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UK hotels forecast:
the bigger the boom, the bigger the bust

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PricewaterhouseCoopers

After five years of unbroken revenue growth, September ushered in a period of volatile trading for the sector. The deteriorating economic environment and travel outlook marks a change of fortune for UK hotels with buyers, not sellers, of hotel rooms very much in the driving seat again. In a classic boom and bust sector, it’s happening again.

Contents

Key findings

“Savings in travel and changing behaviour will be a key concern for corporates. Many will look to downgrade tickets on trains and flights and reduce spending on hotels”

Samantha van Leeuwen,
Head of Hotels Procurement,
PricewaterhouseCoopers,
October 2008

The ricochet from continuing turmoil in the financial markets, the sharp global economic slowdown, and negative consumer and corporate sentiment means that the outlook for travel and hotel demand has deteriorated significantly in recent weeks. The prospects for bookings in 2009 is not encouraging and across the country, domestic and key overseas travel markets for corporate, group and transient leisure travel will be impacted hard.

The UK economy contracted by 0.5 per cent in Q3 2008, the first absolute reduction in 16 years and hotel operators are now staring into the face of a recession. Although PricewaterhouseCoopers’ central forecast for the UK economy expects GDP to grow overall by 1 per cent this year, it is likely to contract by 0.5 per cent in 2009, despite the recent interest rate cut.

In the hotels sector average occupancy rates continue to soften across the country, falling by 4.1 percentage points in September alone, compared to 2007.[1] 2008 full year occupancy is likely to be 1.7 percentage points lower than 2007. In London, occupancy could end 2008 1.6 percentage points lower than last year and by the end of 2009 could be more than ten percentage points lower than 2007. IHG, Starwood, Marriott and Accor have all publicly warned of difficult trading and pressure on margins and profits, but privately almost all hoteliers acknowledge the challenge that lies ahead.

Average daily room rates continued to grow in the first three quarters of 2008, supported by strong first half year trading and robust corporate rate negotiations agreed back in 2007. In fact these tailwinds will mean a 2.2 per cent gain for the UK as a whole in 2008 and a 5.4 per cent gain in London. However, the aggressive rate rises of the past are over and the new negotiating season sees buyers calling the shots, and this will mean lower increases in contract, corporate and group rates for next year. In real terms the pressure on rates will feel harsher and margins will be squeezed further.

Our latest forecast reflects this deteriorating economic and trading environment. Our main (baseline) scenario for 2008 anticipates UK occupancy declines of 2.3 per cent driving a UK RevPAR decline of 0.1 per cent this year. A fifth successive year of room rate growth in London (5.4 per cent) will buoy up London’s hotel sector which will end the year with 3.4 per cent RevPAR growth, despite an anticipated 1.9 per cent fall in occupancy. In the provinces, occupancies are expected to fall by around 2.4 per cent and although rates will see a marginal gain of 0.7 per cent, RevPAR will decline by 1.7 per cent. See Table 1.

Table 1: Baseline Scenario (premised on 1% GDP growth 2008 and a 0.5% decline in 2009) % growth on previous year

	2008			2009		
	UK	London	Provinces	UK	London	Provinces
Occupancy	-2.3	-1.9	-2.4	-2.6	-11.8	0.3
ARR	2.2	5.4	0.7	-1.8	-0.2	-2.5
RevPAR	-0.1	3.4	-1.7	-4.3	-11.9	-2.2

Source: PricewaterhouseCoopers November 2008
Roundings may mean RevPAR does not equal sum of ARR and occupancy

1 STR Global October 2008

For 2009 our baseline forecast expects a further deterioration in the sector's fortunes. The UK as a whole will see an expected 4.3 per cent RevPAR decline as room rates fall for the first time since 2003.

London has seen record highs and a sharper correction is inevitable. Although a marginal nominal room rate decline of around 0.2 per cent is expected, in real terms (taking account of inflation) this will squeeze margins by closer to 4 per cent. But the greatest impact for London will be in terms of occupancies, which are expected to plummet by 11.8 per cent as corporate travellers in particular trim their budgets. An 11.9 per cent drop in RevPAR takes RevPAR from a heady £94.28 in 2008 to £82.92 in 2009. London has not seen a decline on this scale since 2001 and before that as far back as 1991.

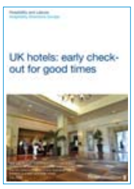
Risks around economic growth in our baseline scenario are significant and have become increasingly weighted to the downside in recent months due to the global financial crisis. To assist in scenario testing we have also prepared a downside scenario reflecting a worsening economic slowdown. This assumes a 0.9 per cent GDP growth this year and a 1.9 per cent decline in 2009 with negative growth continuing into 2010. In this scenario the UK could see RevPAR fall by 9.4 per cent in 2009 and London could see rates tumbling to give a precipitous RevPAR fall of 23.3 per cent. In the provinces, where the impact of reduced corporate travel and spend is less severe, RevPAR would fall by a more modest 3.4 per cent. See Table 2. Such has been the rapid fall away in confidence that corporate and consumer behaviour recently seems more driven by the downside scenario than by the baseline scenario.

Table 2: Downside scenario (premised on 0.9% GDP growth 2008 and a 1.9 % decline in 2009) % growth on previous year

	2008			2009		
	UK	London	Provinces	UK	London	Provinces
Occupancy	-2.4	-2.3	-2.5	-1.9	-8.7	0.3
ARR	1.0	2.3	0.5	-7.7	-15.9	-3.7
RevPAR	-1.4	0.2	-2.0	-9.4	-23.3	-3.4

Source: PricewaterhouseCoopers November 2008
Roundings may mean RevPAR does not equal sum of ARR and occupancy

Forecasting hotel performance in a tumultuous year



Back in February, the economic outlook was uncertain and though the credit crunch was already with us, the impact of the global financial crisis on the 'real economy' was some way off. Reflecting this, our UK Forecast was titled "UK hotels: slowdown not meltdown".

By July it was becoming apparent that the deteriorating economic backdrop heralded the spectre of harsher times and a more severe trading slowdown in 2009 than expected at the beginning of the year. Our forecast update in July "UK hotels: early check-out for good times" reflected this.

But it wasn't until September that the real impact of the economic downturn started to hit home. Our latest forecast reflects the extreme uncertainty and lack of confidence which now surrounds the outlook for 2009.

UK outlook

"Business travel is going to be hit harder than holiday travel. Consumers are not willing to sacrifice their holidays – these will be one of the last areas to be cut back. They are going to be more cautious though, ensuring they have consumer protection and know what they are getting. They may look for more inclusive holidays and if they can't get credit they will pay in cash"

Malcolm Preston,
Travel Sector Leader,
PricewaterhouseCoopers,
October 2008

Severity of consumer downturn relative to early 1990s

Until September, the consensus view was that the downturn would be less marked this time around given lower real and nominal interest rates and a stronger labour market. But the latter point now seems less certain after recent rises in unemployment, while the impacts of the credit crunch seem to be lasting longer than was previously expected. There is mixed evidence, as summarised in Table 3 below, as to whether the resulting downturn in consumer spending will be more or less severe than that seen in the early 1990s.

Table 3

Factors suggesting a less severe downturn than in the early 1990s	Factors suggesting a more severe downturn than in the early 1990s
• More credible monetary policy regime associated with lower real and nominal interest rates • Stronger labour market (at least until the recent rise in unemployment)	• More severe credit crunch (on a global rather than just a UK scale) • Larger house price bubble in mid-2007 than at late-1980s peak?

Source: PricewaterhouseCoopers assessment 2008

In any event, a significant and prolonged impact on consumer spending can be expected from the ongoing fall in house prices and this is factored into our forward projections. See Appendix 2 for more discussion of the macroeconomic backdrop. See also our latest UK Economic Outlook published in November 2008.

