

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

Prepared for:



March 2008

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# Melvin Gold Consulting Ltd.

*Specialist consultants to the hotel industry*

The Directors  
Travelodge  
Sleepy Hollow  
Aylesbury Road  
Thame  
Oxon OX9 3AT

18 March 2008

Dear Sirs

## **Re: Considerations of UK Serviced Accommodation Supply**

Thank you for retaining us to undertake a quantification of supply in the UK hotel and serviced accommodation industry 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 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, based on research conducted from July to September 2007. 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 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.

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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

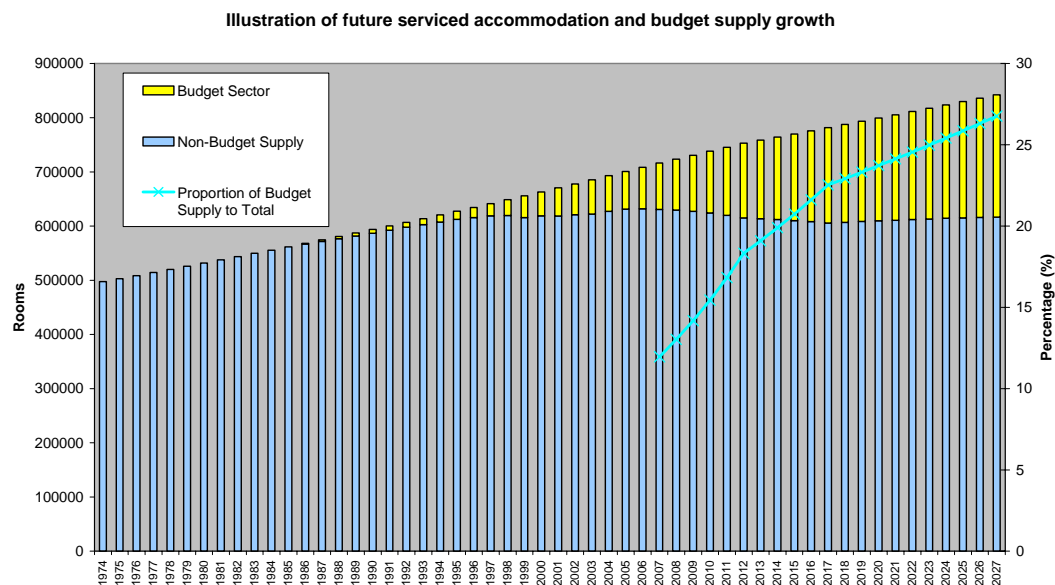
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## 1 – Executive Summary

- **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 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.
- **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 716,505 rooms in the UK at present**, comprising approximately 1,488,499 beds.
- 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 1.111% across the 34 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 **38.1% of UK serviced accommodation might be considered as branded**, the remainder being Independent (61.9%). Our database identifies **12.1% of accommodation as being in the branded Budget sector**, 13.7% as Full Service and 12.3% 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 data in a recent study by TRI/BDRC, there are now **some 85,665 rooms in the budget sector** which is similar to our data and indicates some 12.0% of total UK serviced accommodation is within that segment. The largest four budget hotel companies operate over 81% of segment supply. The budget sector has grown at 14.25% 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 33% and 24%** respectively of total supply. Some 64% of US hotels are branded and 41.5% in France. All these figures are above their 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 1% initially, and subsequently around 0.75%. On a compound basis we also envisage the budget sector growing by some 10% in the next 5 years, approximately 5% in the subsequent 5 years and 2.5% in the decade after that. **This would see total supply reach 842,219 rooms in 2027, with some 225,400 of these rooms being in the budget segment.** Thus the budget segment would reach some 26.8% of total supply in 2027, still below the current US level and only slightly above the present level in France. This is illustrated as follows:



- 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 reflect around 60% of the market.
- Visit Britain estimate that **UK tourism was worth approximately £85bn** in 2005. Research indicates that the **UK tourism industry currently reflects around 7-8% of the economy** and is perhaps responsible for around 2.2m jobs, some 7.7% of total UK jobs.
- A GDP of some £85bn (say US\$170bn) would indicate that the UK tourism industry is **almost at the level of the entire economy of countries such as Ireland and Greece** and well above countries such as Czech Republic, Hungary 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 22.3% 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 company is still among the market leaders in the UK budget hotel industry. The group was initially developed by Forte and then by Granada but 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 in August 2006. Currently the group has just less than 20,000 rooms, almost exclusively in the UK, and as such is among the largest UK hotel brands.

The group has adopted a bold, innovative and aggressive approach to the market and has achieved rapid growth. The group would be seen by most observers as demonstrating industry leadership and its executives have often spoken out on industry issues. An example of this was Grant Hearn's prominent position among the leaders of the industry's anti-bed tax campaign. In what may, in the future, be seen as a further bold move, you are now 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. Information is rather poorly collated at present and the group requires 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 provides 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. Put the tourism industry in an overall context of its size and scale compared to the UK as a whole.
6. 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 have conducted this assignment by:

- 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 a database of UK hotels and hotel companies from Hotel Data Limited<sup>1</sup>. This includes data on some 13,000 hotels in the UK, including some 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 updated by ourselves.

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.

## 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](mailto:melvin.gold@melvingoldconsulting.com).

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<sup>1</sup> Hotel Data Limited, [www.hotel-data.co.uk](http://www.hotel-data.co.uk). Hotels/Restaurants/Pub Groups and Hotels 10+ Bedrooms

### 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 a 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 21<sup>st</sup> 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 21<sup>st</sup> 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 some of the 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’<sup>2</sup>, authored by Dennis Allnutt, 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

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<sup>2</sup> 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](http://www.culture.gov.uk/Reference_library/Publications/archive_2004/Review_Tourism_Statistics.htm)

Central Government contribution will depend on final allocations following the 2004 Spending Review.

- 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, under-funded and not a government priority. On the other hand, and resulting from the above, the DCMS website states 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).

As we discuss subsequently in this report, 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 much of the data that does exist is dated.

### **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 recently announced 80 redundancies as a result of a shortage of funding. The government’s financial support for Visit Britain has been held at a static level over an extended period of time, the Tourism Alliance claiming that the net effect is a reduction in real terms funding of 24%. For an organisation whose 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, both through its own website and through [www.staruk.org.uk](http://www.staruk.org.uk), a UK tourism statistics website, does however make a range of tourism statistics available. These are effectively the UK’s official tourism statistics.

Tourist Boards in Scotland, Wales and Northern Ireland are fairly autonomous in this regard and certainly in the case of Scotland and Northern Ireland there appears to be a rather more proactive approach to statistics and information on accommodation supply as we will comment subsequently.

### **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. The Office of National Statistics (ONS, UK government official statistics department) offers very few tourism statistics – they do not have a tourism department and instead referred us to Visit Britain as their key data source. Effectively the same is true of Eurostat, the European Union official statistics agency, and the United Nations World Tourism Organisation (UNWTO) since they are receiving data from the same source.

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)<sup>3</sup> “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 or by the Regional Development Agency (RDA). This is then passed to Visit Britain 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.

While this 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.

Fourthly we have 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

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

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 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”.

In fairness the response was varied across the country, as we subsequently discuss in more detail. However this type of comment and approach only serves to indicate that, if these 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 following Pros and Cons 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 2002<sup>4</sup>).

<b>Pros</b>	<b>Cons</b>
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'<sup>5</sup>, 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 30 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

<sup>4</sup> Supplementary Submission from VisitScotland, September 2002.

<http://www.scottish.parliament.uk/business/committees/historic/x-enterprise/reports-02/elr02-tourismev-pdfs/elr02-tourismev-visitcotlandsup1.pdf>

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

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 report<sup>6</sup> 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.

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<sup>6</sup> 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 very little data appearing on the ONS website with regard to this sector and instead we were referred to Visit Britain and to [www.staruk.org.uk](http://www.staruk.org.uk)<sup>7</sup>, an official tourism statistics website (no longer being updated).

On the face of it the StarUK website does contain data on the supply of serviced accommodation for each country in the United Kingdom<sup>8</sup>. This data suggests that in 2004 there were 43,786 establishments with a total of 1,332,237 beds. If we were to approximate this data to use 2 bedspaces per room this would indicate a figure of around 666,119 rooms in serviced accommodation in the UK.

We have also noted the data presented in the BHA 2007 yearbook which reflects national Tourist Board data and amounts to some 684,817 rooms in 2006 although they further reflect on around 12,500 new hotel rooms in 2007 (excluding closures of existing hotels).

The StarUK information is somewhat dated, inconsistent and more importantly did not tally with data available from the Regional Tourist Boards (RTBs). Furthermore, and perhaps most critically, it was clearly not the data being reflected on the Eurostat website (or in UNWTO data) 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 data<sup>9</sup> for the United Kingdom since 1995. The same data is used by UNWTO.

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<sup>7</sup> [www.staruk.org.uk](http://www.staruk.org.uk) is the official website of the UK Research Liaison Group. The group is made up of representatives of the national tourist boards for England, Scotland, Northern Ireland, Wales, Britain and the Department for Culture, Media and Sport.

