

## Quick Stats

Central London	Changes over previous year	
	Q1 11	Q1 10

Occupancy	↓	↑
ADR	↑	↑
RevPAR	↑	↑

UK Regional	Changes over previous year	
	Q1 11	Q1 10

Occupancy	→	↑
ADR	↑	↓
RevPAR	↑	↓

Manchester (Guest Location)	Changes over previous year	
	Q1 11	Q1 10

Occupancy	↑	↑
ADR	↑	↓
RevPAR	↑	↑

Source: **HotStats**

## Quarter at a Glance

London hotels trading strongly with high occupancy and continued growth in ADR. Trading in the regions remains difficult.

## MARKET OVERVIEW

### • Central London

Demand fell slightly in first quarter of 2011 compared to same quarter in 2010 with occupancy dropping by 3.4% to 75.6%. However, ADR continued to show strong levels of growth rising by 8.4% to £135.65 compared to £125.10 in Q1 2010. Hence, RevPAR grew by 4.7% over the period purely as a result of ADR growth. This shows that London hotels continue to trade well.

### • UK Regional

UK regional hotels are starting to show positive signs of growth in ADR albeit at more limited levels with a rise of 1.3% compared to Q1 2010. However, occupancy has remained static showing that the rise in RevPAR is purely rate driven.

### • Manchester

Manchester has witnessed a small rise in ADR for Q1 2011 over the previous year growing by 0.6% to £71.32. This is positive given the 4.2% fall in ADR for Q1 2010 compared to 2009. However, this rise is below the UK regional average mainly as a result of increased supply and fall in demand from UK conference and corporate markets during the recent economic downturn. Q1 2011 occupancy has also shown a small increase over Q1 2010 by 1.0% to 72.2% which is encouraging and results in a RevPAR growth of 1.5%.

## MARKET SENTIMENT

### • Capital Markets

Equity from both UK and overseas looking for a home and keen to invest. International buyers are very location sensitive and specific (London and other major "gateway cities").

In provincial / secondary locations buyers need to see IRR's of at least 15%. Lack of debt is characterising market place and becoming more difficult the higher the quantum required.

Little product is on market, however, there is buyer expectation of many distressed sales forthcoming by Q3 (NAMA Etc).

Jittery market and lender due diligence means that deals typically taking around nine months to complete.

### • Valuations

With trading conditions remaining difficult in provincial UK, lenders have become increasingly conscious of the ability of borrowers to service debt and are monitoring loan-to-value ratios with increasing regularity and the majority of valuations are still being requested for re-financing and re-structuring.

However, as the volume of transactions picked up, the number of valuations for transactional purposes has also increased. April saw a lull in activity from lenders, owners and purchasers affected by the extended holiday period around Easter and The Royal Wedding.

## CBRE MARKET FORECAST

- Consumer discretionary spend is expected to fall as unemployment is projected to rise particularly from the threat of increased public sector cut backs together with low wage growth in general, with real incomes falling for the first time in many years.
- Government spending will decline due to the pressure of the national debt burden with the austerity measures that have already been announced. This is expected to put pressure on both public and private sectors, impacting lodging demand from government and corporate market segments alike. Feedback from hotels in London and the Regions has been mixed with regard to the renegotiation of corporate rates as hotels try to pass the increase in VAT on to their guests.
- Instability in the Middle East and the potential for disruption to oil supplies has sent oil prices soaring to around \$115 a barrel by the end of March which will affect the cost of air travel. This has added to inflationary pressures for Western economies and more especially for the UK on account of the weakness of sterling and may support the continued trend of "stay-cation" for British residents, but will also threaten inbound tourism to the UK.

### CBRE Hotels' Projection of Occupancy, ADR & RevPAR (2010-2013) Projected annual year-on-year change (including inflation)

YEAR	LONDON HOTELS			REGIONAL HOTELS		
	OCC	ADR	REVPAR	OCC	ADR	REVPAR
2010 Actual	2.40%	8.90%	11.60%	2.40%	-0.90%	1.50%
2011 Forecast	-1.00%	7.50%	6.50%	0.00%	1.50%	1.50%
2012 Forecast	2.50%	5.00%	7.50%	1.00%	4.00%	5.00%
2013 Forecast	-2.50%	5.00%	2.50%	-0.50%	5.00%	4.50%

#### London

- London had proved extremely resilient to the market downturn but new supply entering the market has led to a weak first quarter of 2011. With a further 600 new deluxe hotel rooms entering the market during 2011, it is expected that a positive impact will be seen on ADR, although occupancy growth will be limited as increased supply is absorbed. Tourism promotion by London & Partners over the coming twelve months starting this Summer with numerous events and ending with the Queen's Jubilee closely followed by the Olympics should raise the profile of London as a destination throughout the year, but the effects of reduced government spending will impact trading.
- The Olympic Games are projected to have a positive impact on RevPAR in 2012, however we have been cautious in our estimates, due to the inconsistent impact seen historically at other Olympic cities. 2013 is expected to see a decline on 2012's exceptionally strong occupancy, although ADR growth will compensate for this, leaving RevPAR broadly flat.

