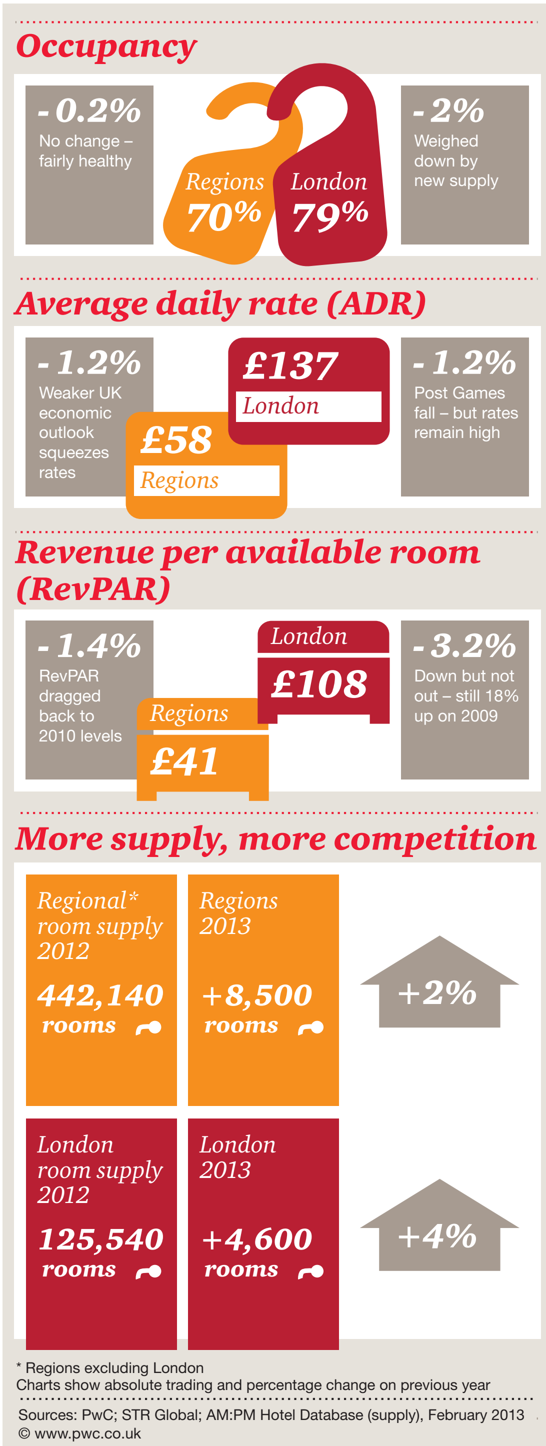
UK hotels forecast 2013 update

A challenging year ahead for hoteliers



This updated UK hotels forecast reflects our latest thinking on hotel performance in 2013, with the outlook now impacted by weaker UK economic prospects but also supported by a weaker pound. While we still anticipate overall trading declines in 2013, these falls are less sharp for London but more unfavourable for the provinces than we predicted in November. The revised forecast expects UK hotels to continue to struggle to overcome the impact of weaker demand at home and in major inbound markets. This will be driven by: the eurozone crisis; continued cuts in the public sector; an unrelenting squeeze on household incomes and confidence, and further above average supply additions in London and some other UK cities.

Our forecast is now underpinned by much weaker GDP growth expectations for 2013 of around 1% and which is expected to result in an overall 2% decline in UK RevPAR, the hotel trade's crucial benchmark, taking RevPAR to just under £60. While occupancy is expected to fall by only 0.7% to average around 72%, ADR could fall by 1.2% to just under £82. These averages conceal London's star qualities and a more lacklustre performance across diverse provincial locations. (See Table 1)

The year hasn't kicked off well and STR Global data for January shows a UK RevPAR decline of 2.5%, driven by a particularly weak performance in London.

London: new supply is expected to shave two percentage points off occupancy in 2013

As a leading global city, London continues to outshine most European cities, with strong trading fundamentals supported by around 15 million annual international tourist visits and 11 million domestic visits. London's star qualities mean it can attract visitors from all around the world, including those from emerging markets whose economies continue to prosper.

So what sort of a year will 2013 turn out to be? Only a modest increase in tourist visits is expected in 2013 but business visits should be a bright spot as travellers who changed their travel plans because of the Olympics, return this year.[1] In addition, tour operators are expected to have put London back in their programmes for 2013, after reportedly leaving the capital out in 2012. A weak pound could also be advantageous to UK tourism and PwC research confirms European consumers cite holidays as their key spending priority this year. On the other hand, lower GDP growth expectations both here and in our major inbound markets is a strong negative, as is the squeeze on consumer incomes; fare increases could also thwart travel intentions. Some tough comparisons with the Olympics in Q3 are also likely to challenge growth rates.

