UK hotels forecast

Bumper crop for London but leaner pickings in provinces

September 2011

Latest hotels forecast from the PwC Hospitality Directions Europe series

pwc

Foreword

In March when we published our last forecast I expected that the economic outlook would have shown signs of brightening by now, but if anything the omens today look worse and the risks to UK GDP growth are firmly to the downside. Notwithstanding this, our forecasts for 2011 and 2012 hotel performance are substantially unchanged from March and, with nearly nine months under the belt, 2011's forecast outturn looks pretty much assured, particularly for London.

London's performance in Q1 2011 fell someway short of expectation (partly weather-related) but a bumper Q2 and a good Q3 have put it back on track for full year RevPAR growth of just over 8%, mainly driven by rate increases. In the provinces though things remain much tougher and while occupancies have nudged forward slightly year on year, rates have remained stubbornly flat as hoteliers have failed to recover pricing power post the technical recession. This problem with provincial rates is now getting very serious, with ADR languishing well below the levels attained in 2005 to 2008.

For 2012 everything is riding on the Olympics, but outside Q3 (which also benefits from Farnborough) we continue to expect an unremarkable year with the risk of falling RevPAR in Q2 and Q4 in London as the capital feels the impact of the new supply coming on to the market. The provinces should make some progress but getting rates up will remain a challenge for most.

Finally, in response to demand from our readers, we will publish next month a forecast for 2012 hotel performance for 17 key European capital and gateway cities. I hope you will find this a useful addition to our established UK and US forecasts and welcome your feedback in due course.

Robert Milburn

Hospitality and Leisure Leader
PwC UK

In this issue

Key findings

Riding out the economic storm

London hoteliers have so far successfully ridden out the economic storm blowing around the world. The city has shown itself to be a truly high velocity gateway city[1] *and the engine driving the UK hotel sector. The recent financial crisis and recession didn't hurt London hotels as badly as many other destinations and the capital managed to bounce back fast. The depreciation of sterling, down around 25% on average (against a basket of currencies) on 2007 peaks, has also supported London's travel and hotel sector.*

UK households face the biggest fall in their living standards for 30 years

Nevertheless, hotels can't operate in a bubble nor can they buck the trend if around the world key demand markets slow down. Weaker trading in the UK provinces illustrates the difficult times. The economic recovery has faltered recently and remains fragile as UK households face the biggest fall in their living standards for 30 years. Looking ahead, the volatile economic mire and the euro debt crisis are likely further to depress demand from squeezed consumers, corporates and the public sector. UK hoteliers already report reduced levels of government demand. Higher commodity and energy costs are a further pressure and the minimum wage is set to rise from October 1.

Reasons to be optimistic

- Corporate travel recovery: firms acknowledge they have to travel to do business and prosper. The continued corporate travel recovery is a major reason to stay cheerful (for now at least). Some high growth companies and sectors such as software and computer services are prospering despite the gloom.
- Hotels in London tell us leisure has held up well: PwC research shows holidays remain important for our sense of wellbeing, even if affording them is getting harder for many[2].
- The Olympics, together with the Diamond Jubilee: these events will generate demand and a 'feel good' factor. Many hoteliers have committed their rooms to LOCOG for the Games period. Some hoteliers already report a halo effect for leisure markets too.
- Little new hotel development around the UK: as the finance drought continues the low level of new hotel openings is helping prop up existing operators. The market is still highly competitive but it could be worse.
- Stylish new products strengthen London's appeal: in London it's a different story as above average numbers of new rooms open. However, London needed the injection of stylish new products and it has strengthened the capital's appeal; putting parts of east London on the hotel map for the first time.

1 Marty Kandrac, MD Real Estate Group, The Blackstone Group, panel discussion at the London Hotel Investment Conference Europe London, September 2011.
2 PwC Survey of Small Luxury Hotels of the World Club Members April 2011.

Latest forecast

Our latest forecast incorporates a slightly less optimistic economic outlook than in March. But, with a strong first half to the year, 2011 is on course to be broadly in-line with our previous forecasts (in contrast to the jitters that broke out among some other forecasters earlier this year). In fact 2011 is turning out excellently for London. London hoteliers benefitted from record occupancy and ADR in Q2 this year, according to data from STR Global. Many operators reported only a temporary brake on business in the 24 hours after the August riots and then business as usual. RevPAR should end the year with about a 8.1% gain, perhaps a bit more (we forecast 8.3% in March this year). The provinces are forecast to end this year a bit lower than we anticipated with 3% RevPAR growth (compared to 3.6% forecast for the year in March). However significant sampling changes mean that we should be cautious when reading across the old and new forecasts (see our note on sample changes within the provinces 2011 forecast section). Overall the UK should end this year with RevPAR gains of 6.2% (higher than the 3.6% we forecast earlier in the year).

> 2011 is on course to be broadly in-line with our previous forecasts

> ... the Olympics, the Farnborough International Airshow and the Diamond Jubilee should ensure a busy year for hoteliers

In 2012 the Olympics, the Farnborough International Airshow and the Diamond Jubilee should ensure a busy year for hoteliers – especially in Q3 when more occupancy records will be broken. Depending on how many visitors come to London in 2012, we expect ADR gains for the year as a whole of between 0.8% and 5.7% and RevPAR increases of between 2.8% and 8.3% in the PwC mid and high visitor scenarios. Our low scenario might see rates actually fall marginally.

Trading conditions remain tough in the provinces, with leaner pricing opportunities and prospects much less promising. But it's a very mixed bag and 2011 has seen successful niche markets and some cities enjoying better than average trading. 2012 should be a better year outside London and there should be some Olympic uplift, albeit less than London's.

A somewhat uninspiring demand outlook in many areas outside London has been camouflaged by sample changes in the STR Global UK benchmarking sample. The consequence of adding considerably more branded budget hotel rooms (around 44,000) has been to increase historic average annual occupancy and decrease ADR. In effect this means our model projections start from a new base and readers should be aware of this when comparing demand data. However, as STR Global have included changes to the historical figures back to the start of 2010, the growth rates for 2011 onwards provided in this report still give a consistent picture of the health of the provincial market.

Overall we forecast that the provinces could see 3% RevPAR growth this year. ADR remains under pressure but the rate of decline is expected to continue to slow and may manage marginal growth. In 2012, the Farnborough International Air Show will help boost operators in the south east; The Jubilee and Olympic events plus new attractions around the country will hopefully help boost the tourism mood and hotel business too.

> ... it's a very mixed bag in the provinces where hoteliers face a mammoth task to raise rates

8.1%

Forecast increase in London RevPAR in 2011

The 2011 forecast: another bumper year for London

Record occupancy and rate gains for London in Q2 mean hoteliers could see ADR end the year £11 higher than 2010

London hotels have shrugged off the recent recession and enjoyed yet another bumper summer, but how will they fare in the face of the darkening economic mood?

