

Colliers UK Hotel Market Index



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INTRODUCTION

This is the first edition of the Colliers UK Hotel Market Index. The UK Hotel Market Index (UKHMI) is an innovative market tracking index that analyses nine key performance indicators of 36 cities in the UK and consolidates these into a single ranking. The criteria considered are:

- GDP per capita
- Room Occupancy
- Active pipeline as a % of current supply
- Land Site Prices
- 3 year RevPAR Trend
- Valuation Exit yields
- Market Appetite
- Build Costs
- Average Daily Rate

By consolidating such varied criteria into a single figure we can see which markets are hot and which ones are not for both the acquisition of existing hotels and the development of new properties. This UK hotel market index will be updated every six months to ensure that we provide the most up to date data possible.

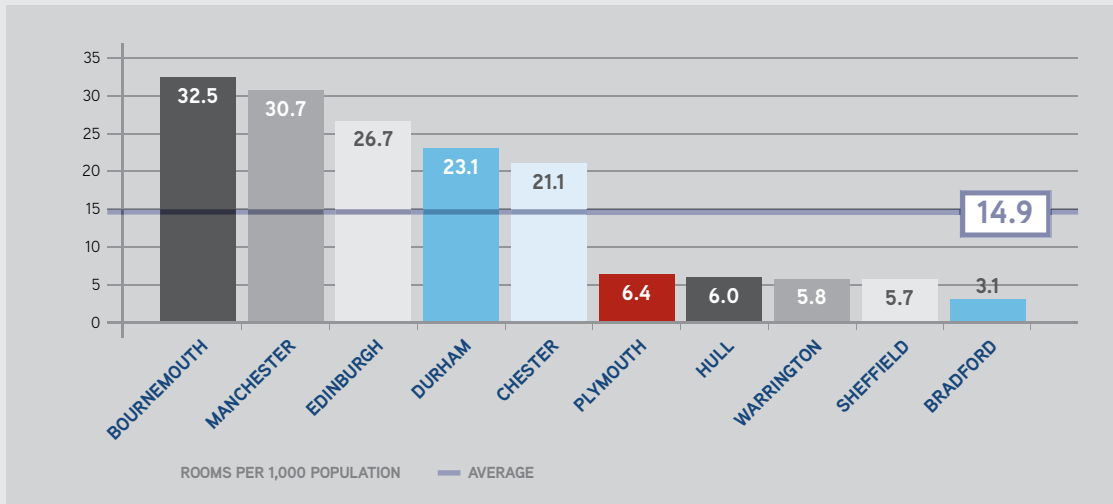
We would like to thank all of those who have helped us with this research especially the team AM:PM Hotels whose data has proven essential to this report.

HOW IT WORKS

Each of the above criteria is weighted to give an overall weighted index figure scored on a scale of 1- 5 with 1 being the lowest and 5 the highest.

ROOMS PER 1,000 POPULATION

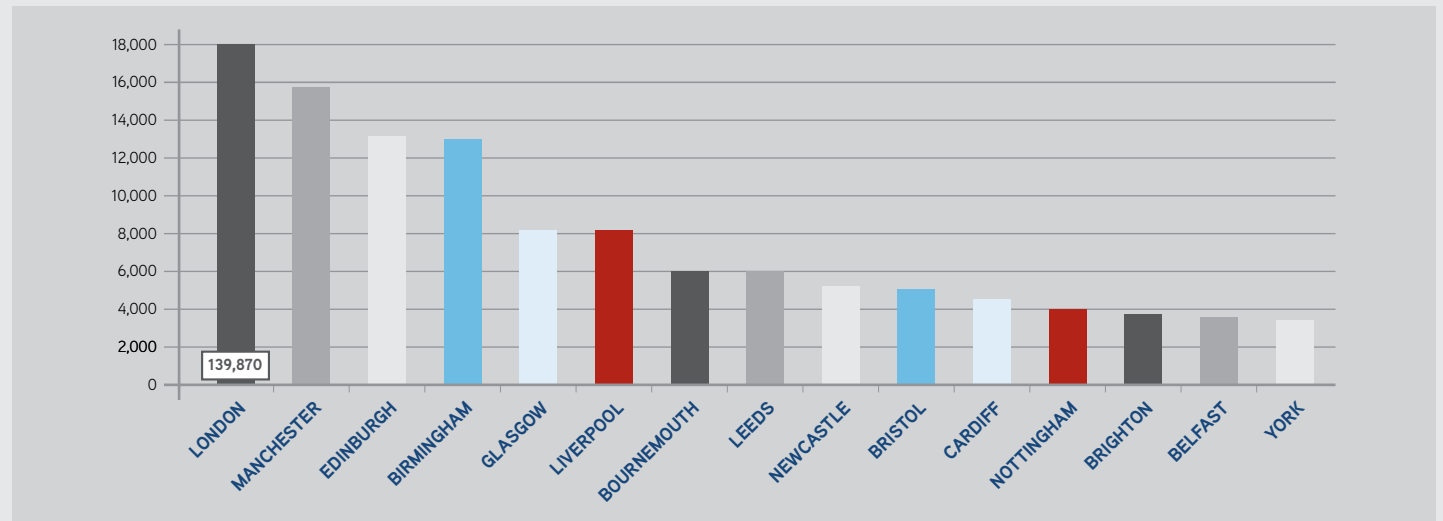
Although this data has not been used for the overall Colliers UK Hotel Market Index, because some markets are inherently tourist and/or business destinations, we believe that providing an overview of the room density per city provides interesting observations.



