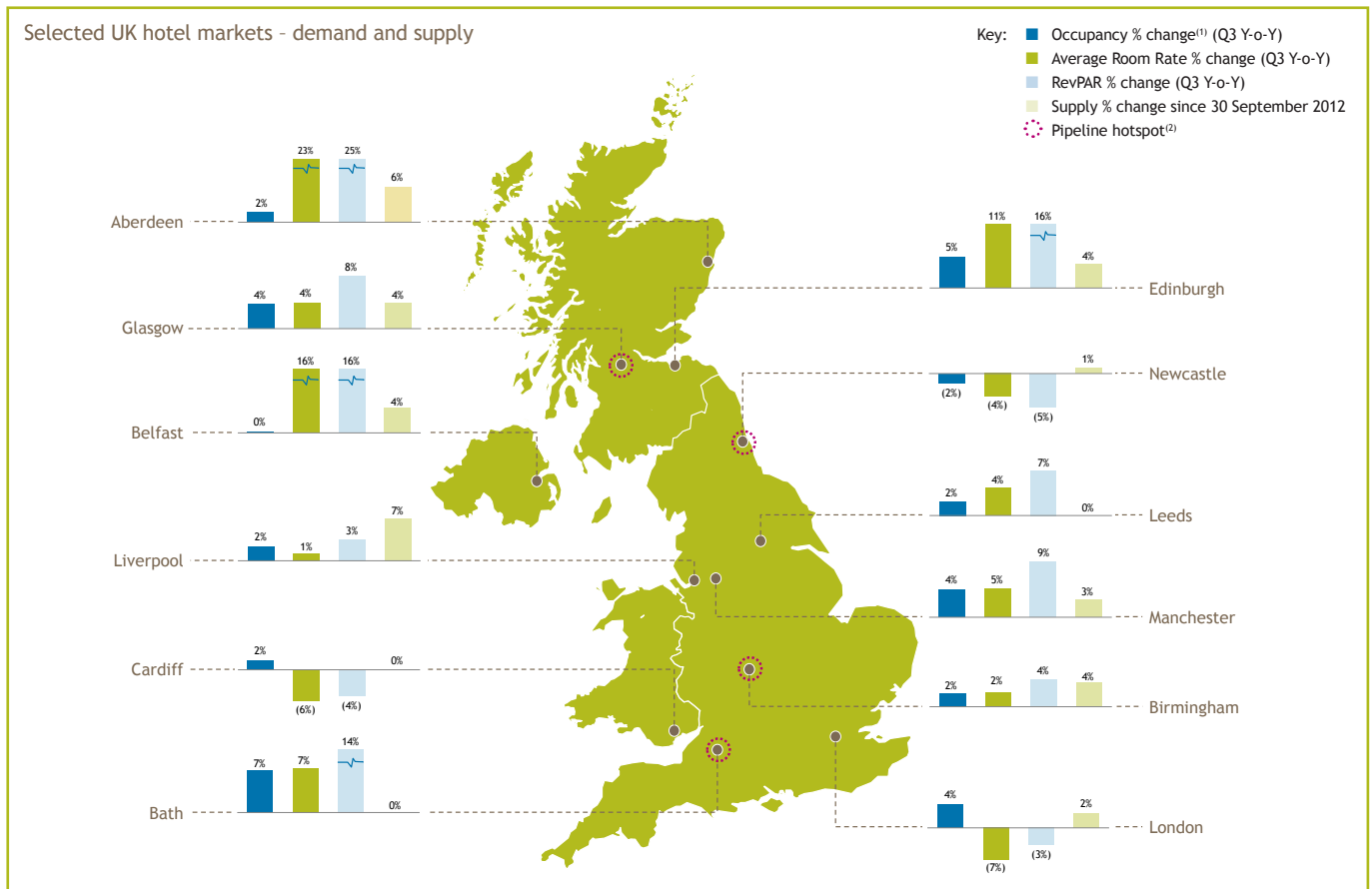


Hotel Bulletin: Q3 2013

Regional performance growth in Q3 2013 was very encouraging. Outside of London, an average RevPAR increase of 8% was recorded and all but two cities reviewed recorded RevPAR gains. This follows a strong H1 2013 and, most importantly, revenue growth is being converted into profit with regional profit up 3% on a last twelve month basis.