<sup>8</sup> <http://www.staruk.org.uk/default.asp?ID=587&parentid=512>

<sup>9</sup> Eurostat tourism data is accessible from:

[http://epp.eurostat.ec.europa.eu/portal/page?\\_pageid=1996,45323734&\\_dad=portal&\\_schema=PORTAL&screen=welcomeref&open=/D/D6&language=en&product=Yearlies\\_new\\_industry&root=Yearlies\\_new\\_industry&scrollto=0](http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,45323734&_dad=portal&_schema=PORTAL&screen=welcomeref&open=/D/D6&language=en&product=Yearlies_new_industry&root=Yearlies_new_industry&scrollto=0)

**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	33,877	1,163,000

Source: Eurostat

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, the 2005 data is far more difficult to explain and it is hard to see that the number of Hotel and Similar Establishments could fall 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. There has clearly been some reappportionment of establishments in 2005 but even so the combined data indicates a growth in bedspaces in the UK of 190,000 in a single year.

Apart from the above, we note that the 2004 level of Hotels and Similar Establishments was just 1,223,000 beds (say, 611,500 rooms) whereas the StarUK data summarised earlier, indicated that the bedspace level was around 1,332,237 at a similar time.

We undertook an investigation to explore the origins of the data. Our investigations did lead us to the source of the 2004 data although not to the 2005 data. Eurostat informed us that the data was provided by the UK's ONS. ONS directed us to Visit Britain and specifically to the UK Occupancy Report for Serviced Accommodation 2004, published in June 2005, which was compiled by TNS Travel and Tourism. The report is available from the StarUK website<sup>10</sup>. In Appendix C of the report, Table C1, there is a table which illustrates the sample size for the occupancy survey and compares this to the Survey Population – this figure, we believe, is the one put forward to Eurostat by Visit Britain, although it does not entirely coincide. We understand this reflects 'the known accommodation stock' at each RTB, albeit it reflects the old tourist board structure, and according to TNS it coincides with the Eurostat definition. This data indicates that the Survey Population comprised 47,182 establishments with 1,233,445 bedspaces.

It can be seen that the number of bedspaces is quite similar to that used by Eurostat for 2004 although the number of establishments is far higher. However there are significant discrepancies from the data shown on [www.staruk.com](http://www.staruk.com) and indicated in footnote 8 above and of course from 2005 Eurostat data.

<sup>10</sup> <http://www.staruk.org.uk/default.asp?ID=586&parentid=512>

Although we believe that the data is more accurate in respect of London (which can be sourced to VisitLondon's 2002 accommodation audit), Scotland, Wales and NI, it appears to differ significantly in respect of England, showing some 200,000 less bedspaces.

Overall we believed that there was 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 included:

- 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
- 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 other 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, 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.

#### *East of England*

It has been difficult for us to obtain precise information from the East of England since the East of England Tourist Board does not have full information available. They have been helpful in sharing a version of their database which we have compared with our own. Their database contains registered supply and some non-registered supply but we were informed that the general belief is that, in terms of establishments, there were as many non-registered as registered. We have made an adjustment in respect of non-registered accommodation and also in respect of a large number of establishments where the East of England database showed 0 or 1 as the number of rooms (these are default values for the database).

We found reference to a figure of 85,000 rooms in a report<sup>11</sup> prepared by Grant Thornton on the impact of the Olympics on the region but despite enquiries have been unable to substantiate the source of that figure, nor to feel comfortable that it is a supportable figure. On the other hand we have found far lower figures in the TNS UK Hotel Survey 2004

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<sup>11</sup> Economic Impact Study of the London 2012 Olympic Games and Paralympic Games for the East of England Development Agency in July 2006; Report prepared by Grant Thornton, Torkildsen Barclay and the Christel DeHaan Tourism and Travel Research Institute

where they refer to the region's 64,642 bedspaces. Data from 2004 on the StarUK website indicates 73,783 bedspaces. Clearly there are wide disparities in the figures for the region.

Our own database specifically identifies 969 hotels with some 33,997 rooms. We believe this includes the majority of larger and branded hotels in the region. We have therefore made an adjustment in respect of the estimated remaining properties notionally (but conservatively) assuming that on average these properties have just 10 rooms. This approach indicates that there may be a total of some 43,217 rooms in the region and we have relied on that figure in the absence of further information.

In addition we have provided for a total of 1,390 hostel beds in 542 hostel rooms using the East of England database, updated by our own research, to arrive at that figure. This is a relatively low level of supply compared to other areas but we believe it is appropriate to the characteristics of the area.

#### *East Midlands*

The East Midlands region relies on STEAM data, the most recent report that is available for the whole region relating to 2003. We understand that there may have been a more recent survey but this has not yet been released into the public domain and, after a telephone discussion, the tourist board were not prepared to release it to us.

We have relied on the 2003 data, supplemented with our research into youth hostel accommodation in the region.

#### *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 in recent years 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 2002<sup>12</sup> for the Greater London Authority and Grant Thornton and The Leisure & Tourism Organisation conducted a further study in June 2006<sup>13</sup>. Visit London conducted the accommodation audits<sup>14</sup> using their register of accommodation and development log as well as telephone directories, the internet and telephone research.

We have had a meeting with the research analyst at Visit London to discuss the methodology of their audit and the degree of accuracy which they believe has been achieved. We have also reviewed the other reports mentioned above. Overall we have relied on Visit London's 2006 audit although we believe the figures may be slightly conservative. On the other hand we note that The Regent Palace Hotel closed on 31 December 2006 with almost 1,000 rooms. Although there are frequent hotel openings in London we believe it is appropriate to rely on Visit London's 2006 audit for the purpose of this report.

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<sup>12</sup> Demand and Capacity for Hotels and Conference Centres in London. PriceWaterhouseCoopers for GLA in August 2002.

<sup>13</sup> Hotel Demand Study. Prepared by Grant Thornton and The Leisure & Tourism Organisation for the Greater London Authority in June 2006

<sup>14</sup> [http://static.visitlondon.com/corporate1/assets/1london\\_hotel\\_summary.pdf](http://static.visitlondon.com/corporate1/assets/1london_hotel_summary.pdf)

*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 2004. This is sourced to Global Tourism Solutions (UK) and is produced for the baseline report of the STEAM data. The data is helpfully arranged by size of establishment and sub-divided both by local council area and into the areas of the five area tourist boards. However it does not show different types of accommodation.

We obtained updated information for Cumbria from an audit of accommodation in the area. This is available on their website and shows a decline in accommodation in the area. We have reduced the base spreadsheet to reflect this. We have separately received data from each of the other four area tourist boards in the region and have adjusted for the slight increase in serviced accommodation that they have reported to us. We are aware of new openings and activity in these areas although we are unaware of any closures. On this basis we consider our figure for this region slightly conservative but nevertheless appropriate for the region. We have added to the base serviced accommodation figure an appropriate quantum of youth hostel accommodation given the characteristics of an area that includes one of the UK's major national parks in the Lake District and two major urban conurbations.

*South East*

The South East region has recently conducted an accommodation audit<sup>15</sup> and we have relied on the output from this with regard to serviced accommodation. We have also investigated the topic of hostel accommodation and used an adjusted figure for this to reflect genuine hostel accommodation in the area in accordance with our comments below.

The RTB was unprepared to release more detailed information from their audit to us due to the time, effort and cost taken to gather the information. Whilst they may have been prepared to release it upon payment of a fee, this was unlikely to have enabled us to have used it for this report which would have put it into the public domain, so we declined to further discuss this with them.

This is one of the largest regions for serviced accommodation supply in the UK and the RTB operates a dedicated website for hotel development which also contains some supply and hotel development data, although in some areas this is dated.

*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 West<sup>16</sup> 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. This reflects the region's TRIPS accommodation database. In many respects this is the most detailed and helpful of the reports that we have seen, its main failing being that it is somewhat dated and reflects end 2002 data.

The report contains significant discussion about the accuracy of the database and the difficulties of maintaining it. It refers to an exercise done by Bournemouth University to

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<sup>15</sup> <http://www.industry.visitsoutheastengland.com/site/market-intelligence/south-east-accommodation-stock>

<sup>16</sup> 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](http://www.towards2015.co.uk/downloads/StateofTourism_71-85.pdf)

quantify bedstock in Bournemouth. Carried out by students on foot it unearthed 270 small establishments that were not previously incorporated in a database. The exercise noted that TRIPS database underestimated accommodation. Then it reports on an exercise by local tourist authorities in different areas of the South West to verify the database. In this case various methods of research were used and the exercise identified both some small businesses that were not on the database as well as a significant number of establishments that had ceased trading. The report does comment on the number of small businesses that are lifestyle businesses in the region and therefore new openings and closures are commonplace in this sector of the market. The report concludes that overall TRIPS database “may underestimate serviced accommodation by between 5 and 10%”.

