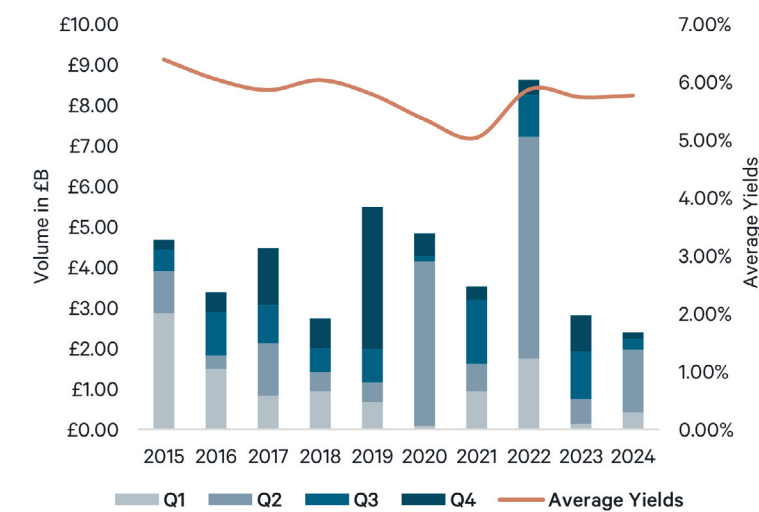


The
Kimmeridgean

UK Hotel Investment Market Overview

Figure 1: Transaction Volumes & Yields



RevPAR vs RPI

There is a common misconception among investors that uncapped RPI leased hotels have a tendency to quickly become overrented, however our research demonstrates that over a 14-year historic trend, budget hotel RevPAR growth has outpaced inflation. While there may be a delay in passing inflationary pressure to consumers, these hotels eventually manage to do so. Looking ahead, we expect that budget hotel RevPAR will continue to outperform inflation. (Figure 2)

Depth of Market

The average hotel yields have seen some contraction post rate cut in Q3. The growing number of transactions has increased confidence and appetite, and the buyer pool is growing daily which will see a further hardening of yields over the next 2-3 quarters as the market is anticipating further rate cuts in 2025.

Yield Stability

During the first quarter of 2024, the dominance of portfolio deals made pricing individual assets challenging due to a lack of evidence. The second quarter experienced an increase in single asset transactions, particularly within the leased hotel sector. By the third quarter, single asset transaction volumes had surpassed those of portfolio deals, driven by market anticipation of a potential rate cut. This expectation was confirmed when the Bank of England reduced the base rate by 25 basis points in August. There is very much a two-tiered market – with a pool of council mandates seeking ultra prime long income, evidenced by some competitive bidding for the recent Whitbread sale and lease backs in London and Oxford, demonstrating market support at yields between 3.90%-4.25%. Most of the recent activity has been from the opportunistic investor market seeking higher returns. Buyers have been targeting shorter lease terms or more opportunistic locations or covenants to secure higher yields which support leverage. It is this market along with portfolio deals which has driven the average yield upwards to compensate for the increased cost of finance. The growing depth of investor interest in this space leads us to forecast midterm yield compression.

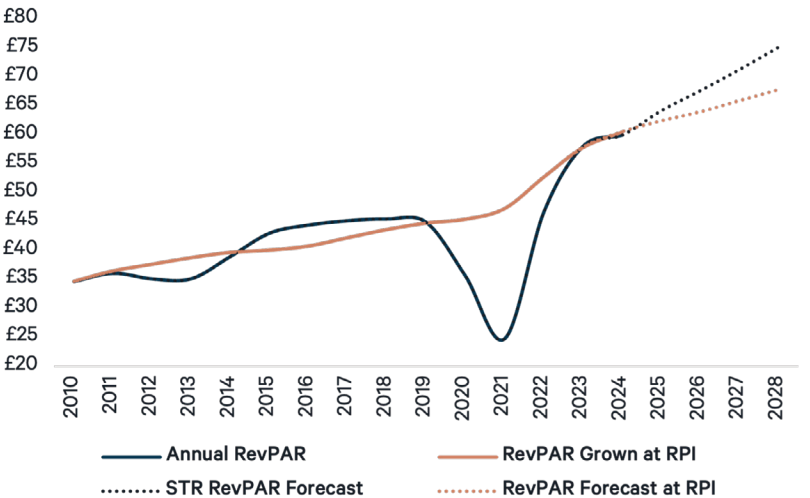
2024 Highlights

- Strongest first half since 2015: £4.3 billion changed hands during first half.
- Q3 2024: £744 million invested in hotel sector. Over 2.5x of levels seen in Q3 2023.
- Q4 2024: £1.37 billion worth of assets traded, making it the strongest Q4 since 2021.
- Record Highs: 2024 hotel investment levels were seen at c£6.45 billion, highest since 2018 (Figure 1).
- Market Dynamics: High-interest rates challenge debt-focused buyers, favoring cash buyers who are exploiting market opportunities.

