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**IN FOCUS:**  
**LUXURY COUNTRY HOUSE HOTELS, HOME COUNTRIES, UK**

**Nicole Perreten**  
*Consulting & Valuation Analyst*

**Luisa Russell**  
*Associate Director*



## Introduction

This snapshot provides an overview of the luxury country house hotels in the Home Counties to the north and west of Greater London and outlines some of the key operational characteristics of this particular hotel category. It further illustrates aggregate performance patterns and discusses new supply.

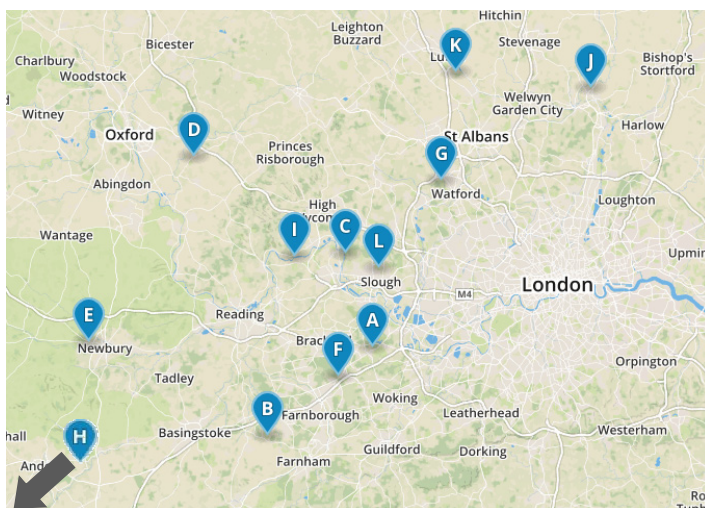
The article uses the following luxury country house hotels as a sample.

FIGURE 1: SELECTED LUXURY COUNTRY HOUSE HOTELS

Hotel	Location	Rooms	Golf	Spa	Meeting Space (m <sup>2</sup> )	Affiliation
Coworth Park	Ascot	70	—	Yes	323	Dorchester Collection
Four Seasons Hampshire	Dogmersfield	133	—	Yes	620	Four Seasons Hotels & Resorts
Cliveden House	Taplow	39	—	Yes	410	Relais & Chateaux
Belmond Le Manoir aux Quat' Saisons	Great Milton	32	—	—	129	Belmond
The Vineyard	Stockcross	49	—	Yes	610	Wine retailer
Pennyhill Park	Bagshot	123	9-h	Yes	1,608	Exclusive Hotels and Venues
The Grove	Watford	217	18-h	Yes	1,100	Leading Hotels of the World
Chewton Glen	New Forest	70	9-h	Yes	300	Relais & Chateaux
Danesfield House	Marlow-On-Thames	65	18-h	Yes	683	Small Luxury Hotels of the World
Hanbury Manor Marriott Hotel & Country Club	Ware	161	18-h	Yes	1,500	Marriott Hotels
Luton Hoo Golf & Spa	Luton	49	18-h	Yes	1,442	Elite Hotels
Stoke Park	Stoke Poges	228	27-h	Yes	707	Small Luxury Hotels of the World

Source: HVS Research

FIGURE 2: LOCATIONS OF THE HOTELS IN THE SAMPLE



- |                          |                            |
|--------------------------|----------------------------|
| A Coworth Park           | G The Grove                |
| B Four Seasons Hampshire | H Chewton Glen             |
| C Cliveden House         | I Danesfield House         |
| D Belmond Le Manoir      | J Hanbury Manor (Marriott) |
| E The Vineyard           | K Luton Hoo Golf & Spa     |
| F Pennyhill Park         | L Stoke Park               |

## Country House Hotels

The British countryside boasts a number of estate country houses, covering extensive grounds, that are often Grade I or Grade II listed. Owing to their high running costs, lack of heirs, increase in taxation and decline in agricultural income, some became a financial burden to their owners and were converted into income-producing assets after World War II, such as luxury hotels or museums.

Such hotels present a number of quite specific characteristics, which we outline below.

### Affiliation

Given the often remote location, luxury country house hotels do not easily benefit from walk-in guests and thus marketing efforts and expenses are often higher than in larger urban properties. In our

hotel sample, the majority is either branded or affiliated to various consortia. To achieve the often high rates sought by those luxury properties, a certain amount of exposure is necessary, which can be difficult to achieve as a small, independent operation. From the sample, only one hotel, The Vineyard, is not affiliated, however, benefits from a differentiation factor as it is connected to a wine retailer. Therefore, even though they increase costs, an affiliation or branded management might prove crucial for a luxury country house hotel to achieve satisfactory performance levels.

