UK Hotel Trading Performance Review

2023

A deep dive into how the sector has performed, defying expectations with strong revenue growth and profits exceeding pre-pandemic performance across most markets.

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Forward

In the wake of a particularly challenging macro-economic environment, the resilience and strength of the UK Hotel sector has been proven once again, exceeding all expectations in terms of strong revenue growth. In 2023, profits have now exceeded pre-pandemic levels across most markets. Pro-active and competent hotel operators have generated strong cash-flows, with the robust trading performance serving to counter softening yields and protect values.

WILL THE SECTOR DEFY CURRENT ECONOMIC GROWTH FORECASTS TO DELIVER AN ONGOING ROBUST TRADING PERFORMANCE IN 2024?

The levels of ADR growth over the last 12 months have defied expectations and, whilst the pace of growth is unlikely to be sustainable at a similar level, both ADR and occupancy are expected to drive RevPAR growth at a healthy level in 2024. Following a strong recovery in leisure travel and increasing corporate led demand, the meeting and events sector will be a substantial driving force behind growth in 2024.

Whilst next year will see further growth in demand, Regional UK is closer to a stabilised level of trading performance than London, having benefited from the strength of domestic led demand. Despite it being the year of General Elections for the US and most probably the UK, a weak pound is expected to further support the return of the overseas traveller, particularly from Asia and specifically China. This demand will be particularly focussed on the London hotel market.

Growth in food & beverage revenues will remain challenging in 2024, following mixed fortunes during the last 12 months. Whilst some sectors have achieved strong growth, such as the Select Service sector in London (+17%) other sectors have seen below inflation levels.

Key Performance Indicators

Rolling 12-Month period, October-September, 2023 v 2022

London

RevPAR	TRevPAR	GOPPAR	PAYROLL % OF TOTAL REVENUE
£178	£230	£97	26%
▲ 36.7%	▲ 33.6%	▲ 39.8%	▲ 0.2%*

Regional UK

RevPAR	TRevPAR	GOPPAR	PAYROLL % OF TOTAL REVENUE
£75	£118	£34	31%
▲ 14.9%	▲ 14.3%	▲ 8.8%	▲ 3.5%*

Leading Regional UK cities

RevPAR	TRevPAR	GOPPAR	PAYROLL % OF TOTAL REVENUE
£74	£110	£33	30%
▲ 15.7%	▲ 17.1%	▲ 13.2%	▲ 2.4%*

Source: HotStats. *Payroll (% change POR)

Despite inflationary pressures on operating expenses, it is encouraging to see strong growth in GOPPAR. London leads the way, being a function of stronger ADR growth than in Regional UK. With inflation now cooling, supply chain costs are set to improve, but as a people-led operation pivotal to all hospitality enterprises, the cost of attracting and retaining a skilled workforce will remain, especially with another 10% rise in the National Living Wage needing to be absorbed.

Key trends during 2024 will include the continued harnessing of technology, to improve revenue management performance and to counterbalance some of the ongoing staffing challenges, as well as a need to ensure that ESG strategies align with the requirements of investors, guests, and staff alike.

In partnership with HotStats, we have produced our latest, comprehensive review of the UK's hotel trading performance, which provides a unique insight into hotel revenues, both operational and undistributed costs, and profitability. Unless otherwise stated, the period under review is for the rolling 12-month period from October 2022 to September 2023, and reviewed against the previous consolidated 12-month period.

Future drivers - tailwinds

- Further recovery in international, corporate and group travel, with anticipated growth from China and US, despite election year.
- Resilient levels of demand, return of pre-pandemic stabilised levels of occupancy by 2025, and sustained ADR growth.
- Ongoing revenge travel and growth in demand for experience-led stays.
- Future role of hospitality technology, driving innovation, automation and change.
- Growth in F&B revenues from increased meetings, events and group business.
- Strong domestic leisure demand to continue, with ongoing flexible work arrangements supporting mini-breaks, longer length of stays and increased opportunity for blending leisure with business travel.
- Trends in working practices, increased flexible, hybrid-working and digital nomads all reshaping normal demand patterns.
- Lower cost of utilities, improving profit margins.
- Investment in future-proofing the EPC rating, leading to enhanced profitability and uplift in values.

Challenges - headwinds

- Macro-economic uncertainties and geopolitical instability - impact on inflation, supply-chain costs, economic activity and ability / willingness to travel.
- Continued cost-of-living pressures with potential for more subdued levels of demand, resulting in lower revenue growth.
- Reduced long-haul airline capacity and elevated cost of travel, restricting inbound demand to key gateway cities in the UK.
- The competitiveness of UK tourism sector - ETA visa separate to the European Schengen visa, lack of VAT-free shopping, full rate VAT applied to accommodation, potential of a tourism tax imposed by local authorities.
- Availability and cost of labour, impacting on the ability to attract and retain talent, restricting ability to grow revenues.

Occupancy / ADR / REVPAR

Strong growth in hotel trading performance throughout 2023, defying expectations.

LONDON

With the rebound of the London hotel market beginning in Q2-2022, the growth and momentum in the recovery of hotel trading has continued at pace throughout 2023. Normal seasonality patterns have returned with slower months of trading recorded during January and August, but with impressive, strong, year-on-year growth achieved, owing to positive demand drivers. Booking lead times remained short, but with strong growth in corporate, meetings and events business and continued robust leisure demand.

For the 12-month period to September 2023, London has achieved an average occupancy of 77%. The ongoing recovery of overseas visitors has been the key driver behind the significantly boosted occupancy levels, up by 16-percentage points versus the preceding 12 months. A review of overseas passenger arrivals to London's three largest international airports shows a 30% uplift as at September YTD versus 2022, just 6% below YTD 2019 levels. Meanwhile, compared to 2019 levels, the gap in occupancy appears to mirror the recovery in overseas passenger arrivals, being 3.9 percentage points lower over the same period.

77%

London has achieved an average occupancy of 77% for the 12-month period to September 2023.

TRENDS IN TRADING PERFORMANCE VARY ACROSS THE DIFFERENT HOTEL CLASSES

London's Select Service hotels have outperformed the wider London market in terms of occupancy and ADR growth. As the year has progressed, the gap in occupancy has narrowed to just 1.6 percentage points below 2019, as at September YTD. Strong demand from both business and leisure customers further supported strong ADR growth, rising 9% versus YTD-2022.

Meanwhile, at 69%, occupancy for London's Luxury Hotels remains more than nine percentage points lower than its pre-pandemic performance, but the sub-sector leads the market in terms of ADR growth when compared to 2019 levels, with an uplift of 35%. Nevertheless, this statistic masks a very marginal level of growth over the last 12 months, at just 1.4%.

Overall, the HotStats London market-wide dataset has shown sustained, strong levels of demand, with robust recovery in occupancy (+16 percentage points) and the high inflationary environment supporting ADR growth of 8%. ADR is ahead of its 2019 performance by 22%, whilst RevPAR is up 15% for the 12-month period to September.

REGIONAL UK

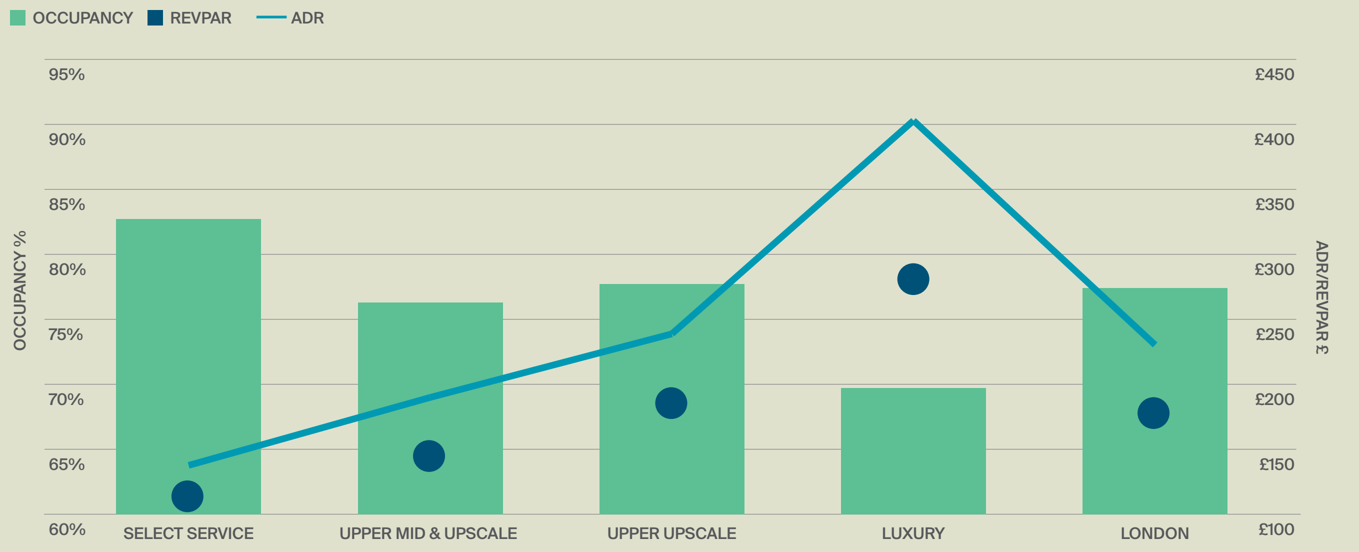
Supported by resilient domestic demand and the continued recovery of international travel, Regional UK hotels achieved a seven-percentage point uplift in occupancy and 3.5% growth in the ADR for the 12-month period ending September 2023. This resulted in strong rooms revenue growth with a 15% uplift in RevPAR. The top-five leading regional airports have shown resurgent passenger statistics, with a 24% uplift in overseas arrivals to the UK as at September YTD versus YTD-2022.

The ongoing trend has been of stronger growth in 2023 than compared to the final quarter in 2022, whereby travel and experiences are prioritised, along with improving mid-week business travel. In 2023, the gap in occupancy has narrowed, but remains three percentage points adrift of 2019 levels as at September YTD.

The high inflationary environment, combined with robust levels of demand, have allowed operators to increase prices, but with more modest growth in room rates following high rates of growth in 2022. ADR in real terms is now broadly in alignment with 2019.

London hotels – key performance indicators

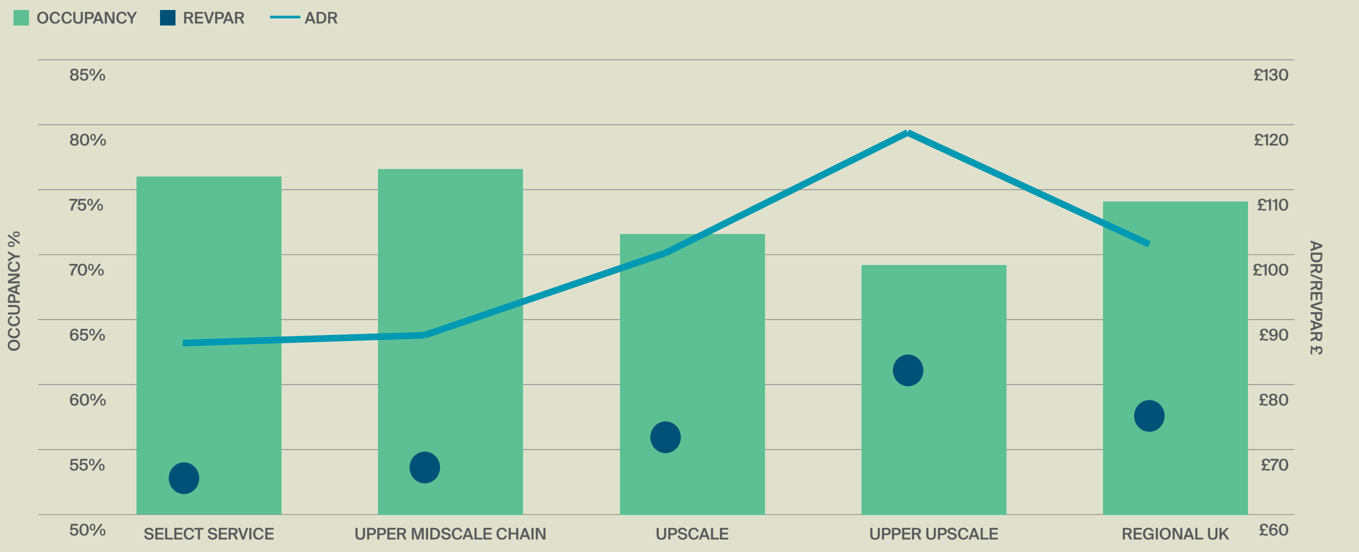
Rolling 12 months to September 2023



Source: HotStats

Regional UK hotels – key performance indicators

Rolling 12 months to September 2023



Source: HotStats

There remains significant variation in trading performance between different regional hotel datasets, with Select Service, Upper-Midscale hotels and Golf & Spa hotels all improving their performance versus the wider regional UK market since 2019. For example, Golf & Spa hotels has seen its RevPAR index increase to 149% (133% in 2019), driven by a 46% surge in its ADR since 2019.

RECOVERY OF REGIONAL UK CITY CENTRES MARKETS – STILL FURTHER TO CLIMB

Leading regional city-centre hotel markets have recorded RevPAR growth of 16% for the 12-month period to September versus 2022. But, at 73% occupancy as at YTD-2023, there remains an eight-percentage point variance versus 2019 occupancy levels over the same period. Further growth in business travel as well a higher volume of international travellers, should drive higher occupancies throughout many of the leading regional UK city-centre hotel markets in 2024, and push the RevPAR index closer to their respective historical performance.

FORECASTS AND OUTLOOK – LONDON AND REGIONAL UK

Despite economists having a cautious stance for the year ahead, the outlook

Raffles London at The OWO, opened September 2023 (Photo credits: John Athimaritis)

Forecast

London — Annual hotel KPIS

	Occupancy	Adr (£)	Revpar (£)
2019	82%	190	155
2022	68%	223	151
2023 F	78%	231	181
2024 F	80%	244	196

Regional UK — Annual hotel KPIS

	Occupancy	Adr (£)	Revpar (£)
2019	77%	82	63
2022	70%	98	68
2023 F	75%	103	77
2024 F	76%	107	82

London — % Annual Change

	Occupancy (points)	ADR (£)	REVPAR (£)
2019	-0.8%	5.0%	3.9%
2022	37.2%	37.0%	203.9%
2023 F	10.4%	3.4%	19.2%
2024 F	1.8%	5.8%	8.3%

Regional UK — % Annual Change

	Occupancy (points)	ADR (£)	REVPAR (£)
2019	0.0%	-0.1%	0.0%
2022	23.4%	8.9%	64.1%
2023 F	5.1%	5.5%	13.2%
2024 F	1.7%	4.1%	6.5%

Source: HotStats / Knight Frank forecasts

for further growth in occupancy, albeit at much lower levels, is promising. Whilst macro-economic uncertainties remain and global tensions intensify, all of which have potential to dampen economic activity and travel, there is yet no evidence of a slowdown. Instead, a cautiously optimistic picture is forecast, one of solid RevPAR growth, facilitated by the ongoing recovery of international travel, a combination of strong business and leisure demand and visibility in terms of future supply growth.

For the full year 2023, our forecast for London envisages occupancy rising to above 78% and ADR of £231, equating to a year-on-year uplift of 19% in RevPAR, to reach £181. With many operators reporting encouraging levels of forward bookings, this represents approximately 5% growth in RevPAR for the final quarter of the year versus Q4-2022. Year-on-year growth rates have been softening during Q3 and Q4 of 2023, reflecting the strong pace of recovery in the previous year. Full year 2023 occupancy will fall short of 2019 levels by 3.5 percentage points, but with strong ADR growth, ahead by 21% and RevPAR up by 16%. For the first year since the pandemic, London's full-year occupancy will rise above Regional UK, in line with historical trends.

Our forecast for Regional UK sees full year occupancy reaching above 74% and ADR envisaged to grow to £103, the first time in history to achieve above £100. With the regional market remaining buoyant and the continued uptick in business travel, Q4 RevPAR is forecast to grow by 15% versus Q4-2022. Full year 2023 occupancy continues to lag 2019 levels by just 2.6 percentage points, but with strong ADR growth, up by 26%, buoyed by conference business returning and continuing strong demand for short break leisure trips. This robust trading performance will propel full-year RevPAR to £77, equivalent of 13% growth on the previous year and 22% ahead of 2019 performance.

