

LIVERPOOL

Hotel Futures 2009

Re-Freshing The Agenda

HEADLINE FINDINGS & FORWARD ACTION

**Prepared for The Mersey Partnership
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Liverpool Hotel Futures 2009 – Re-Freshing the Agenda

Background

- o TMP & its partners have been actively monitoring hotel performance, developer interest /activity, and hotel development potential since 2001, with a series of Hotel Futures studies being undertaken in 2001, 2003, 2004 and 2005.5); the latest data available from these detailed surveys is 2004.
- o LJ Forecaster is also run for the City and produces occupancy and rate data, enabling trends also to be established since 2005.
- o 2008 has seen significant new supply coming on stream with the opening of the Malmaison, Staybridge Suites, Jurys and the Hard Days Night Hotels, and clearly, being Capital of Culture year, it has been a year of atypical performance.

The Approach For 2009

- o The combination of Capital of Culture 'bounce' and the impact of the recession on hotel performance and investment decisions make it difficult to establish the underlying picture currently in the City.
- o However, TMP and its partners were keen to understand how to build on the momentum of Capital of Culture in order to move the sector forward in these difficult times.
- o The focus for a study in 2009 therefore was not hotel performance but hotel development, through establishing a detailed up-date on proposed projects whilst also understanding the City's positioning as a hotel investment location. These outputs will help to inform the partners' planning and inward investment work.
- o The approach for 2009 has also included some work to better understand the contribution of certain new market drivers – particularly the Liverpool Arena and Conference Centre and the cruise liner terminal.
- o Other drivers to future market growth have also been assessed in order to produce some long term forecast scenarios from a stabilised 2007 baseline of how the market might grow and what this could mean in terms of hotel development needs.

Research Modules

- o 'State of the nation' hotel sector review
- o Target brands for Liverpool
- o Positioning Liverpool against its competitors – benchmarking report
- o Proposals and sites up-date
- o Hotel developer intent and perceptions
- o Assessing new market drivers
- o Longer term forecasting.

Below we summarise the headline findings from each module of research and draw together

Report 1 – State of the Nation Hotel Sector Review

- o **Trends in Performance**
 - o Up to 2007/8
 - The hotel sector had been performing at record highs - 75% in 2007 – and ARR of £88;
 - The last quarter of 2008 saw a drop resulting from the economic down turn – ending 2008 at 74% occupancy and £90 ARR;
 - Provincial occupancies and ARR are lower and more stable but evidenced a similar pattern – a high of 71% occupancy in 2007 and £72 ARR dropping slightly to 70% and £72.
 - o From 2009 +
 - The downturn from the last quarter of 2008 deepened in the early part of 2009;
 - Price Waterhouse are forecasting drops of 10% points in occupancy and over 9% in ARR for the year;
 - The second quarter improved the rate of decline and over the 6 months to the end of June 2009 occupancies have averaged a 3-4% decline whilst ARR have declined between 7 and 7.5% nationally. Rooms are being filled at the expense of rate.
 - Worse hit destinations are those where there has been significant new supply
 - Corporate and conference demand has been particularly hit

- There is some evidence of a benefit to the sector from the UK holidaying at home and from an increase in overseas visitors taking advantage of the weakness of sterling.

- **Trends in Supply**
 - The impact of the Credit Crunch
 - The Credit Crunch is making it more difficult for hotel developers to secure finance;
 - There is a general aversion to risk/unproven locations;
 - Many are pursuing management contract strategies;
 - An advantage is that hotel companies are being offered sites they wouldn't normally get, including residential sites which they would have been priced out of in the past, and land prices are down by as much as 50%;
 - It is a time of great opportunity for those developers and operators with money;
 - Guarantees being sought for some more marginal schemes;
 - A number of companies have collapsed under the strain, including Purple Hotels and Folio.
 - Product trends
 - The budgets are continuing their rapid expansion eg Travelodge, Premier and Etap;
 - New mid-market upper tier budget brands are entering the market, eg Hampton by Hilton and Ramada Encore;
 - Budget or mid market boutique hotels are a new feature including Hoxton Urban Lodge, Big Sleep and Citizen M;
 - Small boutique chains are continuing to emerge and expand eg Bespoke and MourHotel;
 - The larger international chains are also introducing new boutique brands – examples include Hotel Indigo (IHG), Denizen (Hilton), Missoni (Rezidor);
 - Some 4 star activity continues including Millennium & Copthorne, Radisson, Ramada & new companies such as Sandman from Canada;
 - 3 stars brands still in the market include Hilton Garden Inn, Courtyard and Park Inn;

- Serviced apartments and aparthotels are an emerging sector – Base2stay, Staybridge and Chamberz are examples, Accor are also looking to introduce Adagio.

