ED-CAV1

City Of London Visitor Accommodation Sector Commercial Needs Study

January 2023

Contents

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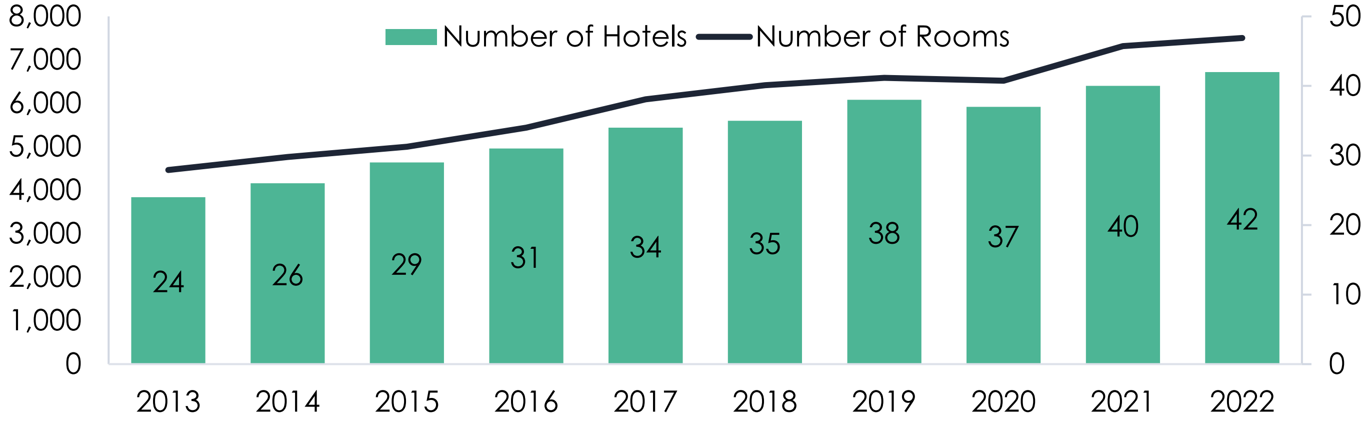
For and on behalf of Avison Young (UK) Limited

Executive Summary

This report has examined the future need for visitor accommodation in City of London in order to inform the City Plan 2040.

Over the last decade, there has been significant growth in the City of London's visitor accommodation sector which has been driven by hotels, accounting for nineteen new openings (3,221 bedrooms) and only one closure since 2013. This has resulted in a 41% increase in hotels and (a 51% increase in bedrooms). Whilst these growths are strong, neighbouring boroughs have seen larger increases which can be attributed to the growth in the 'City Fringe' where there are more available sites (and where land values are lower than the City).

Evolution of the City of London Hotel Market – 2013-2022



Source: Avison Young / CoStar Group

The growth in the City's hotel stock has been driven largely by four-star (seven properties) and limited service (six) hotels in the market, followed by four new five-star hotels and two small three-star hotels.

The serviced apartment market has contracted in terms of overall properties since 2013, but there are more bedrooms than before as the extended stay accommodation segment has evolved, which has resulted in a reduction in smaller units as part of residential schemes, and the growth in larger purpose built apart-hotels. Growth in the serviced apartment sector is likely to remain driven by apart-hotel developments (as opposed to smaller units) which attractive to investors in areas such as The City due to high profit margins resulting from lower cost structures.

Despite the significant recent growth, the current pipeline of hotel projects within the City is relatively low (and lower than neighbouring boroughs) with 10 schemes identified (including one serviced apartment) representing a potential increase of 1,483 bedrooms. This is likely due to a combination of available sites and the ongoing impact of both Covid-19 and the current economic downturn on funding markets.

Nonetheless, future visitor accommodation demand prospects for the City remain buoyant. Confidence in its continued status as a global financial centre can be witnessed by a number of large office developments that are due to open in the next five years and a continuing pipeline of planning applications for major development. Despite the impact of Covid-19, the City is showing healthy levels of office workers returning to office, albeit they still remain below 2019 levels. Furthermore, despite growing concerns that greater environmental considerations may limit corporate and leisure travel in the future, there remains no evidence to suggest that this will have a significant impact on the future need for visitor accommodation in Central London.

Similarly, whilst London's tourism economy was greatly impacted by Covid-19, 2022 has seen a healthy return of major inbound markets including North America and 2023 is forecasted to witness further positive growth (particularly with the return of Chinese visitors). The City has seen a growing shift towards a becoming a leisure destination in its own right in recent years, with the creation on the Cultural Mile aiding this. The recently opened Elizabeth Line and the launch of Destination City will also increase its appeal to leisure visitors.

This is matched by strong demand from brands, operators and developers in the visitor accommodation sector for new and / or additional supply in the City. Our survey with some of the leaders in the sector has highlighted overwhelming interest in such opportunities (largely restricted to hotel or serviced apartment developments).

Our market model projections (based on historic annual average demand growth) forecasts that there is demand capacity for an additional 350 rooms per annum in City of London to 2037, maintaining market occupancy at around 85%. This represents supply growth of 4,012 rooms over 15 years, equating to a 38.6% increase, including those schemes in the planning pipeline.

However, our consultations and surveys with brands, operators and developers identified a number of issues that may act as barriers to further visitor accommodation development. In order to support the growth of the sector (where it does not impact on core uses such as the loss or office space), the key market priorities for City Plan 2040 should be:

1. **Creation of hospitality clusters where possible:** the physical constraints due to the nature of the City's layout is viewed as a major impediment to future visitor accommodation development, as is the lack of available sites. However, our surveys highlighted overwhelmingly positive view from hotel brands, operators and developers towards the creation of hospitality clusters within the City. Therefore, where they do not clash with core uses such as office or residential, consideration should be given to create new leisure destinations within the City which will also appeal to leisure visitors. The proposed redevelopment of Smithfield market would provide an attractive setting for such a cluster (thanks to the proximity to the Cultural Mile and excellent transport links), as would be the emerging hotel cluster around near Aldgate and Tower (albeit this is a key location considered for increasing the City's office stock). The creation of hospitality clusters could benefit visitors in terms of providing appropriate facilities such as bars, restaurants and tourism / cultural offerings in close proximity to their hotels, whilst wayfinding routes from key transport interchanges could improve accessibility. Finally, from an operational perspective, appropriate clustering may offer better accessibility for servicing deliveries;
2. **Ensure a balance of hotel grades:** hotel supply increases in the City have been largely driven by the development of four-star and limited service hotels in the last decade. Our surveys have shown these two segments (as well as five-star hotels) to be the preferred segments for development in the City moving forward by brands, operators and developers. To meet the future needs of consumers as well as developers and operators, policy should continue to allow for a range of different hotel segments which will appeal to a wide range of corporate and leisure travellers. We would advise that a review of hotel grades in The City (both in terms of existing supply and new planning applications) is kept under review on a regular basis to ensure that the balance of grades is retained.

1. Introduction

Background and Purpose

1.1 The City of London Corporation has commissioned Avison Young to undertake a Hotel and Visitor Accommodation Study. The purpose of the study is to help inform the production of the latest City of London City Plan which will cover the period to 2040 through providing a robust evidence base of the likely future need for visitor accommodation in the City over the next decade.

1.2 Whilst the report covers all types of visitor accommodation, there is a focus on hotels and serviced apartments, as these are the two principal areas in the sector driving growth (in the form of new developments).

1.3 The City of London has witnessed exception growth in the supply of visitor accommodation in the last two decades. The City Corporation’s latest published hotel monitoring report (produced in March 2022) highlighted that the quantum of hotels (which includes apart-hotels and hostels) in the City had risen from only 1 prior to 1999, to 7,682 bedrooms as at March 2022. In addition, there are also a number of schemes in the development pipeline, with several under construction that will increase this number further.

1.4 Moving forward, the City is expected to continue as a global centre of business, whilst the recently launched ‘Destination City’ initiative aims to increase the area’s appeal as a leisure destination. These factors are expected to result in continuing demand for visitor accommodation in the City. However, the need for increased visitor accommodation stock to meet this demand must be balanced against the needs of other use types, primarily offices and residential.

Methodology

1.5 In order to prepare a robust evidence base of current and emerging trends in the visitor accommodation sector, Avison Young has undertaken the following:

- An analysis of current levels of supply, covering visitor accommodation as a whole, but providing more detail on hotels and serviced apartments. In addition, we have looked at the evolution of the sector over the last ten years, along with assessing how the growth of supply compares to neighbouring boroughs;

- An analysis of the future supply of visitor accommodation, again with a focus on hotels and serviced apartments. As with current supply, we have assessed the quantum of potential new supply against that in neighbouring boroughs;
- An overview of where supply is located, in the context of both key demand drivers and key transport routes;
- A review of the City of London's tourism, economic and hotel market performance trends over the last ten years and identification of the latest economic forecasts at a Central London level;
- An overview of UK-wide hotel and serviced accommodation trends and issues;
- Consultations with a number of key stakeholders within the City's visitor accommodation sector in order to discuss the key trends and issues in the market;
- A review of planning policy, strategy documents and other relevant material pertinent to the City's visitor accommodation sector;
- A survey with leading brands, developers and operators to establish appetite for and the nature of future developments in the City of London;
- Developed a capacity and market model in order to inform future need for additional visitor accommodation in the City;
- Identification of the key visitor accommodation sector priorities for City Plan 2040.

Quality Control

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2. Visitor Accommodation Market Supply

Introduction

2.1 In this section we present an overview of current levels of visitor accommodation supply and pipeline in City of London (within the authority's boundaries). We have provided an overview of hotels, serviced apartments, hostels and AirBNB to illustrate the overall size of the visitor accommodation sector. Firstly, we present an overview of existing and draft hotel policy for the City of London below.

Policy

2.2 The current City of London Plan (2015) makes no reference to any areas of the visitor accommodation sector other than to hotels and apart-hotels.

2.3 Within it, Policy CS11 notes:

To maintain and enhance the City's contribution to London's world class cultural status and to enable the City's communities to access a range of arts, heritage and cultural experiences, in accordance with the City Corporation's Visitor Strategy, by:

5. Allowing hotel development where it supports the primary business or cultural role of the City and refusing new hotels where they would compromise the City's business function or the potential for future business growth. Hotels should not be located where they would create amenity problems for existing residential areas.

2.4 Policy DM 11.3 Hotels states the following:

Proposals for new hotel and apart-hotel accommodation will only be permitted where they:

- *do not prejudice the primary business function of the City;*
- *are not contrary to policy DM1.1;*
- *contribute to the balance and mix of uses in the immediate locality;*
- *do not result in adverse impacts on the amenity of neighbouring occupiers, including cumulative impacts;*

- *provide satisfactory arrangements for pick-up/drop-off, service delivery vehicles and coaches, appropriate to the size and nature of the hotel or apart-hotel;*
- *are inclusive, providing at least 10% of hotel rooms to wheelchair-accessible standards;*
- *ensure continuing beneficial use for historic buildings, where appropriate*.

2.5 We note that the draft City Plan 2040 policies (S6: Culture, Visitors and Night-Time Economy and CV3: Hotels) align closely with the 2015 policies:

Strategic Policy S6: Culture, Visitors and the Night-Time Economy:

The City Corporation will maintain and enhance the City of London's contribution to London's world-class cultural offer and the City's communities will be able to access a range of arts, heritage and cultural experiences by:

- *Allowing hotel development where it supports the primary business or cultural role of the City, and refusing new hotels where they would compromise the City's business function or the potential for future business growth;*

Policy CV3 Hotels:

Proposals for hotels and other visitor accommodation will be permitted where they:

- *do not result in the loss of viable office accommodation for which there is continuing need, as set out in Policy OF2;*
- *do not result in adverse impacts on the amenity of neighbouring occupiers, including cumulative impacts;*
- *include a range of complementary facilities accessible to the public;*
- *provide satisfactory arrangements for pick-up/drop-off, service delivery vehicles, waste storage, and taxis, appropriate to the size and nature of the development;*
- *are inclusive, meeting London Plan accessibility standards for new hotel bedrooms;*
- *ensure continuing beneficial use for historic buildings, including enhanced public access to and interpretation of that heritage, where appropriate; and*
- *address the sustainability challenges associated with the City's BREEAM priorities (energy, water, pollution and materials).*

2.6 We have held discussions with Avison Young's planning team in order to examine if there are any major difference between the City's hotel policy and that of other neighbouring boroughs. Ultimately, the fundamentals of current hotel policy across Central London remain broadly similar in that hotel development is welcomed subject to it; 1) not resulting in the loss of other key uses (primarily residential and / or offices, depending on the nature of the borough) and 2) development should be promoted in the CAZ (Central Activities Zone). The requirement of viability appraisals as part of planning submissions (to justify the loss of office space, for example) is now common practise across Central London.

2.7 Plan Policy 4.5 of the adopted London Plan 2021 notes:

- *A sufficient supply and range of serviced accommodation should be maintained;*
- *Within the CAZ, strategically-important serviced accommodation should be promoted in Opportunity Areas, with smaller-scale provision in other parts of the CAZ except wholly residential streets or predominantly residential neighbourhoods (see Policy SD5 Offices, other strategic functions and residential development in the CAZ), and subject to the impact on office space and other strategic functions. Intensification of the provision of serviced accommodation should be resisted where this compromises local amenity or the balance of local land uses.*

2.8 The Mayor's London Plan forecasts that London will need to add an additional 58,140 bedrooms of serviced accommodation by 2041, which equates to 2,236 bedrooms per annum (total net change accounting for hotel closures). The Working Document paper (dated April 2017) states that the projected total change in net room demand for the City of London is 4,096 by 2041, which equates to 158 bedrooms per year.

Current Supply - Hotels

2.9 We have identified 42 hotels within City of London providing 7,503 bedrooms. The structure of the market is shown in Table 2.1 below and we provide a full list in Appendix A. We illustrate the geographical distribution of the hotel market in Map 2.1.

Table 2.1: Structure of the City of London Hotel Market

Grade*	No. of Hotels	No. of Rooms	% of Room Supply	Average No. Bedrooms
5-star	9	1,844	25%	205
4-star	22	4,016	54%	183
3-star	2	33	0%	17
2-star	0	0	0%	0
Limited Service	9	1,610	21%	179
Total Supply	**42**	**7,503**	**100%**	**179**
Large Hotels >20 rooms	38	7,457	99%	196
Small Hotels <= 20 rooms	4	46	1%	12

Source: CoStar Group

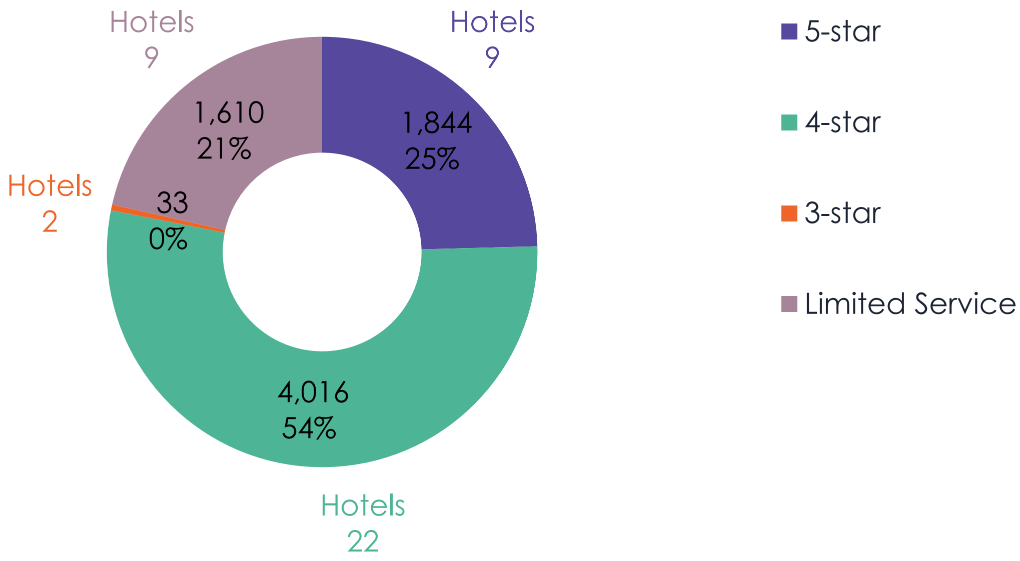
** See Appendix B for grading definitions*

2.10 Four and five-star hotels make up over three quarter of the City of London bedroom supply. The highest percentage of room supply is provided by four-star hotels (54%) followed by limited service hotels (25%) and five-star hotels (21%). There are only two small three-star hotels and no two-star hotels.

2.11 83% of hotels are affiliated with international and national brands with a good presence of all major hotel brand houses, a reflection of the corporate nature of the City of London hotel market.

2.12 There has been one hotel closure since 2013. The five-star Mantis Collection Devonshire Club (68 bedrooms) closed in April 2020 after entering into administration.

Graph 2.1: Structure of the City of London Hotel Market – hotels and bedrooms by grade



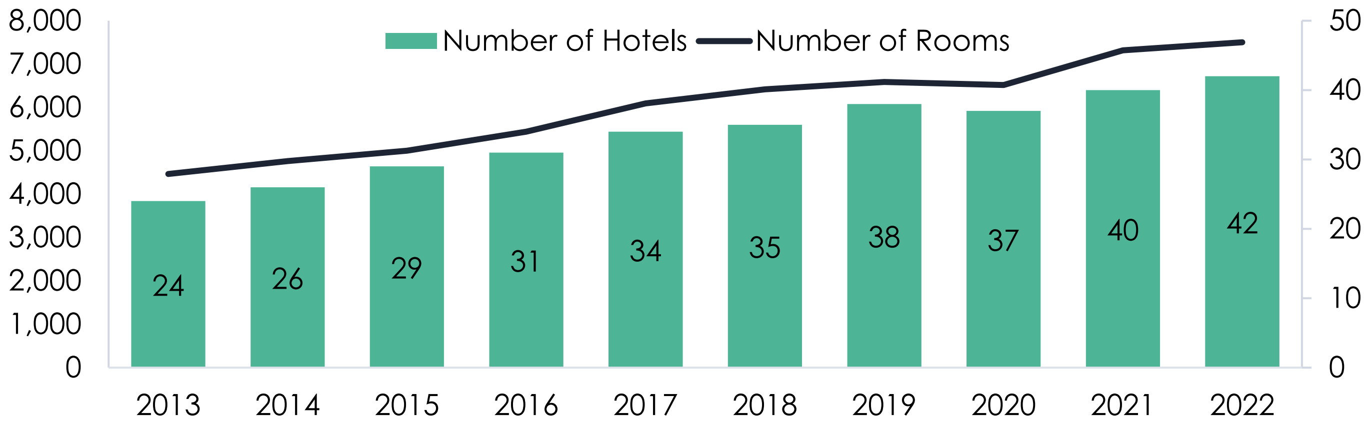
Source: Avison Young / CoStar Group

2.13 Over the last decade, there has been a large growth in the number of hotels within the City, with nineteen new hotels openings which have added 3,221 bedrooms. The majority have come from the four-star (seven) and limited service (six) segments of the market, while there have been four new five-star hotels and two small three-star hotels.

2.14 Recent new hotels have brought a new product to The City with enhanced leisure facilities and food and beverage offerings with The Ned being the flagship for this.

2.15 Graph 2.2 details the evolution of the hotel market over the last ten years.

Graph 2.2: Evolution of the City of London Hotel Market – 2013-2022



Source: Avison Young / CoStar Group

Current Supply – Serviced Apartments

2.16 Serviced apartments (which includes apart-hotels) are defined as properties offering a hotel-like room but typically with larger than average or multiple bedrooms, including additional working and kitchen amenities (CoStar Group). We have identified 33 serviced apartments within the City of London providing 1,551 units. The structure of the market is detailed in Table 2.2 below and we provide a full list in Appendix A.

Table 2.2: Structure of the City of London Serviced Apartment Market

Class*	No. of Hotels	No. of Rooms	% of Room Supply	Average No. Bedrooms
Luxury	2	142	9%	71
Upscale	14	650	42%	46
Upper Upscale	16	751	48%	47
Upper Midscale	0	0	0%	0
Midscale	1	8	1%	8
Economy	0	0	0%	0
Total Supply	**33**	**1,551**	**100%**	**47**
Large Apts >20 rooms	19	1,420	92%	75
Small Apts <= 20 rooms	14	131	8%	9

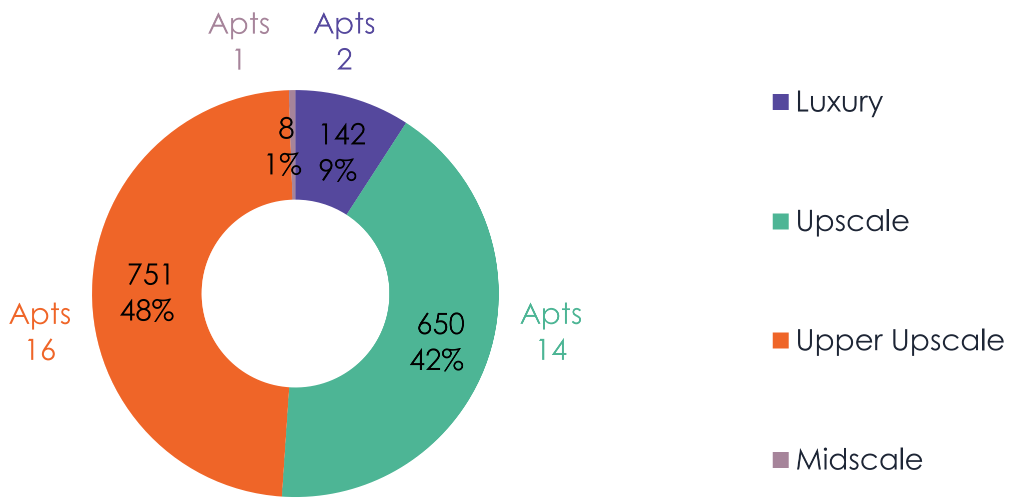
Source: CoStar Group

** Class is based on each serviced apartment's average daily rate performance within the overall market.*

2.17 Serviced apartment supply in the City is weighted heavily in the higher quality upmarket categories; we note that there are no upper midscale or economy (i.e. budget) serviced apartment properties. This is not unusual as serviced apartments tend to be upscale or luxury offerings, providing a level of quality similar to a four or five-star hotel (furthermore, the economics of the serviced apartment model is not suited to budget properties).

