JLL

London Hotel Development Monitor

Unmatched Vitality

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Key takeaways

London's hotel industry continued to flourish during 2016, as the city remains a top choice for travellers and businesses.

A record 19.1 million
international visitors in 2016

145,000 total rooms
in London as of June 2017 – 23% of total UK hotel room stock

51 London hotel openings
in 2016 – comprising over 4,500 new rooms

An additional 17,000 new rooms
expected by 2020

Occupancy rates of 81.3%
in 2016 - the second highest rate in Europe

£1.3 billion invested
in London hotels in 2016 – with outlook for 2017 remaining strong

Contents

Photo: citizenM, Tower of London by Richard Powers

Foreword

Despite a series of unforeseen events in 2016, London has demonstrated its resilience and its attraction as one of the World's top corporate and leisure destinations. The ongoing safety concerns across Europe and the result of the EU Referendum in June 2016 have not unduly influenced hotel operating performance to a great degree.

Hotel investors, developers and operators alike continue to show very strong appetite for opportunities in the London market and whilst investment volumes fell in 2016 this can be largely attributed to a shortage of available stock on the market.

There is still uncertainty relating to the medium to long term impact of BREXIT on the UK and London economies but the London hotel landscape is increasingly diverse and vibrant and contributes to the attraction of the Capital. Hotel operating performance has picked up in the first quarter of 2017 and the outlook remains positive. We see no evidence of any sign of a weakening in demand generally from investors and operators for opportunities in the London market.

Graham Craggs
Managing Director, Hotels & Hospitality, JLL

2016 was another strong year for London's tourism industry, with the capital welcoming a record 19.1 million overseas visits throughout the year. This was an increase of 3% against 2015's previous record of 18.6 million international arrivals, a testament to London's open welcome to all visitors.

London is one of the world's leading city destinations for travellers. Our latest research shows that 53% of visitors from our key markets, such as the United States and France, say they are more likely to visit London compared to a year ago. This demonstrates the city's ongoing strength as a global tourism destination.

We are confident that London's future prospects remain strong. Despite living in uncertain times, we believe that London will remain a top choice as a city destination and that even more international visitors will appreciate the incredible value offered by a trip to London.

Travel agent bookings to London indicate that the volume of overseas arrivals will continue to grow throughout the year, so the 17,000 extra new hotel rooms due to be opened by 2020, will be an important step to accommodating the 35.6 million visitors that London is expected to welcome by then.

The capital's hotel industry is evolving from a position of strength. Exciting new formats such as "poshtels" are arriving, catering for the families and millennials who've become used to the sharing economy. Budget hotels continue to be a significant addition to London's hotel landscape, and new developments across East London's regeneration zones paint a rosy picture of a vibrant industry fit for the future.

Laura Citron
CEO, London & Partners

Photo: Park Plaza London Waterloo

Photo: citizenM, Tower of London by Richard Powers

Outperforming London Market

Another record year for London's tourism industry

c. 145,000
Total rooms at June 2017

NEW
c. 17,000
New rooms expected by 2020

163.2 million
Total passengers at London's airports in 2016

£143
Average rate =

81.3%
Occupancy ▼ 0.9%

£118
RevPAR ▼ 0.9%

▲▼ % change compared to the prior year, = no change
Hotel performance data pertains to 2016 and sourced from STR

London welcomed a record 19.1 million international visits during 2016, according to the International Passenger Survey (IPS), recording an increase of 3% against 2015. Year-on-year growth over the past five years has resulted in a 25% increase in international arrivals in London between 2011 and 2016. Arrivals from London's biggest international source market, the USA, rose 8% compared to 2015, whilst the number of European visits to the capital rose 3% against the previous year.

Numbers were boosted by a range of cultural events throughout the year – the early part of 2016 saw Lumiere London, the city's biggest-ever light festival, attended by over a million people, the celebrations around the 400th anniversary of Shakespeare's legacy and the first international exhibition of the Rolling Stones, EXHIBITIONISM.

During the summer, visitors flocked to the opening of Buckingham Palace, David Hockney at the Royal Academy and Prudential RideLondon. Moreover, the 2016 Totally Thames Festival was enjoyed by over 2.2 million people.

