



# Hospitality Directions Europe Edition\*

Issue 14 September 2006

## UK looking good as London surges ahead

### PricewaterhouseCoopers' latest UK hotel sector forecast

Our forecast for the UK hotel sector as a whole for 2006 is more optimistic than it was six months ago. This is due largely to the strong performance of London hotels in the first six months of the year, with occupancies now forecast to grow by 7.8 per cent for the year, giving RevPAR growth of 12.9 per cent compared to 3.3 per cent in our March forecast. At just under 82 per cent, London occupancies will be at their highest level for a decade and a forecast average room rate of £123.43 in 2008 would make it a record year.

For the UK as a whole this translates into RevPAR growth of 5.5 per cent for 2006 compared to our previous forecast of 4.8 per cent. Growth is expected to ease slightly in 2007 and 2008, when the gains will be driven principally by room rate increases rather than occupancy.

The Provinces have had a mixed year so far and overall our forecast is slightly less optimistic than in March, with RevPAR gains of around three percent in each of the forecast years, some one percentage point lower than our previous expectation. Birmingham and Edinburgh are continuing to show good growth but Manchester looks like seeing negative growth in 2006 (on the back of occupancy and rate declines in three of the first five months) before returning to a positive track thereafter.

Above trend economic growth, continuing robust corporate travel demand and strong leisure travel volumes have all been key in driving the forecast, particularly for London. Notwithstanding these strong industry fundamentals, the sector is still susceptible to external shocks and needs to be prepared to deal with an uncertain future. A sudden economic downturn, continuing conflict in the Middle East, a significant terrorist attack and health scares such as avian flu could all impact travellers' confidence quickly and sharply, with the greatest effect again likely to be felt in London. In addition, significant cost pressures remain, particularly in the areas of labour and energy.

Forecast highlights 2006-2008 (growth %)

	2006			2007			2008		
	UK	London	Provinces	UK	London	Provinces	UK	London	Provinces
Occupancy	2.3%	7.8%	1.0%	0.2%	0.5%	0.6%	0.4%	0.4%	0.6%
ARR	3.2%	4.7%	2.0%	4.3%	4.8%	2.3%	4.4%	5.2%	2.5%
RevPAR	5.5%	12.9%	3.0%	4.5%	5.2%	2.9%	4.9%	5.6%	3.1%



# Latest UK hotel sector forecast

## No stopping UK hotels over the next three years?

For the UK as a whole the latest PricewaterhouseCoopers forecast expects healthy RevPAR growth of 5.5 per cent for 2006, with a further gain of 4.5 per cent in 2007 and 4.9 per cent in 2008, taking RevPAR to £56.18 this year and to £58.69 by 2007. Growth is driven by both occupancy and room rate gains of 2.3 and 3.2 per cent respectively this year but largely by further room rate

increases in 2007 and 2008 of 4.3 per cent and 4.4 per cent respectively, enough to take rates next year past their previous 2000 peak. Five years of uninterrupted RevPAR growth should take RevPAR to £61.53 by 2008 and room rates to £83.27, still below the inflation-adjusted 2000 peak but well ahead of the nominal prices peak that year. Those hotels that can differentiate themselves through brand, product and guest experience as well as location will benefit most from anticipated rate growth. For others the going may prove tougher.

## Outlook for UK hotels, key issues and risks

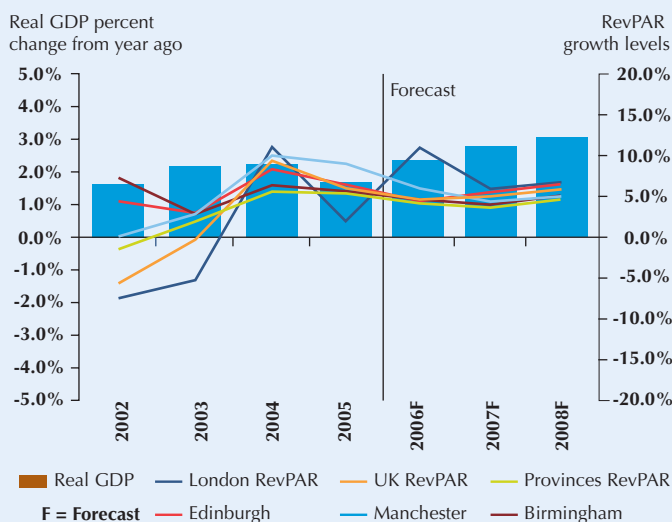
### London hotels fill up in 2006...

- forecast RevPAR growth rates of 12.9 per cent this year
- more moderate growth expected in 2006 and 2007, but location and product key
- luxury outperforming other segments
- corporate demand driving rates beyond 2000 levels but in inflation adjusted terms its still uphill to reach past peaks
- margins threatened by rising costs
- domestic visitors still staying away
- new names to open e.g. Silken and Quest

### Outside London...

- sector busy reinventing itself - new concepts such as stylish rail hotels Sleeperz and airport Yotel
- mid-market fighting back as accelerated rollout of Courtyard aims to raise quality
- Edinburgh's occupancies and room rates move ahead strongly
- Birmingham loses Motor Show but still sees good RevPAR growth
- Manchester dips a little this year but should get back on track next year
- bed tax fears loom

Forecast for UK and key cities over next three years



Source: **Econometric Forecasts:** PricewaterhouseCoopers July 2006, **Macroeconomics**  
**Data:** Oxford Economics July 2006,  
**Benchmarking Data:** Hotel Benchmark TM Survey by Deloitte June 2006

Risks remain: hard economic landing, oil and energy costs, MiddleEast escalation and terrorism events, bird flu spectre in Autumn, discretionary spending squeeze, proposed bed tax

### August events

Despite data not yet being available, we don't envisage that the air travel disruptions in August will have a lasting impact on the industry. Whilst the events were highly inconvenient for those unfortunate enough to be caught up in them, there was no actual terrorist attack. Moreover, even if there had been, travellers seem to be becoming increasingly resilient to such occurrences. The short term effect may be significant, with travel plans disrupted, but longer term the impact is likely to be more muted as many travellers merely put their plans on hold or substitute domestic short breaks for overseas trips.