### Membership Clubs

A characteristic of British luxury country house hotels is club memberships, generating base revenue and repeat business. The type and structure of the clubs vary; however, the three most common types are health clubs, golf and social memberships. Health club memberships allow access to the (often extensive) spa facilities with discounts offered on treatments. Golf memberships allow complimentary use of the golf course at certain times and other benefits in the hotel. In our sample, all hotels featuring a spa or a golf course offer membership. Lastly, some luxury country house hotels, in our sample only Stoke Park, offer social memberships, a modern pendant to the private member clubs originally home in London's West End. A social member is entitled to discounts on food and beverage, hotel accommodation and event rates. Owing to changing working and living dynamics, clubs nowadays have to become increasingly creative in attracting members, especially the younger generation.

### Events and MICE

Depending on their location, luxury country house hotels experience increased demand during certain events such as Royal Ascot, the Royal Regatta in Henley, Farnborough Air Show or the Boodles Tennis tournament at Stoke Park. The wedding market is extremely popular for luxury country house hotels, as the hotels are in picturesque settings and sometimes even have a chapel on the premises (as, for example, Le Manoir aux Quat' Saisons). It is not uncommon that large-scale Asian and Jewish weddings hire only the

event space in a luxury country house hotel and bring in their own catering. This generates substantial revenues for the hotel, while limiting their involvement and costs. In terms of MICE business (meeting, incentive, conference and events), various conferences from (semi) local firms are common; however, larger residential events, often sourced internationally, such as car launches, are frequently organised in such hotels.

WEDDING EVENT SPACE AT CLIVEDEN HOUSE

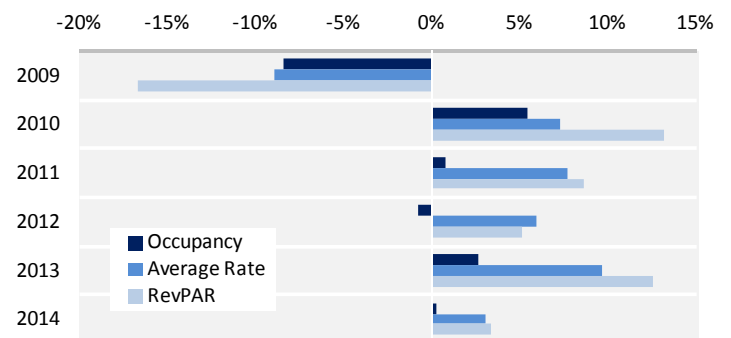


## Hotel Performance

### Historical Performance

Luxury country house hotels suffered more significantly during the recent economic downturn as discretionary spending decreased and in particular corporate budgets were cut drastically. Figure 3 illustrates the significant negative impact on demand for country house hotels in 2009 when RevPAR decreased by 17%. However, the market recovered quickly with positive growth in all key performance indicators (KPIs) from 2010 to 2014.

FIGURE 3: CHANGE IN KEY PERFORMANCE INDICATORS



Source: HVS Research

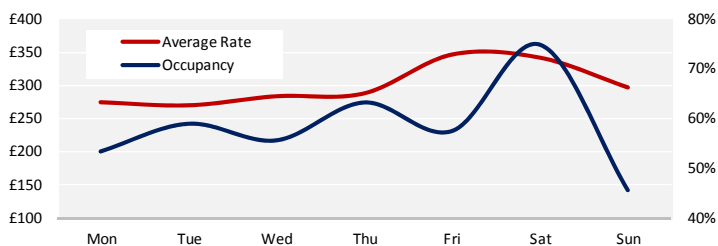
For many country house hotels, 2014 was a record year as it was for the majority of hotels in the UK provinces, with a strong return of corporate and MICE clientele. Occupancy ran at just under 60% which is a 2.4% increase on 2013.

Average rate for the sample was £257 in 2014, and though a record high compared to recent years, it was only 1.4% more than in the previous year resulting in a 4% RevPAR growth. The luxurious product, coupled with high suite ratios, helps to achieve such elevated rates. Nevertheless, country house hotels have to apply considerable discounts during the low season in order to fill their rooms, especially on midweek nights.

