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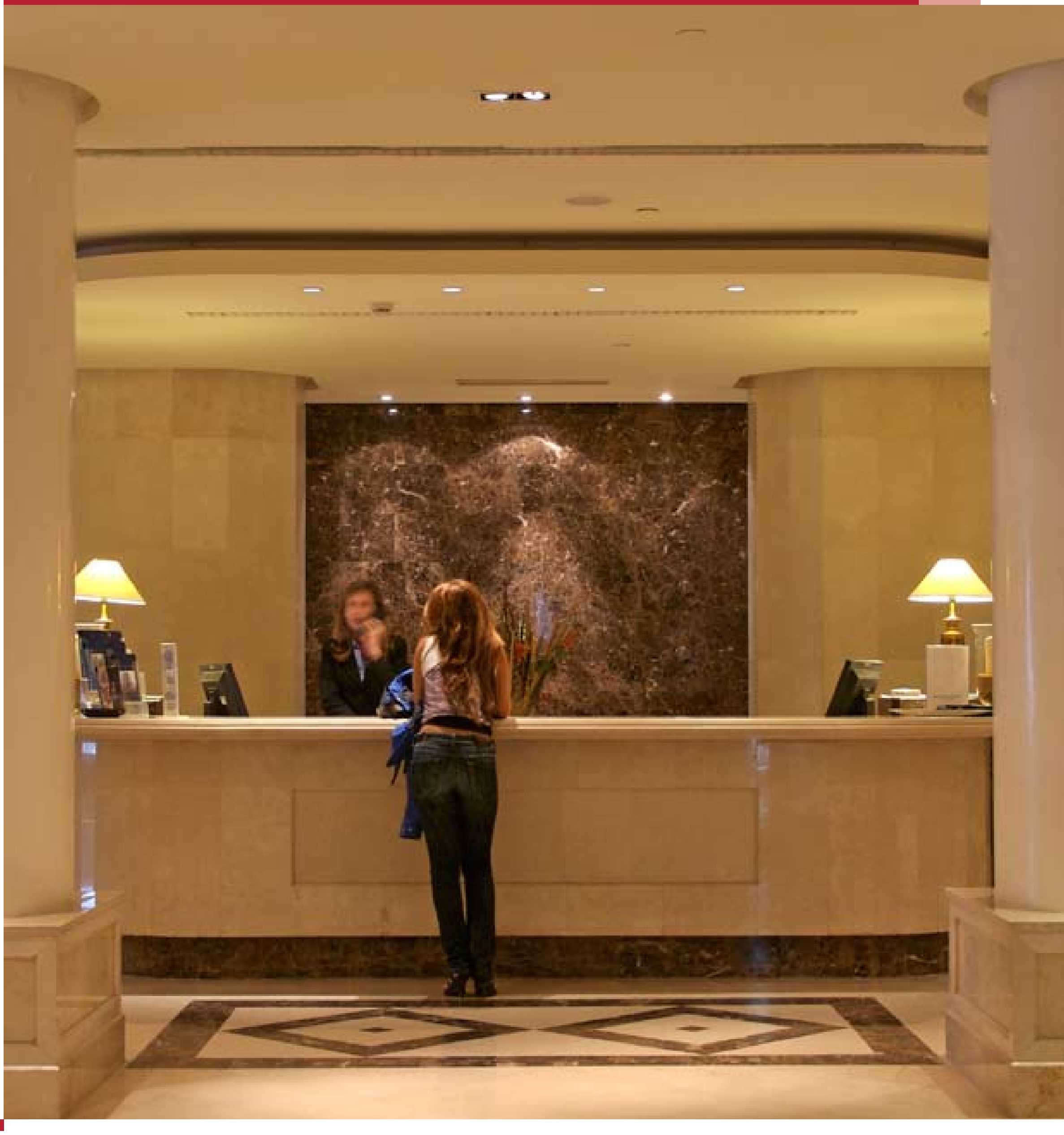
UK hotels forecast 2011 and 2012:

How big a party for hotels in 2012?

March 2011

Latest hotels forecast from the PwC Hospitality Directions Europe series



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Foreword

What a difference a year makes. This time last year PwC* forecast 5.8% RevPAR growth for London in 2010 and 7.7% for 2011. In September we revised these upwards in light of strong trading to 8.9% and 9.3% respectively. The outturn for 2010 was even better than that, closing an exceptional year for London with overall RevPAR growth of 11.4%. This was mainly due to strong ARR growth, taking nominal RevPAR above £100 for the first time since we started forecasting in 2000. Given the better than expected finish to 2010, our 2011 forecast for London is now for slightly lower RevPAR growth of 8.3%, reflecting harder comparatives and above average levels of new supply; slower growth but no pre-Olympic dip.

In the provinces the recovery has been more muted, although the final outcome for 2010 was again ahead of expectation at 2.8% RevPAR growth compared to the forecast of 1.6% in both March and September. For 2011, our provinces forecast has crept up from 3.1% to 3.2% and now to 3.6%.

We have introduced some new analysis this time showing how performance compares to a 22 year long term real RevPAR average. This shows that London has remained above the long term average of £83.20 throughout the downturn (albeit only just in 2009) and is now heading into very positive territory. By contrast, the provinces, having been above the long term average of £39.50 since 1997, fell sharply in 2009 and are forecast to remain below trend through to the end of 2012. It is interesting to note that London and the provinces moved pretty much in tandem from 1988 to 2000, since when they appear to have become decoupled. Drilling down a little deeper and looking even further back at occupancies, it is apparent that provincial occupancy remains above the long term trend (1978-2010) of 65%, which suggests that the real problem for the provinces is now how to get prices up again.

For the Olympic year, London looks set to deliver another good set of results and the provinces should also see some reasonable growth. We have modelled three scenarios for London depending on the view you take of extra room nights generated by the Games. Our mid scenario, which still perhaps errs on the cautious side, shows 4.3% RevPAR growth for the year as a whole, slight growth in Q1, dips in the shoulder quarters (Q2 and Q4) and 20% growth in Q3. With occupancy effectively capped at 92% for Q3, we should see rates leap whichever scenario plays out. But it is what happens once the Games are over that really matters, particularly for London with its significant amounts of new supply coming on in 2011 and the first half of 2012.

And whilst 2011 seems to have started quite well, with London showing 6.7% RevPAR growth and the provinces 2.6%, there is plenty to worry about that could derail this good progress. Consumer confidence is, at best, fragile, although business confidence appears to be building, and the latest GDP data do not appear particularly encouraging (ONS are saying GDP fell 0.6% in Q4 2010, mainly due to the bad weather). Add to this the possible fallout from events in the Middle East and the greater impact of the public sector spending cuts which kick in from the beginning of April, and it is not hard to see that hoteliers could have their work cut out.

Robert Milburn
UK Hospitality and Leisure Leader, PwC

* "PwC" refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom)

In this issue

St Pancras Renaissance Hotel, London

8.3% Forecast increase in London RevPAR in 2011

The 2011 forecast

London: up, up and away as the capital chalks up more growth and exciting new hotels

2011 is expected to see continued strong, but decelerating, ARR growth in London

London hoteliers may have peered into the abyss in 2009 but 2010 was an exceptionally good year for them as they shrugged off the recession. Robust average room rate (ARR) growth of 9.0%, took average rates to just over £126 and saw revenue per available room (RevPAR) rise 11.4% to almost £104. This helped make London the top performing hotel market in Europe. Against such a high base, comparables will be tougher this year and we expect to see more moderate rate growth. We forecast an ARR gain of 6.1% taking average rates to £134. See Table 1, Chart 5 and Appendix 1.

London occupancies have been creeping up since early 2000, reaching 82% in 2010. Indeed Q2 and Q3 2010 broke past records for those quarters, averaging almost 88% in Q3, as the business travel revival, Farnborough and a strong Middle East market boosted trade. Occupancies should continue to nudge up gently to average nearly 84% this year, a 2.2% gain over 2010, taking occupancy rates back to levels last seen in the mid to late 1990s and 7 percentage points above the 30 year long term average of 76.8%. See Chart 1. This will allow hoteliers to grow rates further.

In terms of translating these trends into RevPAR, healthy occupancy and ARR gains mean we don't anticipate London seeing a pre-Olympic dip this year; quite the opposite in fact. More business travellers paying more for their rooms should help a gain of 8.3% on top of 2010's 11.4% gain, taking RevPAR to £112.50. However this performance could be held back by above average increases in supply. London supply could increase by almost 11% between 2010 and 2012 and we discuss the implications of this later in this forecast.

It's not to say that business isn't challenging or that lead times aren't short. Competition is fierce and new luxury supply in particular is likely to challenge London's existing hotels. Across the country operators face pressures from owners keen to raise rates and from corporate negotiators keen to control them. The Royal Wedding may be the icing on the cake, but could prove lucrative only for those hotels close to the route. On the other hand there is no shortage of dark clouds threatening to spoil the fun; economic uncertainty here and in our key markets, faltering consumer confidence and a supply spike could slow ARR growth towards the end of 2011.

