regional supply. Since the start of 2018, Manchester has attracted 40% of the region's new supply, adding almost 1,000 new rooms. Liverpool accounted for 34% of the region's new stock, adding a further 850 rooms, whilst Blackpool contributed a further 10% of the region's growth with some 250 new hotel rooms.

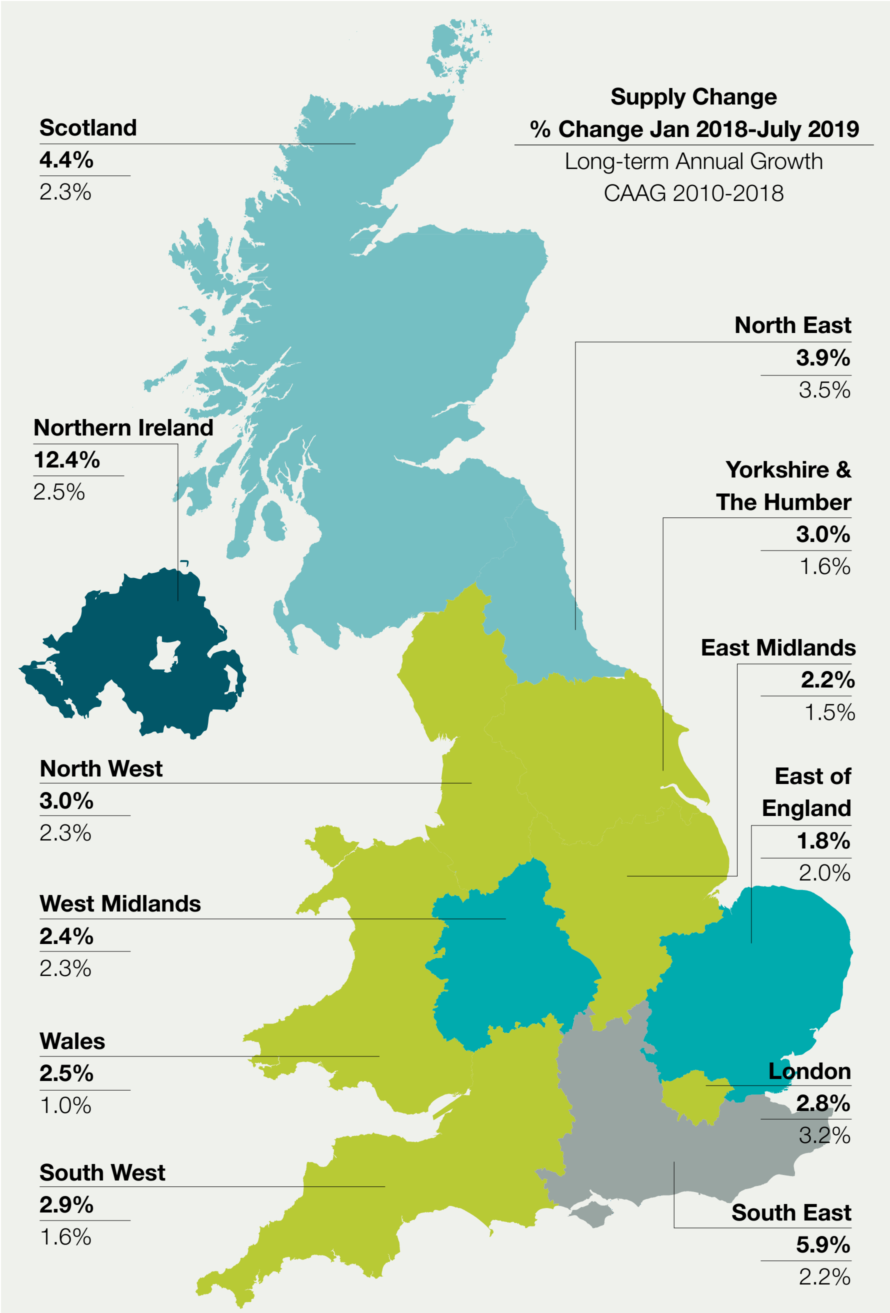
Our analysis reveals that during the 24-month period from January 2017, Manchester, increased both its occupied room nights and its total rooms revenue equally by 12%. Liverpool, meanwhile, with its focus to drive weekday occupancy from high yielding segments, has netted in a 16% increase in occupied room nights and a 24% increase in rooms revenue for the same 24-month period.

Pockets of strong regional supply growth, well above the UK average

The North-East of England is one of the UK's smaller regions in terms of hotel capacity, but has witnessed healthy growth in supply since the start of 2018, with growth of 3.9%. Whilst some seven hotels have opened during this time, the opening of the 265-bedroom Maldron Hotel in Newcastle-Upon-Tyne contributed to 40% of the region's new supply, which equated to 5% supply growth for the city.

Other regional cities which have recorded significant growth in supply during 2018, well above the national UK average and which comprise greater than 1,000 hotel rooms include: Doncaster (12%), Lincoln (10%), Durham (7.5%), Gloucester (7%), Southampton (6.5%), Bath (6%), Newbury (6%), Newcastle Upon Tyne (5%), Telford (5%) and York (4.5%).

NEW HOTEL OPENINGS
Bedroom supply growth by region (Jan 2018-July 2019)



Source: STR[1] Note: Knight Frank Analysis

Stable supply growth a key driver of strong RevPAR performance

In certain UK cities, slower growth in new supply during 2018 was recorded, such as Birmingham, the UK's third largest regional market with over 14,000 rooms, adding less than 200 new rooms. Other markets such as Cambridge, Brighton and Nottingham have all seen supply stabilise. Together with Birmingham, these markets were strong RevPAR performers in 2018, with Cambridge achieving RevPAR growth of 4% and all other markets in excess of 5% growth. Nevertheless, the outstanding winner in terms of RevPAR growth in 2018, was the city of Liverpool which achieved RevPAR growth of 6.7%, despite supply growth of over 7%, equating to some 800 new rooms coming online since the start of 2018.