Bournemouth leads the count of hotel rooms per population with the highest density of rooms across all the markets analysed with 32.5 rooms per 1,000 population. Bournemouth is one of the most popular seaside destinations in the UK and the fact that they have a high room count per head is unsurprising. On the other hand, cities like Manchester and Edinburgh have high room counts per population because they have a good mix of leisure and business demand. London does not appear amongst the markets with the highest rooms per head ratio, even if the capital does account for over 48% all rooms in this sample, as this is offset by the significant resident population.

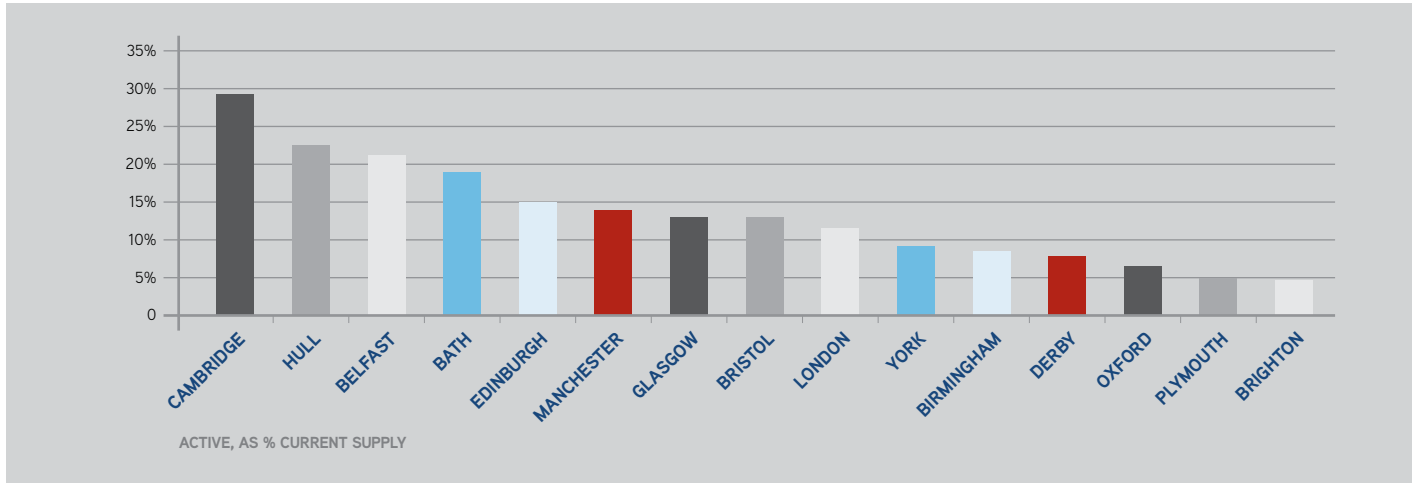
CURRENT SUPPLY

The total current supply (as at 31st December 2015) of the 36 analysed hotel markets is of 286,966 rooms. The largest market is London which accounts for 48.7% of the total bedroom supply. The following table shows the top five regional hotel markets and London in terms of existing supply.



