

**DO NOT
DISTURB**

**DISRUPTION & INNOVATION
IN THE HOTEL MARKET**

**£2.5 BILLION WAS INVESTED
IN UK HOTELS IN H1 2018,
UP 39% ON H1 2017**

**INBOUND TOURISM IS
FORECAST TO HIT A RECORD
41.2 MILLION IN 2018**

**OVER 10,000 NEW HOTEL
ROOMS HAVE OPENED
IN THE FIRST NINE MONTHS
OF 2018**

**EDINBURGH TOPS
LSH'S HOTEL HOTSPOT
RANKING FOR 2018**

WELCOME



NICK BOYD
Operations Director
Hotel & Leisure
Lambert Smith Hampton

We are delighted to launch Lambert Smith Hampton's inaugural report on the UK and Ireland hotel market.

The hotel market is currently in a period of exciting change. Hotel operators are exploring new ideas in order to differentiate themselves from competing brands and alternative accommodation types. Innovative technologies and novel room formats are being used to offer new experiences to hotel visitors.

We see the recent rise of the compact hotel concept, pioneered by brands such as hub by Premier Inn, as an exemplar of the hotel industry's ability to adapt to changing demand and new challenges.

The hotel investment market is also evolving. Hotels are highly sought-after by a range of domestic and international investors, and are no longer viewed as a niche sector within the commercial property investment landscape. Investors are taking increasingly creative approaches in order to gain exposure to the hotel sector with, for example, ground leases gaining popularity.

This report also sees the launch of LSH's first Hotel Hotspot Ranking. Edinburgh takes top spot in our ranking, but the top ten includes a wide geographical spread of cities, reflecting the diverse range of opportunities currently available in the sector.

LSH has a dedicated team of hotel specialists which is supported by our unrivalled network of 31 offices in the UK and Ireland. We focus on developing longstanding relationships with our hotel industry clients. We would be delighted to assist you with your future plans in this exciting sector.

HOTELS ON THE UP

The hotel sector has continued to perform positively, reacting well to the emergence of a number of new market disruptors in recent years.

HOTEL MARKET GROWTH

Hotel occupancy rates have remained robust in most UK cities, and healthy growth has been recorded in ADR and RevPAR. This is despite a number of market uncertainties such as the potential long-term effect of Brexit on inbound tourism, the challenge posed by the rise of the Airbnb market and the growth of online booking platforms.

The hotel sector and the wider hospitality industry have been among the fastest-growing parts of the UK economy over the last decade. Latest ONS data shows the annual turnover of hotels and similar accommodation as £18.4 billion, an increase of over 35% since 2008. Employment within the hospitality industry has grown by more than 30% over the last ten years, more than three times faster than overall UK employment.

International tourists are a key driver of hotel demand, and VisitBritain data shows unabated strong growth in inbound tourism to the UK over recent years. International visitor numbers are expected to hit a record 41.2 million in 2018. To date, Brexit has had no significant impact on international sentiment towards the UK as a travel destination, and the relative weakness of the pound has only added to the country's appeal to overseas tourists.

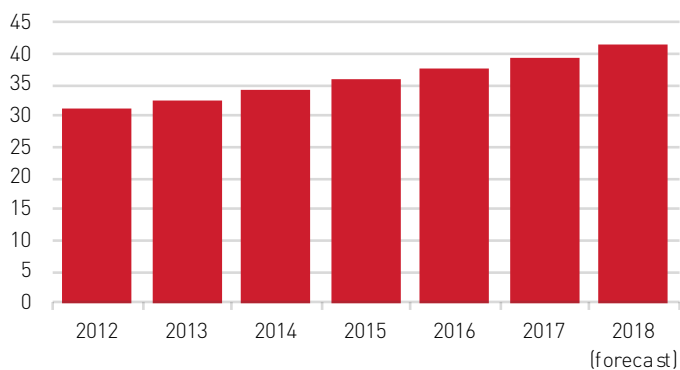
REINVENTING THE HOTEL

While much has been made of the potentially disruptive impact of the Airbnb market, it has so far had little discernible effect on the performance of chain hotels. However, Airbnb's rapid emergence demonstrates the growing demand for a variety of flexible, affordable accommodation providing new consumer experiences.

Hotels are evolving in order to stay ahead of the competition, both by offering enhanced experiences and by maximising the value that can be generated from individual rooms. A key trend is the emergence of the compact hotel room which is described in our feature article, *Small is Beautiful*, later in this report.

The sophisticated use of technology is another increasingly important tool that hotel operators have at their disposal. Innovations exploiting mobile technology, smart rooms and artificial intelligence all have the potential to enhance consumers' hotel experiences.

INBOUND TOURISM TO THE UK (visits, millions)



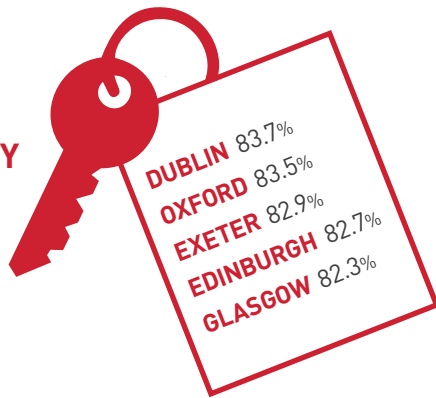
Source: VisitBritain

HOSPITALITY VS TOTAL UK EMPLOYMENT GROWTH (index, Q2 2008=100)

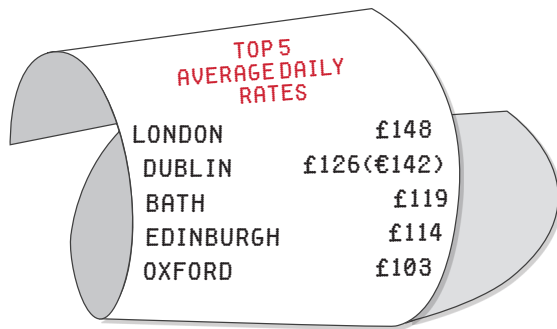


Source: Office for National Statistics/LSH Research

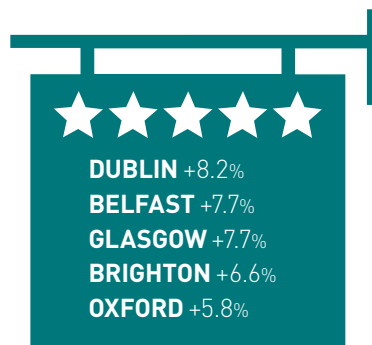
TOP 5 OCCUPANCY RATES



TOP 5 AVERAGE DAILY RATES



TOP 5 REVPAR GROWTH RATES



Source: STR (data for the 12 months to July 2018)

POSITIVE PERFORMANCE INDICATORS

Following a strong 2017, the UK hotel market has sustained its positive performance in 2018. Annual occupancy rates have remained close to 82% in Greater London and 76% in the UK regions. Occupancy rates of over 80% continue to be achieved in some of the UK's most touristic cities, including Edinburgh, Oxford and York.