Implications for travel and hotel demand

The threat of a UK recession is likely to see hotel industry revenues contract in the short term. Comparisons with the last recession in the UK in the early 1990s may give some clues as to the extent of the slowdown for the industry. However, the previous recession was very UK-specific. The current economic problems are more of a global phenomenon, with travel to the UK from abroad more likely to suffer. Of the main contributors to foreign travel to the UK, the US is likely to see a relatively significant downturn because of current financial sector-related problems, while Ireland has already entered recession. Germany and France are also likely to experience subdued growth in 2008 and 2009. Tightening travel budgets will mean fewer conferences and meetings going ahead in particular. Where they do, corporates will be seeking cost reductions and no-frills conference packages and training.

The squeeze on consumer incomes, both from higher inflation and worsening economic conditions, means that discretionary spending on and in hotels is likely to fall sharply as consumers cut down planned expenditure on travel. Efforts to persuade consumers to leave their homes, evidenced by the plethora of special deals from operators, will impact rates and revenues. We can expect more deals in what is likely to be a difficult period in Q1 2009. In terms of the speed of impact for hotels, consumer spending could be hit relatively fast as consumers paying from their own pockets may simply choose to defer spending plans on weekend breaks etc. Corporate cost cutting may take longer as the results of the new corporate rate negotiations feed through.

Econometric research from PricewaterhouseCoopers forecasts business travel volumes from the UK to fall by 7-8 per cent in 2009 and travel expenditure to fall by around 10 per cent. Holidays are expected to be down by 5-10 per cent but again expenditure will be up. For in-bound UK travel, it has been suggested that sterling's weakness could help buoy up overseas tourism to the UK, but of course this depends on what is happening to visitors' incomes back home. As overseas destinations become more expensive this may 'persuade' more people to take domestic holidays in the UK - however domestic holidays are not always less expensive than those overseas. It seems likely that, where they can, travellers will remain willing to travel abroad but to travel less frequently, spend less and to stay a shorter time. Younger people, with fewer financial obligations, are likely to remain confident about their travel plans, according to this research. Older travellers who are often more dependent on realising income from financial assets, may remain more cautious.[2]

Most operators now acknowledge the challenge facing them in the short term. For example, Starwood Hotels and Resorts recently reported a 12 per cent drop in third-quarter profits despite an overall RevPAR rise of 3.5 per cent. Marriott also announced a steep third quarter earnings decline and warned that profits could be hurt. Accor's interim results anticipated an economic environment that might remain difficult in 2009. GuestInvest, the buy-to-let operator, has already fallen victim to the credit crunch and a lack of availability of debt.

In general though, hotels have seen very good trading in recent years and many go into this recession from a relatively strong position. Intuitively, well managed groups with attractive products and brands and properties in prime locations will have a good chance of continuing to win market share over the next 18 months – albeit the going will be tough.

"There is no magic wand and we will stick to the knitting; control costs and maintain quality; encourage everyone to be a sales person; retain our existing customers by lifting our welcome... and be patient."

Peter O'Meara,
Group Operations Director,
Arora International Hotels,
Sofitel London Heathrow,
November 2008

How to manage in a downturn

Most hotel businesses are entering this recession far better equipped to cope than was the case in the early 90's recession. In particular, they have the benefit of far more advanced information technology, including highly sophisticated rooms yield software and access to multi-channel web-based distribution systems that allow the operator much greater flexibility in terms of pricing and, most importantly, speedier reaction to changing patterns of demand.

Although this time it may be different in terms of the unprecedented circumstances that are driving the slowdown, businesses still need to ensure they address key fundamental priorities such as a hands-on approach to cash management, taking stakeholders with them and managing the cost base. In a second article Hotels: managing in a downturn from this edition of Hospitality Directions Europe, November 2008 we present the results of our experience and research during past recessions, what's different this time and what owners and operators can do to protect themselves in such a volatile and unpredictable market.

2 Malcolm Preston at the Travel Convention, October 2008 and bespoke research for PricewaterhouseCoopers, November 2008

"Cutting corners is the quickest way to go out of business"

Dominic Walsh, The Times, 27 October 2008

Dominic Walsh, the leisure correspondent for The Times recently highlighted the dangers of managing badly in a downturn and warned that by cutting quality key operational staff, skimping on training and messing up on service, one luxury hotel operator thereby ensured he (Dominic) will never return and, by word of mouth, that many of his friends won't either.

Which products might dodge adversity?

Past slowdowns have shown that budget hotels have been the most resilient segment of the hotel sector and have benefitted from the "trading down" effect. In the slowdown of 2000 to 2003, benchmarking evidence shows they managed to grow occupancy and rate. Midscale properties are also considered to offer a better hedge against a downturn than upscale, which are considered the most vulnerable because they tend to be located in gateway cities and rely on pre-negotiated corporate demand and also have high operating costs. On the other hand, non branded midscale hotels may suffer disproportionately. Perhaps "uber- luxury" will weather this slowdown but traditionally luxury hotels are highly operationally geared and vulnerable to the impact of demand declines.[3]

Modern branded budget hotels have dominated much of the UK's new development. There are considerably more budget hotels open today than in the last slowdown and recession and this more competitive environment may impact their performance this time around. There were around 52,000 such rooms in 1992 and some 86,000 rooms in 2007, according to Mintel reports.[4] Premier Inn alone have a pipeline of 4,000 rooms for 2008/09 (2007/08 was 3,400). Travelodge continue to announce ambitious expansion plans too, with 7,000 rooms planned in London alone in preparation for the 2012 Olympics.

The 'Aldi' effect

Clearly no one is immune from a recession's effects but some are more resilient and there is evidence that *attractive* strong value for money propositions will appeal to cash-strapped businesses and consumers. Rather like Aldi's recent advertising campaign, operators of such products hope consumers will stay on as customers after the recession ends. Attractive is a key word here though, and the experience needs to be all-round positive.[5] In Whitbread's recent interim results, Chief Executive Alan Parker spoke of "smarter buying" by business customers boosting demand for budget hotels. In an illustrative slide he showed that a business guest in the provinces could save £44 by staying in a Premier Inn rather than at a 3 and 4 star hotel – a 33 per cent saving. In London the saving could be up to £49 - a 41 per cent saving. Taking things a step further, in a new alliance between Aldi and Travelodge, the companies are set to open two joint sites with a Travelodge located above the supermarket. The first will be opening in Middlesborough in November with a second in Newquay in 2009.

3 'Jewels in the crown: trends and outlook for Europe's luxury hotel sector' – PricewaterhouseCoopers Hospitality Directions Europe, September 2007

4 Source: Mintel Budget Hotels, Leisure Intelligence Sept 2007. Mintel Leisure Intelligence 1994

5 Dominic Walsh, The Times 27 October 2008

Supply check as slowdown impacts pipelines?

In recent years, supply levels in the UK have generally been considered to be under control. However, concerns have been raised recently that new hotel supply levels are likely to be well above average for some time. New hotel construction in particular, according to the British Hospitality Association (BHA), continues at a brisk pace. In the past 15 months they report at least 220 new hotel openings and some 19,000 rooms. Over 4,000 of these rooms were in London. The past five years have seen some 90,000 rooms added in total according to BHA. Hotel Data highlights over 5,400 rooms likely to open in London over the next three to four years. See Table 7.[6] Many pipelines are likely to reduce during this recession as projects are suspended and it will be interesting to see if the Olympic catalyst helps London buck the trend.

As owners and developers find it more difficult to secure financing for new developments some will be forced to shelve plans. Less new hotel development is both good and bad news for the sector: good in the sense that less supply may help prop up occupancies and rates in some markets; bad in the sense that if you franchise and manage hotels and your business model is based on delivering ambitious unit growth plans, you may not be able to deliver on those plans. Additionally the sector needs new and innovative products to excite travellers, for example the lifestyle 'lift' of recent years.