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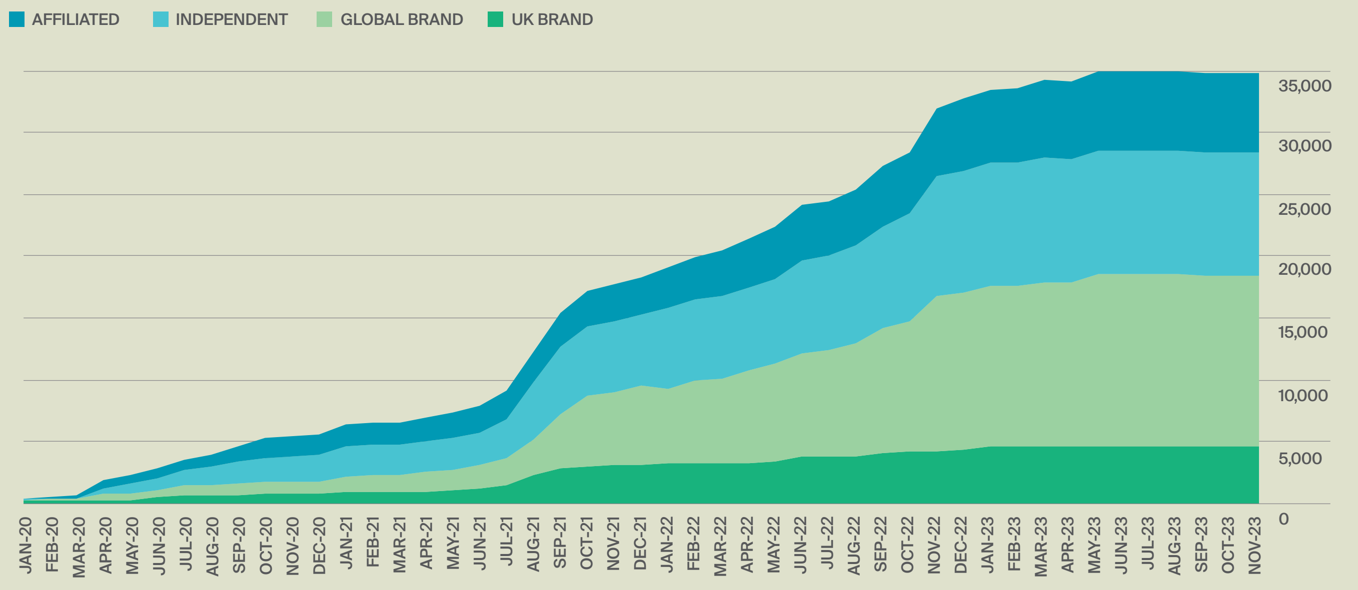
UK Hotel Supply

Reduced pipeline as build costs and higher interest rates slows development opportunities, but concern exists over lower-grade stock returning to the market as demand for exclusive-use contracts recedes.

Evolution of hotel bedrooms used to house asylum seekers



Source: Knight Frank Research

UK hotel supply is now some 2.4% smaller than at the end of 2019, when taking into consideration hotels recently opened, hotels which have ceased trading and hotels deemed temporarily closed, either due to renovation or operating under an exclusive-use contract. With a further 2,000 new rooms expected to open by the year end, this deficit is expected to fall to 2.1%. The number of hotel rooms trading in the UK at the end of 2023 is projected to be around 696,500 rooms.

We estimate, at this current time, some 35,000 hotel rooms to have a government contract in place for housing refugees and asylum seekers, equivalent of 5% of total UK hotel supply. Since the start of 2020, some 55,000 hotel rooms are known to have closed in the UK, compared to some 41,200 new hotel rooms having opened. London has recorded a compound annual average growth rate of just 0.1% since the start of 2020, whilst supply in Regional UK has contracted by 0.7% per annum. Without a doubt, these low levels of supply growth have supported the recovery in trading performance.

Independent hotels have accounted for approximately 60% of the hotel bedroom stock that have permanently closed since 2020 and represent approximately 28% of the hotel stock now operating under exclusive-use contracts. By contrast, independent hotels represent just 17% of the room count for new hotels opening.

Excluding all hotels which have closed, the supply landscape since the start of 2020 shows a picture of much stronger growth, with the London market recording an increase of 7.7% and growth of 4.9% in regional UK.

SUPPLY GROWTH SET TO SLOW FROM 2025

The number of hotels closing in the UK during 2023 has slowed significantly, yet despite some 7,500 new rooms having either opened or planned to open before the year-end, annual supply growth is forecast at just 0.6%. Hotel operators such as Whitbread have cited "favourable supply dynamics are set to continue for some time with the continued decline of independent hotels and constrained UK room supply growth", implying that these conditions are favourable to the trading performance of their existing stock.

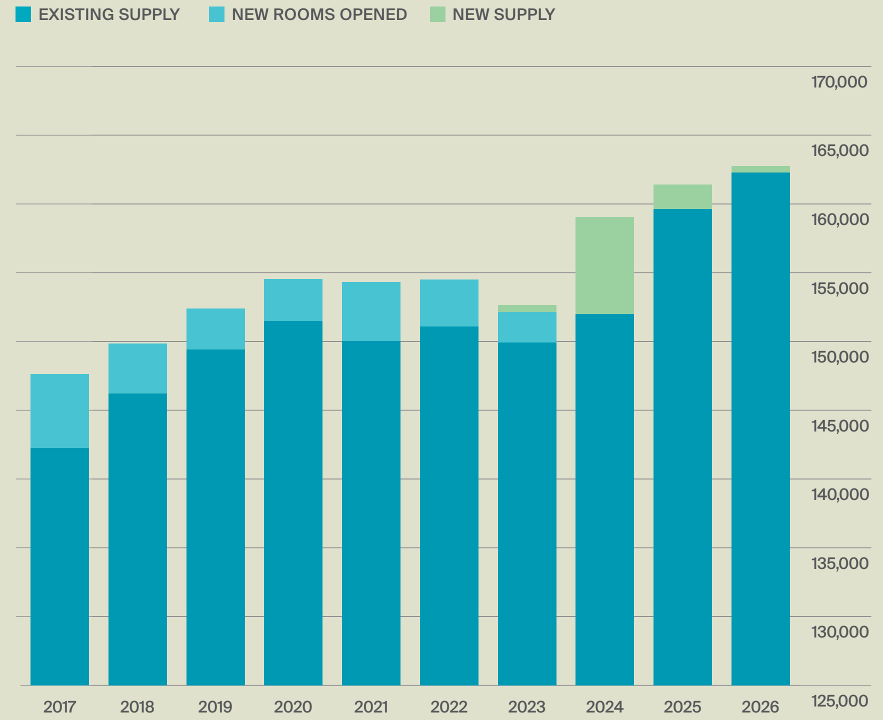
Hotel development is largely confined to a select number of UK cities, with London accounting for 38% of the pipeline under construction and with a further 41% of hotel rooms under development located in just 15 of the UK's leading regional city centres. Some 7,000 new rooms are planned to open in London in 2024, equating to a rise of 4.6% in supply, whilst more muted growth of 1.6% is forecast in Regional UK, an increase of 8,500 rooms. Glasgow, Manchester, and Edinburgh are the top three regional hotspots for hotels currently under construction, each with more than 1,000 rooms under development.

Since the pandemic, structural change in UK hotel supply has been occurring, with ongoing economic challenges and hotels entering into exclusive-use contracts both contributory factors. Much of the poorer quality stock is likely to remain in "exclusive use" to meet the ongoing demand to house refugees. Where contracts are terminated, a significant proportion of this stock may never re-enter the market, albeit those hotels operated under global brands, which make up some 40% of such hotels, are more likely than most to be the ones that survive.

Beyond 2024, the outlook for supply growth is more subdued, with the cost of construction and high interest rates impacting on the number of new projects that break ground. Going forward, the compound annual average growth in hotel supply is forecast at 3.0% in London and 1.2% for regional UK, to the end of 2026.

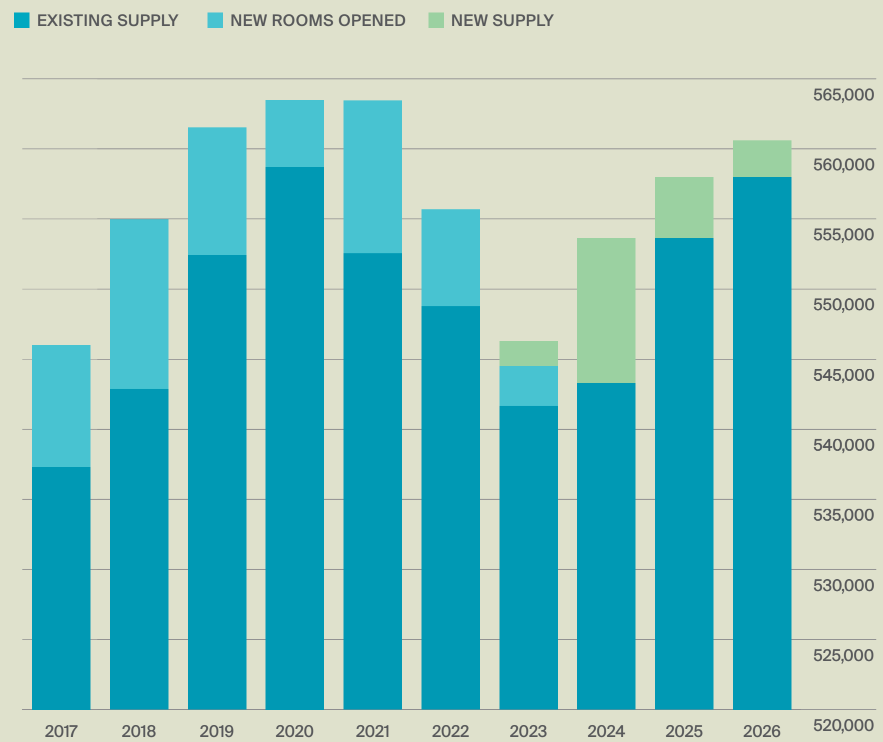
> "Independent hotels have accounted for approximately 60% of the hotel bedroom stock that have permanently closed since 2020 and represent approximately 28% of the hotel stock now operating under exclusive-use contracts."

London hotel supply (rooms) historical & forecast



Source: Knight Frank Research
Knight Frank forecasts assume a small number of exclusive-use contracts ending and hotels re-opening for public use.

Regional UK hotel supply (rooms) historical & forecast



Source: Knight Frank Research
Knight Frank forecasts assume a small number of exclusive-use contracts ending and hotels re-opening for public use.

Hotel Revenue Mix

Improvements in technology are enabling hotels to maximise RevPAR, with rooms revenue share of total revenues increasing.

Significant investment made in technology across the sector is helping to increase and maximise revenue streams. Cloud-based IT systems have rapidly become far more accessible and serve to make more informed management decisions, as well as enhance bookings and pricing opportunities. Technology is being used to optimise the trade-off between occupancy and the average rate, as such hotels can intelligently maximise revenues and in doing so significantly enhance profitability.

THE RISING IMPORTANCE OF ROOMS REVENUE ACROSS MOST HOTEL TYPES AS REVPAR GROWTH EXCEEDS OTHER REVENUE GROWTH

- On average, when compared to the previous 12-months, the share of rooms revenue in 2023 has increased, rising to 78% of total revenue in London and 64% in Regional UK. Across Regional UK, F&B revenue was on par with the previous year, whilst the share of 'Other Revenues' recorded a decline, due to lower attrition revenues.
- London's Luxury hotels have seen the greatest upward shift in its share of rooms revenue, rising to 71% of total revenue. Whilst this is in part due to improving RevPAR, high levels of income from business interruption insurance were recorded in 2022.
- Regional UK's Select Service hotels have seen their share of Rooms Revenue decline by 2.3%, despite strong RevPAR growth. This fall has largely been counterbalanced with strong growth in the capture of F&B covers and spend per head, with initiatives such as app-based guest ordering platforms successfully driving increased revenues.

Hampton by Hilton Hotel Rochdale, 146 rooms, opened September 2023

COMMERCIAL STRATEGIES EVOLVE IN RESPONSE TO NEW SOURCE MARKETS AND CHANGING CUSTOMER BOOKING BEHAVIOURS

Keeping pace with the advancements that innovative technology offers is critical if a hotel is to remain competitive and operate profitably. The rise of automated channel managers, with their ability to expand reach and visibility across multiple booking sites, manage room rates in real time, adjust pricing based on demand, seasonality and market trends is revolutionising the sector. Using advanced analytics and having a data-driven approach, technology is providing operators access to a wealth of information from which to analyse past performance, better predict the future, stay ahead of the competition, and optimise pricing strategies, with the aim of maximising revenue potential.

Revenue mix %
Rolling 12 months to September 2023

Source: HotStats

The number of Online Travel Agents ('OTAs') continues to growth, particularly from markets such as China – namely Ctrip, Qunar and Fliggy – and so technology enables hoteliers to keep pace.

STRONG RECOVERY IN REVENUES GENERATED FROM CORPORATE BOOKINGS

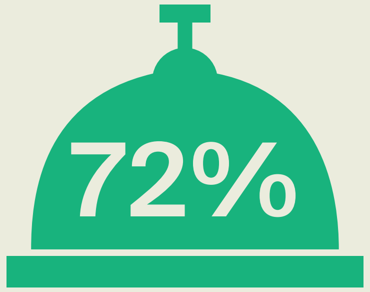
Hotel market segmentation is the process of grouping hotel guests into categories based on their booking patterns and travel habits. HotStats segmentation data reports on transient, group and contract market segments, with multiple, smaller segments within each category.

Transient travellers typically book short stays within a relatively short booking window, and they may be traveling for business or leisure purposes. HotStats two largest transient sub-segments account for 61% of the total rooms occupied in London and 57% in regional UK. The volume of room nights attributed to these two transient sub-segments has stayed stable in London over the past year, whilst across Regional UK there has been a small shift in room nights gravitating towards tour groups.

A general trend across most datasets is that there are far fewer negotiated corporate room nights in 2023 than compared to 2019, as operators continue to drive the higher-rated transient segments and companies are often less willing to commit to pre-agreed levels of contracted room nights. Like other segments though, ADR has seen strong growth over the past 12 months, as has the Corporate Group segment where the revenue contribution increased by 32% in London and 18% in Regional UK.

Golf & Spa hotels continue to see strong volumes of transient room nights, but with the segmentation mix gravitating towards a higher volume of corporate groups and conference room nights, lower-rated tour groups and contract room nights have reduced.

Overall, across London and Regional UK, the retail and discounted transient segments have remained strong, accounting for 66% of total rooms revenue in London and 59% in Regional UK over the past 12 months. Often driving short-lead times, the proportion of revenue generated from these two segments has increased by 37% PAR in London and by 12% in Regional UK. London's upper-midscale and upscale hotels have outperformed the wider London market, with a 45% uplift PAR in the revenue generated from these two market segments, over the same period.



London's transient segments accounted for 72% of the total rooms revenue, with their total contribution increasing by 37% PAR.