# Latest London hotel sector forecast

## London hotels in the fast lane again

London knows it needs to keep reinventing itself just to maintain market share and stay relevant to today's travellers. There has been plenty of reinvestment in infrastructure and new initiatives recently, from a new urban beach in Shoreditch, to new hotel brands such as Yotel or Silken and the revamped British International Motor Show. The show alone expected 400,000 visitors and London expects 14.4 m overseas visitors for the year, an increase of four per cent on 2005. But the city operates in a highly competitive world and is constantly seeking new visitors, especially now from Emerging Markets.

Recent data for 2006 for London shows that hotels have been powering-up in the capital, with occupancy levels accelerating into the mid 80s in some months, following a 1.7 per cent decline in 2005. In the aftermath of the July 2005 bombings occupancies fell to just below 66 per cent in August – quite high for many world cities, but not London.

Our latest forecast now expects strong occupancy growth of 7.8 per cent taking levels to almost 82 per cent for 2006 as a whole. Although not at record 1997 levels when occupancies soared to 84 per cent, they are getting closer and if they reach our forecast this year they will end the year marginally higher than in another good year, 2000. Once occupancy rates approach 83 per cent, as we expect in 2007 and 2008, London is essentially getting close to capacity and for 2007 and 2008 we forecast growth of just 0.5 per cent and 0.4 per cent respectively.

London hotels are still lagging 2000 in terms of pricing power. However this is the third year of ARR growth and 4.7 per cent growth this year will take ARR to £112.04.

Further growth of 4.8 per cent and 5.2 per cent in 2007 and 2008 will take room rates to £123.43 in 2008, making it a record year. As a result London's hoteliers should see high RevPAR growth of 12.9 per cent, taking levels to £91.70 this year. More moderate growth in 2007 and 2008 of 5.2 per cent and 5.6 per cent will take RevPAR to £101.93 by 2008.

## Inflation-adjusted figures tell a less buoyant story with RevPAR still below 2000 peak

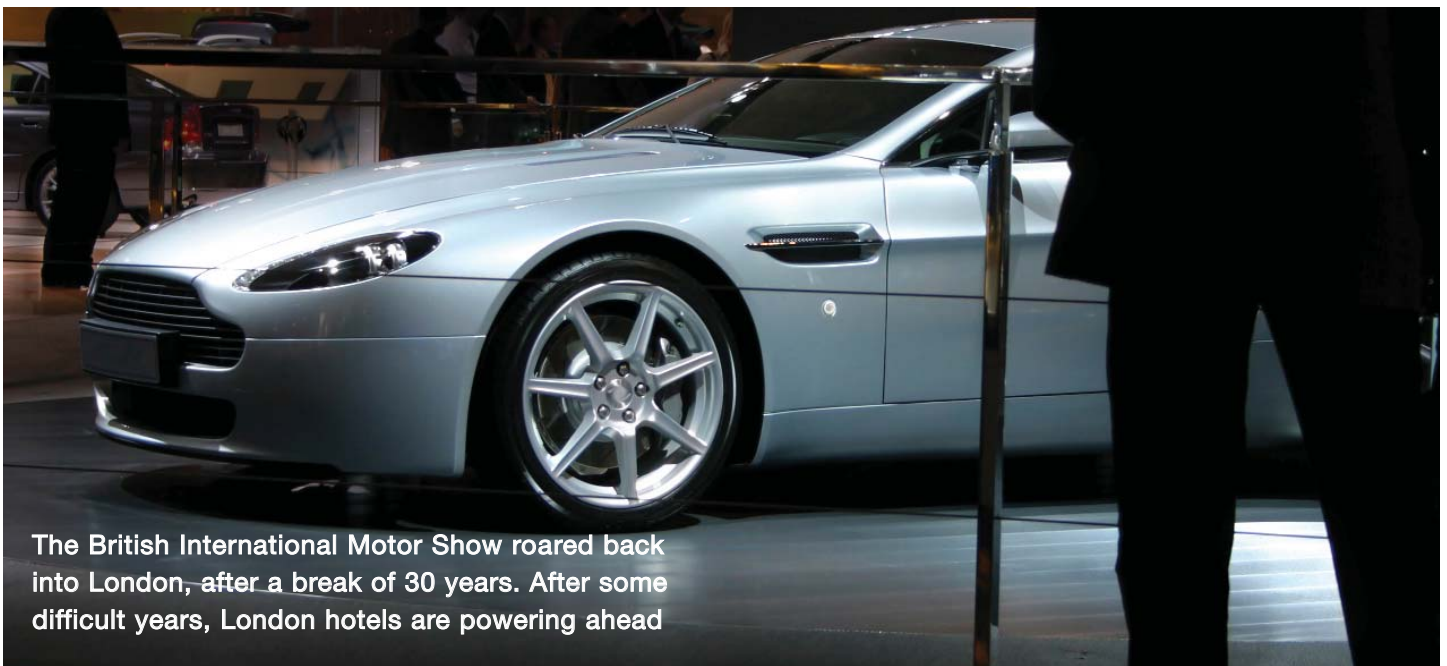
Admittedly comparisons for London are with a poor year in 2005 and in inflation-adjusted terms results are not quite so impressive but it's still a success story

