

London Hotel Development Monitor 2018

The Investment Hotspot



LONDON
& PARTNERS

Key facts

London Hotel Market



c.140,000

Total rooms at July 2018



c.11,600

New rooms expected by 2020



38 million \uparrow 2.5%

Total passengers at Heathrow airport (H1 2018)



£141 \downarrow 1.0%

Average rate (H1 2018)



79.6% \downarrow 0.4%

Occupancy (H1 2018)



£112 \downarrow 1.4%

RevPAR (H1 2018)



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Photo: citizenM, Tower of London by Richard Powers

Foreword

2017 saw London's tourism industry continue to grow with international visitors rising to 19.8 million from 19.1 million in 2016. This was an increase of 4% and is testament to London's enduring appeal despite the challenges posed by the UK's process of exiting the European Union.

Growth from long haul markets was particularly strong including emerging markets such as China. The number of Chinese visitors rose 111% between 2012 and 2017, and this figure is expected to grow further in the coming years. This is a real opportunity for London to expand its share of a fast-growing and valuable tourism source and is one that London & Partners is maximising by focusing our efforts on China as one of our core markets for our tourism and other activity.

I am thrilled to see that London continues to perform strongly and that the hotel industry is responding to demand with 11,000 new hotel rooms planned between now and 2020. At London & Partners, we will seek to build on this growth and continue to champion London as a dynamic and open world city to help ensure the city remains a leading destination of choice.



Laura Citron

CEO
London & Partners



Park Plaza London Waterloo

London is one of the most liquid hotel markets in Europe and a popular investment hotspot for both domestic and international investors. In 2017, London recorded the highest level of hotel transactions among other global cities, at US\$2.6 billion, which was ahead of cities such as New York, Hong Kong, Munich and Tokyo.

The weaker pound has attracted a variety of investors, ranging from private equity to international operator / owner operators, development companies and institutional investors, both domestic and from abroad, to invest in hotel real estate. The first half of 2018 has seen a slight decline in investment volumes but this is explained by the limited available stock of properties for sale.

Despite political uncertainty, investors and hotel companies continue to view London as a key destination. This is evidenced by the willingness to consider new development opportunities and the number of new hotel brands opening in the London market.

Looking forward, while the concern over Brexit remains, we anticipate continued strong interest in the hotel sector as it outperforms other forms of real estate.



Graham Craggs

Managing Director
JLL, Hotels & Hospitality

Overview of the London Tourism Market

In 2017 London welcomed 31.9 million trips from overnight visitors, a new record for a single calendar year.

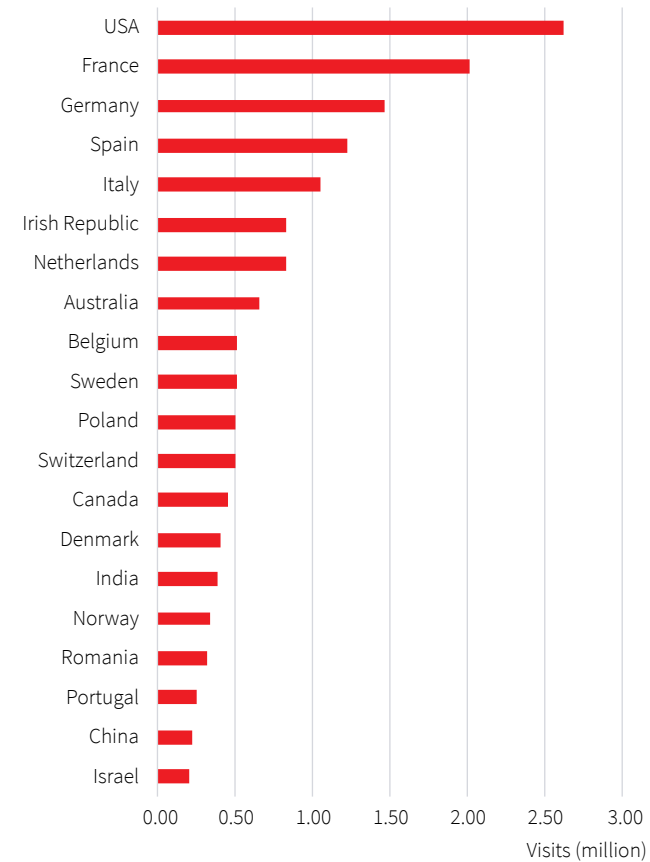
The strong year for tourism in the capital was driven by the growth in overseas visits, which increased by 4 per cent year-on-year to reach a total of 19.8 million. Despite an overall increase in overseas visits, it was a year of two distinct halves. During the first half of 2017 visitors were attracted in large numbers by favourable exchange rates that had persisted since the EU Referendum in June 2016. By July 2017, exchange rates had started to become less favourable for overseas tourists, and visitor numbers were unable to match the temporary boost seen a year earlier. Overseas visit numbers had increased by 13 per cent year-on-year in the first half of 2017, but reduced by 4 per cent in the second half of the year.