ACTIVE PIPELINE AS A % OF TOTAL SUPPLY

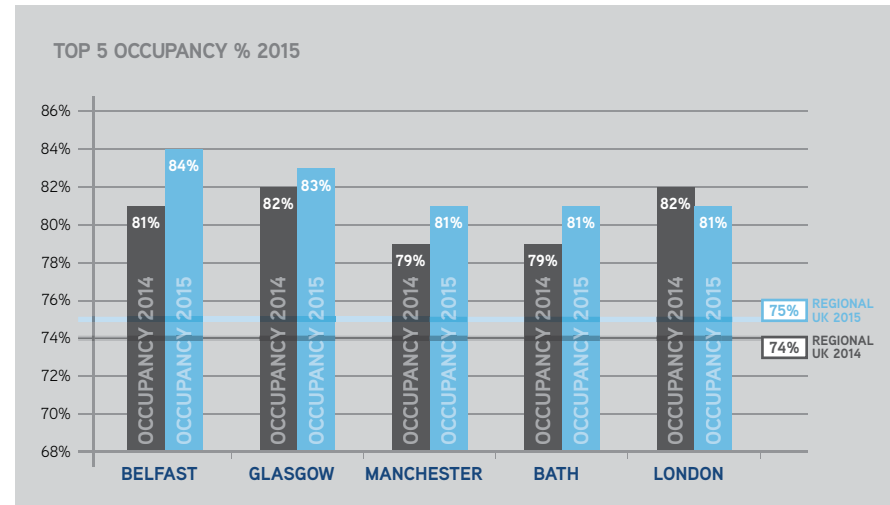
For the purpose of this research, we have focused on the “active” hotel development pipeline which quantifies all proposed hotels that are likely to open within the next three years. This time is considered to be a reasonable timeframe to move from planning to opening. We have used AM:PM data and have only quantified the rooms classified under “active” pipeline which automatically excludes proposals which are either on hold or considered speculative.



London’s active pipeline is higher than the entire existing supply of Manchester, the second largest hotel market in the UK. Cambridge, Hull and Belfast are the markets with the highest share of new supply entering the market with 29.4%, 22.7% and 21.1% active pipeline respectively, albeit from a low base of existing supply. However in actual terms London (16,269 rooms), Manchester (2,197) and Edinburgh (2,017) have the largest expected new room supply.

TOP 5 OCCUPANCY

In 2015, the regional UK market occupancy, excluding London, increased to 75%, up from 74% the previous year. Of the top five markets in terms of occupancy, London was the only market to record a marginal decline in 2015, down 1 percentage point on 2014 levels; although still enjoying a robust, healthy demand profile. Generally, it is considered that a market with annual occupancies in excess of 80% benefits from a strong mix of midweek and weekend demand. That is why our Colliers Index ranks all markets with occupancy levels higher than 80% with its top score.

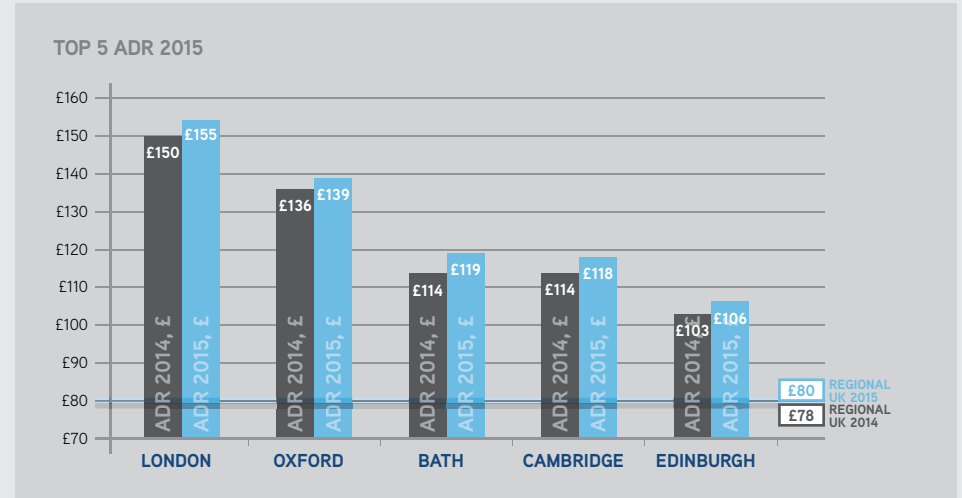


TOP 5 ADR

The top markets in terms of Average Daily Rate (ADR) in 2015 all recorded growth on 2014 levels. These markets are significantly ahead of the regional UK market average of £80, all recording an annual ADR in excess of £100.

