

RESEARCH



2017

# UK HOTEL

TRADING PERFORMANCE REVIEW

## HIGHLIGHTS

(12-MONTH PERIOD SEPTEMBER-AUGUST 2016/17)

London's GOPPAR up 5.8%, driven by strong growth in the Average Room Rate.

Regional UK Hotels average a Gross Operating Profit of 32% compared to 45.5% in London.

Payroll costs continue to rise and equate to 24% of Total Revenue in London and 31% in Regional UK.





## FOREWORD

PHILIPPA GOLDSTEIN  
Hotel Analyst

### Knight Frank is pleased to launch its first annual review of trading performance in the UK Hotel sector.

In partnership with HotStats, we have produced a unique and comprehensive analysis of the UK's hotels trading performance, which focuses on a detailed review of hotel revenue, cost, and profitability using consolidated monthly data, to analyse historical and year-to-date performance. We have used a range of datasets, ranging from hotel class, hotel size and location from which an in depth analysis has been carried out and key hotel metrics applied in order to review trends, draw conclusions and provide an insight into future hotel trading performance.

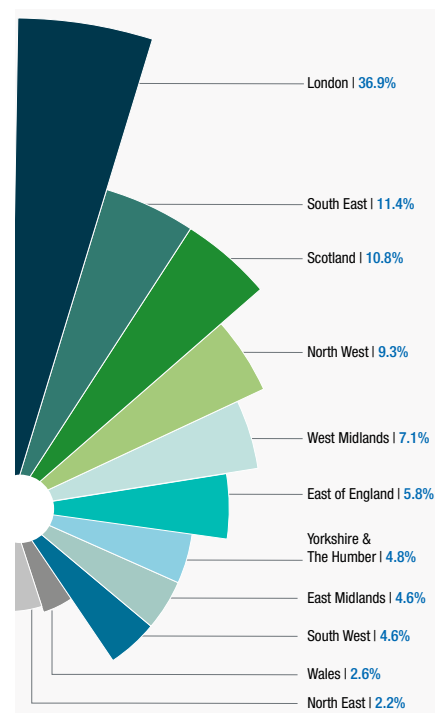
Our sample of hotels, totalling some 112,000 rooms, is geographically spread across England, Scotland and Wales. London comprises the greatest concentration of hotels in our sample (37%), representing approximately a quarter of London's hotel bedroom supply. In addition, our sample focuses predominantly on the branded midscale and upscale hotel sectors and represents approximately 30% of the branded UK hotel market.

Despite a slowdown in the UK economy and ongoing uncertainty following the

Brexit vote, headline results have shown that for August YTD 2017, hotels have enjoyed a particularly robust trading environment, in both London and Regional UK, albeit with variation in performance amongst regional markets. The strong RevPAR growth in London, largely driven by growth in the average room rate, combined with healthy levels of trading in Regional UK has filtered down to GOP, resulting in respectable growth in GOPPAR (10.1% and 4.8% respectively as at August YTD 2017). Nevertheless, the headwinds of rising costs in both expenses and payroll highlight the challenges ahead for the industry, at a time of heightened concern over the free movement of labour post Brexit.

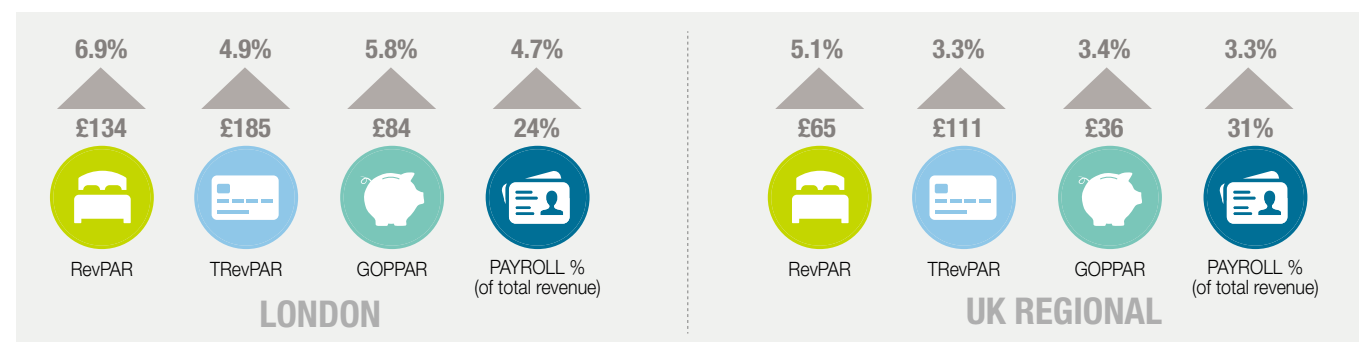
Looking ahead to 2018, there is a growing market sentiment that the rate of growth in key trading performance indicators will be lower than in 2017. Nevertheless, the weakened pound is expected to continue to attract overseas leisure visitors, which combined with strong growth in demand from continental Europe and resilience in the domestic "staycation" market, should provide further growth potential for the UK hotel market. We anticipate that growth in RevPAR and GOPPAR will continue into 2018, albeit with a tougher trading environment, complicated further by the volume of new capacity entering the market.

FIGURE 1  
Regional share of the sample  
Number of hotels rooms by region



Source: Knight Frank Research

## ROLLING 12 MONTHS SEPT-AUG 2016/17



Source: HotStats

## TOPLINE PERFORMANCE INDICATORS

A greater than anticipated boost in tourism drives strong trading performance across the UK. RevPAR is forecast to grow by over 7% for the full year 2017, driven by 7% ADR growth in London and record high occupancy rates in the UK provinces.

### Occupancy, average room rate & RevPAR

The UK hotel market has witnessed an exceptionally robust trading performance in 2017 with record RevPAR levels, achieving £89 for August YTD, up 7.4% compared to the same period in 2016. Whilst both London and Regional UK markets have recorded growth in occupancy, of 1.6% and 1.8% respectively for August YTD, London has outperformed provincial markets, with a 9.1% surge in RevPAR growth achieved through an exceptionally strong uplift in the Average Room Rate to £161.

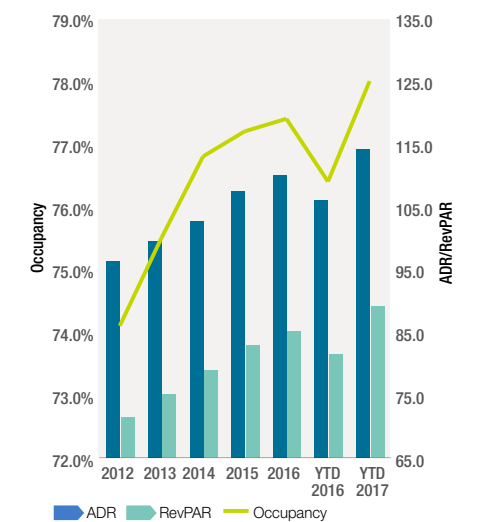
Following a weaker performance in 2016, London has benefitted from the weak pound, incentivising overseas visitors to the capital city, with strong growth recorded for long-haul markets, particularly from North America, who

typically stay longer and spend more. To date, the trend in the key top line UK hotel metrics mirrors the 2017 growth forecasts announced by Visit Britain, of 6% increase in inbound visits and 14% growth in spending.

