



Hospitality Directions Europe Edition*

Issue 16 September 2007

As good as it gets for UK hotels?

Although recent sparkling times are set to dull a little, PricewaterhouseCoopers expect the sector to continue to shine for a while yet

- PricewaterhouseCoopers' latest hotel performance forecast predicts a less optimistic outlook ahead as RevPAR growth rates stall
- Our latest UK forecast is for revenue per available room (RevPAR) growth of 6.2 per cent this year and again in 2008 – much higher still in London – underpinned by UK economic growth and corporate travel demand
- Hotels continue to take advantage of the strong economic conditions to raise prices. UK room rates have been rising for three years and are expected to rise by a further 5.6 per cent this year and again by 5.5 per cent next year, taking average room rates to over £89 for the UK as a whole. In London the average room rate could exceed £128 in 2008 and top £360 in the luxury segment
- Developers have been making hay while the sun shines, but despite some largish supply pipelines, in most places the increases have not kept pace with strong overall demand
- Uncertainty surrounds the full impact of the latest financial market malaise, but financing and credit conditions are already tightening which will limit some expansion plans. A flight from risk will mean lenders and investors will be more cautious and selective
- Many consumers are squeezed between rising interest rates, high levels of household debt and earnings growth lagging prices.¹ With the credit crisis likely to slow demand, the fight to attract and keep customers in tougher times is likely to focus less on quality and more on price and value for money.² Some other consumer-facing industries are already experiencing this.

Forecast highlights 2007-2008 (growth %)

| | 2007 | | | 2008 | | |
|-----------|------|--------|-----------|------|--------|-----------|
| | UK | London | Provinces | UK | London | Provinces |
| Occupancy | 0.5% | 0.7% | 0.4% | 0.7% | 0.9% | 0.6% |
| ARR | 5.6% | 9.8% | 3.4% | 5.5% | 8.3% | 4.1% |
| RevPAR | 6.2% | 10.6% | 3.8% | 6.2% | 9.2% | 4.7% |

¹ Rates squeeze consumers, Sunday Times 2 September 2007
² The Economist, September 8 2007

UK hotel sector forecast – overview



London...

- Strong corporate demand continues to allow hotels to raise room rates – soon to be six years in a row (2003 – 2008)
- High room prices have driven some stellar performances
- The pace is slowing but average room rates could reach £128 by 2008 and luxury room rates could top £360
- Booming performance is driving construction and conversions - 11,300 rooms under development but few supply concerns as barriers to entry remain high³
- New challengers across all segments:
 - traditional budgets - Travelodge Euston Square (2008)
 - new 'top-end' budgets - Yotel Heathrow (2008)
 - limited service – City Inn (2) London (2010)
 - upscale - Renaissance St Pancras (2010)
 - luxury – Silken, Strand (2008) Shangri-La, London Bridge Tower (2011); Jumeirah, Beetham Tower (2011)
- As the meaning of luxury stretches, it is vital to keep up appearances e.g. Savoy closing for a £100m refit
- But, the strength of the pound is impacting high spending US and Japanese visitors and the City's malaise is likely to cause severe temporary pain - financial and business services contribute about half of UK GDP growth

Outside London...

- Provincial hotels are more dependent on domestic demand – especially conferences
- Poor summer reported by many tourist attractions but hotels in Glasgow, Edinburgh and Aberdeen prospered and Bollywood came to Sheffield!
- Decelerating growth trend but we still anticipate further Provincial RevPAR growth of 3.8 per cent this year and 4.7 per cent in 2008 with room rates reaching £71.16
- A point of differentiation is crucial for cities and hotels to sustain growth
- New builds and conversions are racing ahead - consumers spoiled for choice as new ideas squeeze out tired products
- Competition for sites is driving a quest for innovative locations - 3,500 rooms could soon open at iconic sports venues e.g. Cheltenham, Brit Oval and Silverstone⁴
- Edinburgh – highly performing hotel sector with at least seven years of RevPAR gains. Future plans for 1,700 new rooms include one of the world's first Missoni Hotels and a Sofitel in the Old Town
- Manchester - hosted a new dynamic International Festival this summer and may see 1,540 new hotel rooms in the next few years. Despite future supply concerns RevPAR growth remains on an upward path and should reach £60 by 2008
- Birmingham – a buoyant urban regeneration scene but only 800 new rooms planned including new concept Staybridge Suites. RevPAR is still nudging up and the growth rate could be quite vigorous in 2008. Room rates could reach £70.

Risks remain high: Uncertainty around impact of credit crunch and financial turmoil; flight from risk; slowing GDP growth and hard economic landing; discretionary spending squeeze; deteriorating consumer confidence; over supply depresses room rates; rising building costs; terrorism spectre; further foot-and-mouth outbreaks; oil spikes

³ Accommodating Growth: A Guide to Hotel Development in London, VisitLondon 2007

⁴ Rooms with a View: why are so many sports venues developing hotels?, PricewaterhouseCoopers Hospitality Directions Europe, Issue 16, September 2007

UK hotel sector forecast

UK hotels: So far so good

Despite unseasonal weather, scares of foot and mouth disease and the high pound deterring US and Japanese tourists, 8.1m visitors still came to Britain in the three months to June, although this was three per cent less than in the three preceding months. However, these events are expected to have depressed incomes for tourism businesses and for hotels in affected areas.⁵ A lack of long haul travellers has impacted spending patterns with short haul and short stay tourists spending less during their stay. We include detailed macroeconomic and travel fundamentals underlying this current forecast in Appendix 1.

Despite all this, continued strong corporate demand for many hotels enabled operators to raise prices and boost revenues and profitability. For Accor, revenue in their UK hotels rose 8.1 per cent like-for-like during the first half of the year, led by a strong performance in London (RevPAR up 11.5 per cent in the second quarter, versus 9.9 per cent in the first). Whitbread's Premier Travel Inn registered like for like growth of 12 per cent in the 11 weeks to 16 August. Continuing operating profit at InterContinental Hotels was up 5 per cent to £111m on revenues up 12 per cent to £422m, for the six months to June 2007. RevPAR, increased 7 per cent overall.

Strong trading performance has allowed the pace of deals to continue although the future is less clear. Since our last forecast in March this year we have seen Blackstone's £10bn acquisition of Hilton Hotels Corporation's 2,800 hotels and 480,000 rooms. In May Permira-backed Principal Hotels bought Hayley Conference Centres' 17 sites and 1,300 rooms for £358m. The move is part of Principal's acquisition strategy to create one of the UK's leading conference hotel groups.⁶ Marylebone Warwick Balfour has announced it has now put its Hotel du Vin and Malmaison hotel chains (19 hotels plus another seven set to open in the next 18 months) up for sale at an asking price of £700m. The sale follows the recent failed attempt to float a £2bn portfolio of hotels under the name Vector. The initial public offering, the first specialised hotel REIT, was in part an early victim of a downturn in investor sentiment towards real estate stocks.

Looking ahead, a key issue is evaluating the size and the extent of the current financial markets crisis and its likely impact for corporates, consumers and hotels. Whitbread has been one of the first casualties of the debt markets turmoil, recently announcing it was delaying a possible £600 million bond issue which had been intended to raise new debt secured against its hotels and coffee shops.



A point of differentiation key to mid market success as 'stickier' products and brands are launched

Chain operators have continued to tighten their grip on the UK hotel sector, controlling around 260,000 rooms by 2006 compared to around 250,000 in 2004. As the mid market in particular becomes increasingly competitive and squeezed between newer 'top-end' budgets and lower priced upscale concepts, the sector needs to optimise products and portfolios. New openings and repositioned properties threaten to push out tired and unexciting offerings, raising the bar for existing operators to refurbish and differentiate – for example, Macdonald Hotels spent £42m on capital expenditure last year and have earmarked £50m for this year and Menzies aims to reposition the Thistle Hotels it recently acquired at the top end of the midmarket/lower upscale sectors through an extensive capital expenditure programme.

