Avison Young Hotel Market Outlook

Recovering from the Impacts of Covid-19

Avison Young Hotels Team

November 2021

Introduction

The Avison Young Hotels Team has been tracking the recovery of the UK hotel sector from the impact of Covid-19 and, using various data sources, we have forecast our anticipated recovery in the coming years.

The sector, particularly in tourist hotspots has bounced back strongly in Q3 with, many markets average daily rate (ADR) performance higher than the corresponding period of 2019. This has led to a higher degree of optimism in the sector than since pre-Covid, and a more bullish approach to vendor aspirations on pricing.

With the return of major events and the lifting of quarantine for international inbound travelers, the recovery in London and other large cities has gained significant momentum in recent months. This is being driven initially by ADR, and we expect volume to return strongly from early to mid 2022.

In the regions, whilst the extraordinary staycation boost has ended, the return of large events is still driving strong performance. We expect a softening of demand during Q4 and into Q1 2022, accelerating again from Q2. That said, with the return of the overseas holiday, we do not expect the same levels of RevPAR performance in Q3 2022 that has been seen this year.

With a softening of demand over winter, It will likely be a difficult time for a number of businesses with Government support measures ending, supply chain issues and increasing energy costs. Businesses already under pressure pre-Covid will suffer however businesses which have adapted to changing consumer needs and market demands should survive and ultimately thrive.

New supply pressure could also see revenue performance continue to be impacted even as demand returns. New, well-located hotels will often outperform older competitors, and with potential under-investment in many assets due to the pandemic, this could become more pronounced in the short term.

As with all forecasts these are caveated and intended as a guide only – every hotel has its particular strengths and weaknesses, market drivers, liquidity demands and pressures. That said, this analysis does present a more optimistic picture for well managed and invested hotels than many commentators.

Please get in touch if you would like to discuss any of the points raised in this overview, or to discuss your hotel project.

Previous Forecast vs Actual Performance

In Q4 2020, Avison Young forecasted RevPAR recovery for London and Regional UK. Our forecasts were updated in January 2021 during lockdown 3.0.

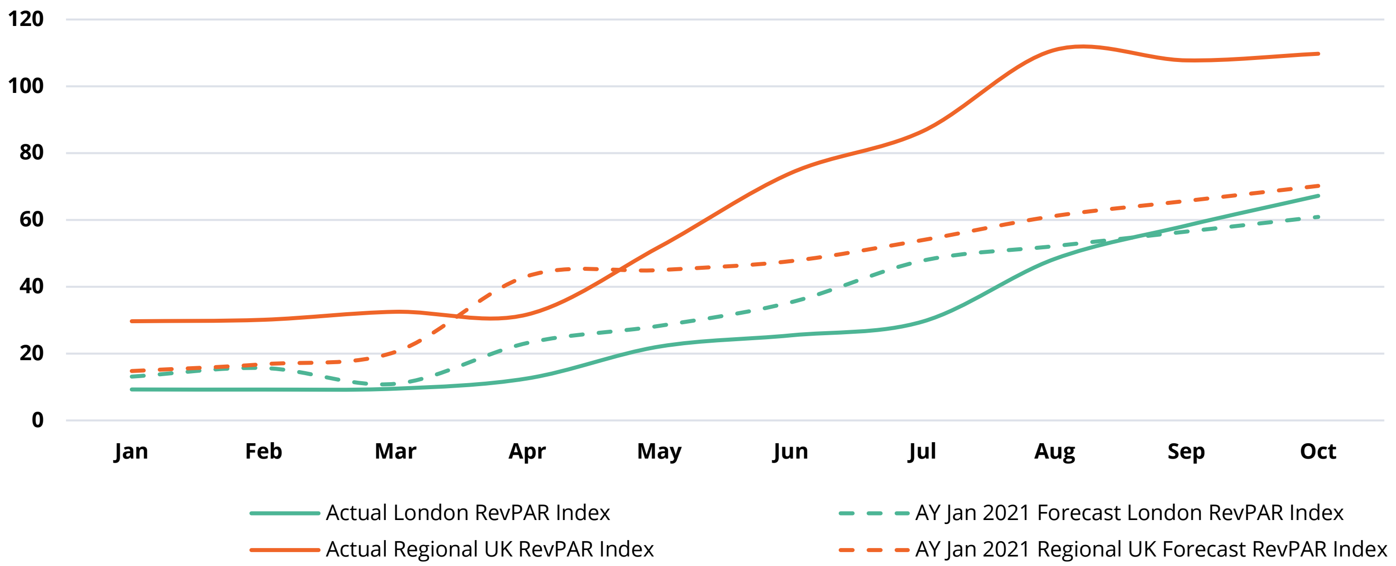
Following a very successful Q3 for many markets, now is the time to revisit those forecasts in light of current market conditions.

