UK HOTEL MARKET

2023 SNAPSHOT

CHRISTIE & CO

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UK HOTEL MARKET OVERVIEW

In this concise overview, we take a look at the 2023 key trading and development indicators for the UK's top 10 hotel markets, highlighting common directional trends as well as market-specific dynamics which marked the past year. The top 10 cities reviewed are London, Bristol, Birmingham, Manchester, Liverpool, Newcastle, Glasgow, Edinburgh, Cardiff and Belfast.

The country's upturn in 2022 was somewhat more nuanced for London, Manchester, Glasgow and Bristol with RevPAR only marginally above that of 2019. This softer recovery in these major hubs, was primarily caused by a slower return of corporate and event-led demand in a still uncertain economic environment, combined with somewhat subdued levels of international tourist visitation, impacting both room nights and hotel spend.

Comparing 2023 to 2022, the recovery is evidenced by a significant increase in RevPAR across the 10 markets, albeit to varying degrees, placing 2023 performance at a premium of between 14% and 50% over 2019. While we highlighted a prolonged staycation trend in the first half of 2023, which continued to support the recovery in regional markets, this faded in the second half of the year as domestic travellers opted to travel abroad but was replaced by government contracts both increasing occupancy and reducing available stock. Conversely, the persistent softer business demand affected the recovery of those corporate-dependent markets.

The strong inflationary pressures experienced through 2022 and the first half of the year eased only towards the end of the year, impacting travel demand and disposable income; yet our RevPAR analysis shows that despite occupancy still lagging 2019 levels in most markets, ADR increases were well absorbed by travellers, allowing hoteliers to pass on cost premiums to maintain a healthy conversion to profit.

On the supply side of the equation, the rise in interest rates coupled with high inflation impacted the pre-pandemic pipeline of hotels, with many projects being significantly delayed or cancelled altogether, thus facilitating the recovery of hotel KPIs, particularly in supply-constrained markets.

However, the development pipeline remains robust with circa 26,000 keys planned to enter the top 10 cities by 2030, with levels ranging from 3.6% of current supply in Newcastle to 23.8% in Belfast. For some of these cities, these additions confirm their attractiveness to domestic and international investors, while for others they underpin increased investor confidence in widening their investment horizon to key markets outside London.

Nonetheless, this does not diminish the attractiveness of the capital, which is set to add a further 9.6% of supply by 2030 and, according to Bloomberg, become the city with the most hotel rooms in the world next year.

Transactional activity slowed down further in 2023, closing the year at a new record-low over the last decade, marginally under that of 2020. Our analysis highlights that transaction yields softened across the top 10 markets due to the soaring cost of borrowing and pressures on hotel P&Ls and development costs, thus affecting all parts of the investment equation, despite strong trading.

The HM Treasury's latest forecast from February 2024 for the UK economy expects inflation to return to the 2.0% target by the end of the year. This should positively ease the cost of debt and consolidate hotels' profit position, ultimately favouring increased transactional activity and a gradual sharpening of yields through 2024 and 2025.

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Sources: HM Forecast for the UK Economy February 2024, AM:PM, STR, Christie & Co Research & Analysis

