

Quantification of serviced accommodation
supply in the United Kingdom and
consideration of related issues

2nd edition

Prepared for:



March 2011

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Melvin Gold Consulting Ltd.

Specialist consultants to the hotel industry

The Directors
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7 March 2011

Dear Sirs

Re: Considerations of UK Serviced Accommodation Supply (2nd edition)

Thank you for retaining us to update the quantification of supply in the UK hotel and serviced accommodation industry report that we originally prepared in 2007/8, and to consider a number of related issues. As one of the largest hotel companies in the UK, and one of the fastest growing, you have once again commissioned this report in order to gain additional insight into the macro-environment in which you compete. This is a poorly documented area as we discuss within the report. It is therefore your further intention, in the spirit of good corporate citizenship, to make this report and its findings widely available.

Our report is contained herein, taking account of our original research conducted from July to September 2007 and updated through further research between October and December 2010. From our research you will note that we generally consider that the quantum of serviced accommodation supply in the UK is rather higher than is generally reported. Of course a large number of issues have emerged from our research, which are considered within this report in some detail, but the implication is that the budget hotel sector is still well below the comparable size in other mature markets, despite having undergone significant growth in the UK over the past 20 years.

As is usual in such reports we have, by necessity, made a number of assumptions (generally following research) which lead us to the conclusions contained herein. However this exercise is a secondary research exercise and the primary research is inconsistent and often less than optimally documented. In addition parts of the report are forward-looking and naturally there are risks implied by changes of future circumstances, and of course judgement, in considering how the market might develop in the future. Whilst this report sets out our findings and opinions, after considering all the factors of which we have become aware, any decisions made by yourselves, or any other company or individuals who have sight of this report, remain with the project principals.

This report has been prepared in accordance with our engagement letter the terms of which, because this document is intended for the public domain, shall remain confidential between us. Whilst we have used all reasonable care and skill in undertaking the assignment we are not responsible and cannot be held responsible for any losses or other liabilities arising from the conduct of this assignment, or from any actions taken as a result of the information provided. Furthermore the report was commissioned by Travelodge in accordance with a brief established between Melvin Gold Consulting Limited and Travelodge. It is intended for commercial use by Travelodge in accordance with its business objectives. Although we recognise that the

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report is intended to be widely distributed and available, it does not constitute advice to any third party and they should retain their own independent advice.

We thank you for having retained us on this most interesting assignment and remain at your service for further advice or discussion concerning this report or our findings generally.

Yours faithfully

A handwritten signature in black ink, appearing to be 'M. Gold', written in a cursive style.

Melvin Gold

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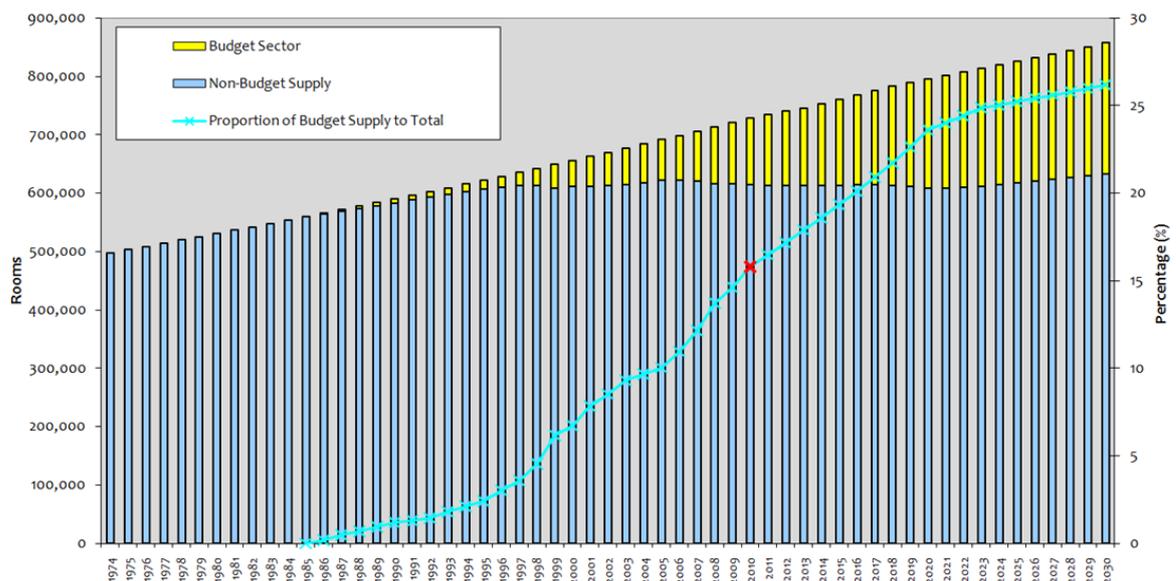
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1 – Executive Summary

- **The existing statistical base of the accommodation sector of the UK tourism industry, and arguably of the whole industry, is relatively poor.** This is an issue that has long been highlighted and in fact the Department of Culture, Media and Sport (DCMS) set up a working party in 2004 to investigate and make recommendations into the whole topic. It does not appear much progress has resulted.
- We have reviewed information from a variety of sources and found that it is inconsistent. Overall we believed that there was still enough doubt about the accuracy of the official statistics to warrant further investigation and to once again build up our own view of the UK's serviced accommodation stock.
- **Our methodology was to conduct a secondary research exercise** utilising data available from other sources. Our natural starting point was to verify the data currently held by Regional Tourist Boards and Regional Development Agencies for their own areas. The information available varies significantly from region to region and organisation to organisation. We have reviewed the data available and how it is obtained, the age of the data, and summarised any steps we have taken to verify or update the data to form a reliable information base. This is presented for each of the English RTB/RDA areas as well as for Scotland, Wales and Northern Ireland.
- Based on our research and review of the sector as described and discussed in this report, it is our view that currently **there are approximately 728,671 rooms in the UK at present.**
- We have uncovered data which reliably quantified UK hotel supply at 497,502 rooms in 1974. If we consider that as a fixed data point and set this against our view of 2007 supply this implies **a compound annual growth (CAG) of 1.066% across the 37 year period.** Given that we have additionally included Youth Hostels in our supply base, the actual like-for-like figure would be slightly lower.
- From our research we believe that some **39.7% of UK serviced accommodation might be considered as corporate branded** and an additional 6.6% is part of consortia, the remainder being Independent (53.7%). Our database identifies **15.8% of accommodation as being in the branded Budget sector**, 13.7% as Full Service and 9.9% as Mid-Market. Of course in reality the Mid-Market is the largest sector because most of the Independent supply would also fall within the mid-market definition. Our report also contains regional analysis and data for the largest cities.
- According to our research there are now **some 115,196 rooms in the budget sector** and indicates that, at the end of 2010, 15.8% of total UK serviced accommodation is within that segment. The largest four budget hotel companies operate over 84% of segment supply. The budget sector has grown at 10.22% per annum in the past decade and exceeded 20% in the prior decade.
- Our research indicates that in the **USA and France the budget segment accounts for 32.8% and 24%** respectively of total supply. Some 68.5% of US hotels are branded and 40.7% in France. All these figures are above UK comparables.

- We have constructed a scenario for the UK hotel industry over the next two decades which envisages supply growth at a compound rate of around 0.75% per annum during the next three years, then a return towards the 1% rate for five years from 2014 to 2018 before returning to a rate of some 0.75% from 2019 to 2030. On a compound basis we also envisage the budget sector growing by around 5% per annum until 2020, approximately 2.5% per annum from 2021 to 2024 and some 1.5% from 2025 until the end of that decade. **This would see total supply reach 856,750 rooms in 2030, with some 224,266 of these rooms being in the budget segment.** Thus the budget segment would reach some 26.2% of total supply in 2030, still below the current US level and only slightly above the present level in France. This is illustrated as follows:

Illustration of future serviced accommodation and budget supply growth



- This scenario implies that **existing hotels will both fall out of the market for redevelopment as hotels or other uses**, and will be converted to budget hotel use. Thus the budget segment would gain supply at the expense of the Independent and mid-market hotels. Under this scenario total branded supply in the UK might reach the current US level of around 68.5% of the market.
- Visit Britain estimate that **UK tourism was worth approximately £115bn** in 2009. Research indicates the **UK tourism industry currently reflects around 8.9% of UK GDP** and is perhaps responsible for around 2.6m jobs, one in 12 of total UK jobs.
- A GDP of some £115bn (say US\$175bn) would indicate that the UK tourism industry is **almost at the level of the entire economy of countries such as Ireland and Finland** and well above countries such as Kuwait and New Zealand.
- The UK hotel industry remains vibrant with good levels of occupancy being achieved. However even after recent investment activity and the development of several multi-brand hotel companies **the industry is highly fragmented**. The 10 largest operating companies have around 27.9% of total room stock. We have undertaken some comparison against other industries which demonstrates the industry's fragmentation against other consumer-facing comparables.

This report contains a great deal of data and evidence and we recommend that readers review the full report rather than relying purely on this brief summary.

2 – Introduction

Introduction

Travelodge was the UK's first budget hotel brand having opened its first UK hotel in 1985. The name is still the most widely recognised brand in the UK's budget hotel sector. The group was initially developed by Forte and then by Granada and has been revitalised during its subsequent period of private ownership. The group was first taken private under the ownership of Permira and was then bought by Dubai International Capital LLC in August 2006. By the end of 2010 the group will operate over 450 UK hotels with almost 31,000 rooms as well as 10 in Ireland and three in Spain. Travelodge have a continuing strong development pipeline in the UK and are moving forward with their expansion in Spain with the Valencia Airport property now under construction.

The group has adopted a bold, innovative and aggressive approach to the market and this continues despite the adverse economic conditions which have recently prevailed. The group would be seen by most observers as demonstrating industry leadership and its executives have often spoken out on industry issues. Both Group Chairman Grant Hearn and Chief Executive Guy Parsons were in the top 20 of the 2010 edition of "Caterersearch.com 100-The most powerful people in hospitality", both being in the top 5 hoteliers in that sub-division of the same list.

In 2007/8 you took a further bold move in seeking to gather information which becomes authoritative in defining the size of the UK hotel market and selected data on a range of related issues. You have now commissioned an update of that study. Information remains poorly collated, although the previous initiative has been seen as a helpful and authoritative step in defining the size of the sector, and the group continues to require the information for their own commercial purposes. In addition, given their industry leadership and corporate citizenship, they wish to make this information available and easily accessible in the public domain in the hope that it continues to provide a further information platform upon which the industry can build from strength to strength.

The assignment brief

You have retained Melvin Gold Consulting Limited (MGCL), a specialist hotel industry consultancy, to undertake research and data collation to achieve the following assignment brief:

1. What is the size of the UK hotel market at present? What are the identifiable historic growth trends?
2. What is the size and penetration of the budget sector within the overall market context? What have been the trends and what international parallels are there to indicate the potential market size?
3. Taking account of international parallels and UK market conditions, what is a reasonable size for UK hotel supply to achieve before its capacity is constrained? Future growth trends should also take account of declared development and expansion plans of other hotel operators.
4. Review the concentrations of hotels in the UK and produce an appropriate commentary. Attempt some form of regional analysis in supply trends which may include some quantification of major cities' supply. Consider policies and trends which impact on growth and concentrations of hotels and market trends that are relevant to overall size and shape of the industry.
5. Consider recent trading of the budget sector through the recession to demonstrate – assuming the data so proves the case – that the budget

- sector has a resilience to economic downturn beyond that of other tiers of hotel supply;
6. Put the tourism industry in an overall context of its size and scale compared to the UK as a whole.
 7. Using available data, provide a commentary on market share of leading companies in other segments of the UK economy.

Methodology

The methodology has, in the main, been conducted as a secondary research exercise using primary research sources as our core material. We have in some cases conducted our own primary research in order to substantiate and verify the primary sources, and as a basis to modify the base data.

However in the main we conducted the original assignment using the following methodology, and this update has been prepared by revisiting the methodology and data sources to the extent required:

- reviewing available documentation and reports;
- sense checking the information we have uncovered;
- making comparisons between different data sources;
- making adjustments by sampling certain data;
- highlighting inconsistencies that we uncover;
- focusing on key issues that we uncover;
- meeting with key individuals in public and private sector organisations where we believe they have relevant information to contribute;
- writing a report explaining our findings and conclusions and the research methodology that we have used.

We also purchased an updated version of the database of UK hotels and hotel companies from Hotel Data Limited¹. We have compared this to the previous version we purchased and updated for the original assignment. We also sought such further hotel supply data as was required for the assignment, for example we have recognised the consortia segment as a specific tier of the market in this update report. The database that we purchased includes data on some 12,802 hotels in the UK with 532,450 rooms, including information on development projects, and the format has enabled us to interrogate the database by company, by brand (after we incorporated the ability to search by brand) and by area. We have updated the base data provided in some cases and also undertaken significant verification and checking of data related to some of the leading companies. This database has been used for parts of this report, with permission of Hotel Data Limited, and is appropriately referenced when specifically used. Where we refer to 'our database' or a similar variant, it means the database purchased from Hotel Data Ltd and subsequently extensively updated by ourselves over a period of years and for this assignment specifically. It currently comprises 14,385 hotels with 569,982 rooms.

Within this report we have clearly set out our information sources as well as any additional research and/or verification that we have undertaken. Given the limitations in the underlying data, as set out within the report, we do not claim that the report and its findings are 100% definitive but we do believe it is authoritative and sets a basis for a quantification of supply in the UK hotel market.

¹ Hotel Data Limited, www.hotel-data.co.uk. Hotels/Restaurants/Pub Groups and Hotels 10+ Bedrooms

Future updates

MGCL, supported by our client Travelodge, intend to update this report from time to time (in whole or in part) and such updates will similarly be made widely available. We are therefore happy to receive any updated or additional data from interested and involved parties in order to accurately portray the size, importance and prospects for the UK hotel industry. Please e-mail any additional or updated data to melvin.gold@melvingoldconsulting.com.

3 – Key issues for consideration

In the course of research for this study a number of key issues have come to the fore and are discussed within this report. We have highlighted some of these in summary form in this section for readers to further consider as they review the body of the document.

- The UK tourism statistics are acknowledged to be relatively poor and do not provide a firm and easily accessible statistical and information foundation which the private sector could rely on as a basis for investment decisions.
- Statistical data produced by the public sector in relation to the serviced accommodation industry is frequently quantified in terms of beds, bedspaces or bednights whereas private sector operators, owners, developers and consultancies most typically focus on bedrooms. Data on the number of bedrooms in a particular establishment, and the room occupancy, is more easily available than data on beds and it would be advantageous for all statistics to be aligned to rooms rather than beds.
- The supply base of the industry has changed in the past two decades and growth and development in the serviced accommodation segment has been strongly influenced by widespread development of branded budget hotels. These have become popular with consumers and have put pressure on branded-mid-market hotels, independent hotels and bed and breakfast accommodation establishments in particular. Branded budget hotels account for much of the recent growth in UK serviced accommodation.
- Whilst hotel demand and performance is relatively well quantified and available, particularly for branded hotels from commercial consultancy companies, the supply base is much less well defined. The data that does exist is inconsistent and relatively difficult to access.
- The UK budget hotel sector, while demonstrating strong and sustained growth, is still well below the proportion of total supply seen in other mature markets such as the USA and France. It seems certain to grow in significance as a proportion of the overall UK hotel supply.
- There are both positive and negative factors which will impact on future hotel UK growth. A normalisation of supply towards the quality required by 21st century consumers is only likely to be achieved through the development of newer hotels to replace outdated and inappropriate stock. Current planning processes, which sometimes seek to protect an existing poor-quality supply base, may actually serve to delay or prevent progress towards a high-quality, modern hotel industry as required by 21st century consumers.
- The UK serviced accommodation industry will, in the future, most likely be more branded, more highly consolidated, and of better and more consistent quality. As a service sector industry, which is relatively labour intensive, it will grow in significance as an employment source.

4 – Industry background and issues

Introduction

The issue of quantification of, and research into, hotel supply in the UK is a complex one – it is an area which is obviously poorly researched and documented or otherwise this report would most likely not have been commissioned in the first place. The answers do not come readily to hand. The difficulties in obtaining reliable and recent data have been obvious throughout our conduct of this assignment and in this initial section of the report we discuss various issues which we have come across which contribute to this paucity of data.

In our conduct of this assignment, and the related reporting, we have sought to remain professional, commercial and apolitical. Furthermore it was specifically our task to undertake the brief established with our client, Travelodge, and not to seek to remedy or make recommendations in regard to the future of hotel supply data in the UK.

The existing statistical base

As we have already stated, the existing statistical base of this element of the UK tourism industry, and arguably of the whole industry, is relatively poor. This is an issue that has long been highlighted and in fact the Department of Culture, Media and Sport (DCMS) set up a working party in 2004 to investigate and make recommendations into the whole topic. The ‘Review of Tourism Statistics’², authored by Dennis Allnut, was published in June 2004.

The stated summary view of the working group, expressed at their final meeting and reported within the document was that:

“Due to the sheer diversity of tourism services, and the unique challenge of measuring a consumer-defined industry, we have come to believe that there is no other sector in the UK economy as significant as tourism in which the key strategic and management decisions are so hampered by a lack of adequate data. Existing sources are no longer fit for purpose and the potential economic, social and environmental contributions of the tourism sector will only be realised if priority is allocated to better measurement.”

We do not pretend or claim to have read through all of the documentation produced but it is evident that very little has changed in the interim. In December 2004 an Implementation Plan was published (available at the same web location, see below). The overriding considerations were as follows:

- “A. i) The Review comprises a total of 66 recommendations, presented under 14 areas. Only one of these is burden/cost neutral.
- ii) The Review found that Tourism Statistics have been under-resourced, and it calls for substantial additional expenditure (£8m p.a.). Much of this is to produce 2 of the 5 main surveys to a substantially higher quality.
- iii) It is universally accepted that improvements are needed, though all indications have been that only a substantially smaller sum might be made available. Any Central Government contribution will depend on final allocations following the 2004 Spending Review.

² The National Statistics Review of Tourism Statistics. Further details can be located at http://www.culture.gov.uk/Reference_library/Publications/archive_2004/Review_Tourism_Statistics.htm

- B. The Review notes that at present, responsibility for Tourism Statistics rests across a number of organisations. It goes on to recommend a dedicated, central, financially ring-fenced Tourism Statistics Unit.”

It does not appear that much progress has resulted and the situation with regard to the collection of UK Tourism Statistics generally is that the area remains patchy, underfunded and not a government priority. We believe there is now more focus on tourism from the Office of National Statistics but this has so far tended to focus on employment and on inbound tourism. Although, as was stated in our previous report, “the DCMS website stated that a much improved UK Tourism Survey was launched in 2005, that they are in discussion with the Regional Development Agencies and others with a view to improving the standards of regional tourism data and a possible central co-ordination unit for tourism’s statistical resources, and that Tourism Satellite Accounting has been adopted as a methodology for measuring tourism’s wider contribution to the economy from 2004/5 onwards (announcement dated 26 July 2006)”, there has in reality been no real improvement in the supply side data. In some ways things seem to have worsened as we subsequently discuss.