Subsequently we received a database from South West Tourism that includes all known serviced accommodation stock and relates to far more recent research, from earlier this year we believe. We have reflected the figures for specific categories of accommodation including youth hostels. However this database amounted to a reduction in bedstock of over 45,000 beds from the previous 2002 information and we simply did not believe that the region had suffered such a dramatic loss of accommodation. This was supported by the fact that our own database showed more bedrooms available than that identified by the SWT report and that does not include any properties of less than 10 rooms and nor do we maintain that it is comprehensive. Consequently we have included an upward adjustment of 40,000 beds over the recent data provided, some 20,000 rooms, to reflect the shortfall. The total quantum of rooms that we have utilised for the South West is still below that reported by the region in 2002 but in the absence of other information we believe our estimate is conservative but appropriate.

#### *West Midlands*

We have obtained the number of bedspaces and rooms in serviced accommodation in the West Midlands from Heart of England Tourist Board (HETB). We have not been able to obtain the number of establishments nor any breakdown. The information derives from an accommodation audit by HETB in early 2006.

We have contacted HETB and they have not been prepared to make further information available to us. As in many tourist boards the research department has been structured as a profit centre in its own right, effectively a consultancy, and they regarded their data as confidential (even though in our view it has to be contributed to the UK accommodation statistics to Eurostat and UNWTO). Perhaps a bigger issue was that HETB is being closed shortly since its funding has been withdrawn by Advantage West Midlands, the RDA in that region. We note a further comment that from 2003 to 2006 bedstock in the West Midlands grew by 23% – this seems a remarkably high figure and in our view may emanate from utilising the accommodation audit approach rather than relying on tourist board registration as a basis for counting room stock.

We have relied on the HETB room and bedstock audit figure although it may be slightly out of date which is consistent with our intended conservative approach. We have added to this the resultant figure from our research into the likely quantum of youth hostel accommodation in the area.

#### *Yorkshire*

We have discovered a table quantifying Tourist Accommodation in 2003 in the student pack on Yorkshire Tourist Board’s (YTB) website. Whilst it contains the number of establishments and bedspaces subdivided by various accommodation categories it is not

particularly detailed and is obviously dated. Our discussions with YTB have not been fruitful in uncovering the origins of the data or how it was obtained.

In the England report for 2004 presented on the StarUk website (see footnote 8) the figure for Yorkshire Forward indicates there were 86,556 beds in 3,564 establishments (excluding youth hostels). The 1991 census data which we have obtained suggests there were 1,346 establishments with 30,930 rooms (although, as we discuss subsequently, this data omits many smaller establishments). The 2003 data mentioned above indicates 81,048 beds in 3,066 establishments except this omits youth hostels which we have researched separately.

Given likely subsequent growth, and in the absence of better information we have used a base figure of 90,000 beds. Cities like Leeds and Bradford have certainly seen significant growth since 2004 and factoring in net growth of around 4,000 rooms seems an appropriate conservative approach to us. We have added to that 50% of the group and hostel accommodation reported by YTB. The YTB figure is believed to include some University accommodation which we have sought to exclude. We believe our approach is valid and conservative.

#### *North East*

We have received a comprehensive accommodation audit report for the North East of England covering all categories of serviced and non-serviced accommodation and we have relied on that data. However we note that the accommodation audit figure is slightly below that reflected in recent STEAM reports for the region which provides comfort that our use of the accommodation audit figures is conservative.

#### *Scotland*

In the case of Scotland we have relied on data contained on the VisitScotland website which reflects accommodation registered with VisitScotland in 2005.

However our dialogue with VisitScotland has indicated that they are currently undertaking a complete audit of accommodation in Scotland. They have shared some initial findings with us although we do not have permission to use the report in the public domain at present. However, as in the case of South West England, the results seem to indicate a significant reduction in supply against the 2005 registered accommodation figure and other previously published data for Scotland. We have therefore used the 2005 registered accommodation figure for all categories except we have extracted a specific youth hostel figure from the preliminary accommodation audit report since the other data is not specific on this category.

#### *Wales*

There has been a change within the tourism structure in Wales in recent years. The Wales Tourist Board has been closed down and Visit Wales has been established as the Welsh Assembly Government's tourism team, within the Department for the Economy and Transport.

Tourism Trends, a Visit Wales publication dated February 2007, contains the following statement regarding accommodation supply statistics. "GTS (UK) (the company which administers and owns the rights to STEAM) have completed the review of the current accommodation databases held by Visit Wales and the Unitary Authorities, they have presented the results to Visit Wales. Visit Wales' accommodation records are detailed in respect of graded/inspected stock but, in common with the other tourist boards in Britain:

we do not have an accurate measure of the total supply of accommodation, including ungraded properties. WTB needs to have better information on this area in advance of the possible introduction of Statutory Registration, which would in its own right generate a more accurate inventory of accommodation bedstock.”

Top Ten facts on tourism in Wales, a document on the Welsh Assembly Government’s website, states that, “In serviced accommodation in Wales, there are over 80,000 bed spaces in Wales available”. This broadly corresponds with the figure reflected in the TNS UK occupancy Survey 2004 where the supply figure for Wales was 78,369 beds.

We have spoken to Visit Wales and they have confirmed that they have no additional information at this time and essentially they are reliant on GTS (UK) for the most up to date supply information in Wales and an updating exercise is funded but not completed throughout the country. We have therefore relied on the figure of 80,000 beds in Wales in the absence of further information. We have not reflected further supply of youth hostel accommodation in this case.

#### *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 reflected the summer opening figures which are effectively the peak supply levels from summer 2006.

#### **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 716,505 rooms in the UK at present, comprising approximately 1,488,499 beds. We have been unable to reach a conclusion as to the number of establishments that may exist due to a lack of available data in certain areas, particularly West Midlands and Wales although certainly the number would be well in excess of 40,000 establishments. We note that in the British Hospitality Association’s 2007 Trends and Statistics publication, data sourced to Horizons is supportive of this in estimating the number of Hotels (and similar establishments) at 46,562 units in 2006.

We summarise the data, on a regional basis in line with our previous description, in table 2 overleaf.

**Table 2**  
**Overall Quantification of UK Serviced Accommodation Supply**

**Number of Beds**

	West Midlands	East England	East Midlands	Greater London	North West	North East	South West	South East	Yorkshire	Scotland	Wales	Northern Ireland	<b>Total</b>
B&B				31,030			15,184		9,141	14,716		7,466	77,537
Farmhouse							2,619		902				3,521
Guesthouse							19,870			19,508			39,378
Hotel				165,846			74,184		71,907	164,847		13,820	490,604
Motor Lodge/Motel							3,149						3,149
Inn							10,636						10,636
Youth Hostels	5,000	1,390	5,000	8,355	7,000	1,836	9,023	9,175	7,917	24,077		2,717	81,489
Not Separated	90,177	88,972	62,091		179,167	31,685		182,043			80,000		714,135
Uplift applied							40,000	20,000	8,050				68,050
<b>Total</b>	<b>95,177</b>	<b>90,362</b>	<b>67,091</b>	<b>205,231</b>	<b>186,167</b>	<b>33,521</b>	<b>174,665</b>	<b>211,218</b>	<b>97,917</b>	<b>223,148</b>	<b>80,000</b>	<b>24,003</b>	<b>1,488,499</b>

**Number of Rooms**

	West Midlands	East England	East Midlands	Greater London	North West	North East	South West	South East	Yorkshire	Scotland	Wales	Northern Ireland	<b>Total</b>
B&B				15,352			7,592		4,571	6,677		3,251	37,443
Farmhouse							1,310		451				1,761
Guesthouse							9,935			8,720			18,655
Hotel				83,382			37,092		35,954	77,677		6,103	240,208
Motor Lodge/Motel							1,575						1,575
Inn							5,318						5,318
Youth Hostels	1,429	542	1,429	4,339	2,000	525	2,578	2,621	2,262	6,879		714	25,317
Not Separated	42,437	42,675	30,756		89,473	15,843		91,022			40,000		352,205
Uplift applied							20,000	10,000	4,025				34,025
<b>Total</b>	<b>43,866</b>	<b>43,217</b>	<b>32,185</b>	<b>103,073</b>	<b>91,473</b>	<b>16,367</b>	<b>85,399</b>	<b>103,643</b>	<b>47,262</b>	<b>99,953</b>	<b>40,000</b>	<b>10,068</b>	<b>716,505</b>

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 sofas 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;
- 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, having compared recent surveys by South West England and Scotland to prior data, that the surveys are not capturing all supply. If that were not the case then we would be forced to conclude that either the supply base of the industry is being dramatically eroded or that the previous data was substantially overstated since both surveys indicate a fall of tens of thousands of beds against previously stated levels.

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 data is compiled at different points in time and therefore, although we have expressed a view as to the level of supply in mid-2007, 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 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 11 and 12 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 1.165% across the 34 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 716,505 reflects CAG of just over 1% across a 34 year period which seems reasonable as a long term trend. In Graph 2 on page 31 we reflect on this historic data, as well as the growth of the budget market in a graphical illustration.

