Hospitality and Leisure

Hospitality Directions Europe

UK hotels forecast:

have hard times checked in for an extended stay?

March 2009 Issue 19

PricewaterhouseCoopers

An unexpectedly sharp contraction in UK economic growth and consumer spending is taking its toll on travel demand. With the consumer boom over and businesses reining in costs and cutting travel budgets, the hotel sector is already experiencing a sharp slump in sales. The market is hard to read but it is certainly the case that operators now have to fight a lot harder to win business in a shrinking market. The situation is unlikely to get easier this year; indeed the decline in hotel performance looks set to accelerate through Q1 to Q4 2009.

Key findings

The evidence points to an unprecedented poor hotel performance in 2009 and many hoteliers do not expect a general recovery before 2011.

Hotels are experiencing a sharp slump in demand. With the worsening global economic and financial crisis and fears of a deep recession in the UK coming ever closer to reality, it should be no surprise that 2009 looks set to be a very difficult year. Companies and consumers are tightening their belts and demand for leisure trips, business travel and hotels (both rooms and conferencing) is fragile.

The market is difficult to read but there is considerable pressure on room rates, with some operators already discounting deeply. Recent results from large international chains such as Starwood, Marriott and InterContinental demonstrate that the hard times are already beginning to bite. As pressure on owners and smaller groups increases we will see more covenant breaches, debt restructuring and insolvencies this year.[1]

Grim 2009 economic data underpins PwC's latest forecast

PricewaterhouseCoopers (PwC) now anticipate an economic contraction of 3.3 per cent in the UK in 2009, following 0.7 per cent growth in 2008, and this decline underpins our latest hotel forecast.[2] UK hotel demand is closely linked to GDP and income growth in the UK but also to economic activity in key inbound tourism markets and PwC's econometric model incorporates a tourism-weighted GDP variable to reflect this.

Risks around growth in our main scenario are significant and remain weighted to the downside. To assist in scenario planning we have prepared an alternative 'prolonged recession' or downside scenario. This downside scenario is underpinned by a 6 per cent economic contraction.

Given such an opaque market, we have confined our forecast to 2009 only but have supplemented our analysis with more detailed quarterly data. We will look at prospects for 2010 later in the year. We have also restricted our analysis to the UK, London and the provinces although we provide a short commentary on prospects for several key cities outside London as well as a short feature on Northern Ireland.

Over the past month we have interviewed over 30 hotel operators (small and large chains, with provincial and/or London properties), investors and owners about what they are seeing in their businesses and how they are managing through the downturn. We have included many of their timely but unattributed comments to support our analysis. Unsurprisingly their views varied widely on the outlook, with the unanimous exception that 2009 and most likely much of 2010 will see unbelievably tough trading conditions.

1 'Tchenguiz hotels in trouble' and 'Hotel group warns on bleak outlook', Sunday Times, 15 February 2009

2 This compares to the 0.5 per cent growth expected for 2009 in our main scenario and the 1.9 per cent contraction expected in our downside scenario in November 2008.

Key findings

Baseline forecast: continued deterioration in trading

Our latest central (baseline) forecast reflects the fact that GDP growth impacts our econometric model, but with a lag, and as a consequence we will see a continued deterioration in trading performance during 2009. Our forecast anticipates continuing UK and London RevPAR declines throughout each quarter of 2009. The provinces should see a slight improvement later in the year. This will be driven by the economic conditions in the UK itself but also by economic deteriorations in the US, Ireland, Italy, Spain, Netherlands, France and Germany, all key inbound tourism markets.[3]

A key trend will see room rate declines start to catch up with occupancy falls. Our baseline scenario anticipates an overall annual UK occupancy decline of 10.3 per cent as well as a room rate fall of 9.6 per cent, pushing RevPAR down to almost £51, a fall of 18.9 per cent (twice the rate expected in our downside scenario in November 2008). Hoteliers advised us that they expect rate declines of between five and 15 per cent this year and many thought occupancies could also fall by 10 per cent.

In London, the long-running room rate hike finally came to a halt in Q4 2008 and we now expect the decline in rates to accelerate in each quarter of 2009, with an overall 14.2 per cent decline for the year. As occupancies fall by 13.3 per cent to around 70 per cent, this will mean a massive 25.6 per cent drop in RevPAR. An occupancy fall of this dimension was last seen in London back in 1991 but ARR and RevPAR declines of these magnitudes have never before been seen in London (at least not since data began being gathered).

Table 1: Baseline scenario (premised on 3.3% GDP decline in 2009)
% growth on previous year

	2008 (R)			2009(F)		
	UK	London	Provinces	UK	London	Provinces
Occupancy	-2.7	-1.6	-3.4	-10.3	-13.3	-7.9
ARR	2.5	4.0	0.7	-9.6	-14.2	-4.0
RevPAR	0.2	2.4	-2.7	-18.9	-25.6	-11.6

Econometric Forecasts: PricewaterhouseCoopers February 2009
Benchmarking Data: STR Global February 2009

The provinces are now expected to suffer more severely than we had anticipated late last year. Occupancies are set to fall by 7.9 per cent and room rates to follow with a 4 per cent decline, which will drive a RevPAR slide of 11.6 per cent (much worse than the 3.4 per cent we expected in our downside scenario in November 2008). See Table 1 and Chart 3 with more detail in the separate forecast sections for UK, London and Provinces and Appendix 1.

3 These seven countries make up our weighted tourism variable.

Downside scenario: stark economic contraction catapults a revenue freefall

But what if the economy contracts even more severely? What could this mean for travel and the hotel sector? Risks around our baseline scenario are significant and become increasingly weighted to the downside as the global economic crisis worsens. Our downside scenario anticipates a 6 per cent contraction in UK GDP this year with negative growth continuing into 2010. This stark scenario could catapult a RevPAR freefall of 24 per cent in the UK as a whole during 2009 and almost 31 per cent in London and 16.6 per cent in the provinces. This would be new territory for the sector. See Table 2 and Chart 3 with more detail in the forecast sections for UK, London and Provinces and Appendix 1.