As a result we expect a year of overall occupancy and rate declines, albeit not as steep as we envisaged in November 2012. In the end 2012 turned out well even though Q4 was much weaker than we expected with, surprisingly, ADR falling 2.1% according to data from STR Global. Hoteliers appear to have traded down on rates to boost occupancy.

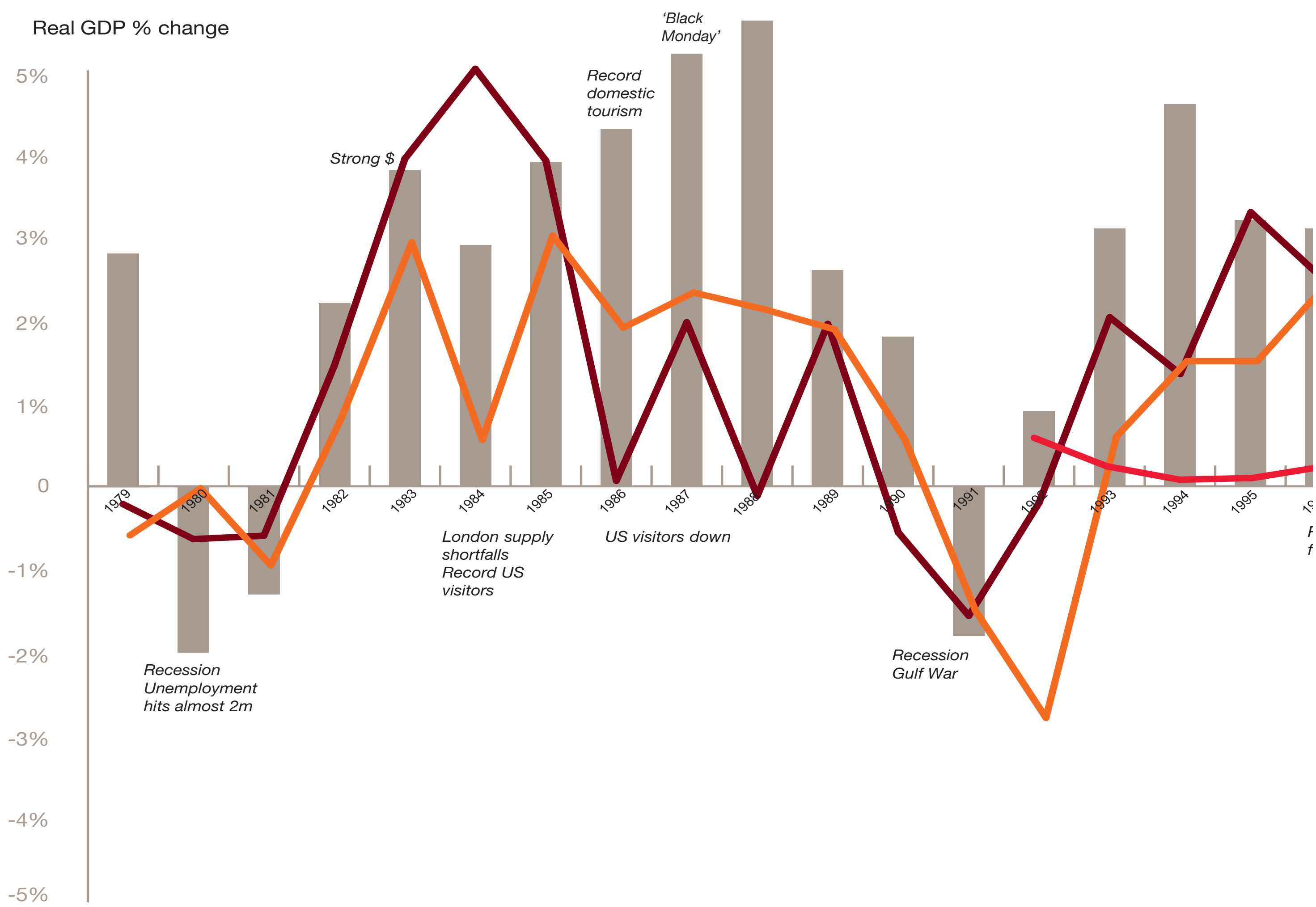
If we look back further though, average room rates have grown every year since 2003 with the exception of 2009 and, despite the forecast decline this year, will likely end up £23 above 2009 levels. We anticipate ADR will decline by -1.2% in 2013 but with rates averaging almost £137 this remains high by any city standard. Occupancy is expected to fall by 2.0 percentage points to 79% in 2013 making a third year of decline. This partly reflects the steep 6.5% (7,700 rooms) increase in hotel rooms in the capital in 2012, with a further 4,600 rooms set to open this year. A more affordable London is good news for travellers and will help the city capitalise on the positive media spotlight that shone in 2012. RevPAR is expected to end the year at just under £108, 3.2% below 2012 levels but still 18% higher than 2009.

