Hospitality and Leisure
Hospitality Directions Europe

UK hotels: slowdown not meltdown

PricewaterhouseCoopers' latest forecast for the UK hotel sector for 2008 to 2009 calls for a slowdown in demand and decelerating room rate growth but concludes that there is still plenty to play for on the UK hotel scene

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PricewaterhouseCoopers

UK hotels: slowdown not meltdown

Key findings

Change is coming

UK economic growth in 2008 looks increasingly uncertain and some sort of a slowdown now appears inevitable. Commenting on the global financial crisis, George Soros has said that now we are at least dealing with known unknowns, but warns that after the financial crisis is resolved the fallout will take time to impact the 'real' economy.[1]

What will be the scale of the fallout for the hotel sector? Clearly an economic slowdown will translate into weaker demand growth in the second half of 2008. The fallout, including a lack of confidence, will impact corporate travel budgets and overstretched consumers are likely to tighten their belts. Weaker demand will mean decelerating room rate growth, lower revenues and, as a consequence, reduced operating income. Hotels are highly operationally geared and any sharp decline will impact profits. We have already begun to see the negative impact on demand coming through in recent performance data.

Even though things are far from rosy, at the current time there is no reason to expect a meltdown in the UK hotel sector. Our central forecast for 2008 and 2009, although less optimistic than previously, is premised on a reasonably robust UK scenario of 1.9 per cent GDP growth this year (compared to the 3.1 per cent growth achieved last year) and a further 2.0 per cent growth in 2009.

To balance this and to help us assess how nasty things could get, we have also prepared a 'downside' scenario where GDP growth slips to 1.4 per cent this year and then reaches 1.6 per cent in 2009.

Likely fallout for the hotel sector

- **Main scenario**

UK revenue per available room (RevPAR) has seen growth each year since 2002. Our latest forecast for the UK is for continued RevPAR growth of 4.1 per cent this year and 3.6 per cent in 2009. For London, the power house driving UK growth, we expect an end to double digit RevPAR growth; although we could still see 6.0 per cent RevPAR growth this year and a further 4.4 per cent gain in 2009, this will be a sharp fall compared to the growth realised in 2007. If this forecast is achieved, RevPAR could pass £100 for the first time in the capital and top £50 in the Provinces in 2008.

After almost four years of UK room rate growth we expect growth to decelerate from 6.8 per cent in 2007 to 3.8 per cent this year and a further 3.8 per cent in 2009. After six years of room rate growth in London, growth is expected to continue but to moderate to 5.5 per cent this year and 5.0 per cent in 2009. This compares to 11.2 per cent in 2007. In the Provinces room rates have been growing steadily and this growth could reach 2.8 per cent this year and 3.1 per cent next year.

Occupancies are expected to remain broadly flat and could even see a slight decline in the UK as a whole and in London next year.

In support of our forecast, our recent research amongst hoteliers told us that, despite the gloomy view of economists, overall the sector is still reasonably optimistic about prospects for 2008.

1 FT Video View from the Top, George Soros speaking at Davos on 'Threats to the Financial System', January 24 2008,

- **Downside scenario**

In our more pessimistic 'downside' scenario, underpinned by GDP growth of 1.4 per cent this year and 1.6 per cent in 2009, Provincial performance holds up better than London with RevPAR slowing only slightly to 3.0 per cent growth in both 2008 and 2009. In contrast, London slows considerably more sharply slipping to just 2.5 per cent RevPAR growth this year followed by 2.8 per cent in 2009. In this scenario occupancy declines of 1.9 per cent and 1.3 per cent could be seen in London in 2008 and 2009 respectively.

Central forecast highlights 2008-2009 (growth %)

	2008			2009		
	UK	London	Provinces	UK	London	Provinces
Occupancy	0.4%	0.4%	0.3%	-0.1%	-0.6%	0.1%
ARR	3.8%	5.5%	2.8%	3.8%	5.0%	3.1%
RevPAR	4.1%	6.0%	3.2%	3.6%	4.4%	3.2%

Source: PricewaterhouseCoopers 2008. Rounding may mean RevPAR does not equal sum of ARR and occupancy

'Downside' scenario highlights 2008-2009 (growth %)

	2008			2009		
	UK	London	Provinces	UK	London	Provinces
Occupancy	-0.5%	-1.9%	0.2%	-0.5%	-1.3%	-0.1%
ARR	3.3%	4.4%	2.7%	3.4%	4.1%	3.0%
RevPAR	2.8%	2.5%	3.0%	2.9%	2.8%	3.0%

Source: PricewaterhouseCoopers 2008. Rounding may mean RevPAR does not equal sum of ARR and occupancy

Why don't we expect a meltdown?

- The industry is in good shape generally: there are still opportunities to grow revenues. Many poorly performing hotels have been taken out of portfolios and more new hotels will enhance the performance of some brands

- Hotels are making the best of the business they have: sophisticated revenue management systems are helping to maximise revenue; costs are rising but are generally under tighter control

- Hotels have not become commoditised: they have successfully fought back to regain control over pricing of inventory on online sites. A multi channel approach has helped operators

- More high quality hotel products are on offer: there will be a continued flight to quality and corporate buyers and 'squeezed' consumers will seek out value for money, trusted products and brands and a minimal risk of disappointment

- Strong locations will buffer some operators: a range of commercial and leisure demand in good locations will help operators leverage rate over the next 18 months. Living in a carbon footprint aware world means tighter budgets and travel policies and city centre sites may benefit

- Supply is generally thought to be coming on line slower than demand, although there are pockets of oversupply. London is still considered under supplied. The credit crunch may stop some new projects attracting finance: this could be a good thing for the sector's longer term prospects and avert a sharper fall in RevPAR

The economy is going to impact many decisions in 2008 but the revolution in consumer power of the last 10 years is not going to go away. Consumers are going to be more demanding and vocal than ever – online and in person.

UK outlook

How did we do last time?

So how did we do forecasting occupancy, ARR and RevPAR in 2007? Well we knew it would be a good year even though RevPAR gains would start to slow and we certainly got the direction right from the beginning of the year. However, in the end it was a mixed bag of results. In our March 2007 forecast we were pretty close to the year end results for UK RevPAR, forecasting 5.5 compared to the final outcome of 6.5 per cent. However, we were way too conservative for London where we expected ARR and RevPAR growth to end the year in low single digits not low double digits. In September we had another stab and forecast London RevPAR at 10.6 per cent compared to the 11.1 per cent final outcome.

In March we scored a virtual direct hit for ARR in the Provinces but were too bullish on occupancy which in the end declined by 0.3 per cent. We were one percentage point off 2007 RevPAR for Edinburgh but in Manchester we forecast 4.1 per cent RevPAR growth compared to a year end outcome, slowed by more new room supply, of 2.1 per cent. By September's forecast we were concerned about Birmingham's performance and revised RevPAR growth downwards to 0.8 per cent compared to an actual outcome of 0.6 per cent. We took a little too bullish a stance for Manchester anticipating ARR growth of 4.4 per cent compared to the actual outcome of 3.8 per cent. We were too cautious on all measures for Edinburgh which enjoyed its strongest room rate growth for some years despite a small fall in occupancy.

UK outlook - still much to play for

Benign economic growth has allowed the UK hotel sector to enjoy some strong trading years, even though much of this has been on London's coat tails. UK RevPAR has seen growth each year since 2002. Economic growth has driven corporate travel volumes as well as stimulating leisure travel. See Appendix 2 and Graph 1. However, many cities outside London have also seen buoyant times, driven largely by strong regional or local economies; for example, in Scotland, Aberdeen, Glasgow and Edinburgh saw very strong growth in 2007. Many cities have expressed ambitious growth plans to further develop future supply and eleven new hotel developments are proposed in Aberdeen alone.