If we strip out inflation (CPI) then real RevPAR growth is not so impressive. Real RevPAR of 9.9 per cent for 2006 takes RevPAR to £46.48, the best result since 2001 but still some £7.85 off that achieved in the record year 2000 and even further off the all-time high in 1997 when real RevPAR reached £57.42. On the same basis, real ARR growth falls from 4.7 per cent to 1.9 per cent with ARR at £56.79 in 2006.

PricewaterhouseCoopers Latest Forecast for London  
September 2006

	2006F	2007F	2008F
Average Room Rate (£)	112.04	117.36	123.43
% Change	4.70%	4.80%	5.20%
Occupancy (%)	81.85	82.23	82.58
% Change	7.80%	0.50%	0.40%
RevPar (£)	91.7	96.51	101.93
% Change	12.90%	5.20%	5.60%

Source: **Econometric Forecasts:** PricewaterhouseCoopers July 2006,  
**Benchmarking Data:** Hotel Benchmark TM Survey by Deloitte June 2006

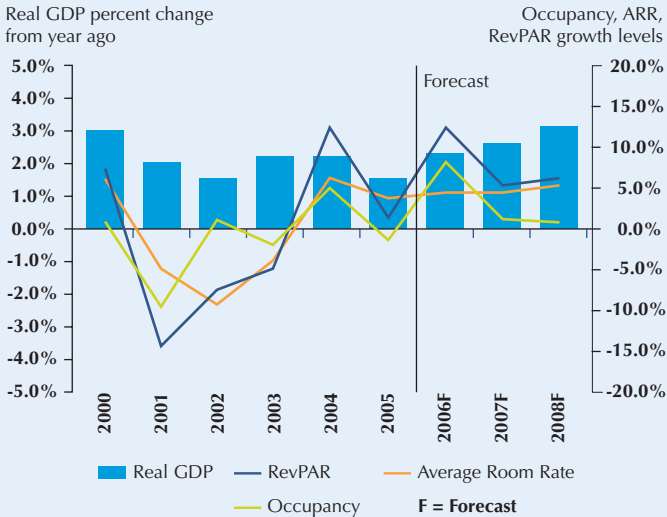


The British International Motor Show roared back into London, after a break of 30 years. After some difficult years, London hotels are powering ahead

# Latest London hotel sector forecast

## London hotel performance 2000 to 2008

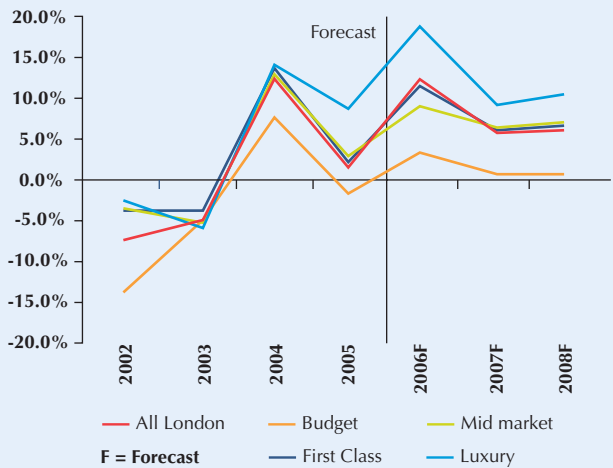
Real GDP, revenue per available room, average room rate and occupancy growth rates



**Source: Econometric Forecasts:** PricewaterhouseCoopers July 2006,  
**Macroeconomics Data:** Oxford Economics July 2006,  
**Benchmarking Data:** Hotel Benchmark TM Survey by Deloitte June 2006

