



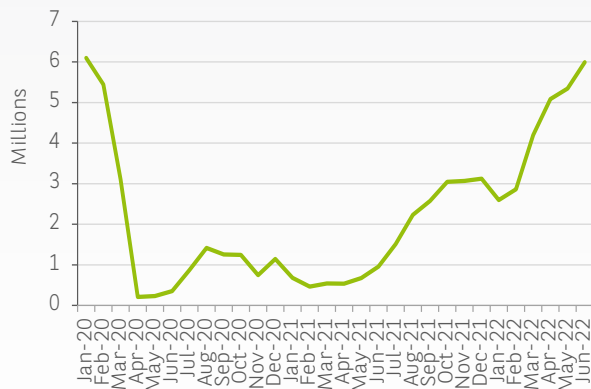
UK HOTELS

MARKET UPDATE Q2 2022

DEMAND REBOUND DRIVING AVERAGE DAILY RATES

- ▶ Hoteliers welcomed the up-tick in hotel occupancy over Q2 2022 as both leisure and business travel increased. UK average hotel occupancy reached 80% in June 2022, compared to 57% in June 2021 (source: CoStar Group).
- ▶ Particularly, major regional cities benefitted from weekday demand. Hotel occupancy in Edinburgh reached 85% in June 2022, compared to 53% in June 2021, whilst London recorded average occupancy of 83%, compared to 41% a year earlier (source: CoStar Group).
- ▶ This was partly the result of the return to the office and conferences and events. The UK recorded an average office occupancy of 30.6% in the middle of June; it's highest in 12 months (source: Remit Consulting).
- ▶ Despite airport disruption, latest Heathrow statistics showed continued improvement in passenger numbers, with June 2022 reaching the highest level since the start of the pandemic. A total of 26 million passengers travelled through the airport in H1 2022, up significantly on H1 2021 but still 33% below H1 2019.

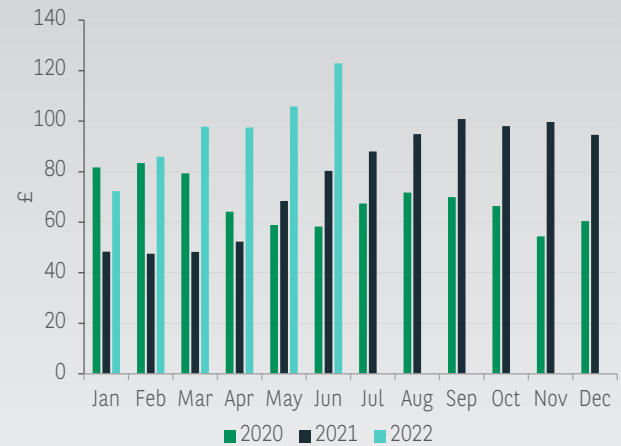
HEATHROW AIR PASSENGERS



Source: Heathrow Traffic Statistics

- ▶ The Heathrow Investor Report June 2022 noted that inbound leisure and business travel still remained weak due to ongoing restrictions and operational challenges in international airports.
- ▶ Nonetheless, the improving demand picture pushed up national average daily rates (ADR) to a high of £122.86. Whilst most of this growth has been driven by the tick up in travel, both leisure and business, the growth in ADR is also reflective of the high inflationary backdrop.
- ▶ UK annual inflation rate reached 9.4% in June 2022. The rise in food and utility prices, and labour costs, resulted

UK HOTEL PERFORMANCE: AVERAGE DAILY RATE

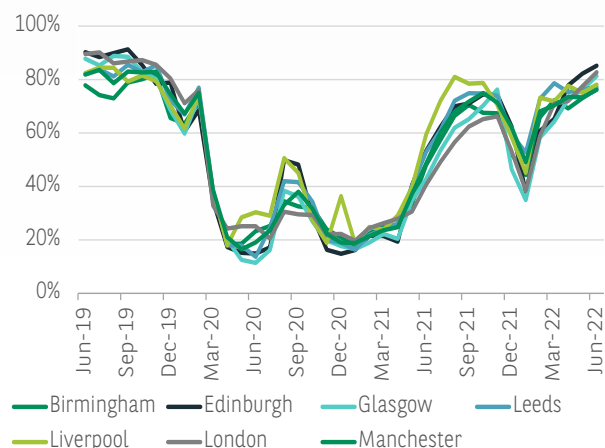


Source: CoStar Group

in some operators looking to pass on these additional costs in room rates which caused some further increases in ADR.