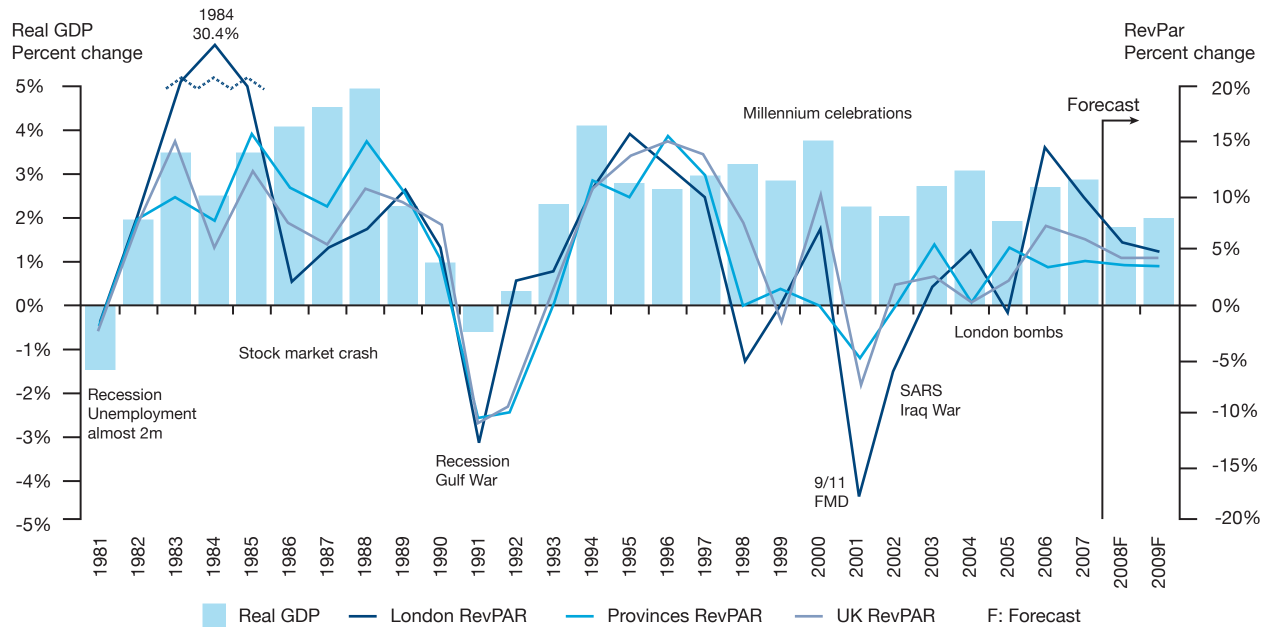
However, with some of the cyclical themes playing at the moment being the same ones we have heard in the past, does it now follow that the best of times have to be followed by the worst of times? Graph 1 shows some of the very best and worse of times for London and the Provinces since 1981. The graph shows that London has seen a more volatile ride than the Provinces since 2000. London's severe RevPAR decline in 2001 was precipitated by the major events of 9/11 and an almost cessation of international air travel. An observer would need to go back over ten years before that, to 1991/2 for the impact of the last recession, when it was a very different economic backdrop in terms of GDP declines, high unemployment figures and so on.

New business models: new mistakes?

In recent years, spurred on by the robust trading conditions, new lenders have been attracted into the hotel sector lending at ever higher loan to value ratios – as high as 80 per cent in some cases. Clearly, a forecast reduction in demand for UK hotels coupled with significant cost pressures is likely to lead to declining hotel earnings and profitability for some over the next 18 months. As this in turn becomes reflected in values, there is a risk that lenders could be left with debt levels greater than the value of those hotels taken as security.[2]

Graph 1 – Rollercoaster UK

UK, London and Provincial RevPAR growth rates versus real GDP 1981-2009



Source: Econometric Forecasts: PricewaterhouseCoopers February 2008, Macroeconomics data: Oxford Economics 1981 to 2008, PricewaterhouseCoopers 2009, Benchmarking data: Pre 2001 TRI/PKF; Post 2001 STR/The Bench

Lenders are already reassessing debt levels in the light of the credit squeeze and, coupled with a likely increase in covenant breaches, will become both more demanding and more nervous of their exposure to the hotel sector.

How operators are affected by the slowdown also depends on the nature of their business model. Those who derive their income from management fees and franchise fees will fare better than the owner-operators who will take much of the pain themselves. But perhaps most vulnerable will be franchisees who are heavily committed to guaranteed minimum payments irrespective of the performance of their hotels.

Making the most of the business you've got - even by stealth

However, even though credit markets continue to tighten, experienced operators will continue to grow their portfolios. The industry is in good shape generally and there are still opportunities to grow revenues and profits. Many poorly performing hotels have been taken out of portfolios and more new hotels will enhance the performance of some brands. At the same time increasingly sophisticated revenue management systems are helping hotels to maximise revenue and make the most of the business they have. Another trend has been a move to 'stealth charges', whereby guests are being charged for more things, such as early check out, leisure facilities and parking, as well as increased meetings rates, and minimum stay requirements.

The hotel sector has also managed to avoid becoming commoditised and has successfully fought back to regain control over pricing inventory on online sites. Of course this could slip again with lead times reduced to the very last minute and if some hoteliers panic and post low rates on the internet. A multi channel approach has helped operators to win custom. Manipulating the web successfully was cited by some of the hoteliers we spoke to recently as a major role for their hotel managers.

2 New lenders should learn from old hands, Nick Boyd, Edward Symmons, Summer 2007

Who will have the most pulling power as brands wrestle for market share?

Although there are excellent products out there, consumers have looked at some of the older, tired hotel brands and found them to be wanting. In response, hotels have invested heavily in quality new build, refurbishment and new brands and have been polarising the good, the bad and the ugly across all segments including London's high-end luxury hotels. Thirty four brands were launched in the U.S. between 2005 and October 2007, the biggest brand surge in nearly two decades, with the biggest segment being luxury, with 18 new brands. The UK may not be able to compete with this but has seen new brands in recent years too: Abode, Nitenite, Dakota, easyhotel, Yotel, Hyatt's Andaz in London (a 'green' brand); and is about to see IHG's Staybridge Suites, and Hilton's Hampton, Doubletree and Garden Inn debuts.

We list below some more new brands and identities planned for the UK:

- The Real Hotel Company launched its 'budget with frills' Purple brand late in 2007[3]

- Virgin is reported to be developing the launch of a new hotel brand for the UK and Europe, to be unveiled in spring or summer 2008[4]

- Barcelo are to introduce their brand to Paramount Hotels as they take over managing the 20 four and five star hotels leased from Dawnay Shore[5]

- A three year global overhaul of the Holiday Inn brand has been launched, including 220 Holiday Inn and Holiday Inn Express hotels in the UK.

- Thistle has seen a £100m reinvention, with a new identity launched at the opening of their refurbished hotel in Liverpool last November.

- Premier Travel Inn recently rebranded to Premier Inn.

Supply check?

Recent high occupancies and room rates have made hotels very profitable and hence attractive to developers. Intuitively, as well as visually, a journey around the UK suggests an awful lot of new hotel development at present, whether it be new build or conversions. So, should we be worried about oversupply? Often excess demand and a shortage of beds is followed by a period of excess supply in which hotels have lower occupancy and room rates. How hard the new supply is to fill depends on when and where they come on line and in which segments.

In terms of supply in general, although it is unlikely that the credit crunch will stop developments that are already underway, it may stop some new projects attracting finance. Already rising construction costs has meant that many hotel projects are developed as part of more viable mixed use schemes. Perhaps this could be a good thing for the sector's longer term prospects, averting a sharper fall in RevPAR?

"A multi channel approach has "enabled us to keep a huge number of eggs in the basket in terms of distribution channels and market types"

Hotel operator interview, January 2008

"2008 will be patchy, with a gradual improvement towards the end of the year"

Peter O'Meara, Group Operations Director Arora International, January 2008

"The market is polarising - hotels are either destinations in their own right or they are going low-cost"

Michael Prager, Chief Executive, The Real Hotel Company, January 2008

3 Choice Hotels recently announced it was taking back control of brands Comfort, Quality, Sleep and Clarion in the UK, terminating the master franchise with the Real Hotel Group
4 Virgin set to unwrap plans for major new hotel brand, 13 December 2007, Marketing Week
5 Marketing Week, Paramount brand is to be replaced by Barcelo, 13 December 2007

An in-depth report by Melvin Gold for Travelodge recently estimated that there were around 716,500 rooms in the UK in mid 2007 and that this could reach 840,000 rooms by 2020.[6] This total represents CAGR of around 1.1 per cent over the past 30 or so years (1974 to 2007). Looking ahead, we have frequently touched on the ambitious expansion plans of many leading groups such as Travelodge, Premier Inn, InterContinental Hotels (IHG), Accor and Hilton (see Provincial Outlook in this edition where three new Hilton brands are set to debut in the UK this year). If the UK hotel sector grows at a further CAGR of 1 per cent per annum between 2008 to 2012 and 0.75 per cent per annum after this to 2020, Gold suggests this means 6,285 new rooms annually over the next 12 years, although in reality there will be supply 'churnage' with some stock leaving the system.

In conclusion, yes, there will be speculative and unwise schemes and some will inevitably end in tears. In reality new supply will not come on line in an orderly fashion either. Admittedly, global economic growth will generate new markets from overseas and more corporate and leisure travel volumes but the UK will be competing with other destinations around the globe for their custom as well as for domestic custom. Hotels in strong locations with a range of commercial demand will do best and leverage rate most over the next 18 months. Living in a carbon footprint aware world means tighter budgets and travel policies and this could favour urban hotels convenient for public transport.

