THE UK REGIONAL HOTEL MARKET

Market commentary and opportunities
from the market leaders

Knight Frank

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2012 Market Commentary

Since the economic downturn, the regional hotel market has proved a challenging operational market, however, some regional hotels are bucking the trend and performing well. 'Best in Class' hotels continue to trade strongly, with the gap widening between these assets and those in secondary locations or which are in need of investment. The regional hotel market continues to go through a period of price adjustment, as some owners release poorly performing assets. This is providing attractive opportunities to a variety of different hotel purchasers.

In comparison to the London hotel market, the regional hotel market is considered by many as the 'poor relation'. Post the financial crisis, London has seen unprecedented growth in all the key performance indicators (KPI's) such as Average Room Rate (ARR), occupancy and Revenue Per Available Room (RevPAR). In London, RevPAR was at its lowest in the year to October 2009 (Figure 1), and at its highest in the year to August 2012. A similar pattern is shown for TrevPAR (Total Revenue Per Available Room) and GOPPAR (Gross Operating Profit Per Available Room). This demonstrates the robustness of this market despite the challenging economic conditions.

In contrast, the regional market has experienced less of a recovery (Figure 2). RevPAR peaked in the year to August 2008, whilst the low point was in the year to April 2010. Current performance shows only a marginal improvement on the low in April 2010. However, these statistics provide an 'overview' of regional hotel performance and further knowledge of individual regions is required to gain an understanding of how different geographical areas of the UK are performing.

RevPAR variance (gain and loss) in relation to geographical areas is considerable across the UK (Figure 3). This shows the percentage gain or loss over the twelve month periods ended August 2011 and 2012 for key UK cities.

The regional markets which are experiencing RevPAR gain in terms of performance in the south east include Brighton, Bath, Oxford and Cambridge. The Midlands and Cardiff are experiencing tough trading conditions with Cardiff showing a 4.9% loss in RevPar. In the north, Manchester and York are demonstrating considerable gain in RevPAR, whilst Newcastle and Leeds are showing losses. In Scotland, Aberdeen is enjoying considerable growth, whilst Edinburgh's gain is minimal and Glasgow shows a small loss. This highlights the very mixed fortunes of the regional hotel market and how difficult it is to get an accurate overview of the sector.

The variation in KPI's is due to the type of hotel business that each location attracts. Hotel markets which appeal to both leisure and corporate travellers are those which tend to perform better. If a market is over reliant on either corporate or leisure business then this can be the reason for poor trading performance or that there are simply too many bedrooms and competition for market share is fierce, forcing hotels to reduce rates to attract business.

Provincial occupancy figures (provided by Tri HotStats) for the year to August 2012 as compared to August 2011 show a slight improvement at 69.7%, (+0.3%), ARR is currently £69.40 (+ 0.8%) and RevPar £48.34 (+1.3%), TrevPar is £90.28 (+0.4%) although most importantly GOPPAR is £24.3 (-3.4%). In essence, provincial hotel trade is closely aligned to UK Gross Domestic Product (GDP) and when GDP is negligible against a back drop of cost inflation, profit margins will reduce.

There was an expectation amongst hoteliers that the 'Olympic effect' might improve the fortunes of the regional hotel market. Whilst some did enjoy increases in occupancy and ARRs the business did not extend out to the regional market as predicted. Indeed, the 'Olympic effect' in London itself has been less than anticipated. This year's poor weather and a stronger pound against the Euro has also hindered a recovery in certain leisure markets with travellers preferring to travel abroad.

Since the peak of the regional hotel market in the year to August 2008, sale prices and values have reduced due to the down turn in the economy, the lack of bank funding and the increased returns required by investors. Hotels that are performing poorly, in secondary locations, requiring refurbishment (including any administration sales) have seen the most significant reduction in price. It is often the case that hotels are transacting at, or below, their 'bricks and mortar' value with very little being attributed to the goodwill of the business.