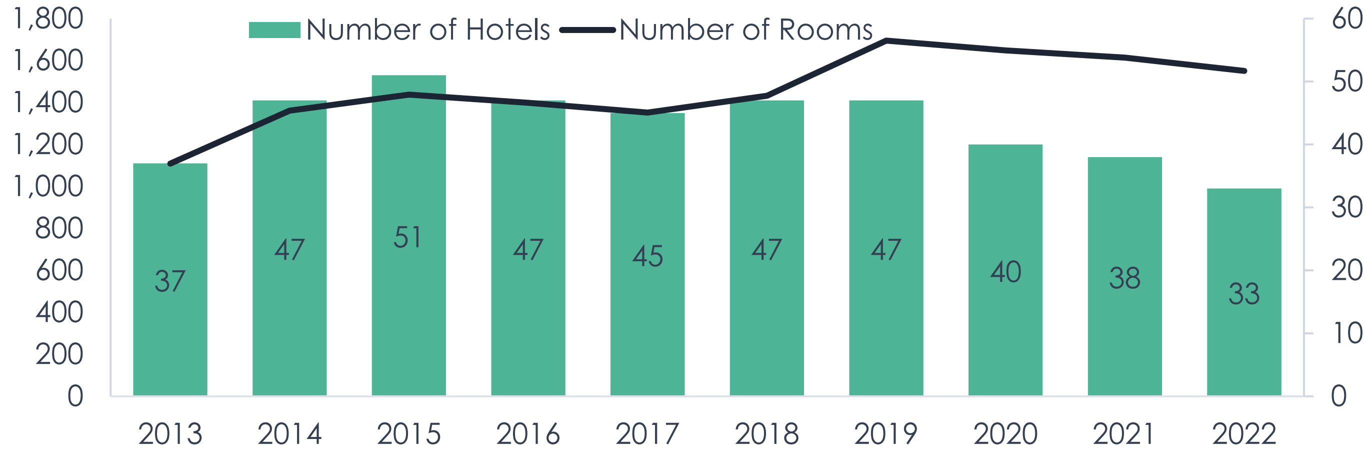
2.18 There have been a number of recent serviced apartment openings in the last ten years, with seventeen new properties. However, there has been 25 closures, resulting in a net decline of four serviced apartments, but an uplift of 442 bedrooms. The majority of the closed properties have been small traditional serviced apartments that have been changed to C3 residential use, while the newly opened properties are purpose built apart-hotels. This is likely due to large changes in consumer trends and habits resulting in the need for better facilities and modern apartments. It also reflects the growth in the apart-hotel concept, appealing to shorter stay visits.

Graph 2.3: Structure of the City of London Serviced Apartments Market – hotels and bedrooms by class



Source: Avison Young / CoStar Group

Graph 2.4: Evolution of the City of London Serviced Apartments Market – 2013-2022



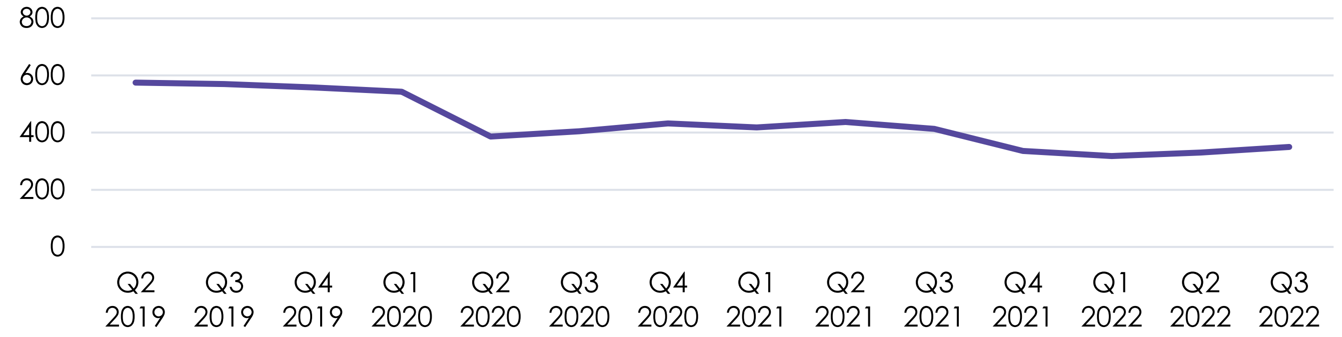
Source: Avison Young / CoStar Group

Current Supply – AirBNB

2.19 Due to the nature of AirBNB (hosts can at short notice list or de-list properties), it is difficult to provide an accurate picture of the exact number of properties in the City of London. However, as a of November 2022 (latest available data) AirDna identified 424 properties in the City of London that are registered with AirBNB.

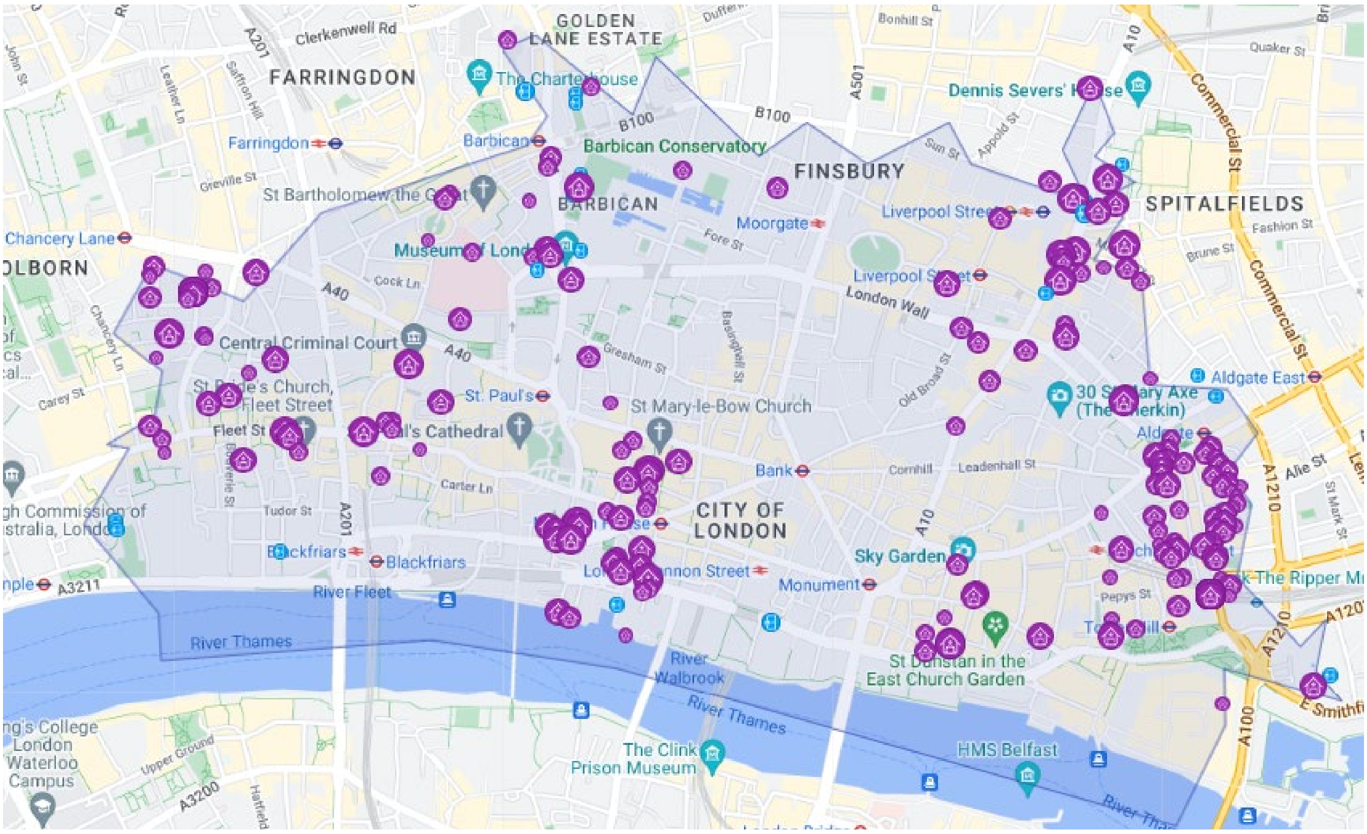
2.20 There are 281 listings via AirBNB within the City of London in both the 'entire homes' (90%) and 'private room' (10%) categories. For context Westminster has 892 listings, Camden 1,171 listings, Clerkenwell has 539 listings and Whitechapel has 1,167 listings. AirBNB listings had shown slight declines up until the beginning of the Covid-19 pandemic, down by 6% from Q1 2019 to Q1 2020. Since the reopening of hospitality in late 2021, listings have mainly plateaued at a much lower level, with Q3 2022 down 39% from Q3 2019.

Graph 2.4: Structure of the City of London AirBNB Market



Source: Avison Young / AirDNA (as of November 2022)

Map 2.1: Distribution of AirBNB listed properties in City of London



Source: AirDNA (sourced November 2022)

**purpurple dots represent entire properties, blue dots show private rooms*

Current Supply – Other Accommodation

2.21 We have identified two student halls in the City of London, the 619 bedroom Urbanest City and 176 Urbanest Tower Bridge both near Fenchurch Street. The standard contract is 11 months long, typically September to August and they do not advertise short term lets.

2.22 We have identified just one visitor hostel of note in the City of London, the 49 room YHA London St Paul's.

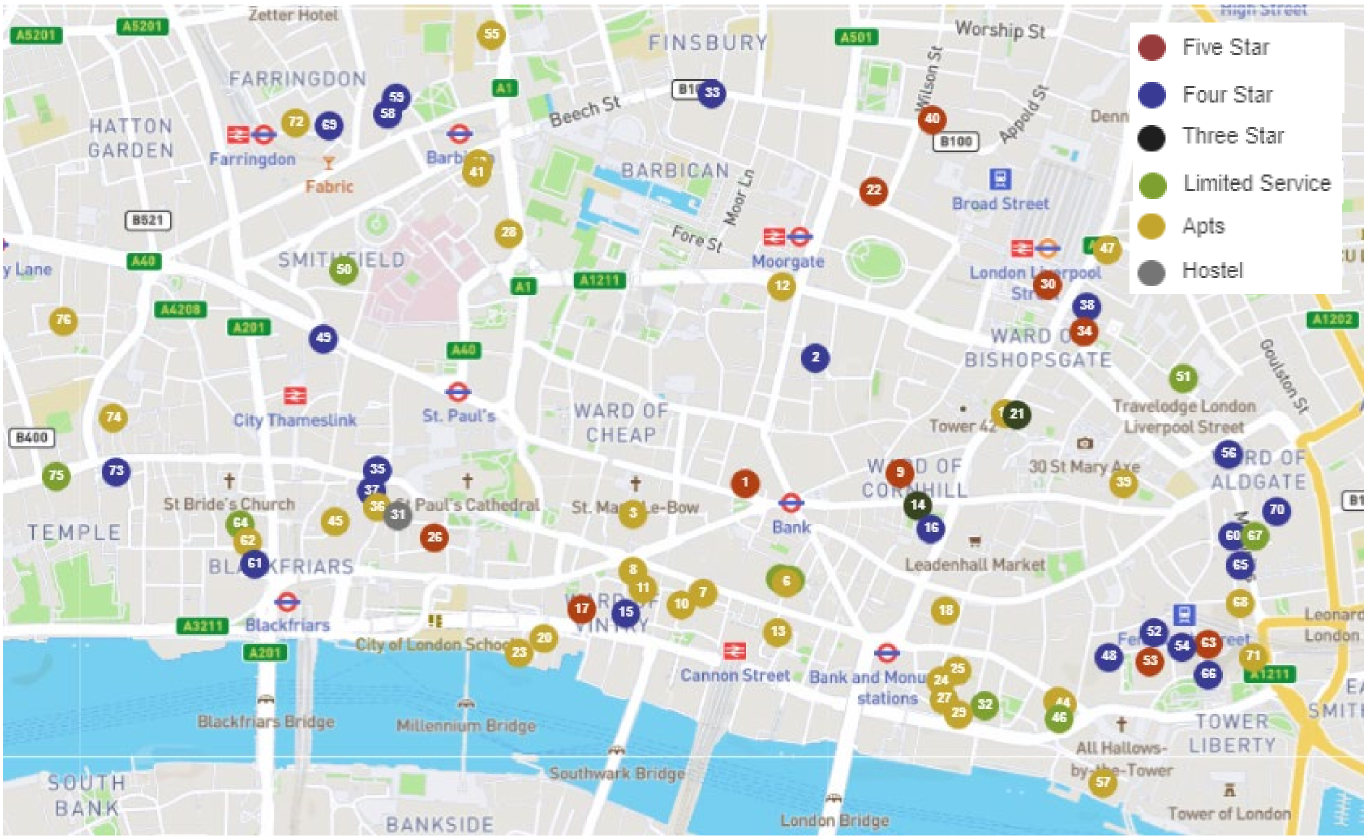
Distribution of Supply

2.23 There are no distinct areas that are visitor accommodation hotspots in the City, however, there are clusters of higher density supply near Aldgate and between Blackfriars and Monument. Newer hotels have generally been in these areas.

2.24 There is, however, a clear concentration of serviced apartments in the region between Blackfriars and Monument.

2.25 Notably, the centre of the City is sparsely populated, likely due to the high density of offices.

Map 2.2: Distribution of Current Visitor Accommodation Supply in City of London



Source: Avison Young / Google Maps

2.26 We summarise the current supply of all accommodation types (excluding Student Accommodation and AirBNB) in the table below.

Table 2.3 Structure of the City of London Visitor Accommodation Market – Current Supply

Type	No. of Properties	No. of Bedrooms / Units
Large Hotels	38	7,457
Small Hotels	4	46
Serviced Apartments	33	1,551
Hostels	1	49

Source: CoStar Group

Visitor Accommodation Pipeline

2.27 We have examined the potential future hotel supply increases in City of London. Data sources include CoStar Group (AM:PM Hotels Database) and the City of London Corporation; identified schemes have been cross-checked with the planning department at the City of London Corporation.

2.28 We have identified 10 schemes in the planning pipeline (including extensions to existing hotels); representing a potential increase of 1,483 bedrooms. We detail the structure of the future hotel supply in Table 2.4.

2.29 It is highly unlikely that all of these proposals will come to fruition in the short to medium term due to the impact of Covid-19 and the current economic downturn on funding markets (we discuss funding challenges in the hotel sector in Section 5).

Table 2.4: Hotel Pipeline Schemes – City of London

Grade	Schemes	Bedrooms	% Schemes	% Bedrooms
5-star	0	0	0%	0%
4-star	4	941	40%	63%
3-star	2	122	20%	8%
2-star	0	0	0%	0%
Limited Service	3	387	30%	26%
Serviced Apartments	1	33	10%	2%
Total Supply	**10**	**1,483**	**100%**	**100%**

Source: CoStar Group / EGi / City of London Corporation

2.30 More than two thirds of the schemes identified are for four-star and limited service hotels (although these may evolve as brands are confirmed for the schemes). Notably all hotel schemes that have a brand confirmed are limited service hotels.

2.31 There are no hotel schemes under construction however there are several new hotel schemes with planning permission and expected to come forward in the short term. These include: Hyde City London City at 15 Old Bailey, Boundary House Hotel and the Fenchurch Street Aparthotel.

Table 2.5: Status of City of London Future Hotel Supply

Status*	Schemes	Bedrooms	% Schemes	% Bedrooms
Awaiting Determination	3	411	30%	28%
Planning Approved	5	649	50%	44%
Deferred	2	423	20%	29%
In Construction	0	0	0%	0%
Unconfirmed	0	0	0%	0%
Total	**10**	**1,483**	**100%**	**100%**

Source: CoStar Group / EGi / City of London Corporation

** See Glossary in Appendix B for status definitions*

2.32 We summarise the status of all applications in Table 2.5.

Table 2.6: Hotel Pipeline Schemes – City of London

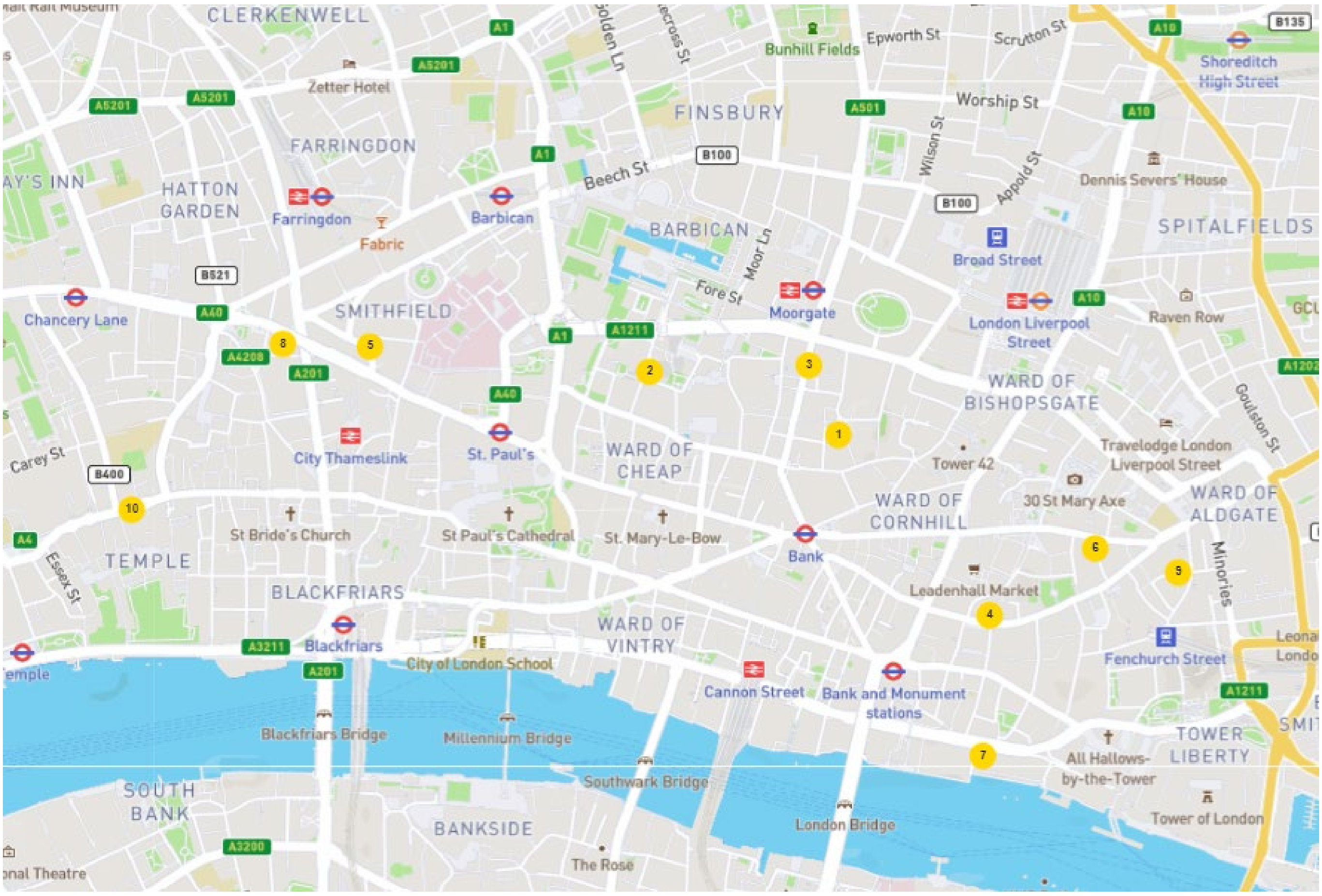
Map Ref	Hotels	Grade	Rooms	Status
1	hub by Premier Inn Angel Court	Limited Service	165	Planning submitted in 2022
2	37 Wood Street	4 Star	235	Planning submitted in 2020
3	46 Moorgate Hotel	3 Star	11	Planning submitted in 2022
4	Fenchurch Street Aparthotel	Apts	33	Approved in 2022
5	hub by Premier Inn London Snow Hill	Limited Service	219	Deferred
6	Hyde London City (15 Old Bailey)	3 Star	111	Approved in 2022 and expected to be completed in Q3 2022
7	Grange Hotel Tower Hill	4 Star	204	Deferred
8	Morley House	4 Star	191	Planning approved in 2020
9	Boundary House Hotel	3 Star	311	Approved in 2022
10	The Z Hotel City	Limited Service	3	Planning submitted in 2021

Source: CoStar Group

Distribution of Future Visitor Accommodation Supply

2.33 As shown in Map 2.3 below the locations of the planned hotel, serviced apartment and hostel developments are distributed evenly across The City.

Map 2.3: Distribution of Future Visitor Accommodation Supply in the City of London



Source: Avison Young/ Google Maps

Visitor Accommodation Pipeline – Others

2.34 We are also aware of two applications pertaining to student accommodations in the City of London. These include the 644 room Citicape House on Holborn Viaduct (planning approved in Sep 2022) and a 780-room accommodation on Friary Court (planning submitted in Sep 2022)

2.35 We summarise the potential pipeline of hotel and serviced apartments in the table below.

Table 2.7: Structure of the City of London Visitor Accommodation Market – Potential Pipeline

Type	No. of Properties	No. of Bedrooms / Units
Hotels	9	1,450
Serviced Apartments	1	33
Total	**10**	**1,483**

Source: CoStar Group / City of London Corporation

Central London Borough Supply

2.36 For wider context on the hotel market in the City of London, we have examined the supply and pipeline of neighbouring central London Boroughs. Table 2.8 provides a summary of the respective Boroughs' supply of hotels, serviced apartments and hostels with over 20 bedrooms.

2.37 The City of London's supply is comparable in size to Tower Hamlets and Southwark. Westminster and Camden have significantly more supply and bedroom stock principally due to being more established hotel destinations, with key clusters of visitor attractions and transport links.

2.38 Across four Boroughs (Westminster, Camden, Tower Hamlets and Southwark), four-star hotels have the largest percentage of the total supply. Limited service hotels have the highest proportion of bedroom stock in Islington and Hackney as well as a large proportion of Tower Hamlets and Southwark.

2.39 Over the last ten years there has been strong growth across the majority of London Boroughs. In particular, Tower Hamlets and Hackney have seen very high levels of growth, a result of large amounts of regeneration schemes in Shoreditch, Aldgate East and Whitechapel, furthering establishing the 'City Fringe'.

