



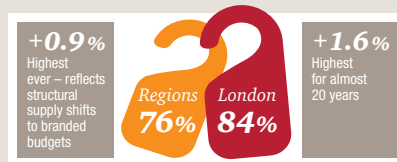
UK hotels forecast update for 2015 and 2016

More room for growth

March 2015

PwC's 2015 UK hotels forecast update

Occupancy



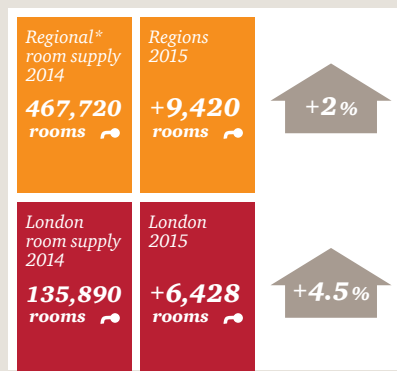
Average daily rate (ADR)



Revenue per available room (RevPAR)



Supply



* Regions excluding London
Charts show absolute trading and percentage change on previous year
Net room supply (after closures) Source: AM:PM

Sources: PwC; STR Global; AM:PM Hotel Database (supply), February 2015
© www.pwc.co.uk

PwC's March 2015 update reflects our current thinking on prospects for hotels across the UK, the Provinces and London in 2015 and provides our first thoughts on performance in 2016.

After a particularly buoyant 2014, we expect the momentum of growth to continue this year. Accordingly we forecast further RevPAR growth for London of 4.6% in 2015 and 4.7% in 2016, taking RevPAR to £122 and £127 respectively. For the Provinces we forecast more growth but at a slower pace than 2014's, with a 5.4% gain in 2015 and 5.1% growth in 2016, taking RevPAR to £51 and £53 respectively. So far, January saw a good start to trading for the year, especially in the Provinces. While occupancies are at record levels we think they can go a bit higher in 2015. Our view is that there is still more room for growth.

Key drivers include the continued growth of the global and UK economy, buoyant inbound tourism as well as the Rugby World Cup this year, all of which should keep the momentum going. The pace of new hotel supply is picking up and has the potential to slow the pace of growth in some locations, but we don't believe it's putting the brakes on things just yet.

In terms of what could spoil things there are also considerable downside risks that could impact this forecast. For example, the fall in oil prices has both positive and negative implications. On the positive side, consumers will be spending less of their household budget on energy bills, meaning they have more to spend on holidays. Furthermore – the trips themselves are cheaper as flights and road transport have come down in price, further boosting demand. But the fall in oil prices will have an impact on the economies of Russia and the Middle East in particular – potentially weakening travel from these countries. Aberdeen hotels too could see a negative impact. Other issues include the euro zone where the economic outlook will be highly dependent on how events in Ukraine and Greece play out, and the success of Quantitative Easing (QE). The strength of the pound may also encourage UK residents to take summer holidays abroad. The outcome of the election in May adds further uncertainty.



Forecasts

London

2014 recap: Our forecast for 2014 was spot on as London kept on trading at a very high level, and although trading wobbled a bit in the middle of the year and then again in the autumn, it picked up in the latter part of 2014. In December hotels achieved the highest RevPAR rate of any December in 20 years, according to figures from STR Global. Occupancies have been at a record high, ending 2014 at 83%; while rates soared to almost £141. This is all despite over 5,500 new hotel rooms opening, somewhat above the long term average.

Our latest forecast for 2015 and 2016 calls for continued growth in 2015 and 2016 with 4.6% and 4.7% RevPAR growth respectively in each year. This

boosts RevPAR to £122 this year and £127 in 2016. In 2015, our revised forecast remains very similar to our view at the end of 2014. We expect growth to be driven by occupancy growth of 1.6% taking occupancy to 84%, and an ADR gain of 3%, to £144. This is the first time we have looked at 2016 and with occupancy already at 85%, we anticipate RevPAR growth will be driven almost completely by 4.4% ADR growth, taking ADR to £151. Above average supply growth in the capital continues. See Table 1 and Charts 1 and 2.

Provinces

2014 recap: Despite a very bullish PwC forecast, Provincial growth proved even more vigorous than we expected with occupancy up 3.8% to 75.4%, rates up

6.5% to £64 and RevPAR up 10.5%, to almost £48. Most cities around the UK benefited – some spectacularly e.g. Glasgow with RevPAR up 23% post Commonwealth Games and plenty more like Birmingham, Bristol, Cardiff, Liverpool and York with double digit growth after the Tour de France. Although hoteliers started to see some lift on prices – it's a long game to get rates back in real terms. Supply levels remained muted with only an additional 3,000 rooms added, a 0.7% increase over 2013; this is considerably below the long term average.

