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Aberdeen Hotel Market Spotlight

Positive performance set to return

2018

Oil price recovery provides uplift for Aberdeen hotels

The performance of Aberdeen's hotel market has historically tracked the price of Brent Crude oil, due to a reliance on business travellers working within the oil and gas industry. Thus, the oil price shock in Autumn 2014 has been reflected through a fall in both average room and occupancy rates – resulting in RevPAR hitting the bottom in Q1 2016.

Year-on-year decline has since softened. The recovery of oil prices has been tracked by Aberdeen's RevPAR performance, albeit with a slight lag associated with historical trends (Graph 1). Q1 2018 has already highlighted this, with RevPAR declines softening to 2.3% year-on-year, a significant improvement from the 11.1% decline during the same period in 2017. This is in line with the climbing price of Brent Crude oil, which traded consistently above $65 per barrel in Q1 2018 (a 24.5% increase compared with the average from Q1 2017).

Based on this recent recovery and positive outlook for further oil price growth, we estimate that Aberdeen's RevPAR growth will move back into positive territory through the second half of 2018.

The return of investor activity in 2017 points to a more positive outlook

This positive outlook for Aberdeen has been reflected through a recent uptick in hotel investment volumes. 2017 saw £12.25 million invested in Aberdeen hotels across three deals, following a year of inactivity in 2016. This return in investment volumes has been a result of opportunistic buyers seeking hotel assets at relatively discounted rates. We expect this trend will continue through 2018, with overseas investors showing particular interest following a weakened Pound, post-EU referendum.

This return in investment activity extends further than the hotel market, with office take up exceeding 400,000 sq ft in 2017, surpassing total take up over the two years prior. Savills anticipate this figure to extend to c.450,000 sq ft in 2018, supported by the rally in oil prices that has reactivated business investment in the city.

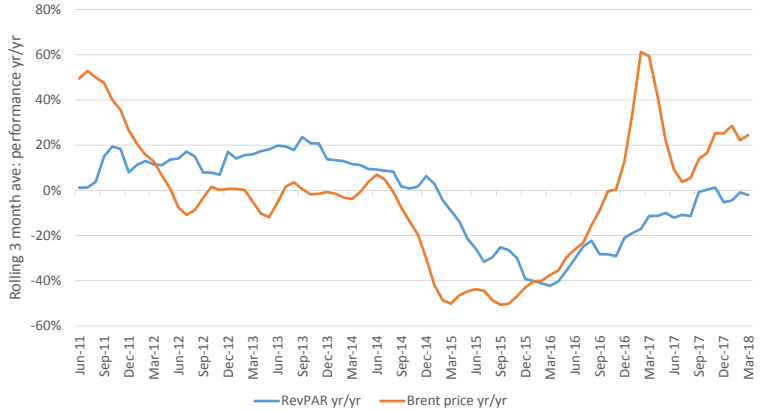
Major infrastructure projects encourage further inward investment

While there has been a historical dominance and reliance on the oil industry, there are efforts to diversify Aberdeen's economy. This will prove positive for hotel operational performance over the longer term.

Aberdeen has turned its attention to sustainable investment in renewable energy through the development of the £335 million Aberdeen Offshore Wind Farm (EOWDC), with the first of 11 turbines having been installed in April 2018.

GRAPH 1

Hotel performance has historically tracked oil prices



Graph source: Savills Research, STR

"Improvements in oil price and efforts to diversify Aberdeen's economy suggests a move back into positive territory for RevPAR growth."

Efforts are also firmly in place to increase Aberdeen's conference and leisure offering, further diversifying hotel income streams within the city. The golfing industry provides a great deal of leisure investment into the region, with over 50 golf courses located nearby.

Aberdeen's conference offering is set to strengthen considerably through the new 12,500 capacity Aberdeen Exhibition and Conference Centre (AECC), due to open in 2019. Aberdeen City Council expect the site to attract 4.5 million visitors between 2019 and 2025, contributing an additional £113 million in visitor spend.

Complementing this is the £20 million expansion to Aberdeen International Airport, increasing terminal capacity by 50% upon completion in 2019. Road accessibility to the city will be further improved in 2018, with the completion of Scotland's largest construction project, the £750m Aberdeen Western Peripheral Route (AWPR). Access by water will also be enhanced through the £350m expansion to Aberdeen Harbour, which will accommodate larger commercial vessels and cruise liners once complete in 2020.

Aberdeen remains attractive for branded hotels

There are currently 87 hotels within the city of Aberdeen, extending to 6,867 rooms, according to AMPM figures. This room count is due to increase by 10% by the end of 2019, with a number of new hotel openings over the next 18 months.

While this new pipeline may seem sizeable in light of recent performance, this needs to be considered in the context of its current hotel supply.

A significant proportion of Aberdeen's current hotel stock is formed of independent, unbranded hotels accounting for 49.4% of total hotel supply. This suggests there is scope for further branded stock.

Aberdeen's pipeline figure includes a franchise agreement between Aberdeen City Council and Hilton Worldwide for a 200-room Hilton Hotel at the new AECC, set to open in 2019. The hotel will provide a range of leisure options and will open alongside a new Aloft branded 150-room hotel.

In addition, Sandman Signature Hotels are opening a third UK hotel on Aberdeen's St Andrews Street. The £20m development is set to open at the end of May 2018, equipped with 218 rooms.

This additional supply may generate potential headwinds in regards to operational performance over the short term. However, continued improvements in oil price and efforts to diversify Aberdeen's economy suggests a move back into positive territory heading into 2019.

4.5 million
additional visitors by 2025 expected from the new AECC

$72.11
average price per barrel of Brent Crude oil in April 2018

10%
increase in hotel room count by the end of 2019

£335 million
invested in new offshore wind energy projects

50%
capacity increase at Aberdeen International Airport by 2019

Please contact us for further information

Martin Rogers
Head of UK Hotel Agency
+44 (0)20 7409 8039
mrogers@savills.com

Tim Stoyle
Head of Hotel Valuations
+44 (0)20 7409 8842
tstoyle@savills.com

Steven Fyfe
Hotel Agency
+44 (0)141 222 4159
steven.fyfe@savills.com

Marie Hickey
Research
+44 (0)20 3320 8288
mlhickey@savills.com

Josh Arnold
Research
+44 (0)20 7299 3043
josh.arnold@savills.com

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