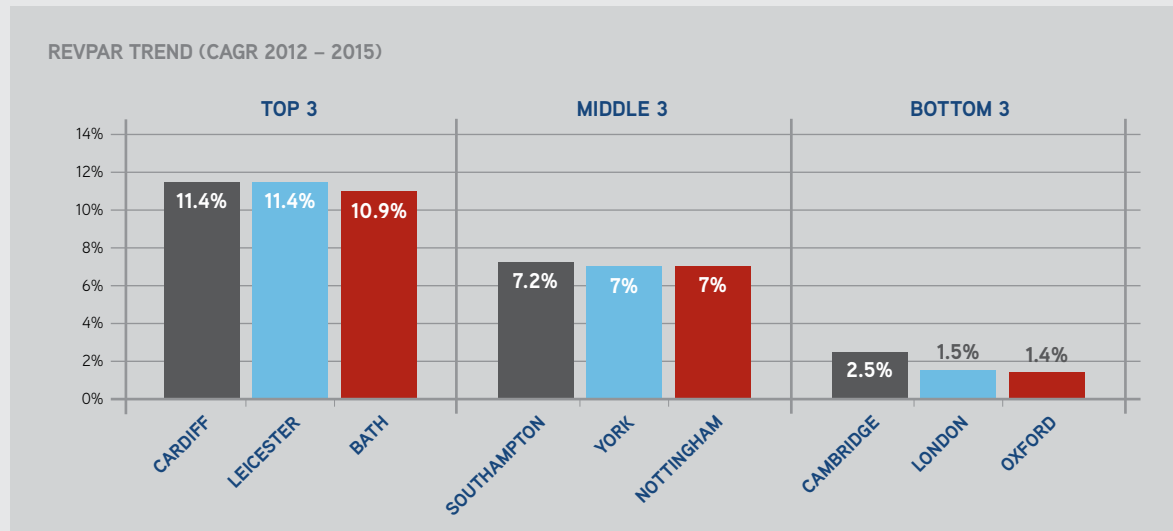
ADR is driven by a combination of strong demand, a varied mix of demand generators and the quality of the hotel accommodation. Therefore some of the markets that experienced high demand in 2015 (in terms of occupancy) do not necessarily have high ADRs as supply in these locations could be orientated towards the budget sector, or the quality of existing stock may not justify charging higher rates.

Markets with ADR levels above £100 have been attributed a Colliers Index top score.



REVPAR TREND CAGR 2012-2015

The table below shows the Compounded Annual Growth Rates (CAGR) between 2012 and 2015 for the Top 3, Middle 3 and Bottom 3 markets in terms of Revenue Per Available Room (RevPAR) growth.



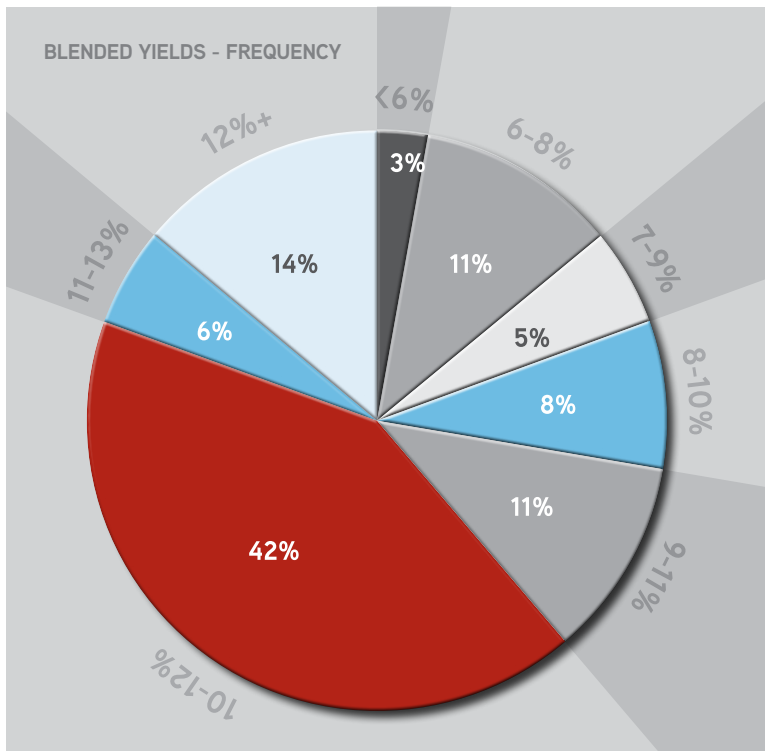
Cardiff has seen the biggest CAGR increase over the reviewed period, with good growth every year but reinforced by the Rugby World Cup in 2015. Leicester has grown rapidly too, albeit from a much lower base. On the other hand, markets such as London and Oxford already enjoy high occupancy levels and ADR's therefore making growth (as a %) comparatively lower than other markets.

