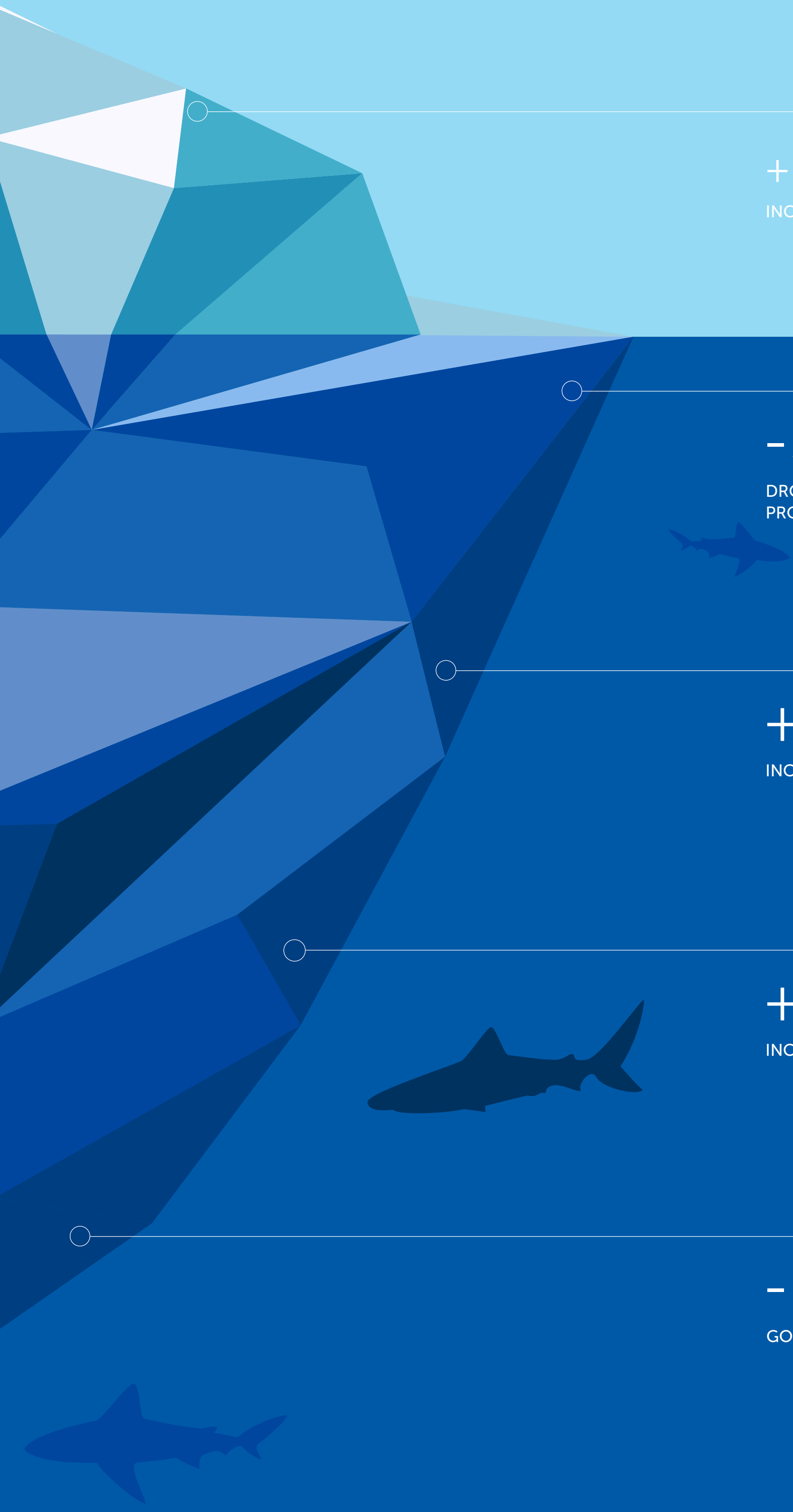
2000-2015
BENCHMARKING BEYOND REVPAR

WHAT LIES BENEATH

HOTSTATS
Hospitality Intelligence

WHAT'S IN THIS REPORT



+29.4%
INCREASE IN REVPAR

RevPAR increase has been led by record room occupancies and a steady uplift in achieved average room rate.

-5.0%
DROP IN ROOMS PROFIT CONVERSION

A 53% increase in operating costs has reduced rooms profit conversion to 70.9% in 2015 from 75.9% in 2000.

+12.8%
INCREASE IN TREVPAR

TrevPAR growth has been hindered by limited ancillary revenue increases.

+54.2%
INCREASE IN COSTS

Increases in Direct Expenses, Payroll and Undistributed Operating Expenses have significantly outpaced the growth in TrevPAR.

-24.3%
GOPPAR DECLINE

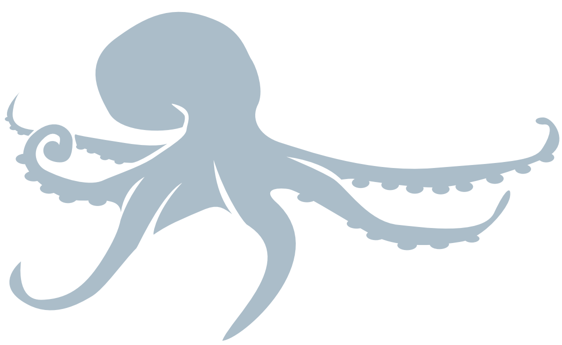
GOPPAR was recorded at £27.12 in 2015, dropping from £35.82 in 2000. Profit conversion has dropped to 29.6% of total revenue in 2015 from 44.2% in 2000.