Table 2: 'Downside' scenario (premised on 6.0% GDP decline in 2009)
% growth on previous year

	2008 (R)			2009 (F)		
	UK	London	Provinces	UK	London	Provinces
Occupancy	-2.7	-1.6	-3.4	-13.7	-17.1	-11.0
ARR	2.5	4.0	0.7	-12.0	-16.9	-6.3
RevPAR	0.2	2.4	-2.7	-24.0	-30.9	-16.6

Econometric Forecasts: PricewaterhouseCoopers February 2009
Benchmarking Data: STR Global February 2009

Looking back: Quarter 4 2008 saw an end to 20 consecutive quarters of ARR growth

Growing or even maintaining revenue entails a successful balance between rate and volume. Although overall UK RevPAR slipped only marginally in 2008 (held up by a 2.5 per cent room rate gain), the last quarter of the year saw a fast deteriorating situation. Not only did the magnitude of the occupancy declines worsen, from a 2.4 per cent decline in Q3 to a decline of 6.2 per cent in Q4, but this also marked an end to 20 consecutive quarters of ARR growth (since Q4 2003). ARR tumbled from a 3.9 per cent gain in Q3 to a 1.2 per cent decline in Q4. This change in direction on rates flipped UK RevPAR from a 1.4 per cent gain in Q3 to a 7.2 per cent decline in Q4. London saw the smallest RevPAR decline in Q4 2008 with a 6 per cent RevPAR fall compared to an 8.4 per cent fall in the provinces. See Appendix 2.

Many hoteliers reported that the late 2008 deterioration in trading, especially softening room rates, continued and accelerated sharply in January. Some experienced RevPAR falls of 20 and 30 per cent in January. A few reported a little revenue growth in January but then the snow impacted travel in February. A London three star operator told us that: "at the back end of last year…as rate went up volume was lost. This will have a severe impact on rate (this year) and we will definitely be faced with the decision to drop the premium; in any event this will represent revenue losses."

Key findings

Looking forward: baseline forecast shows continued deterioration in trading in all four quarters of 2009

If we examine the forecast by the quarterly trend, overall the UK is expected to see a worsening RevPAR decline of 9.4 per cent in Q1 compared with the same quarter in 2008, 18.3 per cent in Q2, 22.0 per cent in Q3 and 24.9 per cent in Q4. London is expected to be worst hit and see a RevPAR fall of almost 37 per cent in Q4 2009 as ARR tumbles by 22.5 per cent and occupancy by 18.3 per cent. Admittedly London's declines are against high comparables for Q1-Q3 2008 but it is a gloomy prognosis. The provinces saw continuous revenue declines in all but one quarter of 2008 (Q2), and we anticipate that the ARR and RevPAR declines in 2009 should moderate slightly by Q4. Across the board, Q2 2009 is expected to see marked deterioration against an already gloomy Q1. See Table 3 and Chart 1 for RevPAR forecasts by quarter and also Appendix 2 for the detail on occupancy and ARR.

Table 3: Baseline scenario RevPAR forecast growth rates by quarter for UK, London and Provinces (on same quarter of previous year)

	2009 Q1	2009 Q2	2009 Q3	2009 Q4
UK	-9.4	-18.3	-22.0	-24.9
London	-10.3	-23.4	-30.4	-36.6
Provinces	-8.7	-13.0	-12.8	-11.6

Econometric Forecasts: PricewaterhouseCoopers February 2009
Benchmarking Data: STR Global February 2009

Downside forecast by quarter: from bad to worse

In this scenario the UK is expected to see declines of 11.4 per cent in Q1 compared with the same quarter in 2008, 23.2 per cent in Q2, 28.3 per cent in Q3 and 32 per cent in Q4. London is expected to see a RevPAR fall of almost 44.2 per cent in Q4 2009 as ARR tumbles by 26.9 per cent and occupancy by 23.7 per cent. In the provinces, the RevPAR declines in 2009 start in Q1 at 11.5 per cent, hit 18.6 per cent in Q3 and slip back to 18 per cent in Q4. See Table 4 and Chart 1 for RevPAR forecasts by quarter and also Appendix 2 for the detail on occupancy and ARR.

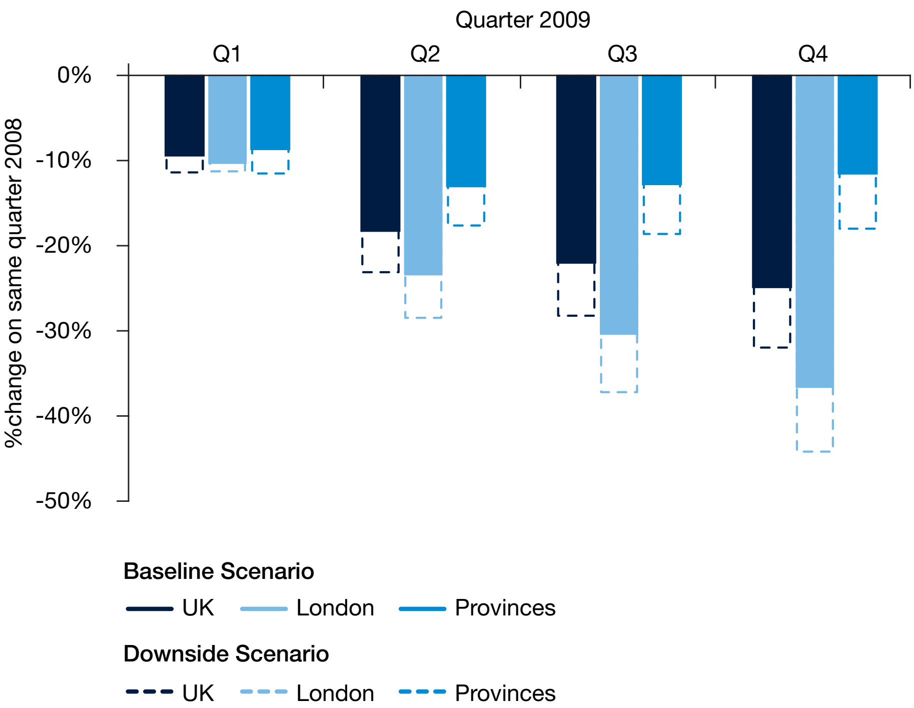
Table 4: Downside scenario RevPAR forecast growth rates by quarter for UK, London and Provinces (on same quarter of previous year)

	2009 Q1	2009 Q2	2009 Q3	2009 Q4
UK	-11.4	-23.2	-28.3	-32.0
London	-11.3	-28.5	-37.3	-44.2
Provinces	-11.5	-17.7	-18.6	-18.0

Econometric Forecasts: PricewaterhouseCoopers February 2009
Benchmarking Data: STR Global February 2009

Chart 1: Baseline and downside scenarios:

RevPAR growth rates by Quarter 2009



Econometric Forecasts: PricewaterhouseCoopers February 2009
Benchmarking Data: STR Global February 200

What a difference a quarter makes

When we prepared our last forecast in November 2008, the downside scenario, premised on a 1.9 per cent decline in UK GDP in 2009, seemed quite pessimistic although we acknowledged that the risks had become increasingly weighted to the downside. By mid-December, the worsening economic slowdown was starting to suggest that our downside scenario might become reality. Some of you emphasised this at our breakfast briefing early that month. In January, we announced that the continued economic deterioration meant that the downside forecast was, unfortunately, the more probable. Now, some three months later, the global and UK economies continue to deteriorate and PricewaterhouseCoopers' macroeconomic team forecast an economic contraction of 3.3 per cent in the UK in 2009 - this underpins our main hotel forecast scenario. To assist scenario planning we have again prepared an illustrative downside scenario, this time underpinned by a 6 per cent GDP contraction.