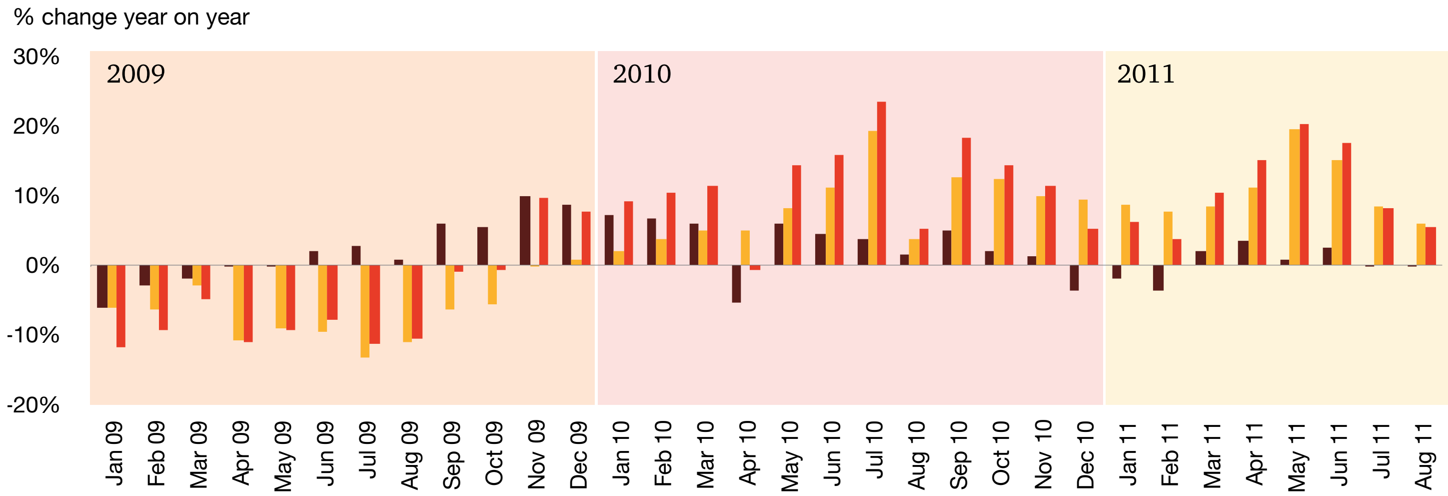
So far London has seen strong demand from international leisure and business visitors and appears to have successfully ridden out the economic storm blowing around the globe. Middle East markets in particular are reported strong for both mid-market and upscale hotels. The traditional feeder markets for London – UK, US, Spain, France and Germany – remain crucially important but leading chains say they are also seeing increasing numbers of guests from emerging markets such as China, India and Brazil. Many already report an Olympic halo effect for leisure markets. Leisure markets are reported robust at weekends too. Overall room rates continue to grow consistently but demand growth has yo-yoed somewhat. Exceptionally high occupancies were achieved in July when occupancy hit 92%, according to data from STR Global. The earlier than 2010 timing of Ramadan likely offset there being no Farnborough International Air Show this summer.

Chart 1 shows monthly growth year-on-year since January 2009 showing a somewhat volatile demand performance, particularly the occupancy declines from December 2010 to February this year. The rate driven boom is also plain to see.

For 2011 as a whole, we now expect lower demand levels than we forecast earlier this year because of the weakening global and UK economic outlook, the unfolding Sovereign debt crisis and sharply slowing US prospects. Our main economic scenario sees UK GDP rising by a relatively modest 1.2 % on average in 2011 and around 1.9% in 2012 (this compares to around 1.5% and 2.2% in our March forecast). The risks to this scenario are mainly to the downside.

In Q1 demand for London hotels declined by 1.4% compared to the same period in 2010, with occupancy at 75.8%. Even though the weekend of the Royal Wedding did not generate the hoped for trading boom, the sector saw occupancy recover in Q2 overall with 2.1% growth, according to STR Global data. This summer might not have seen the thermometer rise very high but London occupancy rose to 92% in July – only a marginal decline of 0.2% on the record 2010. In the seven months to the end of July occupancy managed only a marginal 0.4% gain, reaching 82%, compared to a rates gain of 11.4%. Overall we forecast a decline of 0.8% in occupancy this year. Many cities around the world

Chart 1 London: monthly trading January 2009-August 2011



Source: STR Global

would be very happy with over 82% occupancy in the current environment.

Rates continue to enjoy buoyant growth. The first half of the year saw 12% growth as corporate recovery improved the midweek business mix. Q1 saw just over 8% ADR growth and Q2 saw 15.1% growth, compared to the same period last year. Indeed Q2 managed record ADR in real terms (at 2005 prices) at almost £118 (in nominal terms £140.70). Looking to the end of the year we expect London will see further rates growth in Q4 2011 compared to the same period in 2010, but we anticipate that the rate of growth will be lower than that seen in Q2 and Q3, partly because of high comparatives in 2010, but also because of the slowdown in demand and new supply additions. If achieved, ADR growth of 8.9% in 2011 will pip 2010's robust performance and take rates to almost £134.50 - £11 higher than in 2010 and in nominal terms a record number. See Table 1, Charts 1 and 4 and Appendix 1.

We expect that London's continued global gateway status and robust rates growth will drive RevPAR gains of around 8.1% this year, taking RevPAR to £110.90 in nominal terms.

London has seen extensive new upscale and luxury supply openings recently and although the luxury sector enjoyed over 14% ADR growth in the first half of this year, taking rates to £271, the average occupancy was recorded at just below 74%, only a 0.6% gain on 2010.

Table 1: PwC UK hotel forecast 2011

	London		Provinces		UK	
	2010	2011	2010	2011	2010	2011
Occupancy %	83.0	82.3	69.7	71.6	73.1	74.4
ARR (£)	123.44	134.45	58.70	58.79	78.16	81.53
RevPAR (£)	102.62	110.90	40.97	42.18	57.25	60.79
% growth on previous year						
Occupancy	2.7%	-0.8%	5.7%	2.8%	4.8%	1.7%
ARR	8.6%	8.9%	-1.8%	0.2%	2.9%	4.3%
RevPAR	11.5%	8.1%	4.0%	3.0%	8.0%	6.2%

Econometric Forecasts: PwC August 2011
Benchmarking Data: STR Global August 2011

3.0%

Forecast increase in Provinces RevPAR in 2011

The 2011 forecast: provinces see leaner pickings

London's global gateway performance is a tough act to match and the provinces are a diverse area, enveloping a range of rural and urban hotels where variables such as UK investment growth, UK unemployment and UK GDP growth hold a stronger sway on performance than international issues. In contrast to London it's been a slow recovery and rates continue to struggle. See Chart 2.

The regions are expected to be disproportionately hit by the UK public sector retrenchment. The Government has large pockets of employment outside of the capital, such as those in Wales, Northern Ireland and the North of England. Nearly three-quarters of the job losses reported by the Office for National Statistics in September were in northern England and the Midlands, according to the Centre for Cities, a think-tank[3]. The focus of the Government on cutting travel expenses will directly impact hotels in the provinces. Increased unemployment risk and wage restraint is likely to be a drag on spending in these areas, indirectly affecting hotels.

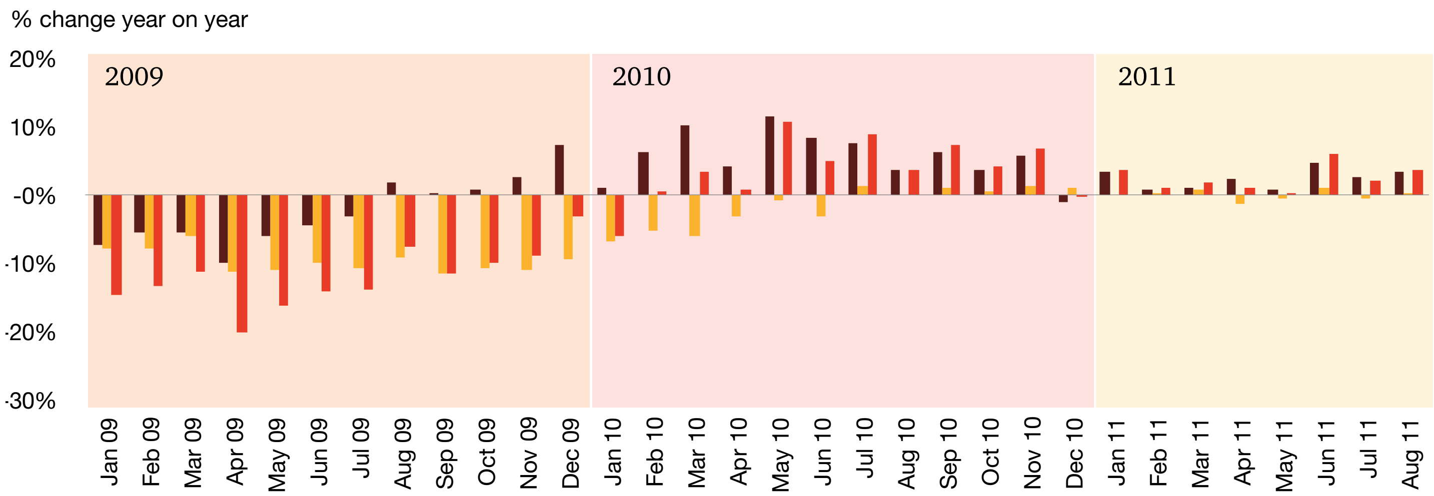
A key area is the training, meetings and conference market and although this has seen some recovery rates remain under pressure as corporate spending remains on a tight leash. Encouragingly, more operators have told us of improvements in the conference sector than did earlier in the year.

