

LONDON HOTEL DEVELOPMENT MONITOR

UNCOVERING HOTEL OPPORTUNITIES



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The hotel sector is a vital part of London's booming tourism industry.

London's rich and diverse cultural offering is attracting visitors in record numbers. The capital is home to four world heritage sites, eight Royal Parks and all of the UK's top 10 tourist attractions. It is the most Googled city for art galleries, performing arts, art and design, and the most talked about travel destination on Twitter. It is also the best rated destination in the world, according to TripAdvisor 2016 Travellers' Choice Awards and the world's most popular tourist destination, according to MasterCard.

As tourism numbers are forecasted to continue to rise, it is encouraging to see the hotel sector growing and evolving its offerings – with exciting, new products at all price levels now available and many more in the pipeline.

Gordon Innes
CEO, London & Partners



WHY LONDON?

London is one of the world's leading global financial markets and is, therefore, a highly attractive destination for capital seeking exposure to hotel real estate. The sheer weight of investment into the hotel sector in what was a record year in 2015, accounting for approximately 36% of total investment into the European hotel sector, has further underlined London's importance as a global hotel investment market.

While market indicators point to a slowing of performance growth, the underlying fundamentals remain positive, with occupancy in excess of 80% and 2015 visitor numbers placing London atop the world's most popular destinations.

Looking ahead, we expect investor appetite to drive another strong year of deal volumes, particularly among those wanting to safeguard capital or establish a foothold in the market. As the variability of the macro-economic climate continues, however, we expect investors to take a more measured approach by sticking to their core competencies.

Hotel real estate markets already comprise some 10% of commercial real estate, and overall liquidity has been similar for offices and hotels in recent years. Investors have been attracted by hotels' above average returns, longer term occupier commitment and the improving transparency of data and, as a result continue to uncover hotel opportunities.

Graham Craggs

Managing Director, Hotels & Hospitality, JLL

FAST FACTS



c. 140,000
Total rooms at March 2016



c. 16,000
New rooms expected by 2018



155.3 million
Total passengers at London's
airports in 2015



82.2%
Occupancy ▼ 1.0%



£144
Average rate ▲ 2.5%



£118
RevPAR ▲ 1.5%

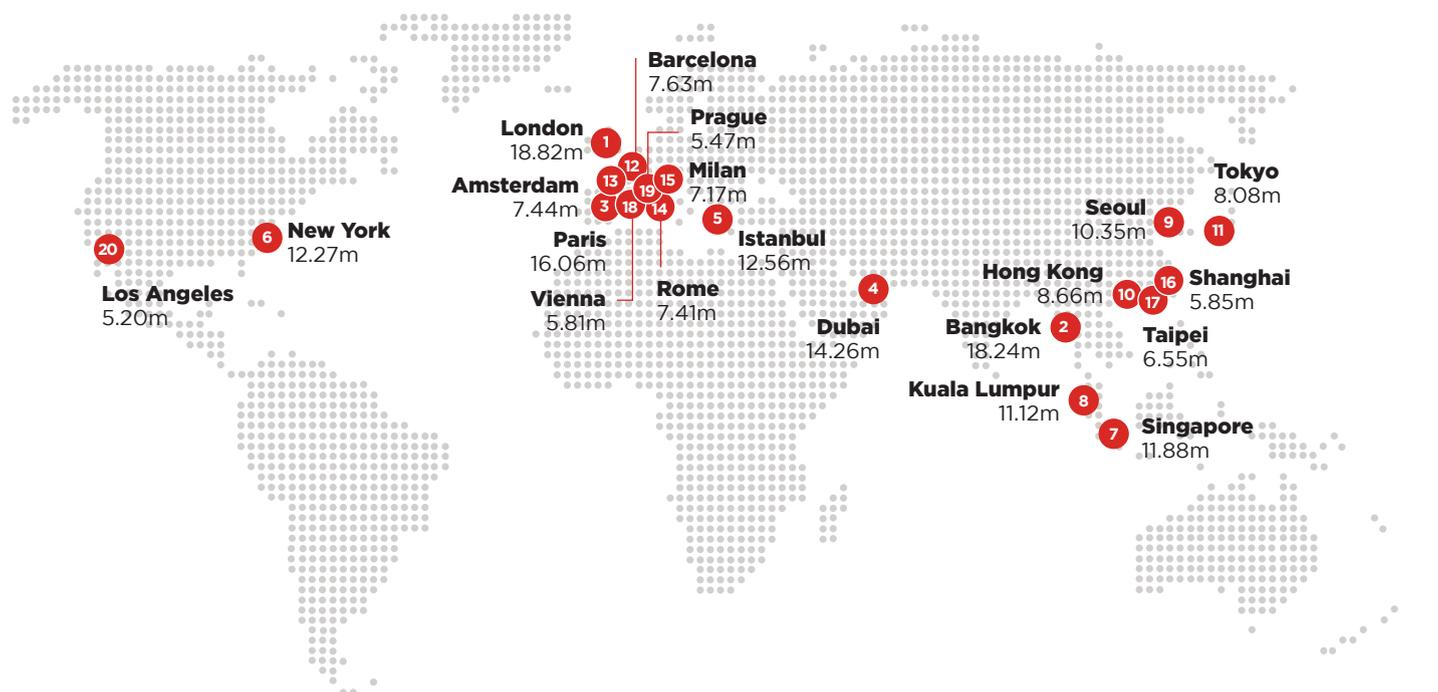
▲▼ % change compared to the prior year
Hotel performance data pertains to 2015 and sourced from STR