Our latest revised forecast for 2015 and 2016

calls for more strong growth (albeit at a slower pace to 2014) and given already high occupancy levels we think hoteliers will be confident to raise rates upwards to drive 5.4% and 5.1% RevPAR gains in 2015 and 2016. ADR growth of 4.4% and 4.6% in each year will go some way to help rates recover and will push rates to a respectable £67 and £70 in 2015 and 2016 respectively. Occupancy is forecast to increase by almost one percentage point to 76% in 2015 and stay there in 2016. Growth in new supply could reach 2% this year as a further 9,420 rooms open in 2015. See Table 1 and Charts 1 and 2.

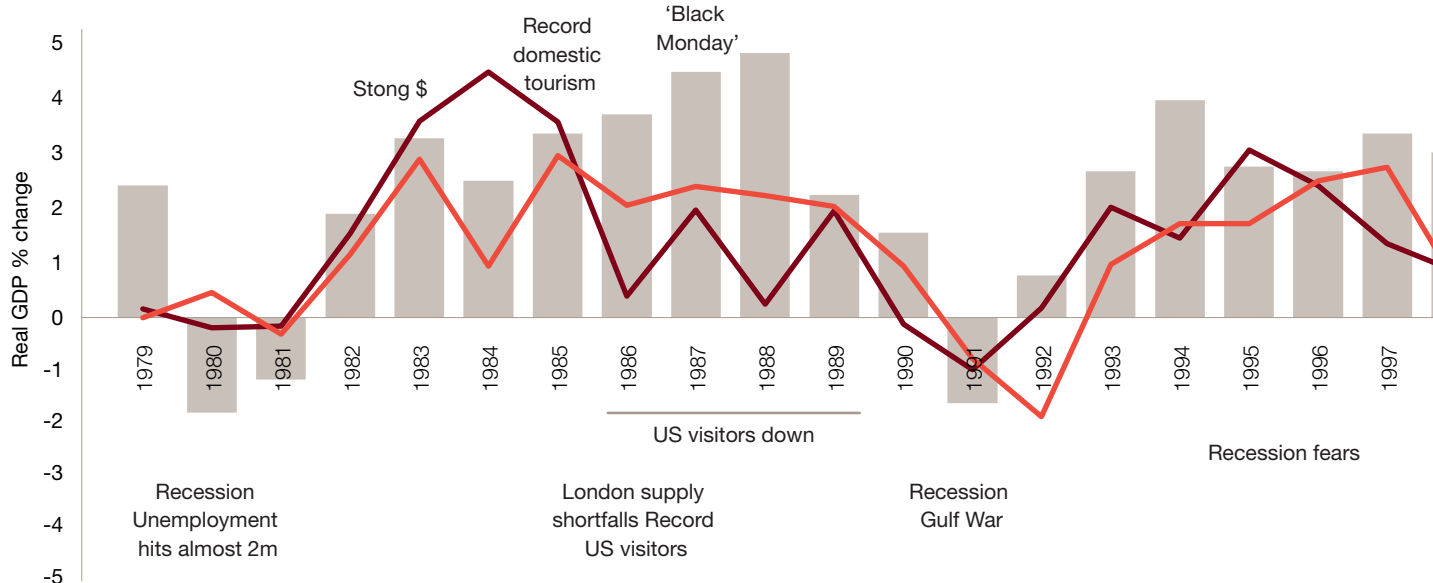
Table 1: UK hotels forecast: upward cycle continues

	London			Provinces		
	2014A	2015F	2016F	2014A	2015F	2016F
Occupancy %	83%	84%	85%	75%	76%	76%
ADR (£)	140	144	151	64	67	70
RevPAR (£)	116	122	127	48	51	53
% growth on previous year						
Occupancy	0.6%	1.6%	0.3%	3.8%	0.9%	0.4%
ADR	2.9%	3.0%	4.4%	6.4%	4.4%	4.6%
RevPAR	3.5%	4.6%	4.7%	10.5%	5.4%	5.1%

Econometric Forecasts: PwC February 2015
 Benchmarking Data: STR Global February 2015
 A: Actual F: Forecast

Chart 1: Overheating or more room for growth?

Real GDP growth and revenue per available room (RevPAR) trends 1979-2016F



Source: Econometric forecasts: PwC February 2015 Macroeconomic data: National Statistics Benchmarking data: Hot Stats STR Global

Economic, travel, supply issues and assumptions

Economic outlook

UK GDP continues to grow: UK GDP remains one of the strongest of the large European economies, driving demand for business and leisure travel. In 2014 UK GDP grew by around 2.6%. Similar growth is expected this year with 2.5% growth and 2.3% in 2016. All UK regions are expected to benefit although London and the South East lead.