It's by no means all doom and gloom of course. The Edinburgh Festival and Fringe reported a successful year with the numbers in the city centre up almost 9% on 2010. Some cities anticipate benefits from the large political party conferences this autumn, for example, the 8,000 delegates to the Liberal Democrats' Conference are expected to generate £12m for Birmingham's economy. No doubt Liverpool and Manchester hope for similar benefits from the Labour and Conservative conferences. Overall though it's proved a tough environment for hoteliers and one particularly vulnerable to public sector and job cuts.

Budget hotel 'effect'

As if wasn't hard enough forecasting in the current environment, significant data revision to the STR Global UK sample, make it a bit more opaque. This includes the addition of branded budget hotel chain Premier Inn. While a larger sample is to be commended and can only give a more accurate picture of UK performance, it has had a significant effect on the historical provincial hotel data. In particular it has led to an increase in reported average occupancy and a decrease in ADR. As an

Chart 2 Provinces: monthly trading January 2009-August 2011



Source: STR Global

3 Jobless data fuel concerns on growth, Financial Times 15 September 2011.

example of the impact, the historical revision to provincial occupancy numbers for 2010 means they have been pushed up from 67.2% to 69.7%. Average rates in 2010 have been revised downwards from £61.30 to £58.70. As a result of these changes to the historical data, the forecasts are not fully comparable to PwC's previous forecasts as the model projections are now starting from a new base and the model relationships have been re-estimated using the new historical data. However in reality we realise it is useful to compare performance across a time period and have incorporated the data in our charts and tables but readers should be aware of these sample data limitations.

Slow progress to recovery

Some cities such as Brighton, Manchester, Bristol, Leeds and Cardiff saw rate growth in the first half of 2011, according to data from STR Global. Chart 2 graphically demonstrates the monthly struggle to raise rates since January 2009. Although June 2011 saw a one percent growth – the highest monthly rate gain since November 2010 – July saw a fall of 0.5%. Overall we expect the rate of ADR decline to slow, and to register a small gain of 0.3% this year (compared to a drop of almost 10% in 2009 and a 2% fall in 2010) to £58.79, some way below 2008's £66.28 and still trailing even 2009. This is in contrast to our view earlier in the year when we expected a 3.4% gain in rates in 2011 - but this largely reflects the sample change 'effect' described above.

Following two years of declines, occupancy rates ended 2010 up almost 6% just below 70%. Looking ahead we expect further occupancy growth of around 2.8% this year taking occupancy back into the 70s, at almost 71.6%. We stress that some of this growth is due to data revisions rather than improved trading.

We anticipate the regions continuing to make more slow progress but as they struggle disproportionately with public sector cuts and job losses they are likely to see a much slower paced recovery than in London. Still, RevPAR could nudge up 3% this year taking it to £42.18, the highest since 2008. See Table 1, Charts 2 and 4 and Appendix 1.

UK 2011 prospects have lifted in line with London and provincial performance

The provincial and London performances convert into a 6.2% RevPAR gain in 2011 for the UK as a whole, taking RevPAR to £60.80. This is driven by 4.3% ADR growth, lifting rates to £81.53 and a 1.7% occupancy increase. See Table 1, Chart 4 and Appendix 1

The 2012 forecast: Olympic countdown begins

Mixed press reports already circulate - some detailing difficulties facing business travellers hoping to get rooms in the capital in 2012 and others highlighting a potential plethora of empty rooms. Others suggest that the majority of hotels in central London are already fully booked-up with the Olympics delegates and press entourage. Several confirmed to us that they have already filled their inventory via LOCOG for the Games period. With less than a year to go until the Olympics come to town, we are seeing considerable new supply opening – we may see 5,000 new rooms open before next summer (see Olympics run-up puts east London firmly on the hotel map, later in this forecast).

How many extra visitors are likely to come or stay away ?

Three scenarios

In March we prepared three scenarios to help gauge the Olympic 'effect' on hotels in London and we have not revised these scenarios yet but expect to do so as new estimates are published closer to the event. In any event we expect London hotels to be full up during the Olympic period. There is a detailed analysis of our modelling in our March forecast but we restate our key assumptions and thoughts below. We still expect that the potential demand boost from the 2012 Olympics, the Diamond Jubilee and Farnborough to be very positive, albeit not as lucrative as many would have hoped. In each scenario it is Q3 that is particularly strong.

The effect of the Olympics on London hotels is dependent on both the number of visitors that come to the city for the Games and the amount of displacement that occurs (i.e. people who avoid London due to the Games). The net number of visitors that will come to the city cannot be accurately known and pre-Games estimates have historically overestimated the number of people that will attend. In light of these uncertainties we have modelled three different scenarios.

The first scenario is based on Oxford Economics and Visit London's 2007 report[4], which predicts 908,440 overnight visitors for the Olympics. The other two scenarios are based on the Athens and Barcelona Olympics, where 660,000 and 450,000 overnight visitors attended respectively[5]. The Oxford Economics figure was adjusted down to account for expected displacement, as assessed in that report. In the Athens and Barcelona Olympic scenarios, we assume the same number of additional visitors comes to London as attended those Olympics, so these figures are also net of displacement. In our forecasts, the scenarios will be referred to as the high, mid and low scenarios respectively.

The visitor numbers can be converted into total additional accommodation demand by using the average number of nights a guest will stay and how many guests stay on average in each room. The Athens and Barcelona figures are based on actual data from hotels in those cities during the Olympics. The Oxford Economics report expected people to stay for an average of eight nights, which is more than double the figure for the last three Olympic Games. We understand that the Oxford Economics is likely to re-assess these length of stay data soon. These calculations lead to an estimate of the extra room nights (in 000's) demanded in the Olympic period.

What will each scenario mean for London hoteliers?

So, what's our forecast for the Olympic year itself? Unsurprisingly we expect that 2012 should be a good year for London but perhaps surprisingly we anticipate it may not match the high expectations or hopes of some hoteliers. Yes, Q3 could make many hoteliers' dreams come true with

4 The value of the London 2012 Olympic and Paralympics Games to UK tourism, September 2007. Study carried out by Oxford Economics and jointly commissioned by Visit Britain and Visit London.

5 Visitor numbers taken from report referenced in footnote above.

Table 2: Estimates of extra Olympic visitors, visitor and room nights

Scenario	Extra visitors (foreign and domestic, excluding displacement)	Extra visitor nights (000's, including displacement)	Extra room nights (000's including displacement)
High scenario (Oxford Economics)	908,440	4,900	3,400
Mid scenario (Athens)	660,000	2,400	1,800
Low scenario (Barcelona)	450,000	1,700	1,200

Source: High: Oxford Economics 'The value of the London 2012 Olympic and Paralympic Games to UK tourism, September 2007 ; Mid: Athens actual and PwC analysis; Low: Barcelona actual and PwC analysis

Farnborough, the Olympic and Paralympics Games, all in the same quarter. Indeed many press reports suggest that the majority of hotels in central London are already full booked-up with the Olympics delegates and press etc. The large contracted LOCOG room base in the hotels should restrict overly aggressive rate increases and aggressive ADR performance.

But, outside of the crucial Q3[6] we remain concerned that weaker demand and above average room supply additions will take their toll on London trading. Hotels planning a bout of price gouging during the Olympics will only worsen any hangover.

Table 3: PwC London hotel forecast 2012 by low, mid and high scenarios % growth on previous year

London 2012			
	Low	Mid	High
Occupancy %	83.6	83.6	83.6
ARR (£)	133.15	135.55	142.15
RevPAR (£)	111.83	114.03	120.10
% growth on previous year			
Occupancy	1.7%	1.7%	1.7%
ARR	-1.0%	0.8%	5.7%
RevPAR	0.8%	2.8%	8.3%

Econometric Forecasts: PwC August 2011
Benchmarking Data: STR Global August 2011

The challenge for hoteliers will be to manage and maximise rate while delivering good value to guests. In each scenario we have undertaken for London we have assumed that the Olympic 'effect' is concentrated primarily in Q3. Table 3 illustrates, each scenario's impact on occupancy, ADR and RevPAR for London in 2012.