Table 2.8: Comparison of Visitor Accommodation Market Supply in Neighbouring London Boroughs

	City of London	Tower Hamlets	Westminster	Camden	Hackney	Southwark	Islington
Hotels	**58**	64	367	139	27	53	36
Bedrooms	**8,926**	10,258	41,727	18,645	3,432	7,130	6,203
10yr Hotel Growth	**40.9%**	77.8%	11.9%	11.2%	92.9%	39.5%	44.0%
10yr Beds Growth	**51.0%**	85.9%	13.6%	12.6%	103.7%	55.5%	49.0%

Source: CoStar Group / Avison Young

2.40 Table 2.9 highlights the total volume of pipeline schemes in the neighbouring boroughs.

2.41 In total there are 162 schemes in the pipeline across the six Boroughs, with Tower Hamlets and Hackney having the largest potential increase on their current hotel bedroom stock.

2.42 As a comparison, The City of London has the second lowest number of pipeline schemes (eleven), with only Islington having less schemes. This is partly reflected of the size of the City compared with other London boroughs.

Table 2.9: Comparison of Visitor Accommodation Market Pipeline in Neighbouring London Boroughs

	City of London	Tower Hamlets	Westminster	Camden	Hackney	Southwark	Islington
Hotels	**10**	35	57	29	12	21	8
Bedrooms	**1,483**	4,687	7,025	2,302	1,628	2,179	729
% of Current Supply	**16.6%**	45.7%	16.8%	12.3%	47.4%	30.6%	11.8%

Source: CoStar Group / Avison Young

Summary

2.43 It is clear from the analysis that the key sub-sector of recent growth has been the hotel market, with a net increase of 18 hotels in the City since 2013. In contrast we note a contraction in the number of more traditional serviced apartments, which is a response to the rise in the purpose built apart-hotel concept.

2.44 Within the hotel sector, the biggest growth has been in the four-star sector with a third of all new hotels opened since 2013. Limited service hotels have also shown notable growth, doubling the number of properties in the last ten years. We note that this is a trend continuing with a four-star and limited service hotel applications making up the bulk of schemes in the planning pipeline.

2.45 The hotel sector is expected to expand further, with 10 hotels (or extensions to existing hotels) identified in the planning pipeline. Over the last two years there have been four new planning applications and three applications approved. Compared to other central London Boroughs, the quantum of future supply is relatively low.

3. Market Background

Introduction

3.1 In this section, we look at the economic and tourism factors which drive demand to the City of London visitor accommodation sector.

Demand Drivers – Economy

3.2 The GLA Economics' latest Gross Value Added (GVA) forecast, Spring 2022, shows London is expected to grow by 4.5% in 2022, up from a relatively low base in 2021. While growth in 2023 is expected to be just 1.6% as the cost-of-living crisis feeds through to the economy. 2024 is expected to show signs of improvement with growth of 2.3%.

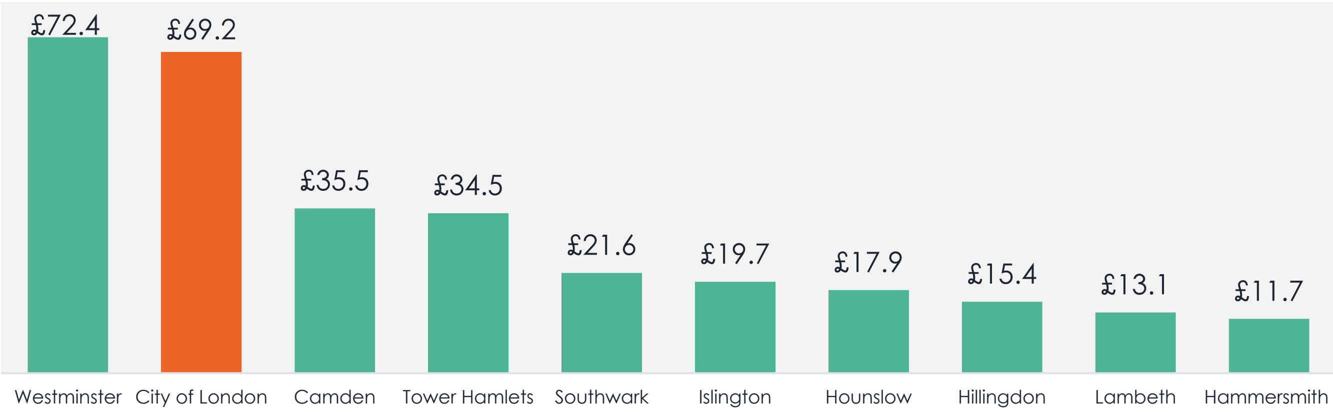
3.3 The City of London is a global financial and professional services hub. Banks, investment houses and hedge funds from over 26 countries are represented in the area, many clustered around the Bank of England.

3.4 According to the Office of National Statistics, employment in 'Financial and Insurance Activities' is significantly higher in the City (35.8%), against 7.5% across London and the UK average of 3.5%. This is due to the presence of the global financial hub in the City and the proximity of Canary Wharf in neighbouring Tower Hamlets.

3.5 Other significant employment sectors include Professional, Scientific and Technical Services (22.3%), Administrative Support (13.3%) and Information and Communication (10.4%), highlighting the diverse range of sectors present in the City.

3.6 In 2019, Gross Value Added (GVA) for the City of London was £69.2 billion, up 43.5% over the last ten years at a compound annual growth rate (CAGR) of 4.1%. Despite the City having the second largest GVA in London, it grew at a marginally slower pace than the overall London average, which increased by 47.9%, at a CAGR of 4.4%. The City makes up 14.8% of the total London GVA highlighting its important contribution to the capital's economy. The top ten London Boroughs by GVA are presented in Graph 3.1.

Graph 3.1 Top 10 London Boroughs by GVA 2019



Source: Office for National Statistics (most recent data)

3.7 Employment in the City of London was estimated by the City of London Corporation at 587,000 in 2022, around 172,000 higher than recorded in 2014. The City has the highest density of jobs and firms in London, accounting for 10% of Greater London's total employment. Pre-covid estimates for employment in the City were for it to reach 705,000 by 2050.

3.8 The City Fringe is the area of expansion north and eastwards of the City of London to include Dalston, Hackney, Haggerston and Whitechapel. It has been identified by the Mayor of London as a key Opportunity Area that can support 50,500 new jobs by 2041.

3.9 The opening of the Elizabeth Line in May 2022 has greatly improved the cross-London connections and has brought an extra 1.5 million people to within a 45 minute commute of The City. The journey from Liverpool Street to Heathrow is now just 45 minutes.

Return to the Office

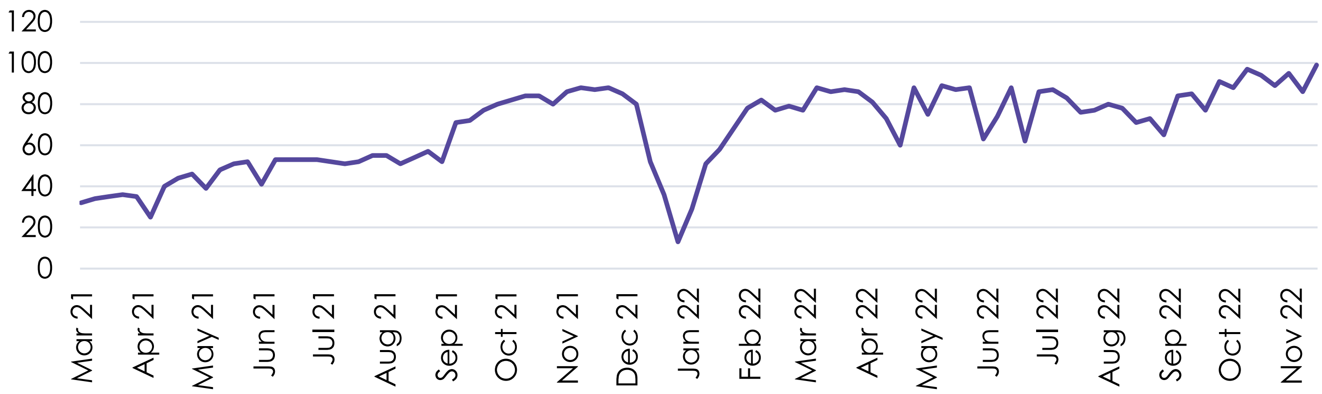
3.10 The global pandemic resulted in mandatory working from home guidance for much of 2020 and 2021. This had a dramatic effect on footfall across major centres of business including the City of London. As these restrictions were eased, most companies moved to a more flexible/hybrid form of working where employees worked either in the office or remotely.

3.11 Throughout 2022, there has been a growing uptake and push for the return to the office however it is clear that there are core days, Tuesday through to Thursday (PwC – Return to Office), where this is more noticeable. Mondays and Fridays are still struggling to return to pre-pandemic levels.

3.12 In May 2021, Bloomberg began publishing a 'Pret Index' as an indicator for the economy's return to normality. Pret A Manger is closely associated with the lunch hour in business districts and so understanding the number of transactions a day indexed against January 2020 was seen as a simple but pragmatic method for determining the uptake of the 'Return to Office'.

3.13 Graph 3.2 shows that since January 2022, where there was an imposed work from home guidance in response to Omicron, there has been a good bounce back in transaction volumes to pre-covid levels. As of November 2022, the index is 99 suggesting that after a summer slump where levels dropped to in the 60s, there has been a good return of footfall in the City.

Graph 3.2 Pret Index – Indexation of In-Store Transaction Volumes in City of London

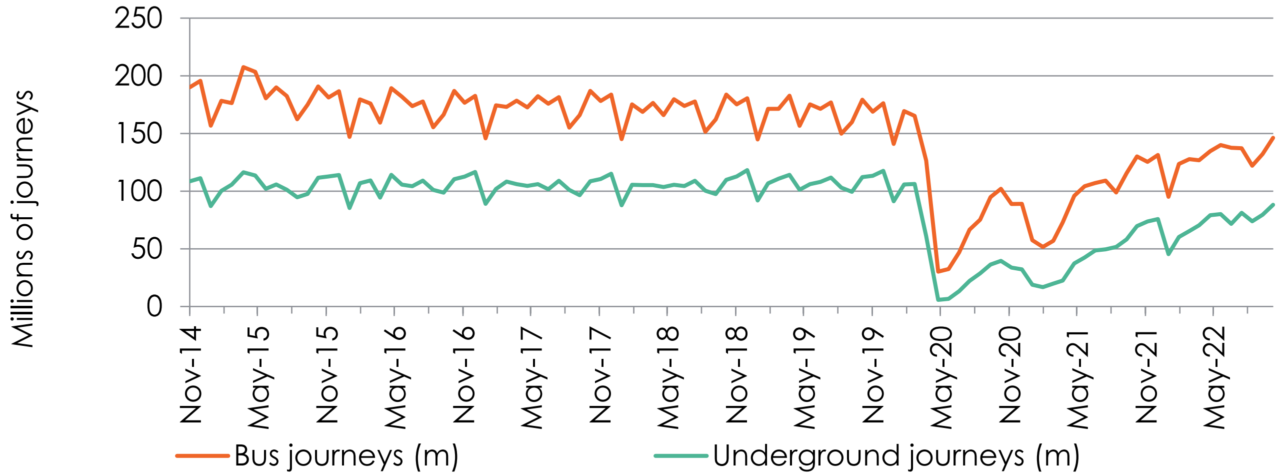


Source: Bloomberg

3.14 Another good indicator for understanding movements in London is through passenger journeys taken on the London Underground and London buses.

3.15 Graph 3.3 overleaf shows the monthly passenger volumes across the London Underground and buses and clearly shows the strong growth experienced in 2022. The cumulative average growth rate per month in 2022 has been 3.9% for the underground and 1.7% for buses. However, the number of journeys as of October 2022 are still below that of pre-covid levels.

Graph 3.3 Monthly Volume of Passengers on TFL Transport Nov 2014 to October 2022

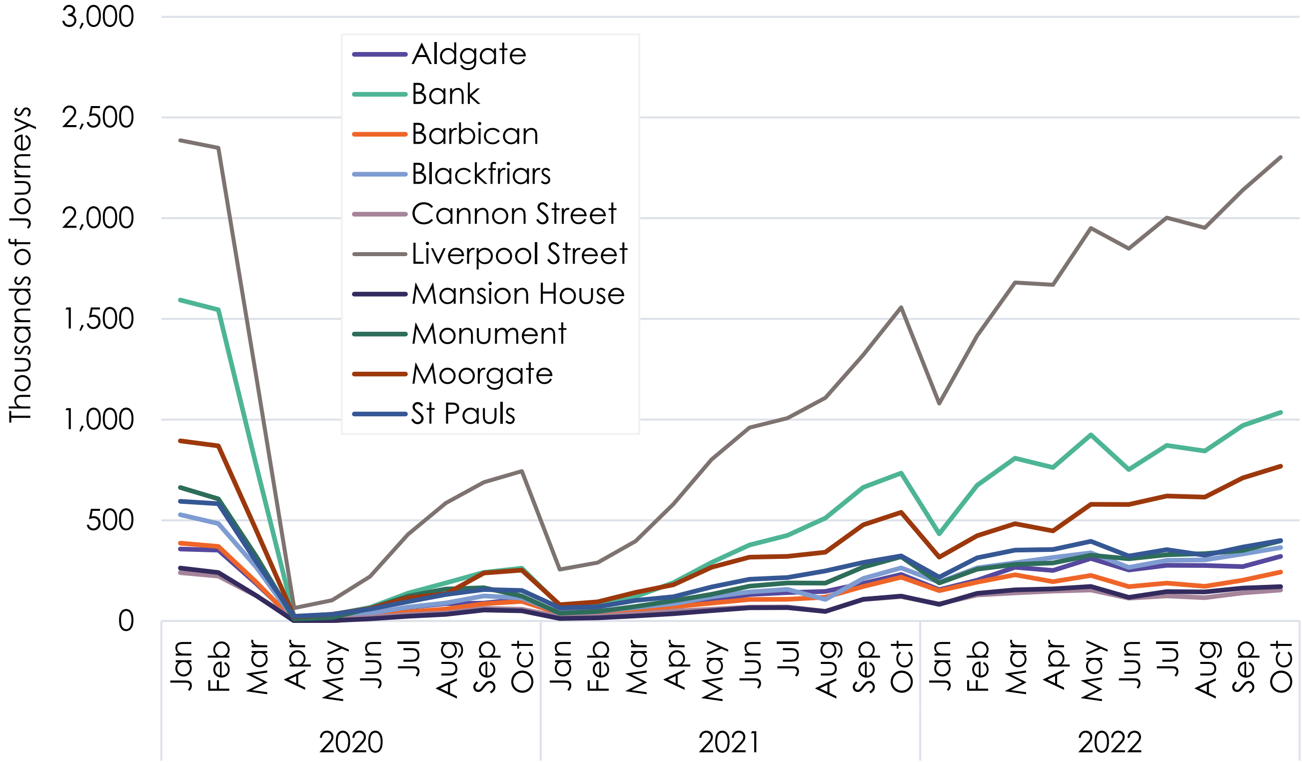


Source: TFL

3.16 Graph 3.4 overleaf shows the number of 'tap ins' per underground station located within The City of London. It clearly shows an upward trend in number of journeys per station since January 2021, albeit with a drop in January 2022 as restrictions on travel were briefly brought back in.

3.17 It is worth noting, that no station is back to pre-covid levels. Liverpool Street, a major transport hub, has returned to 97% of January 2020 levels and is leading recovery. It is however the only station beyond 90% of pre-covid levels, likely boosted by the opening of the Elizabeth Line. Bank, Barbican, Blackfriars, Cannon Street, Mansion House, Monument and St Pauls are less than 70% of the January 2020 benchmark.

Graph 3.4 Monthly Volume of Journeys from City of London Tube Stations Jan 20 to Oct 2022



Source: TFL

Demand Drivers – Tourism

3.18 London is a global leisure destination with countless world-class attractions ranging from museums to shopping and entertainment options. It also has one of the most developed event calendars in Europe. The City of London is well located in the centre of London to access all major visitor attractions, thanks to its connections via the London Underground and Elizabeth Line.

3.19 The City of London is home to a number of leading visitor attractions, including the Bank of England Museum, Museum of London (temporarily closed), the Tower of London, Tower Bridge and St Paul's Cathedral. In 2019, attractions in the City of London attracted 7.44m visits, a new peak and up 42.3% compared against 2010 levels.

3.20 We outline the volume and value of domestic tourism to the City of London overleaf. Visit England provides domestic tourism data as three-year smoothed annual averages to minimise the variability caused by low sample sizes below (data from the onset of Covid 19 in early 2020 is not yet available from Visit England).

Table 3.1 Volume and Value of UK (Domestic) Tourism to the City of London

	2014/16	2015/17	2016/18	2017/19	% Change 2013/15 – 2017/19
Total Visits (000s)	1577	1546	1561	1564	-0.8%
Total Nights (000s)	3,638	3,727	3,265	3,270	-10.1%
Total Spend (£m)	£526.67	£521.00	£497.33	£482.33	-8.4%

Source: Visit England/GB Tourism Survey

3.21 The volume of domestic tourism to the City of London has seen a decline over the review period, with the number of trips and nights down by 0.8% and 10.1% respectively. This has resulted in the value of domestic tourism to the borough declining by 8.4%. However, it should be noted that the total number of visits to the City remains at an overall high base level despite the declines.

3.22 Overseas tourism for the City of London is not available from Visit Britain and so we have provided the overall trend for London in Table 3.2.

Table 3.2 Volume and Value of UK (International) Tourism to London

Overseas	2015	2016	2017	2018	2019	% Change 2015– 2019
Total Visits (m)	19.4	20.5	21.7	21.1	21.7	11.9%
Total Nights (m)	115.2	123.1	130.5	123.8	118.9	3.2%
Total Spend (£bn)	13.1	13.8	16.3	14.9	15.7	19.8%

Source: Visit England

3.23 London's appeal to overseas visitors has continued to grow, with total trips to the capital increasing by 11.9% to 21.7m in 2019. Although this has not resulted in the same increase in nights stayed (3.2%), expenditure has seen significant growth from 2015 of 19.8% to over £15.5 billion.

3.24 2022 has seen inbound tourism recover after being heavily affected throughout the pandemic. Passenger volumes to London airports have shown strong increases up to September (most recent available data) though September volumes are approximately 17% below that of the same month in 2019. Heathrow Airport has seen over 44 million passengers in 2022 (September year to date (YTD)), 27.5% below the 2019 equivalent period, with a good mix of domestic and international passengers.

3.25 Visit Britain has estimated that 2021 saw only 6.3m inbound visitors to the UK spending just over £5.4bn. This is significantly down from 40.9m visitors spending £28.4bn in 2019. In their December forecast, 2022 was expected to see a strong uplift from 2021 to 29.7m visitors spending £25.9bn. 2023 forecasts expect a further strong increase to 35.1m visits and spend of £29.5bn, driven largely by growth in the European and North American markets. We note that these forecasts were prepared prior to the easing of travel restrictions in China in late December which may re-emerge as a significant inbound market to London, albeit there is uncertainty as to how quickly this will occur due to question marks on visa restrictions and flight capacity.

3.26 In October 2022, London & Partners launched their 'London 2030 Tourism Vision' in response to an adapting environment with Brexit, climate change and coronavirus impacting on the sector. It is viewed that tourism and hospitality is important for communities providing much needed employment and is crucial to the long-term prosperity of the city.

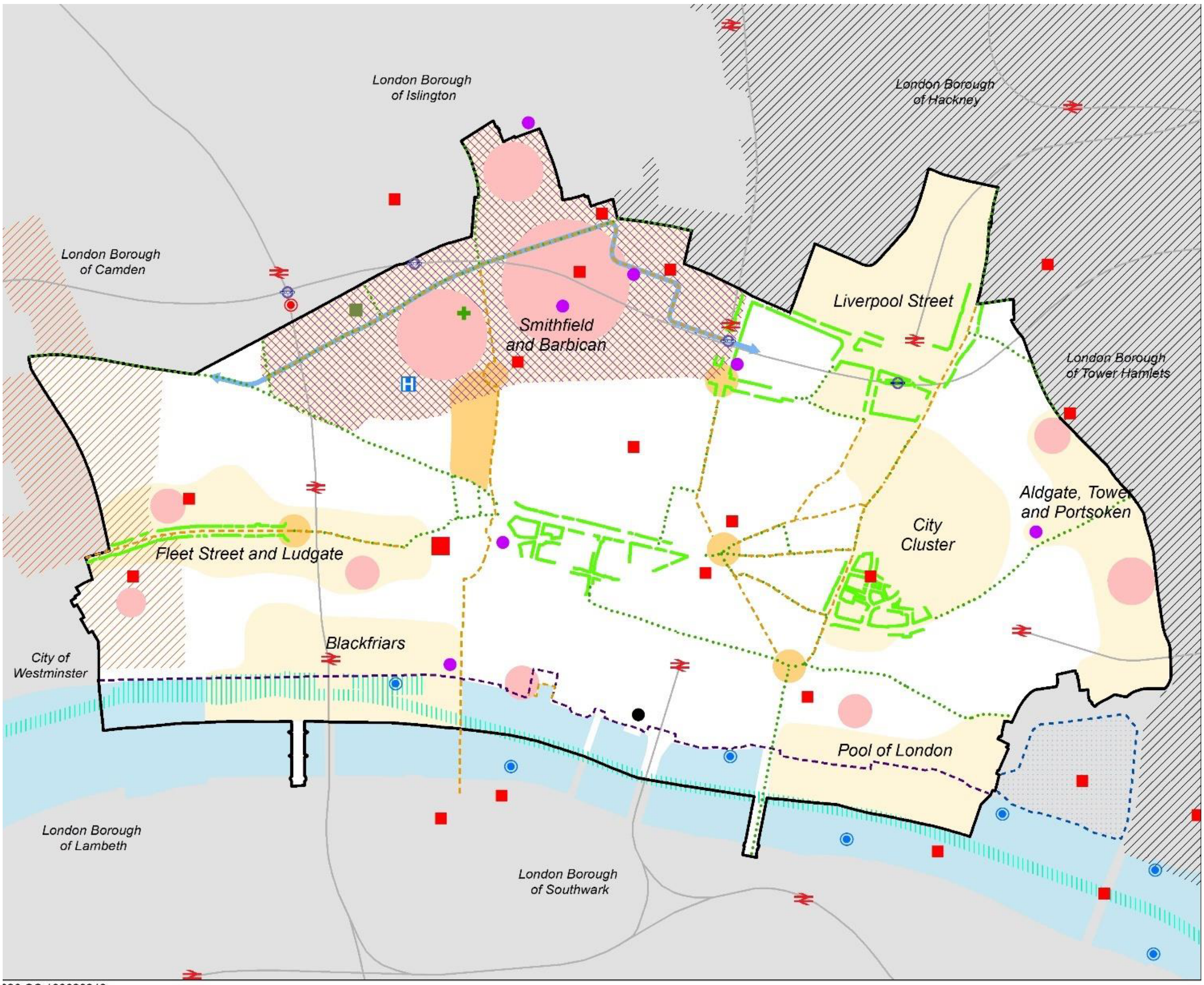
3.27 The Vision sets out five commitments that London & Partners including:

- Championing the vision: support businesses and organisations through the sharing of knowledge and guidance to help make tourism in London a world-leading industry;
- Increasing the communication between organisations: creating a dynamic destination through the collaboration of organisations across London;
- Providing timely information and insights: sharing up-to date information and data to enable quick responses to market trends;
- Developing the London brand: creating a cohesive narrative around our city's strengths and values, helping us uniquely position London as an innovative, inclusive and iconic global city;
- Promoting London: best-in-class marketing, PR, campaigns and bids support to attract visitors, events and venues.

