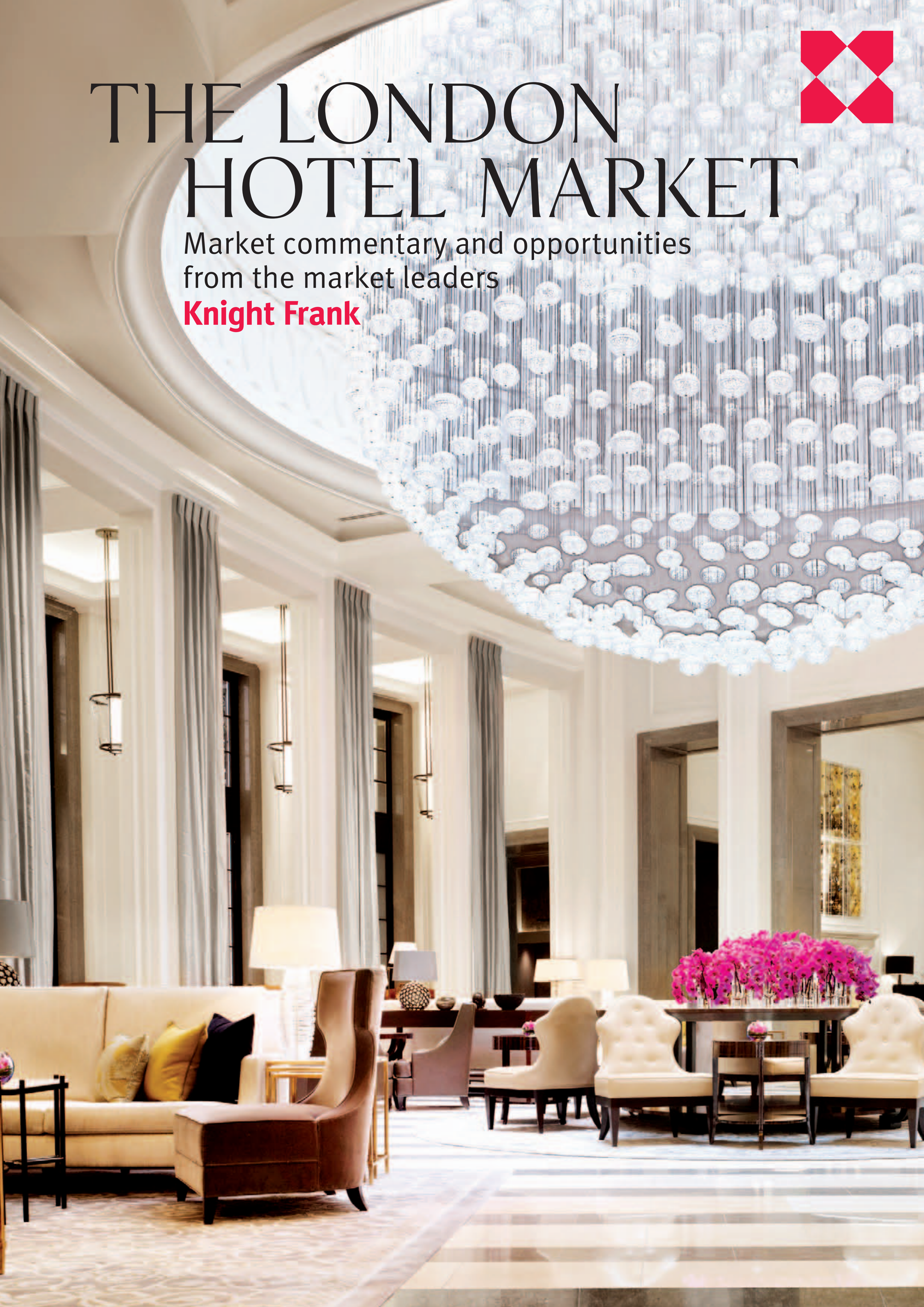
THE LONDON HOTEL MARKET

Market commentary and opportunities from the market leaders

Knight Frank



THE LONDON HOTEL MARKET

2012 Market Commentary

London is one of the world's leading financial and cultural centres exerting a powerful influence over worldwide commerce, politics, education, media, fashion and the arts, which all contribute to its status as a global city and prime leisure and business destination. One of the great world cities, London benefits from a vibrant hotel market commensurate with the city's international image. It is Europe's business hub and is the most visited city in the world. The capital appeals to both high spending business and leisure visitors as a result of the city's continuing appeal as a cultural and commercial destination.