The price is light?

There has probably never been more choice for travellers (business and leisure) in terms of quality hotel products across a range of segments in the UK. In Appendix 1 we discuss the continued surge in city breaks driving weekend demand in many cities. Figures from LateRooms.com show nearly three times as many people booked a holiday or short break in January 2008 as in January 2007. Where will visitors stay on their city break?

In theory the credit crunch and tightened purse strings should be good news for the value-for-money mid-market sector. In reality the sector is itself squeezed by a number of factors that don't just resolve around price, but include a variety of intangibles consumers' value and which will define which segments and brands flourish.

According to a new report by Mintel, a boom in high-quality low-cost hotels is set to revolutionise the hotel industry (again).[7] UK branded budget hotels are set to grow from a 12 per cent share to 20.6 per cent share of the UK hotel market over the next 20 years, according to Melvin Gold. Leading brands plan to build 75,000 new budget rooms by the end of the decade and the sector is set to more than double over the next 20 years, from almost 86,000 rooms to top 225,000 rooms. That's a lot of rooms competing for guests each night. Premier Inn has drafted in comedian Lenny Henry to front an advertising campaign to support its recent rebrand and differentiate the chain in an increasingly crowded sector. Premier Inns saw an 11 per cent gain in turnover in the 39 weeks to the end of November 2007 and is reported to be expanding 10 times faster than estimated in 2007.

What do hoteliers think the outlook holds?

As a part of our research for this latest forecast we asked a cross-section of hotel groups for their views on the next two years. Many hoteliers we spoke to remained quietly confident about the prospects for 2008, although this varied by brand and location. Most expected occupancy to remain pretty flat or decline this year, although some expected growth of up to 3 per cent in 2008 and 2009. In terms of rates the view was more divergent – ranging from decreases of around 4 per cent this year to a five per cent increase with more growth in 2009. Short break leisure business is expected to come under pressure this year as consumers feel the squeeze.

In terms of how long a slowdown might last, six to 18 months was the spread. Many believed it would not be as bad as past downturns although a few disagreed believing it could be as bad as 2001. Most felt supply wasn't an issue and that demand continues to outstrip supply in most areas.

6 By permission of Melvin Gold Consulting Ltd; Report produced for Travelodge Hotels Ltd October 2007
7 The hot topic: the budget hotel revolution, 13 January 2008, The Observer

UK forecast

Latest UK forecast – decelerating growth but ARR could still top £90 in 2008

We have prepared two forecast scenarios for hotel performance to 2009. Our central forecast is driven by economic growth of 1.9 per cent this year and 2.0 per cent in 2009. See Appendix 1 for a more detailed discussion of the economic backdrop. In this central scenario RevPAR for the UK holds up reasonably well.

RevPAR growth is expected to slow from 6.5 per cent experienced in 2007, and largely driven by London's growth, to around 4.1 per cent this year and 3.6 per cent in 2009. After six years of unbroken growth, RevPAR could reach £68.77 this year and £71.26 next year. Occupancies will remain flat but room rates are expected to continue to grow albeit at a slower rate of 3.8 per cent in both 2008 and 2009, taking rates over £90. See Table 1 and Graph 2.

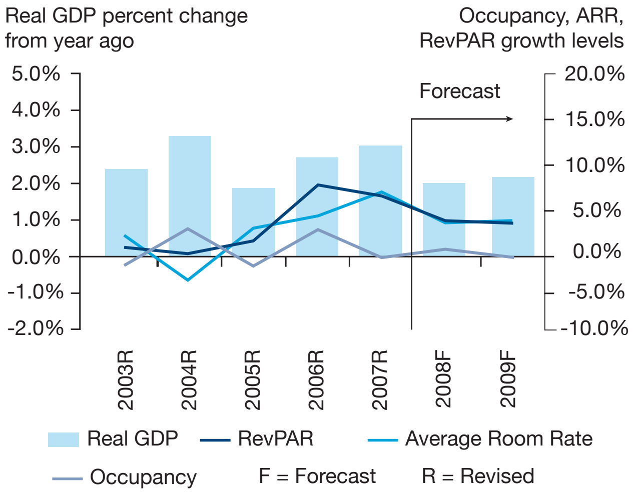
What if the economic slowdown gets nastier?

As we mentioned in the key findings, we have also prepared a more pessimistic 'downside' scenario premised on GDP growth of 1.4 per cent this year and 1.6 per cent in 2009. In this case demand slows more significantly and although RevPAR still shows some growth it decelerates to 2.8 per cent this year and 2.9 per cent next year.

Table 1: PricewaterhouseCoopers Latest Forecast for UK February 2008			
	2007R	**2008F**	**2009F**
Average Room Rate (£)	88.52	91.85	95.31
% Change	6.80%	3.80%	3.80%
Occupancy (%)	74.6	74.9	74.8
% Change	-0.20%	0.40%	-0.10%
RevPAR (£)	66.04	68.77	71.26
% Change	6.50%	4.10%	3.60%

Source of Forecast: PricewaterhouseCoopers Forecasting Model, February 2008 Note: Historic data are from The Bench/STR R=Revised. F=Forecast.

Graph 2 – UK hotel performance 2003 to 2009
Real GDP, revenue per available room, average room rate and occupancy growth rates



Source: Econometric Forecasts: PricewaterhouseCoopers February 2008, Macroeconomics Data: Oxford Economics February 2003 - 2008, PricewaterhouseCoopers 2009, Benchmarking Data: STR/The Bench February 2008

London forecast

"For overseas visitors, the weak dollar and deteriorating economic conditions in the US are predominately contributing to a slowdown. Domestically, tighter credit standards and the full impact of interest rate rises are impacting the market.

However, London continues to benefit from hosting major events and exhibitions, especially at The O2 and Wembley Stadium, which is helping to offset this downturn. As a result, we expect minimal growth in 2008, with overnight visits remaining flat."

Jamie Talmage, Business Analyst, VisitLondon, February 2008

"There's still a dearth of quality hotels in London and people always come back to commercial property."[8]

Johnny Sandelson, Chief Executive and founder GuestInvest

London: growth but not as we know it

London has been the star performer of Europe's hotel markets in recent years; however the financial markets crisis is already beginning to slow demand. 2007 marked another record year for London as average rates topped £127 and RevPAR growth continued to soar by 11.1 per cent taking RevPAR to over £97, despite a marginal occupancy decline. Looking ahead we still expect growth but not at the rates hoteliers have experienced recently.

In terms of visitors, over the last 10 years the number of visitors to London has steadily increased, although this growth has been uneven. The overseas market has expanded but the domestic market has reduced in size. Looking ahead only minimal growth is expected this year. Events at the O2 and Wembley are reported to be helping to offset the downturn. A recent announcement by the National Football League that they plan to bring a regular season match across the Atlantic is likely to boost the visitor economy in October this year.

Supply pipeline moves onward and upward

Unsurprisingly, high barriers to entry, dynamic hotel performance and solid sector fundamentals have continued to generate considerable interest in London's hotel scene. According to VisitLondon almost 2,000 rooms opened in 2007. Travelodge was the most active operator opening 892 rooms. InterContinental opened two Express hotels and Radisson Edwardian also continued to expand. Looking to this year and beyond, the largest development will be the 600 bedroom Arora property at Heathrow's Terminal 5; Park Plaza will open a large new apartotel, while Marriott, Novotel and Grange are also set to open new hotels. At the budget end Travelodge recently opened its 15th London property, the 69 bedroom hotel at Aldgate and is currently constructing in Uxbridge from modified ships containers, a move aimed to reduce construction costs by 10 per cent. Travelodge have said they intend to open a further 22,000 rooms in London by 2020. In total, across all segments, around 5,800 new rooms could be added to London's hotel supply over the next two years according to VisitLondon. See Table 2 over page.

Longer term, four Qatari banks have recently announced that they have agreed to fund the construction of the Renzo Piano's London Bridge skyscraper, the 310m high Shard of Glass. The banks are led by investment bank Qinvest and it is believed that the operator will still be Shangri-La.

Hotel closures likely to boost luxury segment performances

Several luxury hotels are closed or planning to close for refurbishment. At the Savoy, operators Fairmont Hotels & Resorts, closed the doors at the end of 2007 after auctioning off many of the hotel's heirlooms. It is expected to re-open in 2009, following the £100million facelift. The Connaught opens again in May after a £70m refit and an extension adding another 33 rooms. After 110 years the hotel has been modernised adding in-room mini bars, flatscreen TVs and wireless internet. Quinlan Private has received planning permission to spend £250 million (€347 million) extending and refurbishing its luxury Claridge's and Berkeley hotels.