Table 1: PwC UK hotel forecast 2011

	London		Provinces		UK	
	2010	2011	2010	2011	2010	2011
Occupancy %	82.10	83.91	67.15	67.31	71.04	71.61
ARR (£)	126.24	133.96	61.30	63.38	80.90	84.59
RevPAR (£)	103.86	112.50	41.23	42.70	57.55	60.63
% growth on previous year						
Occupancy	2.1%	2.2%	3.6%	0.2%	3.1%	0.8%
ARR	9.0%	6.1%	-0.9%	3.4%	3.2%	4.6%
RevPAR	11.4%	8.3%	2.8%	3.6%	6.6%	5.3%

Econometric Forecasts: PwC February 2011

Benchmarking Data: STR Global February 2011

Provinces: could 2011 be the year of catching up?

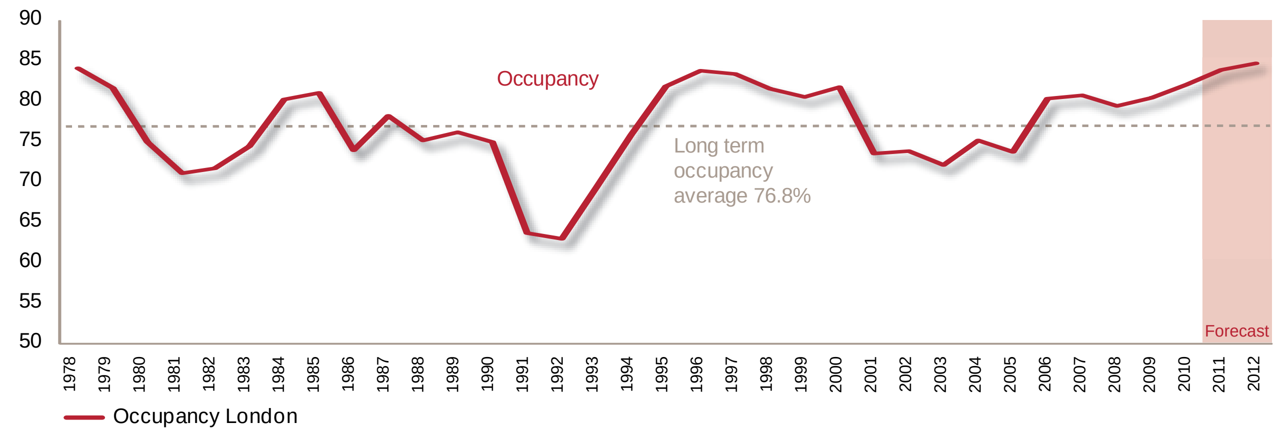
ARR growth returns in 2011 after two years of declines

London's global gateway performance is a tough act to follow. The provinces envelop a range of rural and urban hotels where variables such as domestic investment growth, unemployment and GDP growth rather than international variables hold a stronger sway on performance.

Despite economic and weather woes, some cities such as Edinburgh, Cardiff and Birmingham drove rate growth in 2010. But as we anticipated in our last forecast, hoteliers outside London generally saw ARR continue to struggle through 2010, eventually seeing a marginal decline of 0.9% to £61.30. Overall we expect regional ARR to manage a gain of 3.4% in 2011.

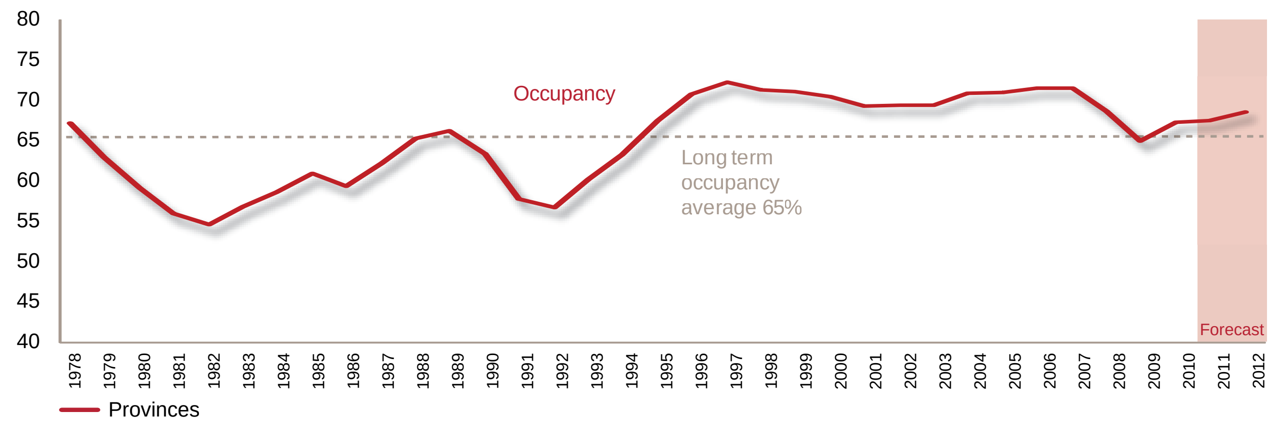
Following two years of declines, occupancy rates ended 2010 very much in line with our last forecast as a 3.6% uplift took occupancy to just over 67%. Looking ahead we expect more marginal growth of only 0.2% in 2011 as more difficult comparatives and subdued demand conspire to keep occupancy out of the 70s. Chart 2 shows that the outlook for occupancy for 2011 is 2.3 percentage points above the 33 year long term average of 65%.

Chart 1: Long term occupancy trends for London 1978-2012



Source: Econometric forecasts: PwC, February 2011

Chart 2: Long term occupancy trends for the provinces 1978-2012



Source: Econometric forecasts: PwC, February 2011
Benchmarking data: TRI Hospitality Consulting (1978-1999) STR Global 2000-2010

Snapshot survey of Northern Ireland hotel performance

2010 was a difficult year generally for the global tourism industry and Northern Ireland's hotel sector in particular. Demand for self-catering, caravan and camping was helped by people holidaying at home but the hotel sector suffered badly due to the reduction in both corporate business travel and the conference market.

The latest PwC snapshot survey of Northern Ireland hotel performance suggests that average occupancy levels in the three months to December 2010 were, at 62%, the lowest for a decade. This compares unfavourably to the 65% average in 2009 and the 75% average in the peak year of 2007.

This cheerless picture reflects the most recent Northern Ireland Tourist Board assessment that the region's hotels continue to face a downturn in their main markets of Great Britain and North America.

The problems facing local hotels have been made worse by the 7% increase in 2010 in the volume of available hotel accommodation. The twin effects of falling demand and increased supply has resulted in a decline in ARR of 5% in 2010.

With a continuing lack of consumer confidence across most developed countries and pressure on public spending, it is unlikely that the hotel sector will experience a quick return to healthy demand and revenues.

We anticipate the provinces continuing to make progress in 2011 but as they struggle disproportionately with public sector cuts and job losses they are likely to see a much slower paced recovery than in London. Still, RevPAR could advance 3.6% to £42.70. See Table 1, Chart 5 and Appendix 1.

The 2009 downturn in trading together with the financial commitments of operators and owners has meant an increased number of over-indebted groups and there have been several failures. Others have managed to restructure successfully but we are unlikely to have seen the last of such distress.

9.7%

Forecast increase in London in RevPAR in 2012 (high scenario)

The 2012 forecast

Great expectations: does an Olympic bonanza beckon?

As hoteliers prepare and many new hotels open, PwC investigates whether the party will bring as big a bonanza as expected

So, what's our forecast for the Olympic year itself? Unsurprisingly we expect that 2012 should be a good year for London but, perhaps surprisingly, we anticipate it may not match the high expectations or hopes of some hoteliers. Yes, Q3 could make many hoteliers' dreams come true with Farnborough and the Olympic and Paralympic Games all in the same quarter! We anticipate London going in to 2012 with some levelling off but by and large trading very strongly. And outside of the crucial Q3[1], and especially in the shoulder periods, we remain concerned that reduced demand and above average room supply additions will take their toll on London trading. Hotels planning a bout of price hiking during the Olympics will only worsen any hangover once it is all over.

> "Smart revenue maximisation will be crucial for hoteliers who aim to reap the full potential rewards the Olympics can bring throughout 2012, not just the few weeks of the Games themselves"
>
> *Christopher Hale, Head of Olympics, InterContinental Hotels Group, February 2011*

How many extra visitors are likely to come or stay away?