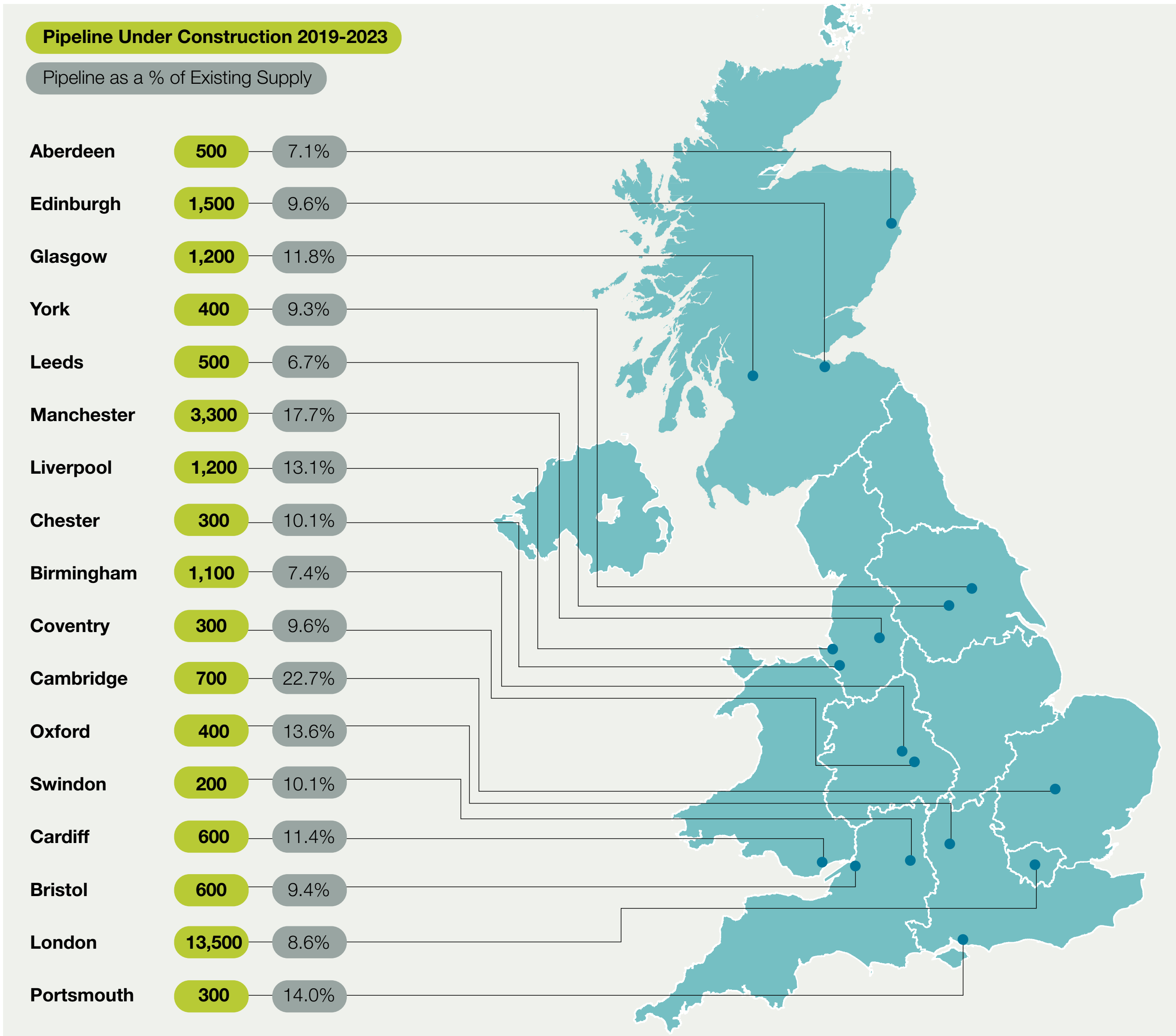
FUTURE HOTEL SUPPLY

Positive RevPAR growth for 2018 of 3.1% in London and 1.5% in regional UK, based upon STR data, has underscored the resilience of the UK hotel market and helped fuel the strong pipeline of new hotels under construction in 2019, as developers and investors continue to have confidence in the sector.

As at the end of July 2019, a total of 10,000 new rooms are currently under construction and expected to open during the second half of 2019, plus an additional 1,000 rooms from hotels currently closed and undergoing extensive refurbishment are due to re-open. London accounts for 38% of the development pipeline of hotels, either under construction or under renovation and due to open by the end of 2019, equating to some 4,000 new hotel rooms.

The hotel operator Whitbread dominates the development pipeline, with some 65 projects currently under construction, totalling over 6,900 rooms and representing approximately 20% of the construction pipeline. Meanwhile, Hilton has over 3,700 rooms under construction, accounting for 11% of the pipeline, of which 1,700 new rooms are due to open under the Hampton by Hilton brand and a further 600 rooms being developed to operate under the Hilton Garden Inn brand. Marriott, meanwhile represents a further 8% of the UK construction pipeline, totalling some 3,600 rooms, secured by an active pipeline of over 1,600 new rooms under development with its MOXY brand and a further 1,000 rooms under construction with its Courtyard by Marriott brand. Travelodge, meanwhile has a total of 19

FUTURE HOTEL SUPPLY
Scheduled 2019-2013



Source: STR[1] Note: Knight Frank Analysis

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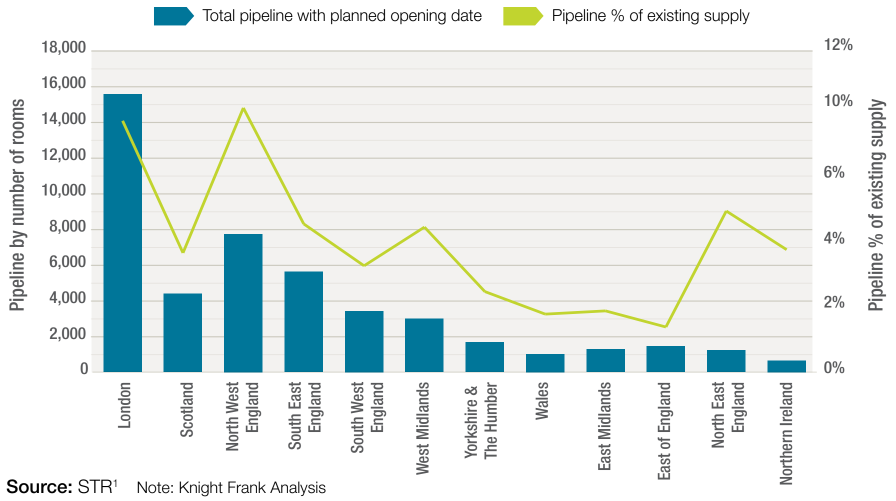
FIGURE 7
UK hotel pipeline, by region
Under construction or detailed planning granted with scheduled opening date 2019-2022



Source: STR[1] Note: Knight Frank Analysis

hotels under construction, equating to 4% of the pipeline, adding a further 1,500 new rooms to its UK portfolio. In total there are approximately 35,000 rooms currently under construction in the UK and expected to open by 2023.

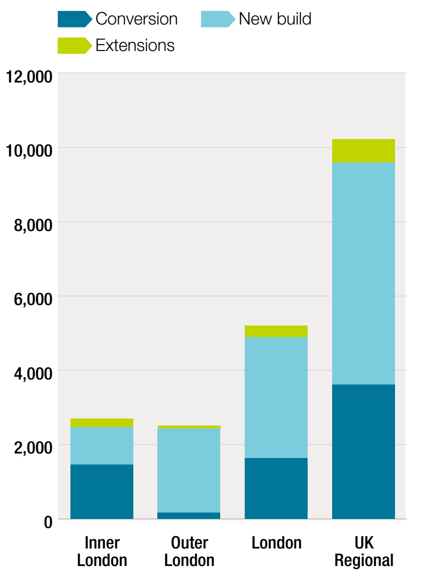
In addition, projects which have secured detailed planning permission, with a planned date of opening, but where construction has not yet started, account for a further 10,000 new rooms. Those projects seeking planning or with outline planning permission have been omitted from our analysis, due to the speculative nature of these projects.