NO.1 GLOBAL TOURISM DESTINATION

In 2015, London was once again hailed as the world's most popular tourism destination by MasterCard. It was the second year running that the capital topped the Global Destinations Cities Index, which provides an in-depth ranking of the 132 most travelled cities from around the world. According to the report, London was expected to welcome 18.8 million international visitors in 2015, putting the capital ahead of Bangkok in second place.

Global Top 20 destination cities by international overnight visitors in 2015



Source: MasterCard 2015 Global Destinations Cities Index

GLOBAL CONNECTIONS

London is a truly global gateway city, and currently ranks among the best cities in the world for air connectivity. 155.3 million passengers passed through London's airports in 2015, a 6% gain compared to the prior year.

In addition, the Eurostar Terminal at King's Cross St Pancras provides an alternative entry point for visitors from Continental Europe.

Recent visitor numbers show that London is more attractive than ever. During the first three quarters of 2015, the capital received 13.9 million international visitor arrivals, representing a 4.4% uplift compared to the same period the prior year according to the latest ONS International Passenger Survey. The number of visits from North America reached two million (up 6.6%), while 8.9 million visitors came from Europe (up 4.6%). While the number of visitors was up, the overall spend generated fell 2.4% to £8.8 billion over the same period.

Not only is the UK capital attractive to overseas visitors, but domestic visits also play a huge part in the success of tourism in the capital. According to the Visit England (2015-16) Great British Tourism Survey, overnight domestic visits rose to 9.4 million during the first three quarters of 2015, representing a 9.2% growth on the same period the prior year.



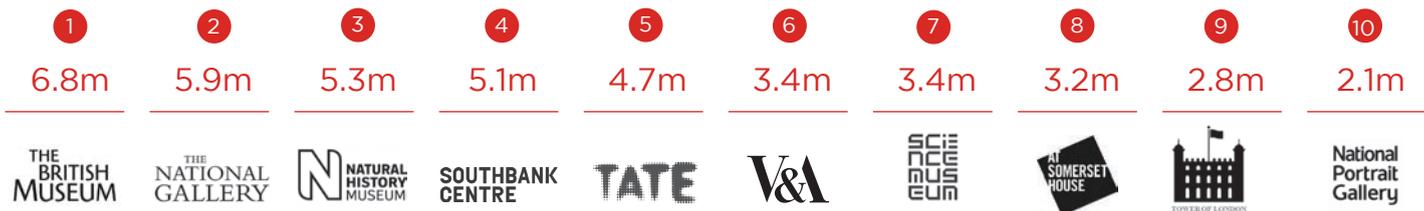


4.4% uplift in visitor numbers during the first three quarters in 2015

London's attractions have seen a 14% growth in overall admissions in the last five years, as reported in the London & Partners Annual London Attractions Monitor 2015. Fee paying attractions had a record year in 2015, reporting an overall increase of 2% to 20.5 million admissions.