Companies are introducing innovative products and brands ranging from stylish budget lifestyle properties like Yotel now open at Gatwick; limited service /premium budget products like City Inn, as well as new lifestyle and boutique groups like Firmdale's hotels in London. New luxury names include Rezidor's Missoni hotel soon to open in Edinburgh. The budget market has continued to grow and has nearly doubled since 2000 with around 85,700 rooms today and around two thirds of its

⁵ Season proves to be the reason for much misery, Financial Times, 3 September 2007

⁶ For a fuller discussion of the issues and trends in this sector see PricewaterhouseCoopers Hospitality Directions Europe Issue 12 December 2005 "Nice little earners? Specialised residential conference centres have a clear focus that can deliver a competitive advantage".

UK hotel sector forecast

customers being business travellers.⁷ Travelodge aims to treble its estate by 2020. The group launched the Travelpod in August – claimed as the first mobile hotel room with polycarbonate glass walls, a double bed, air conditioning, fully carpeted floor, a dressing table, mirror and chair, which will cost from around £26 a night.

Hilton has announced it is to continue to grow its brands internationally especially in Europe and has ambitious plans to bring new brand names to the UK, particularly to the economy market. Brands include Hilton Garden Inn and Hampton by Hilton. Partners in this venture include Somerston Hotels, set to open 25 Hampton Inns with a total of 3,000 rooms over the next five years and a preferred development alliance signed with Shiva Hotels. All four of Shiva's current hotels will be included in the new alliance with Hilton, including the 350 room Hilton at Heathrow near Terminal 5; a 200 room Hilton and a 120 room Hampton in Leeds and a 120 room Hampton in Derby.

InterContinental Hotels has plans too. It is to bring two successful US names to the UK to add to Crowne Plaza and Holiday Inn brands. Its extended stay brand Staybridge Suites and Hotel Indigo (described as a lifestyle hotel brand at mid-market prices) could soon be well known names in the UK.⁸

Spanish tourism company Barcelo is also entering the UK market with a deal to take over the leases and management of Paramount Hotels, owned by Dawnay Shore which will now become a hotel investment company. There are currently 20 Paramount Hotels in the UK. The four and five-star properties provide 2,872 rooms and around 20,000 square metres of conference and meeting rooms.

Latest UK Forecast: Growth stalling?

RevPAR is expected to grow by 6.2 per cent this year and by the same amount in 2008. RevPAR could reach £64.46 this year, another record, and £68.49 in 2008. This would mean five years of RevPAR gains for the sector since 2004 and approaching the sixth consecutive year of RevPAR growth from 1993 to 1998. Room rates are also expected to continue to grow, by 5.6 per cent and 5.5 per cent over the next two years respectively. In 2006 UK occupancy topped the previous 1998 peak of 74.9 per cent and in 2007 and 2008 it should continue to climb marginally – finally overtaking the all-time high of 76 per cent achieved in 1997. See Table 1 and Graph 1. For more detailed hotel statistics see Appendix 2.

“There may be some belt-tightening by consumers this autumn, but there is no sign of like-for-like growth tailing off”

Alan Parker, Chief Executive Whitbread Plc, The Times August 30 2007

Table 1: PricewaterhouseCoopers Latest Forecast for UK September 2007

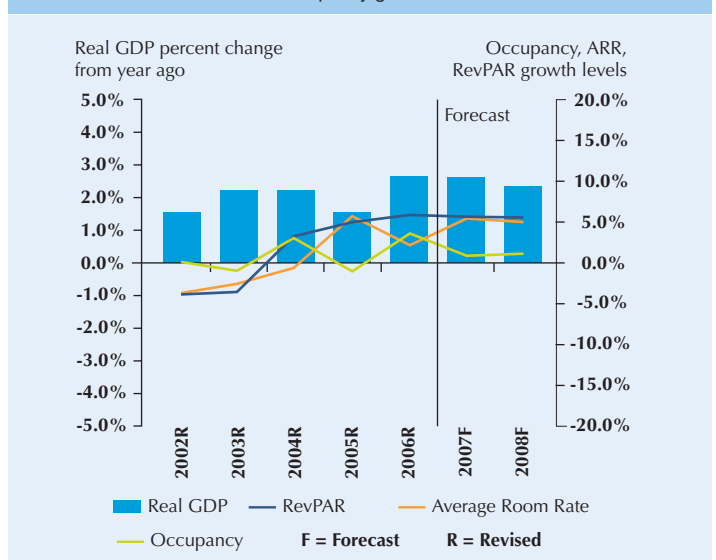
| | 2006R | 2007F | 2008F |
|-----------------------|-------|-------|-------|
| Average Room Rate (£) | 80.65 | 85.17 | 89.89 |
| % Change | 2.30% | 5.60% | 5.50% |
| Occupancy (%) | 75.29 | 75.69 | 76.19 |
| % Change | 3.90% | 0.50% | 0.70% |
| RevPAR (£) | 60.72 | 64.46 | 68.49 |
| % Change | 6.30% | 6.20% | 6.20% |

Source of Forecast: PricewaterhouseCoopers Forecasting Model, September 2007

Note: Historic data are from The Bench/STR R=Revised. F=Forecast.

Graph 1: UK hotel performance 2000 to 2008

Real GDP, revenue per available room, average room rate and occupancy growth rates



Source: Econometric Forecasts: PricewaterhouseCoopers September 2007,

Macroeconomics Data: Oxford Economics July 2007,

Benchmarking Data: STR/The Bench July 2007

⁷ Times 17 July 2007

⁸ See PricewaterhouseCoopers Hospitality Directions Europe Issue 15, “Extended stay hotels: a US model whose time has come in the UK”

London hotel sector forecast

London: another golden year for hotels but fears that events in global financial markets could harm the visitor economy

London's hotel sector is experiencing yet another great year. The sector got off to a flying start, which has continued, albeit with signs of a deceleration recently. A strongly performing financial services sector has continued to drive above trend economic growth which is forecast to continue into 2008, although recent turmoil in the equity and debt markets could threaten this.⁹ In turn this economic growth has helped drive corporate demand and the London visitor economy. Overseas visitor numbers have largely recovered and continue to grow, albeit against the backdrop of a shortage of US and Japanese tourists, afflicted by the strength of the pound. Over 33m overseas visitors came to London in the 12 months to June this year, an increase of 7.9 per cent over the same period last year.

The weak dollar-pound exchange rate is reported by a survey to have caused London to drop eight places in the most popular tourist destinations among US travellers.¹⁰ At 100,000, annual visitor numbers from the US still lag pre-2000 levels. European visitors and those from emerging markets have filled their place but can't compete on spending with many on a short stay in



Financial and business services contribute about half of UK GDP growth and help drive London's thriving tourism economy

London. In contrast the number of domestic visitors staying overnight is reported to have increased 2.6 per cent to 10.9m. London was reported as the only UK region to see an increase in the number of domestic tourists in 2006, according to VisitLondon.¹¹

There have certainly been plenty of events in 2007 to attract tourists and hotel guests. Holding the start of the Tour de France in London for the first time in over 100 years is reported to have attracted a million people, Wimbledon saw 15,000 attending and the Live Earth concert was also popular.