Current development trends

Our analysis reveals that in 2018, the total number of "new build" hotel rooms opening equated to over 9,300 rooms, an 8% decline compared to 2017, with its share of total new supply falling to 60% compared to 65% the previous year. Nevertheless, the pace of development of "new build budget" hotel rooms in 2018 continued to intensify in regional UK, increasing by 24%, totalling some 2,900 hotel rooms. In total, the UK recorded almost 4,300 new build budget hotel rooms opening in 2018, representing 47% of the total number of "new build" rooms. The average size of a new build hotel declined a little compared to the previous year, with an average of 163 rooms for a London property and 85 rooms for a regional UK asset.

Whilst the development of "new build" hotel rooms represent the greatest proportion of new supply, the biggest trend to have become more dominant in 2018, is the conversion of real estate to hotel use. In 2018, some 5,200 new rooms opened as a result of a conversion from an alternative use, representing a 42% increase on the previous year, with hotel conversions representing 34% of total new supply in the UK in 2018. London's market share for hotel conversions witnessed a positive swing of 6 percentage points and for regional UK an even greater shift, with hotel conversions increasing by 13 percentage points, an increase of over 1,500 rooms.

FIGURE 8
New room additions by development type Full year 2018



Source: STR[1] Note: Knight Frank Analysis

The intensive growth in both new build and hotel conversions is fuelling the pace of hotel development in 2019, as we forecast the UK hotel market to grow by 2.9% for the full year 2019, equating to approximately 19,300 new rooms. New-build hotels are forecast to account for 63% of the total new supply in the UK in 2019 and specifically, the budget hotel sector continues to be the engine driving this growth, anticipated to account for 41% of all new build properties.

Development transactions

Knight Frank's research reveals that in 2018, a total of 28 hotel development transactions took place in the UK, equating to over £1.1 billion of investment. London accounted for 60% of all development transactions, with the acquisition of hotel sites and the forward funding of hotel projects representing 21% of the city's total investment, some £700 million. In 2019, continued strong demand exists for hotel developments to be funded through a forward funding or forward purchase agreement. In particular, a recent trend has been the growth of institutional investment in projects which form part of a mixed-use development scheme.

Hotel development sites which have secured institutional investment in 2019 include: M&G's Secured Property Income Fund's commitment to finance the construction of a £203 million, dual hotel development scheme in London Paddington. The project due to be completed by 2021, with the real estate let on long-term leases, will include a 373-bedroom Premier Inn and a 247-bedroom Staycity Wilde aparthotel; Meanwhile in March 2019, Aviva Investors completed the £45m forward funding for a 158-room Premier Inn, within Manchester's Circle Square development. The project, due to complete in 2020, forms part of Bruntwood SciTech and Select Property Group's £750m development.

Spotlight: mixed-use hotel schemes and conversions of centrally located real estate for hotel use

The structural changes in the retail sector, with the rise of online sales, rising rents and the subsequent inability to service the debt have taken their toll on many of our highest-profile retailers in recent years. Combined with changing attitudes towards real estate, particularly in the office sector, as the focus shifts towards effective real estate solutions in light of technological advancement, this has resulted in increased vacancy rates in prime locations.

These properties have brought about an increasing spotlight on the opportunities that hotel conversions can bring for all parties involved. Conversions offer hotel developers the opportunity to secure prime locations, and for the operator they offer a viable option for overcoming barriers to entry. Given the space requirements for a hotel development, hotels can be particularly well placed to take over retail properties, most notably former department stores. As such, converting former retail assets into multi-tenant use, to include a hotel, can be a viable and attractive option for landlords. Such schemes help to regenerate and bring life back into our town centres, and importantly, the long leases offered by hotel brands provide a reliable source of income to landlords, thereby reducing the overall risk.

As people seek to travel more frequently, demand for affordable accommodation for the short break leisure market is on the rise. Hotel operators are taking advantage of this trend and seeking to grow their national presence. With the availability of clean sites in prime city centre locations often scarce, opportunity therefore exists for operators to achieve their growth targets by targeting sites suitable for mixed-use, either through conversion or demolition of former prime retail space. Our analysis reveals that both budget hotels and hotels in the four-star market will equally make up 32% of all new property conversions for hotel use. A further 9% of hotel conversions will become operational in the branded 3-star market, 8% in the luxury five-star market and 5% for serviced apartments.

Significant opportunity exists for the hotel sector to play a leading role in the transformation of our UK town centres. Planning committees face a choice of leaving the former department store to deteriorate further or to support an application which would allow city centres to become vibrant, thriving and living. Such schemes underpin the role that bricks and mortar, specifically in the hotel sector, can have in supporting structural long-term change.

Examples of recent property undergoing conversion for hotel use are outlined in Table 1.

room2 Southampton, opened 2018. 71 rooms. "Hometels to live in, not just to stay in"

TABLE 1
Examples of various current hotel conversion projects – centrally located in UK towns or cities

Conversion / Redevelopment	Location	Completion date	Rooms	Investment (£)	Project type
Premier Inn Derry's Cross	Plymouth	2019	110	£32.5 million	Former department store, mixed-Use redevelopment: Hotel, Student Housing & Retail
Signature Living, Cavern Walks	Liverpool	2020	125	£19 million	Conversion of former office building
Premier Inn Chesterfield	Chesterfield	Opened 2019	89	£10 million	Former Co-Op Store
Proposed Hotel, St Mary's Street	Cardiff	Not Known	120-150	Not Specified	Howell's, former Grade-II listed, House of Fraser department store
Granada Studios Redevelopment	Manchester	2021/2022	210	£37 million	Redevelopment and refurbishment of a former office block and annexes to comprise, hotel, retail, offices and residential use
NoMad Hotel, Bow Street	London	2020	99	£125 million	Refurbishment, extension and conversion of Bow Street Magistrates Court and Police Station
Four-Star Hotel, Dale Street	Liverpool	2021	185	£30 million	Redevelopment and extension of Grade-II listed former Municipal Buildings of Liverpool
Northern Civic Quarter Scheme	Leeds	2022	339	£62 million	The redevelopment of a number of listed former council buildings off Millennium Square, to create two lifestyle hotels, flexible office and multifunctional space in the heart of Leeds city centre

Source: Glenigan

[1] Republication or other re-use of this data without the express written permission of STR and Glenigan is strictly prohibited

CASE STUDY:

CITY CENTRE REGENERATION – MOXY & RESIDENCE INN SLOUGH

Background:

- In July 2017, Cycas Hospitality, London's largest operator of serviced apartment and apart-hotels secured a deal with Slough Urban Renewal (SUR) to develop two new hotels in one dual-branded, purpose built hotel development.
- The development site, the former Central Library in Slough, a prime location on the A4 between the town centre and Slough station (from where Crossrail will operate), was acquired by Slough Borough Council in 2015.
- The aim of SUR, a public / private venture, jointly owned by Slough Borough Council and Morgan Sindall Investments, is to create iconic buildings, open spaces and connectivity, with the project forming part of the "Heart of Slough" regeneration plan.