Future Demand Drivers

3.28 In 2021, the City of London Corporation's Planning and Transportation Committee provided its vision for 2040 (draft City Plan 2040) outlining plans to deliver regeneration in seven key areas as shown in Map 3.1.

Map 3.1 The City Corporation's Seven Key Areas of Regeneration



Source: Avison Young/ City of London

3.29 Fleet Street and Ludgate: Retention of and improvements to existing office in order to provide flexible floorspace and spaces to meet changing business needs, along with improvements to public realm and transportation to deliver a high quality environment.

3.30 Blackfriars: Redevelopment or refurbishment of existing buildings to provide new high-quality office and commercial accommodation with active ground floors, along with an improved public realm and environment. Scope to enhance surrounding area with a new open space being provided by the new Thames Tideway Tunnel.

3.31 Smithfield and Barbican: The 'Culture Mile' plans include relocation of the Museum of London to West Smithfield and the proposed Centre of Music near the Barbican Centre. The wider area will contain a broad mix of uses, including residential, office, retail, hotel, leisure and cultural.

3.32 Liverpool Street: Significant enhancements to Broadgate, with enhanced pedestrian routes and active frontages provided at ground floor level to animate and add vibrancy to the area.

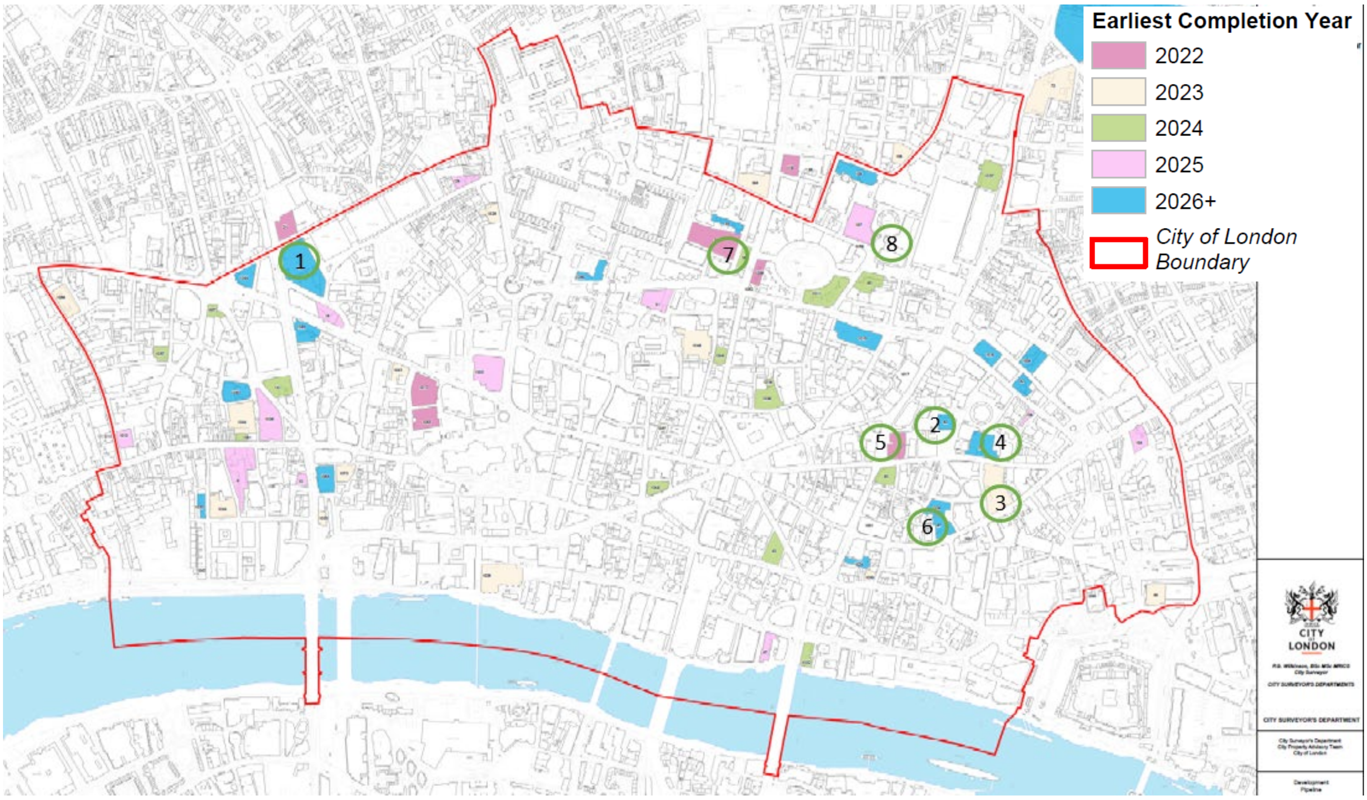
3.33 City Cluster: Clustering of appropriately scaled tall buildings, enhancing its role as a global hub for innovation in finance, professional services, commerce and culture. Complementary retail, leisure, cultural and educational facilities to support the City's primary business function, principally through animating ground floor spaces.

3.34 The Pool of London: Use of the riverside will increase significantly with new riverside infrastructure.

3.35 Aldgate, Tower and Portsoken: Redevelopment and refurbishment to enhance the appearance and vibrancy of this area, with a mix of offices, residential, retail, community and cultural facilities, catering for residents, workers, students and visitors.

3.36 At present there are 43 developments in the planning pipeline within the City of London with the majority centred around these specific areas as shown in Map 3.2.

Map 3.2 Major Development and Regeneration Activity in City of London



Source: Avison Young/ City of London

3.37 The table overleaf presents a snapshot of some of the key development schemes in City of London (either proposed or underway) which should lead to an increase visitor accommodation demand from business and leisure tourism. In addition, there are a number of commercial led developments planned or underway, including the Gracechurch towers and the Fleet Street Quarter for example.

Table 3.3 Major Development and Regeneration Activity in City of London

Map Ref	Development	
1	The London Museum	The Museum of London is to be relocated to Smithfield General Market helping to regenerate the dilapidated but historic buildings. It will be one of the highlights of the Culture Mile, the City of London's new cultural district in the North West of the City. The current museum temporarily closed in December 2022 with the replacement opening in 2026
2	1 Undershaft	Proposed replacement of the Aviva Tower for a 74 storey building with over 90,000sqm of office space, a new public square, retail and F&B units overt the lower floors and the UK's highest public viewing gallery. Planning has been approved with work due to start in H2 2023
3	40 Leadenhall Street	£875m office led development by M&G and Prudential, including 76,000sqm of office space in a new landmark tower building. It is under construction and expected to be completed in Q4 2023
4	100 Leadenhall Street	New landmark 56 storey development that will provide over 102,000sqm of office accommodation and ground floor retail space. Target completion of 2026
5	6-8 Bishopsgate	50 storey landmark tower including 71,000sqm of new office space alongside ground floor retail and top floor public viewing gallery. It is under construction and expected to be completed in early 2023
6	50 Fenchurch Street	Proposals for a new 36 storey tower including 60,000sqm of office space alongside 800sqm of retail space. Planning permission approved in May 2020
7	21 Moorfields	17 storey office building directly above Moorgate Station with 43,000 sqm of office space and fully let to Deutsche Bank. It is currently under construction and expected to be completed by Q3 2023
8	Liverpool Street Station	Early stage plans have been released (November 2022) for a £1.5bn redevelopment of Liverpool Street Station which will include the modernisation of existing infrastructure as well as two office buildings (15 and 10 storey), retail space and a hotel. No planning application has been submitted

Source: Avison Young/ City of London

3.38 In May 2022, The City of London Corporation set out its new Corporate vision for The City with the aim to ensure that the area remains a world-leading destination for residents, businesses, and visitors. 'Destination City' aims to enhance the leisure offer within The City to increase its appeal to existing visitors as well as attract new audiences.

3.39 Key commitments as part of the vision include:

- £2.5 million per annum to boost cross-London campaigns to show the City of London as a leading destination;
- A new programme of events including outdoor festivals, art, music, education, sport and wellness;
- A new body will be established consisting of leaders from a range of sectors in tourism and leisure;
- Improved public realm with riverside routes and viewing platforms;
- New collaborations with the City's Business Improvement Districts (BIDs) focused on wellness and attracting young people to the area;
- Explore opportunities to reinvigorate the City's retail offer, building on the success of One New Change, Royal Exchange and Leadenhall Market.

Summary

3.40 The City of London is a global financial and professional services hub with the second largest GVA in London, making up 14.8% of the total London GVA.

3.41 London is a global leisure destination with countless world-class attractions ranging from museums to shopping and entertainment options. The City of London, with its excellent transport links, is well placed to act as a base to explore central London.

3.42 Whilst the Covid-19 pandemic impacted on both business and leisure visitors to the City, the latest available data shows a positive return to office and inbound visitors in 2022, albeit numbers have yet to return to pre-Covid levels.

3.43 Future demand growth prospects are also positive, with several large-scale office buildings in planning or under construction as well as new policies that aim to develop the leisure offer in The City that will create additional for visitor accommodation demand.

4. Visitor Accommodation Market Performance

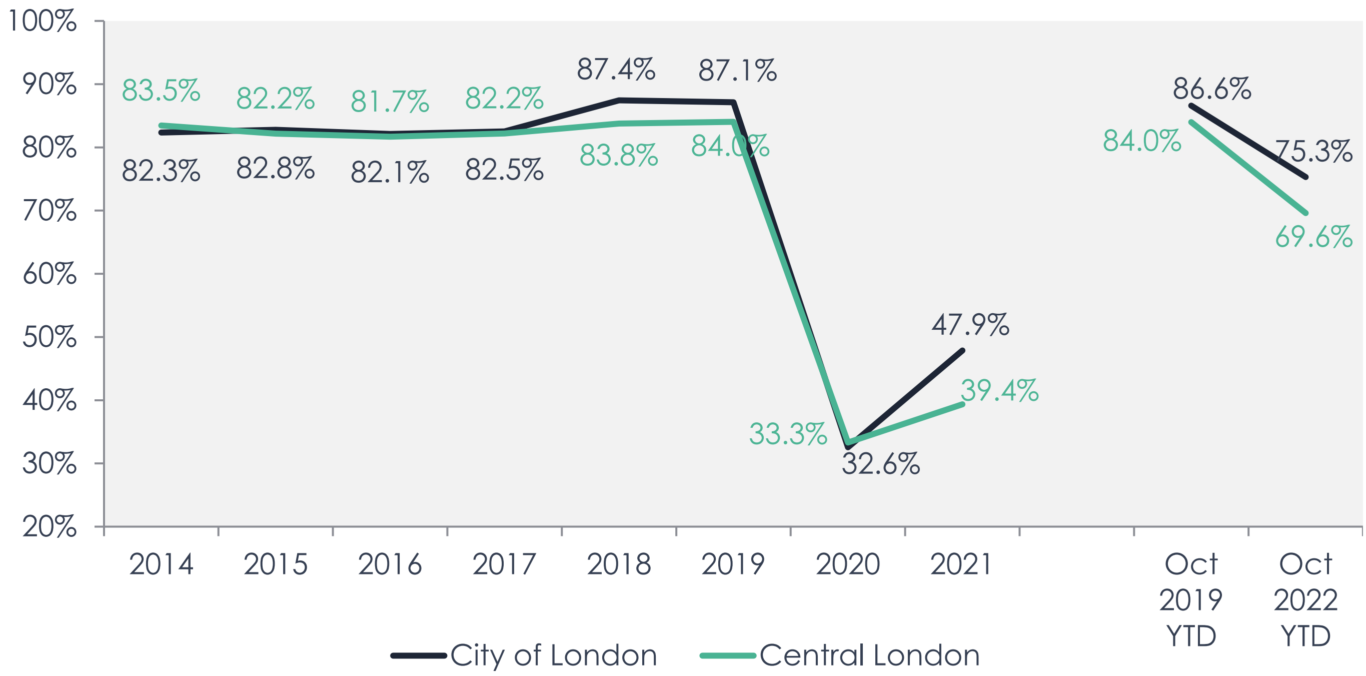
Introduction

4.1 In this section, we examine the recent performance of City of London's visitor accommodation sector, with a focus on hotel and serviced apartment performance.

Hotels and Serviced Apartments

4.2 The following graph details the average annual occupancy of hotels and serviced apartments in the City of London between 2014 and 2021, alongside October 2022 year to date (YTD). Avison Young have ordered this bespoke data set, which is provided by STR Global, the market leader in hotel performance benchmarking and allows us to have a more detailed breakdown of the market including month and day of the week analysis. The set is formed of 45 participating hotels and serviced apartments located within the City of London, covering all hotel grades. The City of London set is compared against the overall Central London market.

Graph 4.1: City of London and Central London Hotel Occupancy – 2014 to 2022 YTD



Source: STR Global 2022

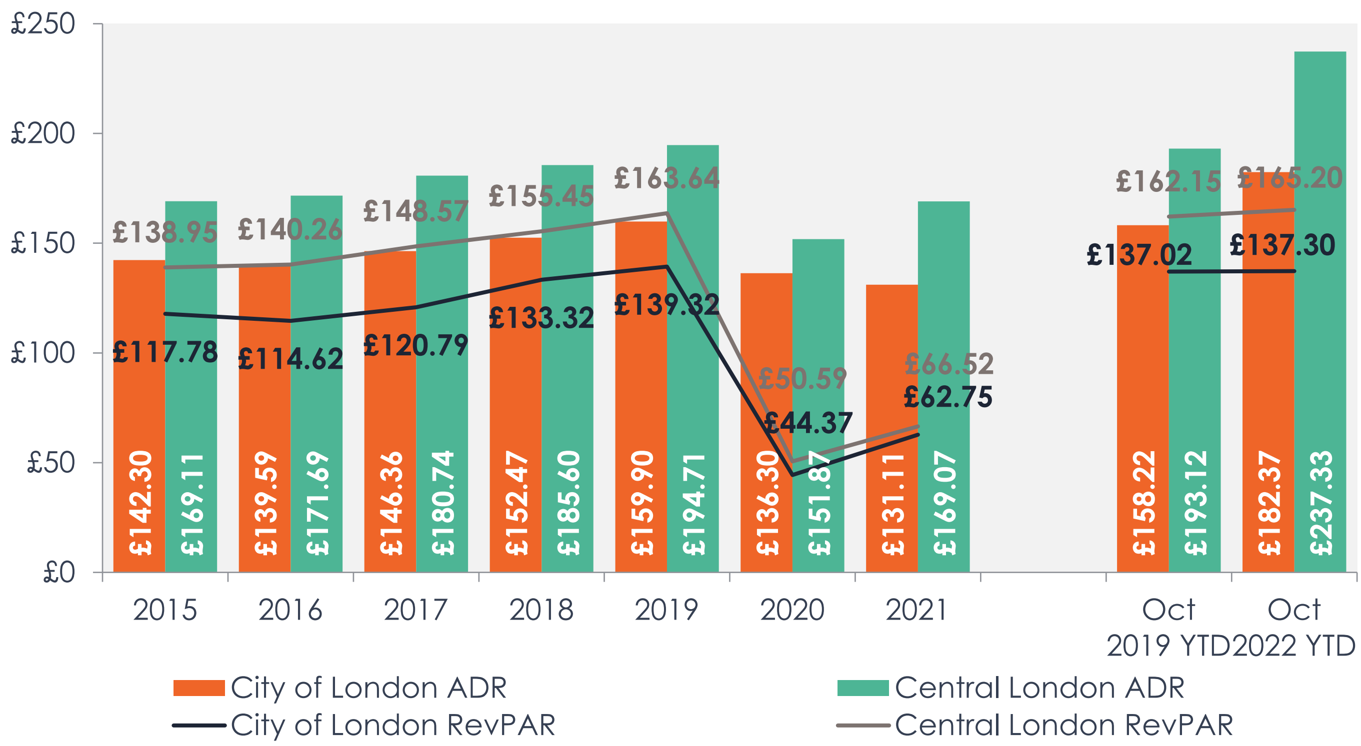
4.3 Occupancy in the City of London was relatively stable between 2014 and 2017, with a marginal decline in 2016, likely the result of the Brexit announcement. This was followed by strong growth in 2018 to 87.4%, which was the result of good levels of demand growth to the City, despite new supply. Occupancy increased by 5.8% overall between 2014 and 2019. Central London occupancy followed a similar profile, increasing by a more marginal 2.3% over the same period.

4.4 Both markets were severely impacted by Covid-19, declining by 62.6% and 60.4% in 2020, to a similar level of c.33%. Limited recovery was seen in 2021 with the City of London experiencing growth to 47.9% occupancy. This was higher than the Central London market which grew 18.1% and may have resulted from people staying in serviced apartments during this period.

4.5 October 2022 year to date (YTD) shows a decline in both markets against the 2019 equivalent position, however demand in the City was relatively robust at 75.3%, well above the Central London average of 69.6%.

4.6 The following graph details City of London average daily rate (ADR) and revenue per available rooms (RevPAR) performance between 2014 and 2022 YTD.

Graph 4.2: City of London and Central London Hotel ADR and RevPAR – 2014 to 2022 YTD



Source: STR Global 2022

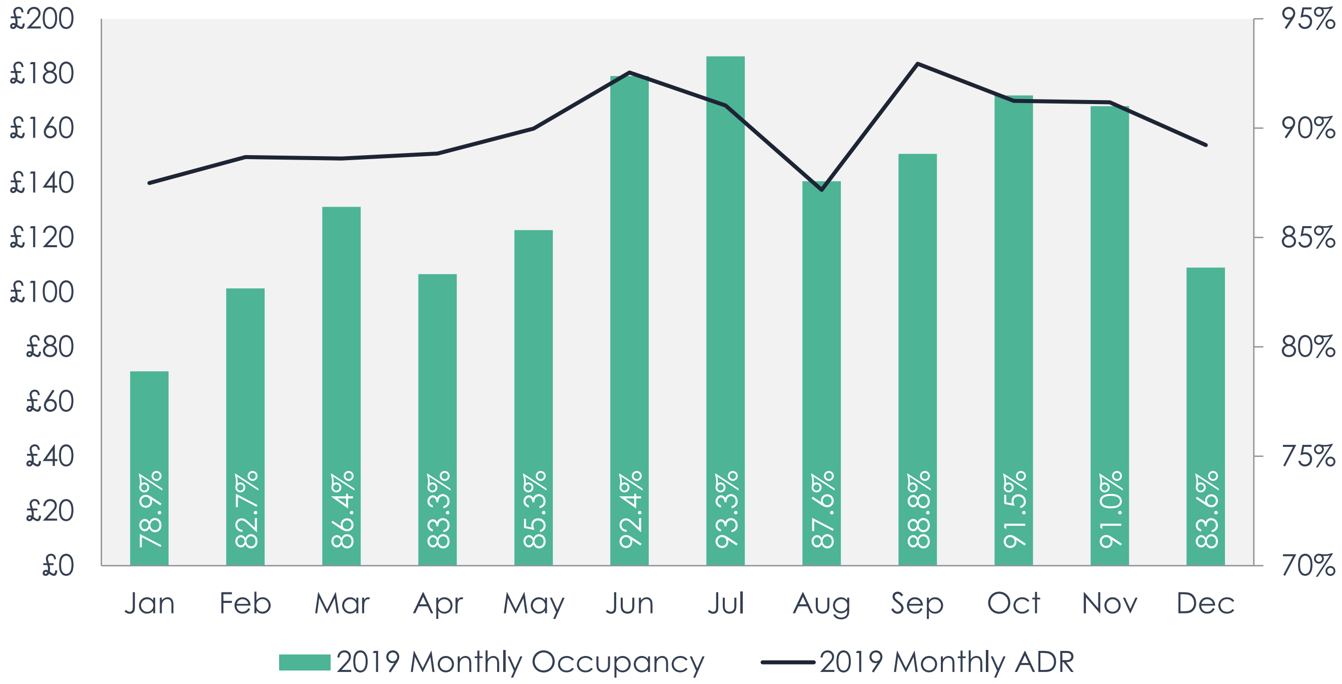
4.7 City of London ADR showed strong growth between 2015 and 2019 of 12.4%, reaching a high of £159.90. Central London ADR followed a similar trend, growing by a marginally higher 15.1%. City of London ADR has remained consistently below Central London ADR by an average of £31 across this period, due to factors such as the composition of the market with fewer five-star graded properties within it.

4.8 Both markets were heavily impacted by Covid-19, with City of London ADR declining by 14.8% and Central London by 22.0%. However, the impact of the pandemic continued to be felt in the City in 2021, with a further 3.8% decline in ADR, impacted by the restrictions on corporate travel and work from home policies. By comparison, Central London ADR increased by 11.3%.

4.9 October 2022 YTD shows strong growth in ADR in both markets, well above equivalent October 2019 YTD position, indicating good levels of recovery in the market.

4.10 The RevPAR trend mirrors that of ADR, with a small dip in 2016, likely the result of Brexit, followed by year-on-year growth, peaking at £139.32 in 2019. The growth in RevPAR between 2015 and 2019 was 18.3%, marginally higher than Central London (17.8%).