There are great hopes that "Tutankhamen and the Golden Age of the Pharaohs" exhibition which opens in November and runs till August 2008 will attract large audiences at The O2 arena.

In November London and other UK cities become more accessible as the new high speed Eurostar rail services from London St Pancras reduce journey times to and from Paris to only 2 hours 15 minutes, and link with the UK's regional cities from Kings Cross. Could this herald a boom in hotels around Kings Cross/St Pancras? The 254 room Marriott-Renaissance Hotel at St Pancras is under construction and set to open in 2009.

New names and schemes checking-in

VisitLondon expects London to enter a period of sustained growth in new hotel development, although below levels experienced in the 1990s.¹² Over 2,700 rooms could open in 2007 and 3,250 in 2008, beating the 3,051 rooms in 2001. The next four years could see 11,500 new rooms in addition to the 83,000 rooms already developed. These new developments include Accor's new 600 room Ibis on top of the Trocadero. Battersea Power Station will see yet another Masterplan drawn up for its future following Real Estate Opportunities (REO) acquisition from Parkview in December 2006.¹³ The 46 bedroom capsule hotel Yotel London Gatwick airport finally opened on 1 July in the South Terminal - aimed at travellers facing delays or early morning take offs, prices start at £25 for four hours and £55 overnight.

Despite the challenges of getting a toehold in London, over the next four years, from 2007 to 2011, VisitLondon estimate that around 4,000 luxury rooms will open. The largest schemes include:

- Silken Hotel, on the Strand
- Sofitel, Terminal 5 Heathrow
- Renaissance, St Pancras
- Park Plaza, at Waterloo

⁹ Accommodating Growth: A Guide to Hotel Development in London, VisitLondon 2007

¹⁰ Cheapflights survey August 2007

¹¹ Leisure Opportunities 11 June 2007

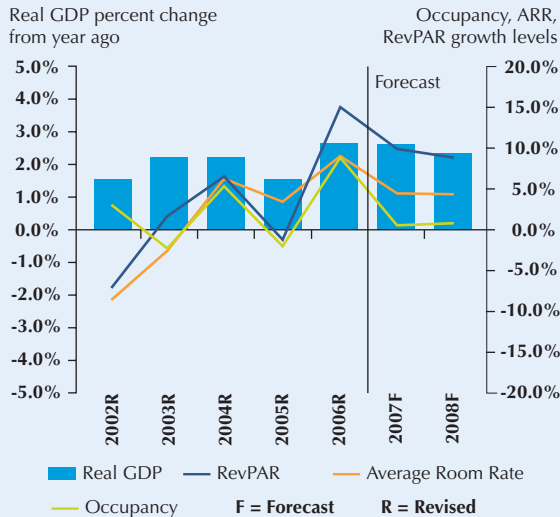
¹² Accommodating Growth: A Guide to Hotel Development in London, VisitLondon 2007

¹³ Leisure Management June 2007

London hotel sector forecast

Graph 2: London hotel performance 2000 to 2008

Real GDP, revenue per available room, average room rate and occupancy growth rates



Source: **Econometric Forecasts:** PricewaterhouseCoopers September 2007, **Macroeconomics Data:** Oxford Economics July 2007, **Benchmarking Data:** STR/The Bench July 2007

Some further projects that may get built within the next five years include:

- London Bridge Tower, Shangri-La
- Notting Hill Village
- 505 rooms at Gillette Corner redevelopment (2010)
- In & Out Club Piccadilly (no operator announced yet, development by Buckingham Securities)
- Beetham Tower, Jumeirah
- Bow Street Magistrate Court, Edward Holdings
- Metropole & Regent St Quadrant, Crown Estates

Latest forecast for London: Decelerating growth as ADR gains slow

Consistent with PwC's previously released forecasts, the outlook for 2007 is less optimistic than 2006. However, in our last forecast we expected growth this year to decelerate considerably more sharply than it has so far. In fact ADR gains have remained in double figures for most of the year, only slowing in July. ADR is still expected to show around 9.8 per cent growth this year, with marginal occupancy gains. We have accordingly revised our overall RevPAR forecast from 5.4 per cent to 10.60 per cent for the year; healthy but significantly lower than last year's 14.9 per cent gain. This takes RevPAR to a record £96.88. In 2008 we expect RevPAR to continue to grow but at a slower rate of 9.2 per cent taking RevPAR to £105.80. In 2008 further ADR gains of just over 8 per cent are expected to lift RevPAR to £105.80. See Table 2 and Graph 2.

Table 2: PricewaterhouseCoopers Latest Forecast for London September 2007

| | 2006R | 2007F | 2008F |
|-----------------------|--------|--------|--------|
| Average Room Rate (£) | 107.96 | 118.55 | 128.35 |
| % Change | 5.90% | 9.80% | 8.30% |
| Occupancy (%) | 81.13 | 81.72 | 82.43 |
| % Change | 8.40% | 0.70% | 0.90% |
| RevPAR (£) | 87.59 | 96.88 | 105.80 |
| % Change | 14.90% | 10.60% | 9.20% |

Source of Forecast: PricewaterhouseCoopers Forecasting Model, September 2007
Note: Historic data are from The Bench/STR **R=Revised, F=Forecast.**

Average room rates at London's luxury hotels could pass £360 by 2008

Luxury goods makers are seeing lucrative times and it has been no different for luxury hotel operators. The luxury sector has performed spectacularly.

London has one of the most profitable hotel markets in the world. High barriers to entry include the cost of land, building and planning restrictions. Supply shortages and strong demand from the financial services sector as well as London's role as a major tourist destination have allowed hoteliers to raise rates steeply in recent years. With average room rates at the high levels shown below it is easy to see why major luxury chains want a presence in London, despite the costs of getting that presence.

London's luxury hotel room rates could pass £360 in 2008



Source: **Econometric Forecasts:** PricewaterhouseCoopers September 2007, **Macroeconomics Data:** Oxford Economics July 2007,

For more details on the luxury sector see PricewaterhouseCoopers article in this edition of *Hospitality Directions Europe* "Jewels in the Crown: trends and outlook for Europe's luxury hotels".

Provinces: Bollywood bling in Yorkshire and strong room supply pipelines

Corporate customers account for around 70 per cent of revenues at Provincial hotels where conference and meetings demand and domestic corporate demand is key. Performance has been mixed across Provincial markets according to local market dynamics, however across the UK, Provincial RevPAR performance has been improving since 2005, driven by strong ADR, helped by the benign economic conditions. Despite the stagnation in UK domestic tourism volumes in recent years (a 0.7 per cent CAGR decline between 2002 and 2006 compared to a 7.3 per cent increase for inbound tourism) a growth area has been the increase in short breaks, often at upscale hotels providing a lucrative revenue earner. Some cities like Edinburgh and Manchester are well established on overseas tourist itineraries where direct airline access is an important driver of accessibility.¹⁴

The unseasonal weather this summer affected many areas including Oxfordshire and Gloucestershire where hotels and bed and breakfast businesses were impacted. National Trust Visitor numbers, often reported as a barometer of the tourism sector, were down by 30 per cent or more, according to press reports.¹⁵ In response to these misfortunes, the South East England Development

Table 3: PricewaterhouseCoopers Latest Forecast for Provinces September 2007

| | 2006R | 2007F | 2008F |
|-----------------------|-------|-------|-------|
| Average Room Rate (£) | 66.14 | 68.36 | 71.16 |
| % Change | 3.30% | 3.40% | 4.10% |
| Occupancy (%) | 71.25 | 71.54 | 71.94 |
| % Change | 0.50% | 0.40% | 0.60% |
| RevPAR (£) | 47.12 | 48.91 | 51.19 |
| % Change | 3.80% | 3.80% | 4.70% |

Source of Forecast: PricewaterhouseCoopers Forecasting Model, September 2007
 Note: Historic data are from The Bench/STR R=Revised, F=Forecast.

