A NEW ECONOMY **PUBLICATION**

HOTEL BRITAIN

THE GUIDE TO THE PERFORMANCE OF HOTELS IN THE UK | 2018 EDITION

BDO

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FOREWORD

Welcome to the 2018 edition of BDO's Hotel Britain: your one-stop guide to the hotel industry in the United Kingdom. Our in-depth analysis of British hotels evaluates the performance and prospects for the industry across the country.

2017 proved to be another year of consistent growth for UK hotels despite the uncertainties surrounding the exit of the United Kingdom from the European Union, as well as the terror attacks witnessed in London and Manchester. The country has experienced a boom in the tourism industry thanks to the weak pound, which has stimulated record-breaking visitor numbers. Hotels once again proved their resilience to the political and economic turmoil and were able to drive up average room rate nationwide whilst occupancy remained flat due to the increase in supply.

Although it is still unclear what sort of deal will emerge as the country enters the last year of the Brexit negotiation period, the recently agreed two-year transition period should ease some of the pressure on the industry. The EU remains as the principal source of visitors and the industry is highly dependent on its labour force. The final deal remains as one of the main sources of uncertainty, however, the hotel industry will hope to continue to benefit from Sterling depreciation, which will attract inbound visitors and, indeed, the domestic market as locals decide to "Staycate".

Our report begins with a look at our headline finding; that the UK hotel industry has grown for eight consecutive years. We then take a look at the wider economy and tourism outlook to understand the drivers in the sector. We have asked our industry experts what they think 2018 has in store for the sector and follow their views with our own predictions. We then discuss a number of trends including the hotels pipeline for the UK as well as taking a closer look at the 5 year performance of the industry.

We hope you find this edition to be an insightful read and wish you every success for the year ahead.

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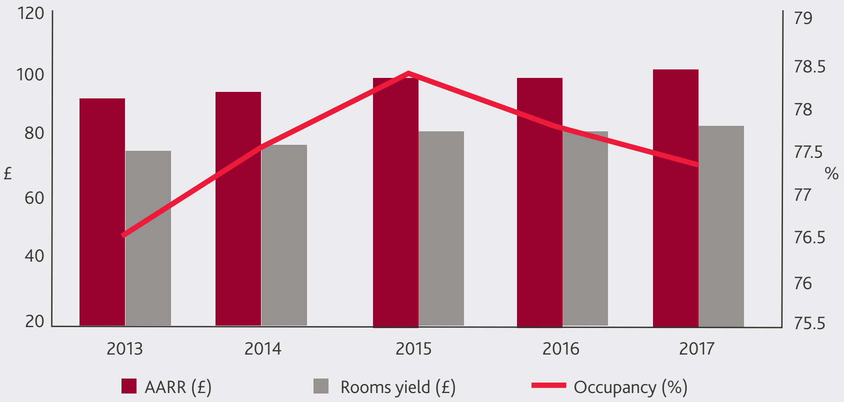
BRITISH HOTELS GROW FOR EIGHT CONSECUTIVE YEARS

In 2017, the daily rooms yield for the UK rose by 2.8% to £77.79. The healthy growth experienced by hotels in the UK was the result of a strong AARR performance.

Daily room rates in the UK grew by 3.4% to £100.58, setting a new record and passing the £100 mark for the first time. Occupancy remained flat, marginally decreasing by 0.5% to 77.3%, due to the influx of new supply in both London and the regions.

FIGURE 1: Summary of performance, all UK hotels (2013-2017)



SOURCE: BDO research

UK hotels rooms yield **up** by

2.8%

TABLE 1: Summary of performance, UK hotels (2013-2017)

UK hotels						CAGR% (2013-2017)
	2013	2014	2015	2016	2017	
Occupancy (%)	76.5	77.6	78.4	77.8	77.3	0.3
Year-on-year growth (%)	2.8	1.4	1.0	-0.8	-0.5	-
AARR (£)	88.80	91.55	95.80	97.28	100.58	3.2
Year-on-year growth (%)	-0.1	3.1	4.6	1.5	3.4	-
Rooms yield (£)	67.96	71.03	75.11	75.64	77.79	3.4
Year-on-year growth (%)	2.7	4.5	5.7	0.7	2.8	-

SOURCE: BDO research

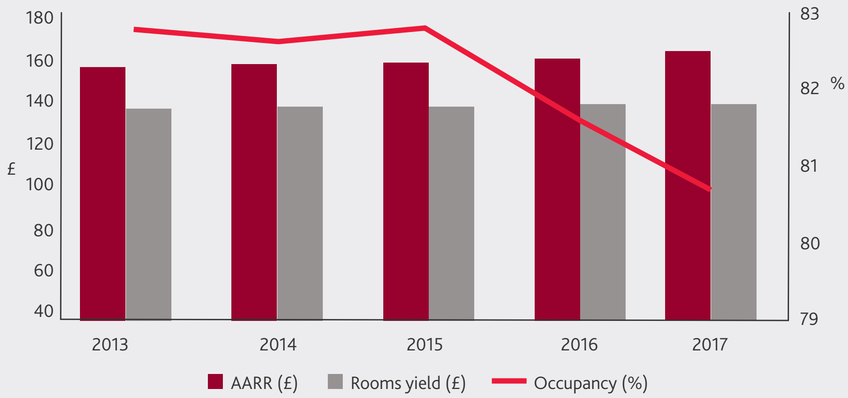
LONDON
8,185
rooms in pipeline

LONDON MARKET REMAINS ROBUST

2017 proved to be an exceptional year for London hotels, following the flat results in 2016. London hotels' performance in 2017 demonstrated the capital's robustness, growing despite the continued increase in supply and the several terror attacks and incidents which occurred during the first half of the year. In this regard, London fared better than its European neighbours.

In 2017, London hotels showed a 2.3% increase in rooms yield to £126.42. Occupancy continued its downward trend started in 2016, decreasing by 1.2% to 80.6%, reflecting the entry of new hotel supply in the capital's market but remaining well above 80% between April and November. Strong performance in AARR, up by 3.6% to £156.85, helped the London market to overcome the effects of the slightly weaker occupancy and ensured consistent growth.

FIGURE 2: Summary of performance, London hotels (2013-2017)



SOURCE: BDO research

TABLE 2: Summary of performance, London hotels (2013-2017)

London hotels	2013	2014	2015	2016	2017	CAGR% (2013-2017)
Occupancy (%)	82.8	82.6	82.8	81.6	80.6	-0.7
Year-on-year growth (%)	1.6	-0.2	0.2	-1.4	-1.2	-
AARR (£)	147.07	148.42	149.79	151.45	156.85	1.6
Year-on-year growth (%)	-0.9	0.9	0.9	1.1	3.6	-
Rooms yield (£)	121.75	122.60	124.03	123.58	126.42	0.9
Year-on-year growth (%)	0.7	0.7	1.2%	-0.4%	2.3%	-

SOURCE: BDO research

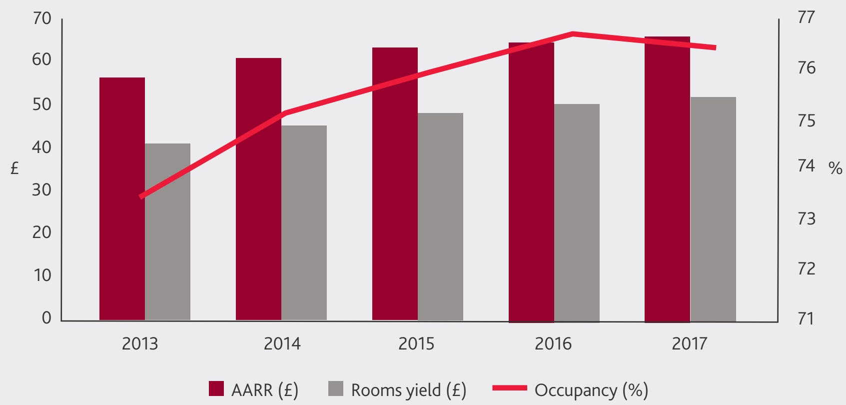
London hotels
rooms yield **up** by
2.3%

ALL UK REGIONS POST POSITIVE GROWTH

The regional hotel market experienced another year of positive results in 2017, with all regions posting rooms yield growth, thanks to consistent AARR increases and despite the slightly weaker occupancy performance.

Overall, regional occupancy was marginally down by 0.3% to 76.4%, as a consequence of the increase in the influx of new supply, which started to affect key regional markets. The strong results in AARR, up by 3.3% to £66.35, however, pushed rooms yield performance up by 2.9% to £50.69.

FIGURE 3: Summary of performance, regional hotels (2013-2017)



SOURCE: BDO research

TABLE 3: Summary of performance, regional hotels (2013-2017)

Regional hotels						CAGR% (2013-2017)
	2013	2014	2015	2016	2017	
Occupancy (%)	73.4	75.1	75.9	76.7	76.4	1.0
Year-on-year growth (%)	3.4%	2.3%	1.1%	1.0%	-0.3%	-
AARR (£)	56.35	60.70	63.15	64.24	66.35	4.2
Year-on-year growth (%)	1.0%	7.7%	4.0%	1.7%	3.3%	-
Rooms yield (£)	41.39	45.60	47.94	49.24	50.69	5.2
Year-on-year growth (%)	4.5%	10.2%	5.1%	2.7%	2.9%	-

SOURCE: BDO research

LIVERPOOL
702
rooms in pipeline

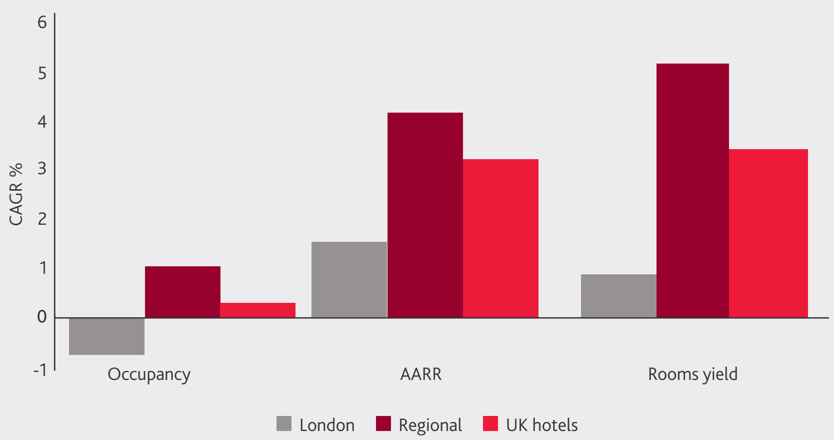
Regional hotels
rooms yield **up** by
5.2%
2013 - 2017

CAGR ANALYSIS

Figure 4 analyses the compound annual growth rate (CAGR) for occupancy, AARR and rooms yield for London, regional and overall UK hotels, for the past five years.

