

UK Regional Hotels Monitor Operational and investment confidence returns

Q1 2014

Positive operational performance becomes established

- The regional hotel market continued to report positive operational performance over the third quarter according to Hotstats. Year to date (September) occupancy was up 1.9 percentage points with average rates and in turn RevPAR (revenue per available room) up 1.9% and 4.6% year on year.
- GOPPAR (gross operating profit per available room) reported a 4.5% increase year-on-year as room rates and occupancy improved and cost growth stabilised. August reported one of the highest annual jumps in GOPPAR of 11.1%.
- Considering that monthly GOPPAR for regional hotels on a rolling 12 month basis finally moved into positive territory in April, 38 months after London, and has continued to improve indicates that regional hotel operational

performance may finally be back on track.

- Bristol in particular has experienced strong growth across all headline indicators according to Hotstats with year to date GOPPAR (as of October) up 10.4% on the same period last year.
- However, this positive performance is not uniform across the UK. The West Midlands continues to experience challenging trading conditions. Despite improvements in year to date RevPAR and better management of operational costs, GOPPAR remains in negative territory with year to date performance down 1.8%.
- The same is also true for the poorer end of the regional marketplace where tired under-invested assets continue to struggle against rising energy costs in particular.

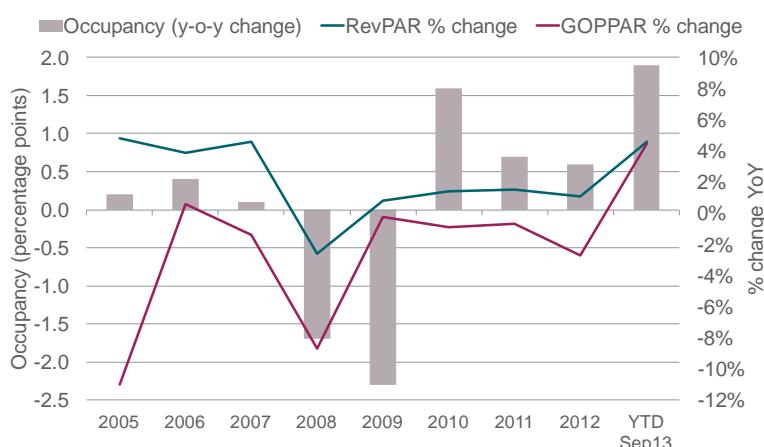
Summary

Investor confidence returns to the regional markets

- The regional hotel market continued to report positive operational performance over the third quarter of last year. However, this is not uniform across the UK.
- Hotel transactions outside London totalled £1.7bn in 2013 - their highest level of liquidity since 2007.
- Bank and administration led sales dominated this year accounting for 73% of volumes.
- High net worth individuals and smaller private groups have become increasingly acquisitive this year in the regions as have overseas investors.
- Under investment in assets may present issues going forward in terms of operational competitiveness, saleability and value.

GRAPH 1

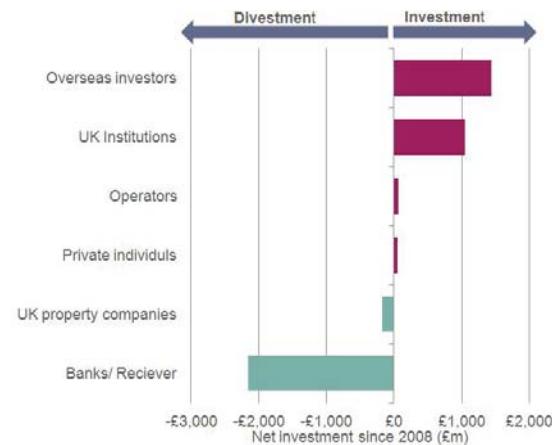
UK regional operational performance



Graph source: Hotstats Limited

GRAPH 2

UK regional net transaction volumes by purchaser type



Graph source: Savills; Property Data

Bank led sales dominating

- Transactions for regional hotels in 2014 were more than that seen the previous year. Volumes totaled £1.7bn, 138% up on 2012 - the highest level of liquidity since 2007.
- Regional hotel transactions as a share of total UK volumes accounted for 43% of total activity. Prior to the downturn regional activity typically accounted for 82% of volumes. While we're still some way off that, the renewed interest in the regional hotel market reflects growing investor confidence and more realistic pricing expectations on the part of vendors.
- The purchase of the Mercure Bristol earlier this year at a good yield highlights this return in confidence as the hotel operates on a turnover related lease.
- Bank and administration led sales dominated this year accounting for 74% of volumes. This year was also the largest release of regional assets by this group in six years totalling approximately £1.3bn with net divestment since 2008 now totalling £2.1bn (graph 2).
- We have seen a significant increase in transaction activity by high net worth individuals and the smaller private groups. There is a significant pool of funds available for assets in good condition in affluent locations, particularly freehold stock.
- This is demonstrated by the latest acquisition of Menzies Hotels by Topland for a reported £80m. The deal is also typical of well funded buyers looking to buy platforms offering scale and quality.
- Forecasts for 2014 are that single asset UK regional hotel transactions will pick up pace as investor and operational confidence matures. Although we expect there to be fewer portfolio transactions.

Will Capex become a timebomb? Is compliance being ignored?

