London, UK – Market Snapshot

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This market snapshot is the sixth in a series of articles that HVS will be producing every month on a series of key markets. In writing these articles we aim to combine the expertise of HVS with STR Global data for each key market. Our analysis for this market is based on a sample of nearly 60,000 rooms, as provided by STR Global. We consider that in today's challenging environment a regular update is more vital than ever in helping to assess the changing market conditions and determine the best strategy for each hotel.

Highlights

- Thanks to London's status as a global destination and the city's resilient hotel performance over the course of the year, the total number of visitors in 2008 did decrease on 2007 but still reached just over 26 million, and the total number of overnights decreased negligibly (less than 1%). Year-to-October 2009 figures show levels for visitors to London slightly down over 2008, by 5%. With the weak pound working in favour of London hoteliers, demand from the Eurozone, coupled with an increase in domestic demand, meant that London weathered the stormy past 12 months better than any other European capital city;
- With the strongest occupancy across major European cities, London reached a year-to-November occupancy of 81%, far ahead of cities such as Madrid with 58% or even Paris at 74% occupancy for the same period;
- Whilst London maintained its occupancy, average rate suffered, although still less than in other cities. London achieved a year-to-November 2009 average rate of £115, a 6% decrease; by comparison, average rate dropped by nearly 18% in Madrid and 8% in Paris. Further away, New York experienced a staggering 23% decrease in average rate year-to-November 2009;
- London remains one of the world's most desirable cities for hotel development. According to Visit London, in 2008 more than 3,000 rooms were added to the market; a further 1,500 were added in 2009. New supply in the city is expected to increase by more than 5,000 hotel rooms in the next three years, in all categories from budget to luxury hotels, as the city prepares to host the Olympic Games in 2012.

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DEMAND

London is one of the world's leading business, financial and cultural centres, and its influence on politics, education, entertainment, media, fashion and the arts contributes to London's status as a major global city and destination for leisure and business.

Like other European capitals, London has been negatively impacted by the global economic recession. Total visitation to London decreased by 6% in 2008, with the greatest decline in international visitors (9%). The number of domestic travellers remained essentially unchanged, showing a slight decrease of less than 1%, according to Visit London.

According to Visit London, domestic visitation in the year to July 2009 increased by 4%, owing mainly to the 34% boost in UK visitors during the Easter holidays. The 'staycation' trend continued too, allowing London to see an increase of 20% in visits for the same period on the previous year. International visitation continued to decline – it dropped by approximately 5%; there were nearly 4 million international visitors in the second quarter of 2009.

The key source markets for the year-to-June 2009, according to tourism officials, continue to be the USA (which supplied 266,000 visitors), France (just over 215,000) Germany (approximately 158,000) and Spain (just under 150,000). Visitation from France, Germany and Spain has grown significantly on the same period in the previous year: by 17%, 48% and 46%, respectively. Such growth can be attributed to the city's proximity and ease of access and the weakening of the pound against the euro; a weak pound means that visitors have greater spending power.

The general drop in international visitation from most markets can be attributed to a steeper decline in business demand, particularly from the USA; this has seen visitation drop in both the leisure sector and the business sector by 13% (year to July). Western Europe has proven to be the most resilient; with the region showing a decrease of 5% in visitation for the same period, helped by the weakening of the pound.

London has shown good signs of recovery after recent downturns in hotel demand: after the economic crisis of 1998; after the global economic slowdown of 2001 and 2002, when international companies scaled down their travel expenses; and after the events of September 11 in 2001, when the number of leisure travellers, particularly from the USA, London's main source market, decreased. In 2005, London once again experienced a drop in overall demand as a result of the July bombings in the city. Since then, demand has recovered steadily: there was an increase in visitation of 8.0% in 2006 and 4.3% in 2007. The number of international visitors showed the greatest growth with a 12.2% increase in 2006 and 4.5% in 2007. In the second half of 2008, the city started to see the results of the impact of a global recession that was first felt in the USA and manifested in the collapse of Lehman Brothers, thus slowing down demand in the city. Occupancy decreased up until mid 2009 at which point hoteliers started to try to maintain occupancy at higher levels at the expense of rate. Such a strategy resulted in an overall market occupancy of 81% year-to-November, which was in line with that of the previous year. Average rate was £115, down 6% on the previous year, resulting in an overall RevPAR decline of 5%.