6 Hotel Data Bulletin, September 2008

UK forecast

Latest UK hotel forecast reflects deteriorating economic backdrop

UK hotel performance is already seeing a slowdown in demand in the second half of the year and several operators have commented to us that trading was fine until June and then 'fell off a cliff' . This trend is likely to get worse from Q4 onwards. Operators have also reported that although leisure business has been holding up they inevitably expect it to soften. Whilst some reported that corporate travel volumes were reasonable, many complained that pressure on travel budgets is beginning to impact rate achieved. This situation is expected to worsen as hotels enter the rates negotiation season. Conference attendances are reported to be down and hoteliers expect overseas travel to slow as conditions bite in their source markets, although markets such as the Middle East remain resilient.

How has trading been so far this year?

The UK has seen an overall drop in occupancy of 1.5 per cent in the first nine month's trading. Edinburgh and Birmingham saw the largest occupancy declines of 3.8 and 4.1 per cent respectively.

UK room rates grew 3.6 per cent to September although Edinburgh saw a marginal rate decline. By contrast, London saw a 6 per cent gain. RevPAR grew by 2 per cent in the UK as a whole, 5.9 per cent in London and 1.4 per cent in Manchester. The provinces saw a marginal decline overall while Birmingham saw a larger 2.4 per cent decline and Edinburgh a 3.9 per cent fall.

See Table 4 below.

Table 4: UK trading January to September 2008 (% change from previous year)

	UK	London	Provinces	Birmingham	Edinburgh	Manchester
Occupancy	-1.5	-0.1	-2.1	-4.1	-3.8	-2.8
ARR	3.6	6.0	1.5	1.8	-0.1	4.3
RevPAR	2.0	5.9	-0.6	-2.4	-3.9	1.4

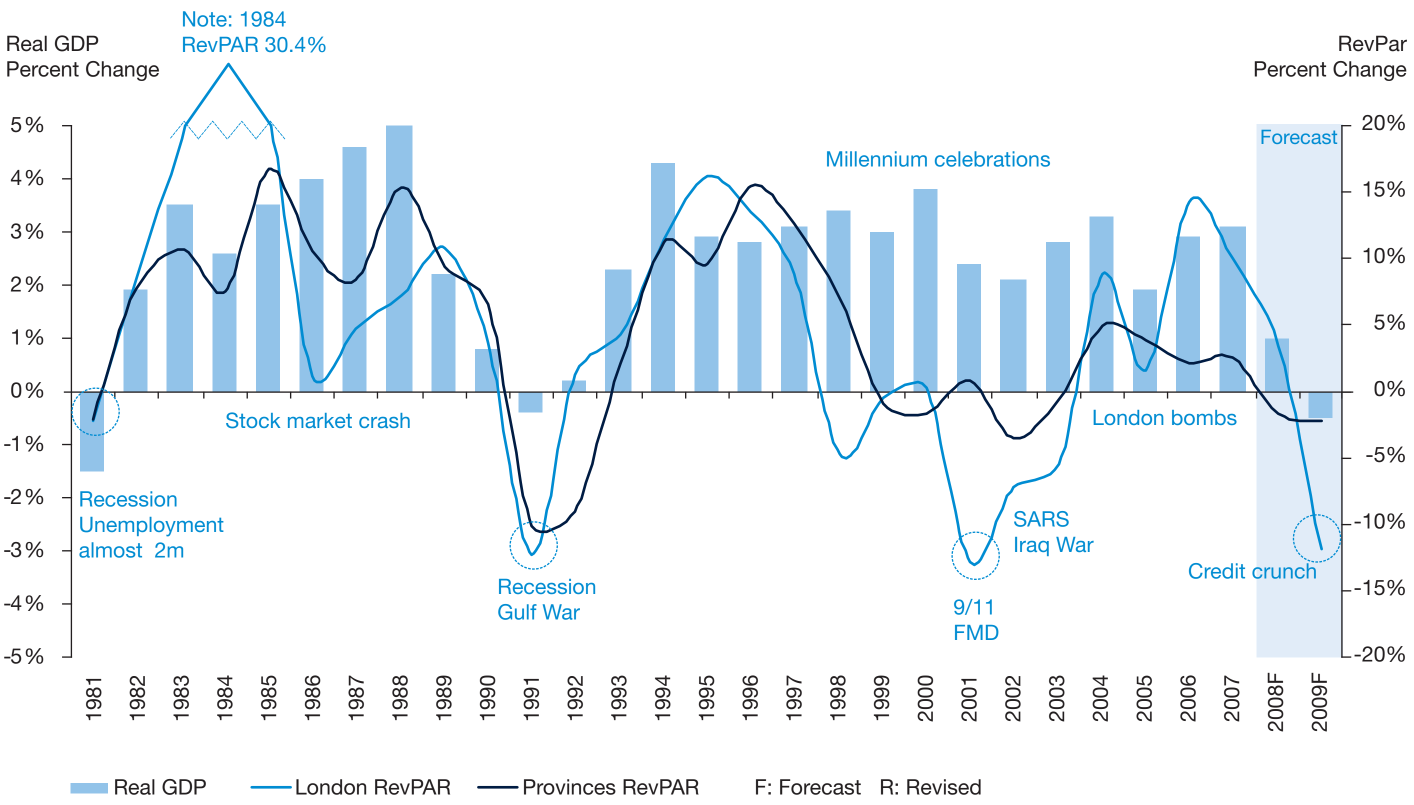
Source: STR Global November 2008

Roundings may mean RevPAR does not equal sum of ARR and occupancy

Our baseline scenario for 2008 anticipates UK occupancy declines of 2.3 per cent driving a marginal UK RevPAR decline of 0.1 per cent this year. Hoteliers should manage to raise average room rates this year by 2.2 per cent. However, 2009 is set to be a difficult year throughout the UK but especially in London and the provincial mid-market and our baseline scenario reflects this deteriorating environment but is highly subject to change. The UK as a whole will see a likely 4.3 per cent RevPAR decline as room rates fall for the first time since 2003, on the back of a further 2.6 per cent occupancy decline. See Charts 1 and 2 and Table 5.

Chart 1: Good and not so good times for hotels

Real GDP and London and Provincial RevPAR growth rates 1981-2009



Source:
Econometric Forecast: PricewaterhouseCoopers November 2008
Macroeconomic Data: National Statistics
Benchmarking Data: Pre 2001 TRI/PKF, Post 2001 STR Global October 2008

UK forecast

Table 5: PricewaterhouseCoopers latest forecast for UK November 2008

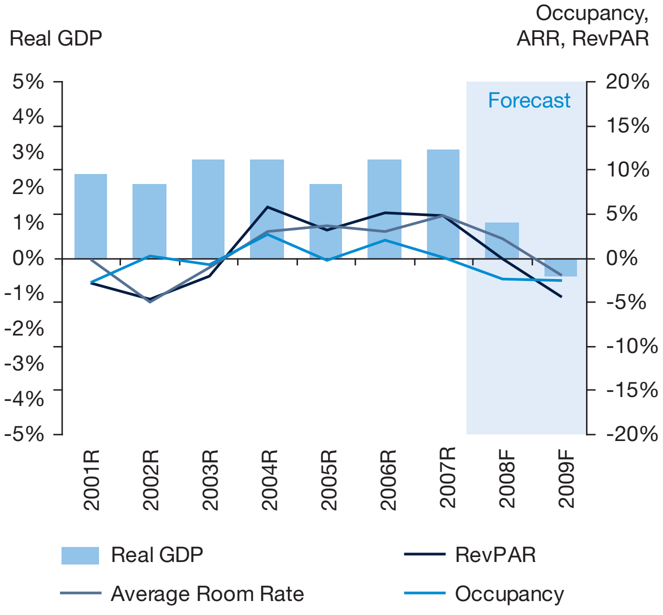
	2007R	2008F	2009F
Average Room Rate (£)	80.78	82.58	81.09
% Change	4.8%	2.2%	-1.8%
Occupancy (%)	77.9	76.2	74.2
% Change	0.1%	-2.3%	-2.6%
RevPAR (£)	62.99	62.97	60.19
% Change	4.8%	-0.1%	-4.3%

Econometric Forecasts: PricewaterhouseCoopers November 2008
Benchmarking Data: STR Global October 2008

Downside scenario

Risks around economic growth in our main scenario are significant and have become increasingly weighted to the downside in the recent months due to the global financial crisis. We have prepared a downside scenario reflecting a worsening economic slowdown. This assumes 0.9 per cent GDP growth this year and a 1.9 per cent decline in 2009. In this scenario, consumers and corporate travellers would be in greater difficulties and tighten their belts even further and UK hotels could see RevPAR fall by as much as 9.4 per cent in 2009 as room rates come under pressure and fall by 7.7 per cent; occupancies would contract by 1.9 per cent. See Table 2.