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GLOSSARY

ADR: Average Daily Rate

c.: circa

CAGR: Compound Annual Growth Rate

FY: Full Year

i.e.: For example

k: Thousand

KPI: Key Performance Indicator

m: Million

Occ: Occupancy

ppts: Percentage Points

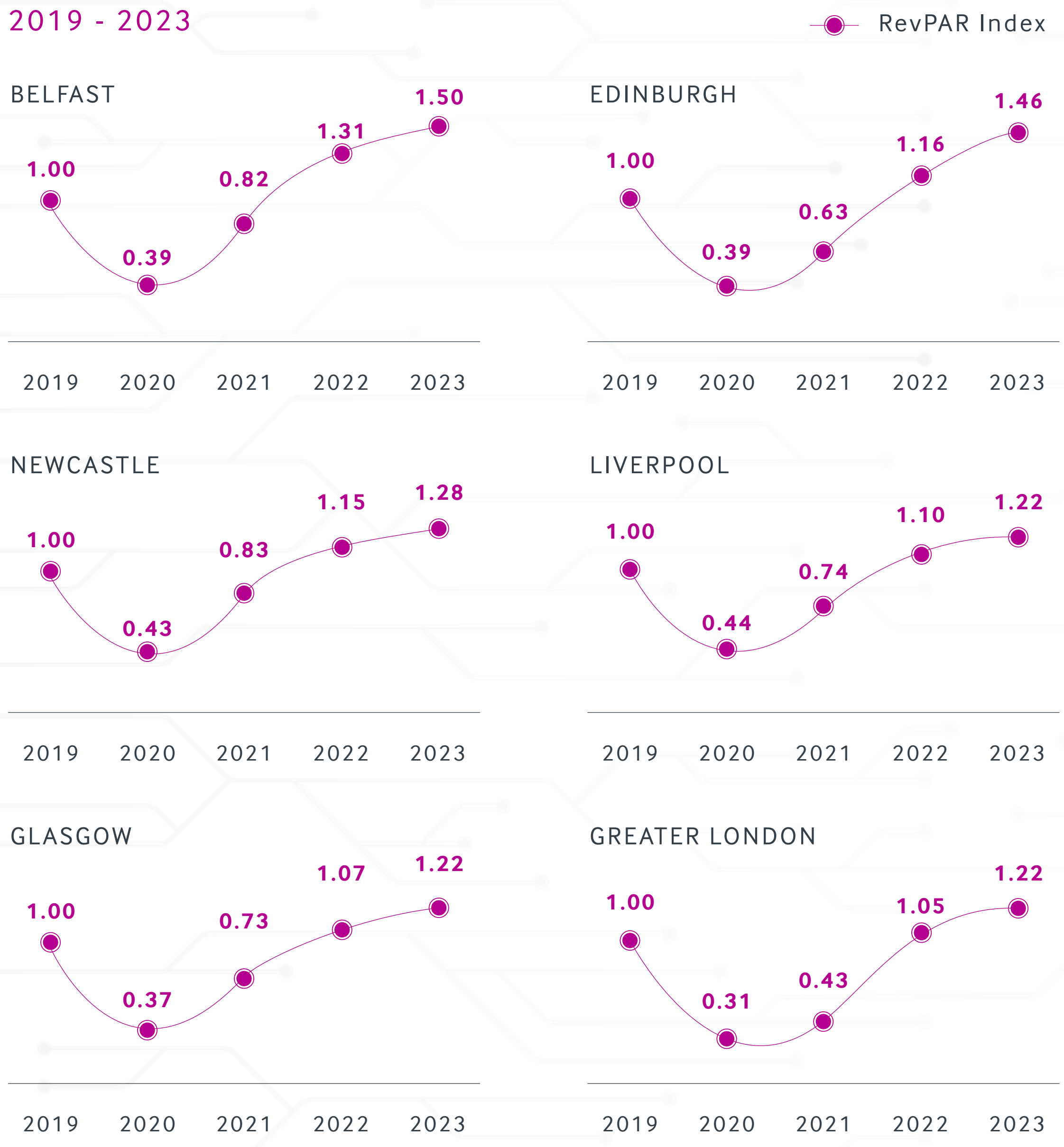
RevPAR: Revenue Per Available Room (=ADR x Occupancy)

YoY: Year on Year

YTD: Year to Date

HOTEL MARKET KPI TRENDS

2019 - 2023



Sources: STR, Christie & Co Research & Analysis

RevPAR has experienced a significant resurgence since the pandemic, with an average increase (non-weighted) of 26.4% across the 10 markets in 2023 compared to 2019.

This growth is primarily due to a marked elevation in ADR, while occupancy rates have returned to historical levels yet in the context of augmented supply. The top 10 sample markets have shown real growth against the UK CPI reaching a cumulative 21.1% increase since 2019.

Belfast stands out with RevPAR increasing by 50.1% between 2019 and 2023, caused by a significant rise in both occupancy (+5.8 ppts vs 2019) and ADR (£108.1 compared to £77.8 in 2019). This strong result was facilitated by static supply levels and augmented investment in the city, facilitated by the Windsor Framework, which allows Northern Ireland to maintain a presence in both the UK and the EU.