Seasonality

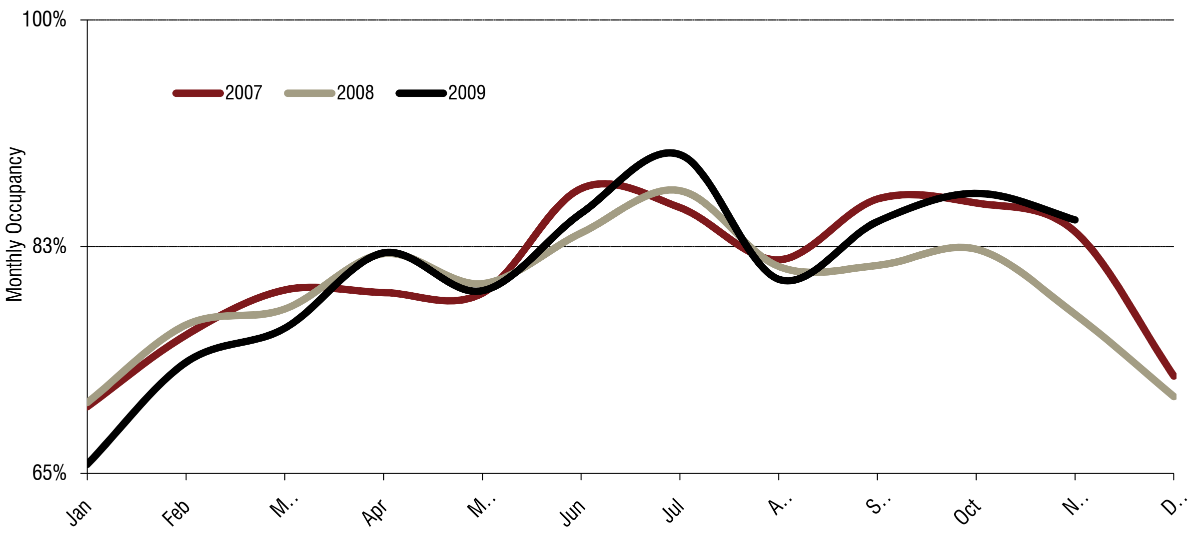
London is both a leisure and a business destination; thus the city is impacted less by the seasonality generally created by the sector, as leisure demand compensates for periods when business demand is quiet and vice versa. Leisure demand is greatest at weekends and during the summer months and is concentrated mainly around the West End of London where most of the cultural and historical sites are located, including museums, theatres, and shopping streets such as Regent Street and Oxford Street. Traditionally, the low season in London is the months of December and January, boosted by Christmas and New Year celebrations and the January retail sales. The summer months of June, July and August are peak months in London as the summer holidays in the UK coincide with those of the USA, Europe and the Middle East. The Middle East is becoming an increasingly important source market for London hotels, particularly in the upscale and luxury segments.

Table 1 shows the seasonality of occupancy for the overall hotel market in London for 2007 and 2008 and the year to November 2009. Despite the decrease in occupancy in 2009, seasonality has not changed, with the peak months still June and July, owing to the summer tourist season.

The lowest monthly occupancies were recorded from October to December 2008 and from January to August 2009. Interestingly, the highest monthly occupancy recorded since January 2007 was the 90% in July 2009; this figure was 3% and 5% higher than the same period in 2008 and 2007, respectively. This is attributable to the increased number of domestic travellers opting to spend their holidays at 'home', the weakening of the pound against the euro and to the strong demand from Middle Eastern visitors.