Q4 2016 was particularly strong for the capital's tourism industry, with the Office for National Statistics recording an 8% year-on-year increase in overseas arrivals in London compared to Q4 2015. Highlights of the capital's programme of cultural exhibitions and events in the latter part of the year included London Fashion Weekend at the Saatchi Gallery, Twilight Tours at the Tower of London, Wonderlab: The Statoil Gallery at the Science Museum, and The Radical Eye: Modernist Photography from the Sir Elton John Collection at the New Tate Modern.

The strength of London's cultural attractions endures

2016 ended positively for London's attractions, with an 8% increase in admissions recorded over the last three months compared to Q4 2015. Exponential year-on-year growth was witnessed in December 2016, with an 18% uplift against the previous year.

This aligns with IPS results, which highlight that Q4 2016 was a record Q4 for overseas tourism, as the capital welcomed more than 5 million overseas arrivals. Figures released from STR also indicate that December 2016 saw the London hotel industry's highest actual occupancy of any December on record, as overseas visitors seemingly poured into the capital to take advantage of favourable exchange rates in light of the EU Referendum.

This followed a slightly more challenging period for attractions earlier in the year. While admissions in Q1 and Q3 were in line with 2015 results, Q2 saw a 7% drop against the same quarter in 2015. This was in line with a year-on-year decline in overseas holiday visits to London during this period, which picked up strength as the year went on, a trend also seen within the attractions admissions.

After the strong growth in Q4, London attractions recorded 61 million admissions overall in 2016, relatively steady compared to the prior year.

The top 10 visitor attractions in the UK all reside in London:

1.	The British Museum	6.4m
2.	The National Gallery	6.3m
3.	Tate	5.8m
4.	Natural History Museum	4.6m
5.	Southbank Centre	3.9m
6.	Somerset House	3.4m
7.	Science Museum	3.2m
8.	V&A	3.0m
9.	Tower of London	2.7m
10.	Royal Museums Greenwich	2.5m

Source: ALVA

Upbeat Resilience

Confidence in an uncertain market

In 2016, hotel performance in London was influenced by a continued growth in supply as well as non-recurring events that took place in 2015 such as the Rugby World Cup and The Ashes cricket. Additionally, the market was affected by an increase in new hotel stock and uncertainty surrounding the EU Referendum.

As a result, revenue per available room (RevPAR) in London hotels reported a marginal decline of 0.9% to €141 (£118) due to a drop in occupancy to 81.3% - the second highest result in Europe after Dublin. Average rates in the UK capital remained unchanged compared to the prior year, closing the year at €174 (£143), almost €60 behind Paris. Towards the tail end of 2016 however RevPAR increased in both November and December, by 8% and 14.3% respectively.

2016 EMEA hotel performance

	Berlin	Dubai	Dublin	London	Madrid	Paris	Rome
Occupancy	77.1	77.3	82.5	81.3	70.5	69.5	69.3
Average Rate €	96	176	129	174	99	233	151
RevPAR €	74	136	107	141	69	162	105

Source: STR


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Concept Evolution

“Poshtels” and Lifestyle Hotels

The London hotel market accounts for 23% of total hotel rooms in the UK according to AM:PM. As at January 2017, the existing supply consists of c. 1,600 hotels in London with 145,000 rooms. The majority (37%) are in the 4-star segment, 20% in the budget segment and 14% in the 3-star segment. With the continued growth in tourism figures, London is expecting c. 17,000 new hotel rooms to open by 2020, with much of the pipeline located in East London. A large concentration of expected new rooms are in the budget (42%) and 4-star segments (31%).

In the 2016 edition of the Hotel Development Monitor, we noted how, 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. With so much competition in the budget hotel sector now, at a time when budget travelers are increasingly experience-driven, the hospitality industry is responding with a concept that caters to this new guest profile: the ‘poshtel’.

Unlike traditional hostels, poshtels typically combine a design-led ambiance with small, often shared sleeping areas and a focus on innovative communal spaces. This reimagined hostel meets the needs of the modern traveller, offering flexibility on the room product, and, often, organised events that encourage guests to meet and mingle. A number of major brands are now looking to move into this space.