8 Evening Standard 17 January 2008

Table 2 – London: new room additions 2008 & 2009						
Hotel	**Location**	**Borough**	**Rooms**	**Grade**	**Date Due**	**Developer/Operator**
County Hall Park Plaza	Addington Street, Waterloo	Lambeth	398	Apartments	Q1 2008	Galliard/Park Plaza
Travelodge Euston Square Developments/Travelodge	72 Euston Square/Grafton Place	Camden	151	Budget	Q1 2008	Southbury
Nest Hotel	Devonshire Terrace/Queen's Gardens	Westminster	157	4	Q2 2008	GuestInvest
Travelodge Southwark Investment/Travelodge	202-206 Union Street, SE1	Southwark	201	Budget	Q2 2008	Blackfriars
Heathrow T5	Heathrow	Hillingdon	600	5	Q2 2008	Arora/Sofitel
Twickenham Stadium	Rugby Road, Twickenham	Richmond	146	4	Q3 2008	RFU/Marriott
New Caledonian Market Bespoke Hotels	Bermondsey Square, SE1	Southwark	80	Boutique	Q3 2008	Igloo Regeneration/
Novotel, Paddington Central	Bishop's Bridge Road, W2 6BA	Westminster	206	3	Q3 2008	Development Securities/Accor
Apex City*	Seething Lane, City of London	City	36	4	Q3 2008	Apex Hotels
Faraday House	136 - 144A Queen Victoria Street, EC4	City	292	5	Q4 2008	Grange Hotels
Whitbread Brewery	Chiswell Street	City	200	4	Q4 2008	GuestInvest
Travelodge Heathrow	Heathrow T1/T3	Hillingdon	307	Budget	Q4 2008	Travelodge
Berners Hotel*	Berners Street, W1A 3BE	Westminster	50	4	Q4 2008	JJW Hotels & Resorts
Paddington Park	16 London Street, W2 1HL	Westminster	80	Boutique	Q4 2008	London Town Hotels
Ramada Encore	Bath Road, Heathrow, TW5 9QE	Hounslow	100	3	Q4 2008	Ramada Jarvis
Colebrand House	18-20 Warwick Street	Westminster	39	Boutique	Q4 2008	Soho Estates
Citibank House	Strand/Aldwych	Westminster	166	5	Q1 2009	Silken Hotels
Apex Hotels	7-9 Copthall Avenue	City	80	4	Q2 2009	Apex Hotels
Ibis, West Brompton*	47 Lillie Rd, SW6 1UD	H&F	260	2	Q2 2009	Accor
Sleeperz Waterloo	Lower Marsh	Lambeth	100	Budget	Q2 2009	Network Rail/Sleeperz
Travelodge Waterloo	St Georges House, Waterloo Road, SE1 8UX	Southwark	260	Budget	Q2 2009	Ebury Securities/ Travelodge
St Nicolas Shopping Centre	Sutton Town Centre	Sutton	100	Budget	Q2 2009	Golfrate/Accor
Arch Hotel	Montague Mews South	Westminster	84	Boutique	Q3 2009	AB Hotels
North Brentford Quarter	International House Building	Hounslow	230	Apartments	Q3 2009	Barratt/Harrell Hotels
Chelsea Bridge Wharf Grupo Pestana	Chelsea Bridge	Wandsworth	218	4	Q3 2009	Berkeley Homes/
H10 Waterloo	St Georges Circus, Waterloo Road, SE1 8RQ	Southwark	212	4	Q3 2009	H10 Hotels
Expresss by Holiday Inn, Rainham	CEME Campus, RM13 8EU	Havering	127	3	Q4 2009	Splendid Hotel Group
Radisson Edwardian, Syon Park	Syon Park Estate	Hounslow	154	4	Q4 2009	Radisson Edwardian
Travelodge Uxbridge	Colham House, Bakers Road	Hillingdon	120	Budget	Q4 2009	Travelodge
Staybridge Suites, Brentford InterContinental Hotels	Alfa Laval Site, Great West Road	Hounslow	124	Apartments	Q4 2009	Stay Investments/
Silvertown Quays	Dock Mill Road, E16	Newham	200		Q4 2009	Silvertown Quays Ltd
Bear House, Southwark	Bear Lane/Great Suffolk Street, SE1	Southwark	113	Apartments	Q4 2009	Splendid Hotels/ InterContinental Hotels
Holiday Inn Express, Southwark	Bear Lane/Great Suffolk Street, SE1	Southwark	130	3	Q4 2009	Splendid Hotels/ InterContinental Hotels
Battersea Heliport	Bridges Wharf	Wandsworth	70	Boutique	Q4 2009	Von Essen Hotels
Ritz Hotel*	22 Arlington Street	Westminster	50	5	Q4 2009	Ritz

Source: Visit London 2008

**extensions*

GuestInvest expands

The Bank of Scotland is reported in the press to be adding £120 million to the £180 million it has already committed to hotel buy-to-let group GuestInvest. The new money is expected to allow the group to finish developing a row of Notting Hill houses into a new hotel, to be called The Jones and to open in June. Reports suggest a tenth of the 187 rooms have aready been sold for £320,000 each. Transient guests at the hotel will pay £190 per night to stay.

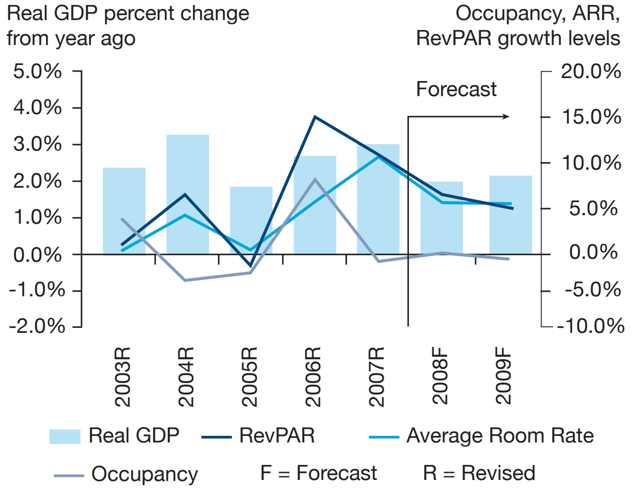
Latest forecast for London: No more double digit growth but RevPAR may top £100 this year

Our latest central forecast for London expects further room rate and RevPAR growth but at almost half the heady rates achieved in 2007. RevPAR gains stayed in double digits in 2006 and 2007 but are expected to slow to 6.0 per cent in 2008, dipping to 4.4 per cent in 2009. ARR growth is expected to moderate to 5.5 per cent and 5.0 per cent in 2008 and 2009 respectively, taking average room rates to £127.02 and £133.42 in these years. See Table 3 and Graph 3. If achieved, London will have seen almost seven years of unbroken RevPAR growth (the exception being the small dip in 2005 following the London bombings) and RevPAR should top £100 for the first time. With occupancies at around 81 per cent and hotels in effect full, marginal occupancy decline may be felt in 2009. In terms of current prices, room rates are the highest they have ever been. However, if we strip out inflation, ARR at almost £60 in 2008 is still some way off 2000's real rate of £67.

A less rosy 'downside' scenario could see London demand slow more steeply

In our second, less rosy 'downside' scenario London demand may slow more sharply, slipping to 2.5 per cent RevPAR growth this year followed by 2.8 per cent in 2009. This is driven by more severe occupancy declines of almost two per cent this year and 1.3 per cent in 2009. Room rate gains also decelerate to around 4.4 per cent this year and 4.1 per cent in 2009.

Graph 3 – London hotel performance 2003 to 2009 Real GDP, RevPAR, average room rate and occupancy growth rates



Source: Econometric Forecasts: PricewaterhouseCoopers February 2008, Macroeconomics Data: Oxford Economics February 2003 - 2008, PricewaterhouseCoopers 2009, Benchmarking Data: STR/The Bench February 2008

Table 3: PricewaterhouseCoopers Latest Forecast for London February 2008

	2007R	2008F	2009F
Average Room Rate (£)	120.38	127.02	133.42
% Change	11.20%	5.50%	5.00%
Occupancy (%)	81.09	81.43	80.92
% Change	-0.10%	0.40%	-0.60%
RevPAR (£)	97.62	103.43	107.97
% Change	11.10%	6.00%	4.40%

Source of Forecast: PricewaterhouseCoopers Forecasting Model, February 2008 Note: Historic data are from The Bench/STR R=Revised. F=Forecast.