## London's luxury hotels performing strongest

RevPAR growth levels

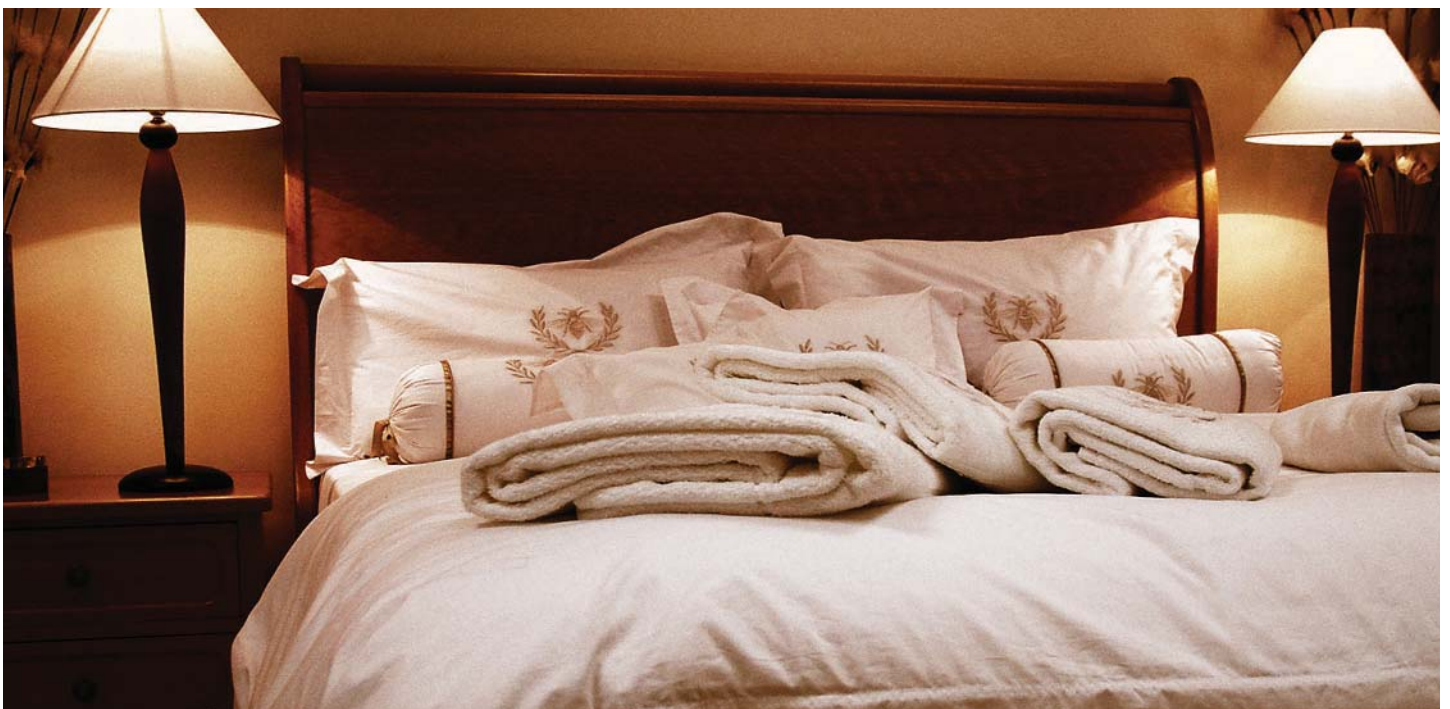


**Source: Econometric Forecasts:** PricewaterhouseCoopers July 2006,  
**Macroeconomics Data:** Oxford Economics July 2006,  
**Benchmarking Data:** Hotel Benchmark TM Survey by Deloitte June 2006

## Luxury sector outperforming other segments

Since 2004 London's luxury hotels have seen higher room rates growth than other segments including first class, mid-market and budget hotels. This has driven high RevPAR levels for the sector and we expect over 18 per cent growth this year. On the other hand, budget hotels have had a much more difficult time trying to raise rates and we expect only low RevPAR growth levels with around 3.3 per cent this year.

High operational gearing means increases in London's room rates and occupancies will generate a more than proportionate increase in bottom line profits, although rising costs, especially energy, threaten margins. A mooted bed tax also looms over hoteliers – see demand drivers in Appendix for Andrew Coslett's comment on implications of this proposed bed tax on industry revenues.





## Provinces

The Provinces have seen mixed fortunes in terms of demand this year, with moderate room rate growth but lethargic occupancy growth in the six months to June 2006. Nevertheless, short break tourism and business travel continues to drive investment in many cities. Ten years in the making, the re-opening of Bath's famous Spa and thermal springs aims to re-invigorate the city as a magnet for spa and health tourism. As a part of its widespread roll-out of the Courtyard brand in the UK, Marriott have already announced plans to open a hotel in Bath. Marriott are looking at 20 locations for the brand, including Birmingham and Hull. Successful provincial operator De Vere is developing a new Village Hotel & Leisure Club in Swansea; Rezidor SAS are re-branding and refurbishing the Moat House in York, now to become a Park Inn. As a part of its strategic expansion plans Hilton Hotels Corporation may also bring new brands to the UK.

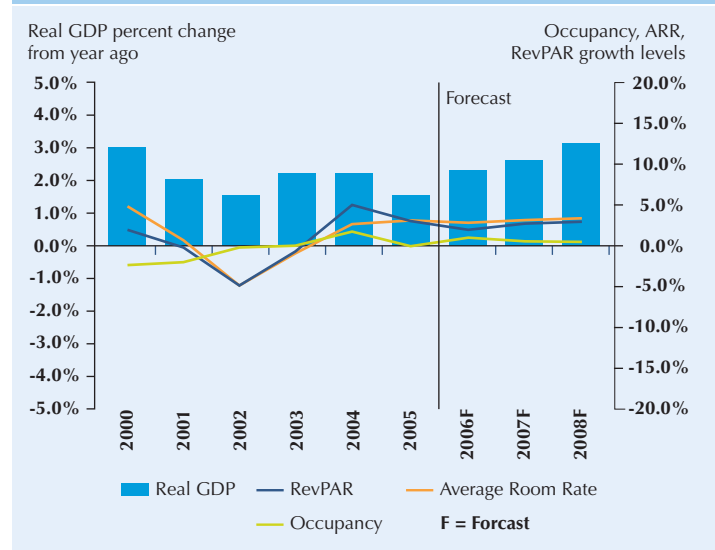
Our revised forecast expects further RevPAR growth of three per cent this year, 2.9 per cent in 2007 and 3.1 per cent in 2008, and this will take Rev PAR levels to £45.46, £46.78 and £48.24 in these years. This growth is largely driven by modest room rate gains but occupancies are likely to struggle in the low 70s with only 0.6 per cent growth in 2007 and 2008, nudging occupancy to 72.05 per cent by 2008.