2018 has begun with a 10% decline in visits during the first quarter, compared to an exceptional Q1 2017 in which visits increased by 16%. Despite the reduction, the 4 million visits to London in Q1 2018 was still the second highest Q1 volume on record, 4% higher than in 2016.

Growth from long-haul markets were the key contributor to London's boosted overseas visits in 2017 and indications are that these markets continued to outperform European markets in the early months of 2018.

From the USA, London's largest inbound market by value and volume, visits increased by 13 per cent during 2017. Growth also came from key emerging markets with annual visits from India and China growing at 40 per cent and 33 per cent respectively. Long-haul market visit numbers even remained strong year-on-year during the second half of 2017. By contrast, European markets saw an 8 per cent reduction in visits to London during this period.

Top 20 Leading Tourism Markets for London in 2017



Market	% Change YoY 2017
1 USA	12.7%
2 France	1.1%
3 Germany	-0.7%
4 Spain	-4.5%
5 Italy	-15.9%
6 Irish Republic	2.5%
7 Netherlands	2.5%
8 Australia	8.9%
9 Belgium	13.3%
10 Sweden	0.6%
11 Poland	-5.1%
12 Switzerland	-4.0%
13 Canada	2.7%
14 Denmark	-1.3%
15 India	39.9%
16 Norway	-11.5%
17 Romania	15.6%
18 Portugal	-8.2%
19 China	33.0%
20 Israel	42.1%

ONS, International Passenger Survey (IPS)

The level of overnight domestic visits to London remained stable with 12.1 million trips recorded during 2017.

London's visitor attractions were, however, unable to benefit from the overall increase in visitors, as admissions reduced by 1.3 per cent. Year-on-year reductions in admissions occurred from June until the end of the year, coinciding with reductions in the number of visits from overseas. Worries about the cost of a day out saw domestic day visits to London reduce by 3% during the year.











Despite an overall reduction in admissions, some museums and galleries still enjoyed an excellent year. The V&A South Kensington recorded the strongest performance of any London attraction in 2017, with visitor numbers up 26% year-on-year, aided by a combination of very successful exhibitions (Plywood, Balenciaga, Pink Floyd) and the opening of their new Exhibition Road Quarter.

The UK's top 10 leading visitor attractions in 2017 all continue to be located in London, according to ALVA (the Association of Leading Visitor Attractions).

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Top 10 Visitor Attractions in 2017

in ALVA membership

1.		5.91m ↓ 8%
2.		5.66m ↓ 3%
3.		5.23m ↓ 16.5%
4.		4.43m ↓ 4%
5.		3.79m ↑ 26%
6.		3.25m ↑ 0.2%
7.		3.23m ↓ 17.3%
8.		3.22m ↓ 6.8%
9.		2.84m ↑ 3.7%
10.		2.61m ↑ 6%

Source: ALVA



London Hotel Performance

In 2017 London benefited from the softening of the pound and attracted a record level of international tourists, boosting hotel performance. As the pound started to strengthen in late 2017, we saw a slight dip in all three key performance metrics.