### Seasonality

Luxury country house hotels suffer from pronounced seasonality and present very similar segmentation patterns. While leisure demand is focused almost exclusively on weekends, weekdays are dominated by the MICE market and

FIGURE 4: WEEKLY PERFORMANCE 2014



Source: HVS Research

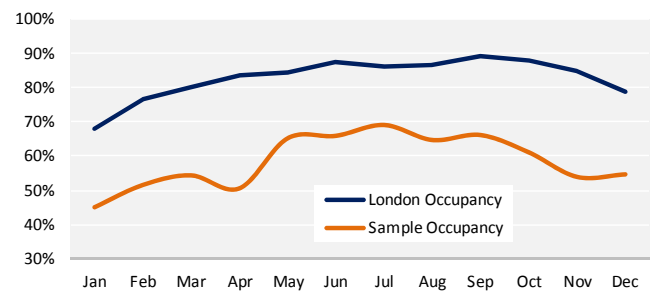
the corporate segment.

As evidenced in Figure 4, average rate and occupancy patterns mirror that segmentation; average rate is highest for Fridays and Saturdays and occupancy peaks on Saturday nights and nose-dives on Sundays.

In a monthly comparison (Figure 5), the seasonality becomes evident when compared to London Hotels, which have more balanced occupancy levels, especially during the week. The high season is during the summer months when luxury country house hotels benefit from increased leisure demand. Even though our sample achieves more than 85% occupancy during weekends in July and August, overall occupancy in

2014 was around 60%. Though the annual effect is less pronounced, average rate follows a similar trend. RevPAR is lowest during January and February, when hotel performance is purely driven by the MICE segment and more significant discounts are applied.

FIGURE 5: MONTHLY SEASONALITY – COUNTRY HOUSE SAMPLE AND LONDON HOTELS 2014



Source: HVS Research

### Operating Costs

Luxury country house hotels present a different cost dynamic when compared with a typical hotel. It is not uncommon that more than half of total revenue is generated from food and beverages, often owing to significant banqueting activity. Rooms profitability is generally lower percentage-wise than in a typical hotel operation, as staffing levels remain largely fixed throughout the year, resulting in more apparent overstaffing during the low season. Administrative and general costs are more significant percentage-wise, often because properties are small and economies of scale are difficult to achieve. Similarly, maintenance and utility costs can be high if the hotel has extensive grounds or old buildings with insufficient insulation. These factors all impact the bottom line, and the net income is often below 15% of total revenue.

### Recent and Future Hotel Openings

The luxury country house hotel market has seen few additions to supply in the past five years. In 2010, Coworth Park in Ascot opened its doors with 70 rooms. In 2012, Chewton Glen opened its treehouse product, adding an additional 12 rooms to its supply, and Cliveden House added three rooms as part of a refurbishment. During summer 2015, Soho House Group opened its Farmhouse at

Tracey Farm in Oxfordshire with 40 cabins, a four-room cottage, a seven-room farmhouse and extensive leisure facilities.

We are aware of one new luxury country house hotel development.

- **Heckfield Place** has been in the pipeline for a few years. The property is expected to open in 2016. The hotel, 15 km south of Reading, will have 70 rooms.

A few other luxury country house hotel projects remain speculative in the Greater London area, with nothing currently confirmed.

### Country House Hotel Transactions

Investor confidence is slowly returning to the regional UK markets, given the strong performance of these hotels over the last few quarters; while high-net-worth individuals and overseas investors are entering the market, bank- and administration-led sales are still very common. We outline some recent single asset country house hotel transactions in Figure 6.

- In January 2014 Starwood Capital Group acquired a portfolio of five Four Pillars Hotels from a joint venture comprising HSBC, Bank of Ireland, AIB and Four Pillars Hotels;
- In March 2014 Starwood Capital Group bought 23 De Vere Hotels from De Vere Group, six of which are country house hotels located in the home counties;
- In November 2014 De Vere Group sold another six hotels to a joint venture between Canyon Capital Realty Advisors and Sankaty Advisors.