Graph 4.3: City of London Occupancy and ADR by Month – 2019



Source: STR Global 2022

4.11 Graph 4.3 above highlights strong year-round occupancy in the City of London, with four months above 90% occupancy and only January below 80%.

4.12 Occupancy peaks in June and July (above 90%) before seeing a marginal decline in August and September (the peak corporate holiday period), with a return in occupancy in October and November (above 90%).

4.13 Similarly, ADR peaks in June, July and then again in September with a strong October and November indicating London's attraction as a holiday destination. The drop in August, in line with occupancy, is characteristic of a market that has a strong presence of corporate demand and as such illustrates that the market has a good blend of corporate and leisure demand.

4.14 Table 4.1 highlights the day of the week analysis for the City of London, covering the period October 2021 to September 2022 (only available data). It should be noted that this period was impacted by Covid-19 and may not be fully representative of a normal year.

4.15 Tuesday and Wednesday have the highest ADR and the second and third highest occupancy across the week, indicating strong midweek corporate demand in the City.

4.16 Saturday has the highest occupancy and third highest ADR, highlighting that the market also has a strong profile of leisure demand.

4.17 Although, occupancy and ADR fall in the midweek should nights, ADR remains at a very strong level above £160.00, indicating a good overall level of performance across the week.

Table 4.1: City of London Day of the Week Analysis – October 2021 to September 2022

	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
Occupancy	59.9%	66.4%	74.1%	75.6%	72.6%	72.4%	78.4%	**71.3%**
ADR	£141.11	£169.21	£185.81	£186.13	£171.79	£161.91	£178.13	**£171.56**

Source: STR Global 2022

4.18 Table 4.5 overleaf shows the performance of other key central London markets across all key performance indicators in 2019 and October 2022 YTD. These markets include all participating hotels and serviced apartments within them.

Table 4.5: Neighbouring London Markets Performance Comparison – 2019 and 2022YTD

Bloomsbury / Covent Garden & Soho

	2019	Oct 2022 YTD
Occupancy	85.2%	62.6%
ADR	£200.05	£206.20
RevPAR	£170.53	£134.06

Marylebone & Mayfair

	2019	Oct 2022 YTD
Occupancy	77.2%	52.6%
ADR	£316.95	£354.33
RevPAR	£244.66	£193.26

Knightsbridge / Pimlico & Victoria

	2019	Oct 2022 YTD
Occupancy	82.8%	60.2%
ADR	£238.35	£257.60
RevPAR	£196.01	£160.69

Clerkenwell / Shoreditch / Whitechapel

	2019	Oct 2022 YTD
Occupancy	84.0%	72.7%
ADR	£125.18	£118.61
RevPAR	£105.21	£89.13

Canary Wharf & Greenwich

	2019	Oct 2022 YTD
Occupancy	77.8%	64.1%
ADR	£125.55	£125.02
RevPAR	£96.64	£82.94

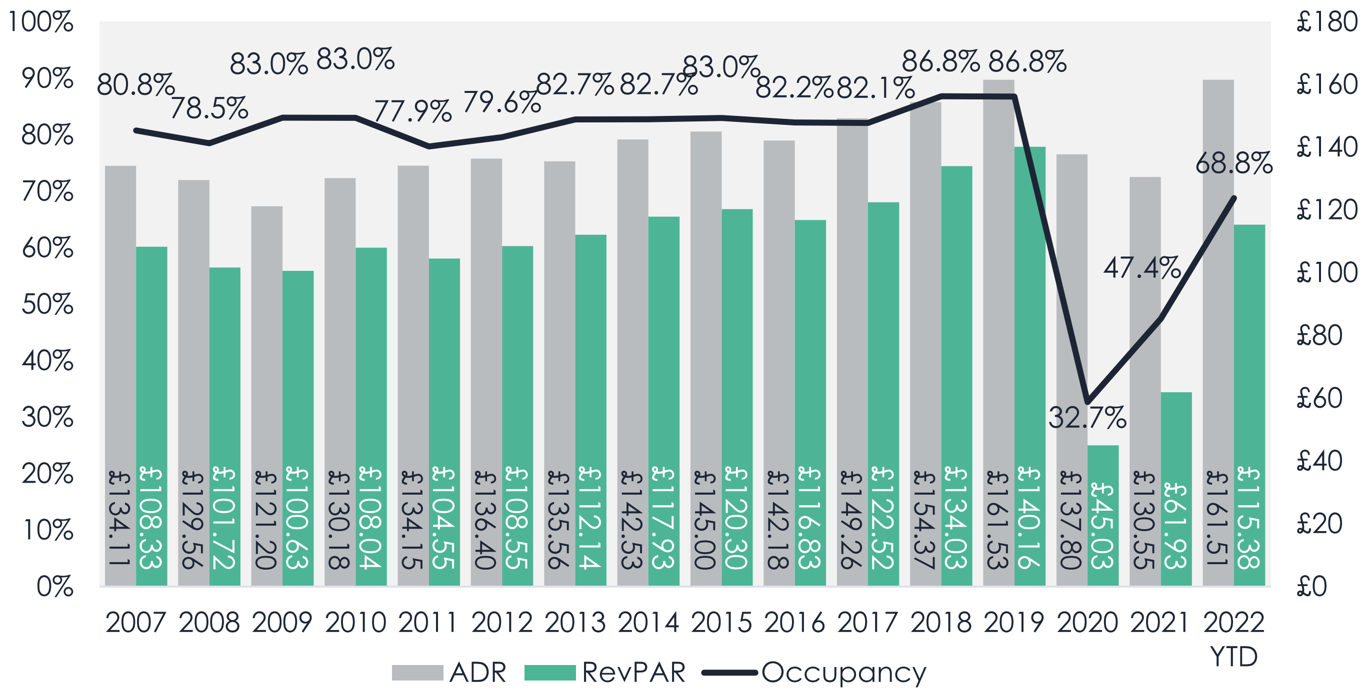
Source: CoStar 2022

4.19 Occupancy in the City of London outperformed all other markets in 2019, including business districts such as Canary Wharf and Greenwich. This trend continued in October 2022 YTD, with occupancy at 75.3%, well above all other market areas.

4.20 However, ADR within the City is low in comparison to more central London markets with ADR for Marylebone and Mayfair in 2019 almost double that of the City of London. This is likely due to these areas benefiting from a more mixed profile of leisure and corporate demand drivers, and a higher proportion of luxury and upscale hotels within the market.

4.21 Table 4.6 overleaf shows the extended historic trend for occupancy, ADR and RevPAR for 'The City' between 2007 and 2022 YTD. This data is provided by leading real estate analytics company CoStar (parent company of STR Global) and includes the market performance for all hotels and serviced apartments in 'The City' area, providing us with a more historical picture of the City of London performance. The City set includes the City of London market but also includes small additional areas in Farringdon, Old Street and Tower Bridge.

Table 4.6: The City Historic Market Performance – 2007 to October 2022 YTD



Source: CoStar 2022

4.22 Occupancy in The City has remained fairly stable since 2007, increasing by 7.4% to 2019. Events including the Global Financial Crisis (2008) and Brexit (2016) saw limited impact on occupancy levels, highlighting the strength of demand to the City of London and its resilience as global business centre. Occupancy in The City experienced greater growth than Central London, which increased by a more marginal 3.1% over the same period.

4.23 Similarly, ADR has seen strong overall growth across the period 2007 to 2019, increasing by 20.4% to a high of £161.53. This however was below Central London growth, which increased by 47.2% over the same period.

Summary

4.24 Pre-pandemic the City of London saw strong levels of performance, with good levels of ADR and occupancy growth to 2019 compared to Central London. Despite London being severely hit by the pandemic October 2022 YTD shows positive signs of recovery in the market, with ADR above equivalent 2019 position.

4.25 City of London benefits from strong year-round occupancy with four months indicating occupancy above 90%. Demand during the week also shows a good mix of midweek corporate and weekend leisure demand.

4.26 The City of London has performed well against other central London comparator locations, with occupancy levels above many of the capital's key tourist locations. ADR in the City is higher against other business location such as Canary Wharf and Greenwich, however, it continues to be low against London's other central locations.

5. Market Trends and Issues

Introduction

5.1 In this section we highlight some of the macro-environment trends and issues within the London and wider UK visitor accommodation sector.

Table 5.1: Visitor Accommodation Sector Macro-Environment Trends and Issues

Trend / Issue	Description
Covid-19	• Hospitality was one of the worst affected sectors of the UK economy during the pandemic as businesses went through an extended period of enforced shutdown, and travel was severely constrained; • Consumer confidence was significantly impacted following the initial lockdown thanks to continuing concerns on the spread of the virus, along with the substantial hygiene measures and restrictions that were in place within the hospitality sector; • Limited service hotels, apart-hotels and self-catering accommodation (with less interaction between guests and staff) recovered quicker than other accommodation types following the easing of initial lockdown restrictions; • During 2022, with Covid-19 restrictions now in the past, thanks to continuing pent-up domestic demand and a return of both international travel and large events, hotel performance has largely continued the strong recovery seen in the second half of 2021; • 2022 saw a healthy return of European and North American inbound visits which is expected to continue in 2023, while the Chinese market is expected to return (likely later in 2023) due to the easing of travel restrictions; • Recovery is being led by high average daily rates (ADR) across the UK with most markets above pre-Covid levels year to date. Though demand is still lagging behind, we expect occupancy levels to follow suit during 2023; • Central London hotels has seen revenue per available room (RevPAR) return to 2019 levels due to the high ADR with October 2022 year to date 1.9% above the same period in 2019; • With its reliance on international tourism, London has been slower to recover though it was boosted by increased staycations in the summer months and the return of domestic business travel.
Skills Shortage	• The uncertainty of Brexit and its impact on the migrant labour pool (which accounts for a large proportion of the hospitality labour market) has caused large skills shortages and has led to large labour cost increases; • There are skills shortages reported within the sector, specifically around chefs. Reports suggest that chefs are turning to agency work with higher pay and concerns have been voiced that young chefs do not have the skill set required to progress as they do not stay in one role and learn the basic skills.

Rising Costs	• 2022 has seen a sharp increase in inflationary pressure across the sector and the wider economy affecting all aspects of the supply chain. As of October 2022, the CPI Index change over the previous 12 months was 9.6%; • This has yet to have a notable impact on consumer spending (reflected in the high ADR achieved in most UK markets throughout 2022, particularly those leisure focused destinations). However, 2023 sentiment is less optimistic with a general consensus that there will be a cut back in leisure spend; • The uncertainty of Brexit has also likely contributed to increases in operating costs (such as imported goods). Following the Brexit vote there has been inflation in operating costs due to the devaluation of Sterling. Cost inflation has also impacted hotel development which we note later in this table; • The main operating cost pressures currently are coming in two key areas; energy and labour; • Energy costs for most hotel companies is unlikely to impact profitability until early next year. This is because most hotel companies pre-buy their utilities at reduced rates over an extended period cushioning the blow, but only for a short period; • There are increasing pressures around labour availability and pay rates. The demand for staff is currently outweighing supply and as a result the labour market is highly competitive. Companies that can move quicker are benefitting from a sleeker recruitment process, but salary expectations are much higher than even a few months ago; • In terms of business rates, the 2017 revaluation is coming to a close shortly on 31st March 2023. The new 2023 revaluation will be based on a statutory valuation date of 1st April 2021, which is very much welcomed by the hospitality industry, as the impact of the Covid-19 pandemic can finally be reflected. Central London values (particularly in the City of London and Westminster) are falling the most, with 2023 rateable values falling by as much as 50% compared to the 2017 list position; • Within the Autumn Statement, hoteliers were delighted to hear that the multiplier (UBR) would be being held static and there would be no downwards transition. This will result in ratepayers paying their new level of liability from Day 1. Hoteliers cash flow position will be further improved with the Government also increasing the current retail, hospitality and retail relief from 50% of the 22/23 annual charge to 75% of the 23/24 annual charge. This will however be once again capped at £110,000 per business; • National Living Wage was introduced in April 2016 for all employees over 25, and is currently £9.50 as of April 2022 and will rise to £10.42 in April 2023; • The Workplace Pension ensures that employers auto enroll eligible employees into pension schemes with a minimum employer contribution of 3%; • The Apprentice Levy came into effect in April 2017 impacting those businesses with payroll over £3million and is set at 0.5% of annual payroll.
Co-working	• Co-working spaces are becoming an increasingly popular trend in London as many workers embrace location flexible jobs; • Central London has several hotels with co-working services available. Primarily these hotels are targeted at consumers within the creative arts, entertainment and media sectors;

	• Co-working space has seen consistent growth over the last few years with providers such as WeWork and IWG leading the market. With the large amount of open space at their disposal, some hotels have moved into the co-working space; • These forms of spaces have really benefited from the feeling amongst most office workers that there must be a value-add to returning to the office.
Environmental Impact	• The growth of tourism over the last decade has brought increasing concerns about the environmental impact that it is having on both a local and global scale. According to a study in 2018, tourism accounted for around 8% of global greenhouse gas emissions. A significant proportion of this comes from transport-related emissions which are expected to account for 5.3% of all man-made $CO2$ emissions by 2030; • The low carbon agenda is one of the most important issues for businesses and individuals. Acting to limit the environmental impact of corporate travel through lowering its carbon footprint and waste is now the expectation from employees, and soon governments. Many businesses have committed to become net zero by 2030; • This in turn may lead to a decrease in corporate travel in the long term both domestically and internationally. Virtual or hybrid meetings and events, used to a large extent during the Covid pandemic, provide a simple but effective way of still engaging effectively with clients whilst reducing corporate travel. It is still felt that for larger conferences and events, there is no replacement for meeting face to face; • With the challenges that arise from tourism also come opportunities to push green initiatives to the forefront including the development of net zero carbon hotels. The first fully net zero carbon hotel (i.e. not reliant on offsetting) is currently in planning in the UK and tackles environmental impact concerns both in its construction and operation.
Bleisure	• Traditionally business tourism and leisure tourism have been considered as two different – or even contradictory forms of visitation. A Bleisure ('business and leisure') visitor is someone who looks to add extra days to their business trip to include free time for leisure activities, thus extending their business visit into a holiday experience. • The Bleisure market has been expanding rapidly worldwide as a result of the Covid pandemic, with pent up demand and new flexible work arrangements driving this. The trend offers many benefits, most notably the additional spending of conference visitors.
Food and Beverage	• In recent years, the City of London restaurant and bar scene has undergone significant change. Despite this, it remains focused on the weekday market, with post-work peak flows being the key focus; • Recent changes have shown a trend towards more casual dining, and the opening of hotels such as The Ned and The Hoxton have shown a renewed focus on hotel food and beverage provision. These openings have also helped attract a new clientele into the area, with The Ned in particular helping drive footfall into the area at the weekend; • Rooftop bars have been a growing fixture for new upmarket hotels and viewed as key to diversify revenue streams and clientele.

Wellness Tourism	• The resurgence of staycations due to poor economic conditions over the last decade has created a demand for upscale accommodation outside the usual hotel envelope; • According to Barclays Wellness Report 2020, Covid-19 is likely to accelerate wellness with increased staycations as well as an enhanced view on healthy living and work/life balances. Guests want to decompress from their stressful lives, explore new areas and have a digital detox; • Wellness tourism is a fast-growing segment in the tourism sector, growing by 4% annually from 2015-2020. Wellness is expected to add £21.1bn to the annual revenue of hospitality and leisure firms and £11bn to UK economy by 2023; • Millennials hold more than 75% of market share and will focus on 'experiences' and premium services as they increase their spending power and growth opportunities; • On average, UK tourists spend 5.8% more for an enhanced wellness offering at holiday resorts and hotels; • The success of The Ned has highlighted that hotels within the City of London can take advantage of this form of tourism.
Development Funding	• Although improved since the recession due to the Global Financial Crisis in 2008, obtaining hotel development funding remained challenging prior to the Covid-19 pandemic; both in terms of the appetite for lenders to be involved and the debt servicing covenant they require meaning that securing required levels of debt funding has proved difficult; • This has seen a growth in the rise of Premier Inn and Travelodge hotels which can be easier to fund and deliver on an operating lease due to their "institutional grade" covenants (although Travelodge's covenant has been weakened due to their company voluntary arrangement in 2020). Although some hotel groups are becoming more open to lease agreements, Premier Inn are likely to continue to dominate the market; • Post-pandemic, funding of new hotel developments will continue to be challenging, with senior lenders having much stricter requirements based on recent performance, strength and quality of asset and financial backing; • The recent downturn and volatility in the pound and UK Gilts, along with the lack of available debt financing, has presented further challenges for the sector. Rising interest rates has led to more expensive debt, loan-to-value ratios have compressed and investment yields have softened, all of which have impacted greatly on the viability of schemes; • This is further impacted by the growing costs associated with hotel construction, as detailed below, which often makes it difficult to justify the development case for a quality hotel. • More positively, a significant amount of the opportunity fund money that was raised during the Covid pandemic has not yet been deployed, providing a waiting pool of 'dry powder' when economic conditions start to improve, as is anticipated in the sector half of 2023.

Rising Development Costs	• A combination of Covid-19, Brexit and more recently the war in Ukraine, triggering hikes in energy pricing has made forecasting tenders almost impossible, resulting in contractors pricing in risk for fixed price tenders that in many cases make development unviable; • The main issues in terms of materials revolve around steel, concrete and timber due to a reduction in manufacturing capability that is exacerbated by global constraints on shipping since Covid, energy costs and importation, where the ensuing volume of delays has caused a reactive measure of bulk buying that has then resulted in price hikes due to the shortage of materials and availability; • The new immigration rules together with the Government's furlough scheme resulted in an exodus of Eastern Europeans who were the mainstay of the labour force in construction. However, over time it is hoped that the return of the labour force in line with an increase in "home grown" labour for the industry to reduce the reliance on foreign workers; • It is expected that there will be no negative inflation for the foreseeable future, but they are not expected to see a return of the spikes witnessed in the last two years, rather a flattening out of the inflation cycle as labour returns.
Local Authority Hotel Intervention	• There is a growing trend towards local authorities in the UK intervening to support and facilitate the delivery of new hotels; this can be as the authority acting as the developer / owner, as a lender, or providing a lease to enable forward funding; • There are two main reasons for this intervention. Firstly, to help in "place-making" and the role a hotel can play in regenerating an area (as well as providing economic and employment benefits). Secondly, as central government funding declines, hotels can provide authorities with a new revenue stream; • Both pension funds and real estate funds are engaging with local authorities on such developments; • The focus on intervention to date where placemaking has been the core reason has typically been in regional UK locations (as opposed to Central London) where the commercial viability of non-budget hotels is trickier.
Technology	• The Covid-19 pandemic has accelerated operator investment in technology, as well as to save on labour costs; • Self check-in terminals are becoming increasingly popular in the hotel sector with several brands implementing this technology and reducing front desk staff; • Mobile room cards are increasing in use with guests able to check in online and use their mobile phone to access their bedroom. Smart TVs are becoming the norm with guests expecting to be able to connect to their hotel TVs. Older hotels may need significant investment to keep up with this trend; • "Connected Technology" hotel brands (e.g. Hub by Premier Inn) are increasingly popular with "Millennials" and "Gen Z".

Online Travel Agents	• Growing Online Travel Agent (OTA) share, such as Expedia and Booking.com – the OTAs invest heavily in technology and marketing compared with hotel companies and are increasingly dominant; the impact is higher operating costs through high booking commissions.
Emerging Types of Accommodation	• The volumes of AirBNB listed properties (and other disruptors) and apart-hotels are increasing; primary cities are seeing the most significant increases in supply of these products; • Apart-hotels are becoming increasingly popular as they offer the space and facilities of a traditional, larger serviced apartment, with the service levels of a hotel. They appeal to both long and short-stay guests, both corporate and leisure sectors. From an investor and developer perspective, apart-hotels are an attractive opportunity which provide high profit margins due to their typically low cost base.
Hotel Investment Trends	• Research by CoStar notes that London transaction activity in 2022 was £953m, below the ten year average of £1.6bn. Investment was impacted by the war in Ukraine, alongside global economic uncertainty and domestic political turmoil; • Sales in 2022 were focused on prime locations and at the upper end of the market; • In 2022, overseas investors accounted for 39% of total transaction volume in London; • North America remains the most active overseas market, with US investors and funds responsible for some of the largest transactions in London during 2022 (aided by the weakening of sterling), although a number of the largest transactions were by European investors and funds.
New Hotel Brands	• There is an increasingly diverse product offering from the major hotel groups. There is a question of whether they devalue the existing brands or pull market share from competitors; • There has been good growth in lifestyle brands in recent years, particularly those that offer greater value for money e.g. Moxy and CitizenM.

Source: Avison Young

6. City Of London Sector Trends

Introduction

6.1 Avison Young undertook discussions with key stakeholders and conducted a survey of accommodation providers to determine key development trends and outline the main issues in the City of London visitor accommodation sector.

Visitor Accommodation Development Survey

6.2 Avison Young has undertaken online surveys with key representatives involved in visitor accommodation development in the UK. The purpose of these were to understand their experiences to date in branding, operating and developing visitor accommodation in the City of London, to understand their aspirations to brand, operate, develop or finance visitor accommodation in the City in the future, as well as any perceived barriers that may impact on their ability to do so.

