

News Release

City Review: Edinburgh by Christie + Co

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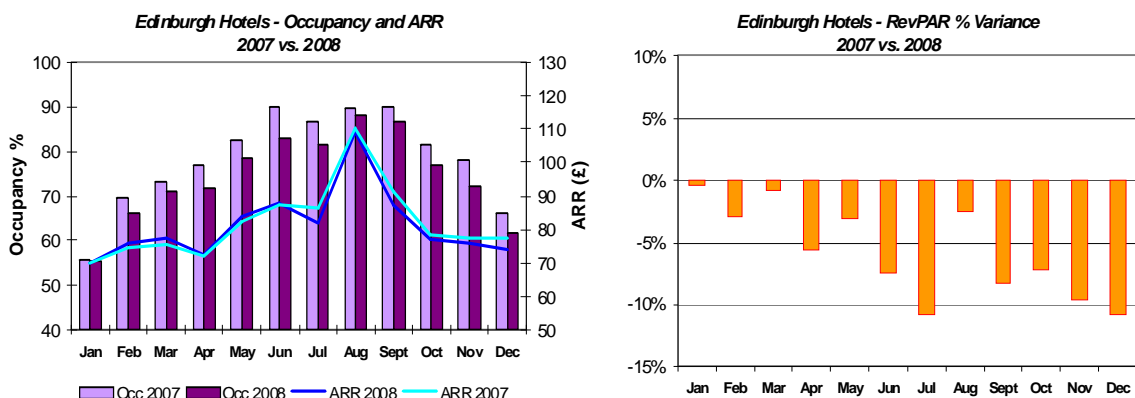
According to the latest city review by Christie + Co, using data provided by STR Global, Edinburgh has proven to be more resilient than other markets during the ongoing economic downturn thanks to a solid domestic market and a good balance of business and leisure demand. However, despite this figures for the month of September show a stronger than expected ARR decline of 7.3% with a slight decrease in occupancy.

Edinburgh is Scotland's administrative centre with a population of circa 470,000. The city's main industries include banking, tourism and fund management. With several financial institutions headquartered in the city, it is the second largest financial centre in the UK. Edinburgh Airport, currently accommodating some 9 million passengers per annum, has outlined ambitious growth plans through 2030, which include improvements to public transport between the airport and city centre. Other current and proposed developments include the expansion of the Edinburgh International Conference Centre, a high profile £200m mixed-use development adjacent to Haymarket Station, the Caltongate Development which went into administration in April this year, and the Quartermile Development, another mixed-use project.

Trends in Hotel Market Performance

According to data provided by STR Global, in 2008 Edinburgh hotels managed to maintain a fairly stable ARR although occupancy decreased by 3.8 points. This caused an overall yearly RevPAR decline of 5.8%.

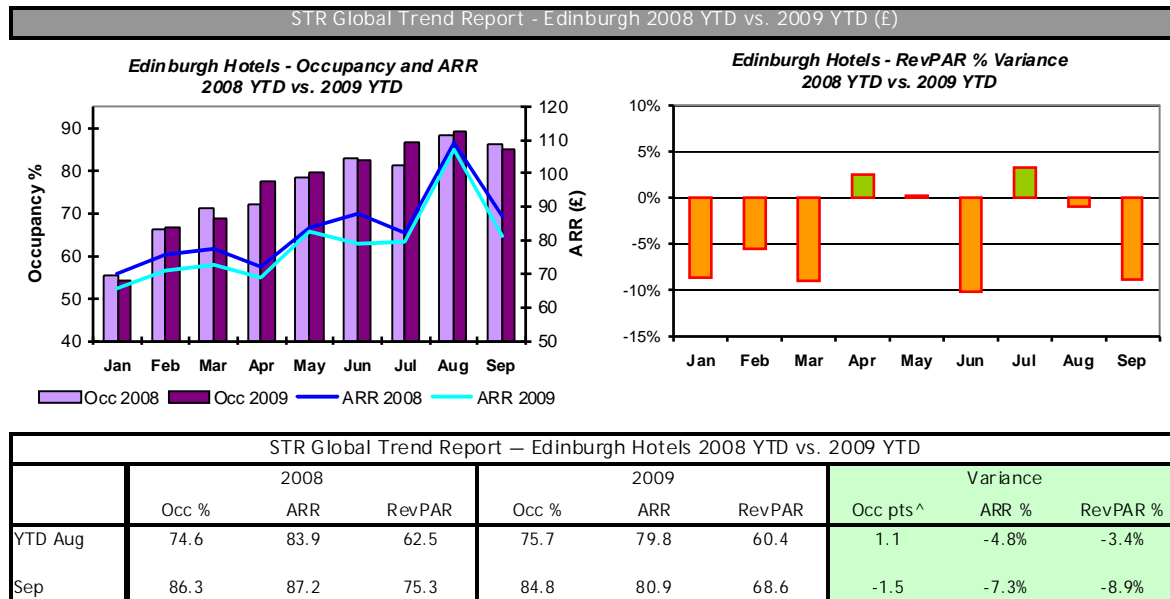
STR Global Trend Report - Edinburgh Hotels Full Year 2007 vs. Full Year 2008 (£)



STR Global Trend Report – Edinburgh Hotels 2007 vs. 2008									
	2007			2008			Variance		
	Occ %	ARR	RevPAR	Occ %	ARR	RevPAR	Occ pts^	ARR %	RevPAR %
Full Year	78.3	83.0	65.0	74.5	82.2	61.2	-3.8	-0.9%	-5.8%

Note: the above graphs and table are based on monthly and daily data received by STR Global for a sample of 60 hotels, totalling c.7,112 rooms. The variance in occupancy (^) is expressed in percentage points.
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The following table and graphs illustrate the year-to-date 2009 results as provided by STR Global.