Interestingly Southampton, York and Nottingham fall within the middle range; all of which tracking a CAGR of around 7% over the period. This has been driven mainly by the growth of occupancy in these markets, as consumer confidence and business spending recovered in the UK since 2012.

MARKET APPETITE AND TYPICAL YIELDS

With various economic, political and social difficulties across Europe during 2015, the UK has been experiencing good yield returns overall with cross border investment considering the UK as a safe haven. We expect this to continue during 2016. The information of both indexes intend to show the interest and expected level of returns for a typical investor within the hotel sector based on our sector experience and the work we have carried out in the different markets.

The following graph shows the most common blended yields seen in the 36 markets analysed.



DEVELOPMENT COST INDEX

All parties involved in hotel development within the UK appreciate the costs involved in bringing a hotel to fruition. Through our research and analysis in preparing the UK Hotel Market Index, we analysed the cost to build and acquire land. While locations such as London, Edinburgh and Oxford command higher land prices and construction costs, other markets offer a comparatively more affordable development proposition. We present the Top 6 in this respect below.

CITY	BUILD COST PER SQM	BUILD COST COLLIERS INDEX	LAND SITE PRICE	LAND SITE COLLIERS INDEX	AVERAGE 'DEVELOPMENT COST' INDEX
Bradford	£1,335	5.00	<£10,000	4.50	4.75
Coventry	£1,410	4.50	<£10,000	4.50	4.50
Sheffield	£1,440	4.00	<£10,000	4.50	4.25
Cardiff	£1,350	5.00	£10,000 - £12,000	3.50	4.25
Warrington	£1,350	5.00	£10,000 - £12,000	3.50	4.25
Hull	£1,380	5.00	£10,000 - £12,000	3.50	4.25
Total - Average	£1,500				