Source: AM:PM, HotStats

Note: Q3 covers the three months to the end of September 2013

Q3 Y-o-Y compares the average of Q3 2013 to the average of Q3 2012

Supply and pipeline information based on numbers of hotel bedrooms

(1) Occupancy percentage change represents actual rather than absolute percentage change

(2) Pipeline hotspots are cities with an active pipeline greater than 10%. Active pipeline refers to hotels with an opening date in the next three years

Key highlights

London robust, regions growing

Q3 2013 RevPAR in London decreased by only 3% compared to the Q3 2012 Olympic quarter. The story in London is encouraging as demand has grown at a greater rate than supply and it is only average rates that have failed to match the one-off levels seen during the Olympics.

Regional performance has again been strong in Q3 2013. The cities reviewed recorded an average 8% RevPAR increase in Q3 2013, which is significantly higher than any quarter since the downturn. More significantly, profit has increased in each of the last six months on a last twelve months basis. Four cities recorded double digit RevPAR increases, including perennial performance star Aberdeen.

Newcastle is the only city reviewed which has recorded RevPAR decline in each of the last two quarters.

International tourist growth following the 2012 Olympics

In contrast to the slumps in tourist volumes noted in other host cities, there are early signs of hotel performance throughout the UK benefitting from the worldwide exposure created by the Olympics.

A steady increase in the number of tourists visiting the UK was temporarily halted in summer 2012, where non-games visitors appear to have avoided the UK, perhaps due to high prices and perceived tourist congestion. Since the Olympics, however, overseas visitor numbers stabilised and have then accelerated through the summer.

Fine weather in the summer of 2013 bolstered domestic tourism which, when coupled with enhanced international demand, resulted in performance in tourist trail locations improving significantly over 2011 and 2012.

Demand commentary

Significant and sustained performance improvement

Against a successful period that coincided with the 2012 Olympics, London's RevPAR decreased by only 3% in Q3 2013. Encouragingly, demand in the capital has grown at a greater rate than supply and it is only average room rates that have fallen below the one-off levels recorded during the games. It should also be noted that RevPAR in September 2013 increased by 9% compared to September 2012.

In the regions, Q3 2013 performance has been strong with the exception of Cardiff and Newcastle. Cardiff's RevPAR decreased by 4%, largely due to strong comparators in the previous year driven by a number of Olympic football matches being held at the Millennium Stadium. Newcastle's recent poor performance continued with a RevPAR decrease of 5% as hoteliers in the city suffer from both weak demand and increased supply.

Aberdeen, Bath, Belfast, Edinburgh recorded double digit RevPAR increases in Q3 2013. Bath and Edinburgh's RevPAR has recovered since the Olympics, as discussed later in this bulletin.

Aberdeen's prolonged oil and gas driven uptick has historically been driven by increasing occupancy. Despite record-occupancy levels beginning to plateau, the city continues to achieve rate-driven RevPAR gains.

Belfast's RevPAR increased by 16% in Q3 2013 driven entirely by improved rate. Before the recent opening of the 146 bedroom Etap Belfast, a hotel had not opened in the city since November 2010. Limited new supply and continued development in the city has allowed for this rate driven improvement.

Overall, regional income before fixed charges PAR has increased on a last twelve month basis in each of the last six months. This trend will provide relief for regional hoteliers and generate confidence going into the important corporate bookings season. The most encouraging fact about recent regional performance is that improvements have been quite broad based. This is in contrast with only pockets of good performance recorded in recent years.