Development focus:

- The property will provide 244 guest bedrooms, comprising a 152-bedroom, lifestyle Moxy hotel and an extended-stay Residence Inn by Marriott, comprising 92 serviced apartments.
- The dual-branded property to be managed by Cycas Hospitality, will be operated under a single lease with SUR, under a franchise agreement with Marriott International.
- Construction started in 2019, with a project completion date planned for Q1 2021.
- The hotel development forms part of a wider transformation of the site to include 64 new residential apartments and 4,000 sq ft of restaurant / retail space.
- The design-led Moxy brand, will celebrate the local heritage by featuring in the hotel's design, the iconic series Thunderbirds, with the production having originally been filmed in the nearby Slough Trading Estate.

Regeneration potential:

- The presence of two international hotel brands is expected to play a key role in revitalising the town centre, creating new jobs and helping the area become a new destination in its own right.
- The landmark development will bring long-term secure income for Slough Borough Council, for the provision of the Council's frontline services.
- Crossrail is expected to bring significant economic growth to Slough. The hotels' prime proximity will meet the needs of both business and leisure travellers, ensuring that Slough's ongoing transformation is long-lasting and sustainable.

> This proven double-decker approach helps widen the choice of accommodation styles available. Guest expectations and travelling styles have evolved in recent years, creating a growing demand for centrally-located properties that bridge the gap between traditional hotels and the home.

ASLI KUTLUCAN, SENIOR PARTNER, DEVELOPMENT & ACQUISITIONS, CYCAS HOSPITALITY

Moxy Slough - Opening Q1 2021, 244 rooms

Development Focus – London:

London's resilient trading performance and standing as one of Europe's top performing hotel markets has been a key driver for hotel development and as a global gateway city continues to fuel a strong pipeline of hotels, accounting for 38% of the UK total pipeline of hotels opening in 2019 and 33% of the total pipeline with detailed planning consent and a confirmed opening date. Nevertheless, growth of new hotel supply in London has slowed in 2018, rising by only 2.7% compared to 4.1% growth in 2017 and 3.7% the year prior. The current economic and political climate is proving to cultivate indecisiveness and this inevitably continues to have an impact on confidence, from investors, developers, operators and debt financers.

The area of greatest growth has occurred to the West of London, with the area surrounding Heathrow expanding by over 2,000 new rooms in 2018 and adding a further 1,500 rooms in 2019, equivalent of 10% supply growth in 2018 and representing 30% supply growth over the past five years, with its market share increasing to 14% of the total London market. With less than 500 new rooms opening in Outer London outside of the Heathrow catchment area in 2018, the expansion of Heathrow's hotel market was almost exclusively responsible for the outer London region to record annual growth in supply of 7% in 2018. By contrast, inner London's hotel supply increased by just 1.3% in 2018 compared to 3.6% the previous year.

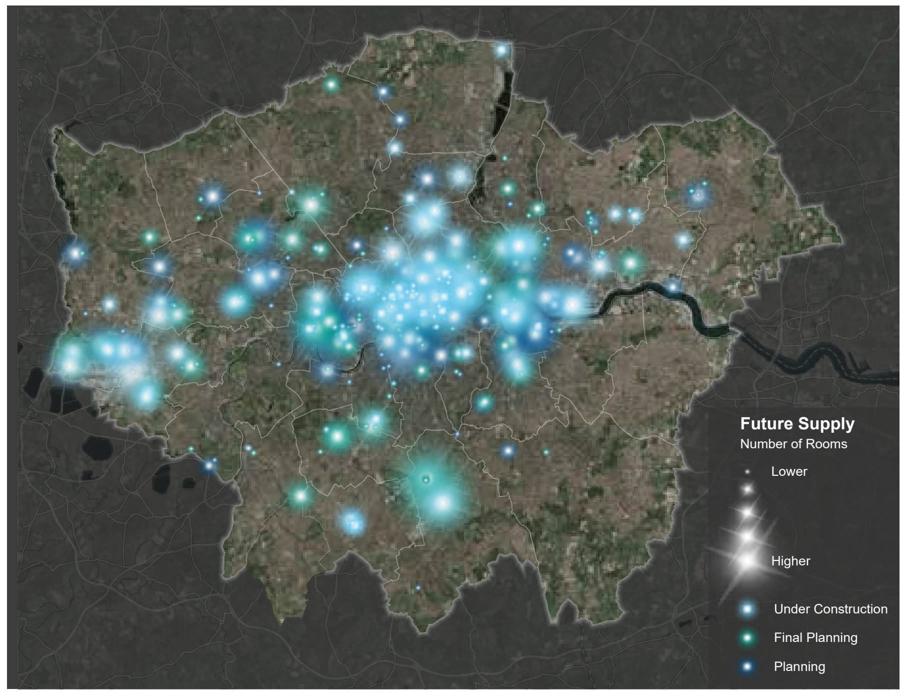
The London borough of Tower Hamlets recorded the strongest annual growth in new supply in 2018, both in terms of percentage growth and volume of new rooms, rising by approximately 9% and equating to some 830 new hotel rooms. Over the past five years, the London boroughs of Hackney and Tower Hamlets have together witnessed some 3,000 new hotel rooms, representing a 36% increase in supply and with a further 3,700 new rooms scheduled to open, this represents 22% of the total scheduled London pipeline.

Meanwhile, the City of Westminster and the City of London together represent a second strong hub of new hotel supply in Central London, with a net increase of some 4,200 rooms over the next four years, representing a 9% increase in supply, to an estimated 51,600 rooms.

The Knight Frank visualisation map serves to illustrate London's future hotel supply, distinguishing between those hotels under construction and those hotels with either outline or detailed planning permission.