UK Outlook

Research results

"It could be 2011 before we see a general recovery"

Our research found hoteliers unanimously in a "fairly" to "very" pessimistic mood. Many expected trading this year to be as bad as, or much worse than, the early 1990s. The majority interviewed expected this downturn to last between one and two years but many hoped for a sharp rebound. Some operators felt that at best they might see slightly increased volumes in 2009 but would need to secure that business at lower rates and lower revenues would be the inevitable consequence. Several mentioned that brand was "crucial to surviving this recession." Others disagreed and stressed "brand will not save you." Hoteliers thought some demand segments would recover during 2010 but the prevailing view was that the sector "would need to wait till 2011 to see a general recovery."

"All expenditure has stopped"

Many said they had implemented cost savings well ahead of the downturn "given that the downturn was widely forecast." Initiatives include savings in payroll, headcount reductions and reducing operating costs. Some were renegotiating purchase contracts where they are up for renewal to achieve savings on supplies "in the hope of maintaining margin as occupancy and rates fall."

Others were not re-hiring once staff leave and introducing multi-skilling. "So far through agency reduction, job rotation and flexible hours we have managed to avoid having to lose good people." However, there are only so many cuts most hotels can make without damaging service and rate. It was suggested that as customers seek greater value for money, limited service operators could be handicapped as full service operators lower prices. "Three and four star hotels are fairly labour intensive and dependent on providing a level of service which means we have to carry a minimum level of staff in order to provide service levels and hold on to rates."

"Only essential capex for 2009 and maybe 2010 go ahead"

Some have curtailed or deferred refurbishment and investment plans. Others suggest "now is a good time to refurbish if you have the funds and stay ahead of the competition." But in contrast one operator commented that "the expectation is that only essential capex will occur in 2009 and possibly 2010." The importance of quality management as well as asset management and conserving cash was a common theme. The importance of good management was another theme.

"The quality of the management is paramount in this recession to stabilise hotel asset value over the next three years. Hotels must be well positioned in terms of their management systems and controls to protect cash flow and service bank debt"

Hotel management company, February 2009

"Midweek corporate is very weak"

"It's the transient travellers that have completely disappeared mid-week"

UK provincial hotel chain, February 2009

Issues impacting 2009's outturn

Double whammy: corporate and leisure travel slumps

As long as the recession continues, trading down, fewer holidays or in some cases no holiday at all is an inevitable consequence of plummeting house prices, rising unemployment and deteriorating consumer confidence. Overspent consumers and corporates are searching for better value both at home and overseas.[4] Businesses are trying to reduce expenditure on non-essential travel as well as downgrading travel that they cannot do without. Whilst the weak pound may cushion UK tourism for a while it may not be enough to offset the tough economic problems here and in many other EU and OECD countries. One hotelier told us that they had seen transient mid-week business virtually disappear in some locations.

Inbound travel prospects are weakening

In 2008 the UK saw 32 million visits from overseas residents, two per cent fewer than in 2007. The number of tourists visiting the UK fell 12 per cent in the fourth quarter compared with a year earlier. The number of visitors from North America fell 27 per cent in the fourth quarter, compared with the same period a year earlier and visitors from Europe fell by 10 per cent, despite the weaker pound. Visitors from Eastern Europe were down 15 per cent. VisitBritain forecast an inbound visits decline of 0.7 per cent, to 31.7million in 2009, with a 0.7 per cent real increase in spending, acknowledging it will be a hard fight just to stand still this year.[5] The fact is that the deepening slump will make even this modest spending growth forecast difficult to achieve.

An exchange rate cushion is unlikely

A holiday in the UK has probably become more desirable as sterling has lost value against other currencies. In January 2009 Sterling had fallen 21 per cent against the euro in the past 12 months and 30 per cent against the US dollar. The Middle East, China, Russia, US, Nigeria, Hong Kong, Malaysia and Japan have all seen their domestic currencies appreciate significantly against the pound. Some visitors are already reported to be taking advantage of this trend, buying big ticket goods such as jewellery and even cars. However, in the long-run, this trend, often bolstered by seasonal sale reductions, is not sustainable and will neither 'bail-out' the luxury goods sector nor the tourism and hotel sector from the overall demand contraction. In addition the majority of any expenditure will take place in London – some good news for London hotels – but will not benefit the provinces greatly. The very weakness of the pound reflects concerns about the global and UK economy and these factors are likely to have a negative impact on travel. The economic slowdown is global and many countries have or will have their own tough economic challenges. Indeed recent tourism data support this view, showing foreign visitors spent less in Britain at the end of last year. The Office for National Statistics reported that earnings from foreign visitors fell by one per cent in the three months to December to £4 billion, despite the weak pound.

4 Managing brands in a downturn, PricewaterhouseCoopers, 'Advertising payback: is TV advertising still effective?'
5 E-tid, 5 January 2009

UK Outlook

"The segment which will suffer most will be meetings and events where budgets will be lower; lead times as well and conversion will also be delayed as bookers are more cautious."

MICE Director in leading hotel chain, February 2009

"I don't think this recession is going to be short lived. In the real world where my customers live, unemployment levels are only now beginning to go up"

Stelios Haji-Ioannou, easyGroup founder, The Times, 2 February 2009

Fewer conferences, meetings and events

Business visits account for almost 30 per cent of inbound spend and are vital for profitable hotel demand as well as 'meetings and event' revenue. Our research tells us that many hoteliers have seen conference business slowing for some time and the meetings and events segment is expected to suffer further. "Larger group conferences will take a downturn" with some "probably downgrading class." Some hoteliers disagreed that it was all gloom and expected day conference volumes to increase this year. Wedding business was reported by several chains to look bright this year. Looking ahead this segment may wobble too as unemployment fears cause couples to postpone or reduce expenditure.[6] At the same time organisers must take into account public and employee perception and disapproval of profligate spending.

Over the course of 2009 important meetings will go ahead but firms under pressure will be looking to cancel all non-essential travel and events. In the case of necessary travel or events that can demonstrate a return on investment, the onus is to be as economical as possible, using non-flexible flights, all-inclusive/value for money venues, driving down rates and trading down on accommodation. Even if overseas companies choose to conference in the UK, it is likely that they will meet for as short a time as they can and minimise overnight costs.