Global economic growth is picking up: Global GDP growth is forecast to grow by 2.9% in 2015 and 3.3% in 2016 (market exchange rates). European statistics agency Eurostat said GDP in the Eurozone rose by 0.9% across 2014 as a whole, more than expected. The outlook for 2015 is a cautious one, with Eurozone GDP growth forecast at 1.1% and inflation creeping up to 0.8%. The economic outlook will be highly dependent on how events in Ukraine and Greece play out, and the success of QE. The Eurozone economy is forecast to grow by 1.1% this year and 1.7% next year which is good news for supporting inbound tourism from key travel markets. On another positive note, US GDP is forecast to grow by around 3.2% this year and 3.1% in 2016 and PwC expect US economic growth to be the fastest since 2005.

Consumers will feel better off in 2015:

PwC's confidence survey suggests that consumers are at their most confident since 2008 and GfK's consumer confidence tracker suggests British consumer morale jumped by more than expected in January to reach a five-month high. Data suggests this is not misplaced as lower unemployment levels, lower energy prices, rising house prices and more credit availability will help brighten prospects. Our main economic scenario envisages consumer spending growth remaining relatively robust at around 2.3% in 2015, but then moderating to around 1.7% per annum on average in 2016-20. Inflation is expected to remain well below its target in 2015 which should help produce a return to positive average wage growth for the first year since the recession.

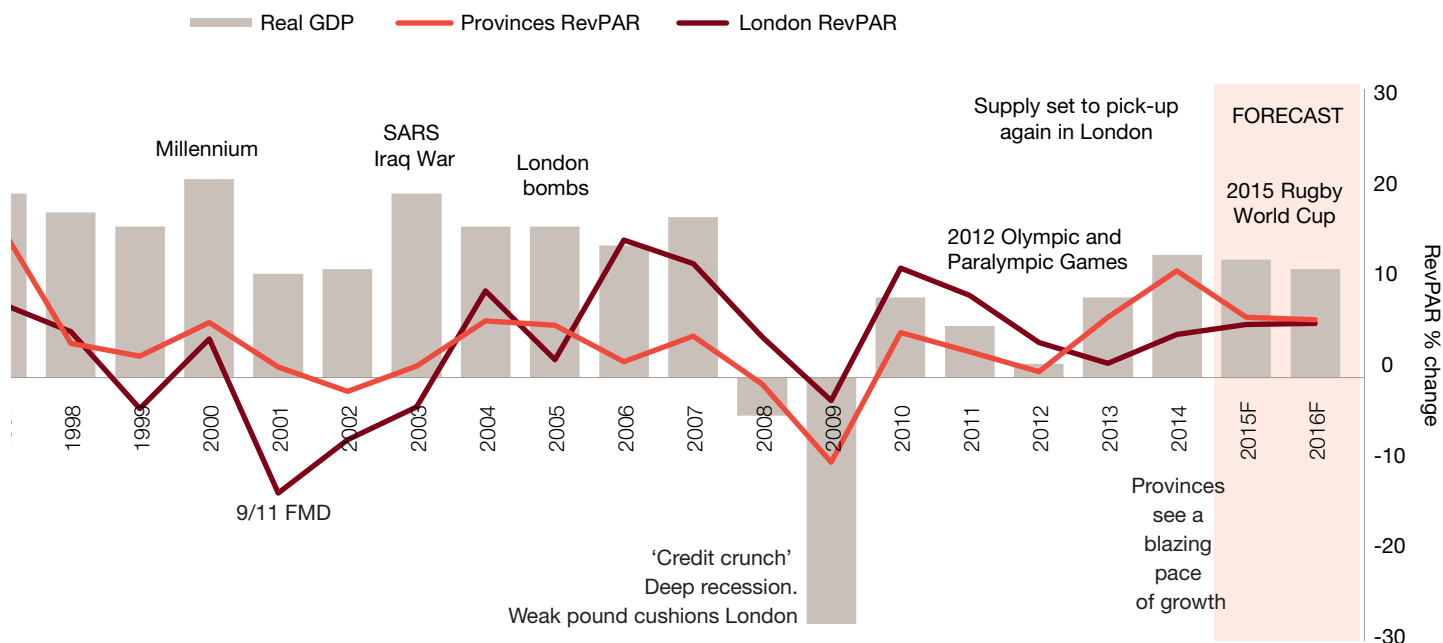
Travel outlook

Holidays remain a priority: Travel has proved remarkably resilient and holidays continue to be a top priority for many. Inbound international travel, domestic 'staycations' and the recovered business travel sector have proved robust.