Chart 2: UK hotel performance 2001 to 2009
Real GDP, revenue-per-available-room, average room rate and occupancy growth rates



F: Forecast R: Revised

Source:
Econometric Forecasts: PricewaterhouseCoopers November 2008
Macroeconomic Data: National Statistics
Benchmarking Data: STR Global October 2008

London forecast

Set for a rollercoaster ride (again)

As Charts 1, 3 and 4 show, London has seen record highs in performance in recent years and has largely driven the UK boom, so it is perhaps unsurprising that a sharper correction is likely here. The capital is particularly susceptible to the hotel sector's classic boom and bust cycle because of its dependence on the global economy.

A few comparison issues for 2009 will include the Farnborough International Air Show which was held in July this year and which helps fill up London's hotels but doesn't come back till 2010. This will have skewed third quarter comparisons. Hotels closed for refurbishment and open again in 2009 could also have an impact, for example the Savoy reopens in May next year.

Why is London vulnerable?

The financial services fallout

- Travel and entertaining budget cut-backs and job losses
- Significant users of luxury and upscale hotels e.g. in New York the luxury sector has been hit harder and faster than expected

Recession

- Global economic slowdown – London's source tourism and business markets will be hit
- Corporate and leisure business segments will be affected

Supply growth

- The budget sector in London has seen considerable growth and provides an opportunity to trade down – unbranded mid-scale is likely to be squeezed
- Competition has been increasing e.g. "uber-luxury" raising the bar - structurally London has a high proportion of highly cyclical upscale hotels

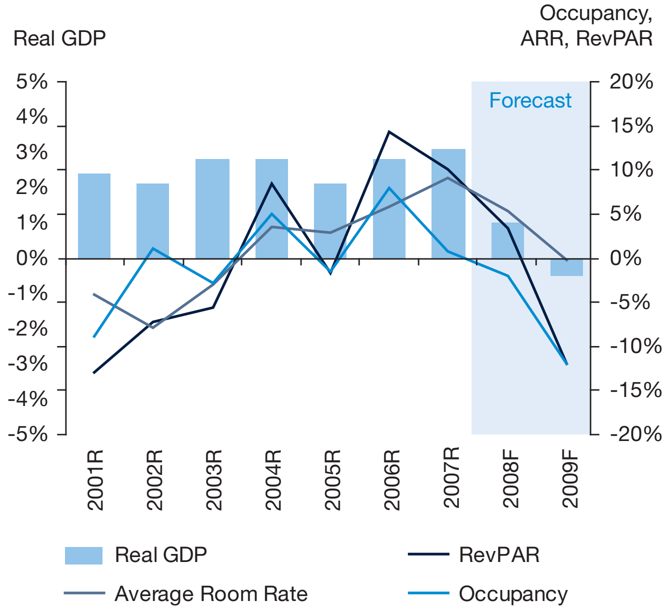
London forecast

Table 6: PricewaterhouseCoopers latest forecast for London November 2008

	2007R	2008F	2009F
Average Room Rate (£)	112.4	118.5	118.11
% Change	9.1%	5.4%	-0.2%
Occupancy (%)	81.1	79.5	70.2
% Change	0.8%	-1.9%	-11.8%
RevPAR (£)	91.27	94.28	82.92
% Change	10.0%	3.4%	-11.9%

Econometric Forecasts: PricewaterhouseCoopers November 2008
Benchmarking Data: STR Global October 2008

Chart 3: London hotel performance 2001 to 2009
Real GDP, revenue-per-available-room, average room rate and occupancy growth rates



F: Forecast R: Revised

Source:
Econometric Forecasts: PricewaterhouseCoopers November 2008
Macroeconomic Data: National Statistics
Benchmarking Data: STR Global October 2008

London saw a buoyant first half year of trading but September has ushered in a volatile final quarter as the financial crisis hits the real economy with a vengeance. A fifth successive year of room rate growth in London (5.4 per cent) will buoy up London's hotel sector which should end 2008 with 3.4 per cent RevPAR growth, despite an anticipated 1.9 per cent fall in occupancy compared to 2007. By September, average daily room rates were up 6 per cent for the year to date, compared to the same period in 2007, despite a 0.5 per cent dip in the month of September – the first monthly decline since April 2006. These averages hide a mixed performance across the capital with more difficult times reported recently in certain parts of the financial districts and healthier trading in the West End. 2009 is likely to see a very different environment as the consumer and corporate crisis hits home hard.

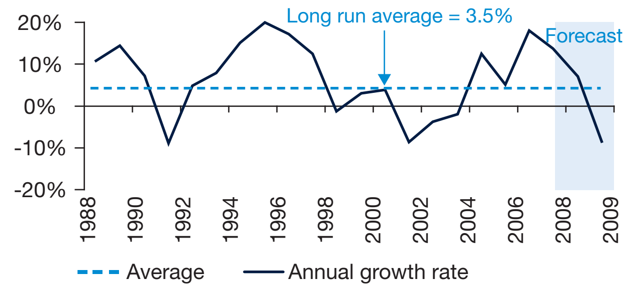
Although a marginal nominal room rate decline of around 0.2 per cent is expected, in real terms (taking account of inflation) this will squeeze margins by closer to 4 per cent. But the greatest impact for London will be in terms of occupancies, which are expected to plummet by 11.8 per cent as corporate travellers in particular trim their budgets.

An anticipated 11.9 per cent drop takes RevPAR down from £94.28 in 2008 to £82.92 in 2009. London has not seen a RevPAR decline of this dimension since 2001 and before that 1991 and RevPAR growth would be sharply below the long-run average of 3.5 percent. See Table 6 and Charts 1,3 and 4.

Downside scenario

In our downside scenario, if economic growth slows even further, London could face occupancy falls of 8.7 per cent but average room rate declines of 15.9 per cent. This would see RevPAR plummeting by 23.3 per cent in 2009 – a real rollercoaster ride. Occupancy would fall to 72.2 per cent in 2009 and average room rate to just over £96.41, and would shave a hefty £21.50 off RevPAR, taking it down to £69.62 – back to 2002/2003's lows. See Table 2.

Chart 4: Twenty year rollercoaster ride for London hotels: RevPAR growth is now set to dip sharply



Source: Pricewaterhouseoopers 2008

Checking in

Despite the tougher times ahead and the exit via administration of GuestInvest, the buy-to-let operators there has been no shortage of new brands coming to town, keen to get the opportunity to trade in London where metrics, including profits, are among the highest anywhere in the world. With the Olympics approaching, lifestyle, luxury, budget and upscale operators are all active. Hoteliers continue to open, convert and re-badge hotels to gain a presence. Table 7 shows almost 5,400 rooms being developed in London.