2000-2015
BENCHMARKING BEYOND REVPAR
WHAT LIES BENEATH

"THE BEST JOURNEYS ANSWER QUESTIONS THAT IN THE BEGINNING YOU DIDN'T EVEN THINK TO ASK"
JEFF JOHNSON, 2010

The period from 2000 to 2015 has arguably been the most exhilarating and volatile era in hotel history. Relentless advances in technology, rapidly shifting market dynamics, an emerging generation of consumers who live online, the greatest recession in history and natural and man-made incidents which shook the world, have all played their part in reshaping the cost and profit profile of UK hotels.

In this publication, HotStats analysts journey beyond RevPAR and delve deep into the hotel profit and loss statement to investigate how the UK hotel market has evolved over the last 15 years, providing detailed analysis on revenue growth and its correlation with the tidal shift in demand patterns, the resulting impact on cost and profit conversion and key trends likely to be challenging hotel profitability in the next few years.



REGIONAL HOTELS SUCCESSFULLY NAVIGATE CHOPPY WATERS

Top line performance at regional hotels fell to its lowest level in the last 15 years in 2009 at the onset of the global financial crisis as RevPAR plummeted by 11.6% to £47.62 on the back of a 7.8% decline in average room rate.

Whilst it would take until 2011 before the downward spiral in corporate sector rates came to an end, by which time they were at their lowest level since 2000 (£68.27), the leisure sector helped hoteliers manage their losses through the downturn, as cash strapped Brits and a weak pound stimulated demand for Staycations.

This boost in domestic tourism helped fuel a 3.9% increase in the leisure sector rate in 2010, from where it has grown to £76.80 in 2015, 15.6% above 2009 levels.

By 2011, the achieved rate in the corporate segment had fallen by 11% as corporate travel budgets tightened amid an uncertain economic climate. Today, corporate sector rates are only 2.3% above 2009 levels and 6% behind the 2007 peak.

The London Olympics and Golden Jubilee celebrations were a welcome stimulus for regional hotel performance as RevPAR increased by 1.0% in 2012, and then accelerated into 2013 (+3.6%), 2014 (+8.9%) and 2015 (+6.1%) in line with the return to economic stability in the UK.

By the end of 2015, RevPAR in the regions exceeded the pre-recession high by 7.2%, but by this time the downturn had left its mark.

24.1%
UPLIFT IN REVPAR AT REGIONAL HOTELS SINCE 2009

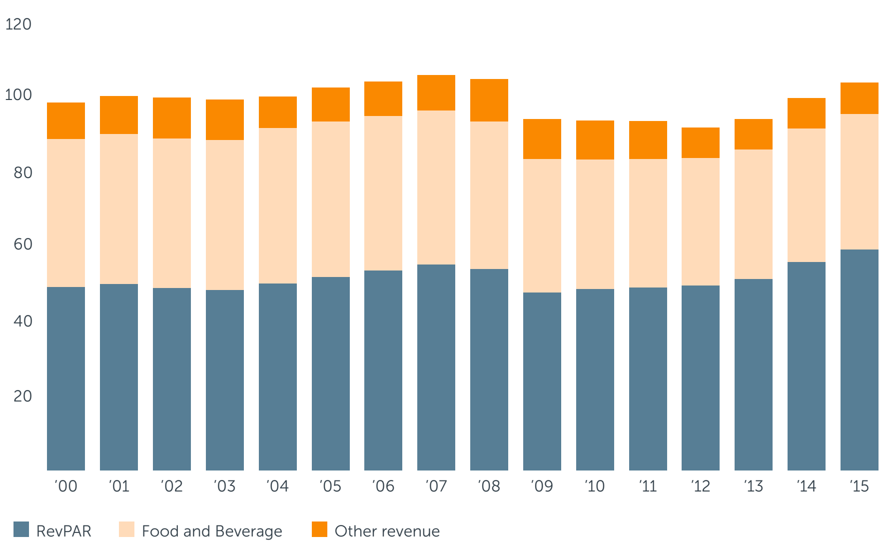
ANCILLARY REVENUE STRUGGLING TO KEEP PACE WITH REVPAR GROWTH

Rooms Revenue at regional hotels now comprised approximately 56% of total revenue, increasing from less than 51% in 2009, which has been at the expense of a decline in ancillary revenues.

There has been a lasting impact on key revenue drivers, such as meeting and events, which remain some 20% behind 2008 performance.

And whilst a 12.7% TrevPAR increase has been achieved since the onset of the economic crisis, at £105.90 in 2015 this metric still remains behind the pre-recession high of £108.17 recorded in 2007.

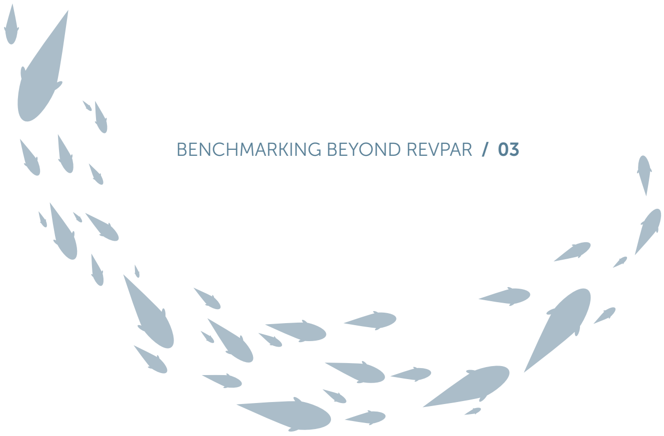
REGIONAL UK HOTELS
REVENUE MIX ON A PER AVAILABLE ROOM BASIS 2000-2015



£108.17
HIGH / 2007

£93.55
LOW / 2011

£100.18
AVERAGE



REGIONAL HOTELS MUST BE WARY OF THE UNDER CURRENT

The volatile operating environment has undoubtedly taken its toll on regional hotel profit performance over the last 15 years. But, whilst the global financial crisis was responsible for a decline in headline performance in 2009, market data suggests the bottom line at regional hotels has been under threat since the turn of the century.