September and October are usually strong months for the capital, as a result of conferences and events. Although the previous year showed an overall decrease in demand for London hotels during these months due to the economic slowdown, this year has shown better results with similar occupancy levels to that of 2007, reaching 85% and 87% for September and October, respectively. November has also managed to achieve reasonable levels of occupancy, similar to those of the previous two months, at 85%, as the city hosted the finals of the ATP World Tour (tennis) at the end of the month. The continued weakness of the pound to the euro remained appealing to tourists, in particular those from the continent of Europe.

Table 1 Seasonality – Monthly Occupancy 2007, 2008 and Year-to-November 2009



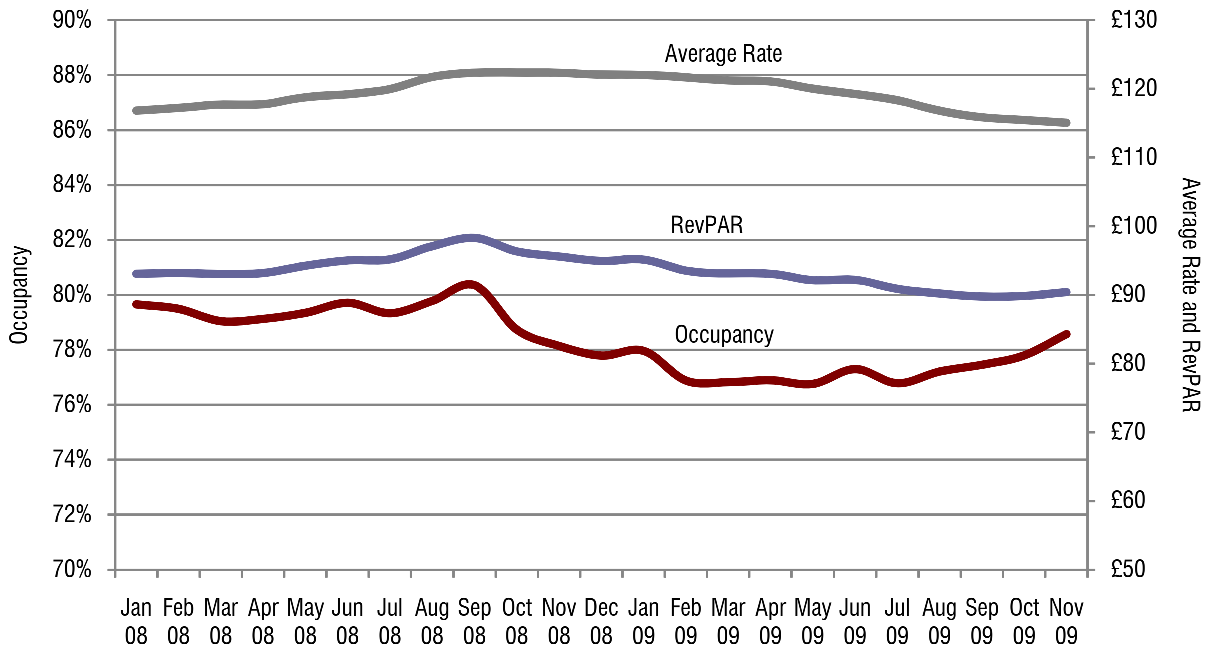
Source: STR Global

HOTEL PERFORMANCE

The analysis in this market snapshot is based on a sample of mostly branded hotels within the London hotel market. The sample comprises 59,578 rooms, in 330 hotels.