Provinces forecast

Provinces – RevPAR could top £50 for first time this year but market weakness likely to show by mid-year

Overall, provincial hotels have not experienced the roller coaster ride London has seen over the past six years. See Graph 1. Research among provincial operators has shown a patchy performance in January 2008 as demand slows with mixed but generally optimistic views regarding the year ahead, albeit with slower demand.

Britain's urban and cultural regeneration continues and city breaks have helped drive the domestic tourism scene, although if consumer belts tighten severely this market is likely to feel some pain. Liverpool recently kicked off a year of civic activities for European Capital of Culture 2008 with a flamboyant show at the new 10,600 seat Echo Arena.[9] Although Newcastle lost the race for European Capital of Culture this year, the re-branded city, NewcastleGateshead, is now into a ten year programme of events and the arts are reported to be attracting £880m a year to the local economy. It is not just the cities seeing a regeneration though, Britain's resorts are also seeing injections of new life with schemes expected to attract tourists. Boscombe near Bournemouth has been granted permission to develop Europe's first artificial surf reef and the project is due for completion this year.

There have been considerable supply additions announced recently. Hilton in particular has a number of firsts:

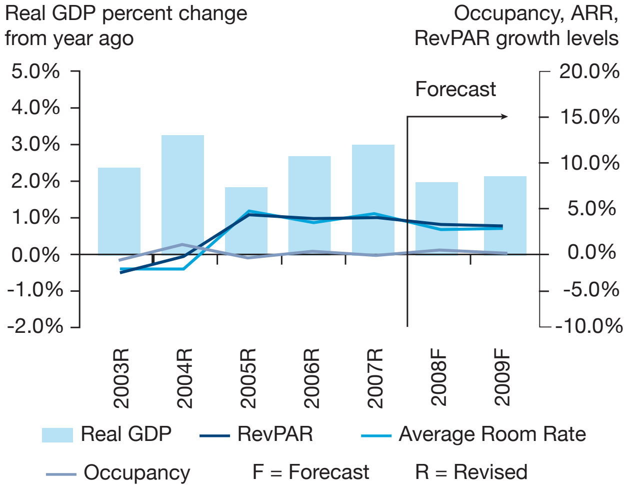
- The first Doubletree by Hilton is to open in Cambridge in April following conversion of the Cambridge Garden House into a full service upscale 122 room hotel

- The first Hampton by Hilton is opening at Rockingham Leisure Park in Corby North in late 2008

- Hilton open their first UK Garden Inn brand in Luton this year followed by Aberdeen in 2009

9 Economist January 19th 2008

Graph 4 – Provincial hotel performance 2003 to 2009 Real GDP, RevPAR, average room rate and occupancy growth rates



Source: Econometric Forecasts: PricewaterhouseCoopers February 2008, Macroeconomics Data: Oxford Economics February 2003 - 2008, PricewaterhouseCoopers 2009, Benchmarking Data: STR/The Bench February 2008

Table 4: PricewaterhouseCoopers Latest Forecast for Provinces February 2008

	2007R	2008F	2009F
Average Room Rate (£)	69.65	71.62	73.82
% Change	4.40%	2.80%	3.10%
Occupancy (%)	70.97	71.21	71.29
% Change	0.30%	0.30%	0.10%
RevPAR (£)	49.43	50.99	52.63
% Change	4.10%	3.20%	3.20%

Source of Forecast: PricewaterhouseCoopers Forecasting Model, February 2008 Note: Historic data are from The Bench/STR R=Revised. F=Forecast.

- MWB are to open four new Malmaison hotels at Poole, Newcastle, Edinburgh and Aberdeen in 2008. A hotel at St Andrews is to be converted to a Hotel du Vin and three further sites are likely to be agreed including Chester and Canterbury
- Full service upscale products such as the City Inn Leeds will open in 2009, a second London property opens in 2010 and Edinburgh follows, perhaps by 2010
- Extended stay seems to be gathering momentum at last. The first IHG Staybridge Suites is to open in Liverpool later this year with Newcastle following in 2009

Our revised forecast for the Provinces is for RevPAR gains of 3.2 per cent this year and further 3.2 per cent in 2009, lifting RevPAR to £50.99 this year and £52.63 in 2009. Occupancies have crept up slowly over the past few years despite suffering marginal declines in 2003, 2005 and 2007, and are expected to remain flat this year and into 2009 at just over 71 per cent. ARR growth will moderate from 2007's 4.4 per cent gain to 2.8 per cent this year and 3.1 per cent next year. These gains will take ARR to £71.62 this year and £73.82 in 2009, the highest provincial rates have ever been. See Table 4 and historic trends in Appendix 2.

Of course the potential for the situation to worsen is entirely feasible but in our 'downside' scenario, whilst occupancies slow a little more and ARR slips slightly, RevPAR remains relatively stable with around 3.0 per cent growth this year and a further 3.0 per cent in 2009.

Edinburgh forecast

Edinburgh – well buffered against a downturn in financial services?

Edinburgh's financial services sector employs around 200,000 people directly, with growth in the sector over the last six years reaching 60 per cent. This helps drive a strong business tourism sector and the city is the most popular UK destination, after London, for hosting international association meetings. Currently, the total annual value of the city's business tourism is estimated at almost £300m. Upcoming bookings for 2008 and beyond are reported to be strong and include 870 delegates from the Commonwealth Hansard Editors Association in July; followed in August by the Federation of European Microbiological Societies. Earlier this month, the Edinburgh Convention Bureau secured the three-day, 2008 gathering of the Association of Corporate Treasurers which will bring 800 delegates to the Edinburgh International Conference Centre.

As a leading business, conference and holiday destination, the City's hotels have seen significant investment in recent years. In terms of new developments, tourism experts believe Edinburgh will need another 4,000 hotel rooms by 2015 to cope with expected growth in the industry. Currently the city is reported to be struggling to meet demand to accommodate visitors and a number of schemes are under construction, with a string of ventures in the planning stages.

The table below shows that around 2,350 new rooms are planned for the City, although some are likely to be speculative.

The Novotel Edinburgh Park opens soon. Canadian hotel group, Future Inns, plans to open a 150 room, £20m four-star hotel in Edinburgh. The company has ventures in Cardiff and Plymouth, with another being built in Bristol. Also under construction is a Missoni hotel on George IV Bridge; a Hotel du Vin in Forrest Road and an Ascott Group aparthotel on the site of the old Edinburgh Royal

"The current four and five-star hotel market is very buoyant, and there are new top-class venues planned in the coming years".

Graham Birse, Deputy Chief Executive of the Edinburgh Chamber of Commerce[10]

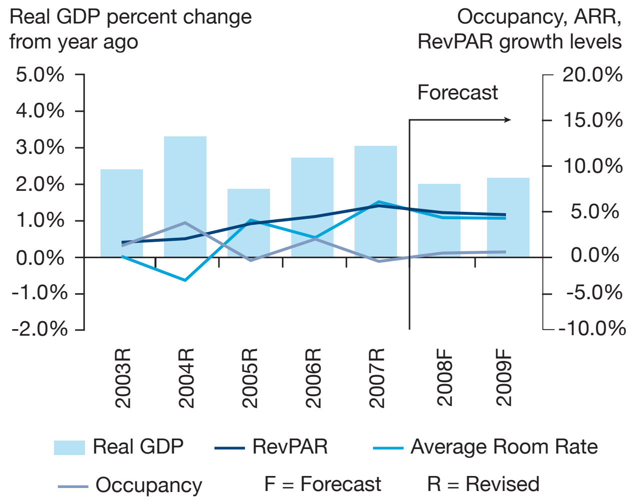
Potential new hotels for Edinburgh

Group	Brand	Beds
Whiteburn Projects Ltd	New Sherriff Court Buildings	200
Heritage Group	Park Inn	100
Mountgrange (Caltongate) Ltd	Sofitel	205
New Edinburgh Ltd	Novotel	170
Apex Hotels Ltd	Waterloo Place	150
EDI Group	Travelodge	80
Tiger Developments Ltd	Crowne Plaza	150
Summerfield Robb Clarke	Heart of Midlothian FC	100
Festival Inns	Raeburn House	61
Radisson SAS	Missoni, Former Lothian Offices	130
Ecosse Regeneration Ltd	Copwhill	150
Chardon Management Ltd	Express By Holiday Inn	78
Duddingston House Properties	Former Odeon Cinema	150
City Inn Ltd	City Inn	300
Ashford Securities LLP	41/43 Craigmillar Park	150
Kilmartin Property Group	302/304 Lawnmarket	135
Hotel Du Vin Ltd	Hotel Du Vin	47
	TOTAL	**2,356**

Source: Hotel Data Ltd 2007

10 Evening News Scotland 5 January 2008

Graph 5 – Edinburgh hotel performance 2003 to 2009 Real GDP, RevPAR, average room rate and occupancy growth rates



Source: Econometric Forecasts: PricewaterhouseCoopers February 2008, Macroeconomics Data: Oxford Economics February 2003 - 2008, PricewaterhouseCoopers 2009, Benchmarking Data: STR/The Bench February 2008

Table 5: PricewaterhouseCoopers Latest Forecast for Edinburgh February 2008

	2007R	2008F	2009F
Average Room Rate (£)	85.48	89.08	92.70
% Change	6.10%	4.20%	4.10%
Occupancy (%)	78.21	78.47	78.74
% Change	-0.20%	0.30%	0.30%
RevPAR (£)	66.84	69.90	72.99
% Change	5.90%	4.60%	4.40%

Source of Forecast: PricewaterhouseCoopers Forecasting Model, February 2008 Note: Historic data are from The Bench/STR R=Revised. F=Forecast.