#### Regions

- Regional hotels came under continued pressure during 2010 and this has not abated in 2011. The tightening of government spending is already impacting hotels across the UK and has been particularly pronounced outside regional centres and core markets. At best, Regional hotels have held rates in line with inflation in their rate negotiations for 2011 but government cuts, coupled with indications of weaker domestic leisure, are expected to put pressure on both occupancy and ADR.
- The Olympic Games is expected to generate some overflow for regional destinations, particularly those in the south east, with hotels witnessing more significant increases in ADR from 2012. However, it is expected that the government austerity measures and reduced public sector spending will continue to limit hotels' ability to increase occupancy.

The data contained in this document is intended as a forecast, being based on CBRE Hotels' knowledge of current market conditions across Regional UK and London, and is intended to provide general guidance only. Individual hotel performance will differ from this market average dependent on many factors including location, quality, condition and branding.

**YIELDS**

**Demand Outweighs Supply**

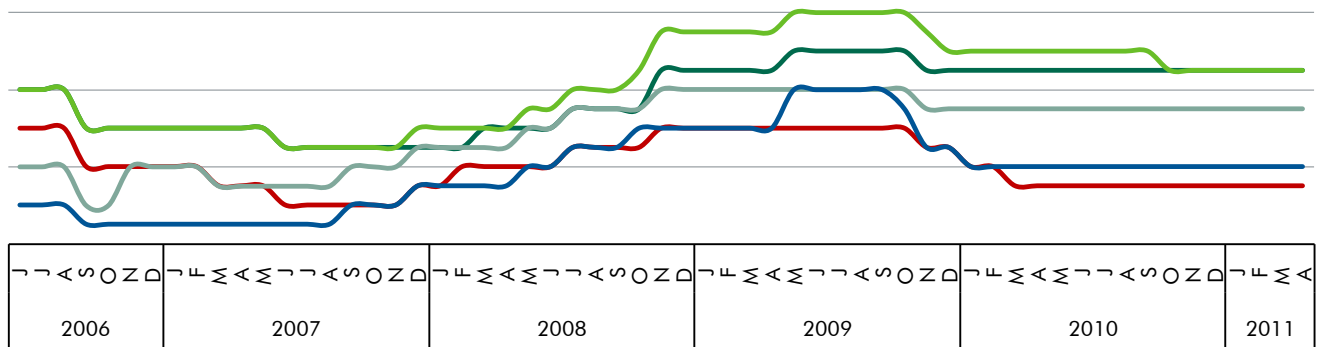
- In line with other commercial real estate markets, the hotel investment market experienced a sharp downturn in investor demand and pricing from 2008, driven by nervousness in the face of an economic recession, a lack of available debt finance and a disconnect between vendors' and purchasers' requirements. This resulted in a softening of yields across all sectors of hotel real estate. However, towards the end of 2009 and throughout 2010, the lack of supply of hotels being offered for sale led to increased competition amongst investors, driving pricing up and yields down.
- In particular, demand for upscale (and often trophy) London hotels with vacant possession and hotels throughout the UK subject to leases to a good covenant tenant with index linked rent, led to yields for these type of properties sharpening, as demand outweighed supply. Most of the limited transactions that have occurred in 2009 and 2010 in the provinces relate to branded budget hotels which are operated under a lease with strong covenants in place such as Whitbread (Premier Inn).

**Administrations and Mid Market Hotels**

- Over the past 12 months, the number of hotels entering administration has grown, with the majority occurring in provincial UK mid market hotels. This has inevitably led to an increase in the number of mid-market, branded and unbranded, hotels being offered for sale. Whilst yields on mid-market provincial hotels have remained relatively static, pricing has softened in reaction to weaker trading.

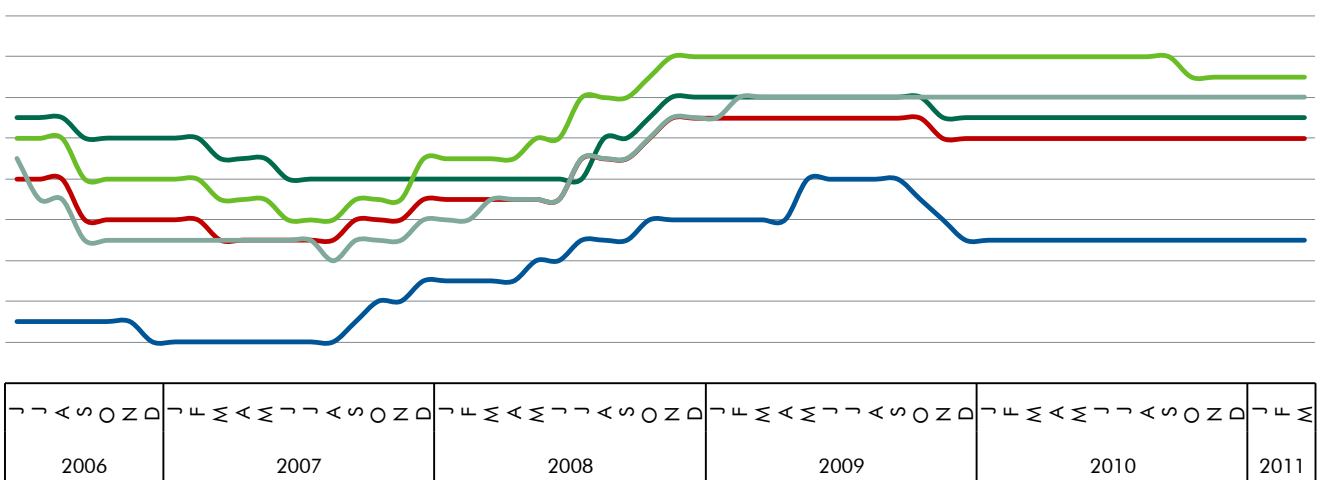
**Yield Trends: Central London and Prime UK**