RevPAR growth in London has been essentially flat over the 12 months, with a high volume of new hotel openings adding to the intense competition within the market. More dynamic RevPAR growth has been recorded in regional cities benefiting from strong tourism trends and limited new development, such as Glasgow, Oxford and Brighton.

However, the strongest increases in RevPAR have been seen across the Irish Sea in Dublin and Belfast. With RevPAR growth of 8.2% over the last 12 months, Dublin has outperformed all of the major UK markets.

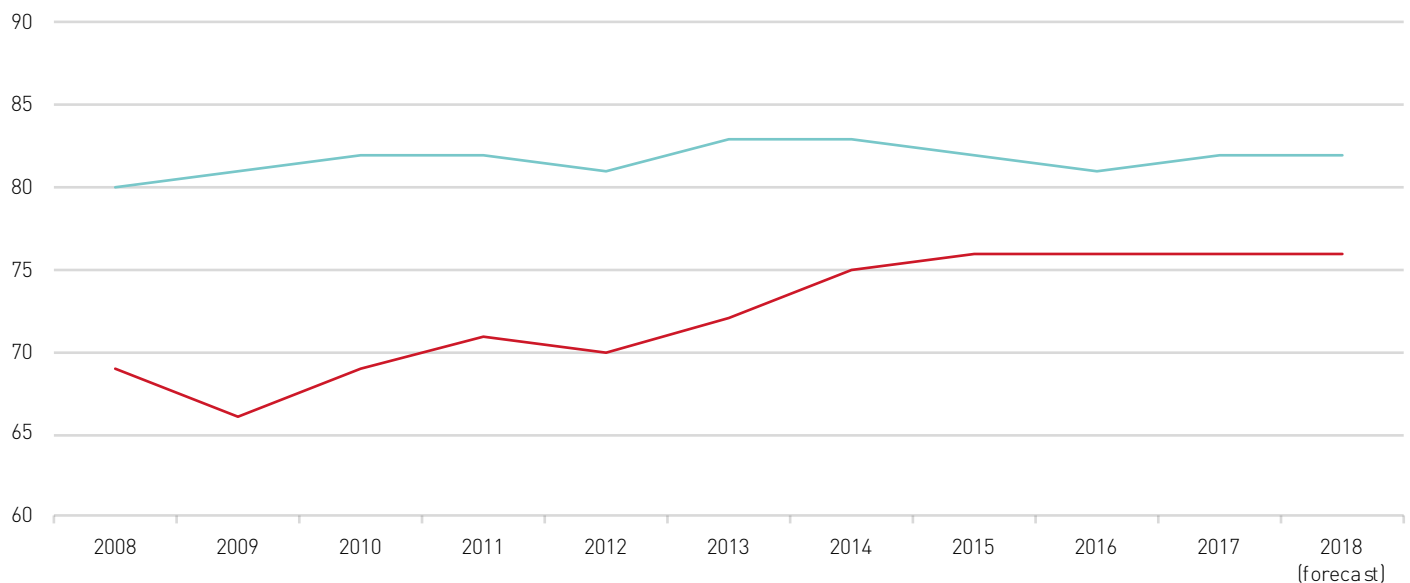
HOTEL HOTSPOTS

The inaugural LSH Hotel Hotspot Ranking, unveiled on the following pages, drills into more detail on the performance of 30 key markets in the UK and Ireland, to assess their strength as locations for hotel investment and development.

The ranking combines data on eight key indicators, including the size of a city's hospitality economy; employment growth in the sector; occupancy rates; ADR; 3-year RevPAR growth rates; the size of the development pipeline relative to current supply; tourist arrivals per hotel room; and hotel build costs.

The top of the ranking has a distinctly Celtic feel, with the top three places taken by Edinburgh, Dublin and Belfast.