AARR and rooms yield CAGR remains positive for all London, provincial and overall UK hotels, however, London's occupancy CAGR showed a marginal decline. The regions continued to experience the strongest performance (rooms yield up by 5.2%), driven by the strong performance of AARR (up by 4.2%) during the past five years. London hotels' performance also remains positive despite the slowdown in occupancy, down by 0.7% from its post-Olympics 2013 and 2015 joint peak of 82.8%. The healthy increase in AARR (up by 1.6%), however, helped driving rooms yield up by 0.9%.

FIGURE 4: CAGR Analysis (2013-2017) for UK hotels



SOURCE: BDO research. CAGR 2013-2017.

PERFORMANCE BY HOTEL CATEGORY SEGMENT

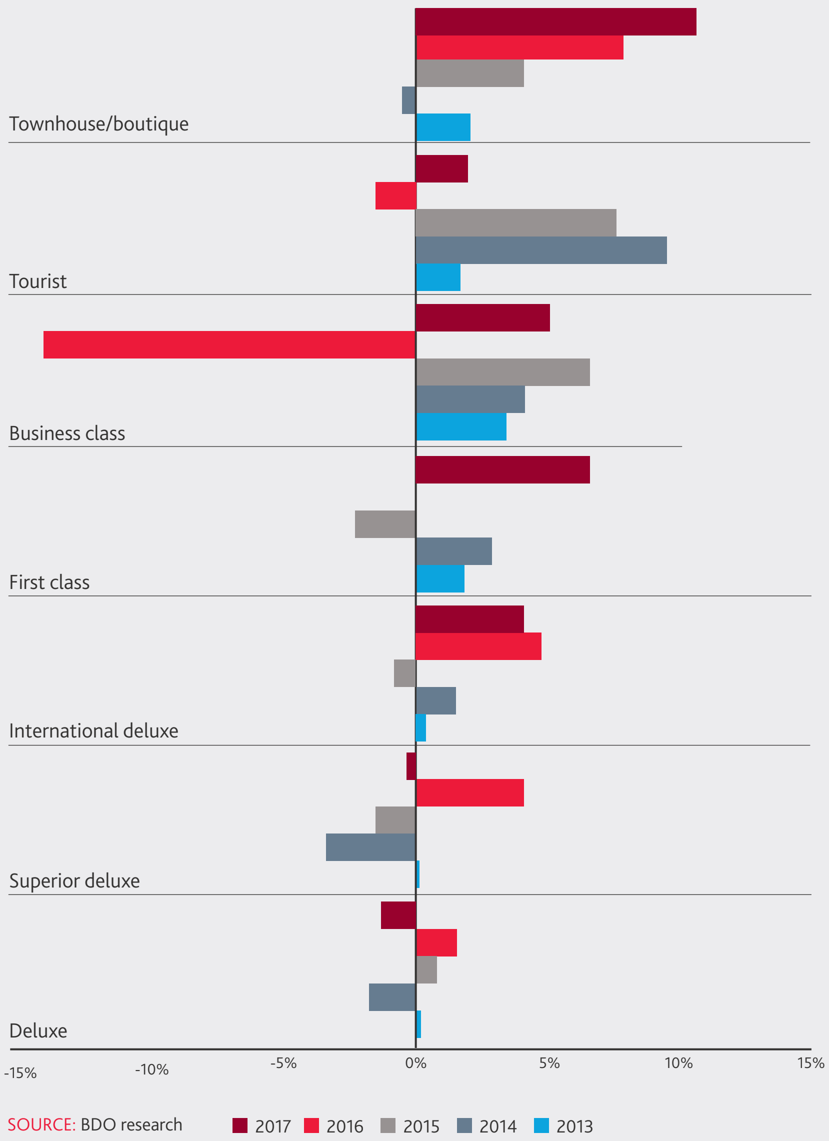
LONDON

Townhouse and boutique hotels experienced the best performance among the capital's hotel segments with rooms yield up by 10.8%, building on the strong results of 2016. Most of London's hotel segments experienced rooms yield growth in 2017 with the only exceptions being deluxe and superior deluxe hotels, whose declines in occupancy could not be overcome by the modest AARR performance seen in those segments.

THE REGIONS

The regional market saw a more consistent performance with all segments experiencing positive results. country house hotels experienced the highest growth with rooms yield up by 3.6%, followed by £60-£70 hotels, which saw rooms yield up by 3.3% as the UK benefits from the rise in popularity of the staycation.

FIGURE 5: Rooms yield growth, London hotels



SOURCE: BDO research

TABLE 4: Rooms yield growth, regional hotels

Rooms yield growth regional UK hotels					
Segment (AARR)	2013	2014	2015	2016	**2017**
Country House	2.4%	3.5%	2.6%	3.8%	**3.6%**
>£80	6%	5.5%	-0.9%	1.0%	**1.0%**
£70-£80	4%	8.4%	7%	4.7%	**0.7%**
£60-£70	3.8%	9.2%	5.9%	6.4%	**3.3%**
£50-£60	2.8%	10.7%	8.5%	7.7%	**1.5%**
<£50	5%	17.9%	14%	5.3%	**1.4%**

SOURCE: BDO research

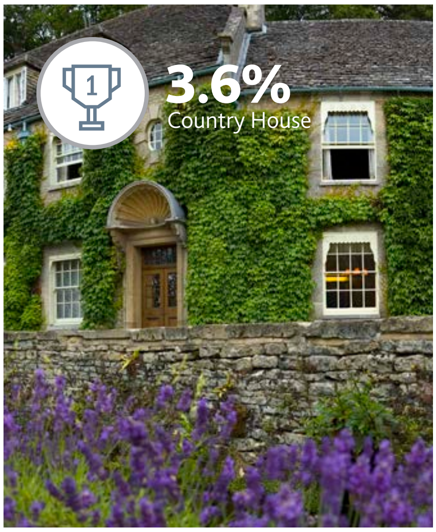
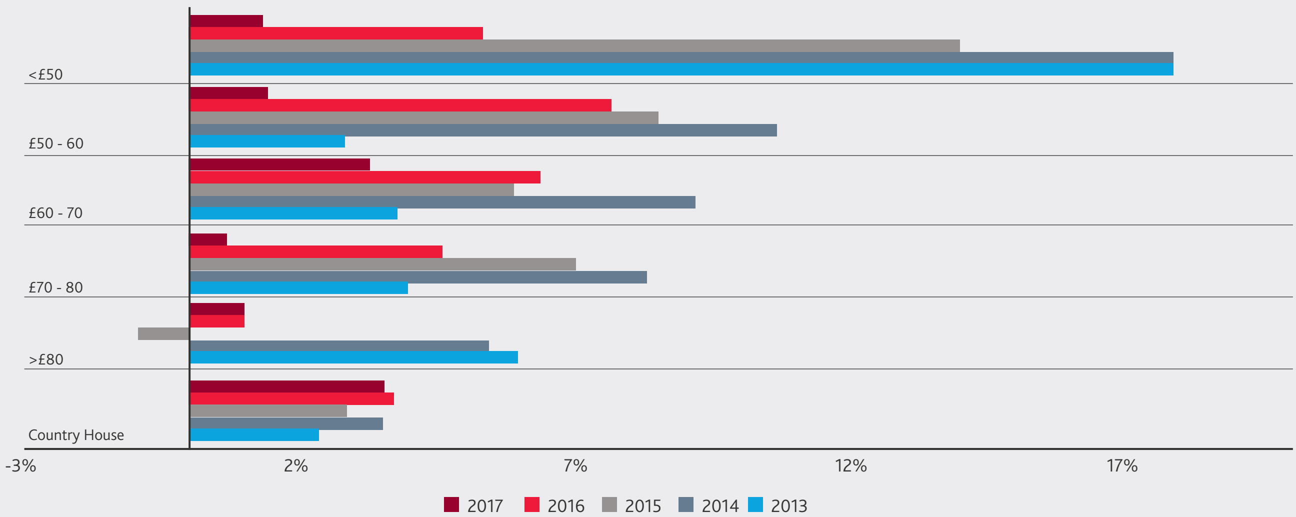


TABLE 5: Rooms yield growth, London hotels

Segment (AARR)	2013	2014	2015	2016	**2017**
Deluxe (>£150)	0.1%	-1.8%	0.8%	1.6%	**-1.5%**
Superior deluxe (>£200)	0.1%	-3.3%	-1.5%	4.1%	**-0.4%**
International deluxe (£150-200)	0.4%	1.4%	-0.8%	4.7%	**4.3%**
First class (£100-150)	1.9%	2.8%	-2.3%	0.0%	**6.8%**
Townhouse/boutique (>£100)	2.0%	-0.5%	4.1%	7.9%	**10.8%**
Business class (£75-100)	3.5%	4.1%	6.6%	-14.0%	**5.0%**
Tourist (<£75)	1.7%	9.9%	7.5%	-1.5%	**1.8%**

SOURCE: BDO research

FIGURE 6: Rooms yield growth, regional UK hotels



SOURCE: BDO research

ECONOMIC OVERVIEW

The International Monetary Fund (IMF) estimates that the British economy grew by 1.7% in 2017.

The Office for National Statistics (ONS) reported a 0.4% growth in the fourth quarter of 2017. Whilst this figure was 0.1% lower than the initial estimates, the annual growth rate estimated by the IMF of 1.7% was 0.2% higher than its earlier prediction of 1.5% in its latest World Economic Outlook, in part due to domestic demand holding up better than expected in the aftermath of the Brexit vote.