RevPAR is up 0.8% in the low scenario: ADR growth in our low scenario could actually fall marginally (by 1 %) in 2012 and this will mean an average annual achieved rate close to £133 (in nominal terms). Already high occupancies for the year in all three scenarios mean an occupancy gain of 1.7% driving a RevPAR gain of just 0.8%, to about £112.

RevPAR is up 2.8% in the mid scenario: ADR growth in our mid scenario would be 0.8% in 2012 and drive an average achieved rate close to £136 (in nominal terms) An occupancy gain of 1.7% drives a RevPAR gain of 2.8%, taking RevPAR to just over £114.

RevPAR is up 6.7% in the high scenario: ADR growth in our high scenario could be up 5.7% in 2012 and this will mean an ADR close to £142.15 (in nominal terms). In all three scenarios already high occupancies are capped at almost 84% with an occupancy gain of 1.7%. This drives a RevPAR gain of 8.3% taking it to £120.

Table 3 shows the latest RevPAR forecast for London for all three scenarios in 2012.

How big a party in the provinces?

Onwards and upwards with Farnborough, the Olympics, the Jubilee and new attractions

We expect that the provinces will enjoy some overspill effect from London. While we do not anticipate that it will be as considerable an Olympic effect as for London it should be a good year for many hoteliers. We anticipate a boost to towns close to Olympic events such as the sailing in Weymouth and Portland, rowing near Windsor, football in Coventry, Cardiff, Manchester, Glasgow and Newcastle, as well as other events in Essex. The training camps and visiting officials will also generate some demand and there will no doubt be related events that draw crowds.

Some visitors to the UK will choose to visit popular tourist centres outside London. While Scottish tourism is reported

6 The Olympic Games run from 27 July to 12 August 2012 with the Paralympics from 29 August to 9 September 2012. Farnborough International Air Show runs 9-15 July.

currently benefiting from the staycation trend, it expects to profit further from its investment in tourism, for example the new revamped Museum of Scotland in Edinburgh and Glasgow's new Riverside Museum, and the displacement effect of a crowded and expensive south of England in 2012.

Events to mark the Queen's 60 years on the throne will take place in the first weekend of June 2012, with an extra bank holiday being created. In addition, the traditional Whitsun Bank Holiday at the end of May will, in 2012, be moved to 4 June to make it a four day weekend. As a rule bank holidays are a mixed blessing for hotels, as we saw during the recent Royal Wedding and extended Easter break, often deterring corporate demand in urban locations.

There will also be uplift in 2012 from the biennial Farnborough International Air show[7] which will be held a week earlier to avoid a clash with the Olympics. Over 100,000 visitors and trade delegates are expected to attend and higher demand for hotels across the south east as well as an overspill to London is the historic norm.

In terms of our annual forecast for the provinces for 2012 we anticipate an ADR gain of 2.4% taking rates to £60.20. With an annual 1.5% percentage increase occupancies could reach almost 73%. This would convert into 4.2% RevPAR growth taking RevPAR to £43.95 (in nominal prices). See Appendix 1.

UK Olympic effect drives a 6.2% RevPAR gain in our high scenario

Overall the London and provincial 2012 Olympic effect converts into ADR growth of 0.7% in our low scenario, 1.6% in the mid and as high as 4.1% in the high scenario. Together with occupancy growth of 1.6% RevPAR could also range from 2.5%, to 3.5% and to 6.2% gains in the three scenarios respectively. See Table 4 and Appendix 1.

Table 4: PwC UK hotel forecast 2012 by low, mid and high scenarios % growth on previous year

	Low	Mid	High
Occupancy %	75.6	75.6	75.6
ARR (£)	82.14	82.86	84.84
RevPAR (£)	62.31	62.92	64.59
% growth on previous year			
Occupancy	1.6%	1.6%	1.6%
ARR	0.7%	1.6%	4.1%
RevPAR	2.5%	3.5%	6.2%

Econometric Forecasts: PwC August 2011
Benchmarking Data: STR Global August 2011

7 9-15 July 2012.

Quarterly analysis: Olympic 'effect' should boost UK in 2012 Q3

A full quarterly forecast breakdown (by the three scenarios for London and the UK) can be seen in Appendix 2.

London

We anticipate demand struggling in Q1 although rates could still keep up lower paced growth. Q2 sees occupancy and ADR dip, partly as a result of an exceptionally strong comparator in the previous year. But then we see a bumper Q3 as the Olympics come to town and fill up all the new hotels. We see 32.3% ADR growth in our high scenario (£182.58 in nominal terms), 13.2% in the mid scenario (£156.20) and 6.2% in the low scenario (£146.60). Table 5 shows the impact of the extra visitors in Q3 2012. With occupancy almost 92% in all 3 scenarios RevPAR growth soars to 40.3%, taking it to an average of £167.86 in the high scenario and still £134.78 in the low one. Post the Games we expect Q4 to see close to 2% occupancy growth but a 5.1% decline in ADR and a 3.3% fall in RevPAR, although pent-up corporate demand could prop this up. See Chart 3.

Note: Occupancy is the same in all three scenarios because demand in the Olympic period is expected to be in excess of available hotel rooms in all three scenarios, so we have assumed it is 92% (i.e. totally full). Outside the Olympic period we have used the econometric model together with the supply overlay to derive the figures for occupancy. In each case the final figure is a weighted average of these two periods.

Provinces

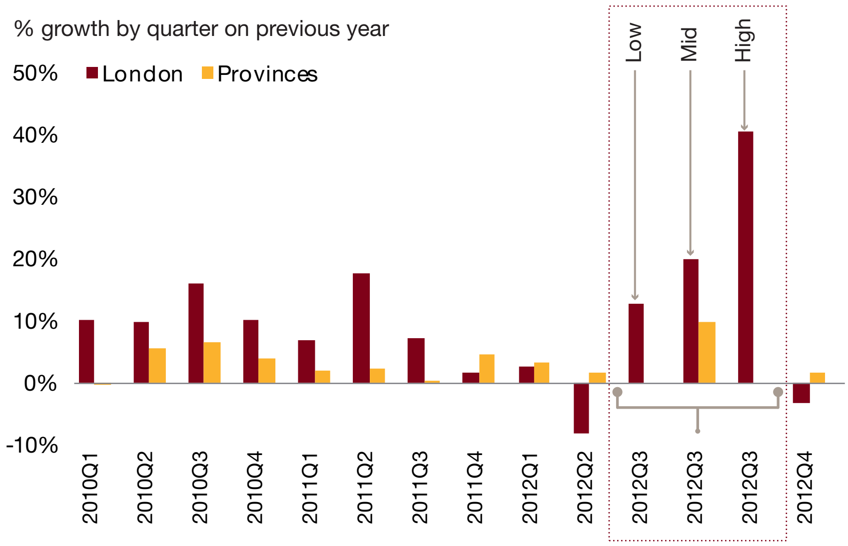
RevPAR growth keeps up the momentum into 2012. We don't expect a pre-Olympic dip in Q2 either. Q3 sees some good growth with Q3 ADR enjoying a 6.2% gain to lift rates to over £64, (still some way off passing 2007 and 2008 records though which reached £67 and £66 respectively). Q3 sees 3.3% occupancy growth drive 9.6% RevPAR growth to £52.53. We do not expect a dip in ADR or RevPAR in Q4 as we do in London, but in contrast we could see a marginal occupancy fall.