In addition a further 4,000 hotels are listed by supply specialists Hotel Data as at the outline planning stage. Recently, a scheme to transform London's Kingsway underground tunnels into a hotel has been mooted. More conventionally, visitors to London in the future may be able to stay in a Bulgari Hotel. The company plans to manage a new luxury hotel to be developed at the old Normandie Hotel site in Knightsbridge (the hotel closed in 1977). As a part of a franchise arrangement, Hilton is to run two former Kempinski hotels. The Waldorf Astoria brand will sit over the 64 room Bentley in Knightsbridge – only the second hotel in Europe to hold this luxury marque. Hilton will additionally operate the 112 room Courthouse in the West End which is set to be branded as a Doubletree - the third Doubletree by Hilton in the UK. Starwood are bringing their lifestyle W Hotel to a prime position on the site of the former Swiss Centre at Leicester Square. The hotel is scheduled to open in October 2010. At the budget end, easyHotel plans to open a new hotel close to the London Eye. They plan to refurbish the exterior of the building and fit prefabricated rooms. They also plan to open a 47-room hotel near Paddington station in partnership with Splendid Hotels.

Table 7: New hotels checking in to London

Brand /Hotel	Location	Rooms	Start or open date
City Inn Ltd	Tower of London	600	2010/01
A B Hotels	The Arch Gt Cumberland Place	85	2009/07
Apex Hotels Ltd	1/3 Serjeants Inn	175	2009
Apex Hotels Ltd	Copthall Avenue	80	2010/01
Arora International Ltd	The Oval, Kennington	170	2009
Corinthia Hotels International	Metropole, Trafalgar Sq	283	2009
Intercontinental Hotels Group	Fmr Westminster Hospital	300	2009
Galliard Homes Ltd	43/81 Greenwich High St	200	2009/07
Bespoke Hotels	Bermondsey Sq	78	2009/03
Novotel	Paddington Central	206	2008/10
Grange Hotels Ltd	Prescott St	252	2009/01
J J W Hotels & Restorts	Berners, 10 Berners St	50	2008/12
Malmaison Hotels	Libertys , Gt Marlborough St	41	2009
Marriott International	St Pancras Chambers	254	2010/01
Berkeley (Maybourne Group)	Wilton Place	27	2009
Claridges (Maybourne Group)	Brook St	47	2009
Starwood W	Swiss Centre, Leicester Sq.	194	2010/01
Niche Hotels Ltd	Langley Park	46	2009/03
Jumeirah International	Beetham Twr, Blackfriars Bdge	395	2009
Park Plaza Hotels Europe	Hoxton	160	2009
Park Plaza Hotels Europe Ltd	Westminster Bridge Rd	930	2010/01
Pestana Hotels & Resorts	Chelsea Bridge	198	2009
Silken Hotel Group	336 The Strand	170	2010/07
Staybridge Suites (Splendid Hotel Group)	Bear Lane, 14 Suffolk St	96	2009/07
Summerpark Homes	Atelier Aparts, Greville St.	50	2010/01
Treasury Holdings	Battersea Power Station	100	2009
Von Essen Hotels	Battersea Heliport	70	2009
West Properties Ltd	Blackwall Tunnel	100	2009
	Total rooms	5,357	

Source: Hotel Data Bulletin, September 2008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Provinces forecast

Provinces face two years of declining revenues

Operators we have spoken to have reported that although conference and meeting business held up reasonably well to mid year, many have seen a drop off in the second half. Leisure has held up better than corporate business but most operators acknowledge that this is likely to contract sooner rather than later. Some felt corporate volumes were OK(ish) but the pressure was on rates.

The provinces saw a 2.1 per cent decline in occupancy in the nine months to September this year compared to the same period last year. September was the fifth consecutive month to see an occupancy decline. Occupancies averaged 69.2 per cent for the nine months and room rates almost £66. Room rate growth has slowed but remains in positive territory showing 1.5 per cent for the nine months, a fall from 2.8 per cent over the same period in 2007. RevPAR also saw five months of declines to September and an overall marginal decline over the nine months. Given supply additions and the financial and consumer travel slowdown, this is likely to worsen in the final quarter of trading and we now expect a 1.7 per cent decline overall in 2008. In 2009 occupancies are likely to manage marginal growth but room rates will start to suffer, falling by 2.5 per cent to £63.82 - their lowest since 2006. RevPAR will see a further overall decline of 2.2 per cent in 2009. See Table 8 and Charts 1 and 5.

The provinces have seen a 3.1 per cent increase in rooms available over the period to September compared to annual average growth of 2.5 per cent since 2001, according to STR global.

In our downside scenario, the provinces would see RevPAR fall by 3.4 per cent. This decline reflects a less severe impact from reduced corporate travel and spend compared to London. See Table 2.

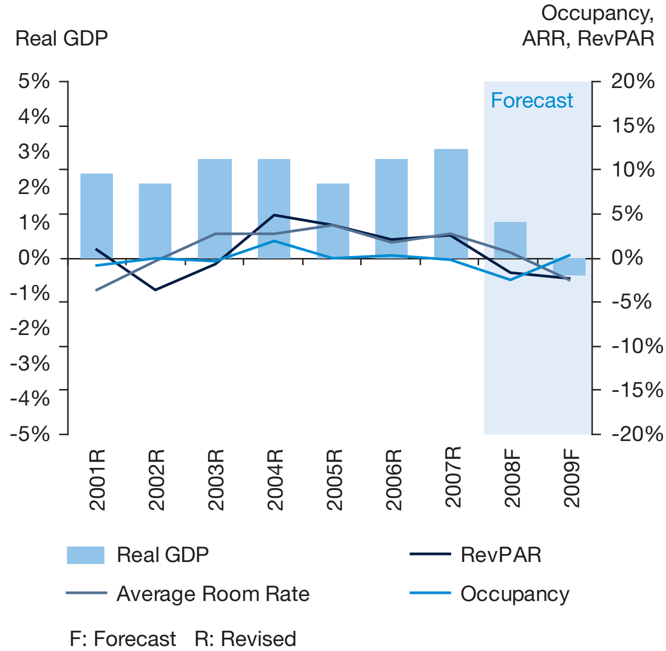
Table 8: PricewaterhouseCoopers latest forecast for Provinces November 2008

	2007R	2008F	2009F
Average Room Rate (£)	65.03	65.48	63.82
% Change	2.8%	0.7%	-2.5%
Occupancy (%)	70.2	68.6	68.8
% Change	-0.2%	-2.4%	0.3%
RevPAR (£)	45.69	44.96	43.93
% Change	2.6%	-1.7%	-2.2%

Econometric Forecasts: PricewaterhouseCoopers November 2008
Benchmarking Data: STR Global October 2008

Chart 5: Provinces hotel performance 2001 to 2009

Real GDP, revenue-per-available-room, average room rate and occupancy growth rates



F: Forecast R: Revised

Source:
Econometric Forecasts: PricewaterhouseCoopers November 2008
Macroeconomic Data: National Statistics
Benchmarking Data: STR Global October 2008

Manchester forecast

Relentless supply additions and slowdown hit growth

Although Manchester's hotels have seen occupancies average 70 per cent for the nine months to September, this represents a 2.8 per cent decline over the same period in 2007 and was also slightly lower than for the same period in each of the previous four years, three of which also saw annual occupancy falls. Room rates have held up, averaging around £71.27 for the same period, a 4.3 per cent gain. Manchester also saw a RevPAR gain of 1.7 per cent in September - perhaps reflecting Liverpool's status as 2008 European Capital of Culture which also brought visitors to both these neighbouring cities' hotels.