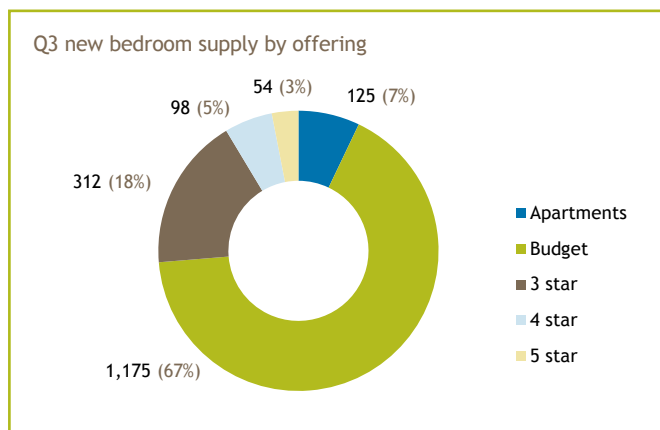
Supply commentary

Budget sector continues to dominate new openings

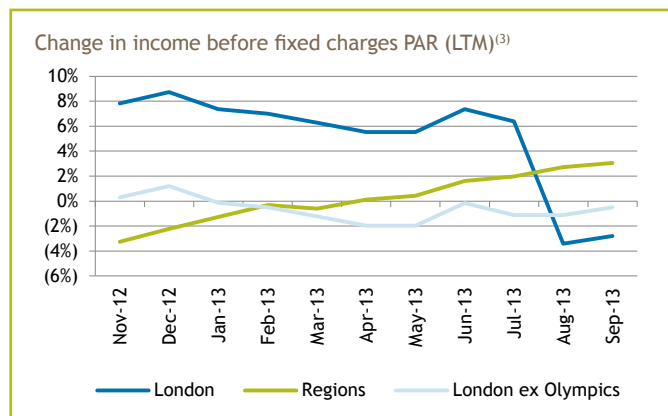
New openings remained subdued in Q3 2013 compared to the previous year with 1,764 bedrooms opening in comparison to 4,057 bedrooms in Q3 2012. Premier Inn continued their expansion by opening 534 bedrooms in the quarter. Budget and limited service continue to be favoured by developers, as highlighted by these offerings accounting for 67% of total new openings in the quarter.

Notable openings in the third quarter include:

- The 63 apartment SACO Manchester Piccadilly and the 40 apartment Central Point in Basingstoke. These continue a trend of aparthotel openings, as investors react to encouraging performance and the comparatively low supply in this niche area.
- Redefine BDL Hotels opened the 100 bedroom Moorfield Hotel in Brae, which is said to be guaranteed at least 80% occupancy for seven years by French oil company Total. The new hotel is Shetland's largest and the first major opening on the island in 30 years.
- The 194 bedroom Courtyard by Marriott and the 100 bedroom Premier Inn opened at Aberdeen Airport. These are the first new openings in Aberdeen since July 2011 and follow excellent hotel performance in the city in recent years.

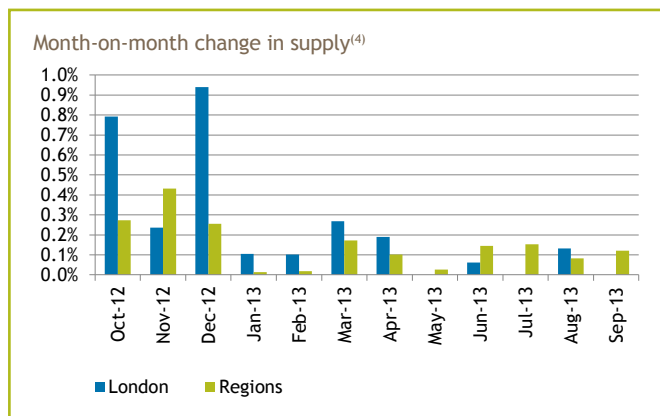


Source: AM:PM



Source: HVS, HotStats

Note: (3) Graph shows rolling 12 month average of monthly year-on-year IBFC PAR (ex Olympics data assumes 0% Y-o-Y growth in August 2012 and 2013)



Source: AM:PM

Note: (4) Graph shows supply compared with the previous month

In the pipeline

Developers avoiding the three star market

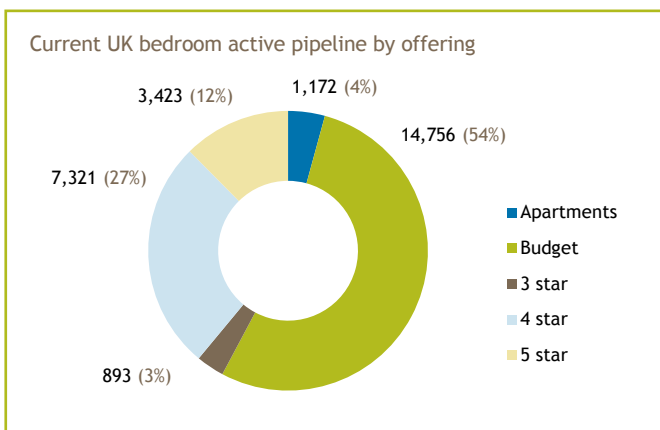
There are 27,565 bedrooms in the active pipeline, the majority of which are in the budget sector (54%). Development projects on the three star market continue to decline, with only 3% of the active pipeline in this space. Investors appear to favour either four star, full service or budget, limited service hotels.

Of the cities reviewed, Newcastle (16%), Glasgow (14%), Bath (12%) and Birmingham (12%) have active pipelines above 10% of their current supply.