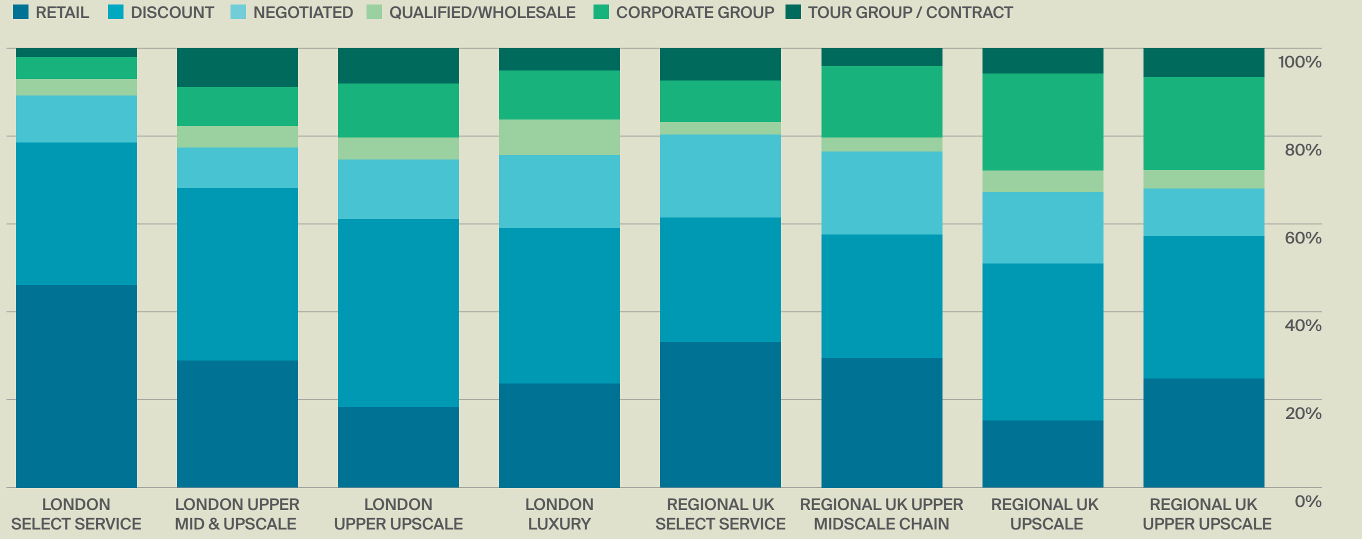
AVERAGE DAILY RATE BY SEGMENT

- On average, London recorded 8% ADR growth in the transient segments and 7% growth in the group segments, but with significant variation in performance between the different hotel classes. London's Serviced Apartments outperformed the market, with 17% ADR growth in the transient segment.
- Current demand levels, as well as new hotels opening, have curtailed ADR growth of London's Luxury hotels (650 new rooms opened in 2023). Subtle changes in the segmentation mix, resulted in just 1.4% growth. With a further 1,000 new rooms expected to open in the luxury segment in 2024, ADR growth is expected to remain under pressure.
- London's Select Service hotels achieved approximately 17% growth in ADR from transient bookings, which is significant given that these segments generated 93% of the rooms' revenue.
- Regional UK Serviced Apartments recorded ADR growth of 9% in the transient segments, which was the highest of all regional UK datasets.
- Golf & Spa Hotels, which derives 33% of its revenue mix and 38% of its room nights from the Group segments, achieved an ADR of £156 from this segment, 39% ahead of 2019 levels.

Overall, transient segments have increased their revenue contribution by 37% PAR in London and by 14% in Regional UK. Lead times are improving as group and events business has strengthened, which has led to the contribution from groups increasing by 31% PAR in London and by 19% in regional UK.

Market segmentation by occupied room nights

Last 12 months to September 2023



Source: HotStats

FOOD & BEVERAGE REVENUE

TRENDS INFLUENCING F&B SPEND

Behavioural changes that have taken place since the pandemic are favourable to hotels, with spending on experiences and desire to travel positively impacting on food and beverage spend. Changes in the working week, with increased hybrid working and the extension of the weekend is a further propeller of growth. As such, new restaurant concepts are being introduced, along with growth in demand for gastro pubs.

As technology has evolved, the provision of in-room hotel food ordering app devices, is far more commonplace, offering guests convenience and customisable food choices, whilst for operators the opportunity to create improved guest satisfaction and in doing so enhance F&B revenues.

MIXED FORTUNES IN F&B REVENUES IN 2023

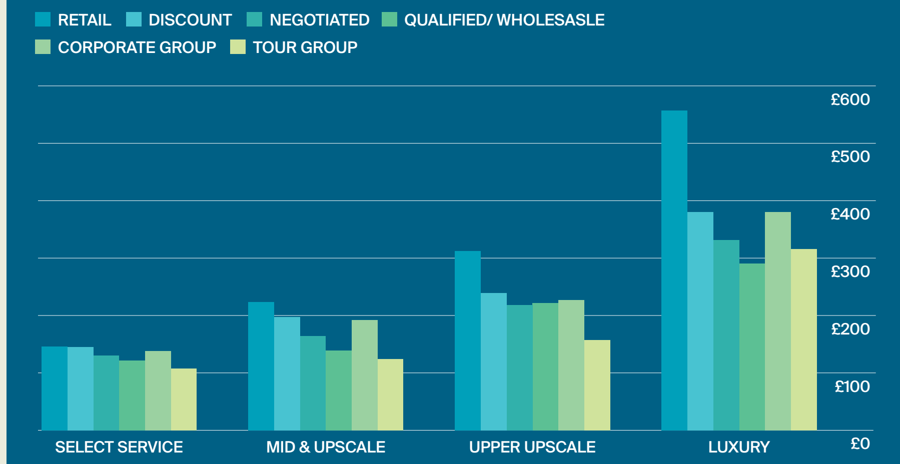
Across London, F&B revenues have recorded growth of 24% PAR versus 2022 but remain 10% below 2019 levels. Nevertheless, when analysing growth on a POR basis, significant variation has occurred. Select Service hotels have seen F&B revenues increase by 17% POR, by contrast London's Upper Upscale and Luxury hotels have both suffered considerable declines.

F&B revenues made up 27% of total revenue as an average across all Regional UK hotels for the 12-month period, but with a lower percentage of F&B revenue for city-centre hotel markets, largely due to more intensive local competition. On a PAR basis, with the ongoing recovery of groups, meetings and events business, F&B revenues have rebounded across Regional UK, up 14% versus 2022, with stronger growth from regional city-centre markets, recording 26% growth.

On a POR basis, more moderate F&B revenue growth was achieved across Regional UK, increasing by just 3% in 2023, but equalling 2019 F&B spend POR. Regional city-centre markets recorded an 11% rise in F&B revenues POR, ahead of 2019 spend

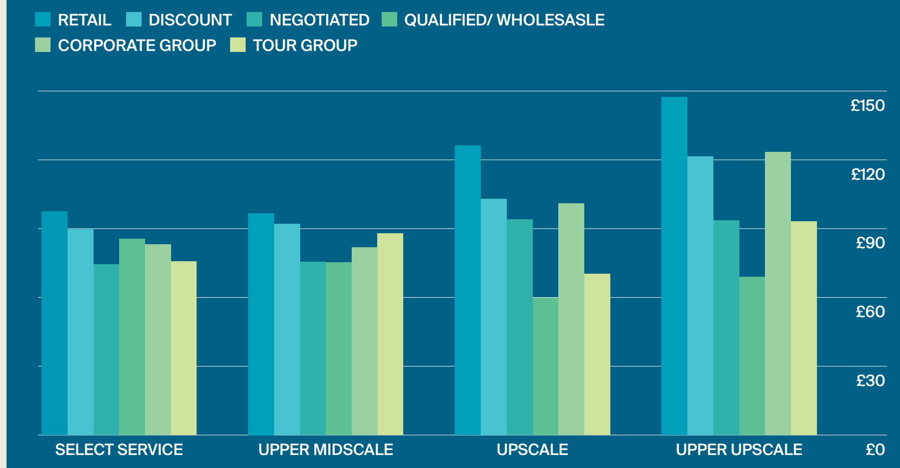
London average daily rate by market segment (£)

October to September 2023



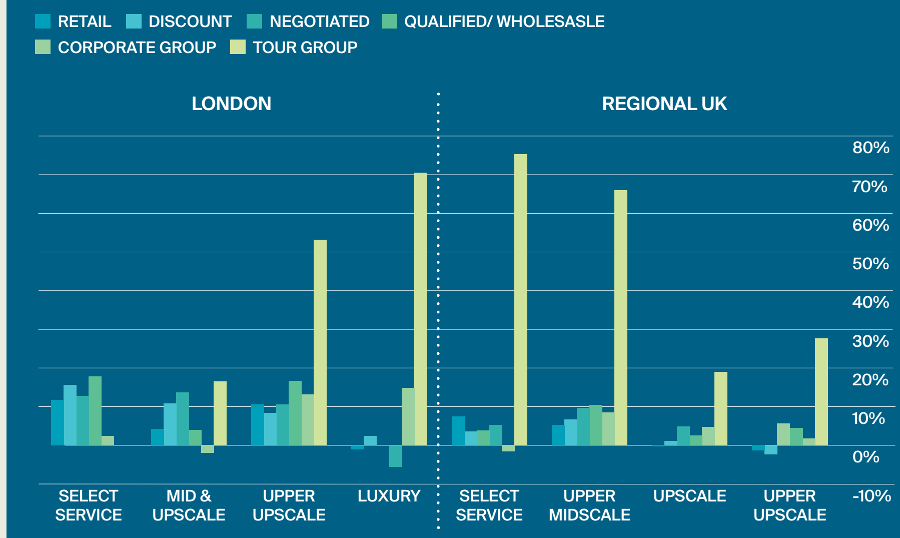
Regional UK average daily rate by market Segment (£)

October to September 2023



% Change in ADR by market segment

October-September, 2023 v 2022



POR by 32%, an indication of the improving demand for meetings and events. Despite F&B revenues increasing across most markets, the metric F&B revenue as a percentage of turnover has remained level with the previous year, due to the sturdy growth in Rooms revenue.

Select Service hotels are, however, the exception, where the strong surge in F&B revenue is translating into a greater share of the total revenue mix. For the 12-month period to September 2023, Select Service hotels recorded an uplift in F&B revenue of 17% POR and with the share of F&B revenue rising to 18% of total revenue.

A FOCUS ON IMPROVING THE OVERALL GUEST EXPERIENCE HELPS DRIVES ANCILLARY REVENUE STREAMS

Ancillary revenues now equate to approximately 9% of total revenue in Regional UK, whilst in London they make up just over 3%. On a PAR basis, ancillary revenues have increased year-on-year for the 12-months to September 2023 by 22% in London and by 10% in Regional UK.

Leisure revenue has increased significantly from continued robust demand for experience-led stays, with Regional UK achieving an increase of 16% PAR and London recording 11%. London's Luxury hotels, which exude design and lifestyle in their holistic offering, have seen 24% growth PAR in leisure and have been acutely focused on delivering high-value, sustainably driven wellness and experiential stays.

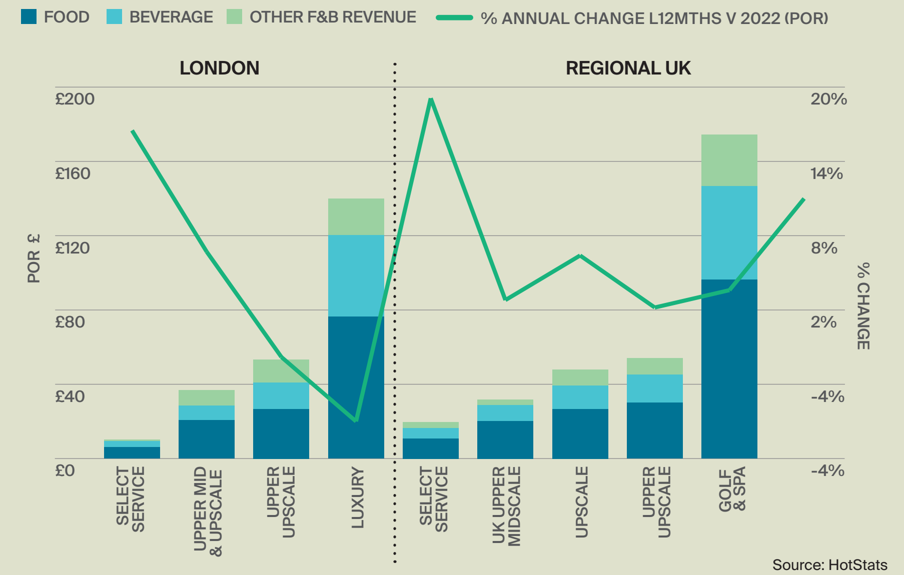
Across regional UK, Upper-Upscale hotels have recorded impressive growth in their leisure offering, with revenues up versus the previous year by 20% PAR, and by 17% for Golf & Spa hotels, albeit golf revenues have declined slightly, by 1%.

ENHANCING THE SOFTER PRODUCTIVITY OF SPACE DRIVES INCREMENTAL REVENUES

Through the efficient use of space, be it through redesigns of hotel lobbies or less functional space, hotel operators can capitalise on the growing trend of digital nomads. Through the integration of coworking and flexible workspace solutions, as well as offering experiences that feature more wellness and engagement, revenue streams are being enhanced and new ones promoted. The provision of interactive entertainment and EV charging are further streams of revenues that are on the increase.

Food & beverage revenue POR

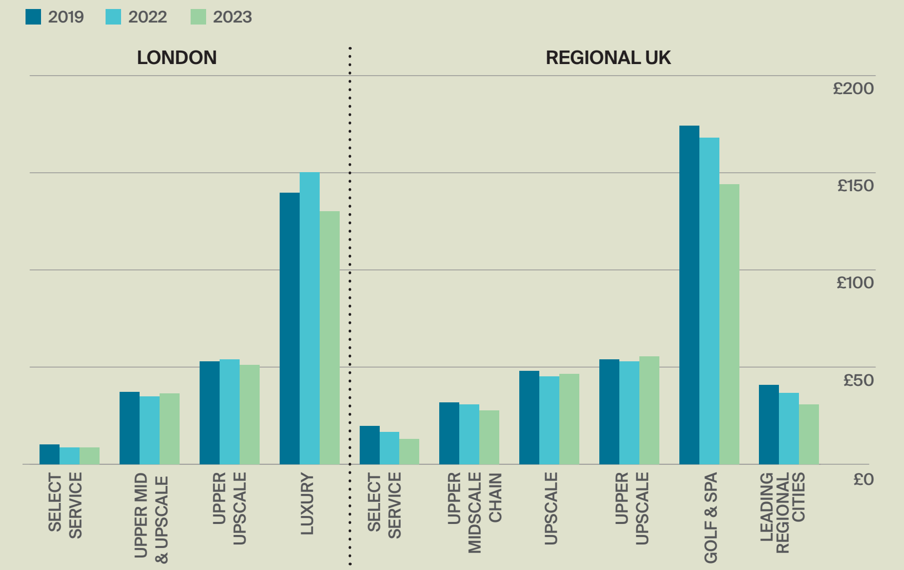
Rolling 12 months, October to September 2023 and % change v 2022



Source: HotStats

Total food and beverage revenue POR

Rolling 12 months, October to September, 2023, 2022 and 2019



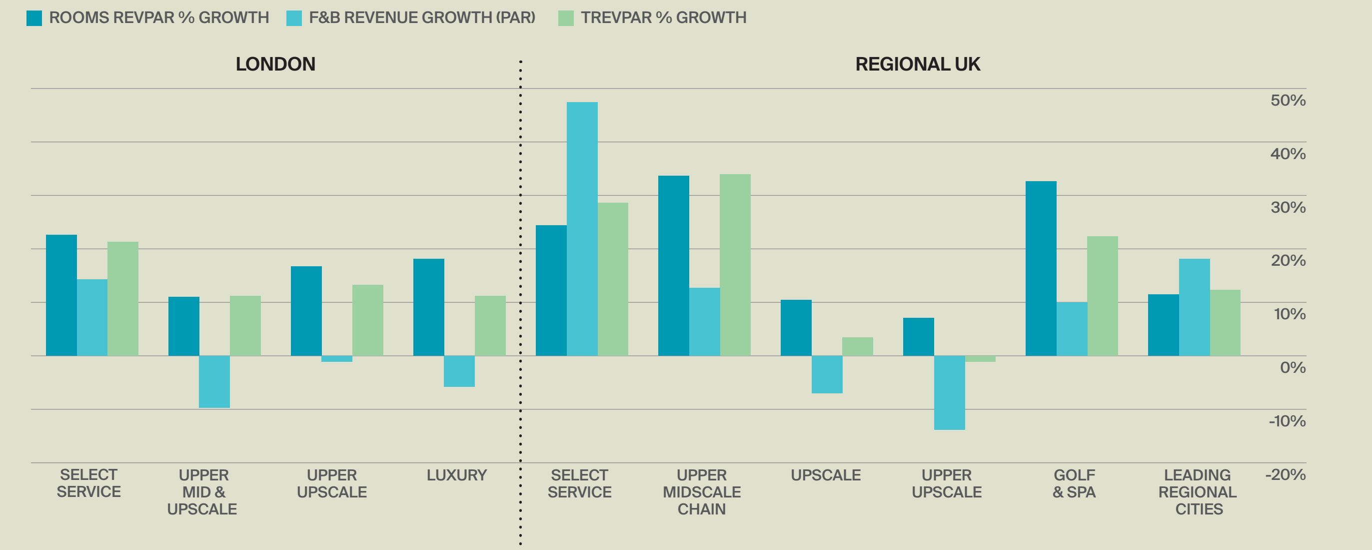
Source: HotStats

ROOMS REVPAR VERSUS TOTAL REVPAR GROWTH

A strong recovery in RevPAR has been the underlying catalyst driving positive TRevPAR growth over the 12-month period. Regional UK Upper-Upscale hotels are the only market yet to fully recover its 2019 TRevPAR performance, but this is expected to change during 2024, not least as they benefit from the continued recovery of meetings and events demand.