TABLE 6: UK Economic Indicators 2015-2020e

	2015	2016	2017e	2018f	2019f	2020f
Real GDP Growth (%)	2.2	1.8	1.7	1.5	1.6	1.7
CPI inflation (%)	0.0	0.7	2.6	2.6	2.2	2.1
Unemployment (%)	5.4	4.9	4.4	4.4	4.6	4.5

SOURCE: International Monetary Fund, October 2017
e: estimate f: forecast

Looking at specific industries the ONS reported that services, the powerhouse behind the UK's economy, rose by 0.4% in the last quarter of 2017, particularly across finance and transport; manufacturing increased by 0.5%, agriculture increased by 0.9%, while construction fell by 0.7%.

The depreciation of the pound, due to uncertainty surrounding the ongoing Brexit negotiations, has made imports more expensive and driven up CPI inflation, which stood at 2.6%, above the Bank of England's 2% target, and is expected to remain above 2% until 2020.

The labour market held up well in 2017 with the ONS reporting 32.25m people in employment, 402,000 more than a year earlier. The employment rate was 75.3%, growing 0.7% year on year, and the joint highest since comparable records began in 1971.

The outlook for the UK economy remains steady, and is expected to continue growing at a similar rate over the coming years to 2020 according to the IMF. The slowdown in China and recessions in other emerging economies, as well as the uncertainties in Europe and the as yet unknown implications of Brexit and the new deal with the European Union may impact on performance. However, the recent agreement between the EU and the UK's Government on the transition or implementation period until the end of 2020 should calm the waters and will allow businesses and the Government itself to prepare for the new status quo.

1.5%

GDP **growth** forecast for 2018

TOURISM OUTLOOK

RECORD-BREAKING VISITOR NUMBERS

Overseas visitor numbers grew for the eighth consecutive year in 2017 setting a new annual record at 38.9m. Provisional ONS and VisitBritain data showed that the number of visits to the UK by overseas visitors was 3.4% higher than a year earlier. Spending by visitors reached also record figures in each of the first nine months of the year, resulting in an overall spend of £24.3bn in 2017, up by 8% on 2016.

Holiday trips experienced the highest increase up by 9.4% to 39.1% of the total, followed by visits to friends and relatives (up by 3.1%). Business visits to the UK however, declined by 4.8% in 2017, with only January and May registering growth when compared to 2016.

As predicted in Hotel Britain 2017, the depreciation in value of the pound made the UK a more attractive destination. Whilst EU visitors, the main source for the UK, remained flat. Visits from North America were up by 8%, from other European countries outside the EU up by 11%, and those from the rest of the world up by 13%. This is due to continue in 2018, when it is estimated that the UK will surpass the 40m visitor mark.

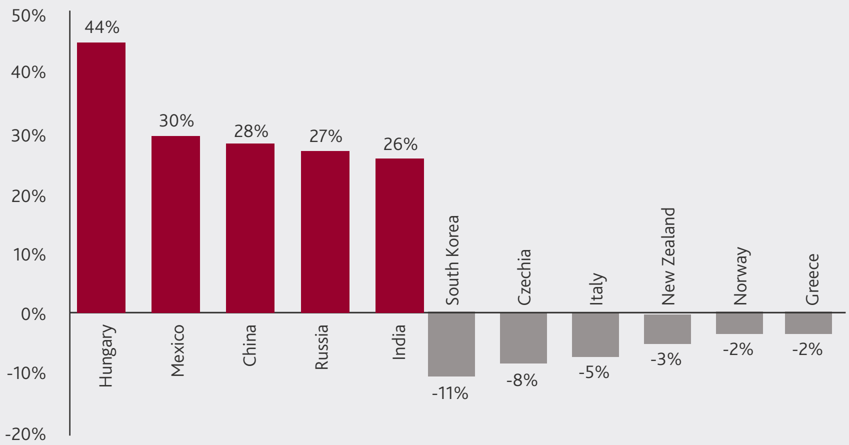
Figure 7 presents the year on year percentage change for selected inbound markets to the UK during 2017. We note that visits from Central and Eastern European countries continued its upward trend, along with visits to friends and relatives, whilst visits from the EU remained the same from the previous year. China and Russia, the two biggest tourist source emerging countries increased by a similar rate up by 28% and 27% respectively, in pair with other larger markets such as Mexico (up by 30%) and India (up by 26%).

TABLE 7: Overseas visitors to the UK, by purpose of visit (thousands)

	2014	2015	2016	2017	2017 % change	2017 market share
Holiday	13,579	13,856	13,899	15,209	9.4%	39.1%
Business	8,276	8,865	9,188	8,749	-4.8%	22.5%
Visit friends or family (VFF)	9,755	10,451	11,565	11,919	3.1%	30.6%
Miscellaneous	2,766	2,943	2,958	3,017	2.0%	7.8%
All visits	34,377	36,115	37,609	38,895	3.4%	-
Year-on-year growth	-	5.1%	4.1%	3.4%	-	-

SOURCE: VisitBritain Monthly Update: March 2018. 2017 figures are provisional.

FIGURE 7: Percentage change in visits from selected countries



SOURCE: VisitBritain, Monthy Inbound Update. ■ Oct 15 - Sep 16 v Oct 14 - Sep 15

PASSENGER NUMBERS

According to the UK Civil Aviation Authority's (CAA) preliminary figures for 2017, UK airports experienced another record-breaking year in terms of passenger growth, up by 5.1% to 284.6m.

Heathrow, the UK's main airport, saw a record 78.0m passengers, up by 3.1% from a year earlier, fast approaching the 80m mark at its fastest growth rate in five years. The weakening of the pound, the opening of new international routes and the further increase in use of larger wide-body aircraft have contributed to the increased demand.

Growth slowed for Gatwick Airport, despite posting its fifth consecutive year of growth, showing a 5.8% increase compared with 7.1% a year earlier, up to 45.6m. The single-runway airport is due to welcome new international long-haul routes in 2018, which will allow passengers to connect with further destinations in America and Asia (flying through the Middle East).

It has also been a good year for regional airports in terms of passenger numbers, Birmingham (up by 11.7% to 13.0m) being the best performer. The West Midlands' busiest airport benefited from the launch of Jet2.com and Jet2holidays, the return of British Airways and Emirates' introduction of a second double-decker A380 on its service to Dubai. Whilst the airport carries out a multi-million pound development project, the loss of Monarch and its 1.8 million passengers a year remains the biggest uncertainty for the year ahead.

TABLE 8: UK passengers (in millions) 2013 - 2017*

Airport	2013	2014	2015	2016	2017*	% change 2016-2017	CAGR (%) 2013-2017
Heathrow	72.3	73.4	75.0	75.7	78.0	3.1%	1.9%
Gatwick	35.4	38.1	40.3	43.1	45.6	5.8%	6.5%
London City	3.4	3.6	4.3	4.5	4.5	-0.2%	7.6%
Luton	9.7	10.5	12.3	14.6	16.0	9.3%	13.4%
Stansted	17.8	19.9	22.5	24.3	26.0	6.9%	9.9%
Total London	138.7	145.5	154.3	162.3	170.0	4.8%	5.2%
Edinburgh	9.8	10.2	11.1	12.3	13.4	8.5%	8.2%
Glasgow	7.4	7.7	8.7	9.3	9.9	6.2%	7.7%
Birmingham	9.1	9.7	10.1	11.6	13.0	11.7%	9.3%
Manchester	20.7	22.0	23.0	25.6	27.8	8.6%	7.7%
Other UK	42.8	43.3	47.3	49.5	50.5	2.0%	4.2%
England	58.4	60.8	63.1	69.7	75.7	8.6%	6.7%
Scotland	23.3	24.1	25.5	26.9	28.8	7.0%	5.5%
Wales	1.1	1.0	1.2	1.3	1.5	11.6%	9.3%
N. Ireland	6.9	6.9	7.4	8.1	8.6	6.1%	5.5%
Total UK (incl. London)	228.4	238.4	254.7	270.7	284.6	5.1%	5.7%

SOURCE: UK Civil Aviation Authority. *2017 figures are estimates

A VIEW FROM THE EXPERTS

New to this edition of Hotel Britain, BDO talks to industry experts to understand what they think lies ahead for hotels in 2018, discussing challenges and opportunities as well as debating whether growth will come from inbound or domestic visitors.

- **David Nicolson**, VP of Finance, Europe, Jumeriah Group
- **Howard Field**, Founding Member, HOSPA
- **Tony Burnell**, Relationship Director, Hotels, Lloyds Bank Commercial Banking (and last year's Hotel Britain Clairvoyant).

WHAT DO YOU ENVISAGE TO BE THE KEY OPPORTUNITIES FOR THE HOTELS SECTOR IN 2018?

David Nicolson: Opportunities exist for hotels providing a unique guest experience and doing something different must remain a key focus, along with exceptional service, which can only be achieved by back-to-basics training.

Food and beverage is a focus for all of us; by bringing the quality back and understanding what customers want in design and experience we can appeal to those looking for a destination experience. We are seeing trends like partnering with celebrity chefs or having a restaurant as a stand-alone brand which can be successful for hotels.

Consumers are also asking for us to be increasingly environmentally friendly. A question I was asked the other day by visiting students is what we do for the environment, and this seems to be a theme for our socially conscious guests and a differentiator if you get it right.

Tony Burnell: The Royal wedding if you are in Windsor! The market is challenging, with increasing supply and continued inflationary pressures, but there are opportunities out there. In addition to the Royal wedding in May the 2018 European Championships multi-sports event in Glasgow and Edinburgh in August will increase visitor numbers. Brexit negotiations are also starting to progress which will alay some of the uncertainty and I hope to see investment into the sector as a result.

WHAT DO YOU ENVISAGE TO BE THE KEY CHALLENGES TO THE SECTOR IN 2018?

Tony Burnell: Across the UK, OTA costs continue to disrupt the sector, which is great for consumers but not always for hotels where it increases competition and impacts REVPAR and returns.

Staffing continues to be a big issue for the sector and it remains unclear how this will be resolved post Brexit.

Caution should also be taken when looking at the strong top line performance in the industry, which masks many of the challenges that the sector is facing including the National Living Wage, business rates, Apprenticeships Levy and pension contributions which all feed through to the squeezed bottom line.

David Nicolson: Rising costs from payroll and related expenses has seen the increase in National Minimum wage and the London living wage, along with pension contributions challenge the sector.