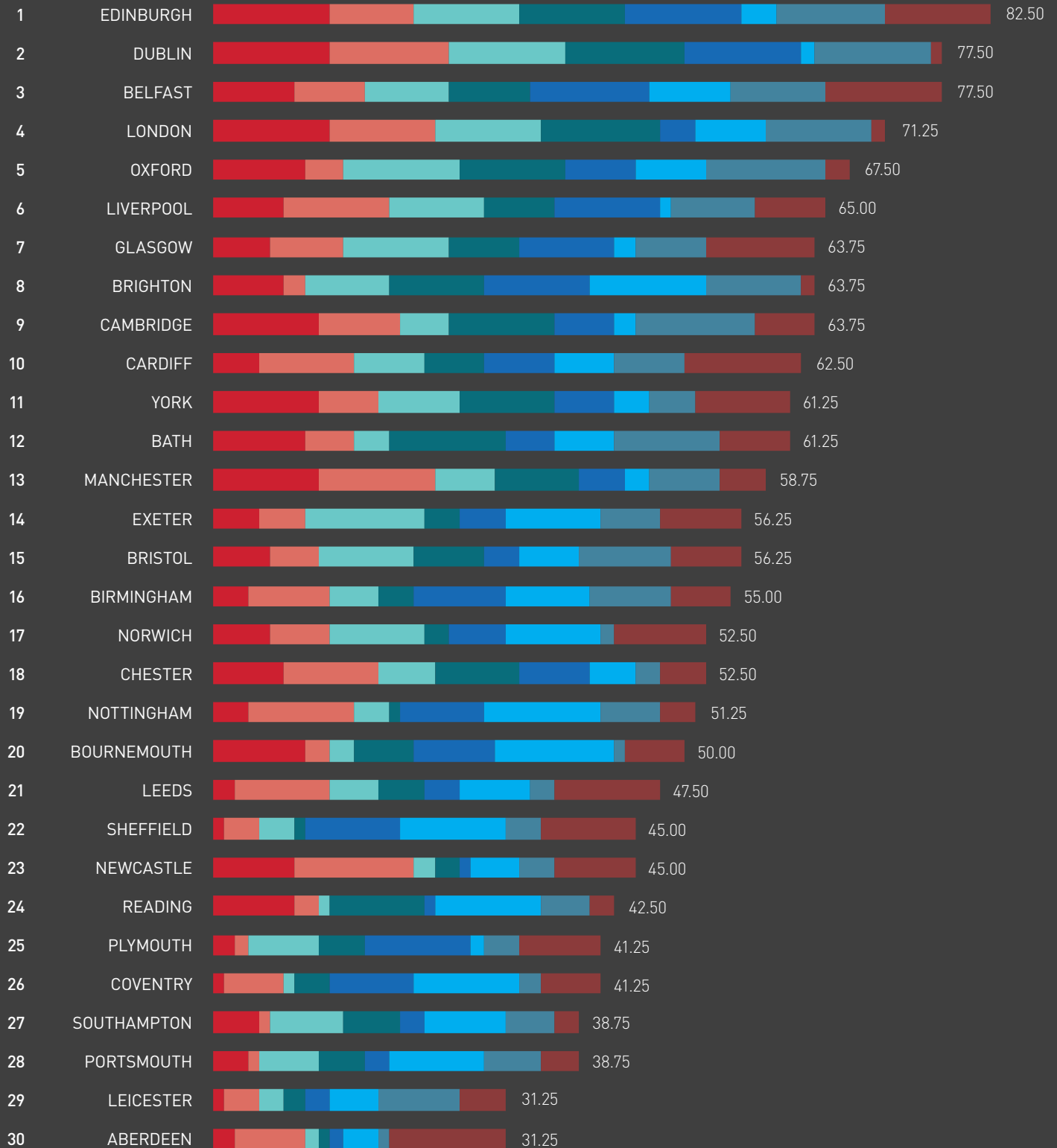
HOTEL OCCUPANCY RATES (%)



■ London ■ UK regions

Source: STR/PwC forecasts

LSH HOTEL HOTSPOT RANKING 2018



■ Hospitality GVA per capita
 ■ Hospitality employment growth rates
 ■ Occupancy rates
 ■ ADR
■ RevPAR 3-year growth
 ■ Active pipeline/supply ratio
 ■ Tourist arrivals/supply ratio
 ■ Hotel build costs

Total scores are out of 100
 Sources: STR, AM:PM, ONS, VisitBritain, Experian, BCIS, NISRA, CSO, Fáilte Ireland, LSH Research

TOP HOTEL HOTSPOTS



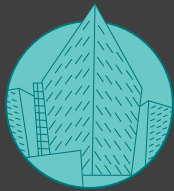
1 | EDINBURGH

The Scottish capital tops the ranking, scoring highly across nearly all key performance indicators. The city has one of the largest tourist economies in the UK and it attracts more international visitors than any other city outside London. Hotel occupancy rates are relatively high all year round, but the city benefits from an annual spike in activity around the Edinburgh Festival Fringe each August, when hotels operate at full occupancy and room rates rival those achieved in London.



2 | DUBLIN

The Dublin hotel market has boomed in recent years on the back of the recovery in the Irish economy and strong growth in international tourist numbers. Over the last three years, RevPAR has increased by nearly 30%. Dublin only misses out on the top spot in the ranking due to its large development pipeline, with more than 4,500 new beds due by the end of 2020, which may cause current supply pressures to ease over the next few years.



3 | BELFAST

Northern Ireland's tourism industry has grown rapidly over the last decade, but hotel development activity has only recently gathered momentum. The mismatch between demand and supply has driven RevPAR growth of more than 25% in Belfast over the last three years. Although there has been a spike in new hotel openings in 2018, the development pipeline for the next two years is comparatively modest.



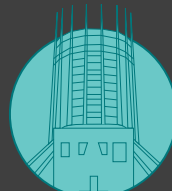
4 | LONDON

The UK capital is the second most visited city in the world and it is by far the largest hotel market in the country. It consistently records room rates well in excess of any other UK city. Its otherwise strong ranking is, however, dragged down by relatively modest RevPAR growth in recent years and high build costs.



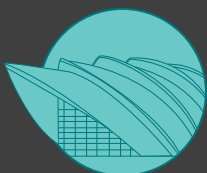
5 | OXFORD

Oxford is one of the UK's most popular tourist destinations, attracting approximately seven million visitors each year. Hotel occupancy rates have averaged close to 84% over the last twelve months. A moderate amount of new hotel development is in the pipeline, but this is unlikely to have a substantial impact on overall occupancy levels.



6 | LIVERPOOL

Liverpool's high ranking comes on the back of its growing tourist economy. The city enjoys an international reputation due to its sporting, musical and maritime heritage, and it is the fifth most visited destination in the UK for overseas visitors. Liverpool's hotel industry has performed well in recent years, recording high occupancy rates and strong RevPAR growth.



7 | GLASGOW

The Glasgow hotel market has performed positively over the last year, and its occupancy rate is one of the highest in the UK, at over 82%. The city has had considerable success in positioning itself as an attractive tourist destination; international visitor numbers increased by nearly a fifth in 2017 to 787,000.



8 | BRIGHTON

Brighton makes a strong showing in the ranking due largely to a combination of high average daily rates, strong RevPAR growth and a relatively modest development pipeline. The city is a perennially popular leisure destination with a tourist offer that has been enhanced by recently launched attractions such as the BA i360 tower and the Brighton Zip.

SMALL IS BEAUTIFUL

Hotel rooms are getting smaller. New brands and concepts are being launched, prioritising location, design quality and technological specifications over room size.

SHORT STAYS AND CENTRAL LOCATIONS

At the heart of the growth of the compact hotel concept is the understanding that some hotel users require little more than a clean, comfortable, affordable and well-located room for the night. This is particularly true for young people and business travellers who may only spend a small amount of time in their rooms. Compact hotels are thus primarily targeted at single travellers and couples on overnight or short stays.

