

## London Tourism Market

The table below shows the number of domestic and international bed nights in London from 2012 with the latest data available being for Q1 2020. There is a temporary gap in reporting due to Covid-19 which means 2020 data is incomplete currently.

| Bed Nights (millions) | 2012         | 2013         | 2014         | 2015         | 2016          | 2017         | 2018          | 2019         | 2020*         |
|-----------------------|--------------|--------------|--------------|--------------|---------------|--------------|---------------|--------------|---------------|
| Domestic              | 27.69        | 27.44        | 24.36        | 30.16        | 26.34         | 27.83        | 27.88         | 28.48        | 6.28          |
| International         | 94.3         | 97.44        | 108.1        | 108.3        | 111.1         | 114          | 106.2         | 118.9        | 21.37         |
| <b>Total</b>          | <b>122.0</b> | <b>124.9</b> | <b>132.5</b> | <b>138.5</b> | <b>137.4</b>  | <b>141.9</b> | <b>134.0</b>  | <b>147.4</b> | <b>30.2</b>   |
| <i>Change</i>         | <i>2.87%</i> | <i>2.38%</i> | <i>6.06%</i> | <i>4.55%</i> | <i>-0.79%</i> | <i>3.24%</i> | <i>-5.51%</i> | <i>9.99%</i> | <i>-79.5%</i> |

Source: Visit Britain, ONS (most recent data available)

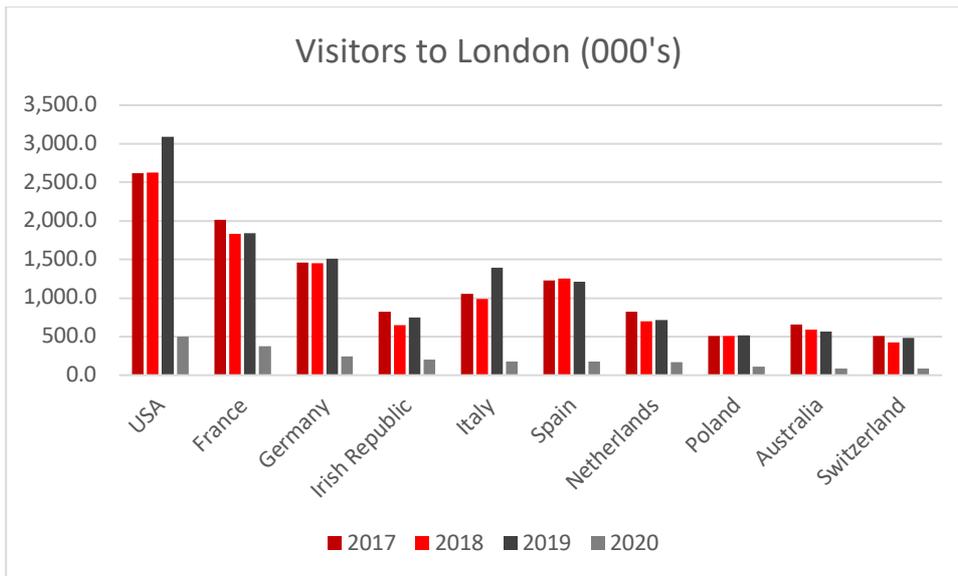
\*Official tourism data is based on International passenger surveys, however this was suspended on the 16 March 2020 because of COVID-19. 2020 results are therefore based on administrative sources and modelling.

London is one of the most visited cities globally and by far the most popular destination for international tourists coming to the UK. The city is home to many tourist attractions, the majority of which are located in central London. The overall historic trend has been positive for London, with total bed nights achieving a compounded annual growth of 2.3% between 2012 and 2019. The growth over this period has been driven entirely by increased volumes of international bed nights (+3.4% per annum) although may be skewed by the impact of the Olympic Games in 2012.