Table 2 shows the 12-month moving average of hotel occupancy, average rate and RevPAR in London from January 2008 to November 2009. From this we can see that the lowest 12-month moving average of hotel occupancy is in July 2009; that is, the period from August 2008 to July 2009. When comparing the 12-month average from September 2008 (which is the peak) to September 2009, the impact of the demise of Lehman Brothers in the autumn of 2008 and the ensuing chaos in the banking and finance sector, which led to a sudden and significant drop in business travel, may be clearly seen. The repercussions for business group and individual business room nights were significant across all categories of hotel and in all areas of London, although some boroughs suffered worse than others. Hotels in the West End, which are close to leisure tourist attractions, have been able to replace some of the lost demand with leisure guests, enticing them with promotions and online packages. Hotels in the City of London or Canary Wharf have limited opportunity to attract leisure guests, save by offering alluringly low rates to draw tourists to a less obvious location for tourism.

Table 2 12-Month Moving Averages – Occupancy, Average Rate and RevPAR January 2008-November 2009

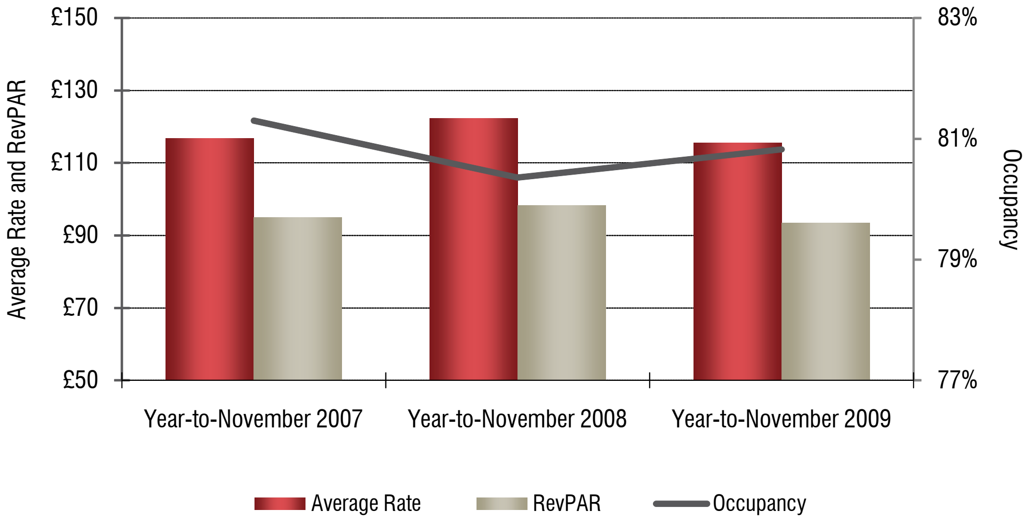


Source: STR Global

Table 3 shows the year-to-November performance of London hotels from 2007 to 2009, and the pattern is similar to Table 2. Year-to-November average occupancy decreased slightly from 81% in 2007 to 80.4% in 2008, and remained essentially unchanged in 2009 at 80.8%.

Average rate has already fallen and is expected to continue to have fallen by the end of 2009. The decrease in average rate has, however, started to slow since September; average rate then was £120, down 4% on the previous year.