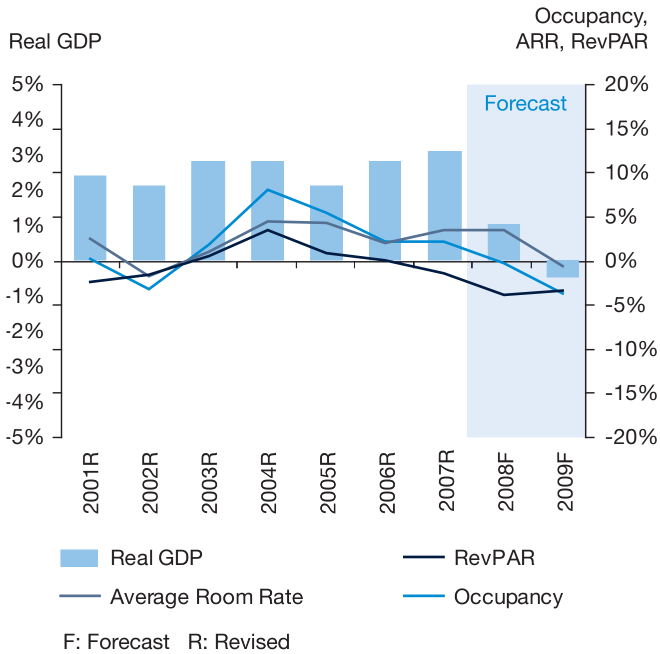
Our latest forecast for Manchester expects a sharp 3.6 per cent drop in RevPAR next year, on top of a marginal decline of 0.2 per cent this year. This is well below the long term average RevPAR growth rate of 2.5 per cent between 2001 and 2007. The decline is driven by a 3.7 per cent fall in occupancy this year and a further 3.2 per cent decline in 2009. See Table 9 and Charts 6 and 7.

Table 9: PricewaterhouseCoopers latest forecast for Manchester November 2008

	2007R	2008F	2009F
Average Room Rate (£)	69.15	71.59	71.16
% Change	3.5%	3.6%	-0.5%
Occupancy (%)	73.0	70.3	68.0
% Change	-1.3%	-3.7%	-3.2%
RevPAR (£)	50.48	50.35	48.39
% Change	2.2%	-0.2%	-3.6%

Econometric Forecasts: PricewaterhouseCoopers November 2008
Benchmarking Data: STR Global October 2008

Chart 6: Manchester hotel performance 2001 to 2009
Real GDP, revenue-per-available-room, average room rate and occupancy growth rates



Source:
Econometric Forecasts: PricewaterhouseCoopers November 2008
Macroeconomic Data: National Statistics
Benchmarking Data: STR Global October 2008

Checking in

Supply additions move relentlessly onward for Manchester and the number of rooms available to September saw a significant 8.3 per cent increase in terms of available rooms according to STR Global, compared to the nine months to September 2007. Hotels opening in 2008 included the 142 room Ramada Manchester Salford Quays, the 120 room Village Leisure Ashton Moss and, in August, the 228 room Crowne Plaza Manchester City Centre. In terms of notable future new supply, Starwood have announced they are to open a 160 room W Hotel in the city in 2010. The hotel will include 7,000 sq ft of meeting and event space. West Hotels, a new hospitality division of West Properties, is also planning to invest in new Manchester properties as part of a residential-led development scheme. The first 250 room hotel will comprise part of the Origin Scheme.

Hotel Data's September Bulletin lists over 1,524 new hotel rooms under construction or with a firm start date in Manchester, including those listed in Table 10.

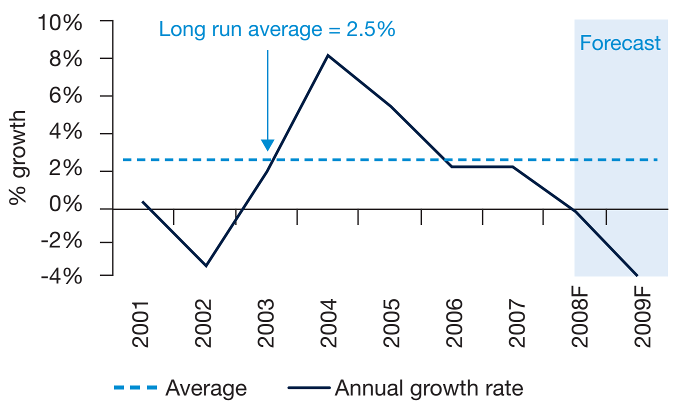
A further 865 rooms are listed as at the outline planning stage.

Table 10: New hotels checking into Manchester

Brand /Hotel	Location	Rooms	Start or open date
Express by Holiday Inn	Smithfield	162	2009/03
Park Inn	Cheetham Hill	252	2009/07
Days Inn		150	2009
Premier Inn	Manchester Airport	135	2009/01
Sleeperz	Manchester Piccadilly Station	80	2009
Park Inn	Old Trafford	226	2010/07
Ramada	Deansgate	100	2009
Starwood W	Whitworth St/ Canal St	210	2009
	Owen St	209	2009
	Total rooms	1,524	

Source: Hotel Data Bulletin, September 2008

Chart 7. Manchester's RevPAR growth rate is now expected to move sharply below trend



Source: Pricewaterhouseoopers 2008

Birmingham forecast

Lacklustre 2008 and further room rate declines expected in 2009

The UK's second largest city has seen occupancy declines for nine months to September, with the exception of April. September was also the third month in a row to also experience a RevPAR decline this year. Overall the city's hotels have seen a RevPAR decline of 2.4 per cent to September. Operators have told us corporate rates have suffered.

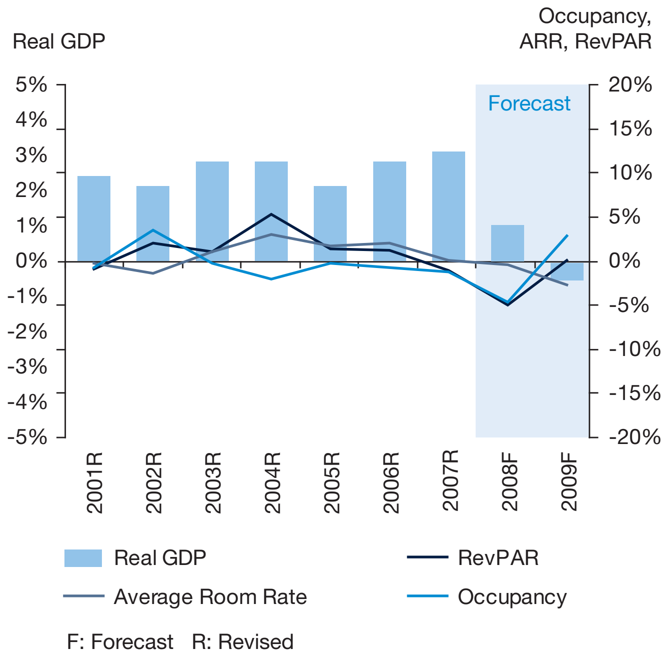
We expect Birmingham to experience a steep RevPAR decline this year. Supply (in terms of rooms available) increased by 2.9 per cent overall to September, whilst demand (in terms of rooms sold) declined by 1.3 per cent. Rates have held up and remained in positive territory overall at 1.8 per cent in the nine months to September. However, we expect Birmingham to see an overall RevPAR fall of 5.0 per cent this year, taking RevPAR to £41.34. We expect marginal (0.1 per cent) growth in 2009. Occupancies are expected to slip to 64.1 per cent this year but recover a little to reach 65.9 per cent in 2009. Room rates will fall by 0.4 per cent this year and a further 2.7 per cent in 2009, taking rates to £62.63. See Table 11 and Chart 8.