On-line travel agents have reduced margins and, in order to combat competition from search engines and hotels investing heavily in loyalty schemes and social media for direct bookings, they have merged into larger groups (e.g. Expedia has acquired Travelocity, Hotel Beds has now merged with Tourico and Gulliver's Travels) increasing their power to negotiate and retain market share.

Howard Field: In 2017, many of the positive headlines for the sector centred around foreign visitor numbers. Although the UK, in particular, London, remains a key visitor destination, Sterling is already stronger than when the Brexit vote was announced and the initial benefit to foreign visitors of weak sterling has worn off, making the UK less of a financially attractive destination.

The 20% VAT rate continues to impact negatively the UK's competitiveness. Pressures on local authorities to find new ways of raising revenues and to consider bed or tourist taxes would only make this worse.

Until appropriate registration, taxation and control over the provision of accommodation in private dwellings is introduced, the sector will continue to suffer from unregulated competition.

WHAT IMPACT DO YOU THINK TECHNOLOGY IS HAVING ON THE SECTOR, AND WILL THIS MOVE FORWARD AT PACE IN 2018, HOW WELL DO YOU THINK HOTELS ARE EMBRACING CONSUMER TECHNOLOGY?

Howard Field: Technology advances will always be ahead of the ability to evaluate and adopt those that are truly relevant, cost effective and applicable to hospitality businesses. The big challenge for next year will be how to continue to refine systems that support recognition and personal service, while at the same time respecting the legislation such as GDPR governing privacy.

Tony Burnell: Technology is definitely moving forward at pace led by consumer expectations. Hotels will be looking to invest in the the latest customer facing technology, but it ought to be a choice for customers. The hotels industry is responding well to the need for change, but remains conscious of practical costs of implementation, and the risk of doing so before the consumer is ready.

David Nicolson: Guests' rooms technology continues to be a focus to enhance the guests' experience. It is an expectation that high-speed internet is complimentary and for hotels to have smart TVs, Bluetooth speakers and wireless charging. More and more guests and families are coming with multiple devices; therefore, provision of charging facilities is a must.

The popularity of Social Media continues to rise and has a huge impact in the sector with guests making reviews, uploading photos etc., which influence guests' decision on which hotel to book. Social Media has become a big player in the sales and marketing of a hotel as it lets us reach out and promote ourselves with the aim of reducing the cost of customer acquisition. Hotels need to set up training within Operations, as well as Sales & Marketing, to ensure on-line reviews are responded to in a timely manner.

OVERSEAS TRAVELLERS, OR STAYCATIONS – WHERE IS THE GROWTH IN THE SECTOR COMING FROM IN 2018?

David Nicolson: Staycations are still providing growth in the UK sector as the weak pound post Brexit is putting off the British people from going abroad. The pick-up of last-minute mini breaks within the UK has seen an increase as more and more people and are happy exploring the UK and holidaying at home.

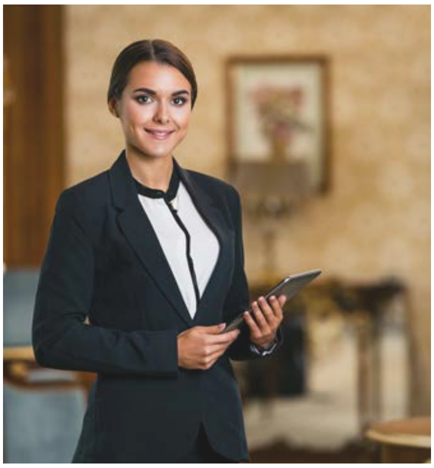
Inbound travel continues to increase but the Brexit uncertainty is slowing the rate. London has seen a reduction of travellers from the GCC countries in the last year and is expected to remain flat in the luxury market for 2018.

Tony Burnell: I'm always pleased to see visitor numbers to the UK increase, and there was a significant growth in visitor numbers in 2017 and the popularity of London and the UK as a whole continue to drive demand. However, the economy is performing above expectations, which may reduce inbound visitors as the value of Sterling against the euro and the dollar begins to bounce back. Whilst many comment that staycations are on the rise, I'm not convinced that this is instead of overseas breaks. People still value holidays in more reliable climates but show a propensity to travel more resulting in an increased number of breaks throughout the year, some of which may be within the UK.

TOP 5 PREDICTIONS FOR 2018

1. WHAT GOES UP, MUST COME DOWN

As brands race to grow their market share, we have seen significant activity leading to brand acquisition on the premise that this allows increased loyalty, creates scale and customer touchpoints as well as potential earnings and driving greater negotiating power with OTAs. But we advise some caution with this approach; the days of growing the number of brands in a stable are over and hotel owners should consider how many brands they can sustainably and profitably maintain.



2. CHECKING IN TO AUTOMATION

Technology will be a key agenda item for management boards this year. Whilst many consumer facing technologies are not new to the sector, we see their implementation growing at pace with the likes of mobile payment, automated check-in and service, chat bots, guest apps and mobile assistants within guest rooms. Although these come with an upfront investment for hotel owners, in the longer term they will facilitate better margins, maintenance of market share as well as offering some solution to the labour shortage.

3. STAYCATION, STAYCATION, STAYCATION

Britain is to be coined a 'staycation nation' in 2018. Partly due to the weak pound against the euro but also due to the packed cultural calendar, the impact of terrorism on overseas travel and the convenience, cost and quality associated with booking a last minute domestic break. Latest figures published by VisitBritain support the theory: Staycations in England were up by 4% in 2017.

4. AIRBNB GOES FULL SERVICE AND MAINSTREAM

Airbnb's market share in London has increased from 2.8% to 7.6%. The tech company have already cashed in on the 'experience economy' by offering local activities as part of their service and in February announced a partnership with SiteMinder allowing the listing of hotels on their site for the first time. Whilst conversations around regulating the organisation continue, Airbnb move forward with strategic partnerships and new service offerings that will increase competition for both hotels as well as the OTAs.

5. KEEPING IT LOCAL

More than ever, guests are looking for an authentic experience and opting to stay in locations that are in keeping with their surroundings, whether this be featured on hotel menu or through advertising local activities, tours and experiences. Our conscious consumer will be wanting experiences which are beyond the hotel walls but feel a natural extension of their stay, therefore, there will be a real return for a seamless local service.

▶ A NEW ECONOMY **PUBLICATION**

We are living in a time of unprecedented change. Brexit, emerging markets, technology and regulation are changing the fundamentals of the way we live and do business. But with great change there is also great opportunity. A 'new economy' is needed which can help the UK thrive post-Brexit by making the most of its mid-sized entrepreneurial businesses, by balancing growth by sector and by region and by ensuring open and simple access to world markets and global talent.

But we don't have all the answers. We want to kick-start a conversation.

Over the next 18 months we will be talking to industry groups, businesses, policymakers, economists and entrepreneurs to use your ideas to refine our thinking.

We would greatly value your contribution to the debate at www.neweconomy.bdo.co.uk

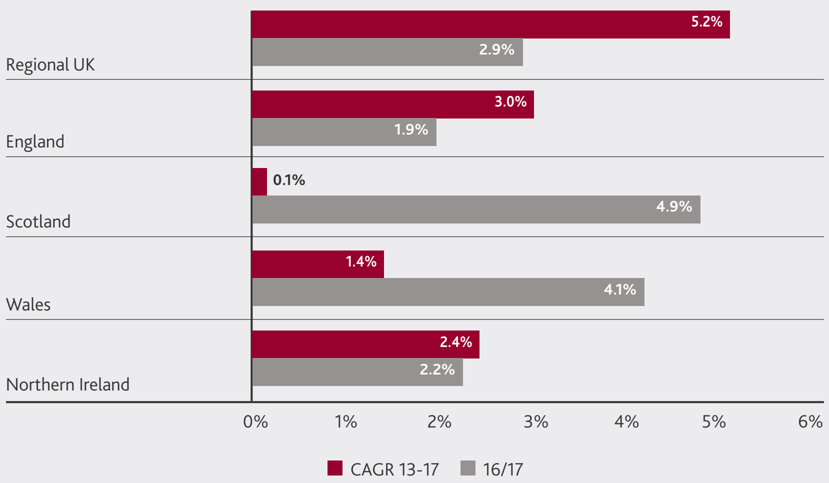
WINNERS AND LOSERS

SCOTLAND IS STAR PERFORMER

Hotels in Scotland saw the strongest rooms yield growth of all UK countries. AARR was the biggest driver for Scottish hotels, up by 4.9% to £56.70 in 2017.

The story of Scottish hotels in 2017 is one of great success. The boom in tourism following the depreciation of the pound after the Brexit vote has attracted record-breaking overseas visitor numbers to Scotland as well as the rest of the UK. Edinburgh, which benefits from strong leisure and corporate demand, was the top regional performing city, posting the highest occupancy of any of the UK cities reported on this edition at 85.3% (up by 1.8% on the previous year). AARR however was the main driver for the standout performance of the Scottish capital, up by 8.3% to £86.97, pushing rooms yield up by 10.2% to £74.16. It was followed by Solihull, which saw rooms yield up by 9.6% to £70.08 due to its proximity to Birmingham airport and Windsor and Maidenhead (up by 9.2% to £70.85).