Consumers are counting their pennies too

Boosted by strong economic growth and the low cost airlines, short breaks in particular have been a travel success story. Holiday trends are towards shorter but more frequent holidays – three or more holidays per year are not uncommon. With UK GDP expected to contract by over 3 per cent in 2009, and disposable incomes under pressure, even affluent consumers are likely to reduce spend by trading down and reducing short break frequency.[7] Rising unemployment will also have a big impact on consumer spending. A recent forecast expects UK consumer spending to fall by up to 3.8 per cent this year, double the previous record annual drop of 1.6 per cent in 1991.[8] Add to this plummeting house prices, falling wages, an end to the bonus culture and no credit availability and it is clear that travel and hotel spending is set to continue downwards for some time to come.

Hoteliers hope short breaks will help bail them out

On a brighter note, holidays remain important to consumers and some hoteliers told us that they hope the leisure market, especially demand for short breaks, but also group leisure, will increase this year. Most hoteliers, however, expected all demand segments to contract this year.

Separate PwC research has shown that younger and more affluent consumers remain the most optimistic.[9] Furthermore as interest rates and mortgage repayments fall, some consumers may actually have more disposable income. However it is questionable whether it would be prudent for these consumers to spend this extra cash on travel.

6 'Job scares, divorce payoffs and that lavish do: why marriage rates have plummeted', Guardian 13 February 2009
7 PricewaterhouseCoopers Macroeconomics, February 2009
8 Britain 'is heading for its deepest slump for 60 years', Times 4 February 2009
9 PricewaterhouseCoopers Consumer Research, January 2009

Is 2009 likely to see a domestic holiday boom?

For those in a position to take a holiday in 2009, where will they go and where will they stay? Domestic tourism has been losing out to overseas travel for some years. As the recession bites at home and the pound buys less abroad, there has been speculation that more people will choose to holiday at home where the cost of living may be cheaper or perhaps cash strapped consumers will wait for a 'good deal' overseas. Indeed, some 20 per cent of Britons who went on holiday abroad last year are reported to be considering staying in the UK this year.[10] Even so, the fact remains that Britain is still not necessarily the cheapest place for them to go (as accommodation in particular is expensive - even though rates are falling). Intentions may not necessarily materialise into action.

Domestic overnight tourism is highly dependent on higher social grades, for example, ABs account for 39 per cent of spend but 20 per cent of the population, whereas DEs account for 14 per cent of spend but 31 per cent of the population.[11] This suggests that with household budgets under pressure, the outcome may not be good for the UK tourism economy. According to these statistics consumers looking for a cheap holiday are more likely to go to countries such as Greece, on a low-cost airline, where there is guaranteed sun. In addition, although the UK may represent the ideal destination for a short break 'secondary' to the main annual holiday, this thinking is also likely to suffer in a recession.

"The hope is that domestic travel will increase but I believe the packages will need to be very good value for money to capture the market"

"The difference this time is that it is much harder to control and reduce the middle line costs which are escalating, while the selling prices have to remain competitive "

International hotel chain, February 2009

Are branded budgets the least endangered?

Every segment will be hurt by the demand slump but especially those in secondary locations and/or oversupplied markets but the budget business model is expected to fare better. Unbranded older hotels in general were considered the "most endangered" and "likely to close and not re-open." There was some agreement that the luxury and midscale segment would be hardest hit this year. Although there have been reports that the budget sector is successfully picking up more business travellers, consumers remain reluctant to commit to booking holidays at all. Nevertheless, a leading budget operator told us that they already have record bookings for summer 2009. In the end, many felt it will come down to best value and rates as well as maximising the experience.

We asked hoteliers how they felt budgets would fare and some comments we received about the branded budget sector included:

- "business travellers will have to be seen to downgrade their accommodation"
- "easy-to-book brands will do best"
- "there are too many branded budgets outside London"
- "recent TV advertising has helped raise consumer awareness (..of budgets)"
- "many are in need of refurbishment"
- "frequent stay programmes will help"

10 The Observer, 1 February 2009, 'With household budgets stretched, should we holiday in Britain this year?'

11 Bernard Donoghue, Head of Government and Public Affairs, Visit Britain, Presentation to PricewaterhouseCoopers June 2008

UK forecast

UK ARR could tumble by almost 10 per cent

Chart 3 UK hotels: under pressure shows RevPAR growth rate trends over almost 30 years. A key trend currently is that the decline in room rates is catching up with occupancies. Our baseline scenario anticipates overall annual UK occupancy declines of 10.3 per cent and room rate falls of 9.6 per cent, pushing RevPAR down to almost £51, a fall of 18.9 per cent (twice the rate expected in our downside scenario in November 2008). See Table 5 and Charts 2 and 3 and more detail in Appendix 1.

In support, most hoteliers have told us that they expect rate declines of between five and 15 per cent this year.

Downside scenario

However, risks around economic growth in our main scenario are significant and have become increasingly weighted to the downside in recent weeks due to the fast deteriorating economic situation. We have prepared a downside scenario that assumes a 6 per cent UK GDP contraction this year. This scenario would inflict even greater pain on corporates and consumers and the implications for travel and the hotel sector are severe. Our downside scenario for 2009 anticipates UK room rate declines of 12 per cent and occupancy declines of 13.7 per cent driving a RevPAR fall of 24 per cent. See Chart 3 and Appendix 1.

Quarterly forecasts

Baseline:

An analysis of our forecast by quarter for the UK as a whole shows worsening quarterly declines in occupancy, room rate and RevPAR through this year. In our baseline scenario, occupancy declines in Q4 compared with the same quarter in 2008 are just over twice as high as in Q1. The ARR decline in Q4, at 13.7 per cent is four times higher than the rate of decline in Q1. All this means that although RevPAR declines of 9.4 per cent are anticipated in Q1 compared with the same quarter in 2008, these increase sharply to 18.3 per cent in Q2, 22 per cent in Q3 and 24.9 per cent in Q4.

Downside:

In our downside scenario, the UK is unsurprisingly expected to see even worse quarterly declines in occupancy, room rate and RevPAR. RevPAR declines of 11.4 per cent are anticipated in Q1 compared with the same quarter in 2008, with 23.2 per cent in Q2, 28.3 per cent in Q3 and 32 per cent in Q4 – almost three times higher than in Q1.