- These are two pertinent questions for the hotel industry. Capital expenditure (CAPEX) is usually the first item of expenditure to be cut. Cash flow for

many hoteliers and leisure businesses is paramount in the race for survival.

- Not only are hoteliers struggling to implement capital expenditure projects for hotel refurbishment, replacement of facilities and general upgrades, but they are tempted to cut corners on statutory compliance and health and safety issues.
- Lack of investment in statutory compliance is usually as a result of diminishing cash flow. Non-implementation will almost always mean that the property is effectively uninsured.
- The expectations of the guest and instant impartial guest feedback via social media channels, means that there is not a single hotelier today, in any hotel grade, who can afford to let their asset's physical condition slip. The furniture, fixtures, equipment, operating supplies and general property fabric must be nothing less than current, clean and up to date.
- In the past lenders have set aside funding for CAPEX specifically, effectively ring fencing it so that hoteliers do not use the funds to supplement cash flow or indeed carry out essential compliance work. We hope that as the economy further improves hotel owners will reinstate capital projects that were deferred or mothballed due to the challenging operating environment.
- Hoteliers have looked to reinvest in order to enhance their assets to improve competitiveness and to meet 'brand standards'. Those brand standards in the private sector, relate to hotels trading in a 3, 4 or 5 star market.
- It is not just operational competitiveness that is impacted by under investment in the asset. It will also affect its value and saleability unless a substantial discount is given or the hotel closed. Under investment will, in the long term, lead to falling revenue, decreasing cash flow and a drop in value/saleability. Considering that a hotel valuation reflects, to a certain extent, the operational strength of the asset highlights the importance of capital expenditure. ■

Outlook

Pricing improvements may encourage more bank led sales

- Trade performance is expected to improve throughout 2014 with some operators noting that bookings for next summer are already up on 2013.
- However, there may be issues for those assets that have suffered from under-investment.
- Improvement in pricing may encourage more banks to unwind positions this year, however, we expect few of these bank led sales to be the result of administrations.
- Increasing availability of debt and greater positivity surrounding the sector should draw in more purchasers.
- As a result we expect regional transactional activity to pick up momentum in 2014.

TABLE 1
Top single asset transactions in 2013

Hotel	Rooms	Price	Purchaser
Oakley Court, Windsor	118	c£28.0m	Lake Opportunities Limited
Motel One, Manchester	330	£25.5m	LaSalle Investment Management
Grand Harbour, Southampton	173	UD*	Westmont Hospitality Group
Premier Inn at Belmont House, Cardiff	200	£16.8m	Cordea Savills
Ibis, Brighton	140	£14.4m	Lothbury Investment Management
Park Inn, York	200	c£14.0m	London & Regional Properties
Marriott Victoria & Albert, Manchester	148	£13.5m	Westmont Hospitality Group
Premier Inn, Cambridge	121	£12.6m	Scottish Widows Investment Partnership
Novotel Cardiff City Centre	138	£12.3m	Greater Manchester Pension Fund
Radisson Blu, Leeds	147	£11.4m	Legal & General

*Note: Grand Harbour Hotel price undisclosed



Savills Instructions

The Seacroft, Trearddur Bay, Anglesey



- Successful freehold pub and restaurant with rooms.
- Six en-suite letting bedrooms.

Chimney House Hotel, Cheshire



- Freehold hotel and restaurant with 50 en-suite bedrooms.
- Asking price of £2.25m.

The Elms, Abberley, Worcester



- Historic 23 bedroom country hotel.
- Spacious reception rooms, spa & fully equipped crèche.
- Set in about 10 acres (4.04 hectares)

Castle Bromwich Inn, Birmingham



Under Offer

- 110 en-suite bedroom freehold hotel just off Junction 5 on the M6 Motorway.
- Asking price of £1.95m

Nansloe Manor, Helston, Cornwall



- Country house hotel set in 4.68 acres in superb contemporary style.
- 15 en-suite bedrooms and 2 bed staff flat.

Greenwoods Hotel & Spa, Chelmsford



Under Offer

- Freehold Grade II listed manor house hotel, restaurant and spa.
- 39 en-suite bedrooms.

Please contact us for further information



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Savills Hotels Transaction Team

Recent track record

Woodcroft Towers Hotel, Bournemouth



Selling agent
January 2014 - £625,000

Premier Inn Aberdeen Airport (Dyce)



Buying agent
August 2013 - £8.4m

Huntstrete House, Bath



Selling agent
May 2013 - £5.1m

Best Western Moorside Grange, Manchester



Selling agent
January 2013 - £3.4m

Park Inn by Radisson York



Selling agent
October 2013 - in excess of £14.0m

Premier Inn Newmarket Road, Cambridge



Selling agent
August 2013 - £12.7m

Mercure Bristol, Brigstow Hotel



Selling agent
February 2013 - £7.2m

The Luttrell Arms, Somerset



Selling agent
January 2013 - c£1.0m

Ibis Abbey Park Hotel, York



Selling agent
October 2013 - c£5.5m

Premier Inn, Dorchester



Selling agent
August 2013 - £5.4m

The Wiltshire Hotel, Swindon



Selling agent
February 2013 - c£3.5m

Hobart Hall, Richmond



Selling agent
January 2013 - in excess of £4.0m