Domestic bed nights in 2017 registered a positive recovery, growing by 5.7% compared to 2016. International bed nights also continued to grow strongly, increasing by 2.7%, resulting in overall growth of 3.2% in 2017. However, in 2018, the overall number of bed nights in London fell by 5.5%, driven by a 6.9% fall in international bed nights. This follows the same trend as seen in the international visitor numbers, driven by fluctuations in Sterling.

2020 saw a significant -79.5% decline from 2019 in bednights due to COVID-19 as most London hotels had to close their doors during the city's lockdown and are only expected to fully re-open when all restrictions are eased, London airport arrivals dropped 75% in 2020, compared 2019. While demand from September 2020 onwards was expected to pick up, due to the second (and third) wave, and the new lockdown measures as a result, occupancy levels across London remained at an all-time low. Since hospitality was allowed to re-open on the 17<sup>th</sup> of May, occupancy levels have increased, but not at a significant rate due to the limits on international travel.

The graph below illustrates the top feeder markets for London.



Source: Visit Britain, ONS (most recent data available)

London's major foreign source markets are the USA and key European countries such as France, Germany, Spain and Italy. In terms of luxury accommodation, demand has historically been driven by specific international source markets, most notably the US, Middle East and Russia. The US generates around two million visitors to London every year, which has been relatively stable in recent years. Both the Middle Eastern and Russian segments are of great significance in respect of room rates and demand for larger units (in both hotel and serviced apartments). Middle Eastern clientele tend to occupy suites and are typically less price sensitive.

With the ongoing COVID-19 global pandemic, it is unclear when international tourism will return and how international travellers' behaviours will change. Travel restrictions and forced closures of tourist attractions and leisure parks in a bid to prevent people congregating have clearly had a significant impact on appetite for travel. At the time of writing the UK government has implemented a traffic light system requiring countries to quarantine or isolate dependent on the origin of their journey which is significantly impacting international tourism in London and throughout the UK.

| Grade                | Hotels       | Rooms          | % of Total Rooms |
|----------------------|--------------|----------------|------------------|
| Luxury Class         | 147          | 17,815         | 13.43%           |
| Upper Upscale Class  | 205          | 27,615         | 20.82%           |
| Upscale Class        | 369          | 31,529         | 23.77%           |
| Upper Midscale Class | 254          | 17,876         | 13.47%           |
| Midscale Class       | 164          | 13,794         | 10.40%           |
| Economy Class        | 300          | 24,003         | 18.09%           |
| <b>Total</b>         | <b>1,439</b> | <b>132,632</b> | <b>100%</b>      |

Hostels not included on the table above

Source: AM:PM (as at 24 June 2021)

Note: The hotel supply database includes hotels that are currently trading, closed for a short period, or expected to re-open in the near future.

## London Hotel Supply

London offers a large variety of accommodation from economy to luxury grade hotels as well as serviced apartments. In the last 5 years, the city has seen a considerable increase in its economy segment with brands such as Travelodge, Premier Inn and Holiday Inn Express rapidly expanding in the capital. The economy segment accounted for 35.1% of new hotel openings (rooms) between 2015 and 2019, which is the largest proportion. Not only do these openings reinforce the wave of economy 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.

According to AMP:PM, since January 2019, there have been 32 new openings in the upscale and upper upscale classes, which we consider most relevant to the subject hotel, accounting for an additional 3,617 rooms. The main hotel openings of particular relevance since January 2019 to year end 2020 have included; The Clayton City of London (212 rooms), NHOW London (190 rooms), Page 8 (138 rooms), The Hoxton Southwark (192 rooms), and Zedwell Piccadilly Trocadero (758 rooms).

## London Upscale and Upper Upscale Hotel Market

The upper upscale and upscale supply, accounts for around 44.5% of the total rooms stock, equating to 574 hotels and 59,144 rooms. This is the most recent STR data; however, we note, this does not take into account hotels which remain closed. In recent years and due to a constraint in terms of supply in core area, and available land for development, there is a trend for new entrants to move outside of key areas.