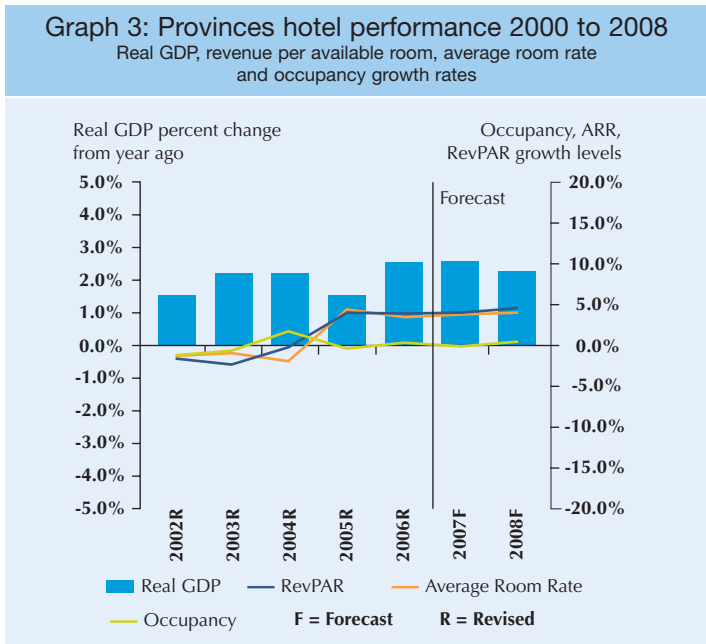
Agency (Seeda), VisitBritain and commercial operators such as train companies and visitor attractions have funded a £100,000 promotional campaign to boost tourism in the south-east.

More happily, this June saw Sheffield hosting the Indian Film Academy Awards (Ifaas) the Bollywood version of the "Oscars" film academy awards. Broadcast to 550m TV viewers around the world, the event also brought the crowds to Yorkshire and hotels were reported full up in Sheffield. Hosting the Ifaas is also expected to have brought £10m in tourist spending to the region. Again in Sheffield, planners have given outline permission to create 70,000 sq ft of offices and a 200-bedroom four-star hotel.

Room stock could increase by 7 per cent between now and 2008

The Provincial room stock is estimated to have grown at one per cent between 2005 and 2006 driven by private equity backed expansion of branded lifestyle hotels and a regional roll out of budget hotels. Looking ahead and assuming many of the new developments and refurbishments currently mooted are completed on time, around 35,000 new rooms could be added to Provincial room stock (excluding London) between 2007 and 2008, representing around a 7 per cent addition to all rooms. Of course schemes may not proceed and dates may slip.

Our revised forecast takes account of the decelerating growth trend but still anticipates further RevPAR growth of 3.8 per cent this year and 4.7 per cent in 2008 taking RevPAR levels to £48.91 and £51.19 in these years. This growth is largely driven by room rate gains of 3.4 per cent and 4.1 per cent respectively. Occupancies are likely to remain in the low 70s with only 0.4 per cent growth in 2007 and 0.6 per cent in 2008, nudging occupancy to 71.94 per cent by 2008.



Source: **Econometric Forecasts:** PricewaterhouseCoopers September 2007,
Macroeconomics Data: Oxford Economics July 2007,
Benchmarking Data: STR/The Bench July 2007

¹⁴ "The missing millions", The Independent 18 May 2007

¹⁵ Season proves to be the reason for much misery, Financial Times, 3 September 2007

Hotel sector forecast for Provinces and other key cities

Edinburgh

Edinburgh: 3.8m tourists and strong corporate demand

Edinburgh is the UK's second tourism destination with around 3.8m tourists a year. Edinburgh Tourism Action Group (ETAG), the private-sector-led strategy group, has unveiled plans to increase Edinburgh tourism by 63 per cent by 2015, 13 percentage points higher than the Scottish Executive's target for Scotland as a whole. This successful tourism industry combined with strong corporate demand drives an extremely highly performing hotel sector with very strong room rates. The total annual value of Edinburgh's business tourism alone is now estimated at more than £300m and the Edinburgh Convention Centre has targeted a five per cent increase in revenues from conferences for the year 2007-08 - which would give a total of almost £72m - in line with the annual five per cent increase in tourism revenues set by the Edinburgh Tourism Action Group.

During the Festival in August when over 1.5m people visit Edinburgh, the achieved room rate has averaged around £98 over the past six years with occupancies averaging 88 per cent over the same period and RevPAR just over £87.

Unsurprisingly, many hotel brands are anxious for a toe hole and the competitive environment is set to get tougher as almost 1,700 new hotel rooms are planned to open in the city in 2007 and 2008. This represents around 18 per cent of all the hotel rooms in Edinburgh, according to statistics from Hotel Data Ltd. The table opposite shows the brands include a range of segments including Express by Holiday Inn, Novotel, budget brands Days Inn and Travelodge. In a city well catered for by boutique and luxury hotels, one of the world's first Missoni Hotels, a Sofitel and a second Hotel du Vin will also open.

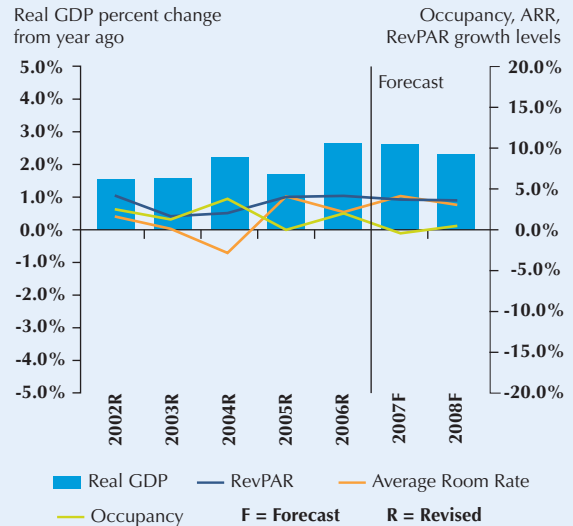
Our forecast expects average room rates to grow by 4.5 per cent this year, slipping a little to three per cent next year taking rates to £83.93 and £86.45. See table and historic trends in Appendix 1. Occupancy growth is

Table 4: PricewaterhouseCoopers Latest Forecast for Edinburgh September 2007

| | 2006R | 2007F | 2008F |
|-----------------------|-------|--------|-------|
| Average Room Rate (£) | 80.28 | 83.93 | 86.45 |
| % Change | 2.50% | 4.50% | 3.00% |
| Occupancy (%) | 78.33 | 78.13 | 78.46 |
| % Change | 2.20% | -0.30% | 0.40% |
| RevPAR (£) | 62.89 | 65.57 | 67.82 |
| % Change | 4.80% | 4.30% | 3.40% |

Source of Forecast: PricewaterhouseCoopers Forecasting Model, September 2007
Note: Historic data are from The Bench/STR R=Revised, F=Forecast.

Graph 4: Edinburgh hotel performance 2000 to 2008
Real GDP, revenue per available room, average room rate and occupancy growth rates



Source: Econometric Forecasts: PricewaterhouseCoopers September 2007,
Macroeconomics Data: Oxford Economics July 2007,
Benchmarking Data: STR/The Bench July 2007

expected to fall by a marginal 0.3 per cent this year, taking occupancy levels to almost 78.13 per cent and with hotels almost at full capacity only a little more movement is anticipated in 2008. These growth levels are expected to lift RevPAR further by 4.3 per cent and 3.4 per cent in 2007 and 2008 respectively.