There are some areas of the country where significant work has been undertaken to ascertain the supply base of visitor accommodation. After all it is accepted as a significant contributor to local economies given that overnight visitors are acknowledged to have a higher economic value than day visitors. However in general the area is inconsistently documented and some information is dated.

Public sector cuts, now a feature of Government policy for the foreseeable future, are unlikely to see this area escalated in importance. With the proposed abolition of the Regional Development Agencies which have been the conduit for any public funding for the Regional Tourist Boards and their successor organisations, there is likely to be further turmoil that is unlikely to see supply side information gaining greater priority in the agenda of those organisations.

The role of Visit Britain

It appears that much of the government’s role in relation to tourism is delegated and conducted via Visit Britain, effectively the national tourism board. In itself this organisation is considered to be underfunded and further funding cuts were recently announced to continue a trend in funding to this organisation that has been seen over many years. Although the Prime Minister has made a powerful speech recognising the importance of tourism the reality to date is that there has been little supportive action from a government that is trying to remedy a crisis in the national accounts. Visit Britain’s priority is rightly the marketing of Britain in order to attract tourists, the collection of statistics does not appear to have become an important topic. Visit Britain continues to make a range of tourism statistics available through its own website although Star UK, its former UK tourism statistics website, has now been consumed into the parent organisation website. The statistics presented on the Visit Britain site, and some on the Office of National Statistics site are effectively the UK’s official tourism statistics.

Supply data does not appear although Enjoy England, an organisation representing England’s tourism, did, in 2007, produce a consolidated hotel supply audit by regional tourist board area. This formed the basis of a data submission to Eurostat at that time. It has not been subsequently updated and in fact contrasting information has been produced subsequently by individual tourist regions. The Tourist Boards in Scotland, Wales and Northern Ireland are fairly autonomous in this regard. In the case of Northern Ireland there appears to be a rather more proactive approach to statistics and

information on accommodation supply, most likely due to statutory grading in that country. Data for Scotland seems to have regressed from its previous relatively high benchmark, although Wales was able to produce some data on this occasion which was an improvement on our enquiries at the time of our previous report. We comment subsequently on the data that we have uncovered.

Other statistical sources

We have then investigated the role of various other organisations in the collection, collation and dissemination of tourism statistics although this has rather led us in a circle. Eurostat, the European Union official statistics agency, and the United Nations World Tourism Organisation (UNWTO) are both sources that collate national tourism data from the countries within their remit – the European Union countries and the whole world respectively. However they do not compile primary data and so are hampered by the shortcoming of any individual country reporting in to them. Thus their UK data suffers from the consequences of what we have described in this report.

We understand that until 1991 the UK government census, which takes place every 10 years, identified the supply of hotels in the United Kingdom. However as stated in a report for the Greater London Authority (GLA)³ “the changes to the question asked regarding accommodation in the 2001 Census has meant that this data does not provide an updated estimate of the accommodation stock”. Our enquiries to the Census Office regarding the 2001 Census data resulted in us being informed that there were 8,042 buildings in the UK categorised as Hotels, Boarding Houses or Guesthouses in the UK at that time. In our view this understates the number significantly and in any case the number of bedrooms can no longer be determined from that data.

We believe it is also important to explain Eurostat’s definition of tourism accommodation which it divides and reports upon in two categories. We refer to Eurostat data later in this report. ‘Hotels and Similar Establishments’ include hotels, apartment hotels, motels, roadside inns, beach hotels, residential clubs, rooming and boarding houses, tourist residences and similar accommodation. ‘Other Collective Accommodation Establishments’ include holiday dwellings, tourist campsites, youth hostels, tourist dormitories, group accommodation, school dormitories, serviced apartments, timeshare units, and other similar accommodation.

Regional Tourist Boards and Regional Development Agencies

It is evident that much of the hotel supply data that does exist, and the regional tourism information, is collected at a regional level by the Regional Tourist Board (RTB) or by the Regional Development Agency (RDA). In the case of England this is then passed to Enjoy England for their more centralised collation and reporting to government and other agencies.

The Regional Development Agencies were formally launched in eight English regions on 1 April 1999. The ninth, in London, was established in July 2000 following the establishment of the Greater London Authority (GLA). In 2003 Visit Britain and the English Tourism Council were merged into a single body. At the same time the regional tourism boards were restructured to be aligned with the RDAs with any public sector funding of the tourism boards coming via their RDA. Scotland, Wales and Northern Ireland have their own structures that effectively mirror the English regional structure but in their cases the ultimate body is the national parliament or assembly and not an RDA. In 2009 the structure in England was again changed and, according to the Enjoy

³ Hotel Demand Study prepared by Grant Thornton and The Leisure & Tourism Organisation for the Greater London Authority June 2006. Reference in Section 4.1.

England corporate website “Before April 2009, Visit England existed as an advisory board to the England marketing division within Visit Britain. Following consultation with the tourism industry via the British Tourism Framework Review, the need for a separate and distinct body for tourism within England was identified. Visit England was launched in April 2009.” (Enjoy England and Visit England are the same organisation). That, and the turmoil now unleashed through public sector cuts and the proposed abolition of the Regional Development Agencies, will cause further disruption in our view.

We noted in our earlier report that “While this [the alignment of the regional tourism boards and the Regional Development Agencies] may ultimately make for a more efficient regional structure, in the short term it has been disruptive and this is still evident today. First of all there has been, in some cases, a realignment of tourist board boundaries. Secondly, in some areas there has been a need to reconstitute a tourism board often following such a boundary realignment. Thirdly, in some cases the RDAs have flexed their muscles and withdrawn funding from the tourism board believing that a different structure will be more efficient. Even some years after the original realignment this is happening in the West Midlands at present and the Heart of England Tourist Board is closing down as a result of a withdrawal of funding by Advantage West Midlands, the RDA.”

We also noted that in many cases the research teams in the regional tourist boards have been structured more as consultancies. Thus they are geared to making a charge for conducting specific pieces of research rather than being genuine research teams charged with laying down a basis of genuine research and knowledge about their area which would inform the development community and perhaps being of greater use in driving economic growth. Finally there is the issue of grading and registering accommodation where the tourist boards are often unable to market accommodation in their area unless it is officially registered with them, and often graded as well (either by the Automobile Association {AA} or by the Visit Britain scheme). This means that in some cases the tourist boards are becoming increasingly unaware of some of the accommodation community in their area where such providers have decided not to register or seek grading.

The result of all this is a relatively poor, inconsistent and dated base of knowledge in many areas. In the course of our enquiries for our previous report one regional tourist board informed us that “The difficulty with measuring accommodation and bedstock supply levels is that there is no way of knowing all availability – we have this knowledge for accommodation providers who are members of the ? Tourist Board, but providers are members of ?TB by choice, so there are many more occupancy providers out there that we do not know about.” They then suggested that we review the detail of their occupancy survey because “hopefully occupancy rates may indicate where supply is plentiful or in demand”. It should be said that in the case of seven of the nine English regions we were able to source serviced accommodation audits (or suitable substitute data) which were conducted subsequent to 2007, as we discuss. Some were publicly available on websites and others we had to request.

The availability of data and its quality remains varied across the country. We continue believe, as expressed in our previous report, that if “tourist boards are responsible for providing data to Visit Britain which in turn is being relied on by government, the European Union and international institutions, as well as the private sector, it is unlikely that the data is accurate. The question is how inaccurate is it, and that is what we subsequently explore.”

Where data does exist it appears to originate from one of three sources:

1. A summation of the accommodation on the tourist board's database;
2. An audit and systematic research of accommodation in the area by the tourist board;
3. Provision of accommodation supply data by an external provider as part of their work in preparing an economic value of tourism report for the tourist board or RDA.

In our view the best, and consequently most preferable, of these methods is the second, where a full review of the regional accommodation stock has taken place using the internet, telephone directories, historic records and other sources with appropriate follow up to clarify specific information by telephone or e-mail.

We have not ascertained the level of enquiry undertaken for method 3 since it will no doubt vary by area and by the methodology of each third party provider. However overall it is likely to be the second most accurate method except that it does not appear to generate output on a per category basis (ie. no differentiation between hotel, bed and breakfast accommodation etc). The predominant models in use in the UK are known as STEAM (Scarborough Tourism Economic Activity Monitor) and the Cambridge Model. The different methodologies are beyond our expertise and outside the scope of this study; suffice to say that using base data, sampling surveys, and economic multipliers they seek to calculate an economic impact of tourism in given areas. They rely on an accurate base of supply data but we do not believe that the service providers go to the same lengths as in method 2 to achieve accurate data.

Methodology 1 is likely to be the least accurate since, almost by definition, some accommodation in the area is omitted. This may be significant.

There is a fourth method which is only in use in one area of the UK. In Northern Ireland there is a statutory registration scheme which was put in place by The Tourism (Northern Ireland) Order 1992. This means that it is illegal to provide accommodation in hotels, guesthouses, bed and breakfast establishments, self catering establishments and hostels without being registered with, and having a valid certificate issued by, the Northern Ireland Tourist Board (NITB). This should at least mean that the data available for Northern Ireland is comprehensive.

We have not delved much further into the issue of statutory grading schemes within this report since it is largely irrelevant to the matter at hand. However in case readers believe that the issue of completeness of data can easily be addressed by the introduction of a statutory grading scheme there are wider issues that should be contemplated. The Pros and Cons overleaf were put forward by the Wales Tourist Board in its submission to the Welsh Assembly in July 2002 (as extracted from a Visit Scotland submission to the Scottish parliament in September 2002⁴).

⁴ Supplementary Submission from Visit Scotland, September 2002.
<http://www.scottish.parliament.uk/business/committees/historic/x-enterprise/reports-02/elro2-tourismev-pdfs/elro2-tourismev-visitcotlandsup1.pdf>

Pros	Cons
Guarantees a specified acceptable standard of accommodation	Additional regulation & bureaucracy
Improves market intelligence	Cost of inspection to be met by the public purse or passed onto the industry/customers
Improves communication with small businesses	Threat of discrediting quality schemes by setting too low a quality threshold
Curtails the black market	No real evidence thus far that statutory registration in other schemes has delivered improved standards
Provides marketing opportunities	
Source: Wales Tourist Board via Visit Scotland	

The impact of the hotel development grant scheme

In his book 'Profile of the Hotel and Catering Industry'⁵, Professor S. Medlik noted that, as result of the Hotel Development Incentives Scheme (HDIS) introduced in 1969, "...more hotels were built in Britain in a few years than in the whole period 1900-1970. Much obsolete stock was replaced and, in conjunction with the new bedroom capacity and separately, a significant hotel modernisation took place." We believe it is important to recognise this period as a prelude to the current period of development.

It seems remarkable today, in the context of the country's vibrant hotel and tourism industry, and in a time when government funding (and arguably even recognition) of the sector is limited, that just over 35 years ago over £50m in grants was made available to stimulate supply in the sector. But that is what occurred. Qualifying works had to be started prior to April 1971 and completed before April 1973. Based on certain criteria, grants of up to 20% of construction cost, subject to a maximum of £1,000 per letting bedroom, were made available. In defined development areas these figures increased to 25% and £1,250 respectively. Medlik reports that England, especially London, "gained the lion's share of the new investment" and that there was an "initial surplus of hotel capacity, notably in London, Birmingham, Manchester, Heathrow and Gatwick."

Medlik refers to a report⁶ by the Hotel and Catering Economic Development Committee (HCEDC) in presenting key statistics of the development that took place. 39,575 bedrooms were built in 470 new hotels as well as 15,197 rooms built as extensions to a further 684 hotels. However despite the construction of these 54,772 rooms, the net increase in supply by 1974 over 1970 levels was 46,723 rooms as a number of smaller hotels closed. The average size of a UK hotel was 14.8 rooms whereas it had been 12.8 just four years earlier. The supply base comprised over 30,000 hotels. There were 140 more hotels with 51-100 bedrooms and 122 more with over 100 bedrooms in the space of just 4 years.

In 1974 there were 33,659 hotels in the UK with a total of 497,502 rooms, according to the HCEDC. Perhaps this was the critical period in the birth of the modern UK hotel industry.

⁵ Profile of the Hotel and Catering Industry. 1978 2nd edition published by Heinemann. Professor S. Medlik, prepared with DW Airey

⁶ HCEDC, Hotel Prospects to 1985

5 – Quantification of UK Serviced Accommodation Supply

Introduction

In attempting to quantify UK serviced accommodation we have reviewed a variety of existing data sources but have found that none truly appear to contain an accurate quantification of supply. We discuss this further within this section and explain the view of the quantum of current supply that we have formed, and the methodology that we have used. We would not pretend to have achieved a 100% degree of accuracy – that would require a primary research exercise on a scale that is well beyond the scope of this exercise – but we do believe that the result of this exercise provides a far more accurate view of the supply of UK serviced accommodation than currently appears to exist.

Consideration of existing data

Our starting point for this exercise was to investigate the quantification of accommodation that is currently in the public domain, particularly that which is provided via official sources. As we have already stated, there is relatively little data appearing on the ONS website with regard to this sector and none that focuses on accommodation supply. As stated earlier, the best data on England that we found was from the Visit England website⁷, although the data is sourced to Visit Britain. The document is entitled ‘2007 Census of Serviced Accommodation Stock’ and the introductory note states that “There is currently no compulsory registration scheme for serviced accommodation establishments in England. In 2007, Visit Britain commissioned a project aiming to measure the level of serviced accommodation stock across England, by region. The census was conducted using Visit Britain’s own extensive database of accommodation data from our regional partners and commercial organisations. The results of the census are reported to Eurostat.” The document covers England only and states that in 2007 there were 30,621 establishments offering serviced accommodation with a total of 525,676 rooms and 1,062,483 beds.

Northern Ireland data is readily available from the Northern Ireland Tourist Board⁸ and is frequently updated. However the Visit Scotland and Visit Wales websites do not contain any supply quantification. Upon enquiry we did receive some data from Visit Wales but Visit Scotland stated that “Scotland does not have a compulsory registration scheme for Accommodation providers therefore obtaining accurate figures for accommodation stock is difficult. Visit Scotland do not retain an accommodation stock beyond that provided through the Quality Assurance Scheme”. This is a distinct deterioration in Scotland’s data provision since the time of our previous report.

Thus, although the Visit England data underpinned the UK submission to Eurostat in 2007, and Northern Ireland data was clearly available, we are not clear as to the origins or levels of data used for Scotland and Wales. The Eurostat data (and that submitted to UNWTO) clearly becomes seen as the official UK data.

We have earlier discussed the Eurostat definitions of different types of accommodation. In the table overleaf we present the Eurostat data⁹ for the United Kingdom since 1995. The same data is used by UNWTO.

⁷ http://www.visitengland.org/Images/Serviced%20Accommodation%20Census%202007_tcm143-193140.pdf

⁸ <http://www.nitb.com/CategoryPage.aspx?path=2e3c2831-b6cb-4bcd-a276-e0283e5bd203,2f5c5100-55c6-4298-9c48-402a5e06e5f7,82a5da26-7f81-45c1-ae15-6ef85c6fed8e>

⁹ Eurostat tourism data is accessible from:

http://epp.eurostat.ec.europa.eu/portal/page/portal/tourism/data/main_tables

Table 1
Visitor Accommodation in the UK – Eurostat data

Year	Hotels and similar establishments		Other Collective Accommodation Establishments	
	Establishments	Bedspaces	Establishments	Bedspaces
1995	46,221	1,050,000	9,511	1,740,000
1996	46,221	1,050,000	9,518	1,740,000
1997	46,252	1,052,000	9,432	1,713,000
1998	47,532	1,096,000	11,237	1,760,000
1999	51,300	1,176,000	n/a	n/a
2000	45,728	1,119,000	29,592	468,000
2001	44,744	1,130,000	31,413	466,000
2002	44,657	1,188,000	35,727	544,000
2003	44,126	1,204,000	37,604	603,000
2004	44,625	1,223,000	45,133	812,000
2005	32,926	1,062,000	35,395	1,161,000
2006	39,107	1,256,000	40,276	1,774,000
2007	39,860	1,245,000	41,988	1,801,000
2008*	39,024	1,176,000	47,857	1,667,000
2009	n/a	n/a	n/a	n/a

* provisional

Source: Eurostat

Firstly, as if to further evidence the poor state of UK data, the UK is the only European Union country not to have submitted 2009 data and the only one to still be using provisional data for 2008.

Furthermore, the above data, in our view, raises many questions about the UK data being submitted to Eurostat. Although the Hotel and Similar Establishment data is relatively consistent in demonstrating a growth pattern until 2004, we previously questioned the 2005 data on the basis that the number of Hotel and Similar Establishments was reported to have fallen back to a level seen a decade earlier which itself was not much different than the level identified by HCEDC in 1974 (assuming 2 beds per room). In addition the Other Collective Accommodation Establishments data is highly inconsistent over time and was substantially uplifted in 2005 and has undergone even more significant increases since that time. There is a continuing inconsistency in Hotel and Similar Establishments from 2006 onwards and even though it has been revised again in line with pre-2005 levels it has fluctuated and 2008's provisional data has been revised downwards.

Beyond the above data, and the questions about historic data which we raised in our previous report and have not re-iterated here since many of the issues have been surpassed, we have continuing concerns about the information being produced and disseminated with regard to UK serviced accommodation. As further evidence, in the British Hospitality Association's Trends and Developments 2010 publication, consultancy Horizons have estimated the number of Hotels (and related establishments) at 45,869 in 2009. We believe this information was sourced from the UK government business enquiry report. Although the number of establishments has consistently fallen year on year from 47,725 in 2003, the number of establishments is far higher than the number reported to Eurostat and shown in table 1.

Overall we continue to believe that there is enough doubt about the accuracy of the official statistics to warrant further investigation and attempt to build up our own view of the UK's serviced accommodation stock.

Sectors of supply and our treatment of them

It is important that we clarify what we have considered within our definition of serviced accommodation and perhaps even more important that we clarify what we have excluded, and our reasons for that. Our definition of serviced accommodation does differ from the Eurostat definition.

We have sought to include, and believe we have fully considered:

- Hotels
- Guesthouses
- Bed and Breakfast accommodation
- Farmhouses
- Restaurants, Inns and Public Houses with accommodation
- Lodges and Motor Hotels

We have sought to include, but cannot be definitive to have captured the following categories:

- Private members clubs with accommodation
- Youth Hostels

We have excluded, or sought to exclude:

- Self catering accommodation of any type
- University and Campus Accommodation
- Serviced Apartments or Corporate-let temporary accommodation, unless it is part of a brand known to operate on a hotel basis for those that require single night and short stays
- Private-use or Sole-use type establishments

We believe the ‘included’ categories are self-explanatory and rather obvious.

We believe that both private members clubs and youth hostels host people that might otherwise consider staying in a hotel or another form of serviced accommodation. Thus they form part of the transient, short-stay visitor accommodation market and, where identifiable, they should be included.