## Lifestyle Hotels

Lifestyle hotels have evolved over the last 25 years, emerging from the boutique hotel concept, providing a similar product on a larger scale with a focus on guest experience. According to the Boutique and Lifestyle Lodging Association, a Lifestyle Hotel is defined as “a property that combines living elements and activities into functional design that gives guests the opportunity to explore the experience they desire.” This contrasts to boutique hotels which are described as “intimate” and “luxurious” targeting “a very particular clientele”. As the market continues to evolve, the lines demarcating these definitions are inevitably blurring, as hoteliers adapt to customer demands and expectations.

In contrast to the boutique hotel concept, lifestyle hotels are typically larger both in scale, with successful standalone food and beverage outlets, and number of rooms, usually between 100 and 200 keys. The emphasis for lifestyle hotels has moved away from the original boutique hotel concept towards providing upscale accommodation, which is more informal in setting than traditional hotels. Lifestyle hotels emphasise high quality space planning and interior design, reflecting the surrounding neighbourhood and community. There has been a move away from brand standards towards providing functional, comfortable and usable space that is open to all and reflecting the local market. Lifestyle hotels tend to attract guests from the creative industries of fashion, media and the arts, both for the hotel rooms and the food and beverage offering. They are often adapted to the current trends of seamless connectivity and self-sufficiency, providing free Wi-Fi throughout the public areas and bedrooms as well as varying degrees of technological innovation, such as self-check-in or iPads to control room functions.

Food and beverage concepts are often at the heart of the lifestyle hotel, providing open plan spaces which attract non-guests as destination outlets, rather than the traditional hotel restaurant and bar. These high-volume bars and restaurants drive a buzz around the hotel by their reputation and press, as well as by creating an ambience for arriving hotel guests to feel part of. Some lifestyle hotels, such as ACE or citizenM, encourage active usage of the lobby areas, including communal tables, for meetings or as working space. This in turn creates a busy atmosphere which assists in drawing passing trade and moves the lifestyle hotel away from traditional hotel lobby which is a more transitional space that is passed through rather than functional.

The pace of growth in the supply of lifestyle hotels is difficult to gauge, due to the lack of an explicit classification. A report by Highland Group, estimates that in the U.S.A. lifestyle hotels grew at a compound annual rate of 11.5% between 2009 and 2014, compared to just 0.8% for the overall hotel market. The definition of lifestyle hotels in the report is however confined to nationally franchised hotels with prescriptive brand standards and excludes independent hotels or those which are part of small brands (classified as boutique hotels). We would propose a broader definition, which focusses on the style of the hotel and its operation which is targeted at an emerging traveller market, Generation Y or the Millennials.

Although most lifestyle hotels and brands steer away from explicitly citing the Millennials as the target market, it cannot be a coincidence that this customer segment is the fastest growing in the hospitality industry at the same time that the lifestyle hotel supply is growing rapidly. Although commentators disagree on the precise dates, Millennials are broadly defined as being born between the early 1980s and early 2000s. Typical traits of the generation include confidence and tolerance but its members are also painted as having a sense of entitlement and narcissism. A report from 2014 by Pew Social Trends identifies Millennials as “relatively unattached to organized politics and religion, linked by social media, burdened by debt, distrustful of people, in no rush to marry – and optimistic about the future.” Millennials focus on experience, both physical and emotional, and demand unparalleled connectivity through social media and digital innovation. These two contradictory drivers, the remoteness of the digital connection versus the emphasis on the personalisation of experience, have required companies across the spectrum, not just in the hospitality industry, to change their approach to marketing and customer service. It is increasingly common for advertising to create an emotion or a connection with the audience, without explicitly displaying the product it is selling, albeit this is something that upscale and luxury hotels have been doing for a number of years.

Millennials prefer to engage directly with events through social media rather than belong to established organisations. These trends lead the generation to disengage from the more traditional, “cookie cutter” hotel brands and into this vacuum has emerged the lifestyle hotel. These new, more individual, unique hotels react more closely to social media and digital innovation, allowing them to engage directly with guests and customers throughout the experience, from researching hotel options, through the booking process, to the arrival, the stay and the post stay follow up.