Report 2 – Target Hotel Brands

- This document sets out a list of hotel brands that Liverpool might usefully target that reflects the hotel companies active nationally, what is happening in terms of new hotel development in competitor cities, and gaps in the Liverpool offer identified through the benchmarking analysis.

Report 3 – Benchmarking Liverpool Against Its Competitors

- The benchmark cities for Liverpool were Manchester, Glasgow, Leeds and Newcastle.
- There has been significant new hotel development in all 5 cities over the past 5 years
 - Liverpool is second in terms of percentage growth in supply (62%) and 3rd in terms of absolute number of new rooms;
 - Liverpool and Manchester will see particularly strong growth in hotel supply between 2008 and 2010;
 - The pace of hotel development has slowed in Leeds;
 - Liverpool still has the lowest total number of hotel rooms– a similar level to Newcastle but 1000 less than Leeds, 4000 less than Manchester;
 - Products and brands for Liverpool to target are those that are starting to develop in the UK and that have opened in the other cities but are not yet represented in Liverpool:
 - Boutique/ lifestyle brands of the major hotel chains eg Starwood
 - 5 star/ luxury brands – if ARR's are high enough – eg Jumeirah, Edwardian;
 - Budget boutique brands eg Citizen M, Sleeperz;
 - Boutique chains not currently represented in Liverpool - Abode, Apex, Hotel du Vin;
 - 4 star brands not represented in Liverpool eg City Inn;
 - 3 star/ mid market brands not in Liverpool/ but developing in the UK eg Hilton Garden Inn, Park Inn, Ramada Encore;

- Budget brands not in Liverpool, or that might consider second and third sites eg Days Inn, Super 8, Travelodge;
- Aparthotels and suites eg Roomzzz.

Report 4 - Hotel Development & Sites Up-Date

- o This report builds on and adds value to the City Hotel Development Up-Date published in May 2009.
- o Some of the information it contains is confidential – clearly there are sensitivities here about whether schemes are going ahead and whether funding and operator interest can be/has been secured.
- o The up-date has provided an opportunity to establish contact directly with site-owners and developers and where possible to standardise the information available in each case in terms of:
 - o Developer/landowner contact details;
 - o Hotel operator and contacts;
 - o Size;
 - o Planning status;
 - o Timescale.
- o The big picture shows:
 - o Immediate schemes that could deliver over 1000 rooms in 2009/10, in 9 hotels;
 - o Mostly in the city centre;
 - o Mainly boutique, 4 star and budget;
 - o Major brands opening include Hilton, Novotel, Premier Inn and Travelodge, plus some niche and innovation brands such as Bespoke and Base2stay;
 - o Another 1000+ rooms confirmed in 7 hotel schemes.
- o Some of the site owners, developers and hotel operators consulted asked for feedback on hotel development activity in the City– this presents an opportunity to build up more of a dialogue with them.

Report 5 - Hotel Developer Intent & Perceptions

- o The sample for this element of the research was made up of hotel companies thought to be interested in the city/involved in current and emerging schemes, but also some potential new targets drawn from the UK performance and development review and the comparator city benchmarking modules.
- o The research checked out their progress with specific schemes but also probed their image of City, the impact of Capital of Culture on their investment decisions and perceptions, any obstacles to investment being faced, and any future site interest.

- o **The climate for investment**
 - o Hotel developers indicated this was a difficult time accessing funding;
 - o Values are also an issue, particularly in terms of the end value of a development, which currently can fall below development costs;
 - o As a result there is a focus on management agreements by many;
 - o Those with funds are looking at triple A locations, only the strongest sites;
 - o The overall message is that the credit crunch has reined in development plans of hotel companies, but that development is slowing rather than stopping;

- o **Brand Interest**
 - o There remains interest from across the spectrum of hotel offers in Liverpool;
 - o Most schemes where operator interest has been confirmed are still going ahead – although 2 were identified as having funding problems;
 - o Several companies were looking at multiple brands (Accor) and multiple hotels serving micro-markets (Travelodge/Premier Inn);
 - o There remains evidence of innovation brands featuring, such as Base2Stay and Hotel Indigo – this is evidence that Liverpool is a strong enough destination to support new brands without a network currently in place;
 - o Hyatt and Sheraton are both looking at placing new lifestyle brands in the city – these are only just being introduced to Europe in 2009 (Hyatt Place and Aloft);
 - o Sheraton may also look at a full service luxury brand – on a management contract basis only;
 - o There is also a hip cool and funky component to brand interest– Bespoke and Hyatt Place are good examples, being design and tech savvy – all of which is good for destination image;