Clearly self-catering accommodation is non-serviced accommodation in most cases and would be considered as a different category by most analysts. Stay characteristics, such as length and motivation of stay, would typically differ from that of users of Serviced Accommodation.

University and Campus accommodation is included in some UK Serviced Accommodation supply statistics, largely on the basis that for some parts of the year the accommodation, or part of it, is used for transient visitors either for leisure or conference purposes or for academic or educational courses. On the basis that the accommodation is not lettable for much of the year, and its primary purpose is for accommodating students, we have excluded it. Where specific accommodation on Campus is lettable year round, perhaps as part of a University’s conference business, we have included it although in truth we have not gone out of our way to identify such instances.

Serviced Apartments is perhaps the most contentious area that we have considered and on balance we have decided to exclude this category. Many of the UK’s serviced apartments are subject to restrictive planning approvals which prevent or place restrictions on the visitor’s length of stay. Thus they cannot accept visitors staying less than 28 days or 90 days for example, in some cases. Undoubtedly there is a proportion

that do stay for short stays (and we have included some brands which we know to host guests seeking short, hotel-type stays), even of just one night, but on balance we have sought to exclude this category given that its characteristics are different to the general serviced accommodation market and it is our intention to be conservative in our approach to this exercise.

We have also sought to exclude establishments that offer visitor accommodation on a private-use or sole-use basis since again the characteristics of stay are different to that of the body of serviced accommodation.

Review of data and sources for each UK region

Given that this was a secondary research exercise, which means that our primary methodology was to utilise data available from other sources, our natural starting point was to verify the data currently held by the RTBs and RDAs for their own areas. There is no private sector organisation or industry association in the UK that holds a comprehensive database of serviced accommodation and so the only starting point was these public sector organisations (or in some cases private-public partnerships).

The information available varies significantly from region to region and organisation to organisation. Therefore we present a review of the data obtained, our understanding of the sources of this information and how it is obtained, the age of the data, and any steps we have taken to verify or update the data to form a reliable information base. This is presented for each of the English RTB/RDA areas as well as for Scotland, Wales and Northern Ireland.

In particular we have considered the database of 569,982 rooms in 14,385 establishments in the UK that we have available to us, referred to earlier. We have also considered new openings in the UK over the past three years since our previous report, especially those reported in the BHA Trends and Developments publication each year. These add to a total of 37,948 rooms since mid 2007. We have also given attention to closures. By comparison of the Hotel-Data new database with our previous version we were able to identify hotels that might have closed. We investigated all those differences in hotels with more than 30 rooms and discovered that over 7,500 independent hotel rooms were closed during the period. In addition, our review of the chain and consortia portfolios identified additional hotels that have closed from within these portfolios. Although we have not specifically quantified these (our methodology did not make this especially easy) we have observed closures from chains such as the Real Hotel Company/Choice Hotels, Thistle Hotels, Ramada Jarvis and others and these most likely account for at least a further 2,000 rooms. It is possible that further small hotels have closed but given that they are each of small size we do not believe that the overall impact is material – in fact there may also have been some new openings as well. We have generally assumed a level of closures of around 10,000 bedrooms in the past 3 years or so.

Where reports focused on beds we have converted them to rooms assuming 2 beds per room in hotels and similar accommodation and 3.5 beds per room in youth hostels.

East of England

In our previous report we noted that the East of England was one of the regions from where we had struggled to find data. There has been a major improvement in the interim and an accommodation stock report¹⁰ conducted in 2008 now appears on the East of England Tourist Board website. The report is among the most comprehensive

¹⁰ http://www.eet.org.uk/doclib/Service_Accommodation_Stock_2008.pdf

available from any of the regions showing supply by type, by whether classified or not, and with a breakdown for each county within the region.

The report estimates the region's stock at 36,477 serviced accommodation rooms and 47 youth hostel rooms.

We believe that this census underestimates the supply, not least because our own database for the region contains 38,051 rooms. Our database includes only hotels with more than 10 rooms and so we have added to this figure the 5,610 rooms in bed and breakfasts, farmhouses, guesthouses and Inns that were reported in the 2008 census, as well as the 542 youth hostel rooms that were identified in our previous report.

Thus it is our current estimate that there are 44,203 rooms in properties conforming to our definition of serviced accommodation in East of England. Previously we had estimated 43,217 rooms in the region and so the new estimate assumes modest growth and takes account of new openings, closures and differences arising from new data and methodology. The level of supply remains relatively low compared to other areas but we believe it is appropriate to the characteristics of the area and to the data available.

East Midlands

We have obtained the most recent bedstock estimate for the East Midlands which covers 2009. We believe that this is prepared as an input to the region's STEAM reports and covers beds, not rooms, in both serviced and non-serviced accommodation. Serviced Accommodation data is broken down by size of establishment. The 2009 report estimates 68,886 beds in serviced accommodation and 2,431 beds in youth hostels. We have converted these figures to assume 34,443 rooms and 486 youth hostel rooms.

We have adjusted this to 2010 data by the addition of 440 rooms from our new openings database and the deduction of 344 rooms through closure. This equals 34,539 rooms and to this we have added 1,429 rooms in youth hostels based on our previous work. Thus our estimate of serviced accommodation in the East Midlands is now 35,968 rooms compared to our previous estimate of 32,185. Most of the differential can be accounted for by an uplift in the tourist board's estimates although we note that there has also been 1,762 new hotel rooms opened in the region since our last report.

Greater London

Greater London, defined in this report as the area comprising the 33 London Boroughs, is a relatively well documented market as might be expected of the UK's capital city. There have been two important studies of the capital's hotel supply during this decade as well as two audits of London's serviced accommodation stock, initially in 2002 and then again in 2006. PriceWaterhouseCoopers conducted a study in August 2002¹¹ for the Greater London Authority and Grant Thornton (GT) and The Leisure & Tourism Organisation conducted a further study in June 2006¹². Visit London conducted the accommodation audits¹³ using their register of accommodation and development log as well as telephone directories, the internet and telephone research.

¹¹ Demand and Capacity for Hotels and Conference Centres in London. PriceWaterhouseCoopers for GLA in August 2002.

¹² Hotel Demand Study. Prepared by Grant Thornton and The Leisure & Tourism Organisation for the Greater London Authority in June 2006

¹³ http://static.visitlondon.com/corporate1/assets/1london_hotel_summary.pdf

We have been especially vigorous in updating our London database and in particular ensuring that the hotel supply is properly attributed to London boroughs if it is located in a borough on the edge of London. It is likely that our previous report included some supply in the South East which should have been allocated to London, and a lesser amount may have been allocated in the opposite way. Thus our hotel database now reflects 106,383 hotels rooms in hotels with more than 10 rooms in the capital.

In the GT report referred to above, they estimated that by 2010 there would be 110,992 rooms in the capital. This is the most recent 'estimate' by an organisation other than ourselves. We have considered this conclusion on a borough by borough basis and have compared it to our own audit. This recognised that our database did not include properties of less than 10 rooms and also that GT's report made supply growth estimates which may have varied in their realisation. Notwithstanding that, 7,660 new rooms have been built in the city in the past 3 years as well as re-brandings and re-openings, but there have also been some closures. There are boroughs where we clearly could identify more supply that GT had estimated, and others where GT had estimated supply growth that did not materialise.

Overall we have estimated a current level of 114,217 rooms in hotel and similar establishments and a further 4,339 rooms in youth hostels bringing the total to 118,556 rooms. This is some way above our previous estimate of 103,073 rooms but that is mainly accounted for by the correct allocation of rooms around the city fringes (see also estimates for South East England which are reduced) as well as supply growth.

North West

In the North West of England we have obtained a detailed spreadsheet from the North West Regional Intelligence Unit entitled *Serviced Accommodation Stock Summary 2007/8*¹⁴. This is sourced to Global Tourism Solutions (UK) and is produced for the baseline report of the STEAM data. The data, presented for 2007 and 2008, is helpfully arranged by size of establishment although it does not show different types of accommodation. For 2008 this data indicates a total of 185,281 beds in serviced accommodation establishments. We have assumed this converts to 92,641 rooms.

We have adjusted this by the addition of 2,757 rooms in new openings since 2008 and a reduction of 1,853 rooms. Closures are relatively high and this is borne out by our investigation where there are especially high levels of closure, for example in Blackpool. We have added 2,000 rooms in youth hostels, the same figure as in our previous report. This brings our adjusted total to 95,545 rooms.

We had two issues with this figure. Firstly it was some way above our 2007 figure of 91,473 rooms and secondly it meant that our database represented a relatively low proportion of supply at 66,486 rooms. We have noted that there have been 6,003 new rooms open in the region, around half of which were prior to the 2008 audit and we assume would have been included in it. Furthermore we have briefly reviewed a report by Humberts Leisure covering the Fylde Coast entitled '*Visitor Accommodation Study, Fylde Coast Sub-Region*'¹⁵ published in August 2009. Comparing the total supply on the Fylde Coast to our own database we have noted that Humberts' supply estimates are 14,661 rooms higher than our own database reflects. Taking account of the quantum of our database and this additional amount we are able to account for over 85% of the

¹⁴http://www.nwriu.co.uk/research_and_intelligence/tourism/tourism_publications/accommodation_stock.aspx

¹⁵ <http://www.blackpool.gov.uk/NR/rdonlyres/822D72E6-1B46-4B2B-B209-A0B53A144D90/0/HLLFyldeCoastAccommodationStudyRevisedFinalReport.pdf>

supply estimated. Thus overall we are comfortable that the revised estimate can be supported.

South East

Tourism South East's most recent accommodation audit¹⁶ was carried out in 2009 and reflects a total quantum of 87,192 bedrooms in serviced accommodation. Our own database reflects a total quantum of 77,787 rooms which is 89% of this total. Thus we have accepted the Tourism South East figure and adjusted it by 1,438 rooms of new supply, 436 rooms closed and 2,621 youth hostels rooms from our previous study (TSE's group accommodation figure in their audit is 12,210 rooms which we believe reflect University accommodation that is not usually available). Thus our revised estimate for the South East is 90,815 for 2010.

This figure is well below the 103,643 rooms that we estimated in the previous report for this region and this largely occurs as a result of the allocation of rooms into London on this occasion that were previously allocated to the south east. Most likely as a result of this, an element of double counting occurred previously which had the effect of falsely inflating supply in the south east. We recognise the error and correct it in this revision.

South West

This region is an important tourism region in the UK and has a substantial bedstock. There is a detailed section on Tourism Industry Size and Distribution within the State of Tourism Report for the South West¹⁷ which was published in 2003. The report looks at the number of establishments and number of bedspaces in the region, both by county and by type of accommodation. We relied on this previously and it was very helpful but regrettably has not been updated.

In response to our enquiry for updated information Tourism South West sent us a document entitled 'The Value of Tourism to the South West Economy in 2008'. We cannot find the exact document on their website. The document that they have sent us states that "At the end of 2008, there were approximately 163,000 serviced accommodation bedspaces". We have utilised this figure as a base for our estimates, taking account of 81,500 bedrooms. Nonetheless we note that the Enjoy England audit in 2007 concluded the region had 84,726 rooms and our previous study estimated 85,399 rooms at around the same time.

Our database for the region now reflects 73,473 rooms which is a relatively high proportion of supply for a region that has an acknowledged significant bed and breakfast industry. We have adjusted the tourist board figure to reflect 1,881 new rooms opened, 1,630 rooms closed as well as 2,578 youth hostels rooms from our previous study. In addition we have reflected an uplift of 5,000 rooms in recognition of a likely large number of missing rooms in smaller establishments in the region. In our previous work this level of adjustment was 20,000 rooms so the tourist board estimate has moved significantly towards our own estimates.

We now estimate the region has 90,815 rooms compared to our previous estimate of 85,399.

¹⁶ <http://www.tourismsoutheast.com/research/accommodation-supply-2009>

¹⁷ State of Tourism South West. The Tourism Company in association with L & R Consulting, Geoff Broom Associates and TEAM. July 2003. http://www.towards2015.co.uk/downloads/StateofTourism_71-85.pdf

West Midlands

Despite our best endeavours we have not managed to make any direct contact with anyone at Advantage West Midlands, the RDA that administers tourism in the region. We also did not enjoy much help from this organisation previously so there is little that has changed in the interim.

Previously we did obtain the number of bedspaces and rooms in serviced accommodation in the West Midlands dated to 2006. This time we have had no option but to rely upon the Visit England 2007 audit which reported the region as having 49,704 rooms. This is significantly higher than the Heart of England Tourist Board's (HETB) 2006 estimate of 42,437 that we used previously. Our own hotel database reflects a supply level of 38,607 rooms.

We have considered and adjusted the Visit England data by adding new supply of 2,115 rooms, closures of 497 rooms and youth hostels from our previous work of 1,429 rooms. This provides a new estimated total of 52,751 rooms in this region. Given our previous estimate, the level of new openings in the region subsequently and the likely quantum of smaller hotels, bed and breakfast accommodation and guesthouses, we believe that this figure is a credible revision to supply in the region.

Yorkshire

The Yorkshire Tourist Board (YTB, a region covering Yorkshire and North- and North-East- Lincolnshire) publishes an accommodation stock audit on its website, the most recent version dating to 2009¹⁸. This latest version reflects a total supply of serviced accommodation of 35,768 rooms. The issue with this is that our own database has a greater quantum of identified rooms than this, specifically showing 36,207 rooms. Of course this does not recognise any hotels with more than 10 bedrooms. We have also noted that the Enjoy England census of 2007 indicated that there were 44,859 rooms in the region and our previous estimate was 47,262 rooms.

To the current YTB census we have added 632 rooms to reflect new openings, a deduction of 114 rooms to reflect closures since 2009, and 2,262 rooms in youth hostels, based on our previous work. We have also added 10,000 rooms as an adjustment reflecting the likely level of supply not accounted for by the census or our database, mainly in smaller properties of which there are many in the region.

This brings the total to 48,548 rooms which is slightly above our previous estimate. We are aware of 2,596 new rooms in the region since mid-2007 but we also recognise there have been some closures. Thus our new estimate is consistent with our revised approach and our previous estimate.

North East

Tourism North East, the tourism arm of One North East, have provided us with a document entitled "The North East England Visitor Economy 2009, Key Facts" in which there is an estimate of 37,900 bedspaces in the region in hotels, bed and breakfasts and guesthouses. We have assumed that these account for 18,950 rooms which is slightly below the Enjoy England 2007 census figure of 19,907 rooms.

Both these figures are above our previous estimate of 16,367 rooms in the region and our database accounts for 14,866 rooms. This region has the lowest quantum of serviced accommodation in the UK.

¹⁸ <http://www.welcometoyorkshire.net/getdoc/7c529e4b-7c91-47e5-82d7-0c38499006f3/Yorkshire-Accommodation-Stock.aspx>

We have adopted the census figure but adjusted upwards by 180 rooms from new openings, reduced the figure by 237 rooms from closures and added 525 rooms in youth hostels. Thus our revised estimate for the North East is 19,418 rooms.

Scotland

As stated earlier, no current or recent data for Scotland has been provided, and according to Visit Scotland (see earlier comment) they do not have such data available. Thus Scotland has slipped back in terms of the availability of supply data.

We did have a conundrum previously in the case of Scotland because we had two contradictory pieces of information available, a census based on 2005 which we were asked not to publish as it had not been released into the public domain, and another figure emanating from a factsheet. The 2005 data indicates that there were 72,760 rooms in Scotland – there is also a breakdown by category.

Our starting point has been to consider our database which now comprises 59,934 rooms in Scotland in hotels of more than 10 rooms. Our approach has been to consider this figure and add to it the figure of bed and breakfasts, guesthouses and restaurants with rooms from the 2005 census. We have assumed that hotels, travel accommodation and inns are included in our database (actually we believe that some inns and some guesthouses may have more than 10 rooms and others may have less, thus the approach is conservative to provide a realistic approach to simulate this). Thus serviced accommodation by the tradition definition is quantified at 82,679 rooms and we have conducted some investigation into youth hostels which leads us to conclude there are around 2,059 rooms in youth hostels. Thus our estimate is for 84,738 rooms in Scotland in 2010.

Our previous estimate, based largely on the tourist board factsheet at that time, was at 99,953 rooms. Thus our new estimate is 15,215 rooms less than our previous figure but given the extent of our investigations and our database, we believe it is appropriate to make such a significant downward revision in Scotland, even though there is a significant quantum of smaller serviced accommodation that escapes our database.

Wales

Although there is no official quantification of serviced accommodation in Wales, and there wasn't last time either, we have benefited from assistance from Visit Wales. We understand that the individual Local Authorities in Wales do all make a return annually quantifying "the most up to date information on bedstock in their area available at that time". This is caveated by noting that "bedstock research is taken at different periods throughout the year and indeed in some LA in different years, and therefore the table reflects the most accurate picture at that time". Nonetheless it is a helpful submission.

The 2008 return indicates a total level of serviced accommodation of 34,468 rooms. We have added to that 1,938 rooms in newly opened establishments since that time, made a reduction of 345 rooms in respect of closures and added 759 rooms in youth hostels based on our own research. Thus our current estimate is now 36,820 rooms. We have previously relied on a rounded estimate of 40,000 rooms provided by Visit Wales. Our new estimate has a more concrete basis and although it reflects a decrease in supply it is probably more accurate.

Northern Ireland

Because of the statutory grading scheme in Northern Ireland this was perhaps the easiest task. The only idiosyncrasy is the impact of seasonal openings which, given that some smaller hotels and bed and breakfast accommodation open on a seasonal basis

only, cause fluctuations through the year. We have used the April 2010 data and factored in 122 rooms of new openings in this year.

Given that the Northern Ireland data should be the most accurate, we have noted that our database in Northern Ireland is 72.4% of traditional serviced accommodation supply. This is almost the same percentage as the database represents related to our Scottish supply estimate (72.5%) although Wales is lower at 66.3%. The lowest in England is in the North West at 71.1% although we have explained that earlier. Apart from that the lowest percentages are in West Midlands (75.2%) and East Midlands (76.5%). The highest percentage is in London at 93.1% and in the South East at 88.2%.

Quantification of UK Serviced Accommodation

Based on our research and review of the sector as described and discussed in this report, it is our view that currently there are approximately 728,681 rooms in the UK at present, compared to our previous estimate of 716,505 rooms on the same basis. Given the extent of new supply at approximately 37,948 rooms and even assuming that there have been around 10,000 rooms close, this indicates that we have reduced our estimates on a like for like basis. We agree that this is the likely conclusion and it has arisen from lower supply levels adopted in Scotland and Wales and the resolving of the administrative boundaries and potential double counting around London and the South East. Other areas have seen a higher level of supply estimated, both through revisions of audits, other new information in our possession, and through new openings.

We summarise our estimates in table 2 overleaf. This table shows the data from the regional audits by the RTBs, the Enjoy England 2007 audit and our previous estimates. In the lower part of the table it illustrates our estimates, summarised from the foregoing information, as well as the supply levels in our database and the percentage of serviced accommodation supply (excluding youth hostels) that this represents.

