

Market Insight

UK HOTELS

EXPLORING REAL ESTATE OPPORTUNITIES

In November 2024 ASK hosted a roundtable discussion forum for key players in the UK hotel sector, including developers, operators, investors, funders and valuers. The group discussed the current performance of the sector, challenges and success stories.



"London on track to return to pre-pandemic occupancy levels"

CURRENT LANDSCAPE

Market performance

The UK hotel market was said to be performing on a par with 2019. This was based on Knight Frank figures shared with the group. Overall, the upper upscale sector has seen stronger growth than the select service market. London and Edinburgh were said to be the best performing cities with Edinburgh recording double-digit revenue growth in the year to date. Regional growth has been supported by the golf and spa market which has seen growth of 12.5% RevPAR. £4.5bn has been transacted across the sector which puts the market on track for £6bn in the year, equivalent to 2019. Yields were said to be at around 6% in London for owner occupied, (4.5 - 5.5% where a lease is secured to a strong tenant) and 8 - 8.5% in the regions.

UK HOTEL INVESTMENT YTD SEPT 2024

Transacted: £4.5bn

Hotels: 265

Rooms: 28,300

London market share: 57%

Upscale, upper-upscale and luxury: 56%

OCCUPANCY

Q3 2024

87.2%

Up 3.8% on 2023

YTD Jan - Sept 2024:

81.1%

Up 3.8% on 2023

Source: [Knight Frank 2023 Hotel Dashboard](#)

OPERATOR CHALLENGES

Where are operators still feeling the impact?

The rising cost of living have impacted the sector. Previously the consumer had been absorbing the ADR but a weekend in London with theatre tickets and a meal has become so expensive overall they cannot absorb any more.

Staffing challenges

Many agreed that it was only this year that operators had got back to full manpower. All agreed that the supply of staff had improved but the quality was still poor, particularly for food and beverage. A hotel chain without food and beverage offerings now had a staff turnover of only 14%, their lowest ever, and an average of 6 years' service amongst its 30 supervisors. Many had increased the pay of maids and all recognised the importance of valuing them as part of the team and for their important role, in order to improve retention.

Top-end issues

At the top end of the market some target ADRs have not been hit. It was suggested that the top end of the market had maybe been diluted with some of the traditional hotels not attracting new guests.

"Regulations have become onerous."



ASK provided a senior acquisition loan secured against this prime boutique hotel in Soho during the pandemic



ASK and OakNorth co-financed Capilon Group's acquisition of a Grade II listed, vacant hotel in Paddington, to convert into an 80-room boutique hotel.

DEVELOPER CHALLENGES

Finance

Delegates felt finance had been difficult since the pandemic when high street banks stopped lending to the hospitality sector. The delta between interest rates now and when many projects started has been challenging. A number had successfully financed projects through challenger banks and alternative lenders.

Construction costs and regulations

Rising construction costs have been a huge challenge, particularly on the top of onerous fire regulations. Buildings above 18.2m tall now need sprinkler systems. Those in the serviced apartment space will be challenged by new regulations that a kitchenette to be 1.8m from an escape route. The rules were said to be similar to cladding rules in that even if the building complied with regulations at the time of completion it will have to be refitted to comply with new rules in order to make it saleable. The importance of finding a flexible finance partner due to potential delays, was noted.

EPC ratings

EPC ratings were also mentioned: buildings now need EPC A or B to be considered a saleable asset. If any boxes were not ticked an asset couldn't be sold or financed. Planning was also said to be a frustration.

CURRENT MODELS

What are guests looking for now?

All agreed that guest expectation has changed. Corporate guests in particular are looking for something more exciting. One operator had created a lifestyle brand in the City of London using design partner Ennismore. They had recently opened and were running at 70% occupancy and an anticipated ADR of 80%. They had found that guests were more willing to stay if they could eat great food. As the City doesn't offer much in the way of food and beverage this had been key to the hotel's success so far and was creating a resort model. A case study of Hard Rock in Marbella was shared. The hotel had a huge lobby full of couches ripe for monetisation, with guests looking for a sense of arrival and a buzz of energy. The area's food and beverage offering was now turning over 2 million Euros a year.

Room size and average length of stay

Quite a few operators were pursuing the model of smaller rooms, no suites and a higher guest turnover of an average of 1-2 night stays. Examples were given of 7.9-8 sq. m rooms across 211 keys and 111 keys in 45,000 sq. ft. At the other end of the scale, those operating serviced apartments had 35 sq. m. apartments with an average of 5-night stays. The 3 and 4 bed apartments were well occupied in the summer months and the 1 and 2 bed offerings had high year-round occupancy. With such varied offerings it was agreed there was room for everyone in the London market.

UK ECONOMIC SITUATION

How will the UK Budget impact the sector?

All agreed that the effects were going to be painful, particularly the national living wage rise which was higher than had been anticipated. One operator projected 6% RevPAR growth in 2025 to offset the

increased costs and said this was possible in Edinburgh or London but not in the rest of the UK.

With inflation now dampened and a recent interest rate cut, many were positive about a downward interest rate curve; reduced rates would impact yields. Yet it was acknowledged that both Trump and Reeves could provoke inflation making rates slower to come down. All agreed that if the wealth of individuals was further impacted then that would have a knock on effect on the sector.



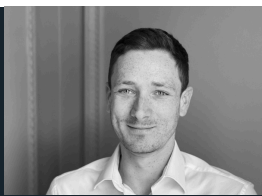
The conversion of a vacant office building on Charing Cross Road acquired for conversion by Z Hotels and co-financed by ASK and OakNorth

"We need to achieve 6% RevPAR growth in 2025 to offset additional costs as a result of the Budget"

GROWTH POTENTIAL

What about growth?

Attendees agreed that it was hard to factor in growth because of the unknowns. A lack of comparables made valuations much harder. Some commented that there hadn't been much ground up development. All agreed that this would continue to remain low compared with conversions because of the lack of land in suitable locations.



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