The catalyst for profit decline was borne out of technology, but led by necessity as regional hoteliers remarkably maintained RevPAR growth in 2001, which was in spite of a 9.4% decline in visitor numbers to the UK due in part to the outbreak of foot and mouth, as well as the anxiety rippling out of the capital in the wake of 9/11.

In the early 2000s, maintaining top line performance came at a price for regional hoteliers as Rooms Cost of Sales (a HotStats measure of Travel Agent's Commissions, Reservation Fees, GDS Fees, Third Party Fees and Internet Booking Fees), increased by almost six times from 2000 to 2006, as hoteliers were effectively buying in business.

It was no coincidence that this was the period when OTAs, such as Expedia, Priceline and Booking.com began to significantly grow their presence in the sector.

Furthermore, a new era of digital marketing meant expenses related to sales and marketing at regional hotels accelerated by more than 220% on a per available room basis in the period from 2000 to 2006. This was a cost that previously did not exist.

COST INCREASES DRIVING PROFIT DOWN IN EARLY 2000s

At the same time, utility costs almost doubled on a per available room basis, alongside the growth in crude oil prices, further squeezing hotel profit margins.

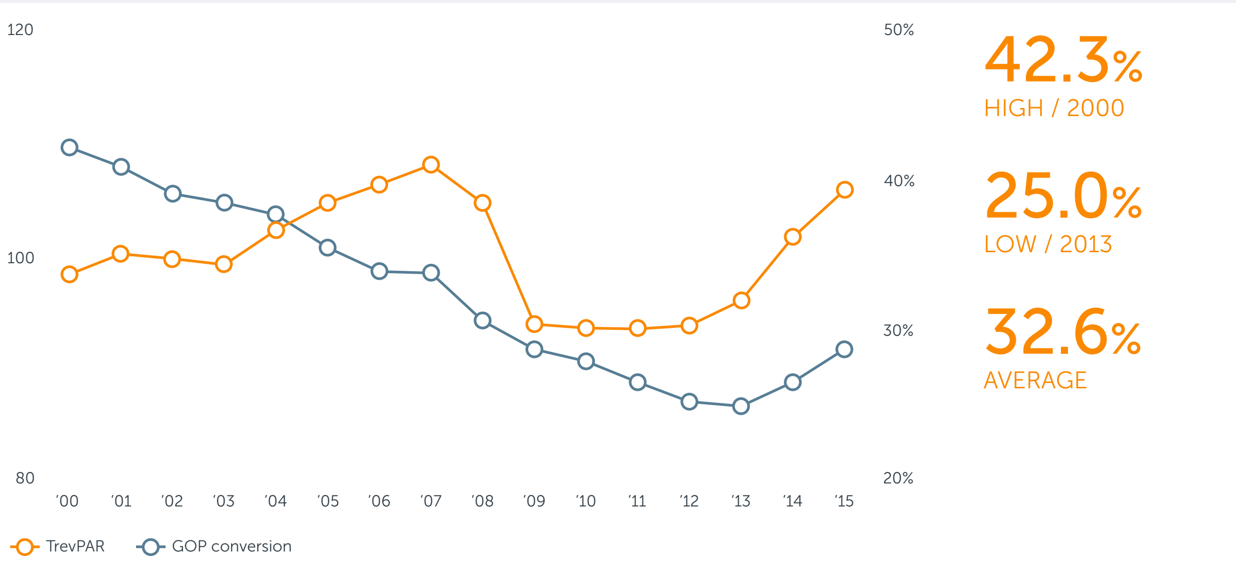
In the period from 2000 to the onset of the financial crisis in 2008, as a result of rapidly shifting operating dynamics, profit conversion at branded regional hotels fell by 11.6 percentage points, to 30.7% of total revenue, equivalent to a 23% drop in GOPPAR.

OPERATIONAL CHALLENGES INTENSIFY AS THE GFC HITS HARD

As revenue dropped in the midst of the great recession, hoteliers were once again faced with the challenge of managing costs as well as stimulating demand, but this time the severity of the crash diminished the revenue and profit profile from top to bottom.

Bottom line performance at regional hotels over the last 15 years fell to its lowest level in 2013 at just 25% of total revenue, but has since recovered to 28.8% in 2015.

REGIONAL UK HOTELS
TREVPAR AND GOP CONVERSION 2000-2015



LONDON HOTELS
RIDING ON THE CREST OF A WAVE

London RevPAR growth was recorded at 37% over the last 15 years, which is no mean feat considering that supply in the capital has increased by approximately 50% during this period, equivalent to approximately 50,000 additional bedrooms*.

Hoteliers in London fought their toughest battles in the early 2000s as the city's international demand sources were hit by multiple global incidents, including 9/11, SARS and the Iraq War, as well as a slowing in economic growth in key source markets of the US and Europe on the back of a boom period in the late 1990s.

Such was the impact of 9/11 on US travel habits, that the number of American visitors to London has never recovered to the 2.9 million accommodated in 2000.

As a result of the challenges to market demand, London RevPAR hit a low of £61.86 in 2003, a 20.6% decline on 2000, which was primarily due to achieved average room rate plummeting by 15.4%.

SHIFTING DEMAND PROFILE IN THE CAPITAL

International business was hardest hit during this period, recording a 16.5% drop in segment rate from 2000 to 2003, with corporate sector volume falling by 18.3%.

The London hotel market was quick to return to growth in 2004, with visitor numbers from Europe, primarily France, Germany, Spain and Italy, helping to plug the hole left by the Americans, and buoyant domestic economic conditions driving a 44% increase in RevPAR in the five years to 2008, to £88.80.