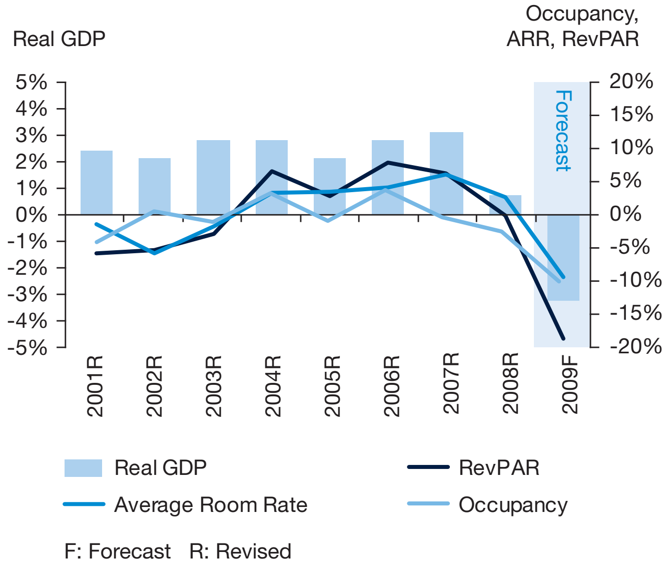
See Appendix 2 for the detail.

Table 5: PricewaterhouseCoopers latest forecast for UK February 2009

	2007R	2008R	2009F
Occupancy (%)	74.75	72.77	65.29
% Change	0.3%	-2.7%	-10.3%
ARR (%)	84.07	86.18	77.95
% Change	6.0%	2.5%	-9.6%
RevPAR (£)	62.89	62.79	50.94
% Change	6.2%	-0.2%	-18.9%

Econometric Forecasts: PricewaterhouseCoopers February 2009
Benchmarking Data: STR Global February 2009

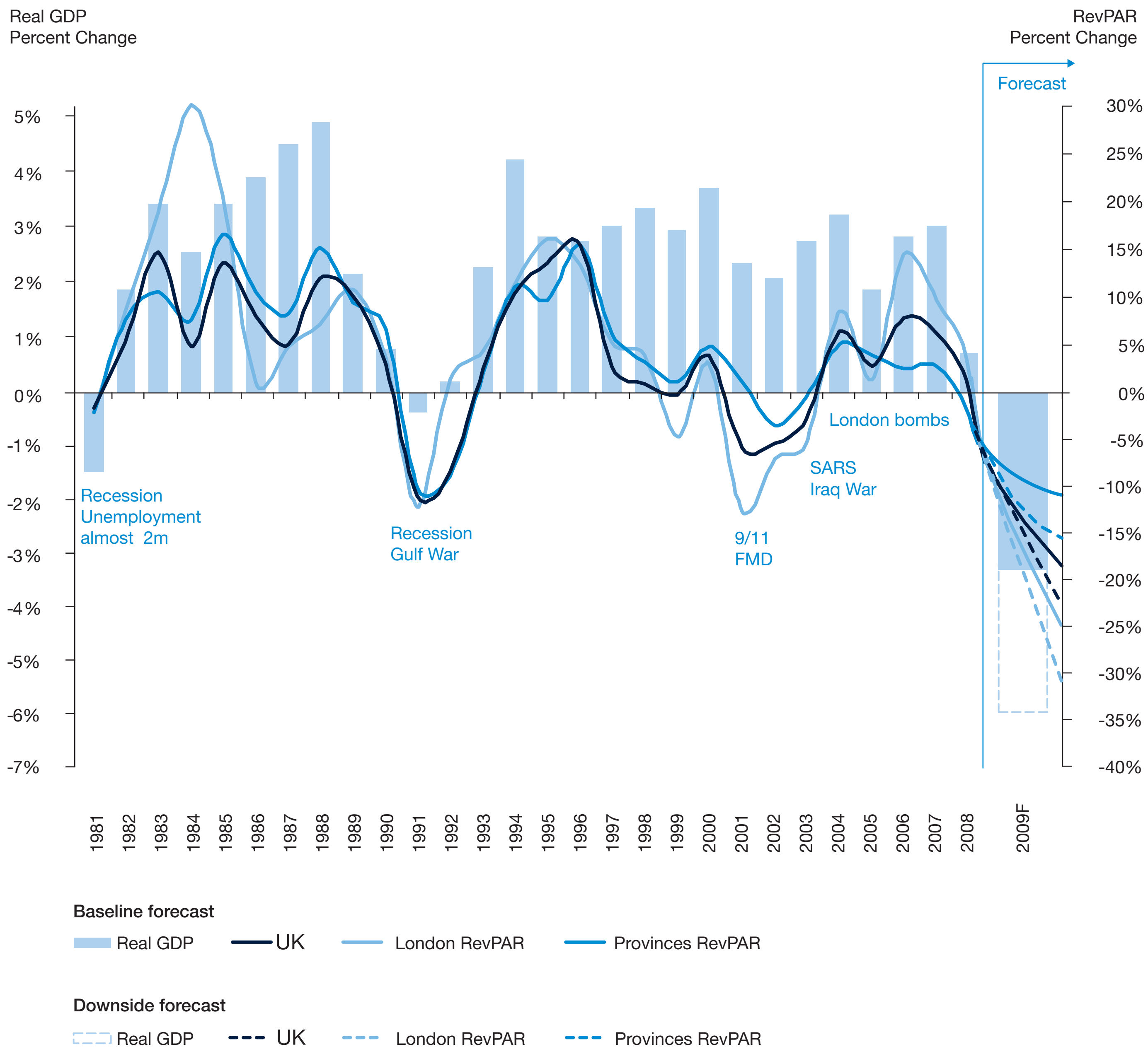
Chart 2: UK hotel performance 2001 to 2009
Real GDP, revenue-per-available-room, average room rate, and occupancy growth rates



Econometric Forecasts: PricewaterhouseCoopers February 2009
Macroeconomic Data: National Statistics
Benchmarking Data: STR Global February 2009

UK hotels: under pressure

Chart 3: Real GDP, UK, London and Provincial RevPAR growth rates 1981-2009 (F)



Econometric Forecasts: PricewaterhouseCoopers February 2009
Macroeconomic Data: National Statistics
Benchmarking Data: STR Global February 2009

London forecast

Under strain

London has been impacted badly by the financial crisis. One third of London's 4.2 million jobs are estimated to be in the finance and business services sector and the unemployment rate in Greater London has risen considerably since the onset of the financial market crisis. In the quarter to October 2008, the total unemployment rate for London was 7.6 per cent which was 1.2 percentage points higher than a year earlier. Unemployment is expected to continue to rise during 2009.

In our last forecast we wrote that London hotel performances had seen the biggest boom and would see the biggest bust and we still stand by that view. Hoteliers are divided on the future outlook: "London appears to be holding up well with evidence of a flight to quality and value for money" and "London will be hit hardest." Tourism markets are under pressure too and London's Mayor recently announced an Economic Recovery Action Plan aimed at promoting London through a £1 million tourism campaign.[12] It is not going to be easy especially as consumer and business sentiment worsens.

