

TOTAL UK HOTEL CONSTRUCTION EXCEEDS £20bn IN PAST DECADE



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20
£billion
total investment in
the last decade

Over 100,000 new hotel rooms have been built in the UK in the last decade, plus extensive refurbishment in leading properties and rebrandings. With total investment at well over £20bn, the industry is a key player in the UK economy.

How much has been spent building all these new hotel rooms in the UK over the past decade? Using the listing that, for well over a decade this publication has annually published, and collaborating with Gleeds, I have sought to answer that question. Although there are almost certainly some omissions in this publication's database, it is the most comprehensive available.

From that excellent start we incorporated into the database the ability to analyse the database by brand, by region and by city as well as by the number of bedrooms.

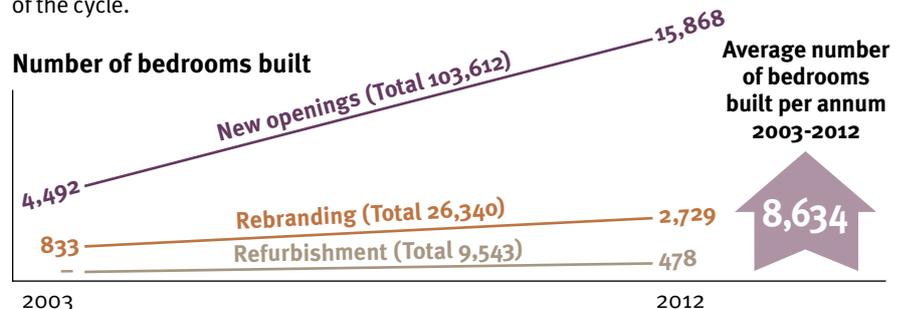
Gleeds then took the database and incorporated construction costs on a consistent basis, taking due account of location, brand and size of hotel. They also adjusted for timing so that the end value reflects what it would have been had all construction taken place in Quarter 4 of 2012. Of course the resulting estimate is broad, so there is a risk of incompleteness or inaccuracy, but it does provide a sound basis to estimate the construction worth of the UK hotel sector over the period.

As the table on page 16 shows, the database tracks 103,612 rooms (in 983 hotels) that opened between 2003 and 2012, 26,340 (219 hotels) that have switched brands and a further 9,453 (96 hotels) that have undergone significant refurbishment. In the case of rebranding a level of capital expenditure is assumed to be spent to bring a hotel to the new brand standards when it changes brand.

This does not always amount to a full refurbishment but is usually more than simply changing the signage and costs have been estimated on a suitable basis.

It also depicts the development cycle: the highest level of new openings will be this year (2012), largely due to the Olympics. 43.3 per cent of newly opened rooms were in London. Prior to that, the peak year was in 2008, followed by 2004, 2007 and 2011.

It is a reminder that so frequently the hotel development cycle is mis-aligned with the economic cycle: the development and build period is long, and much happens in the economy from conception to opening. In recent years and, indeed, currently, it has been hard to find bank funding for new developments. Thus, in the coming years, the pace of hotel openings will most likely slow (but not stop entirely) yet the cycle will resume again and chances are that the peak number of new openings will once again align with the top of the cycle.



Using Gleeds analysis of the database we are also able to express this in financial terms which is illustrated in the following table and shows an overall estimated construction cost of £12.4bn, predominantly in new build hotels (including conversion to hotel use of existing buildings). In seven of the ten years, the construction value of completed projects in the sector exceeded £1bn, the peak in this case being in 2008 when value exceeded £1.7bn. The Olympic Year fell only slightly short of that level.

This estimate of cost takes account only of construction cost, including fit-out. It excludes the professional fees which might be up to 10 per cent of total project cost for budget and midscale properties, or 15 per cent for full service or upscale properties with a larger interior design element. The value of the land on which the hotel stands can also vary significantly and might range from 20-100 per cent of construction cost.

Thus the overall economic impact of hotel development in the UK is well beyond the £12.4bn of construction value that we estimate here; it probably stretches beyond £20bn over the past decade although it is not possible to quantify accurately.