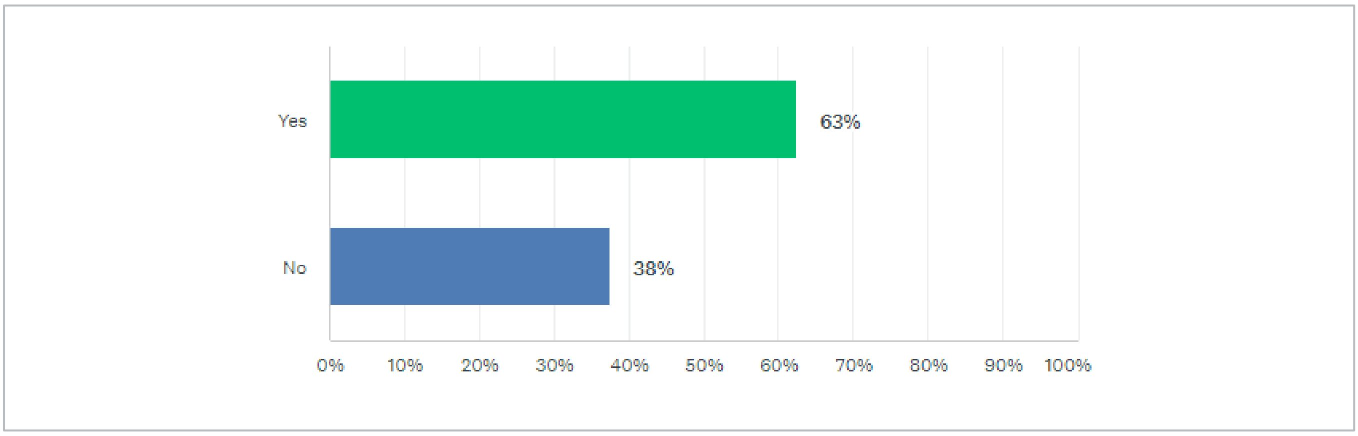
6.3 In total, 105 representatives of visitor accommodation brands / operators, developers and financiers were asked to complete an online survey and the findings are reported in this section. 32 responses have been received to date (as of 11th January 2023). This equates to a response rate of 31%, which we believe to be a good rate of return.

Brands and Operators

6.4 Surveys were sent to a number of visitor accommodation brands and operators, including those already present in the UK and new entrants. In total, 17 responses have been received from a range of brands and operators, including many well-known international hotel companies and leading third-party management companies.

6.5 63% of respondents indicated that they currently brand or operate visitor accommodation in the City of London. One respondent that answered no commented that they "haven't managed to get a site", while others had focused development in other locations within London or the UK. None of the respondents noted that this was due to the conditions of the market.

Figure 6.1: Do you currently brand or operate visitor accommodation in the City of London?

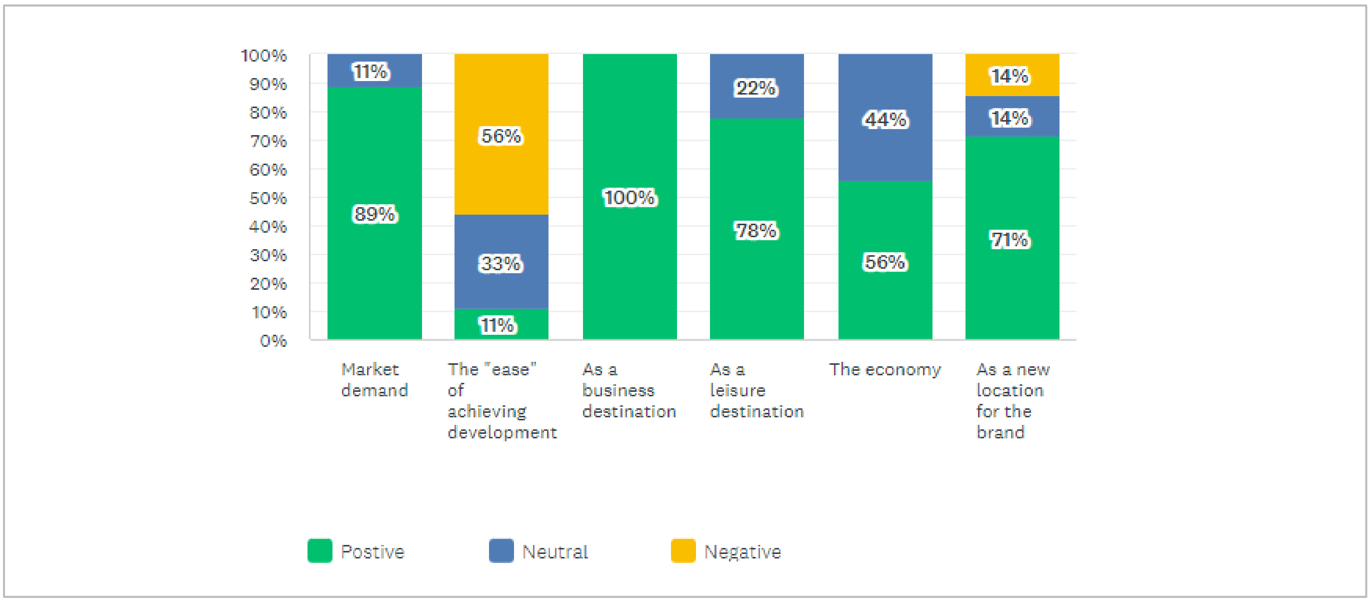


Source: Avison Young / Survey Monkey

6.6 Respondents who have branded and operated in the City were asked how positive their experience has been in terms of six criteria: market demand, as a new location for the brand (if applicable), the "ease" of achieving development, as a business destination, as a leisure destination and the economy.

6.7 Figure 6.2 highlights an overwhelmingly positive response to the City as a business destination (reflective of its global status), market demand and as a leisure destination, however, very few were positive towards the ease of achieving development, whilst the economy received a more neutral response (perhaps reflective of current economic challenges).

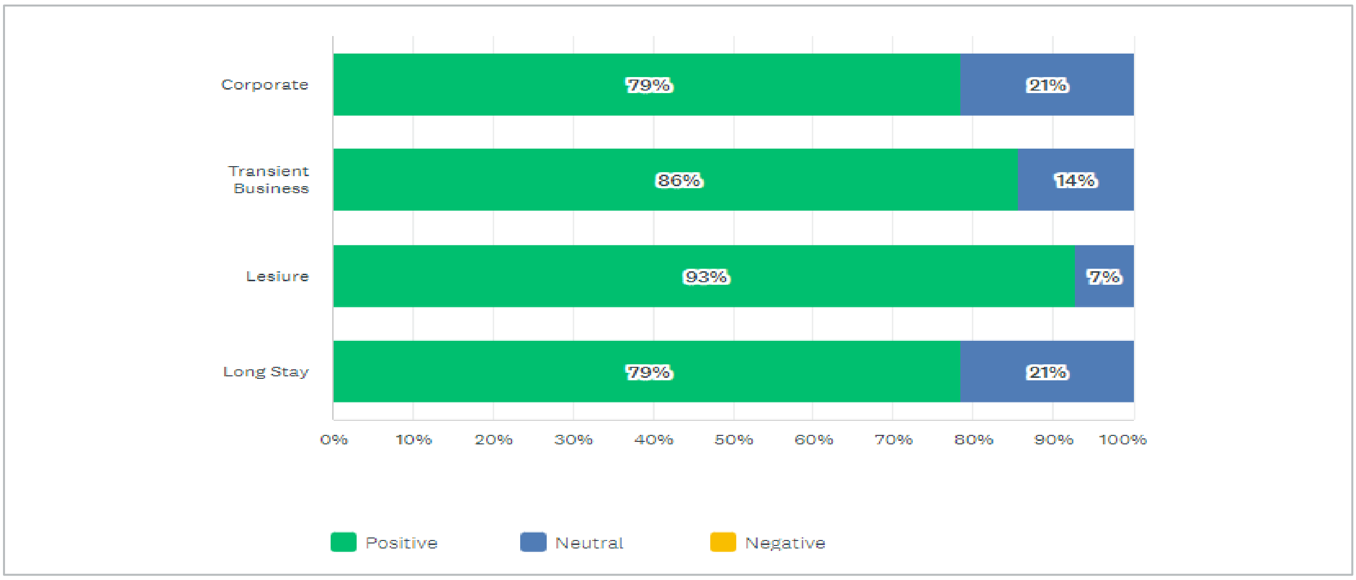
Figure 6.2: What has been your experience to date in terms of branding or operating visitor accommodation in the City of London?



Source: Avison Young / Survey Monkey

6.8 Respondents were then asked what their view was in regard to demand levels across different demand segments in the next ten years. All of the respondents were positive to all demand segments, with none indicating any negative levels of demand. Leisure received the largest quantum of positive responses, followed by transient business then corporate and long stay. This is positive for the City as there is not a negative perception towards corporate and transient business (in light of long-lasting impact of Covid-19 or due to environmental concerns) as may have been anticipated.

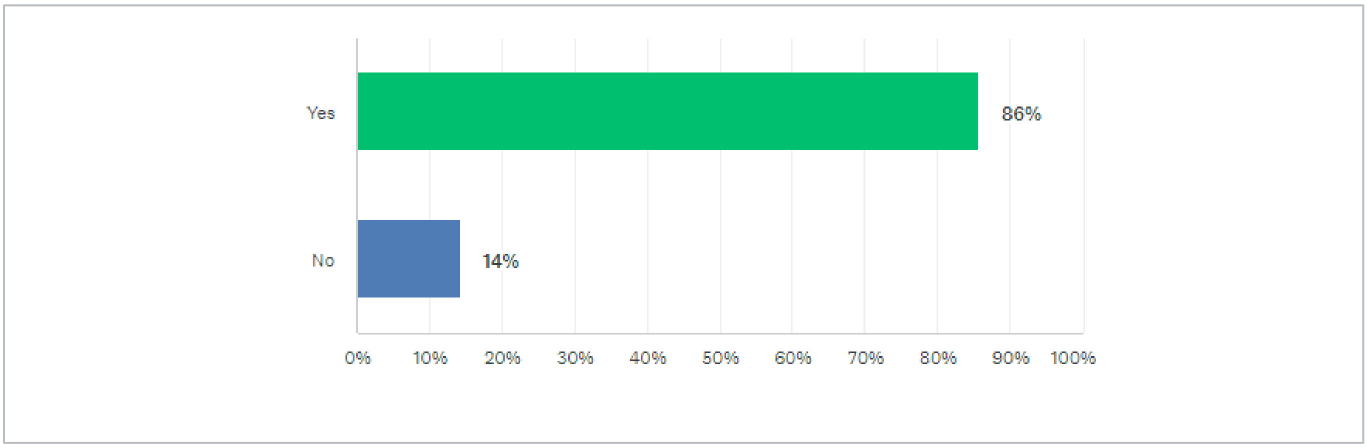
Figure 6.3: What are your views on demand levels across different segments over the next ten years?



Source: Avison Young / Survey Monkey

6.9 Figure 6.4 below highlights that 86% of respondents would consider branding or operating visitor accommodation in the City of London moving forward; this is a positive level of response in our experience. One of the respondents who selected 'no' indicated that the "*Planning process [is] too slow and lack of appetite and support from Banks*".

Figure 6.4: Would you consider branding / operating visitor accommodation / further visitor accommodation in the City of London?

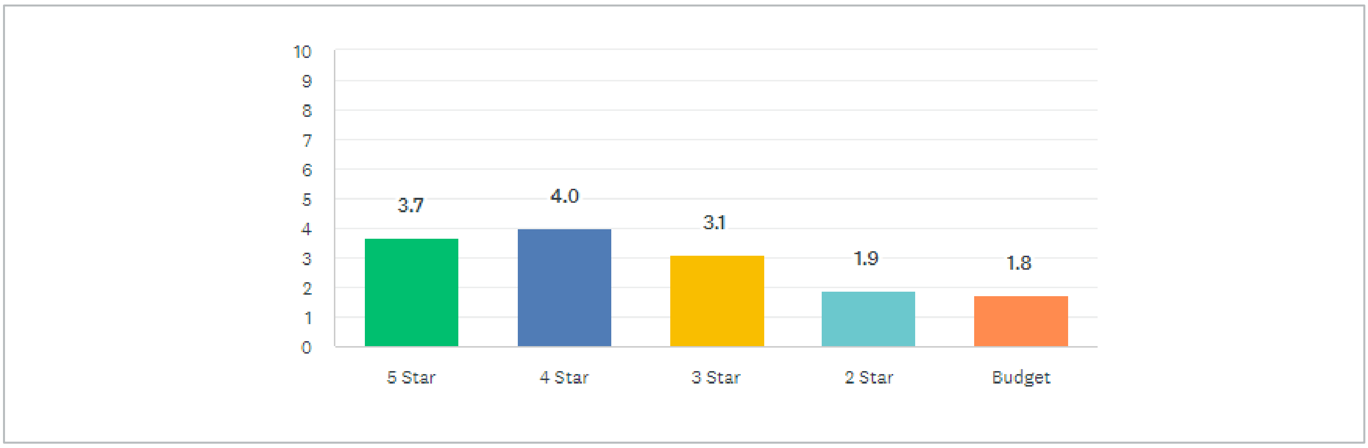


Source: Avison Young / Survey Monkey

6.10 100% respondents that would contemplate development would consider serviced apartments and all but one would consider hotels (only one would consider hostel), highlighting that serviced apartments and hotels are the focus for brand and operator expansion in the City moving forward.

6.11 Respondents were asked to note rank which hotel grade that they would prefer to operate in the city. As shown in Figure 6.5 four and five-star hotels were most popular. Surprisingly, budget hotel, which have seen significant growth in the City in recent years, received the lowest weighting of 1.8. Whilst this may reflect the brand offering of the respondents (some may not operate budget hotels), it may also reflect their desire to have upscale and luxury hotels in such a high-profile location such as the City.

Figure 6.5: What would be your preferred hotel grade?

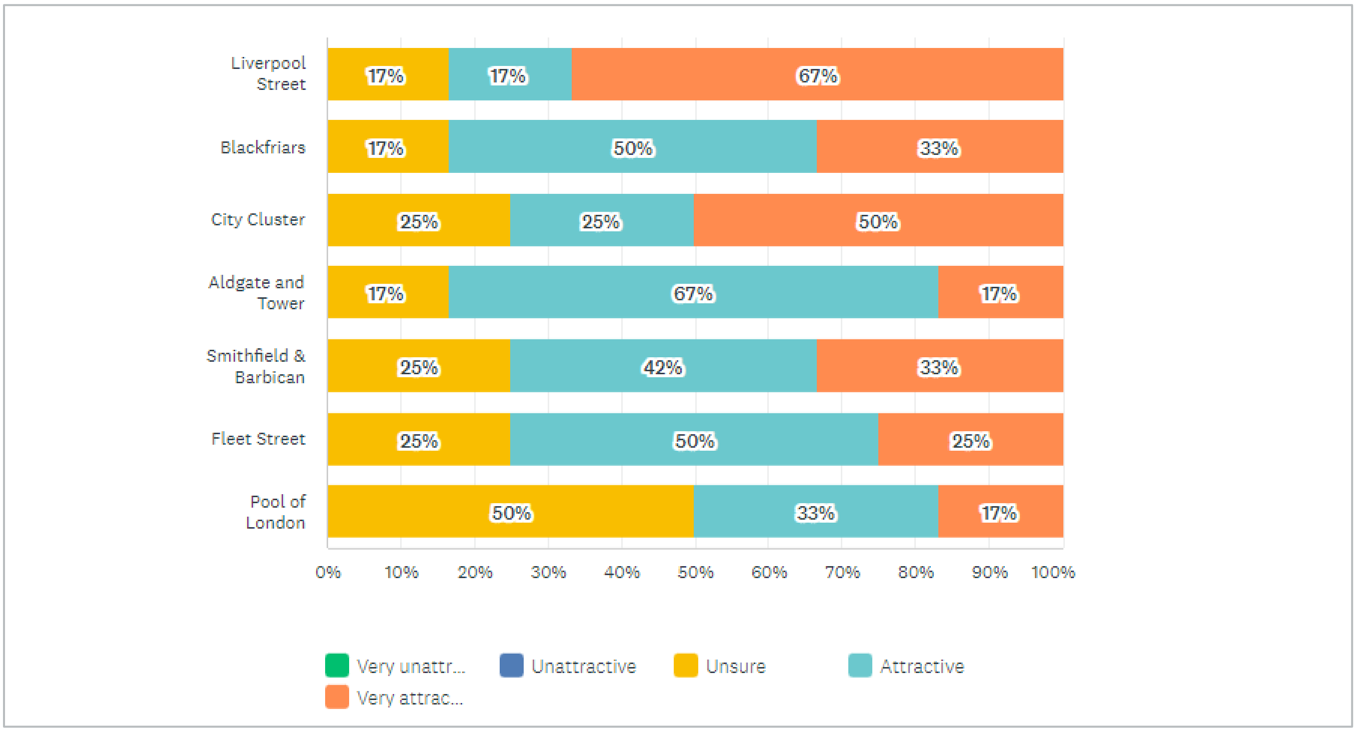


Source: Avison Young / Survey Monkey

6.12 Respondents were asked as to the minimum and maximum room numbers they would consider for a hotel / serviced apartments. The lowest minimum was 60 (with an average of 102 bedrooms) and the highest maximum is 500 (with an average of 349).

6.13 Respondents were asked which of seven potential locations show in Figure 6.6 below would be preferred for future development. Positively, no locations were viewed as unattractive, and Liverpool Street, followed by Blackfriars receiving the highest ratings.

Figure 6.6: How attractive would you consider the following locations for visitor accommodation development (very attractive to very unattractive)?



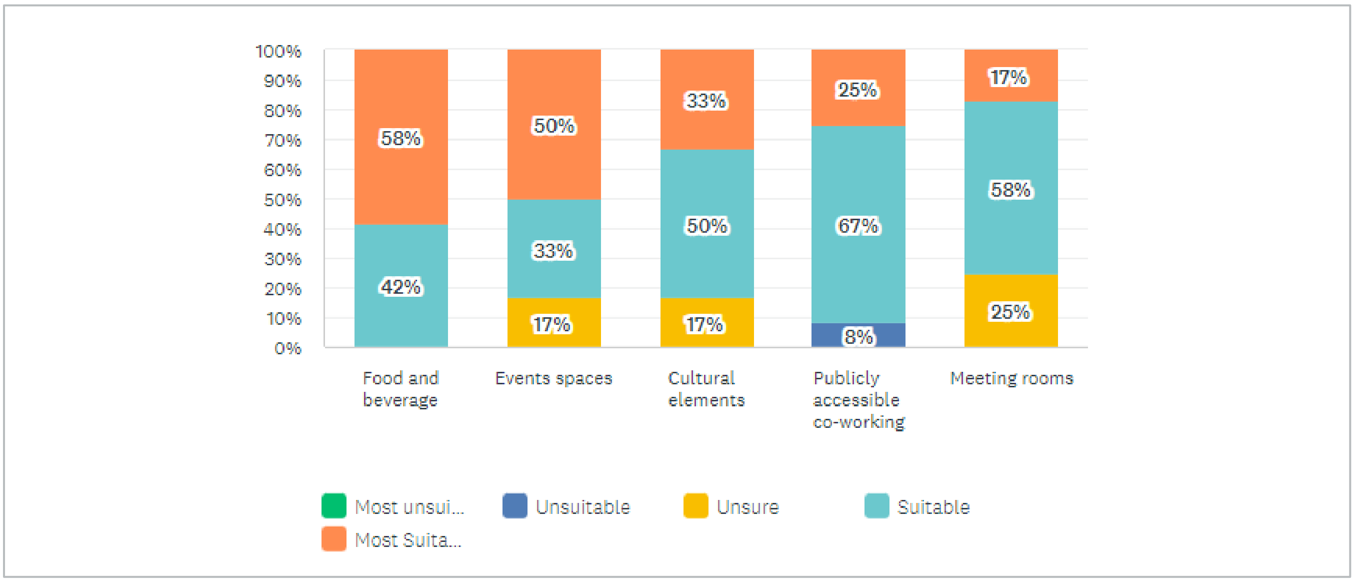
Source: Avison Young / Survey Monkey

6.14 As to whether the development of larger hospitality / leisure clusters would increase the attractiveness of the City as a hotel development location, 92% of respondents answered yes.

6.15 In regard to the question of how complementary visitor accommodation use is as part of SME-type workspace, cultural and community uses, or with new residential accommodation, respondents were overwhelmingly positive with an overall positive score of 82 out of 100 (only two respondents gave a negative scoring, i.e. under 50%).

6.16 As shown in the graph below, respondents were asked how important they felt a range of complementary uses were in the success of visitor accommodation developments in the City. Overall, respondents were generally positive with food and beverage, events facilities and cultural elements receiving the highest scores.

Figure 6.7: How important do you think the below complementary uses are in the success of visitor accommodation developments in the City (most suitable to most unsuitable)?



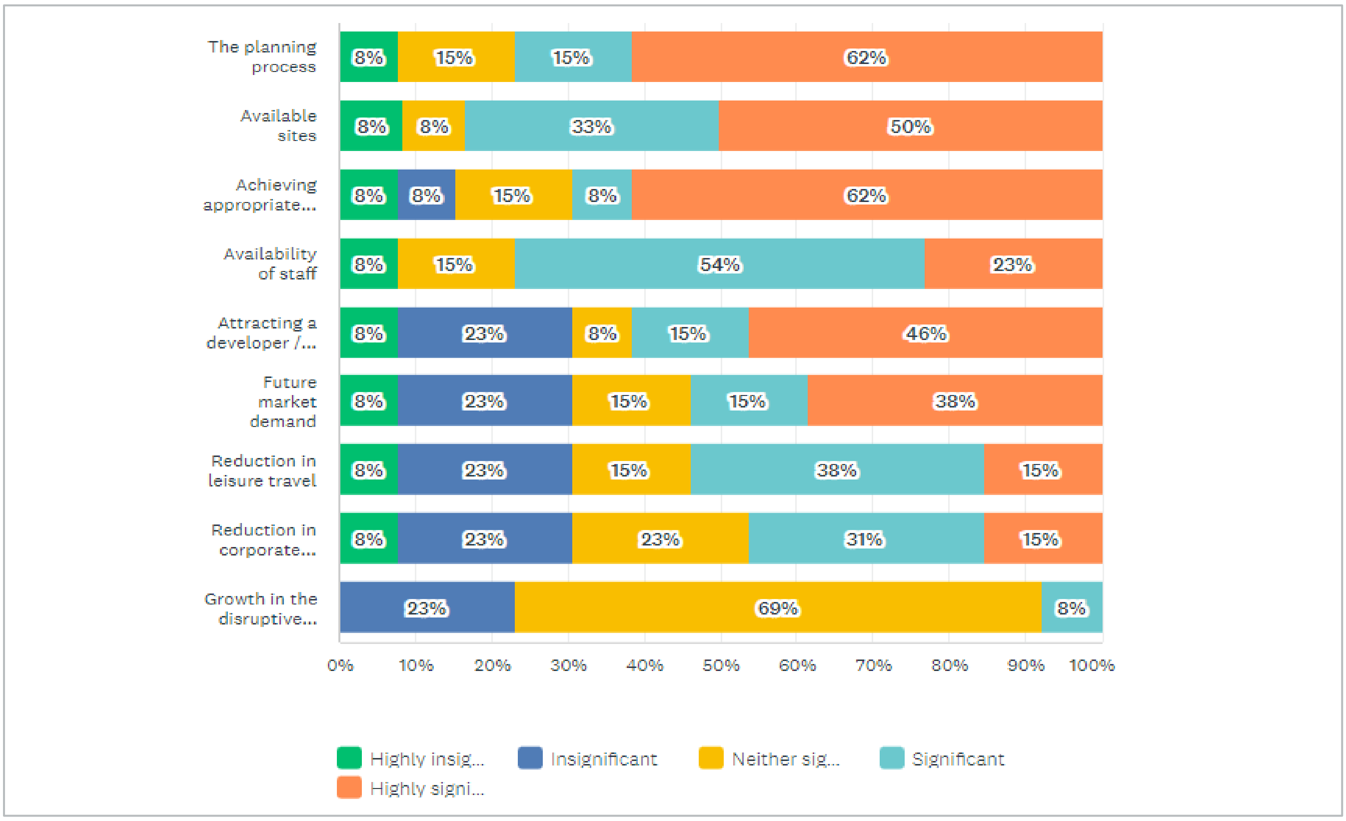
Source: Avison Young / Survey Monkey

6.17 However, when asked would a <u>requirement</u> for complementary cultural uses and publicly accessible spaces (particularly at ground and rooftop) impact on their development decision, 58% of respondents answered yes.