The tourism industry is a major contributor to the London economy, contributing more than £36 billion to the capital and supporting around 700,000 jobs, according to Deloitte and Oxford Economics. 2016 is expected to be another world-class year for London, with a rich cultural calendar and numerous major festivities taking place. Highlights include the 40th Anniversary of Punk, the Rolling Stones' EXHIBITIONISM exhibition at the Saatchi Gallery, a year-long programme celebrating the 400th anniversary of William Shakespeare's death and city-wide celebrations for HRH Queen Elizabeth's 90th birthday.

Top 10 visitor attractions in 2015



Source: ALVA

BEST IN SHOW

Due to strong market fundamentals, London remains one of Europe's best performing hotel markets, securing second place after Paris with a RevPAR of €164 (£118) during 2015. While occupancy, at 82.2% was slightly lower than the levels achieved in 2014, London secured first place alongside Dublin to report the highest occupancy across Europe. While the first half of 2015 got off to a slow start, the second half picked up speed, benefiting from the Rugby World Cup when three London venues hosted a number of games.

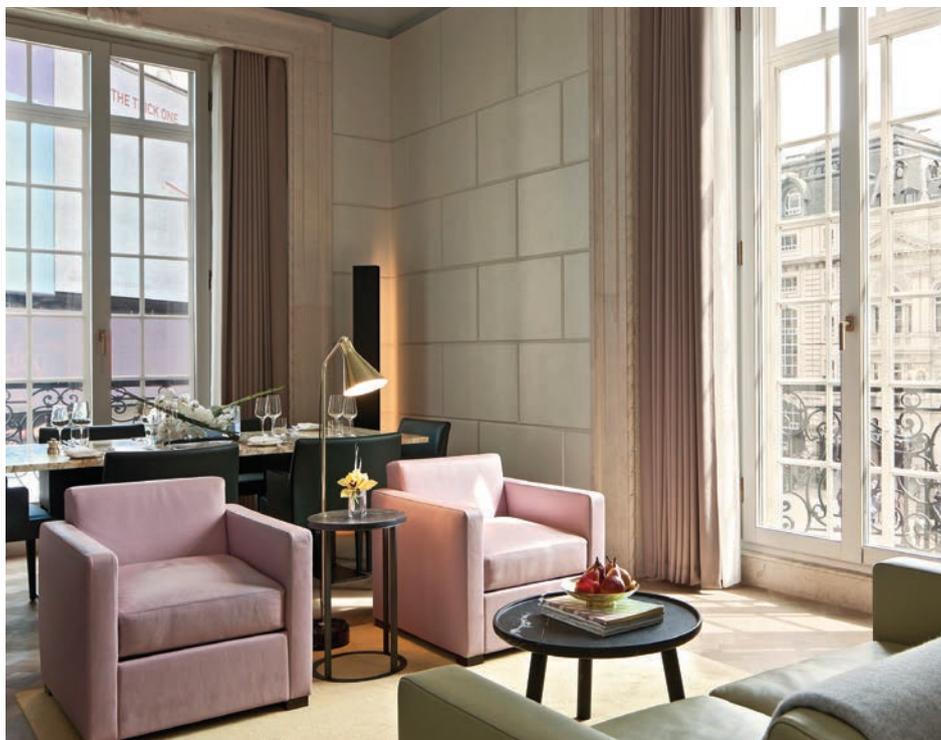


2015 European hotel performance

	 Berlin	 Dubai	 Dublin	 London	 Madrid	 Paris	 Rome
Occupancy	76.4	76.9	82.2	82.2	69.0	76.5	68.4
Average Rate €	94	199	112	199	94	256	152
RevPAR €	72	153	92	164	65	196	104