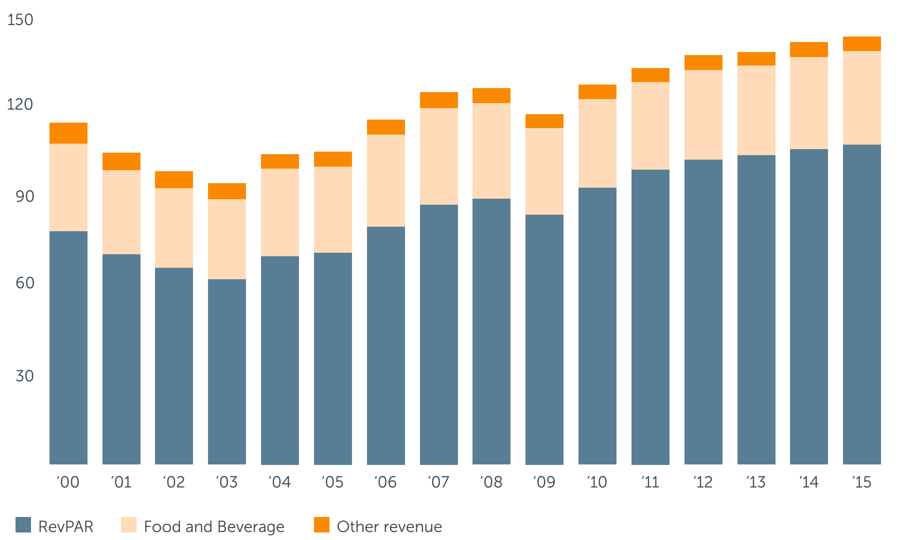
LONDON HOTEL PERFORMANCE STRONGER THAN EVER

Headline performance at hotels in the capital remained stalwart at the onset of the downturn in 2009. Despite declining by 6.0% to £83.49, RevPAR remained 35% above the 2003 low point, reflecting the pace of growth between 2004 and 2008.

By 2015 the Rooms department at London hotels accounted for 75% of total revenue, up from 68% in 2000, which was partly due to the 28% increase in RevPAR from 2009.

Hotels in London have achieved a 7.6% increase in Food and Beverage revenue over the last 15 years, which has contributed to hoteliers in the capital recording their highest ever TrevPAR in 2015, at £143.04.

LONDON HOTELS
REVENUE MIX ON A PER AVAILABLE ROOM BASIS 2000-2015



£143.04
HIGH / 2015

£93.93
LOW / 2003

£119.98
AVERAGE

* Source: AM:PM Hotels

LONDON HOTELS
ENJOYING A STRONG THROUGH FLOW

Profit conversion at hotels in London fell from its peak of 54.6% of total revenue in 2000 to 47.2% in 2003 as hoteliers raised expenditure in an attempt to stop the rot caused by plummeting headline performance.

The major cost increases were in Rooms Cost of Sales, which grew by more than 225% on a per available room basis in the three years to 2003, as well as Sales and Marketing expenses, which increased by 60% during the same three-year period.

The increase in these two costs alone was responsible for more than half of the 7.4 percentage point decline in profit conversion at London hotels in the early 2000s.

28.8%
GOPPAR DECLINE AT LONDON HOTELS FROM 2000 TO 2003

The expenditure failed to make an immediate impact and the situation was worsened by a decline in key revenue generating departments.

For example, the conference and banqueting department suffered an 18% decline in revenue on a per available room basis. This drop was further compounded by a 42% decline in the achieved rate in the residential conference segment, reflecting the deteriorated health of the international business segment.

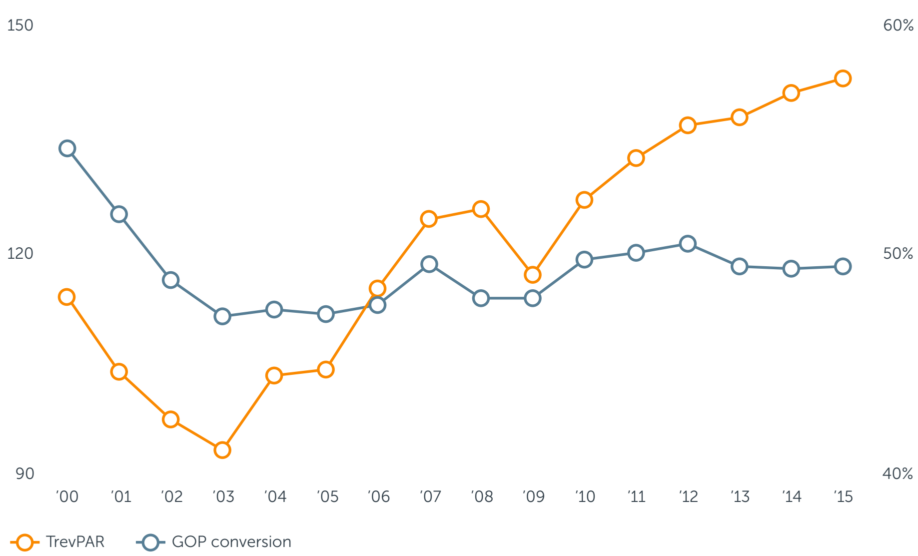
Despite the challenges in the early part of the 2000s, hotels in London recovered rapidly and headed into the recession in a strong profit position, recording a GOP conversion of 50% in 2007.

COST CONTROL COMPLEMENTS TOP LINE RECESSIONARY GROWTH

Astute management by London hoteliers throughout the recent economic downturn enabled GOP conversion to be maintained at around 50%, with a high proportion of through flow. Illustrated by the period from 2009 to 2015, during which, 55.7% of every additional £1 of revenue flowed through to the bottom line.