New rooms additions

| Group | Brand | Beds | Opening |
|--------------------------|------------------------------|--------------|---------|
| EDI Group | Travelodge | 80 | 2008 |
| New Edinburgh | Novotel | 170 | 2008 |
| Hotel Du Vin | Hotel Du Vin | 47 | 2008 |
| Heritage Group | Park Inn | 100 | 2007 |
| Mountgrange (Caltongate) | Sofitel | 205 | 2008 |
| Mound Property Co | 302/304 Lawnmarket | 135 | 2008 |
| Whiteburn Projects | New Sherriff Court Buildings | 200 | 2008 |
| Chardon Management | Express By Holiday Inn | 78 | 2008 |
| Apex Hotels | Waterloo Place | 150 | 2007 |
| Ecosse Regeneration | Copwhill | 150 | 2008 |
| Radisson SAS | Missoni Edinburgh | 130 | 2007 |
| Festival Inns | Raeburn House | 61 | 2008 |
| Hand Picked Hotels | Norton House Hotel | 36 | 2007 |
| Prem Group | Days Inn | 150 | 2007 |
| TOTAL | | 1,692 | |

Source: Hotel Data Ltd 2007

Manchester: firmly on tourist itineraries?

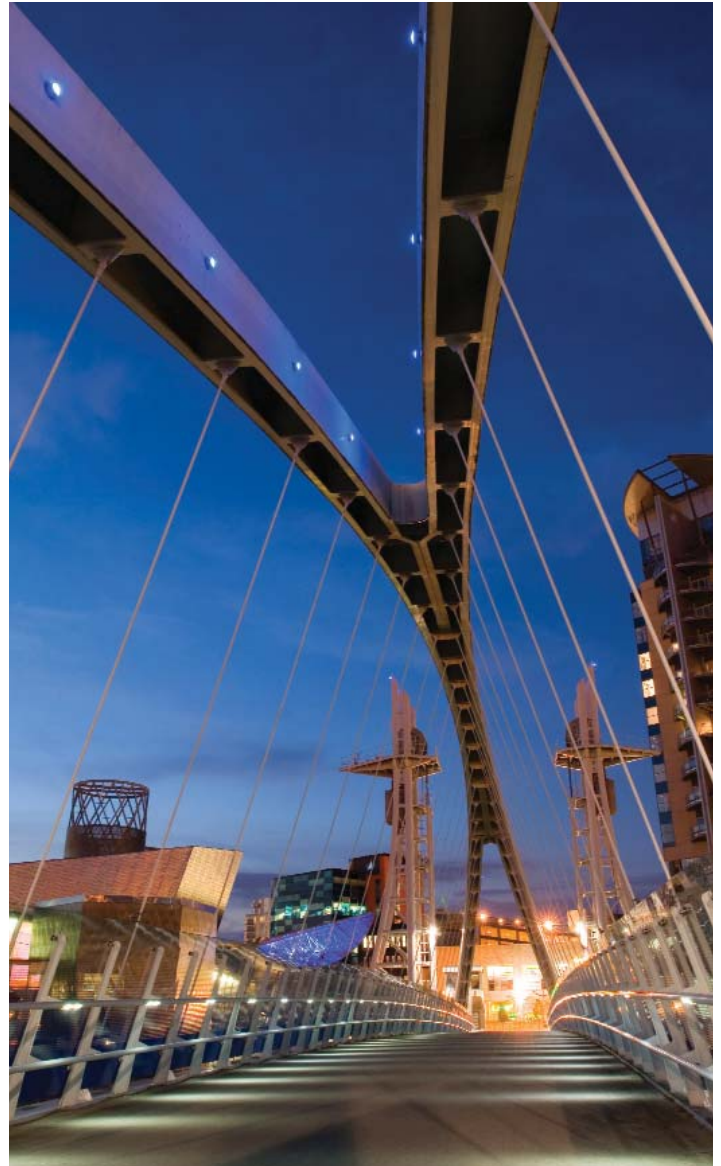
If more proof were needed that Manchester is now a firm favourite with tourists, new research by Post Office® Travel Services shows that an increasing number of celebrities from the worlds of film, TV and music are choosing to holiday in all manner of UK destinations, including Justin Timberlake and Jessica Biel in Manchester!¹⁶ See Table below.

Looking to the future, Manchester's long-term business plan spells out the overall marketing vision for the city as follows:

'By 2010, Manchester ... will be the discerning choice for the urban explorer (and) a leading business destination.'

Marketing Manchester 2007

The city already attracts a vibrant meetings and conference sector and recently hosted the first 2007 Manchester International Festival. The Festival ran from late June to mid-July and was billed as 'the world's first international festival of original, new work'. It aimed to attract 160,000 visitors with a programme of cultural events taking in everywhere from Manchester Central (formerly G-Mex) and Bridgewater Hall to smaller locations such as the Royal Exchange Theatre. Next year the city sees the Labour Party annual conference. Their conference in the city last year is reported to have attracted 17,000 delegates and an estimated £15m in economic benefits. Marketing Manchester are currently raising awareness of another event next year, Manchester Sport 2008, when the city is holding a series of World



Millennium Bridge, Manchester

Top 10 UK celebrity spot locations, according to the Post Office®, are:

| UK location | Who goes there | Where they're staying |
|-----------------------|---|--|
| 1) London | Brad Pitt, Tom Cruise, Kylie Minogue | Claridges, The Dorchester, Covent Garden Hotel |
| 2) The Cotswolds | Jennifer Aniston, Sir Paul McCartney, Brad Pitt | Barnsley House |
| 3) Cornwall | Gwyneth Paltrow, Angelina Jolie, Claudia Schiffer | St Mawes, Rock |
| 4) Wales | Harrison Ford and Calista Flockhart Bill Clinton, Liz Taylor | Bryn Howel Hotel, Llangollen |
| 5) Surrey | Cameron Diaz, Jack Black | Pennyhill Park Hotel, Bagshot |
| 6) Somerset | Johnny Depp, Jack Nicholson | Babington House |
| 7) Manchester | Justin Timberlake, Jessica Biel | Lowry Hotel |
| 8) Edinburgh | Kylie Minogue, Matt Groening | Point Hotel |
| 9) Belfast | Tim Robbins, Bill Murray, Colin Farrell, Michael Palin | The Culloden |
| 10) The Lake District | Nicole Kidman, David and Victoria Beckham | Samling, Windermere |



¹⁶ PR Newswire 3 September 2007

Hotel sector forecast for Provinces and other key cities

Manchester

Championships. On a less positive note, since our last forecast in March 2007 it now seems that Manchester is extremely unlikely to see the UK's first regional or 'super' casino - indeed it seems increasingly unlikely that anywhere else in the UK will see one either.

In terms of new hotels, data suggests that around 1,540 new hotel rooms were due to open in 2007 and 2008. This would represent around 15 per cent of Manchester's total room supply estimated to be 10,600 rooms, according to Hotel Data. The table opposite shows new openings include brands such as the 80 room, nine storey Sleeperz, the 228 room Crowne Plaza and the 135 room Tulip Inn joining existing operators. Others have development plans for the city including Sinclair Beecham, owner of the Hoxton in London. The Rezidor Hotel Group will open the latest of its Park Inn hotels in the centre of Manchester's award winning Green Quarter Development, close to the M.E.N. Arena in autumn 2009. Facilities at the 252-room hotel will include a restaurant, bar, conference and meeting rooms, as well as spa and leisure services. More hotels are being upgraded or repositioned, for example, Menzies Hotels has acquired eight Thistle Hotels including one in Manchester. Manchester Airport Marriott has also completed a £6m renovation.