Table 2
Overall Quantification of UK Serviced Accommodation Supply

Most recent reported census of serviced accommodation by Regional Tourist Organisations (rooms)

	West Midlands	East England	East Midlands	Greater London	North West	North East	South West	South East	Yorkshire	Scotland	Wales	Northern Ireland	Total
B&B		2,738								15,602		2,160	4,898
Farmhouse		362											362
Guesthouse		1,906								7,035		981	2,887
Hotel		25,639								42,327		7,615	33,254
Travel Accommod.		1,964								6,113			1,964
Inn		604								1,684			604
Youth Hostels		47	486									1,113	1,646
Not Separated	49,704	3,217	34,443	110,992	92,641	18,950	81,500	87,192	35,768		34,468		605,665
Total	49,704	36,477	34,929	110,992	92,641	18,950	81,500	87,192	35,768	72,760	34,468	11,869	667,250
<i>Year of Census</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>Jun 2006</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>Jan 2009</i>	<i>2005</i>	<i>2008</i>	<i>2010</i>	
2007 Enjoy England Census	49,704	33,126	24,174	99,034	87,727	19,907	84,726	82,419	44,859	n/a	n/a	n/a	525,676
Our previous estimates	43,866	43,217	32,185	103,073	91,473	16,367	85,399	103,643	47,262	99,953	40,000	10,068	716,506

Our revised estimates

	West Midlands	East England	East Midlands	Greater London	North West	North East	South West	South East	Yorkshire	Scotland	Wales	Northern Ireland	Total
Serviced Accommodation	51,322	43,661	34,539	114,217	93,545	18,893	86,751	88,194	46,286	82,679	36,061	10,878	707,025
Youth Hostels	1,429	542	1,429	4,339	2,000	525	2,578	2,621	2,262	2,059	759	1,113	21,656
Total	52,751	44,203	35,968	118,556	95,545	19,418	89,329	90,815	48,548	84,738	36,820	11,991	728,681
Our database	38,607	38,051	26,406	106,383	66,486	14,866	73,473	77,787	36,207	59,934	23,901	7,881	569,982
% of svcd accomm on our database	75.2%	87.2%	76.5%	93.1%	71.1%	78.7%	84.7%	88.2%	78.2%	72.5%	66.3%	72.4%	80.6%

Source: Melvin Gold Consulting Research and Analysis of various data in accordance with description on previous pages

Overall we believe that this table represents the most accurate quantification of UK serviced accommodation supply that can be presented at the present time. While we would not pretend that it is 100% accurate we believe it is a more accurate portrayal than that which is reflected by official statistics, having gone back to all of the originating sources in the regional tourist boards and then interrogated each set of data in the context of historic levels, an independent database and considering the method of compilation.

Furthermore we believe there are a number of reasons why the available data may become more inaccurate over time:

- The continuing practice in the public sector with collecting and compiling such data (and in fact considering occupancy) on the basis of 'beds' rather than 'rooms'. With the exception of the hostel market we know of no operators or operating segments where the focus is on beds rather than rooms. In addition we would argue that no operator would, by choice, build single rooms these days and furthermore the number of rooms in a property is fixed whereas the number of beds can change on an almost daily basis. Indeed many hotels have flexible facilities for the accommodation of families where extra beds are added or sofabeds are included in the room configuration. The number of rooms at particular establishments tends to be relatively easy information to obtain, the number of beds is not generally published at most properties and therefore we would question why this is the basis of statistical compilation. Notwithstanding that, we do recognise that organisations such as Eurostat and UNWTO also report on beds (UNWTO reports rooms as well) and so to some extent the data may be required for such purposes;
- There is an increased focus on graded and registered accommodation in most tourist boards and in most areas they are now only allowed to publicise such establishments and make bookings at them. The commercial expedient has led to a heightened focus on these establishments but relative unawareness of the remainder of the market. We would also suggest that the trend towards branded hotels in the UK generally has meant that there are even more establishments who rely on their brand or consortia distribution rather than the regional tourist board;
- There appears to be a great reliance on compilers of economic data, such as STEAM, to become aware of the quantum of serviced accommodation supply. We are unaware of the efforts that are made to fully quantify such accommodation but we doubt that a full survey is undertaken since this is very labour intensive;
- Some tourist boards have compiled surveys and audits but these tend to be on the basis of 'all known accommodation'. Although this is an improvement on using purely registered accommodation as a basis, we believe, that the surveys are not capturing all supply. The East of England audit is the only one which shows a count of rooms by both registered and non-registered accommodation. Somewhat cynically we can also note that there are some targets within the RTBs which focus on achieving higher percentages of registered and/or graded supply. Of course these can only be based on known supply and if that figure is lower then the targets become more easily achievable.

For these reasons we are deeply concerned that the statistics of UK serviced accommodation may become even less accurate and more difficult to assess in the future.

The timing of data

We would highlight that the base data is compiled at different points in time and therefore, although we have expressed a view as to the level of supply at the end of 2010, it is in fact prepared from a variety of data collected and collated at various points in the past few years. This is always likely to be the case in the compilation of such data since there is no single data collection point and there never will be. We have, by considering new openings, closures and our database, and by any other methods described previously, sought to adjust to end-2010 levels.

We were asked to consider how supply has grown over time but given that there are no consistent sources for such data historically we have found this task a particular challenge.

On pages 12 and 14 we have discussed the HCEDC report from Medlik's book which quantified UK hotel supply at 497,502 rooms in 1974 after the end of the government grant. If we consider that as a fixed data point and set this against our view of 2007 supply this implies a compound annual growth (CAG) of 1.066% across the 37 year period. Given that we have additionally included Youth Hostels in our supply base, the actual like-for-like figure would be slightly lower. Thus the figure of 1% annual growth used by many analysts appears to be fairly accurate.

In our search for time series data we have reviewed Census data from the 1971, 1981 and 1991 Censuses (excluding Northern Ireland). As we have stated earlier the basis of 2001 data was changed and the data collected is not useful for this purpose. In addition we have discovered that 1971's data was not consistent with that compiled in 1981 and 1991. In 1971 it appears that data was collected from all hotels and the number of rooms reported was 578,885 although we believe that this would include accommodation used for owner, management and staff accommodation in the same premises (as does subsequent information for '81 and '91). In the two subsequent decades the information was collected for properties with more than 10 rooms. However any properties of any size with less than 5 overnight guests were also not required to complete the form but those with more than 5 (even if they had less than 10 rooms) were required to complete the form.

In 1981 the reported figure was 508,008 and by 1991 this had risen to 525,589, a CAG rate of just 0.36%. There are a number of reasons why this figure might be lower than the overall time period including the overhang from supply growth in the government grant period, economic downturns that affected the market and of course the fact that budget supply was not yet particularly apparent. We also believe this was a particular period of decline in UK seaside locations as mass air travel took its toll.

We recognise the difficulties of building time series data but overall it is our view that the figure of 728,681 reflects CAG of just over 1% across a 37 year period which seems reasonable as a long term trend. In graph 2 on page 33 we reflect on this historic data, as well as the growth of the budget market in a graphical illustration.

Consideration of various categories of accommodation

As part of this exercise we were asked to undertake regional analysis and analysis of various categories of accommodation to the extent possible. In the course of the previous assignment we extensively updated the database that we purchased from Hotel Data Ltd, particularly in respect of the UK's major hotel portfolios. This time around we have further added to the database and made relevant comparisons, but we have also made more stringent efforts to recognise supply sources. Thus we have enjoyed particular support from Premier Inn who have shared details of their room

counts by property (not normally part of their information released) and we have contacted most of the major hotel consortia to ensure that we recognised their affiliated/membership supply. Overall our approach continues to facilitate a variety of 'side-benefits' in terms of the data and analysis available. We present the regional analysis in table 3 overleaf and discuss the findings and conclusions below.

The issues of branding and categorisation of hotels in the UK are complex. What is a brand? How to categorise particular hotels? The lack of a consistent, mandatory grading scheme. These are among the many issues we have had to consider. Thus our approach is somewhat notional and we have deliberately not described the way we have treated specific hotels or portfolios. The only certainty is that each company or analyst may have their differing views and we accept there are different viewpoints that may have validity but one has to draw the line somewhere!

Essentially we have considered the Overall level of supply that we have identified and then separately considered that identified by our database. We have divided the database into Full Service, Mid-Market, Budget, Consortia and Independent hotels. We have considered the balance of supply not identified in our database to be Independent-unidentified. All this is presented on a regional basis. Full Service hotels are the leading chains, typically operating in the upper four star and five star categories. Of course most Mid-Market hotels also offer full services but they fall between the branded Budget hotels and the Full Service properties. We have not sought to similarly categorise Independent hotels although we consider that the vast majority would fall within the mid-market but some are at the upper end and others at the budget level. Bed and Breakfast properties, Guest Houses and Youth Hostels will all be categorised within the Independent category as well. Hotels which are part of the larger marketing consortia are included as Consortia properties. We have enjoyed support from some of the major consortia and the only one that is missing from our database is 'The Circle' which comprises a large number of small hotels. They did not respond to our enquiries and in any case many of the hotels are smaller than our database threshold of 10 rooms – the larger hotels being included as Independents based on our spot checks.

In general we have tried to envisage hotels that are marketed together as being branded, and those that are simply in the same ownership but are marketed independently as Independent. Thus there are many small portfolios of hotels reflected within the Independent sector. We summarise the supply as Corporate Branded (39.7%), Independent (53.7%) and Consortia (6.6%)

Having provided a flavour of our approach we note that some 39.7% of UK serviced accommodation might be considered as branded, but this rises to 46.4% if we include Consortia as well. Given the growing size and importance of the consortia this is probably the correct approach. Our database identifies 15.8% of accommodation as being in the branded Budget sector (previously 12.1%), 14.0% as Full Service (previously 13.7%) and 9.9% as Mid-Market (previously 12.3% although a disproportionate amount has been allocated to consortia). Of course in reality the Mid-Market is the largest sector when considering most of the Independent supply as well.

The South West of England, Wales and Northern Ireland all have particularly high proportions of Independent hotel supply. Scotland, The North West and Yorkshire are also fairly high, due to the high proportion of independent properties in traditional tourist areas. Branded supply, unsurprisingly, is highest in Greater London, although the West Midlands, South East and East of England are also relatively high.

Table 3
Analysis of UK Serviced Accommodation by Category and Region

Rooms	West Midlands	East England	East Midlands	Greater London	North West	North East	South West	South East	Yorkshire	Scotland	Wales	Northern Ireland	Total
Overall	52,751	44,203	35,968	118,556	95,545	19,418	89,329	90,815	48,548	84,738	36,820	11,991	728,681
Database	38,607	38,051	26,406	106,383	66,486	14,866	73,473	77,787	36,207	59,934	23,901	7,881	569,982
Full-Service	5,769	3,958	3,806	39,451	9,021	1,913	5,829	15,750	3,809	9,789	2,089	803	101,987
Mid-Market	7,312	5,184	2,422	15,056	9,739	1,893	5,962	10,074	5,975	5,625	2,218	569	72,029
Budget	10,883	10,556	7,630	18,243	13,420	3,915	9,133	16,138	8,264	10,696	4,598	1,720	115,196
Consortia	2,572	3,319	2,064	7,786	5,162	1,558	5,456	5,377	3,186	9,640	2,237	56	48,413
Independent - identified	12,071	15,034	10,484	25,847	29,144	5,587	47,093	30,448	14,973	24,184	12,759	4,733	232,357
Independent - unidentified	14,144	6,152	9,562	12,173	29,059	4,552	15,856	13,028	12,341	24,804	12,919	4,110	158,699
Ratios (%)													
Full-Service	10.9%	9.0%	10.6%	33.3%	9.4%	9.9%	6.5%	17.3%	7.8%	11.6%	5.7%	6.7%	14.0%
Mid-Market	13.9%	11.7%	6.7%	12.7%	10.2%	9.7%	6.7%	11.1%	12.3%	6.6%	6.0%	4.7%	9.9%
Budget	20.6%	23.9%	21.2%	15.4%	14.0%	20.2%	10.2%	17.8%	17.0%	12.6%	12.5%	14.3%	15.8%
Consortia	4.9%	7.5%	5.7%	6.6%	5.4%	8.0%	6.1%	5.9%	6.6%	11.4%	6.1%	0.5%	6.6%
Total Corporate Branded	45.4%	44.6%	38.5%	61.4%	33.7%	39.8%	23.4%	46.2%	37.2%	30.8%	24.2%	25.8%	39.7%
Total Independent	49.7%	47.9%	55.7%	32.1%	60.9%	52.2%	70.5%	47.9%	56.3%	57.8%	69.7%	73.7%	53.7%

NB. 'Overall' is the data previously illustrated in Table 2. The Full Service, Mid-Market, Budget and Consortia categories, and the Independent-identified categories are specifically identified properties from our database. Independent-unidentified properties are not identified by our database and the quantum is calculated as being the difference between Overall and Database. Branded Budget supply is fully identified in table 5 on page 31.

Source: Melvin Gold Consulting research and analysis

Greater London has by far the highest proportion of Full Service supply, far ahead of the South East in second place. The Budget sector now exceeds 20% of total supply in the North East, East Midlands, West Midlands and the East of England where it is highest at 23.9% of total supply. It remains proportionately underrepresented in areas where we have highlighted the Independent hotels as being particularly strong. The mid-market and consortia are fairly consistently represented but perhaps are also slightly weaker in the areas where the Independent hotels are in pole position.

Our database includes 14,385 hotels with 569,982 bedrooms, an average size of 39.6 rooms per property. Excluding the youth hostel rooms there are a further 137,043 rooms in the UK. The BHA publication quoted earlier estimates there are a total of 45,869 Hotels and Similar Establishments in the UK. This implies that there are 31,484 such businesses missing from our database. This information implies that these establishments have an average of just 4.35 bedrooms per property, broadly categorised as the UK's bed and breakfast and guest house sector.

Overall we believe that this analysis presents an interesting national picture and we have not previously seen data which facilitates analysis of the UK regions in this way.

Data for the UK's largest cities

Using available data we have undertaken a similar analysis of data for each of the UK's largest cities. The data is illustrated in the following table.

Table 4
Analysis of Serviced Accommodation in the UK's 10 largest cities by category

	Establishments	Full Service	Mid-Market	Budget	Consortia	Independent	Total rooms
G.London	1,079	39,451	15,056	18,243	7,786	25,847	106,383
G.Manchester	148	4,123	2,943	3,956	477	2,204	13,703
Birmingham	154	3,068	2,258	4,320	335	2,218	12,199
Leeds	82	1,751	1,723	1,839	215	848	6,376
Glasgow	82	2,215	703	2,333	647	1,056	6,954
Sheffield	46	400	620	1,217	207	496	2,940
Edinburgh	188	3,526	1,402	2,376	897	2,054	10,255
Liverpool	60	1,233	942	2,029	240	798	5,242
Bristol	48	1,127	1,095	877	104	549	3,752
Leicester	37	406	410	1,102	77	420	2,287
Ratio (%)							
G.London		37.1%	14.2%	17.1%	7.3%	24.3%	100.0%
G.Manchester		30.1%	21.5%	28.9%	3.5%	16.1%	100.0%
Birmingham		25.1%	18.5%	35.4%	2.7%	18.2%	100.0%
Leeds		27.5%	27.0%	28.8%	3.4%	13.3%	100.0%
Glasgow		31.9%	10.1%	33.5%	9.3%	15.2%	100.0%
Sheffield		13.6%	21.1%	41.4%	7.0%	16.9%	100.0%
Edinburgh		34.4%	13.7%	23.2%	8.7%	20.0%	100.0%
Liverpool		23.5%	18.0%	38.7%	4.6%	15.2%	100.0%
Bristol		30.0%	29.2%	23.4%	2.8%	14.6%	100.0%
Leicester		17.8%	17.9%	48.2%	3.4%	18.4%	100.0%

Source: Melvin Gold Consulting research and analysis

The city supply figure reflects the quantum of supply on our database (London includes all the London boroughs, Manchester includes Manchester, Salford and Trafford and Birmingham includes Birmingham and Solihull). Thus some smaller supply is most likely omitted in each case and there is no Independent-unidentified in this analysis. We have used our database to obtain the Full Service, Mid-Market, Budget and Consortia number of bedrooms, the balance being assumed as Independent.

It is notable that typically the proportion of Full Service rooms in regional cities is far closer to that in Greater London than was demonstrated in the regional analysis. Furthermore cities which are historically perceived to have had a lack of hotel supply, such as Liverpool, Sheffield and Leicester, have now developed a higher proportion of budget supply with those budget brands moving in to fill the vacuum. The supply of branded Budget hotels in London is the lowest proportionately of any of the major cities, with Edinburgh the next lowest proportion.

6 – The UK Budget Hotel sector

Introduction

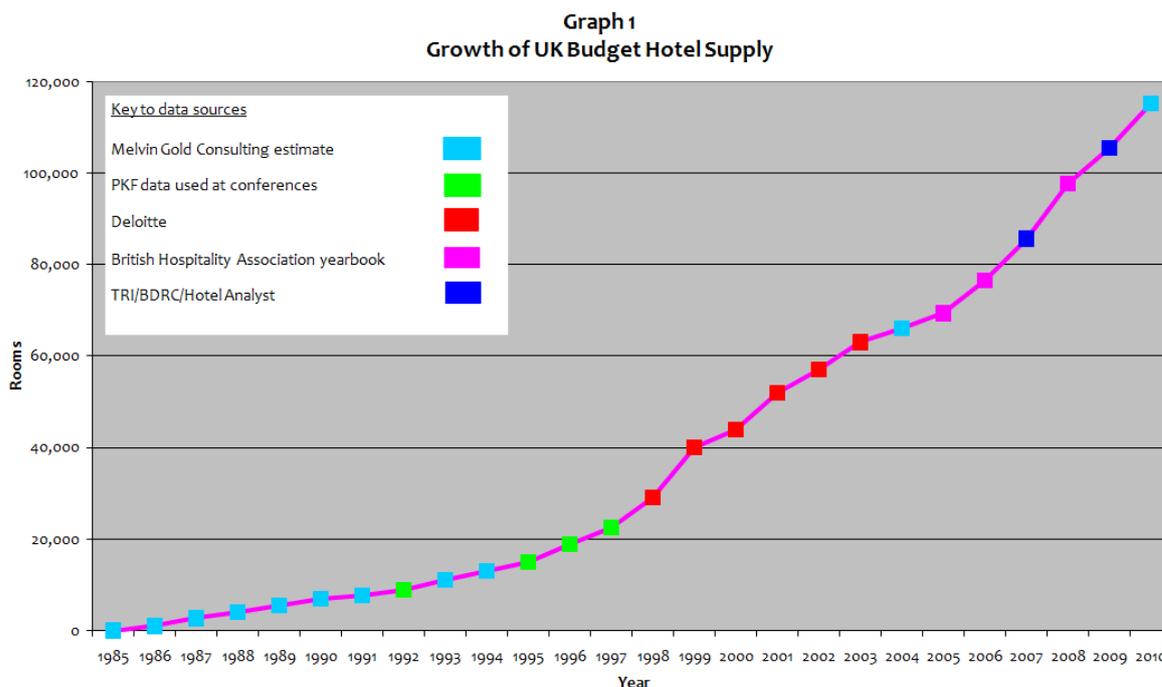
The UK Budget Hotel sector has developed rapidly since the first branded budget hotel was constructed in the country in 1985. It is now by far the most dynamic development sector in the UK hotel industry and there are now some 115,196 rooms in the country representing, in our view, some 15.8% of the UK serviced accommodation sector.