FIGURE 8: Rooms yield growth by country

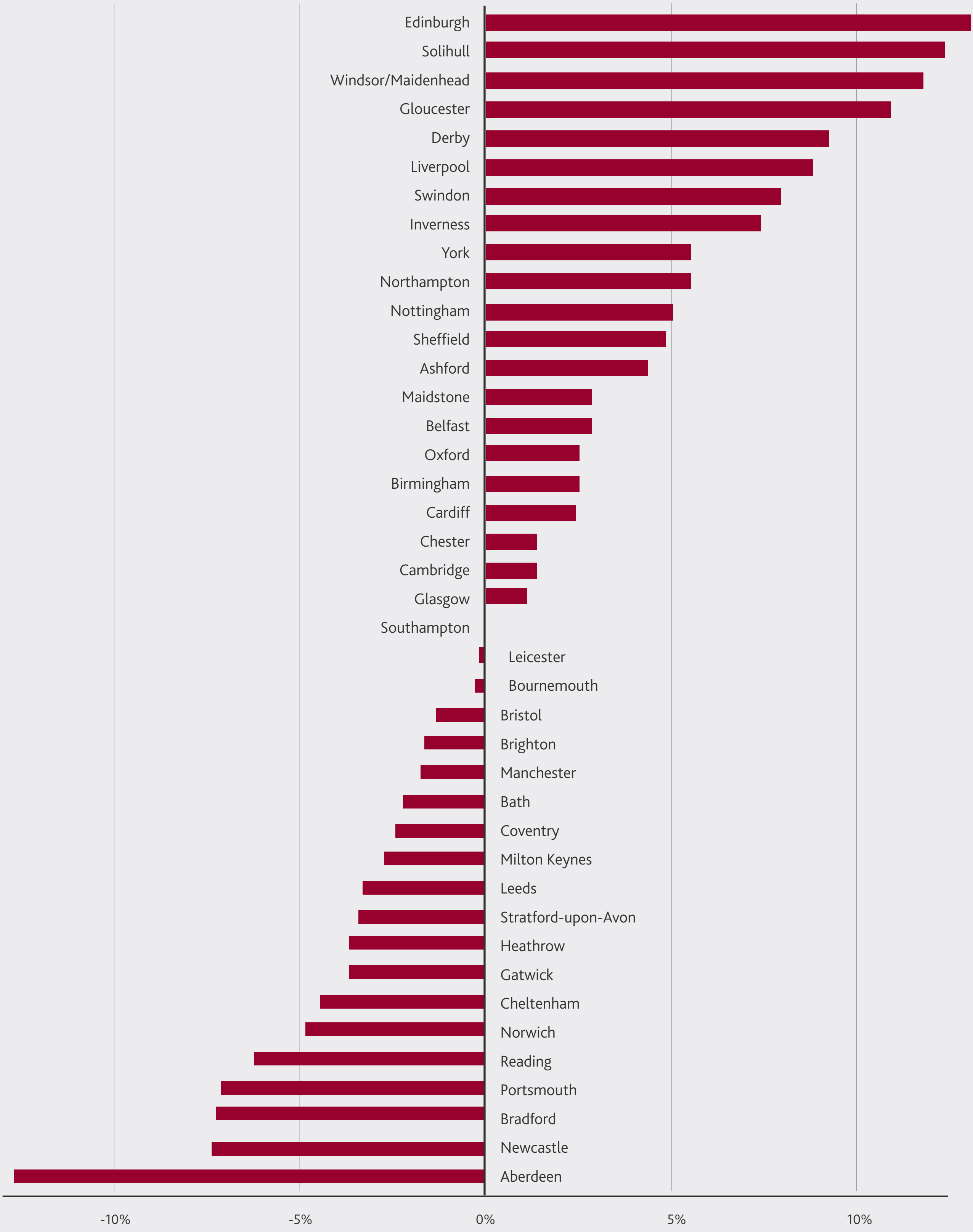


SOURCE: BDO research

MIXED RESULTS FOR REGIONAL DESTINATIONS

Despite the overall positive result, 2017 was a mixed year for regional UK destinations, with 19 out of 41 locations reported in this edition of Hotel Britain experiencing negative rooms yield growth. Only Edinburgh, the top performing city, was able to post double-digit growth. Cities with a more developed tourism industry like Windsor and Maidenhead performed better than those more dependent on the corporate market with the most significant example being the Aberdeen hotel market which has failed to recover from the fall in value of crude oil with rooms yield still posting a decline of 12.6% on the previous year. Manchester posted a decline of 1.7% in rooms yield as a consequence of the new supply entering the local market. The attacks in the summer were observed to have a minimal effect, which lasted only a few weeks.

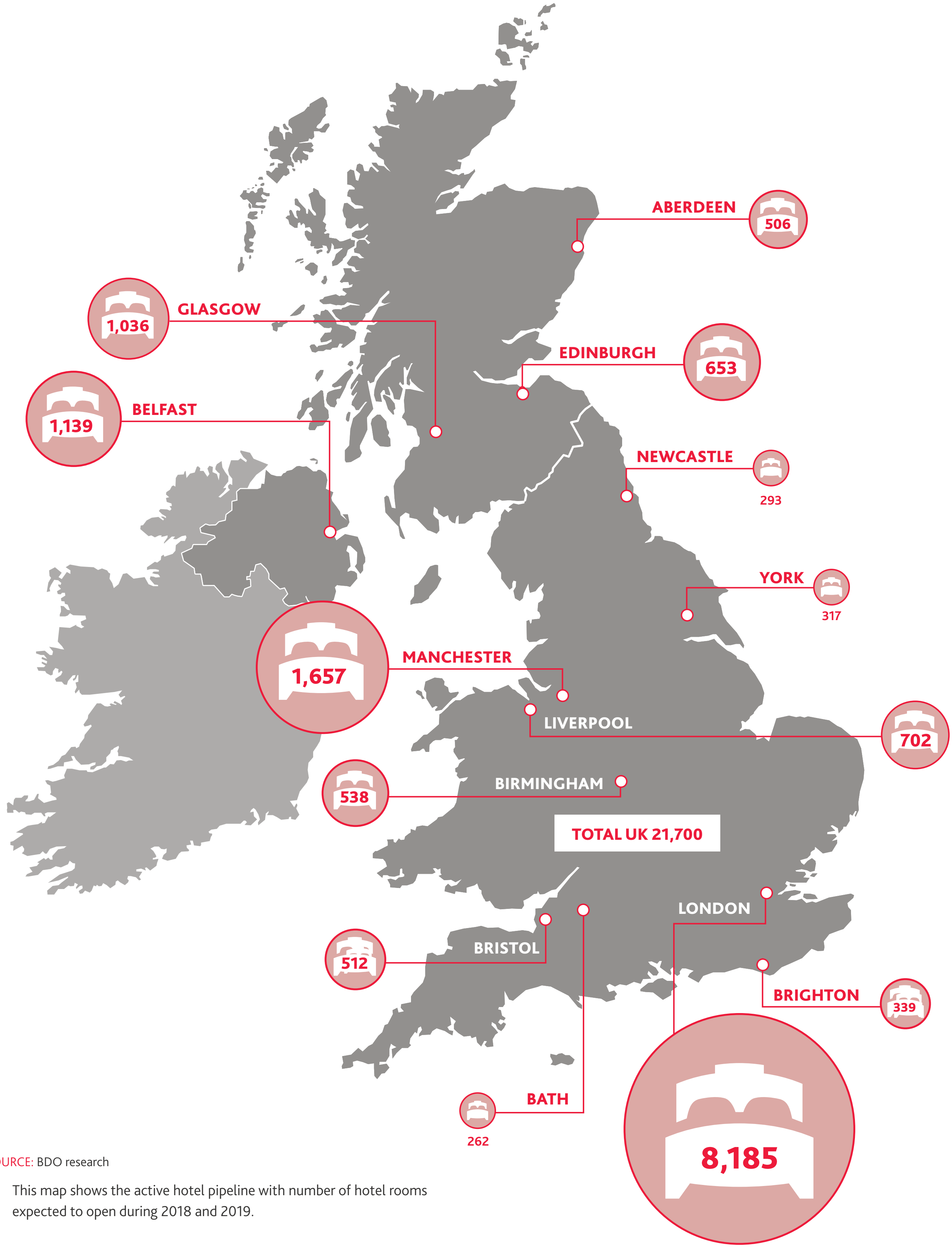
FIGURE 9: Rooms yield growth, regional UK cities



SOURCE: BDO research

▶ For full 5 year summary performance see full table at the back of this report.

HOTEL DEVELOPMENT TRENDS



SOURCE: BDO research

▶ This map shows the active hotel pipeline with number of hotel rooms expected to open during 2018 and 2019.

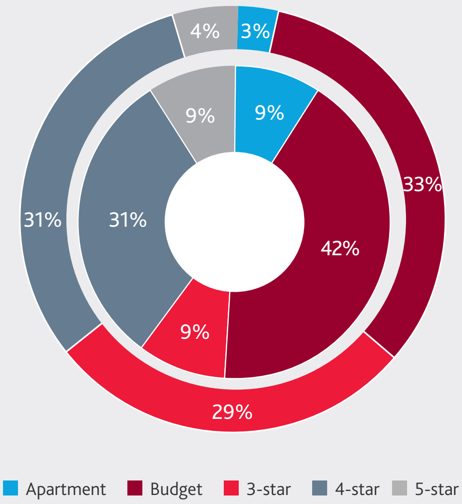
There are currently over 21,700 rooms in the UK's active hotel pipeline expected to open during 2018 and 2019.

Branded hotels continue to have a strong prevalence in the UK hotel market as well as budget and three-star properties. Looking ahead, boutique and lifestyle branded hotels will gain in popularity following the trend experienced in the capital during 2017.

London's active pipeline accounts for approximately the 38% of the UK's total, with over 8,185 rooms under construction. This represents a decrease in the share of the UK's pipeline of over 12% when compared with last year, evidencing the supply drift to the regions predicted by Hotel Britain 2017. The capital is followed by Manchester (1,657), Belfast (1,139), Glasgow (1,036), Liverpool (702) and Edinburgh (653). Latest research data suggests that there are a further 31,000 hotel rooms with planning permission granted but not yet under construction.

In figure 10, we compare the proportion of current supply (inner circle) and active pipeline (outer circle) in the UK. The UK's supply pipeline continues to be dominated by budget properties with Premier Inn and Travelodge set to continue their expansion. The budget segment, which includes hostels, and 2-star properties, accounts for the 33% of the active pipeline, followed closely by 4-star properties, which account for 31%.