### **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' UK Occupancy Survey 2004<sup>17</sup> concludes that UK bed occupancy in serviced accommodation was 45%, marginally higher than the 44% in the prior years. By examining the number of overnight stays in the UK and considering the type of accommodation used (under various assumptions) we have calculated that if the number of beds that we have estimated had existed in 2004, and taking account of the hostel beds which are actually considered as non-serviced accommodation, then the occupancy would have been 46.48%. Obviously this is based on a number of assumptions but generally we consider that it is a reasonably close correlation. In fact if the number of beds in serviced

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<sup>17</sup> TNS Travel and Tourism, UK Occupancy for Serviced Accommodation 2004 Final Report issued in June 2005

establishments were lower, as stated in official sources, the bed occupancy level would have been far higher. Official supply and demand statistics are separately compiled and we have seen no evidence of any corroborating correlation between the two. Insofar as our own data is concerned we have demonstrated a reasonable correlation although of course a number of assumptions have had to be made. It is supportive of the higher level of supply that we have estimated.

### **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 assignment we have extensively updated the database that we purchased from Hotel Data Ltd, particularly in respect of the UK's major hotel portfolios. This has facilitated a variety of 'side-benefits' in terms of the data available. We present the 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 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 branded properties. 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.

Having provided a flavour of our approach we note that some 38.1% of UK serviced accommodation might be considered as branded, the remainder being Independent (61.9%). Our database identifies 12.1% of accommodation as being in the branded Budget sector, 13.7% as Full Service and 12.3% as Mid-Market. 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, Scotland, Wales and Northern Ireland all have particularly high proportions of Independent hotel supply. The North West is also high, mainly due to the high proportion of independent properties in the Lake District and Blackpool which skew the figures away from urban conurbations of Manchester and Merseyside. Branded supply, unsurprisingly, is highest in Greater London, although the West Midlands, South East and North East are also relatively high.

**Table 3**  
**Analysis of UK Serviced Accommodation by Category and Region**

<b>Rooms</b>	<b>West Midlands</b>	<b>East England</b>	<b>East Midlands</b>	<b>Greater London</b>	<b>North West</b>	<b>North East</b>	<b>South West</b>	<b>South East</b>	<b>Yorkshire</b>	<b>Scotland</b>	<b>Wales</b>	<b>Northern Ireland</b>	<b>Total</b>
Overall	43,866	43,217	32,185	103,073	91,473	16,367	85,399	103,643	47,262	99,953	40,000	10,068	716,505
Database	34,914	33,997	24,724	81,115	57,853	13,533	70,121	83,038	31,098	55,107	22,144	6,655	514,299
Full-Service	6,238	3,967	3,953	33,749	8,304	1,894	5,700	19,168	3,266	9,144	2,101	797	98,281
Mid-Market	8,510	5,895	3,876	14,189	10,548	2,313	7,960	15,183	6,858	9,263	3,133	467	88,195
Budget	7,919	8,168	5,907	12,804	9,780	3,203	6,555	14,392	6,140	7,940	2,912	1,010	86,730
Independent - identified	12,247	15,967	10,988	20,373	29,221	6,123	49,906	34,295	14,834	28,760	13,998	4,381	241,093
Independent - unidentified	8,952	9,220	7,461	21,958	33,620	2,834	15,278	20,605	16,164	44,846	17,856	3,413	202,206
<b>Ratios (%)</b>													
Full-Service	14.2	9.2	12.3	32.7	9.1	11.6	6.7	18.5	6.9	9.1	5.3	7.9	13.7
Mid-Market	19.4	13.6	12.0	13.8	11.5	14.1	9.3	14.6	14.5	9.3	7.8	4.6	12.3
Budget	18.1	18.9	18.4	12.4	10.7	19.6	7.7	13.9	13.0	7.9	7.3	10.0	12.1
Total Branded	51.7	41.7	42.7	58.9	31.3	45.3	23.7	47.0	34.4	26.4	20.4	22.6	38.1
Total Independent	48.3	58.3	57.3	41.1	68.7	54.7	76.3	53.0	65.6	73.6	79.6	77.4	61.9

NB. 'Overall' is the data previously illustrated in Table 2. 'Database' is the supply specifically identified in the database which we have purchased from Hotel Data Ltd and updated and enhanced through our own research. The Full Service, Mid-Market and Budget categories, and the Independent-identified categories are specifically identified properties from that database. Independent-unidentified properties are not identified by our database and the quantum is calculated as being the difference between Overall and Database. Level of Budget hotel supply does not precisely tally with TRI/BDRC report referred to in subsequent sections due to timing of data collection.

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 is especially strongly represented in the North East, East Midlands and West Midlands and relatively underrepresented in areas where we have highlighted the Independent hotels as being particularly strong. The mid-market is fairly consistently represented but perhaps is also slightly weaker in the areas where the Independent hotels are in pole position.

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. In this case we obtained a figure for the city's accommodation from either the city or regional tourist board. We have used our database to obtain the Full Service, Mid-Market and Budget number of bedrooms, the balance being assumed as Independent (sense checked against our database).

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

	<b>Establishments</b>	<b>Total beds</b>	<b>Total rooms</b>	<b>Full Service</b>	<b>Mid-Market</b>	<b>Budget</b>	<b>Independent</b>
G.London	1,412	205,231	103,073	33,633	14,189	11,921	43,330
G.Manchester	395	33,841	16,920	3,945	4,284	3,970	4,721
Birmingham	159	18,926	9,752	2,816	1,857	2,819	2,260
Leeds	138	13,765	7,006	1,742	1,535	1,870	1,859
Glasgow	141	15,387	7,380	2,226	1,430	2,321	1,403
Sheffield	55	4,758	2,379	242	713	786	638
Bradford	51	2,584	1,292	120	408	210	554
Edinburgh	589	25,862	11,615	3,363	1,793	1,646	4,813
Liverpool	74	7,916	3,932	1,029	604	1,437	862
Bristol	98	N/A	5,290	1,276	1,550	1,270	1,194
<b>Ratio (%)</b>							
G.London				32.6	13.8	11.6	42.0
G.Manchester				23.3	25.3	23.5	27.9
Birmingham				28.9	19.0	28.9	23.2
Leeds				24.9	21.9	26.7	26.5
Glasgow				30.2	19.4	31.4	19.0
Sheffield				10.2	30.0	33.0	26.8
Bradford				9.3	31.6	16.3	42.9
Edinburgh				29.0	15.4	14.2	41.4
Liverpool				26.2	15.4	36.5	21.9
Bristol				24.1	29.3	24.0	22.6

Source: Melvin Gold Consulting analysis; Various City and Regional Tourist Boards

It can be seen that generally the Full Service and Budget segments are proportionately far higher than in the earlier regional analysis with the exception of Bradford and Sheffield which lack Full Service properties but have a higher proportion of Mid-Market hotels. It is notable that the proportion of Full Service rooms is far closer to that in Greater London than was demonstrated in the regional analysis. Cities which are historically perceived to have had a lack of hotel supply, such as Sheffield and Liverpool, have now developed a higher proportion of budget supply with those budget brands moving in to fill the vacuum.

## 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, as recently reported in a report by TRI Hospitality Consulting and BDRC<sup>18</sup>, there are now some 85,665 rooms in the country representing, in our view, some 12.0% of the UK serviced accommodation sector.

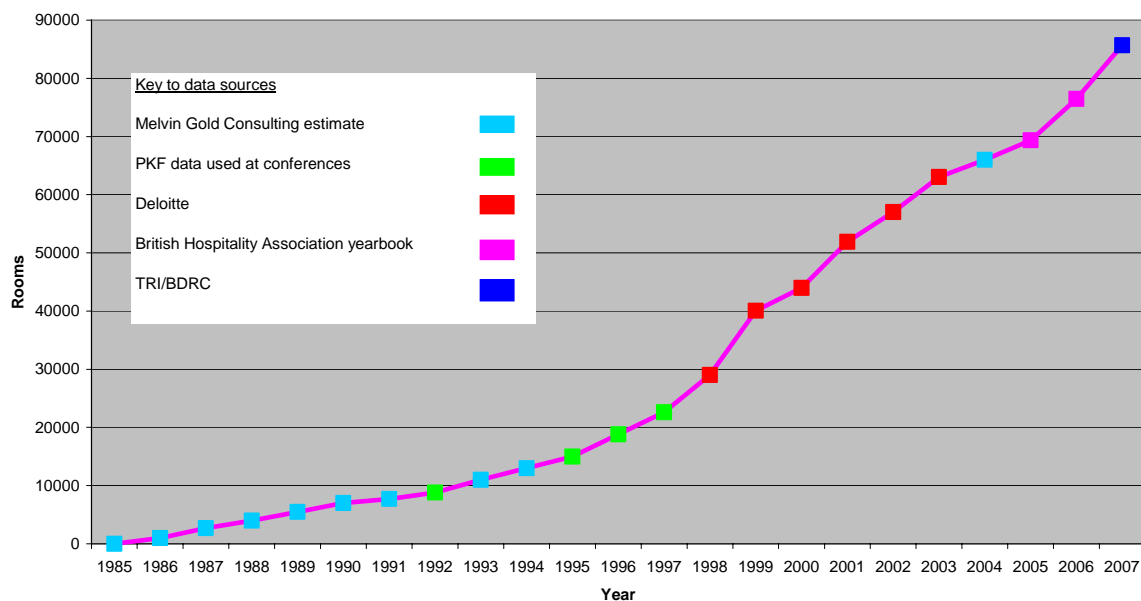
Compared globally, while the UK hotel sector is becoming mature, it is a child by comparison with the levels of budget hotel penetration of the overall market seen in the USA and France. We discuss those markets subsequently in a separate section of this report for comparative purposes, but it is generally 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, not solely in the aforementioned TRI/BDRC report, but also in periodic reports by Deloitte and data prepared by other consultancies from time to time. It 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.