Infirmary. Plans have also been submitted to the City of Edinburgh Council for a five-star hotel to be built as part of the Caltongate development on the Royal Mile and two hotels are planned at a former goods yard at Haymarket. Another is expected to be created at SoCo, the development planned for the gap site created by the Old Town fire in the Cowgate five years ago. Vladimir Romanov, the Lithuanian-based tycoon who owns Heart of Midlothian FC, has unveiled plans to convert the former Royal Bank of Scotland headquarters building in St Andrew Square into a hotel. A new hotel is also planned for the site of the St James Centre. In addition a new courtyard lounge would be created as part of a multi-million-pound revamp at Edinburgh's flagship 251 room Caledonian Hotel. The scheme is part of an investment of more than £20 million to upgrade the hotel's facilities over the next few years.

Despite the planned new supply, our latest forecast expects average room rates to grow by 4.2 per cent this year, and by a further 4.1 per cent in 2009 taking rates to £89.08 and £92.70 respectively. See Table 5 and Graph 5 and historic trends in Appendix 2. Occupancies are already very high at almost 79 per cent and occupancy growth is expected to show only marginal gains over the forecast period, of 0.3 per cent this year and again in 2009. These growth levels are expected to lift RevPAR by 4.6 per cent this year and 4.4 per cent in 2009.

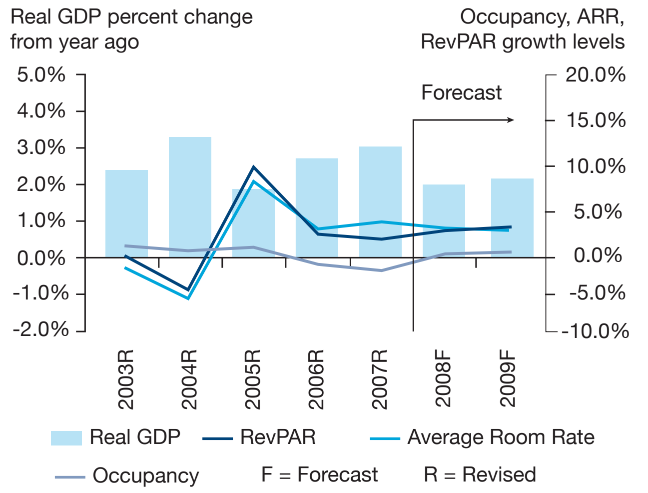
Manchester – still attracting new hotel developments

Manchester's hotels have benefited from the international airport; the strong short breaks business at the weekend supported by events such as the shopping facilities, football, theatre shows and music concerts; and buoyant corporate travel including the conferences and meetings segment. The ICCA league table places Manchester fourth in the UK behind London, Edinburgh and Glasgow, nevertheless, the city has seen considerable new hotel development in recent years.

Reflecting all this activity, 2007 is reported to have been a busy year for conferences and meetings with hotels such as the Palace Hotel (part of the Principal Hotels and Hayley Conference Venues brand) and the City Inn reporting good growth. Manchester also sees the 2008 Labour Party Annual Conference in

Manchester forecast

Graph 6 – Manchester hotel performance 2003 to 2009 Real GDP, RevPAR, average room rate and occupancy growth rates



Source: Econometric Forecasts: PricewaterhouseCoopers February 2008, Macroeconomics Data: Oxford Economics February 2003 - 2008, PricewaterhouseCoopers 2009, Benchmarking Data: STR/The Bench February 2008

Table 6: PricewaterhouseCoopers Latest Forecast for Manchester February 2008

	2007R	2008F	2009F
Average Room Rate (£)	74.71	77.01	79.42
% Change	3.80%	3.10%	3.10%
Occupancy (%)	74.41	74.53	74.98
% Change	-1.80%	0.20%	0.60%
RevPAR (£)	55.59	57.40	59.54
% Change	1.90%	3.20%	3.70%

Source of Forecast: PricewaterhouseCoopers Forecasting Model, February 2008 Note: Historic data are from The Bench/STR R=Revised. F=Forecast.

Potential New Hotels for Manchester

Group	Brand	Beds
Prem Group	Days Inn	150
Development Securities plc	City Park	300
Allied London Properties Ltd	Spinningfields	200
West Properties Ltd	Whitworth St/Canal St	210
Centre Island Hotels	Crowne Plaza	228
Sleeperz Hotels Ltd	Sleeperz, Fairfield St	80
Albany Assets	Crown Buildings	225
Ask Property Developments	Church Wharf	80
Village Leisure Hotels Ltd	Village Hotel	122
Inacity	Ducie St	220
	TOTAL	**1,815**

Source: Hotel Data Ltd 2007

September. 2008 is also expected to be the busiest year in the world of sport for Manchester since the Commonwealth Games in 2002. The city will be hosting a series of sporting events such as the 9th FINA World Swimming Championships, the UCI Track Cycling World Championships and the Hi-Tec World Squash Championships. These sporting occasions are expected to attract athletes, members of sporting organizations and spectators.

New quality developments threaten older supply

Visitors to Manchester are spoilt for choice when it comes to choosing a hotel and the city's tourist map lists 38 hotels around the city centre including four Premier Inns, two Ibis, a City Inn, the Arora, the Rennaissance, the Midland, a Campanile, a Novotel, the Hilton and a Days Inn. The quality of Manchester's hotel supply has continued to improve and a number of hoteliers in the city told us that they feel the lower, older end of the market is suffering from new contemporary hotel openings and refurbishments. Macdonald Hotels staggered the opening of their 338 room £50m new build Macdonald Manchester close to Manchester Piccadilly railway station, now fully opened. The hotel, converted from a former BT call centre, is now the largest in Manchester. 2008 will see the Abode come back on line and a new Crowne Plaza will open. The £14m, 122 room Village Hotel at the Ashton Moss Leisure Park is part of a mixed use scheme, the first deal for property group ISG Totty since its partnership

Birmingham forecast

with De Vere. The first phase of Peel Holding's Salford's Media City scheme outside Manchester is already under way where the BBC plans to relocate staff from London and the city centre. The development includes retail, leisure and residential space and a 206 room three star hotel. Although a total of 1,815 rooms could potentially open in the future according to supply data experts Hotel Data Ltd, we were informed a more realistic total could be 1,200 rooms over the next 18 months.

In terms of hotel performance, last year Manchester saw 1.9 per cent RevPAR growth, compared to the 4.1 per cent we had anticipated in September 2007, reflecting some new supply pressures. The RevPAR decline was driven by an occupancy decline of 1.8 per cent. Nevertheless RevPAR reached £55.59, the highest for four years driven by room rates gains of 3.8 per cent, and occupancies reached 74.41 per cent. Looking ahead to 2008 and 2009, we expect occupancies to remain flat with only marginal growth of 0.2 per cent and 0.6 per cent respectively. Room rates should manage 3.1 per cent growth each year driving RevPAR growth to 3.2 per cent in 2008 at £57.40 and a further 3.7 per cent in 2009 to £59.54. See Table 6 and Graph 6.