In the first six months of 2018, London recorded a marginal decline in hotel performance, likely due to a combination of ongoing supply growth and a slow-down in demand compared to a strong first half in 2017. Occupancy dropped a marginal 0.4% compared to the same period last year, and this, together with a 1% decline in average rate, pushed revenue per available room (RevPAR) down 1.4% to £112. (Source STR).

Compared to other key European destinations, London ranked second in terms of occupancy at 79.6% in the first half of 2018, higher than Paris, Berlin and Rome. Average rate sat at €160, lower than Paris but higher than other European markets.

Looking ahead, both tourism arrivals and RevPAR are forecast to grow, supported by the strength of both the U.S. and Eurozone economies. The latest PwC forecast revealed that RevPAR is expected to grow 0.3% in both 2018 and 2019. London is projected to achieve the second highest occupancy and the fourth highest RevPAR among other major European cities.

H1 2018 EMEA Hotel Performance

	Berlin	Dubai	Dublin	London	Madrid	Paris	Rome
Occupancy (%)	74.7	76.4	82	79.6	74.7	77.1	70.1
Average Rate (€)	97.33	154.77	141.13	160.41	107.65	210.64	150.14
RevPAR (€)	72.7	118.28	115.75	127.64	80.43	162.44	105.29

Source: STR



The Ned Hotel, London

New Hotel Openings

Sixty-two new hotels opened their doors in the capital in 2017 and the first half of 2018, providing over 8,500 rooms to the market. The budget sector stood out from the other segments, accounting for around half of new supply. Whitbread continues its expansion with 13 new properties (2,812 rooms) opened under two brands - Premier Inn and hub by Premier Inn. Examples include the 613-room Premier Inn London Heathrow Airport Terminal 4 and 398-room hub by Premier Inn London Kings Cross. Travelodge opened eight properties (1,037 rooms) with the largest one in Tower Hamlets (395 rooms).

The Upper Midscale segment has also seen a substantial increase in new openings, with nine properties (1,516 rooms) entering the market in the last 18 months. Moxy opened three hotels with nearly 1,000 rooms. Two of the properties are in the east of London (Stratford and London Excel), while the other one is near Heathrow Airport.

In addition, serviced apartments have been gaining popularity in London.

Nine new properties have opened, adding 609 rooms to existing supply. The largest opening so far is the Marlin Apartments with 236 rooms in Waterloo. Also, Native (previously GoNative) has two new additions in Tower Hamlets and Southwark.

Top 10 largest hotel openings

2017 - H1 2018 by number of rooms

Hotel Name	Class	Rooms
Premier Inn London Heathrow Airport Terminal 4	Economy	613
MOXY London Heathrow Airport	Upper Midscale	437
Travelodge London City	Economy	395
hub by Premier Inn London Kings Cross	Economy	389
hub by Premier Inn London Westminster Abbey	Economy	346
Novotel London Canary Wharf	Upscale	313
Premier Inn London Wembley Stadium	Economy	312
MOXY London Stratford	Upper Midscale	294
Dorsett London City	Upscale	267
The Ned London	Luxury	252

Source: STR



Future Pipeline

Around 11,000 new hotel rooms are expected to enter the hotel market between now and 2020—equating to 8% of existing supply – which is higher than key European cities such as Paris, Berlin, Rome, Milan and Lisbon. The increase in supply might put pressure on hotel performance. However, tourist arrivals to London are expected to grow further in the next few years. This, together with the completion of Crossrail in 2019, which connects Heathrow, the West End, the City and Canary Wharf, is expected to promote more business in the capital and should help absorb the additional inventory in the long run.

Around one-third of the expected pipeline is in the upscale segment, including the Crowne Plaza London Heathrow, Doubletree London West End, Courtyard by Marriott London City Airport and CitizenM London St Paul’s. The expansion of economy class hotels continues to be strong, taking up 26% of total future supply, followed by upper upscale hotels (22%).