FIGURE 10: UK rooms supply and active pipeline by brand type



SOURCE: AM:PM

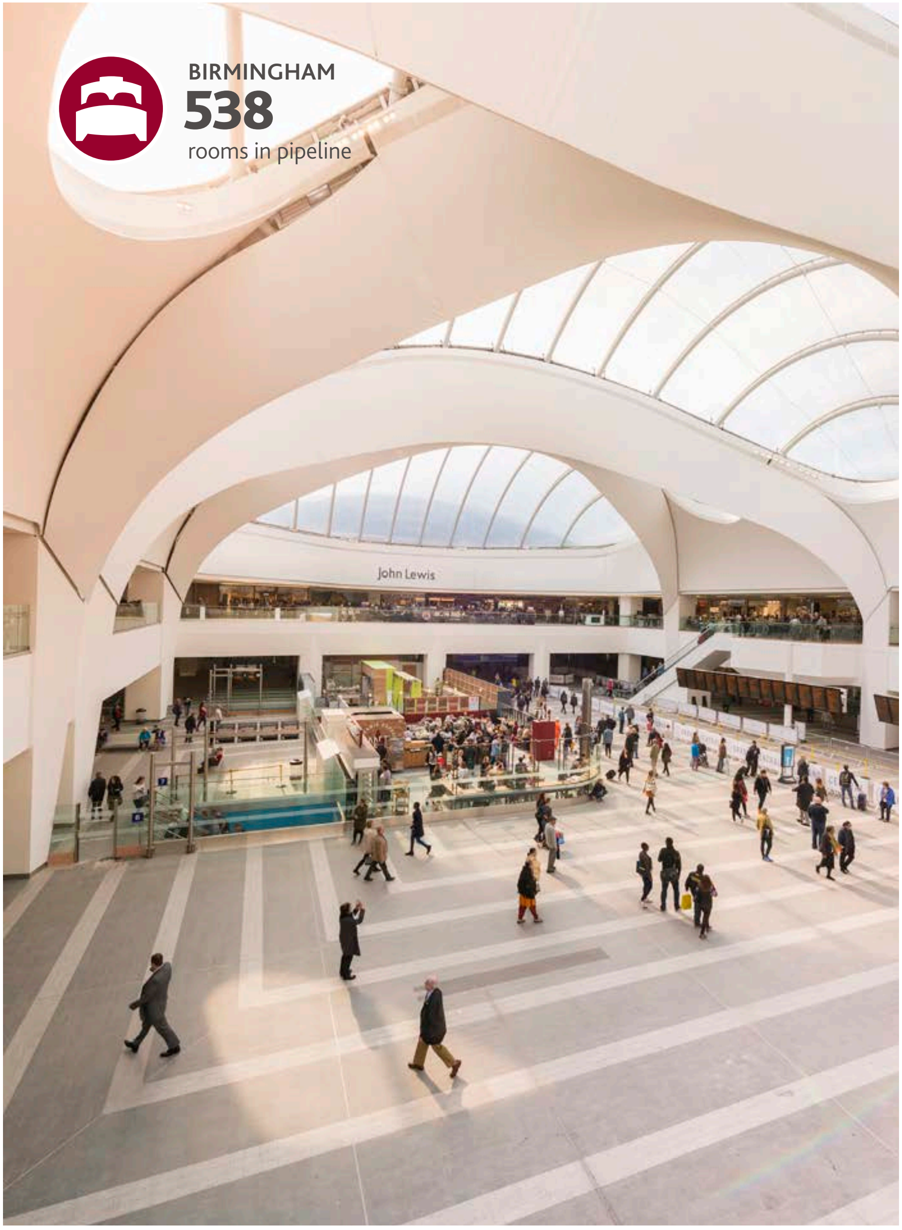
HOTEL TRANSACTIONS

The volume of UK hotel transactions in 2017 showed an increase of approximately 44% compared to 2016.

This constituted the 25% of total European single asset transactions and placed the UK at the top of the European rankings, followed by Spain and the Netherlands. According to real estate advisor Savills, investment in the UK hotel market reached £5.4bn across 219 deals, 60% of the transactions by value were individual sales, representing £3.2bn of the total.

London continued leading the hotel transaction market accounting for over 63% (£1.7bn) of all single asset transactions in the UK. Some notable transactions in the capital included the 494-room Park Plaza London Waterloo sold by PPHE Hotel Group to CBRE for £162m, 460-room DoubleTree by Hilton Westminster acquired by Westmont Hospitality for £190m and the acquisition of the 5-star 496-room Grosvenor House JW Marriott Hotel by the Ashkenazy Acquisition Corp for £550m.

The share of UK transactions that took place regionally was up by approximately 4% compared to 2016; some notable transactions included the sale of The Lowry by Mount Kellet and Westmont Hospitality to CDL Hospitality for £53m, the sale of Holiday Inn Manchester Centre by Dominvs Group for £54m and the acquisition of a group of five three-star Scottish hotels from Portland Hotels for a reported £40m by Leonardo hotels, including two hotels in Edinburgh and one in Glasgow.



HOTEL BRITAIN 2018 COMPETITION

WIN

A complimentary one night stay at Jumeirah Carlton Tower with dinner and breakfast.

Synonymous with luxury, Jumeirah Carlton Tower is renowned for providing friendly and discreet service. Situated in fashionable Knightsbridge, steps away from Hyde Park and iconic department stores Harrods and Harvey Nichols, choose a room or suite to suit your needs including Garden View rooms for stunning views over London, suites for extra indulgence or the Royal Suite - fit for a king and queen!

Unwind in the gym or 20 metre indoor pool with complimentary access to The Peak Health Club & Spa. With three different restaurants and bars, plus 24-hour room service to choose from, there is something to suit all tastes. A range of meeting and event space is also available.

HOW TO ENTER

All you need to do to enter is predict as accurately as you can the occupancy and average achieved room rate (AARR) per occupied room in BDO's sample of hotels in Britain for the 2018 calendar year. Answers should be submitted in the following format:

1) Occupancy: ....% (to 1 decimal place)

2) AARR: £........... (to 2 decimal places)

You can submit your answer at the Hotel Britain launch event using the slips provided, or by emailing jenna.fielding@bdo.co.uk, with 'Hotel Britain 2018 competition entry' in the subject line. Entries close on 31 May 2018. Only one entry per person. The winner will be notified by the 5 March 2019. The winner will receive a voucher valid for redemption until November 2019.

TERMS AND CONDITIONS

BDO is proud to fully comply with the ICAEW Code of Ethics and the Bribery Act 2010. As a result, we are unable to offer this hotel stay to any person related to an audit client of the firm. We encourage all Hotel Britain recipients to enter the competition and the winner will be featured in the next year's edition. If we cannot award the prize to the winner it will be presented to the most accurate entrant who is not an audit client of BDO.

SUMMARY OF FIVE YEAR PERFORMANCE

	2017	Occupancy (%)						% ch.	CAGR (%)
	No. of hotels	No. of rooms	2013	2014	2015	2016	2017	16/17	CAGR 13-17
All UK	**649**	**53,912**	**76.5**	**77.6**	**78.40**	**77.76**	**77.34**	**-0.5**	**0.3**
All London hotels	**141**	**20,603**	**82.8**	**82.6**	**82.8**	**81.6**	**80.6**	**-1.2**	**-0.7**
Deluxe (>£150)	44	4,727	82.1	81.2	80.9	82.6	80.8	**-2.2**	**-0.4**
Superior deluxe (>£200)	29	2,474	81.2	79.8	78.7	81.5	81.4	**-0.1**	**0.1**
International deluxe (£150-£200)	20	2,493	83.3	83.0	81.4	83.3	80.5	**-3.3**	**-0.8**
First class (£100-£150)	33	5,274	83.9	83.9	80.5	78.0	79.9	**2.5**	**-1.2**
Townhouse/boutique (>£100)	14	490	79.0	80.3	80.4	81.7	82.7	**1.3**	**1.2**
Business class (£75-£100)	15	1,766	84.9	85.7	85.6	81.1	82.8	**2.2**	**-0.6**
Tourist (<£75)	30	3,380	79.9	80.2	80.8	80.9	79.5	**-1.7**	**-0.1**
Regional UK	**508**	**33,309**	**73.4**	**75.1**	**75.9**	**76.7**	**76.4**	**-0.3**	**1.0**
England	427	27,804	72.8	74.7	75.7	76.2	75.8	**-0.6**	**1.0**
Scotland	54	3,757	77.9	78.0	77.6	80.0	80.1	**0.1**	**0.7**
Wales	24	1,344	72.0	74.3	75.2	75.3	77.6	**3.1**	**1.9**
N Ireland	3	403	80.4	80.6	81.6	82.0	80.3	**-2.1**	**0.0**
>£80	52	3,651	76.4	77.5	77.0	77.2	76.7	**-0.6**	**0.1**
£70-£80	59	5,890	73.8	75.7	76.9	78.6	78.2	**-0.5**	**1.5**
£60-£70	72	5,029	73.0	75.3	75.4	77.6	77.4	**-0.3**	**1.5**
£50-60	49	2,941	72.8	74.7	75.8	77.5	78.2	**0.9**	**1.8**
<£50	276	15,889	72.6	73.9	75.4	75.1	75.0	**-0.1**	**0.8**
Country House	25	1,598	67.8	69.6	69.9	70.9	70.6	**-0.4**	**1.0**
Airport hotels	19	2,353	80.3	81.2	82.6	85.0	83.9	**-1.3**	**1.1**