Compared globally, while the UK hotel sector is becoming mature, it is a child by comparison with the levels of budget hotel penetration of the overall market seen in the USA and France. We discuss those markets subsequently in a separate section of this report, for comparative purposes, but it is generally agreed that the UK's budget sector is the third most mature in the world today.

Development of the UK budget hotel sector

It is not the primary purpose of this report to discuss and review the UK's budget hotel sector; indeed it is well documented generally, especially in comprehensive reports by TRI Hospitality, the most recent having been published during 2010 in conjunction with Hotel Analyst and reporting on the sector in 2009 and historically. Earlier in the decade there were also reports by Deloitte. It is a sector that is especially well known to our client, Travelodge, who developed the first ever UK budget hotel and are now the second largest budget hotel operator in the UK. Thus our commentary is prepared to provide background and context for this report – readers seeking a more in depth review of this sector of the market should obtain one of the specialist reports that are available.

The sector has grown rapidly, particularly during the past decade, as illustrated in graph 1 below which uses various data sources as illustrated.



Critical to the early development of UK budget hotels were the 'land banks' of the two leading players, Travelodge (initially owned by Trusthouse Forte) and Travel Inn (now

Premier Inn), owned by Whitbread. These two companies used land adjacent to restaurants, motorways services and public houses to effect a rapid roll out of their brands with which no other company could compete. This gave them a huge advantage and enabled them to leverage value from land already owned by their companies. The brands became quickly established in the public psyche and helped transform the UK hotel industry. Travelodge grew further by merging in the Granada Lodge portfolio after Granada acquired Forte and Whitbread bought the Premier Lodge portfolio and merged it into Travel Inn. They remain by far the two leading companies in the UK sector.

Holiday Inn Express, using a franchising model, has become the third largest company in the sector. After a slow start, partly caused by franchisees competing with each other and effectively forcing up the value of sites, the brand formed a more resilient strategy with a small group of preferred franchisees and rapid development followed. Accor, Europe's largest hotel company and the key company in France's hotel industry, has grown steadily to gain fourth place, largely through a corporate development model although they are becoming increasingly focused on franchising. Their UK budget brands encompass Ibis, Etap, Formule 1 and All Seasons. These are the only companies with more than 7,500 rooms and together they have 97,089 of our estimate of 115,196 rooms, 84.3% of budget supply (previously these companies had 81% of total budget supply). This is summarised in the following table.

Table 5
Leading Budget Hotel Operators in the UK

	Hotels	Bedrooms	Average size
Premier Inn	585	42,654	73
Travelodge	452	30,988	69
Holiday Inn Express	115	13,349	116
Ibis	55	7,401	135
Jurys Inn	24	6,026	251
Days Inn/Hotel	57	4,073	71
Etap	17	2,212	130
Ramada Encore	16	1,924	120
Campanile	19	1,655	87
Comfort Inn/Hotel	19	1,085	57
Hampton By Hilton	8	882	110
Innkeepers Lodge	40	680	17
Easyhotel	7	407	58
Formule 1	5	401	80
Metro Inns	3	205	68
Citizen M	1	198	198
Big Sleep	3	194	65
Restover	3	186	62
Bannatyne Hotels	2	120	60
Nitenite	1	104	104
Sleeperz Hotels	2	99	50
All Seasons	1	84	84
Tunes	1	79	79
Yotel	2	78	39
Dolby Hotels	1	65	65
Premiere Classe	1	47	47
Total	1,440	115,196	80

Source: Melvin Gold Consulting research

In recent years, as the sector's growth has continued, there have been two further trends evident in the budget market. Firstly, the move of budget hotels into city centres and secondly the growth in the average size of budget hotels. Originally these hotels were largely built on roadsides or on the edges of towns and cities, largely due to the characteristics of the land banks held by the two main brands. However this has changed with the maturity of the market and public awareness and acceptance of these brands and products and there has been a move into town and city centres, sometimes alongside synergistic multi-component developments. Many of these properties are larger than the traditional lodges and therefore the average size has grown. Other factors in this latter trend being the expansion of existing hotels where there is evidence that the market will support it and the larger number of rooms which often need to be developed to support the land value of development sites, particularly where there is competition from other uses. It can be particularly noted in the above table that Jurys Inn has an average size of 251 rooms in each of its UK properties and Ibis, Etap and Holiday Inn Express all have an average of well over 100 rooms. Premier Inn, Travelodge and Days Inn are far smaller, partly reflecting the economies of scale of these brands but especially recognising the different land ownership models (many Days Inns are franchises at motorway service areas).

Overall the budget sector, while mature, continues to demonstrate rapid growth and an ability to invent itself to fit different market situations.

The impact of the budget market on the UK serviced accommodation sector

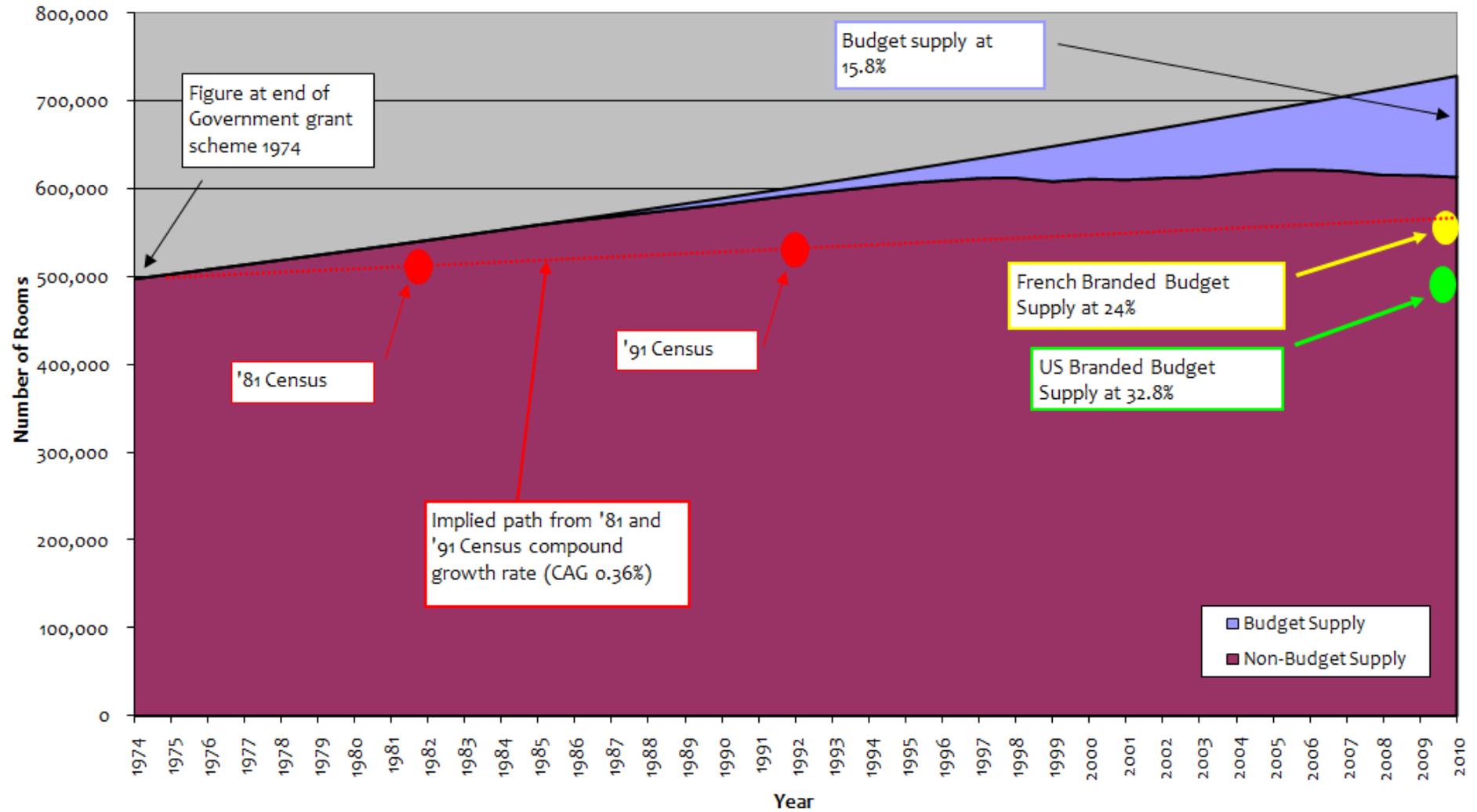
Given all the foregoing, and commentary that appears subsequently concerning the international budget hotel markets, we have developed a graph to illustrate the impact and size of the UK budget market. This is shown as graph 2 overleaf.

The graph illustrates the CAG (on a straight line basis in the absence of other information) of the hotel sector generally and most vividly the growth of the budget sector in the last two decades, particularly the most recent one. It is especially evident that, if it were not for the growth of budget hotels, the UK hotel industry would have demonstrated a rather stagnant rate of growth in the last 10 years. Perhaps the overall quantum of supply would be rather closer to the level that would have been indicated by the growth rates calculated from the census data in the latter years of the last century.

On the other hand the data extracted from the USA and French markets, illustrated by the green and yellow dots on the graph, shows the extent to which the UK budget market continues to lag those international benchmarks.

We believe the chart provides a graphical illustration of the emergence and significance of the budget hotel market in the context of the overall UK serviced accommodation market. CAG in the past decade has been demonstrated at 10.19% per annum and it recorded 20.2% in the decade before that, albeit from a lower base. With the budget market now well established, existing players using a variety of sustainable business models, and new brands emerging, the segment seems likely to continue its growth trend and be the main source of growth in the UK serviced accommodation sector in future years.

Graph 2
Long term trend in UK Serviced Accommodation supply growth and that of the budget segment



7 – Budget hotel sector trading

Introduction

Despite the pace of growth in supply, the branded budget sector has continued to perform strongly and has outperformed other segments of hotel supply through the recent economic downturn. In this section we present data which demonstrates this outperformance as well as commenting on general levels of trading.

Consideration of supply in the context of demand

While this study is almost entirely supply focused and tends to ignore demand, economic cycles and industry performance, which tend to be far better documented in any case, we have sought to consider demand levels as a ‘sense check’.

TNS produce the UK Occupancy Survey for Serviced Accommodation annually on behalf of British Tourist Authority (trading as Visit Britain), Northern Ireland Tourist Board, Visit Scotland, Visit Wales (part of the Welsh Assembly Government). In the 2008 edition¹⁹, the most recent currently available TNS state that 2008 room occupancy for the UK was 60%, down from 62% in 2007. It had been at 61% in 2004 and 2006 and lower, at 59%, in 2005. Given the economic cycle these occupancy levels have remained at relatively consistent levels despite the supply increase in that period, especially in branded budget hotels which grew from around 66,000 rooms in 2004 to 97,701 rooms by the end of 2008.

Bedspace occupancy was at a relatively low 44% although it had been at the same level in 2005. Overall occupancy levels provide more evidence of the economic cycle than of systemic oversupply in the United Kingdom.

As an aside to this section, TNS do note that “In 2008 there were about 45,500 establishments of this type in the UK which were known to the tourist boards, with a total of just over 1.35 million bedspaces available daily.” We note that if each had two beds per room this would equate to 675,000 rooms. Furthermore the UK provisional declaration to Eurostat for 2008 is at 1,176,000 beds – we do not understand the differences that are occurring.

We also note that STR Global reported UK occupancy for 2009 at 69%, compared to 71.2% in 2008 and TRI Hospitality reported 72.7%, down from 74.3% in 2008. These remain respectable levels of occupancy although they were bolstered by London’s continuing buoyancy. Nonetheless TRI report the UK provinces at 68.2% in 2009 compared to 70.5% in 2008.

Performance of Budget Hotels

In their Budget Hotels 2010 publication, which reports on 2009 data, TRI Hospitality and Hotel Analyst, present performance data for UK budget hotels. They also present regional and city breakdowns. We recommend the publication to those seeking more detailed information on UK budget hotels. For the purposes of this publication we seek only to note overall performance.

In 2009 TRI reported that UK budget hotels achieved an occupancy level of 67.8% and average room rate of £50.97. These were both lower than 2007 which reflected 73.8%

¹⁹ TNS Travel and Tourism, UK Occupancy Survey for Serviced Accommodation Annual Summary 2008 available from http://www.visitbritain.org/Images/UKOS%202008%20Report_tcm139-167784.pdf

and £51.54 respectively, down by -8.8% and 1.1%, a combined RevPar decline of -9.1%. This compares to TRI's overall UK data of -10.8% for traditional hotels and STR's -8.3%.

We sought to make a more specific comparison and also to eliminate the impact of new openings that were still in a build-up phase, etc. We commissioned data from TRI with a consistent sample of hotels from 2006 to the present day. We sought to define the hotels by average room rate bandings at a fixed point in time so that the consistency of each sample was preserved. In total the sample comprised 1,513 hotels with 163,974 rooms. Details of the hotels and the rate bandings used are shown in table 6 below.

Table 6
Criteria and number of hotels used in preparation of performance data comparing UK branded budget hotels to hotel segments

London		
Sector and Average Room rate banding	Hotels	Rooms
Branded Budget	108	15,181
London less than £85	30	9,032
London £85 to £135	41	13,329
London over £135	36	8,255
UK Provinces		
Sector and Average Room rate banding	Hotels	Rooms
Branded Budget	930	64,347
Provinces less than £50	46	4,963
Provinces £50 to £70	206	29,029
Provinces over £70	116	19,838

Source: TRI Hospitality Consulting, based on the above criteria, by agreement with Melvin Gold Consulting Limited

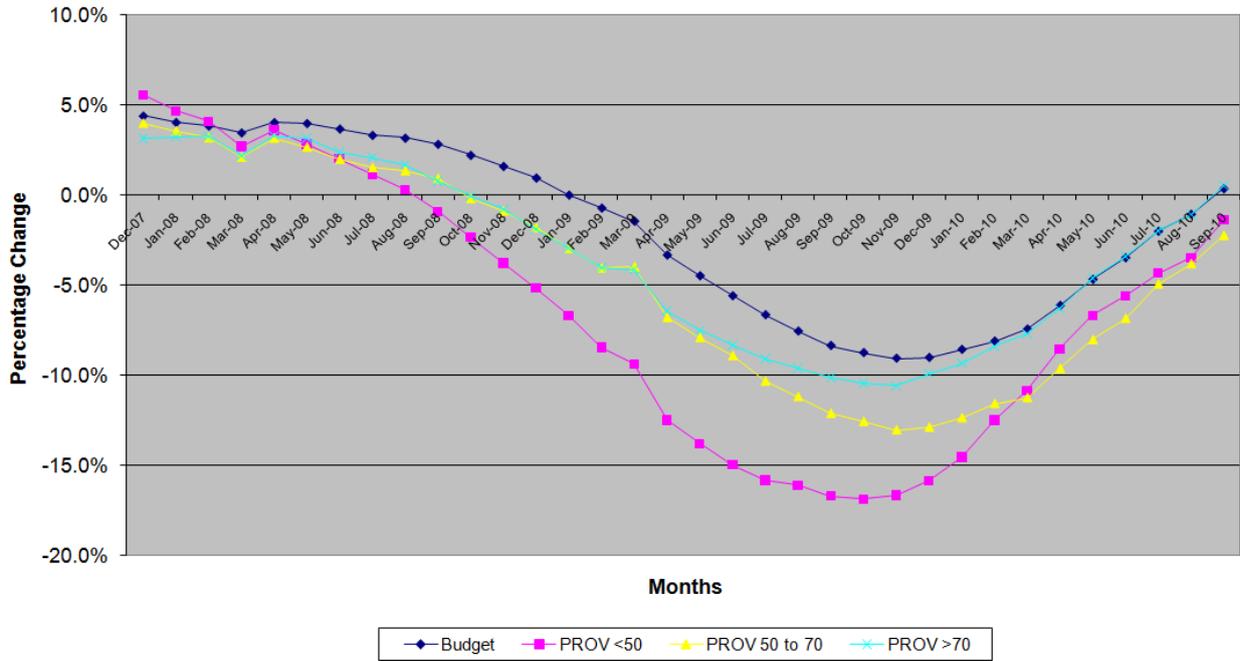
Unfortunately, to preserve the confidentiality of the data provided by individual companies, the identity of the brands and the absolute data cannot be released to us. Nonetheless it is evident that this is a substantial sample comprising 22.5% of total UK hotel supply and most of the branded budget hotels that have existed in the UK since 2006.

Overleaf we present two charts showing the moving averages of the four data sets for both UK Provinces and for London from December 2007 until September 2010.

The dark blue line on each chart represents the branded budget hotels and it can clearly be seen above the other lines on each chart as the UK entered a period of downturn. In the case of the provinces the line remains above the other segments until April 2010 when it tracks the highest average rate segment back into positive territory. The slump is most evident in those hotels with the lowest average room rates.

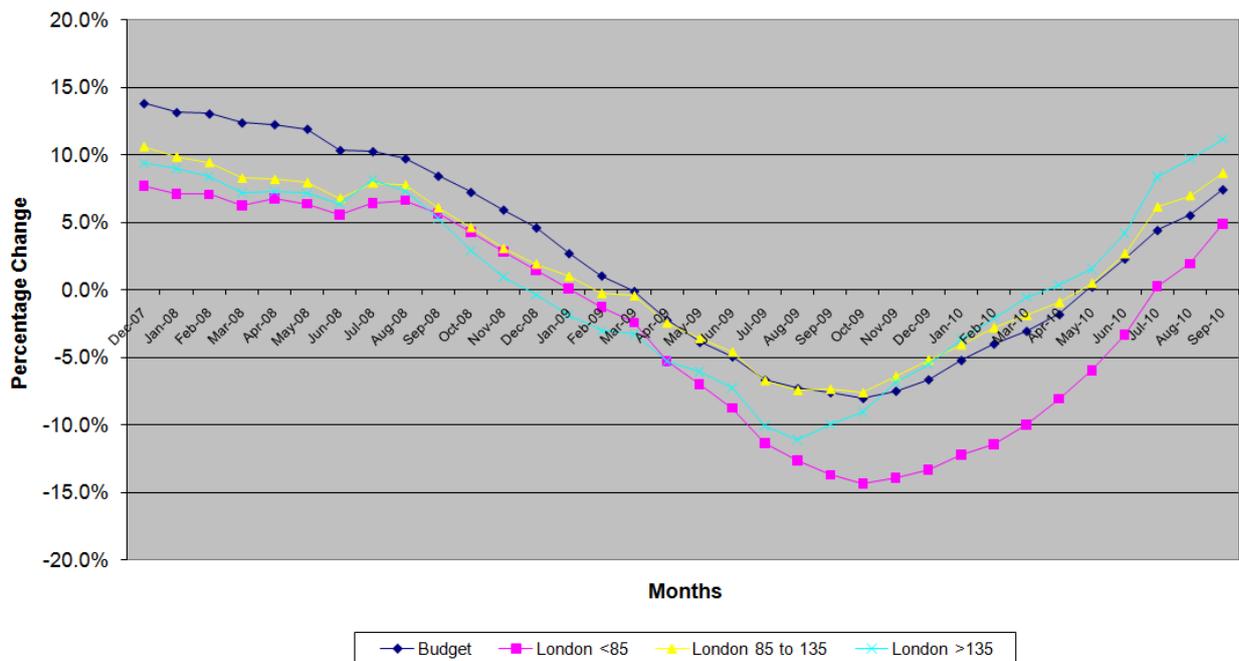
In London the budget hotels remain above the other segments, or in line with the highest performer, until October 2009 from when it tracks the highest two segments back into positive territory. However it must be noted that these charts depict year on year change and so the comparables against which the budget sector is performing are far more challenging, and in any case London has had a relatively positive trading environment during the economic downturn. Once again the lowest rated segment of the market has fared least well.