**Central London**



VP Limited Service VP Mid Market VP Upscale Management Contract Good Covenant Lease

**Prime UK**



VP Limited Service VP Mid Market VP Upscale Management Contract Good Covenant Lease

Source: CBRE Hotels Research

## TRANSACTIONS

### • London

The volume of hotel transactions in London during 2010 were nearly three times that seen in 2009, with the majority of investor interest focussed around luxury assets. The sale of the Grosvenor House Hotel in December was the largest ever single asset hotel transaction in Europe at £470m and represented the first time in a number of years that a hotel on Park Lane, generally considered the location in London, had transacted on the open market. The hotel is leased to Marriott under their JW Marriott brand and the hotel was bought by an Indian investor. In November, Mountain Capital successfully sold the St James's Hotel and Club for just over £900,000 per room. The purchase price of £57m represented a 3% initial yield.

The supply of trophy London hotels on the market has been relatively limited and investors, who are keen to invest in London whilst the Pound is weak, have been looking at other avenues to obtain a trophy hotel in London. During 2010, six sites with consent or potential for consent for hotel development were sold for prices which exceeded expectations. The Berners hotel was sold out of administration and part way through a major refurbishment, to Marriott for development under their Edition brand, for nearly £375,000 per room. The Strand hotel development, which had been mothballed following administration, was sold for more than £700,000 per room in September 2010 and Bow Street Magistrates Court with permission for an 86 bedroom hotel for around £350,000 per room.

London remains top of most hotel investors' lists of desired locations and transactional activity has continued in 2011 with the sale of the Cadogan Hotel, the Dorset Square Hotel, the Royal Park Hotel and the Grosvenor Kensington in the first half of the year.

### • UK Provincial

The main area of investor activity in the UK Provincial hotel market during 2008 and 2009 was the sale of branded budget hotels, let to Travelodge and Premier Inn (Whitbread) with index linked rent. Since August 2008, more than 40 hotels or hotel developments, let to Travelodge or Premier Inn, have transacted, with many completing during 2009 despite limited debt availability and poor investor sentiment in other areas of commercial property.

Although the volume of transactions by number in Provincial UK was larger than those in London during 2010, investor demand was noticeably lower and pricing was weak. The majority of vendors were administrators and subsequently investors perceived an opportunity to invest in the sector at rock bottom prices. Hotels sold out of administration included Gravetye Manor in East Grinstead, the Novotel Edinburgh Park, The Point Hotel in Edinburgh and the Park Inn St Helens with prices ranging from as low as £36,000 per room (the Park Inn St Helens) to £300,000 per room (Gravetye Manor). Transactions of hotels out of administration continued into 2011 with the sale of the remaining four Pedersen properties, which went into administration in June 2010, for an average of £71,000 per room, and two hotels previously owned by Beetham in Manchester and Liverpool at £122,000 per room.

**For more information regarding this MarketView, please contact:**

#### Owen Pritchard

##### Brokerage

CBRE Hotels

St Martin's Court

10 Paternoster Row

London EC4M 7HP

t: +44 20 7182 3963

e: owen.pritchard@cbrehotels.com

#### Jane Lees

##### Valuation

CBRE Hotels

St Martin's Court

10 Paternoster Row

London EC4M 7HP

t: +44 20 7182 3971

e: jane.lees@cbrehotels.com

#### Julian Kemp

##### Hotel Consultancy Services

CBRE Hotels

St Martin's Court

10 Paternoster Row

London EC4M 7HP

t: +44 20 7182 3975

e: julian.kemp@cbrehotels.com

#### Disclaimer 2011 CB Richard Ellis Hotels Ltd

Information herein has been obtained from sources believed to be reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to independently confirm its accuracy and completeness. Any projections, opinions, assumptions or estimates used are for example only and do not represent the current or future performance of the market. This information is designed exclusively for use by CB Richard Ellis Hotels Ltd's clients, and cannot be reproduced without prior written permission of CB Richard Ellis Hotels Ltd.

© Copyright 2011 CB Richard Ellis Hotels Ltd