The volume of demand from international visitors in London, combined with strong leisure demand drivers in UK provincial markets, is facilitating hotel occupancy rates throughout the UK, with Knight Frank forecasting 2017 year-end occupancy rates of 82% for London and a record high 77% occupancy for the UK provinces.

This performance is particularly impressive when taking into consideration the new hotel supply entering the market. In 2017, 10,000 new hotel rooms have opened in the UK, of which 50% of new hotels opened in London, with a further 7,000 new rooms planned to open throughout the UK in the final quarter of 2017.

FIGURE 2  
UK hotel performance occupancy, ADR, RevPAR 2012-2017 (August YTD)



Source: HotStats



Source: HotStats

# HOTEL REVENUES

The rise in RevPAR outpaces growth in other operating departments, resulting in the share of Food & Beverage revenue to decline as a percentage of turnover.

## Revenue Mix

An analysis of multiple, consolidated hotel datasets allows us to review and compare the revenue mix breakdown by hotel type and to draw the following conclusions:

- There is a stark but perhaps not surprising contrast between the various sectors revenue make-up;
- Golf, Country House and Conference Hotels - all operate with less than 50% of revenue generated from rooms. These sectors trail growth in TRevPAR from those sectors which are rooms revenue dominated;
- Leading the pack Mid-Market hotels, both in London and regionally, together with Upscale London hotels generate more than 70% of revenues from the rooms department, with the increase in rooms revenue exceeding expense line growth, thus driving operating profits forward.
- Hotel sectors with over 75% of revenue derived from Rooms Revenue are

less impacted by a fall in ancillary revenues, as such any decline in revenues from non-rooms revenue departments is unlikely to have a material impact on profitability.

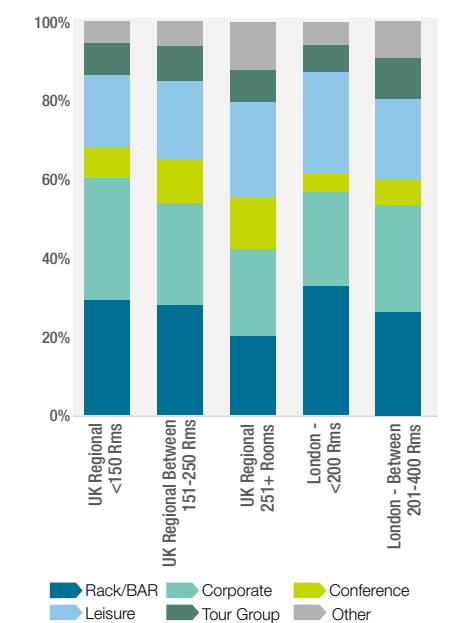
## Rooms Segmentation

With the aid of revenue management software and automated systems, technology has transformed the way hotels segment their business, with the insight used to apply yield and revenue management techniques. HotStats data groups together the granular segments into broad categories, from which it is possible to analyse key trends.

In terms of room nights occupied, for the period, Sept-Aug 2016/17, London hotels increased the volume of business in the Rack/Best Available Rate (BAR) and Tour Group segments by 1% and 2.1% respectively, whilst the volume of Corporate business declined by nearly 1%. The Regional UK market attracts a greater percentage share of its room night mix in the Conference market compared

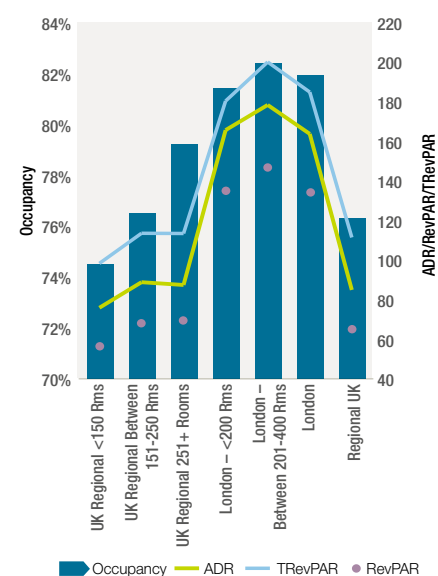
FIGURE 5  
Market Segmentation by Occupied Room Nights

Rolling 12 months, September-August 2016/17



Source: HotStats

FIGURE 3  
Key top line performance indicators by hotel size / region  
Rolling 12 Months to August 2017



Source: HotStats

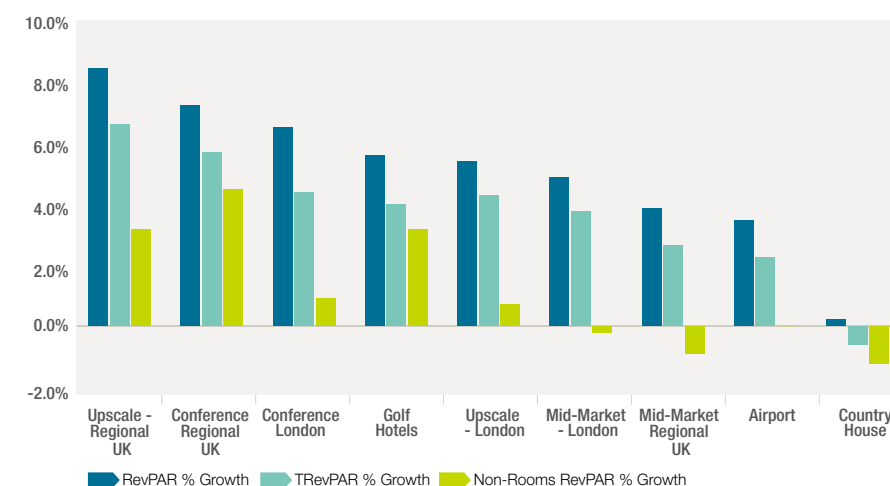
## TRevPAR v RevPAR growth

- Upscale market segments, including conference hotels, have performed

the strongest, consolidating increased RevPAR with enhanced revenue growth from other operating departments.

- Country house hotels have witnessed a significantly weaker trading environment, with only minimal RevPAR growth and a decline in non-room revenues departments;
- Modest growth in the mid-market regional UK sector as hotels continue to compete against the ever growing limited service sector;
- London RevPAR growth outperforms growth in all other revenue lines.