**Graph 1**  
Growth of UK Budget Hotel Supply



<sup>18</sup> Budget Hotels 2007 UK; TRI Hospitality Consulting in association with BDRC, August 2007

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 Travel Inn and shortly to become 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 in fact Travelodge is still a market leader in this type of lodge development. 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.

Express by Holiday Inn, 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. Ibis, part of 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. These are the only companies with more than 5,000 rooms and together they have 69,711 of TRI/BDRC’s estimate of 85,665 rooms, over 81% of budget supply. This is summarised in the following table.

**Table 5**  
**Leading Budget Hotel Operators in the UK**

<b>Brand</b>	<b>Rooms</b>	<b>Establishments</b>
Premier Travel Inn	32,762	488
Travelodge	19,335	304
Express by Holiday Inn	11,078	108
Ibis	6,536	48
<i>Others</i>	<i>15,954</i>	<i>223</i>
<b>Total</b>	<b>85,665</b>	<b>1,171</b>

Source: TRI Hospitality Consulting/BDRC

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.

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**

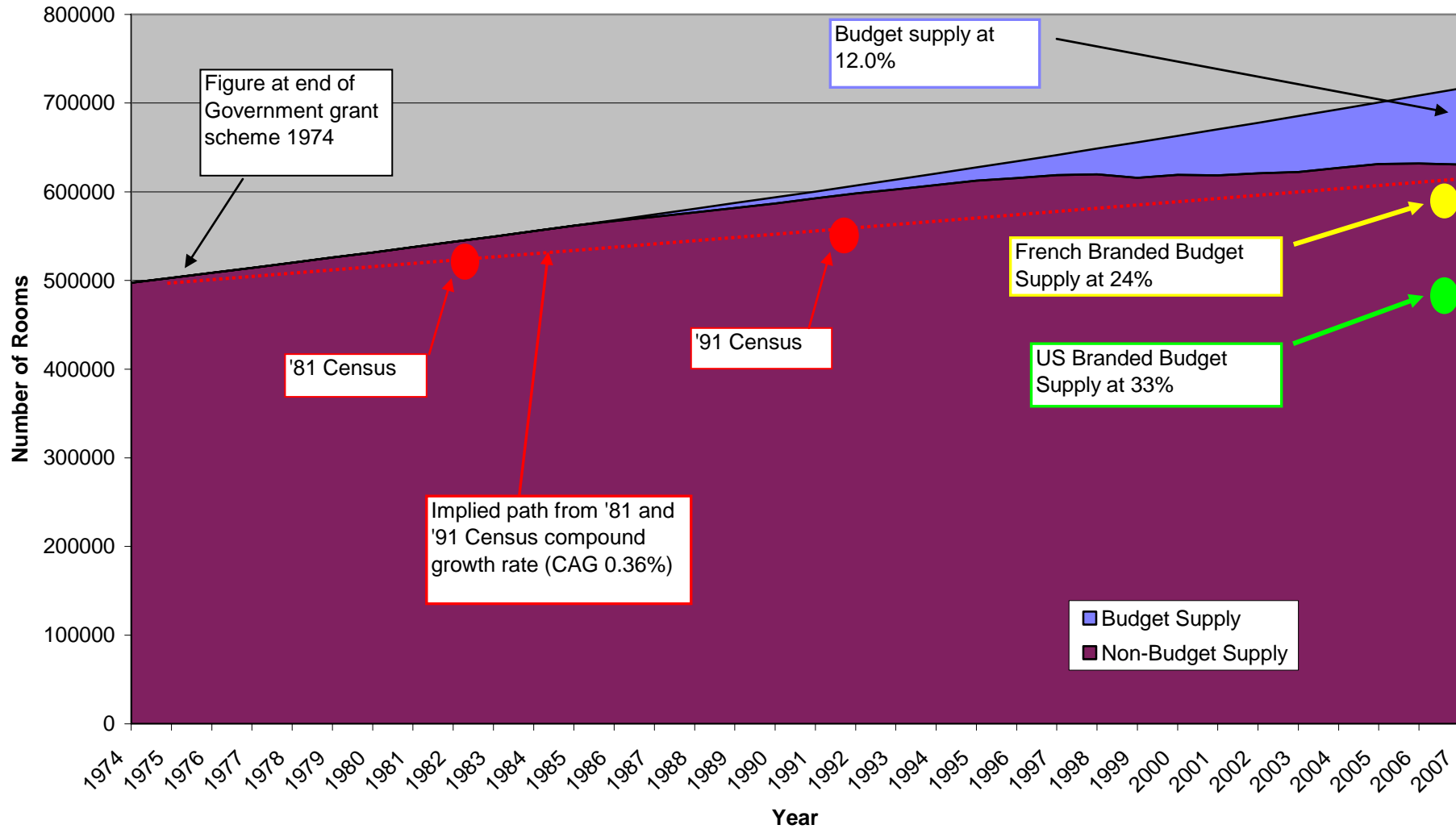
Given all the foregoing, and commentary that appears subsequently concerning the international budget hotel markets, we have developed a graph to illustrate the impact and positioning of the UK budget market. This is shown as graph 2 overleaf.

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 14.25% per annum and although more difficult to measure it certainly exceeded 20% in the decade before that, albeit from a lower base. With the budget market now well established, existing players well capitalised 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 – 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 did also consider 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 a Mintel Report<sup>19</sup> there were just 22,000 and 6,500 internationally branded budget hotel rooms in Germany and Spain respectively, and fewer in Italy. 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 UNWTO and supported by the American Hotel and Lodging Association (AHLA) is around 4.4m 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 2005, the most recent year for which data is available at present. In 2005 the AHLA reported that there were some 47,590 properties in the USA with 15 rooms or more.

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

**Table 6**  
**Total USA Lodging Supply – 2000-2005**

	2000	2001	2002	2003	2004	2005
Total USA hotel supply (Rooms)	4,100,000	4,200,000	4,397,534	4,415,696	4,411,908	4,402,466

Source: UNWTO

Supply growth tends to be linked to the economic cycle which most likely accounts for the stagnation in supply in recent years. However consultancy Lodging Econometrics have recently published 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. This is assumed to account for the modest decline in actual rooms in recent years indicated in the official statistics.

Lodging Econometrics data would seem to indicate that the pace of supply growth in the US market is gathering pace and there will be further net increases in the coming years. We summarise their supply growth forecast in table 7.

<sup>19</sup> Budget Hotels Europe, Mintel Travel and Tourism Analyst, April 2007

**Table 7**  
**Construction Pipeline at Q2 '07 Forecast for New Openings**

<b>Year</b>	<b>Hotels</b>	<b>Guestrooms</b>	<b>Supply Increase (Gross, %)</b>
2004 Actual	555	58,420	1.3
2005 Actual	657	70,808	1.6
2006 Actual	734	78,871	1.7
2007 Estimate	1,042	100,924	2.2
2008 Estimate	1,200	136,692	2.9
2009 Estimate	1,554	159,368	3.3

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 a US Lodging Industry Overview in 2005 Mark Lomanno, President of STR, presented the following data on the structure of US Lodging Supply:

**Table 8**  
**Structure of USA Existing Supply 2005**

	<b>Hotels</b>	<b>Rooms</b>
Luxury	237	75,839
Upper Upscale	1,363	526,684
Upscale	2,344	370,122
Midscale with F&B	4,637	581,712
Midscale without F&B	6,923	618,359
Economy	9,916	770,373
Independent	22,725	1,507,679
<b>Total</b>	<b>48,145</b>	<b>4,450,768</b>

Source: US Lodging Industry Overview 2005, Smith Travel Research

Firstly this demonstrates the extent of branding in the USA hotel industry with just 33.9% of existing supply being considered as Independent. Thus 64.1% 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 31.8% in 2005. 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 9**  
**Limited Service Branded Hotel Supply in the USA**  
**including proportionality of total supply**

	<b>Hotels</b>	<b>Rooms</b>	<b>Brands in Survey</b>	<b>Limited Service Brand rooms as % of total USA lodging supply</b>
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	n/a

NB. Limited Service Supply measured at end of each year

Source: Hotel and Motel Management Limited Service Hotel Surveys 2002-2007

As the table shows, Limited Service Supply is now around 33% (rounded) of total USA hotel supply and is actually growing as a proportion of total supply. This indicates that growth in the limited service sector is faster than in overall supply which, as shown earlier, was actually fairly static post 9/11. In addition there is evidence of some consolidation in the sector given the falling number of brands reported within the survey each year.