Lifestyle hotels were initially brought to the market by independent hoteliers such as Andre Balazs, and Ian Schrager, but more recently the larger traditional hotel operators have developed or purchased brands in the sector such as IHG (Kimpton), Starwood (Aloft), Marriott (Edition) and Hilton (Canopy).

The aforementioned blurring of lines between “lifestyle” and “boutique” hotels has caused much disagreement about what qualifies as a lifestyle, with many of the independent operators claiming that the big brands cannot hope to emulate the individuality and quality of experience offered by the unbranded lifestyle hotel. These concerns have not prevented the roll out of lifestyle brands by the larger hotel groups, developing their own brand behind closed doors (such as W by Starwood), partnering with establish designers or lifestyle hoteliers (such as EDITION by Marriott, partnering with Ian Schrager) or buying an established group (IHG having bought Kimpton Hotels, whilst Accor have acquired Mama Shelter). The merging together of the rigid brand standards of the larger hotel groups and the individuality and personality that consumers require from lifestyle hotels is challenging and one that has perhaps held back some of the brands from garnering the following that the more

independent hotels have established. As a result, some of the big hotel operators have been expanding their brand collections to include softer brands, such as Autograph by Marriott, which are rolled out under franchise agreements rather than management contracts. This has allowed the roll-out of the brands, access to the platforms and distribution systems provided by the bigger groups as well as retention of control by owner/operator over the design and interaction with the local community.

The growth programmes for these lifestyle brands being rolled out by the larger hotel groups is rapid with some brands expecting to more than double the number of hotels over the next few years. This includes the brands such as W by Starwood, Edition by Marriott, as well as Autograph Collection, Hotel Indigo and Curio Collection by Hilton.

## Pipeline – Luxury and Upper Upscale Hotels

According to STR, hotel supply will continue to grow in Greater London (within the M25 motorway) with 254 confirmed hotels (at final planning or in construction phase) reflecting 30,739 hotel rooms. The majority of these hotel rooms will sit within the Upper Midscale segment (29.7%), Upscale Segment at 25.9%, with 12.3% in the Upper upscale segment.

Of the confirmed pipeline, 90 hotels (15,529 rooms) have estimated opening dates over the next 3 years (2021-2024). The majority of these rooms are located in Central London and key peripheral areas such as Hackney, Stratford, Canary Wharf and Croydon. According to STR there is an estimated 7,088 rooms due to enter the upscale and upper upscale market between the period of 2021- 2024, within a 3 mile radius of the subject property there are 24 hotels in final planning or under construction, relevant hotel developments are included below:

| London: Relevant Hotel developments          |                |       |                |                 |                   |
|--|----------------|-------|----------------|-----------------|-------------------|
| Hotel  | Location       | Rooms | Grade          | Status          | Confirmed Opening |
| 267-269 East India Dock Road                 | Poplar         | 163   | Upper Midscale | Final Planning  | -                 |
| Broadway Aparthotel                          | Stratford      | 62    | Upper Midscale | Final Planning  | -                 |
| Central House                                | Walthamstow    | 90    | Upper Midscale | Final Planning  | -                 |
| Hampton by Hilton London Bromley by Bow      | Canning Town   | 164   | Upper Midscale | Final Planning  | 01/07/2023        |
| High Street North                            | East Ham       | 89    | Upper Midscale | Final Planning  | -                 |
| NoCo Canary Wharf                            | Canary Wharf   | 279   | Upscale        | In Construction | 01/07/2022        |
| Scouler Street                               | Canary Wharf   | 342   | Upper Midscale | Final Planning  | -                 |
| Stratford Centre & The Yards                 | Bromley by Bow | 299   | Upper Midscale | Final Planning  | -                 |
| Sunborn London Yacht Hotel                   | Canning Town   | 85    | Upscale        | Final Planning  | -                 |
| The Collective Hackney Wck                   | Hackney Wck    | 240   | Upper Midscale | Final Planning  | -                 |
| The Collective Stratford                     | Stratford      | 287   | Upper Midscale | Final Planning  | -                 |
| The Dalston Hotel                            | Dalston        | 51    | Upper Midscale | In Construction | -                 |
| The Gantry London Curio Collection by Hilton | Stratford      | 291   | Upper Upscale  | In Construction | 01/10/2021        |