AARR (£)					% ch	CAGR (%)	Rooms yield (£)					% ch	CAGR (%)
2013	2014	2015	2016	2017	16/17	CAGR 13-17	2013	2014	2015	2016	2017	16/17	CAGR 13-17
88.80	**91.55**	**95.8**	**97.28**	**100.58**	3.4	3.2	**67.96**	**71.03**	**75.11**	**75.64**	**77.79**	2.8	3.4
147.07	**148.42**	**149.79**	**151.45**	**156.85**	3.6	1.6	**121.75**	**122.60**	**124.03**	**123.58**	**126.42**	2.3	0.9
242.05	240.24	243.01	241.88	243.65	0.7	0.2	198.81	195.08	196.59	199.73	**196.82**	-1.5	-0.3
299.55	294.67	294.39	296.08	295.26	-0.3	-0.4	243.25	235.15	231.69	241.19	**240.30**	-0.4	-0.3
169.78	172.83	174.91	178.90	193.05	7.9	3.3	141.48	143.45	142.38	149.06	**155.48**	4.3	2.4
123.86	127.41	129.70	133.90	139.46	4.1	3.0	103.96	106.90	104.41	104.41	**111.48**	6.8	1.8
289.19	282.97	294.03	312.34	341.76	9.4	4.3	228.34	227.22	236.40	255.03	**282.64**	10.8	5.5
86.73	89.50	95.46	86.73	89.13	2.8	0.7	73.65	76.70	81.71	70.29	**73.83**	5.0	0.1
52.41	57.38	61.22	60.23	62.40	3.6	4.5	41.89	46.02	49.46	48.74	**49.62**	1.8	4.3
56.35	**60.70**	**63.15**	**64.24**	**66.35**	3.3	4.2	**41.39**	**45.60**	**47.94**	**49.24**	**50.69**	2.9	5.2
54.95	58.93	62.23	63.88	65.47	2.5	4.5	44.02	47.09	47.09	48.69	**49.62**	1.9	3.0
65.57	72.55	69.97	67.51	70.75	4.8	1.9	56.56	54.28	54.28	54.03	**56.70**	4.9	0.1
56.06	60.64	60.86	60.73	61.31	1.0	2.3	45.04	45.76	45.76	45.74	**47.59**	4.1	1.4
59.85	64.74	67.29	68.37	71.40	4.4	4.5	52.16	54.90	54.90	56.07	**57.31**	2.2	2.4
89.71	93.34	93.05	93.70	95.20	1.6	1.5	68.54	72.31	71.63	72.32	**73.01**	1.0	1.6
70.49	74.42	78.40	80.34	81.24	1.1	3.6	51.99	56.37	60.32	63.14	**63.55**	0.7	5.1
61.47	65.12	68.84	71.22	73.77	3.6	4.7	44.88	49.01	51.92	55.26	**57.09**	3.3	6.2
51.11	55.16	59.01	62.14	62.48	0.5	5.2	37.23	41.21	44.73	48.18	**48.87**	1.5	7.0
33.90	39.25	43.89	46.43	47.13	1.5	8.6	24.62	29.02	33.08	34.85	**35.35**	1.4	9.5
87.48	88.34	90.20	92.24	95.99	4.1	2.3	61.45	63.04	63.04	65.40	**67.78**	3.6	2.5
62.35	64.47	66.54	65.17	66.06	1.4	1.5	52.35	54.94	54.94	55.41	**55.44**	0.1	1.4

	2017	Occupancy (%)						% ch.	CAGR (%)
	No. of hotels	No. of rooms	2013	2014	2015	2016	2017	16/17	CAGR 13-17
Aberdeen	8	623	77.8	76.1	68.9	67.2	63.4	-5.7	-5.0
Ashford	3	286	71.1	71.8	72.1	72.3	74.3	2.8	1.1
Bath	3	238	76.5	79.3	84.5	82.0	78.4	-4.4	0.6
Belfast	3	403	80.4	80.6	81.6	82.0	80.3	-2.1	0.0
Birmingham	10	1,367	69.3	70.4	70.3	71.7	71.2	-0.7	0.7
Bournemouth	3	137	75.3	77.7	79.4	77.7	77.9	0.2	0.8
Bradford	3	119	67.5	70.1	71.7	71.8	70.0	-2.4	0.9
Brighton	4	489	74.0	74.9	75.1	77.8	74.9	-3.7	0.3
Bristol	8	728	74.7	77.0	78.5	77.8	75.8	-2.6	0.4
Cambridge	4	370	78.4	79.5	80.6	79.2	77.0	-2.7	-0.4
Cardiff	10	707	75.2	77.4	79.4	81.8	81.9	0.1	2.2
Cheltenham	3	179	72.5	75.4	76.8	76.6	75.5	-1.4	1.0
Chester	4	292	72.3	74.4	76.0	78.4	76.0	-3.0	1.3
Coventry	5	289	70.2	71.8	74.2	75.8	76.5	0.9	2.2
Derby	4	273	71.2	72.2	70.3	73.4	74.5	1.5	1.1
Edinburgh	15	1,422	79.5	78.3	80.1	83.8	85.3	1.8	1.8
Gatwick	4	371	79.0	80.3	80.9	79.7	79.3	-0.5	0.1
Glasgow	11	1,409	79.2	81.5	82.2	83.1	83.2	0.1	1.2
Gloucester	3	220	75.8	74.9	73.0	74.2	76.2	2.7	0.1
Heathrow	13	1,483	78.8	80.3	81.6	82.8	82.8	0.1	1.3
Inverness	3	208	73.2	69.7	73.1	75.9	76.9	1.4	1.3
Leeds	10	807	77.1	77.8	78.7	77.8	76.2	-2.1	-0.3
Leicester	4	413	70.3	71.0	75.1	73.9	71.3	-3.5	0.3
Liverpool	9	762	68.3	71.8	74.3	78.7	80.7	2.5	4.2
Maidstone	4	389	73.2	75.6	76.2	71.8	72.3	0.7	-0.3
Manchester	15	1,680	75.2	77.6	81.7	82.8	81.2	-1.9	1.9
Milton Keynes	3	266	76.2	76.0	78.8	77.2	76.9	-0.4	0.2
Newcastle	8	649	72.4	75.8	72.8	72.4	72.4	-0.1	0.0
Northampton	3	181	70.4	73.9	74.8	75.9	76.9	1.4	2.2
Norwich	5	399	73.8	77.0	78.1	79.9	78.1	-2.3	1.4
Nottingham	11	591	69.9	65.8	74.9	76.5	75.6	-1.2	2.0
Oxford	4	489	81.2	78.9	80.6	77.8	78.8	1.3	-0.7
Portsmouth	4	404	81.9	81.1	78.5	78.5	77.4	-1.4	-1.4
Reading	9	554	70.4	68.8	68.9	68.6	66.3	-3.3	-1.5
Sheffield	3	423	70.8	70.5	74.6	75.7	77.5	2.5	2.3
Solihull	4	435	65.9	67.7	70.4	72.2	73.5	1.8	2.8
Southampton	4	509	78.5	81.6	80.2	76.5	76.5	0.0	-0.7
Stratford-upon-Avon	4	201	68.8	70.4	77.0	77.0	75.0	-2.6	2.2
Swindon	5	395	66.9	74.2	74.9	74.3	72.5	-2.4	2.0
Windsor/Maidenhead	3	196	73.7	72.5	74.2	79.3	80.7	1.7	2.3
York	5	296	78.9	82.0	79.6	77.7	76.3	-1.8	-0.8

AARR (£)					% ch	CAGR (%)	Rooms yield (£)					% ch	CAGR (%)
2013	2014	2015	2016	2017	16/17	CAGR 13-17	2013	2014	2015	2016	2017	16/17	CAGR 13-17
93.58	98.48	86.80	70.54	65.33	-7.4	-8.6	74.93	59.85	59.85	47.43	41.44	-12.6	-13.8
49.32	54.13	55.95	58.76	59.10	0.6	4.6	38.87	40.35	40.35	42.45	43.90	3.4	3.1
47.63	51.43	57.95	62.55	63.99	2.3	7.7	40.80	48.98	48.98	51.32	50.19	-2.2	5.3
59.85	64.74	67.29	68.37	71.40	4.4	4.5	52.16	54.90	54.90	56.07	57.31	2.2	2.4
50.24	53.88	58.43	62.30	64.00	2.7	6.2	37.96	41.09	41.09	44.70	45.57	2.0	4.7
80.93	85.13	89.30	94.57	94.11	-0.5	3.8	66.13	70.87	70.87	73.49	73.30	-0.3	2.6
36.63	38.71	41.39	42.01	39.96	-4.9	2.2	27.13	29.69	29.69	30.15	27.98	-7.2	0.8
67.19	72.12	71.15	70.28	71.81	2.2	1.7	54.04	53.40	53.40	54.68	53.79	-1.6	-0.1
63.98	69.37	76.62	78.86	79.86	1.3	5.7	53.44	60.11	60.11	61.36	60.55	-1.3	3.2
58.41	62.85	72.21	76.11	78.99	3.8	7.8	49.99	58.17	58.17	60.24	60.86	1.0	5.0
67.01	71.35	71.13	68.35	69.57	1.8	0.9	55.22	56.47	56.47	55.93	57.00	1.9	0.8
53.20	57.98	57.10	56.11	54.39	-3.1	0.6	43.73	43.83	43.83	42.95	41.06	-4.4	-1.6
59.42	61.28	69.54	70.10	73.00	4.1	5.3	45.59	52.82	52.82	54.94	55.51	1.1	5.0
48.82	54.15	61.34	65.40	63.20	-3.4	6.7	38.90	45.53	45.53	49.59	48.35	-2.5	5.6
53.10	57.71	58.35	60.13	63.57	5.7	4.6	41.66	41.05	41.05	44.14	47.34	7.3	3.3
76.11	80.62	80.06	80.29	86.97	8.3	3.4	63.15	64.12	64.12	67.27	74.16	10.2	4.1
78.59	71.99	68.49	79.67	77.09	-3.2	-0.5	57.82	55.39	55.39	63.49	61.14	-3.7	1.4
56.01	67.12	67.89	69.86	70.45	0.8	5.9	54.72	55.78	55.78	58.06	58.58	0.9	1.7
49.26	55.01	58.62	60.08	63.51	5.7	6.6	41.20	42.77	42.77	44.57	48.37	8.5	4.1
61.82	62.95	65.47	61.06	58.81	-3.7	-1.2	50.55	53.42	53.42	50.54	48.73	-3.6	-0.9
47.97	51.99	51.68	54.44	56.82	4.4	4.3	36.22	37.80	37.80	41.31	43.71	5.8	4.8
55.45	64.11	66.17	68.90	68.05	-1.2	5.3	49.87	52.10	52.10	53.59	51.83	-3.3	1.0
55.24	58.57	66.12	65.77	68.15	3.6	5.4	41.60	49.67	49.67	48.62	48.59	-0.1	4.0
64.15	66.18	67.03	70.27	73.34	4.4	3.4	47.51	49.81	49.81	55.32	59.15	6.9	5.6
55.78	59.10	63.03	66.48	67.53	1.6	4.9	44.68	48.03	48.03	47.76	48.83	2.2	2.2
62.39	65.24	72.46	76.72	76.88	0.2	5.4	50.64	59.21	59.21	63.56	62.46	-1.7	5.4
65.89	72.96	83.26	86.28	84.25	-7.7	4.9	55.44	65.63	65.63	66.64	64.79	-2.8	2.5
52.89	54.52	59.90	59.60	55.31	-7.2	1.1	41.34	43.59	43.59	43.18	40.02	-7.3	-0.8
56.64	59.26	63.02	67.45	69.41	2.9	5.2	43.81	47.14	47.14	51.17	53.38	4.3	5.1
47.38	52.63	58.27	62.40	60.83	-2.5	6.4	40.53	45.50	45.50	49.87	47.48	-4.8	4.0
51.03	52.41	57.28	55.46	58.34	5.2	3.4	34.49	42.90	42.90	42.41	44.09	4.0	6.3
59.08	62.13	71.00	72.99	73.46	0.6	5.6	49.03	57.22	57.22	56.79	57.91	2.0	4.2
72.09	76.24	83.50	86.50	81.48	-5.8	3.1	61.81	65.56	65.56	67.88	63.07	-7.1	0.5
54.77	59.15	64.14	62.89	61.00	-3.0	2.7	40.71	44.18	44.18	43.15	40.46	-6.2	-0.2
37.67	43.90	45.64	47.68	48.32	1.3	6.4	30.94	34.04	34.04	36.07	37.47	3.9	4.9
78.13	74.52	84.00	88.58	95.39	7.7	5.1	50.44	59.10	59.10	63.92	70.08	9.6	8.6
52.13	55.43	61.85	67.59	67.59	0.0	6.7	45.22	49.61	49.61	51.69	51.69	0.0	3.4
69.25	74.46	85.94	85.94	85.23	-0.8	5.3	52.44	56.85	66.18	66.18	63.92	-3.4	5.1
51.54	53.86	61.54	65.05	70.79	8.8	8.3	39.95	46.10	46.10	48.33	51.32	6.2	6.5
79.45	82.82	83.84	81.78	87.84	7.4	2.5	60.01	62.16	62.16	64.87	70.85	9.2	4.2
58.33	62.77	69.50	74.75	79.49	6.3	8.0	51.49	55.35	55.35	58.11	60.67	4.4	4.2