Finally, in terms of the USA market we would comment that, despite the size and maturity of the market, five budget brands – Days Inn, Holiday Inn Express, Hampton Inns and Suites, Super 8 Motels and Comfort Inn – have a total of 662,947 rooms (in 2006) and are the only limited service brands with more than 100,000 rooms. Thus they have around 15% 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 consider the total quantum of hotel supply which we have sourced from the UNWTO which in turn sources data from the French Ministry of Tourism. Once again data, as displayed in table 10 overleaf, is available from 2000 to 2005.

**Table 10**  
**Total France Lodging Supply – 2000-2005**

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Total Rooms	589,174	600,492	603,619	603,279	604,235	601,908	598,176

NB. Data is recorded on the 1<sup>st</sup> of January in the year following. Thus 2006 data is total supply at 1 January 2007.

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 14,000 beds in 2005, having been 14,400 in 2003 and 14,200 in 2004. Guest Houses, at 69,700 beds in 2005, 66,900 in 2004 and 62,000 in 2003 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 475,200 beds in 2005. 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 just over 12m beds, more than double the quantum of serviced accommodation in the country.

French serviced accommodation supply has been relatively static so far in this decade. Growth of just 9,000 rooms has taken place in the period from 2000 to 2006. It is notable that there was a decline in 2006.

In the following table we present 2006’s supply by star grading. 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. 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 11**  
**Structure of France Existing Supply 2006**

	<b>Hotels</b>	<b>Rooms</b>
0 star	1,941	66,765
1 star	1,491	31,287
2 star	9,571	269,932
3 star	3,777	169,791
4 star / 4 star luxe	808	63,179
<b>Total</b>	<b>17,588</b>	<b>598,176</b>

Source: French Tourism Ministry

Comparison of the statistics between 2000 and 2006 reveals the following:

**Table 12**  
**Change in rooms supply in France**  
**in 2006 compared to 2000**

	<b>Hotels</b>	<b>Rooms</b>
0 star	-282	6,172
1 star	-639	-9,265
2 star	-478	-12,225
3 star	351	11,349
4 star / 4 star luxe	162	15,749
<b>Total</b>	<b>-886</b>	<b>9,002</b>

Source: French Tourism Ministry

We believe this reflects on 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 31.7 rooms to 34 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.

MKG Consulting has periodically published data which enables analysis of the French hotel market in terms of branded and unbranded hotels. We have to admit to being slightly confused by MKG's data since their hotel supply base is slightly higher than the official statistics show. This may be due to adding in rooms from other categories such as youth hotels, guesthouses and perhaps even some of the serviced apartment sector.

Nonetheless we have considered MKG's estimates of chain hotel supply (we believe this to be the same as branded) against the official estimates for the total serviced accommodation market (as defined previously, hotels, guest houses and youth hostels converting beds to rooms at a ratio of 2:1). We have considered hotels graded as 0, 1 and 2 star as being within the budget segment. Data is available for 2004 and 2005 and is presented in the following table:

**Table 13**  
**Proportion of Branded Hotel Supply and Budget Hotel Supply in France**  
**2004 and 2005**

	<b>Total Serviced Accommodation Supply</b>	<b>Chain Hotel Rooms</b>	<b>Branded Budget Rooms</b>	<b>Chain Hotels as % of total</b>	<b>Branded Budget hotels as % of total</b>
2004	644,785	262,266	151,956	40.7%	23.6%
2005	643,758	267,013	154,975	41.5%	24.0%

Source: Melvin Gold Consulting analysis of MKG Consulting and French Tourism Ministry Data

As table 13 illustrates, our calculations indicated that Chain hotels comprised around 41.5% of total serviced accommodation supply in France in 2005, and branded budget hotels comprised some 24% of the market. Both figures appeared to be rising as the number of

independent hotels reduces and also because most significant new hotel openings are branded.

Both figures, and the trend, are corroborated by other sources. An article written by Otus and Co. in 2003 suggested that 36% of France's supply was part of chains, at that time, and they predicted that by 2011 the level would reach 41%. In fact the pace of change appears to have been more rapid with 41.5% recorded in 2005 according to our calculations (although the statistical base and source may differ). In terms of the budget market, Mintel's European Budget hotel report referred to earlier suggests that around 25% of France's supply is in the branded budget segment which is similar to our calculation of 24% and growing in 2005.

The French hotel market is somewhat dominated by Accor who, according to MKG Consulting, had some 1,344 hotels with 122,105 on 1 January 2006. Latest data on Accor's own website is from 30 June 2006 and so the numbers are similar. This indicates that Accor's supply represented some 19% of total French serviced accommodation. 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.

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, at 1 January 2006, Louvre Hotels had 51,318, over 46,000 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 with 12,026 and 7,965 rooms respectively, some way smaller than the two major companies detailed above. The largest budget brand outside these chains is B&B Hotels, owned by Galaxie, which had 113 hotels and 7,732 rooms and was the 10<sup>th</sup> largest brand and 5<sup>th</sup> largest chain in France.

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

## 8 – 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. The British Hospitality Association Trends and Statistics 2006<sup>20</sup> publication reported that “the total number of hotels and guest houses in the UK ..... has declined in the last three years as a result of the closure of small units, even though approximately 150 new hotels have opened in each of the last five years.” The traditional seaside resorts around the country’s coastline have particularly suffered.

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 most likely the country hosting at least one other major international sporting event, probably the FIFA World Cup, within the next 20 years. We also note that Glasgow is bidding to host the 2014 Commonwealth Games;
- 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);

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<sup>20</sup> Trends and Statistics 2006. The British Hospitality Association in association with American Express

- 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 2007 budget – now under reconsideration), consideration of unhelpful measures such as the bed tax.

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. The TRI/BDRC report refers to the “opportunity to either transform or put out of business the estimated glut of 50,000 unbranded run-down rooms in the UK that continue to blight British hospitality's reputation”. 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 21<sup>st</sup> century consumer, to be developed.

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.

### **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 certainly vibrant and there appears to be strong operator interest in expansion at the present time. This seems to be supported by investor and developer interest and by a willing financial community. Below we review the declared expansion plans of some of the UK's hotel operators.

**Travelodge** has announced the intention to treble the size of its UK estate by 2020. The declared intention is to have roundly 70,000 rooms in approximately 1,000 hotels by 2020. This would entail the addition of just over 4,000 rooms per annum for each of the next 13 years. Specifically the group have 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.

Whitbread have announced that **Premier Travel Inn** will shortly change its trading name to Premier Inn. Furthermore they have announced the intention to operate 45,000 rooms in the UK by 2010 which, given the current level of roundly 32,500, indicates an intention to open (or acquire) some 3,000 rooms per annum over the next three years. The company has also announced expansion into the Middle East region. Recently the company advertised in the trade press for 'going concern hotels in 400 locations in the UK and Ireland'.

**Hilton** has announced an expansion and restructuring plan which is intended to grow its UK portfolio from around 75 hotels at present to some 150 in 10 years. This will see the introduction of three new brands, Doubletree (Full service), Hilton Garden Inn (mid-market) and Hampton Inn. Some of its existing hotels will be rebranded to the new brands. The group currently has almost 16,000 rooms in the UK and if this was to double in 10 years it would imply the addition of roundly 1,600 rooms per annum. 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.

**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 June 2007 was 28,252 rooms of which over 9,000 were in the Express by Holiday Inn brand. This is the highest level of regional pipeline since current records began in 2001 – the more typical level has been around 15-20,000 rooms. We believe that Intercontinental will continue to adopt an aggressive expansion plan in the UK and they have also announced the introduction of their extended stay brand, Staybridge Suites, to the UK with the first unit due to open within the next year.

**Accor** also continue to have an aggressive approach to the UK market and this year saw them dramatically increase their mid-market presence when they successfully competed for the operations of 23 former Macdonald Hotels which are now branded within their Mercure portfolio. However the group also sold five Formule 1 hotels and these have now been separately rebranded by the new owners. A 600 room Sofitel franchise is being developed adjacent to Heathrow's terminal 5. Overall we believe it is the group's strategy to expand the Novotel and Ibis brands and also to aggressively expand the Etap brand which is relatively sparsely represented in the UK at present. Perhaps most significantly, the group has recently announced the creation of a new budget brand to be known as All Seasons. This brand has been positioned as a non-standardised budget brand and we expect it to be used to acquire larger unbranded budget level properties in much the same way as Mercure can acquire unbranded mid-market properties whereas Novotel is at a similar level of the market but is more 'hard branded'. Accor have announced that they expect All Seasons to have 10,000 rooms globally by 2010 which does not seem especially ambitious given the apparent opportunity in the UK. It does also appear that the group will offer franchising opportunities as part of the brand's expansion strategy.