FIGURE 4  
RevPAR v TRevPAR growth Annual % Change September-August 2016/17

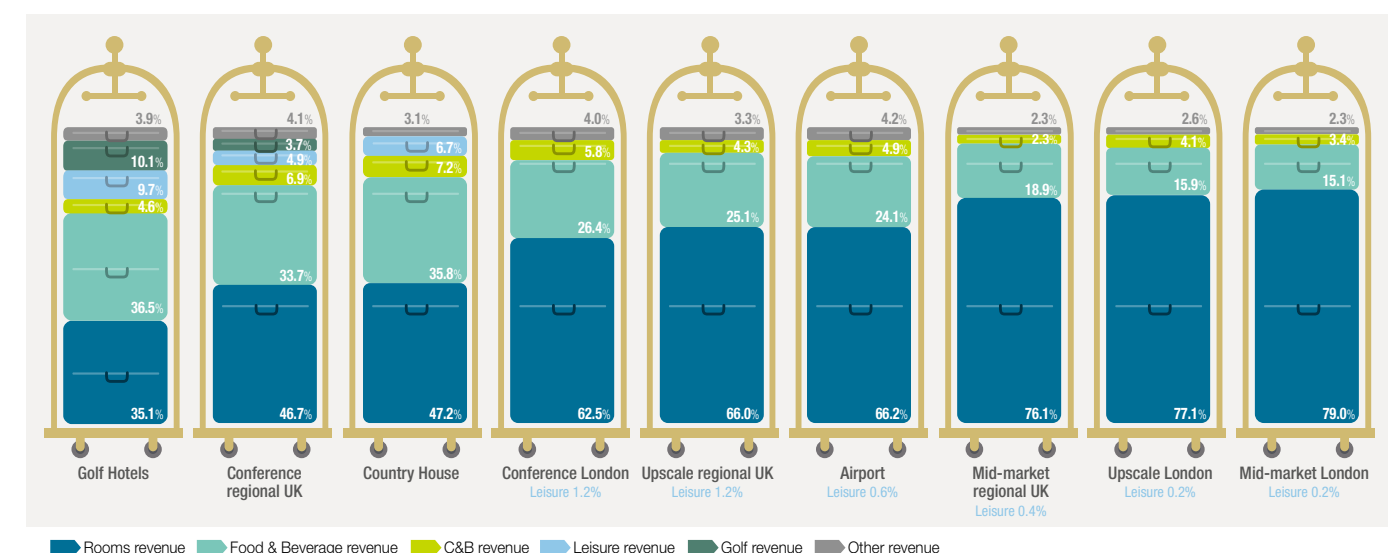


Source: HotStats



Barnett Hill Country House Hotel, Guildford, Surrey

FIGURE 6  
Revenue mix % (POR) Rolling 12 Months, September-August 2016/17



Source: HotStats

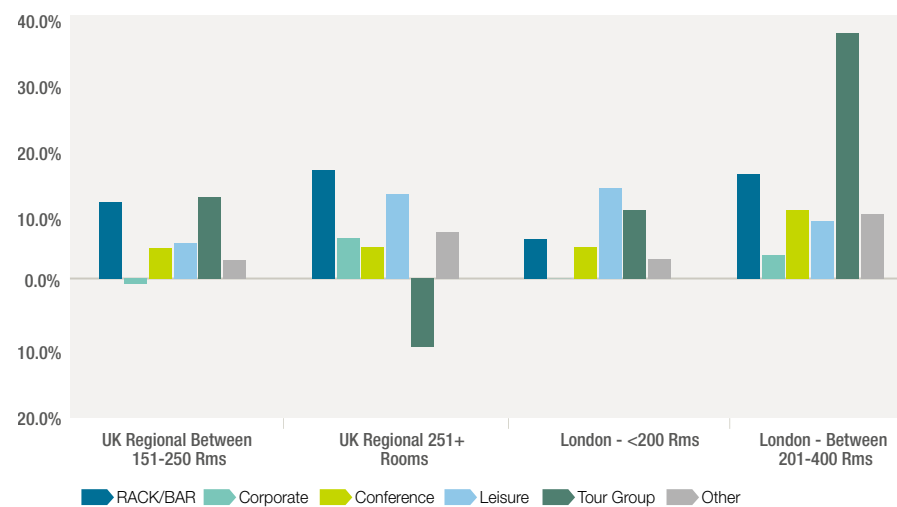


to London, as well as a lower share in the Tour Group segment. For the same period, Regional UK Hotels marginally increased its volume of room nights in both the Leisure and BAR segments by just under 1%, at the expense of the Corporate and Conference markets, which both marginally declined in volume.

Golf, Country House and Conference hotels penetrate more strongly in the conference segment, with up to 25% of room nights generated from this segment. Meanwhile, with branded hotel companies targeting direct bookings, the Rack/BAR segment represented around 27%-30% of room nights for a number of the hotel categories analysed.

Further analysis of Rooms Revenue reveals that for between Sept-Aug 2016/17, certain hotel categories have increased their gross Rooms Revenue in the BAR/Rack segment by approximately 15%, with hotels in London achieving an ADR growth in this segment of greater than 5%. In the Leisure segment, gross revenues have increased by approximately 10%, with growth in the

FIGURE 7  
**Rooms Revenue by segment** Annual % change Sept-August 2016/17



Source: Knight Frank Research

ADR of the leisure segment rising by approximately 4%. Significant change has also occurred in the Tour Operator market segment, with Upscale London Hotels increasing their Rooms Revenue by around 50%, benefitting from a rise

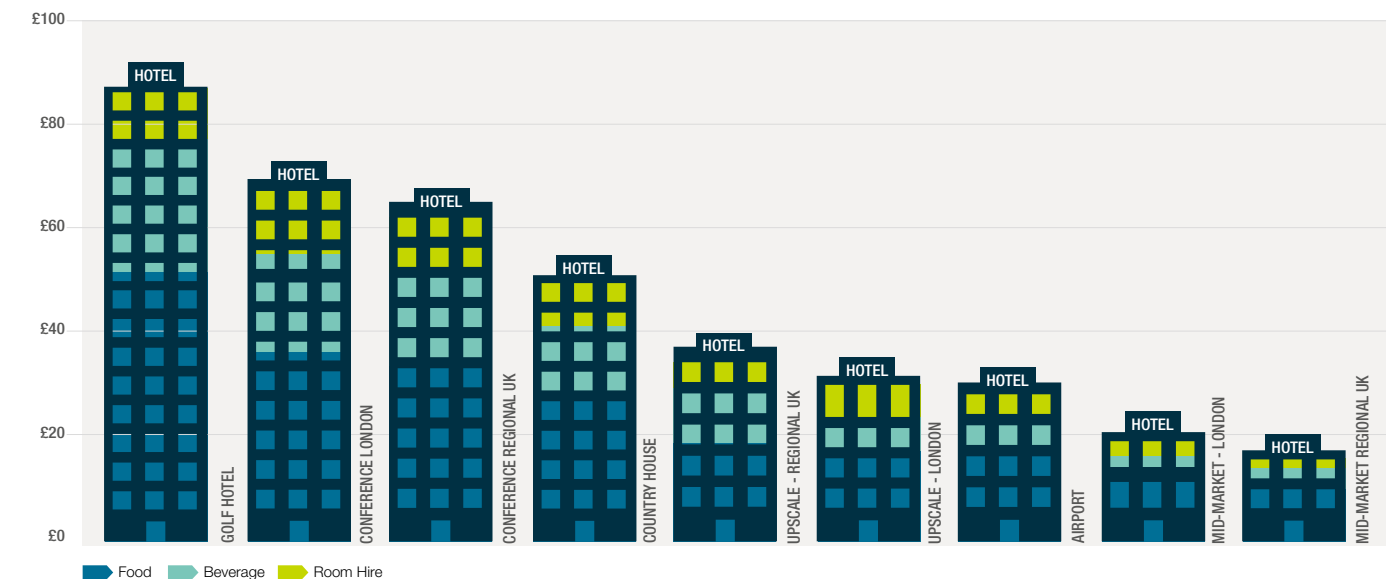
in international tour groups from long haul destinations. Meanwhile tour group business has dropped significantly in the regional conference and golf hotel categories, mainly in favour of higher rated leisure and BAR business.

## Food and Beverage Revenue

Food and Beverage (F&B) revenues have generally increased during the full year Sept-Aug 2016/17 across the UK. The biggest winners in F&B revenue growth came from the UK regions, with growth of around 5% achieved by Upscale hotels, Conference hotels and hotels with greater than 250 rooms. In contrast, Country House hotels which have experienced no growth in occupancy have further witnessed a decline in F&B Revenues. This implies a lower spend per staying guest and fewer non-residential customers as UK consumer spend is tightened as prices rise and wages remain stagnant. Similarly, Mid-Market regional hotels and London hotels with less than 200 rooms have also endured lower F&B revenues.