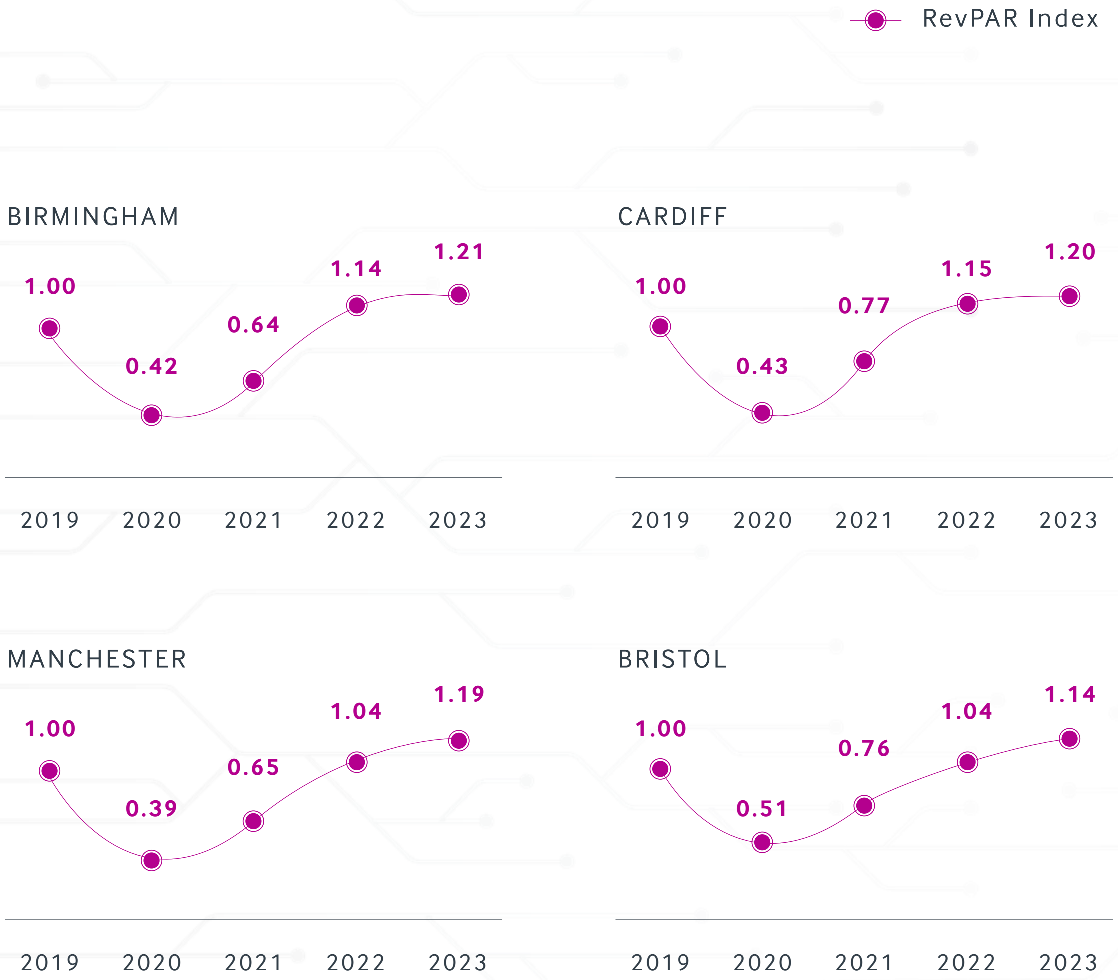
Edinburgh was the second-best performer with a 45.5% increase in RevPAR, due to a delayed yet steep jump in ADR performance together with a marked push of demand. In third place: Newcastle, (albeit from a low base with the lowest RevPAR of the sample), saw a 28.3% increase in RevPAR between 2023 and 2019, driven by a 4.0 ppts increase in occupancy and a 21.7% uplift in ADR.

Liverpool's RevPAR uplift between 2019 and 2023 exceeded that of its closest neighbour, Manchester. Liverpool experienced a sizeable RevPAR growth of 22.4% during the period, led by a marked step-up in ADR of 24.3% offsetting the 1.2 ppts occupancy shortfall against 2019 caused by the weak corporate demand.

Despite being a rather corporate market, Glasgow saw a strong recovery in 2021 with the hosting of COP 26 and four matches of the EURO 2020, and continued to grow from there, closing 2023 with RevPAR exceeding 2019 by 21.9% boosted by a 25.1% premium in ADR over pre-Covid level.

HOTEL MARKET KPI TRENDS

2019 - 2023



Sources: STR, Christie & Co Research & Analysis

Cardiff and Birmingham experienced a slower recovery between 2019 and 2023 compared to other markets in the sample due to their higher reliance on corporate and domestic leisure demand. By the end of 2023, the two cities still featured an average occupancy rate 2.3 ppts lower than 2019, while their ADR elevation was below the sample average of 27.0%.