In January we forecasted that London RevPAR in 2021 would be 42% of 2019, with Regional UK ahead at 51%. At the same time, we forecasted that the recovery of both markets would accelerate during late 2022, driven initially by ADR with volume returning once international travel and events are back in full force.

We predicted that London RevPAR would recover to 2019 levels first (in late 2023), with Regional UK recovering during 2024.

Avison Young has since revised the recovery profiles and timelines, this is detailed over the next few pages.

Jan 2021 Avison Young Monthly RevPAR Forecast vs Actual Performance – Indexed against 2019 Base Case



Source: Avison Young

London

- Our forecast for London was close to actual performance
- We slightly over-estimated growth over the summer months due to the delay in the ending of international travel restrictions
- It can be seen that recovery has accelerated significantly in the last three months
- Compared to October 2019, October 2021 London Occupancy was at an index of 74.2 and ADR was at 90.2 while Regional UK Occupancy was at 92.1 and ADR at 119.1

Regional UK

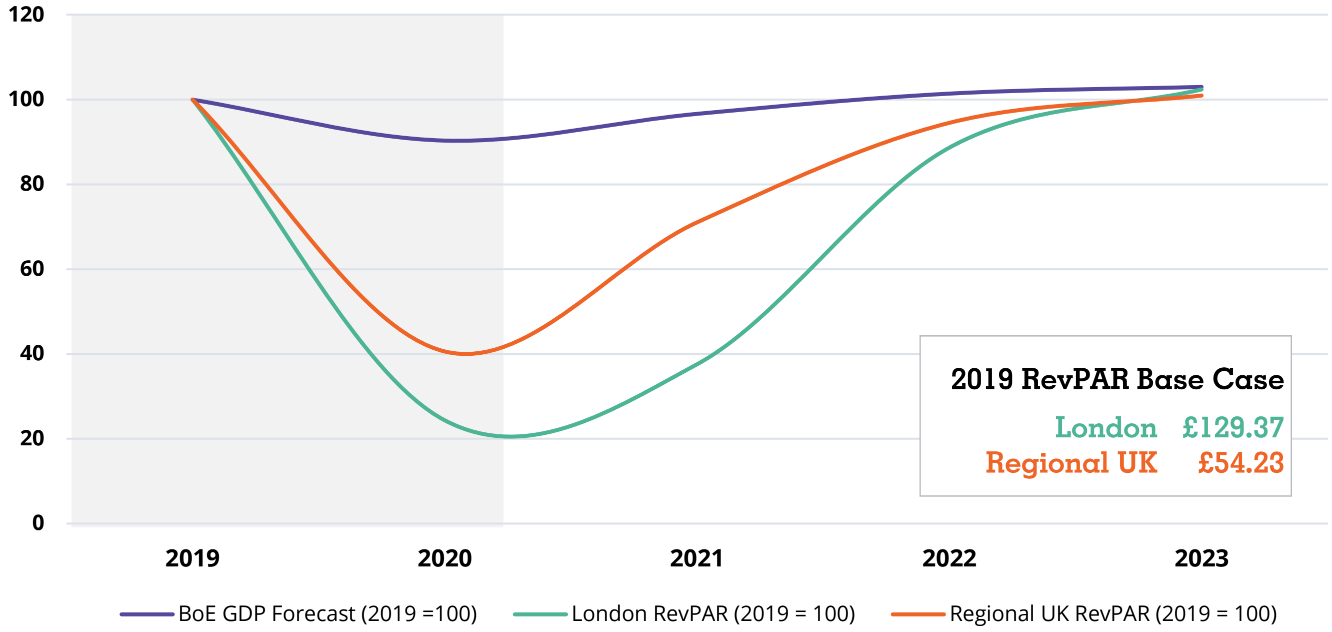
- Our forecast for Regional UK was relatively accurate until June, but we underestimate the ADR (over occupancy) hoteliers we able to achieved based on our assumption of lower consumer confidence. Demand has also extended into the shoulder months
- The expense of Covid-19 testing and quarantine rules for international holidays meant consumers were willing to spend more to have a domestic holiday resulting in high ADR
- In October RevPAR remained above 2019 levels due to school half term demand, domestic business travel and major events