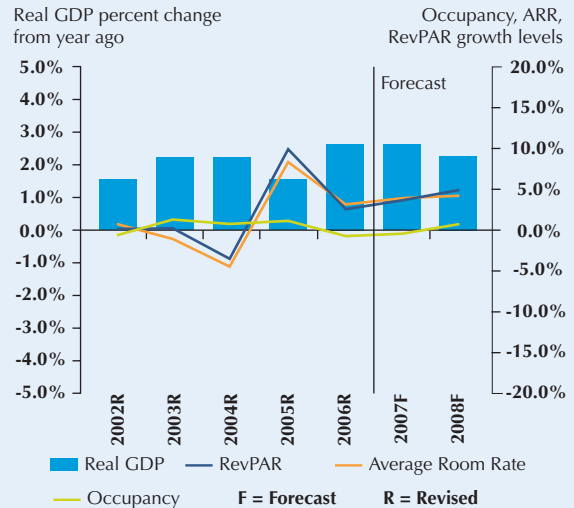
Manchester is an important and strategic location in the north west. The city's development during the last 10 years has been outstanding."

Kurt Ritter, President and Chief Executive Officer, Rezidor Hotel Group
In the Manchester Evening News 25 June 2007

What does all this development activity mean for hotel performance in terms of room rates and occupancies? Could the city be facing a difficult time ahead? Occupancy levels fell in April, May and June this year but room rate gains remained robust. New room additions could herald a more difficult time ahead and with occupancies struggling, hoteliers may have to reduce room rates.

So far this year, Manchester has seen RevPAR gains of 5.6 per cent to June. Despite our concerns over room supply, our latest forecast is for continued growth with 4.1 per cent RevPAR growth this year and 5.2 per cent in 2008, driven by room rate gains of 4.4 per cent and 4.3 per cent respectively. Occupancies are expected to show a marginal decline of 0.3 per cent this year to 75.64 per cent, although they should manage a very small increase next year when we will be keeping an eye on new openings. See Table 5 and Graph 5.

Graph 5: Manchester hotel performance 2000 to 2008
Real GDP, revenue per available room, average room rate and occupancy growth rates



Source: **Econometric Forecasts:** PricewaterhouseCoopers September 2007,
Macroeconomics Data: Oxford Economics July 2007,
Benchmarking Data: STR/The Bench July 2007

Table 5: PricewaterhouseCoopers Latest Forecast for Manchester September 2007

| | 2006R | 2007F | 2008F |
|-----------------------|--------|--------|-------|
| Average Room Rate (£) | 71.57 | 74.74 | 77.97 |
| % Change | 3.20% | 4.40% | 4.30% |
| Occupancy (%) | 75.84 | 75.64 | 76.29 |
| % Change | -0.60% | -0.30% | 0.90% |
| RevPAR (£) | 54.28 | 56.53 | 59.48 |
| % Change | 2.60% | 4.10% | 5.20% |

Source of Forecast: PricewaterhouseCoopers Forecasting Model, September 2007
Note: Historic data are from The Bench/STR **R=Revised. F=Forecast.**

New rooms additions

| Group | Brand | Beds | Opening |
|------------------------|-----------------|------|---------|
| Macdonald Hotels | Telecom House | 231 | 2007 |
| Golden Tulip UK | Tulip Inn | 135 | 2007 |
| Sleeperz Hotels | Sleeperz | 80 | 2007 |
| Village Leisure Hotels | Village Hotel | 122 | 2007 |
| Centre Island Hotels | Crowne Plaza | 228 | 2007 |
| Inacity | Ducie St | 220 | 2008 |
| Albany Assets | Crown Buildings | 225 | 2008 |
| Development Securities | City Park | 300 | 2008 |

Source: Hotel Data Ltd 2007

Centrepiece for a new phase of Birmingham's regeneration

Not to be outdone by a series of proposed or completed tall buildings around the UK, developers are seeking planning permission for revived plans to build a 50-storey skyscraper in Birmingham, proposals that were shelved after the September 11 attacks on the World Trade Centre in New York. The V shaped building would be 150 metres high and the tallest in the city. The scheme is reflective of Birmingham's buoyant development scene.

The 151 room Thistle Edgbaston has now been renamed the Menzies Strathallan. Over the coming year it will undergo a major capital expenditure programme. The Table opposite shows that around 120 new hotel rooms will be added to Birmingham's existing hotel supply this year with a further 670 rooms in 2008. This total is somewhat less than rival cities such as Manchester and some observers have called for more hotel development, especially from branded operators. New brands planning to open in the city include the new extended stay product from InterContinental Hotels, Staybridge Suite and a Ramada Encore.¹⁷ These new hotel rooms represent around eight per cent of Birmingham's existing supply of almost 10,000 rooms.

Last year hotels in Birmingham generated average revenue per available room of £46.17, a 2.5 per cent gain on the previous year, driven by a 2.6 per cent room rate gain. Birmingham's room rates reached almost £79 in

Table 6: PricewaterhouseCoopers Latest Forecast for Birmingham September 2007

| | 2006 | 2007F | 2008F |
|-----------------------|--------|--------|-------|
| Average Room Rate (£) | 66.82 | 68.19 | 70.34 |
| % Change | 2.60% | 2.00% | 3.20% |
| Occupancy (%) | 69.1 | 68.26 | 69.28 |
| % Change | -0.20% | -1.20% | 1.50% |
| RevPAR (£) | 46.17 | 46.54 | 48.73 |
| % Change | 2.50% | 0.80% | 4.70% |

Source of Forecast: PricewaterhouseCoopers Forecasting Model, September 2007
 Note: Historic data are from The Bench/STR R=Revised, F=Forecast.

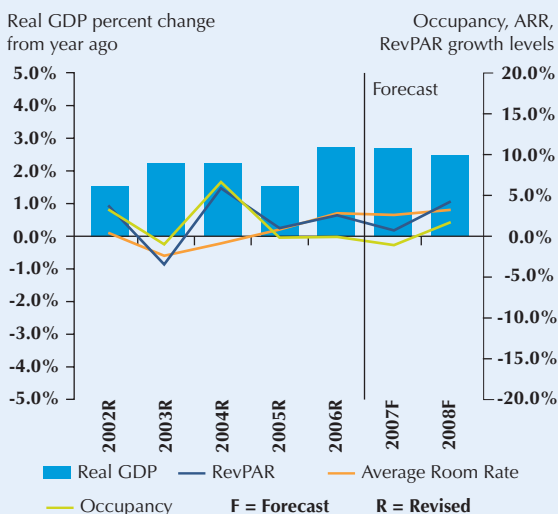
April but for year averaged around £67. Occupancies have declined slightly in 2005 and 2006 and we anticipate this will continue this year. Our latest forecast is for marginal RevPAR growth of 0.8 per cent - largely sustained by room rate gains of two per cent. RevPAR is expected to grow more vigorously in 2008 reaching a healthy 4.7 per cent, as occupancy growth recovers to 1.5 per cent and room rates improve by 3.2 per cent taking rates to just over £70.