As a result of the strong performance in recent years, departmental operating profit at London hotels in 2015 was recorded at 69.0% of total revenue, above the 68.1% DOP recorded in 2000. However, GOP remains below 2000 levels as Undistributed Operating Expenses, particularly in Sales and Marketing, continue to creep upwards.

LONDON HOTELS
TREVPAR AND GOP CONVERSION 2000-2015



54.6%
HIGH / 2000

47.2%
LOW / 2003

49.3%
AVERAGE

DEEP DIVE
ROOMS PROFIT

Increasingly for hotels, growth in RevPAR is not translating to growth in profit in the Rooms department.

The evolution of the industry over the last 15 years means that it is now critical that operators, owners, lenders and investors gain a true appreciation of how acquisition cost creep is cancelling out growth in Rooms revenue.

THE ADVANTAGES OF NET REVPAR

Net RevPAR can help identify the absolute revenue derived from the rooms department, as it takes account of acquisition costs, something that RevPAR, for all its merits, fails to do and is calculated by deducting rooms selling costs (ie Rooms Cost of Sales + Sales and Marketing Expenses) from RevPAR.

In 2000, regional hoteliers recorded a Net RevPAR of £47.12. In 2015, the same sample of branded hotels achieved a Net RevPAR of £47.14, a £0.02 increase over 15 years. The growth in selling costs completely cancelled out the 20.6% increase in RevPAR.

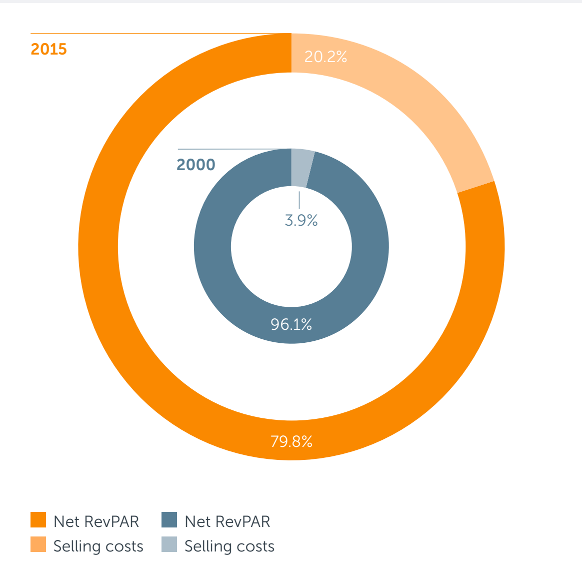
The growth in OTAs, which has fuelled the increase in Rooms Cost of Sales has been well documented. Within the last year alone, 285 million guests stayed in properties booked through Booking.com. Over the last 15 years, Rooms Cost of Sales recorded dramatic growth of 1,300% in the regional UK and 900% in London on a per available room basis.

Whilst OTAs have been successfully used to leverage many hotel markets out of the deepest and longest recession in history, market evidence suggests that hoteliers are still unsure of how to correctly manage the third party resource.

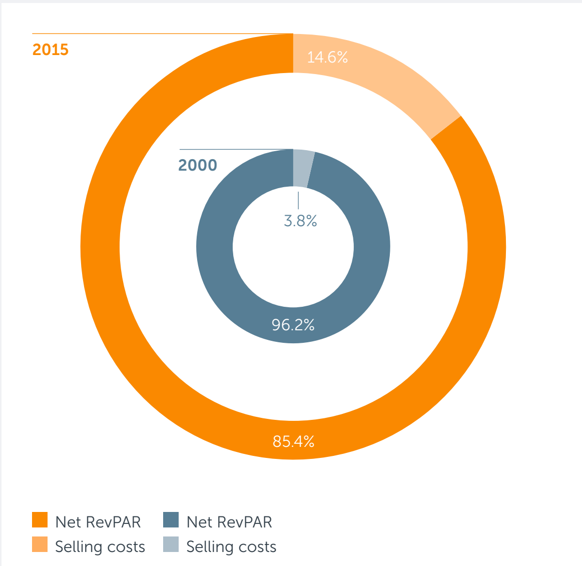
Less well publicised has been the upward trajectory of Sales and Marketing expenses, which has increased by 285% in the Regions and 230% in London over the last 15 years, with the reasons for this rapidly growing cost three fold:

- In an attempt to keep pace with OTAs, brands are paying more to have a presence across a growing number of marketing platforms. However, with Priceline (parent brand of Booking.com) and Expedia spending close to $2 billion per year on marketing, this expenditure may be fruitless.
- Brands are attempting to recapture market share from OTAs by incentivising new and returning members to join their loyalty schemes. Discounting and/or additional amenities used as incentives will come at a higher cost to hotels.

REGIONAL UK HOTELS
NET REVPAR & SELLING COSTS 2000 & 2015 COMPARISON



LONDON HOTELS
NET REVPAR & SELLING COSTS 2000 & 2015 COMPARISON



HOTSTATS DEFINITION OF ROOMS SELLING COSTS

Rooms Cost of Sales
(Travel Agent's Commissions, Reservation Fees, GDS Fees, Third Party Fees and Internet Booking Fees)

+ Sales and Marketing Expenses
(Advertising and Promotional Activity, Recharge of Central Sales & Marketing Expenses, Reservation Fees and Cost of Brand Loyalty Schemes).

- Changing market dynamics have necessitated a greater investment in digital marketing, a cost which did not exist 15 years ago. Whilst hotel marketing budgets have shifted to multiple platforms and operators decide whether the best method of marketing is traditional or online, they continue to do both.

1300%
INCREASE IN ROOMS COST OF SALES PAR FOR REGIONAL HOTELIERS SINCE 2000

The saving grace for UK hoteliers is that they have been smart enough to manage down payroll costs as well as other expenses in the Rooms department to, somewhat, alleviate the impact of increasing costs elsewhere. However, profit conversion in the rooms department has dropped by five percentage points in the last 15 years, to 70.9% in 2015, from 75.9% in 2000.