Table 5: PwC London hotels forecast 2012 Q3 by low, mid and high scenarios

	Scenarios		
	Low	Mid	High
Occupancy %	91.9	91.9	91.9
ARR (£)	146.60	156.20	182.58
RevPAR (£)	134.78	143.60	167.86
% growth on previous year			
Occupancy	6.0%	6.0%	6.0%
ARR	6.2%	13.2%	32.3%
RevPAR	12.6%	20.0%	40.3%

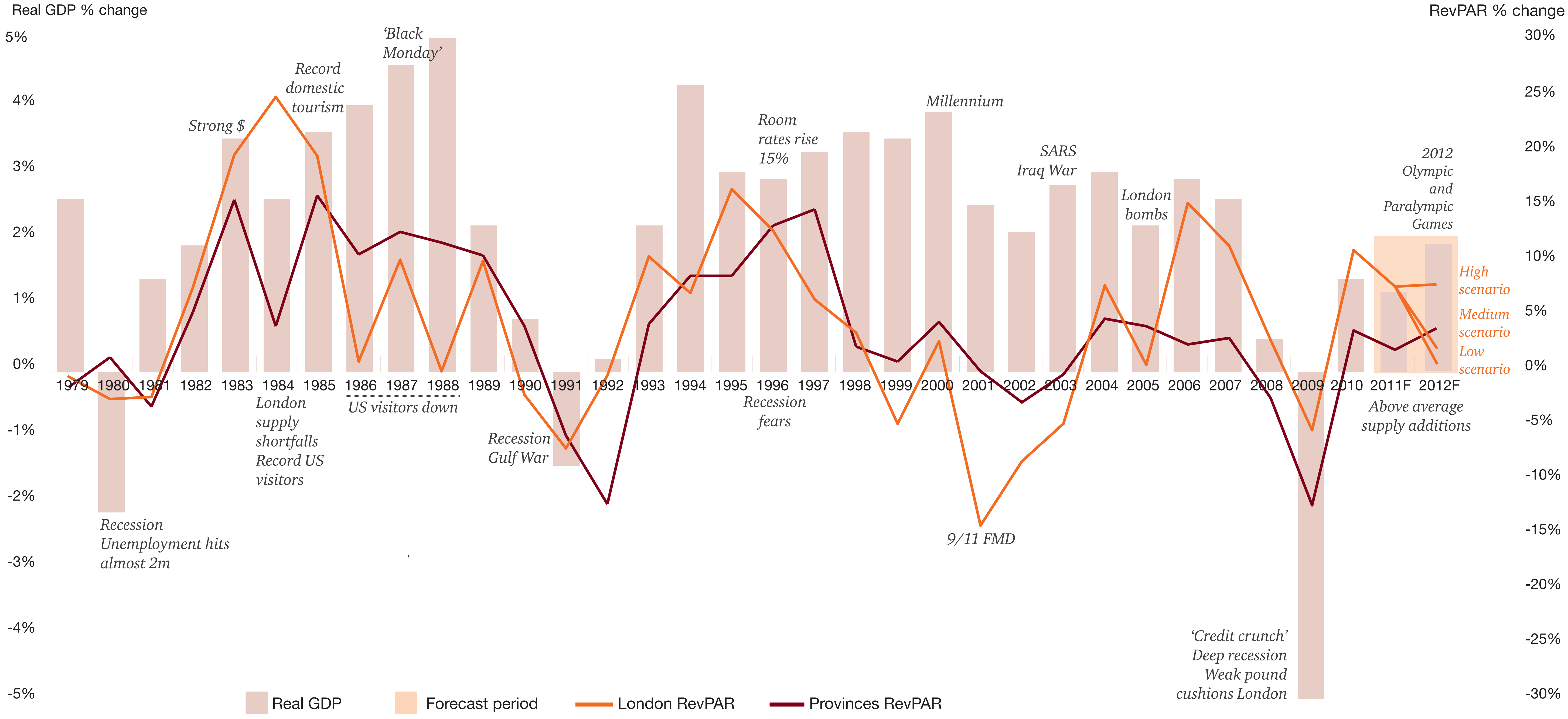
Source: Econometric Forecasts: PwC August 2011
Benchmarking Data: STR Global August 2011

Chart 3: London and provinces RevPAR growth trends by quarter 2010 to 2012 (with three scenarios for London 2012Q3)



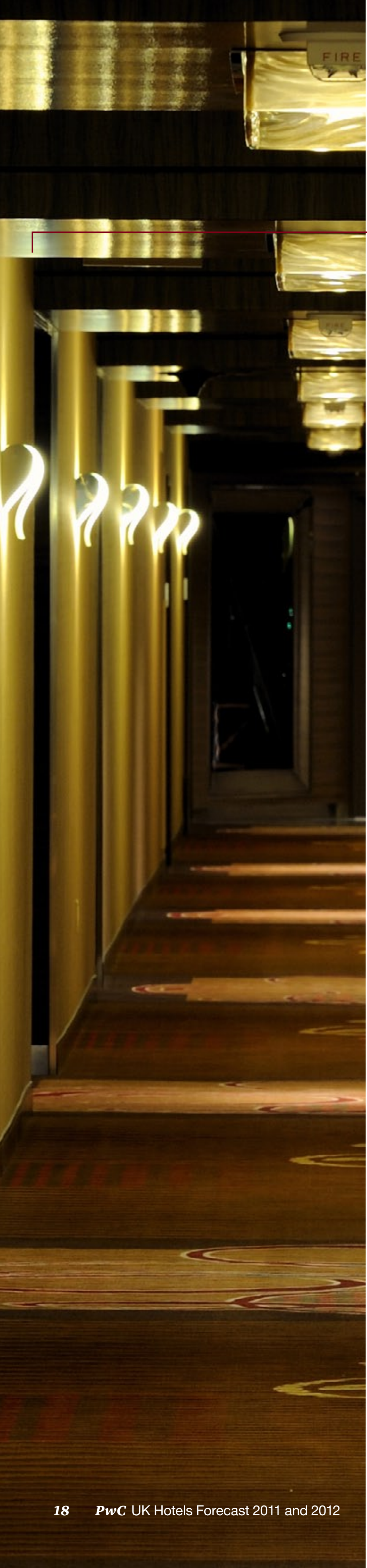
Source: Econometric Forecasts: PwC August 2011
Benchmarking Data: STR Global August 2011

Chart 4: London and provincial RevPAR ups and downs 1979-2012 (% change on prior years)
Real GDP, London and provincial RevPAR growth rates



Source: Econometric forecasts: PwC August 2011;
Macroeconomic data: National Statistics;
Benchmarking data: TRI Hospitality Consulting and STR Global

N.B. Different samples 1979-1999 and 2000-2009 and 2010 onwards



Spectre of a darker economic and travel outlook

Key trends and assumptions

UK GDP prospects are revised downwards: The UK economy grew at an above trend rate in the second and third quarters of 2010, but then suffered a surprising drop in the fourth quarter of last year. This 0.5% fall in GDP in Q4 2010, which the ONS attributed to the effect of the snow in December, was reversed in Q1 2011, but this still left the underlying trend flat since Q3 2010. The initial estimates for Q2 2011 are that the economy struggled to expand, registering growth of just 0.2% from the previous quarter. The Office for National Statistics suggested that the performance had once again been adversely affected by one-off factors like the additional Bank Holidays around the Royal Wedding.

Our main scenario sees UK GDP rising by a relatively modest 1.2 % on average in 2011 and around 1.9% in 2012 (this compares to around 1.5% and 2.2% in our March forecast). Our main scenario for growth in 2011 is broadly similar to the latest average of independent forecasters although somewhat lower than the official government forecast from the Office for Budget Responsibility (OBR) made in March. However, both our main scenario and the projections of other forecasters are subject to significant margins of uncertainty. See Appendix 3.

The European sovereign debt crisis has spooked the markets: The Sovereign debt crisis in Europe continues to spook global equity markets. Whilst growth in Q1 2011 beat expectations, with a quarter-on-quarter expansion of 0.8% on the back of a buoyant German economy, we expect that growth will ease in the second half of the year as confidence is weakened and businesses cut back investment on expectations of further austerity.

The sovereign debt crisis has come at a time when businesses are already facing much short-term uncertainty. The disruption to global supply chains from the Japanese earthquake in March, the democratic uprisings of the "Arab Spring" and worries about the effects of interest rate rises across the BRIC nations pose significant downside risks to the global economic recovery this year.

There are signs that these factors have started to spill into business confidence which has dropped off in the euro zone after recent gains. Confidence sunk to its lowest level of the year in June, with Italy suffering a particularly marked slide. Meanwhile, the Spanish picture is also bleak, lagging behind its euro zone counterparts over many years. Waning confidence is likely to dampen investment spending this year, particularly in the periphery where uncertainty is the greatest. Low confidence will also weigh on business travel.

Fears that US growth may have run out of steam: The United States is still a key market for UK tourism and particularly for London. With the latest figures showing that the US recovery ran out of stream in the first half of 2011, the prospects for UK tourism have weakened.