FIGURE 9

London – Hotel scheduled pipeline 2019-2023



Source: STR[1] Note: Knight Frank Analysis

TABLE 2

LONDON – HOTEL EXISTING SUPPLY & PIPELINE 2019-2023

	% supply change Jan 2017 v July 2019	London market share – July 2019 (by number of rooms)	Hotel pipeline with scheduled date of opening as a % of existing supply (by rooms)	Number of rooms in pipeline 2019-2023	Annual % change FY Forecast 2019
Westminster/City of London	3.9%	29.4%	9.0%	4,245	2.0%
Kensington & Chelsea/ Hammersmith & Fulham	-0.8%	12.0%	4.4%	839	2.7%
Camden/Islington	2.4%	13.7%	8.6%	1,869	3.7%
Lambeth/Southwark	12.4%	7.5%	6.2%	747	3.2%
Hackney/Tower Hamlets	20.2%	6.6%	35.2%	150	0.0%
Newham/Haringey	23.1%	3.8%	4.8%	1,528	8.0%
Wandsworth/Lewisham	0.0%	1.2%	8.0%	181	3.8%
Outer London West	25.2%	15.4%	6.2%	3,695	5.8%
Outer London North	11.2%	1.6%	7.2%	296	0.0%
Outer London East	7.8%	3.1%	34.5%	1,528	8.0%
Outer London South	7.5%	5.2%	14.4%	181	3.8%
Total	8.5%	100%	10.3%	15,259	4.2%
Inner London	5.7%	74.5%	10.2%	11,283	2.7%
Outer London	17.9%	25.5%	12.8%	4,222	7.7%

Source: STR[1] Note: Knight Frank Analysis

Hotel construction & UK build costs

Whilst our research indicates a strong pipeline of hotels planned to open throughout the UK, one cannot ignore the sustained uncertainty surrounding Brexit and its impact on construction, with the ONS having reported a general trend of slowing growth in UK construction during 2018 as investors delayed decision making. Nevertheless, construction data analysed by Glenigan reports a Brexit bounce, brushing off the current political uncertainty and indecision, with the number of project starts rising by 12% in the hotel sector, for H1 2019, compared to H1 the previous year. This rise was also supported by the number of contracts awarded, almost doubling for the first six months in 2019 compared to the same time period the previous year.

Whilst Brexit uncertainty continues and significant concern remains over a future shortage of labour and supplies, along with construction pricing likely to be more affected by exchange rates, a number of projects previously on hold have been resurrected. Furthermore, the level of competition and healthy appetite for hotel investment in development projects, has helped secure the flow of construction activity in the sector.

Benchmark building cost data has been provided by Gardiner & Theobald, who have a wealth of experience in the UK hotel sector. In preparing these costs, Gardiner & Theobald have assumed traditional construction methods for a new build project, on a clear site. Appropriate adjustments would be required for additional requirements such as basement construction, enhanced facade/structural designs, complex structural solutions. All operational equipment, provided direct by the hotel operator are excluded from these numbers, as well as any costs associated with the pre-opening phase of a new build property. The cost/ m² ranges are based on the assumed gross areas per key as shown in Table 4, these will need to be considered relative to the specific efficiencies of the individual hotel design.

For projects which involve a hotel conversion from a non-hotel use, specific consideration should be given the likelihood that incoming supplies and drainage will need upgrading, acoustic performance of the building may be inadequate for hotel use and that formation of risers within the building to serve bathrooms can be problematic. Depending upon the age of the building asbestos can also cause major problems. These issues can result in the costs being equal or in excess of those for New Build, particularly for hotels classified in the mid-market / four star market and above.

For Central London as at Q1 2019, Gardiner & Theobald's data shows that Economy hotels, such as a traditional Travelodge hotel, have an average build cost ranging between £67,500 and £85,000 per key, excluding FF&E and have recorded an annual rise in build costs of approximately 4% per m² as at Q1 2019. For Central London midscale / 3-star new build hotel projects, such as a Premier Inn or Hampton by Hilton hotel, the build cost is typically 11% higher than an Economy hotel, with a build cost ranging

TABLE 4 **Average Build Cost per bedroom (£) – London** (Annual % Change – per m²)

	Average Area		Central London		FF&E		Annual % change £/m² 2019		UK CAAG 2015-2019 £/m²	
	Average bedroom size (m²) m²	Gross area per key (m²) m²	Location factor 105%		Central London					
			Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper
Economy	16-18	28-34	67,500	85,000	3,500	6,000	4.0%	3.1%	5.5%	5.1%
Midscale / 3-Star / 3-Star Plus	18-24	28-45	75,000	110,000	8,500	12,000	3.8%	-2.5%	5.3%	5.0%
Upper Midscale / 4-Star	22-28	42-49	125,000	175,000	12,000	15,000	3.4%	5.0%	5.7%	6.2%
Upscale / 4-Star Plus	28-35	57-60	160,000	200,000	16,000	20,000	5.9%	2.3%	3.8%	3.7%
Boutique / Lifestyle	N/A	48-96	135,000	N/A	15,000	45,000	0.0%	N/A	5.0%	N/A
Upper Upscale / 5-Star	30-35	60-75	300,000	400,000	30,000	60,000	4.9%	0.0%	5.3%	3.3%
Luxury / Deluxe	38+	88+	450,000	N/A	45,000	N/A	3.9%	N/A	3.0%	N/A
AVERAGE (LOWER TIER ONLY)			188,000				3.8%	1.4%	4.6%	4.5%

Source: Gardiner & Theobald

TABLE 3 **UK build costs by region (£)** – per bedroom

	Average Area		South East		South West		East of England		East Midlands		West Midlands	
	Average bedroom size (m²)	Gross area per key (m²)	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper
Economy	16-18	28-34	61,000	78,000	57,000	72,000	59,000	75,000	55,000	70,000	56,000	71,000
Midscale / 3-Star / 3-Star Plus	18-24	28-45	68,000	101,000	63,000	93,000	65,000	97,000	61,000	90,000	62,000	92,000
Upper Midscale / 4-Star	22-28	42-49	114,000	160,000	106,000	149,000	109,000	154,000	102,000	144,000	105,000	147,000
Upscale / 4-Star Plus	28-35	57-60	146,000	182,000	135,000	169,000	140,000	175,000	131,000	163,000	134,000	167,000
Boutique / Lifestyle	N/A	48-96	124,000	N/A	115,000	N/A	119,000	N/A	111,000	N/A	114,000	N/A
Upper Upscale / 5-Star	30-35	60-75	275,000	366,000	255,000	339,000	263,000	351,000	246,000	328,000	252,000	335,000
Luxury / Deluxe	38+	88+	412,000	N/A	382,000	N/A	395,000	N/A	369,000	N/A	378,000	N/A
AVERAGE (LOWER TIER ONLY)			171,000		159,000		164,000		154,000		157,000	
Location factor			96%		89%		92%		86%		88%	

	North West		Yorkshire & Humberside		North East		Scotland		Wales		Northern Ireland		Regional UK Average	
	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper
Economy	56,000	71,000	55,000	70,000	53,000	67,000	56,000	70,000	55,000	70,000	48,000	61,000	56,000	70,000
Midscale / 3-Star / 3-Star Plus	62,000	92,000	61,000	90,000	59,000	87,000	62,000	91,000	61,000	90,000	53,000	79,000	62,000	91,000
Upper Midscale / 4-Star	105,000	147,000	102,000	144,000	99,000	139,000	104,000	145,000	102,000	144,000	89,000	125,000	103,000	145,000
Upscale / 4-Star Plus	134,000	167,000	131,000	163,000	126,000	158,000	132,000	165,000	131,000	163,000	114,000	143,000	132,000	165,000
Boutique / Lifestyle	114,000	N/A	111,000	N/A	107,000	N/A	112,000	N/A	111,000	N/A	97,000	N/A	112,000	N/A
Upper Upscale / 5-Star	252,000	335,000	246,000	328,000	237,000	316,000	249,000	331,000	246,000	328,000	215,000	286,000	249,000	331,000
Luxury / Deluxe	378,000	N/A	369,000	N/A	356,000	N/A	373,000	N/A	369,000	N/A	322,000	N/A	373,000	N/A
AVERAGE (LOWER TIER ONLY)	157,000		154,000		148,0000		155,000		154,000		134,000		155,000	
Location factor	88%		86%		83%		87%		86%		75%			

Source: Gardiner & Theobald. **Exclusions:** Standard exclusions apply such as VAT, legal fees, site acquisition fees/costs, Professional Fees, Contingency, etc. All costs associated with Operator's Equipment are excluded.