Key Deals

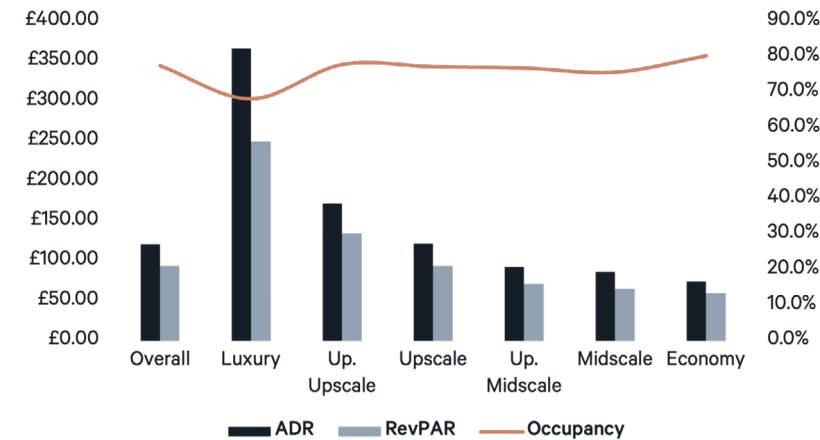
1. Blackstone Acquired Village Hotels for c£780m.
2. Landsec purchased Accor Invest hotel portfolio for c£400m.
3. London Metric merged with LXI REIT leading to a transfer of c£359m worth of hotels.
4. GoldenTree acquired 66 Travelodge hotels from LXI REIT for c£210m.
5. Starwood Capital bought £800m Radisson Blu portfolio.

Figure 2: Budget Hotel RevPAR vs Inflation



Occupational Market Overview

Figure 3: Transaction Volumes & Yields



Demand

The UK RevPAR saw a 2.6% increase in 2024 as occupancy and room rates continue to grow. Regional UK hotels have outperformed London. Despite the slower first half, regional hotels published stronger results during the summer as events boosted demand. While bank holidays boosted revenue to an extent, Weekday business has been crucial for revenue growth and is expected to remain so. Leisure demand has been variable over the past few months, prompting operators to adopt occupancy-driven strategies.

The ongoing recovery of international travel is anticipated to boost demand in the UK, particularly during the summer. Although, VisitBritain downgraded their forecasts now predicting approximately 38.7 million inbound visits compared to 39.5 million earlier, it is expected to support hotel demand growth in the UK.

Looking at rolling 12-month period, budget hotels achieved the highest occupancy levels at 80.4% (Figure 3) which is slightly below the record high levels achieved last year i.e. 80.6%. Over the past five years, Economy and Midscale hotels have achieved substantial growth in Revenue Per Available Room (RevPAR), with total increases of 34.7% and 32.5%, respectively, based on a 12-month rolling average. This reflects an average annual growth rate of 6.94% for Economy hotels and 6.50% for Midscale hotels.

In comparison, the Retail Price Index (RPI) over the same period indicates a total growth of 34.3%, slightly below the RevPAR growth observed in budget hotels. This data suggests that budget hotels possess a competitive advantage within the hotel industry, as they have effectively managed to not only pass on inflationary pressures to consumers but also achieve real growth beyond inflation.

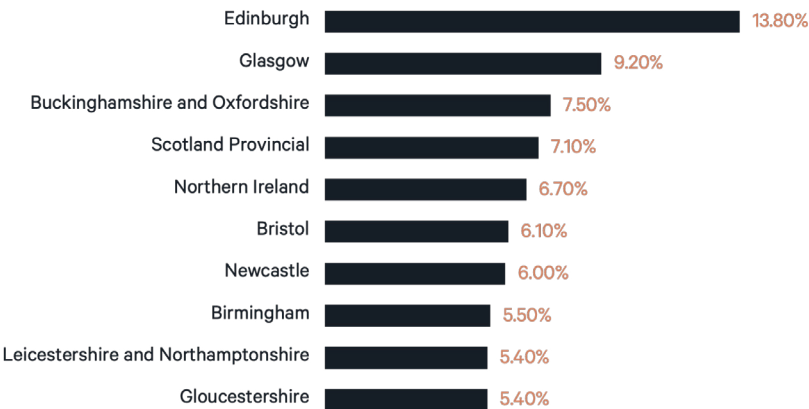
No other hotel category has demonstrated comparable performance in RevPAR growth over this five-year timeframe, highlighting the unique success of budget hotels in navigating economic conditions.

Kimmre’s Pick: Edinburgh

Figure 4: Top 10 STR Markets by 12-Month RevPAR Growth

STR 12-Month Occupancy: 84.2%
STR 12-Month ADR Growth: 11.2%
STR 12-Month RevPAR Growth: 13.8%

Edinburgh has shown the strongest RevPAR growth in the past 12 months. This growth is driven by increased occupancy and average daily room rates. Over a period of 5 years, Economy class has been the major driver registering an annualised RevPAR growth of c17% pa. In November 2024, Economy hotel RevPAR (12-Month rolling) reached £93.31, up from £50.42 in November 2019.



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