The so-called poshtel not only taps into some of the spending power at the younger end of the market, but is also, to some extent, a response to the influence of AirBnB and the challenges that disruptive business has had on the hotel industry. While big names like Marriott’s Moxy and citizenM have made bold moves towards a new type of budget-conscious, social hotel, Accor is taking the idea a step further with Jo&Joe.

Announced in September 2016, Jo&Joe is a new approach to accommodation that puts design, food and user experience at the forefront. According to Sébastien Bazin, Chairman and Chief Executive Officer of AccorHotels, the idea is to “break with tradition, forget old habits, be surprising, authentic, unexpected, bring a breath of fresh air to AccorHotels.” The chain hopes to open 50 properties in urban locations across the world by 2020.

Jo&Joe is aimed primarily at Millennials, but the concept has the potential to appeal to a much wider market. Despite a smaller sleeping space overall, the poshtel offers flexibility on room type, which may also appeal to older guests, families, and groups, who might typically book into more traditional hotel accommodation. Although poshtels answer demand for the type of experiential travel offered by the likes of AirBnB, the concept also provides a consistency in quality, and, ultimately, a very different experience to that offered by the sharing economy.


Photo: citizenM, Tower of London by Richard Powers

For developers and hoteliers, poshtels offer a number of advantages. The type of property is generally cheaper to build and operate and therefore has higher profitability. What's more, they may go into buildings and locations that are not suitable for traditional hotels. For modern travelers, vibrant communal areas, interesting experiences, and inexpensive rates are a winning combination when it comes to accommodation. The concept has a lot of merits across the spectrum of guest types and from a development perspective, metrics make sense. As global tourism numbers continue to rise, poshtels are carving out their niche as the place to be for both the money-conscious traveler and the profit-conscious hotelier.

At the same time we have noted the continuing rise of the "Lifestyle" hotel. These more design led hotels, which seek to appeal to a more demanding modern creative clientele have seen strong momentum and have sought to provide an enlivened food and beverage offer that helps to reposition the idea of hotels as a destination. This has also caught the imagination of developers that anticipate enhanced value being attributable to other uses in the locality by virtue of proximity to the hotel.

Whilst brands such as citizenM, "W" Hotels, Ace, Edition and Firmdale have gained significant traction in the London market there are, as yet, relatively few new generation lifestyle hotels relative to the overall stock in the market. We anticipate that this sector of the market will be subject to significant change over the next few years and the major brands are investing heavily in creating lifestyle oriented sub-brands.

New hotel openings

During 2016, 51 new hotels opened in London, comprising just over 4,500 rooms. The majority of new supply continues to enter at the budget end of the market, with 16 new budget hotels opening equating to around 40% of new supply. Whitbread was the standout winner in terms of new hotel openings, with nine new additions (1,017 rooms) between two of its brands. Seven new Premier Inn hotels opened and two hub by Premier Inn properties – one in Spitalfields and the other in Westminster. Travelodge opened four hotels (370 rooms), while Ibis Styles and Z Hotels each opened one property.

The four-star sector also saw a welcome boost in new rooms, with eight new hotel openings (1,456 rooms). citizenM opened two hotels in the capital – one in Shoreditch and the other at the Tower of London, securing over one third of all new hotel rooms in the four-star segment. Park Plaza also added a new edition to its family with the opening of the Park Plaza London Waterloo. There was also a rise in the number of serviced apartments entering the London accommodation market in the last year, with c. 450 in total. The largest new addition was the Leman Locke by SACO with 168 apartments in Aldgate.

Top 10 largest hotel openings in 2016 by number of rooms

Brand	Grade	Rooms
Park Plaza London Waterloo	4-star	494
citizenM London Tower of London	4-star	370
Montcalm Royal London House - City of London	5-star	253
citizenM London Shoreditch	4-star	216
hub London Spitalfields, Brick Lane	Budget	189
Hyatt Place London Heathrow Hayes	4-star	170
Leman Locke	Apts	168
Premier Inn London Archway	Budget	163
Good Hotel London	3-star	148
DoubleTree by Hilton Hotel London - Kingston upon Thames	4-star	146

Source: AM:PM, April 2017

Photo: Montcalm Royal London House

As the first four months of 2017 came to a close, a further 14 new hotels (1,783 rooms) have been added to hotel supply. Over a half of all new rooms added were once again in the budget sector and, along with another three Premier Inn properties opening, the Hampton by Hilton London Docklands, Moxy London ExCel and LUMA Concept Hotel London also opened their doors.