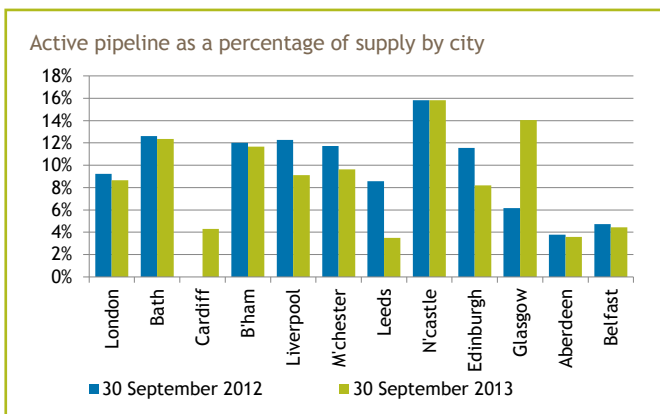
Active pipeline in the cities reviewed has generally decreased since September 2012 with the exception of Cardiff and most notably Glasgow, where active pipeline has increased from 6% to 14% in preparation for the 2014 Commonwealth Games.

Notable assets in the pipeline include:

- A trio of hotels in Gatwick, namely the 245 bedroom Bloc Gatwick, the 192 bedroom Hampton by Hilton London Gatwick and the 110 bedroom Travelodge Crawley Central which are all due to open in 2014.
- The 99 bedroom five star Gainsborough Bath Spa, which will operate under the Leading Hotels of the World brand. The property will be the only hotel in the UK offering a natural thermal spa.



Source: AM:PM



Source: AM:PM

Note: The pipelines above only include developments with a confirmed opening date in the next three years

Transactions

Limited transactions but valuations improving

In Q3 2013, US based Interstate Hotels & Resorts announced the acquisition of Chardon Management, a leading independent UK hotel management company. This follows its acquisition of Sanguine in March 2013 and brings Interstate's portfolio to over 5,000 bedrooms in the UK. The deal creates a significant management platform with international presence that will compete head-on with Redefine BDL who currently manage over 6,400 rooms in the UK.

Notable single asset transactions in the third quarter include:

- The 93 bedroom Travelodge Winnersh and the 408 bedroom Travelodge London King's Cross Royal Scot were acquired for respective yields of 6.5% and 5.5%.
- A UK based investor has acquired the majority of the freehold at the 163 bedroom Metropolitan by COMO on Park Lane for an estimated price in excess of £40 million. The deal includes 102 bedrooms in the hotel, Nobu restaurant, Colony Casino and private apartments. The split freehold highlights the compromise that investors are prepared to make to acquire prime assets in locations such as Park Lane.

As performance improves and the pool of investors considering assets outside of London increases, due to low yields in the capital, it is likely that valuations of good quality, regional assets will improve in the future. However, we may experience increasing polarisation between the well-invested and weak, tired assets.

Overall transaction values in 2013 are forecast to surpass each year since 2007. This has, however, been primarily driven by high value portfolio sales at the beginning of 2013 as a relative shortage of higher value assets on the market is currently suppressing activity levels.

Bank funding in the third quarter

Continued improvement in availability

Bank funding is now relatively accessible for hoteliers in both primary or secondary sites in the UK, but is still proving difficult to obtain for less prime assets.

Notable examples of funding in this quarter include:

- Orient Express Hotels, the luxury hospitality and rail group, has agreed a £26 million refinancing package for two of its European properties including Raymond Blanc's Le Manoir aux Quat'Saisons in Oxfordshire. The facility was provided by Barclays.
- Debt funding for the newly opened Moorfield Hotel in Brae was provided by Royal Bank of Scotland Corporate and Institutional Banking.

Development capital is still challenging to secure but certain lenders are beginning to examine more robust opportunities.

Source: AM:PM, Mergermarket, Barclays press release

Q3 Focus: Olympic legacy

Overseas tourist growth following 2012 Olympics

In recent years, the UK has enjoyed a steady increase in the number of tourists visiting its shores. In the 12 months to May 2012, for example, tourists entering the UK increased by 3% to 31.4 million according to ONS data.

During July and August 2012 there was an influx of tourists arriving to see the Olympics; however total inbound tourists decreased as many non-games visitors were put off, perhaps by the perception of tourist congestion and inflated prices. Some overseas tour groups apparently even took a one-year sabbatical from visiting London.