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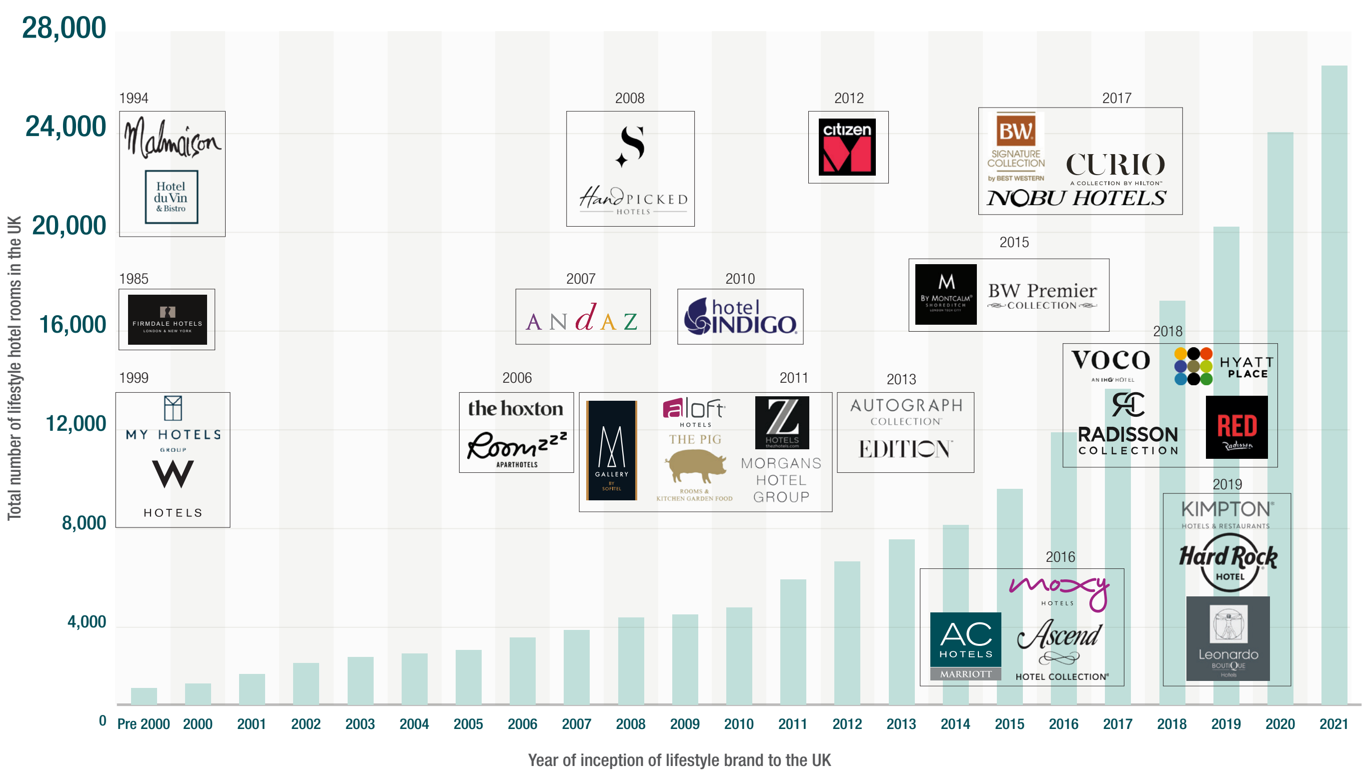
FIGURE 10
Evolution of Lifestyle Hotel Brands entering the UK Hotel Market



Source: STR[1] Note: Knight Frank Analysis

between £75,000 and £110,000 per key excluding FF&E. Meanwhile, four-star plus, Upscale hotels, comparable to Doubletree by Hilton or a Crowne Plaza, recorded at the lower range of the scale, the greatest annual rise in build costs as at Q1 2019, rising by approximately 5.9% per m², with build costs ranging between £160,000 and £200,000 per key, excluding FF&E. Upper Upscale hotels typically have a build cost ranging upwards of £300,000 per key and have seen build costs rise by 4,9% per annum, as at Q1 2019.

On average, across regional UK, the build cost per for an Economy hotel ranges between £56,000 and £70,000 per key, and a midscale, 3-star hotel build cost ranges between £62,000 and £91,000 per key. Meanwhile, the average regional build cost for an upper midscale/four-star hotel typically ranges from £103,000 to £145,000 per key excluding FF&E, and that of an upscale, four-star plus hotel averages between £132,000 and £165,000 per key. The FF&E cost for an Economy hotel ranges between 5% and 7% of the build cost, whilst the FF&E cost for other hotel categories typically equates to between 10% and 11% of the total build cost. However, the FF&E cost per key can be significantly greater at the upper range of build costs, with FF&E averaging around 15% for an upper-upscale, 5-star hotel.

The benchmark costs outlined cover a range of hotel brands and with consideration to location factors covering various regions of the UK, as published by the Spon's Architects' and Builders' Price book 2019. We illustrate the construction cost separate to the cost of FF&E and costs are shown on a per key basis. Where we illustrate an annual rise in build cost, the calculation is undertaken using a per square metre basis.

Lifestyle hotel brands

The cornerstone of the hospitality sector is based on responding to and anticipating the wishes of its customers, from which the concept of boutique hotels and subsequently lifestyle hotels have been borne. While the focus was once on in-room facilities, the goals are changing. With the rise of the Millennial generation, guests are principally looking to explore beyond the seclusion of their bedrooms, in search of warm, inviting communal places, with contrasting elements of culture and originality.

Hoteliers are becoming smarter about designing their spaces to cater for the connected nomadic worker, with hotel guests placing a greater value on connectivity. As such, a multitude of soft, lifestyle brands and hotel concepts have been developed, with a growing emphasis to focus on communal public areas with high connectivity.

The evolution of both budget and boutique lifestyle brands, including the emergence of "affordable luxury" with brands such as citizenM and Moxy have provided greater accessibility to a wider market. As brands have evolved and multiplied, they have helped meet the needs of and adapted to the changing demands of the modern traveller. Valuing experiences over possession, supporting local communities, seeking uniqueness and authenticity, sustainability and environmental considerations, the requirement for sophistication and personalisation, wellness and work/life balance and changing attitudes to business travel are just some of the drivers which lifestyle hotels have sought to fulfil.