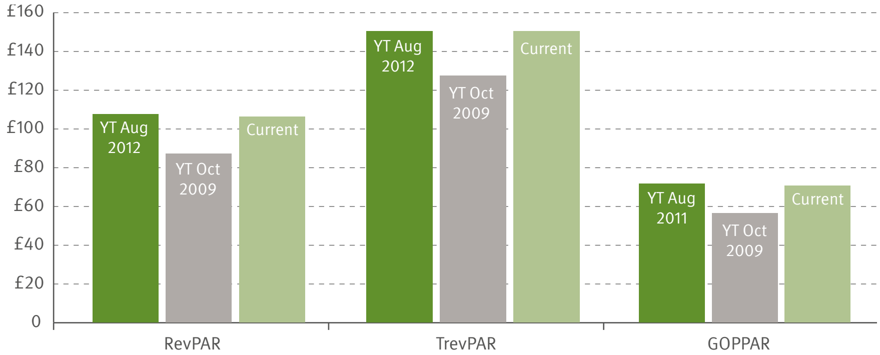
However, hotels in regional locations that are performing well and can clearly demonstrate a robust cash flow and potential upside are attracting a good level of interest and are often achieving premium prices. This demonstrates the polarised or 'two tier market' which currently exists in the regional hotel sector.

Prior to the downturn, hotels were considered undervalued by many investors. Institutional purchasers were attracted to the asset class and, with surplus debt availability, there was unprecedented competition for hotels which increased prices substantially. The independent hotelier was simply unable to compete in this market. Since the downturn, many large corporate owners have come under pressure from lenders to release assets to the market. It is now the lowly geared independent hoteliers, high net worth individuals and overseas buyers who are able to purchase these assets and exploit the softening in prices.

The revised published Q2 2012 figures show a fall in GDP of 0.4% which presents concerns for regional hotels. However, if a hotel is in a strong performing market, is in the right location, is the best in class, with good management all the fundamental elements are there for it to appreciate in value and achieve a premium price.

	RevPAR	TrevPAR	GOPPAR
High Point	£110.71	£151.62	£73.63
Low Point	£89.27	£128.67	£57.69
Current Performance*	£110.71	£151.62	£73.63

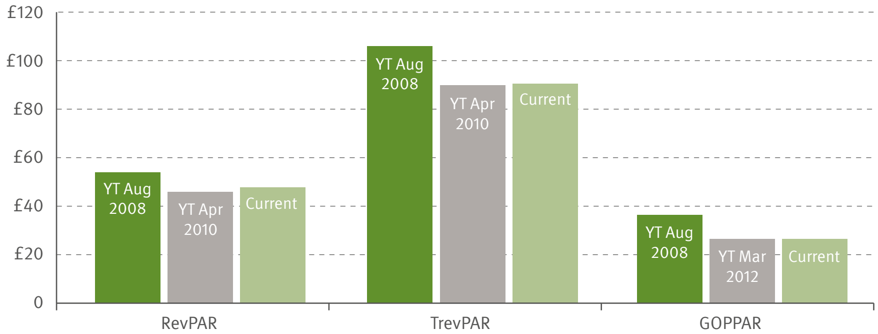
Figure 1.
London Market Performance



Source: Tri HotStats

	RevPAR	TrevPAR	GOPPAR
High Point	£53.73	£105.04	£35.82
Low Point	£45.85	£89.65	£26.02
Current Performance*	£48.01	£90.59	£26.07