With London being one of the most desired travel destinations, hotel companies are eager to gain a presence in the capital.

Top 10 largest hotels due to open in H2 2018 and 2019 by number of rooms

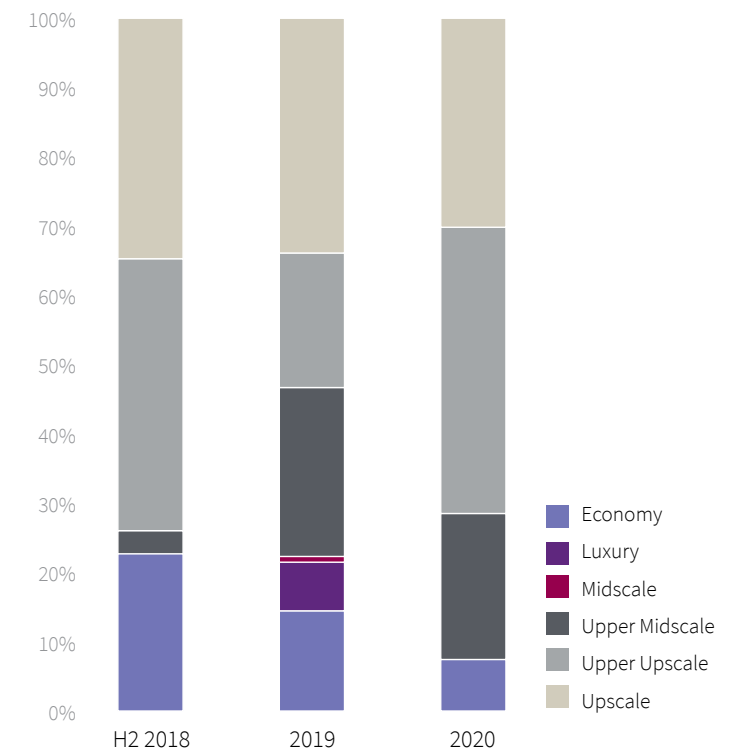
Hotel Name	Class	Rooms
Radisson Blu Edwardian Leicester Square	Upper Upscale	360
art’otel London Hoxton	Upscale	346
The Standard London	Upscale	270
Grange Tower Hill Hotel	Upscale	268
hub London Shoreditch	Economy	260
citizenM London St Paul’s	Upscale	246
Paddington Gardens Hotel	Upscale	225
YOTEL London Clerkenwell	Upper Midscale	212
Hotel Indigo London Aldgate	Upper Upscale	212
The Dixon Autograph Collection	Upper Upscale	193

Source: STR



Photo: citizenM, Tower of London by Richard Powers

London Hotel Pipeline H2 2018 - 2020



Source: STR

The Rise of London's Lifestyle Brands

Consumer tastes and preferences are constantly changing and this is no different in the hotel industry. Travellers are increasingly looking for a unique and authentic accommodation experience where they feel connected to their travel destination. This new trend is not limited to millennials, it expands beyond a certain age group to people who are 'young at heart.' The hotel industry has responded to the needs of this new breed of travellers by introducing a variety of lifestyle brands.

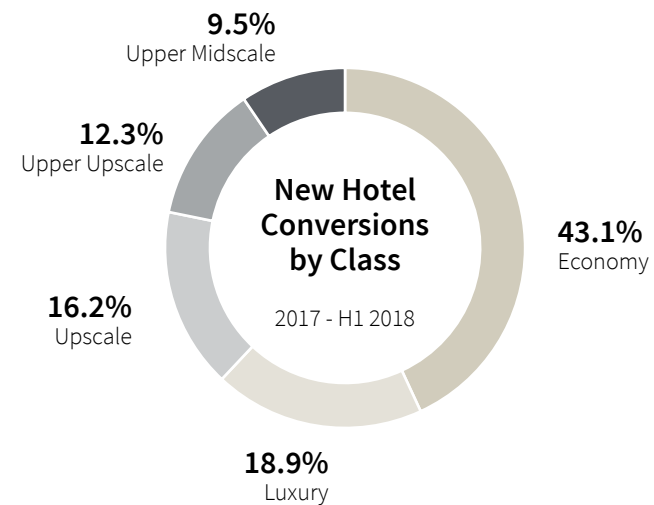
London has witnessed the rise of lifestyle hotel brands first hand. Many new brands have entered the London hotel market over the last couple of years. Examples such as the Ned, citizenM, Moxy, Ace, the Edition and Serviced Apartment brands such as Locke. More are in the pipeline such as The Dixon Autograph Collection, Hoxton Southwark and citizenM London St Paul's.