The earlier and stronger rebound between 2021 and 2022 caused growth in 2023 to appear shallower in Birmingham and Cardiff. RevPAR in the top 10 markets grew by an average of 12.6% between 2022 and 2023, while Cardiff and Birmingham only experienced half this growth (4.7% and 6.2% respectively). The cities' heavy reliance on corporate and event-led demand restricted occupancy growth. The return of significant events in Birmingham, such as the Conservative Party Conference in 2024, is expected to push occupancy rates above those of 2019.

Conversely, the main underperformers, featuring negative real growth, were Manchester and Bristol. The large injection of supply in Manchester (+18.0% on 2019 supply) somewhat capped the climb of RevPAR to 19.0% over the period 2019-2023. Occupancy was largely responsible for holding back RevPAR, with 2023 ending 0.7 ppts lower than in 2019. Bristol displayed a similar pattern, albeit with more pronounced effects leading to a RevPAR enhancement of only 14%, thus well below the rest of the sample average and some 7.2% behind the UK CPI index.

IMPACT OF SUPPLY ON PERFORMANCE

Soaring interest rates combined with inflationary pressures on operational margins and hotel development costs have all led to a decline in construction projects and a slowdown in hotel openings. Across the 10 markets, there were 44 new hotels opened and 21 hotels closed, resulting in a net supply* increase of 3,819 rooms.

Compared to 2019, the number of hotels fell by 54 properties, whilst the room stock increased by 15,812 rooms.

By the end of 2023, Manchester, Glasgow, and Bristol recorded the highest percentage growth in room stock compared to 2019 levels, which somewhat tempered the growth of RevPAR over the same period. This led to Manchester, Glasgow, and Bristol ending with some of the weakest RevPAR movements in the sample.

However, despite the large supply injection, RevPAR growth was well above expectations, demonstrating the ability of these markets to absorb new supply whilst only mildly impacting performance, indicating strong and growing travel demand.

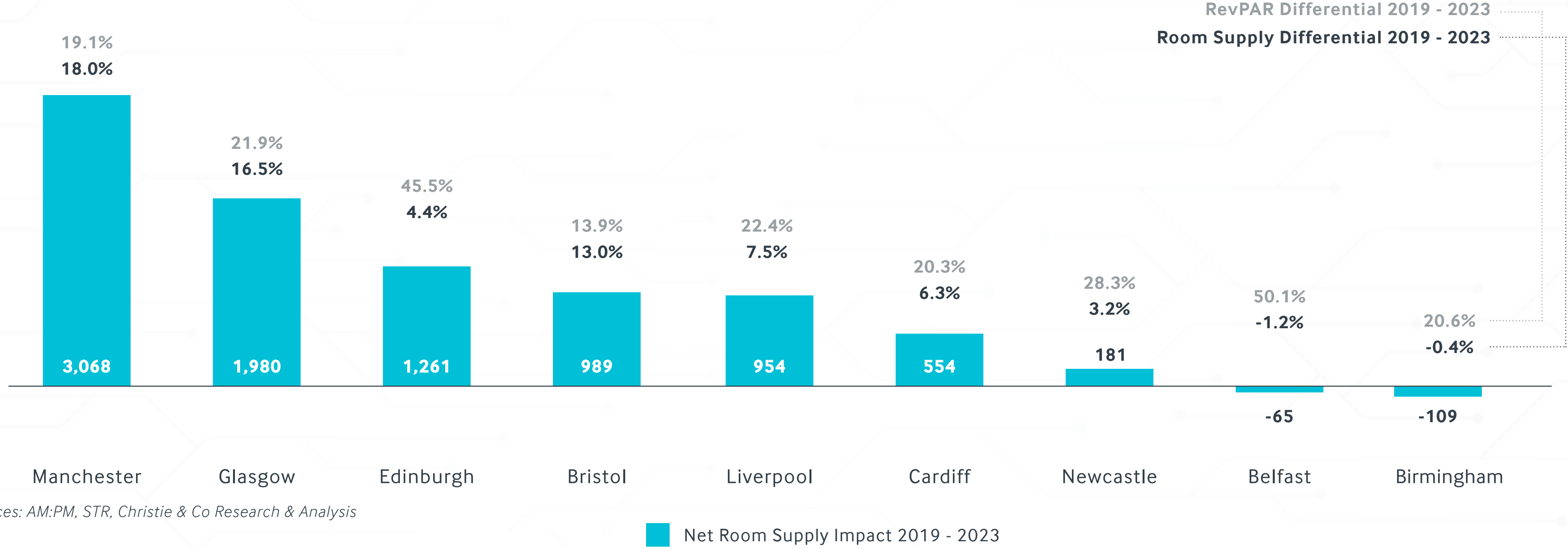
In contrast, Belfast experienced a 1.2% contraction of its supply during the same period, resulting in a 5.8 ppts increase in occupancy compared to 2019, placing the Northern Ireland capital in the lead with the most significant relative RevPAR increase at 50.1%.