6.18 Finally, all respondents were asked how significant they consider certain factors are in acting as barriers to development of future visitor accommodation in the City. The factors (in order in Figure 6.8 below) are:

- The planning process;
- Available sites;
- Achieving appropriate returns;
- Attracting a developer / funder;
- Availability of staff;
- Future market demand;
- Reduction in leisure travel;
- Reduction in corporate travel;
- Growth in the disruptive sector (e.g. AirBNB).

Figure 6.8: How significant do you consider the following to be barriers to development of future visitor accommodation in the City of London (highly significant to highly insignificant)?



Source: Avison Young / Survey Monkey

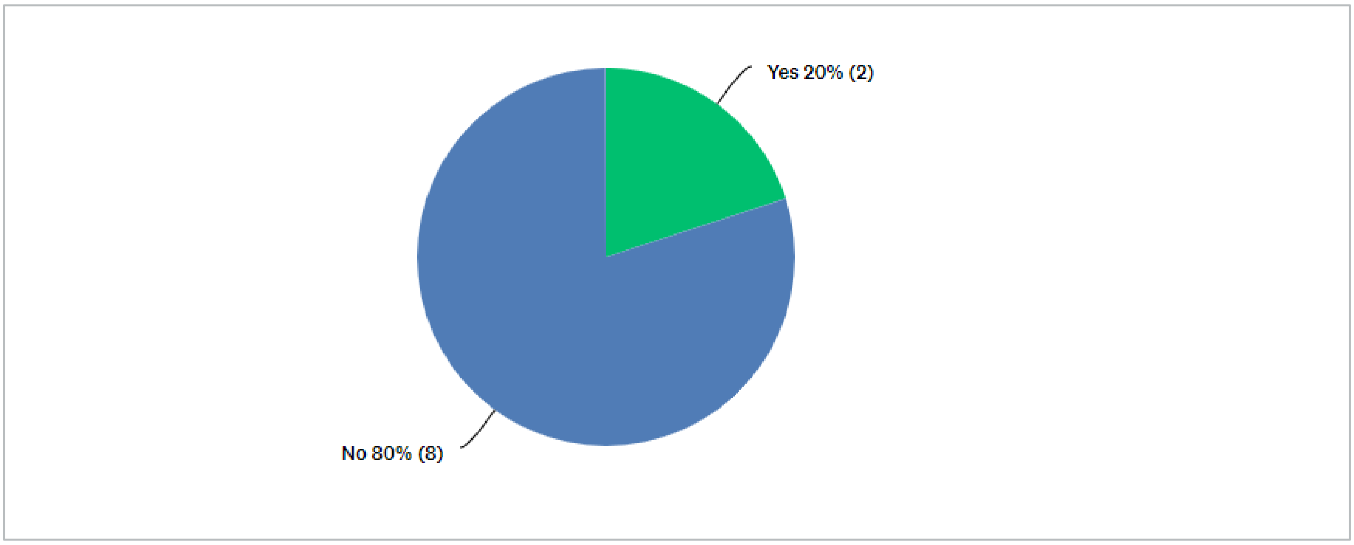
6.19 The most significant factor were the planning process and availability of sites with an average weighting of 4.2 (one being highly insignificant and five being highly significant), followed by achieving appropriate returns (4.1). Of all the factors listed, growth in the disruptive sector was considered the least significant with an average weighting of 2.9.

Developers

6.20 Survey questionnaires were sent to a range of developers acting in the UK visitor accommodation space. In total, 10 surveys have been completed and returned to date.

6.21 Only 20% of respondents indicated that they have developed or contracted visitor accommodation in the City of London. As with the brands and operators, most comments received by those that selected 'no' indicated that it was due to the lack of appropriate opportunities.

Figure 6.9: Have you developed or contracted any hotels in the City of London?

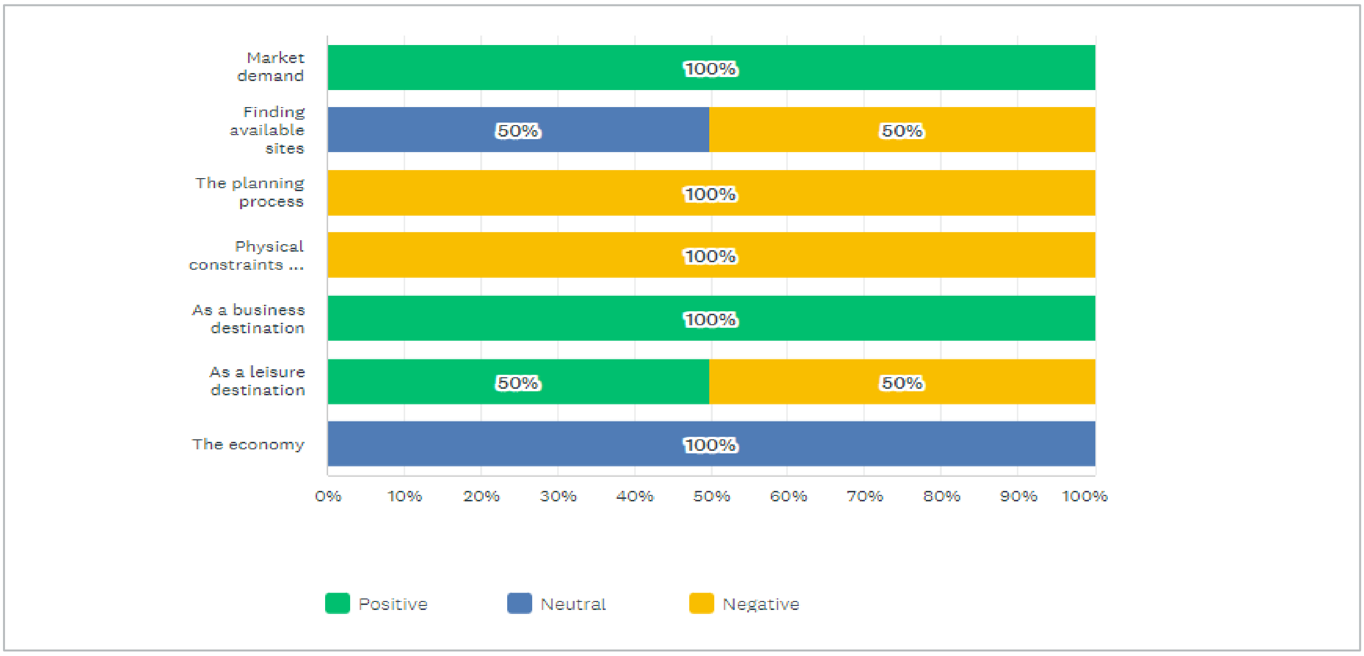


Source: Avison Young / Survey Monkey

6.22 As shown in Figure 6.10 overleaf, both respondents who have developed or contracted hotels in the City had negative experience in regard to the planning process and the physical constraints due to the historic nature of the City. Conversely, the respondents were more positive towards market demand and the City's status as a business destination. Given the low response rate, and the lack of detail provided by the respondents as to the nature of the planning experience (and whether it was worse than elsewhere in London), these results should be treated with a high degree of caution.

6.23 Positively, these do not appear to be major impediments to development with 90% of respondents indicating that they would still consider future visitor accommodation developments in the City.

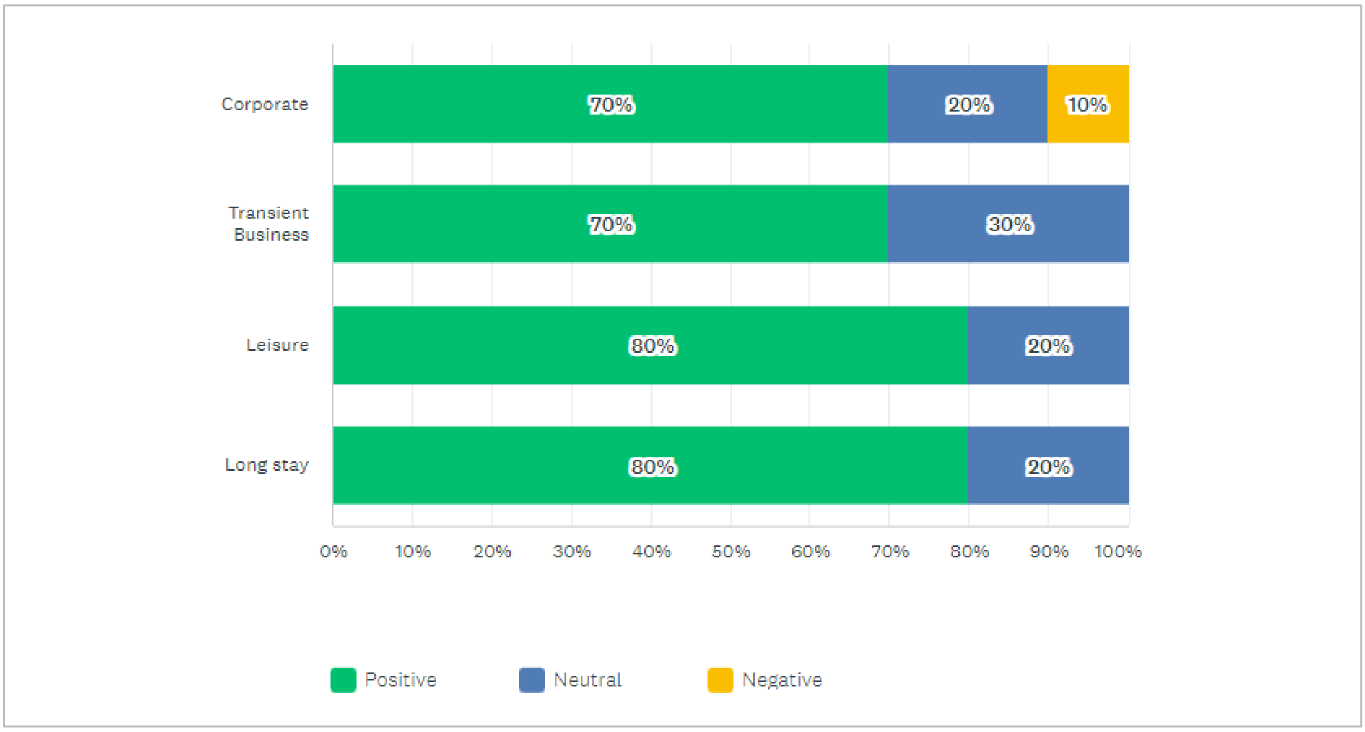
Figure 6.10: What has been your experience to date in terms of developing or contracting visitor accommodation in the City of London?



Source: Avison Young / Survey Monkey

6.24 As with the brands and operators, the developers were broadly positive towards demand levels across business segments in the next ten years, albeit there was one negative response in regard to corporate demand.

Figure 6.11: What are your views on demand levels across different segments over the next ten years?



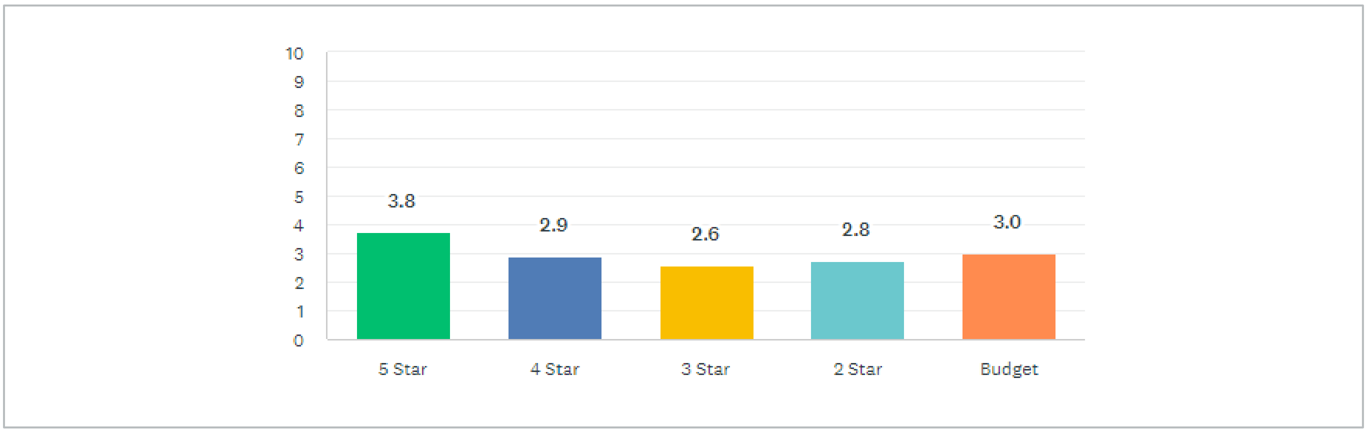
Source: Avison Young / Survey Monkey

6.25 In regard to what types of developments they would consider, all of the respondents noted they would consider hotels, 89% would consider serviced apartments and 44% would consider hostels.

6.26 In terms of preferred hotel grade for development, five-star was the most favoured with a weighting of 3.8, followed by budget (3.0) then four-star. Unlike the brands and operators, developers would consider budget class more.

6.27 Respondents were asked as to the minimum and maximum room numbers they would consider for a hotel / serviced apartments. The lowest minimum was 30 (with an average of 99 bedrooms) and the highest maximum is 500 (with an average of 305).

Figure 6.12: What would be your preferred hotel grade?

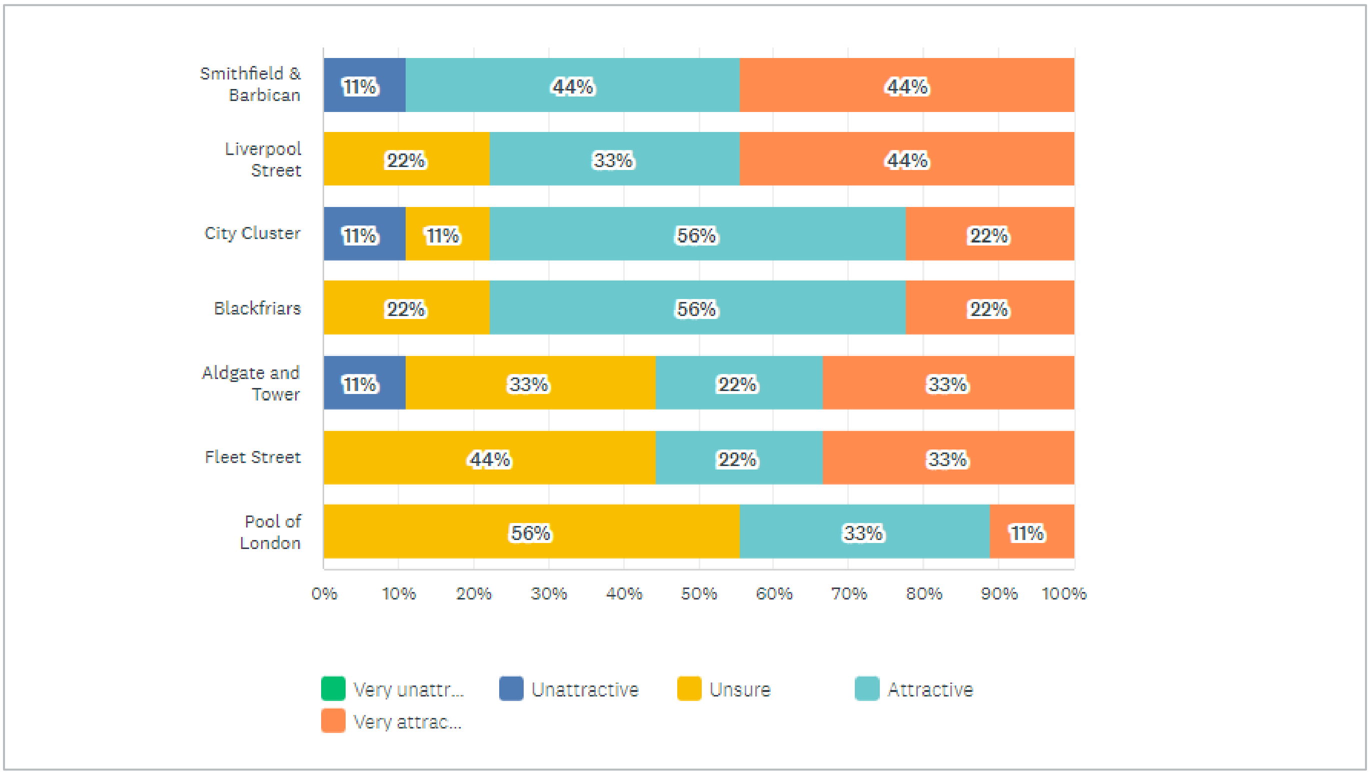


Source: Avison Young / Survey Monkey

6.28 In regard to whether the development of larger hospitality / leisure clusters would increase the attractiveness of the City as a hotel development location, all respondents answered yes.

6.29 Respondents were asked which of seven potential locations show in Figure 6.13 below would be preferred for future development. Smithfield / Barbican received the highest weighting (4.2), followed by Liverpool Street and the City Cluster (3.6).

Figure 6.13: How attractive would you find the following locations for future visitor accommodation development (very attractive to very unattractive)?



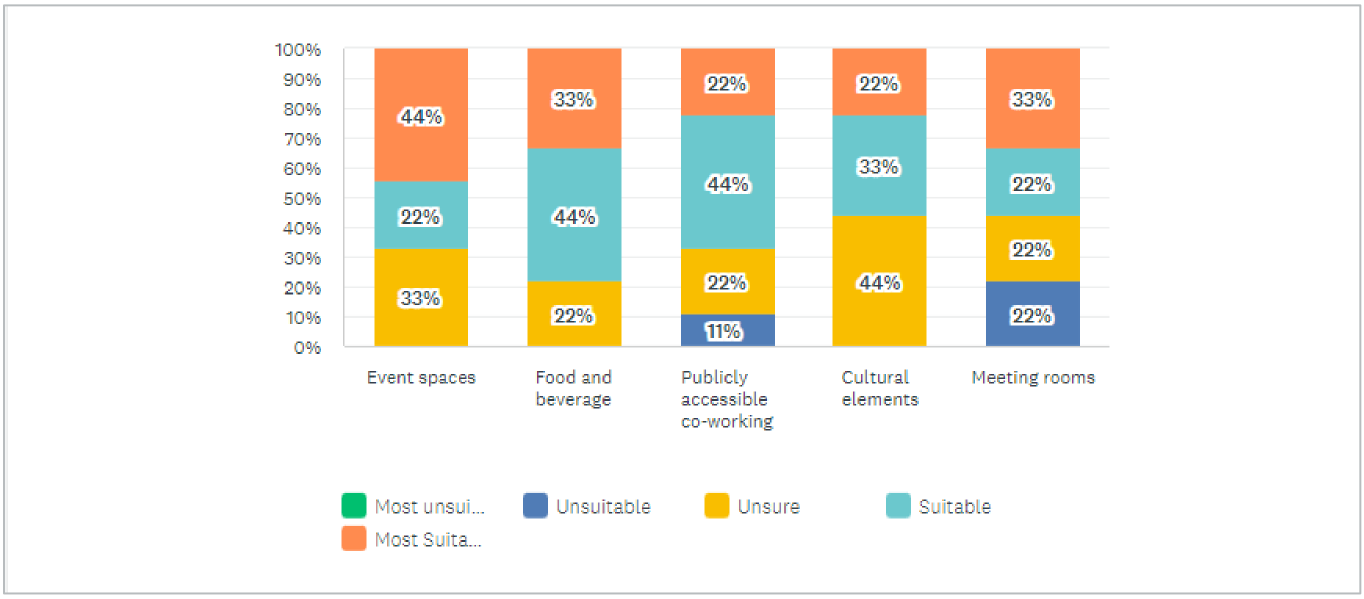
Source: Avison Young / Survey Monkey

6.30 With regard to the question of how complementary visitor accommodation use is as part of SME-type workspace, cultural and community uses, or with new residential accommodation, respondents were overwhelmingly positive with an overall positive score of 69 out of 100.

6.31 When asked would a requirement for complementary cultural uses and publicly accessible spaces (particularly at ground and rooftop) impact on their development decision, 75% of respondents answered yes.

6.32 As shown in the graph overleaf, respondents were asked how important they felt a range of complementary uses were in the success of visitor accommodation developments in the City. Developers were equally positive towards food and beverage and events facilities, followed by public accessible co-working and cultural elements.

Figure 6.14: How important do you think the below complementary uses are in the success of visitor accommodation developments in the City (most suitable to most unsuitable)?