RevPAR v TRev PAR change

% Change, Rolling 12 months, October to September, 2023 v 2019



Source: Knight Frank Research

Lost Property St Paul's London – Curio Collection by Hilton, 145 rooms, opened July 2022.

MARKET VIEW

Cycas Hospitality

An interview with

BEN THOMAS
COO, UK & IRELAND

NEETU MISTRY
CHIEF COMMERCIAL OFFICER

Q: How are you streamlining operations and what impact is this having on costs and profit margins?

A: At Cycas Hospitality, we've taken a different approach to influencing costs within our business. We know that our people are the most important asset of our business & investing in them drives outstanding experiences for our guests.

Furthermore, in 2023, we've taken the opportunity to restore some services that were reduced or removed during the pandemic. This in turn has increased our guests' overall experience and perception of 'value for money', leading to much greater customer loyalty and ultimately, higher returns for our owners and shareholders.

Bankside Hotel, Autograph Collection

Q: Which international source markets do you envisage will see growth in 2024 and what efforts are placed on geo-targeting?

A: We expect to see a strong improvement continuing from the US market, and we are also starting to see slow but steady growth in travel from China.

We have also seen a proliferation of booking channels capturing new source markets and customer booking behaviours. Ensuring that booking channels align with the hotel's commercial strategies and segmentation is crucial.

Q: What revenue strategies are you considering for 2024?

A: Driving volume and occupancy change through a wider segmentation mix in hotels, as well as understanding the business lead times, ensure we can capitalise on the right occupancy for our properties. Lead times of certain markets are improving, which should support performance growth in 2024.

The objective must be to drive the optimum RevPAR on any given date, with the right balance of ADR and occupancy. As we see improvement in demand for groups, an enhanced volume of events and growth of conventions into 2024, opportunity exists to drive RevPAR during high demand periods.

Q: What other ancillary revenues will you seek to focusing on in 2024?

A: Our focus for 2024 is the creation of outstanding guest experiences, which in turn act as drivers of incremental revenue.

Across our hotels we are reviewing the opportunities for supplementary services such as EV charging, and interactive in-room entertainment services, such as content streaming and wellness.

As we see a significant proportion of our guests being highly focused on value, we strongly believe that we should continue to seek ways to improve our guest happiness, which in return will improve financial returns.

Q: How has your F&B offering evolved, what strategies are you seeking to employ going forward to boost revenues and maximise profits?

A: We see hotel F&B as our largest opportunity for commercial growth and improvement across our portfolio.

During the summer 2023, we have entirely re-imagined the F&B offering of the Autograph Collection London Bankside hotel, one of our flagship London properties. Rather than an entirely cost-based exercise, we focused on the quality of the produce and the holistic experience for diners. This has led to a complete turnaround of all the sensory elements and a refreshed menu & service concept. Within 3 months, the property has improved external diner capture rates by almost 50%, and with strong growth in the average spend per head.

We are currently working on developing new concepts for restaurant spaces across the Cycas Hospitality portfolio, to deliver high-quality, cost-effective F&B experiences for our guests. Our data shows that the hospitality dining sector has further potential for commercial growth, and we'll be looking to take these dining concepts forward in 2024, focused on capturing greater numbers of in-house guests, and maximising the appeal for external diners.

Q: What are the most acute costs / operational challenges looking ahead to 2024?

A: We are a people-led business, and we continue to be concerned over the shortage of skilled workers in some of our locations. Our business faces a clear challenge, where by revenue growth in UK provincial regions is lower than the required 10%+ wage cost increase year-on-year.

Wage inflation will form our largest cost pressure for the year ahead as we seek to attract and retain our people. Cyfari, our internal development programme, is central to how we build and inspire the talent of tomorrow. We remain committed to growing future leaders from within, to match our company growth ambitions for 2024 and beyond.

MARKET VIEW

Aimbridge Hospitality

DAVID ANDERSON
DIVISIONAL PRESIDENT, EMEA

At Aimbridge, we have invested heavily in our data culture and have built our insight platforms to drive action from highly complex data sources. This is allowing us to understand emerging trends which remain in constant change in the post Covid landscape.

OTA's continue to hold great power, despite the brands benefitting from robust distributions frameworks and reinvigorated loyalty programme. In addition to brand fees payable, there now needs to be significant owner investment to drive digital presence, particularly in highly transient markets. This is impacting on the cost of customer acquisition and resulting in higher sales & marketing costs.

We are seeing impressive growth in rooms revenue, with continued great strength in ADR performance. Also extremely encouraging is the growth in demand for large scale events and conference business, with enquiries and bookings for Q1-2024 strong, but varied according to individual markets. It is in this capacity, we need our commercial expertise and market influence to drive demand, with the power of brands less impactful in this regard.

All our hotels have set challenging budgets, any under delivery at the top line, especially in ADR, will impact in terms of driving profits, and this is unrecoverable in very tight expense lines. We are optimistic for the year ahead and remain highly responsive to the operational challenges that persist.

Hotel Indigo Manchester Victoria Station, 181 rooms.

Departmental Operating Expenses

Operators continue to manage a challenging operating environment, with a tight labour market and high inflation causing prices and wages to rise. But rising occupancy levels have allowed productivity to increase and cost efficiencies to be made. The total departmental operating profit margin remains on par with 2022.

Hotels have had little option but to increase prices to compensate for the high inflationary environment. In London, the strong growth in RevPAR has mostly sustained the impact of rising costs, with departmental profit margins level with the previous year but remaining some 1.8 percentage points below that achieved in 2019. London Select-Service hotels are showing the largest variance, with the departmental profit margin almost 4 percentage points lower, but at 70% is the highest conversion rate of all London hotel classes due to the dominance of rooms revenue in this sector.

Conversely, across Regional UK, at 55.5%, the total departmental operating profits as a percentage of total revenue were marginally lower than in 2022, but on par with 2019. Whereas, leading regional city centres achieved a profit margin of 56%, on par with 2022, but some 2.4 percentage points lower than achieved in 2019.

Rooms expenses, which incorporates payroll, room expenses and cost of sales (commissions and reservation fees) has seen the expense margin remain unchanged over the last 12-months to September, whilst the cost POR room increased by 6% in London and by 7% in Regional UK. The strong revenue growth was fundamental in keeping the Rooms profit margin on par with the previous year. Room expenses averaged 25% of total rooms revenue in London, and 32% in Regional UK over the past 12 months.

Rooms Payroll costs account for 48% of Rooms Expenses in London and 50% in Regional UK, averaging £28 POR in London and £16 POR across Regional UK. The increase in these costs over the last 12 months is 6% and 5% respectively. The overall cost increase being aided by rising occupancy, such that the increases are at a lower rate than the 9.7% raise in the National Living Wage last April.

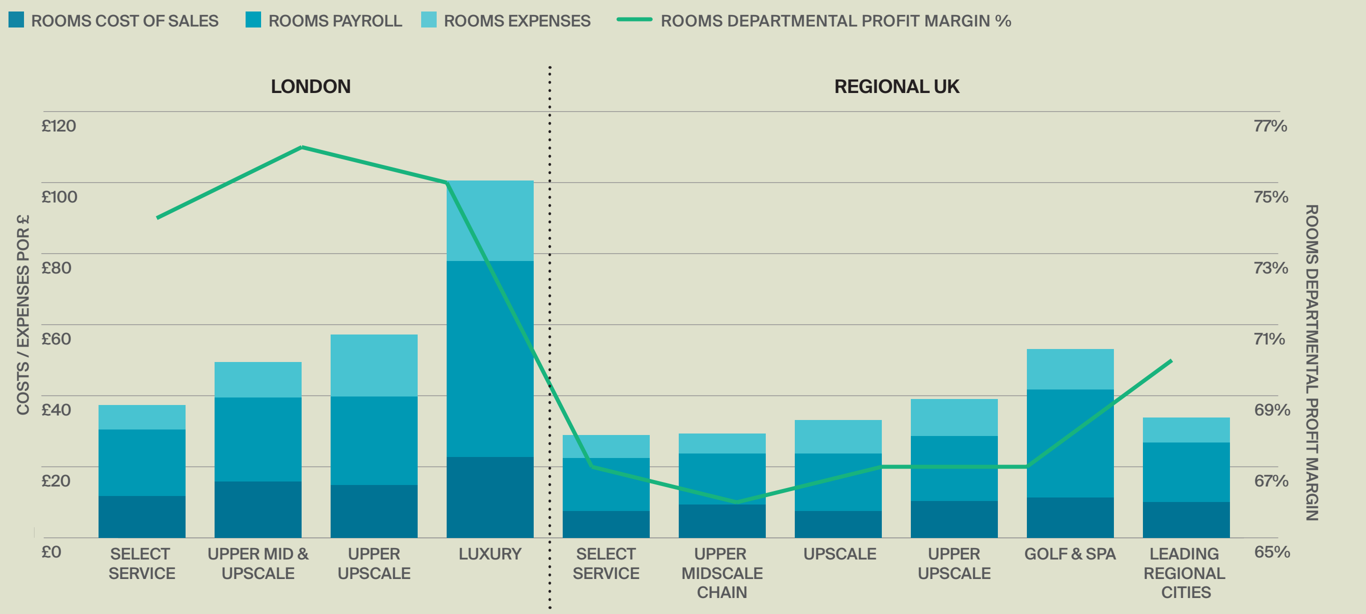
Trading data shows that **Rooms Cost of Sales** (commissions and reservation fees) have stayed on par with the previous year. Certain data sets, such as Regional Select Service hotels and leading regional city-centre hotel markets have seen the cost of sales decrease. Despite the growth in rooms revenues, which implies more fees payable to global operators, the data suggests that distribution channels are being more effectively managed, facilitated by innovation in technology and creating digital advantage.

Rooms Cost of Sales across London averaged 26% of rooms expenses, and 28% for Regional UK, rising to 30% for the leading regional city centres. But, importantly, except for Serviced Apartments, across all datasets the customer acquisition cost is rising at a slower pace than both payroll and other expenses.

Other Expenses (linen, cleaning products and amenities) over the past year has seen its share of Rooms Expenses rise. In London, Other Expenses increased by 23% POR, accounting for 26% of the Rooms Expenses and across Regional UK, the increase was 30% POR, accounting for 22% of the Rooms Expenses. With the increase in laundry costs, operators are pushing-back to obtain the best deals, as well as a growing trend to bring laundry back-in-house, to bring the cost down and have greater control over the serviceability of the bedroom stock.

Rooms departmental costs – POR

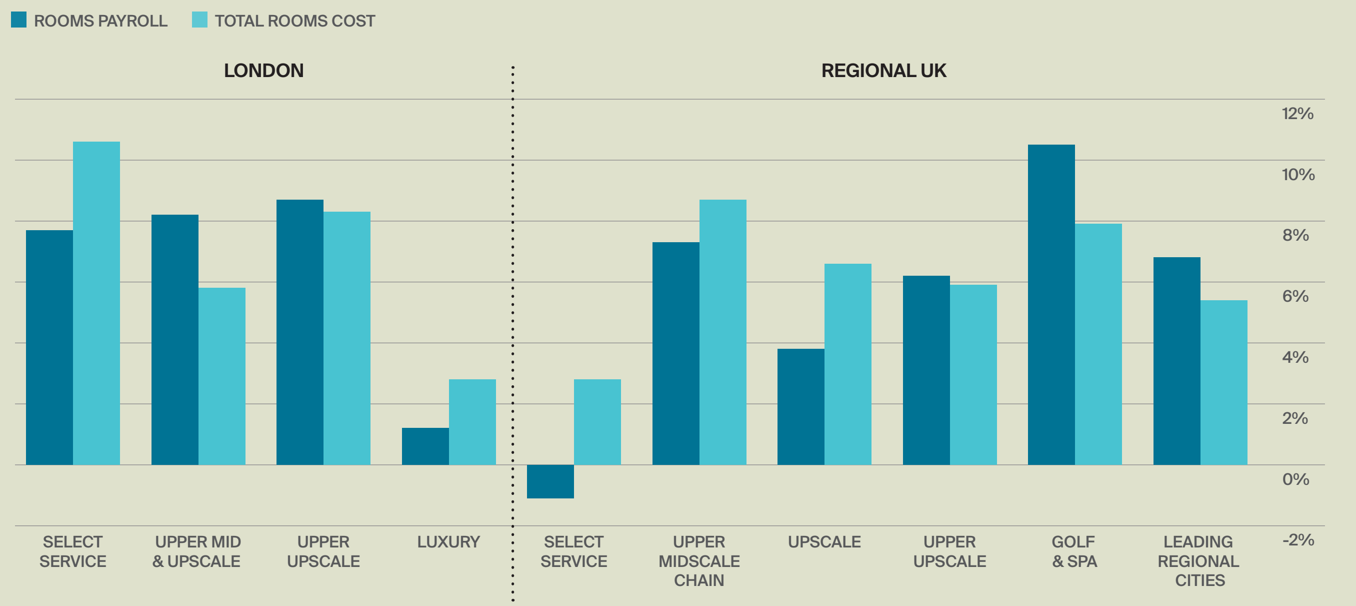
October to September 2023



Source: HotStats

Rooms departmental costs – POR % Change

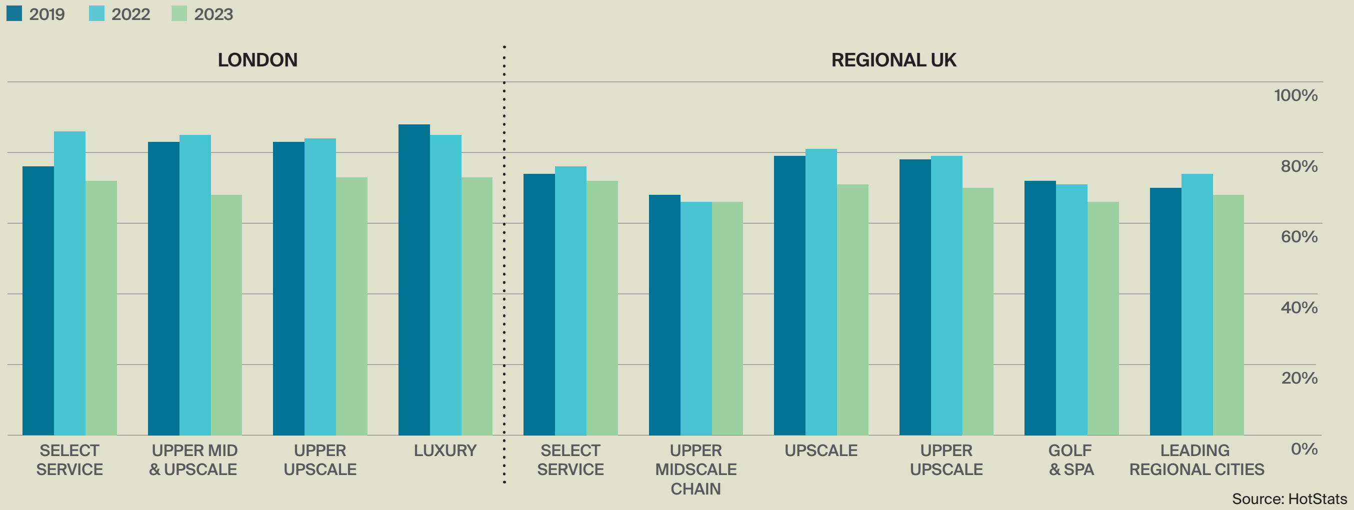
October to September 2023 v 2022



Source: HotStats

Total F&B costs as a % of departmental revenue

Rolling 12 months, October to September, 2023, 2022, 2019



Source: HotStats

FOOD & BEVERAGE EXPENSES

Inflation and payroll growth have driven significant increases in F&B expenses, however, the strong growth in revenues, combined with operators' ability to drive efficiencies, have mitigated much of the impact on the expense margin. In London, for the 12-month period to September, the F&B expense margin averaged 82%, being less than a one percentage point increase compared to the same period in 2022, whereas in regional UK the margin averaged 73%, on par with the previous year. The leading regional city-centre hotel markets achieved stronger revenue growth than across the wider regional UK market, but with the F&B expense margin declining by four-percentage points to 70%.