Table 3 **Year-to-November Hotel Performance in London 2007-09**

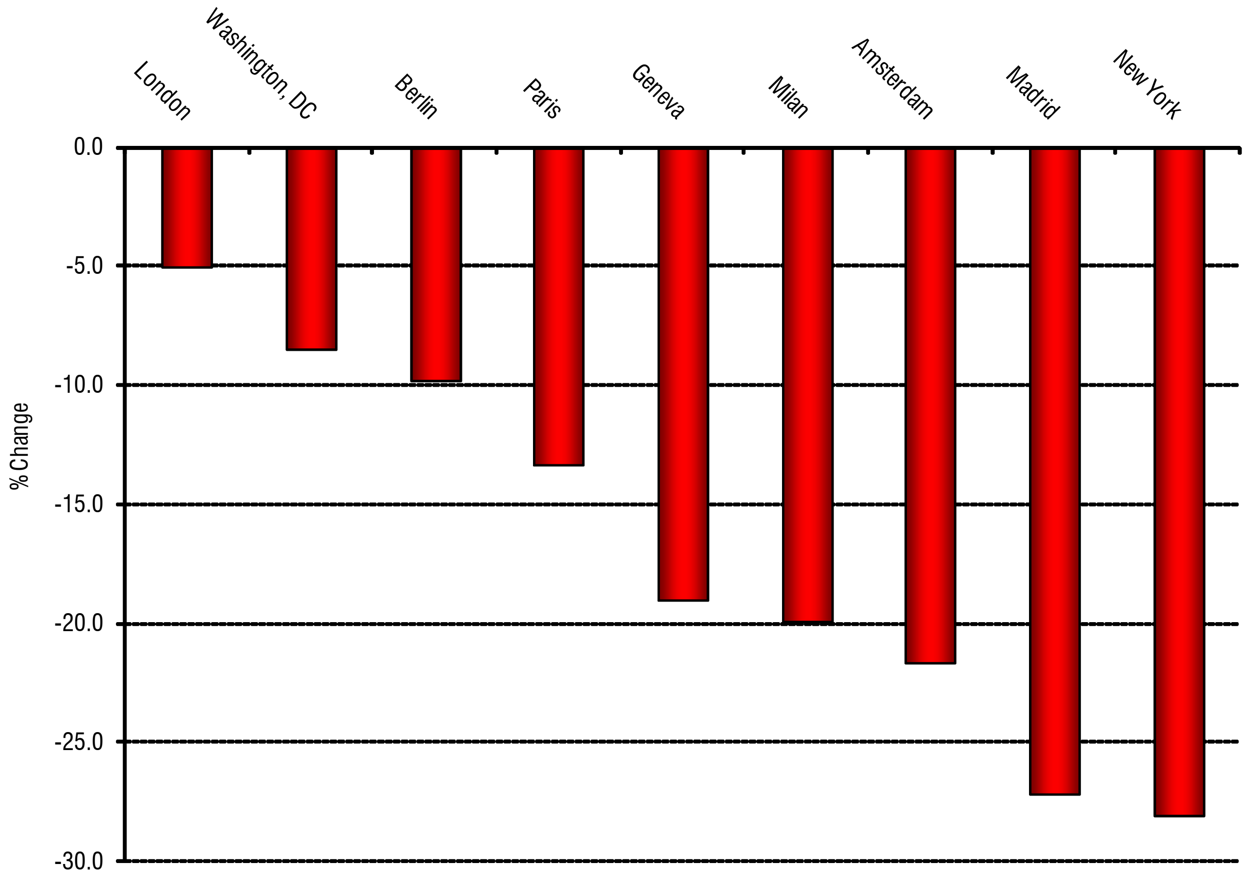


Source: STR Global

Year-to-November figures show that average rate has fallen by approximately 6%, to £115 in 2009 from £122 in 2008. As a consequence, and as shown in Table 3, year-to-November 2009 saw a similar decline in RevPAR. The year-to-November 2007 was a strong year, whereas year-to-November 2008 shows the strong impact of the demise of Lehman Brothers in September 2008. Even though 2008 had been holding up well in occupancy until the end of September, with the dramatic drop in corporate travel and business groups in October and November 2008, the impact on occupancy is clear. In contrast, the year-to-November 2009 is the 'post-Lehman' period, which although is still a decline over 2007 shows a slight gain in occupancy over 2008. Nevertheless, RevPAR has fallen by 5% to £93 in the year-to-November 2009 figures.

However, when we look at other European cities, such as Paris and Madrid, the decline in RevPAR for year-to-November 2009 is substantial. Some cities have experienced a decline of more than 10%, whereas London's RevPAR has shown significantly better performance. Table 4 illustrates the percentage change in RevPAR in some key European cities, and in New York and Washington, DC, which like London has remained comparatively unaffected during the past year.

Table 4 RevPAR Performance Comparison 2008 vs 2009: European Cities, New York and Washington, DC



Source: STR (US Data), STR Global

From this comparison it is clear that although London hoteliers have experienced a challenging 2009, particularly those in the City of London, it has been by no means as tumultuous as other world cities; for example, in New York RevPAR declined by 28% in the 11 months to November 2009 and in Madrid the decline was 27% over the same period.