For the period August YTD 2017, occupancy growth has led to further growth in F&B revenues, with gross revenues in London up 2.9% and 2.0% in Regional UK. Nevertheless, despite the increase in revenues, the growth in Rooms RevPAR has outperformed the growth in F&B revenues in both London and Regional UK, resulting in a decline in the total revenue mix of F&B revenues,

FIGURE 9  
**Split of F&B Departmental Revenue (PAR)** Rolling 12 Months, Sept-August 2016/17



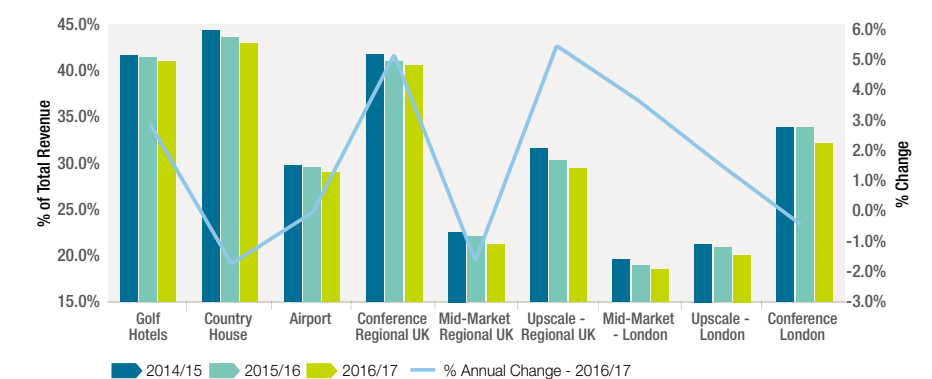
Source: HotStats

but conversely, higher GOP margins. As at August YTD 2017, F&B revenues accounted for 22.7% of total revenues in London (versus 24.1% YTD-2016) and 31.8% in Regional UK (versus 32.5% YTD-2016).

## Other ancillary revenue streams

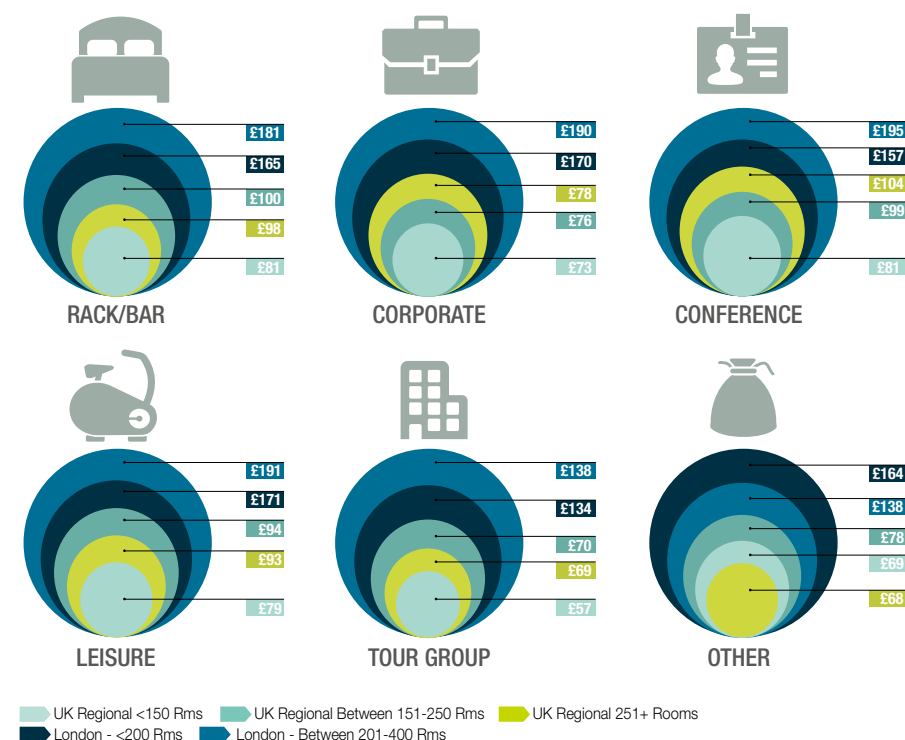
In the period Aug-Sept 2016/17, Other Ancillary revenue streams (excluding F&B revenues) have declined in London by approximately 4.7% on a per-occupied room basis (POR), whilst regional UK has witnessed only a marginal fall, of less than 1% POR.

FIGURE 10  
**Food & Beverage Revenue (% of total revenue)** Rolling 12 Months, Sept-August 2016/17



Source: HotStats

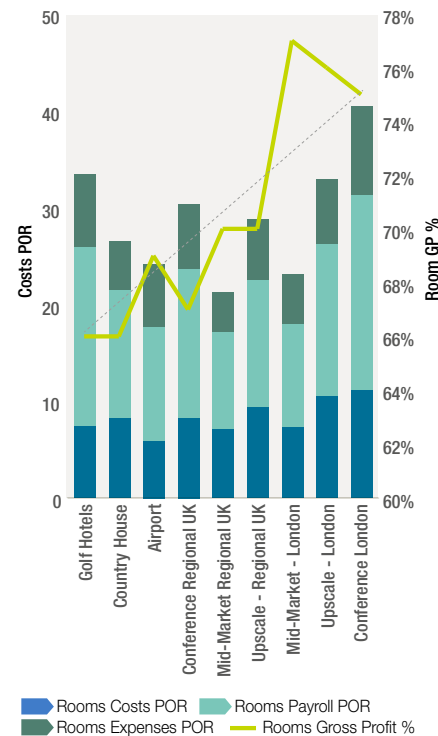
FIGURE 8  
**Average Daily Room Rate by Market Segment, London v UK Regional Hotels**



Source: HotStats



FIGURE 11  
**Breakdown of Room Cost – POR**  
Rolling 12 months, Sept-Aug 2016-17



Source: HotStats

## DEPARTMENTAL COSTS

The depreciation of the pound has caused expenses to increase across all hotel operating departments. Combined with the cost pressure of payroll, departmental operating costs are set to intensify.

### Rooms Cost

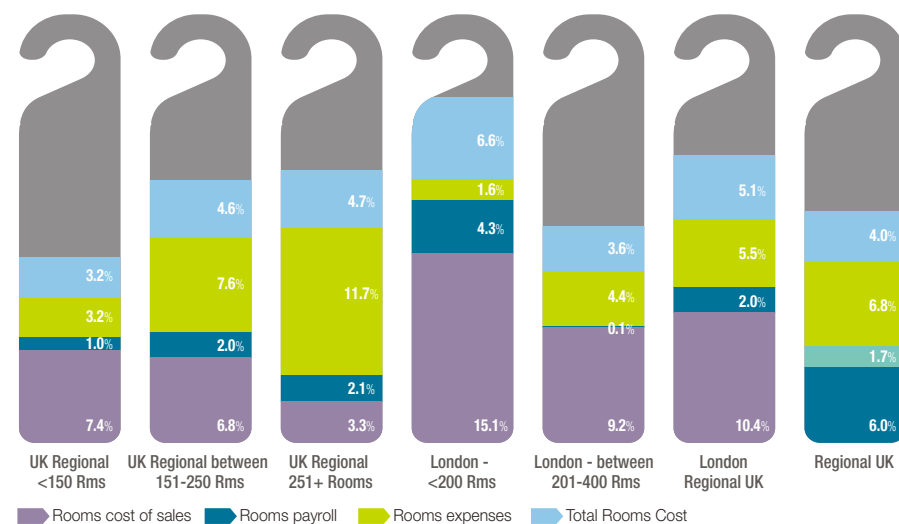
HotStats reporting makes a distinction between Rooms Cost of Sales and Rooms Expenses, with the former including travels agents' commission, Reservation fees, GDS fees, third party representation fees and internet booking fees.