12.4
£billion
estimated construction cost
of UK hotels 2003-2012

78%
of construction costs
are for new builds

57%
of new openings have
been in the budget sector

Almost certainly these figures are understated, especially for refurbishments. They include only the most significant of these, and even then only the construction elements omitting professional fees etc. Also under the radar is the regular refurbishment capital set aside by hotels to upkeep their facilities. In the management agreements of the larger brands, for example, there is a requirement to set aside 4-5 per cent of annual revenue to upkeep the property. That is not included. So the refurbishment element only includes projects that have significantly

repositioned a property, rather than maintained its standards.

In the table below Gleeds have presented some summary data of 'rule of thumb' per room costs that are applicable for UK hotels. However for this analysis they have applied their more detailed industry expertise and knowledge of hotel construction costs, taking account of factors such as brand, location and project size to make a (still broad) estimate for each of the projects in the database, rather than relying solely on these 'rule of thumb' figures.

Estimated construction costs (£)

Sector	Budget bedroom	Midscale bedroom	Upscale bedroom
Size of room	Up to 22m	24-30m	28-50m +
Construction Costs	34,000-50,000	50,000-130,000	135,000-325,000
Fees	4,000-6,000	7,000-20,000	20,000-40,000 +
Furniture, fittings & equipment	4,000-6,000	8,000-20,000	25,000-35,000 +
TOTAL	42,000-62,000	65,000-170,000	180,000-400,000

Source: Gleeds (Q4 2012)

NB. Figures exclude utility connections, land cost, pre-opening costs and finance during construction

The predominant force has been the budget hotel sector as shown in the table left, which shows that 58,612 rooms, 56.6 per cent of total new openings, have been in the budget sector with the two largest players, Premier Inn (19,311 rooms) and Travelodge (18,433) being the driving force; the next largest, Holiday Inn Express, opened 5,588 rooms (referencing this publication's database).

The database further reveals that only 12,619 unbranded hotel rooms have opened in the UK in the past decade (including some in small chains), which further supports the article on branding and franchising on page 31 of this publication. The emergence of niche sectors such as boutique hotels and Aparthotels is also revealed. Some of the unbranded hotels fall into these sectors as well as country house and the pub sectors, so not all are the traditional independent hotel by any means.

Analysis also shows that there were only two brands in the UK that drove construction values of more than £1bn – the budget giants Premier Inn (£1.3bn) and Travelodge (£1.05bn) exceeded that mark and unsurprisingly are now the largest hotel brands in the UK. These brands are also the only ones that tend to reach those parts of the country that others cannot reach – their development strategies featuring a wider variety of locations than any other brands in the UK market today.

More surprisingly, among the multi-brand global players it is Carlson (Radisson, Park Plaza, Park Inn) that has had the greatest impact on UK construction with a cost of almost £1.4bn although this was especially driven by some large Park Plaza developments in London including the city's largest recent opening, the 1,021 room Park Plaza Westminster Bridge.

New openings (2003-2012)

	Hotels	Rooms	Estimated. Construction Cost (£m)
Budget	580	58,612	3,366.8
Mid Market	97	16,880	1,664.7
Full Service	67	14,609	2,503.9
Independent	139	5,868	915.8
Boutique	47	3,593	592.3
Aparthotel	23	1,407	96.4
Upscale	9	1,356	463.4
Hostel	5	435	13.4
Resort Lodges/Apts	3	383	61.6
Country House	7	297	63.5
Pub	5	151	5.2
Beach Hut resort	1	21	2.2
TOTAL	983	103,612	9,749.2

Source: Melvin Gold Consulting/Gleeds/BHA Trends & Developments database

InterContinental Hotels, with six different brands under development, was the only other company to generate development of over £1bn. Accor is estimated to have generated £760m of construction and Hilton is estimated at £610m.