SUPPLY

London is a well-established hotel market, one providing hotel accommodation of all categories in order to cater to the seemingly ever growing demand. Traditionally, most of the capital's supply has been located in the centre of the city, particularly in the West End. In recent years, however, developers have been shifting their hotel projects eastwards and southwards, on account of the limited availability of sites and planning stringencies for new hotel projects in central London. Although the eastern side of central London has traditionally been, and continues to be, the business and financial district there is little here to interest leisure guests. However, before the current economic downturn trends showed occupancy increasing at weekends in the hotels in the City and in surrounding areas. This shift can be attributed to the rise of new leisure attractions in the area, such as the recent redevelopment of Spitalfields Market near Liverpool Street Station and the Barbican Centre. St Paul's Cathedral and the Monument, among others, are other nearby attractions. We expect the area to continue to grow and attract visitors, especially as the Olympics approach and interest for the area increases.

New Supply

Table 5 lists the most relevant recent and expected new openings and future developments. It can be expected that some of the eventual opening dates may become delayed as continuing economic pressures take their toll on developers' expectations.

Table 5 Future Supply – London

Proposed Property	Category	Number of Rooms	Opening Date	Location
Apex London Wall Hotel	4-star	89	Nov-09	City of London
The Arch London	5-star	82	Nov-09	Great Cumberland Place
W London Leicester Square	5-star	192	2010	Leicester Square
Renaissance St Pancras Chambers	5-star	245	2010	King's Cross/St Pancras
Von Essen Hotel Verta	5-star	70	2010	Battersea
Four Seasons Park Lane (reopening)	5-star GL	187	2010	Park Lane
The Savoy (reopening)	5-star GL	268	2010	The Strand
Waldorf=Astoria Collection Syon Park	5-star	155	2010	Syon Park
Park Plaza Westminster Bridge	4/5-star	1,037	2010	Westminster Bridge
Pestana Chelsea Bridge	4-star	218	2010	Chelsea Bridge Wharf
High Point Boutique Hotel	4-star	258	2010	Hayes (Heathrow)
H10 London Waterloo	4-star	177	2010	Waterloo
45 Park Lane	5-star GL	46	2010	Park Lane
Marconi House (former Silken)	5-star	173	2010	The Strand
Corinthia The Metropole London	5-star	296	2011	Northumberland Avenue
InterContinental Hotel Queen Anne's	5-star	254	2011	Westminster
Hilton Wembley	4/5-star	441	2011	Wembley Stadium
Great Northern Hotel	4/5-star	94	2011	King's Cross/St Pancras
Greenwich Market Hotel	4-star	101	2011	Greenwich
City Inn Tower of London	4-star	609	2011	Tower of London
Apex Temple Court Hotel	4-star	170	2011	City of London
The Quadrant (former Café Royal)	5-star	160	2011	Regent Street
Premier Inn Old Street	2/3-star	100	2011	Old Street
Premier Inn Waterloo	2/3-star	100	2011	Waterloo
Travelodge Covent Garden	2/3-star	249	2011	Drury Lane
Travelodge Stratford	2/3-star	174	2011	Stratford
Travelodge Ealing	2/3-star	99	2011	Ealing
Ibis Piccadilly	2/3-star	600	2011/12	Shaftesbury Avenue
Shangri-La London Bridge Tower	5-star GL	195	2012	Southwark
Jumeirah Beetham Tower	5-star	261	2012	Southwark
Firmdale Ham Yard	5-star	100	2012	Soho
South Place Boutique Hotel	4-star	80	2012	City of London
art'otel London Hoxton	4-star	350	2012	Hoxton
Four Seasons Heron Tower	5-star GL	200	2013	City of London
Total		**7,830**		

Source: HVS Research

We comment as follows on some of this new supply for London.