Plenty of new brands and products

There are still plenty of new products and schemes underway in the capital which are likely to come on stream over the next three years. According to recent data, around 2,620 rooms are already under construction in London, with another 2,000 likely to be built (with opening dates set) and a further 3,000 with planning permission. InterContinental Hotels Group (IHG) has just opened its first UK lifestyle Indigo brand hotel in Paddington and is reported to have signed an agreement with City Site Estates to open three more in London before the Olympics. The Savoy is planning a partial reopening over the summer with the real thing set for the autumn. There have been rumours that the Silken hotel project on the Strand has stalled. Other schemes include a rock 'n' roll hotel, the 30 room Sanctum Hotel in Soho set to open in March. Uncertainty around the long-awaited Midland Grand Hotel restoration at St Pancras seems resolved with the newly branded Renaissance Hotel set to open late 2010, some three years later than the original schedule.

12 The Evening Standard, 17th December 2008

Latest forecast: trading set to go from bad to much worse this year

In our baseline scenario for London, trading declines are expected to worsen significantly during 2009 as travel demand weakens further and corporate meetings and entertaining become yet more austere. For the year as a whole, we foresee a 25.6 per cent RevPAR decline. This contrasts with a 2.4 per cent RevPAR gain achieved in 2008, 9.6 per cent gain in 2007 and 14.5 per cent in 2006.

Occupancies are expected to dip to just below 70 per cent this year. The last time occupancy was lower than this was in 1991, when it was at around 65 per cent. An occupancy decline of this expected magnitude, i.e. 13.3 per cent, has not been seen in the capital since the last recession in 1991. Nominal room rates have been lower than the £100.31 expected this year, back in only 2006, but again it's mainly the stuff of records and London has never before seen a 14.2 per cent fall in room rates. The previous record fall was closer to 8 per cent in 2002. See Table 6 and Charts 3 and 4 and more detail in Appendix 1.

In London, the long-running room rate hike finally came to a halt in Q4 2008 and we now expect rate declines to accelerate in each quarter of 2009, with an overall 14.2 per cent decline in 2009. As occupancies fall by around 13.3 per cent to 69.2 per cent, this will mean a record 25.6 per cent drop in RevPAR.

Downside scenario sends RevPAR into freefall

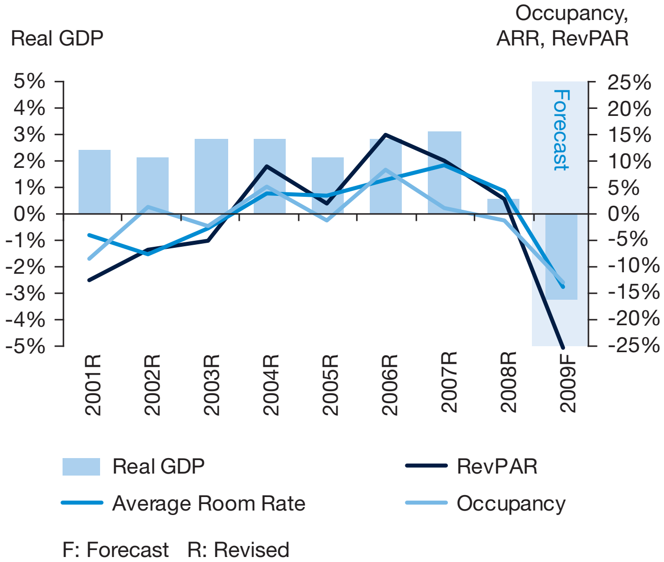
Our downside scenario is underpinned by a 6 per cent UK GDP contraction this year, driving a London room rate decline of 16.9 per cent and an occupancy decline of 17.1 per cent. This propels a RevPAR tumble of almost 31 per cent. See Appendix 1 and Chart 3.

Table 6: PricewaterhouseCoopers latest forecast for London February 2009

	2007R	2008R	2009F
Occupancy (%)	81.14	79.81	69.17
% Change	0.8%	-1.6%	-13.3%
ARR (%)	112.41	116.96	100.31
% Change	8.8%	4.0%	-14.2%
RevPAR (£)	91.30	93.46	69.55
% Change	9.6%	2.4%	-25.6%

Econometric Forecasts: PricewaterhouseCoopers February 2009
Benchmarking Data: STR Global February 2009

Chart 4: London hotel performance 2001 to 2009
Real GDP, revenue-per-available-room, average room rate, and occupancy growth rates



Econometric Forecasts: PricewaterhouseCoopers February 2009
Macroeconomic Data: National Statistics
Benchmarking Data: STR Global February 2009

Quarterly forecasts

Baseline:

An analysis of the forecast by quarter shows that although the year starts badly it gets much worse. Demand and rate falls accelerate significantly each quarter. For example, Q1 occupancy drops by 6.9 per cent and by Q4 this has almost tripled to a 18.3 per cent decline. By the second quarter of the year room rate declines in London could have almost overtaken the capital's rate of occupancy slide. The ARR declines of 3.6 per cent could snowball to 22.5 per cent by Q4. This will catapult RevPAR down by 23.4 per cent in the second quarter and 36.6 per cent by Q4.

Downside:

In the downside scenario, London is expected to see ever worsening quarterly declines in occupancy, room rate and RevPAR. RevPAR declines of 11.3 per cent are anticipated in Q1 compared with the same quarter in 2008, not too dissimilar to our baseline scenario in Q1. However, the disparity in all indicators widens as the year progresses and we could see a 28.5 per cent slump in RevPAR in Q2, with a 37.3 per cent tumble in Q3 and 44.2 per cent in Q4.

See Appendix 2 for the detail.

Provinces forecast

Not all doom and gloom

For those who decide to holiday at home, as well as overseas visitors, they could well be in for a treat, with investment in a wide variety of existing and new facilities and activities, ranging from allotment courses at River Cottage, Devon, to whale watching in Scotland or even a new artificial surfing reef in Bournemouth later in the year.[13] With buyers not sellers now in the driving seat, travellers may also find some attractive deals this year.

Some businesses have reported good advance bookings – for example, budget hotels and self catering holidays. Holiday centres, camping and caravanning holidays also hope to do well this summer by offering good value and building on strong growth last year. Ocean Parcs, which owns Pontin's, has said bookings for February half term, Easter and summer 2009 are "significantly up".[14] "Provincial hotels with good F&B are holding up, as is short lead in 6-15 delegate meetings." A large provincial hotel franchise holder told us, "March, June, July and September should be less weak."

Supply could aggravate pressure on hotel trading

Recent data suggests that around 16,000 rooms are under construction in the UK, opening over 2009 and 2010.[15] Other sources suggest a similar number opened in 2008 (with three quarters new build).[16] Hoteliers expect markets which have seen considerable new supply will suffer badly and "hotels in secondary locations will also find the going tougher."