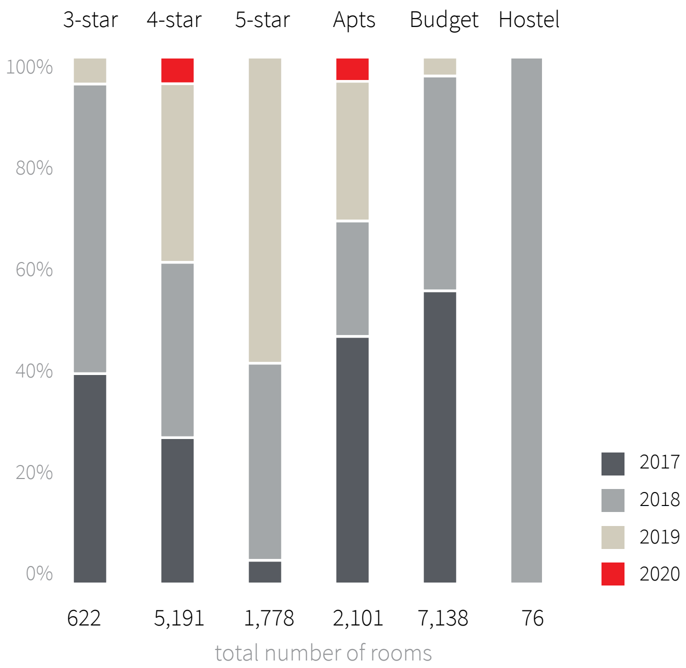
Looking ahead, the remainder of the year is expected to see a further 6,775 new hotel rooms added to the capital's accommodation stock, which, if all open as scheduled, will result in just over 8,500 new rooms during the course of the year. Of the 6,775 new rooms due to open, 60% of these are once again in the budget sector, followed by the four-star segment with 21% and serviced apartments with 15%.

Top 10 largest hotels due to open in 2017 by number of rooms

Brand	Grade	Rooms
Premier Inn London Heathrow Airport Terminal 4	Budget	613
Ibis Styles Piccadilly Circus	Budget	583
hub London Kings Cross	Budget	389
hub London Westminster Tothill Street	Budget	339
Moxy London Stratford	Budget	294
Grange Tower Hill Hotel	Apts	268
Dorsett City	4-star	267
Marlin Waterloo	Apts	236
Ibis London Canning Town	Budget	196
hub London Goodge Street	Budget	179

Source: AM:PM, April 2017

London Hotel Pipeline 2017 - 2020



Source: AM:PM, April 2017

We have seen the serviced apartment segment evolve in the capital over the past few years as they gain popularity among travellers as an alternative accommodation option, bridging the gap between a traditional hotel and residential housing. Over the last 5 years, we have seen c. 1,900 new rooms in this sector equal to 11% growth. Despite this, serviced apartments secure just 7% of total room supply in London with 10,537 rooms, according to April statistics from AM:PM.

There was also a rise in the number of serviced apartments entering the London accommodation market in the last year, with c. 450 in total. The largest new addition was the Leman Locke by SACO with 168 apartments in Aldgate.

Investment Wish-list

Uncovering hotel opportunities

Hotel investment volumes in London reached nearly £1.3 billion in 2016, 64% below the same time last year. Whilst there was a short period of uncertainty either side of the EU Referendum in June 2016, appetite for investment in the London property market generally, as well as specifically for hotels, has remained strong with a surfeit of capital both in terms of debt and equity. This resulted in continued compression in investment yields as the year progressed.

The softening of the currency following the EU Referendum attracted opportunistic Asian investors who have a currency advantage. In the aftermath of the Referendum three transactions took place at a combined value of £187.9 million, confirming the confidence in the London hotel market. The £75.6 million sale of the DoubleTree by Hilton Docklands Riverside to Hong Kong investor Junson Capital is just one example.