Our forecast for the Olympic 'effect' in 2012 is sensitive to the number of extra visitors forecast to attend the Olympics and the amount of displacement that occurs (i.e. people who avoid London due to the Games). This is an inherently uncertain area and we know from past Olympiads that the Olympic city often struggles to estimate demand, with most overestimating the extra arrivals, sometimes by a wide margin.

In the light of these uncertainties we have modelled three scenarios. Table 2 shows these scenarios with the potential range of visitors and the extra visitor and room nights that could be needed in 2012. These range from just under 1 million visitors in the highest scenario to just under half a million in the low scenario. Displacement is an issue as London already sees a high number of tourists each year. There is further discussion of our methodology and assumptions in Appendix 4.

Three scenarios help gauge the Olympic effect on London hotels

The first scenario is based on Oxford Economics and Visit London's 2007 report[2], which predicts 908,440 overnight visitors for the Olympics. The other two scenarios are based on the Athens and Barcelona Olympics, where 660,000 and 450,000 overnight visitors attended respectively[3]. The Oxford Economics figure was adjusted down to account for expected displacement, as assessed in that report. In our forecasts, the scenarios are referred to as the high, mid and low scenarios.

The visitor numbers can be converted into additional accommodation demand by using the average number of nights a guest will stay and how many guests stay on average in each room. The Athens and Barcelona figures are based on actual data from hotels in those cities during the Olympics. The Oxford Economics report expected people to stay for an average of eight nights, which is approximately double the figure for the last three Olympic Games. These calculations lead to an estimate of the extra visitor nights and then room nights demanded in the Olympic period.

High scenario

This scenario assumes that London can expect 908,440 extra visitors (foreign and domestic excluding displacement) and that considerably more people attend and stay longer than came to previous Olympic Games in Europe. Converting this visitor figure to an estimate of extra visitor nights during the Games and including a displacement effect, results in around 5m extra visitor nights and 3.4m extra room nights. The extra demand will not be only for hotels and we include our assumptions for other types of accommodation in Appendix 4.

Mid scenario

Acknowledging the trend of Olympic cities to overestimate anticipated visitor numbers in the Olympic year, we have sought a more moderate visitor indicator and have used the actual data from the previous European Olympiad in Athens in 2004. Applying the number of visitors who came to Athens and how long they stayed, suggests that around 660,000 extra visitors could come to London in 2012.

[1] The Olympic Games run from 27 July to 12 August 2012 with the Paralympics from 29 August to 9 September 2012. Farnborough International Air Show runs from 9 to15 July.
[2] The Value of the London Olympic and Paralympic Games to UK tourism, September 2007. Study carried out by Oxford Economics and jointly commissioned by Visit Britain and Visit London
[3] Visitor numbers taken from report referenced in footnote 2 above

Table 2: Estimates of extra Olympic visitors, visitor and room nights

Scenario	**Extra visitors** (foreign and domestic, excluding displacement)	**Extra visitor nights** (000's, including displacement)	**Extra room nights** (000's including displacement)
High scenario (Oxford Economics)	908,440	4,900	3,400
Mid scenario (Athens)	660,000	2,400	1,800
Low scenario (Barcelona)	450,000	1,700	1,200

Source: High: Oxford Economics 'The value of the London 2012 Olympic and Paralympic Games to UK tourism, September 2007 ; Mid: Athens actual and PwC analysis; Low: Barcelona actual and PwC analysis

This would translate into an extra 2.4m visitor nights including displacement, and 1.8m room nights.

Low scenario

We also looked to a much smaller Olympiad, Barcelona in 1992. Applying the number of visitors who came to Barcelona and how long they stayed, suggests that around 450,000 extra visitors could come to London in 2012. This would translate into an extra 1.7m visitor nights, including displacement and an extra 1.2m room nights. This would be a disappointing result and there are many reasons to suggest it should be exceeded, for example Barcelona held the Games prior to the advent of the budget airlines. It is intended as an illustration of lower than expected visitors on hotel performance.

Which scenario will be just right for London hoteliers?

A bit like Goldilocks, London hoteliers face three scenarios, but unlike the aforesaid they may not have much choice as to which is just right for them. The challenge will be to manage and maximise rate while delivering good value to guests. In each scenario we have assumed that the Olympic effect is concentrated primarily in Q3. Table 3 illustrates each scenario's impact on occupancy, ARR and RevPAR for London in 2012 as a whole.

RevPAR is up 2.3% in the low scenario: Annual ARR growth for London in our low scenario could be just 1.2 % in 2012 giving an average annual achieved rate close to £135.50. In all three scenarios already high occupancies for the year mean an occupancy gain of just 1%, driving RevPAR up 2.3% to £115.12. Probably not just right.

RevPAR is up 4.3% in the mid scenario: Annual ARR growth in our mid scenario could only be 3.0% in 2012, driving an average achieved rate close to £138. An occupancy gain of 1% drives RevPAR up 4.3% to £117.32. Again, perhaps not quite right for hoteliers.

RevPAR is up 9.7% in the high scenario: Annual ARR growth in our high scenario could be as high as 7.9% in 2012 and this would mean an ARR close to £145. As with the other two scenarios, already high occupancies are capped at almost 85% with an occupancy gain of 1%. This drives a RevPAR gain of almost 10% to £123. Of the three scenarios, this could be just right for hoteliers.

Table 3: PwC London hotel forecast 2012 by low, mid and high scenarios

	London 2012		
	Low	Mid	High
Occupancy %	84.72	84.72	84.72
ARR (£)	135.53	137.93	144.52
RevPAR (£)	115.12	117.32	123.39
% growth on previous year			
Occupancy	1.0%	1.0%	1.0%
ARR	1.2%	3.0%	7.9%
RevPAR	2.3%	4.3%	9.7%

Econometric Forecasts: PwC February 2011

Benchmarking Data: STR Global February 2011

The Olympic 'effect' should boost the provinces too

We expect that the provinces will enjoy some overspill effect from London. While we do not anticipate that it will be as considerable an effect as for London, it should be a good year for many provincial hoteliers. We anticipate a boost to towns close to Olympic events such as the sailing in Weymouth and Portland, rowing near Windsor, football in Coventry, Cardiff, Manchester, Glasgow and Newcastle as well as other events in Essex. The training camps and visiting officials will also generate some demand and there will no doubt be related events that draw crowds. Some visitors to the UK will choose to visit popular tourist centres outside London, while events around the Queen's Diamond Jubilee should also generate additional interest. There will also be uplift in 2012 from the biennial Farnborough International Airshow which will be held a week earlier than usual to avoid a clash with the Olympics. Over 100,000 visitors and trade delegates are expected to attend and higher demand for hotels across the south-east, as well as an overspill to London, is the historic norm.

Table 4: PwC UK hotel forecast 2012 by low, mid and high scenarios

UK 2012			
	Low	Mid	High
Occupancy %	72.56	72.56	72.56
ARR (£)	86.42	87.14	89.12
RevPAR (£)	62.85	63.43	65.00
% growth on previous year			
Occupancy	1.3%	1.3%	1.3%
ARR	2.2%	3.0%	5.4%
RevPAR	3.7%	4.6%	7.2%

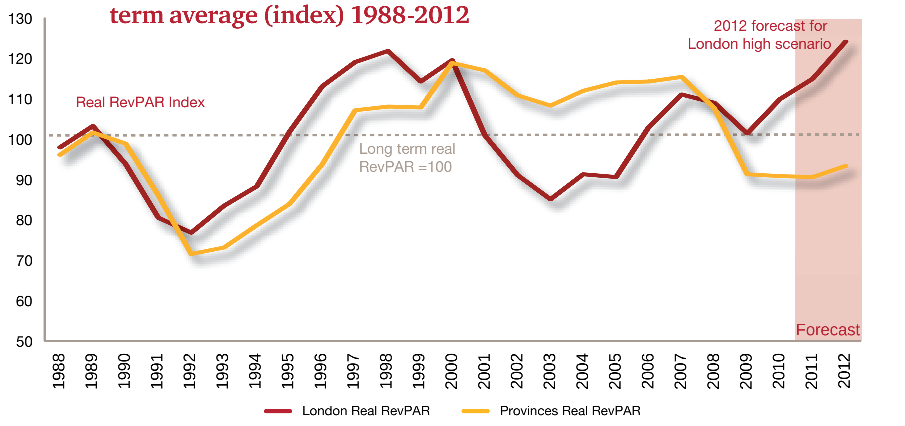
Econometric Forecasts: PwC February 2011
Benchmarking Data: STR Global February 2011

In terms of our annual forecast for the provinces for 2012 we anticipate an ARR gain of 3.1% taking rates to £65.32. With a modest annual 1.5% percentage increase, occupancies could reach 68.3%. This is 3.3 percentage points above the 33 year long-term average of 65%. See Chart 2. This growth converts into 4.7% RevPAR growth taking RevPAR to £44.69. See Appendix 1.