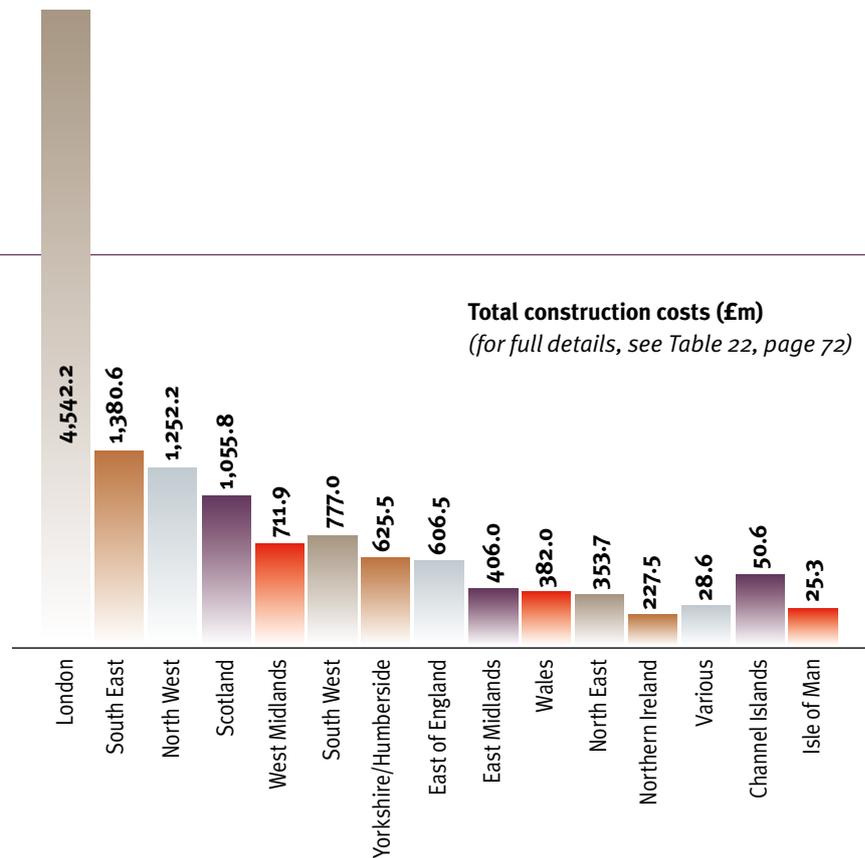
Regional and city analysis shows that London has had the greatest number of new hotels as well as rebrandings and refurbishments, proving once again that it is one of the most dynamic hotel markets in the world.

As the chart (right) shows, the North West had the next highest level of new openings but, when taking account of rebrandings and refurbishments, as well as new build, the South East had the second highest number of overall rooms. Scotland and the West Midlands were next in the rankings.

In construction cost terms, the differences were also stark. London drew £4.5bn of construction value, whereas only two English regions – the South East and the North West – exceeded the £1bn mark, as well as Scotland. This is also partly driven by the type of hotel and also by varying regional costs of construction.

In London, having a lower proportion of budget hotels and more upscale and full service, cost per room (taking account of new, rebranding and refurbishment) averaged £109,951 per room whereas the average cost in the South East was £85,460 per room and in the North West and Scotland it was £83,374 and £87,350 respectively.

In terms of cities, London had 25,681 new build rooms, with a further 3,370 at Heathrow, 1,125 at Stansted, and 386 near Gatwick. This is substantially more than the total supply in any other UK city. Nonetheless growth of 5,303 rooms in Manchester, 3,698 in Birmingham, 3,244 in Liverpool and 3,238 in Edinburgh were substantial increases. In fact there were 14 UK cities which had more than 1,000 rooms added during



the decade (as well as Heathrow and Stansted).

Rebrandings were especially prevalent in Scotland with Glasgow and Edinburgh having 1,159 and 744 rooms changing brand, respectively. These were in third and fourth place, only surpassed by London and Gatwick. Apart from London, significant levels of refurbishments were reported in Bournemouth and in Cardiff.