These types of visitors are most likely to stay in city centre hotels, and compact hotel formats have primarily gained traction in central locations, particularly in London. Sites close to airports and other transport hubs can also be well suited to budget compact hotels, designed to accommodate travellers seeking somewhere convenient to sleep for a night before travelling elsewhere.

A PREMIER FORMAT

The UK's biggest hotel brand, Premier Inn, is prominent in the trend towards compact hotels through its offshoot, **hub by Premier Inn**. Since the opening of its first hotel in London's Covent Garden in 2015, the hub brand has grown to comprise seven hotels in central London and three in Edinburgh. Standard hub hotel rooms are 11.4 sq m, approximately 45% smaller than the footprint of a typical Premier Inn room.

Space-saving features are incorporated into the design, including under-bed storage and a desk that folds into the bed. The hotels aim to offer enhanced connectivity with, for example, room controls that can be operated from a smartphone app. According to Premier Inn, build and operating costs for hub hotel rooms are around 25% lower compared with its standard hotels. Given the smaller room footprints, this enables the hub hotels to achieve returns that compare well with regular Premier Inns, despite room rates that are up to 30% lower.

COMPACT CONCEPTS

Compact room layouts are being utilised by an increasingly diverse range of hotel brands. At the budget end of the spectrum are brands such as **easyHotels** and **YotelAir**. The former is positioned in the "super budget" segment, with rooms as small as 6 sq m in some of its London hotels. YotelAir's properties at Heathrow and Gatwick have "cabins" of 7-10 sq m which are bookable by the hour and targeted at air travellers making very short stays.

In contrast, other brands offer a luxury slant on the compact hotel concept. **Z Hotels**, which was launched in 2011, has seven properties in London and one each in Bath, Liverpool and Glasgow.

Its smallest rooms are just 8 sq m, while standard rooms are 10-12 sq m. However, the rooms incorporate very high quality design and innovative technological features. This, along with the hotels' excellent locations, allows them to achieve very favourable room rates and high occupancy levels.

Marriott's take on the luxury compact hotel concept is **Moxy**, described as an "affordable boutique" brand. Its hotels feature lively, fashionable design with rooms of 16 sq m. The Moxy brand entered the UK in 2017 and it will have nine hotels open by the end of 2018.

Other compact hotel brands of note include **Point A**, which was launched in 2017 with seven hotels in London and Glasgow, and has rooms typically in the 8-12 sq m range. **Sleeperz** is a brand with rooms of around 15 sq m, which has targeted sites near city centre railway stations; it currently has hotels in Cardiff, Newcastle and Dundee.

A number of international brands operating with small room footprints have entered the UK market. These include Germany's **Motel One**, with a typical room size of 16 sq m, and the Netherlands' **citizenM**, with rooms of approximately 14 sq m.



HUB BY PREMIER INN, LONDON KING'S CROSS



MOTEL ONE, MANCHESTER PICCADILLY



GROWING MARKET SHARE

Over 4,000 rooms have been delivered in new compact hotels during 2017-18, and a further 5,000 compact hotel rooms are in the development pipeline. LSH estimates that compact hotel rooms will represent approximately 18% of all rooms to be opened in 2018.

Approximately 52% of the compact hotel rooms to open in 2017-18 were in London. However, reflecting the roll-out of compact brands into the rest of the UK, 75% of pipeline rooms are outside of the capital.

MAXIMISING SITE POTENTIAL

For hotel operators, compact room formats have the potential to maximise the number of rooms that can be offered in tight city centre sites. Smaller rooms provide greater flexibility and may unlock awkwardly sized or shaped sites to hotel development.

There is also the opportunity to make use of spaces without windows; a number of compact hotel operators, including Z Hotels and Point A, offer windowless rooms at a discount to standard prices.

FUTURE GROWTH AND INNOVATION

Compact hotels will not suit everyone – larger rooms will continue to be demanded by families and holidaymakers on longer stays. Nonetheless, there is significant growth potential within the compact sector and the success of brands such as hub by Premier Inn will encourage further development.

Many of the operators active within the compact hotel sector have introduced their brands firstly to the central London market, and there is still substantial scope for compact hotels to be rolled out in other UK city centres.

Innovations pioneered within the compact hotel sector can also be applied to other hotel types, and may help operators to maximise the value that they can squeeze out of rooms across their chains. Going forward, compact hotels are likely to be a key arena for growth and new ideas within the overall hotel market.

SELECTED COMPACT HOTEL OPENINGS

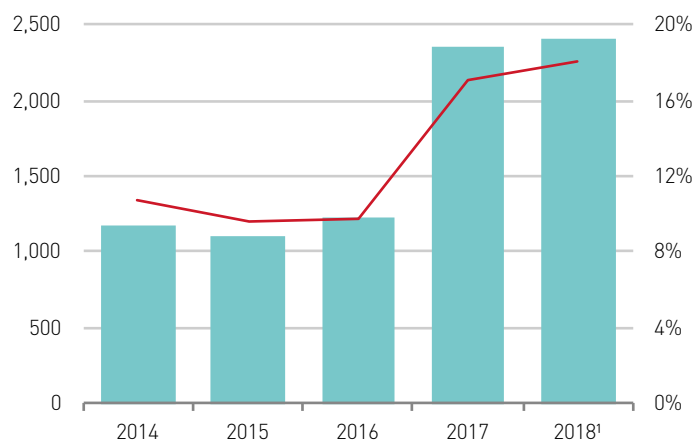
2018

- hub by Premier Inn Edinburgh Haymarket (150 rooms)
- Motel One Glasgow (374 rooms)
- Moxy London Heathrow Airport (437 rooms)
- Z Hotel Tottenham Court Road, London (121 rooms)

DUE IN 2019

- easyHotel Milton Keynes (124 rooms)
- hub by Premier Inn Fulham, London (89 rooms)
- Moxy York Stonebow (118 rooms)
- Point A Edinburgh (146 rooms)

ROOMS OPENED IN BRANDED COMPACT HOTELS



■ Number of rooms (LHS) ■ % of total hotel openings (RHS)

¹Includes rooms in hotel projects due to open by end-2018
Source: AM:PM/LSH Research