Avison Young Forecast November 2021

We have updated our forecast and show our anticipated recovery hotel RevPAR in London and Regional UK, this has been shown against the Bank of England's GDP recovery forecast. A quarterly breakdown of recovery for both London and Regional UK are detailed over the next two pages.

Avison Young Annual RevPAR Forecast 2020-2023 Indexed against 2019 Base Case

London RevPAR to reach 2019 levels by end of 2022 and Regional UK by the mid 2023



Source: Avison Young, Bank of England (November 2021), CoStar 2021

London has been impacted more than Regional UK

- Albeit from a much higher base, London RevPAR in 2020/21 has fallen further than Regional UK
- This is due to the capital's reliance on international commercial and leisure tourism against domestic travel for Regional UK

Hotel sector recovery at a slower pace than GDP

- This is due to travel restrictions and social distancing guidelines remaining for some time even after the positive roll out of the vaccine
- Whilst each market will vary, we expect that London RevPAR will return to 2019 levels in late 2022 and Regional UK during 2023
- Limited service hotels, apart-hotels and self-catering accommodation (with less interaction between guests and staff) are recovering quicker than other accommodation types

Recovery driven by ADR initially

- Across the UK, recovery is being driven by ADR with demand expected to return more strongly from 2022
- ADR for many regional markets has been stronger in Q3 2021 than pre-Covid. London has been ramping up gradually and in October 2021 ADR was less than 10% below October 2019

Regional UK initially boosted by domestic demand

- Regional UK has recovered quicker than London initially due to increased staycations in the summer months of both 2020 and 2021 and the return of some domestic business travel
- The return of entertainment and sporting events during Q3 and large conventions from September (e.g. COP26 in Glasgow) has further accelerated the recovery
- It is expected that Regional UK growth will slow in Q4 2021 and Q1 2022 with an ADR correction in H1 2022 driven by the return of outbound leisure tourism