Source: Avison Young / Survey Monkey

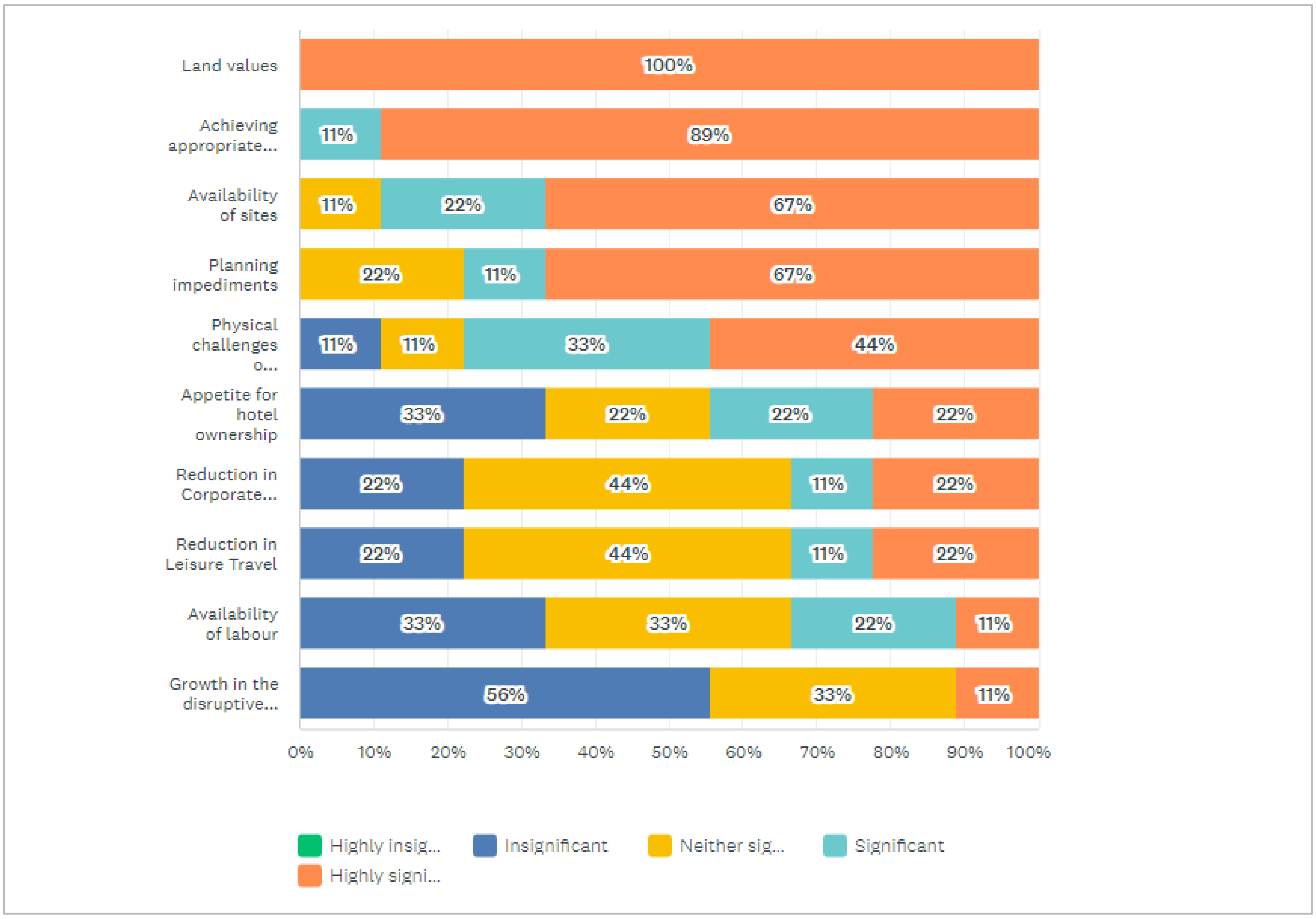
6.33 Finally, all respondents were asked how significant they consider certain factors are in acting as barriers to development of future visitor accommodation in the City. The factors (in order in Figure 6.15 below) are:

- Land values;
- Achieving appropriate returns;
- Availability of sites;

- Planning impediments;
- Physical challenges of development due to the nature of the City's layout;
- Appetite for hotel ownership;
- Reduction in corporate travel;
- Reduction in leisure travel.
- Availability of labour;
- Growth in the disruptive sector (e.g. AirBNB).

6.34 The most significant factor was land values, with an average weighting of 5.0 (one being highly insignificant and five being highly significant), followed by achieving appropriate returns (4.9) and availability of sites (4.6). Of all the factors listed, growth in the disruptive sector was considered the least significant with an average weighting of 2.7.

Figure 6.15: How significant do you consider the following to be barriers to development of future visitor accommodation in the City of London (highly significant to highly insignificant)?



Source: Avison Young / Survey Monkey

Financiers

6.35 Surveys were also sent to a number of financiers working in the UK hotel space. These included high street lenders, institutional funds and 'challenge' banks. Five responses were received by this group, and whilst this is not a significant sample, the results still provide a number of interesting observations as follows:

- 60% of respondents would consider funding for hotel and accommodation projects in the next ten years, highlighting a generally positive view, albeit there is still an element of uncertainty in the sector;
- 67% of respondents indicated that they have hotel funding in the City at present;
- In terms of the biggest barrier for hotel development in the City, 'Planning Impediments' was noted as the most significant, followed by 'Land Values', 'Reduction in Corporate Travel' and 'Availability of Sites';
- Four-star and budget hotels were noted as their preference in regard to what grade of hotels they would more likely fund. This was then followed by five-star then three-star;
- As to whether they would be more likely to invest in a hotel scheme that is part of a wider mixed-use development, the response was mixed. One respondent commented that "Both stand-alone or part of a mixed use scheme are attractive", whereas another "Assumed that funding would also need to fund the mixed -use elements which creates difficult in assessing appropriate debt levels per policies and regulatory requirements";
- Finally, in regard to whether a requirement for complementary cultural uses and publicly accessible spaces would impact on their investment decision, 75% of respondents that answered the question selected yes, which is in line with the response by brands, operators and developers.

Stakeholder Consultations

6.36 In addition to our development survey, and to further understand the key development trends and main issues in the City of London visitor accommodation sector, we held consultations with the following stakeholders:

- Visit Britain
- London Partners
- City of London Corporation
- Guildhall
- Four Hotel Booking Agents and Professional Conference Organisers

6.37 We incorporate the findings of these consultations within the following overview of trends and issues.

City of London Visitor Accommodation Stakeholder Trends and Issues

6.38 From the surveys and consultations the key trends and issues in the City of London visitor accommodation sector can be grouped into the following themes.

Strong demand expected to remain for City hotels

6.39 Both our consultations and surveys were positive in regard to future demand levels of both corporate and leisure demand to the City. As a result, the vast majority of survey respondents indicated that they would like to develop more hotels in the City moving forward.

6.40 The consultations with one hotel booking agent noted that levels of bookings in Q3 2022 were around "90-95%" of 2019 levels and above their forecasts. Thy added that the recovery of the sector is happening quicker than expected with 2019 levels of booking not expected until late 2023 at the earliest and that Q1 2024 will be "5-10%" above 2019.

6.41 Similarly, both the Guildhall and PCOs noted that delegate numbers per event were much back to pre-Covid figures and that these are primarily all new events and not rescheduled events that have roll-over from Covid. It was noted by London and Partners that the opening of the Elizabeth Line has been a "game changer" and encouraging guests to stay in areas such as the City when visiting events at ExCeL for example.

6.42 It was acknowledged that international visitors (corporate and leisure) are not yet back to pre-Covid levels, but 2022 has seen a strong return in the North American market.

6.43 Environmental concerns do not appear to be having any impact on either corporate or leisure travel to London and there is no evidence yet to support as to whether this may impact visitor levels to the city moving forward.

Preference for four-star and budget hotel developments

6.44 Our surveys indicated a preference by brands and operators to operate either four or five-star hotels in the city, while developers tended to prefer budget hotels. The preference of the financiers was largely split between four-star and budget hotels.

6.45 There was more limited appetite for two and three-star hotels.

6.46 We would therefore expect future demand for hotels in the city to follow the trend of the previous ten years which has been led by four-star and budget properties.

Planning and required spatial use

6.47 Issues in regard to planning were noted as a barrier by some developers to future hotel development in the City (as was the case by financiers) and those that had developed in the City had negative experiences of the planning process. Our survey did not examine the specifics of what these issues were, whether they were a result of national, London-wide or City policy, or a combination of the three, whether they were the result of individual operators and developers, in particular experiencing difficulties, or as to whether the City is a more difficult area to achieve development than other London boroughs. Consideration of regulatory requirements may also have been influenced by the difficult trading and development conditions that accompanied the Pandemic.

6.48 However, the small sample size and the lack of specificity means that it is difficult to identify precise conclusions from this survey. We suspect that this is not a major impediment, particularly given that the vast majority of respondents noted that they would consider future visitor accommodation development in the City.

6.49 Most respondents agreed that a requirement for complementary cultural uses and publicly accessible spaces could impact on their development decision, albeit most were welcoming to including such spaces within schemes, and the majority were still considering development in the City, again suggesting this may not be a major impediment.

Lack of available sites, physical constraints and cluster districts

6.50 Unsurprisingly, the lack of available sites and the physical constraints on development due to the nature of the City's layout were significant issues impacting on the delivery of new hotels in the City. Similarly, there were concerns on land values and achieving appropriate returns which is not unexpected, particularly in the current economic climate.

6.51 Respondents were overwhelmingly positive towards the hospitality clusters. Whilst there is obvious competition with other uses for such sites, the clustering of leisure districts in the City would have strong appeal to hotel developers and operators.

Summary

6.52 The results of the surveys highlight continuing strong demand from brand / operators and developers for future visitor accommodation in the City of London.

6.53 Furthermore, our consultations with key stakeholders involved in the City's hotel sector have demonstrated that demand across all segments has largely returned to pre-Covid levels which has been ahead of forecasts.

6.54 Despite these positives, there remain challenges in the delivery of future visitor accommodation development in the City, with the lack of available sites, land values and the physical constraints of the landscape being the most notable.

7. Market Projections

7.1 We have prepared a supply and demand growth model to demonstrate the demand capacity for new hotels in City of London over the next 15 years (see overleaf).

7.2 Over 12 years to 2019, the supply of hotel and serviced apartment bedrooms in City of London increased by 110% to about 9,050; a compound annual growth rate (CAGR) of 6.4%. Over the same period, occupancy remained over 80% every year except 2008 (global financial crisis) and 2011/12 (large quantum of new openings in east London in the lead up to the Olympics). Across the 12 years, the growth in demand (measured by rooms sold) was 139.2%, CAGR of 8.3% and exceeding the significant increase in supply.

7.3 It could be argued that the demand capacity for new hotels in City of London is unlimited as it is home to a large proportion of London's commercial demand drivers and within easy reach of the primary visitor attractions. However, as more rooms are delivered across London, if demand growth does not keep pace with supply growth, there could be a negative impact on the performance of hotels in neighbouring boroughs as visitors typically prefer to stay close to where they are doing business or to visitor attractions and evening economy.

7.4 Looking at the same data for London overall, supply growth over 12 years has been at a CAGR of 3.0%, however, as with City of London, demand growth has exceeded supply growth at a CAGR of 3.5% with occupancy above 80% every year to 2019 since 2008. This suggests that, despite a large percentage increase in both supply and demand, neighbouring boroughs have not been impacted to date.

7.5 A key question however is when demand will return to 2019 levels with City of London occupancy at 75.3% in October 2022 YTD (versus 86.6% for the same period of 2019) and overall London at 72.6% (versus 83.4%). We have taken a cautious approach to modelling future demand growth, particularly over the next two years as the economy is forecast to enter a prolonged recession; however 1.9% demand growth in 2023 and 2.8% in 2024 are reasonable in our opinion given City of London hotels' proximity to the core office district and visitor attractions.

7.6 We do however expect inbound travel to continue to recover from the impacts of Covid-19 and have modelled demand growth of 3.2% per annum from 2025, lower than the historic CAGR of 8.3% highlighted in 7.3.

7.7 Our model demonstrates that if demand growth averages 3.2% per annum from 2025 and that the pipeline of hotels identified in Section 2 are all delivered by 2030, there is demand capacity for an additional 350 rooms per annum in City of London to 2037. This represents supply growth of 4,012 rooms over 15 years, a 38.6% increase. Under this scenario, occupancy is projected to be above 79% until 2026 and then above 80% until 2037, in line with the historic performance shown in Table 4.6 and above the pre-Covid Regional UK average (all hotels outside London) of about 75%. Whilst the table represents projected market average occupancy, unique and destination hotels will often be more popular with visitors and outperform the market average occupancy.

7.8 Any supply increases greatly beyond 350 per annum (or 4,012 rooms across 15 years) will bring market occupancy below historic levels; this will impact the performance of existing hotels and may also make The City a less attractive market for hotel developers. Conversely, supply growth greatly below 350 per annum will result in higher occupancy. Whilst this may be perceived as positive, it will result in a greater quantum of 'sold-out' nights in the City. As a result, visitors may choose to stay elsewhere in London during peak periods, which not only impact on hotels within The City, but local businesses which benefit from hotel visitors (e.g. bars, restaurants, retail outlets etc.).

Table 7.1: Market Occupancy Model, City of London: 2023 to 2037

	Growth				Rooms sold per day														
	2023	**2024**	**2025**	**2026+**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**2037**
Demand Growth	1.94%	2.80%	3.16%	3.16%															
Market Room Sold					**7,003**	**7,208**	**7,447**	**7,695**	**7,951**	**8,216**	**8,490**	**8,773**	**9,066**	**9,369**	**9,682**	**10,006**	**10,340**	**10,687**	**11,044**
Rooms available					9,054	9,061	9,175	9,410	9,721	9,886	10,121	10,325	10,616	10,966	11,316	11,666	12,016	12,366	12,716
Existing Pipeline					7	114	235	311	165	235	204	291							
Future Capacity													350	350	350	350	350	350	350
Total Room Supply					**9,061**	**9,175**	**9,410**	**9,721**	**9,886**	**10,121**	**10,325**	**10,616**	**10,966**	**11,316**	**11,666**	**12,016**	**12,366**	**12,716**	**13,066**
Market Occupancy					**77.3%**	**78.6%**	**79.1%**	**79.2%**	**80.4%**	**81.2%**	**82.2%**	**82.6%**	**82.7%**	**82.8%**	**83.0%**	**83.3%**	**83.6%**	**84.0%**	**84.5%**

Source: Avison Young

8. Market Priorities

8.1 Based on our findings, we believe that there are two key visitor accommodation sector priorities for City Plan 2040:

8.1.1 **Creation of hospitality clusters where possible:** our surveys highlighted positive levels of demand for additional hotel and serviced apartment developments within the City of London. However, when asked to what the largest impediments to development were, two major issues identified were the physical constraints due to the nature of the City, as well as high land values / the difficulties in making a commercial return. While the latter points are out with the control and context of the City Plan, physical constraints is one that can be considered. In addition, our surveys also highlighted an overwhelmingly positive view from hotel brands, operators and developers towards the creation of clustering hospitality uses within the City. Furthermore, whilst there were preferred areas in which hotel developers or operators wished to open hotels, no locations were viewed as unattractive. Although there are few large or 'vacant' development sites where clustering could be achieved, appropriate areas could include the proposed redevelopment of Smithfield market, which would work in conjunction with the development of the Cultural Mile, making it attractive to leisure visitors, as well as being well connected, particularly due to the opening of the Elizabeth Line at Farringdon). Another area would be near Aldgate and Tower, which has witnessed large amounts of mixed-use developments in recent years and has been also aided by the opening of the Elizabeth Line at Liverpool Street Station. However, we understand that any clusters in these areas (or others) needs to be considered against the requirement for additional residential and office use, with the latter being a key focus for the Eastern Fringe area. The creation of hospitality clusters could also benefit visitors in terms of providing appropriate facilities in the immediate locale, such as bars, restaurants and cultural offerings, whilst clear wayfinding routes from key transport interchanges would make it a more accessible destination. Finally, from an operational perspective, appropriate clustering (where space allows) could offer better accessibility for servicing deliveries (which is often a challenge in some locations of The City due to the make-up of its streets);

8.1.2 **Ensure a balance of hotel grades:** demand growth in the City over the last decade has been primarily driven by the opening of four-star and limited service hotels, whilst our surveys have shown these two segments (as well as five-star hotels) to be the preferred segments for development moving forward. Furthermore, the hotel sector has evolved in recent years, with lifestyle brands such as CitizenM blurring the grading lines by providing a high-quality, upscale product, but with smaller rooms and a more streamlined service offering allowing it to compete on price in the budget space. Therefore, to meet the needs of both consumers and developers / operators, policy should allow for a range of different hotel segments. As the hotel market is continuously evolving, we would advise that a review of hotel grades in The City (both in terms of existing supply and new planning applications) is kept under review on a regular basis to ensure that the current balance of grades is retained.

Appendix A

Visitor Accommodation Supply Lists

Hotels, Service Apartments and Hostels Supply

Map Ref	Hotels	Grade	Rooms
1	The Ned	5 Star	250
2	Apex London Wall Hotel	4 Star	89
3	Cheval Calico House	Apts	45
4	hub by Premier Inn London City Bank	Limited Service	61
5	Travelodge London Central Bank	Limited Service	75
6	Native Bank	Apts	5
7	City House	Apts	32
8	Cove Cannon Street	Apts	77
9	Threadneedles Autograph Collection	5 Star	74
10	Native Cannon Street	Apts	3
11	Marlin Apartments Queen Street	Apts	84
12	The Moorgate	Apts	27
13	Suffolk Lane By Blueprint Living	Apts	27
14	The Counting House Beautiful Bedrooms by Fuller's	3 Star	15
15	Vintry & Mercer Hotel	4 Star	92
16	Club Quarters Hotel London City	4 Star	203
17	Westin London City	5 Star	222
18	Philpot House	Apts	36
19	48 Bishopsgate	Apts	5
20	Globe View	Apts	12
21	Great St Helen Hotel	3 Star	18
22	South Place Hotel	5 Star	80
23	Locke Broken Wharf	Apts	113
24	Fraser Residence Monument London	Apts	14
25	Fraser Residence City London	Apts	22
26	Leonardo Royal Hotel London St Paul's	5 Star	459
27	Lovat House	Apts	41
28	London House	Apts	40
29	Shard View Apartments at Monument	Apts	8
30	Andaz Liverpool Street London	5 Star	267
31	YHA London St Paul's	Hostel	49
32	Premier Inn London Bank Tower	Limited Service	184

Map Ref	Hotels	Grade	Rooms
33	The Montcalm @ The Brewery London City	4 Star	235
34	Pan Pacific London	4 Star	237
35	Club Quarters London St Paul's	4 Star	265
36	Grange St Paul's Suites	Apts	27
37	Lost Property St Paul's London - Curio Collection by Hilton	4 Star	145
38	Bull & Hide	4 Star	7
39	Native Fenchurch Street	Apts	11
40	Sun Street Hotel	5 Star	41
41	City Apartments Newbury House	Apts	218
42	Cloth House	Apts	32
43	Great Tower Street Apartments	Apts	9
44	Bob W. Tower of London	Apts	8
45	Fraser Residence Blackfriars London	Apts	12
46	hub by Premier Inn London Tower Bridge	Limited Service	112
47	196 Bishopsgate Hotel	Apts	47
48	Apex City Of London	4 Star	209
49	Hyde Paradox Hotel London City	4 Star	120
50	Premier Inn London Farringdon Smithfield	Limited Service	326
51	Travelodge London Liverpool Street Hotel	Limited Service	142
52	DoubleTree by Hilton Hotel London Tower Of London	4 Star	583
53	Four Seasons Hotel London at Ten Trinity Square	5 Star	134
54	Novotel London Tower Bridge	4 Star	203
55	Citadines Barbican London	Apts	129
56	Dorsett London City	4 Star	267
57	Cheval Three Quays	Apts	97
58	Young's Hotels Fox & Anchor	4 Star	6
59	Malmaison London	4 Star	97
60	Hotel Indigo London Tower Hill	4 Star	49
61	Hyatt Regency London Blackfriars	4 Star	203
62	Florence House	Apts	9
63	Leonardo Royal Hotel London City	5 Star	317
64	Premier Inn London Blackfriars	Limited Service	310
65	Beautiful Bedrooms by Fuller's The Chamberlain	4 Star	64
66	citizenM Tower Of London	4 Star	370
67	Motel One London Tower Hill	Limited Service	291
68	Native City	Apts	9
69	The Rookery Hotel	4 Star	33
70	Canopy by Hilton London City	4 Star	340
71	Tower Suites by Blue Orchid	Apts	273
72	Zinc House	Apts	14
73	Apex Temple Court Hotel	4 Star	199
74	Red Lion Court by City2Stay	Apts	12

Map Ref	Hotels	Grade	Rooms
75	The Z Hotel City	Limited Service	109
76	Supercity The Chronicle	Apts	53

Source: CoStar Group

Appendix B

Glossary of Terms

Table B.1: Hotel Grading Definitions

Term	Definition
Five-Star	Luxurious accommodation and public areas, with a range of extra facilities and a multilingual service available. Guests are greeted at the hotel entrance. High quality menu and wine list.
Four-Star	Professional, uniformed staff respond to your needs or requests, and there usually are well-appointed public areas. The restaurant or dining room is open to residents and non-residents, and lunch is available in a designated eating area
Three-Star	Staff are smartly and professionally presented. The restaurant or dining room is open to residents and non-residents
Two-Star	Offers a restaurant or dining room serves breakfast daily and dinner most evenings (the AA).
Limited Service	Offering clean and comfortable en suite facilities, 24-hour reservations and a consistent level of facilities

Source: the AA

Table B.2: Hotel Future Supply Status Definitions

Term	Definition
Awaiting Determination:	A planning decision is pending
Planning Approved:	Under contract projects where construction is due to begin in 12 months (as defined by STR Global).
In Construction:	Vertical construction on the physical building has begun (as defined by STR Global).
Unconfirmed:	Potential projects that remain unconfirmed at this time. Unable to verify the status of these projects
Deferred:	Activity on the project has stopped but may resume within the next 12 months (as defined by STR Global).

Source: Avison Young / STR Global 2022 (where noted)

Table B.3: Hotel Performance Metrics

Term	Definition
Occupancy Rate	The percentage of all rooms occupied or sold in a given period to total available rooms in that period.
Average Daily Rate (ADR).	Hotel rooms revenue divided by the number of rooms sold. Also referred to as Average Room Rate or Achieved Room Rate (ARR)
RevPAR	Revenue per available room. Calculated by multiplying the occupancy rate by the average daily room rate. Also known as Yield.
Best Available Rate (BAR)	The lowest rate of the day that is available for guests to book (inclusive of VAT).

Source: Avison Young

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