According to the International Passenger Survey (IPS) conducted by ONS across the full year of 2011, visits to the UK grew 2.9 per cent and earnings increased by 6.1 per cent over 2010, to reach a new record of £17.9 billion. Leisure visits rose 2.4 per cent from 11.7million to 12.0 million, another new record. Business visits rose 6.1 per cent to 7.2 million, and those to visit friends or relatives rose 4.9 per cent to 8.8 million. Quarter 4 2011 saw continued growth in business and visits to friends or relatives although holiday visits fell slightly by 2.6 per cent from quarter 4 2010.

During the course of 2011 the UK hotel market demonstrated a continued improvement with a growth in Revenue Per Available Room (RevPAR) of 4.1% over 2010, mainly driven by a 3.8% growth in Average Room Rate (ARR). The level of demand, measured by Average Room Occupancy (ARO) remained largely unchanged.

As in previous years, the uplift in the operational performance of UK hotels was mainly driven by the strength of the London market which also saw profitability levels improving throughout the year.

Overall, London proved more resilient to the economic downturn than other UK centres and has performed significantly better than other European capitals during the global economic downturn. Overall, the main demand generating drivers in 2011 included a mix of sporting, cultural and political events such as London Fashion Week in February, the state visit by the US President Barack Obama in April, the RHS Chelsea Flower Show and the Champions League Final at Wembley in May. Compared to 2010, the capital's hotels recorded a 6.1 % growth in profitability which was mainly driven by a 7.0% increase in ARR. See Figure 1.

The capital recorded a second consecutive year of profitability growth in 2011 which was mainly driven by a strong operational performance during the second quarter of the year when London hotels attracted record breaking demand and achieved occupancy of 89.3% in June and 92.4% in July, complemented by record ARR's. This is illustrated in Figure 2.

The prospects for continued growth in the capital look strong. London & Partners, the official promotional organisation for London, forecasts that 2012 will be a bumper year for leisure tourism in the capital. The figures from Tourism Economics indicate that 12.7m overnight leisure visitors, both overseas and domestic, are expected to come and stay in London during 2012.

As well as helping to boost visitors to London in 2012, the much anticipated Olympic and Paralympic Games is estimated to expose London to an estimated global audience of 4 billion people. This is one of the factors that has resulted in forecasts for 2013 - 2015 being equally encouraging for London. The exposure through the Olympics is anticipated to help sustain 2012 levels of visits into 2013 and will then aid it to grow as much as 11% over the following two years, resulting in around 14.1m leisure visitors coming to the capital in 2015. See Figure 3.

There have been several high profile hotel openings in 2011 and 2012 to date to including the W London, Leicester Square, Corinthia Hotel, 45 Park Lane, Bulgari Hotel and Renaissance St Pancras, all of which have added to the reputation of London as a top international destination. Other anticipated high profile openings include the InterContinental St James and the Shangri-La Hotel.

Transaction activity in London remains limited owing to the very restricted supply of available property and strong underlying trading fundamentals. London's relative resilience and the prospect of a sustained economic recovery make the capital one of the most sought after hotel property markets.

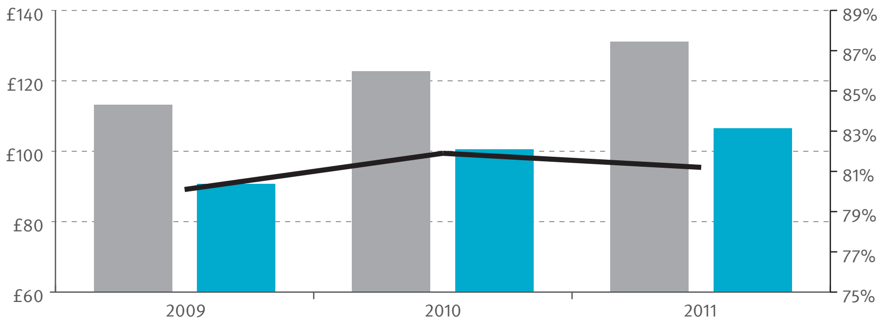
St. Pancras Renaissance London Hotel

The Hoxton

Corinthia Hotel London

Computer generated image showing the Shangri-La Hotel, at The Shard, London.