INSIDE VIEW



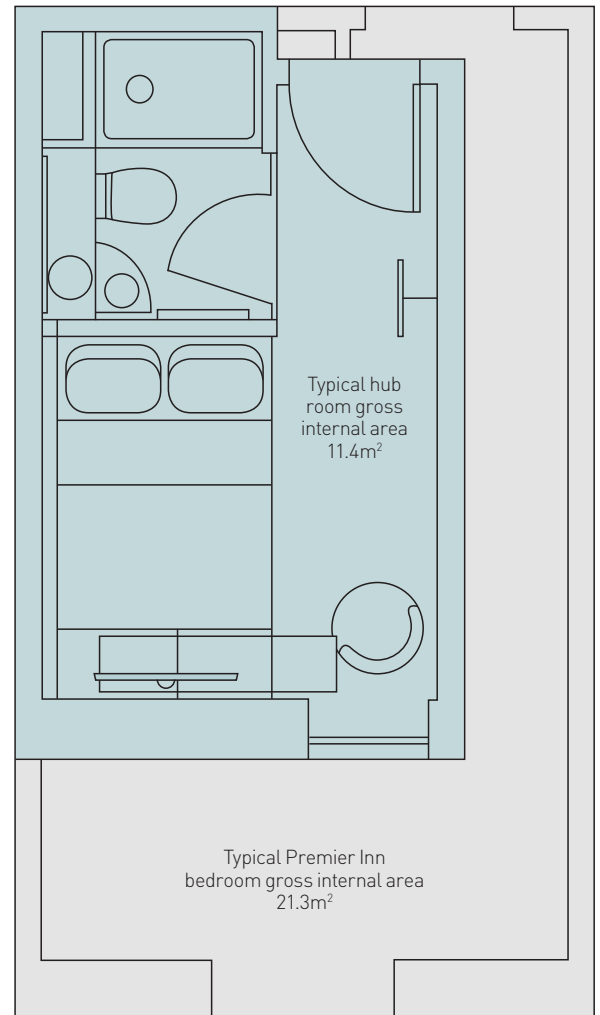
DEREK GRIFFIN
Head of Acquisitions
(London & South &
East England)
Whitbread

hub by Premier Inn is Whitbread's latest generation of compact, city centre hotels that focus on combining technology, connectivity and comfort. It's ideal for business or leisure guests who prioritise location, comfort, style and quality over room size.

The space-efficient design has enabled us to provide affordable bedrooms in high-value, high footfall central locations. It also helps to unlock complex or constrained sites that would not work for Premier Inn. The format trades as well above ground-floor retail uses as it does as a standalone hotel.

Since launching the brand in 2015, we have ten successful hotels open and trading across London (Zones 1 and 2) and Edinburgh, and a further seven new sites secured in our development pipeline. With ambitious growth plans for the brand, we are currently searching for additional locations offering between 16,000 sq ft and 40,000 sq ft in prime central London and select major UK cities.

More information on the format can be found on the Property & Suppliers page of the Whitbread website.



HOTEL TECH TRENDS

Advances in technology may mean that the hotel room of 2030 will look radically different compared with today.

MOBILE TECHNOLOGY

Several recent advances in hotel technology have placed the mobile phone at the centre of a guest's hotel experience. Smartphones are increasingly used by guests to make bookings, check-in and access their rooms. Schemes that allow guests to use their phones as room keys, such as Starwood's SPG Keyless and Hilton's Digital Key, are being rolled out across a growing number of hotels. Mobile apps are also providing a more streamlined way for guests to order room service, make dinner reservations, book spa appointments or make housekeeping requests.

Apps can also be integrated with hotel customer relationship management systems, enabling hotel operators to use them to collect data on guests' behaviour and target hotel services at them accordingly.

SMART ROOMS

The hotel room of the near future may feature a dizzying array of devices and appliances connected to the "Internet of Things". Smart devices can allow guests to control in-room heating, lighting and entertainment facilities, and help the hotel to anticipate guests' needs. Smart thermostats, for example, are already used by many hotels to manage room heating, allowing room temperatures to be adjusted on check-in and check-out.

More advanced technology could incorporate in-room sensors able to identify when a room is occupied and adjust the heating accordingly. Sensors may also be used to detect when a guest gets out of bed and turn on lights guiding them to the bathroom, or to tell when a window has been opened and turn off air-conditioning.

BIG DATA

A hotel guest creates a trail of data from the moment they book a hotel room to the time they check-out. The hotel industry is only in the infancy of understanding how to capture this data and use it to generate insights and income.

Data on how guests behave during their stays, including their usage of restaurants, gyms, room service or entertainment facilities, can be used at both the macro and micro level. It can provide insights on the needs of a hotel's entire customer base, or it can be used to tailor an individual guest's hotel experience.

Other applications of big data in the hotel industry may include the aggregation of internet reviews to understand a hotel's strengths and weaknesses, or the use of data to predict when prices can be raised in order to maximise hotel revenues.

ARTIFICIAL INTELLIGENCE

Artificial Intelligence (AI) goes beyond smart technology. It does not just react to the individual, but it learns from and makes decisions for them.

Potential applications of AI in hotels include concierge robots, which have been tested by hotel groups including Hilton. At a basic level, robots can be used to complete manual tasks such as carrying luggage or delivering food to rooms. At a more advanced level, robots could interact with guests; perhaps answering questions and making suggestions about hotel services, entertainment options or nearby tourist attractions, while continually learning about the guest's preferences.

Other AI interfaces may include voice-activated chatbots or screens embedded into hotel room walls. These need not replace human interactions, but could help to free up staff from day-to-day tasks and enquiries, giving them time to respond to more complex customer requests.

INNOVATIVE INVESTMENT

Investors are taking increasingly creative approaches to gain exposure to the UK hotel market.

INVESTMENT STRONG IN 2018

A total of £2.5 billion was invested in UK hotels during H1 2018, up by 39% on the same period of 2017.

The H1 volume was boosted by several major portfolio deals involving international buyers focused on luxury and upscale hotels. UK institutional buyers have shown a greater appetite for budget hotel portfolios and single-asset deals.

