

UK Regional Hotels Monitor Trade & transactions pick up

Q3 2014

Overseas visitor numbers strengthen

■ Overseas visitor numbers to the UK hit an all time high in 2013 of 32.8 million. While much of this growth benefited London the UK regions also reported an uplift of 6.5%. This was the greatest expansion in overseas visitors since 2006.

■ Holiday visits were up 7.3% with Wales reporting a 13.5% uplift. But, it was overseas business visitor numbers that reported the greatest improvement of 11.3%.

■ This improvement in overseas visitors was accompanied by an improvement in regional hotel operational performance. BDO's Hotel Britain Report noted an improvement in both occupancy and rates across the regional hotel market last year. This resulted in a 3.5% increase in Revenues Per Available Room (RevPAR), over three times greater than

the 0.9% reported for the previous year.

■ More reassuring was the fact that this recovery was not just driven by a handful of markets. The number of UK cities and towns reporting RevPAR improvements increased from 20 in 2012 to 29.

■ This improving performance has continued into 2014. According to hotstats the UK provinces saw growth in gross operating profit per available room (GOPPAR) for the fifth consecutive month in May.

■ Glasgow reported improvements across all metrics in May, with year to date RevPAR up 16.3%, helped by increased demand on the lead up to the Commonwealth Games.

■ Following a strong 2013 Aberdeen saw a further 10.5% growth in RevPAR over the first four months of 2014.

Summary

The regions lead London in terms of transaction activity

■ The improvement in overseas visitor numbers to the UK regions was accompanied by a pick up in hotel operational performance.

■ Transaction activity in the regions also picked up this year with total volumes to date of £1.2 billion.

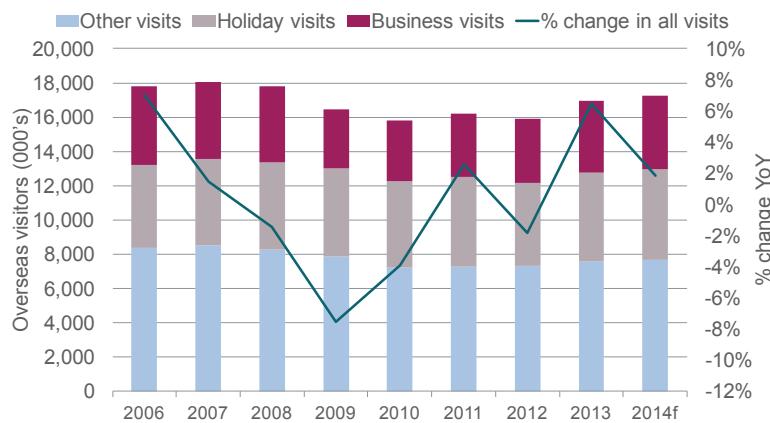
■ Stock restraints and competition for assets in London saw an increasing number of investors look outside the South East for opportunities, boosting transaction levels.

■ 2014 has seen confidence in the regional market move away from a 'distressed' mindset as the improvement in interest levels and pricing seen at the end of last year continues.

■ Total regional hotel transactions volumes are expected to reach £2.0 billion by the year end.

GRAPH 1

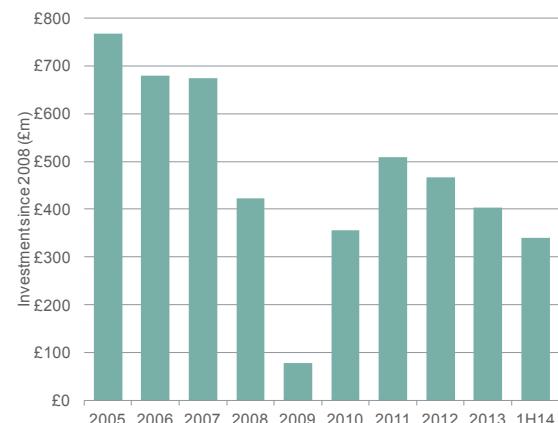
Overseas visitors numbers to the UK regions (excluding London)



Graph source: ONS

GRAPH 2

UK regional hotel single asset transaction volumes



Graph source: Savills; Property Data

Single asset deals on the increase

■ UK hotel transactions for the first half of this year total £2.0 billion. Regional volumes to date total £1.2 billion, 62% of total UK activity and up on the 44% the regions accounted for in 2013.

■ Considering the drop in portfolio deals this decline in total UK volumes was not unexpected. In contrast single asset transaction activity was up 6.0%, most noticeably in the regions, accounting for 71% of total volumes to date this year.

■ Year to date single asset transaction volumes in the regions total £339.6 million (Graph 2), more than double the volume seen over the same period last year. This upturn highlights greater investor confidence in the regional hotel market, helped by improving operational performance.

■ However, stock restraints and competition for assets in London have also helped to boost activity as investors increasingly look outside the Capital and the South East for opportunities. This is apparent in the profile of buyers. While overseas investors dominated transactions this year due to Starwood's £280 million purchase of De Vere Venues, UK Institutions and Property Companies have stepped up activity in the regions. For example, total transaction volumes by these two purchaser groups was three times what they were over the first half of 2013.

■ With stock constraints in London showing no signs of abating and institutional investors under pressure to allocate funds, activity in the regions is expected to pick up pace over the remainder of the year. This will be fuelled by the expected completion on a number of portfolios.

The non-corporate market: the agents view

■ The first half of 2014 saw the increasing confidence taken from 2013 push interest levels and pricing significantly from the last few years of distressed mindset.

■ We have seen and will see, in our opinion, less distressed assets coming to the market. There is certainly an increase in telephone traffic from owner operators who have hunkered down since 2007/08 and now see the

improved pricing as a way of escaping to their retirement dreams. Properly represented owners will be able to structure off market sales without losing the competitive edge that drives best pricing.