OVERALL INDEX

UK HOTEL MARKET INDEX - COLLIERS INTERNATIONAL

RANKING	CITY	POPULATION	GDP	BUILD COST	LAND SITE PRICE	ACTIVE PIPELINE	MARKET APPETITE	VALUATION YIELD	MARKETWIDE OCCUPANCY	MARKETWIDE AVERAGE DAILY RATE	REVPAR TREND	OVERALL INDEX
1	Cardiff	486,624	4.5	5.00	3.5	5.0	3.0	2.0	4.5	4.0	5.0	4.08
2	Manchester	1,513,981	4.0	4.50	3.0	2.5	4.0	4.0	5.0	4.0	4.0	3.92
3	Leeds	771,166	3.5	5.00	3.0	4.5	3.0	2.0	4.5	3.5	5.0	3.84
4	Chester	333,643	3.5	4.50	3.0	5.0	4.0	2.5	4.0	3.5	3.5	3.80
5	Liverpool	475,381	3.5	5.00	3.0	4.5	4.0	2.0	4.0	4.0	3.5	3.78
6	York	205,091	3.5	3.50	2.0	3.5	5.0	4.0	4.0	4.0	3.5	3.74
7	London	8,679,170	4.5	1.00	1.0	3.0	5.0	5.0	5.0	5.0	1.5	3.74
8	Edinburgh	498,533	3.0	2.50	1.0	2.0	5.0	4.0	5.0	5.0	4.0	3.72
9	Brighton	281,843	3.0	1.00	3.0	4.5	4.0	3.0	3.5	4.5	4.5	3.62
10	Bath	666,990	1.5	2.50	2.0	1.5	5.0	3.0	5.0	5.0	5.0	3.62
11	Glasgow	601,037	1.0	3.00	2.0	2.5	4.0	3.5	5.0	4.0	5.0	3.62
12	Bristol	445,782	2.5	2.50	3.0	2.5	5.0	3.0	4.0	4.0	5.0	3.54
13	Durham	518,985	2.0	3.00	3.5	5.0	4.0	2.5	4.5	2.5	2.5	3.52
14	Southampton	246,588	5.0	1.50	3.0	4.5	4.0	2.5	4.5	2.5	4.0	3.52
15	Plymouth	262,552	4.5	3.50	3.5	4.0	3.0	2.0	5.0	1.5	5.0	3.50
16	Milton Keynes	263,230	5.0	2.50	3.0	4.5	4.0	2.0	3.5	3.5	4.0	3.50
17	Birmingham	1,110,057	3.5	4.00	3.5	3.5	4.0	2.0	3.5	4.0	3.5	3.48
18	Norwich	885,441	1.0	4.50	3.5	5.0	3.0	1.0	4.0	3.5	3.5	3.48
19	Warrington	207,336	4.0	5.00	3.5	5.0	1.0	2.0	4.0	3.0	2.5	3.44
20	Portsmouth	211,462	1.0	2.00	3.0	5.0	2.0	2.0	5.0	3.5	3.0	3.44
21	Cambridge	648,286	3.5	3.00	2.0	1.0	5.0	4.0	4.5	5.0	1.5	3.40
22	Reading	894,593	1.5	1.00	3.0	5.0	4.0	2.5	3.5	4.0	3.0	3.38
23	Bournemouth	343,549	2.0	1.00	3.5	5.0	3.0	2.0	4.0	4.0	2.5	3.36
24	Swindon	217,946	4.0	3.50	3.0	5.0	2.0	2.0	3.5	2.5	4.5	3.34
25	Leicester	336,919	3.0	2.50	3.0	5.0	2.0	2.0	3.0	3.5	5.0	3.32
26	Newcastle	844,786	3.0	3.00	3.0	4.5	3.0	2.0	4.5	3.0	1.5	3.30
27	Coventry	334,986	3.0	4.50	4.5	5.0	2.0	1.5	2.5	3.0	4.0	3.28
28	Oxford	677,553	1.0	1.00	2.0	4.0	5.0	3.5	3.0	5.0	1.5	3.26
29	Sheffield	566,488	3.0	4.00	4.5	5.0	3.0	1.0	3.5	2.0	2.5	3.18
30	Gloucester	613,880	3.5	4.00	3.5	5.0	3.0	2.0	3.0	2.0	2.5	3.14
31	Belfast	283,948	2.5	5.00	3.0	1.0	2.0	2.0	5.0	3.0	4.0	3.10
32	Derby	254,805	4.0	3.00	4.5	4.0	2.0	1.5	3.0	2.0	3.5	2.94
33	Nottingham	317,283	4.0	2.00	3.5	5.0	2.0	1.0	3.0	2.0	3.5	2.88
34	Northampton	390,272	3.5	1.00	3.0	5.0	2.0	1.0	3.0	3.0	3.0	2.86
35	Bradford	532,319	2.5	5.00	4.5	5.0	1.0	1.0	2.0	1.0	5.0	2.82
36	Hull	258,129	3.0	5.00	3.5	1.0	1.0	2.0	3.0	1.5	5.0	2.52

CONCLUSION

Cardiff has reached the top of the index mainly due to a low active pipeline, low build costs and strong hotel performance over the past three years (at least partly fuelled by the 2015 Rugby World Cup). Manchester ranks second, largely due to good investment and valuation parameters and strong hotel performance, exacerbated by a relatively small number of recent hotel openings. It does however, have a strong active pipeline and it will be interesting to monitor the potential impact this may have on the overall hotel performance. Leeds has achieved third place in our index, primarily on the back of strong performance and a low level of new supply.

London is by far the largest market with almost as much supply as all of the other markets combined and has recently been a star performer in terms of RevPAR. However, given that our index punishes high land costs, high construction costs, sluggish growth in 2015 and a strong active pipeline, London only ranks sixth in our index.

At the other end of the spectrum, Bradford and Hull rank lowest overall. Despite more affordable development costs, both are price sensitive markets recording ADRs below the regional UK market average, thus contributing to an overall lower market appetite and valuation yield. Nevertheless, we are still witnessing development activity in these markets, where with the right size and market proposition, successful developments are still being brought to fruition. It is important to note that these markets have been amongst the fastest growing in the UK.

WHY CHOOSE US

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At Colliers we are known for our spirit of enterprise. We have a passion for service excellence and for creating memorable experiences. We share a sense of initiative and tailor our work to your specific needs. Over the years these attributes have helped us accelerate the success of countless developers, investors, owners and hotel companies.

We are passionate about finding custom approaches to accelerate your success. A team of over 30 dedicated hospitality professionals based in the UK are keen to assist you.

This report gives information based primarily on Colliers International data, which may be helpful in anticipating trends in the property sector. However, no warranty is given as to the accuracy of, and no liability for negligence is accepted in relation to, the forecasts, figures or conclusions contained in this report and they must not be relied on for investment or any other purposes. This report does not constitute and must not be treated as investment or valuation advice or an offer to buy or sell property. (2016) ©

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