Birmingham was the only other market to see a marginal decrease in room supply of 0.4% between 2019 and 2023 supporting a 20.6% RevPAR enhancement on 2019 despite the somewhat fragile corporate demand return stated previously.

Greater London experienced the largest expansion of its room stock, with an additional 8,124 rooms since 2019, although in relative terms equating to only 6.0% of 2019 supply. [...] (Not shown in graph)

*Net supply = openings - closures

REVPAR VS ROOM SUPPLY EVOLUTION 2019 - 2023



Sources: AM:PM, STR, Christie & Co Research & Analysis

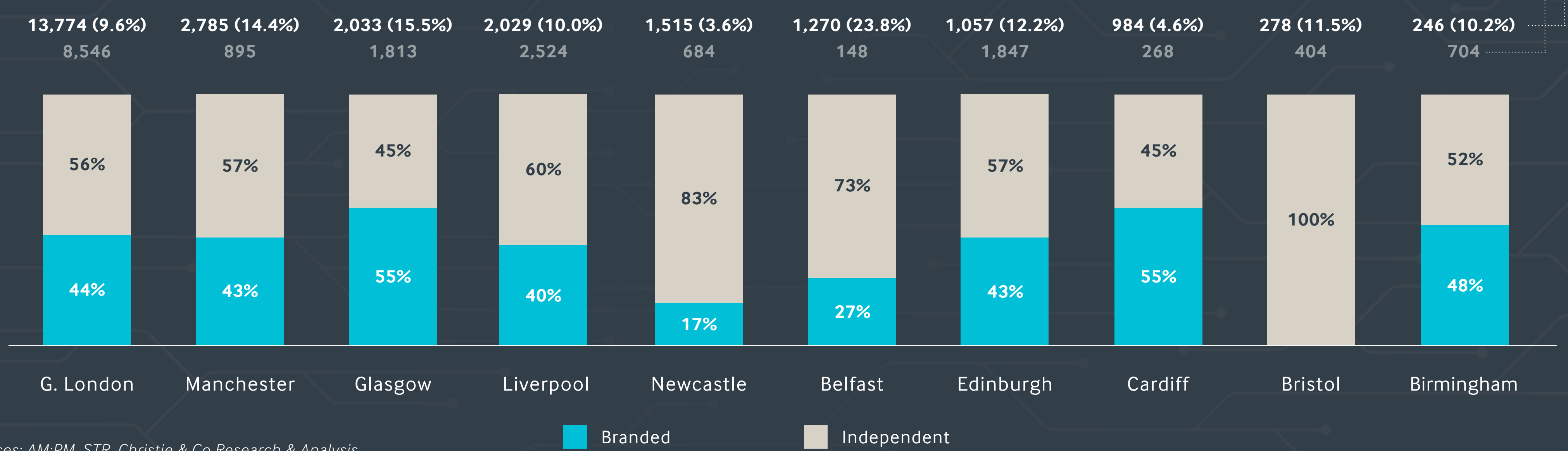
ACTIVE PIPELINE & BRAND CONSOLIDATION

The reported active pipeline highlights the progress of some markets in their branding journey as ageing supply is converted and new hotels are planned. Greater London is expected to add the largest number of rooms by 2027. However, in proportion of its current supply, Belfast is set to lead, adding 23.8% to the current stock, followed by Glasgow, Manchester, and Edinburgh. Newcastle and Cardiff are projected to add only 3.6% and 4.6% of the current supply, respectively.