London has one of the highest occupancies in Europe

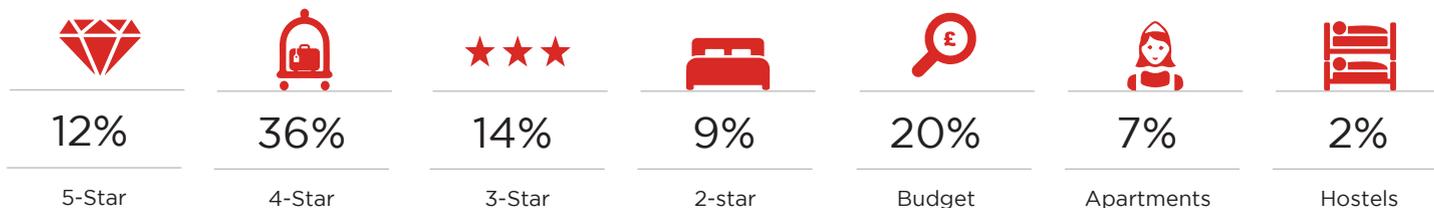


THE BUDGET SECTOR BOOM

The London hotel market accounts for around 20% of total hotel rooms in the UK, with c. 140,000 rooms according to AM:PM. The majority of hotel rooms are in the 4-star sector, including brands such as Hilton, Holiday Inn, Marriott and Novotel to name just a few. The second largest sector, and one which has seen considerable growth over the last few years, is the budget sector, comprising 20% of total room stock. After the global financial crisis, the budget sector went on a development spree, taking advantage of reduced

competition and pricing for central sites from alternative uses, thus catering for price conscious travellers keen to stay in the capital. As a result, budget sector brands such as Premier Inn and Travelodge now have the largest presence by the number of rooms in a single brand. However, Hilton leads the way when their core brands Hilton and Doubletree by Hilton rooms are combined with a total of 12,000 rooms across all their brands in Greater London.

London hotel room supply by category





The budget sector comprises 20% of total room stock in London

Top 10 largest hotel brands in London

Rank	Brand	Hotels	Rooms
1	Premier Inn	65	9,467
2	Travelodge	63	8,164
3	Hilton	18	5,755
4	Holiday Inn	18	4,754
5	DoubleTree by Hilton	13	3,623
6	Imperial London Hotels	7	3,337
7	Ibis	12	2,962
8	Marriott	13	2,674
9	Holiday Inn Express	20	2,656
10	Novotel	11	2,613

Source: AM:PM, March 2016

LOCATION, LOCATION, LOCATION

In terms of location, the majority of hotels in London are concentrated in the central boroughs of Westminster, Camden and Kensington and Chelsea. The City of Westminster has the highest concentration of 5-star hotels (26%), while Hillingdon, which includes hotels around Heathrow Airport, has the largest concentration of 4-star hotels at around 60% of total room stock in the borough.

Borough	Hotels	Rooms	Hostel	Apts	Budget	2-star	3-star	4-star	5-star
City of Westminster	433	37.585	2%	6%	4%	11%	13%	39%	26%
Camden	155	17.532	4%	4%	14%	12%	27%	33%	5%
Kensington & Chelsea	189	15.007	1%	14%	3%	9%	19%	46%	9%
Hillingdon	42	9.701	0%	3%	19%	2%	11%	58%	6%
Tower Hamlets	62	6.637	2%	16%	34%	2%	4%	29%	12%
City of London	68	6.141	1%	21%	23%	0%	0%	37%	18%
Southwark	52	5.731	6%	14%	29%	6%	4%	27%	15%
Newham	43	4.596	0%	7%	51%	7%	7%	28%	0%
Hammersmith & Fulham	58	4.400	4%	3%	29%	16%	5%	39%	4%
Lambeth	31	4.164	1%	5%	31%	4%	6%	49%	5%

Source: AM:PM, March 2016



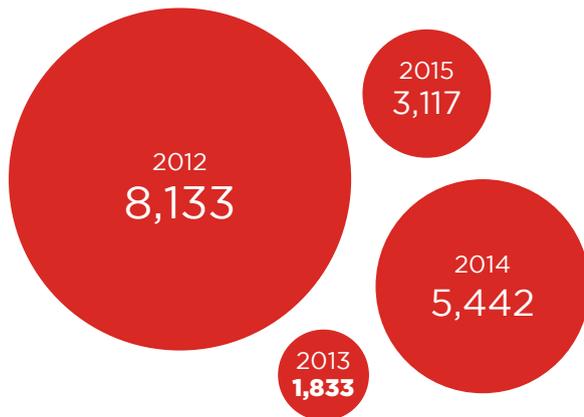
London was recently named the best rated destination in the world in the TripAdvisor 2016 Travellers' Choice Awards for Destinations



NEW HOTEL OPENINGS

Since 2012, over 18,000 new hotel rooms have opened in London. The majority of these entered the market in 2012, ahead of London hosting the Olympic Games, with over half of these in the budget sector – providing affordable accommodation to those wishing to stay in the capital during the event.

