

## TRI Hospitality Consulting 2010 & 2011 UK Hotel Market Forecasts

- Provinces set to stem the decline in RevPAR performance in 2010, although TrevPAR and GOPPAR will slightly decline.
- Tough market conditions in 2011 will constrain growth in UK Provincial hotels.
- London market forecast to go from strength-to strength, with increases in RevPAR, TrevPAR and GOPPAR performance.
- Both sets of forecasts derived from TRI Hospitality Consulting's unique HotStats database which tracks monthly hotel revenue, cost and profit performance.

TRI Hospitality Consulting has issued new forecasts for the UK hotel industry showing profitability growing in London hotels in both 2010 and 2011. For provincial hotels, the falling profitability of the last two years is expected to moderate significantly in 2010 and be flat in 2011.

"Despite some dire forecasts at the start of this recession, the UK hotel industry has proved itself resilient with London exhibiting extraordinary strength. Even though the recovery remains uncertain we expect hotels across the country to show stability and be poised for modest growth next year" said Jonathan Langston, managing director of TRI Hospitality Consulting.

### UK Provinces

In 2010, UK provincial hoteliers have stemmed the decline in RevPAR (Revenue Per Available Room) performance according to the latest data from TRI Hospitality Consulting's **HotStats**. Despite some significant obstacles to trading during the beginning of the year including severe winter weather disrupting much commercial and leisure travel, UK provincial full-service hotel market RevPAR performance has remained relatively stable from May 2010.

For 2010 TRI forecasts UK provincial full-service hotel occupancy to finish the year up 1.7 percentage points from 2009, in combination with a rate decline of 1.5 per cent from 2009 levels. This volume over rate strategy will result in a one per cent increase in RevPAR.

"Data from our **HotStats** database indicates that the small recovery in rooms RevPAR performance has been volume-led, and we have seen a pick-up in transient corporate demand. Leisure demand has remained stable in 2010 on 2009 levels albeit suffering a small drop in achieved leisure sector rates, which we consider a portent for 2011 trading" commented Langston.



Whilst Provincial RevPAR is forecast to increase, TrevPAR (Total Revenue Per Available Room) and GOPPAR (Gross Operating Profit Per Available Room) performance is forecast to decline by 0.7 per cent and 2.6 per cent respectively, illustrating the importance of using total revenue and profitability metrics to properly assess trading.

“We interpret the decline in 2010 TrevPAR performance as a result of the leisure market having tightened their travel budgets combined with prudent behaviour of corporate travel buyers - this is likely to continue for some time. Although provincial hoteliers implemented significant cost saving strategies in the second half of 2009, 2010 TrevPAR and GOPPAR performance is forecast to finish the year below the level of 2009 performance” commented Langston.

For 2011, TRI forecasts no growth in provincial market occupancy and average room rate performance.

The leisure market for full-service hotels is set to become more competitive as the increase in VAT and public sector cuts affecting employment levels will mount additional pressure on this segment. In addition, the increasing competition from the budget hotel sector is likely to force full-service hotels to further reduce leisure tariffs in order to protect volume.

“Whilst the value of leisure demand is forecast to decrease, we are seeing midweek transient corporate demand levels increasing, with many provincial city markets experiencing near-to-full midweek occupancy levels. We believe that there will be some, albeit small, rate growth during these midweek periods. These small gains in commercial rates are likely to balance off the loss in the value of leisure demand.” said Langston.

With no movement in RevPAR performance, TRI forecasts nil movement in provincial hotels’ TrevPAR and GOPPAR performance.

“2011 will be a year for provincial hotels to stabilise financial performance amidst continued challenging market conditions” commented Langston.

## London Forecast

So far in 2010, London hotel market performance has been robust as London hoteliers have experienced significant growth in RevPAR, TrevPAR and GOPPAR performance.

“In 2010, London hoteliers responded rapidly to the increase in corporate demand from the low point of 2009. The corporate market commands a superior sector rate to the leisure market, and we are seeing London full-service hoteliers shed lower-rated leisure business, a market which was relied upon to replace the loss in commercial demand in 2009, as rack and corporate demand continues to grow” commented Langston.



For 2010 TRI forecasts London full-service hotel occupancy to finish the year up 1.7 percentage points from 2009, and average room rate to increase by 6.5 per cent from 2009, resulting in an 8.8 per cent increase in RevPAR.

For 2010, London hotel market TrevPAR and GOPPAR is forecast to increase 6.7 per cent and 11.4 per cent on 2009 performance levels.

“The ability of London hoteliers to maintain the cost base as market demand returned has meant that GOPPAR performance soared in 2010, with the increase in RevPAR being fed right down to the bottom line according to our **HotStats** survey” said Langston.