- There was also brand interest that would appeal to a young market, in terms of EuroHostel and Smart City Hostels;
- In terms of those brands not interested in Liverpool, there was an element of partial apathy where funding is not currently available, but others mentioned more specific reasons including:
 - A perception of local developer control over key sites and schemes making it a difficult city to get into;
 - Too much new supply proposed;
 - An element of the city being peripheral and leisure driven;
 - Some wanting to get into other cities first eg Manchester, Birmingham, Glasgow;
 - The poor quality of the environment in certain locations eg around Lime St and on the approaches to the city from the M62;
 - Some sites and schemes were seen as costly and difficult to deliver.
- **Capital of Culture**
 - There were a lot of very positive about the city;
 - Companies like Accor like Liverpool – their existing hotels have performed well despite the challenges of the market;
 - Performance in Capital of Culture year was critical to Travelodge's decision to invest in multiple hotels across the city;
 - Others spoke very highly of the strength of the leisure offer in Liverpool, which they thought better than Leeds and Manchester;
 - Capital of Culture was seen as being key to putting Liverpool up where it should have been some time ago in terms of its comparator cities;
 - Several mentioned the positive impact of hosting the BCSC retail property conference in 2008, which was felt to have has a big effect on agents, investors and developers who had outdated perceptions off Liverpool, are often London based., and were very impressed with the city;
 - Sustaining the momentum of Capital of Culture will now be key.

Report 6 – Drivers of Future Market Growth

- o The research identified good potential for growth in all markets (corporate, residential conferences, city conferences, contractors, leisure breaks, overseas tourists, group tours, VFR, football, clubbers/stag & hen parties, airport-related) given:
 - o The continued development of the City Region's economy;
 - o The planned new office and business park developments;
 - o The attraction of new companies and organisations – particularly in sectors that are productive in terms of hotel demand;
 - o The progression of the major development schemes – particularly Liverpool Waters and Wirral Waters;
 - o The heightened awareness of Liverpool as a city break destination following Capital of Culture, the opening of Liverpool One and the development of the city's attractions, cultural and hotel product;
 - o The new demand for hotel accommodation that the Liverpool Arena & Conference Centre (ACCL) is generating;
 - o The continued expansion of Liverpool John Lennon Airport (LJLA).
- o The pace of growth appears to have slowed as a result of the recession – it remains to be seen how quickly the city will recover from the recession in 2010 and beyond;
- o ACCL is clearly delivering significant new demand for hotel accommodation. There is no data currently available to be able to quantify this demand however.
- o There are a number of specific locations in the city that look likely to deliver new drivers of hotel demand that may support new hotel development:
 - o Central Business District
 - o Waterfront – ACCL/Kings Dock, Princes Dock
 - o Baltic Triangle
 - o Liverpool Waters
 - o Liverpool Innovation Park/Edge Lane
 - o LLJLA/ Speke.
- o These locations may form the basis of a locational strategy for future hotel development in Liverpool – to ensure that hotels are delivered to fully support and service the new drivers of demand in the city.

Report 7 - Projections Of Future Hotel Demand – Liverpool City Centre 2007 – 2022

- o These are fairly broad brush projections based on relatively limited data, particularly in terms of denied business – so should be treated with caution and be recognised as being for indicative purposes only.
- o On the basis of the assessment of the potential drivers of future market growth, there would appear to be good reason to be bullish about the potential for further growth in hotel demand in Liverpool city centre; virtually every market is forecast to grow, assuming that the city recovers quickly from the recession.
- o A range of projections that includes a fairly bullish high end growth forecast is a useful basis for planning a series of development scenarios to reflect the potential growth and how the city might best accommodate this.
- o The projections show:
 - o Potential for significant further hotel development across all standards in Liverpool, depending on how strongly the market grows;
 - o No requirement for further 4 star hotels over and above the current pipeline until some time after 2010. There could be a danger of oversupply at this end of the market if many of the additional proposed 4 and 5 star hotels go ahead;
 - o In the longer term, potential for further 4 star and boutique hotels, and possibly 5 star hotels, especially if the medium and high growth scenarios are achieved;
 - o Potential for one and possibly two further 3 star hotels by 2012 if the market grows strongly; some of this potential may be met by the upper tier budget Hampton by Hilton and by existing 4 star hotels trading down as new 4 stars open in the city;
 - o In the longer term potential for a number of additional 3 star hotels especially if the medium or high growth scenarios are achieved;
 - o Potential for up to 4 further budget hotels by 2012, and a significant number of further budget hotels through to 2017 and 2022.
- o The projections suggest:
 - o A need to focus more on encouraging budget and mid-market hotel development rather than further 4 star hotel provision.
 - o There may also be a case for targeting further boutique hotel development in order to broaden the city's hotel offer and attract higher spending visitors.
 - o There could also be a case for seeking to attract a 5 star hotel, depending on ARR levels at the top end of the market.