New hotel rooms 2012 - 2015



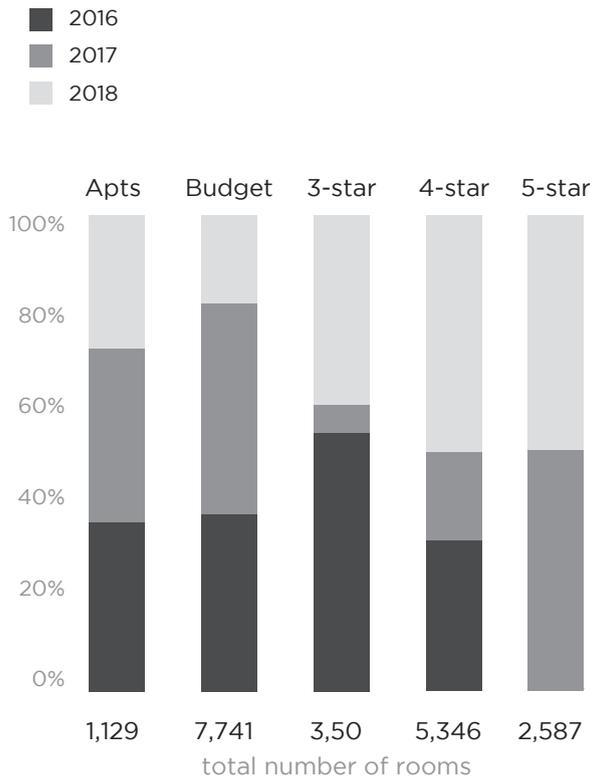
Source: AM:PM, March 2016





7,000 hotel rooms set to open in 2016

Hotel openings 2016 - 2018 by segment



Source: AM:PM, March 2016

More recently, around 40 new hotels opened their doors during 2015, with a mixture of brands entering the market. The two main budget operators, Premier Inn and Travelodge added almost 900 new hotel rooms between them (nine hotels). Other budget brands that expanded their offering included Holiday Inn Express, with properties in both Ealing and at ExCeL, as well as Z Hotels opening in the City and Shoreditch. Z Hotels has expanded rapidly since launching the new hotel concept in 2011 with its flagship hotel in Soho. Since then, the portfolio has grown and the Z City marks the group's fifth property in the capital. Not only do these openings reinforce the wave of budget hotels that have entered the market over the past few years, but also the locational shift towards the outskirts of Central London to areas such as Shoreditch and Docklands in the wake of other real estate classes, owing to greater site availability and improving demand drivers.

At the upper end of the market, a handful of new 5-star hotels have also recently opened, including the 292-room Hilton London Bankside, the 269-room M by Montcalm Shoreditch London Tech City and the long-anticipated 453-room InterContinental London at the O2.

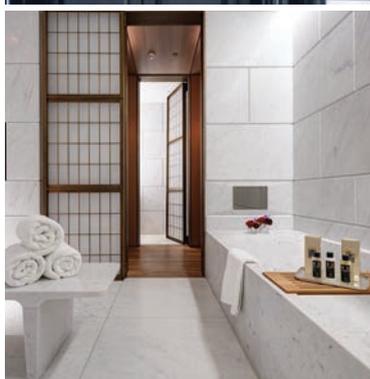
The pipeline for London is expected to remain strong over the coming three years - with 16,000 hotel rooms due to open between now and 2018 - with almost 7,000 rooms in 2016 alone. The majority of new room supply will open in the budget sector (33%), followed by the 4 and 5-star sector.

SHIFTING SANDS

While the West End remains one of the world's most sought-after business locations, new hotel developments in the area have been limited. In the last four years, around 10% of the 18,000 hotel rooms to open in the capital were in the West End with just less than half in the 5-star sector, perhaps not surprisingly, as availability of sites in the West End is scarce and values high with competitive alternative uses.