Graph 3
REVPAR - UK Provincial moving average change



Source: TRI Hospitality Consulting, based on the above criteria

Graph 4
REVPAR - London moving average change



Source: TRI Hospitality Consulting, based on the above criteria

Conclusion

The data presented in this section sets out that, although the budget segment is not immune to economic downturn, it has performed better than any other segment of the hotel market during this most recent downturn. Notwithstanding that, the sector has achieved this level of performance despite the significant supply increase that is ongoing and has so far brought the segment to 15.8% of total UK hotel supply.

8 – International parallels for the Budget Hotel sector

Introduction

In this section we reflect on some international parallels for budget hotel markets in other countries where the budget hotel market has reached maturity. We have been particularly interested to note the proportion of total supply that has been achieved in such destinations. The two most appropriate markets to consider are those in the USA and France where data is reasonably available and budget supply is significant. Both markets would be considered mature.

We have considered other west European countries with significant hotel supply, such as Germany, Spain and Italy, but none of them have especially well developed budget hotel sectors. According to our research there are just 34,188 branded budget rooms in Germany at the present time, some 3.7% of total supply, and less in Spain and Italy. Spain has 12,735 rooms, 1.5% of total hotel supply, and Italy has 3,024 rooms which is just less than 0.3% of the country's massive hotel supply base. Thus the sectors would not be considered significant or mature and we have focused our commentary on the USA and France.

Budget Hotels in the USA

The total supply of hotels in the USA, as reported by the American Hotel and Lodging Association (AHLA) is 4.76m rooms. We believe the original data is sourced to the US Ministry of Commerce Statistics department. Supply built up steadily in the early part of the decade although it stagnated and actually declined marginally from 2003 to 2006. A growth trend has resumed subsequently and now the AHLA report that there were are 50,800 properties in the USA with 15 rooms or more.

Recent supply trends for the total USA lodging market are as follows:

Table 7
Total USA Lodging Supply – 2001-2009

	Hotels	Bedrooms
2001	41,393	4,200,000
2002	47,040	4,397,534
2003	47,135	4,415,696
2004	47,584	4,411,908
2005	47,590	4,402,466
2006	47,598	4,389,443
2007	48,062	4,476,191
2008	49,505	4,626,348
2009	50,800	4,762,095

Source: American Hotel and Lodging Association

Supply growth tends to be linked to the economic cycle which most likely accounts for the decline in supply in the middle part of this decade, in the wake of 9/11 and the accompanying economic downturn. Consultancy Lodging Econometrics regularly publish data focusing on their estimates of supply growth over the next few years, as well as that recorded by them in recent years. Figures focus entirely on new openings and we understand that they do not take account of any hotel closures in the period under review. Closures are assumed to account for the modest decline in actual rooms in mid-decade indicated in the official statistics.

Lodging Econometrics data would seem to indicate that the pace of supply growth is once again in a slowdown phase, no doubt due to the recession and credit crunch in the US and around the world. We summarise their supply growth forecast in table 8.

Table 8
Construction Pipeline at Q3 '10 Forecast for New Openings

Year	Hotels	Guestrooms	Supply Increase (Gross, %)
2004 Actual	555	58,420	1.3%
2005 Actual	657	70,808	1.6%
2006 Actual	735	78,949	1.8%
2007 Actual	985	100,249	2.3%
2008 Actual	1,341	154,259	3.4%
2009 Actual	1,316	147,498	3.2%
2010 Forecast	698	77,401	1.6%
2011 Estimate	562	57,482	
2012 Estimate	515	52,213	

Source: Lodging Econometrics

While this data is not especially relevant to the subject of this report it does illustrate that, even in the largest and most mature hotel market in the world, supply growth continues.

In terms of quantifying the branded budget segment we have referred to documentation from both Smith Travel Research (STR) and to the Limited Service Hotel Chain Report which has been produced annually by Hotel and Motel Management (HMM) magazine for many years.

In 2005 and recently in 2010 (and regularly in-between) STR presented the following data on the structure of US Lodging Supply:

Table 9
Structure of USA Existing Supply 2005 and 2010

	2005 Hotels	2005 Rooms	2010 Rooms
Luxury	237	75,839	108,294
Upper Upscale	1,363	526,684	599,253
Upscale	2,344	370,122	524,828
Midscale with F&B	4,637	581,712	502,535
Midscale without F&B	6,923	618,359	839,245
Economy	9,916	770,373	759,042
Independent	22,725	1,507,679	1,535,931
Total	48,145	4,450,768	4,869,128

Source: US Lodging Industry Overview 2005, Smith Travel Research and STR's pipeline forecast October 2010

Firstly this demonstrates the extent of branding in the USA hotel industry with just 31.5% of existing supply being considered as Independent. Thus 68.5% was considered as branded which is far higher than in any European country.

Secondly, on the assumption that the branded budget sector comprises both Economy and Midscale without Food and Beverage hotels, then it would indicate that STR estimates put branded budget supply at around 32.8% in October 2010. For the sake of clarity STR's Midscale without F&B segment brands include Hampton Inn, Comfort Inn,

La Quinta Inns, Holiday Inn Express and Sleep Inn which would certainly be considered equivalent to UK branded budget brands. It should be noted that both the STR data and the HMM report consider budget level extended stay accommodation as being within this segment and we have taken the same view. In the USA the planning restrictions on extended stay or serviced apartment accommodation that apply in the UK do not exist and therefore this category of accommodation is available to transient visitors on the same basis as 'regular' hotel supply.

Given that STR utilise a slightly higher overall lodging supply figure than the official statistics quoted earlier, we investigated the overall position using the official supply data and the HMM report.

In the following table we quantify the total number of rooms and hotels in the HMM survey since 2001, the number of brands covered annually as well as the percentage of total lodging supply represented by the HMM Limited Service Survey.

Table 10
Limited Service Branded Hotel Supply in the USA
including proportionality of total supply

	Hotels	Rooms	Brands in Survey	Limited Service Brand rooms as % of total USA lodging supply
2001	16,401	1,291,767	58	30.76%
2002	16,892	1,396,185	70	31.74%
2003	17,483	1,410,655	63	31.94%
2004	17,793	1,463,112	61	33.16%
2005	18,086	1,433,925	57	32.57%
2006	17,554	1,445,176	53	32.92%
2007	19,241	1,563,503	54	34.93%
2008	21,015	1,815,447	48	39.24%
2009	17,261	1,378,770	40	28.95%

NB. Limited Service Supply measured at end of each year

Source: Hotel and Motel Management Limited Service Hotel Surveys 2002-2010

Clearly the sample base has been changed in recent year and thus the percentage of overall supply represented by the survey is volatile. Steady growth in significance was seen from 2001 until 2007 which a major growth in 2008 and a significant decline in proportion in 2009 since a lower number of brands were reviewed. Typically the percentage of total supply has been in the low 30%.

Given that the survey states that it reflects the STR stratification of the market, and especially taking account of the changes in the survey, we have reflected the STR percentage of 32.8% of total supply within this report. It can be seen in both the Limited Service Branded Supply data and in the STR report that Branded Budget supply has seen limited growth in the USA in recent years and that most of the growth has been in other market segments, reflecting the maturity of the segment in the USA. Our previous report reflected a percentage of 33.0% so this segment is broadly tracking overall supply change.

Finally, in terms of the USA market we would comment that, despite the size and maturity of the market, five budget brands – Hampton Inns and Suites, Holiday Inn Express, Days Inn, Comfort Inn, and Super 8 Motels – have a total of 705,708 rooms (in 2009) and are the only limited service brands with more than 100,000 rooms. Thus

they have around 14.8% of the total USA market and almost half of the limited service supply.

Budget Hotels in France

We have similarly analysed hotel supply in France, insofar as data permits, to reach a similar conclusion over the significance of the budget hotel market in France. Once again we firstly considered the total quantum of hotel supply which we have sourced from the French Ministry of Tourism. Data, as displayed in table 11 below, is available from 2000 to 2009.

Table 11
Total France Lodging Supply – 2000-2009

	Hotels	Bedrooms
2000	n/a	589,174
2001	n/a	600,492
2002	n/a	603,619
2003	18,217	603,279
2004	18,309	615,402
2005	18,085	613,798
2006	17,877	612,424
2007	17,721	614,532
2008	17,487	612,082
2009	17,282	612,465

NB. Data is recorded on the 31st of December of each year, thus 2009 data is total supply at 31 December 2009

Source: France Tourism Ministry

There is a mandatory registration and grading scheme in France so the supply statistics are most probably fairly accurate in reflecting the total quantum of serviced accommodation supply in France. It should be noted that to be consistent with our UK supply base figure, Youth Hostel supply would have to be added to the above figure although this is relatively inconsequential at around 14,922 beds in 2009, having been 13,386 in 2008 and 14,104 in 2007. Guest Houses/Bed and Breakfasts, at 75,152 beds in 2009, 76,042 in 2008 and 73,758 in 2007 will also have to be added.

We have also considered whether a category translated as 'tourist and assimilated residences' should be included in our serviced accommodation supply figure given that it is a relatively significant category of supply at 625,747 beds in 2009. On balance we have excluded this category since the majority of supply is the type of serviced apartments sold as self-catering apartments in French resorts and cities with particular concentrations in the Alps and in Provence.

One particularly noteworthy feature of the French accommodation market is the quantum of beds in second residences and holiday homes. This amounts to around 3m homes with more than 12m beds, substantially more than the quantum of serviced accommodation in the country.

French serviced accommodation supply has been relatively static in this decade. Growth of just 23,291 rooms took place in the period from end-2000 to end-2009. It is notable that there are several years which have reflected a decline in accommodation.

In the following table we present 2009's supply by star grading compared to that which existed in 2003. It should be noted that although there is a statutory grading and registration scheme in France, hotels can opt to choose a lower grade than they are entitled to (the grading scheme has changed recently, this data reflects the previous scheme). Particularly at the upper end of the market there can be a VAT advantage to doing this (they are able to levy a lower rate of VAT) and thus there are relatively few 4 star luxe hotels in France.

Table 12
Structure of France Existing Supply 2003 and 2009

	2003	2003	2009	2009	%chg 2009 v	%chg 2009 v
	Hotels	Rooms	Hotels	Rooms	2003 (Hotels)	2003 (Rooms)
0 star	2,138	67,246	1,978	77,889	-7.5%	15.8%
1 star	1,858	37,078	1,331	31,007	-28.4%	-16.4%
2 star	9,867	278,890	9,179	262,518	-7.0%	-5.9%
3 star	3,635	164,692	3,891	174,460	7.0%	5.9%
4 star / 4 star luxe	719	55,373	903	66,591	25.6%	20.3%
Total	18,217	603,279	17,282	612,465	-5.1%	1.5%

Source: French Tourism Ministry

We believe this reflects a loss of unbranded supply from the lower and mid-market in France, particularly in smaller properties. This view has been periodically supported by commentary by MKG Consulting, a France-domiciled consultancy with a database of hotel supply and branding. Thus the number of hotels in the country has declined while the number of rooms has increased. Thus the average size of a French hotel has grown from 33.1 rooms to 35.4 rooms in just 6 years. Notably there has been growth in the number of rooms in the 0, 3 and 4 star categories while the 1 star and 2 star segments have shown a decline. Table 13 below reflects the extent to which the French hotel industry is becoming more branded, albeit that the branded budget sector has been significant for many years and is (in our understanding) relatively static as a proportion of overall supply.

Table 13
Proportion of Branded Hotel Supply and Budget Hotel Supply in France
2003 and 2009

	Total Hotel	Chain Hotel	Branded	Chain	Branded
	Supply	Rooms	Budget	Hotels as	Budget
			Rooms	% of total	hotels as %
					of total
2003	603,279	216,516		35.9%	
2009	612,465	249,078	157,210	40.7%	25.7%

Source: Melvin Gold Consulting research and French Tourism Ministry Data

To equate with our UK hotel supply we have factored in youth hostels at 3.5 beds per room and bed and guest houses/bed and breakfast accommodation at 2 beds per room. This is consistent with our UK methodology. Using the earlier data this equates to an additional 41,839 rooms and brings the total of serviced accommodation to 654,304 rooms. Branded Budget hotel rooms would equate to 24.0% of this supply base. This is a similar proportion of total supply to the calculation we made in the previous edition of this report. Typically these figures have been corroborated by other sources.

The French hotel market is somewhat dominated by Accor who, according to their corporate website, had some 1,423 hotels with 129,137 rooms in December 2010. This indicates that Accor's supply represented some 19.7% of total French serviced accommodation. Previously we reported that, by number of rooms, five of the top 10 hotel brands in France were Accor brands, 3 of them – Ibis, Formule 1 and Etap – being budget brands. We do not believe there has been any change in this situation.

Louvre Hotels, now owned by Starwood Capital, is the second largest hotel company and had 3 of the largest brands, all in the budget sector. These were Campanile, Première Classe and Kyriad. In total, in 2009, Louvre Hotels had 52,923 rooms according to the MKG Consulting, over 48,000 of which were in the aforementioned budget brands. The next largest chains in France were Best Western (actually a marketing consortia rather than a hotel chain) and Intercontinental Hotels. The largest budget brand outside these chains is B&B Hotels which had 183 hotels and 13,200 rooms and was the 6th largest budget brand in France.

Overall it can be seen that branded hotels in France are largely dominated by two major chains and the major part of their portfolio is in the budget segment of the market.

9 – Future growth of UK hotel supply

Introduction

As has been shown earlier in this report, the UK has seen a sustained period of growth in its serviced accommodation stock. A major catalyst for this has been the advent of the budget hotel segment which has grown far more strongly and significantly than any other section of the market.

At the same time anecdotal evidence suggests that sections of the industry have come under commercial pressures, particularly small independent hotels and bed and breakfast establishments, and some mid-market hotels. We have earlier commented that the British Hospitality Association Trends and Statistics 2010 publication shows that the number of hotels and guest houses in the UK has been in decline for some years. Overall supply, in terms of bedrooms, has grown though. We have commented elsewhere in this document on the extent of new openings and closures in the UK. The traditional seaside resorts around the country's coastline have particularly suffered and in fact, on page 18 we refer to a report by Humberts Leisure on the Fylde coastline. In fact that report confirms Humberts opinion that the area has too much hotel supply so we assume that further closures will be expected.

Nevertheless the overall trend is towards growth in the sector and we expect that to continue in the future, despite a number of challenges. In this section we hypothesise as to the future growth of the industry and consider some of the factors that will need to be taken into account for this to be realised.

Factors affecting hotel industry growth

We believe the following factors will impact in various ways on future industry growth:

- An increasingly service sector-oriented UK economy;
- New markets opening up, for example, increasing wealth and ability to travel from international markets such as China and India; the increasing 'grey market' in European countries and the domestic market (with better health and more wealth than previous generations);
- London being the host city of the 2012 Olympic Games and Glasgow hosting the 2014 Commonwealth Games. Although the UK missed out on hosting the FIFA World Cup in 2018 it is, and will continue to, host other major international sporting events;
- The existing land banks of existing budget hotel operators have been used up and many of the extension opportunities have now been developed;
- Competition for available sites and relatively high asking prices;
- There are many opportunities for conversions of existing hotels – either to budget hotel use or alternative uses. With the construction of new houses becoming an increasing government priority we believe some hotel stock, particularly in residential areas or where there was a historic residential use in a current hotel property, will be redeveloped to supplement the housing stock;
- A trend towards multi-component development, often including hotel use as a part of such development;
- A trend towards branded hotels as a consumer preference, partly driven by technological change;
- Closure of existing hotels for a variety of reasons including owners reaching retirement age, conversion to alternative use, lack of a commercially viable route to market (for smaller hotels);

- The consumer's consideration of the environment within their travel plans. This may impact their willingness to travel by air on short breaks etc, despite the growth of budget airlines and the adoption of open sky policies;
- Interventionist government policies which can affect industry economics ie. the increasing minimum wage, unfavourable tax intervention on construction depreciation (as in the 2007 budget), consideration of unhelpful measures such as the bed tax;
- The economic downturn and credit crunch, which have affected the UK and much of the world, will slow the development pipeline, make funding more difficult and perhaps alter the investment scenario towards acquisition rather than new development;
- Government spending cuts in the UK may impact consumer demand but also have some direct impacts such as a reduction of funding for Visit Britain and for the Regional Tourist Boards. Most of these RTBs are taking on a different form in any case, as Private-Public partnerships and this will be increasingly the case as the RDAs are abolished.

We are particularly concerned about the intervention of local authorities in planning applications for alternative uses. We are especially aware of this in coastal resorts where planning authorities are frequently intervening to try to preserve their existing bedstock. We understand the reasons for this, especially in preserving employment potential, in terms of preserving the character of specific areas and in maintaining economic uses of building intended to attract visitors to a particular economy.

Our view is that in many cases this stock is dated and if there is a genuine reason for it to exist then new accommodation will spring up through market forces once the opportunity is evident. Organisations such as TRI Hospitality, corporate finance firm Otus and others, including ourselves, have been vociferous about the need for the UK hotel stock to undergo a transition. In his book²⁰, Paul Slattery, founding partner of Otus, states that "Otus estimates that there are almost 50,000 hotels rooms in Britain alone whose physical state, redundant facilities and weak performance make their removal from the hotel market overdue". Although, as we acknowledge elsewhere, there have been some closures, in our view it is some of these rooms that are being artificially preserved by such planning policies and we believe that potential market growth would be unlocked by a more proactive approach to regeneration and development. Ultimately allowing some of this outdated supply to exit from the market for redevelopment will allow better quality hotels, which are more appropriate to the requirements of the 21st century consumer, to be developed. It may also assist the government in reaching its targets for new residential development.

If there is any doubt then consider the success of Brighton in regenerating itself and attracting a variety of new hotel operations including the big brands, aspirational boutiques and workhorse budget properties. Of course there has been a level of underlying investment which attracts hotel developers and operators but what is the harm in that?