INTERNATIONAL CAPITAL TARGETS UPSCALE PORTFOLIOS

The largest deal of H1 saw the French property group Foncière des Régions make its UK debut by acquiring 14 hotels from an affiliate of Starwood Capital Group for £858 million. The portfolio comprised 12 Principal hotels and two De Vere hotels spread across major UK cities. InterContinental Hotels Group will lease 13 of the properties, rebranding and operating them as luxury and upscale hotels.

The next largest portfolio deal of H1 saw the US opportunity fund Lone Star sell the remaining 23 assets in its Amaris Hospitality platform to the Cyprus-headquartered LRC Group for approximately £600 million. The deal completes Lone Star's exit from the UK hotel market following the sale of a 37-asset portfolio to the Swedish investor Pandox in Q4 2017.

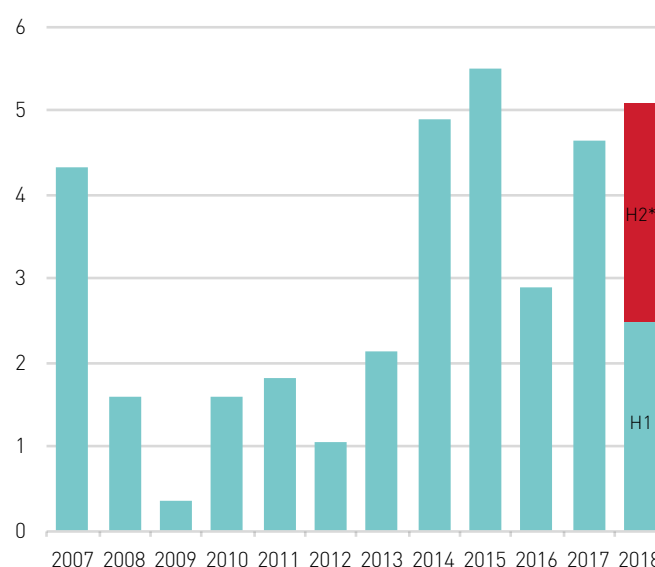
International investors were also behind the largest single-asset deal of H1. The landmark Caledonian Hotel in Edinburgh, which is branded as the Waldorf Astoria, was sold for £85 million to Twenty14 Holdings, the hospitality arm of UAE's LuLu Group.

DOMESTIC INVESTORS ACQUIRE BUDGET HOTELS

Among UK-based investors, Secure Income REIT Plc was notably active in H1 2018, acquiring a total of 76 Travelodge hotels as part of two separate portfolio transactions. These acquisitions form part of the REIT's strategy of acquiring specialist properties offering very long-term, secure income.

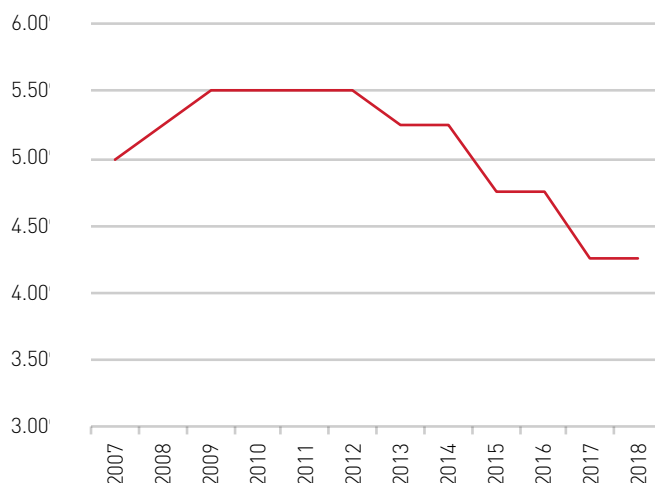
In total, more than 90 branded budget hotels changed hands in H1 2018. This represented over 60% of the chain hotels to be sold in H1.

UK HOTEL INVESTMENT VOLUME (£ billion)



*forecast
Source: LSH Research, Property Data, Property Archive

LEASED BUDGET HOTEL PRIME YIELD (%)



Source: LSH Research

HOTELS OUTPERFORM

MSCI data shows that the UK hotel sector has delivered favourable returns over recent years. The total return in the 12 months to July 2018 was 18.0%. This compares with an all-property total return of 10.9%, with only the industrial sector recording a stronger return than hotels.

Yields within the sector are under moderate downward pressure. The prime yield for leased budget hotels currently stands at a record low of 4.25%, having hardened by 25 basis points over the last 12 months.

THE HUNT FOR LONG-TERM INCOME

Hotels, alongside other specialist property sectors, have received increased interest in recent years from investors seeking assets offering secure, long-term income.

The hotel sector provides a diverse range of opportunities for such investors. Leased hotels have historically been preferred by institutional investors, as leases effectively separate the ownership of a property from the risks associated with the hotel operating business. As the largest UK budget hotel operators, Premier Inn and Travelodge, operate leased ownership models with typical leases of 20+ years, their hotels are key targets for investors.

BROADENING INVESTOR HORIZONS

While leased assets remain highly sought-after, institutional investors are also increasingly exploring opportunities to acquire operated or managed hotels, accepting a greater degree of operational risk in return for higher yields.

LSH has recently advised on groundbreaking deals that have seen institutional buyers acquire managed hotels. These include LGIM's acquisition of the Hampton by Hilton at Stansted Airport, which was acquired by LGIM for a minimum consideration of £48.3 million, representing a projected yield on stabilised EBITDA three years forward of 6.75%. The deal had several novel features, illustrative of institutional investors' increased willingness to find creative solutions when structuring hotel deals.

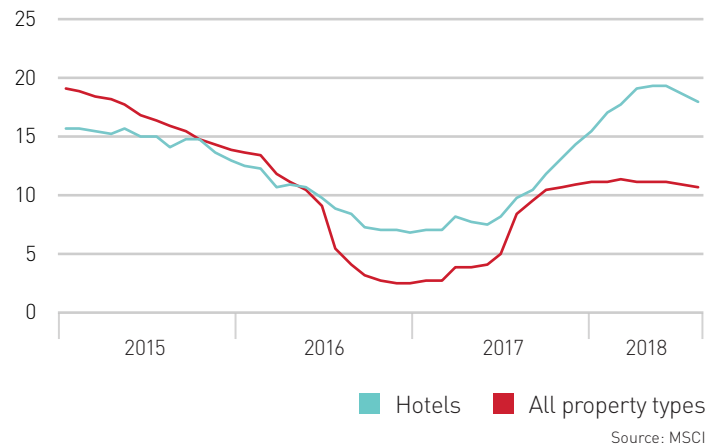
GROUND LEASES GAIN POPULARITY

Investors' search for long-term income streams has also spurred increased interest in hotel ground leases. These are very long leases of at least 99 years, where the leaseholder pays a relatively small rent that may periodically be increased in line with inflation. Well structured ground leases have a very low default risk, as the payments made by the lessee are small compared with the property value.