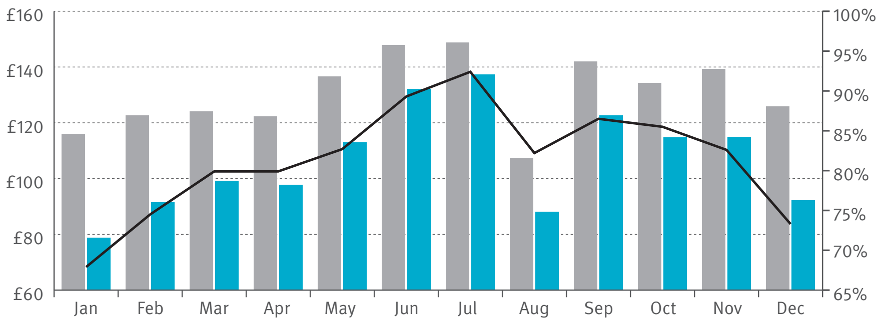
Figure 1.
Operational London Hotel Market 2009 to 2011



Source: Tri HotStats

	ARR	RevPAR	Occ%
2009	£113.23	£90.72	80.1%
2010	£122.73	£100.52	81.9%
2011	£131.15	£106.52	81.2%

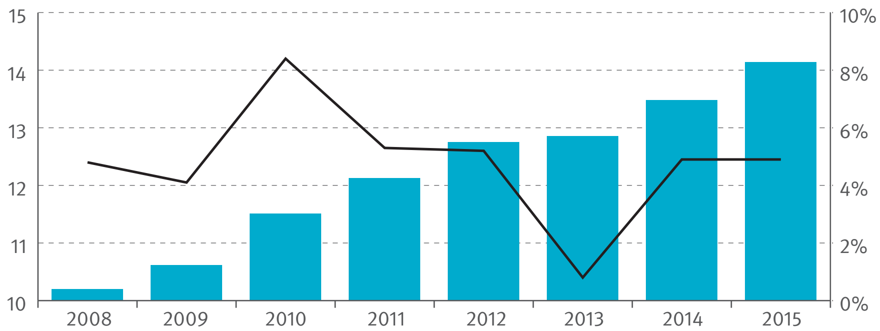
Figure 2.
Operational London Hotel Market in 2011



Source: Tri HotStats

	ARR	RevPAR	Occ%
Jan	£116.0	£78.8	67.9%
Feb	£122.6	£91.4	74.5%
Mar	£124.1	£99.1	79.9%
Apr	£122.2	£97.7	79.9%
May	£136.5	£112.9	82.7%
Jun	£147.8	£132.1	89.3%
Jul	£148.7	£137.3	92.4%
Aug	£107.2	£88.1	82.2%
Sep	£141.9	£122.7	86.5%
Oct	£134.3	£114.8	85.5%
Nov	£139.2	£115.0	82.6%
Dec	£125.8	£92.2	73.3%

Figure 3.
Actual and Anticipated Overnight Leisure Visits to London



Source: Tourism Decisions Metric by Tourism Economics 2012

	Volume	% change
2008	10,200	4.8
2009	10,617	4.1
2010	11,512	8.4
2011	12,125	5.3
2012	12,754	5.2
2013	12,856	0.8
2014	13,484	4.9
2015	14,143	4.9

Key Availability & Transactions
Q3 2012

Club Quarters, St Paul's

24, Ludgate Hill, London, EC4M 7DR

265 letting bedrooms and suites, situated close to St Paul's Cathedral

Role Selling agent
Guide Price Upon application

Club Quarters, Gracechurch

7 Gracechurch Street, London EC3V 0DR

203 letting bedrooms and suites in the heart of London's financial district

Role Selling agent
Guide Price Upon application

Grand Plaza

42 Princes Square, London W2 4AD

198 serviced apartments in prime Central London, located close to Hyde Park

Role Selling agent
Guide Price £85 million

The Colonnade Hotel

2 Warrington Crescent, London W9 1ER

43 bedroom hotel in the high value residential area of Little Venice

Role Selling agent
Guide Price £11.75 million

The Academy Hotel

21 Gower Street, London WC1E 6HG

49 bedroom hotel in a central London location

Role Selling agent
Guide Price £11.5 million

Ten Manchester Street

8-12 Manchester Street, Marylebone, London W1U 4DG

45 bedroom hotel, close to Marylebone High Street

Role Selling agent
Guide Price £20 million

Key Availability & Transactions
Q3 2012

Holiday Inn Express London 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

Holiday Inn Express London Croydon
1 Priddy's Yard, Croydon CR0 1TS

156 bedroom hotel with eight conference rooms in the centre of Croydon

Role Selling agent
Guide Price £13 million

The Knightsbridge Green Hotel
157-159 Knightsbridge, London SW1X 7PD

31 bedroom hotel in an excellent Knightsbridge location

Role Selling agent
Guide Price £17.5 million

The Cromwell
108-112 Cromwell Road, London SW7 4ES

85 bedroom hotel with restaurant, conference room and gym in South Kensington

Role Selling agent
Guide Price £20 million

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

Leicester Square
Leicester Square, London WC2

Freehold site consented for 243,000 sq ft mixed use scheme, including 245 bedroom hotel, 35 residential apartments and associated uses