Olympic effect drives a 7% UK RevPAR gain in our high scenario

Overall, the London and provincial 2012 Olympic effects converts into UK ARR growth of 2.2% in the low scenario, 3.0% in the mid and 5.4% in the high scenario. Together with occupancy growth of 1.3%, UK RevPAR growth could also range from 3.7%, to 4.6% and to 7.2% in the three scenarios respectively. See Table 4, Chart 5 and Appendix 1.

Chart 3: London and provincial ratio of real RevPAR to the long term average (index) 1988-2012



Source: Econometric Forecasts: PwC February 2011
Benchmarking Data: TRI Hospitality Consulting 1988-1999 STR Global 2000-2010

Real RevPAR trends relative to the long term

Chart 3 above shows trends in real RevPAR (stripped of inflation at 2005 prices) in London and the provinces since 1988, as well as our current forecast (including the high scenario for London in 2012). The long term real RevPAR average for London between 1988 and 2010 was £83.20 and for the provinces £39.50.

The chart clearly shows the trend for each year relative to the long term average. Both saw a broadly similar pattern until around 2000 when a variety of events such 9/11 and the downturn in 2001 impacted London badly but left the provinces remarkable unscathed. But, contrast the recent robust recovery in London in 2009 when RevPAR hardly dipped below the long term average with the severe impact on provincial hotel RevPAR. The struggle required to recover is also clear.

Quarterly analysis: London sees a record Q3 in 2012

A full quarterly forecast breakdown (by the three scenarios for London and the UK) can be seen in Appendix 2.

London

2011: London saw an exceptional 2010 which presents highly challenging comparables. In 2011 we expect a very strong start in Q1 and Q2, especially for ARR, but expect growth to slow in the final quarters as ARR growth decelerates, comparatives toughen and more supply opens. Q3 faces a challenge to outgun Q3 2010 but should manage some occupancy and rate growth to take rates to £134 and occupancies to almost 90%, another record Q3 for occupancy. See Table 5 and Chart 4.

2012: We expect a slow start as demand wanes, supply additions bite and ARR dips ahead of the Games. In the shoulder Q2 we expect to see both occupancy and ARR fall slightly. We have estimated a fall of 2.1% in occupancy and 1.1% in ARR but we accept that the falls could be more severe. Then comes the bumper Q3 as the Olympics come to town, demand exceeds supply and all the new hotels fill up. We estimate almost 36% ARR growth in the high scenario (to £182.60), 16.3% in the mid scenario (to £156.20) and 9.1% in the low scenario (to £146.60). With occupancy[4] up in the low 90s across the quarter in all three scenarios, RevPAR growth soars to 40% in the high scenario and still reaches nearly 13% in the low scenario. We expect Q4 to see trade post the Games closer to flat occupancy growth and a slight decline in ARR and RevPAR, but pent-up corporate demand could result in a better performance than this.

In the high scenario London's average room rate in Q3 2012 could reach £183 as ARR growth soars by almost 36%

Provinces

2011: We expect another strong start for Q1 and Q2 for ARR, albeit against weak comparables in 2010. A slowdown is on the cards in Q3 as occupancy growth falters (although occupancy could still reach 73.3%) and RevPAR sees only marginal growth. RevPAR shows a 6% increase in Q1 taking it to £37.52, a 4.3% rise in Q2 (to £44.62) and then a strong 4% gain in Q4.

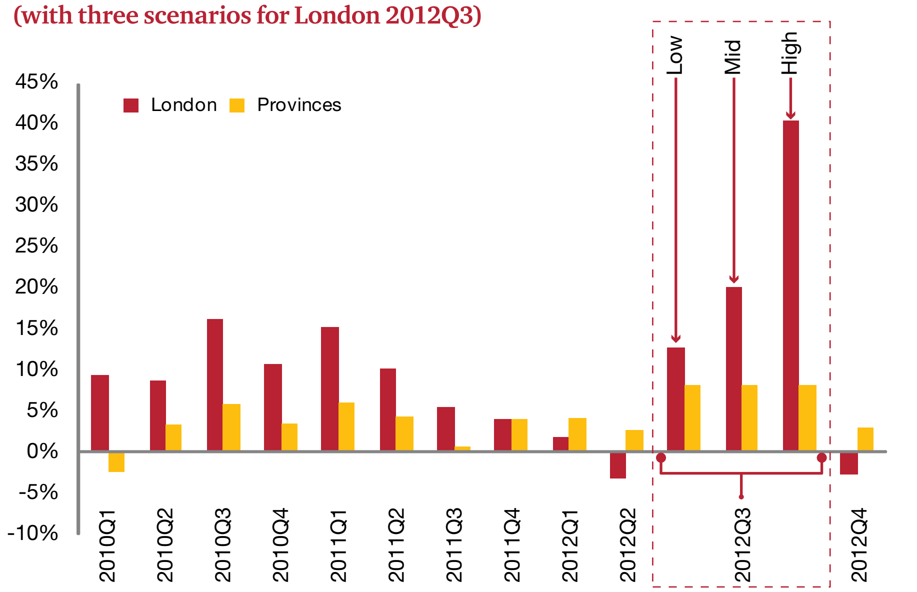
2012: RevPAR growth keeps on going into Q1 driven by ARR and occupancy growth. In contrast to London there is no pre-Olympic dip in Q2, and Q3 sees some sturdy growth. ARR sees a 5.5% gain in Q3 to £67.60 (getting close to overtaking 2008 records in nominal prices). Good occupancy growth drives an 8.2% RevPAR gain to £50.84. This would be the first time since 2008 Q3 that RevPAR has reached £50. As a bonus we do not expect a decline in ARR or RevPAR in Q4 as we do in London. See Appendix 2.

Table 5: PwC London hotels forecast 2012 Q3 by low, mid and high scenarios

	Scenarios		
	Low	Mid	High
Occupancy %	91.90	91.90	91.90
ARR (£)	146.60	156.20	182.60
RevPAR (£)	134.80	143.60	167.90
% growth on previous year			
Occupancy	3.4%	3.4%	3.4%
ARR	9.1%	16.3%	35.9%
RevPAR	12.8%	20.2%	40.5%

Source: Econometric Forecasts: PwC February 2011
Benchmarking Data: STR Global February 2011

Chart 4: London and provinces RevPAR growth trends by quarter 2010 to 2012 (with three scenarios for London 2012Q3)



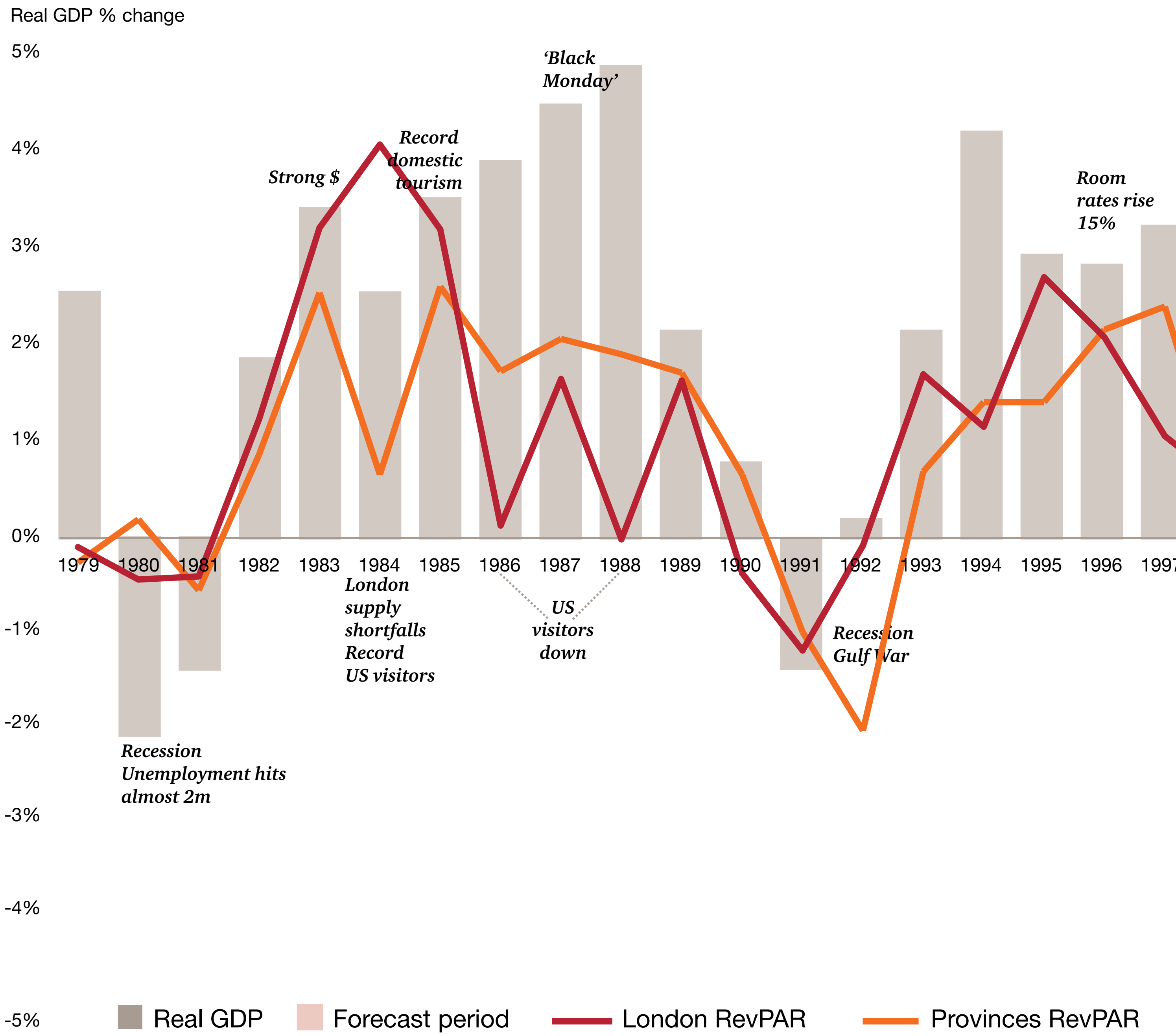
Source: Econometric Forecasts: PwC February 2011
Benchmarking Data: STR Global February 2011

