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UK HOTEL MARKET TRACKER: Q4 2018

Strong quarter for London, but Brexit uncertainty continues

London enjoyed an incredibly positive end to 2018, with RevPAR growing by 10% in Q4 due to a number of successful events. In contrast, the regions continued the trend of plateauing growth, with hoteliers' attempts to bolster occupancy by not increasing rates failing to have any material change. Despite a surge in London, operators throughout the UK are keeping a close eye on rising costs, particularly in light of pipeline additions in excess of historical demand growth. The total 2018 transaction value dropped by over £1 billion in comparison to the previous year. Buyers are being more cautious and sellers are also waiting for a solution to Brexit, as they don't want to undersell.

PERFORMANCE

	OCCUPANCY CHANGE (Q4 YOY)	AVG ROOM RATE CHANGE (Q4 YOY)	REVPAR CHANGE (Q4 YOY)	REVPAR CHANGE (LTM)
London	85.6% 5%	£157.20 5%	£134.59 10%	£124.70 3%
Regions	74.3% 1%	£70.37 (0)%	£52.30 0%	£55.20 2%

Source: STR Key: <0% 0-3% >4% LTM = Last 12 months
Note: Absolute metrics (above) and percentage change (below) are displayed in the performance section.

SUPPLY

LTM SUPPLY CHANGE

ACTIVE PIPELINE AS PERCENTAGE OF SUPPLY

Source: AM:PM
Note: Sliding colour scales provide an indication of the risk implied by each supply metric.

London reported very positive RevPAR performance in Q4 2018. A three-week schedule of NFL fixtures at Wembley helped spur demand, while the World Travel Market and ATP Tennis Finals gave November a demand boost. 2018 full-year RevPAR figures were also encouraging, rising by 3.1%. The capital's full-year figures highlight the significance of a strong Q4 performance, given that through September, YTD RevPAR rose just 0.6%.

Full-year RevPAR performance in the regions was tempered by supply growth, as inventory grew by 1.8%, just eclipsed by demand at 2.1%, pushing RevPAR up by 1.5%. Supply in London grew 2.0% and 1.8% in the regions in 2018, with 4.0% more rooms expected to enter the London market in 2019 and 3.3% for the regions.

From a profitability perspective, operators remain concerned about issues such as staffing availability, payroll costs, and longer-term expectations of rising operating expenses, many of which are Brexit-related.

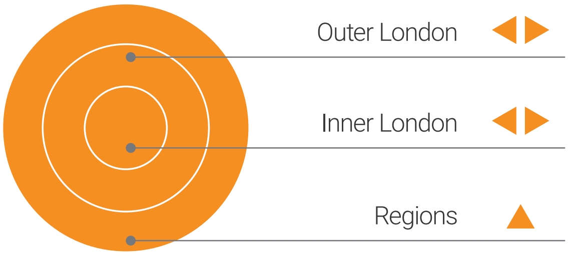
TRANSACTIONS (LTM)

▼ 28% — LONDON £1.5bn

▲ 28% — REGIONS £2.8bn

Source: HVS

YIELD TRENDS[1]



1. Yield movement since previous quarter

The effect of Brexit is clearly showing through in the slowing down of the UK hotel transaction market, which fell by £1 billion in 2018, an annual drop of 19%. Buyers are being more cautious and sellers are adopting a reserved attitude in case they are found to be selling too cheaply. Despite this, there is continued interest to acquire hotels in London whenever they come on to the market. Key transactions in Q4 include the sale of the 312-room Midland, Manchester for £115.3 million (£370,000 per room) to Pandox and Fattal Hotels and Starwood Capital's sale in October 2018 of six De Vere Hotels for £162 million (£94,000 per room) to PGIM Real Estate. In the final quarter of 2018 we did not detect any material change in yield expectations.

If a Brexit solution can be found which is well received by the financial markets, then we could see some of the remaining PE funds' holdings making a dash for the market. But, otherwise, a 'wait and see' outlook is more likely to be on the cards during 2019.

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ABOUT ALIXPARTNERS

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

ABOUT HVS

HVS is the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming and leisure industries. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, investors, lenders, operators and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 60 offices and 350 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.

Superior results through unrivalled hospitality intelligence. *Everywhere.*

ABOUT STR

STR is the source for premium global data benchmarking, analytics and marketplace insights. Our data is confidential, reliable, accurate and actionable. Our comprehensive solutions, analytics and unrivalled marketplace insights are built to fuel growth and help our clients make better business decisions.