CLAIRVOYANT CORNER

SIMON HUDSPETH

Principal
Hotel Investment and
Asset Management

When BDO told me that my guesstimate for 2017 had won the much-coveted Clairvoyant Corner accolade, they sent me the last three winners' comments by way of a guide for this piece.

I was pleased to see Tony Burnell and Richard Wilson for 2017 and 2016 respectively, but the 2015 winner really stopped me in my tracks. I saw the smiling face of my friend and former colleague Jake Egberts, who lost his battle with cancer not much later that same year. Many of this year's readers will have known Jake professionally and personally during his time at PKF, IHG, Christie & Co, JLL, and Topland. This was a tragic loss; we remember Jake with great affection.

At last year's BDO event, I based my guesstimate for 2017 on some close, month-by-month asset management experience with a few specific UK hotels, together with some more limited exposure, as a consultant and investment advisor, to some of the UK hotel transactions that had taken place in the previous few years. Of course, I also keep an eye on BDO's monthly UK Trends (and other benchmarking surveys and publications). I felt at the time that 2017's Occupancy would be flat with modest growth in Average Rate.

However, I thought at the time (and I still do) that the real story for 2017 would be in cost inflation and profit protection. Increasing RevPAR and TrevPAR by slightly more than inflation is all very well (and creditable in the face of sluggish and very uncertain macro-economic factors), but we all know that the ever-increasing cost of acquiring Rooms Revenue (distribution through brand and third party channels), rising payroll, food, and energy expenses (plus business rates revaluations in 2017) will eat away at any modest revenue uplift. I congratulate any mature hotel that managed to increase absolute profit ahead of inflation in 2017!

I think this trend continues in 2018. The economic and political future remains extremely uncertain, and the beneficial (to inbound tourism, at least) fall in Sterling is unlikely to be as helpful to hotel demand as it was last year. Payroll costs, and the availability of suitable employees, will continue to be major factors for UK hoteliers as Brexit approaches.

Will interest rates rise during 2018? If so, there will be more pressure upon debt service for trading businesses, and some constraint upon acquisition multiples and pricing. We have enjoyed a long run of very low interest rates, and whilst I do not foresee a return to pre-crash rates, there are likely to be modest increases in 2018-19. Investment demand seems to remain strong, with interest from a variety of overseas buyers, specialist hotel investors, and REITs (less Private Equity).

I don't expect anybody to be over-paying, though, and much of the stock coming to market is re-cycled from earlier (pre- and post-crash) deals. Many Regional UK transaction prices remain below likely replacement cost. There is considerable supply risk in London. On the upside, there is a Royal Wedding and a Farnborough Air Show to look forward to!

As always, the winners in 2018 will be those investors who can buy well, and who can plan and execute an asset management plan to create a successful trading business, and who can then exit judiciously. There is no mystery in that theory, but astute judgement, determination, and appropriate funds are essential.

Many thanks to BDO for their ongoing support of our industry through their publications and other works. Thanks also to Brooklands Hotel/ Westmont for providing the 2017 prize.

ABOUT HOTEL BRITAIN

Hotel Britain is the definitive guide to the performance and prospects of the UK's hotel industry.

It is compiled from the responses of a representative cross section of 649 hotels comprising 53,912 rooms, and including 141 London hotels and 508 around the rest of the country.

The results of this survey are grouped for convenience according to geographic location. We break down the performance of hotels in key centres across the country, and also analyse both London and the regions in terms of average room rate.

Hotels in the capital are divided in four main bands according to the average room rate achieved during 2017. The top rate band, Deluxe, comprises Superior Deluxe and International Deluxe properties. This is followed by First Class and Business properties, with the final category being Tourist hotels. There is also a separate performance breakdown, which extends across all these rate boundaries, for townhouse properties. Regional hotels have been placed in one of five rate bandings, with a separate performance breakdown, which extends across all these rate boundaries, for Country House properties.

To ensure that our year-on-year results are directly comparable, only properties able to contribute data from the last five years have been included. Hotels which have closed for a period of refurbishment or have opened during this period have been excluded.

GLOSSARY

Definitions of some of the terms used in this report are provided below.

Room occupancy: the ratio of total occupied rooms to total available.

Average achieved room rate (AARR): rooms revenue divided by the total number of guest rooms occupied during the year.

(Average daily) rooms yield: room occupancy multiplied by the average achieved room rate (also known as RevPar).

Current values: values expressed on an actual basis, including the effects of inflation.

Constant values: historic and future values rebased to a base year by removing the inflation element

Compound Annual Growth Rate (CAGR): average growth rate on an annualised basis. CAGR in this report represents 2013 - 2017

ABOUT THIS REPORT

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BDO LEISURE AND HOSPITALITY SERVICES

Our team works with international businesses across the leisure industries, including restaurants and bars, betting and gaming, hotels, professional sports and fitness, and travel and tourism.

We provide assurance, tax and advisory services to our clients who range from small owner-managed businesses to large corporations in both the private and public sectors, many of whom are market leaders.

HOTELS

BDO's hotel industry experience goes back nearly a century. Today, we are at the forefront of the field, working with the industry's market leaders. Our experienced and passionate partners and staff find and help implement actionable insights that make a difference to our clients' businesses. We take the time to understand the business and people behind the numbers so that we can use our expertise to maximum effect.

HOTELS SERVICES CONSULTANCY

Whether you are thinking about opening a new hotel, researching a new site, enhancing your competitive position, expanding overseas or seeking independent accountancy advice, BDO offers you a reliable, professional and above. Our hotel industry consultants deliver actionable insights and proposals on all aspects of developing, buying, selling, owning and operating properties in the leisure industry.

The expertise of our specialist accountancy team ranges from the annual requirement for audits, financial statements and tax compliance to more specialist advisory work. We also help our clients with taxation planning and structuring, international operations, VAT and employment taxes, business valuations and other transactional support. Our people sit on the HOSPA Council and Technical Committee.

HOTEL INDUSTRY KNOWLEDGE

We keep our clients up to speed with the latest issues and movements of the market, both nationally and internationally, presenting our findings through our comprehensive annual publications, ***Hotel Britain*** and, ***Hotel Quarters***. We also maintain one of the world's best research and monthly benchmarking databases. In an industry which can be volatile and heavily affected by world events, we can give our clients vital insights into what they can do to improve their relative performance and market position

In short, if you are active in the hotel industry then you should be talking to BDO.

BDO LEISURE AND HOSPITALITY SERVICES

Our Leisure and Hospitality Team provides specialist accountancy and business advisory expertise to a wide variety of leisure and hospitality businesses. Our sector experts use their experience and knowledge to deliver valuable and actionable advice to clients.

REGULATORY ADVICE FOR LEISURE AND HOSPITALITY BUSINESSES

The leisure and hospitality sector is faced with an ever-changing burden of regulation, ranging from accounting standards to the Apprenticeship Levy and National Living Wage. We can provide practical guidance and help you navigate the challenges your business is facing. We can help you whether you are thinking of tackling the transition to IFRS accounting, wondering where you currently stand on troncs, trying to establish how the national living wage may affect your business or debating whether you should be converting to a REIT.

DRIVING GROWTH

Driving the growth of your business is always a priority. This is a challenge in the very competitive leisure and hospitality sector. We will work with you to develop or adjust your strategy, fine tune your business model and overcome the barriers to growth. Our focus is to provide the actionable ideas and insights that will make a tangible difference to your business. Whether it is improving working capital management or improving tax efficiency, we will use our experience and expertise to deliver value to you. We always invest the time to understand you and your business so that we can help you achieve your goals.

TAKING LEISURE AND HOSPITALITY INTERNATIONAL

You may be ready to expand your leisure and hospitality business overseas. You may not be ready for the challenges of succeeding internationally. Local regulations and tax regimes, local labour markets and any number of other issues will have to be navigated.

We will help you from the first step by helping you identify the best options for expansion. We can advise on the markets that are easier to break into. We can help you to work through the options available to you whether that is a joint venture, opening a branch, franchise or an acquisition. When you do make the leap, we will ensure you have the most efficient tax structures and all the necessary local knowledge.

As part of the BDO international network, we draw on the leisure and hospitality expertise of colleagues across the globe. We have a presence and local leisure and hospitality expertise in every market you might want to expand into.

LEISURE AND HOSPITALITY SECTOR EXPERTISE

We understand that each area of leisure and hospitality faces its unique challenges and opportunities. We have specialist working in and with experience of those areas and sub-sectors.

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