[4] Occupancy is the same in all three scenarios because demand in the Olympic period is expected to be in excess of available hotel rooms. We have assumed that occupancy in this period is 96% (i.e. effectively totally full). Outside the Olympic period we have used the econometric model together with the supply overlay to derive the figures for occupancy. In each case the final figure is a weighted average of these two periods.

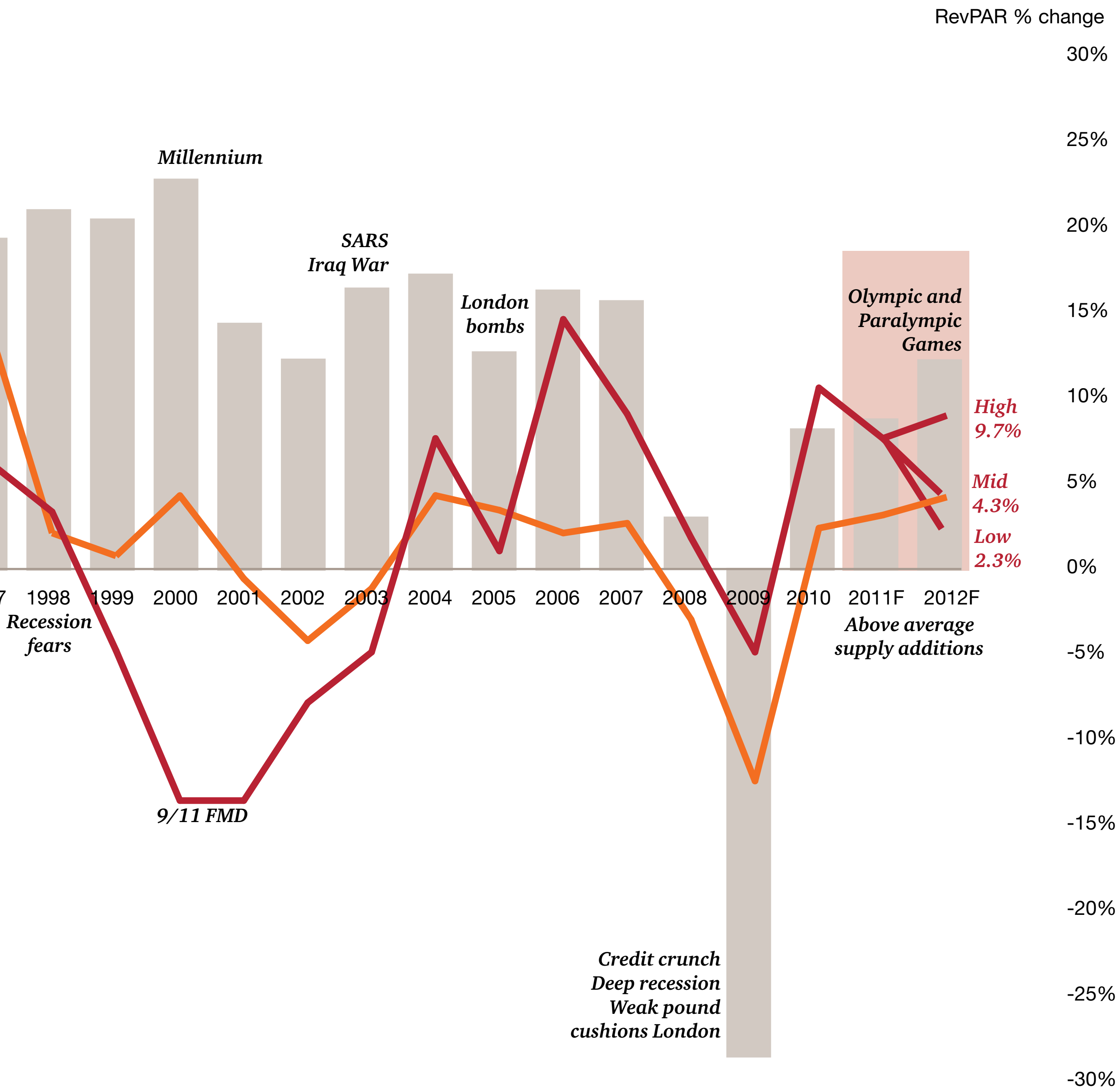
St Pancras Renaissance Hotel, London

Chart 5: London and provincial RevPAR ups and downs 1979-2012 (% change on prior years)

Real GDP, London and provincial RevPAR growth rates



Source: Econometric Forecasts: PwC Feb 2011
Macroeconomic Data: National Statistics
Benchmarking Data: TRI Hospitality Consulting 1979-1999. STR Global 2000-2010


RevPAR % change
30%
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
-20%
-25%
-30%
Millennium
SARS
Iraq War
London
bombs
Olympic and
Paralympic
Games
High
9.7%
Mid
4.3%
Low
2.3%
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011F
2012F
Recession
fears
Above average
supply additions
9/11 FMD
Credit crunch
Deep recession
Weak pound
cushions London

An uncertain economic and travel environment

Will the economy support or derail the Olympic boost?

The business travel revival continues to support recovery and a main holiday remains a key priority for consumers - despite negligible economic growth and higher unemployment

The Olympics should mean a very successful year for UK hotels in 2012, but clearly it is not only Olympic visitor levels that impact travel and hotel demand. Considerable uncertainty focuses on the economy, the public sector cuts, unemployment and weak household income. It is finely balanced and below and in Table 6 we summarise the key issues.

Uncertain UK GDP prospects

The UK suffered a shock GDP contraction of 0.6% in Q4 2010, according to the revised GDP estimate from the ONS released at the end of February. In their preliminary announcement in January the ONS suggested that much of this effect was from the adverse weather (i.e. GDP would have been broadly flat without the snow).

This data has brought down GDP estimates for 2011 and to a lesser extent for 2012. The UK economic outlook is very uncertain at present, it is not yet clear whether the poor Q4 data respects the temporary effect of adverse weather conditions or a wider slow down in economic activity.

In any case, the UK economy is likely to feel austerity weigh on growth in the next two years, as government tax rises and spending cuts impact consumer spending and investment. However, the reduction in corporate tax rates will aid corporate profitability and possibly have positive effects for business travel.

Mixed European GDP outlook: European economies are experiencing a two-track recovery. The strength of the German economy should bode well for UK tourism, but the weakness still apparent in the Irish and Spanish economies could see consumers there reluctant to spend on holidays abroad.

The European business travel market should continue to pick up as the Euroland economy strengthens, although austerity is likely to see government travel budgets under continued scrutiny. Businesses are also looking for places to save costs in the post-recession world and this might put business travel recovery under pressure.

Positive opportunities from other economies: The United States is still a key market for UK tourism and particularly for London. The stimulus package announced in December 2010 should boost disposable income and support consumer spending. This spending is expected to have positive knock-on effects for UK tourism.

The emerging economies currently make up a small proportion of tourist flows into the UK, but often spend more while here than their European counterparts. The continuing rapid expansion of GDP in countries such as China is likely to benefit UK tourism in the coming years.

Uncertain UK Regional outlook: The provinces are expected to be disproportionately hit by the UK public sector retrenchment (we discuss the public sector cuts in more detail later in this forecast). The government has large pockets of employment outside of the capital, such as those in Wales, Northern Ireland and the North of England. The focus of the government on cutting travel expenses will directly impact hotels in the provinces. The increased unemployment uncertainty and wage restraint could also drag on consumer spending in these areas, indirectly affecting hotels.