At 55% across Regional UK, rising to 60% in London, payroll costs make up the largest part of the total F&B departmental expenses. But despite increased payroll costs over the past 12 months, increasing F&B revenues have resulted in such costs as a percentage of F&B revenue remaining on par with the previous year, at 49% in London and 41% in Regional UK.

Nevertheless, F&B profit margins remain significantly below 2019 levels, reinforcing just how much the costs pressures are impacting on profits, along with lower revenues than in 2019.

Departmental operating income segmentation

Rolling October to September 2023

Source: HotStats, Knight Frank Research

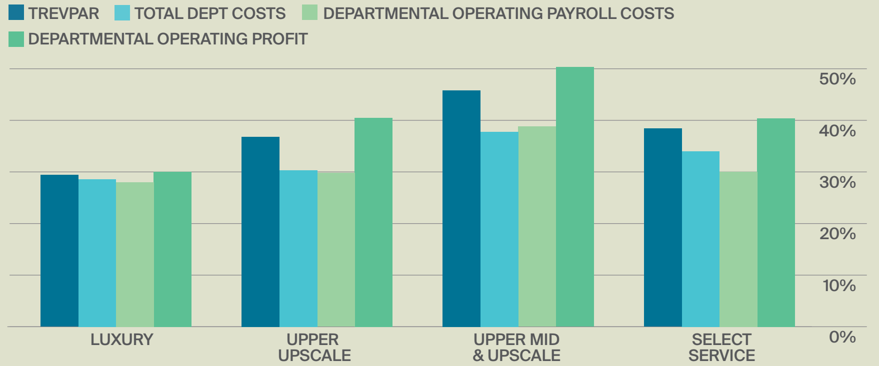
ANCILLARY REVENUE STREAMS MAKE IMPORTANT CONTRIBUTION TO TOTAL DEPARTMENTAL INCOME

Strong demand for experiences and sustainable wellness has seen profit in the Leisure department rise by 18% PAR in Regional UK, whilst in London following growth achieved the previous year, saw leisure income stabilise in 2023. For Regional Golf and Spa hotels, leisure income which accounts for 6% of total departmental profit, recorded 21% growth over the previous year and is ahead of 2019 levels by 5% PAR.

Meanwhile, miscellaneous revenues feed directly to the bottom line, with profits up versus 2019 by 18% PAR in London and 32% PAR in Regional UK. Parking revenues are driving strong profit growth, with the installation of the AV charging points, starting to fuel more meaningful profits. Regional UK saw parking income PAR rise by 29% over the last 12-months, and ahead of 2019 by 15%.

London – Key performing indicators PAR – total operating departments % change

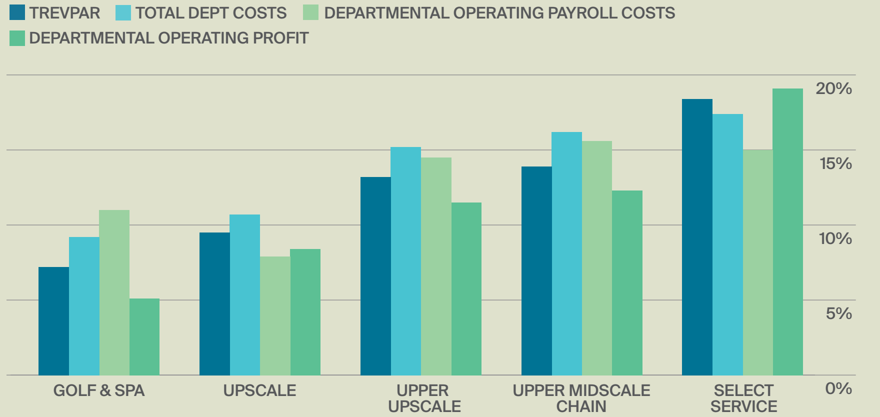
Rolling 12 months, October to September 2023 v 2022



Source: HotStats

Regional UK – Key performing indicators PAR – total operating departments % change

Rolling 12 months, October to September 2023 v 2022



Source: HotStats

Room2 Belfast, Opened October 2023

Undistributed Operating Expenses

Excluding utilities costs, undistributed operating expenses are rising, with payroll costs rising at a slower pace than general expenses. Total costs are now ahead of 2019 levels by approximately 8%, but with strong revenue growth in the 12-month period, margins have been protected and are broadly in line or lower than 2019 levels.

ADMINISTRATION & GENERAL

Total Administration & General (A&G) costs have increased over the 12-month period by 23% in London and by 16% across Regional UK, with A&G expenses increasing at a faster pace than payroll costs. For the 12-month period to September, on average the London hotel market saw total A&G costs 10% higher PAR than compared to 2019 and across Regional UK, by 5%. Were it not for the operational efficiencies driven by initiatives stemming from a review of operations during Covid-19, these costs would have been even higher.

In London, total A&G costs accounted for a lower percentage of total revenue, owing to the significant rise in revenues over this period, averaging 7.4% of total revenue (8% in 2022). In Regional UK, the margin stayed on par with the previous year, averaging 7.7% of total revenue, but significant variance exists between the datasets, with Select Service Hotels and Golf & Spa properties both recording a 31% and 35% increase PAR respectively.

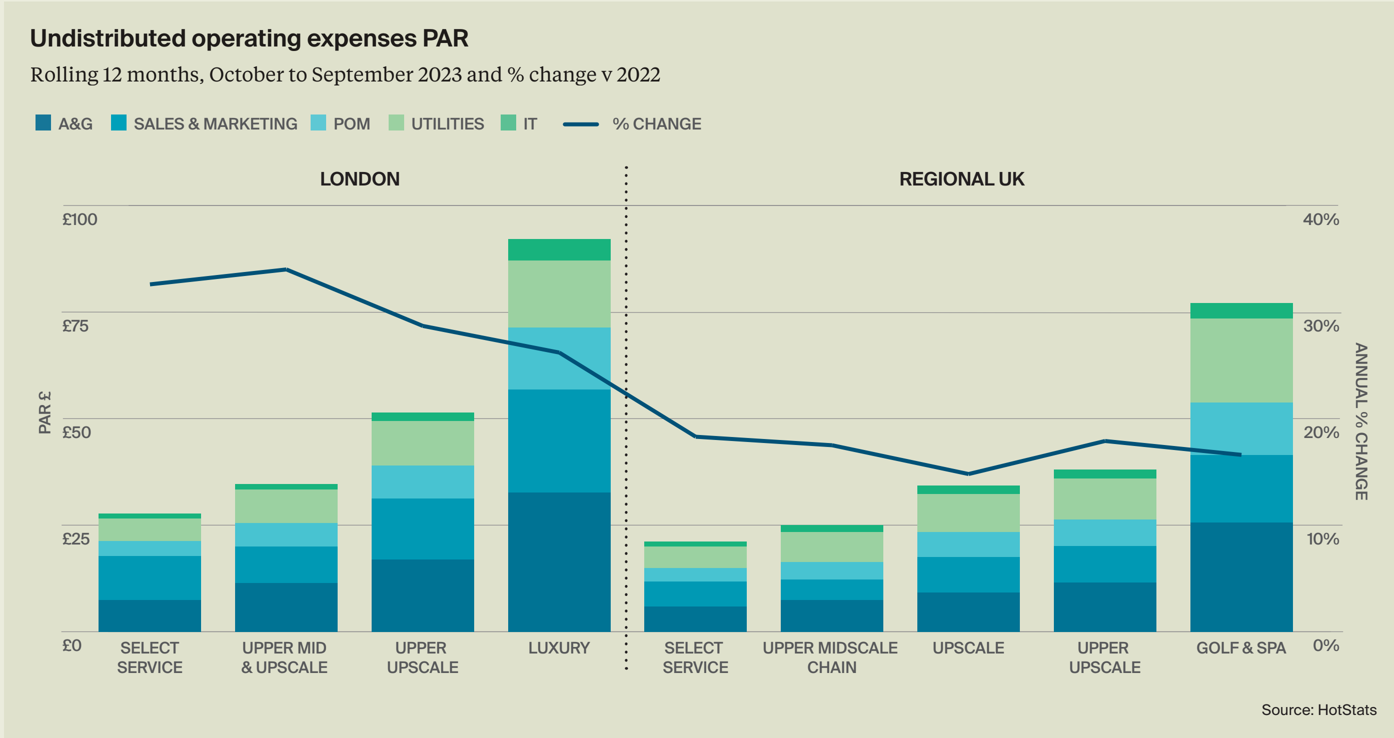
Credit card commission costs and fees associated with the automated processing system have increased sharply for the 12-months to September 2023, rising by 47% PAR in London and by 29% PAR across regional UK, with hotel payment processing fees and other hidden costs payable, including 'card tokenisation' and system markups. Credit card commission costs remain the largest single A&G expense (excluding payroll costs).

ENHANCED IT INVESTMENT IN HOTELS

With more companies aiming to make digitalisation the backbone of their strategic plan, embarking on a journey of intelligent automation, cloud computing, mobile key, mobile ordering and mobile point of sale systems, investment in the latest advancement of technology and maintenance of these platforms is critical if hoteliers are to remain ahead of, or even just keep up with, the competition.

In the 12-month period to September, IT expenditure has increased in London by 17% to £2.30 PAR and by 12% in Regional UK to £1.80 PAR. Regional UK has seen its expenditure related to IT Systems increase by 33% since 2019, as more hotels invest in the IT infrastructure, whilst in London spending on IT has remained the same.

Roomzzz Edinburgh, Opened May 2023



SALES & MARKETING - EXPENDITURE RETURNS TO 2019 LEVELS AS FRANCHISE FEES SURGE.

Significant cuts made to the Sales & Marketing (S&M) budgets during the pandemic have now reversed across regional UK, and with increased spending seen across London hotels.

S&M payroll costs in London increased by 26% PAR versus the previous year, whilst expenses surged ahead by 38%. At £13 PAR, S&M costs equated to 5.7% of total revenue. The increase in costs can be attributed in part to the rise in franchise fees, up by 30% PAR and the costs associated with brand loyalty programs, rising by 44% PAR. Across Regional UK, S&M costs increased by 18% PAR versus the previous year and equate to around £7 PAR, equivalent of 5.8% of total revenue. Technology costs to increase direct bookings through search engine optimisation for a hotel's website, are also driving up S&M costs.

For London's Select Service Hotels, the S&M expenditure now represents more than 8% of the hotel's revenue, to above £10 PAR. With many of these hotels operating under global brands and some 91% of their revenue derived from Rooms, franchise fees have surged by 45%, and with loyalty program fees increasing by 78%.

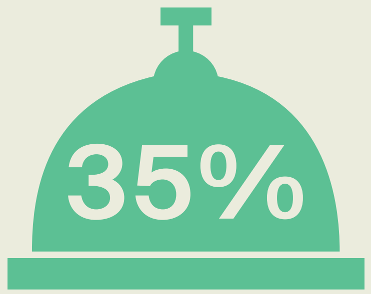
PROPERTY, OPERATIONS & MAINTENANCE (POM) – UNDER PRESSURE DURING TIMES OF ACUTE COST PRESSURES

As hotel prices increase, so too do guest expectations, with the quality and comfort of the hotel bedroom, as well as the hotel's aesthetics and sustainable practices adopted, all important factors to ensuring both guests and employee retention.

Total POM expenses have increased over the 12-month period by 20% in London and by 9% in Regional UK, to average £4.80 PAR and £3.40 PAR respectively. However, due to increased revenues, the expense margin has decreased year-on-year for the 12-month period, unlike other cost departments, where margins have either held firm or increased. Across London, total POM expenses represented 3.4% of total revenue (3.8% in 2022), and for Regional UK accounted for 4.3% of total revenue (4.5% in 2022).

In London, POM payroll costs and expenses have increased at a similar pace, whilst across Regional UK, wage costs have increased at a much faster pace than POM expenses.

London's Select Service hotels achieved the greatest POM efficiencies across all London hotels, with total expenses rising by 16% in the 12-month period, lower than the London average. Yet with the strong increase in hotel revenues, this expense line as a proportion of total revenue fell to 2.8%, compared to 3.4% for the previous 12-month period. Meanwhile, Select Service hotels in Regional UK, saw total POM expenses rise at a much faster pace than the regional average,



Total S&M expenses have increased by 35% PAR in London over the 12-month period, with franchise fee rising by 30% and brand loyalty fees up by 44% PAR.

rising by 12%, but as a proportion of total revenue, this expense line still declined, to 3.8% of total revenue (4% in 2022).

UTILITIES

Wholesale gas and electricity prices peaked in August 2022, with the price of both commodities falling sharply in the autumn and winter months of 2022 and at the start of 2023. Since February 2023, wholesale gas prices have held steady, whilst the price of electricity has continued to drop back to where pricing levels were set in September 2021.

For the 12-month period to September 2023, utility costs across the entire UK hotel market were at record peaks, at £10 PAR across all London hotels (£5.50 PAR in 2019) and £8.50 PAR (£4.70 PAR in 2019) for Regional UK. London's Luxury hotels recorded utility costs in the region of £16 PAR, whilst Golf & Spa properties, where levels of consumption are the highest, have seen utility costs rise to approximately £20 PAR.

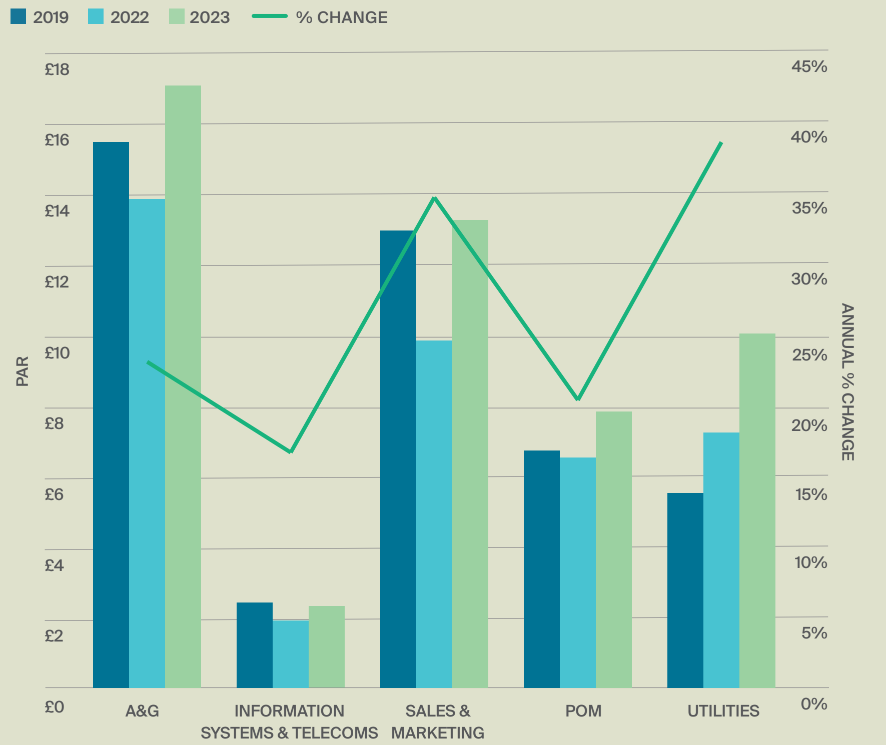
Whilst it is unclear to what extent the expiry of fixed price contracts has skewed the data, utility costs have surged on average by 38% and 30% respectively across London and regional UK over the 12-month period to September, versus the previous year. Whilst higher occupancy is driving higher consumption, this expense line will take time to stabilise as hotels continue to come out of previously low-fixed tariffs and transition over to far higher tariffs.

In London, the particularly strong revenue growth has protected margins, with utility costs as a percentage of revenue on par with the previous 12-months, accounting for 4.3% of revenues. Across Regional UK, utility costs equated to 7.1% of turnover, increasing by almost one basis point over the period and up from 4.5% of turnover for the 12-month period ending September 2019.