New rooms additions

| Group | Brand | Beds | Opening |
|--------------------------------|---------------------|------------|---------|
| Ballymore Properties Ltd | Snow Hill Station | 120 | 2008 |
| Intercontinental Hotels Group | Staybridge Suites | 120 | 2007 |
| Alfred McAlpine plc | Ramada Encore | 169 | 2008 |
| Calthorpe Estates Ltd | Edgbaston Galleries | 100 | 2008 |
| Birmingham International Airpt | Adjacent to Novotel | 282 | 2008 |
| TOTAL | | 791 | |

Source: Hotel Data Ltd 2007

Graph 6: Birmingham hotel performance 2000 to 2008
 Real GDP, revenue per available room, average room rate and occupancy growth rates



Source: **Econometric Forecasts:** PricewaterhouseCoopers September 2007,
Macroeconomics Data: Oxford Economics July 2007,



¹⁷ For more analysis of the extended stay concept see Hospitality Directions Europe Issue 15 March 2007, "Extended Stay Hotels: A US model whose time has come in the UK?"

Appendix 1

Big picture trends underpinning PricewaterhouseCoopers' UK hotel performance forecast

Macroeconomic outlook:

| Macroeconomic Data for the UK | | | | | |
|---|------|-------|-------|-------|-------|
| | 2005 | 2006R | 2007F | 2008F | 2009F |
| Real GDP per cent change from prior year | 1.9 | 2.7 | 2.8 | 2.4 | 2.8 |
| Consumer prices per cent change from prior year (CPI) | 2.0 | 2.3 | 2.4 | 2.0 | 2.0 |

Source: Oxford Economics 2007. R=Revised. F=Forecast.

Slower GDP growth in 2008 and 2009; uncertainty around consumer discretionary disposable income squeeze and recent financial market events

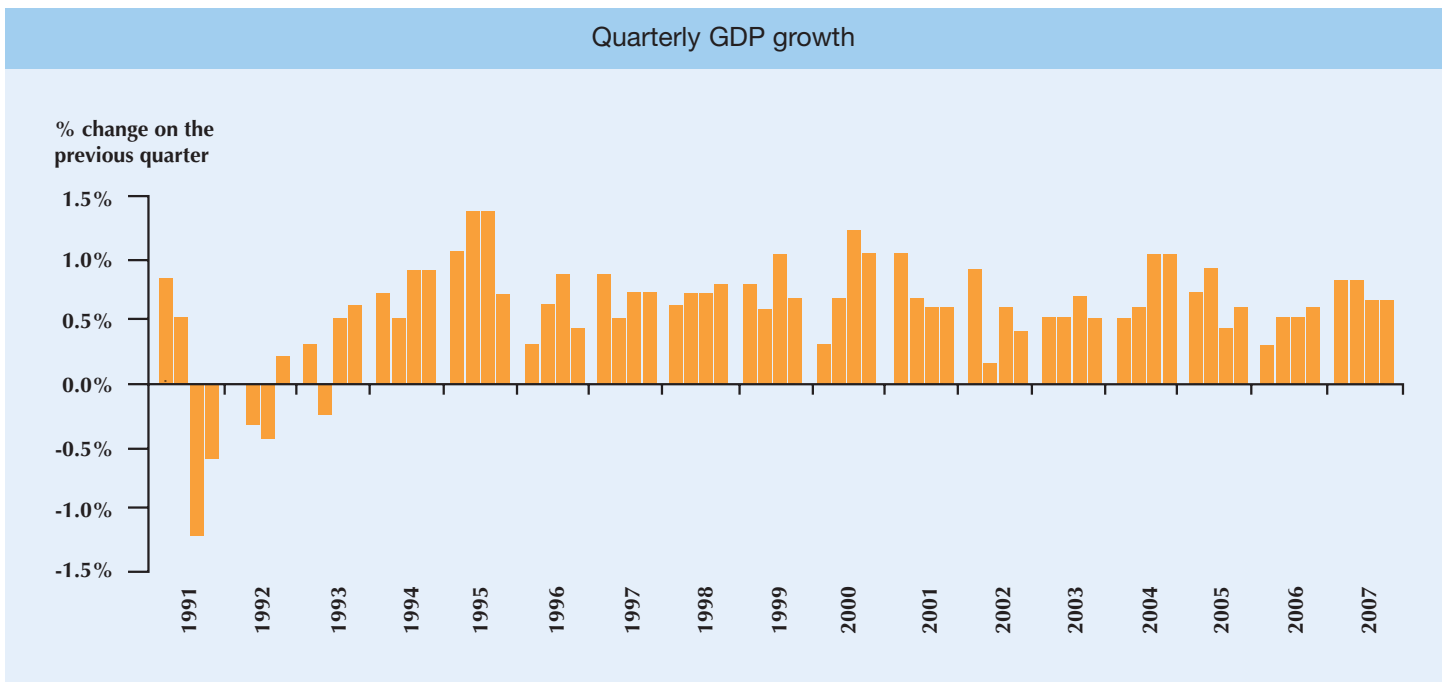
The hotel industry is highly correlated to GDP growth. This growth was close to trend for most of 2006 continuing into the first quarter of 2007, and at an above trend rate for six quarters (see figure below).

UK GDP growth is expected to finish slightly higher this year than the expectation at the time of our previous forecast in March, reaching 2.8 per cent compared to 2.7 per cent then. Beyond this year, GDP is expected to dip

slightly to 2.4 per cent accelerating to 2.8 per cent by 2009, again slightly lower than 3.0 per cent anticipated earlier this year.

Business investment picked up strongly during 2006, while consumer spending growth has been more moderate but still reasonably healthy during the first five months of 2007. The business and financial services sector has remained a key engine of growth, helped by generally buoyant financial markets and M&A activity, but other service sectors have also remained relatively strong. Manufacturing was weaker in late 2006 and early 2007, however, probably in part due to the strong pound. A new report suggests that manufacturers' order books are at their fattest in 12 years, though expectations are for growth to slow over the coming months, according to a CBI survey.¹⁸

For consumer facing businesses, consumer spending growth is expected to remain somewhat below trend at an average of around 2.5 per cent in 2007 and 2.25 per cent in 2008 as consumers remain relatively cautious in the face of rising interest rates. Public spending growth is also set to slow over the next two years. Business investment growth strengthened significantly in 2006 and is expected to remain strong in 2007, although the rate of growth is expected to moderate in 2008.



Source: PricewaterhouseCoopers UK Economic Outlook July 2007/ONS

18 Financial Times 22 August 2007

Appendix 1

Risks around growth are significant with the recent financial services turmoil casting a long shadow over the economy and expected to slow growth. CPI inflation should move back down towards its 2 per cent target rate by early 2008 as UK retail energy prices fall back, although there are greater uncertainties around the inflation outlook at present than for some years.

Squeeze on UK household discretionary disposable incomes

Recent PwC economic analysis shows how UK households have used borrowing both to smooth out fluctuations in disposable income growth and to boost spending growth relative to average disposable income growth.¹⁹ The result has been a rise in debt service costs as a share of disposable income to record levels of close to 19 per cent by the end of 2006. In addition to rising debt service costs, discretionary disposable income growth has also been squeezed in recent years by rapid increases in domestic fuel and water bills.

As a consequence, PwC estimate that household discretionary disposable income grew by only 3.1 per cent per annum on average in nominal terms in the three years from 2004 to 2006, as compared to 5.2 per cent average growth in gross incomes and 4.7 per cent average growth in disposable incomes over this period.

Looking forward, disposable income growth is expected to continue at a moderate pace in 2007-8, but the squeeze on discretionary disposable incomes from higher fuel bills is already beginning to go into reverse. However, with debt service costs already high and set to move higher as interest rates increase, it seems unlikely that household borrowing can continue to sustain consumer spending growth at the same relatively rapid rate seen since the mid-1990s.

In the past holidays have proved resilient to household budget cuts but much may depend on how overstretched consumers become and what measures they can adopt such as trading down, cutting back on trip length or type of accommodation used. Value for money and price are likely to be a key focus.