Will emerging markets save us?: The emerging economies currently make up a small proportion of tourist flows into the UK, but often spend more while here than their European counterparts. The rapid expansion of GDP in countries such as China is likely to benefit UK tourism in the coming years.

UK regional outlook adds to the gloom: The regions are expected to be disproportionately hit by the UK public sector retrenchment. The government has large pockets of employment outside of the capital, such as those in Wales, Northern Ireland and the North of England. The focus of the government on cutting travel expenses will directly impact hotels in all areas.

Inflation in non-discretionary purchases, primarily food and energy, is putting pressure on discretionary spend (CPI to reach 4.2% in 2011)

Unemployment and inflation outlook: The latest figures suggest that the post-recession recovery in the labour market has lost some momentum since mid-2010. Britain's unemployment rate nudged upwards in the three months to June, while the number of people claiming jobless benefits rose at the fastest monthly rate since May 2009 when the nation was still mired in recession.

According to the Office for National Statistics, the UK unemployment rose above 2.5m in the three months to July compared with the quarter to April, the largest increase for almost two years. Public sector employment shrank by 1110,000 to 6.04m in the second quarter.

We expect headline inflation, as measured by the CPI, to fall back from recent high levels but to remain above its 2% target until the end of 2011 given the effect of the VAT rise to 20% from January. However, inflation would then be likely to fall back to around

Low earnings rises c. 2% p.a.

target in early 2012 as the VAT rise falls out of the 12 month comparison and as continuing excess capacity in the economy will tend to depress domestic inflationary pressures for some time to come.

Consumer spend set to shrink further: We project consumer spending to shrink by around 0.3% in 2011 and grow by only around 1.6% in 2012. This comparative weakness is likely to continue in the medium term due to subdued prospects for earnings growth and house prices and the drag from high household debt levels. In any case, in the UK a period of austerity is likely to weigh on growth in the next two years, as Government tax rises and spending cuts impact consumer spending and investment.

We all need a holiday: Holidays remain a priority (for now) according to 2011 PwC consumer research which showed that taking a main holiday remains a top spending priority for UK and European households over the next 12 months. Further pressures on stretched household budgets could yet change this. It also remains unclear whether the holiday will be taken abroad or at home and whether it involves hotel accommodation, but it is encouraging for those hotels that have invested in the right proposition to attract travellers. Interestingly, PwC's research also revealed that the other top three priorities involved households paying down debt. Despite this, overall travel volumes and spend are unlikely to bounce back quickly.

"Fear that mortgage costs will rise if interest rates increase"

Staycation boom or glamping glut?: There is anecdotal evidence of the continued popularity of the so-called staycations although these are unlikely to compensate for lower volumes or spend from overseas travellers and they may not benefit hotels.

The press has reported the popularity of chic niche areas such as yurts, glamping or indeed pop-up hotels across the country over the summer and they remain a bright spot in some popular destinations.

Thank heavens for business travellers: While the resurgence in the business travel sector is a key positive for hoteliers it is not yet a return to business as usual. Many corporates remain down on excess and drive a hard bargain looking for value and flexibility. The current economic slowdown is likely to encourage continued caution. In May the Hogg Robinson Group reported an increase in spend on business travel in the UK and commented that the loss of government contracts had been offset by increases in other sectors.

Meetings and conferences still recovering: As we reported earlier this year, the market continues to show encouraging signs of recovery but rates continue to remain under pressure and fears of a double dip recession will not help. Hotel operators are also under pressure to improve yields on meetings but travel organisers remain cost and value focused. While many corporates have now caught up with essential training postponed during the recession there are signs that they are now more cautious about future commitment. Improvements in accessibility to video conferencing at both workers' desktops as well as on-site systems in dedicated suites are likely to continue to develop.

Yurts and pop-up hotels have proved popular this summer

8 Financial Times 15 September 2011.

Supply: Olympics run-up puts east London firmly on the map

In the run-up to the Olympics, a large amount of additional supply is coming online in London bringing new names and brands to the scene. In 2010 and 2011 over 5,000 new rooms opened or re-opened , including the Corinthia, the Renaissance St Pancras; the Savoy, the Four Seasons, Starwood's W in Leicester Square, the Pestana, the Tune and the H10. The Park Plaza alone added 1,000 rooms. Limited service and branded budgets such as Holiday Inn Express, Premier Inn and Travelodge have also opened many new doors.

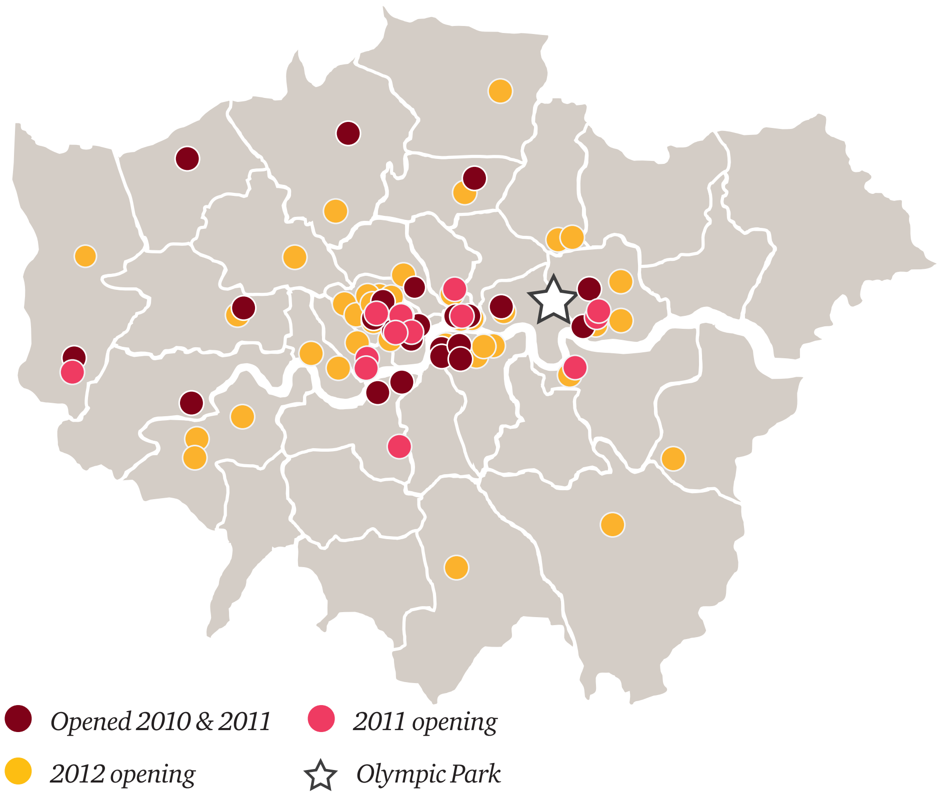
Where is it all taking place? Well, developers have been busy building across London – mainly in central areas such as Westminster, Camden, Southwark, Lambeth, the City (an area that didn't see any hotel development for so long) but also further afield and this development is really starting to put the east on the hotel map. For example, the London Boroughs of Newham and Tower Hamlets have seen the Town House lifestyle hotel open as well as extensions to existing hotels, such as the Ruskin Arms and the Forest Gate as well as the Holiday Inn Express at Stratford in 2010. New hotels in these boroughs as well as Waltham Forest, will include two recently topped out IHG hotels at Europe's newest and largest urban shopping centre, Westfield Stratford City – Staybridge Suites and the Holiday Inn (together totalling 350 rooms); Premier Inn's new £25m hotel – a venue boasting views of the Olympic Stadium; the Aloft at Excel (252 rooms), and a Travelodge, a Premier Inn and another Holiday Inn hotel in Tower Hamlets. The City and surrounding boroughs are also seeing new developments.

For the remainder of 2011 and 2012 around 6,000 rooms are expected to open. Exciting new names include the London Edition, Citizen M, Bulgari , the Belgraves a Thompson Hotel, Aloft, ME by Melia and the prestigious Shangri-La at the Shard.

See the map for some of these hotels. By the time we publish this forecast some hotels may have moved from under construction to the open category or perhaps have been delayed. We apologise if we have missed you off the map or put you in the wrong place!