Rooms Costs have risen significantly in the three-year fiscal period to Sept-Aug 2016/17 across all categories of hotels, with a compound annual average increase of 4.3% for London and 4.4% for regional UK, on a POR basis. This computes to the Rooms cost of sales increasing by approximately 19% in London over the three-year period and around 15% in Regional UK. As at August YTD 2017, the Cost of Sales in London increased on an annual basis by approximately 8% to £10.50 POR and over 5% in Regional UK to £7.5 POR. Rooms Cost of Sales now make up approximately 29% of the total rooms cost in London, compared to 26% share of the total cost three years prior.

A rise in Rooms Expenses has further driven up room costs, with the weak pound post the UK Referendum making it more expensive when importing supplies. For the fiscal period Sept-Aug 2016/17, Rooms Expenses have increased on a POR basis by 5.5% in London and approximately 7% in UK Regional hotels. Rooms expenses accounts for approximately 22% share of the total rooms cost in Regional UK and 23% in London.

Rooms Payroll Costs, which represents the largest cost element, has increased, on a POR basis, by 2.0% in London and 1.7% in the UK regions for the same 12-month period, with all components wages, salaries and employee costs such as pension contributions, all increasing. Following more detailed analysis of the various London hotel datasets, as at August YTD 2017, Conference hotels have observed a 9.1% increase in payroll; Upscale hotels a 4.8% increase and London hotels with less than 200 rooms, a 5.8% increase in Rooms Payroll.

FIGURE 12  
**Rooms Departmental Costs (POR)**  
Annual % Change, Aug-July 2015/16 - 2016/17



Source: HotStats

### Food & Beverage Costs

With an increase in gross Food and Beverage Revenues during the full year Sept-Aug 2016/17, F&B Costs have similarly increased across nearly all categories of hotels, but with costs rising at a higher percentage than revenue growth, resulting in net falls in departmental profit margins.

Payroll costs, which range between 53%-57% of total departmental costs across all sectors, have increased by 5.5% in London and 4.0% in Regional UK for the 12 month period 2016/17. In 2017, the cost has intensified, highlighting the impact of Brexit, with many operators forced to offer higher salaries in order to stay competitive in a tightening job market. Whilst payroll costs in London have risen on average 6.9% as at August YTD, payroll costs in Upscale and Conference hotels have spiralled even further, increasing by 10.2% and 7.7% respectively.

With full-service Upscale and Conference hotels the most labour intensive, this increase in cost is a reflection of the increase in the National Living Wage, combined with an indication of the shortage of labour available and a growing reliance to fill staff vacancies using higher cost agency staff. In Regional UK, as at August YTD 2017, payroll costs have increased by

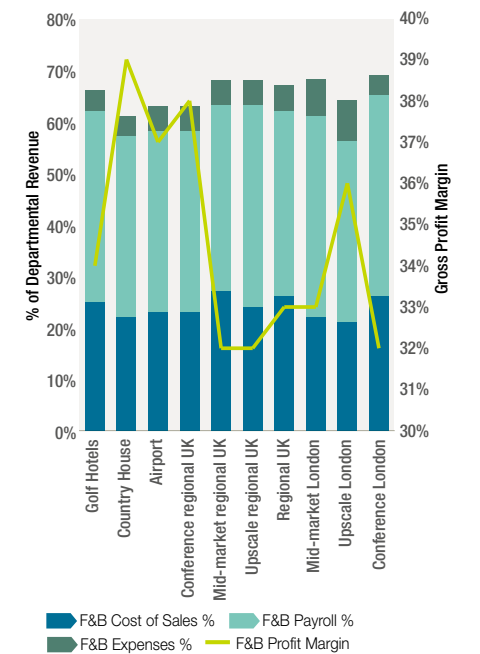
approximately 4.3%, although Regional Upscale, Conference and Golf hotels all have endured higher payroll costs ranging between 6.4% and 7.9% of total departmental costs.

With the weak pound and the increased cost to import goods, the Cost of Sales in F&B have increased. In London, as at August YTD 2017, food and beverage departmental costs have increased by 4.6% (food) and 2.7% (Beverage), and, 1.6% and 3.6% respectively in the regions, compared to the same period the previous year. Certain categories of hotels, however, have endured significantly greater increases, with beverage costs rising up to 14% and food costs up to 7.5%.

### Total Departmental Expenses

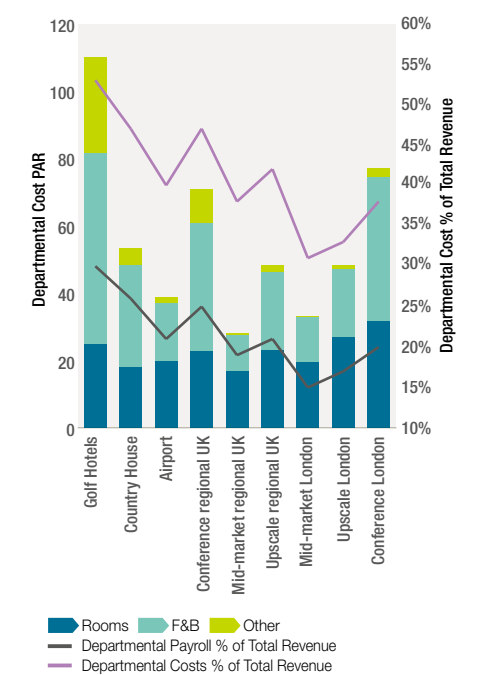
Total Departmental Expenses have increased steeply for the period August YTD 2017, rising by approximately 4.7% in London and 3.8% for UK Regional hotels, on a PAR basis. There has been significant fluctuation between the various hotel categories, with Conference and Upscale hotels having seen a greater increase in costs of 5.5%-6.0%. On a PAR basis, Total Departmental Expenses have averaged approximately £62 PAR for London hotels and approximately £49 PAR for Regional UK hotels.

FIGURE 14  
**Breakdown of Food & Beverage Costs (% of Departmental Revenue)**  
Rolling 12 months Sept-August, 2016/17



Source: HotStats

FIGURE 15  
**Departmental Costs PAR**  
Rolling 12 months to Sept-August, 2016/2017



Source: HotStats

FIGURE 13  
**Total Departmental Food & Beverage Cost**  
Rolling 12 months, Sept-August, 2014/15 to 2016/17



Source: HotStats

After a period of restricted transactional activity, we are now seeing more opportunities, fuelled by robust trading, more competitive pricing and continued strong investor demand.