- In November, Apex Hotels opened its 89-room boutique hotel in the City: the **Apex London Wall Hotel**. The four-star hotel has a restaurant, a bar and fitness facilities, which are to be opened soon. In addition to its recently opened hotel, the company is currently developing another hotel in the area, the **Apex Temple Court Hotel**. With an investment of more than £60 million, its third hotel in the City, just off Fleet Street, will be a conversion of a landmark building into a 170-room, four-star hotel with food and beverage outlets and conference facilities. The hotel is expected to open in 2011;
- Shangri-La will be entering the London market in 2012 with the **Shangri-La London Bridge Tower**. The property will be in Southwark in the London Bridge Tower, also known as the 'Shard of Glass', and will have 195 rooms, including 25 suites. Facilities are expected to include three food and beverage outlets: a speciality restaurant, a lobby bar and lounge, and a 'food theatre' café; a luxury spa; and fitness and recreation facilities that will provide panoramic views of the city;
- **Four Seasons** will be opening its third hotel in the city in 2013, making London the only capital in Europe with three properties by the brand. The hotel will be housed in the Heron Plaza complex on Bishopsgate, in the City of London. Although the specifications of the project have not been released, we understand that the hotel should have approximately 200 rooms. The **Four Seasons London Park Lane** is currently closed for a complete renovation and transformation of its rooms and suites, its food and beverage facilities and its meeting facilities. The work will also see the addition of a rooftop spa, which will provide views of Hyde Park. The newly refurbished hotel is expected to open in late 2010;
- Starwood will be launching its W brand in London in summer 2010 with the opening of the **W London Leicester Square**. The hotel is currently being developed on the site of the former Swiss Centre as part of a mixed-use development directly on Leicester Square in the heart of the West End. The hotel is expected to have 192 rooms, including 12 suites; three of the suites are said to be 'WOW' suites. Other facilities will include a destination restaurant, and fitness and spa amenities. A second W project, involving the redevelopment of an existing building in the West End, is currently under negotiation;
- As part of the regeneration of King's Cross St Pancras, Marriott is currently developing a hotel under the Renaissance brand in a Grade I listed building at the station, which formerly housed the Midland Grand Hotel. The five-star **Renaissance St Pancras Chambers** is expected to have 245 rooms, as well as 67 residential apartments, including a penthouse said to cost approximately £10 million. The

hotel is also expected to have two restaurants, two bars, a health centre, a ballroom and a number of meeting and conference rooms. The property is scheduled to open in 2010;

- London will also see the entry of another three newcomers: Von Essen, Pestana and Corinthia. The three hotel operators are currently developing hotels that are expected to open in 2010 (Von Essen and Pestana) and 2011 (Corinthia). **Von Essen Hotels**, although an established luxury hotel operator in the UK, is introducing its first hotel in London with an innovative property that is set to be integrated with the London Heliport in Battersea. The hotel will have 70 rooms, including 14 suites, an all-day dining restaurant, two bars and a luxurious spa. Pestana Hotels & Resorts, the Portuguese hotel operator, will also be launching its first London property in Battersea. The four-star **Pestana Chelsea Bridge** will have 218 rooms and 66 of them will be offered for sale. Additional facilities will include a fine-dining restaurant, meeting and conference facilities, fitness facilities and a spa. On the other side of the river, on Northumberland Avenue, **Corinthia** is redeveloping the landmark Metropole building, which it acquired in 2008 from the Crown Estate. The hotel is set to become Corinthia's flagship property and it will have 296 rooms, including 42 suites, to be fitted out to the highest standard. The hotel is expected to have two restaurants, one of them a speciality restaurant, a lounge bar and a destination bar. Other facilities will include six meeting rooms, a large ballroom and luxury spa facilities;
- The budget hotel segment has also been reasonably active in its developments in the city with the Olympics approaching. The budget hotel company **Travelodge** was recently granted permission to extend its Covent Garden property on Drury Lane by adding another 249 rooms, making it the largest Travelodge with a total of 457 rooms; the hotel is set to be fully open in 2011. By 2012 (Olympics year), Travelodge aims to be the biggest hotel brand in London, with nearly 6,500 rooms in operation. In addition to the extension at Covent Garden, we expect to see Travelodges opening in Stratford, Ealing and Whetstone. **Premier Inn** has been busy developing in London, adding new hotels in locations such as Old Street, Waterloo and Ealing;
- **Splendid Hotel Group** has signed a franchise agreement with InterContinental Hotels Group for a 254-room **InterContinental** hotel in Westminster. The Splendid Hotel Group is already a franchisee of the group, having Holiday Inn hotels in Manchester and London. The hotel is expected to open in 2011 in time for the Olympics;
- **Jumeirah Beetham Tower** will be the next hotel by the Jumeirah Group to enter the city. The hotel, which is part of a £1 billion mixed-use development designed to regenerate the area, is on Blackfriars Road by the Thames; its development has finally been given the