London recovery will continue to accelerate

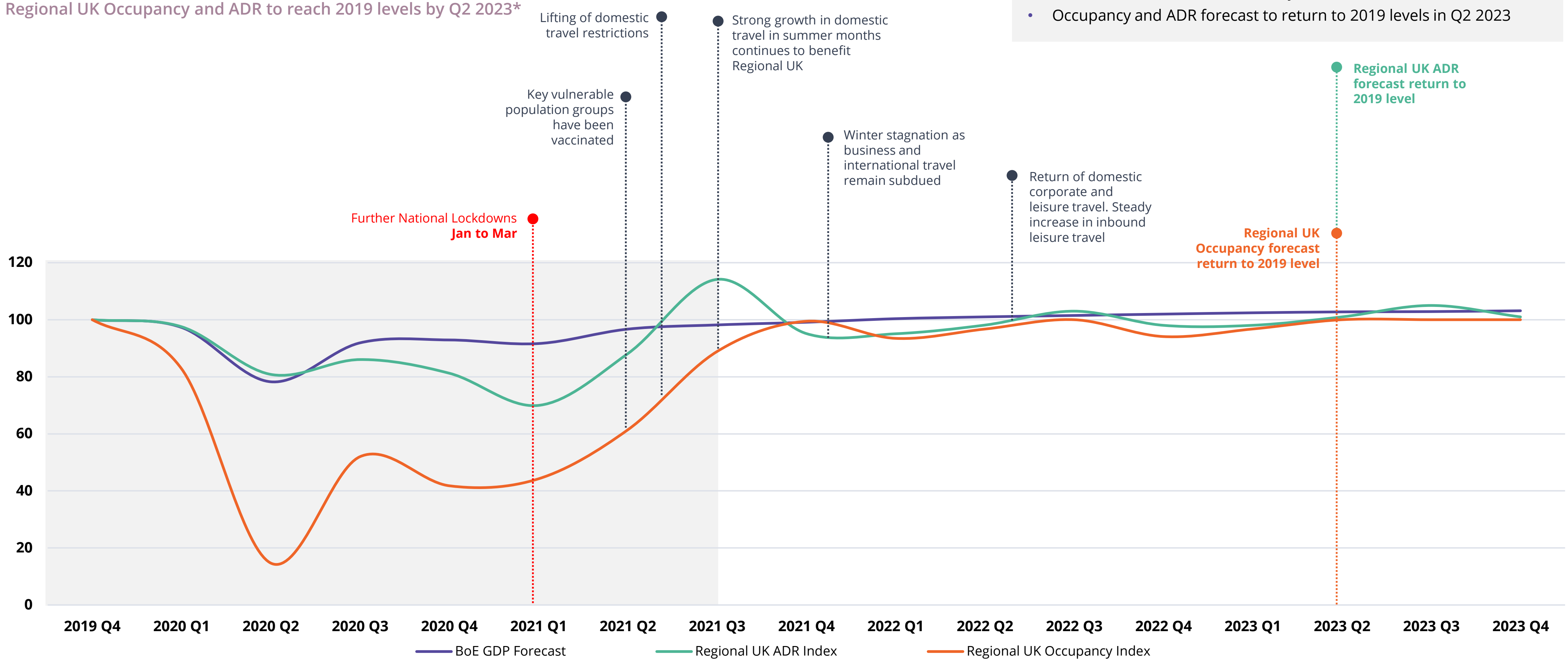
- Q3 recovery was sluggish due to the delay in easing of international travel restrictions
- When international travel begins to return in early 2022, we expect the recovery in London to accelerate and eventually overtake Regional UK
- ADR will return to pre-pandemic levels during 2022 and into 2023 but we are forecasting overall occupancy volumes to be c.10% down by the end of the year – it is London's ability to drive ADR which is key

Regional UK Quarterly Recovery

Avison Young Regional UK Quarterly Occupancy and ADR Forecast 2020-2023 Indexed against the Same Quarter of 2019