PricewaterhouseCoopers Latest Forecast for Provinces  
September 2006

	2006F	2007F	2008F
Average Room Rate (£)	63.83	65.32	66.96
% Change	2.00%	2.30%	2.50%
Occupancy (%)	71.22	71.62	72.05
% Change	1.00%	0.60%	0.60%
RevPar (£)	45.46	46.78	48.24
% Change	3.00%	2.90%	3.10%

Source: **Econometric Forecasts:** PricewaterhouseCoopers July 2006,  
**Benchmarking Data:** Hotel Benchmark TM Survey by Deloitte June 2006

Provinces hotel performance 2000 to 2008  
Real GDP, revenue per available room, average room rate and occupancy growth rates



Source: **Econometric Forecasts:** PricewaterhouseCoopers July 2006,  
**Macroeconomics Data:** Oxford Economics July 2006,  
**Benchmarking Data:** Hotel Benchmark TM Survey by Deloitte June 2006

# Latest hotel sector forecast for Provinces and other key cities

## Edinburgh

PricewaterhouseCoopers Latest Forecast for Edinburgh  
September 2006

	2006F	2007F	2008F
Average Room Rate (£)	78.73	82.16	86.54
% Change	3.80%	4.40%	5.30%
Occupancy (%)	79.30	79.97	80.73
% Change	2.70%	0.90%	1.00%
RevPar (£)	62.43	65.71	69.87
% Change	6.60%	5.20%	6.30%

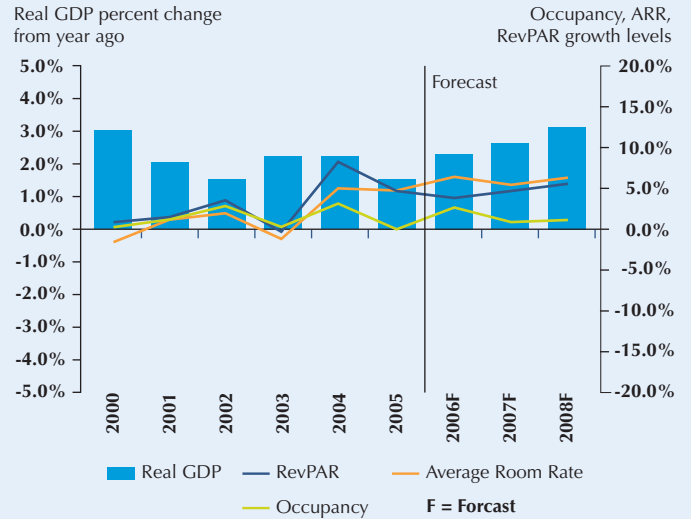
**Source: Econometric Forecasts:** PricewaterhouseCoopers July 2006,  
**Benchmarking Data:** Hotel Benchmark TM Survey by Deloitte June 2006

## Edinburgh

A recent study reported that Edinburgh has the second-fastest growing economy of 20 of the world's top cities. The study, by consultants BAK Basel Economics on behalf of Scottish Enterprise, describes the capital and its hinterland as a 'business-focused metropolis' but also highlights weaknesses which the experts behind the study say must be addressed - including transport connections and the need to attract even more visitors to the area.<sup>1</sup> Despite this, the key highlights from our latest forecast show a strongly performing hotel sector where a vibrant tourism industry and strong corporate demand supports high room rates. Further rate growth of 3.8 per cent is expected this year, rising to 4.4 per cent in 2007 and 5.3 per cent in 2008 taking rates to £78.73, £82.16 and £86.54 respectively. See table above and historic trends in Appendix. Occupancies are expected to grow by 2.7 per cent this year, taking occupancy levels to almost 80 per cent and with hotels almost at capacity little more movement is anticipated in 2007 or 2008. These growth

## Edinburgh hotel performance 2000 to 2008

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



**Source: Econometric Forecasts:** PricewaterhouseCoopers July 2006,  
**Macroeconomics Data:** Oxford Economics July 2006,  
**Benchmarking Data:** Hotel Benchmark TM Survey by Deloitte June 2006

levels are expected to lift RevPAR by 6.6 per cent, 5.2 per cent and 6.3 per cent respectively in the next three years.

New hotels include the boutique Hudson Hotel with its New York style loft exposed beams: and Le Monde on George Street, which has won the top prize at the Scottish Hotel Design Awards for outstanding original design and setting new style standards where rooms are themed on key cities of the world.



<sup>1</sup> Edinburgh's business focus proves a world beater for economic growth 26 May 2006, The Scotsman

# Latest hotel sector forecast for Provinces and other key cities

Manchester



## Manchester

Despite strong RevPAR growth levels in 2004 and 2005, benchmark data for Manchester for the year to May 2006 show both ARR and occupancy declines for three of the first five months of the year. Overall we expect a RevPAR decline of 1.1 per cent this year, returning to 2.1 per cent growth in 2007 and further growth of four per cent in 2008. We expect little movement in occupancies, already at 73 per cent this year, edging up to 73.62 per cent next year and 73.85 per cent by 2008. Some rate growth is expected to return by 2008 when a 3.7 per cent increase in average rates is forecast.