green light by the local authorities. The hotel will be in the lower part of the tower and will have 261 rooms and suites, several restaurants, a ballroom, meeting rooms, and leisure facilities including a luxury spa. The hotel is expected to open in 2012;

- The Dorchester Collection is set to open a new hotel, the **45 Park Lane**, in the former Playboy Club. This small luxury hotel will comprise 46 rooms and suites, and will have an exclusive restaurant and bar. The hotel will be adjacent to its sister hotel, The Dorchester, and is expected to open in 2010.

CONCLUSION

London continues to be a global leisure and business destination. Businesses most directly affected by the global financial crisis have reduced their travel expenditure, leading to a decline in hotel demand in the city. However, hotels have been able to maintain occupancy thanks the weakening of the pound against the euro and the consequent attraction of more leisure business especially from the Eurozone, the 'staycation' trend from domestic travellers, and a drop in room rates across all categories of hotel accommodation.

Total visitation to London has shown an upward trend over the years. International visitation over the past ten years has grown at a compound annual rate of approximately 2%, despite the many events that affected the city, events such as the terror attacks in New York in 2001 and in London in 2005, and the economic turmoil of the past eighteen months. However, it should be noted that the pace of growth slowed, particularly in visitation from North America. On the other hand, domestic visitation has remained encouraging and even increased with the growing trend of visitors holidaying at home or close to home. In light of the economic turmoil, the UK economy is forecast to grow at a relative slower pace in the coming years, with an increase in visitors in the build-up to the 2012 Olympic Games expected from 2010 onwards. The organisation of the Games is likely to rejuvenate the UK economy and particularly the East London area, where the majority of the events will take place.

London will see new hotel brands coming onto the market over the next few years. Brands from all segments will be adding rooms to the city's current stock, including new luxury entrants Shangri-La, Corinthia and Von Essen. London continues to be one of the most desirable cities for hotel development and is a key city for hotel operators looking to expand their network internationally. East London, as part of the government's efforts to rejuvenate the area, is already undergoing significant change. Hotel developers are also increasingly more interested in the region as the Olympics approach, and in the potential the area has to attract hotel demand in the future.

Although London's overall trading performance has been affected by the global economic slowdown, London has been one of the most resilient hotel markets in Europe. Occupancy in the city managed to reach levels similar to those of years when the hotels were at the peak of their performance. Although average rate and RevPAR have been down on the previous year, the rate of decrease has slowed in recent months; RevPAR declines are in single figures, and this has certainly not been the case for other cities on the continent or elsewhere in the world, where RevPAR declines of the order of 25% are not uncommon.

We consider London to be a resilient market – one likely to recuperate quickly from the current difficult trading conditions, thanks to its diverse leisure and business demand generators and its strategic gateway location in Europe. Although 2009 has been a challenging year, London has fared far better than other cities and hotel demand is expected to recover slowly, but steadily, throughout the next year.

About the Authors

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- Shared Ownership Services
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