Figure 2.
UK Provincial Market Performance

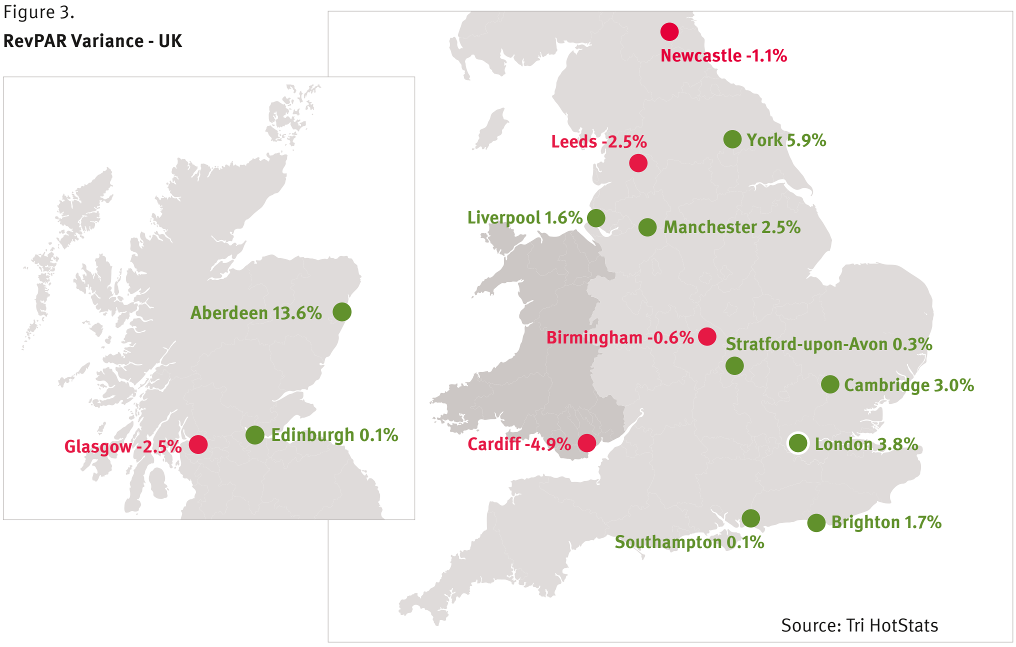


Source: Tri HotStats

12 Months to August: 2012 vs. 2011

UK Provinces:
Occupancy = +0.3% pts
ARR = +0.8%
RevPAR = +1.3%

Figure 3.
RevPAR Variance - UK



Source: Tri HotStats

Key

- **GOPPAR** Gross Operating Profit Per Available Room
- **RevPAR** Revenue Per Available Room
- **TrevPAR** Total Revenue Per Available Room
- RevPAR Gain
- RevPAR Loss

*August 2012

Key Availability & Transactions
Q4 2012

Bovey Castle
North Bovey, Dartmoor National park, Devon TQ13 8RE

64 bedroom hotel with 14 lodges and an 18 hole golf course, set in a 275 acre private estate.

Role: Selling agent
Guide Price: £17.5 million

The Grand Hotel
St Helier, Jersey JE4 8WD

123 bedroom, 5 star hotel with an award winning spa.

Role Selling agent
Guide Price £17 million

Holiday Inn Express Stansted
Thremhall Avenue, London Stansted Airport, Essex CM24 1PY

254 bedroom hotel with six conference rooms located close to London Stansted Airport.

Role: Selling agent
Guide Price: £17 million

Tewkesbury Park Hotel and Golf Club
Lincoln Green Lane, Tewkesbury, Gloucestershire GL20 7DN

82 bedroom, 4 star hotel with conference facilities, leisure club and 18 hole golf course.

Role: Selling agent
Guide Price: £5.95 million

Bailbrook House Hotel
London Road West, Bath BA1 7JD

78 bedroom hotel set in approximately 20 acres of gardens and parkland on the outskirts of Bath.

Role: Selling agent
Guide Price: £6.95 million

The Bell Hotel
The Quay, Sandwich, Kent CT13 9EF

37 bedroom hotel situated within 1.5 miles of Royal St George's Golf Club.

Role: Selling agent
Guide Price: £3.75 million

Key Availability & Transactions
Q4 2012

Sir Christopher Wren's House Hotel and Spa
Thames Street, Windsor, Berkshire SL4 1PX

96 bedroom hotel with historic importance located on the banks of the River Thames.

Role Selling agent
Guide Price £16 million

Redwood Hotel and Country Club
Beggar Bush Lane, Failand, Bristol BS8 3TH

112 bedroom, 4 star hotel with extensive conference facilities, cinema and large leisure club.

Role: Selling agent
Guide Price: £8.5 million

Best Western Parkway Hotel
Cwmbran Drive, Cwmbran NP44 3UW

70 bedroom, 4 star hotel with conferencing facilities and leisure club with indoor swimming pool.

Role: Selling agent
Guide Price: £6 million

Copthorne Hotel Reading
Pingewood, Reading, Berkshire RG30 3UN

83 bedroom hotel situated in approximately 50 acres of grounds and lakes.