Regional UK Occupancy and ADR to reach 2019 levels by Q2 2023*

- Very strong Q3 2021 ADR due to high levels of pent-up domestic demand and spend diverted from overseas holidays
- ADR index to decline in winter as business demand and inbound tourism remain subdued
- Q3 2022 performance boost to be less strong than in 2021 due to the return of the overseas holiday
- Occupancy and ADR forecast to return to 2019 levels in Q2 2023



Source: Avison Young, Bank of England (November 2021)

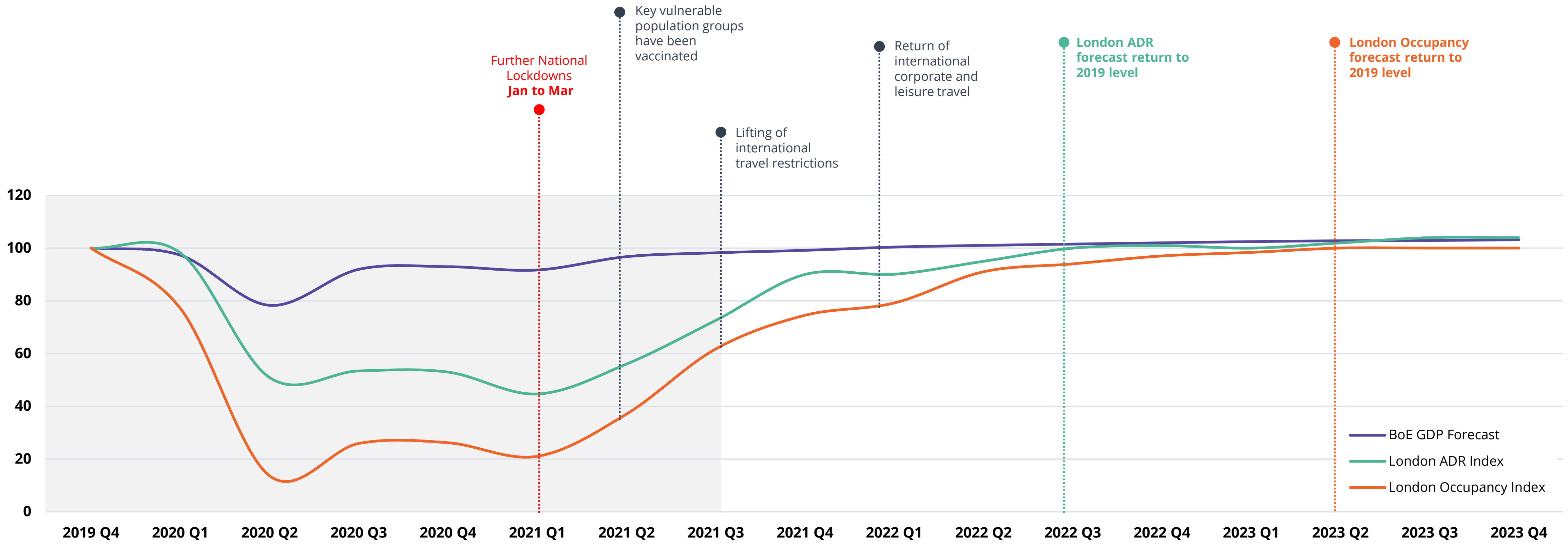
**Both the BoE GDP forecast and Avison Young RevPAR Recovery Forecasts are dependent on there not being future lockdowns or other factors that discourage future international travel*