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 intend to reintroduce Courtyard to the mid-market, Sleep Inn are aggressively pursuing sites and Rezidor are similarly ambitious with the Radisson and Park Inn brands. Yotel, Easyhotel,

Tulip Inn, nitenite, and Sleeperz are just some of the other budget brands that are also developing sites and seeking more opportunities.

### **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 2008 to 2027. Our findings are illustrated in Graph 3 on page 43 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 roundly 1.1% in the 34 year period from 1974 to 2007. We have assumed that it will grow at a slower rate in the future due to the various factors discussed earlier in this section. However the market has a very positive momentum at the present time and we expect this to be maintained until at least 2012 when London is the host city for the Olympic Games. Therefore we have factored in compound growth of around 1% per annum from 2008 to 2012 and then a lower rate of some 0.75% on a compound basis from 2013 to 2027.

These assumptions would see the addition of around 125,700 rooms in the 20 year period with the total quantum of supply then being around 842,219 rooms. This implies that on average 6,285 rooms will be added annually over the next two decades although 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 14% 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 10% per annum until 2012, approximately 5% per annum from 2013 to 2017 and some 2.5% in the subsequent decade. This would see budget hotel supply grow to 225,400 rooms, some 140,000 rooms above today's level of sector supply.

Of course this implies that there will be more budget hotel rooms developed than the total number of new rooms in the UK hotel market. 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 3 illustrates, the level of non-budget supply in 2027 would fall back to around the level it was at in the mid-1990s. Overall supply will increase but its make-up will also change.

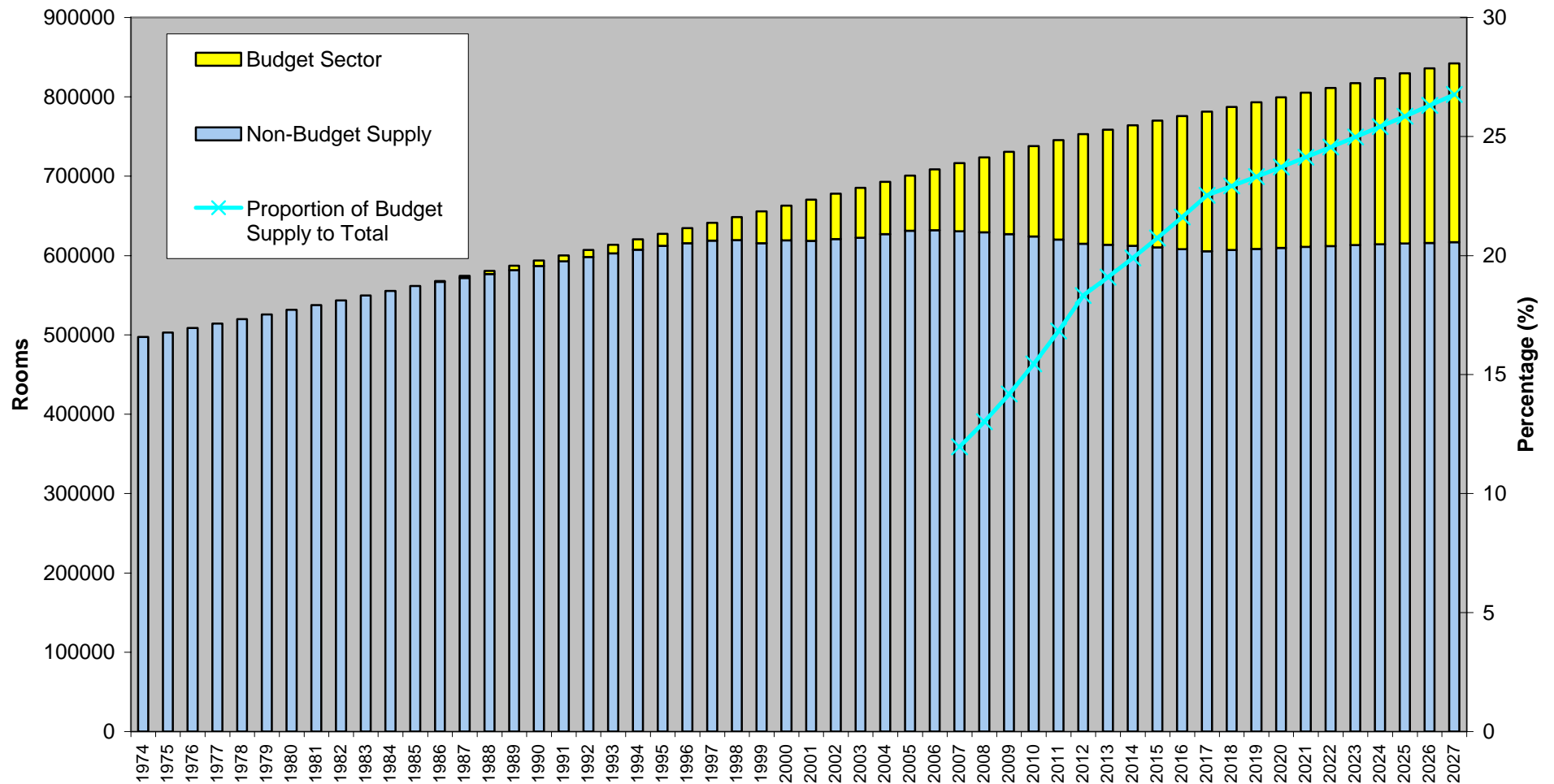
Finally it is noteworthy that under this scenario the proportion of budget supply would grow from 12.0% in 2007 to 26.8% in 2027. That does not seem unachievable given that budget supply in France is currently around 24% and in the USA it is at 33% already.

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 81% 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 36.9% of branded budget supply. This considers that under the scenario we have developed there would be 800,300 serviced accommodation rooms in the UK in 2020 with some 189,620 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 38.1% of the total supply is branded with 12.0% being budget supply. Using the various differentials we believe the implication is that branded supply would be at least 52% 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 60% or more of the UK's hotels as part of brands. This is still below the current proportion in the USA which is around 64%.

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 3**  
**Illustration of future serviced accommodation and budget supply growth**



## 9 – The Tourism Industry within the context of the UK Economy

### Introduction

Within the context of the UK economy in the 21<sup>st</sup> 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 but the UK economy remains strong and set on a sustainable growth trend. Tourism, and the service sector, underpin this.

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, The Tourism Alliance 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 2006 was £1.29 trillion, up from £1.225 trillion in 2005.

The government more commonly use the terminology Gross Value Added (GVA) at present and according to ONS this "represents the wealth created by businesses and is essentially the difference between income and expenditure on goods and services." UK GVA in 2005 (estimated) was £1.064 trillion, up from £1.024 trillion in 2004.

A news release published by ONS in December 2006<sup>21</sup> provides an excellent insight into the importance of the service sector to the UK in the 21<sup>st</sup> 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%.

### 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

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

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 region<sup>22</sup>, published in December 2006, indicates that the GVA of the hotel and restaurant sector in 2004 (latest year data available) was £33.07bn. 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 3.2% of UK GVA in 2004. One factor which was highlighted during our consultation on the draft 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. Consultancy Horizons now estimate that the eating out market in the UK was worth just under £40bn in 2007.

Visit Britain estimate that UK tourism was worth approximately £85bn in 2005 which can be summarised as follows:

**Table 14**  
**Summary of UK tourism revenues 2005**

	<b>£ billion</b>	<b>Trips (m)</b>
<b>Overseas Residents</b>		
Visits to the UK	14.2	30.0
Fares to UK carriers	2.8	
<b>Domestic Tourists</b>		
Holidays of one night or more	11.5	59.3
Overnight business trips	5.3	22.5
Overnight trips to friends and relatives	5.4	52.7
Other Domestic Tourism	0.5	
Day Trips	44.3	
Rent for Second Ownership	0.9	
Total	84.9	164.5

Source: Visit Britain

Visit Britain further report that 2006 was a record year for UK inbound tourism both in terms of volume and value (in nominal terms). The 32.1m overseas visitors who came in 2006 spent £15.4bn in the UK. Visit Britain's current 2007 forecast is that it will be an even better year, despite the weakness of the US Dollar, and they expect total inbound visits to reach 33m, with total inbound visitor spend of £16bn.

Notably a GDP of some £85bn (say US\$170bn) would indicate that the UK tourism industry is almost at the level of the entire economy of countries such as Ireland (US\$204bn) and Greece (US\$224bn) and well above countries such as Czech Republic (US\$119bn), Hungary (US\$113bn) and even New Zealand (US\$98bn). GDP sources are from The CIA World Factbook<sup>23</sup>.

<sup>22</sup> [http://www.statistics.gov.uk/downloads/theme\\_economy/RegionalGVA\\_Dec06.pdf](http://www.statistics.gov.uk/downloads/theme_economy/RegionalGVA_Dec06.pdf)

<sup>23</sup> <https://www.cia.gov/library/publications/the-world-factbook/index.html>

It should be noted that in its Trends and Statistics Yearbook 2007 the British Hospitality Association estimated that the value of tourism in the UK was significantly higher at £106.9bn in 2006, using ONS statistics.