ALEX STURGESS  
HEAD OF HOTEL AGENCY



## Payroll Costs

Payroll costs form the largest proportion of costs for a hotel, with our analysis showing that average wage costs, as at August YTD 2017, equate to 25% of total revenue for London hotels, increasing to 31% in Regional UK hotels. Further detailed analysis reveals that Mid-Market Hotels in London have the lowest payroll costs as a percentage of revenue at 20%, as at August YTD 2017, whilst at the upper-end of the scale payroll costs at Golf Hotels equate to 39% of total revenue.

The Food & Beverage department typically has the highest payroll cost, representing 37% of total payroll costs in London and 40% in Regional UK. Meanwhile, payroll costs attributed to the rooms department, equates to approximately 34% of total payroll in London and 29% in Regional UK.

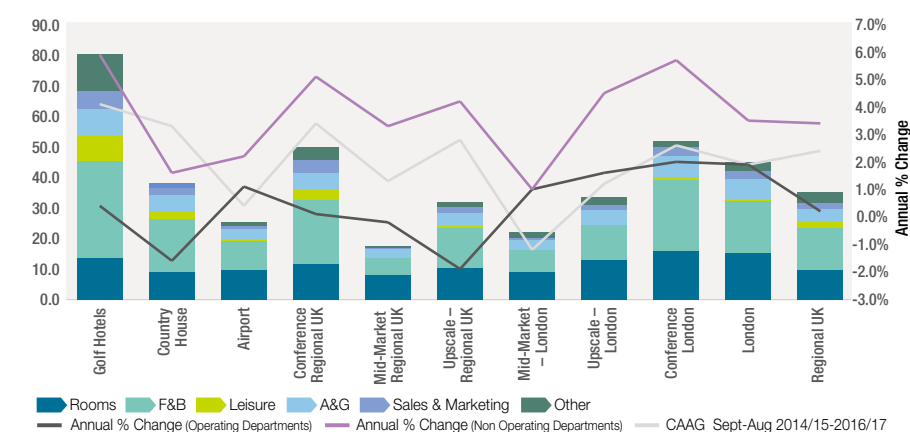
Following the outcome of the UK Referendum's to vote in favour of Brexit, payroll costs have increased across all categories of hotels throughout the UK. The hospitality industry is a major employer of low skilled labour and the industry has already suffered from a migration of the workforce choosing to leave the UK. Other contributing factors to the increase in payroll costs include a rise in the National Living Wage and demand for staffing increasing following a glut of new hotels opening throughout

the UK. The shortage of labour, together with the increase in demand for staffing is putting pressure on payroll costs, with a growing propensity to use more expensive temporary agency staff to fulfil the necessary staffing requirements.

Payroll costs have increased by 4.7% in London for the 12-month period to August 2017, with costs shown to have continued to spiral upwards in 2017. As at August YTD 2017, payroll costs in London have recorded a 6.3% rise compared to the same period the previous year. Meanwhile, Regional UK hotels have witnessed an increase in payroll costs of 3.3% for the rolling

12-month period to August 2017 and have continued rising at this same level for the period to August YTD 2017. Upon further analysis of payroll, our research can reveal that Upscale and Conference Hotels in London have witnessed a rise in payroll costs of 8.1% and 7% respectively; whilst Golf, Conference and Upscale Regional hotels have all experienced a rise in payroll of between 4.6% and 5%. The cost of labour is set to continue to intensify throughout the medium term, as growing uncertainty weighs in over the end of free movement of labour following Brexit, with a transitional period anticipated from March 2019.

FIGURE 16  
Breakdown of Payroll Costs PAR September-August 2016/17



Source: HotStats



The Royal Crescent Hotel & Spa, Bath

## GROSS OPERATING INCOME

Even more impressive than the contribution of Rooms Revenue to Total Revenue, is the influence of the Rooms department on hotel profitability.

For the rolling 12-month period, Sept-Aug 2016/17, the profits generated by the Rooms department averaged over 74% of total department profits for UK Regional hotels and approximately 87% for London hotels. With respect to UK Regional Conference, Golf, and Country House hotels where the ancillary departments are more dominant, the profit contribution from the rooms department typically ranged between 50% and 60%.

Gross Operating Income (GOI) PAR varies considerably, according to location, size and positioning of a hotel. For the 12-month period to August 2017, on average the Regional UK properties in the Mid-Market to Upscale Hotel sample sets achieved a GOI PAR of between £45 and £67; and between £79 to £98 PAR at Golf and UK Regional Conference hotels. London's Upscale and Conference properties achieved between £100 PAR and £130 PAR. Regional UK Hotels averaged a total departmental profit margin of 56% compared to 65% for London. Mid-market London hotels had the highest profit conversion at 69%, whilst Country House and Golf Hotel sample sets averaged a lower profit margin at 53% and 47% respectively.

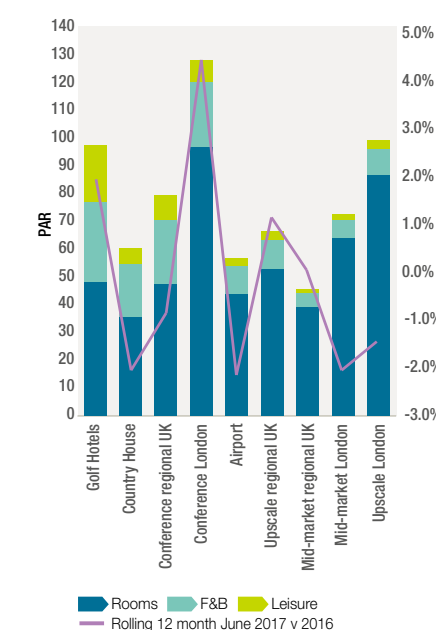
Whilst our sample sets of hotels have shown that London hotels as well as UK Regional Conference and Golf hotels command a high GOI PAR, they do so for different reasons. Regional Conference and Golf hotels command a high GOI PAR due to their combined profit contribution from both the rooms and food and beverage departments. Meanwhile, in London, the hotels generate on average a 76% profit margin from the rooms department and with over 80% of their profits driven from the rooms department, growth (or a decline) in RevPAR can therefore potentially have a significant impact on the hotel's profitability.

Whilst we have previously determined that London hotels have enjoyed a strong uplift in RevPAR, Figure 19, reveals how the surge in the movement of RevPAR has had a significant positive effect on GOI, reinforcing the importance of the Rooms department's contribution to the hotel's overall profitability. Furthermore,

an understanding of the drivers of RevPAR is also important, as enhanced topline growth, achieved principally through growth in the average daily rate, benefits from only a marginal increase in direct variable costs, which ultimately results in higher profits.

Meanwhile, hotels in Regional UK have achieved a respectable 4.5% growth in GOI as at August YTD 2017, with a 5.6% growth in RevPAR contributing to a 1% growth in the profit contribution of the Rooms department. However, with departmental costs continuing to rise across all departments, the RevPAR growth is partly a reflection of operators' forced requirements to increase prices to counterbalance the increase in total departmental costs. Furthermore, with regional hotels having a lower Rooms profit contribution to Total GOI than compared to London, the growth in RevPAR has resulted in a lower uplift in profitability than compared to London.

FIGURE 18  
Gross Operating Income (PAR) by department September-August 2016/17



Source: HotStats

FIGURE 19  
Total Operating Departments Key Performance Indicators - % Change Per Annum, London v Regional UK



Source: HotStats



# UNDISTRIBUTED OPERATING EXPENSES

Rising Costs throughout all cost centres in 2017 lead to a total increase in Undistributed Operating Expenses of 4.6% in London and 3.4% in Regional UK, for the eight-month period to August YTD. This is in contrast to 2016 where costs held steady.