- ▶ This ADR growth is unlikely to be sustainable in the long-term as the rising cost of living erodes household disposable income leading to downward pressure on travel spending. The reestablishment of the corporate and contract segment is also still expected to dilute current localised ADR premiums.
- ▶ The OBR have forecasted a 2.2% per-person reduction in real household disposable incomes (RHDI) in 2022-23, the biggest fall in living standards in any single financial year since ONS records began in 1956-57.
- ▶ Whilst RevPAR continued to grow Q2 2022, underpinned by strong occupancy and rising room rates, challenges have certainly increased in the sector.
- ▶ Interest rate increases, labour shortages, increased labour costs, airport chaos, inflationary pressures, and a capital expenditure backlog due to the pandemic, are all a cause for concerns and inevitably the bottom line for operators will be challenged over the coming months.
- ▶ Moreover, the hotel sector has upgrades and improvements to make to improve the ESG credentials of a vast quantity of stock to reach net zero targets.

HOTEL OCCUPANCY: JUN-19 - JUN-22



Source: CoStar Group

KEY DEALS Q2 2022

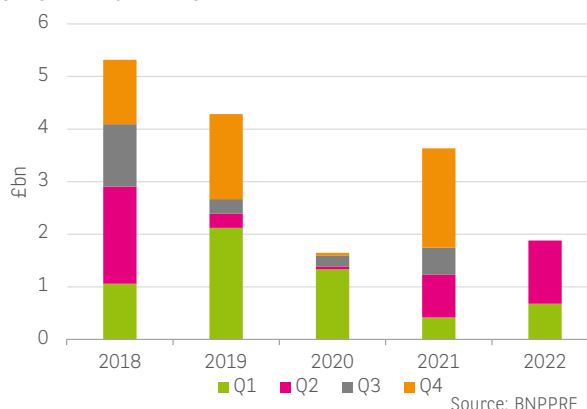
Investor	City	Details	Type	Date
Tristan Capital Partners	National	£420m purchase of majority shareholding in Raag Hotels Limited, owner of Point A hotels	Joint venture	Apr-22
Frogmore and C1 Capital	London	A JV purchase of the 405 key London Hilton Olympia, Park Inn by Radisson Northampton and Stifford Hall Hotel, for £152.5m	Joint venture purchase	Apr-22
UK Commercial Property REIT Ltd	Leeds	A £62.7m forward funding of a 305 key hotel with a 25-year franchise agreement in place with Hyatt Hotels	Forward funding	May-22
AG Hotels Group	London	The purchase of the Dalata owned Clayton Crown Hotel for £21m	Asset Purchase	Jun-22
Vertiq Capital	London	Purchase of London Bankside hotel by Vertiq Capital for c.£105m	Asset purchase	Jun-22

INVESTMENT ACTIVITY

- ▶ Investment volumes reached £1.2bn in Q2 2022 which was the strongest second quarter since 2018.
- ▶ The regional hotel sales market continued to be extremely dynamic whilst it was less so for the bigger ticket major city and London markets albeit there was some evidence of Central London activity.
- ▶ In particular, PGIM announced in May that they had entered into a JV with Madison Cairn to acquire, develop and reposition hotels focussing on the strong domestic leisure market, with BNPPRE advising on the first acquisition in Brighton.
- ▶ The largest deal of the quarter was the £420m purchase of the majority shareholding in the owner of Point A hotels by Tristan Capital Partners; c.80% of Point A hotels are in London.
- ▶ Meanwhile Travelodge in New Brighton transferred hands as part of a £44m purchase of Marine Point purchased by David Samuel Properties.
- ▶ Whilst there is substantial capital allocated for the hotel sector, caution crept in towards the end of Q2. The rising cost of capital is the latest sector challenge and is having an impact on the price investors are able to pay for assets.

- ▶ Moreover, the debt market has become an increasingly challenging environment with loan terms reflecting higher interest rates.
- ▶ In the long income leased hotel market, development fundings are few and far between whilst higher build costs coupled with operators seeking to reduce rents given rising operating costs is challenging the viability of many schemes outside of London. In the delivered leased market, the risk premium has been squeezed by higher gilt rates and therefore pricing is being adjusted.

UK HOTEL INVESTMENT ACTIVITY



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