Today and increasingly in the future, the challenge is to provide a more emotional dimension of service, providing an experience that appeals to the guest's lifestyle, values, identity, social needs and mental wellbeing. From an investor perspective, the informality of guest service levels and the flexibility around product specifications potentially make lifestyle hotels a more compelling proposition.

The development boom of the hotel sector in recent years has been two-fold, firstly budget hotel operators striving for standardisation and brand domination and secondly, global hotel operators seeking to capture a share of the boutique, design and lifestyle market, by developing hotels which promote individuality and which offer interesting designs and provide authentic experiences in key markets.

From less than 700 lifestyle hotel rooms in the UK in 2000, the sector has undergone significant growth through both development and refurbishment, recording a compound annual average growth rate of 18.5% per annum between 2000 and 2019. Since 2015, the growth of the sector has been even more prevalent, with an extensive number of brands launching in the UK, resulting in an average growth of 23% per annum. By the end of 2019, our research suggests some 20,000 lifestyle hotel rooms will be in operation, with sub-brands of large global players and international brands seeking first-time exposure in the UK, driving the continued expansion of the sector.

Figure 10 shows the evolution of lifestyle hotels since the year 2000; it also demonstrates the clear correlation between growth in millennial spending power and the proliferation of lifestyle brands. With congestion in the lifestyle market, with a full range of new brands, the hotels must strive to cultivate distinct and genuine differentiation between them and not merely from the parent brands that they are replacing.

New lifestyle hotels which have opened in London over the past twelve months include: the 129-room Lincoln Plaza London Curio Collection by Hilton located in Canary Wharf, with its design inspired by the history of London's shipping and docklands; the 193-bedroom Dixon Autograph Collection which occupies the Grade II listed building which served as the Tower Bridge Magistrates Court; and the 161-room riverside Bankside Autograph Collection, located on London's Southbank. Meanwhile, still to open in 2019 include: the 266-bedroom Standard London located in the former Camden Town Hall; the 87-room, Blakes Shoreditch occupying a former office building, and the 190-bedroom nhow London and the 192-room Hoxton Shoreditch, both located in the area now known as London's Tech city and Silicon roundabout.

Other new international lifestyle brands set to be introduced include Starwood Capital's Treehouse Hotels, the brand's inception will take place in London, with a 95-bedroom hotel and rooftop terrace, with the concept devoted to environmental causes, with a commitment to preserving the planet and its resources. Meanwhile, Accor announced the launch of a new midscale lifestyle brand called The Tribe, currently with one existing hotel in Australia, Accor plans to roll out the brand on

LIFESTYLE HOTELS

2019 – 19,500 ROOMS
2021 – 25,000+ ROOMS

ANNUAL COMPOUND GROWTH:
SINCE 2000 – 18%
SINCE 2015 – 22%

GROWTH THROUGH NEW BUILD, CONVERSIONS & REBRANDING.

The Stratford Hotel (Opened Q2 2019), Stratford Lofts (Opened 2018)

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an international scale, commencing with the opening in autumn 2019 of a 290-bedroom hotel in Glasgow.

New lifestyle brands continue to evolve as well as international lifestyle brands launching in the UK. New brands due to enter the UK hotel market include art'otel, Jo&Joe by Accor, NYX by Leonardo hotels, Canopy by Hilton, Motto by Hilton, Mama Shelter in partnership with Accor, NoCo Hotels by Ennismore, Niu Hotel by Novum Hospitality, Zabeel House by Jumeirah and Zoku.

The evolving sector of serviced apartments

The UK serviced apartment sector is the fastest growing sub-sector of the UK hotel market, forecast to grow by 6.4% in 2019, with the addition of some 1,500 new apartments and contributing a total supply of approximately 25,000 serviced apartments to the UK hotel market. Since 2010, the sector has recorded annual average growth of 5.2%, with the pace intensifying over the last four years, registering annual average growth of 6.2% since the start of 2016.

Serviced Apartments have gained in popularity over time, due to the rise in Airbnb and the growing acceptance of a home-stay concept. In the age of urbanization, collaboration, sharing of experiences and co-living, changes in living-trends have resulted in the serviced apartment sector adapting to the expectations and demands of a widening pool of customers.

Having initially aligned itself with long-stay business travellers, the market and demand drivers have widened to encompass both the leisure and corporate transient sectors, to include millennial travellers as well as targeting the family market. Growth of the sector has been succeeded with changes to the sector's value proposition. On the most part, this has been achieved through the development of niche brands, which offer modern, welcoming, social spaces, combined with a core product that provides comfort, practicality, flexibility and space.

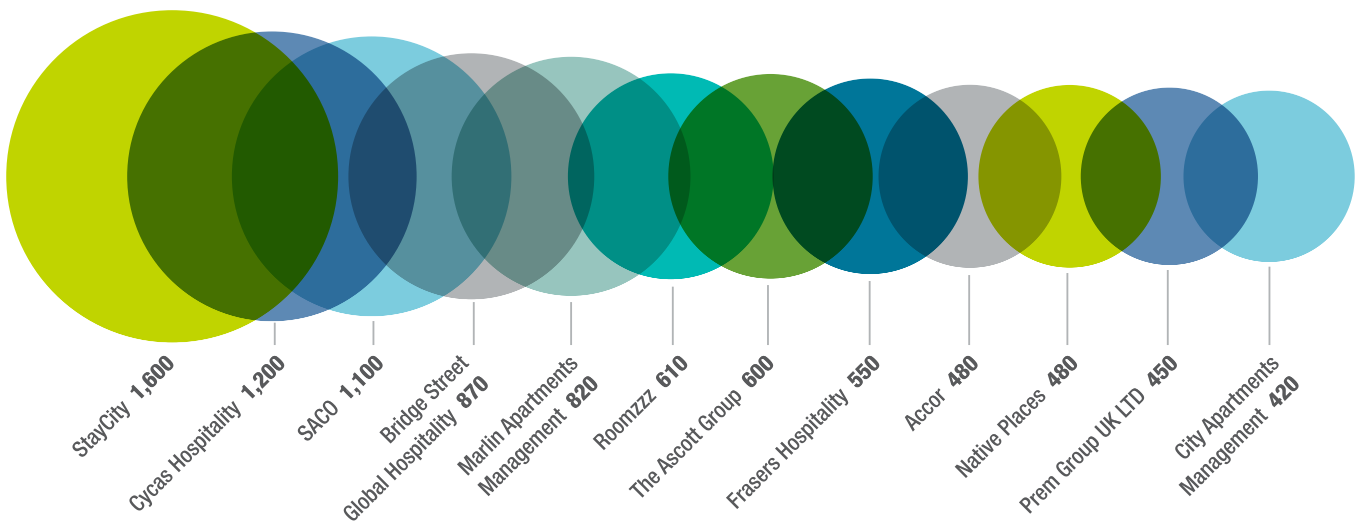
Investor confidence is growing in the sector, supported by the increase of high-profile operators entering the market and the availability of operating data. Brookfield's successful £430 million acquisition of the SACO Group in 2018, represents the largest serviced apartment deal in the UK to date. Meanwhile, in late December 2018, M&G acquired the long-leasehold of a development site in Paddington for £203 million, a dual hotel site with Whitbread to open a 373-bedroom Premier Inn and Staycity's premium Wilde aparthotel brand featuring 247 apartments, with both hotels to operate under a 30-year lease on five yearly inflation-linked rent.