Potential New Hotels for Birmingham

Group	Brand	Beds
Quintain Estates & Dev plc	Eastside	200
Intercontinental Hotels Group	Staybridge Suite	120
Ballymore Properties Ltd	Snow Hill Station	120
Birmingham International Airpt	Adjacent to Novotel	282
Alfred McAlpine plc	Ramada Encore	169
Development Securities plc	Former Parcelforce depot	180
Calthorpe Estates Ltd	Edgbaston Galleries	100
Ramcore Hotels	Ramada Encore	150
Great Hampton Homes	Former Kentex Complex	93
ROC International Towers Ltd	Millennium Point	250
	TOTAL	**1,664**

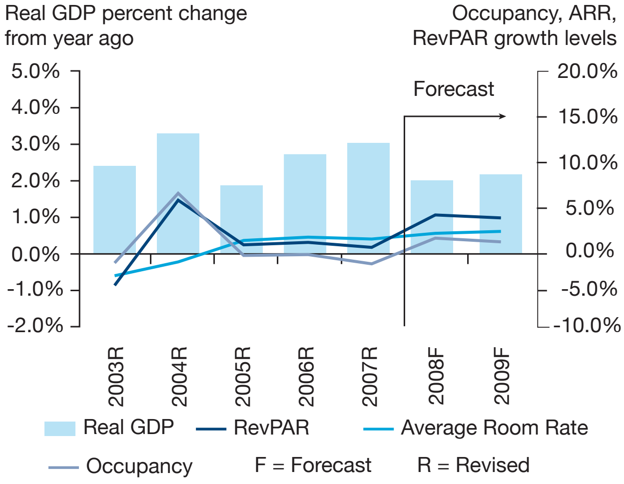
Source: Hotel Data Ltd 2007

Birmingham - 2008 is expected to benefit from a cyclical upswing in conferences and exhibitions

A positive factor for inbound leisure and business tourism to the Midlands is Ryanair's recent unveiling of major expansion at Birmingham Airport. The group announced plans to fly 20 routes from Birmingham Airport from April 2008 to destinations in France, Italy, Poland, Spain, Denmark, Norway, Portugal, Slovakia, and Sweden. The move could see up to 5m passengers passing through the airport over the next five years and drive an increase in European visitors to Birmingham. Marketing-Birmingham expects the general forecast for 2008 to remain strong, buoyed by the business tourism market, including NEC and ICC generated business. The government has now announced it will invest £400m to redevelop Birmingham New Street Station – although work is not expected to start until 2009. A new major attraction is expected to be unveiled to the city in 2008; VerTiPlex is a 200m skyscraper, which will contain leisure facilities such as parachuting, bungee jumping and seesaw rides at the top the observation tower. The development will also contain a rooftop boutique and restaurant.

In terms of new developments, around 1,660 hotel rooms could potentially be opened in the next few years, according to Hotel Data Ltd, although as per our comment for Manchester this seems unlikely in the short term. To take the Staybridge Suites property as an example, there is no firm date yet agreed for this development to start. A spokesperson for Staybridge has told us that firm future plans include Liverpool opening this year and Newcastle in 2009. In terms of refurbishments, The Belfry, the Marriott and the Crowne Plaza are to undergo significant investment. Ramada Encore has signed up for a key development site in Birmingham's Jewellery Quarter. The 150 bedroom hotel is the first occupier of a £160 million mixed-use development at St George's, one of the largest regeneration sites in the city.

Graph 7 – Birmingham hotel performance 2003 to 2009 Real GDP, RevPAR, average room rate and occupancy growth rates



Source: Econometric Forecasts: PricewaterhouseCoopers February 2008, Macroeconomics Data: Oxford Economics February 2003 - 2008, PricewaterhouseCoopers 2009, Benchmarking Data: STR/The Bench February 2008

Table 7: PricewaterhouseCoopers Latest Forecast for Birmingham February 2008

	2007R	2008F	2009F
Average Room Rate (£)	69.61	71.66	73.86
% Change	2.60%	2.90%	3.10%
Occupancy (%)	67.60	68.59	69.30
% Change	-1.90%	1.50%	1.00%
RevPAR (£)	47.06	49.15	51.19
% Change	0.60%	4.40%	4.10%

Source of Forecast: PricewaterhouseCoopers Forecasting Model, February 2008 Note: Historic data are from The Bench/STR R=Revised. F=Forecast.

Overall 2007 was a poor year for some hotels. However, interviews with Birmingham hoteliers in January 2008 revealed strong revenue growth towards the end of the year. Looking ahead, most hoteliers didn't expect a spectacular change in business (in either direction) in 2008 or 2009. Rate movements were expected to range from static to five per cent gains. One hotelier informed us that exhibitions and trade fairs, which are very profitable, appear to move in four year cycles, and they would be expected to increase this year. City Inn also expressed the view that 2008 should be a better year for Birmingham. In terms of conference and meetings, several expected more day residential business at the expense of 24 hour delegates, as firms try to minimise overnight stays. More group leisure demand was expected but growth in these markets could impact rates (volume at cost of rate). Occupancies were expected to show little growth. Location could confer an advantage in terms of occupancies in the future, especially for city centre properties.

Benchmarking data shows that in 2007 hotels in Birmingham generated average revenue per available room of £47.06, only a 0.6 per cent gain over the previous year and driven by a 1.9 per cent decline in occupancies but a 2.6 per cent gain in room rates.

Our latest forecast is for continued steady growth with an increase in room rates of 2.9 per cent in 2008 followed by a similar 3.1 per cent growth in 2009, lifting average room rates to £73.86 by 2009, lower than either Manchester or Edinburgh's rates. Overall RevPAR is expected to experience a healthy 4.4 per cent followed by 4.1 per cent in 2008 and 2009 respectively. Occupancies should start to grow a little this year after two years of decline.

Appendix 1

Big picture trends underpinning PricewaterhouseCoopers' UK hotel performance forecast

Macroeconomic data for the UK

	2005	2006R	2007R	2008F	2009F
Real GDP per cent change from prior year	1.9	2.8	3.1	1.9	2.0
Consumer prices per cent change from prior year (CPI)	2.0	2.3	2.3	2.1	1.9

Source: Oxford Economics: GDP data 2005-2008 and PricewaterhouseCoopers 2009. R – Revised F – Forecast

Macroeconomic outlook: falling GDP growth inflation fears

The performance of the economy is crucial for the hotel sector as it drives disposable incomes underpinning leisure travel, as well as driving business travel volumes.

- **UK economic growth slows**

The UK economy is forecast to slow, with growth falling to 1.9 per cent this year from a robust 3.1 per cent last year (stronger growth than had been expected at the time of our previous forecast in September 2007). Our forecast for this year is lower than the 2.4 per cent we expected in September 2007. Economic growth is expected to recover in 2009 although economists differ as to by how much. The long term average is 2.5 per cent. Our forecast is promised a 2.0 per cent GDP growth in 2009.

Global economic growth is also expected to slow, reflecting a weaker US economy constrained by the sub-prime mortgage crisis. The spectre of the credit crunch is expected to haunt the global economy in 2008.

- **Consumer spending slowdown finally arrives**

2008 is expected to be a demanding year for consumer-facing businesses and if the US suffers a recession experts warn that the housing and consumer slumps in Britain will be that much more severe. UK consumer spending is expected to slow this year dampened by muted real disposable income growth, increased debt levels, a slowdown in housing markets, credit being squeezed and a marked overall rise in interest rates since August 2006.

- **CPI inflation fears**

Significant inflationary pressures face many manufacturers which are likely to further impact retailers' profit margins as well as household budgets. December saw the highest level of inflation in producer prices since 1991 according to the Office for National Statistics (ONS). The Bank of England's interest rate setting decisions are aimed at keeping inflation measured by the Consumer Prices Index (CPI) at or around 2 per cent but there are fears it may accelerate in 2008.

- **So far demand for hotels remains resilient**

The travel and leisure sectors are dependent on discretionary income expenditure and may be vulnerable to the consumer spending slowdown. In the past holidays have often been one of the last 'luxuries' to be cut back and this has been the case in recent years, although it is by no means assured in the future.

Travel outlook: tighter corporate travel policies and budgets?

- **Global tourism - 900m international travellers in 2007 and rising**

Continued growth in global tourism has been driven by recent strong global economic growth. UNWTO data for the first eight months of 2007 showed growth of 5.6 per cent over the same period in 2006. Year end figures are expected to reach around 900m worldwide arrivals and 1bn by 2010.