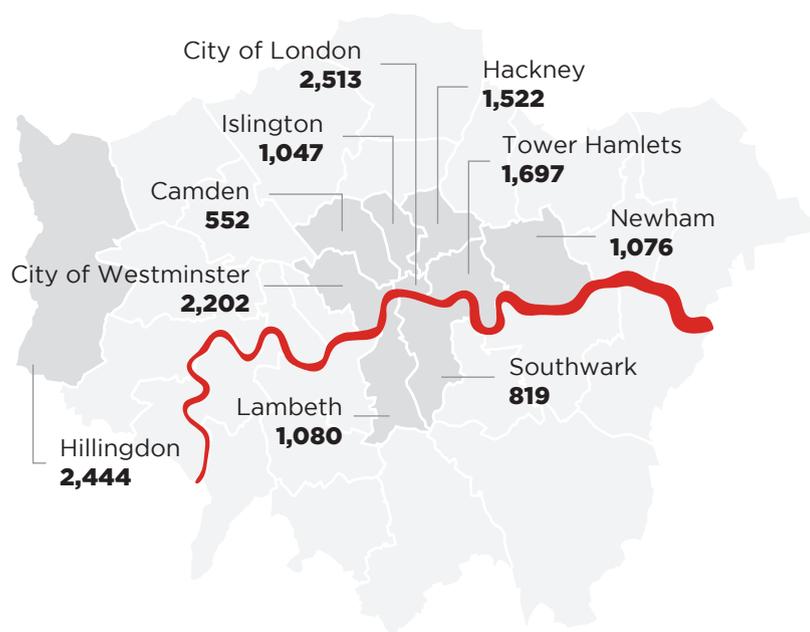
Most recently, in 2014, new hotels to open included the 91-room Ham Yard Hotel in the heart of Soho and the 26-room Chiltern Firehouse in Marylebone, just off Baker Street. The West End has also seen almost 300 serviced apartments enter the market with brands such as Nadler Hotels, SACO and Go Native - a growing trend being witnessed throughout the UK hotel market in recent years. Hotels set to open in the West End during 2016 include the 80-room MGallery London Leicester Square, 137-room hub by Premier Inn St James's Park and 106 serviced apartments at the Staycity Covent Garden.

High rents and values in the West End have led to the expansion of the traditional boundaries to this area. To the north, a combination of new infrastructure, improved





Active pipeline by number of rooms, 2016-2018



public realm, government initiatives and a booming digital economy is creating a “Knowledge Corridor” that stretches from Bloomsbury to Paddington, taking in Fitzrovia and North of Oxford Street. Many typical Soho and Mayfair tenants have already crossed Oxford Street to the north, encouraged by the regeneration of King’s Cross, Euston and Paddington. JLL believes that this northward expansion will intensify over the coming years, the most important driver being the opening of Crossrail in 2018. The new stations at Tottenham Court Road, Bond Street and Paddington, and accompanying developments, will provide much needed new space while improving the local environment. Improved connectivity and footfall will boost demand to the area with many existing pipeline projects being mixed-use schemes, with additional retail, leisure and hotel space helping to bolster the vibrancy of various submarkets.

Hotel developers are increasingly seeing hotels as an important element of mixed-use schemes by virtue of the fact that they increase vitality and facilitate placemaking, with a knock on effect on values in the rest of the scheme – as demonstrated by The Chiltern Firehouse.

Source: AM:PM, March 2016

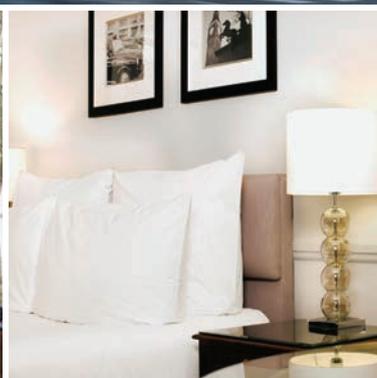
The need for affordable accommodation is becoming increasingly important

New hotels have been opening up in these areas over the past couple of years, including the 217-room Tune Hotel in King's Cross and the 266-room Premier Inn London St Pancras – providing affordable accommodation in the area for cost-conscious travellers. To the south, budget operator Premier Inn opened their 153-room hotel in Holborn, while Hoxton Hotels opened their second London property in 2014. Looking ahead, Premier Inn will open another hub by Premier Inn hotel on Tottenham Court Road during 2016 – adding to the four hub hotels it already has in the capital. US-based hotel operator Standard International is due to open its first hotel in 2018 – the 270-room Standard London in the 150,000 square foot former Camden Town Hall annexe.