Significant opportunity exists, however, for the sector to undergo a paradigm shift in its structure, as the sector remains highly disparate and fragmented with independent operators representing 40% of supply, some 10,000 apartments. However, much of the stock is not purpose built, with the average size of a non-branded asset equating to less than 30 apartments and are not deemed as suitable for brand conversion.

The top three brands, StayCity Serviced Apartments, Staybridge Suites and SACO (including Locke by Saco) represent 16% share of the market, equating to around 4,000 rooms, whilst the top twelve brands account for 40% of the market. The operators of these twelve largest brands have contributed over 60% of the new apartments opening since 2016, and furthermore, represent 73% of the development pipeline with a scheduled opening date.

Wilde by StayCity London Paddington, opening Q3 2021

FIGURE 11
Number of serviced apartments in the UK – by operator, July 2019



Source: STR[1]

New brands and designs continue to push the sector to new heights. Staycity, is the most active operator with some 900 apartments in development, representing 19% of the scheduled pipeline, driven by their new lifestyle brand, Wilde aparthotel by Staycity. Other lifestyle brands such as Locke by SACO, Accor's Aparthotel by Adagio and Native all have active pipelines, each with over 500 apartments scheduled to open by 2021. Meanwhile, Roomzzz and Native are two brands which have seen significant growth in the past three years, with their market share set to rise to 3.2% and 3.1% respectively by the end of 2019. Based on full year supply forecast for 2019, Native and Roomzzz will have achieved a compound annual average growth of 25% and 39% respectively for the three-year period since the start of 2017.

Over the past four years, much of the growth of the serviced apartment sector has been focused on regional UK, with the main operators seeking to grow their brand exposure throughout the major regional UK cities. Whilst London has recorded a compound annual growth of 4.5% since 2016, with supply set to grow to 12,000 apartments by the end of 2019, it is regional cities such as Manchester and Liverpool which have recorded significant net growth. Manchester's supply growth has increasing by approximately 21% year-on-year since 2016, whilst Liverpool has witnessed the serviced apartment sector averaging year-on-year growth of 12.5%, the two cities combined make up over 93% of the supply in the North-West of England.

Elsewhere, the geographical spread of the sector has further intensified, with cities such as York, Newcastle-Upon-Tyne, Dundee, Southampton, Reading and Brighton all witnessing growth in supply.

Following the growth of the sector, our findings have identified a number of recently opened developments which have divided their units between serviced apartments and apartments which are available for long-term residential lets and essentially operating as a co-living scheme. Whilst Local Authority plans increasingly prioritise residential development over alternative forms of housing such as co-living, developers are often only achieving final planning status by first obtaining consent for hotel (C1) use, then relying upon the blurred edges of residential (C3) and hotel (C1) use, to designate certain units for residential use.

With the boundaries between living and working increasingly obscured, there is becoming an increasing need to reassess the way to categorise property and to widen the scope of Use Classes. Examples of this include the Caro Short Stay Apartments in Liverpool which opened in 2018 and the recently opened Stratford Lofts which offer both serviced apartments available for short-term and longer-term residential lets.

FIGURE 12
Top UK Cities for serviced apartments

Source: STR[1]

KNIGHT FRANK VIEW

Despite the heightened level of uncertainty that Brexit continues to bring, a robust level of hotel development has continued in both London and throughout the UK, particularly in markets which have a thriving short stay and leisure market. The growth in appetite by institutional investors and strong competition for prime locations, has led to increased investment at the development stage. The importance of undertaking due diligence to understand the risks involved and to address the specific requirements of the site, facilitate the process in making a smart investment decision in the long-term and in the current uncertain climate provide a greater degree of investment confidence.

With the potential of a no-deal Brexit now a strong possibility and the current short-term trading outlook in regional UK recording marginal or no growth, it is inevitable that a certain number of construction projects will endure delays or be put on hold indefinitely. Nevertheless, continued growth of the budget and lifestyle hotel sectors is expected to continue and result in supply growth levels to remain at a similar pace to the long-term trend, at around 2% per annum.

Looking to the future, as hotels take on a role of regenerating our high streets and as lifestyle needs evolve and high-tech advances continue, the provision of fully-fledged co-working spaces within hotels is expected to rise. As hotels evolve to accommodate a new wave of mobile worker, thereby opening up new audiences and the local community, the revenue generating potential of connected, hotel lobby spaces could be significant.

The construction sector is a dynamic industry which, with the development of new materials and technologies, is continually evolving and providing exciting design solutions. Changing regulations and environmental requirements are likely to become more stringent in the future and it will become increasingly important to apply newly developed technologies in hotel design and construction.

Sustainability is becoming increasingly important and the UK government has set an ambitious target to reduce carbon emissions, with pressure growing for global and mid-sized companies to take action and develop ambitious emission reduction targets. Sustainability is not a trend, it is the implementation of best practice in design and construction and continuing throughout all levels of a hotel operation. Reducing the environmental impact of hotels is a key issue, particularly for a growing number of eco-conscious consumers, where social, environmental and ethical considerations are now central to consumer buying preferences. Owing to this increased awareness, as well as to the economic viability needed to gain a competitive advantage, hotels taking responsibility for sustainability will only continue to grow in significance.

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We would like to give particular thanks to Gardiner & Theobald for their support and expert knowledge relating to hotel build costs and to STR for the use of the AM:PM database. Without access to the data, some of the detail provided in this publication would not have been possible. For further information please refer to www.gardiner.com

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Gardiner & Theobald Build Cost Assumptions
The build cost ranges should be used as an indication for high level budget purposes only. Each individual development to be reviewed and assessed based on its own merits. The cost/m² ranges or cost/key are based on the assumed gross areas per key as illustrated. Standard exclusions apply such as VAT, legal fees, site acquisition fees/costs, Professional Fees, Contingency, etc. All costs associated with Operator's Equipment and other hotel direct costs are excluded.

Front Cover Picture: The Dixon - Tower Bridge, Autograph Collection, 193 Rooms (Opened Dec 2018)

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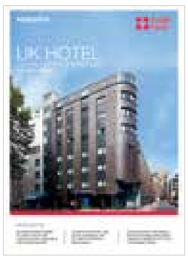

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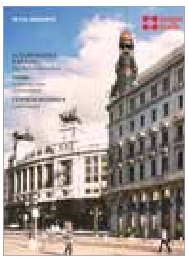
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