Whilst there has been a strong focus on cost efficiencies, and sustainability becoming core to strategic planning, it is not yet possible to determine the impact of these changes when undertaking a review of the whole market.

London – Undistributed operating expenses PAR

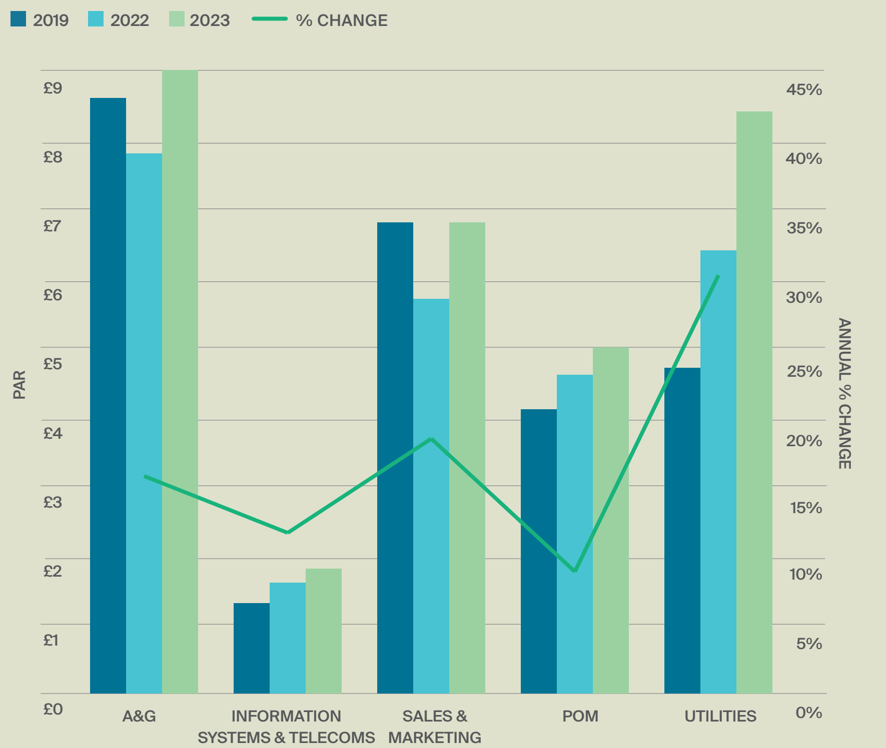
Rolling 12 months October-September, 2023, 2022, 2019 and % change v 2022



Source: HotStats

Regional UK – Undistributed operating expenses PAR

Rolling 12 months October-September, 2023, 2022, 2019 and % change v 2022



Source: HotStats

Total Hotel Payroll Costs

The rising cost of labour and staff shortages have continued over the past 12 months, particularly as occupancy has increased and normal seasonality patterns have returned. But innovation through technology and reviewing the employee value proposition are changing the way hotels reflect on payroll costs.

Hotel owners and operators have responded to staffing challenges in different ways. Fundamentally, reputable hotel operators understand that the mechanics of the business will only operate smoothly if its people are well looked after and valued.

Total payroll costs across London have increased by 27% PAR for the 12-month period to September. Departmental payroll costs, which accounted for 75% of total payroll costs, increased by 30% PAR, whilst undistributed payroll costs increased by 20% PAR. Across Regional UK, departmental payroll costs and undistributed payroll costs increased in parallel, by 15% PAR, with departmental costs accounting for 77% of total payroll costs.

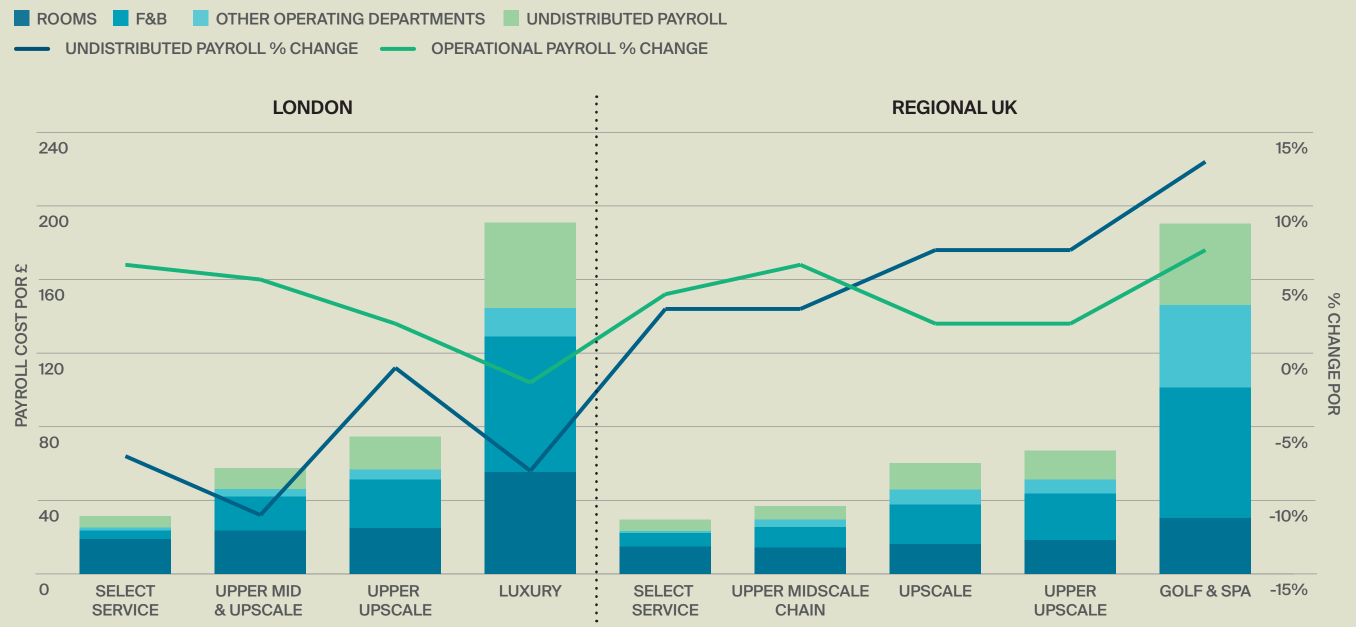
On a POR basis, with the strong rise in occupancy levels over the past year, payroll costs in London have remained flat, whilst across Regional UK costs have increased by just 3% POR. Hotel operators are successfully increasing the productivity of staff, be it though multi-skilling, rationalisation and the removal of non-profitable services and through technology. Digital check-in and the roll out of in-room app-based guest platforms have improved workflows and operational efficiency significantly, thereby reducing payroll costs.

A further indicator, looking at total payroll costs as a percentage of total revenue, shows payroll margins for London have improved by more than 1.5 basis point over the past 12-months, accounting for 25.8% of total revenue. Across Regional UK, this metric was on par with 2022, at 30.6%, and a slight improvement on the 2019 conversion.

Serviced apartments remain the leanest sub-sector in terms of payroll costs and have increased at a slower pace than compared to the wider UK hotel market. Total payroll costs equated to 15% of total revenue in London and 19.5% in Regional UK.

Breakdown of payroll costs POR

Rolling 12 months, October to September 2023 v 2022



Source: HotStats

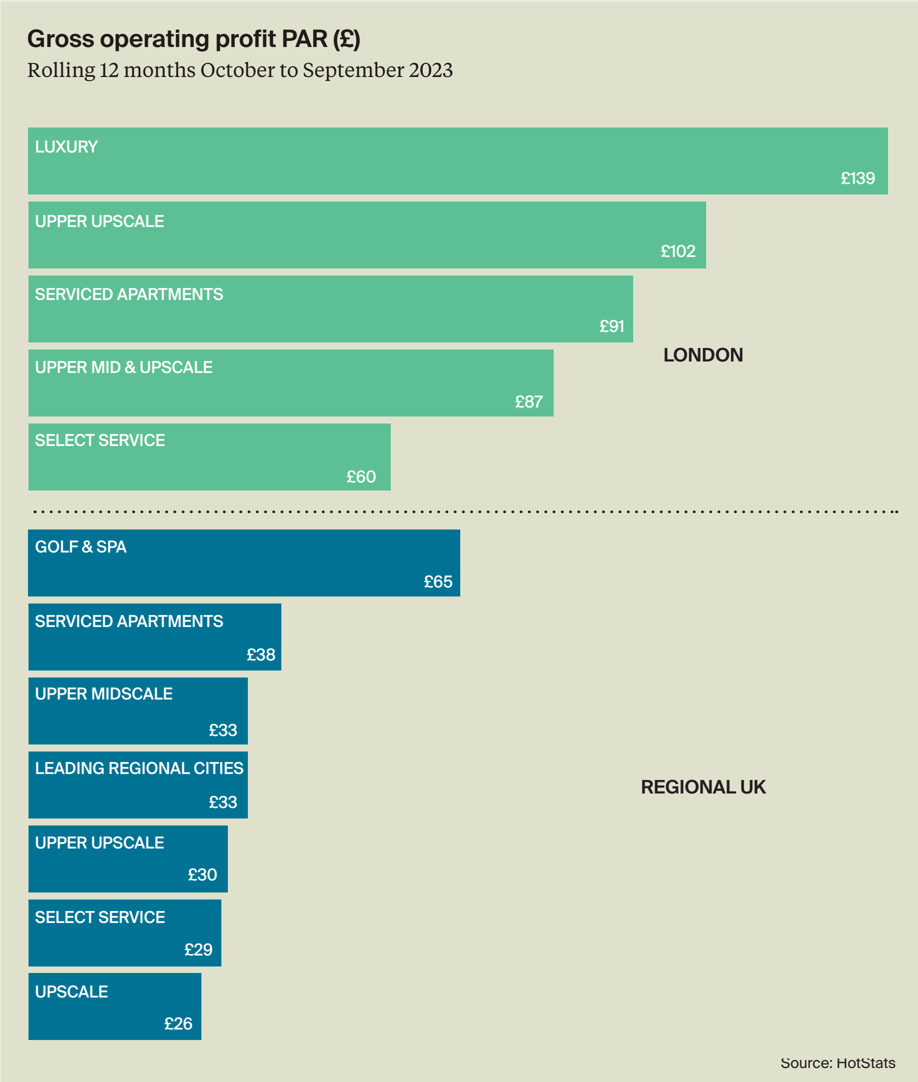
UK HOTEL TRADING PERFORMANCE REVIEW 2023

Gross Operating Profit

Revenues and expense lines now compare favourably to historical performance across most hotel classes. Digitalisation has revolutionised how hotels deliver a sustainable proposition, with potential to generate higher returns and value.

LONDON DELIVERS IMPRESSIVE GOPPAR PERFORMANCE

London's strong revenue growth significantly outpaced rising costs, to deliver an impressive GOPPAR performance, surging ahead of its 2022 performance by 40%, recording GOPPAR of approximately £97 for this 12-month period. GOPPAR performance is now 1.7% ahead of its 2019 performance. At the same time, London was able to improve its annual profit conversion, achieving a Gross Operating Profit (GOP) of 42% of total revenue, almost two basis points higher than the previous year.

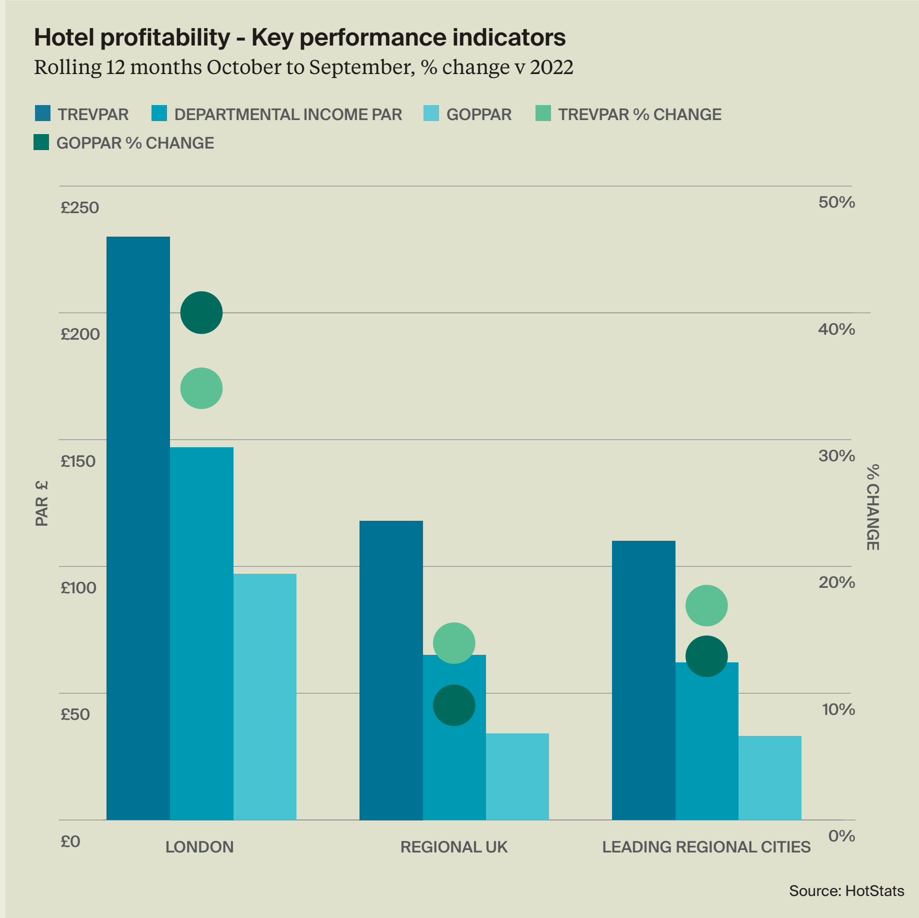


Upper-Midscale and Economy hotels achieved much stronger profit conversion than Luxury and Upscale hotels, with Upper-Midscale hotels increasing its profit conversion by 3.6 percentage points to 47% and Select Service hotels achieving a GOP margin of 48%, two percentage points higher than the same period the previous year. Luxury hotels maintained its GOP margin at 35%. Serviced Apartments recorded a fall in its GOP margin of just under one percentage point, largely due to increased payroll and utility costs, but converted at a much higher level, achieving a GOP margin of 59%.

BEST GOPPAR PERFORMERS IN REGIONAL UK

Across Regional UK total costs PAR increased at a faster pace than TRevPAR growth, with costs rising by 17% for the 12-month period. Despite the GOP margin falling by 1.5 basis points to 29.1%, respectable GOPPAR growth of 9% was achieved, rising to over £34. GOPPAR performance is now 5.1% ahead of 2019 profits. Some key observations concerning GOPPAR performance are as follows:

- For the top regional city-centre markets the rise in costs was closely aligned with TRevPAR growth, which led to a stronger GOPPAR recovery than the wider Regional UK hotel market. As such, GOPPAR increased by 13% to £33, but remains 5% below its 2019 performance.
- Select Service hotels outperformed the Regional UK market in terms of its GOPPAR growth, rising by 20% over the period to reach beyond £30 PAR, and 22% higher than compared to 2019 profits. A profit conversion of almost 35% was achieved, far higher than the Regional UK average,
- The Upper-Midscale segment continues to perform strongly, with GOPPAR rising by 9% over the period to £33 PAR, which is a staggering 39% uplift compared to its 2019 performance.
- The Serviced Apartment sector achieved the strongest profit conversion, with a GOP margin of 42%, as well as respectable GOPPAR growth of 12%.
- Full-service Upscale, Upper-Upscale and Golf & Spa hotels endured the most challenging market conditions, with lower TRevPAR growth than the wider regional UK market. Along with rising costs, GOPPAR growth was much weaker, with Golf & Spa hotels the only hotel class to see GOPPAR decline over the period.
- Full-service Upscale and Upper-Upscale have yet to recover its pre-pandemic GOPPAR performance, with profits down by 13% and 20% respectively on 2019 levels.



Raffles London at the OWO, opened September 2023, photo credit John Athimaritis

UK Serviced Apartments

High levels of profit conversion and respectable growth in profits, but with margins being squeezed.

The versatility, adaptability and resilience of the Serviced Apartment sector continues to hold true for well operated assets, with their robust trading performance proof of their ability to respond favourably to changing market conditions and evolving consumer trends. With the business model pivoted towards longer length stays to focus on margin protection, the sector has widely outperformed the wider UK hotel market, in terms of both occupancy and GOPPAR performance.