Role: Selling agent
Guide Price: £3.75 million

The Queensferry Hotel
St Margarets Head, North Queensferry, Fife KY11 1HP

77 bedroom hotel, situated nine miles from Edinburgh and overlooking the iconic Firth of Forth and Forth bridges.

Role: Selling agent
Guide Price: £3.5 million

Highbullen Hotel & Country Club
Chittlehamholt, Umberleigh, North Devon EX34 9HD

19 bedroom hotel with two cottage complexes, country club and 18 hole golf course.

Role: Selling agent
Guide Price: £2 million

Key Availability & Transactions
Q4 2012

New Bath Hotel
New Bath Road, Matlock Bath, Matlock, Derbyshire DE4 3PX

55 bedroom country house hotel with conferencing facilities set on the edge of the Peak District.

Role: Selling agent
Guide Price: £1.75 million

The Coniston Hotel
70 London Road, Sittingbourne, Kent ME10 1NT

77 bedroom hotel and restaurant with substantial conferencing facilities.

Role: Selling agent
Guide Price: £3.9 million

The Waterloo Hotel
99 Duke's Ride, Crowthorne, Berkshire RG45 6DW

79 bedroom, 4 star hotel set within 1.2 acres in Crowthorne.

Role: Selling agent
Guide Price: £3.95 million

Comfort Inn Arundel
Lyminster Road, Lyminster, Littlehampton, West Sussex BN17 7QQ

53 bedroom purpose built hotel, situated close to South Downs and coastline

Role: Selling agent
Guide Price: £2.2 million

Cotswold House Hotel
The Square, Chipping Campden, Gloucestershire GL55 6AN

29 bedroom boutique hotel situated in the Cotswolds.

Role: Leasing agent
Guide Price: Private

The Carfax Hotel
13-15 Great Pulteney Street Bath BA2 4BS

30 bedroom townhouse hotel situated on one of the most desirable streets in Bath.

Role: Selling agent
Guide Price: £3.25 million

Key Availability & Transactions
Q4 2012

Maids Head Hotel
Tombland, Norwich NR3 1LB

84 bedroom, 4 star hotel located in the historic heart of Norwich city centre.

Role: Selling agent
Guide Price: £7 million

The Maytime
Asthall, Burford, Oxfordshire OX18 4HW

Newly refurbished pub with 6 letting bedrooms in a sought after village in Oxfordshire.

Role: Selling agent
Guide Price: £750,000

Weston Manor Hotel
Weston on the Green, Oxfordshire OX25 3QL

36 bedroom hotel with a 2 AA rosette restaurant, set in 12 acres of landscaped gardens.

Role Selling agent
Guide Price £3.9 million

The Westmead Hotel
Redditch Road, Hopwood, Birmingham B48 7AE

56 en suite bedroom hotel with six conference rooms, situated within 2.2 acres and approximately 9 miles from Birmingham city centre.

Role: Selling agent
Guide Price: £2.5 million

A TASTE OF LONDON

Hilton London Wembley
Lakeside Way, Wembley, Middlesex HA9 0BU

361 bedroom hotel with extensive conference, banqueting and food and beverage facilities, adjacent to Wembley Stadium.

Role: Selling agent
Guide Price: £70 million

The Academy
21 Gower Street, London WC1E 6HG

49 bedroom hotel in a central London location.

Role: Selling agent
Guide Price: £11.5 million

HOTEL PROPERTY SPECIALISTS

Knight Frank's dedicated hotel division established itself as an independent department in 1952. It has since developed into a market leader in this specialist sector, and has unrivalled access to national and international capital flows and hotel specific market intelligence through the firm's global network.

Hotel expertise

The experience held by our core team of UK based specialists covers the entire spectrum of hotel genres, from branded to independent to lifestyle and country houses. Our team is reputed for the trusted relationships we build with clients, offering the full breadth of services; from sales and acquisitions to valuations and development.

National and international coverage

National hotel sector coverage is delivered through our core team based at the firm's headquarters in the West End of London, and draws support as necessary from our extensive regional office network. The International hotel sector is coordinated through London and operates throughout Europe, the Middle East, Africa, North and South America, Australasia and India.

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