The largest single asset deal in 2016 was the DoubleTree by Hilton Tower of London, purchased at £300 million by Murigold Ltd. from The Blackstone Group. In regards to portfolio sales, Chelsfield Group Ltd. sold the Club Quarters portfolio to AXA Real Estate Investment Managers Ltd. for £180 million.

The London hotel investment market started strongly in 2017 with Whitbread Group PLC's £102 million sale of the hub by Premier Inn on Tothill Street to M&G Real Estate and the £190 million sale of the Doubletree Westminster to Westmont Hospitality and we remain very optimistic for the remainder of the year

The UK remains an attractive global destination with tourism arrivals expected to grow 4% in 2017, with London being the most visited city in the country and one of the most visited globally. According to Addy Kassova Audience Strategy and London & Partners, London expects to welcome 21.8 million visitors by 2020.

In 2016, the growth in hotel supply put pressure on hotel performance. Looking forward, 7,700 more hotel rooms are due to open in 2017. However, the expected increase in visitors will absorb the extra supply. As a result, this will counterbalance the effect of supply growth on hotel performance in the capital.

The softening of the pound has already attracted more tourists to the city, this was reflected through the positive growth in both RevPAR and international tourists in both November and December. The trend is expected to carry on in 2017. The latest PwC forecast predicted a 3.3% uplift in RevPAR in 2017, supported mainly through an increase in average rate.

In terms of transaction activity, the more favourable currency along with political turbulence will continue to attract more opportunistic investors seeking quality real estate opportunities. Moreover, cash-rich investors from Asia Pacific and the Middle East who have a currency advantage, are likely to continue to pursue the creation of a footprint in key cities such as London.

Photo: Montcalm Royal London City

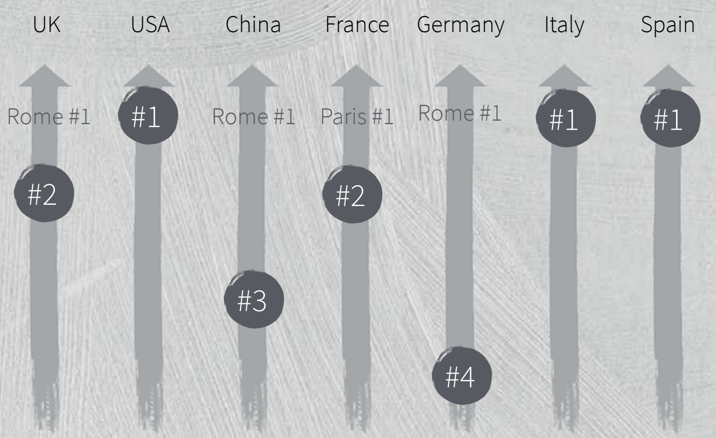
The Brexit Effect

London remains open and attractive to visitors

The outlook for London's tourism industry remains strong, despite the challenges the UK's decision to leave the European Union poses. Shortly after the EU Referendum, London & Partners commissioned research agency GfK to undertake a leisure tourism sentiment research survey to gauge leisure visitors' perceptions of London as a destination. This revealed that London is still a top choice as a city break destination amongst key markets, with only Paris and Rome offering strong competition.

In fact, intention to visit the capital has improved, with 53% (net) indicating that they would be more likely to visit the city shortly after the referendum compared to one year ago. This chimes with findings from the 2016 London & Partners' London Visitor Survey, which revealed that 31% of visitors felt they were more likely to visit London since the EU Referendum, while just 13% said they were less likely. Most visitors were neutral regarding the impact that Brexit was likely to have on their propensity to revisit the capital in the future, suggesting that it is not a key priority to travellers when selecting their city break destination.

London consideration ranking vs other European cities



Source: London & Partners, London Leisure Tourism Sentiment Survey, 2016

Change in visit intention vs 12 months ago

Source: London & Partners, London Leisure Tourism Sentiment Survey, 2016

The sentiment survey indicated that a more favourable exchange rate for overseas visitors since the EU Referendum is a key factor promoting greater propensity to visit the capital. One third of those who stated that they were more likely to consider London as a city break destination compared to twelve months ago citied the capital's increased affordability as a catalyst for this.