RESILIENT TOP-LINE TRADING PERFORMANCE

Regional UK serviced apartments recorded RevPAR 14% higher than the wider regional hotel market over the 12-month period, compared to an index of 106% in 2019. At 83%, occupancy performance is now eight percentage points above 2019 levels. Meanwhile, far stronger ADR growth than compared to the regional average has been achieved, up by 8% (Regional UK ADR growth +3.5%).

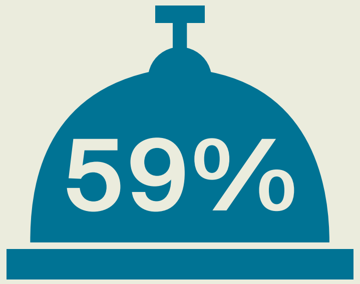
London's Serviced Apartments have seen a full recovery in occupancy compared to 2019, rising by one-percentage point to 85%, whilst higher numbers of overseas visitors have also supported prices, with ADR growth up 15% (London ADR growth +7.8%).

RESPECTABLE GROWTH IN PROFIT, BUT INFLATIONARY PRESSURE SQUEEZES MARGINS

The strong revenue growth has transferred into respectable growth in GOPPAR, increasing by 12% in Regional UK and by 21% in London. GOPPAR is ahead of 2019 levels, with Serviced Apartments in Regional UK recording a 7% uplift and London seeing growth of 24%.

Profit conversion is far higher than compared to the wider hotel market, with almost a 13-percentage point differential for regional properties and more than 17-basis points higher for London assets. Yet margins are being squeezed, falling by just under one-percentage point over the 12-month period.

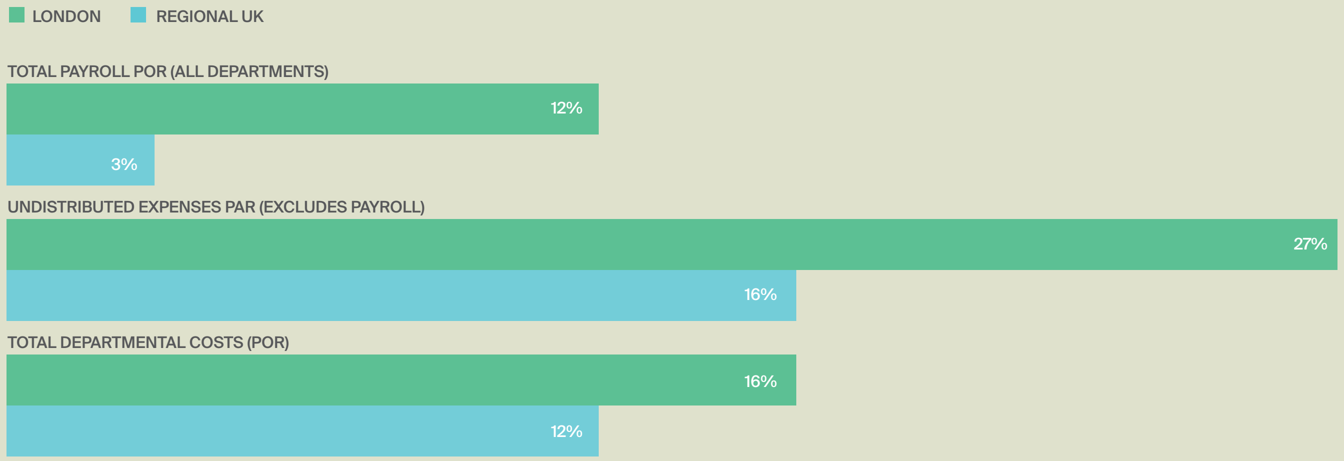
The main contributors towards rising costs include increased customer acquisition costs, shorter length of stays resulting in increased servicing costs, and rising utility costs as fixed cost contracts have ended.



At 59%, the GOP margin for London's Serviced Apartments is significantly ahead of the market, but remains 6 percentage points lower than 2019 levels.

% Change in costs PAR/POR

12 months October-September, 2023 v 2022

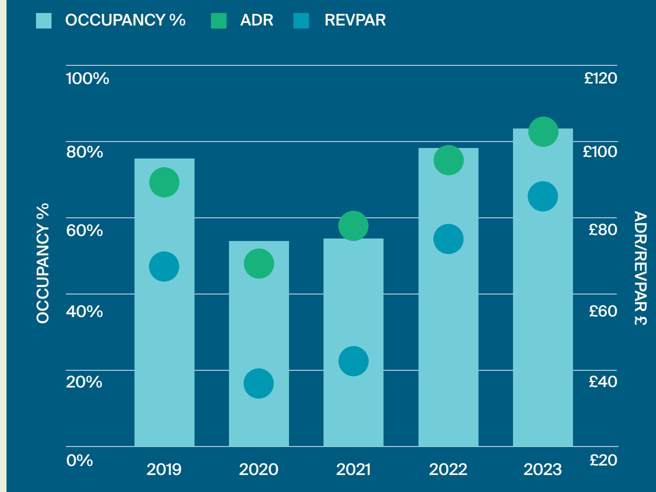


Source: HotStats

REVENUE KEY PERFORMANCE INDICATORS

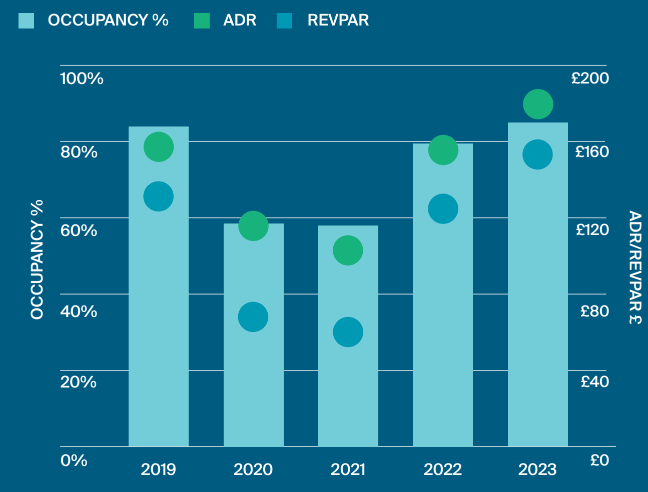
Regional UK serviced apartments

Rolling 12 months to September



London serviced apartments

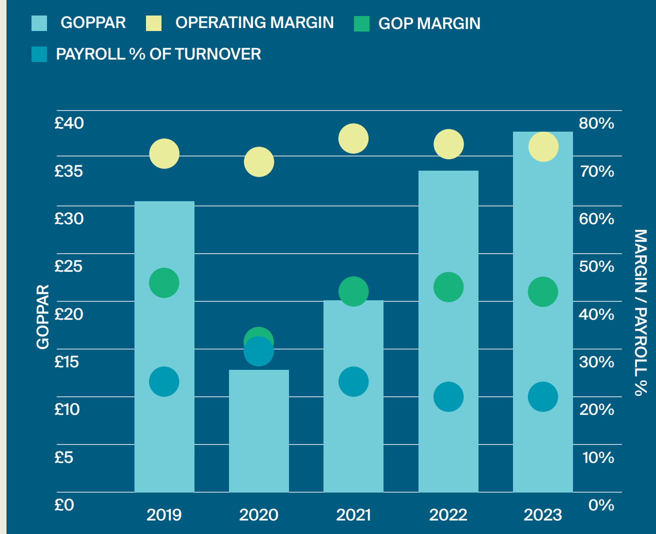
Rolling 12 months to September



PROFITABILITY KEY PERFORMANCE INDICATORS

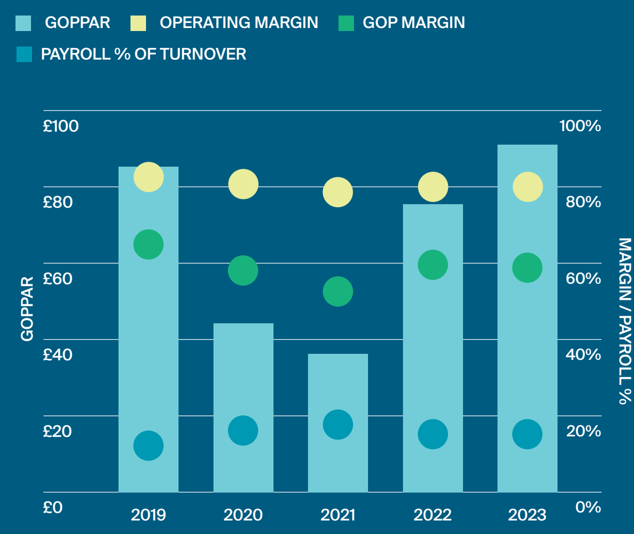
Regional UK serviced apartments

Rolling 12 months to September



London serviced apartments

Rolling 12 months to September



Source: HotStats

Leading Regional UK City Centre Hotel Markets of 2023

Strong RevPAR growth in Edinburgh is proof that international demand has returned in a big way. Edinburgh has recorded 23% RevPAR growth over the 12-month period, far superior to any other regional UK city.

We have undertaken a review of leading Regional UK city centre destinations, chosen in terms of their TRevPAR performance for the 12-month period to September 2023, but limited to those markets that HotStats are able to report on.

Historically, collectively these city-centre hotel markets have outperformed the wider Regional UK but having suffered a far deeper impact on trading performance than compared to the wider regional UK market, their recovery is still ongoing. For the 12-month period, occupancy remains almost nine percentage points below its pre-pandemic performance, and whilst ADR is now level with Regional UK, its current RevPAR index at 98%, remains significantly below its former stabilised position.

Supply growth by city

	Supply growth since start of 2000	Rooms opened since 2020
MANCHESTER	23%	3,445
GLASGOW	20%	2,190
LIVERPOOL	11%	1,004
EDINBURGH	6%	924
BIRMINGHAM	7%	876
CAMBRIDGE	24%	858

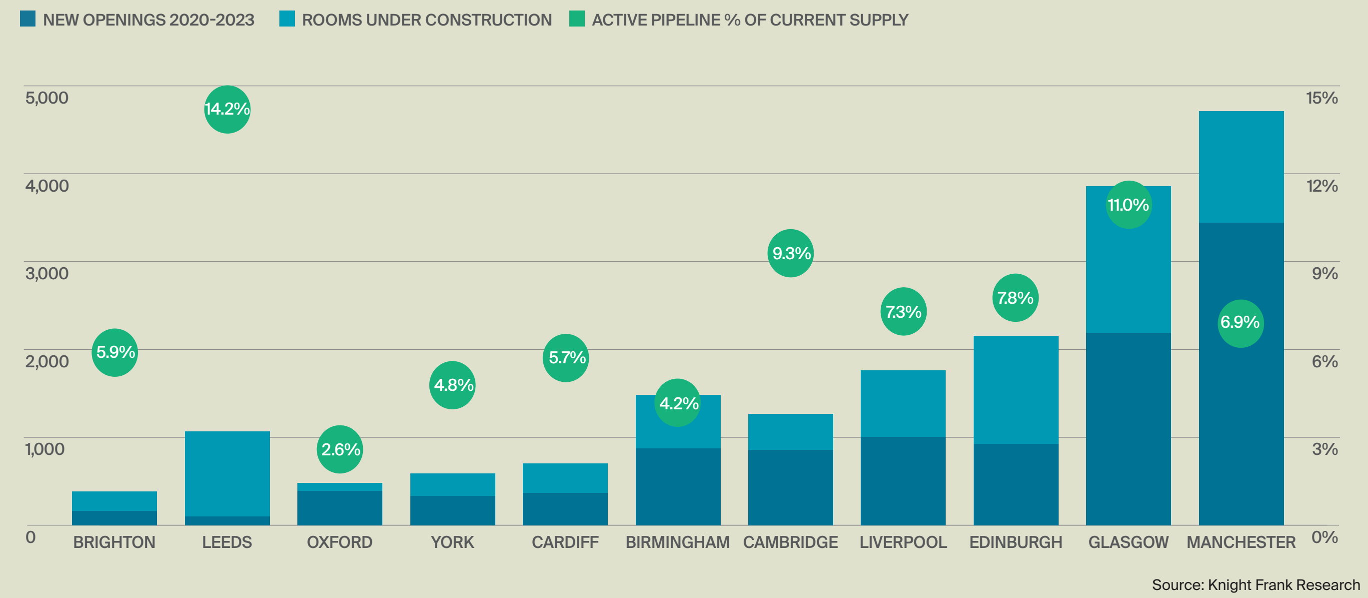
STRONG HOTEL MARKETS APPEAR TO WEATHER ELEVATED LEVELS OF NEW SUPPLY GROWTH

The volume of new supply opening since the start of 2020 has been a significant contributor to a market's recovery. The cities under review have attracted over 42% of the new hotel supply since 2020, with this metric rising to 50% of the new rooms opening in 2023. In terms of the active pipeline of hotels currently under construction, Glasgow, Manchester and Edinburgh all have over 1,000 new rooms planned to open before the end of 2026.

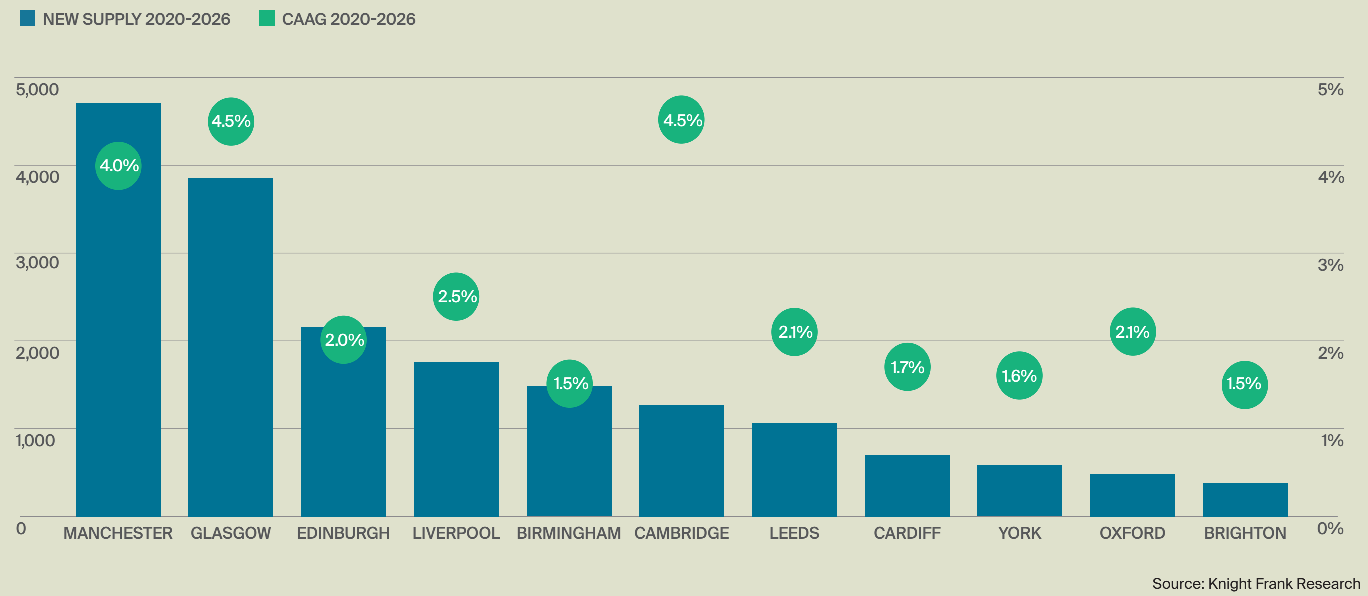
The city of Edinburgh, supported by only minimal supply growth, has seen an exceptionally impressive performance over the past 12 months, with RevPAR 29% higher than compared to 2019. Whilst its occupancy over this period remains four percentage points adrift of 2019 levels, the city has seen particularly robust ADR growth, facilitated by the high inflationary environment, growth in demand from conferences and events, and record numbers of US visitors. For the September YTD period, Edinburgh's International Airport is reporting US passenger arrivals 51% higher than in 2022 and 26% ahead of 2019 levels.

By contrast, the Cambridge hotel market is suffering from a high volume of new supply since 2021 and far fewer Chinese visitors, which is impacting on its ability to drive ADR growth. At 96% ADR index versus its 2019 performance, Cambridge achieved the weakest ADR and RevPAR index over the last 12-months of all the city-centre markets under review.

