

CHRISTIE + CO MARKET ANALYSIS

CAPITAL RETURNS: LONDON'S HOTEL MARKET

As one of the main tourist destinations in the world and with the 2012 Olympic Games on the horizon, London is set to be at the forefront of a recovery in the UK, and indeed European, hotel markets.

The capital's hotel market has remained resilient during the year. Although RevPAR declined over 10% in the first three months of 2009, figures showed an increase of over 6% in the first week of November, with occupancy and average room rate also up.

Price promotions and the low value of sterling during the year allowed London to remain a popular tourist destination with leisure tourism, particularly from Europe, offsetting the fall in corporate bookings, which had continued from 2008.

Softer comparables and cost cutting have also helped the majority of the capital's hotels remain robust and lessen the drop in profitability.

The economic downturn has undoubtedly had an effect on high profile transactions in London however interested parties, including sovereign funds and high net-worth individuals, have continued to circle the market keen to acquire a trophy asset in the capital. These would-be buyers have been attracted by the fall in the value of the pound against the dollar and the euro. Initial signs of a slowdown in the reduction of values, indicating that the bottom of the market has been reached, also makes purchasing attractive to high net worth individuals and sovereign wealth funds.

In November, Christie + Co sold the Park Inn London, Russell Square to Crimson Hotel Group on behalf of Ernst & Young, for a sum in excess of £45 million. Two months prior to that, the Stafford Hotel in St James's Place was acquired by Britannia Hospitality from Daniel Thwaites for £77.5 million.

Over 50 formal tours of the Russell Square hotel were conducted in just over a month of the property coming onto the market, culminating in a combined £1 billion-worth of funded offers being submitted through a multi stage bidding process. This highlighted the fact that there was still huge demand for true central London hotels from well funded UK, Far East, Middle East and US buyers.

The lack of funding available from the banks has continued to curtail the majority of activity in the mid-market sector, but not the expansion plans of the budget operators. We are currently advising Travelodge on a number of potential sites, whilst Whitbread is reportedly in talks to open a hotel at Stratford City.

The lure of the Olympics is continuing to draw operators and developers into the capital, which is predicted to experience a 12% increase in new rooms (13,300) by 2012.

With its high barriers of entry London continues to be an extremely competitive marketplace but one, as the recovery gathers momentum, that will remain a target for the majority of hotel investors, developers and operators with their eye on long-term gains.

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