Overall of course there are a variety of positive and negative factors that will impact on future supply growth but overall we believe the outcome will be positive, albeit perhaps at a lower growth rate than has been experienced over the past three decades.

²⁰ The Economic Ascent of the Hotel Business by Paul Slattery. Published in 2009 by Goodfellow Publishers Limited. ISBN 978-1-906884-03-1. This reference, page 227.

Declared intentions of hotel operators

As well as the growth opportunity being practical and achievable there also has to be commercial entities whose interests are aligned to take advantage of the situation. The economic and commercial environment in the UK is active although the financing environment has been weakened significantly by the recent downturn. Nonetheless operator interest and aspiration remains strong. History reflects that these periods have been seen before and typically, after a lull, investor and developer interest grows back and sensible development is supported by the financial community. We expect that pattern to resume in the next few years, and some activity is still evident especially in the budget hotel market and in London.

Below we briefly comment on the declared expansion plans of some of the UK's hotel operators.

Travelodge has the long-declared intention to grow its UK estate to roundly 70,000 rooms in approximately 1,000 hotels by 2020. In our previous report we noted that they would have to add just over 4,000 rooms per annum for each of the ensuing 13 years. Now, with 30,988 rooms, the group would need to add 3,900 rooms per annum, in other words the group has kept pace with the original target in the three years since our last report. Originally the group announced the intention to add 22,000 of these rooms in Greater London and to have 3 times as many rooms in Wales and double the current number in Scotland. We note that the company is now the largest hotel budget brand by number of rooms in Greater London and Edinburgh.

Whitbread's Premier Inn is the UK's largest hotelier by number of rooms. The group has recently confirmed that it is on target to have 55,000 rooms in the UK by the end of 2013/14 (financial year end is February). This implies an intention to open (or acquire) some 4,100 rooms per annum over the next three years or so. The company recently announced a renewed focus on finding sites in and around London.

Hilton is amid an expansion and restructuring plan which is intended to grow its UK portfolio to some 150 hotels by around 2017. The group currently has 90 properties under its five brands. A driving force for expansion is expected to be through four brands that have been introduced internationally from their US origins, Waldorf Astoria (Luxury), Doubletree (Full service), Hilton Garden Inn (mid-market) and Hampton Inn. The group currently has over 18,000 rooms in the UK. The group has already announced development alliances with Somerston Hotels and Shiva Hotels which are intended to add 25 and 15 hotels respectively. At least 25 of these properties are expected to be branded as Hampton Inn, the group's budget brand. The group is intending its expansion through franchising and management agreements and is thus dependent on third party investment.

Intercontinental, the world's largest hotel company, continues to have an aggressive expansion plan and this has been brought more sharply into focus as the group has divested of assets and become a 'more pure' management and franchising company. The group's pipeline of signed deals for the Europe, Middle East and Africa region at September 2010 was 31,257 rooms of which 6,592 were in the Express by Holiday Inn brand. We believe that Intercontinental will continue to adopt an aggressive expansion plan in the UK where they have recently introduced two new brands, extended stay brand, Staybridge Suites, and Indigo, a boutique hotel brand. We have not found any declaration of a current target but it is clear that expansion will continue to use franchising and management agreements business models.

Accor also continue to have an aggressive approach to the UK market. Their most recent announcement, in September 2010, in *Caterer and Hotelkeeper* stated “its aim is to have 300 hotels in the UK by 2015, with about 90 of those franchised”. The group currently has 144 hotels with just over 20,000 rooms. The article further stated that the All Seasons and Mercure brands were expected to be the “driving brands” for this expansion. Both these brands are non-standard brands, in the budget and mid-market respectively and are therefore intended to be attractive to existing owners seeking to become franchisees. Thus we might expect the majority of Accor’s expansion to target the independent sector and weaker brands rather than being driven by new development, although there will no doubt be some of that as well.

Although these companies represent the five largest companies in the UK market they are far from being the only ones with aggressive expansion plans. Marriott have reintroduced Courtyard to the mid-market, and Rezidor remain aggressively ambitious with the Radisson and Park Inn brands. Yotel, Easyhotel, nitenite, and Sleeperz remain keen to expand at the budget end of the market and have recently been joined by Tune Hotels and Citizen M. Both these have just launched their first UK properties and are seeking more. With Shangri La and W hotels having new London properties under development, it is evident there will be new entrants as well. Overall, despite the weak financing environment, there is much evidence that the hotel sector will be vibrant and fast-moving for many years to come.

Future size of the industry

We have been asked to provide a view, or at least some thoughts, on the future size and shape of the hotel industry. This is of course an extremely difficult task in any industry but is made more difficult in this case by the paucity of historic data. Although we have used our best efforts to estimate the size of today’s UK hotel industry it is nonetheless extremely challenging to undertake a similar exercise for either the past or the future.

Therefore our approach has been to develop a series of reasonable assumptions, based on our research and analysis of the data uncovered during the course of compiling this report. These have been applied over a 20 year period from 2011 to 2030. Our findings are illustrated in graph 5 on page 49 and an explanation and our assumptions are discussed below.

Market growth

As we have discussed earlier, it is our view that the market grew by approximately 1.066% in the 37 year period from 1974 to 2010. We have assumed that it will grow at a slower rate in the future due to the various factors discussed earlier in this section. Although it has enjoyed rapid growth in the past few years the pipeline is now rapidly slowing. As stated earlier the main growth areas are now in London and in the branded Budget hotel sector. Nonetheless some good projects have been shelved and developers will no doubt return to them at some stage in the next few years. London is bolstered by projects that are intended to be completed by the time the city hosts the Olympic Games in 2012. In addition there have been closures of hotels and these will probably continue, especially if the banks take further precipitative action which they have been reluctant to do so to date. Taking account of overall circumstances we have factored in compound growth in the overall UK hotel market of around 0.75% per annum during the next three years from 2011 to 2013, and then a return towards the 1% rate for five years from 2014 to 2018 before returning to a rate of some 0.75% on a compound basis from 2019 to 2030.

These assumptions would see the addition of around 128,100 rooms in the 20 year period with the total quantum of supply then being around 856,750 rooms. This implies that on average a net 6,405 rooms will be added annually over the next two decades. Actually we envisage the number of new rooms being higher than that although there will be a negative impact as some existing supply leaves the market for alternative uses or redevelopment.

Budget Hotel sector growth

The budget hotel sector has been the powerhouse of the UK hotel industry's recent growth. CAG in the past decade has been over 10.2% per annum which is slow compared to the prior decade. However we do envisage the pace of growth slowing and have estimated that, on a compound basis, it will be around 5% per annum until 2020, approximately 2.5% per annum from 2021 to 2024 and some 1.5% from 2025 until the end of that decade. After 2025 the budget sector will reach 25% of total UK serviced accommodation. Thus we expect budget hotel supply to grow to 224,266 rooms in 2030, some 109,070 rooms above today's level of sector supply.

Of course this implies that there will be only 19,030 rooms developed in other segments of the market. In net terms we do not disagree with that outcome since we envisage a number of property conversions as existing hotels are converted or redeveloped to budget brands. Thus, as graph 5 illustrates, the level of non-budget supply in 2030 would show only modest growth on the level that it was at in the mid-1990s. Overall supply will increase but its make-up will also change.

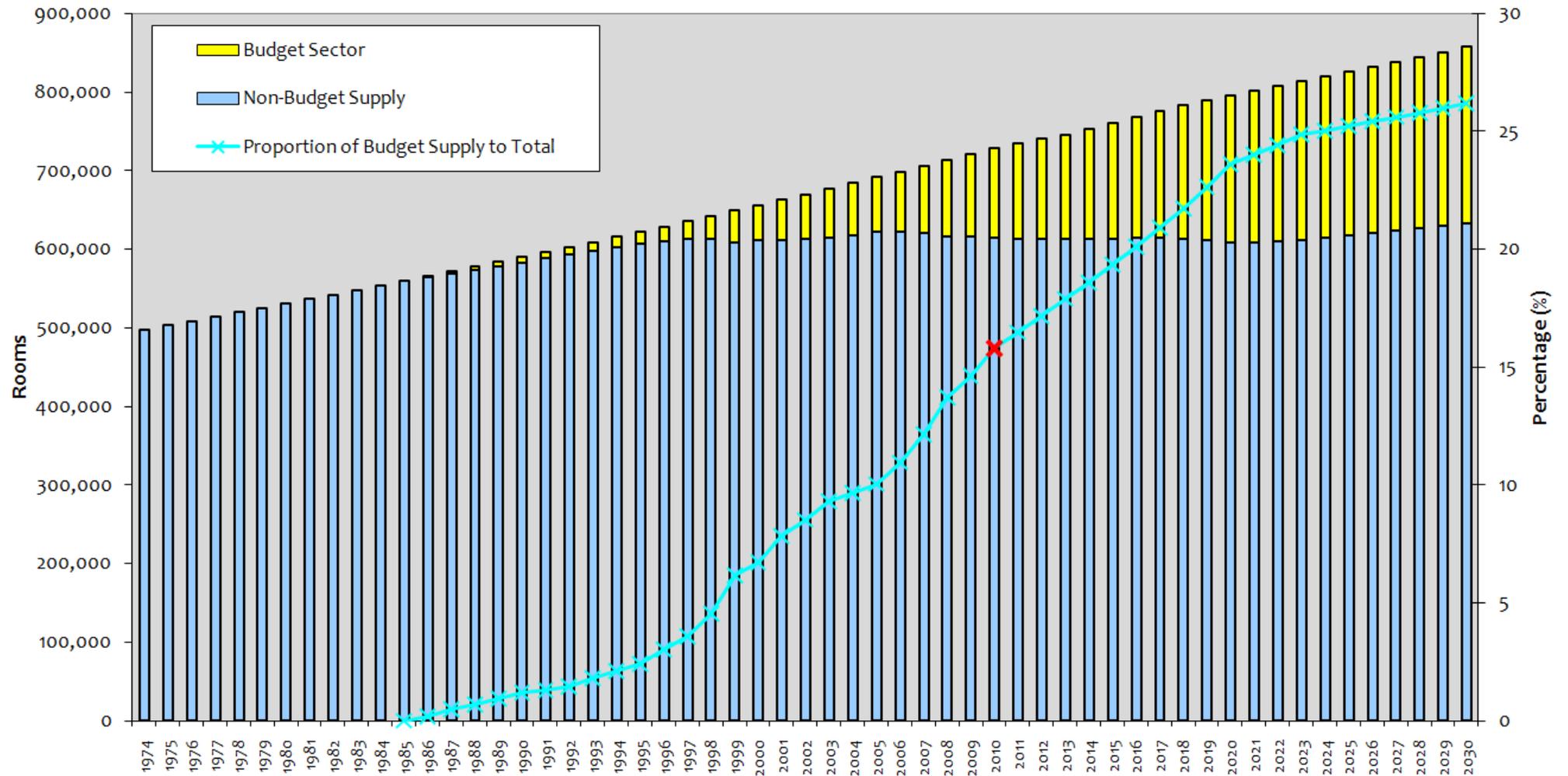
Finally it is noteworthy that under this scenario the proportion of budget supply would grow from 15.8% in 2010 to 26.2% in 2030. That does not seem unachievable given that budget supply in France is currently around 24% and in the USA it is at 32.8%. At the time of our previous report in 2007, we estimated branded Budget supply at 12% of the total market, thus it has gained substantial market share in just three years.

Indeed, if the branded sector were to grow in accordance with this scenario, development would most likely be led by the existing major branded budget hotel companies in the UK. As we have discussed earlier, and illustrated in table 5, the four largest companies in the sector currently have over 84% of branded budget supply. Thus, for example, if Travelodge were to achieve their target of 70,000 rooms by 2020 they would have 8.8% of the total UK serviced accommodation market and 37.3% of branded budget supply. This considers that under the scenario we have developed there would be 795,000 serviced accommodation rooms in the UK in 2020 with some 187,642 in the branded budget segment.

It is still difficult to estimate 'how branded' the UK's serviced accommodation supply will be. At present we have estimated that around 39.7% of the total supply is corporate branded with 15.8% being budget supply. A further 6.7% is branded through consortia membership. Using the various differentials we believe the implication is that branded supply would be at least 66% (including consortia) but actually, given that we would expect nearly all new supply to be branded in some way, and that there will be a net loss of rooms in the Independent sector, we would not be surprised to see an even higher percentage of the UK's hotels as part of brands. This could be around the current proportion in the USA which is around 68.5%.

As we have already stated, we believe this is a valid scenario but it would be difficult to be definitive in our belief that it will be achieved. At the very least it provides some very interesting food for thought.

Graph 5
Illustration of future serviced accommodation and budget supply growth



10 – The Tourism Industry within the context of the UK Economy

Introduction

Within the context of the UK economy in the 21st Century, tourism is vitally important. The economy has become increasingly reliant on its service industries since, as has been widely discussed and is adequately documented elsewhere for us not to have to discuss it here, its manufacturing and industrial base has declined. Even part of the service sector, in terms of call centres and customer service centres, has moved overseas. The UK economy, like other world economies, has encountered a sharp downturn in recent years but is now resuming a growth trend. In the medium and longer term this is expected to gain pace. Tourism, and the service sector, underpin this trend and expectation.

In this section we briefly discuss the contribution of tourism to the UK economy. Our commentary provides only a brief overview since it is somewhat incidental to the main purpose of this report and is included solely to provide context and information related to the broader issue of hotel supply in the UK.

Our research and reporting is predominantly based on data produced and presented by the ONS, Visit Britain, and the British Hospitality Association and further information can be found via these organisation's websites, publications and in general on the internet.

The UK economy and the service sector

According to the ONS, UK Gross Domestic Product (GDP) for 2009 was £1.39 trillion, down from £1.44 trillion in 2008.

The government more commonly use the terminology Gross Value Added (GVA) at present and according to ONS this “measures the contribution to the economy of each individual producer, industry or sector in the United Kingdom.” We previously observed ONS stating that GVA “represents the wealth created by businesses and is essentially the difference between income and expenditure on goods and services”. UK Workplace based GVA in 2009 (provisional) was £1.256 trillion, down from £1.296 trillion in 2008.

In our earlier report we summarised a news release published by ONS in December 2006²¹ which provided an excellent insight into the importance of the service sector to the UK in the 21st century. The release comments that “Overall, the contribution to UK total GVA by the production industries has declined from 36 per cent in 1989 to 23 per cent in 2004”. Much of the slack has been taken up by the service sector since the release also comments that “In 2004, the service sector accounted for 76 per cent of all UK GVA; the figure in 1989, the earliest year for which comparable regional data are available, was 62 per cent.”. Furthermore the release emphasises that London's economy was dependent on the service sector for 87% of its GVA, up from 76% in 1989. London's service sector is now responsible for 15% of the UK's GVA. Even in the East Midlands, which had the lowest GVA emanating from the service sector, the sector was responsible for 69% of the GVA, the region also sharing the largest proportion of production GVA with the North East, at just 30%.

²¹ Service sector dominates London economy, ONS, 15 December 2006.
<http://www.statistics.gov.uk/pdfdir/gvanr1206.pdf>

Although we have not found a similar article, we have located the same statistics, the more detailed information being available for 2008 than 2009²². This indicates that London accounted for 18% of UK GVA in 2009, and a higher 19.3% in 2008 – London declined but the country as a whole declined more. More starkly, only 20.6% of GVA was accounted for by manufacturing, mining and construction (agriculture was excluded from the previous figures in any case), the remaining 79.4% being attributed to various service based activities. This is a dramatic movement in just four years since the period covered by the previous data that we reported on. However that data reflected a 13 percentage point change from 1989 to 2004. Perhaps we should not be surprised by a further 3.4 percentage point movement in the subsequent four years. The extent of change is apparent and of course there has been economic turmoil as well. In London 89.4% of the GVA is attributed to the service sector.

Importance of the tourism industry

The tourism industry is fragmented and always hard to define. There are the obvious components such as the hotel industry and visitor attractions but there are also areas such as transport, retail, and restaurants and pubs which benefit much from tourism but are also there to service the domestic market.

The ONS report on Headline GVA by region²², published in December 2010, indicates that the GVA of the hotel and restaurant sector in 2008 (latest year data available) was £36.4bn. Obviously this figure includes both tourism related expenditure and that of the resident domestic market but it does show that it is a significant sector in itself, the figure equating to around 2.9% of UK GVA in 2008. One factor which was highlighted during our consultation on our previous report, and which it is worthwhile highlighting, is the impact of the budget hotel sector on the eating out market. Because budget hotels normally do not have their own restaurants there is generally an additional impact from the development of budget hotels on the restaurant market in the locality of these hotels. This would have a positive impact, and an economic multiplier effect, on the local economy in the vicinity of new budget hotel developments. In BHA Trends and Developments 2010 consultancy Horizons estimated that the eating out market in the UK was worth around £42bn in 2009.

In June 2010 Deloitte and Oxford Economics completed a report for Visit Britain entitled “The Economic Contribution of the Visitor Economy: UK and the nations”²³. Visit Britain summarise the key finding to show that “tourism was worth £115.4bn to the UK economy in 2009 once the direct and indirect impacts are taken into account, equivalent to 8.9% of UK Gross Domestic Product.”

Visit Britain further note that²⁴ “Tourism contributes £96.7bn to the economy in England (8.6% of GDP), £11.1bn in Scotland (10.4%), £6.2bn in Wales (13.3%) and £1.5bn in Northern Ireland (4.9%). The Deloitte study found that tourism would account for a similar proportion of the overall UK economy in 2020 as it did in 2008 (8.8%). The number of jobs that tourism supports is forecast to increase by 250,000 between 2010 and 2020, from 2.645 million to 2.899 million. One in twelve jobs in the UK is currently either directly or indirectly supported by tourism.”

²² http://www.statistics.gov.uk/downloads/theme_economy/RegionalGVA2009.pdf

²³ http://www.visitbritain.org/Images/Economic%20case%20for%20the%20Visitor%20Economy%20-%20Phase%202%20-%202026%20July%202010%20-%20FINAL_tcm139-192073.pdf

²⁴ <http://www.visitbritain.org/insightsandstatistics/visitoreconomyfacts/index.aspx>

Finally, Visit Britain observe that “Tourism is the UK’s third highest export earner behind Chemicals and Financial Services, with inbound visitors spending more than £16bn annually and contributing over £3bn to the Exchequer.”

Notably a GDP of some £115bn (say US\$175bn) would indicate that the UK tourism industry is almost at the level of the entire economy of countries such as Ireland (US\$172.5bn) and Finland (US\$178.9bn) and well above countries such as Morocco (US\$145.4bn), Kuwait (US\$137.7bn) and even New Zealand (US\$115.1bn). GDP sources are from The CIA World Factbook²⁵.

It should be noted that in its Trends and Statistics Yearbook 2010 the British Hospitality Association estimated that the value of tourism in the UK was similar to the Visit Britain/Deloitte/OE report, at £110.5bn in 2009, based on estimates from consultancy Horizons.

Based on provisional data from the World Tourism Organisation reported in the BHA publication, in 2009 the UK ranked 7th in the international tourism earnings league behind the USA, Spain, France, Italy, China and Germany. Our last report used similar 2005 data but since then the UK has slipped behind China and Germany, from 5th place down to 7th.