See Tables 1 and 2 and Chart 1 which adds a historical perspective to the trading ups and downs as well as the interaction of London supply growth since 1992.

1 London & Partners

Chart 1. UK hotels: ups and downs

London supply interaction and forecast for 2013



Source: Econometric forecasts: PwC February 2013 Macroeconomic data: National Statistics Benchmarking data: TRI Hospitality Consulting and STR Global; Supply data PwC and AM:PM database

Provinces: Strong finish to 2012 but weaker economic prospects will make the going tougher in 2013

Outside London, provincial hotels experienced little benefit from the Olympics but saw quite a strong finish to 2012 which boosted overall annual ADR growth by almost 1%. Despite our hopes that the regions as a whole might have turned a corner on rates in 2012, we can't see this pace of growth continuing into 2013, mainly because demand outside London is tied more closely to UK economic growth and weaker UK GDP expectations are likely to dampen performance. Public sector cutbacks are also likely to continue to squeeze demand. Although travel volumes are forecast to enjoy 3% growth in 2013, boosting visits to 32 million which should help some cities achieve a bounce back in 2013, we still don't think this will make a substantial difference to performance in the regions. Domestic tourism faces a challenging 2013. With 2012 having been the second wettest year on record, demand for holidays outside the UK this year is likely to be boosted as travellers look for guaranteed sunshine. In terms of supply, some centres in the provinces continue to see new supply additions as well as sizeable pipelines (around 8,500 rooms are in the UK pipeline in 2013). Cities with large pipelines include Birmingham, Newcastle, Bath and Liverpool. It's likely these new products will make for an even more competitive environment and challenge older hotels.

2012's robust finish means we are starting our forecast from a stronger Q4 2012 and so the latest absolute numbers for 2013 are actually a little stronger than in our last forecast – even though the percentage declines are steeper than previously predicted. We now anticipate only a marginal occupancy decline in the provinces leaving occupancy at a fairly healthy 70%, the same as in 2012. However, an expected 1.2% decline in ADR will take average rates to over £58 and will drag RevPAR down by 1.4%, to £40.57 – virtually the same level as in 2010.