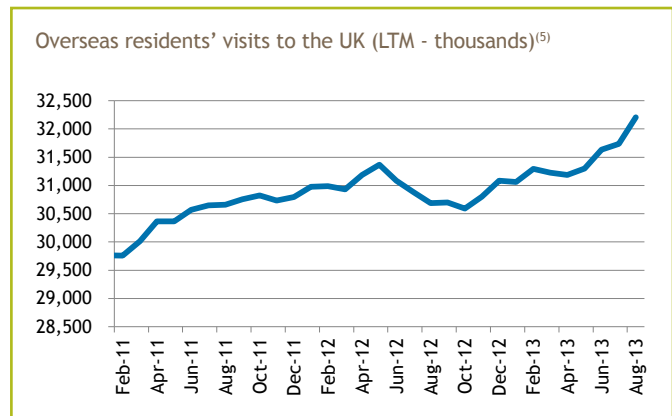
Following the Olympics, inbound tourist numbers stabilised before accelerating through the summer. Given the post-Olympic slumps experienced in other host cities, it is encouraging that visitor numbers to London and the UK as a whole appear to be flourishing.

Tourist trail rebounds in 2013

We have analysed RevPAR performance in certain key tourist destination cities for July and August between 2011, 2012 and 2013. As expected, there is a significant difference in performance trends between London and the other cities reviewed.

As expected, London failed to match its Olympic performance in 2013 (being 9% down on 2012) but it did demonstrate growth of 6% over 2011.

Outside of London, the fall in overseas visitors in July and August 2012 coincided with a decline in performance in Bath, Edinburgh and Stratford-upon-Avon.



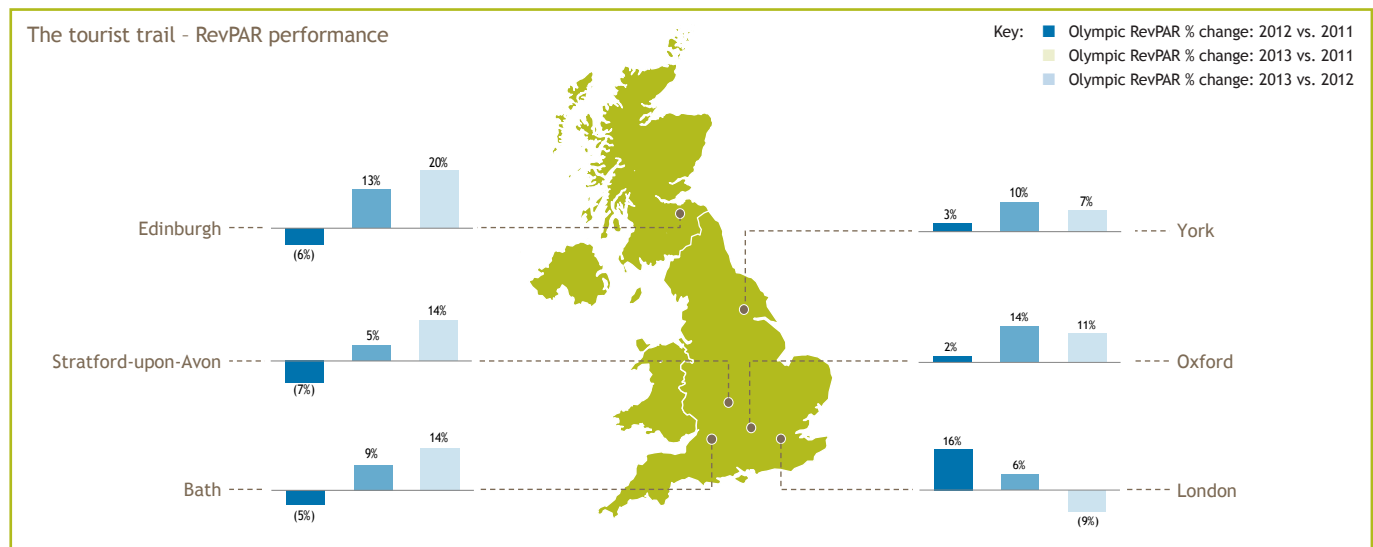
Source: Office for National Statistics

Note: (5) Graph shows rolling 12 month total overseas residents' visits to the UK

Performance rebounded in all of these cities in the summer of 2013 as overseas tourists returned to the UK and domestic travellers took advantage of the fine weather.

Oxford and York trended similarly to the other cities, with the exception of 2012 where both generated RevPAR increases of 2% and 3% respectively. Summer 2012 RevPAR in York was bolstered by events celebrating 800 years of royal charter. Oxford's performance, however, was lower than its average monthly growth of 7% since 2011.

It would appear from the RevPAR data that regional tourist cities have benefited from both the return of visitors who stayed away during the Olympics and a boost in demand from the exposure that the Olympics provided for the UK.



Source: AM:PM, HotStats

Note: Olympic RevPAR % change compares the average of July and August between the years

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