The top five overseas markets for the UK in 2005 are illustrated in table 14. The importance of the USA market is especially evident. However since our last report it has slipped back to third place, from first, in terms of arrivals, and the overall spend has also fallen despite retaining first place.

Table 14
Top Five Inbound Markets 2009

Country	Visits (ooo)	Country	Spend (£m)
France	3,784	USA	2,173
Irish Republic	3,2948	Germany	1,167
USA	2,877	France	1,151
Germany	2,780	Irish Republic	1,038
Spain	2,164	Spain	1,001

Source: Visit Britain

In November 2010 the British Hospitality Association published a report entitled “Creating Jobs in Britain – A Hospitality Economy Proposition”²⁶. The document makes a proposition on behalf of the association, often quoting data from an independent study by Oxford Economics. The BHA document states that “Hospitality is Britain’s fifth largest industry, directly employing more than 2.4m people and contributing over £34bn in gross tax revenues.” This, and the earlier similar figures from Visit Britain, demonstrate that the industry is a significant employer

It is important to note that one of the characteristics of the UK tourism industry (and that of most other countries) is that it is highly fragmented with a large number of small firms supplying services as well as several larger companies. Even these larger companies are not especially large. Just prior to our last report in late 2007, TRI and BDRC reported that the total branded Budget sector’s revenues had surpassed the £1bn mark. Given that this is the revenue of a whole tier of the hotel industry, and a

²⁵ <https://www.cia.gov/library/publications/the-world-factbook/index.html>

²⁶ <http://www.bha.org.uk/wp-content/uploads/2010/11/BHA-Economic-Report-Nov2010FINAL.pdf>

dynamic one at that, with total tourism revenues at over £115bn the industry is clearly very fragmented.

The UK Hotel Industry

The UK hotel industry is dynamic but fragmented. It is considered to be among the world's best developed and most mature hotel markets. London, one of the world's great cities, is particularly a draw for every type of hotel operation and any hotelier seeking to establish global presence would consider London to be a 'must have' location. The city has also been home to innovative hotel concepts such as the development of boutique, townhouse, and designer hotels as well as city-based budget hotels and serviced apartments. Often the capital has been a springboard for national, regional or international development of a concept first trialled in the city.

The strength and maturity of the city's financial sector, and the country's overall business climate, has been a driving force in the changing financial and operating structure of the hotel industry. There is now a far greater separation of ownership and property assets than ever before, and most likely the UK is now second only to the USA in this trend. Increasingly there is also a trend towards branded hotels, budget hotels and consolidation through an operating model with many multi-brand hotel companies now involved in the UK market. Despite this, and as demonstrated earlier in this report, a substantial proportion of hotel rooms in the UK continue to trade as independent properties or unbranded portfolios.

From a consumer perspective there have also been changes emanating from their acceptance of these trends and from other technological changes. Most pertinent is the impact of the internet which has made a wide variety of information and booking channels more readily available. Reporting of heightened consumer use of the internet for travel research and bookings is ongoing. In addition there is the 'double edged sword' of the low cost airlines and European open skies policies. It is cheaper and easier for overseas visitors to arrive in the UK but equally it is cheaper and easier for the domestic traveller to depart. This heightens global competition for the UK's hotel beds.

Overall the UK hotel industry is considered one of the world's strongest performers. London hotel occupancies are typically around 80% while those in leading hotels around the country would tend to exceed 70% and in some locations well above that level. Budget hotels have tended to outperform these levels and Independent and unbranded hotels tend to lag them. The 2008 UK occupancy report by TNS, referred to earlier, reported room occupancy of 60% and bed occupancy of 44%. Real terms average room rate growth tends to be prevalent in good times and over the long term, even taking account of cyclical downturns, there is evidence of a marginal level of average room rate growth. Nevertheless hoteliers do face cost pressures in areas such as labour costs (the industry is highly labour intensive), utilities and property taxes. Recently food and beverage product costs have also been on the rise, and higher fuel charges are likely to influence pricing of any goods that require delivery or transportation. These constrain profit performance although the UK hotel industry is still considered to operate in more positive business environment than in most European countries.

Finally in this section we have considered the leading operating companies and brands in the sector. We have used our database, discussed earlier, to determine the 20 largest brands and 10 largest 'brand owners' operating in the UK at present. Since brands now operate on an owned, managed, leased and franchised basis we have not sought to differentiate between these but have focused on the industry from the

consumer perspective although we have not included consortia or membership organisations in this analysis.

In table 15 below we summarise the largest hotel brands active in the UK hotel market at present.

Table 15
Largest Hotel Brands in the UK

	Brand	Hotels	Rooms
1	Premier Inn	585	42,654
2	Travelodge	452	30,988
3	Holiday Inn	120	18,057
4	Hilton	71	16,122
5	Holiday Inn Express	115	13,349
6	Marriott	50	9,257
7	Ibis	55	7,401
8	Britannia Hotels	36	7,010
9	Ramada	63	6,894
10	Thistle	33	6,095
11	Radisson	28	6,053
12	Jurys Inn	24	6,026
13	Novotel	31	5,450
14	De Vere Hotels/Venues	40	5,261
15	Crowne Plaza	22	4,873
16	Macdonald Hotels	47	4,287
17	Park Inn	25	4,262
18	WA Shearings (Bay Hotels/Coast & Country)	46	3,725
19	Mercure	32	3,531
20	Imperial London Hotels	6	3,355

Source: Melvin Gold Consulting research;

The fragmented nature of the industry is immediately apparent given that Premier Inn is the largest brand at present and their 42,654 rooms equate to just 5.85% of the UK's hotel supply. Subsequently, in section 11 of this report we briefly review some other consumer-facing industry sectors to contrast the extent to which they are consolidated with our perception of fragmentation in the hotel sector. However it should be further noted that Thistle in 10th place has just 0.84% of UK hotel supply and Imperial London Hotels in 20th place has just 0.46%. The 20 largest brands in the UK have, in total, 204,650 rooms, 28.1% of total supply.

As we have mentioned earlier, given the global brand consolidation that has been taking place in the sector, there are many multi-brand hotel companies now operating in the UK hotel market. In fact 8 of the 10 largest hotel companies in the UK operate more than one brand, Whitbread, through Premier Inn and Travelodge are the only ones that do not. In table 16 overleaf we present the 10 largest hotel operating companies in the UK. These 10 companies have 203,493 rooms, 27.9% of UK supply.

Table 16
Largest Hotel Brand-owning/Operating companies in the UK

	Company	Rooms	Brands
1	Whitbread	42,654	Premier Inn
2	Intercontinental	37,191	Intercontinental, Crowne Plaza, Holiday Inn, Holiday Inn Express, Indigo, Staybridge Suites
3	Travelodge	30,988	Travelodge
4	Accor	20,364	Sofitel, Novotel, Ibis, Etap, Formule 1, All Seasons
5	Hilton	18,382	Hilton, Doubletree, Hampton, Garden Inn, Waldorf Astoria
6	Carlson	13,295	Radisson, Park Inn, Park Plaza
7	Wyndham Intl	13,051	Wyndham, Ramada, Ramada Encore, Days Hotel, Days Inn
8	Marriott Intl	11,228	Marriott, Renaissance, Courtyard, JW Marriott, Vacation Club
9	Thistle	8,435	Guoman, Thistle
10	De Vere Group	7,905	De Vere Hotels/Resorts/Venues, Village Hotels

Source: Melvin Gold Consulting research; Budget data from TRI/BDRC report

Overall we believe this brief review of the characteristics of the UK hotel industry is sufficient as a backdrop to this report. Most importantly it emphasises the changes that are taking place in the market and the continuing fragmented nature of the industry, even in that context.

11 – Consideration of other industry sectors in the UK

Introduction

The UK tourism industry is, as stated earlier, a rather fragmented although substantial and important industry. Within that the UK hotel industry is a classic oligopoly with several larger companies and a multitude of smaller businesses, albeit that the large companies do not hold a dominant position in the industry. As previously stated, the 10 largest companies currently control around 27.9% of the room stock, the largest, Whitbread, having only around 5.85% of the country's bedroom stock. These percentages are higher than at the time of our previous report but still do not represent a major structural shift.

We have been asked to briefly consider how this compares with the structure and market share of larger companies in other market sectors. Although this is generally outside our expertise and normal area of work we have used published sources to comment on this below. Predominantly we have considered customer-facing, service industries as these were felt to have the greatest relevance.

Travel Agents and Tour Operators

According to Keynote's Travel Agent and Tour Operator Report 2006 the Top 10 operators held a 60% share of the UK Travel Agent and Tour Operator Market. Keynote quantified the market as being worth a total of £20bn in 2005 with these top 10 operators having £12.24bn turnover between them. MyTravel was the largest with 14.6% market share, First Choice had 12.9%, TUI 11.7% and Thomas Cook 8.8%. They also stated that the Top 10 charter airline operator's (many of them being the airline arm of the same companies as above) carried 54.3% of passengers under Air Travel Organiser's Licences (ATOL).

Since that time this sector of the industry has further consolidated with Thomas Cook and MyTravel merging and TUI and First Choice following suit. We have struggled to find a similar analysis to the above, but Keynote's subsequent UK Travel Agent and Overseas Tour Operator reports estimate the value of outbound travel in 2008 to have been £36bn and in 2009 to have been £31.6bn. It may have fallen further in 2010. TUI's UK turnover in their latest accounts to 30 September 2010 show UK revenues of £3.4bn and Thomas Cook's accounts for the same period show UK revenues of £3.1bn. Thus the combined total was £6.5bn and if this was compared to Keynote's 2009 revenue estimate then the two companies would have had a market share of 20.6% of the total UK outbound market. However this includes all travel and their share of the tour operator/package tour market would be far higher. Previously we estimated that the two companies may achieve a combined market share of the tour operator market of almost 50%.

Although there are a number of smaller players in the UK Travel Agent and Tour Operation sector, many in niche areas or only in specific areas of the market, the larger companies clearly have established a major market share in a significantly consolidated market.

Supermarket/Grocery Market

Kantar Worldpanel, a market research company, reviews the UK grocery and supermarket sector on a quarterly basis. According to the summary on their website²⁷, reporting latest data covering the quarter to 28 November, market leader Tesco held a

²⁷ <http://www.kantarworldpanel.com/en/#/Insights/Read/christmas-spending-1-recession-0>

market share of 30.7% and they were followed by Asda (Walmart) with 17.0%, Sainsbury's at 16.4% and Morrison with 12%. The next largest was Waitrose with 4.1%.

Thus it can be seen that the largest 4 companies had a 76.1% share of the market in late 2010. Although there are fluctuations during the year, and over time, as in any competitive market, the companies' shares and the overall share of the big 4 has changed relatively little. The big four's share had grown around one percentage point since our last report.

Once again there is evidence of this being a heavily consolidated sector with some major players dominating the market. It was not always this way, the sector is much changed.

It is interesting to look at this sector historically. In April 2008 the Competition Commission completed its investigation into the UK grocery market concluding with its report entitled "The supply of groceries in the UK market investigation"²⁸. The report and its appendices run to several hundred pages and of course the content is generally well outside the scope of this study. However it is interesting to note how a sector which was highly fragmented in the 1950s is now rather consolidated whilst permitting the continued, but somewhat changed operation of a large number of small retailers. For example in para 3.2 on page 27 the report states that "In 2007, an estimated £110.4bn of grocery sales were made through nearly 100,000 grocery stores in the UK".

The detail of the report is complex but it notes, for example, that there are still 50,329 convenience stores in the UK, with sales of £20.3bn in 2007. But they are dwarfed by the medium and large stores of the major chains which had turnover of £79.6bn from just 5,525 stores, albeit these stores had floorspace of 8.6m square metres compared the 5m square metres of space in the tens of thousands of convenience stores.

The historical context portrays how a previously fragmented industry has consolidated. Para 3.14 illustrates that, "Changes in the grocery retail offer over time (eg. the shift from served to self-service grocery stores) and a lack of data make precise measurement of some of these trends difficult. However, the number of larger and mid-sized grocery stores is estimated to have grown from nearly 2,000 in the mid-1960s to approximately 6,300 in 2000. Between 2000 and 2007, the number of larger and mid-sized grocery stores increased to nearly 6,600 stores representing annual growth of around 1 per cent, while the number of stores larger than 2,300 square metres grew at about 3 per cent a year. Consistent with the increase in the number of larger and mid-sized stores, average store sizes increased as smaller stores were replaced with larger stores. The number of larger stores located out-of-town increased from just under 300 in 1980 to more than 700 by 1990 and to almost 1,500 in 2007." The original document should be viewed for information sources.

In para 2.15 the report explains the background to the growth in market share of the large retailers over the long term. It explains that "The share of groceries being sold by large or regional grocery retailers increased from an estimated 20 per cent in 1950, to 44 per cent by 1971 and to 85 per cent by 2007. For much of the period from 1950 to the mid-1970s, the cooperative movement, through the various regional Co-ops, had the largest share of grocery sales in the UK. However, this position was overtaken, first by Sainsbury's in the 1980s, and subsequently in the 1990s, by Tesco."

²⁸ http://www.competition-commission.org.uk/rep_pub/reports/2008/538grocery.htm

Cinema sector

The UK film and cinema industry is extremely well documented by the UK Film Council. A table on their information website²⁹ (9.11) shows the breakdown of UK cinemas and screens in the UK. This is originally sourced to Dodona Research and dated March 2010. There are 723 cinemas in the country with a total of 3,641 screens. Just three companies control 61.8% of the UK's cinema screens.

Private Equity group Terra Firma own the Odeon cinemas, including the former UCI portfolio. Thus they now have 23% of the screens in the UK and apparently a larger proportion of revenues. The second largest UK cinema brand is Cineworld, owned by Blackstone Group, which has 21.1% of the UK's screens. In third place is Vue Cinemas, including the former Warner Brothers cinemas, which has 17.6% of the UK's screens.

This is a highly consolidated sector with two further companies, National Amusements and Ward Anderson, having 7.5% and 5.8% shares respectively. Thus the top five companies control 75.1% of the UK's screens, and probably an even more significant share of revenues.

Petrol Stations/Forecourt Retailing

We have not found a consolidated form of data updating this section of the report from our original study. An article in the Financial Times on 28 November 2010³⁰ suggests that there are now 9,300 petrol stations in the UK and there could be a major change shortly. Total and Murco are currently selling their chains and the FT expects that Chevron will follow. For the time being however, we repeat our earlier commentary as follows.

Keynote's 2005 report on Forecourt Retailing indicates that there were 9,764 petrol stations in the UK although the numbers had fallen significantly from a total of 13,716 in 1999. We believe that a key influence in the decline in numbers has been the trend towards larger, more modern petrol stations perhaps influenced by the strengthening of position of the supermarkets and also by the exit opportunities presented by rising land values in the UK generally.

6,004 sites (61.5%) were in the hands of the leading 7 petrol station brands, 1,352 (13.8%) were owned by lesser known petrol station brands, 1,172 (12%) were owned by supermarkets and 1,236 (12.7%) were unbranded and/or independently owned.

BP was the largest site owner/operator with 1,232 stations, some 12.6% of the market, followed by Texaco (1,028), Esso (956), Total (910) and Shell (906).

This is a further example of a market sector which is dominated by relatively few brands, although some stations are operated by independent managers or franchisees on behalf of the parent company. Although the supermarkets have gained a significant foothold in the sector it is noteworthy that, based on this 2005 data, they had only achieved a similar number of sites to those operated by the largest company in the sector.

Public Houses

The UK's public house sector is another which has undergone significant investment and restructuring in recent years. The sector has apparently been hard hit by the recession and changes in social and legislative spheres, such as the smoking ban.

²⁹ <http://sy10.ukfilmcouncil.ry.com/9.8.asp>

³⁰ <http://www.ft.com/cms/s/0/62b504c8-fb16-11df-b576-00144feab49a.html#axzz18rlwGgBy>

Keynote's Public Houses 2010 report indicates that there were 55,350 public houses in the UK in January 2010, somewhat lower than the 59,000 reported in 2005.

Of the 2010 supply 9,000 pubs were controlled by breweries, 29,000 by pub companies and 17,000 were freehouses. Just two companies – Punch Taverns (7,675 pubs) and Enterprises Inns (7,150 pubs) – controlled 27% of the UK's pubs. A further 10 companies controlled a further 26.3% of the market. Thus 12 companies own and/or operate 53.3% of the UK's pubs, in total operating 29,290 units. Despite the similarity of the sector to the hotel industry, in terms of some of the product sold, and the fact that there is a small area of overlap, the overall profile of this sector is distinctly different to hotels in respect of its consolidation.

It should be noted that the operating profile of this industry sector is somewhat different to some of the others we have discussed since many public houses are either leased or managed by tenants which still permits small operators and individuals to gain a foothold in the sector.

Airline industry

Finally we have attempted to review the airline industry although this is obviously more difficult to do using a purely UK perspective due to the vagaries of international and domestic travel, inbound and outbound volumes and scheduled, budget and charter airlines.

Data sourced from Wikipedia, which they state has been sourced to the International Air Transport Association (IATA) indicated that British Airways carried the fifth highest volume of international passengers in 2009, some 27.8m Ryanair carried 66.5m, Lufthansa totalled 55.6m and Easyjet carried 45.2m. Air France was in 4th place with 31.3m passengers. In terms of Revenue Passenger Kilometres (RPKs) for international passengers, Emirates was the largest, flying 118.28bn RPKs, marginally above Lufthansa's 118.26bn RPKs. Air France was 3rd with 11.6bn RPKs followed by British Airways with 109.4bn RPKs. The budget carriers lose out by the nature of their short haul routes compared to the major long haul carriers. When domestic traffic is taken into account the European carriers are dwarfed by US carriers such as Delta (161.0m passengers), Southwest, American and United. Lufthansa is the largest European carrier with in terms of passengers with 76.5m whereas Air France is the largest by RPKs with 126.4bn. Overall it is simply not possible to look at the airline industry in the same way as the other sectors that we have reviewed.

However the impact of Ryanair and Easyjet is immediately apparent in the context of the above statistics. Both have emerged among the leaders for international air travel as is shown. Ryanair's level of 66.5m passengers demonstrates remarkable growth for a company that was only founded in 1985 and as recently as 2000 carried just 7m passengers. It is evidence of the popularity of the budget model with Easyjet and the US's Southwest adding evidence to this topic.

Summary

It can be seen that in the context of our brief reviews of some other customer facing segments of UK industry, the hotel and tourism industry is highly fragmented even after a period of consolidation, financial restructuring and branding. Given the diverse serviced accommodation supply base, much of which is not suitable for branding, it is unlikely that the sector will reach a position where it is even close to the level of branding and consolidation of some of these other sectors, even in the longer term. However most likely the existing brands, including budget brands, will continue to expand their market share and influence and this is likely to impact on the market

position of unbranded hotels, smaller properties and bed and breakfast establishments to the extent that some will be displaced from the market – a trend which is already evident.