Hotel companies are developing their own lifestyle brands, trying to capture a share of this new traveller market. However, the lack of suitable sites in London plus competition from other sectors such as student housing, private residential sector and offices have become a key issue for hotel companies and developers.

In recent years, hoteliers are increasingly turning to office conversions to grow their portfolio.

The brand requirements of a lifestyle hotel tend to be more flexible than a traditional hotel brand and developers therefore have more room to employ creative designs to maximise the use of space. In addition, as the cost of construction continues to rise, conversions can offer a more economical way to build new hotels.

In 2017, conversions accounted for almost 30% of total new hotel rooms. In the first half of 2018, close to half of all new hotel rooms were conversions.



Note : Percentages calculated by the number of rooms
Source: STR



Photo: citizenM, Tower of London by Richard Powers

Economy class hotels accounted for the highest percentage of new hotel conversions, taking up 43% of total rooms. Converting an existing building allows brands like Premier Inn and Travelodge to establish themselves in a city location without paying a huge price. An example being hub by Premier Inn London Westminster Abbey, occupying a prime London location.

Upper upscale and upscale hotels together took up nearly 30% of total new converted bedrooms. That equates to nine hotels with 610 rooms. Brands that fall under this category include the MGallery by Sofitel in Leicester Square, Wilde Aparthotels by Staycity The Strand and Hotel Indigo London.

We see luxury and lifestyle hotels being created from attractive historical buildings, enabling clever designers and operators to reimagine the effective use of space that would otherwise be expensive to create in a new build. An excellent example of this is the Ned Hotel near to the City's Bank of England, which was previously the headquarters of the Midland Bank - a Grade I listed building, and is now a luxury boutique hotel with 252 rooms and nine restaurants.

The Investment Market

The largest transaction as of September YTD 2018 was the £140m sale of the DoubleTree by Hilton Islington by Amaris Hospitality to LRC UK Ltd. In addition, a development site close to Trafalgar Square was bought by Asian investor the Abil Group, with plans to build a five-star hotel with c. 200 rooms.

The one portfolio deal that took place including four properties in London was the Travelodge portfolio, which was acquired by a private property company.

Looking at international capital, Asian investors took a bigger share of the buyer's market at 17% of total volumes year to date, compared to just 4% at the same time last year.

Domestic buyers accounted for 76% of total activity. Asian investors took a bigger share of the buyer's market at 17% of total volumes year to date compared to 4% at the same time last year.

Hotel transactions in London reached nearly £1.5 billion as of Q3 YTD 2018. Single asset transactions drove the market, accounting for 95% of total volumes.



The Growth of Chinese Visitors to London

China's economic development in the past twenty years has led to the rapid emergence of a middle class with a strong appetite for travel. In 2017, China's international travel market was the largest in the world, as visitors took 130 million overseas trips, spending USD 258 billion globally. (UNWTO, 2018)