Travel outlook: remaining positive

Global growth

2007 started on a higher than expected note for global tourism, according to the UN World Tourism Organisation (UNWTO). From January through April, international tourist arrivals worldwide rose by over 6 per cent to 252 million, representing an additional 15 million arrivals as against the same period in 2006, according to the latest UNWTO World Tourism Barometer. UNWTO projects the year-on-year rise in international tourist arrivals to be about 4 per cent, in line with its long-term annual growth forecast of 4.1 per cent to 2020 but is now confident that worldwide growth in excess of this forecast for 2007 will be achieved, barring any unforeseen negative events over the remainder of the year.

Airlines report record load factors

Members of the Association of European Airlines have reported a record average passenger load factor of 82.2% in July. It was only the fourth time monthly loads had ever exceeded 80 per cent.

UK tourism trends

According to Government statistics a large influx of visitors from new EU countries helped push UK in-bound tourism numbers up in the first half of 2007. Overseas residents made 15.3m visits to the UK in January-June 2007, a 3 per cent increase compared with the first six months of 2006, the Office for National Statistics (ONS) reports. While visits by North Americans dipped 5 per cent in the first six months of this year, visits by residents of the latest countries to join the EU soared by 20 per cent. The foreign tourists spent £6.96 billion during their trips in the UK in January-June 2007 - a 3 per cent rise on the figure for the first six months of last year.

\$2-pound deters US visitors

Recent figures from online travel company Cheapflights, suggests London has dropped off the list of the top 10 destinations for American tourists. The survey says the exchange rate has put London 15th in its popularity table in July 2007 - down from number seven a year earlier. The weak dollar, which makes UK accommodation and food more expensive for visitors from America, could remain for some time if forecasts for a cut in US interest rates turn out to be correct.

¹⁹ PricewaterhouseCoopers UK Economic Outlook July 2007

Appendix 2

PricewaterhouseCoopers September 2007 Forecast Hotel Statistics for UK, London, Provinces, Edinburgh, Manchester and Birmingham 2002-2008

| Hotel Statistics for the UK | 2002R | 2003R | 2004R | 2005R | 2006R | 2007F | 2008F |
|------------------------------------|-------|--------|--------|--------|--------|--------|--------|
| Average Room Rate (£) | 76.08 | 74.25 | 73.91 | 78.84 | 80.65 | 85.17 | 89.89 |
| % Change | -3.9% | -2.4% | -0.4% | 6.7% | 2.3% | 5.6% | 5.5% |
| Occupancy (%) | 71.89 | 70.97 | 73.20 | 72.44 | 75.29 | 75.69 | 76.19 |
| % Change | -0.1% | -1.3% | 3.1% | -1.0% | 3.9% | 0.5% | 0.7% |
| RevPAR (£) | 54.70 | 52.69 | 54.10 | 57.11 | 60.72 | 64.46 | 68.49 |
| % Change | -4.0% | -3.7% | 2.7% | 5.6% | 6.3% | 6.2% | 6.2% |
| Hotel Statistics for London | 2002R | 2003R | 2004R | 2005R | 2006R | 2007F | 2008F |
| Average Room Rate (£) | 95.79 | 100.03 | 100.98 | 101.91 | 107.96 | 118.55 | 128.35 |
| % Change | -7.4% | 4.4% | 1.0% | 0.9% | 5.9% | 9.8% | 8.3% |
| Occupancy (%) | 74.61 | 72.42 | 76.20 | 74.83 | 81.13 | 81.72 | 82.43 |
| % Change | 0.3% | -2.9% | 5.2% | -1.8% | 8.4% | 0.7% | 0.9% |
| RevPAR (£) | 71.47 | 72.44 | 76.94 | 76.26 | 87.59 | 96.88 | 105.80 |
| % Change | -7.1% | 1.4% | 6.2% | -0.9% | 14.9% | 10.6% | 9.2% |
| Hotel Statistics for the Provinces | 2002R | 2003R | 2004R | 2005R | 2006R | 2007F | 2008F |
| Average Room Rate (£) | 62.96 | 61.98 | 61.04 | 64.0 | 66.14 | 68.36 | 71.16 |
| % Change | -0.5% | -1.6% | -1.5% | 4.9% | 3.3% | 3.4% | 4.1% |
| Occupancy (%) | 70.30 | 70.12 | 71.21 | 70.91 | 71.25 | 71.54 | 71.94 |
| % Change | -0.6% | -0.3% | 1.5% | -0.4% | 0.5% | 0.4% | 0.6% |
| RevPAR (£) | 44.26 | 43.46 | 43.46 | 45.38 | 47.12 | 48.91 | 51.19 |
| % Change | -1.1% | -1.8% | 0.0% | 4.4% | 3.8% | 3.8% | 4.7% |
| Hotel Statistics for Edinburgh | 2002R | 2003R | 2004R | 2005R | 2006R | 2007F | 2008F |
| Average Room Rate (£) | 76.72 | 76.92 | 74.84 | 78.29 | 80.28 | 83.93 | 86.45 |
| % Change | 1.8% | 0.3% | -2.7% | 4.6% | 2.5% | 4.5% | 3.0% |
| Occupancy (%) | 71.98 | 73.26 | 76.84 | 76.67 | 78.33 | 78.13 | 78.46 |
| % Change | 2.5% | 1.8% | 4.9% | -0.2% | 2.2% | -0.3% | 0.4% |
| RevPAR (£) | 55.22 | 56.35 | 57.51 | 60.03 | 62.89 | 65.57 | 67.82 |
| % Change | 4.4% | 2.0% | 2.0% | 4.4% | 4.8% | 4.3% | 3.4% |
| Hotel Statistics for Birmingham | 2002R | 2003R | 2004R | 2005R | 2006R | 2007F | 2008F |
| Average Room Rate (£) | 66.60 | 64.96 | 64.45 | 65.09 | 66.82 | 68.19 | 70.34 |
| % Change | 0.5% | -2.5% | -0.8% | 1.0% | 2.6% | 2.0% | 3.2% |
| Occupancy (%) | 65.79 | 65.08 | 69.44 | 69.23 | 69.10 | 68.26 | 69.28 |
| % Change | 3.2% | -1.1% | 6.7% | -0.3% | -0.2% | -1.2% | 1.5% |
| RevPAR (£) | 43.81 | 42.27 | 44.75 | 45.06 | 46.17 | 46.54 | 48.73 |
| % Change | 3.7% | -3.5% | 5.9% | 0.7% | 2.5% | 0.8% | 4.7% |
| Hotel Statistics for Manchester | 2002 | 2003 | 2004 | 2005R | 2006 | 2007F | 2008F |
| Average Room Rate (£) | 67.73 | 67.04 | 64.03 | 69.32 | 71.57 | 74.74 | 77.97 |
| % Change | 1.2% | -1.0% | -4.5% | 8.3% | 3.2% | 4.4% | 4.3% |
| Occupancy (%) | 73.40 | 74.36 | 75.14 | 76.34 | 75.84 | 75.64 | 76.29 |
| % Change | -1.2% | 1.3% | 1.1% | 1.6% | -0.6% | -0.3% | 0.9% |
| RevPAR (£) | 49.71 | 49.85 | 48.12 | 52.92 | 54.28 | 56.53 | 59.48 |
| Change | 0.0% | 0.3% | -3.5% | 10.0% | 2.6% | 4.1% | 5.2% |

Source of Forecast: PricewaterhouseCoopers Forecasting Model, September 2007 Note: Historic data are from The Bench/STR



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