Table 11: PricewaterhouseCoopers latest forecast for Birmingham November 2008

	2007R	2008F	2009F
Average Room Rate (£)	64.77	64.48	62.63
% Change	0.1%	-0.4%	-2.7%
Occupancy (%)	67.3	64.1	65.9
% Change	-1.2%	-4.7%	2.8%
RevPAR (£)	43.67	41.34	41.28
% Change	-1.1%	-5.0%	0.1%

Econometric Forecasts: PricewaterhouseCoopers November 2008
Benchmarking Data: STR Global October 2008

Chart 8 Birmingham hotel performance 2001 to 2009
Real GDP, revenue-per-available-room, average room rate and occupancy growth rates



Source:
Econometric Forecasts: PricewaterhouseCoopers November 2008
Macroeconomic Data: National Statistics
Benchmarking Data: STR Global October 2008

Checking in

Accor have opened a new Etap and an Ibis hotel adjacent to the Novotel at Birmingham Airport. The Etap offers a room at £35 per room per night; the Ibis at £69 and the Novotel from £79. Hotel Data's September Bulletin lists around 800 new hotel rooms under construction or with a firm start date in Birmingham, including those listed in Table 12. The Westin will be the first five star hotel to open for some years.

A further 1,163 rooms are listed as at the outline planning stage. The Hoxton have also announced plans to open another 'cheap but chic' hotel in Birmingham.

Table 12: New hotels checking in to Birmingham

Brand /Hotel	Location	Rooms	Start or open date
Westin Hotel	Snow Hill Station	200	2010/01
Ramada Encore	NEC House	164	2009
Staybridge Suite	Aston Park Way	120	2009
Ramada Encore	Near Mailbox	150	2009/01
Express by Holiday Inn	Edgbaston Mill	200	2009
	Total rooms	834	

Source: Hotel Data Bulletin, September 2008

Edinburgh forecast

A steep demand decline in 2009 but more new hotels keep the faith

The recession and financial crisis is expected to impact Scotland's capital hard – it is the UK's biggest financial centre outside London. The city is home to two troubled financial institutions, Royal Bank of Scotland and HBoS, and there is speculation around job losses and a wider fallout for the city. It is also an international tourism destination and will feel the impact of economic recession on travel volumes badly. This summer has been reported as difficult. Earlier this year VisitScotland admitted that tough targets set by the industry would be difficult to achieve in the current climate with levels of confidence within the Scottish tourism industry falling, and their latest research showing that 45 per cent of those surveyed feel less optimistic than last year. The sector hope 'Homecoming Scotland 2009', a year-long celebration to commemorate the 250th anniversary of the birth of Robert Burns, will be an important factor in encouraging visitors to travel. However Edinburgh will compete with Glasgow and other Scottish destinations to attract these visitors.

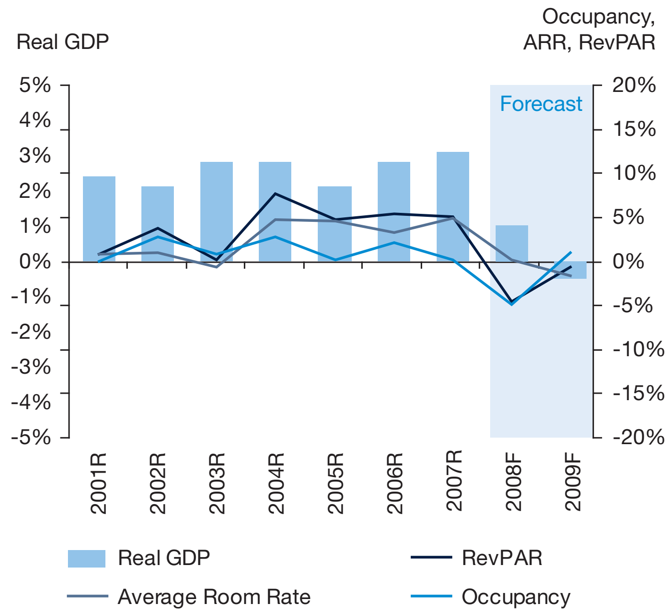
Edinburgh has seen occupancy and RevPAR declines in every month of 2008 to September. Average room rates softened in July and August and saw a 4.4 per cent decline in September, as corporate demand tightened. In supply terms, the city has seen an increase of 3.4 per cent to date and this will not help prop up performances. We anticipate occupancies will continue to fall and the city will see an overall fall of 4.8 percentage points this year but this should stabilise in 2009 when we will see rates soften by 1.6 per cent. In terms of revenues we expect an overall RevPAR decline of 4.6 per cent this year followed by a further 0.7 per cent decline in 2009. See Table 13 and Chart 9.

Table 13: PricewaterhouseCoopers latest forecast for Edinburgh November 2008

	2007R	2008F	2009F
Average Room Rate (£)	80.82	80.84	79.66
% Change	4.9%	0.2%	-1.6%
Occupancy (%)	78.0	74.2	75.1
% Change	0.2%	-4.8%	1.0%
RevPAR (£)	63.67	60.51	60.5
% Change	5.1%	-4.6%	-0.7%

Econometric Forecasts: PricewaterhouseCoopers November 2008
Benchmarking Data: STR Global October 2008

Chart 9 Edinburgh hotel performance 2001 to 2009
Real GDP, revenue-per-available-room, average room rate and occupancy growth rates



F: Forecast R: Revised

Source:
Econometric Forecasts: PricewaterhouseCoopers November 2008
Macroeconomic Data: National Statistics
Benchmarking Data: STR Global October 2008

Checking in

New hotels continue to pile in to Edinburgh. This year the city has seen the new Novotel Edinburgh Park and the Holiday Inn Edinburgh Express Royal Mile open. London's Hoxton Hotel has announced it will open a second UK hotel on the Royal Mile and the Fitzpatrick Group (owner of the Beacon and Morgan Hotels in Dublin) has recently announced plans for a new scheme which includes a lifestyle hotel. Hotel Data's September Bulletin lists over 700 new hotel rooms under construction or with a firm start date in Edinburgh, including those listed in Table 14.

A further 1,900 rooms are listed as at the outline planning stage, including the Fitzpatrick plan.

Table 14: New hotels checking in to Edinburgh

Brand /Hotel	Location	Rooms	Start or open date
Missoni	George IV Bridge	130	2009/07
Park Inn	Leith Walk	171	2009
Waterloo Place	Waterloo Place	150	2009/04
Hotel Du Vin	Former Royal Infirmary	47	2008/11
Park Inn	Edinburgh Airport	160	2009
Travelodge	Ratho Station	80	2009
	Total rooms	1,038	

Source: Hotel Data Bulletin, September 2008

Appendix 1: Travel outlook

"I don't think the travel industry as a whole is going to be a loser. While there will be more company failures, the really savvy ones will be putting forward products to consumers that they want to buy."

Jeff Rhys-Jones, marketing and operations director, TripVision

Inbound tourism to UK

Inbound tourism statistics from the International Passenger Survey are available only to August and show that 9.4m overseas visitors came to the UK, representing no year-on-year-change, although North American visitors declined by 15 per cent and European visitors increased by 4 per cent.

While it seems unlikely that inbound tourism will see volume increases in the next 18 months and consumer confidence continues to fall, research continues to suggest that we are loathe to cut out our holidays altogether. See Malcolm Preston's comments earlier in this forecast.