Putting the UK hotel industry's impact on the construction sector in context, the £12.4bn of construction in a 10-year period indicates that this is 6.1 per cent of total UK Private Commercial Construction across the period. In overall terms, the Office of National Statistics estimates that new orders for Private Commercial Construction placed from mid-2002 until mid-2012 (most recent 10 years) was £204.1bn at current values.

It is remarkable that in 1969 the then government introduced the Hotel

Development Incentives Scheme (HDIS) which gave developers a grant of up to £1,000 per bedroom (£1,250 in London) – a significant contribution in those days. Such was the stimulus then required by the sector which sparked construction of 54,772 rooms (including extensions) between 1969 to April 1973, when the scheme ended.

Now, without incentives, and largely unloved by government, the hotel sector has developed 103,612 rooms in 983 new hotels in a decade that has included the worst recession in the country's history. It has driven a construction value of £12.4bn, excluding professional fees and the value of the land, and has played a major part in stimulating regeneration.

Further proof that the hotel sector, and UK tourism in general, is a vibrant industry and is a significant contributor to the UK economy, creating both direct and indirect jobs, is hardly needed.

Melvin Gold, FIH, is a leading independent hotel industry consultant. More details of his services, and his contact details can be found at www.melvingoldconsulting.com.

Gleeds is a world class management and construction consultancy with over 125 years' experience in the building and construction industry. It has a particular specialism in the hotel sector. Contact: Steve Lacey, Director (steve.lacey@gleeds.co.uk)

Further supporting tables for the data presented in this article will be included at www.melvingoldconsulting.com/UK%20Hotel%20Supply.html

Table 20: Number of hotel bedrooms built, 2003-2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
New Openings	4,492	12,545	7,792	8,346	10,959	13,491	9,944	8,990	11,185	15,868	103,612
Rebranding	833	147	1,205	3,771	3,897	3,528	4,137	1,887	4,206	2,729	26,340
Refurbishment	-	65	470	830	3,499	1,872	1,052	725	462	478	9,453
Total	5,325	12,757	9,467	12,947	18,355	18,891	15,133	11,602	15,853	19,075	139,405

Source: Melvin Gold Consulting analysis of BHA Trends & Developments database

Table 21: Estimated construction cost of UK hotels 2003-2012 (£m)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
New Build	361.7	1,282.9	617.5	705.8	871.1	1,297.7	975.5	1,097.5	1,154.0	1,385.5	9,749.2
Rebranding	33.7	11.6	84.6	181.5	266.1	241.0	332.6	143.3	240.1	178.1	1,712.5
Refurbishment	0.0	17.7	38.3	52.4	284.9	165.1	115.6	197.1	39.0	53.6	963.7
Total	395.2	1,312.2	740.4	939.7	1,422.2	1,703.8	1,423.7	1,437.9	1,433.1	1,617.2	12,425.4

Source: Gleeds estimates based on BHA Trends & Developments database, as analysed by Melvin Gold Consulting

Table 22: Number of new build rooms, rebrands and refurbishments by region 2003-2012

	New Build (Rooms)	Rebrandings (Rooms)	Refurbishments (Rooms)	Total (Rooms)	Total Construction Cost (£m)
London	28,791	10,084	3,133	42,008	4,542.2
South East	12,432	3,480	813	16,725	1,380.6
North West	12,980	1,644	416	15,040	1,252.2
Scotland	9,047	2,902	288	12,237	1,055.8
West Midlands	7,996	932	631	9,559	711.9
South West	6,357	1,711	1,367	9,435	777.0
Yorkshire/Humberside	6,443	1,293	438	8,174	625.5
East of England	6,101	1,235	173	7,509	606.5
East Midlands	4,201	911	111	5,223	406.0
Wales	3,881	517	414	4,812	382.0
North East	3,298	306	127	3,731	353.7
Northern Ireland	1,708	356	426	2,490	227.5
Various		763	970	1,733	28.6
Channel Islands	313	70	146	529	50.6
Isle of Man	64	136	-	200	25.3
Total	103,612	26,340	9,453	139,405	12,425.4

Source: Melvin Gold Consulting/Gleeds/BHA Trends & Developments database