FIGURE 6: SINGLE ASSET TRANSACTIONS COUNTRY HOUSE HOTELS (£)

Property	Rooms	Location	Date	Sales Price	Price per Room
Risley Hall Hotel	35	Derby	Aug-15	1,450,000	41,000
Combe Grove Manor	40	Bath	Jun-15	6,200,000	155,000
Lough Erne Resort	120	Enniskillen	Aug-14	8,329,896	69,000
Fairmont St Andrews	209	St Andrews	Aug-14	32,400,000	155,000
Bovey Castle	78	Dartmoor National Park	Jun-14	13,500,000	173,000
Oakley Court Hotel	118	Windsor	Nov-13	28,365,000	240,000
Slebech Park	32	Haverfordwest	Aug-13	3,500,000	109,000
Fawsley Hall	58	Daventry	Aug-13	15,000,000	259,000
Hunstrete House	25	Bristol	May-13	5,050,000	202,000

Sources: HVS Research; RCA

Transaction prices for certain assets, namely Risley Hall, Bovey Castle and Oakley Court, represent a fraction of what was paid for those hotels in the years before the financial downturn, showing the sensitivity of this type of asset.

Additionally, some large portfolios transacted in the past three years, some consisting entirely of country house hotels and some including individual country house hotels. We outline as follows some recent portfolio transactions with the allocated sales price.

- In February 2013 ADIA purchased a portfolio of 41 Marriott hotels (7,785 rooms) in the UK from the Royal Bank of Scotland;

FIGURE 7: PORTFOLIO TRANSACTIONS COUNTRY HOUSE HOTELS (£)

	Country Houses in Portfolio	Rooms	Location	Allocated Price	Price per Room
<b>De Vere Portfolio 2014 – Six Properties</b>					
Nov-14	Slaley Hall	141	Hexham	13,388,000	95,000
	Mottram Hall	131	Macclesfield	12,781,000	98,000
	Oulton Hall	152	Leeds	19,751,000	130,000
	Cameron House	132	Dumbarton	31,527,000	239,000
	Dunston Hall	169	Norwich	52,271,000	309,000
	Belton Woods	136	Grantham	30,330,000	223,000
<b>De Vere Portfolio 2014 – 23 Properties</b>					
Mar-14	Latimer Place	197	Chesham	22,034,000	112,000
	Milton Hill House	121	Abingdon	13,534,000	112,000
	Theobalds Park	140	Hertford	12,948,000	92,000
	Horsley Park	180	Leatherhead	13,614,000	76,000
	Wokefield Park	376	Reading	18,612,000	50,000
	Staverton Park	247	Daventry	16,472,000	67,000
<b>Four Pillars Hotel Portfolio 2014 – Five Properties</b>					
Jan-14	Cotswold Water Park	328	Gloucester	46,575,000	142,000
	Tortworth Court	190	Wotton Under Edge	14,438,000	76,000
	Oxford Thames	84	Oxford	12,225,000	146,000
	Oxford Witney	87	Witney	5,587,000	64,000
	Oxford Spires	174	Oxford	11,174,000	64,000
<b>UK Marriott Portfolio 2013 – 41 Properties</b>					
Feb-13	Meon Valley Marriott Hotel	113	Southampton	12,315,000	109,000
	Dalmahoy Marriott Hotel	215	Kirknewton	29,419,000	137,000
	Hanbury Manor Golf & Country Club	161	Ware	14,333,000	89,000

Sources: HVS Research; RCA

## Conclusion

*Despite the challenges outlined in this article, the luxury country house hotel product remains on the radar for both operators and investors. To make it economically viable, a good portion of creativity and efficiency is necessary in order to mitigate seasonality, overcome high operating costs and achieve economies of scale. An affiliation can significantly help increase exposure in the market and centralise marketing efforts while different club memberships can provide base demand for such hotel operations. Although transactions of this type of asset have been scarce this year, 2014 saw increased activity, especially for portfolios and from overseas investment companies.*



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## About the Authors



**Nicole Perreten** is a Consulting & Valuation Analyst with the HVS London office. Before joining HVS, she gained valuable operational experience in various establishments in France and Switzerland and worked with STR Global and Cushman & Wakefield in London. Nicole holds a BSc (Hons) in International Hospitality Management from Ecole hôtelière de Lausanne with a specialisation in real estate, market and corporate finance. Recent assignments at HVS include hostel and hotel feasibility studies and hotel market overviews for various European cities.

For further information, please contact:  
[nperreten@hvs.com](mailto:nperreten@hvs.com)  
+44(0) 20 7878 7721



**Luisa Russell** is an Associate Director in the London office of HVS. She joined the company in 2011 after completing her Bachelor of Science in International Hospitality Management at École hôtelière de Lausanne, Switzerland. Since joining HVS, Luisa has conducted various hotel valuations and feasibility studies throughout Europe and Africa.

For further information, please contact:  
[lrussell@hvs.com](mailto:lrussell@hvs.com)  
+44(0) 20 7878 7758