■ The private sales are now coming forward with the benefits of a much lower cap-ex hangover than the bank controlled assets of previous years, stronger hands-on management (and thus stronger track record) and a real feel for their local markets. We expect to see the number of single asset sales of this type in the £3 to £20 million bracket to continue after the summer. Quality of product and location will be crucial as buyers are less likely to feel that international brand strength can overcome poor fundamentals.

■ The ripple effect of international buyers is also beginning to be felt outside London in areas recognisable to the international markets – Oxford, Edinburgh, Bath, and Cambridge are able to draw out that London demand.

The value of alternative use

■ The importance to buyers of "bricks and mortar" of hotel property should not be underestimated. The perception of underlying property value gives additional comfort to purchasers especially outside of the corporate sector. Those areas of the UK where residential values have staged a significant comeback are preferred locations for buyers.

■ We believe the effect is twofold – first the customer base will have more of a feel good factor which is reflected in improved F&B performance and second, should armageddon happen then there is greater comfort that a residential development/conversion may recoup initial capital (albeit with a planning battle).

■ The cull expected of the bottom end of the portfolios acquired in the last 18 months has not materialised. Many of the vultures remain circling hoping to pick off the next "good quality, well located, easy turn around scenario" but more educated sellers are realising the opportunities to review possible alternative uses such as education, healthcare and residential without passing 100% of the benefit to a developer.

Outlook

Regional activity to pick up pace

■ Strong operational performance for the regional hotel market expected to continue for the remainder of the year.

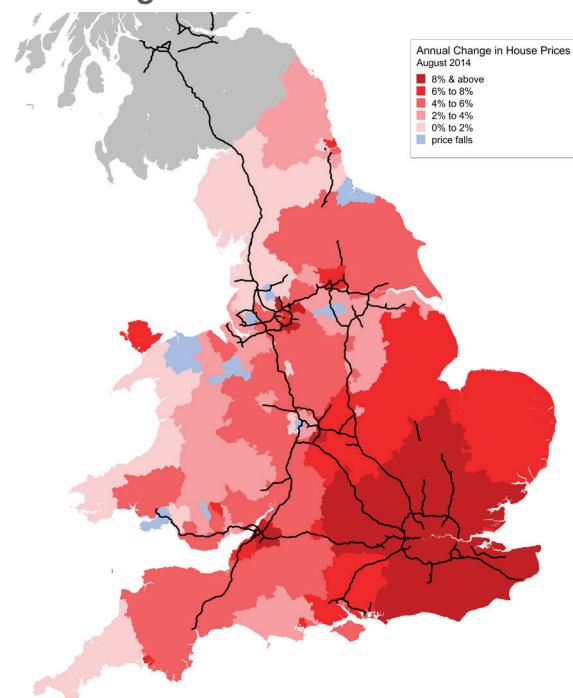
■ Increasing numbers of investors to look at the regional hotel market for opportunities as stock constraints in London continue. The UK Institutions expected to be the most prolific buyers.

■ Well funded private groups will be the most active in the non-corporate regional hotel market over the remainder of 2014 and into 2015.

■ As a result total regional hotel transactions are expected to reach £2.0 billion by the year end. This would be a 62% increase on 2013 levels.

MAP 1

Residential house price growth returns to the regions



Map source: Land Registry; Savills Research

■ Proper preparation for sale remains key but increased activity does mean that we are seeing good competition between hotel groups, brewers and franchisees for their respective product types. This is shown in the growth in average price per key, which has grown more than 21% in H1 2014 compared with the same period last year, for non-corporate regional hotels. ■



Savills Instructions

New Instruction



■ Boutique Hotel in Oxford.

Chocolate Works, York



■ Mixed use development on the site of the former Terry's Chocolate Factory.
■ Opportunity to create a new hotel close to York city centre.

Confidential Instruction



■ Town-centre boutique Hotel in Cambridgeshire.

■ Asking price of £5.25m.

Chimney House Hotel, Cheshire



Recently completed

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

Kennacott Court, Bude



■ 20 letting cottages and 6 bedroom house.

■ Extensive indoor and outdoor leisure in grounds of around 71.5 acres.

Grand Jersey Hotel & Spa, Jersey



Recently completed

■ Jersey's market leading, 5-star hotel in central St Helier overlooking the bay.
■ 123 bedrooms, Michelin star restaurant and award winning spa.

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Savills plc

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Savills Hotels Transaction Team

Recent track record

Holiday Inn Express, Edinburgh & Dunfermline



Selling agent
May 2014 - £11.9m

Radisson Blu, Leeds



Lease Regear
February 2014

Radisson Blu, Durham



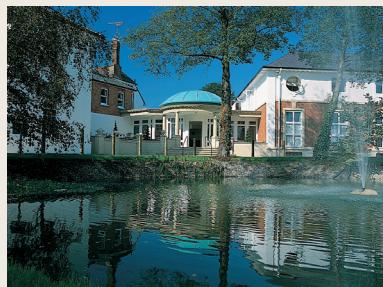
Selling agent
January 2014 - £17.0m

Otterburn Hall, Northumberland



Selling agent
July 2014 - £1.5m

Greenwoods Hotel & Spa, Essex



Selling agent
January 2014 - c£5.0m

Travelodge, Taunton



Selling agent
January 2014 - £2.5m

Castle Bromwich Inn, Birmingham



Selling agent
July 2014 - £2.3m

Novotel Hotel, Liverpool



Selling agent
July 2014 - £13.1m

St Mellons, Cardiff



Selling agent
September 2014 - £1.32m