In 2005 the UK ranked fifth in the international tourism earnings league behind the USA, Spain, France and Italy.

The top five overseas markets for the UK in 2005 are illustrated in Table 15. The importance of the USA market is especially evident.

**Table 15**  
**Top Five Inbound Markets 2005**

<b>Country</b>	<b>Visits (000)</b>	<b>Country</b>	<b>Spend (£m)</b>
USA	3,438	USA	2,384
France	3,324	Germany	998
Germany	3,294	Irish Republic	895
Irish Republic	2,806	France	796
Spain	1,786	Spain	697

Source: Visit Britain

According to The Tourism Alliance, tourism is Britain's fifth largest industry with turnover around £85m. The 2005 data puts the UK some £600m higher than in the year 2000 which was an especially strong year for tourism. It is evident from the above data that, at this level Tourism represents around 6.9% of UK GDP and 8.0% of GVA.

The industry is also a significant employer. Visit Britain and Tourism Alliance's analysis of Labour Market Trends April 2005 indicated that the industry sustains some 2.2m UK jobs which represented some 7.7% of the country's total labour market. There are an estimated 1.4 million jobs directly related to tourism activity in the UK, some 5% of all employment in the UK. Around 130,000 of these jobs are in self-employment.

Finally we note that Visit Britain estimate that in 2003 the turnover of the hotel industry was £10.9bn and that in 2005, average room occupancy for all serviced accommodation throughout the UK was 59% and average bedspace occupancy was 44%.

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 and it has recently been reported in a report on the UK Budget Hotel industry by TRI and BDRC that the total budget sector's revenues have recently surpassed the £1bn mark. Given that this is the revenue of a whole tier of the industry, and a dynamic one at that, with total tourism revenues at over £85bn 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, the majority 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. It seems that each month there is a further report of heightened consumer use of the internet for travel research and bookings. 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 tend to outperform these levels and Independent and unbranded hotels tend to lag them. The 2004 UK occupancy report by TNS, referred to earlier, reported room occupancy of 61% and bed occupancy of 45%. 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. 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 both our database, discussed earlier, and in the case of the budget sector, the TRI/BDRC report, 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 16 overleaf we summarise the largest hotel brands active in the UK hotel market at present.

**Table 16**  
**Largest Hotel Brands in the UK**

	<b>Brand</b>	<b>Rooms</b>
1	Premier Travel Inn	32,762
2	Travelodge	19,335
3	Holiday Inn	17,451
4	Hilton	15,725
5	Express by Holiday Inn	11,078
6	Marriott	9,920
7	Thistle	8,621
8	Britannia Hotels	6,706
9	Ibis	6,536
10	Ramada	6,300
11	De Vere Hotels/Venues	5,325
12	Novotel	5,180
13	Radisson	4,968
14	Quality Hotels	4,421
15	Macdonald Hotels	3,774
16	Jury's Inn	3,733
17	Crowne Plaza	3,667
18	WA Shearings	3,612
19	Imperial London Hotels	2,876
20	Mercure	2,758

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

The fragmented nature of the industry is immediately apparent given that Premier Travel Inn is the largest brand at present and their 32,762 rooms equate to just 4.49% of the UK's hotel supply. Subsequently, in section 9 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 Ramada in 10<sup>th</sup> place has just 1% of UK hotel supply and Mercure in 20<sup>th</sup> place has just 0.43%.

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 7 of the 10 largest hotel companies in the UK operate more than one brand. Whitbread, through Premier Travel Inn, Travelodge and Hilton are the only ones that do not operate more than one brand and that will change shortly as Hilton seek to introduce more of their family of brands to the UK market following the reunification of Hilton which took place last year. In table 17 overleaf we present the 10 largest hotel operating companies in the UK.

**Table 17**  
**Largest Hotel Brand-owning/Operating companies in the UK**

	<b>Company</b>	<b>Rooms</b>	<b>Brands</b>
1	Whitbread	32,762	Premier Travel Inn Intercontinental, Crowne Plaza Holiday Inn, Express
2	Intercontinental	32,654	by Holiday Inn
3	Travelodge	19,335	Travelodge
4	Hilton	15,725	Hilton
5	Accor	13,694	Sofitel, Novotel, Ibis, Etap, Formule 1
6	Marriott Intl	11,758	Marriott, Renaissance
7	Thistle	10,441	Guoman, Thistle Wyndham, Ramada, Ramada Encore, Days Hotel,
8	Wyndham Intl	9,614	Days Inn
9	Carlson	9,139	Radisson, Park Inn, Park Plaza Clarion, Quality Hotel, Comfort Inn, Comfort Hotel,
10	Choice Hotels	7,544	Sleep Inn

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.

## 10 – 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 implied, the 10 largest companies current control around 22.7% of the room stock, the largest, Whitbread, having only around 4.57% of the country's bedroom stock.

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. On a simple mathematical basis from the above would indicate that Thomas Cook/MyTravel would have a 23.4% market share and TUI/First Choice would have 24.6% share. This is a rather simplistic basis on which to view this, since other changes have taken place but it does indicate that in the UK Travel and Agent and Tour Operator market just two firms now have almost 50% of the market share.

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**

TNS Worldpanel, a market research company, reviews the UK grocery and supermarket sector on a quarterly basis. Although we do not have access to their full reports the details are regularly reported in the press. Latest data reported in April 2007 indicated that market leader Tesco held a market share of 31.2% and they were followed by Asda (Walmart) with 16.9%, Sainsbury's at 16.4% and Morrison with 11%. The next largest was Waitrose with 3.9%.

Thus it can be seen that the largest 4 companies had a 75.5% share of the market in Q1 2007. 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 and in fact it was reported that Tesco's share of the market had grown 0.6% against the prior year and the big four's share had grown 0.9%.

Once again there is evidence of this being a heavily consolidated sector with some major players dominating the market, in this case with medium-sized and smaller retailers having an even smaller share of the market than among the Travel Agent and Tour Operator market.

### **Cinema sector**

Private Equity group Terra Firma recently purchased both Odeon and UCI cinemas which reportedly established them with a 38% market share of UK cinema box office takings and establishes the portfolio as market leader. It has been rebranded under the Odeon brand name. The second largest UK cinema brand is Cineworld with around 26.3% of total admissions and in third place is Vue Cinemas with around 20% market share.

There has been a great deal of financial restructuring in the cinema sector in recent years, not just with Terra Firma's intervention but also with Blackstone's acquisition of Cineworld in October 2004, Cineworld's acquisition of UGC cinemas in December 2004 and Vue's management buyout in May 2006 supported by HBOS. This was after Vue had earlier bought Warner Village cinemas in 2003 and Ster Century in 2005.

Thus after a spate of consolidation and investment in recent years some 84.3% of the UK cinema industry is in the hands of just three companies, mainly backed by private equity investors.

### **Petrol Stations/Forecourt Retailing**

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. Keynote's Public Houses 2007 report, which draws on data from The Publican's influential report which is the key piece of industry research and is also used by Mintel, indicates that there were 57,231 public houses in the UK in January 2007, somewhat lower than the 59,163 reported in January 2006.

The top 13 public house owners had 30,810 of these premises, some 53.8% of the total, and this indicates that this is an industry sector that is perhaps less dominated by the big brands than some of the others we have reviewed. Nevertheless Punch Taverns, the largest company in the sector, had 9,200 public houses, 16% of those in the UK, which is well beyond the share of hotel supply held by the largest company in that sector. Enterprise Inns, the second largest company has 7,675 public houses and the next largest Marston Inns had 2,500.

It should be noted that the operating profile of this industry is somewhat different to some of the others we have discussed since most 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.

British Airways (BA) Factbook 2007 indicated that the airline carried the second highest volume of international passengers in 2005, some 28.9m, just ahead of Air France but well behind Lufthansa's total of 35.7m. In fact in terms of Revenue Passenger Kilometres (RPKs) BA was the largest, flying 107.5bn RPKs, just above Lufthansa's 107.4bn RPKs. When domestic traffic is taken into account the European carriers are dwarfed by US carriers such as American (98m passengers), Delta, United etc, and Japanese carriers. Air France is the largest European carrier with 47.8m passengers and 116.2bn RPKs. Overall it is simply not possible to look at their airline industry in the same way as the other sectors that we have reviewed.

However the impact of Ryanair is immediately apparent in the context of the above statistics. The airline carried 42.5m passengers in 2006 and expects to carry 52m in 2007. If that were achieved it would bring it into 5<sup>th</sup> place in BA's listing of World Scheduled Airlines behind only the four largest US carriers, American Airlines, Delta, United and Northwest in terms of passengers carried. This is still remarkable growth for a company that was only founded in 1985 and as recently as 2000 carried just 7m passengers.

A report by YouGov, a market research organisation, indicated that the market share of low-cost carriers in Europe reached 16.3% in May 2006, some 2.4% higher than at the same time the previous year. The UK has the highest penetration of low cost carriers with 28.4% share from these airlines in the Jan-May 2006 period. Ryanair and Easyjet are the two largest low cost carriers in Europe.

### **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 this recent 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.