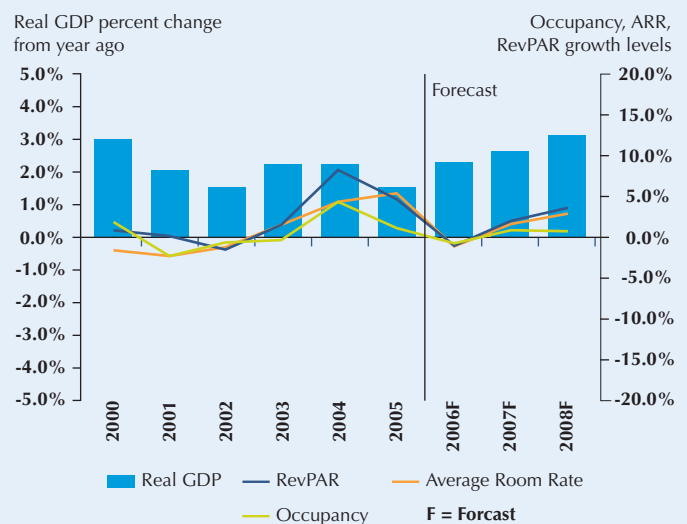
New concepts include Network Rail venture with hotel operator Sleeperz to develop a £4.5m limited service (but stylish) 75-bedroom hotel next to Piccadilly Station. Sleeperz has already opened an outlet in Cambridge and has agreed terms on another in Newcastle.

PricewaterhouseCoopers Latest Forecast for Manchester September 2006			
	2006F	2007F	2008F
Average Room Rate (£)	66.85	67.69	70.19
% Change	-0.40%	1.30%	3.70%
Occupancy (%)	73.03	73.62	73.85
% Change	-0.70%	0.80%	0.30%
RevPar (£)	48.82	49.83	51.84
% Change	-1.10%	2.10%	4.00%

**Source: Econometric Forecasts:** PricewaterhouseCoopers July 2006,  
**Benchmarking Data:** Hotel Benchmark TM Survey by Deloitte June 2006

## Manchester hotel performance 2000 to 2008

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



**Source: Econometric Forecasts:** PricewaterhouseCoopers July 2006,  
**Macroeconomics Data:** Oxford Economics July 2006,  
**Benchmarking Data:** Hotel Benchmark TM Survey by Deloitte June 2006

# Latest hotel sector forecast for Provinces and other key cities

## Birmingham

### Birmingham

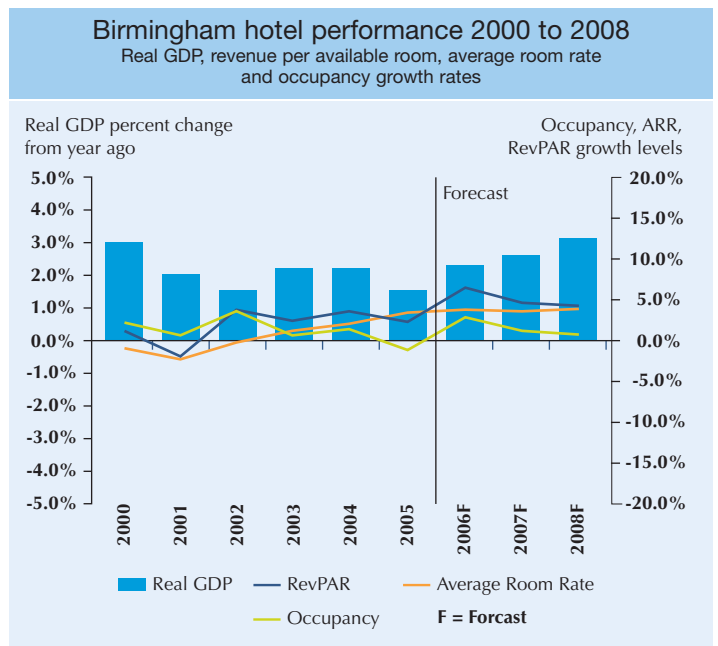
The city's ongoing facelift continues and the Birmingham Development Company (BDC) has outlined plans for the new Cube complex, a striking 23-storey building designed by Ken Shuttleworth to evoke a gold jewellery box and echoing Birmingham's link with precious stones (it still has the highest concentration of jewellers in Europe). BDC is also behind the Mailbox development - a converted postal sorting office - now home to shops such as Harvey Nichols, Armani and Bang & Olufsen; and the Malmaison Hotel. The new development will include a hotel.

At the time of our last forecast in March, Marketing Birmingham reported a full order book for events and conferences in 2006. At the time of drafting this forecast it was too early to tell to what extent losing the Motor Show will impact the City. However to June the city appears to have had a good year so far. Even years are traditionally stronger than odd years in terms of events and this may help hotels closer to the NEC. Our forecast is for seven per cent RevPAR growth this year, driven by occupancy and room rate gains of 3.1 per cent and 3.8 per cent respectively. RevPAR is expected to moderate to five per cent in 2007 and 4.4 per cent in 2008, as occupancy growth slows.