Non essential business travel likely to be cut

Almost one in three corporate travel buyers admit they plan to cut back on travel over the next year, as a result of economic fears and rising prices, according to the recent Association of Corporate Travel Executives' Conference in Rome. A survey by the Association of Corporate Travel Executives of 131 members found that 33 per cent said they planned to cut travel budgets - the largest proportion to have said this for more than 10 years. In addition, 31 per cent said they intended to spend the same as this year and 36 per cent that they might spend more than this year. [1]

American Express's latest Global Business Forecast also warns of trouble ahead. UK and European business travellers face rising travel costs in 2009. Air fare increases alone could rise by up to nine per cent, with additional fees on top as a result of airlines continuing to un-bundle services such as checked luggage, in flight refreshments and fees for amenities like aisle seating.[2]

Airlines experience a sharp downturn

Warning signs are already clear in the airline sector. European airlines are facing the worst downturn in 25 years, hit by declining consumer and business confidence and the weakening economy, according to the Association of European Airlines (AEA). While monthly passenger-traffic drops aren't unprecedented, previous decreases have been triggered by external shocks such as the September 11, 2001 attacks, the SARS outbreak and the Gulf Wars. The AEA reported that this is the first traffic loss since the early 1980s that is attributable to essentially economic factors. The group reported passenger traffic for its members fell domestically in Europe, across the North Atlantic and to Asia. South Atlantic routes bucked the trend, with traffic up 13 per cent in August and 9.5 per cent in September, while "some buoyancy" remained in Middle East markets.[3]

1 Business Travel: Corporates set to cut spend in 2009 17 October 2008 Travel Trade Gazette UK

2 Travel Mole, Business travel costs to soar – Amex forecast 24 October 2008

3 Crisis fills the skies, too --- European airlines cite drop in traffic as economy slumps 23 October 2008 The Wall Street Journal Europe

Appendix 2: Macroeconomic outlook

- UK GDP growth is projected in our main scenario to slow from 3 per cent in 2007 to only around 1 per cent in 2008 and -0.5 per cent in 2009 as the effects of the credit crunch push the UK economy into at least a mild recession.
- Consumer spending growth is also expected to turn negative at -0.50 per cent in 2009 due to the severe squeeze on consumer spending from high debt levels, tighter credit conditions, falling housing wealth, rising unemployment and earlier food and energy bill increases.
- House price falls and tight credit conditions are likely to continue to have a dampening effect on consumer spending growth into the medium term, suggesting only a gradual recovery from recession after 2009.
- Business investment growth is expected to fall in both 2008 and 2009 as a result of the credit crunch, while housing investment is already falling sharply. Public spending growth is planned to be much more subdued than in recent years.
- Slower global growth is likely to dampen exports, although this will be offset in part by the weaker pound. Import growth is expected to slow markedly, so enabling net exports to make a modest positive contribution to overall GDP growth in 2008-9, but this will be far too small to offset the projected decline in domestic demand growth over this period.
- Inflation is projected to fall back during 2009 as the economy slows, but there are still considerable uncertainties around this relating to the path of global commodity prices.
- Interest rates are assumed to be cut progressively to only around 3 per cent by the end of 2009 in our main scenario in response to falling output and declining headline inflation. But considerable uncertainties surround this projection as with those for growth and inflation.

Both our main scenario and the projections of other forecasters are subject to significant margins of uncertainty. At present, risks to our main scenario for growth appear to be heavily weighted to the downside due to the global financial crisis and we would recommend that businesses should stress test their plans against the ‘prolonged recession’ scenario, which envisages a 1.9 per cent fall in GDP in 2009 with output still declining quarter-on-quarter at the end of that year. This is not yet the most likely scenario, but its probability has risen significantly over the past few months.

Macroeconomic data for UK

	2006	2007R	2008F	2009F
Real GDP per cent change from prior year	2.9	3.1	1.0	-0.5
Consumer prices per cent change from prior year (CPI)	2.3	2.3	3.8	3.2

R: Revised F: Forecast
Source: PricewaterhouseCoopers 2008

Appendix 3: Hotel statistics for UK 2003-2009

PricewaterhouseCoopers November 2008 Forecast
Hotel Statistics for London, Provinces, Manchester, Birmingham and Edinburgh

Hotel Statistics for the UK	2003R	2004R	2005R	2006R	2007R	2008F	2009F
Average Room Rate (£)	70.15	72.28	74.85	77.12	80.78	82.58	81.09
% Change	-1.1%	3.0%	3.6%	3.0%	4.8%	2.2%	-1.8%
Occupancy (%)	74.7	76.6	76.4	77.9	77.9	76.2	74.2
% Change	-0.8%	2.7%	-0.3%	2.0%	0.1%	-2.3%	-2.6%
RevPAR (£)	52.41	55.42	57.22	60.14	62.99	62.97	60.19
% Change	-2.0%	5.8%	3.2%	5.1%	4.8%	-0.1%	-4.3%
Hotel Statistics for London	2003R	2004R	2005R	2006R	2007R	2008F	2009F
Average Room Rate (£)	91.3	94.48	97.33	103.02	112.4	118.5	118.11
% Change	-3.0%	3.5%	3.0%	5.8%	9.1%	5.4%	-0.2%
Occupancy (%)	72.3	75.8	74.6	80.5	81.1	79.5	70.2
% Change	-2.7%	5.1%	-1.4%	7.9%	0.8%	-1.9%	-11.8%
RevPAR (£)	66.06	71.61	72.66	83.04	91.27	94.28	82.92
% Change	-5.5%	8.8%	1.6%	14.3%	10.0%	3.4%	-11.9%
Hotel Statistics for the Provinces	2003R	2004R	2005R	2006R	2007R	2008F	2009F
Average Room Rate (£)	58.2	59.85	62.12	63.25	65.03	65.48	63.82
% Change	-0.3%	2.8%	3.8%	1.8%	2.8%	0.7%	-2.5%
Occupancy (%)	68.8	70.2	70.2	70.4	70.2	68.6	68.8
% Change	-0.3%	2.0%	0.0%	0.3%	-0.2%	-2.4%	0.3%
RevPAR (£)	40.06	42.02	43.65	44.56	45.69	44.96	43.93
% Change	-0.3%	4.9%	3.9%	2.1%	2.6%	-1.7%	-2.2%
Hotel Statistics for Manchester	2003R	2004R	2005R	2006R	2007R	2008F	2009F
Average Room Rate (£)	60.03	62.73	65.49	66.83	69.15	71.59	71.16
% Change	1.2%	4.5%	4.4%	2.1%	3.5%	3.6%	-0.5%
Occupancy (%)	70.8	73.3	73.9	74.0	73.0	70.3	68.0
% Change	0.6%	3.6%	0.9%	0.1%	-1.3%	-3.7%	-3.2%
RevPAR (£)	42.49	45.98	48.44	49.51	50.48	50.35	48.39
Change	1.9%	8.2%	5.5%	2.2%	2.2%	-0.2%	-3.6%
Hotel Statistics for Birmingham	2003R	2004R	2005R	2006R	2007R	2008F	2009F
Average Room Rate (£)	60.75	62.47	63.5	64.81	64.77	64.48	62.63
% change	1.1%	3.0	1.7%	2.0%	0.1%	-0.4%	-2.7%
Occupancy (%)	67.6	68.9	68.7	68.2	67.3	64.1	65.9
% Change	-0.2%	2.1%	-0.3%	-0.7%	-1.2%	-4.7%	2.8%
RevPAR (£)	41.1	43.07	43.59	44.26	43.67	41.34	41.28
% Change	1.0%	5.3%	1.4%	1.3%	-1.1%	-5.0%	0.1%
Hotel Statistics for Edinburgh	2003R	2004R	2005R	2006R	2007R	2008F	2009F
Average Room Rate (£)	68.09	71.32	74.65	76.97	80.82	80.84	79.66
% Change	-0.7%	4.7%	4.6%	3.2%	4.9%	0.2%	-1.6%
Occupancy (%)	74.3	76.3	76.4	77.9	78.0	74.2	75.1
% Change	0.8%	2.8%	0.1%	2.1%	0.2%	-4.8%	1.0%
RevPAR (£)	51.06	54.87	57.54	60.54	63.67	60.51	60.5
% Change	0.1%	7.6%	4.7%	5.3%	5.1%	-4.6%	-0.7%

Source of Forecast: PricewaterhouseCoopers Forecasting Model, November 2008
Note: Historic data are from STR Global
R: Revised F: Forecast

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