## Administration & General

Administration and General (A&G) total expenses have increased by 3.3% in London and 3.2% per annum for the 12-month period Sept-Aug 2016/17 on a PAR basis. On average Total A&G expenses in London cost over £15 PAR compared to approximately £11 PAR in Regional UK.

The increased costs borne by the London sample can be attributed to a 9% rise in the cost of credit card commissions, a 1% increase in payroll costs, (which accounts for 44% of total A&G expenses), and a 5% rise in other expenses. The sting of rising credit card commission is as a result of elevated transaction fees by card processors and group bookings increasingly paid by plastic than on account. Meanwhile, the sample of hotels for Regional UK, has witnessed an 8% increase in other expenses, (which accounts for 35% of total expenses), a 4% rise in head office costs and 7% rise

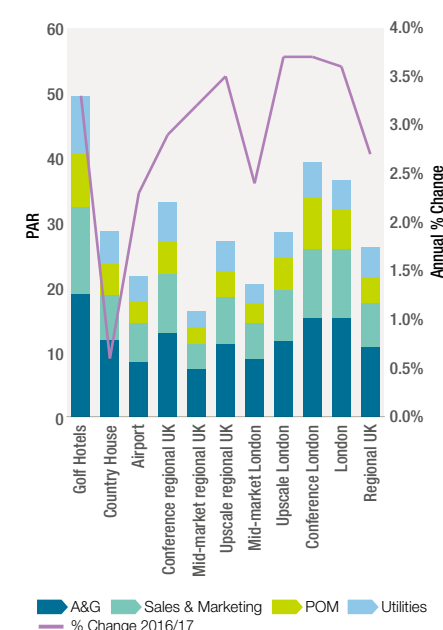
in credit card commission. Payroll costs, meanwhile actually declined by 1%, with its share of the total A&G expenses reducing to 42%.

In Regional UK, hotels head office costs comprise a much higher proportion of A&G costs than for London hotels, at 13% and 6.5% respectively. The divergence in the proportion is likely due to a number of factors, such as payroll for on-site employees at London hotels being higher and with greater average spend per paying guest in London, greater credit card commission is payable, therefore reducing as a percentage the head office costs amount.

## Sales & Marketing

Sales & Marketing (S&M) total expenses have increased by over 6% in London and 4% in Regional UK for the 12-month period Sept-Aug 2016/17. On average S&M expenses in London cost £10.50 PAR and £6.70 PAR in Regional UK.

FIGURE 20  
Undistributed Operating Expenses  
PAR by hotel type Sept-Aug 2016/17



Source: HotStats



S&M expenses represent 67% of the total S&M expense in London and 56% of the expense in Regional UK. For the period Sept-August 2016/17, S&M expenses have increased by 7.3% in London and 4.1% in Regional UK, compared to the same period the previous year. However, HotStats include Franchise Fees in this expense line and given the uplift in RevPAR, particularly in London, higher franchise fees are consistent with higher rooms revenue, particularly for hotels in the upscale and midscale sectors.

Meanwhile, S&M payroll, which accounts for over a quarter of all expenditure, increased by 5.4% in London and 3.6% in Regional UK for the period Sept-August 2016/17 on a PAR basis.

## Property, Operations & Maintenance

The rise in costs associated with the cost centre Property, Operations & Maintenance (POM) has increased at a lower rate than the other undistributed cost centres. However, Operating Expenses which account for approximately two-thirds of total POM expenses have increased sharply YTD 2017 compared to the full year 2016 which recorded a decline in this expense line. As such, POM expenses have increased by 5.7% in London and 5.2% in UK Regional hotels for the period August YTD 2017 on a PAR basis, compared to a fall in POM expenses of -1.8% and -5.3% respectively in 2016. However, Payroll costs, which make up the remaining costs, have only marginally increased YTD 2017. As such, total POM expenses have increased by approximately 0.5% in both

London and Regional UK for the rolling period Sept-August 2016/17. On average total POM expenses in London cost £6.2 PAR compared to £4.1 PAR in Regional UK.

## Utilities

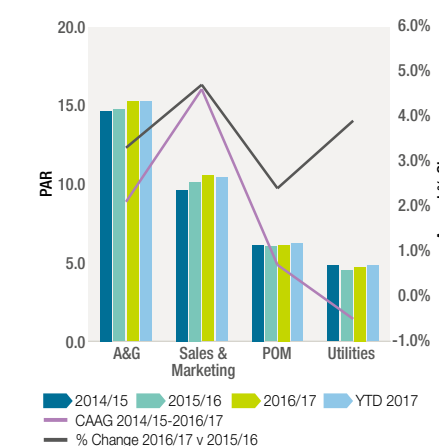
Pricing and consumption are the two components that impact upon utility costs. The changes in travelling habits and the demands of guests have a significant impact on consumption. Equally, energy management by using smart consumption and potentially through the generation of a hotel's own energy by solar power, are all measures used to control and reduce energy wastage.

Golf hotels and hotels with extensive facilities typically have higher utility costs than other property types, meanwhile, for

hotels with limited food and beverage operations, changes in occupied rooms are the main driver of consumption use.

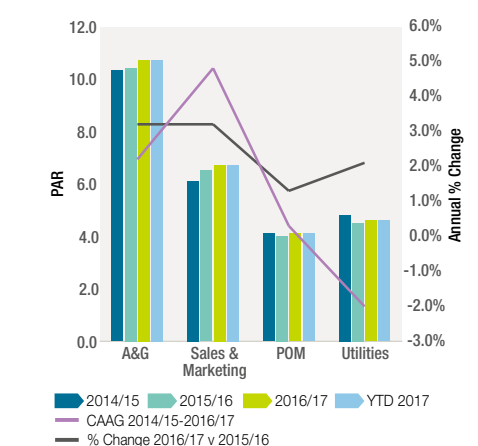
For the rolling 12-month period Sept-August YTD 2017, whilst utility costs PAR have increased by 2.1% in Regional UK, the cost POR was marginal, thereby suggesting the increased cost is due to increased consumption brought about by the increase in occupancy. In London, for the same period, the utility cost has risen by 3.9%, but with the POR also increasing by 2.0%, this would suggest an increase due to greater consumption, but also elevated costs of the various energy components. On average, Utility Costs equate to approximately 2.5% of Total Revenue in London and 4.1% of Total Revenue in Regional UK.

FIGURE 21  
London – Undistributed Operating  
Expenses PAR



Source: HotStats

FIGURE 22  
UK Regional – Undistributed  
Operating Expenses PAR



Source: HotStats



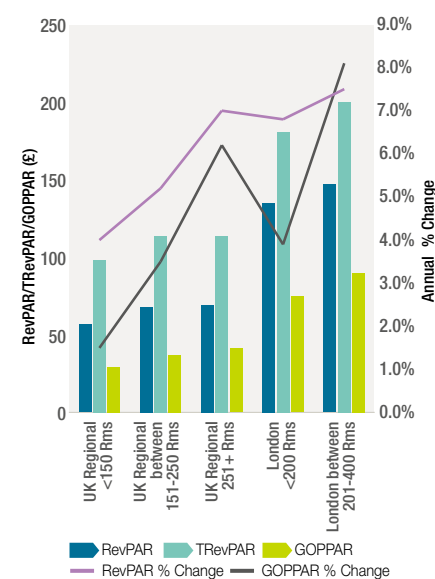
Novotel London Canary Wharf



## GROSS OPERATING PROFIT

London's strong ADR growth drives RevPAR and reinforces the importance of the Rooms Department's strong contribution to a hotel's overall profitability, with impressive gains in GOPPAR.

