



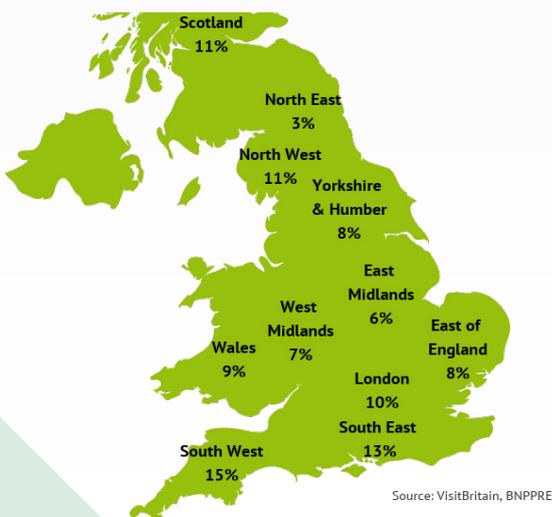
UK HOTELS

MARKET SNAPSHOT Q2 2020

MARKET OVERVIEW

- ▶ The COVID-19 pandemic brought the global hotel sector to an unprecedented standstill in Q2 2020.
- ▶ Occupancy fell indiscriminately across the sector. UK hotels were finally able to reopen their doors on 4th July 2020 and occupancy has started to creep up as a result.
- ▶ COVID-19 has impacted on activity across all market sectors this year. However, with UK hotels now reopen, it is anticipated that occupancy will start to recover, especially through the summer months as Brits favour staycations over travelling abroad
- ▶ Whilst domestic leisure tourism is leading the demand recovery, there are several factors which will continue to hold back demand in the short to medium term; the biggest being the impact of the economic downturn and changes to the airline industry and its capacity as well as the psychological impact of the pandemic on consumer behaviour.
- ▶ Corporate demand remains muted and is unlikely to rebound to pre-COVID-19 levels in the short-term. The return of corporate travel is hard to predict. Whilst tied closely to the economy, the recovery is likely to be more elongated as businesses continue to run in the most cost effective way.

REGIONAL SHARE OF DOMESTIC TRIPS



DEMAND RECOVERY LED BY LEISURE

- ▶ As a result of 3 months of enforced closures, occupancy dropped to c.25% over the quarter and consequently the sector recorded a large drop in RevPAR.
- ▶ Domestic leisure demand is expected to lead the recovery in the sector, with markets who traditionally

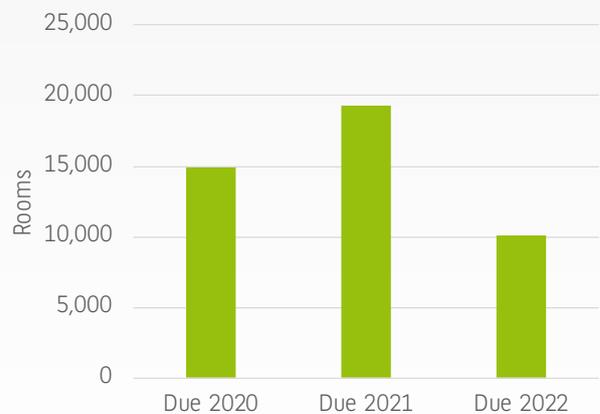
receive a greater share of domestic tourism, to see occupancy recover first e.g. Plymouth and Blackpool.

- ▶ Forward bookings picked up over the short-term, at the end of the quarter, and this trend has carried on into Q3 with new bookings outweighing cancellations in leisure locations over the summer months.

DEVELOPMENT PIPELINE

- ▶ The UK hotel sector was in the midst of a development boom at the start of the year. The pandemic has stalled or disrupted some projects as the market entered lockdown and the supply of labour and materials hit construction activity.
- ▶ Nonetheless, there were 44,338 rooms in the active hotel pipeline in June 2020. A number of other projects have been put on hold or remain unconfirmed or speculative, and when these are included, the pipeline significantly increases, equating to c.34% of all existing hotel supply.

UK HOTEL DEVELOPMENT PIPELINE



Source: AMPM

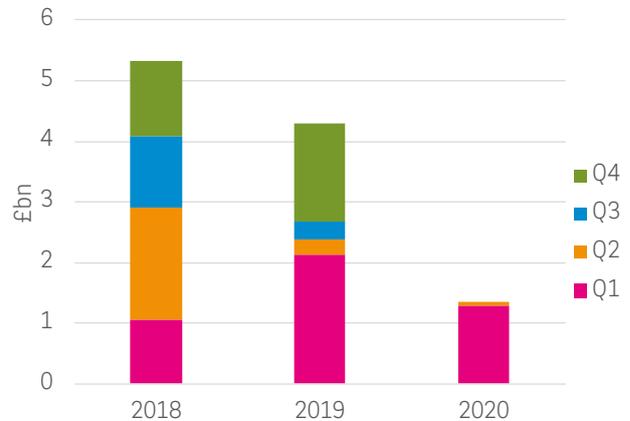
A FALL IN INVESTMENT ACTIVITY

- ▶ Investment activity fell across all market sectors in Q2 2020, with the few deals that did occur during lockdown mostly lined up in the months preceding the pandemic.
- ▶ The largest transaction of the year to date was the sale of the Ritz hotel in London for c.£720 million, days before lockdown measures were enforced.
- ▶ It is unlikely that there will be much activity reported in Q3, over the summer period, as financing remains challenging and investors remain cautious about investing in the sector.
- ▶ As the year draws to a close and into 2021, investment activity should pick up somewhat as a result of investors coming back into play eyeing up opportunities for leased hotels with strong covenants.

SECTOR CHALLENGES

- ▶ Hotel owners and operators are facing a challenging marketplace and need to work closely together, maintaining a strong relationship, to navigate through the months ahead.
- ▶ One such challenge is for operators to manage the cost of running a hotel in a world with lower occupancy, at least in the short term. With added costs, such as extra cleaning, and a fall in traditional revenue sources, including F&B, some independent operators may struggle to survive. Branded chains may find this easier to do through optimising occupancy rates if for example they have two hotels in one city.
- ▶ There is a need now for widespread acceleration in the adoption of technology. The pandemic has highlighted the role that technology can play in the sector, for example, helping to minimise contact between staff and guests through remote check-ins and keyless room entry, all which should help optimise efficiencies for the operator at the same time as making guests feel confident with the health and safety measures in place.
- ▶ Hotels will need to reassure their potential clientele of the measures and procedures they have put in place to ensure the highest levels of sanitation. Some of the larger brands have partnered up with cleaning product companies in order to do so. In April Hilton announced a partnership with Reckitt Benckiser to launch the Hilton Cleanstay program.
- ▶ Hoteliers should also consider how, in the short-term, they can attract demand from domestic tourism. This is particularly relevant for those reliant on corporate demand in gateway cities.

UK HOTEL INVESTMENT ACTIVITY



Source: Property Data

ABOUT US

BNP Paribas Real Estate's Hotel team works across the UK to provide advice on all types of hotels to owners and occupiers. The team works closely with the wider commercial and residential teams to provide a joined-up service for investors.

Our property services include:

- ▶ Investment acquisitions and disposals
- ▶ Raising capital via sale and leasebacks
- ▶ Site acquisitions and disposals
- ▶ Sourcing funding for development and expansion extensions
- ▶ Income strips
- ▶ Operator searches
- ▶ Valuations – business and leased investment
- ▶ Planning and development consultancy/feasibility studies
- ▶ Going concern business sales

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