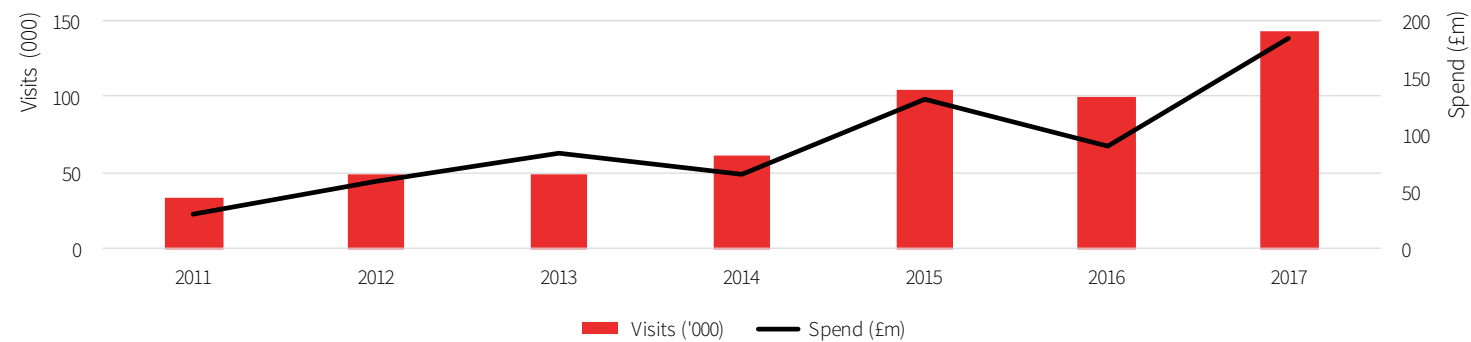
Despite the size of China's outbound tourist market, London had previously trailed behind Paris, Rome and Moscow in its number of Chinese visitors. One challenge of attracting visitors was the requirement of a UK visa to visit London, compared to the convenience of a single visa to the Schengen zone granting access to twenty-six European countries. To make the UK more appealing, a series of initiatives have been launched in recent years, including pilot schemes that place the

Schengen and UK visa application centres in the same location, and extending the length of a UK visa from six months to a two-year multiple entry visa.

With these initiatives, along with China's continued economic development, London is rapidly becoming a must visit location among Chinese travellers. The number of visits from the country more than doubled between 2012 and 2017 and volumes show no signs of diminishing. China is set to be London's fastest growing tourism source market in the upcoming decade.

By 2025 annual visits to London from China are projected to grow to 334,000 per year.

The Trend in Chinese Leisure Visits and Spend in London (2012-17)



ONS, International Passenger Survey (IPS)



Hotels are attempting to attract this growing market by providing specialist Chinese services from the booking stage through to the full duration of their stay in London. In 2017, Marriott International launched a Chinese language web platform and a partnership with the online travel platform Fliggy (part of large Chinese tech company Alibaba).

Payment can be processed by Alipay, the country's most popular payments app. China is rapidly becoming a mobile-first economy, with prestigious stores such as Harrods and Selfridges among the first in London to offer payment through Chinese mobile apps. China is a crucial market for luxury retail, accounting for one quarter of tax-free shopping in London's West End.

When visitors have made it to London, hotels offer a host of tailored programmes to provide guests with a special stay in the city. Hilton, Marriott and Edwardian, for example, all offer Chinese-fluent staff to provide guests with personal service.

Several hotels offer familiar Chinese food made with local British ingredients, meanwhile amenities such as Chinese TV and newspapers, local phone cards and power adaptors are also provided to ensure that visitors have a comfortable stay.

As arrivals from China to London continue to increase, hotels will place even more importance in catering for these visitors' individual tastes.



Bright Outlook for London

London is one of the most visited cities in the UK and one of the most visited globally. During 2017 the softening of the pound, together with the strength of both U.S. and Eurozone economies, have brought in a record level of international tourists, resulting in impressive hotel operating performance. Though there has been a slight decline in hotel performance since late 2017, as London absorbed the additional supply. However, London continues to be one of the most sought-after tourist destinations given its rich and diverse cultural offering.

The outlook for both the London hotel industry and investment market remains positive. RevPAR is forecast to grow, though at a slower rate than 2017. Tourist arrivals are also on the rise, with travellers from China and India seeing major growth.

All the above positive factors, together with the city's solid fundamentals, underpin a bright future for the London hotel and hospitality market.

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