London Quarterly Recovery

Avison Young London Quarterly Occupancy and ADR Forecast 2020-2023
Indexed against the Same Quarter of 2019

London Occupancy to reach 2019 levels by Q2 2023 and ADR by Q3 2022*

- Recovery from Q2 2021 driven by ADR with demand remaining subdued
- Lifting of international travel restrictions and continued return of major events will boost demand to London from H1 2022
- ADR to return to 2019 levels in Q3 2022 but with a c.10% shortfall in volumes compared with 2019 due to ongoing change in business travel trends



Source: Avison Young, Bank of England (November 2021)
**Both the BoE GDP forecast and Avison Young RevPAR Recovery Forecasts are dependent on there not being future lockdowns or other factors that discourage future international travel*

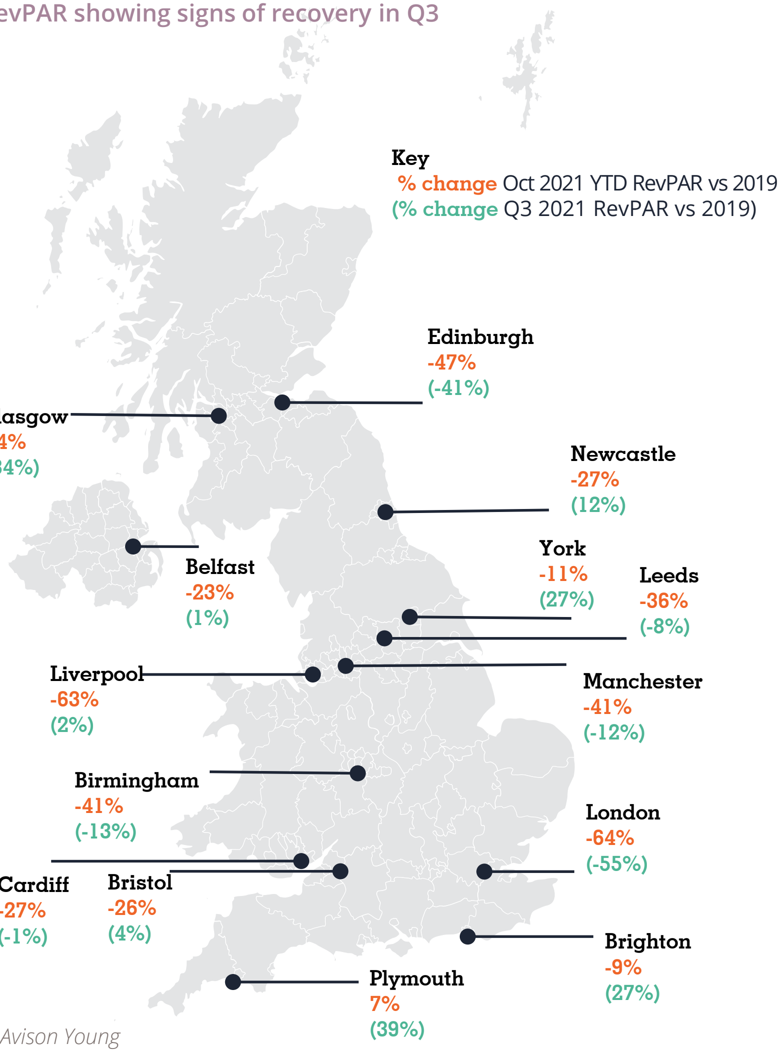
Current Market Conditions

Pent-up domestic demand in Q3 2021

- Domestic tourism has seen a considerable uplift with pent-up demand caused by international travel restrictions creating a staycation boom
- Cost of testing for overseas travel and holidays has made domestic holidays more attractive, even at higher prices
- Coastal, historic and rural destinations experienced bumper performance in Q3 with consumers willing to spend more than expected
- For example Brighton, Plymouth and York saw a large increase in RevPAR in Q3, performing at much higher levels than in 2019; up 30%, 39% and 27% respectively
- Plymouth, is the only major market to have outperformed October YTD 2019, with RevPAR in October 2021 YTD 7.2% higher
- In contrast, cities that rely on overseas leisure tourism, corporate demand and large conferences continue to be the most affected by the pandemic
- Major UK cities such as London, Edinburgh and Glasgow Q3 performance remained well behind that of 2019
- London, Edinburgh and Glasgow have seen sharp declines in RevPAR with October YTD 2021 down 64%, 47 % and 44% respectively against the same period in 2019.
- Leisure events have shown positive recovery across Q3 and will continue to ramp up with full capacities
- Large conferences have started to run again, typically with large capacities (all domestic delegates), this is expected to continue

RevPAR October YTD and Q3 in UK Cities

RevPAR showing signs of recovery in Q3



Source: Avison Young

New Supply in 2022

In the top ten cities detailed below, there are 65 schemes (10,048 bedrooms) that are expected to open in 2022. This is notably down from November 2020 for hotel openings in 2021, 115 schemes (17,596 bedrooms). This can be largely attributed to funding difficulties. The data is for all hotel developments over 20 bedrooms including apart-hotels.

Manchester and Liverpool have the highest percentage of new bedrooms as a proportion of their current room stock, both 11%. Notably, Birmingham and Liverpool have had approximately 10% of their total pipeline developments deferred or put on hold in 2021. Cardiff, Leeds and Birmingham now have no proposed hotel openings in 2022.

2022 Hotel Pipeline in Key Cities and 2021 Deferred Schemes

A large number of deferred schemes due to Covid-19

	No. Confirmed Openings in 2022	% of Current Supply (by rooms)	Deferred Schemes since November 2020
London	36	3%	19
Manchester	8	10%	3
Birmingham	0	0%	4
Bristol	3	7%	2
Newcastle	1	1%	0
Liverpool	6	8%	9
Leeds	0	0%	1
Glasgow	5	7%	4
Edinburgh	6	4%	5
Cardiff	0	0%	1