Next Steps Action

- **Sites and schemes**
 - Encourage site owners and developers to look at the target brands - influence schemes away from 4 star offers where necessary in view of potential oversupply – put them in touch with best fit brands and identified interest;
 - Provide site owners and developers with up-date material on proposed hotel developments in whatever published form is available, so they are aware what else is happening in the city (see appendix for those developers that specifically requested this);
 - Consider developing a future locational strategy to reflect the likely location of market drivers; build hotel sites into these schemes; feed this into LDF documents as appropriate;
 - Review the implications of the study findings for Kings Dock. There remains developer interest here; some feel Liverpool 1 and ACCL have pulled the city's centre of gravity further towards the waterfront; ACCL feel the need for more hotel accommodation close to their facilities; on the down side, exposure to the elements remains an issue, and others were now focusing on the city centre/station and city centre north areas;
- **Inward investment – furthering hotel developer interest**
 - Follow up with newly expressed interest eg Starwood, Smart City Hostels, Hyatt, Yotel (contact information at appendix); clarify who will lead on this, how it will be actioned and what support materials can be provided;
 - Additional targeting of best fit hotel offers:
 - Innovation brands
 - Budget and mid-market and boutique
 - 5 star – depending on ARRS being achieved
- **Drivers to demand**
 - Undertake research to assess the level and nature of demand for hotel accommodation that ACCL is generating – most likely through a delegate and audience survey;
- **Future performance monitoring - Liverpool**
 - Undertake detailed performance research in Jan 2011 – to obtain 2009 and 2010 data; 2009 will be another atypical year due to the impact of recession and 2 new 4 stars opening);

- LJF doesn't provide enough detail to fully understand the market eg in terms of denials, individual hotel performance, performance by standard, individual market segment trends;
- **Future performance monitoring – Merseyside**
 - Need to up-date – 2003 data – a lot happened since especially in Southport;
- **Image-building**
 - There is still an element of negativity about the city out there in the market – these perceptions need to be turned around;
 - Focus should be both property sector and industry targets;
 - Attendance at MIPIM featuring hotel development potential and sites is one route;
 - Hosting of Property Conferences and Hotel Industry Conferences/Awards at ACCL.

SITE OWNERS & DEVELOPERS REQUESTING SCHEME UP-DATE MATERIAL

Site/Scheme	Contact Name	Contact Details
Royal Insurance Building	Beverley King Kingsgate Liverpool	t. 0207 405 5555. e. bev@kingsgatelondon.com
Kings Dock Mill	Jonathon Pritchard	Tel: 0151 707 8028. E: > info@lagp.co.uk
5 Brunswick Street (Heywoods building).	Clive Lewis	t.0)207 629 510 e. cl@lewis-tucker.com
Martins Bank	Bernard Byrne Castlewood Securities	t. 0151236 0767 e. bernard@castlewoodproperty.com
Central Village, Watson Building/Lewis Building	Ian Jones Mere Park	0161 929 7662 e. ian@merepark.co.uk
Princes Dock, Plot 7	Ian Pollitt Peel Holdings	t. 0151 949 6317 e. ipollitt@peel.co.uk
Stonedale Retail Park, East Lancs Rd	Jeff Hocking Whitestone Land	t. 07876 675364 e. jeff.hocking@whitestoneland.co.uk
14-16 Chapel Street	Simon Matthews- Williams Sanguine Hospitality	t. 07795 222 999 e. s.matthewswilliams@hoolehall.com

NEW HOTEL DEVELOPER & OPERATOR CONTACTS TO FOLLOW UP

Site/Scheme	Contact Name	Contact Details
Eurohostel	William McClelland m. 07730 700477 e. williamm@euro-hostels.co.uk	Eurohostels Ltd 16 Charlotte square Edinburgh EH2 4DF
Hyatt	Oliver Berger Vice President, Development & Acquisitions t. +41 (21) 683 51 45 m. +41 (79) 793 16 35 e. oliver.berger@hyattintl.com Heidi Luze Development Assistant e. Heidi.luze@hyatt.com	Hyatt International – Europe Africa & Middle East World Trade Center Avenue de Gratta-Paille, 2 1000 Lausanne 30 Switzerland Development Administration Hyatt International (EAME) LLC Balz-Zimmermannsrasse 7 Postbox 8058 Zurich Airport Switzerland
Smart City Hostels c/o Starboard Hotels	Paul Callingham Managing Director e. paul@starboardhotels.com	Starboard Hotels Ltd Roselodge Suite Wembley Point 1 Harrow Road Wembley HA9 6DE
Starwood	Niall Kelly Director of Development, Europe, Africa & the Middle East t. 003 22 224 3555/3516 e. niall.Kelly@starwoodhotels.com Dianne Fox (PA) t. 003 22 207 5022	Starwood Divisional Office C/o Sheraton Brussels Hotel & Towers Place Rogier 3 Brussels
Yotel	Gerard Greene CEO t. . 0207 224 0751 e. Gerard@yotel.com	Yotel 9 George Street London W1U 3QH