High unemployment and inflation: Unemployment has remained stubbornly high over 2010 and youth unemployment has become a real problem. This is expected to hold down consumer spending growth in the next two years. The outlook for inflation is for it to remain above target for the whole of 2011, kept elevated by the recent VAT rise.

Consumer spending remains under pressure: Consumers are likely to come under pressure in 2011. The VAT rise that came into effect on 4 January will squeeze disposable income and provide a drag on non-food retail sales. The changes to child benefit will impact the disposable income of many middle class households.

> "Hotels flourish when people are confident that they can spend money because they can earn more in the future"*

Consumer confidence has slipped: Both corporate and consumer confidence has slipped recently as the uncertainty around jobs, debt, house prices and inflation cause anxiety. Value and treat sit well together but consumers continue to be selective about buying choices. In contrast, for those in secure jobs, the low interest rate environment and reasonable disposable income levels support the travel outlook. Luxury travel prospects appear

* The Golden Age of British Hotels, Derek Taylor and David Bush, Northwood Publications, 1974

encouraging as the world's population of High Net Worth Individuals (HNWI) grew by 17.1% to 10m in 2009[5], returning to 2007 levels despite a 2% contraction in global GDP.

Still, holidays remain a priority: 2011 PwC consumer research showed that taking a main holiday is a top spending priority for UK households over the next 12 months. Further pressures on stretched household budgets could yet change this. It also remains unclear whether this holiday will be taken abroad or involves hotel accommodation but is encouraging for those hotels that have invested in the right proposition to attract these travellers. Interestingly, PwC's research also revealed that the other top three priorities involved households paying down debt.

In London luxury and upscale operators plan to chase weekend business from the UK and Western Europe and hope for continued growth in demand from groups as well as from wealthy individuals from America, Russia and the Middle East.

And the corporate travel revival continues: While the resurgence in the business travel sector is a key positive for hoteliers it is not yet a return to business as usual. Many corporates remain cautious in their travel expenditure and continue to drive a hard bargain as they look for value.

But the meetings and conferences recovery trails: The market may be showing signs of recovery but rates remain under pressure. Hotel operators are also under pressure to improve yields on meetings but travel organisers remain cost and value focused.

Table 6: The outlook for travel and hotel demand

	Positive drivers	Challenges
Economy	UK economy expected to continue to grow in 2011. Emerging markets expanding rapidly	Recent shock contraction in GDP. Austerity package kicking in. European debt problems
Consumer spend	Retail sales grew throughout most of 2010	The VAT rise could depress sales. Further negative impact from upcoming benefit cuts
Confidence	Was improving during 2010 as recovery strengthened, but…	Consumer and business confidence have fallen back as we enter 2011
Corporates	Investment and profitability improved through 2010. Corporation tax to fall in April	Down on excess, still looking for cost savings
Travel	A main holiday is a key spending priority for consumers in 2011	Are we 'all spent out'? Looking for deals
Meetings	Showing signs of an embryonic recovery	It's a long-haul back to pre-recession levels
Business travel	Driving a recovery for hotels	Down on excess, still looking for cost savings

[5] Merrill Lynch/Cap Gemini

Public sector cuts could also spoil the party

Will UK public sector cuts spoil the party and will above average supply growth cause a post-Olympics hangover in London?

6 April marks the start of the government's new financial year and with it comes the reality that the public sector cuts are set to really start to bite. In areas reliant on the public sector there is more fear of the pain ahead and it seems certain that this pain will extend to hotels.

We thought it timely to reiterate some key points from PwC's research into hoteliers' dependency on the public sector regarding their scale and implications.

How dependent are hotels on their public sector client base?

Data from our research survey[6] last year suggested that hoteliers believe on average around 8% of their business is sourced directly from the public sector. This figure is likely to underestimate the impact, as many hotels will have more indirect public sector business than they think and, additionally, there will also be private sector business which is dependent on public sector contracts. We consider it safe to assume the same proportion again could be indirectly dependent on the public sector, and estimate that UK hotels are exposed to somewhere between 20% and 30% dependence on public sector related bookings. While it is clear that hotel income will suffer, it is not clear whether rates or occupancy will be the worst casualty. Hoteliers we interviewed thought both outright bans on travel and seeking lower prices would be the norm.

The government is planning a severe fiscal squeeze which will build up to around £113 billion per annum by the end of this Parliament (6.3% of GDP in 2014/15). Chart 6 below clearly highlights this. The composition of the programme shows its severity with 77% coming through spending cuts (£84 bn) and 23% (£29 bn) through tax rises, most notably around £13.5 bn from the recent VAT increase to 20% in January 2011.

The Spending Review will squeeze demand...

Importantly, the impact will build over time with the effects felt over the length of this Parliament. Not all government departments are subject to the same level of cuts, which may impact certain hoteliers with reliance on different client bases in the public sector.

...and there will be less public sector staff travelling

Forecasts at the time of the Budget by the Office of Budget Responsibility suggest government job cuts totalling around 500,000 by 2014/15, mainly back-loaded in 2013/14 and 2014/15. This back-loading is due in large part to the announced two-year pay freeze for all public sector workers earning more than £21,000 a year, which formed part of the Emergency Budget and reduces the necessary job cuts in 2011/12 and 2012/13. There will clearly also be significant effects on private sector companies supplying goods and services to government. This will directly impact those travelling to conferences and on business, but again the cuts will build over time.

...with travel and hotel spend increasingly under pressure

This will result in less public sector staff travelling and more pressure on those who are still travelling to travel less frequently and more cost effectively, including:

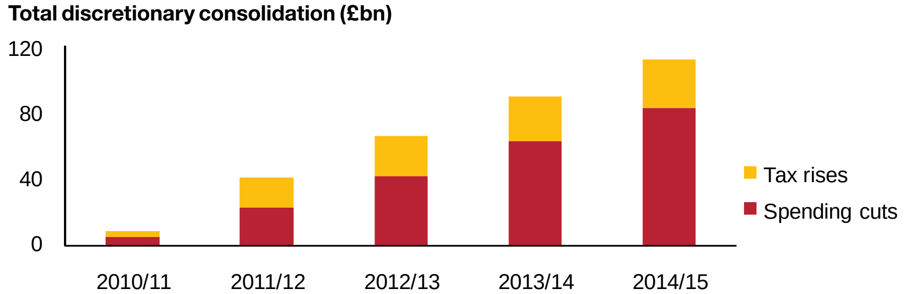
- Challenging the business case for travel i.e. is there really a need to travel?
- Encouraging the use of alternatives e.g. video and tele-conferencing

Squeezing the best deal too will become more common and will include:

- Spreading best practice
- Reviewing travel policies
- Capping and negotiating rates
- Using collaborative tools e.g. online booking or framework agreements
- Shared services cross-government for travel procurement

As Andrew Cosslett, Chief Executive of InterContinental Hotels Group, remarked recently these are all issues that the corporate world has been sorting for some time. But it may be some time before the public sector can say it has dealt with these challenges.

Chart 6: Under pressure: the Spending Review will squeeze demand



Source: HM Treasury (Budget Red Book, June 2010)

[6] PwC UK Hotels Forecast March 2010, Hospitality Directions Europe

10.6% The expected increase in hotel supply in London between 2010 and 2012

Could an unprecedented supply shock prompt a hangover?

A 10.6% increase in London hotel supply is expected between 2010 and 2012

In the run-up to the Olympics, a large amount of additional supply will open in London. If all this supply is realised it represents an increase of around 10.6% in rooms between 2010 and 2012.

To understand the effect of this supply on room occupancy and rates, we used data from Visit London's London Development Monitor to ascertain the number of new hotel rooms likely to be opened in 2011 and 2012. We included all hotels that were labelled as under construction, and assumed 75% of those planned to open in the next two years (but not currently under construction) are built and opened within that time period.

The econometric model already accounts for normal supply increases over time, with around 2,200 rooms built in a normal year. We adjusted the growth in supply numbers to be equivalent to our econometric model by taking into account the historic growth in number of rooms in the STR Global data on which our model is based. We also accounted for the fact that STR Global covers only around 70% of the London hotels market. These adjustments meant our estimates of excess supply for the next two years were 1,500 rooms in 2011 and in 3,400 rooms in 2012.

Enough rooms to go round?

The key UK hotel development trend in recent years has been the rapid development of the branded budgets and there should be rooms of all standards to accommodate Olympic visitors. In addition, a particularly interesting and arguably more glamorous niche trend has been the investment in product quality in London's luxury and upscale hotels.

Halo effect or hazard for existing luxury operators?

Luxury hoteliers have taken the view that if they have a good business case for building, operating or refurbishing in London they may as well invest and showcase that new investment to the world during the Olympic and Paralympic Games. According to our recent analysis, at the time of writing there are around 2,400 rooms in 18 hotels under construction or planned in London for 2011 and 2012. See Table 7.