Recent acceleration since 2012 has resulted in growth in RevPAR, Net RevPAR and Rooms Profit, but the pace of growth, at a CAGR of +6.0%, is not only unsustainable, but the introduction of the Living Wage in 2016 will likely bring new challenges to Rooms profit.

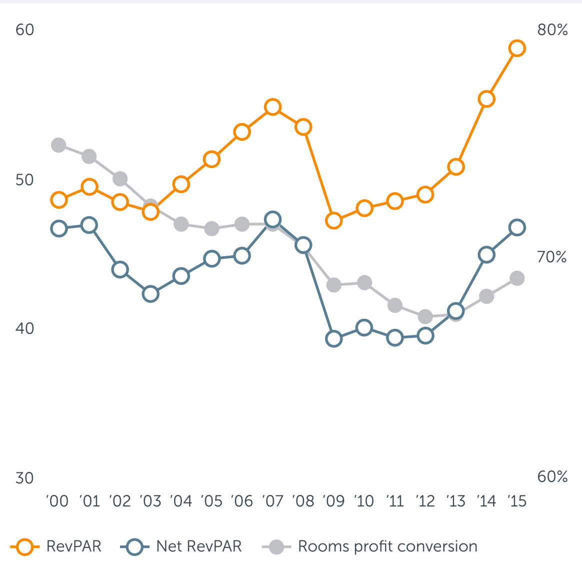
This issue is certainly not limited to the UK. The following table illustrates the year-on-year movement in RevPAR, Rooms Cost of Sales and Sales and Marketing Expenses for a range of key city markets across Europe in just the 12 months to December 2015.

KEY EUROPEAN HOTEL MARKETS
ROOMS ACQUISITION COSTS MOVEMENT 2015 V 2014

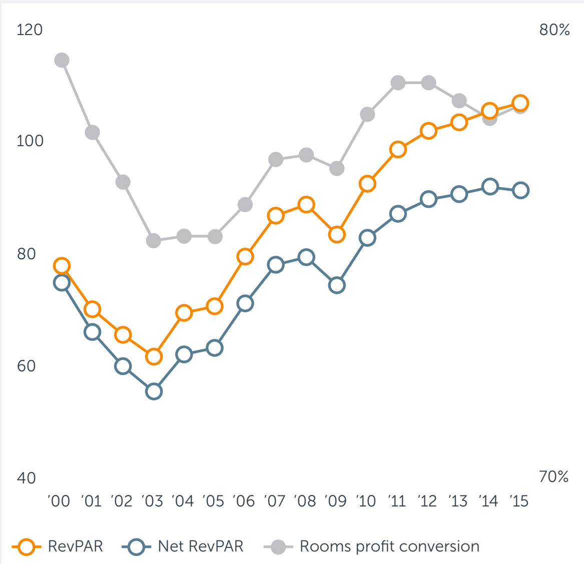
CITY	REVPAR MVMT 2015 V 2014 (%)	ROOMS COS MVMT 2015 V 2014 (%)	S&M EXPENSES MVMT 2015 V 2014 (%)
Amsterdam	+11.7	+18.4	+11.8
Berlin	+10.8	+30.7	+29.5
Dublin	+22.0	+45.9	+19.2
Moscow	-1.3	+30.2	+0.3
Prague	+15.4	+21.6	+14.6
Vienna	+9.7	+20.4	+3.7
Warsaw	+7.5	+25.9	+12.8

Source: HotStats, 2016

REGIONAL UK HOTELS
REVPAR, NET REVPAR AND ROOMS DEPARTMENT PROFIT 2000-2015



LONDON HOTELS
REVPAR, NET REVPAR AND ROOMS DEPARTMENT PROFIT 2000-2015



TIDAL SHIFTS
THE CHANGING BOOKING PROFILE OF THE UK HOTEL MARKET

Whilst limited Net RevPAR growth can be, in part, attributed to the growing presence of OTAs, it should be noted that the increase in Rooms Cost of Sales has been as much a result of the titanic shift in demand booking under identifiable market segments, as increases in third party commission rates.

This trend is most evident in the commercial segment, typically identified as contracted corporate (ie rooms let at tariffs negotiated centrally or locally with corporate clients) and residential conference (ie rooms let as part of a conference package) demand. Whilst commercial demand in the regions peaked in 2001 at 58.8% of total demand, this figure has declined to 41.2% in 2015.

GFC FORCES CHANGE IN COMMERCIAL BOOKING HABITS

This is not to say that the volume of commercial demand at hotels in the regions has fallen, but that this segment is now using alternative booking methods.

For example, in the wake of the global financial crisis, many companies commissioned corporate travel agents to negotiate hard on contracts, securing the best value for their client's money. In addition, there was an increasing propensity for corporates to book via online channels, affording a company greater flexibility in unpredictable times and removing obligations associated with rigid contracts.

In place of commercial demand, the Best Available Rate (BAR) segment now comprises 23.8% of all roomnights sold in regional hotels, increasing from just 2.8% in 2003.