2012 will see the opening of 5,000 new rooms above the long-term average

New hotels galore



Recently opened

2010 & 2011
Travelodge
Renaissance St Pancras
Indigo Tower Hill
Mint
Premier Inn Hangar Lane
Costello Palace
Eurotraveller
Holiday Inn Express Heathrow
Waldorf Astoria
Park Plaza
The Tune
Holiday Inn Express Stratford
Forestgate
H10 Waterloo
Travelodge Waterloo
Town House
Verta
Pestana
Four Seasons
W Hotel
St John Hotel
Corinthia London
St Ermins
The Savoy

Under construction

2011 opening	2012 opening	
45 Park Lane	Travelodge Cricklewood	Travelodge Stratford
London Edition	Travelodge Sidcup	Travelodge Twickenham
InterContinental	Hilton Wembley stadium	Travelodge Teddington
Ecclestone Sq	Travelodge Bromley	Premier Inn Richmond
Park Inn Excel	Great Northern Kings X	Shangri-La at the Shard
Adria Hotel	Apex Temple Court	Citizen M
The Belgraves	Indigo	Hilton Southwark
Premier Inn Islington	Hampton by Hilton	Premier Inn Southwark
Hilton Heathrow	Premier Inn Ealing	Staybridge Suites Stratford City
Holiday Inn Express Greenwich	Travelodge Edmonton	Holiday inn Stratford City
Travelodge City	Travelodge Greenwich	Manchester Square Hotel
Aloft	Holiday Inn Express Earls Court	The Wellesley
	Ibis West Kensington	ME by Melia
	Premier Inn Hillingdon	Quadrant
	South Place Islington	Firmdale
	Kensington Close (ext)	Bulgari
	Premier Inn Waterloo	The Brewery
	Premier Inn Stratford	Trocadero
	Yorkshire Grey	Balderton Road Boutique Hotel
	Travelodge Balham	Premier Inn Leicester Sq

Source: Visit London and PwC August 2011

Appendices and complete forecast tables

Appendix 1

Annual hotel statistics for London, provinces and UK 2005 – 2012

London

	Actuals						Forecast			
	2005	2006	2007	2008	2009	2010	2011	2012		
								low	mid	high
Occupancy %	73.9	80.0	80.6	79.3	80.8	83.0	82.3	83.6	83.6	83.6
ADR (£)	98.26	105.03	116.86	122.31	113.67	123.44	134.45	133.15	135.55	142.15
RevPAR (£)	72.64	84.22	94.25	97.14	92.00	102.62	110.90	111.83	114.03	120.10
% growth on previous year										
Occupancy	-1.9%	8.4%	0.7%	-1.6%	1.9%	2.7%	-0.8%	1.7%	1.7%	1.7%
ADR	2.7%	6.9%	11.3%	4.7%	-7.1%	8.6%	8.9%	-1.0%	0.8%	5.7%
RevPAR	0.8%	15.9%	11.9%	3.1%	-5.3%	11.5%	8.1%	0.8%	2.8%	8.3%

Provinces

	2005	2006	2007	2008	2009	2010	2011	2012
Occupancy %	69.7	70.2	70.2	67.7	65.9	69.7	71.6	72.7
ADR (£)	62.10	63.39	65.46	66.28	59.75	58.70	58.79	60.22
RevPAR (£)	43.36	44.53	46.01	44.93	39.39	40.97	42.18	43.95
% growth on previous year								
Occupancy	0.1%	0.6%	0.1%	-3.6%	-2.6%	5.7%	2.8%	1.5%
ADR	4.2%	2.1%	3.3%	1.3%	-9.8%	-1.8%	0.2%	2.4%
RevPAR	4.4%	2.7%	3.3%	-2.3%	-12.3%	4.0%	3.0%	4.2%

UK

	2005	2006	2007	2008	2009	2010	2011	2012		
								low	mid	high
Occupancy %	70.8	72.7	72.9	70.7	69.8	73.1	74.4	75.6	75.6	75.6
ADR (£)	72.97	75.90	80.91	83.12	75.95	78.16	81.53	82.14	82.86	84.84
RevPAR (£)	51.72	55.29	59.03	58.86	53.03	57.25	60.79	62.31	62.92	64.59
% growth on previous year										
Occupancy	-0.4%	2.7%	0.2%	-3.0%	-1.3%	4.8%	1.7%	1.6%	1.6%	1.6%
ADR	3.5%	4.0%	6.6%	2.7%	-8.6%	2.9%	4.3%	0.7%	1.6%	4.1%
RevPAR	3.2%	6.9%	6.8%	-0.3%	-9.9%	8.0%	6.2%	2.5%	3.5%	6.2%

Source: Econometric Forecast: PwC August 2011
Benchmarking data STR Global August 2011

NB: STR Global sample changes from 2010 have impacted provincial performance data in particular, depressing ADR and raising occupancy

Appendix 2

Quarterly hotel statistics for London, provinces and UK 2010Q1 – 2012Q4

London

	Actuals						Forecast							
	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q3	2012Q3	2012Q4
											low	mid	high	
Occupancy%	76.8	83.5	88.4	83.1	75.8	85.2	86.7	81.4	76.0	83.6	**91.9**	**91.9**	**91.9**	83.0
ADR (£)	112.17	122.27	126.42	132.90	121.29	140.70	138.00	137.80	123.79	131.47	**146.60**	**156.20**	**182.58**	130.75
RevPAR (£)	86.16	102.09	111.75	110.49	91.88	119.89	119.65	112.18	94.13	109.88	**134.78**	**143.60**	**167.86**	108.51
% growth on previous year														
Occupancy	6.4%	1.5%	3.3%	-0.2%	-1.4%	2.1%	-1.9%	-2.1%	0.4%	-1.9%	**6.0%**	**6.0%**	**6.0%**	2.0%
ADR	3.4%	8.1%	12.2%	10.4%	8.1%	15.1%	9.2%	3.7%	2.1%	-6.6%	**6.2%**	**13.2%**	**32.3%**	-5.1%
RevPAR	10.1%	9.7%	15.9%	10.2%	6.6%	17.4%	7.1%	1.5%	2.5%	-8.4%	**12.6%**	**20.0%**	**40.3%**	-3.3%

Provinces

	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4
Occupancy%	62.0	72.0	76.9	67.8	62.9	73.9	79.2	70.5	64.5	74.3	**81.8**	70.4
ADR (£)	56.63	59.01	60.45	58.71	56.83	58.86	60.50	58.98	57.22	59.40	**64.23**	60.04
RevPAR (£)	35.09	42.47	46.51	39.79	35.76	43.47	47.92	41.58	36.90	44.12	**52.53**	42.25
% growth on previous year												
Occupancy	5.9%	8.0%	5.8%	2.9%	1.5%	2.6%	2.9%	4.0%	2.5%	0.6%	**3.3%**	-0.2%
ADR	-6.0%	-2.4%	0.8%	0.8%	0.3%	-0.3%	0.1%	0.5%	0.7%	0.9%	**6.2%**	1.8%
RevPAR	-0.5%	5.4%	6.6%	3.7%	1.9%	2.4%	3.0%	4.5%	3.2%	1.5%	**9.6%**	1.6%

UK

	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q3	2012Q3	2012Q4
											low	mid	high	
Occupancy%	65.8	75.0	79.9	71.8	66.3	76.8	81.1	73.3	68.5	76.7	**84.4**	**84.4**	**84.4**	73.6
ADR (£)	73.32	78.02	80.27	81.01	76.20	83.45	83.79	82.67	77.22	81.06	**88.98**	**91.87**	**99.80**	81.29
RevPAR (£)	48.26	58.48	64.14	58.12	50.48	64.09	67.99	60.61	52.11	62.16	**75.11**	**77.55**	**84.24**	59.86
% growth on previous year														
Occupancy	6.1%	6.0%	5.1%	2.0%	0.7%	2.5%	1.5%	2.2%	1.9%	-0.1%	**4.0%**	**4.0%**	**4.0%**	0.4%
ADR	-1.9%	2.3%	5.9%	5.3%	3.9%	7.0%	4.4%	2.1%	1.3%	-2.9%	**6.2%**	**9.6%**	**19.1%**	-1.7%
RevPAR	4.1%	8.4%	11.2%	7.4%	4.6%	9.6%	6.0%	4.3%	3.2%	-3.0%	**10.5%**	**14.1%**	**23.9%**	-1.2%

Source: Econometric Forecast: PwC August 2011
Benchmarking data STR Global August 2011
NB: STR Global sample changes from Q1 2010 have impacted data provincial performance in particular, depressing ADR and raising occupancy

Appendix 3

PwC hotel model GDP and inflation assumptions

PwC hotel forecasting model GDP and inflation assumptions (% growth on previous year)

	2008	2009	2010	2011	2012
UK GDP growth	-0.1%	-4.9%	1.4%	1.2%	1.9%
UK Inflation	3.6%	2.2%	3.3%	4.2%	2.6%

Source: PwC August 2011

Appendix 4

Methodology for PwC hotel forecasts

This section outlines in more detail the PwC model used to forecast hotel occupancy, average room rate (ADR) and revenue per available room (RevPAR).