What do hoteliers think about outlook for key cities?

In Manchester, a city that has seen considerable new supply added recently, one hotelier told us that RevPAR fell by as much as 30 per cent in January. Some hotels in the city centre are reported having shut off whole floors in an attempt to reduce operating costs. Despite its international links, Edinburgh is thought to have a poor outlook as the financial crisis takes its toll on the wider economy. Others felt the relatively strong international links and inbound market could help prop up performances with frustrated demand from recent years sustaining growth.

Birmingham is generally considered to have a poor outlook exacerbated by supply concerns and a further decline in the car industry. Liverpool, as European City of Culture last year, saw a boost in visitors and much new supply. Many think it will have a difficult 2009 as "normality" prevails and may not get the legacy it hoped for as the oversupply of retail, leisure and hotel space has an adverse effect on performance. Glasgow is also expected to have a difficult year.

Baseline scenario: RevPAR declines expected to reach 11.6 per cent

Our baseline provincial scenario assumes a 3.3 per cent UK GDP contraction this year. Overall provincial room rate declines of 4 per cent will take ARR to £63.05 and an occupancy drop of 7.9 per cent will take occupancy to 62.7 per cent. This drives RevPAR down by 11.6 per cent to £39.54. See Table 7 and Charts 3 and 5 with more detail in Appendix 1.

Downside scenario: a 16.6 per cent RevPAR decline

In our downside scenario ARR, occupancy and revenues slip further. Occupancy could end the year at 60.6 per cent and average rates at £61.56. This scenario assumes a 6 per cent UK GDP contraction this year, and drives provincial room rate declines of 6.3 per cent with occupancy declines of 11 per cent. This pushes RevPAR down by 16.6 per cent to £37.31, some five percentage points lower than in our main scenario above. See Appendix 1.

13 '50 reasons to holiday in Britain', The Observer ,1 February 2009
14 BBC News 3 February 2009
15 Hotel Data Ltd January 2009
16 Hotel Analyst 12 February 2009

Special feature: PwC snapshot survey of Northern Ireland hotel performance

Both the Fáilte Ireland and Northern Ireland Tourist Board (NITB) reviews of hotel occupancy and demand for the first half of 2008 clearly indicated that the global financial downturn had arrived in Ireland. Both organisations suggested that room occupancy for the first half of the year was down by between 4-5 percentage points, and the latest PwC snapshot survey of Northern Ireland hotels suggests that this downward trend has continued, with occupancy levels for December - at 53.5 per cent - the lowest since 2002 (53.1 per cent).

Despite a seemingly benign overall performance for 2008, the final quarter of the year reflected a worryingly downward slide. RevPAR fell steeply in the final quarter of the year, down 4.7 per cent, 6.7 per cent and 9.9 per cent in October, November and December, respectively.

Overall, 2008 showed a year-on-year decline in RevPAR of 0.7 per cent, the first overall annual decline since 2002 and a significant decline on the boom years of 2005 and 2006, when year-on-year increases were 15.5 per cent and 12.5 per cent respectively. While 2008 saw total room revenues increase by 3.6 per cent, year-on-year, this was also well down on 2007, where total annual room revenues increased by 12.1 per cent.

Looking back, 2005 and 2006 were the highlight years of the past decade when a combination of the peace process, conference growth in Belfast and heightened traveller interest in the region, combined with a relative shortage of accommodation to drive up all key metrics.

The swift onset of the credit crunch and the international financial crisis has manifested itself in a sharp decline in the key accommodation metrics. Given the experience of the past five months, the short-term future seems particularly challenging.

Contact

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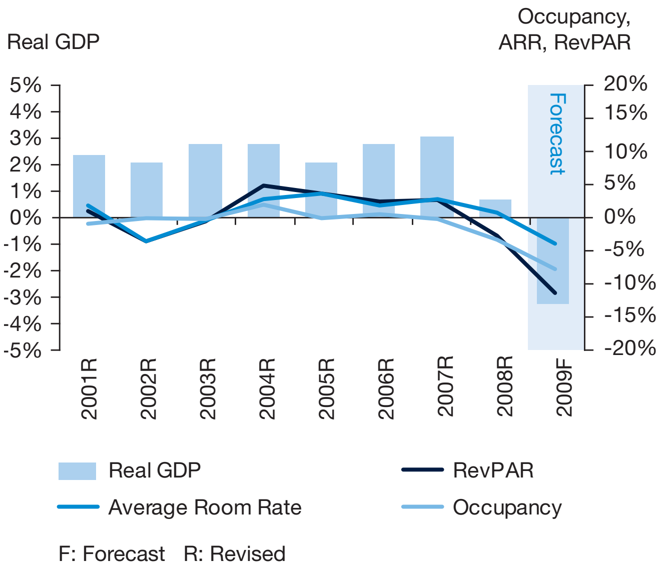
Table 7: PricewaterhouseCoopers latest forecast for Provinces February 2009

	2007R	2008R	2009F
Occupancy (%)	70.49	68.07	62.70
% Change	-0.1%	-3.4%	-7.9%
ARR (%)	65.18	65.67	63.05
% Change	2.9%	0.7%	-4.0%
RevPAR (£)	45.98	44.74	39.54
% Change	2.7%	-2.7%	-11.6%

Econometric Forecasts: PricewaterhouseCoopers February 2009
Benchmarking Data: STR Global February 2009

Chart 5: Provinces hotel performance 2001 to 2009
Real GDP, revenue-per-available-room, average room rate, and occupancy growth rates



Econometric Forecasts: PricewaterhouseCoopers February 2009
Macroeconomic Data: National Statistics
Benchmarking Data: STR Global February 2009

Quarterly forecasts

Baseline: Room rates join occupancies on a downward slump – but not to the same degree as London

The provinces have been suffering longer than London, indeed they have experienced continuous occupancy declines since Q2 2007, ending last year with a sharp 6.9 per cent occupancy slide in Q4. Although we expect demand to continue to deteriorate throughout 2009 the decline in RevPAR should stabilise in Q3 and Q4 after a particularly poor Q2.

Downside:

In this scenario the provinces experience ARR declines twice as severe as those in our baseline scenario in Q4 2009, at 6.4 per cent. Occupancy declines worsen further to reach 12.4 per cent by Q4 2009. RevPAR declines of 11.5 per cent in Q1 compared with the same quarter in 2008, are driven lower in Q2 as ARR falls sharply and then show some stability in Q3 and Q4.

See Appendix 2 for more detail.