On average (non-weighted), 37.0% of the supply across the sample is expected to be branded, yet with material differences within the sample. Bristol's pipeline will have no branded supply, **whilst in Newcastle less than 1 in 5 pipeline rooms will be branded. Around half the new stock in Cardiff, Glasgow and Birmingham will be branded,** a sign of their intention to transition and emerge as increasingly international destinations. Glasgow's pipeline is expected to be 55% branded, indicating a growing maturity in the market driven by the strong growth in RevPAR and the increase in international and domestic demand. Similarly, Cardiff and Birmingham's active pipelines also show a high percentage of branded pipeline, which is supported by the current lack of supply. The entrance of new branded supply will increase visibility and benefit these markets with the expected return of corporate demand. It is reported that Newcastle and Bristol have the lowest branded pipeline due to the low maturity of the market and dependence on the domestic market.

Approximately 17.8k rooms have been cancelled or deferred across the sample due to the strong rise of inflation and cost of financing. Liverpool, Cardiff, Bristol, and Birmingham have had more rooms deferred than their current active pipeline. This shows how non-primary markets have had projects abandoned in recent years due to various headwinds. The recent slowdown in inflation and the potential for rate cuts by the Bank of England suggest that some projects may return to the active pipeline.

ACTIVE AND DEFERRED PIPELINE



Sources: AM:PM, STR, Christie & Co Research & Analysis

Active Pipeline is defined as hotel projects in final planning or under construction
Only hotels where the approximate opening date is known were used for this analysis

UK HOTEL INVESTMENT

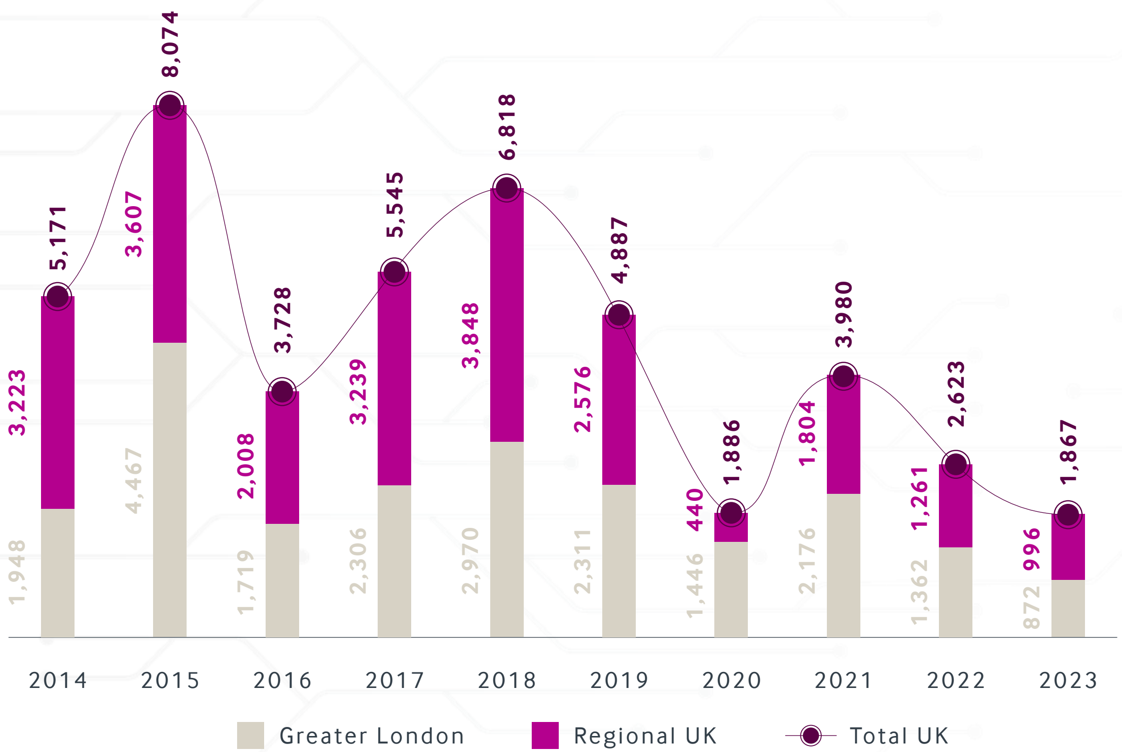
UK HOTEL INVESTMENT

JEREMY JONES
Head of Brokerage - Hotels

We have been really encouraged by the outcome of a number of recent sales processes of substantial Greater London and regional hotel assets. Having convinced the sellers to adopt our recommended pricing, we have been able to engage with both domestic and international buyers who have participated in these competitive processes.