	2006F	2007F	2008F
Average Room Rate (£)	68.29	70.81	73.55
% Change	3.80%	3.70%	3.90%
Occupancy (%)	70.63	71.52	71.89
% Change	3.10%	1.30%	0.50%
RevPar (£)	48.23	50.65	52.88
% Change	7.00%	5.00%	4.40%

Source: **Econometric Forecasts:** PricewaterhouseCoopers July 2006,  
**Benchmarking Data:** Hotel Benchmark TM Survey by Deloitte June 2006



Source: **Econometric Forecasts:** PricewaterhouseCoopers July 2006,  
**Macroeconomics Data:** Oxford Economics July 2006,  
**Benchmarking Data:** Hotel Benchmark TM Survey by Deloitte June 2006

## Appendix

Our forecasts have been revised since March to reflect slightly stronger updates to UK economic growth rates as well as upward and downward revisions to past hotel time series data (as a result of rebasing) from our historic benchmark provider and latest available trading data to May 2006. The 2005 growth rate outturn for a number of markets including the Provinces and Birmingham proved less rosy than earlier figures suggested. However, in most cases, because of data revisions prior to 2005, these changes tended to balance each other out and had little impact on achieved rates.

We have adopted a slightly different layout in this forecast and hotel performance indicator data 2001-2008, macro-economic and demand forecast drivers follow.

**PricewaterhouseCoopers September 2006 Forecast**  
**Hotel Statistics for UK, London, Provinces, Edinburgh, Manchester and Birmingham 2001-2008**

Hotel Statistics for the UK	2001	2002	2003	2004	2005	2006F	2007F	2008F
Average Room Rate (£)	75.67	70.31	68.81	71.82	74.12	76.48	79.76	83.27
% Change	-3.2%	-7.1%	-2.1%	4.4%	3.2%	3.2%	4.3%	4.4%
Occupancy (%)	70.62	70.68	70.05	72.10	71.82	73.45	73.58	73.90
% Change	-4.0%	0.1%	-0.9%	2.9%	-0.4%	2.3%	0.2%	0.4%
RevPAR (£)	53.44	49.69	48.20	51.78	53.24	56.18	58.69	61.53
% Change	-7.0%	-7.0%	-3.0%	7.4%	2.8%	5.5%	4.5%	4.9%
Hotel Statistics for London	2001	2002	2003	2004	2005	2006F	2007F	2008F
Average Room Rate (£)	108.82	99.14	96.16	102.91	106.99	112.04	117.36	123.43
% Change	-4.8%	-9.0%	-3.0%	7.0%	4.0%	4.7%	4.8%	5.2%
Occupancy (%)	73.45	74.77	73.23	77.28	75.93	81.85	82.23	82.58
% Change	-9.4%	1.8%	-2.1%	5.5%	-1.7%	7.8%	0.5%	0.4%
RevPAR (£)	80.00	74.13	70.42	79.53	81.24	91.70	96.51	101.93
% Change	-13.7%	-7.3%	-5.0%	12.9%	2.1%	12.9%	5.2%	5.6%
Hotel Statistics for the Provinces	2001	2002	2003	2004	2005	2006F	2007F	2008F
Average Room Rate (£)	61.85	59.20	58.84	60.57	62.55	63.83	65.32	66.96
% Change	1.1%	-4.3%	-0.6%	2.9%	3.3%	2.0%	2.3%	2.5%
Occupancy (%)	69.43	69.25	69.04	70.47	70.55	71.22	71.62	72.05
% Change	-1.35%	-0.3%	-0.3%	2.1%	0.1%	1.0%	0.6%	0.6%
RevPAR (£)	42.94	40.99	40.62	42.68	44.13	45.46	46.78	48.24
% Change	-0.2%	-4.5%	-0.9%	5.1%	3.4%	3.0%	2.9%	3.1%
Hotel Statistics for Edinburgh	2001	2002	2003	2004	2005	2006F	2007F	2008F
Average Room Rate (£)	68.34	69.14	68.61	71.94	75.86	78.73	82.16	86.54
% Change	0.7%	1.2%	-0.8%	4.9%	5.4%	3.8%	4.4%	5.3%
Occupancy (%)	72.50	74.63	75.05	77.14	77.20	79.30	79.97	80.73
% Change	0.6%	2.9%	0.6%	2.8%	0.1%	2.7%	0.9%	1.0%
RevPAR (£)	49.50	51.60	51.49	55.50	58.57	62.43	65.71	69.87
% Change	1.3%	4.2%	-0.2%	7.8%	5.5%	6.6%	5.2%	6.3%
Hotel Statistics for Birmingham	2001	2002	2003	2004	2005	2006F	2007F	2008F
Average Room Rate (£)	62.06	61.94	62.63	63.97	65.79	68.29	70.81	73.55
% Change	-3.0%	-0.2%	1.1%	2.1%	2.8%	3.8%	3.7%	3.9%
Occupancy (%)	65.13	67.81	68.25	69.15	68.53	70.63	71.52	71.89
% Change	0.7%	4.1%	0.7%	1.3%	-0.9%	3.1%	1.3%	0.5%
RevPAR (£)	40.42	42.00	42.74	44.24	45.08	48.23	50.65	52.88
% Change	-2.2%	3.9%	1.8%	3.5%	1.9%	7.0%	5.0%	4.4%
Hotel Statistics for Manchester	2001	2002	2003	2004	2005	2006F	2007F	2008F
Average Room Rate (£)	61.47	60.38	61.49	63.87	67.12	66.85	67.69	70.19
% Change	-2.5%	-1.8%	1.8%	3.9%	5.1%	-0.4%	1.3%	3.7%
Occupancy (%)	70.64	70.14	69.91	72.87	73.56	73.03	73.62	73.85
% Change	-2.5%	-0.7%	-0.3%	4.2%	1.0%	-0.7%	0.8%	0.3%
RevPAR (£)	43.42	42.35	42.99	46.54	49.37	48.82	49.83	51.84
% Change	-0.1%	-2.5%	1.5%	8.3%	6.1%	-1.1%	2.1%	4.0%

Source of Forecast: PricewaterhouseCoopers Forecasting Model, July 2006. Note: Historic data are from Hotel Benchmark TM Survey by Deloitte.