See Tables 1 and 2 and Chart 1

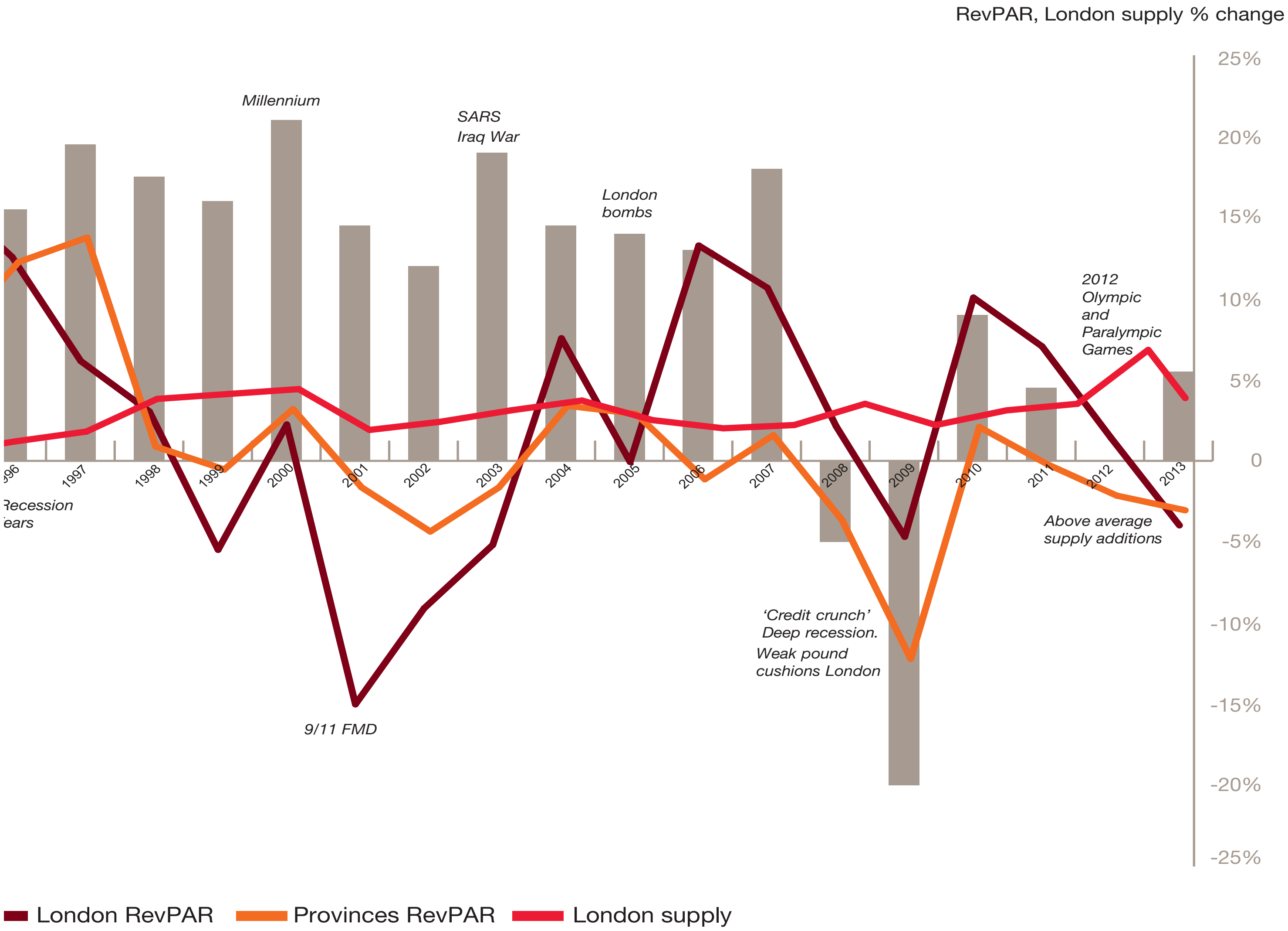


Table 1: UK hotels forecast: how trading could change in 2013

	London		Provinces		UK	
	2012	2013	2012	2013	2012	2013
Occupancy%	81%	79%	70%	70%	73%	72%
ADR (£)	138.28	136.62	58.89	58.21	82.75	81.77
RevPAR (£)	111.34	107.75	41.13	40.57	60.31	59.11
% growth on previous year						
Occupancy	(1.9%)	(2.0%)	(1.5%)	(0.2%)	(1.6%)	(0.7%)
ADR	4.1%	(1.2%)	0.9%	(1.2%)	2.5%	(1.2%)
RevPAR	2.2%	(3.2%)	(0.5%)	(1.4%)	1.0%	(2.0%)

Econometric Forecasts: PwC February 2013
Benchmarking Data: STR Global February 2013

Table 2: Annual hotel statistics for London, provinces and UK 2008-2013 (forecast)

London	Actuals					Forecast
	2008	2009	2010	2011	2012	2013
Occupancy%	80%	80%	82%	82%	81%	79%
ADR (£)	119.40	113.42	122.88	132.81	138.28	136.62
Revenue per Room (£)	94.92	91.22	101.10	108.97	111.34	107.75
% change on the previous year						
Occupancy	(1.6%)	1.2%	2.3%	(0.3%)	(1.9%)	(2.0%)
ADR	4.6%	(5.0%)	8.3%	8.1%	4.1%	(1.2%)
RevPAR	2.9%	(3.9%)	10.8%	7.8%	2.2%	(3.2%)
Provinces	Actuals					Forecast
Occupancy%	69%	66%	69%	71%	70%	70%
ADR (£)	64.07	59.75	58.73	58.35	58.89	58.21
Revenue per Room (£)	43.96	39.32	40.80	41.36	41.13	40.57
% change on the previous year						
Occupancy	(3.5%)	(4.1%)	5.5%	2.0%	(1.5%)	(0.2%)
ADR	1.6%	(6.7%)	(1.7%)	(0.7%)	0.9%	(1.2%)
RevPAR	(2.0%)	(10.5%)	3.7%	1.4%	(0.5%)	(1.4%)
UK	Actuals					Forecast
Occupancy%	71%	70%	73%	74%	73%	72%
ADR (£	80.69	75.88	78.01	80.72	82.75	81.77
Revenue per Room (£)	57.72	52.84	56.89	59.70	60.31	59.11
% change on the previous year						
Occupancy	(2.9%)	(2.6%)	4.6%	1.4%	(1.6%)	(0.7%)
ADR	2.9%	(6.0%)	2.8%	3.5%	2.5%	(1.2%)
RevPAR	(0.1%)	(8.5%)	7.7%	4.9%	1.0%	(2.0%)

Econometric Forecasts: PwC February 2013
Benchmarking Data: STR Global February 2013

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