Amongst these parties have been fully-funded cash buyers but also established hotel operators who have secured competitive deliverable debt terms from both traditional and alternative debt providers.

LONDON VS REGIONAL UK TRANSACTIONS (£M)



Sources: As of March 8, MSCI Real Capital Analytics https://app.rcanalytics.com/, Christie & Co Research & Analysis

The disconnect between buyers and sellers and their respective approaches to asset pricing remains; however, there is evidence that the gap is narrowing which will allow deals to accelerate. Pressures on the P&L, particularly from energy costs, have eased, allowing for a gradual return to healthy profit conversion of improved sales. Furthermore, the cost and availability of debt have started to reflect the easing of inflationary pressures and potential interest rate cuts. We anticipate, as a result, increased transactional activity in the near future.

In 2023, UK hotel transactions worth £1,867m were completed, representing a 28.9% deterioration from 2022 and a 61.8% decline from 2019. The decrease in transaction volume was likely due to various headwinds encountered over the last two years, including increasing inflation putting pressure on P&Ls and the rise of interest rates affecting the cost of transactions.

Although there is strong demand from investors, the market continues to suffer from a shortage of opportunities. The capital continued to foster investors' appetite with Greater London concentrating nearly half of the total UK transaction volume (47%).

Several significant transactions took place recently, including Archer Capital's acquisition of two Hoxton hotels in Shoreditch and Holborn for approximately £214m, Sun Venture's purchase of Hyatt Place London City East for around £85m, and Firmdale Hotel's acquisition of the Covent Garden Hotel's freehold from CBRE Investment Management for approximately £55m.

Regional UK was boosted by several large-scale transactions, including Henderson Park's reported £85m acquisition of the 241-room Waldorf Astoria Edinburgh - The Caledonian, Fattal Hotel's purchase of The Grand Hotel Brighton for approximately £60m, and Pandox's takeover of the Hilton Belfast for £39m.

In 2023, cross-border investors accounted for 41.2% of transaction value (11.2 ppts above 2022), showing the strong return of foreign buyers supported by a weaker pound sterling. Whilst 2022 was marked as a record year for American investors due to the weakening of the British pound against the US dollar, the reversal of this situation to a less favourable exchange rate in 2023 caused a decrease in acquisitions from Americans who were somewhat replaced by Asian and European buyers.

CHRISTIE FINANCE PERSPECTIVE

Although costs have been passed on to consumers through above-inflation price rises, the current and projected lack of strong economic growth is expected to make passing price increases to consumers increasingly difficult over the short- to medium-term. Therefore, businesses will need to implement robust cash and cost management to protect their margins and ensure their survival.

In contrast to the 13-year period prior to May 2022, during which the BoE interest rates were 1% or lower, higher interest rates are now expected to persist. It is recommended that owners and investors engage proactively with their existing funders and advisors, especially those who are refinancing, refurbishing, developing, or acquiring within the next 12-18 months.

The hotel funding sector is highly competitive for well-located, high-quality assets with strong operational management teams. However, due to the current high interest rate environment, due diligence requirements, and data analysis from purchasers, investors, developers, and funders have become more stringent.

With sector confidence remaining positive, 57% of leaders feel optimistic about their business prospects (CGA Survey by NIQ). We anticipate that owners/operators will demonstrate their proven resilience and find novel ways to encourage travel, shrewdly manage finances, adapt to evolving consumer behaviours, and plan for the future challenges presented by the ever-increasing sustainability requirements and associated government regulations.

Christie Finance has seen that variable rate margins have largely remained at c.2.0% to 4.0% above base rate for most lenders, and it is anticipated that the Bank of England will cut rates as inflation moves toward the Government's target of 2%.

CASE STUDY

70+ BED SPA HOTEL LOCATED IN DERBYSHIRE:

- Refinance of the asset is valued at £11m+
- Engaged with numerous lenders, which were all keen to lend against the hotel
- Through this multi-lender engagement, Christie Finance were able to obtain indicative terms of 1.39% above base

GARY HARDEN
Director, Corporate Debt Advisory
Christie Finance

"Transaction enquiry volumes are up compared to 2023 but speed remains slow. Planning and preparation of detailed sales pack and/or funder proposal will help deal speed, strengthen negotiation positions and demonstrate willingness to complete."

+28% Offers of finance secured in 2024 vs 2023

+40% Aggregate value of debt secured in 2024 vs 2023

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