Reflecting their ultra long-term, bond-like qualities, ground lease yields can be very low, in some cases sub-2.5%. However, in the current low yield environment, this still represents an attractive margin over other low-risk investment classes such as gilts.

The creation of new ground leases, by dividing an existing freehold interest into a freehold and a long leasehold interest, is also increasingly being explored as a source of forward funding by developers and occupiers.

HOTEL TOTAL RETURNS (% , 12 months)



EXPERT VIEW



HUGH ANDERSON
Director - Hotels
Lambert Smith
Hampton

LSH has recently advised on two off-market deals, the Hilton Garden Inn, Birmingham Airport and Hampton by Hilton, Stansted Airport for BlackRock and LGIM respectively supporting the trend of inward investment to the hotel sector from institutional capital as investors seek well-researched investment opportunities that provide attractive yields with long term growth prospects compared with mainstream asset classes.

LSH's hotel specialists worked closely with the funds to develop a model to enable the purchase of the hotels whilst circumventing the standard requirement for a hotel's owner to manage staffing and the day-to-day operation, working closely with established third party management companies to provide hotel management services. We anticipate this trend to continue over the coming months and years as institutional investors become more aware of the benefits of operational hotel investments.



Hampton by Hilton Stansted Airport, acquired by LGIM Real Assets (Legal & General) for a minimum consideration of £48.3 million. LSH advised Legal & General on the transaction.

HOTEL DEVELOPMENT BOOM

Hotel development activity has continued apace in the UK and Ireland.

LONDON DOMINATES DEVELOPMENT

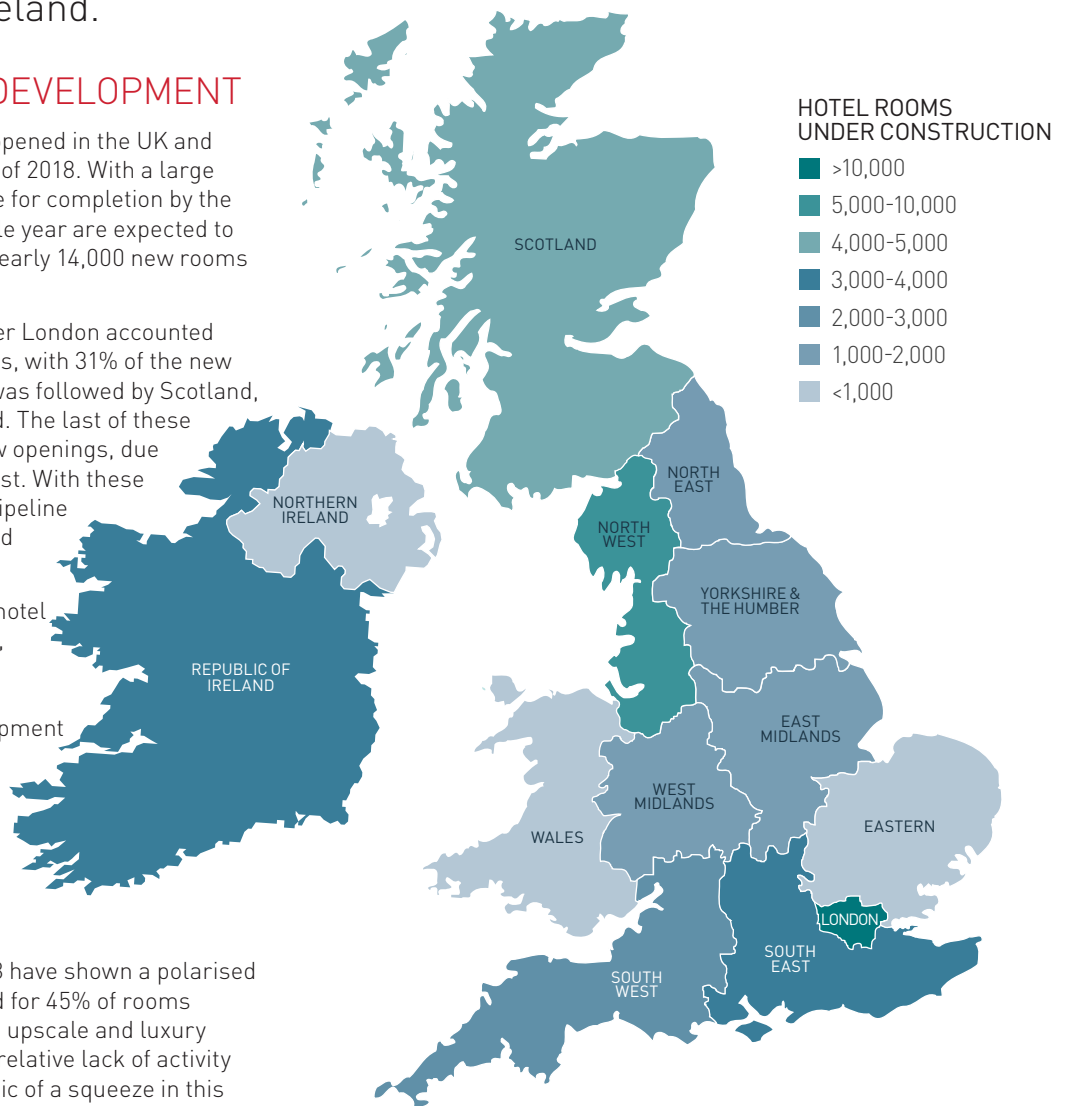
Over 10,000 new hotel rooms were opened in the UK and Ireland during the first nine months of 2018. With a large number of construction projects due for completion by the year-end, new openings for the whole year are expected to reach a similar total to 2017, when nearly 14,000 new rooms were opened.