Reasons for change in Consideration - 60% more likely to consider London

- **49%** My personal circumstances have changed
- **33% London has become more affordable vs other destinations**
- **31%** The attractions on offer have become more appealing
- **30%** London feels safer compared with other destinations
- **29%** Getting to London has got easier
- **24%** Recommendations / reviews have changed my views
- **22%** Getting around London has got easier
- **20%** London feels more friendly & welcoming than 12 months ago
- **15%** Family or friends have moved there

Source: London & Partners, London Leisure Tourism Sentiment Survey, 2016

Visitors take advantage of London's greater affordability

As highlighted earlier, the strength of overseas tourism levels in London continued in the months immediately following the Brexit vote, and it appears that this trend is set to continue. Looking at the first six months of 2017, Forward Keys data indicates that overseas arrivals in London from travel agent bookings increased by 9% against the first half of 2016, with a 7% increase in arrivals from Europe and 13% from North America. Large increases were also seen from Central and South America (23%) and Asia (10%).

At a country level, arrivals in London from the USA grew 17% year-on-year, while visitors from China grew 14% compared to the first six months of 2016, demonstrating that London's tourism industry remains healthy.

Separate research suggests that, since the EU Referendum, overseas visitors are taking advantage of the savings they can make from the favourable exchange rate by hitting the capital's shops. Data from the retail consultancy Global Blue reveals that tax-free spending in London by overseas visitors increased by 38% in August and 31% in September 2016 compared to the previous year. For the six months following this (October to March 2017), overall international tax free spend in London increased 36% against the previous year.

London's underlying strengths remain

More generally, business interest in, and investment into, London has continued to remain strong since the EU referendum. A survey on business sentiment amongst 400 EU business leaders in France, Germany, Spain and Ireland conducted by London & Partners in February 2017, highlighted that 60% of respondents want continued or closer ties with London's business community post-Brexit.

The research also highlighted that London remains a leading global destination for growth, with the majority of European business leaders saying that London was their preferred city for business growth both in the short term (over the next 12 months) and in the longer term (3-5 years), with the capital ranking higher than New York, Singapore and Tokyo in this regard.

London remains a leading hub for investment, with London's tech sector attracting significantly more investment than any other major European city in 2016.

Measuring activity across private equity and venture capital deals, more than £6.7 billion ($9.5bn) was invested into UK tech firms in 2016, according to data from PitchBook and London & Partners, with London accounting for more than a third of the total. Since the EU referendum, London's tech firms have attracted over £1 billion of venture capital funding.

In the months following Brexit, several of the world's leading technology companies have also pledged long term investment into London, saying that the UK remains a leading place for technology and innovation. In September 2016, Apple announced a new £9bn project to open a London HQ in Battersea for 1,400 staff. In November 2016, Google announced a £1bn investment for a new London head-quarters which will see 3,000 new jobs created by 2020. In November 2016, Facebook announced it will double its workforce in the UK when it opens its new London headquarters, creating an extra 500 jobs. In January 2017 Snap Inc also announced it will open an international hub in London. In February 2017 Amazon UK announced plans to create more than 5,000 full-time jobs in the UK in 2017, taking the company's UK workforce to over 24,000.


Photo: Montcalm Royal London City

Conclusion

The report has shown that London's hotel industry has continued to perform well. Visitor numbers are at record levels, and favourable exchange rates since the EU referendum vote in June 2016 has resulted in revenue per available room (RevPAR) growth at its strongest rate towards the end of 2016.

New supply of hotel rooms entering the market throughout 2016 and the early months of 2017 has held up well and the outlook for investment into the sector for the remainder of the year also remains positive. Despite uncertain times, sentiment towards the city remains strong, as London remains open to both visitors and investors. To discuss potential opportunities, please contact JLL or London & Partners.

Contacts

Graham Craggs
+44 (0)20 7399 5969
graham.craggs@eu.jll.com

Jessica Jahns
+44 (0)20 7399 5821
jessica.jahns@eu.jll.com

Louise Wilks
+44 (0)20 7234 5739
lwilks@londonandpartners.com

Steven Spires
+44 (0)20 7234 5745
sspires@londonandpartners.com

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+44 (0)20 7234 5800 | business@londonandpartners.com | invest.london

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+44 (0)20 7399 5876 | london@eu.jll.com | jll.co.uk/london-hub

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