Across to the East, the hip and trendy area of Shoreditch has become a hotspot for hotel development, due to the availability of buildings and lower costs compared to more central locations. There are already a number of lifestyle hotels in Shoreditch including the Ace Hotel London Shoreditch, Boundary, Hoxton Shoreditch and Shoreditch House – with just over 500-rooms between them. During the course of 2016, a further 800 rooms are expected to be added to the area. CitizenM will open a 216-room hotel in Shoreditch Village in the third quarter

of the year, becoming the third CitizenM property in the capital. CitizenM London Bankside opened in 2012, while another hotel by the Tower of London is set to open in the summer of this year. Nobu Hospitality will also open its first European hotel – The Nobu Hotel Shoreditch London – during the second half of the year. The 156-room hotel on Willow Street will be managed under a long-term management agreement between Nobu Hospitality and the Willow Corp Sarl, the owner of the hotel. As with all Nobu properties, the design will reflect the city of origin as well as Nobu's signature east-meets-west philosophy.

As new villages pop up around the capital, creating new mini-destinations in London, so too will the demand for hotel rooms. While some areas like Shoreditch will continue to see hoteliers open boutique and lifestyle hotels, the need for affordable accommodation is becoming increasingly important, which reflects the development the capital has witnessed through the budget-boom over the last few years.



Selection of new hotel openings in 2016

Hotel Name	Grade	Bedrooms
hub London Tottenham Court Road	Budget	179
Ibis Styles London Heathrow Airport	Budget	140
Tune Hotel Shoreditch	Budget	181
citizenM London Tower of London	Budget	370
MGallery London Leicester Square	4-star	80
Nobu Hotel Shoreditch London	4-star	156
Park Plaza Waterloo	4-star	494
50 St James	5-star	11
Four Seasons Hotel London at Ten Trinity Square	5-star	100
Grange Tower Hill Hotel	5-star	268

Source: AM:PM, March 2016

INVESTMENT WISH-LIST

With robust trading performance and a steady market environment, London continues to be high on the wish-list of investors and in 2015, hotel investment volumes in the capital reached £3.9 billion - more than twice the amount reported the prior year. Indeed, hotel transaction volumes in the first half of 2015 exceeded £2.3 billion, setting a new half year record, however, around 70% of the deal volume came from the sale of the three hotels in the Maybourne Hotel Group to Middle Eastern sovereign wealth fund Constellation Hospitality LLC for £1.6 billion. In addition to this mega-deal, a number of other notable hotels were sold during the first half of the year, including the St Ermin's Hotel and Ace Hotel London Shoreditch.

The second half of the year saw over £1.2 billion of hotel real estate change hands including the Holiday Inn Kensington Forum that was sold twice in the space of a few days. Firstly, as part of the Ribbon Portfolio (a portfolio of Holiday Inn and Crowne Plaza hotels across the UK) and then by Apollo Management International to Queensgate Investments for c. £340 million. In addition, the former headquarters for the Metropolitan Police - Great Scotland Yard - was sold by Galliard Homes Ltd. to LuLu Group International for £110 million to open as a new hotel in early 2017.



“New infrastructure developments in London such as Crossrail and the Thameslink upgrade continue to drive regeneration and unlock interest into hidden corners of the capital. Not only is this likely to heighten visitor demand and trading performance in the future, it will also aid the absorption of new supply. We have already seen a shift to the East in terms of both new hotel supply and investment, and this is a trend we expect to continue in the near future.”