Source: STR (as at June 2021)

We consider that of the new supply, detailed above, the Gantry London Curio Collection by Hilton, is the most significant. It represents another upper upscale, lifestyle hotel located in Stratford with significant F&B outlets. The hotel is due to open in October 2021 and will be considered the key competitor of the subject hotel. In addition, the Collective Stratford is due to bring 287 apartments to the market, however this does not have a confirmed opening data and is not yet under-construction, similarly the Stratford Yards, a considerable mixed use development and will bring a 17 storey hotel comprising of 299 rooms to the market which has recently obtained planning.

## London Hotel Market Trading Performance

The following table illustrates the London Hotel market performance between 2012 and Q1 2021.

| London Upscale Market Set | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | Q1 2020 | Q1 2021 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|
| Occupancy %               | 81.2%  | 83.8%  | 84.2%  | 83.0%  | 81.6%  | 82.5%  | 84.5%  | 85.1%  | 32.2%  | 53.5%   | 16.0%   |
| Average Daily Rate (GBP)  | 193.75 | 194.41 | 207.45 | 171.21 | 183.40 | 193.17 | 170.40 | 179.39 | 143.87 | 157.38  | 101.50  |
| RevPAR (GBP)              | 157.34 | 162.96 | 174.65 | 142.14 | 149.69 | 159.43 | 143.99 | 152.75 | 46.27  | 84.25   | 16.26   |
| % Change RevPAR           | 6.0%   | 3.6%   | 7.2%   | -18.6% | 5.3%   | 6.5%   | -9.7%  | 6.1%   | -69.7% | -35.2%  | -80.7%  |

Source: STR Global (Most Recent Data: June 2021)

The London Upscale market benefits from a continuous high demand due to strong market fundamentals and the high variety of product on offer. The performance of the upscale hotels in London is driven by a combination of independent travellers (travelling either on business or leisure) and more traditional corporate business.

Performance for the London Upscale market has fluctuated in recent years. Occupancy has remained broadly stable at above 80% between 2012 and 2019 with a peak in 2019 at 85.1%. ADR has been the predominate driving force in the changing RevPAR performance year on year. ADR peaked in 2014 at £207.45 before declining to £171 the following year, which is due to significant increases in rooms in the London market, creating a more competitive market.

Pre-COVID-19, 2019 saw positive RevPAR growth of 6.1% vs 2018 and was considered a strong year for the London hospitality market.

On 23rd March, the UK government announced measures in response to the Covid-19 pandemic, which resulted in the closure of a number of hotels across the UK. While certain hotels remained open for key workers, the majority of the bed stock in the UK closed. The impact of this can be seen with the year-end December 2020 performance above showing a -69.7% drop in RevPAR. We would stress that this may not necessarily reflect the true status of occupancy in the market, as closed hotels are not being accounted for in the data.

The UK left the European Union on 31 January 2020 and the associated transition period came to an end on 31 December 2020, during which time a trade deal between the UK and EU was negotiated and agreed on 24 December. Whilst economists predict that the UK economy will grow more slowly in 2021 than if ties with the EU had been extended, a trade agreement removes uncertainty which was creating delays in investment, and the impact is less severe than under a 'No Deal' scenario. We are of the opinion that since the 2016 referendum, property and financial markets have adapted to changing markets and that any risks associated with Brexit are now reflected in market pricing. Accordingly, we confirm that our valuation and report have been prepared with these market conditions in mind.