In line with long-term trends, Greater London accounted for the largest share of new openings, with 31% of the new rooms in the year-to-date. London was followed by Scotland, the South East and Northern Ireland. The last of these took an unusually large share of new openings, due to a spate of hotel deliveries in Belfast. With these hotels now open, the development pipeline for Northern Ireland has now thinned considerably.

Greater London has a 31% share of hotel rooms currently under construction, more than double any other region. The North West takes second place, primarily due to an extensive development pipeline in Manchester, where over 3,000 hotel rooms are currently under construction.

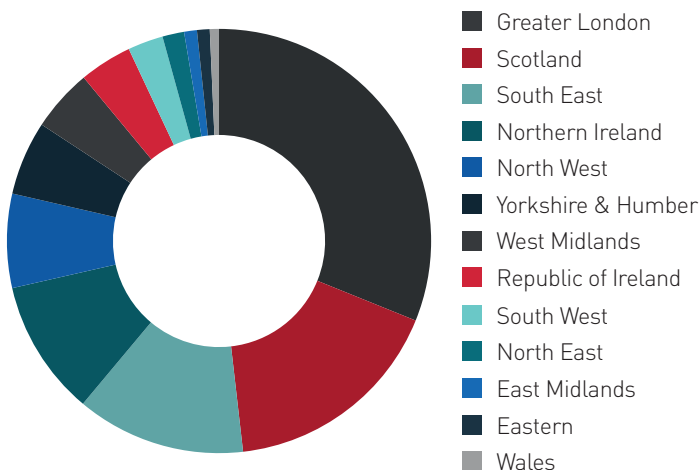
THE SQUEEZED MIDDLE

By hotel class, new openings in 2018 have shown a polarised trend. Budget hotels have accounted for 45% of rooms completed in the year-to-date, while upscale and luxury hotels have taken a 36% share. The relative lack of activity in the midscale sector is symptomatic of a squeeze in this part of the market. Midscale hotels are increasingly under pressure to define their market niche, especially as quality of hotels offered by the major budget chains has considerably improved over recent years.

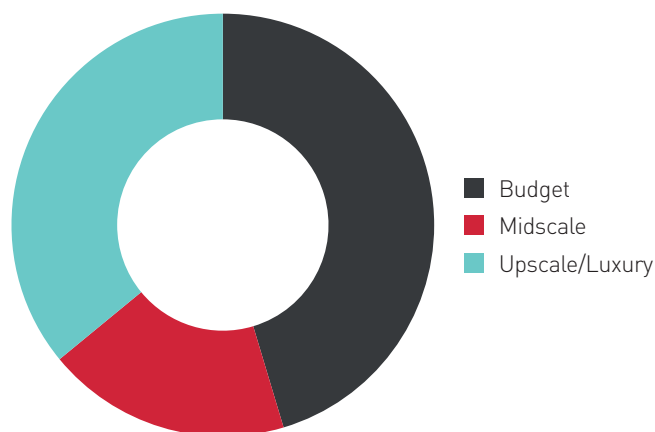


Rooms under construction as at September 2018
Source: AM:PM/LSH Research

HOTEL ROOM OPENINGS BY REGION, Q1-Q3 2018 (%)



HOTEL ROOM OPENINGS BY CLASS, Q1-Q3 2018 (%)



Source: AM:PM/LSH Research

OUTLOOK & OPPORTUNITIES

The UK hotel market has performed well in recent years, and confidence within the sector has been evidenced by high volumes of new development.

CHALLENGES FOR 2019

Hotel development will remain at an elevated level in 2019, but new hotels may be entering a more uncertain marketplace. The most obvious risk on the horizon is the UK's withdrawal from the EU, scheduled for March 2019. As well as more broadly affecting UK economic growth and consumer spending, Brexit could impact hotels' ability to retain EU nationals as staff.

Counteracting this, a weak pound will continue to benefit the hotel sector by encouraging inbound tourism to the UK. Cities that have been most successful in attracting increased numbers of international leisure travellers over the last few years – such as Bath, Cambridge and Edinburgh – may be best placed to ride out any market uncertainty.

Nonetheless, a combination of moderating UK economic growth and continued new development is expected to lead to some softening of RevPAR growth in 2019.

INVESTMENT TO REMAIN HEALTHY

Investor demand for hotel property remains robust. The hotel investment volume for 2018 is on course to be one of the strongest on record. Across all commercial property sectors, international investors continue to show a strong appetite for UK property, with Far Eastern investors being particularly prominent. The hotel sector is well placed to continue attracting a healthy share of overall capital inflows in 2019.

The hotel sector provides a range of opportunities that align well to current investor demand, including trophy assets with global appeal and leased hotels providing secure long-term income. In a more uncertain investment environment, these assets will be increasingly attractive to risk-averse investors.

AN INNOVATIVE SECTOR

Regardless of any economic uncertainty in the short and medium term, the hotel industry has proved its ability to adapt to changing demand and new challenges. Technological innovations being explored by hotel operators, such as smart rooms and artificial intelligence, have the potential not just to enhance the experiences offered to hotel visitors, but to reduce costs and increase productivity.

Competition between hotel operators will lead to the continued proliferation of new brands and room formats. As the hotel operating market evolves, new opportunities will arise for agile investors and developers. Increasingly innovative approaches will be taken when structuring deals in the sector.

SIMON STEVENS
Director - Hotels
+44 (0)20 7198 2155
sstevens@lsh.co.uk

HUGH ANDERSON
Director - Hotels
+44 (0)161 242 7098
handerson@lsh.co.uk

NICK BOYD
Operations Director - Hotel & Leisure
+44 (0)20 7198 2049
nboyd@lsh.co.uk

SIMON EDDY
Director - Capital Markets
+44 (0)20 3824 4729
seddy@lsh.co.uk

KEN HOGG
Director - Valuation
+44 (0)20 7198 2283
khogg@lsh.co.uk

OLIVER DU SAUTOY
Head of Research
+44 (0)20 7198 2193
odusautoy@lsh.co.uk

MATTHEW COLBOURNE
Associate Director - Research
+44 (0)20 7198 2268
mcolbourne@lsh.co.uk

lsh.co.uk

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