The capital will see several new brands and/or operators joining the current luxury and upper upscale hotel scene. These will include the US boutique group Thompson Hotels (The Belgraves), the W London Leicester Square (Starwood), the restored Gothic St Pancras Renaissance (Marriott), The London Edition (Ian Schrager and Marriott's new luxury lifestyle brand), ME by Meliá (Sol Meliá), the Corinthia Hotel London and further east Shangri-La at the Shard. For some, development means a second or in the case of Four Seasons, third hotel in London.

Table 7: Some new London luxury hotels and refurbishments

Property	Opening	Location	Operator	Rooms
W London Leicester Square	Spring 2011	Leicester Square	Starwood	192
Corinthia Hotel London	Spring 2011	Whitehall Place	Corinthia	294
Waldorf Astoria	Spring 2011	Syon Park Estate, Isleworth	Hilton	148
St Pancras Renaissance	Spring 2011	St Pancras/Kings Cross	Marriott	283
The London Edition	2011	Berner Street	Marriott International with Ian Schrager	193
The Belgraves - A Thompson Hotel	2011	Belgravia	Thompson Hotels	85
45 Park Lane	2011	Park Lane	Dorchester Collection	45
Boutique Hotel	2012	Manchester Square	André Balazs	33
Ecclestone Square Hotel	2011	Pimlico	n/a	40
Bulgari	2011	Knightsbridge	Ritz Carlton	78
InterContinental	2011	Westminster	InterContinental Hotels	254
Shangri-La Hotel at the Shard	2012	Shard London Bridge	Shangri-La	195
Four Seasons Hotel and Residences at Heron Plaza	2012	Liverpool Street	Four Seasons	192
The Wellesley	2012	Hyde Park Corner	City & Country Hotels	36 suites
ME by Meliá	2012	Holborn	Sol Meliá	173
Quadrant	2012	Regent Street	Alrov	160
Firmdale Hotel	2012	Soho	Firmdale	100

Source: PwC 2011

It is a whole new generation of luxury hotels too. Many combine style and service, and differentiation through top-end technology, beds, spas, celebrity chefs and service. Notably all offer facilities a step-up from what people experience at home. Younger guests continue to drive a more informal contemporary luxury product with some crossover to lifestyle and boutique hotels. London's traditional 'grand dames' such as the Savoy are fighting back as well and refurbishing and renovating for new battles with no intention of becoming museum pieces.

Will this trend exert a halo effect for London's luxury hotels or a trading threat to existing operators? The rules of supply and demand suggest that absorbing the new rooms may not be such an issue during the Olympics or in central London locations. It is more likely to prove a headache in the immediate pre and post Olympic period. The supply is likely to reposition the London market and it may be even more difficult for hotels located further out of the central tourist core and business districts. Some of the hotel operators we spoke to during our research did not expect to see a significantly negative impact on revenues as a result of the new supply opening, although others admitted that such a large increase in rooms would clearly impact trading. Several believed that the re-opening of iconic hotels such as the Savoy and the Four Seasons along with new (for London) names on the scene could provide a positive halo effect, ensuring London continues to compete with top end hotels in other major global cities.

As the branded budgets continue to evolve

Of course, value products are not standing still either and could benefit most in the tough economic environment. Melvin Gold Consulting estimates that as at end-2010 there were 115,196 branded budget rooms in the UK which amounts to 15.8% of total serviced accommodation supply. There are now more branded budget hotels than those in branded full service or branded mid-market hotels. Both Travelodge and Whitbread's Premier Inn have big plans for the future including the Olympics. Both Travelodge and Whitbread's Premier Inn have big plans for the future including the Olympics. For example, Travelodge have announced plans to add another five hotels to its 38 hotels in London in 2011 and to grow to 70,000 rooms in the UK with an extra 1,000 hotels by 2020. More design led value 'boutique budgets' are popping up, with Citizen M's new Glasgow property now open. Another Citizen M is to open on London's South Bank as well as a property in the east of London before the Olympics. Yotel's cabins are open at London's airports and now a new name, Bloc Hotels, is debuting in Birmingham's Jewellery Quarter with Japanese style pod hotels. A 495 room pod style hotel is planned to open pre Olympics at London's Trocadero.

The upshot of all this activity is that there should be plenty of hotel rooms of all types to put up Olympic officials and visitors in 2012. The real challenge will be to fill those rooms before and after the Olympics.

Appendices

Appendix 1

Annual hotel statistics for London, provinces and UK 2005 – 2012

London

	2005	2006	2007	2008	2009	2010	2011	2012 low	2012 mid	2012 high
Occupancy %	73.74	80.30	80.71	79.37	80.40	82.10	83.91	84.72	84.72	84.72
ARR (£)	102.44	108.72	118.82	123.07	115.80	126.24	133.96	135.53	137.93	144.52
RevPAR (£)	75.61	87.44	96.00	97.82	93.24	103.86	112.50	115.12	117.32	123.39
% growth on previous year										
Occupancy	-1.9%	8.9%	0.5%	-1.7%	1.3%	2.1%	2.2%	1.0%	1.0%	1.0%
ARR	3.1%	6.1%	9.3%	3.6%	-5.9%	9.0%	6.1%	1.2%	3.0%	7.9%
RevPar	1.3%	15.6%	9.8%	1.9%	-4.7%	11.4%	8.3%	2.3%	4.3%	9.7%

Provinces

	2005	2006	2007	2008	2009	2010	2011	2012
Occupancy %	70.66	71.19	71.20	68.47	64.83	67.15	67.31	68.31
ARR (£)	63.23	64.34	66.36	66.97	61.86	61.30	63.38	65.32
RevPAR (£)	44.72	45.83	47.27	45.91	40.11	41.23	42.70	44.69
% growth on previous year								
Occupancy	0.1%	0.8%	0.0%	-3.8%	-5.3%	3.6%	0.2%	1.5%
ARR	3.7%	1.8%	3.1%	0.9%	-7.6%	-0.9%	3.4%	3.1%
RevPar	3.9%	2.5%	3.1%	-2.9%	-12.6%	2.8%	3.6%	4.7%

UK

	2005	2006	2007	2008	2009	2010	2011	2012 low	2012 mid	2012 high
Occupancy %	71.55	73.74	73.79	71.38	68.90	71.04	71.61	72.56	72.56	72.56
ARR (£)	75.01	77.86	82.02	83.63	78.35	80.90	84.59	86.42	87.14	89.12
RevPAR (£)	53.70	57.47	60.56	59.76	54.00	57.55	60.63	62.85	63.43	65.00
% growth on previous year										
Occupancy	-0.5%	3.1%	0.1%	-3.3%	-3.5%	3.1%	0.8%	1.3%	1.3%	1.3%
ARR	3.4%	3.8%	5.3%	2.0%	-6.3%	3.2%	4.6%	2.2%	3.0%	5.4%
RevPAR	2.9%	7.0%	5.4%	-1.3%	-9.6%	6.6%	5.3%	3.7%	4.6%	7.2%

Source: Econometric Forecast: PwC February 2011

Benchmarking data STR Global February 2011

Key: Forecast

Appendix 2

Quarterly hotel statistics for London, provinces and UK 2010Q1 – 2012Q4

London

	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q3	2012Q3	2012Q4
											low	mid	high	
Occupancy%	75.70	82.60	87.90	82.20	78.60	84.30	88.90	83.90	80.50	82.50	**91.90**	**91.90**	**91.90**	83.90
ARR (£)	114.70	124.70	128.90	136.60	127.50	134.70	134.30	139.30	126.70	133.20	**146.60**	**156.20**	**182.60**	135.59
RevPar (£)	86.90	103.00	113.20	112.30	100.20	113.50	119.40	116.90	102.00	109.90	**134.80**	**143.60**	**167.90**	113.73
% growth on previous year														
Occupancy	4.8%	0.4%	3.6%	0.0%	3.8%	2.0%	1.2%	2.0%	2.5%	-2.1%	**3.4%**	**3.4%**	**3.4%**	0.0%
ARR	4.4%	8.4%	12.2%	10.7%	11.1%	8.0%	4.2%	2.0%	-0.6%	-1.1%	**9.1%**	**16.3%**	**35.9%**	-2.7%
RevPar	9.4%	8.8%	16.2%	10.7%	15.3%	10.2%	5.5%	4.1%	1.8%	-3.1%	**12.8%**	**20.2%**	**40.5%**	-2.7%