Graham Craggs,
Managing Director,
Hotels & Hospitality, JLL



Hotel investment in London reached £3.9 billion in 2015

While deal activity in London is driven by a diverse investor base, private equity funds top the list, accounting for 22% of deal volumes since 2007. Domestic investors aside, Middle Eastern capital continues to account for stable levels of inward investment into the hotel real estate space while continental European invested capital has slowed and Asian interest remains buoyant. North American capital is primarily managed by UK based affiliate offices and London often represents the first port of call for overseas capital looking to invest into Europe.

“2015 was an exceptionally strong year in terms of hotel transactions in London and on a global scale. While transaction activity will remain high throughout 2016, we expect the trend will shift towards single asset transactions. Underlying market fundamentals continue to be positive and the outlook for hotel performance in London is good.”

Will Duffey,
Executive Vice President,
Hotels & Hospitality, JLL

OPENING DOORS PLANNING CONSIDERATIONS

The demand for increased visitor accommodation in London is acknowledged by The London Plan 2015 (currently under review) which seeks to achieve 40,000 net additional hotel rooms by 2036, requiring the London Boroughs to identify opportunities for renovation of the existing visitor accommodation stock and to promote and facilitate development of a range of visitor accommodation.

In the context of strong competition for space in central London, hotels are generally protected from any alternative use (including residential use) and new hotels are encouraged within the Central London Activities Zone (that covers The City of London, most of Westminster, the Eastern edge of the Royal Borough of Kensington & Chelsea (RBKC), Southern parts of Camden, Islington, the 'city fringe' edges of Hackney and Tower Hamlets; and the Northern parts of Southwark, Lambeth and Wandsworth). Outside of these areas, hotel development is generally supported in town centre locations characterised by a mix of uses with good public transport accessibility and within defined Opportunity Areas and Intensification Areas. In response to the poor accessibility of much of the existing hotel accommodation in London, the London Plan requires a minimum of 10% of new rooms to be wheelchair accessible.

In this context, Westminster City Council in particular is keen to capture visitors to the borough through the provision of 1-star and 2-star affordable rooms as well as maintaining and enhancing luxurious 5-star accommodation, with hotel development directed to the 'Core' sub-area within the Central London Activities Zone, Opportunity Areas and specific 'Named Streets'. In an effort to maintain a positive planning framework for hotel development, Westminster City Council's protection of existing office floorspace (introduced last year) seeks to prevent residential conversions in these designated areas, but allows for conversion to hotel use. Furthermore, emerging policy for the borough is to relax the requirement for uplifts in commercial floorspace within the Central London Activities Zone to be matched by an equivalent level of new residential floorspace (or a payment in lieu of this provision), so that this will only be sought from an hotel scheme where there is in excess of 30% uplift in commercial floorspace on a site.

In addition to the Mayoral Community Infrastructure Levy (CIL), which is charged at a flat rate (of £20, £35 or £50 depending on where a site is located) on all proposals involving an uplift in floorspace over 100 sqm, hotel developments involving an uplift of at least 500 sqm within the Central



London Activities Zone may also be subject to the Mayor's 'Crossrail levy' to the amount that the calculated figure (charged at £61 per sqm) exceeds CIL. In addition, a number of London Boroughs also impose local-level CIL on hotel developments, with rates varying greatly, from £30 per sqm in Camden to £250 per sqm in Southwark.

In contrast with the generally positive policy context for much of central London, in Queensway, Bayswater (Westminster) and Earls Court (RBKC) existing hotels are not protected and new visitor accommodation is not supported in principle, as existing concentrations of hotels are identified to be having a negative impact on the amenity of the local population.

The commercial letting of residential dwellings for up to 90 days within any calendar year has now been defined by the Deregulation Act 2015 as not amounting to a change from residential use and thus has limited the ability of Councils to take planning enforcement action, despite concerns that this will reduce the supply of housing in Central London. However, this threat from Airbnb type accommodation is being countered by the continued growth in serviced apartments, which are generally recognised as a form of hotel accommodation and supported on this basis, as long as they do not result in the loss of existing residential accommodation.

“The importance of visitor accommodation within Central London is well-acknowledged at borough level by key political figures, albeit members are keenly aware of the need to protect the residential amenity of local residents from noise, disturbance, overlooking, loss of daylight and sunlight and adverse traffic impacts, all of which are controlled by development plan policies.”

Guy Bransby,
Head of Planning & Development, JLL

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