Econometric model

The econometric model used was an updated version of the model used in March's Hospitality Directions forecast and was based on a Vector Autoregression (VAR) framework. This type of model was chosen because it allows for interaction between occupancy and average room rates, as we observe in the market. The VAR uses occupancy rate growth and real ADR growth as dependent variables, while the explanatory variables include lags of both the dependant variables and a set of macroeconomic explanatory variables.

Data

The model is based on data from STR Global for the period January 2000 – June 2011, containing monthly benchmarking data on occupancy, ADR and RevPAR. We averaged this data to create a quarterly series.

Macroeconomic data is tested for the UK, US and Europe, as these regions comprise the main demand flows into the UK.

The model also incorporates some dummy variables. We included quarterly dummies to control for the strong seasonality of the data. Terrorism dummies were included to account for the affects of 09/11 and 07/07 on the UK hotel industry, while the provinces (UK less London) model includes a pre-Q2 2003 dummy to account for data irregularities in the early part of the sample.

Final specifications

The final specifications for the London and provinces models were chosen according to which variables exerted a statistically significant influence on the dependant variables. This means different macroeconomic variables were included in the two models, with that for London including more international drivers. The optimal lag length (amount of lags of ADR and occupancy included in the model) was one quarter in the case of London and three quarters in the case of the provinces. The table below gives the dependant and explanatory variables for the final specifications of the London and provinces models.

Forecasts

We used the model to generate forecasts through to Q4 2012. The forecasts were run separately for London and the provinces, with forecasts for the UK constructed from a weighted average of these two regional forecasts.

PwC's in-house forecasts of the macroeconomic variables were used to drive the hotel forecasts.

Supply overlay

In the run-up to the Olympics, a large amount of additional supply is coming online in London. To understand the effect of this supply on room occupancy and rates, we used data from London &

Final specifications of the London and provinces models

London model		Provinces model	
Dependant variables	Occupancy rate growth	Dependant variables	Occupancy rate growth
	Real ARR growth		Real ARR growth
Explanatory variables	1 quarter lagged occupancy rate growth	Explanatory variables	1, 2 and 3 quarter lags of occupancy rate growth
	1 quarter lagged ARR growth		1, 2 and 3 quarter lags ARR growth
	Quarterly dummies		Quarterly dummies
	Terrorism dummy for 9/11		Terrorism dummy for 07/07
	Terrorism dummy for 07/07		Pre Q2 2003 dummy
	GDP growth weighted by guests in London hotels		UK GDP growth
	1 quarter lagged dollar/pound exchange rate growth		3 quarter lagged UK unemployment rate change
	US unemployment rate change		UK investment growth

Source PwC August 2011

Partners' Hotel Development Monitor to ascertain the number of new hotel rooms likely to be opened in 2011 and 2012. We included all hotels that were labelled as under construction, and assumed 75% of those planned to open in the next two years (but not currently under construction) are built and opened within that time period.

We have made two adjustments to the supply data. First, the London Development Monitor's figures for new supply are higher than in the STR data used in our model, due to the sample sizes being slightly different. We have adjusted the supply figures down to account for this discrepancy.

Second, the econometric model already accounts for normal supply increases over time, so the overlay should only include the affect of additional new supply. We have therefore subtracted the average number of new rooms that entered STR Global's sample between 2000 and 2010. These two modification means we are just capturing the additional new supply and that the data is equivalent to that in our econometric model.

Following the adjustments, our estimates of excess supply for the next two years were:

2011: 2,300 new rooms above the average increase

2012: 5,000 new rooms above the average increase

The additional new rooms in 2011 are predicted to come on line evenly across the year. The excess rooms in 2012 are assumed to come on line evenly in the months leading up to the Olympics. The impact of the supply changes (shown above) on ADR and occupancy can be used to augment our baseline forecasts from the VAR model. We have used the coefficients of the model to estimate the impact of the additional supply in each quarter. This has been included in the scenarios in this report, as new supply is expected to be a key driver of ADR and occupancy rates in the next two years and because we now know with more certainty the number of hotel rooms that is likely to be built.

Olympics overlay

The effect of the Olympics on London hotels is dependent on both the number of visitors that come to the city for the Games and the amount of displacement that occurs (i.e. people who avoid London due to the Games). The net number of visitors that will come to the city cannot be accurately known and pre-Games estimates have historically overestimated the number of people that will attend. In light of these uncertainties we have modelled three different scenarios.

The first scenario is based on Oxford Economics and Visit London's 2007 report,[9] which predicts 908,440 overnight visitors for the Olympics. The other two scenarios are based on the Athens and Barcelona Olympics, where 660,000 and 450,000 overnight visitors attended respectively[10]. The Oxford Economics figure was adjusted down to account for expected displacement, as assessed in that report. In the Athens and Barcelona Olympic scenarios, we assume the same numbers of additional visitors come to London as attended those Olympics, so these figures are also net of displacement. In our forecasts, the scenarios will be referred to as the high, mid and low scenarios.

The visitor numbers can be converted into total additional accommodation demand by using the average number of nights a guest will stay and how many guests stay on average in each room. The Athens and Barcelona figures are based on actual data from hotels in those cities during the Olympics. The Oxford Economics report expected people to stay for an average of eight nights, which is more than double the figure for the last three Olympic Games. These calculations lead to an estimate of the extra room nights (in 000's) demanded in the Olympic period.

High: 3,400

Mid: 1,800

Low: 1,200

The extra demand will not be solely for hotels, as some people will choose to stay in bed and breakfast accommodation (B&Bs) or university accommodation. To adjust the demand to account for other kinds of rooms, we accounted for the proportion of total London room supply that is hotel rooms, B&B, and available university rooms.

In each of the three scenarios we modelled, total demand is expected to exceed total supply of hotel rooms. We have assumed that other sources of demand enter the market at this point, such as Londoners letting their flats and temporary campsites. The coefficients from the econometric model can then be used to estimate the effect of the demand shock on the average ADR and occupancy rates of London hotels available on the open market during the Olympic period.

The London Organising Committee of the Olympic Games and Paralympics Games (LOCOG) have already secured approximately 50,000 rooms (of which roughly 75% are hotel rooms) at a pre-agreed price. Our estimates of ADR and Occupancy during the Olympic period are a weighted average of the LOCOG rooms and rooms available on the open market.

The forecasts for the third quarter of 2012 are calculated as a weighted average of the occupancy and the ADR within the Olympic period and outside of it. The baseline used for the part of the third quarter that falls outside the Olympic period was the output of the econometric model and the supply overlay.

9 The value of the London 2012 Olympic and Paralympic Games to UK tourism, September 2007. Study carried out by Oxford Economics and jointly commissioned by VisitBritain and Visit London.

10 Visitor numbers taken from report referenced in the footnote above.

Appendix 5

Glossary of terms used in this forecast

ARR or ADR – Average Daily Room Rate

The average price a room is sold for in a hotel or group of hotels taking in to account only rooms let. Room revenue divided by rooms sold

RevPAR - Revenue Per Available Room

Room revenue divided by rooms available (occupancy times average room rate will closely approximate to RevPAR). Also known as yield.

Occupancy

The percentage of available rooms that have been sold over any given period. Rooms sold divided by rooms available

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Publication title	*Description*	*Website address*
Hospitality Directions US	Quarterly forecast and analysis of hotel performance, key issues and trends in the US lodging sector	www.pwc.com/hospitality
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