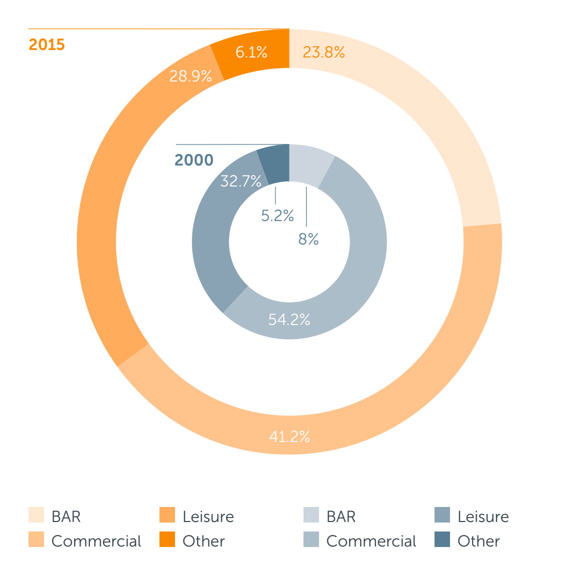
In London, the BAR segment comprised 24.9% of total demand in 2015, with leisure at 20.9%, leaving almost half of all roomnights open to bookings via alternative channels.

WIDER IMPLICATIONS OF TREND TOWARDS BAR

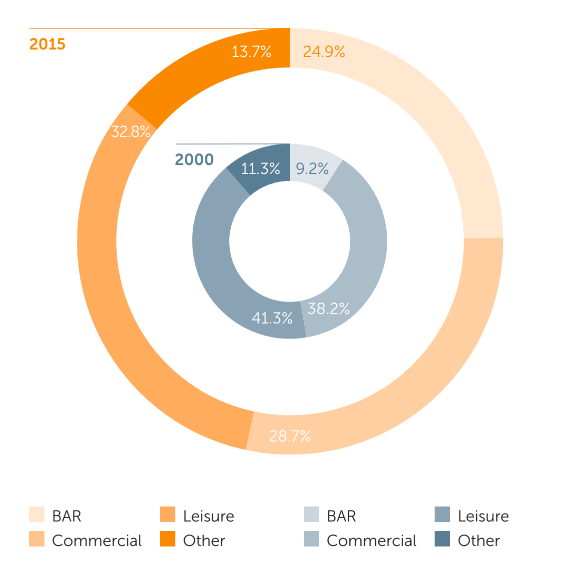
This tidal shift to bookings via BAR, and leisure, segments is crucial as it is evidence that a greater number of distribution channels are being utilised by hotel bookers across all segments, including those coming from third party intermediaries, such as OTAs.

Commercial demand historically represented a strong base of high-yielding business, which booked well in advance with a pre-agreed level of volume and high ancillary spend. In contrast, demand booked through the BAR and leisure segments is volatile, has limited guarantees and shrinking lead times and is therefore providing hoteliers with significant operational challenges.

REGIONAL UK HOTELS
MARKET MIX



LONDON HOTELS
MARKET MIX



DEEP DIVE
FOCUS ON PAYROLL

Growth in payroll levels has significantly outpaced TrevPAR increases at regional hotels over the last 15 years.

In 2015, total payroll was recorded at 32.1% of total revenue, compared to 27.5% in 2000. On a per available room basis, this increase is equivalent to +25.6%, against a 7.6% increase in TrevPAR.

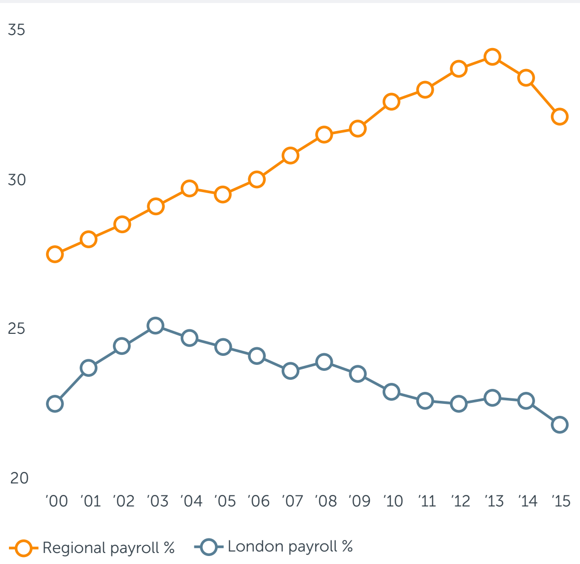
THE IMPACT OF THE NMW ON HOTELS

According to a government study by the Resolution Foundation, the number of hotel staff currently employed on minimum wage contracts is significant and projected to increase to 40% by 2020, therefore any growth in this allocation is likely to have a fundamental impact on overall hotel payroll levels.

Whilst the introduction of the minimum wage by the Labour government in 1999 was at a relatively low level, the adult hourly rate (+21 years) has subsequently increased by approximately 80% in the last 15 years, to £6.70 in 2015 from £3.70 in 2000.

The challenges in managing payroll are likely to continue following the introduction of the Living Wage in April 2016, which means all workers aged 25 or above will be entitled to earn a minimum of £7.20 per hour, a 7.5% increase on current pay in this rate bracket.

REGIONAL UK AND LONDON HOTELS
PAYROLL AS A % OF TOTAL REVENUE 2000-2015



THE LONGER TERM CONCERN ABOUT THE LIVING WAGE

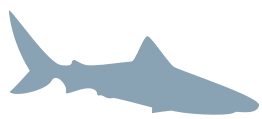
The first wave of wage increases may be less of an issue to regional hoteliers than the ongoing effects of the policy, which propose a further 25% increase in the Living Wage, to £9 per hour by 2020.

80%
INCREASE IN NATIONAL MINIMUM WAGE SINCE 2000

And whilst the proportion of employees in the 25+-age bracket is unlikely to be significant, of more concern is the knock on effect of such increases down, as well as up, the pay scale.

Top line revenue growth in the short to medium-term should be sufficient to offset this increase in payroll, but recent history suggests these changes will need to be effectively managed to prevent a further squeeze in profit margin.

The forthcoming increase in payroll costs will be less of an issue for hoteliers in London, which, despite a 21% increase in payroll per available room, have managed to record a decline as a proportion of total revenue in the last 15 years, to 21.8% in 2015 from 22.5% in 2000 due to strong top line growth.