Appendix 1: Annual Hotel Statistics for UK, London and Provinces 2003- 2009

Baseline Scenario	2003R	2004R	2005R	2006R	2007R	2008R	2009F
UK							
Occupancy	70.19	72.42	71.96	74.56	74.75	72.77	65.29
% change	-1.2%	3.2%	-0.6%	3.6%	0.3%	-2.7%	-10.3%
ARR £	71.48	73.78	76.26	79.33	84.07	86.18	77.95
% change	-1.8%	3.2%	3.4%	4.0%	6.0%	2.5%	-9.6%
Revenue per Room £	50.19	53.46	54.92	59.22	62.89	62.79	50.94
% change	-3.0%	6.5%	2.7%	7.8%	6.2%	-0.2%	-18.9%
London							
Occupancy	72.25	75.74	74.59	80.51	81.14	79.81	69.17
% change	-2.6%	4.8%	-1.5%	7.9%	0.8%	-1.6%	-13.3%
ARR	91.33	94.56	97.41	103.30	112.41	116.96	100.31
% change	-3.0%	3.5%	3.0%	6.1%	8.8%	4.0%	-14.2%
Revenue per Room	66.06	71.66	72.72	83.29	91.30	93.46	69.55
% change	-5.5%	8.5%	1.5%	14.5%	9.6%	2.4%	-25.6%
Provinces							
Occupancy	68.82	70.21	70.20	70.60	70.49	68.07	62.70
% change	-0.2%	2.0%	0.0%	0.6%	-0.1%	-3.4%	-7.9%
ARR £	58.25	59.93	62.16	63.35	65.18	65.67	63.05
% change	-0.4%	2.9%	3.7%	1.9%	2.9%	0.7%	-4.0%
Revenue per Room £	40.09	42.10	43.69	44.76	45.98	44.74	39.54
% change	-0.6%	5.0%	3.8%	2.4%	2.7%	-2.7%	-11.6%
Downside Scenario	2003R	2004R	2005R	2006R	2007R	2008R	2009F
UK							
Occupancy	70.19	72.42	71.96	74.56	74.75	72.77	62.82
% change	-1.2%	3.2%	-0.6%	3.6%	0.3%	-2.7%	-13.7%
ARR £	71.48	73.78	76.26	79.33	84.07	86.18	75.82
% change	-1.8%	3.2%	3.4%	4.0%	6.0%	2.5%	-12.0%
Revenue per Room £	50.19	53.46	54.92	59.22	62.89	62.79	47.70
% change	-3.0%	6.5%	2.7%	7.8%	6.2%	-0.2%	-24.0%
London							
Occupancy	72.25	75.74	74.59	80.51	81.14	79.81	66.16
% change	-2.6%	4.8%	-1.5%	7.9%	0.8%	-1.6%	-17.1%
ARR £	91.33	94.56	97.41	103.30	112.41	116.96	97.21
% change	-3.0%	3.5%	3.0%	6.1%	8.8%	4.0%	-16.9%
Revenue per Room £	66.06	71.66	72.72	83.29	91.30	93.46	64.61
% change	-5.5%	8.5%	1.5%	14.5%	9.6%	2.4%	-30.9%
Provinces							
Occupancy	68.82	70.21	70.20	70.60	70.49	68.07	60.60
% change	-0.2%	2.0%	0.0%	0.6%	-0.1%	-3.4%	-11.0%
ARR £	58.25	59.93	62.16	63.35	65.18	65.67	61.56
% change	-0.4%	2.9%	3.7%	1.9%	2.9%	0.7%	-6.3%
Revenue per Room £	40.09	42.10	43.69	44.76	45.98	44.74	37.31
% change	-0.6%	5.0%	3.8%	2.4%	2.7%	-2.7%	-16.6%

R: Revised F: Forecast
Econometric Forecasts: PricewaterhouseCoopers February 2009

Benchmarking Data: STR Global February 2009

Appendix 2: Quarterly Hotel Statistics for UK, London and Provinces 2008- 2009

Baseline Scenario	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1 (F)	2009Q2 (F)	2009Q3 (F)	2009Q4 (F)
UK	% change compared to same quarter of prior year							
Occupancy	-2.2%	0.1%	-2.4%	-6.2%	-6.4%	-10.4%	-11.1%	-13.0%
ARR	2.7%	4.7%	3.9%	-1.2%	-3.3%	-8.8%	-12.2%	-13.7%
RevPAR	0.4%	4.8%	1.4%	-7.2%	-9.4%	-18.3%	-22.0%	-24.9%
London								
Occupancy	-0.2%	0.6%	-1.7%	-5.2%	-6.9%	-12.9%	-14.9%	-18.3%
ARR	4.0%	6.8%	6.5%	-0.8%	-3.6%	-12.0%	-18.2%	-22.5%
RevPAR	3.8%	7.4%	4.8%	-6.0%	-10.3%	-23.4%	-30.4%	-36.6%
Provinces								
Occupancy	-3.8%	-0.3%	-2.9%	-6.9%	-5.9%	-8.4%	-8.2%	-8.8%
ARR	1.2%	2.4%	0.9%	-1.6%	-3.0%	-5.0%	-5.0%	-3.0%
RevPAR	-2.6%	2.1%	-2.0%	-8.4%	-8.7%	-13.0%	-12.8%	-11.6%
Downside Scenario	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1 (F)	2009Q2 (F)	2009Q3 (F)	2009Q4 (F)
UK	% change compared to same quarter of prior year							
Occupancy	-2.2%	0.1%	-2.4%	-6.2%	-8.0%	-13.8%	-15.2%	-17.4%
ARR	2.7%	4.7%	3.9%	-1.2%	-3.7%	-10.9%	-15.5%	-17.7%
RevPAR	0.4%	4.8%	1.4%	-7.2%	-11.4%	-23.2%	-28.3%	-32.0%
London								
Occupancy	-0.2%	0.6%	-1.7%	-5.2%	-7.9%	-16.8%	-19.7%	-23.7%
ARR	4.0%	6.8%	6.5%	-0.8%	-3.7%	-14.1%	-21.9%	-26.9%
RevPAR	3.8%	7.4%	4.8%	-6.0%	-11.3%	-28.5%	-37.3%	-44.2%
Provinces								
Occupancy	-3.8%	-0.3%	-2.9%	-6.9%	-8.1%	-11.4%	-11.7%	-12.4%
ARR	1.2%	2.4%	0.9%	-1.6%	-3.7%	-7.1%	-7.8%	-6.4%
RevPAR	-2.6%	2.1%	-2.0%	-8.4%	-11.5%	-17.7%	-18.6%	-18.0%

R: Revised F: Forecast
Econometric Forecasts: PricewaterhouseCoopers February 2009
Benchmarking Data: STR Global February 2009

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Design: hb04229