FIGURE 23  
**Hotel Profitability – Key Performance Indicators**  
September–August 2016/2017



Source: HotStats

GOPPAR offers a more robust performance measure than RevPAR, providing a deeper, more reliable indication of a hotel's profitability and a more consistent indication of a hotel's value.

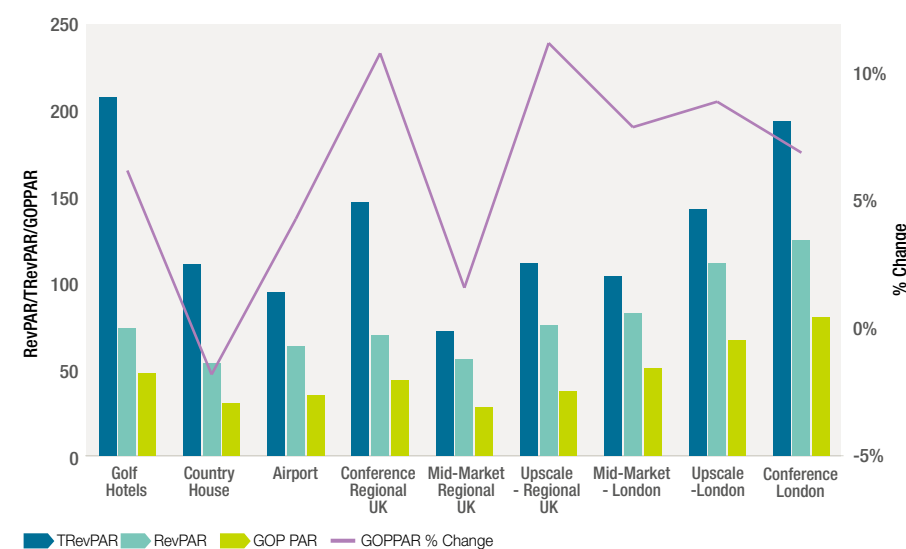
Our detailed monthly and consolidated analysis of specific datasets of different categories and types of hotels has allowed us to review well beyond top line performance, giving a comprehensive insight into both the generation of departmental revenues and a thorough investigation of both departmental costs and overheads. HotStats data allows us to report to GOP level, therefore our analysis excludes any costs relating to management fees and fixed charges, such as property costs and FF&E reserve.

Our analysis shows that a positive change in RevPAR does not automatically imply a similar growth in uplift of GOPPAR. For the rolling 12-month period to August 2017, our sample set of London hotels achieved a RevPAR

growth of 6.9% compared to GOPPAR growth of 5.8%. However, for the eight-month period to August YTD, the surge in RevPAR of 9.1% has resulted in an even greater impact upon the growth in GOPPAR, up 10.1% on the previous year, which despite an increase in overheads, is an indication of the Rooms department's strong contribution to the hotel's overall profitability.

In contrast to London, however, for the rolling 12-month period to August 2017, UK Regional hotels have achieved lower GOPPAR growth (4.8%) than compared to RevPAR (5.6%). With Regional UK hotels unable to charge the same premium in the average room rate as London hotels, the contribution to GOP from the Rooms department is therefore lower. Furthermore, with lower growth rates in revenues from other operating departments, combined with a rise in costs, Regional UK hotels have not been able to convert as much of the growth in RevPAR to GOP.

FIGURE 24  
**Hotel Profitability – Key Performance Indicators**  
September–August 2016/17



Source: HotStats

Hotels operating in Central London will bear the brunt of the recent business rates revaluation, and, with fewer hotels benefitting from transitional relief than at the last revaluation, the impact of this will be significant for those affected.

IAN ELLIOTT  
HEAD OF HOTEL VALUATIONS



## TRADING PERFORMANCE OUTLOOK



JULIAN EVANS FRICS  
Head of Healthcare, Hotels & Leisure

With the cost pressure of labour set to intensify as the UK renegotiates its relationship with the EU, there has never been a more important time for a hotel operator to look after their staff, develop skills sets and build a positive work environment, in order to achieve the ultimate goal of a happy guest experience.

Britain's vote to leave the EU has so far engulfed the country into a political and economic tension. Far from cushioned from the eye of the storm, the resilience of the UK hotel sector will continue to be scrutinised in the challenging and unpredictable times ahead. The impact of a shortage of labour, the increased cost of the National Living Wage, combined with weaker sterling driving up inflation

and therefore prices are all significant issues and real concerns for the present. Meanwhile, the impact and ongoing threat of terrorism combined with how weaker UK economic growth may influence inbound business and leisure travel to the UK, contribute to the further challenges going forward.

If RevPAR growth slows and the cost pressures continue to intensify, understanding hotel performance in terms of yielding rate and identifying and controlling the largest cost contributors, is imperative for maintaining a hotel's profitability.

To date, the London hotel market has remained resilient, boosted by its international gateway city status and a weak pound driving international visitation, whilst the Regional UK market, linked closely to the strength of the UK economy remains robust, albeit with imbalances due to new capacity. Going forward, 2018 will continue to bring a plethora of cultural and sporting events, the arrival of Crossrail and London will further benefit from the bi-annual Farnborough Airshow.

In this age of "asset lite" and "asset right" business models, the strength of the covenant and power of the brand is

proving to be a key influence, with all the large hotel operators focused on building, maintaining and differentiating their growing family of brands. Improving productivity through creative, smarter operating practices, embracing the latest hotel technologies and taking action on sustainable business practices are likely to be important key differentiators in maintaining a healthy bottom line. The larger brands also have the ability to negotiate the best purchasing deals for hotels within their chains, allowing owned, managed and franchised hotels to benefit and achieve better cost control.

Looking forward to the year ahead, we retain a cautious outlook, albeit with continued growth in RevPAR, driven through an ongoing rise in the average room rate in both London and Regional UK. A weak pound is likely to continue to provide an uplift to inbound leisure travel and an increase in "Staycations" are expected to further boost UK regional tourism. However, ongoing security concerns, tighter corporate travel budgets, greater intensity in cost pressures and a narrowing pool of labour are some of the major challenges the industry will have to overcome.



## GLOSSARY OF TERMS

|                                  |                                                                                                                                                                                                                                  |
|----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| BAR                              | Best Available Rate                                                                                                                                                                                                              |
| POR                              | Per Occupied Room                                                                                                                                                                                                                |
| PAR                              | 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.                                                                                                                                        |
| NET REVPAR                       | RevPAR less Rooms Cost of Sales (Travel agents' commission, Reservation fees, GDS fees, third party representation fees and internet booking fees).                                                                              |
| 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).                                                                                                                 |



We would like to express our greatest thanks to the HotStats team who have helped us to research the first annual publication in this series, with particular gratitude to Jonathan Langston and David Stephens. The samples of hotels profiled in this report are drawn from intelligence collated from the HotStats database, which collects data from participating hotels on a monthly basis for benchmarking purposes. Without access to this data, the detail provided in this publication would not have been possible.

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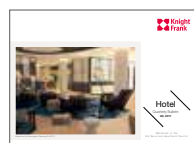
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Front cover picture: The Royal Crescent Hotel & Spa, Bath (owned by Topland Group)



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