Provinces

	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4
Occupancy%	59.77	69.70	74.31	64.83	60.74	69.77	73.28	65.46	61.61	70.45	**75.20**	66.00
ARR (£)	59.22	61.39	62.75	61.85	61.77	63.96	64.11	63.70	63.44	65.07	**67.60**	65.17
RevPar (£)	35.39	42.79	46.63	40.10	37.52	44.62	46.98	41.70	39.09	45.84	**50.84**	43.01
% growth on previous year												
Occupancy	2.3%	4.8%	4.9%	2.1%	1.6%	0.1%	-1.4%	1.0%	1.4%	1.0%	**2.6%**	0.8%
ARR	-4.5%	-1.4%	0.9%	1.4%	4.3%	4.2%	2.2%	3.0%	2.7%	1.7%	**5.5%**	2.3%
RevPar	-2.3%	3.3%	5.8%	3.5%	6.0%	4.3%	0.7%	4.0%	4.2%	2.7%	**8.2%**	3.1%

UK

	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q3	2012Q3	2012Q4
											low	mid	high	
Occupancy%	63.92	73.08	77.83	69.33	65.37	73.52	77.33	70.23	66.52	73.58	**79.54**	**79.50**	**79.54**	70.60
ARR (£)	76.36	80.16	82.22	84.84	81.52	85.21	85.20	86.43	82.44	85.55	**91.30**	**94.20**	**102.15**	86.30
RevPar (£)	48.81	58.58	64.00	58.82	53.28	62.65	65.89	60.70	54.84	62.95	**72.65**	**74.94**	**81.25**	60.98
% growth on previous year														
Occupancy	2.9%	3.5%	4.5%	1.4%	2.3%	0.6%	-0.6%	1.3%	1.8%	0.1%	**2.8%**	**2.8%**	**2.8%**	0.6%
ARR	-0.5%	2.3%	5.7%	5.4%	6.7%	6.3%	3.6%	1.9%	1.1%	0.4%	**7.2%**	**10.6%**	**19.9%**	-0.1%
RevPar	2.4%	5.8%	10.4%	6.9%	9.2%	6.9%	3.0%	3.2%	2.9%	0.5%	**10.3%**	**13.7%**	**23.3%**	0.5%

Source: Econometric Forecast: PwC February 2011

Benchmarking data STR Global February 2011

Key: Forecast

Appendix 3

PwC hotel model GDP and inflation assumptions

PwC hotel forecasting model GDP and inflation assumptions (% growth on previous year)

	2008	2009	2010	2011	2012
UK GDP growth	0.5	-4.8	1.4	1.5	2.2
UK Inflation	3.6	2.2	3.3	3.7	1.9

Source: PwC 2011

Appendix 4

Methodology for PwC hotel forecasts

This section outlines in more detail the PwC model used to forecast hotel occupancy, ARR and RevPAR.

Econometric model

The econometric model used was an updated version of the model used in September's Hospitality Directions forecast and was based on a Vector Autoregression (VAR) framework. This type of model was chosen because it allows for interaction between occupancy and average room rates, as we observe in the market. The VAR uses occupancy rate growth and real ARR growth as dependent variables, while the explanatory variables include lags of both the dependant variables and a set of macroeconomic explanatory variables.

Data

The model was based on data from STR Global from the period January 2000 – December 2010, containing monthly information on occupancy, average room rate (ARR) and revenue per available room (RevPAR). We averaged this data to create a quarterly series.

Macroeconomic data was tested for the UK, US and Europe, as these regions comprise the main demand flows into the UK.

The model also incorporates some dummy variables. We included quarterly dummies to control for the strong seasonality of the data. Terrorism dummies were included to account for the affects of 09/11 and 07/07 on the UK hotel industry, while the provinces model includes a pre-Q2 2003 dummy to account for data irregularities in the early part of the sample.

Final specifications

The final specifications for the London and provinces models were chosen according to which variables exerted a statistically significant influence on the dependant variables. This means different macroeconomic variables were included in the two models, with London's having more international drivers. The optimal lag length (amount of lags of ARR and occupancy included in the model) was one quarter in the case of London and three quarters in the case of the provinces. The following table gives the dependant and explanatory variables for the final specifications of the London and provinces models.

Forecasts

We used the model to generate forecasts through to Q4 2012. The forecasts were run separately for London and the provinces with forecasts for the UK constructed from a weighted average of these two regional forecasts.

PwC's in-house forecasts of the macroeconomic variables were used to drive the hotel forecasts.

Olympics overlay

The effect of the Olympics on London hotels is dependent on both the number of visitors that come to the city for the Games and the amount of displacement that

Final specifications of the London and provinces models

London model		**Provinces model**	
Dependant variables	Occupancy rate growth	Dependant variables	Occupancy rate growth
	Real ARR growth		Real ARR growth
Explanatory variables	1 quarter lagged occupancy rate growth	Explanatory variables	1, 2 and 3 quarter lags of occupancy rate growth
	1 quarter lagged ARR growth		1, 2 and 3 quarter lags ARR growth
	Quarterly dummies		Quarterly dummies
	Terrorism dummy for 9/11		Terrorism dummy for 07/07
	Terrorism dummy for 07/07		Pre Q2 2003 dummy
	GDP growth weighted by guests in London hotels		UK GDP growth
	1 quarter lagged dollar/pound exchange rate growth		3 quarter lagged UK unemployment rate change
	US unemployment rate change		UK investment growth

Source PwC 2011

occurs (i.e. people who avoid London due to the Games). The net number of visitors who will come to the city cannot be accurately known and pre-Games estimates have historically overestimated the number of people who will attend. In light of these uncertainties we have modelled three different scenarios.

The first scenario is based on Oxford Economics and Visit London's 2007 report[7], which predicts 908,440 overnight visitors for the Olympics. The other two scenarios are based on the Athens and Barcelona Olympics, where 660,000 and 450,000 overnight visitors attended respectively[8]. The Oxford Economics figure was adjusted down to account for expected displacement, as assessed in that report. In our forecasts, the scenarios are referred to as the high, mid and low scenarios.

The visitor numbers can be converted into total additional accommodation demand by using the average number of nights a guest will stay and how many guests stay on average in each room. The Athens (mid scenario) and Barcelona (low scenario) figures are based on actual data from hotels in those cities during the Olympics. The Oxford Economics report expected people to stay for an average of eight nights, which is approximately double the figure for the last three Olympic Games. These calculations lead to an estimate of the extra room nights (in 000's) demanded in the Olympic period:

- High: 3,400
- Mid: 1,800
- Low: 1,200

The extra demand will not be solely for hotels, as some people will choose to stay in B&Bs or university accommodation. To adjust the demand to account for other kinds of rooms, we accounted for the proportion of total London room supply that are hotel rooms, B&B, and available university rooms.

In each of the three scenarios we modelled, total demand is expected to exceed total supply of hotel rooms. We have assumed that other sources of demand enter the market at this point, such as Londoners letting their flats and temporary campsites. The coefficients from the econometric model can then be used to estimate the effect of the demand shock on the average ARR and occupancy rates of London hotels available on the open market during the Olympic period.

The London Organising Committee of the Olympic Games and Paralympic Games (LOCOG) has already secured approximately 50,000 rooms (of which roughly 75% are hotel rooms) at pre-agreed prices. Our estimates of ARR and Occupancy during the Olympic period are a weighted average of the LOCOG rooms and rooms available on the open market.

The forecasts for the Q3 2012 are calculated as a weighted average of the occupancy and the ARR within the Olympic period and outside of it. The baseline used for the part of the third quarter that falls outside the Olympic period was the output of the econometric model and the supply overlay.

7 The value of the London 2012 Olympic and Paralympic Games to UK tourism, September 2007. Study carried out by Oxford Economics and jointly commissioned by VisitBritain and Visit London.

8 Visitor numbers taken from report referenced in footnote 1.

Appendix 5

Glossary of terms used in this forecast

ARR or ADR – Average Daily Room Rate

The average price a room is sold for in a hotel or group of hotels taking in to account only rooms let. Room revenue divided by rooms sold

RevPAR - Revenue Per Available Room

Room revenue divided by rooms available (occupancy times average room rate will closely approximate to RevPAR). Also known as yield.

Occupancy

The percentage of available rooms that have been sold over any given period. Rooms sold divided by rooms available

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Contacts

Robert Milburn

UK Hospitality & Leisure Leader

✉ robert.j.milburn@uk.pwc.com
☎ +44 (0) 20 7212 4784

Liz Hall

Hospitality & Leisure Head of Research

✉ liz.hall@uk.pwc.com
☎ +44 (0) 20 7213 4995

Stephen Broome

Advisory Hotels Specialist

✉ stephen.broome@uk.pwc.com
☎ +44 (0) 20 7212 8510

Yael Selfin

Head of Macro Consulting

✉ yael.selfin@uk.pwc.com

☎ +44 (0) 20 7804 7630

Stephen Curragh

Northern Ireland

✉ stephen.curragh@uk.pwc.com

☎ +44 (0) 28 9041 5495

www.pwc.co.uk/hospitalitydirections