NEW HORIZONS
STAY AFLOAT WITH HOTSTATS OPERATIONAL BENCHMARKING

If anything can be learnt from the last 15 years, it is that the demand, revenue and cost profile of hotels in the UK has gone through a dramatic evolution and, for the most part, this has led to a reduction in hotel profitability.

The next 15 years will undoubtedly be as volatile, but HotStats offers the ability to learn from the past by adopting a holistic approach to benchmarking which allows hoteliers to focus their efforts on improving performance in identified departments across the entire hotel operation.

Revenue management can drive some of the top line (ie rooms revenue only accounts for 60% of total revenue at UK hotels), but the key to achieving optimal profit performance is to understand all that lies beneath.

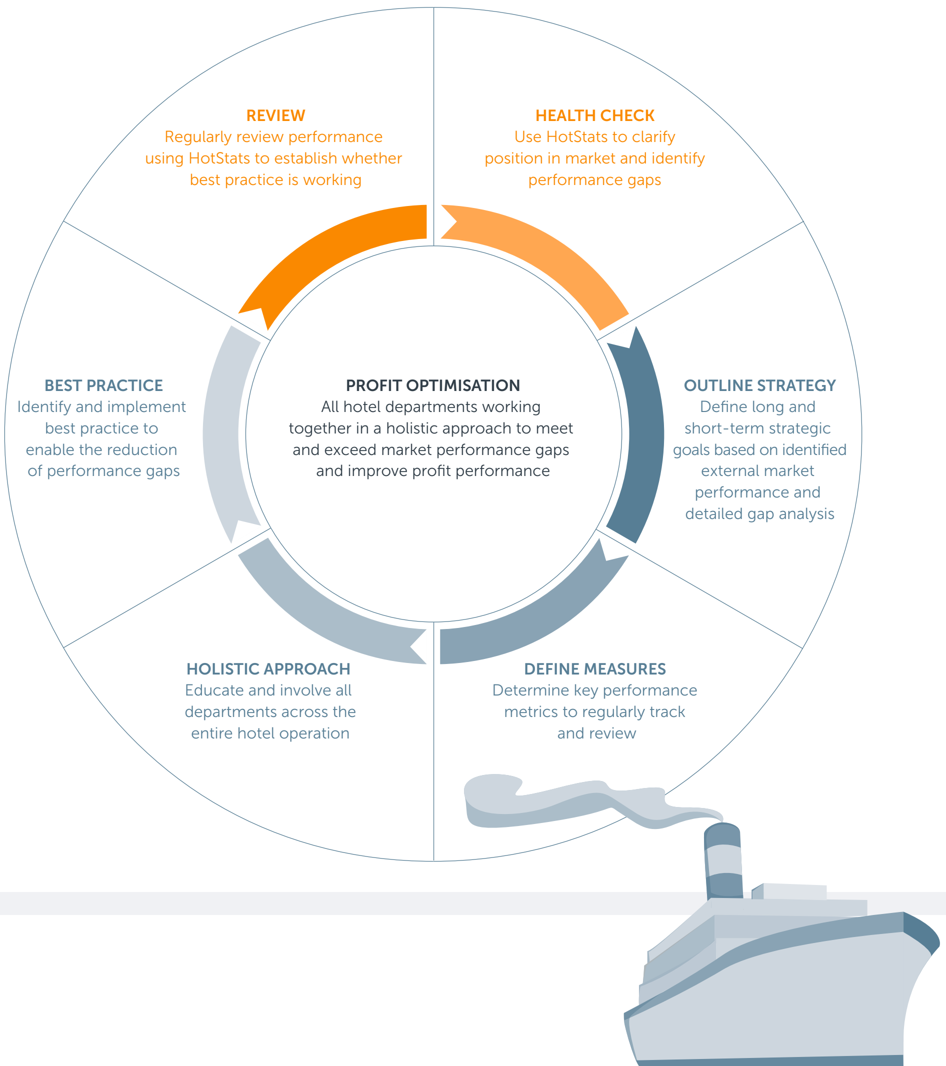
In the same way RevPAR is a key metric used to benchmark Rooms revenue performance, HotStats offers full performance tracking for each department to identify gaps and allow management to challenge operations teams to close that gap.

Line-by-line HotStats also tracks Departmental Expenses, Payroll, Cost of Sales, Undistributed Expenses and Profit.

Aligning the strategy of a hotel with a greater understanding of the operation from top to bottom offers management more levers to drive the optimal profit performance.

Improved profit performance drives higher hotel real estate values and makes for happier investors.

THE PROFIT OPTIMISATION CYCLE



HOTSTATS

For almost 20 years, HotStats has been the only provider of a profit and loss benchmark service which is able to identify trends in the revenue, cost and profit profile of hotels on a monthly and annual basis.

The biggest brands, banks, investment firms and asset management companies across the world use HotStats to make informed decisions about the performance of their hotels, from top line to bottom line.

EDITOR'S NOTES

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

Please note: The data samples have remained static for the entire 15-year period and do not reflect any change in brand or operating agreement.

SERVICES

Our unique profit and loss benchmarking service is distinguished by the fact that it provides in excess of 100 performance metrics covering 70 revenue, cost and profit measures, providing the deepest insight available into hotel operations.

- For hoteliers, hotel management companies and asset managers, we recommend using our interactive web-based reporting tool. Updated on a monthly basis, HotStats online provides full profit and loss hotel performance for a competitive set of your choosing. This unrivalled access to market performance data enables a profit optimisation strategy to be effectively implemented and maintained in your hotel.
- For investors, developers, analysts and consultants, who require rapid insight in to the revenue, cost and profit performance of hotels in an identified localised or regional market place, a range of bespoke HotStats reports are available.

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Hospitality Intelligence

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