Note: the above graphs and table are based on monthly and daily data received by STR Global for a sample of 60 hotels, totalling c.7112, rooms. The variance in occupancy (^) is expressed in percentage points.
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The Edinburgh hotel market benefits from a diversified demand base which in turns provides occupancy rates in the late 70s from March to November making it the UK’s most desirable hotel market after London. The robustness of the market is underpinned by strong domestic demand which makes it less vulnerable to international events.

Despite these positive attributes, Edinburgh’s hoteliers have not been able to escape the recession unscathed, particularly as the city’s corporate market relies largely on the financial and banking sector. In fact, occupancy and average rate have been under pressure since the middle of 2008. However, the decline in performance has been less severe than many other markets across the UK and YTD August 2009 trading data started to show some signs of stabilisation in occupancy with a slight increase of 1.1 percentage points in comparison to the same period last year. Average rate, which typically lags occupancy trends by six to twelve months, continued to decline by 4.8% through August. Meanwhile September figures show a similar trend in occupancy to the previous year, but unfortunately also show a stronger than expected ARR decline of 7.3%. Should this ARR decline continue, it is likely that Edinburgh RevPAR performance will be brought more in line with the overall Regional UK performance by year end. However, in this volatile trading environment it is virtually impossible to predict is September was a blip or an indication of what is to follow.

Trends in Hotel Supply

In the past 18 months, Edinburgh has witnessed hotel development representing some 600 rooms. The latest additions included the design-led Hotel Missoni with 139 rooms and the Edinburgh Learmonth Travelodge with 64 rooms. Previously, the 187-room luxury city centre Apex Waterloo Place Hotel

opened in March 2009, the Hotel du Vin & Bistro opened in late 2008 with 47 rooms and the Novotel Edinburgh Park was opened in April 2008 with 170 bedrooms.

In terms of refurbishments, the Hilton Caledonian Hotel refurbished some of its room stock during the first half of 2008. Additionally, in 2008 the Ballantrae Albany Hotel added 20 bedrooms to its already existing 20-bedroom stock and renovated the restaurant and public areas. The George Hotel, part of Principal Hayley, carried out a full refurbishment and an extension of 50 new bedrooms in February 2009 now providing 250 rooms. Lastly, the recently acquired Shandwick Place by Travelodge was also fully renovated and added 7 new rooms.

There are currently a number of hotels being developed in Edinburgh representing some 900 rooms of which c. 35% will be developed by Travelodge. The most notable developments include the Edinburgh Airport Travelodge with 97 rooms due to open at the end of this month (October 09), the Travelodge Waterloo Place and Travelodge Cameron Toll with 93 and 115 rooms respectively opening in Summer 2010, a Park Inn Airport and a Park Inn City Centre opening in 2011, and the Citadines Edinburgh which is currently experiencing some financial challenges and will open once an investor is found. Finally, with the Caltongate development entering administration we see the likelihood of the 205-bedroom Sofitel proceeding as being limited.

Trends in Hotel Transactions

Since the sale of the Hilton Caledonian and the Apex International Hotel in 2007, there has been only one transaction of significance in Edinburgh; the sale of the Point Hotel in March 2008, which exchanged for £20 million to EBH and was subsequently rebranded as a Mercure. Aside from that, Travelodge has also entered a number of leases in the past 18 months such as the former Swallow Hotel (today the Travelodge Learmonth), the former Clarendon Hotel (today the Shandwick Place Travelodge) and the Travelodge Waterloo Place, which is currently under development and due to open next summer.

Outlook

Edinburgh is a proven leisure destination that has, over recent years, developed significant demand from the corporate sector. This balanced demand profile has clearly been a competitive advantage and so far has enabled the city to limit the force of the trading decline being experienced throughout the industry. Consequently, year to date figures for 2009 show that Edinburgh trading performance has managed to maintain and even slightly increase occupancy rates to 75.6%. ARR has declined by 4.8%, which, in comparison to other key cities such as Leeds, Manchester and Birmingham, is a modest decline. With September figures showing a greater ARR decline than expected, Edinburgh's full year results are likely to be affected. However, the outlook in the long term remains positive in view of the city's leisure attractions and its status as a major regional business hub, which is trying to foster a more entrepreneurial and small business culture aside from financial services. The new developments at the conference centre, Edinburgh airport and various mixed used schemes coupled with the high barriers of entry for hotel development in the historic city centre, will also likely contribute to the future success of local hoteliers. As Otto Thoresen, chief executive of Aegon UK, put it "not everything was blown away by the storms that were raging last year. Much of what we relied on as a city and as an economy still stands strong".

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Notes to Editors

Christie + Co use desk-based research and experienced local industry specialists to produce bi-monthly city reviews. Hotel trading data is provided by STR Global.

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