- **UK inbound trends – rise of euro may sustain European volumes in 2008**

During the 12 months to November 2007 data from International Passenger Survey shows that the number of inbound visitors to the UK (not seasonally adjusted) increased by one per cent from 32.4 m to 32.9m. Visitors from Europe increased three per cent (to 23.8m), those from North America decreased by four per cent (to 4.5 m) and visits from other regions of the world increased by one per cent (to 4.6 m).[11]

Looking ahead, VisitBritain expects around 32 million overseas visits to the UK in 2008. Although the European visitor numbers have remained healthy, the European market is not as lucrative as long-haul travel chiefly because European visitors generally stay in the UK for shorter periods, and spend less than those from further

"The UK has probably been the fastest growing economy in the G7 this year (2007) but is likely to have the sharpest slowdown of G7 countries in 2008"[12]

Michael Saunders, Citi

"Most companies say they aren't planning to cut travel volume in 2008, according to the National Association of Business Economics survey. But spokesman Caleb Tiller says more are planning to further tighten their travel policies to ban or limit travel in first or business class — 16% of respondents now, vs. 7% a year ago"[13]

11 National Statistics News release 'Overseas residents' visits to UK up 5 per cent in September – November', 16 January 2008
12 Sunday Times 30 December 2007
13 Travelmole 6 December 2007. NABE® is an association of professionals who have an interest in business economics and who want to use the latest economic data and trends to enhance their ability to make sound business decisions. There are approximately 2,500 members representing more than 1,500 businesses and other organizations from around the world.

afield. UKinbound hopes that if the euro continues to appreciate against sterling, we could see growth from the European markets sustained through 2008.

However, despite increased competition for the tourist pound from other nations, the Department of Culture, Media and Sport recently announced plans to reduce VisitBritain's current grant of £49.6m to £40.6m by 2011. VisitBritain expressed disappointment at the decision, highlighting that its funding has already been static for the last 10 years.

• Business travel – tighter corporate travel policies and budgets in 2008

Strong global economic growth has continued to drive business travel demand in recent years. However, there are concerns about the US and UK economies, and particularly how this will affect business travel. American Express forecasts a challenging year for travel buyers in 2008 and organisations such as the National Association of Business Economics believe that rather than cutting volumes, it will be tighter travel policies and budgets that will characterise 2008.

• Domestic tourism sees city breaks boost

Hoseasons Chief Executive Richard Carrick claims UK short break sales surged by 30 per cent in 2007, despite flooding and foot and mouth which hit bookings in the summer. Speaking at the 2007 ABTA Convention, Carrick identified the trend towards more short breaks and a drive towards improved quality as the two major trends affecting domestic tourism. Figures from LateRooms.com show nearly three times as many people booked a holiday or short break in January 2008 as in January 2007. The late-availability hotel specialist compared bookings made on Monday 7 January 2008 with those made on Monday 8 January 2007.[14] London retained its position as the most popular destination, while Liverpool saw the biggest rise, with a twofold increase year-on-year. The top ten most popular destinations booked on the reporting day this year were: London, Manchester, Glasgow, Birmingham, Edinburgh, Liverpool, Leeds, Dublin, Newcastle-upon-Tyne and Cardiff. The average length of stay per booking in this year's survey was 1.76 nights and the average lead-in time from booking until break 10.1 days

• Slower air passenger growth

A recent report from the Civil Aviation Authority (CAA) shows passenger traffic at UK airports has grown at an average annual rate of about six per cent since the mid 1970s, more than twice the rate of economic growth in the UK. However, over the last few years the growth rate, although still positive, has fallen to approximately two per cent per annum.[15] Although international outbound holiday traffic has grown more slowly, some passenger segments of international traffic, namely business (which accounts for 12 per cent of all passengers), leisure travel to visit friends and relatives (which accounts for 15 per cent) and non-UK resident holiday travel (which accounts for 6 per cent), have all continued to increase at or above the historic growth rate for total traffic of 6 per cent per annum. Propensity to fly is most significantly related to household income (with higher income households taking more flights), household composition (with singles and childless couples taking more flights than families), and ownership of property abroad.

• Eurostar carried 8.3m passengers in 2007 and expects more in 2008

Eurostar carried more than 8m passengers in a year for the first time in 2007, as the high speed operator further increased its share for travel between London and Paris and Brussels. Passenger numbers were up 11 per cent towards the end of 2007 as November 2007 saw an immediate impact from the Eurostar transfer from Waterloo to the refurbished St Pancras, with journey times reduced by 20 minutes by the new fast link to the Channel Tunnel. This record is likely to be broken in 2008 as Eurostar has agreed a series of cheaper fares with UK train operators to encourage the development of through services to and from the north of England.

14 E-tid, Post-Christmas bonanza for city breaks, 29 Jan 2008
15 Civil Aviation Authority (CAA) , Recent Trends in Growth of UK Air Passenger Demand, 2008

Appendix 2

Table 8: Hotel Statistics for UK, London, Provinces, Edinburgh, Manchester and Birmingham 2003-2009							
Hotel Statistics for the UK	**2003R**	**2004R**	**2005R**	**2006R**	**2007R**	**2008F**	**2009F**
Average Room Rate (£)	78.78	76.87	79.23	82.92	88.52	91.85	95.31
% Change	3.2%	-2.4%	3.1%	4.7%	6.8%	3.8%	3.8%
Occupancy (%)	71.20	73.10	72.30	74.70	74.60	74.90	74.8
% Change	-1.1%	2.7%	-1.0%	3.3%	-0.2%	0.4%	-0.1%
RevPAR (£)	56.06	56.16	57.31	61.98	66.04	68.77	71.26
% Change	2.0%	0.2%	2.0%	8.1%	6.5%	4.1%	3.6%
Hotel Statistics for London	**2003R**	**2004R**	**2005R**	**2006R**	**2007R**	**2008F**	**2009F**
Average Room Rate (£)	100.42	101.35	102.08	108.28	120.38	127.02	133.42
% Change	4.5%	0.9%	0.7%	6.1%	11.2%	5.5%	5.0%
Occupancy (%)	72.47	76.19	74.78	81.15	81.09	81.43	80.92
% Change	-2.9%	5.1%	-1.9%	8.5%	-0.1%	0.4%	-0.6%
RevPAR (£)	72.77	72.22	76.33	87.87	97.62	103.43	107.97
% Change	1.5%	6.1%	-1.1%	15.1%	11.1%	6.0%	4.4%
Hotel Statistics for the Provinces	**2003R**	**2004R**	**2005R**	**2006R**	**2007R**	**2008F**	**2009F**
Average Room Rate (£)	61.98	61.09	64.72	66.73	69.65	71.62	73.82
% Change	-1.6%	-1.4%	6.0%	3.1%	4.4%	2.8%	3.1%
Occupancy (%)	70.11	71.19	70.86	71.15	70.97	71.21	71.29
% Change	-0.3%	1.5%	-0.5%	0.4%	-0.3%	0.3%	0.1%
RevPAR (£)	43.45	43.49	45.87	47.48	49.43	50.99	52.63
% Change	-1.8%	0.1%	5.5%	3.5%	4.1%	3.2%	3.2%
Hotel Statistics for Edinburgh	**2003R**	**2004R**	**2005R**	**2006R**	**2007R**	**2008F**	**2009F**
Average Room Rate (£)	76.92	74.88	78.65	80.57	85.48	89.08	92.70
% Change	0.3%	-2.6%	5.0%	2.4%	6.1%	4.2%	4.1%
Occupancy (%)	73.22	76.97	76.63	78.35	78.21	78.47	78.74
% Change	1.7%	5.1%	-0.4%	2.2%	-0.2%	0.3%	0.3%
RevPAR (£)	56.32	57.63	60.27	63.13	66.85	69.90	72.99
% Change	2.0%	2.9%	4.6%	4.7%	5.9%	4.6%	4.4%
Hotel Statistics for Birmingham	**2003R**	**2004R**	**2005R**	**2006R**	**2007R**	**2008F**	**2009F**
Average Room Rate (£)	64.97	64.44	66.18	67.84	69.61	71.66	73.86
% Change	-2.4%	-0.8%	2.7%	2.5%	2.6%	2.9%	3.1%
Occupancy (%)	65.10	69.44	69.26	68.94	67.60	68.59	69.30
% Change	-1.0%	6.7%	0.3%	-0.5%	-1.9%	1.5%	1.0%
RevPAR (£)	42.29	44.75	45.83	46.77	47.06	49.15	51.19
% Change	-3.5%	5.8%	2.4%	2.0%	0.6%	4.4%	4.1%
Hotel Statistics for Manchester	**2003R**	**2004R**	**2005R**	**2006R**	**2007R**	**2008F**	**2009F**
Average Room Rate (£)	67.04	64.11	69.63	71.98	74.71	77.01	79.42
% Change	-1.0%	-4.4%	8.6%	3.4%	3.8%	3.1%	3.1%
Occupancy (%)	74.36	75.06	76.35	75.77	74.41	74.53	74.98
% Change	1.3%	0.9%	1.7%	-0.8%	-1.8%	0.2%	0.6%
RevPAR (£)	49.85	48.12	53.16	54.54	55.59	57.40	59.54
Change	0.3%	-3.5%	10.5%	2.6%	1.9%	3.2%	3.7%

Source of Forecast: PricewaterhouseCoopers Forecasting Model, February 2008. Note: Historic data are from The Bench/STR

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