Source: STR., 2021 © CoStar Realty Information, Inc

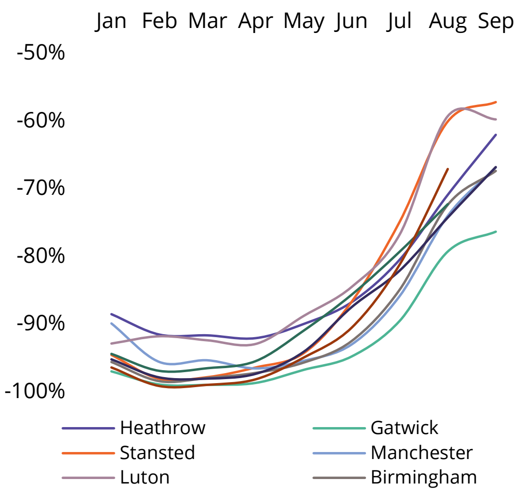
Current Market Conditions

Economy and Tourism

- UK GDP has experienced its largest fall on record, with **2020 down 9.9%** from 2019;
- The Office for National Statistics has estimated that **Q3 2021 increased by 1.5%** (however this was still 4% lower than Q4 2019);
- The Bank of England (BoE) has forecast a **1.0% increase in Q4 2021** (one percentage point weaker than expected in August);
- The BoE's latest position on 2021 GDP forecast (as of November 2021) is that the UK will experience growth of **7.25%** as rapid progress with the Covid-19 vaccine and easing of restrictions **paving the way for a boom in pent-up demand**.
- **Economy is expected to return to pre-Covid-19 peak by Q1 2022**, a more positive outlook than earlier in the pandemic, though recent supply chain pressures have delayed recovery;
- **Unemployment** has continued to fall, down to **4.5% in Q3 2021**, however it is still up from the pre-Covid rate of 4%;
- Inflation has seen recent increases with **CPI over 4%** and expected to reach 5% in April 2022;
- **Government support schemes have gone some way in helping to relieve the financial stress** that the pandemic has caused on both businesses and the general public. These include the Coronavirus Job Retention Scheme, business rates relief, government backed loans, mortgage payment holidays and VAT deferral;
- Avison Young's UK Cities Recovery Index monitors the speed and trajectory of the recovery using a range of key indicators. It highlights that there was **a sharp recovery between April and June** as restrictions were beginning to be lifted but this has since plateaued. The National Index is 92.7 (100 = Feb 2020) as of 8th November 2021;
- **Business and consumer confidence has been improving in recent months** as all restrictions were lifted in July 2021 allowing hospitality and events to resume operations effectively. Notably, the mobility index is very high as of October, which is very positive for the hospitality and events sectors;
- Though the economy has been recovering well, **global shortages of materials, staff shortages and transport delays coinciding with sharp spikes in demand have threatened to subdue growth**. Supply chain issues have had a knock-on effect on energy prices with British and European gas storage levels at record lows, an issue not helped by higher than expected usage in the first half of the 2021;
- **Inbound tourism has been heavily affected throughout the pandemic**, with travel restrictions imposed globally. On 1st November 2021, the UK Government took the last remaining countries off the red list of countries viewed as high risk meaning there is now no need to quarantine;
- It is **expected that this should improve confidence in international travel for both leisure and business**. UK citizens can travel to the US and EU if fully vaccinated and/or have a Covid passport following a negative test.

Monthly Airport Passenger Numbers 2021 vs 2019

Recovery seen across summer period



Source: CAA (no data in September for Bristol or Glasgow)

Airport Passenger Mix Q3 2021 vs Q3 2019

Domestic travel has led recovery

Source: CAA (Inner ring = 2019, outer ring = 2021)

Domestic Passengers
International Passengers

Restaurant Reservations

+30% from October 2019

Source: Open Table (November 2021)

UK Consumer Confidence

-17 (up 14 points from Oct 2020)

Source: GfK Consumer Confidence Barometer (November 2021)
>0 = positive consumer confidence
<0 = negative consumer confidence

UK Unemployment

4.5% Q3 2021

Source: ONS (November 2020)

UK GDP Q3 2021

-1.8% down from Q4 2019

Source: ONS (November 2021)

How Can Avison Young Assist?

Avison Young Hotels Team can advise and support clients in a number of ways:

Understanding the long-term impacts of Covid-19 on future development and funding of new hotels

We can run compliant selection processes for the procurement of development partners, brands and operators

Advising on the appropriate and most relevant hotel products that fit the overall master plan of a regeneration project, matching the demand drivers

Advice around the structure of any support or financial subvention including financial performance, investment returns and risk profile;

Detailed financial projections and sensitivity analysis to support local authority underwriting

Investment advice, negotiation of commercial terms and analysis of long-term returns

Avison Young Hotels Team Capabilities

- Agency and Investment
- Valuation
- Building Consultancy
- Project Management
- Planning
- Business Rates
- Consultancy Advice (Feasibility Studies, Branding, Re-Positioning, Operator Selection, Performance Monitoring, Acquisition Due Diligence)

Carried out valuations totalling £10bn+ in the last two years

£1.5bn+ of hotel developments in 2019

Advised on £350m+ of hotel transactions in the last year

UK-wide Coverage – Avison Young Offices

Should you wish to discuss the contents of the document in greater detail please do not hesitate to contact:

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