For 2011, the London hotel market is forecast to continue to increase occupancy by one percentage point and average room rate performance by 2.2 per cent.

Commercial markets are returning; however, continuing global economic uncertainty is likely to limit growth levels next year. Combined with the strengthening of sterling against the dollar and the euro, London will present as a more expensive destination to key US and European markets, limiting the scope for London hoteliers to increase rates to the leisure sector.

For 2011, London hotel market TRevPAR and GOPPAR is forecast to increase 4.3 per cent and five per cent respectively on 2010 performance levels.

“We expect London hotels to continue their strategy of attracting a greater proportion of higher-rated commercial demand although the rate of growth in demand from this sector will inevitably be lower than the considerable growth achieved in 2010 performance. Given the fact that hoteliers appear to be operating at optimal efficiency and towards capacity occupancies, any increase in RevPAR performance will continue to drop down to gross operating profit, as experienced in 2010” said Langston.

## Note

The forecasts are predicated on the assumption that:

- UK GDP growth will be between 1.5 and 2.0 per cent in 2011.
- Utility costs relative to hotel revenues will remain at similar levels to 2010.



### Provincial Hotels - Rooms Revenue, Total Revenue and GOP Performance

Year	Occupancy	ARR	RevPAR	TrevPAR	GOPPAR	GOP Conversion
2007	72.2%	£74.36	£53.71	£105.62	£36.45	34.5%
2008	70.4%	£74.78	£52.62	£102.56	£33.77	32.9%
2009	67.9%	£68.86	£46.76	£92.09	£28.57	31.0%
2010f	69.6%	£67.80	£47.22	£91.41	£27.82	30.4%
2011f	69.6%	£67.80	£47.22	£91.41	£27.82	30.4%

#### Year on Year Change (+/-)

Year	Occupancy	ARR	RevPAR	TrevPAR	GOPPAR	GOP Conversion
	Pts.	%	%	%	%	Pts.
2008	-1.9	0.6%	-2.0%	-2.9%	-7.4%	-1.6
2009	-2.5	-7.9%	-11.1%	-10.2%	-15.4%	-1.9
2010f	1.7	-1.5%	1.0%	-0.7%	-2.6%	-0.6
2011f	0.0	0.0%	0.0%	0.0%	0.0%	0.0

### London Hotels - Rooms Revenue, Total Revenue and GOP Performance

Year	Occupancy	ARR	RevPAR	TrevPAR	GOPPAR	GOP Conversion
2007	82.0%	£115.64	£94.81	£138.56	£64.68	46.7%
2008	80.7%	£121.48	£97.99	£142.41	£65.20	45.8%
2009	80.3%	£114.05	£91.54	£131.30	£59.96	45.7%
2010f	82.0%	£121.47	£99.59	£140.06	£66.81	47.7%
2011f	83.0%	£124.12	£103.01	£146.11	£70.13	48.0%

#### Year on Year Change (+/-)

Year	Occupancy	ARR	RevPAR	TrevPAR	GOPPAR	GOP Conversion
	Pts.	%	%	%	%	Pts.
2008	-1.3	5.0%	3.4%	2.8%	0.8%	-0.9
2009	-0.4	-6.1%	-6.6%	-7.8%	-8.0%	-0.1
2010f	1.7	6.5%	8.8%	6.7%	11.4%	2.0
2011f	1.0	2.2%	3.4%	4.3%	5.0%	0.3

#### Editors Notes:

The hotels profiled in this report are drawn from the HotStats database and reflect the portfolios and distribution of the hotel chains that we survey and which operate primarily in the three and four-star sectors.

**Please note:** The data samples are reviewed and rebased each year to reflect the changes in the HotStats survey base.

As a result, performance ratios published last year may differ from those contained within this report.

**Occupancy (%)** is that proportion of the bedrooms available during the period which are occupied during the period.

**Room rate (ARR)** is the total bedroom revenue for the period divided by the total bedrooms occupied during the period.

**Room Revpar (RevPAR)** is the total bedroom revenue for the period divided by the total available rooms during the period.

**Total Revpar (TrevPAR)** is the combined total of all revenues divided by the total available rooms during the period.

**GOP PAR** is the Total Gross Operating Profit for the period divided by the total available rooms during the period.



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**Services:**

**HotStats** - Market Intelligence Unique to TRI Hospitality Consulting.

Our expertise in the hotel industry is based not only on our experience of working in that industry, but also on a continuous programme of research which tracks trends and performance. Our proprietary **HotStats** database is the most detailed ever monthly survey of the European hotel industry, providing contributors with access to highly focused personalised benchmark data on every aspect of hotel revenue generation, sales and marketing, operating costs and profitability. For more information please visit [www.hotstats.com](http://www.hotstats.com).

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