Existing Supply & active pipeline under construction (hotel bedrooms) 2023-26



New Rooms opened by regional UK city & compound annual average growth 2020-2026



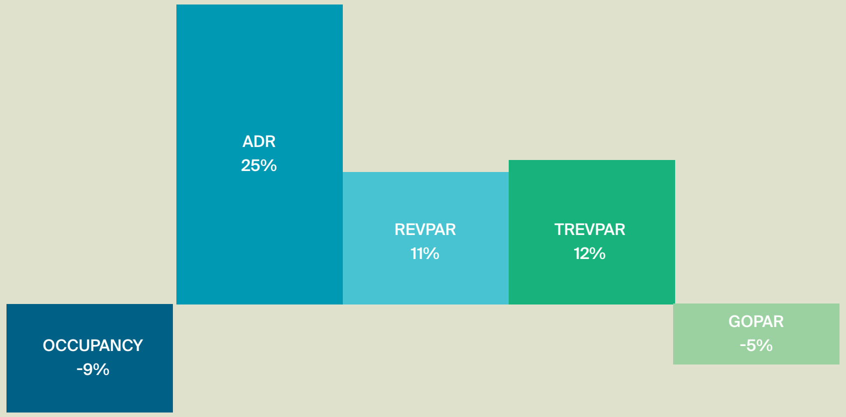
UK HOTEL TRADING PERFORMANCE REVIEW 2023

STRENGTH OF OPERATOR WILL DETERMINE THE REAL WINNERS IN ACHIEVING SUSTAINABLE GROWTH IN REGIONAL CITY CENTRE MARKETS

The macro-economic environment has proved particularly challenging in 2023, with total costs rising in city centre markets at a faster pace that the wider Regional UK average. As demand strengthens, cost pressures ease and profit margins improve, we remain optimistic that a full recovery in GOPPAR remains firmly within sight for most leading regional city centre hotel markets.

Leading regional UK cities

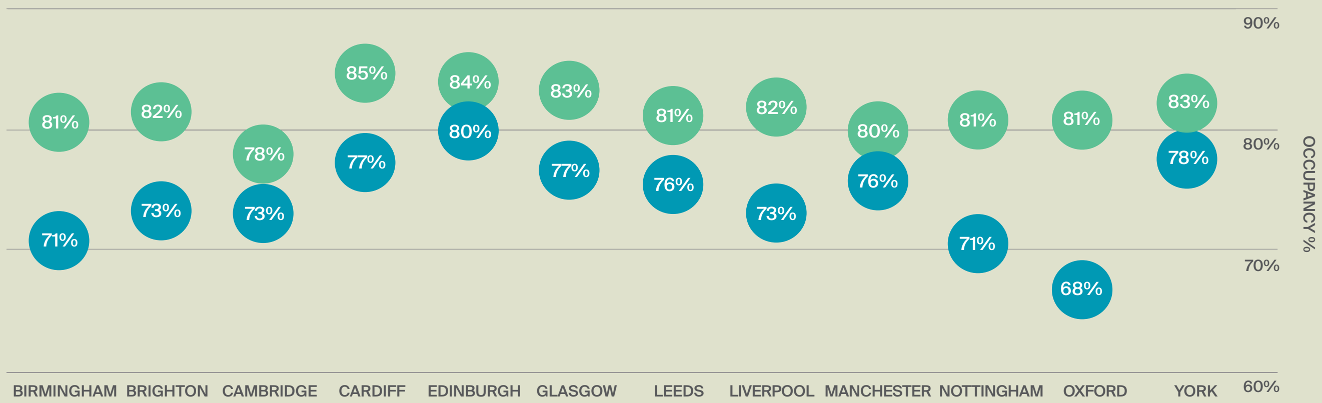
% Change, 12 months to September, 2023 v 2019



Source: HotStats

Rolling 12-month occupancy

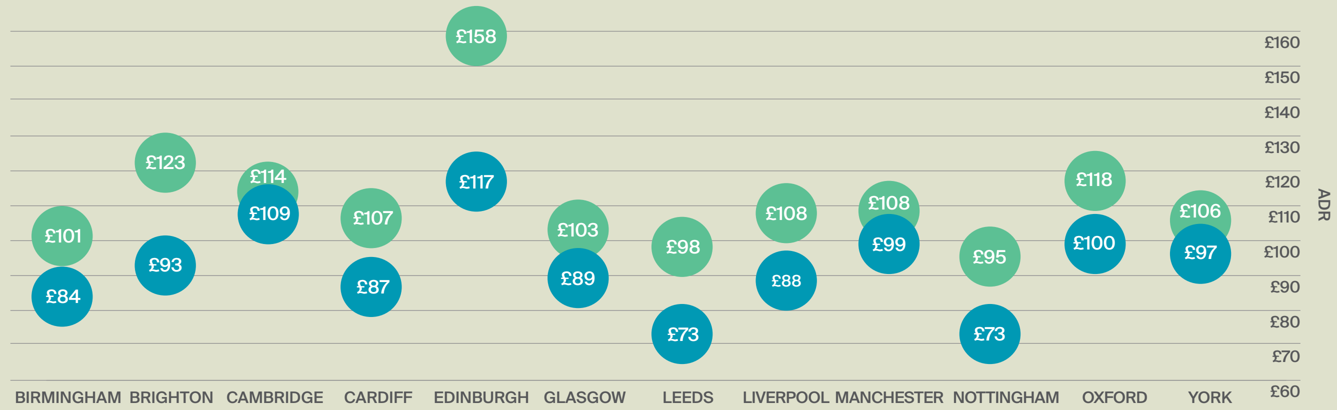
October-September, 2023 v 2019



Source: HotStats

Rolling 12-month ADR

October-September, 2023 v 2019

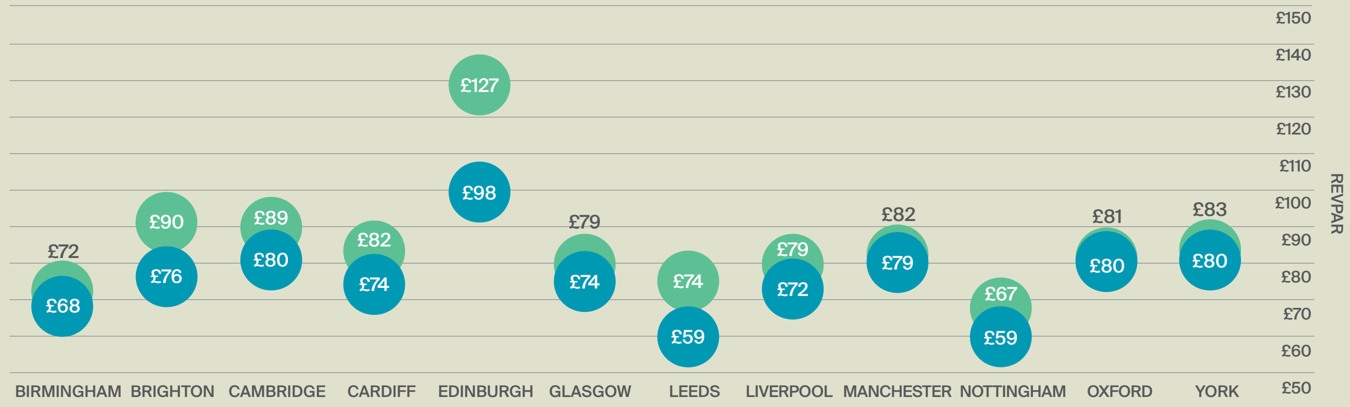


Source: HotStats

HotStats sample of hotels for Oxford, is for the Oxford area as opposed to city-centre hotels only.

Rolling 12-month RevPAR

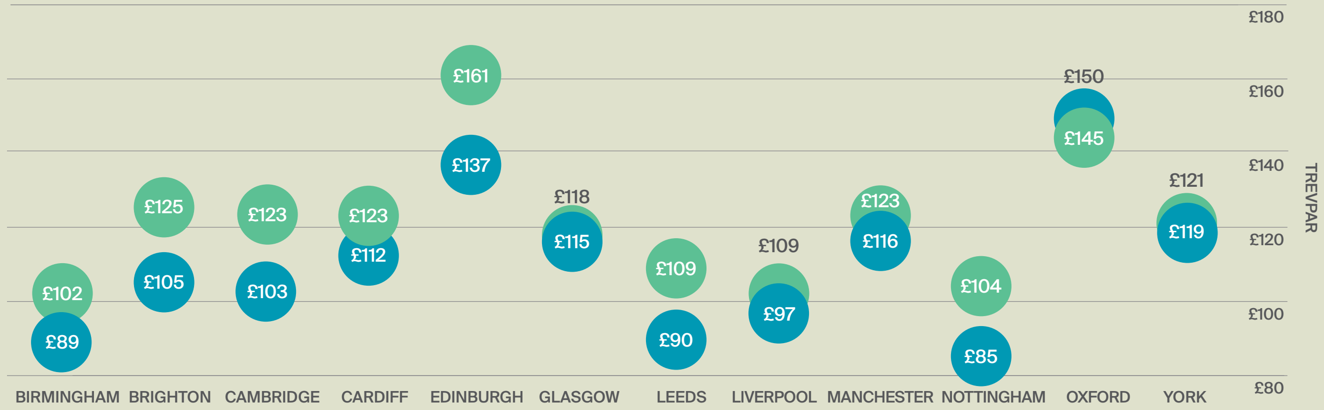
October-September, 2023 v 2019



Source: HotStats

Rolling 12-month TRevPAR

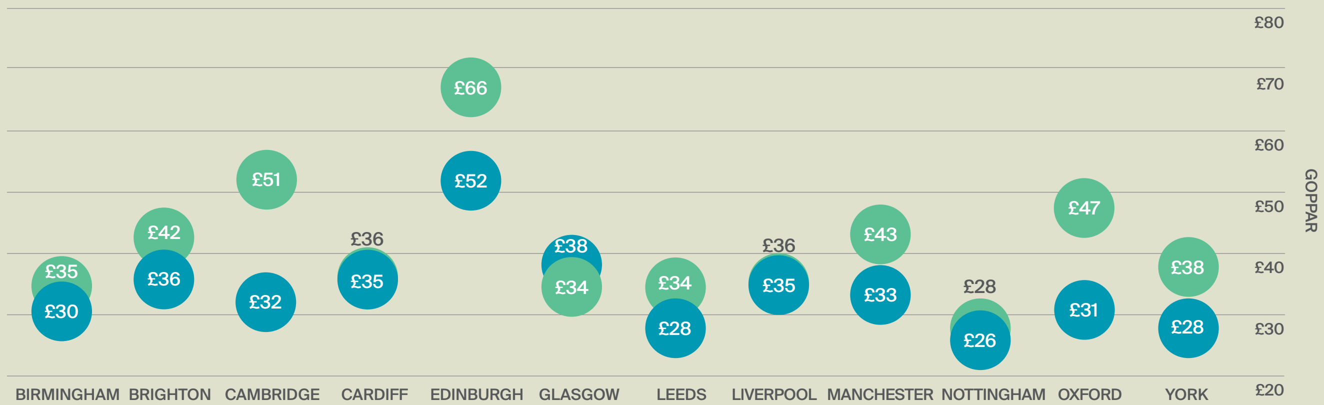
October-September, 2023 v 2019



Source: HotStats

Rolling 12-Month GOPPAR

October-September, 2023 v 2019



Source: HotStats

Cheval Collection

JOHN PHILIPSON COO
AT CHEVAL COLLECTION
SERVICED APARTMENTS

Cheval Three Quays, London

Q: How are you streamlining operations and what impact is this having on costs and profit margins?

A: Our operational flexibility is being tested by higher occupancies and higher guest expectations. Our already lean operations make it more difficult to achieve staffing efficiencies, whilst the increase in the cost of servicing (both laundry and payroll) and the rising cost of customer acquisition are squeezing margins.

We have consolidated property operations at senior management level and operate purchasing at group level to leverage maximum discounts at scale. We continue to evaluate and invest in our tech-stack, rolling-out keyless-access and mobile check-in. Where possible, we will seek to automate the guest journey to minimise staffing costs, but we do not compromise on guest experience and are proud of our high guest satisfaction scores.

Q: How have booking channels changed and how do you ensure your inventory is bookable on the right channels at the right time?

A: There has been a proliferation of channels to connect to within both corporate and leisure sector, with more OTAs and peer-to-peer platforms surfacing. This makes rate management and parity issues difficult to keep on top of. We have invested in our own direct website and our paid search marketing to remain competitive, but the cost of acquisition for digital marketing can be a challenge, especially when competing with the large budgets of the OTAs.

OTAs will always extend our reach into markets where we have little direct marketing budget, they can further add value for packaging flights & accommodation where rates are hidden. OTAs are becoming very aggressive of late, undercutting, taking hits on their commission and winning business by offering complimentary add-ons to a package.

Q: Which international source markets do you envisage will see growth in 2024?

A: China will be a source of growth for the coming months, with a noticeable shift in attitudes towards outbound travel. The Chinese New Year, the first proper version since Chinese travel restrictions have lifted, is expected to see increased outbound travel to Europe. The Middle East market is also expected to stay strong, but with caution given the current tensions in the region. Further opportunity also exists to tap into the European market and US markets.

Q: How would you describe the outlook for 2024?

A: Booking lead times for our direct bookings are currently around 50 days, as a group we are ahead of last year's bookings. The end of the US writers' strike is encouraging, with the relocation/entertainment business now expected to pick up. As demand from overseas rises and inflationary pressures subside, we expect to see the length of stay increasing, having dipped this year as global headwinds took their toll.

Despite the threat of potential recessions in the UK and Europe, as well as upcoming General Elections in the UK and USA, which tend to see a reduction in outbound travel, our outlook for 2024 is cautious but optimistic.

Hotel Trading Outlook

PHILIPPA GOLDSTEIN,
SENIOR ANALYST – HEAD OF HOTEL RESEARCH

Fundamentals of the UK hotel sector remain strong, despite its challenges and 2024 is set for another exciting year of growth and opportunity. Trends in performance as highlighted in this report, such as the strong GOPPAR growth and continued healthy consumer demand, will make hotels an appealing asset class for investors.

The sector has proven repeatedly its ability to weather turbulence and the strong trading performance is serving to counter the increase in yields in a high-interest rate environment, with hotel values holding up strongly and performing well compared to other sectors.

The pound staying low, improving flight schedules, and a more stable economic outlook will all serve to boost international demand. Following a slow start to 2023, Q1-2024 presents a real opportunity to drive growth. London will further prosper from the biennial staging of the Farnborough International Airshow in July 2024, and with an upswing in overseas visitors travelling to the Paris Olympics, London and other regional gateway cities may benefit.

Significant challenges do though remain, the availability of staffing and the rise in the National Living Wage will further add pressure on already tight expense lines. But margins are set to improve, supported by continued revenue growth and inflation now on a downward trajectory.

A US election year always brings a degree of nervousness to the sector, as does heightened geopolitical tensions, but with improving outbound travel coming from the US and Asia, strong demand from international markets is anticipated.

> "The sector has proven repeatedly its ability to weather turbulence and the strong trading performance is serving to counter the increase in yields in a high-interest rate environment, with hotel values holding up strongly and performing well compared to other sectors."

The cyclical, structural and long-term drivers are positive, and we remain optimistic that the UK hotel sector is well placed to deliver another year of resilient growth.

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We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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Front cover picture: The AC Hotel Glasgow, 245 rooms, opened November 2023. Owned by Chris Stewart Group, part of the Love Loan development.

HOTSTATS
Hospitality Intelligence

Is a global data benchmarking company that provides specialized performance analysis and a benchmarking platform that services hotels around the world. HotStats collect financial and operational data from a diverse range of hotels globally to provide hotel owners, operators, and investors with valuable insights into the financial performance of their properties against their competition –an invaluable resource for evaluating investment opportunities and weighing options for prospective investors. email enquiries@hotstats.com for more information.

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

HotStats intelligence has allowed the creation of bespoke datasets. The leading regional UK cities include: Birmingham, Brighton, Cambridge, Cardiff, Edinburgh, Glasgow, Leeds, Liverpool, Manchester, Nottingham, Oxford and York.

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Glossary of terms

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

Knight Frank

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