# Forecast drivers 1: Macroeconomic outlook

## Steady but could be blown off course by 'unexpected shocks'

The UK has been characterised by a stable macroeconomic environment, despite recent inflation concerns. Britain grew at an above trend 0.8 per cent in the second quarter this year, its fastest for two years, manufacturing is picking up and the housing market looks robust. Retail sales were also strong in June. In the short-term, Oxford Economic Forecasting now expects the UK economy as a whole to grow from an estimated 1.8 per cent in 2005 (below the long-term trend of 2.5 per cent) to pick-up to around 2.3 per cent in 2006, to 2.8 per cent in 2007 and 3.1 per cent in 2008.<sup>2</sup> These growth rates are slightly higher than was expected at the time of our last forecast in March 2006 and they now drive our latest hotel sector forecast.

Global economies are also considered quite healthy. Overall, the global economy recorded reasonably robust growth of 3.4 per cent in 2005. Outside Britain, European economies are picking up too. Growing signs of a slowdown in the US are considered balanced by China's growth.<sup>3</sup> This is encouraging news that will help drive overseas business and leisure visitor numbers to the UK.

Macroeconomic Data for the UK					
	2004	2005	2006R	2007F	2008F
Real GDP per cent change from prior year	2.2	1.8	2.3	2.8	3.1
Consumer prices per cent change from prior year (CPI)	1.4	2.0	2.1	1.8	1.8

Source: Oxford Economic Forecasting Summer 2006

However, risks around growth are also considered significant, with the outlook clouded by uncertainty about oil prices, global financial market developments, trends in UK consumer and business confidence, a continued squeeze on disposable incomes and the travel and tourism sector in particular still exposed to bird flu concerns. PricewaterhouseCoopers' latest UK Economic Outlook warns that despite an expected recovery in business investment this year, the UK economy remains finely balanced and could be blown off course by 'unexpected shocks'.<sup>4</sup>



<sup>2</sup> Oxford Economic Forecasting July 2006

<sup>3</sup> Time for steady nerves on rates, Sunday Times Business, 23 July 2006

<sup>4</sup> July 2006 issue of PricewaterhouseCoopers UK Economic Outlook report

## Forecast drivers 2: Travel demand and supply

Demand indicators driving the forecast appear generally positive and optimism is supported by:

- Globally, international tourist arrival volumes remain buoyant (with 5.6 per cent growth in 2005) and this trend is expected to continue in 2006 and beyond<sup>5</sup>
- Overseas tourism to the UK should continue a trend of gradual improvement in underlying growth. Traffic figures from British Airport Authority's (BAA) UK airports support this, and show BAA handled a total of 13.9 million passengers in June, an increase of 3.9 per cent on the same month last year<sup>6</sup>; official government statistics suggest overseas arrivals increased by 7 per cent in the three months to May 2006 compared to the previous year.<sup>7</sup> VisitBritain expects 31m visitors this year up 4.4 per cent on 2005. In 2005, The European Travel Commission reported that the UK saw the strongest growth of Europe's five tourism markets with 8 per cent inbound year-on-year growth.
- Tempering this, prospects for domestic tourism markets are considered less rosy. Challenged by the continuing squeeze on disposable incomes (exacerbated by high energy prices and low wage settlements) and attractive low cost flights overseas, some cities have nevertheless developed thriving short breaks markets and the hot early summer weather this year could encourage additional short breaks. A proposed 'bed tax' is expected to further reduce domestic tourism levels as the cost of accommodation could rise.<sup>8</sup>

*"A proposed bed tax would wipe £300m from UK hotel industry"*

Andrew Coslett, CEO InterContinental Hotels  
Independent 17 May 2006

- Corporate demand is likely to remain robust as global and UK economies pick up further. 2005 saw a 10.2 per cent increase in the number of business visits to the UK.
- In terms of prospects for specific regional markets the outlook is mixed, often depending on location and segment: London is forecast to see a four per cent growth in overseas visitors this year (to 14.4m) but a continuing decline in domestic visitors.
- A lack of accurate supply data for the UK clouds the overall picture regarding construction levels and rooms closures. Limited new supply, of course, helps drive RevPAR levels. Data for London suggests supply growth is running below trend, at around 1.6 per cent this year (an additional 103,000 rooms), rising to 3.1 per cent in 2007 (106,500 rooms) but falling back to 2.3 per cent in 2008 (111,000 rooms)<sup>9</sup>. There will also be losses from the existing supply.



<sup>5</sup> United Nations World Tourism Organisation July 2006

<sup>6</sup> BAA.co.uk media release July 2006

<sup>7</sup> National Statistics, First Release Overseas travel and tourism, 12 July 2006

<sup>8</sup> A bed tax is one option being considered for raising local government income by public policy professor, Sir Michael Lyons. He is preparing recommendations on local government finance for the Office of the Deputy Prime Minister and has suggested that visitors to holiday destinations could make a contribution to the cost of local services.

<sup>9</sup> VisitLondon Hotel Development Monitor



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