Role Selling agent
Guide Price Confidential

Key Availability & Transactions
Q3 2012

The Cranley
8,10 & 12 Bina Gardens, London SW5 0LA

39 bedroom hotel with individually decorated en-suite bedrooms, close to South Kensington

Role Selling agent
Guide Price £14 million

Royal Park Hotel
3 Westbourne Terrace, Hyde Park, London W2 3UL

48 bedroom hotel, close to Paddington Station and Hyde Park

Role Selling agent
Guide Price £15.5 million

Euston Square Hotel
152-156 North Gower Street, London NW1 2LU

75 bedroom hotel, close to Euston station

Role Selling agent
Guide Price £17.5 million

The Hoxton
81 Great Eastern Street, London EC2A 3HU

208 bedroom, design-led hotel in Shoreditch

Role Selling agent
Guide Price £70 million

Durley House Hotel
115 Sloane Street, London SW1X 9PJ

11 suites, close to Sloane Square

Role Selling agent
Guide Price Upon application

Great Scotland Yard
3-5 Great Scotland Yard, London SW1A 2HW

Planning consent for a 250 bedroom hotel

Role Acquisition agent
Guide Price Confidential

Key Availability & Transactions
Q3 2012

AVAILABLE

Tophams
Ebury Street, London SW1W 0LU

50 bedroom hotel, close to Victoria Station and Belgravia

Role Selling agent
Guide Price £16.5 million

SOLD Q1 2012

City Pride
Marsh Wall, London E14 8JH

Site consented for a 203 key 5*hotel and 430 residential apartments

Role Selling agent
Guide Price £40 million

ACQUIRED (subject to contract)

Devonshire Court
1 Devonshire Street, London W1W 5DB

62 serviced apartments

Role Acquisition agent
Guide Price Confidential

AVAILABLE

Park Inn Watford Hotel
30-40 St Albans Road, Watford, Hertfordshire WD17 1RN

100 bedroom hotel close to town centre

Role Selling agent
Guide Price £7 million

A TASTE OF THE COUNTRY

AVAILABLE

Bovey Castle
Dartmoor National Park, Devon TQ13 8RE

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

Role Selling agent
Guide Price £17.5 million

AVAILABLE

Maids Head
20 Tombland, Norwich, Norfolk NR3 1LB

84 bedroom hotel, close to city centre

Role Selling agent
Guide Price £7 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.

Hotel Department Primary Contacts

Dominic Mayes
Head of Hotel Division

T +44 (0)20 7861 1086
dominic.mayes@knightfrank.com

Ian Elliott
Head of Hotel Valuations & Consultancy

T +44 (0)20 7861 1082
ian.elliott@knightfrank.com

Alex Sturgess
Partner, Hotel Division

T +44 (0)20 7861 1164
alex.sturgess@knightfrank.com

Henry Jackson
Partner, Hotel Division

T +44 (0)20 7861 1085
henry.jackson@knightfrank.com

Tim Mantle
Surveyor, Hotel Division

T +44 (0)20 7861 1249
tim.mantle@knightfrank.com

Knight Frank Global Network

London
Belgravia
Canary Wharf
Chelsea
City
Fulham
Hampstead
Kensington
Knightsbridge
Marylebone
Mayfair
Notting Hill
Richmond
Riverside
St John's Wood
Wandsworth
Wapping
West End
Wimbledon
Winchester

Regional
Aberdeen
Ascot
Basingstoke
Bath
Beaconsfield
Berkhamsted
Birmingham
Bristol
Cardiff
Cirencester
Cheltenham
Cobham
Edinburgh
Esher
Exeter
Glasgow
Guildford
Harrogate
Henley
Hereford
Hungerford
Lauder
Leeds
Liverpool
Manchester
Milton Keynes
Newbury
Newcastle upon Tyne
Oxford
Sheffield
Sevenoaks
Sherborne
Stratford-upon-Avon
Sutton Coldfield
Tunbridge Wells
Virgina Water
Worcester

International
Australia
Bahrain
Belgium
Bermuda
Botswana
Brazil
Cambodia
Canada
Caribbean
Chile
China
Czech Republic
France
Germany
Hungary
India
Indonesia
Ireland
Italy
Kenya
Malawi
Malaysia
Monaco
The Netherlands
New Zealand
Nigeria
Poland
Portugal
Romania
Russia
Singapore
Spain
South Africa
South Korea
Tanzania
Thailand
UAE
Uganda
Ukraine
USA
Vietnam
Zambia
Zimbabwe

Front cover image: The Lobby Lounge, Corinthia Hotel London

KnightFrankHotels.com

Knight Frank Newmark Global

1876 JULY12