Travel should benefit: Improving economic conditions continue to drive steady business travel growth and help support midweek demand in hotels. Increased consumer confidence is expected to support leisure breaks. The

UK saw record volumes of overseas visitors in the 11 months to November as 32.4 million visitors were recorded, up 7% over the same period in 2014. Additional modest UK inbound growth is forecast in 2015. The World Travel & Tourism Council (WTTC) as well as the Global Business Travel Association are generally positive and forecast more growth for key European economies, including the UK. Rising household consumption in the US combined with a strong dollar could prompt more US visitors to the UK. The meetings and conferences market continues to recover, albeit slowly.

More eventomania in 2015: We expect the Rugby World Cup will boost trading this year. It's the 3rd largest global sports tournament and we expect uplift for hoteliers. With a third of matches taking place on a Sunday it has potential to make it an autumn to remember. In London the NFL 2015 International Series comprises three games which will be held at Wembley also on three Sundays in October and early November, and should prove positive as should the NFL on Regent Street Parade (600,000 attended last time). There are also some large conferences taking place in 2015, for example 35,000 delegates will attend the largest medical conference in Europe – the European Society of Cardiologists (5 days) which will be held in London in late summer.



Supply

Supply pace won't put the brakes on trading growth (yet). The pace of new UK supply growth is set to pick up in 2015, with growth above the long term average, according to data from AM:PM. Growth is estimated at around 4.5% in London and 2% in the Provinces. The 10 cities with the most active (as at Dec 2014) room pipelines include London, Manchester, Edinburgh, Birmingham, Aberdeen, Glasgow, Newcastle, Liverpool, Cambridge and Bath. So far demand is keeping ahead.

Deal talk

Deal volume finished slightly ahead of our original 2014 forecast at c. £5.1 billion as a result of an active Q4 with a number of large regional hotels transacting in addition to the anticipated completion of the Villages portfolio.

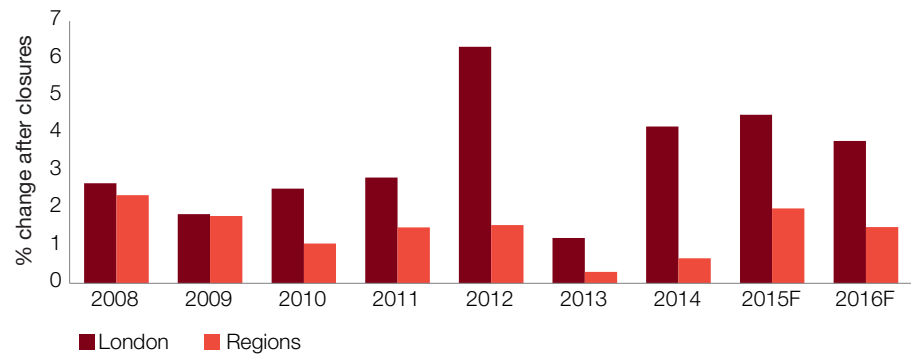
2015 started strong with a number of reported deals anticipated to complete shortly including MREF (Shearing and Mercure hotels), Moran Bewleys and Jury's Hotels. We anticipate that 2015 deal value will be ahead of our original forecast due to continued investor demand and an active Q1 including current deals reported in the press; Malmaison/Hotel du Vin, Gleneagles, Jupiter Hotels and the second batch of LRG hotels.

Supply running high in London: An additional 6,430 rooms (after closures are accounted for) could open in London this year, after 5,500 new rooms opened last year; 1,560 rooms in 2013 and a bumper 7,650 rooms in 2012. This will take London's hotel rooms supply total to almost 136,000 rooms. In 2016 the pipeline looks set to deliver a further 5,300 rooms.

Supply pace accelerates in the Provinces: Growth in new supply could reach 2% this year as a further 9,420 rooms open in 2015. Compare this to 0.7% growth in 2014 and 0.3% growth in 2013, when only 1,400 rooms were added. These additions will take supply to around 467,700 rooms. In 2016 the pipeline looks set to deliver a further 7,000 rooms.

Chart 2: UK room supply growth

Annual net change in supply (% change after closures)
Figures as at 29 January 2015



Source: AM:PM

Contacts

David Trunkfield
UK Hospitality & Leisure Leader
david.trunkfield@uk.pwc.com
+44 (0) 20 7804 6397

Liz Hall
Hospitality & Leisure Head of Research
liz.hall@uk.pwc.com
+44 (0) 20 7213 4995

Stephen Broome
Senior Hotels Consultant
stephen.broome@uk.pwc.com
+44 (0) 20 7212 8510

Sam Ward
Hotels Leader
samantha.m.ward@uk.pwc.com
+44 (0) 20 7212 2974

Richard Snook
Economist
richard.snook@uk.pwc.com
+44 (0) 20 7212 1195

www.pwc.co.uk/hospitality-leisure

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2015 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

PWC100007_HB_MISC_0215