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# The UK hotels market in focus: The second annual Knight Frank round table debate with CoStar News

Industry heavyweights met to discuss the key trends and issues facing the UK hotels real estate market and to make forecasts for the year ahead

<i>CoStar News </i>moderated a panel that included senior figures from Knight Frank, L+R, Hilton, Premier Inn, Coutts and Clydesdale Bank, and Marick

The Knight Frank Hotels team held their second annual Hotel round table, in conjunction with *CoStar News* recently. A gathering of eight industry heavyweights including investors, operators, bankers and developers sat down to discuss the important issues and challenges facing the industry today – from the rising operational and construction costs, the attractiveness of hotels as an asset class and investment of choice, through to ground rents and local authorities' increasing interest in the sector.

And then they gave their predictions for the sector in 2019. *CoStar News* will revisit who was right and wrong at the end of the year.

***Participants - Shaun Roy, Partner, Specialist Property Investment, Knight Frank; Andy Porter, Director, Hotels & Healthcare, Commercial Banking, Coutts; Desmond Taljaard, Managing Director Hotels, L+R; Graham Dodd, Managing Director, Development UK & Ireland, Hilton; Nick Sinfield, Managing Director - Capital, Marick; Shona Pushpaharan, Head of Hotel and Real Estate Finance, Clydesdale Bank; Jonathan Langdon, Acquisitions Manager, Central London, Whitbread; Karen Callahan, Head of Hotel Valuations, Knight Frank.***

***CoStar News*** **Editor Paul Norman - There is much debate around rising operational costs, whether it is a consequence of increased wages, business rates or produce costs. How do you manage this? What are seen as the biggest risks?**

**Jonathan Langdon, Whitbread:** I think as far as inflation pressures go, no one in our industry has been insulated from this over the last couple of years. At Whitbread, we implemented an efficiency programme back in 2016 and we have been using it to manage our cost base and maintain margins across our business. We have already delivered over £100m of savings since the programme started, through a range of initiatives with a particular focus on the supply chain where we managed to consolidate a number of our supply lines - so delivering direct to our customers and also through procurement re-engineering exercises.

**PN: What are the biggest inflationary risks?**

**JL:** The national living wage has had an effect on us all together with rising business rates and rents. We have managed to offset quite a few of these headwinds through our efficiency programme and we're still looking to deliver between 4,000-5,000 new bedrooms every year. In the eight years I have been at Whitbread we've almost doubled the size of our estate and we can only continue at that rate of investment if we maintain a relentless focus on controlling our overheads.

**Shaun Roy, Knight Frank:** Do you find that the cost of technology is coming down?

**JL:** I do not have personal experience of that. However, our new brand hub by Premier Inn is very much geared around technology. The buying power that Whitbread has helps to keep a lid on costs, though it's certainly a challenge delivering a technology enabled product at a cost that makes development viable. However, customers ultimately expect enhanced technology and it is central to the hub offer.

**Andy Porter, Coutts:** Technology, we have discussed at many round table events. The major cost for hotels is staffing and I think the cost of produce is a growing cost that will become greater. There is definitely the need for collective procurement services. Personally, I don't think technology directly saves money – it streamlines processes that can reduce costs if used effectively. One of the things that could save money is encouraging multitasking, so staff who are able and willing to move from various sectors that will allow an actual reduction in staff numbers but still giving the service quality you're looking for.

**PN: So how do you plan ahead and ensure staff are prepared for that?**

**AP:** Staffing will continue to become the biggest cost and the ability to maintain your existing staff potentially is key as well. So, promoting a career and not just a job is pretty important but allowing people to move between various roles and to cover where necessary, I think that's where the savings could be made.

**Graham Dodd, Hilton:** I think a lot of that starts also in terms of good design around new hotels and one of the keys things we're trying to make sure is that we are putting the right things in the right location, at the right time, with the right investor partners. But clever hotel design enables operators to reduce staffing costs and other running costs. That's exactly the kind of thing that Andy is talking about.

**Desmond Taljaard, L+R:** Well there are the risks that aren't in your control too. Such things would be utilities which are going to be a law unto themselves in terms of rate of change – oil shock, something that the doom mongers will be talking about. I wouldn't mind touching a bit on the nature of the aggressive taxation which is called business rates because the illusion is somehow that the authorities get the benefit of that which no one comments on in the press.

They are collected centrally then redistributed and I think you understand where and if you have the ability to pay "do you want to take away business rates and increase corporation tax"? Then you would want it to be based on the ability to pay rather than a random valuation assignment. A lot of surveyors would go bust from the work they would lose from doing that but where's the debate about making ourselves a competitive economy.

**PN: Construction costs – with these also increasing, do you propose to continue developing new sites?**

**Nick Sinfield, Marick:** Yes, I think looking at construction costs, we are certainly seeing cost increases particularly around some single packages, particularly where you are buying materials from Europe, so there is cost pressure in the appraisal. On the flip side over the last few years we've seen improvements in the value side, with long institutional capital pushing yields along. Obviously, Premier Inn is a well bought covenant and Travelodge is there too. So that is helping the Travelodge roll out and on the operational side we are starting to see more institutions come to the sector and more appetite generally.

If you looked at the basket of real estate assets, what could you buy at that yield and what would the property look like? An operational Real Estate Hotel at the moment would look head and shoulders the best in terms of the quality of real estate compared with the other asset classes at the same yield. I think in a world where everyone is chasing yield that is promising more institutional and other capital into the sector, yes we are still developing, yes there is cost pressure helped by capital which is driving value and it's also helped by people being more innovative about how we are developing and structuring things. If you look at the range of different financial options out there and funding options on how to build something from institutional capital on one side through than it is very interesting.

**SR:** Do you think that change in profile in capital going into the operational space of hotels will help drive down yield?

**NS:** I think undoubtedly institutions have a lower cost of capital.

**SR:** They are all talking about wanting to get into that space but we've seen some activity this year but not as much as we would have thought at this time last year.

**NS:** I think it's probably you need to look at the funds that have done it now and we have two but we know there is a number chasing hot on their heels and I guess there are a number of internal approvals and sign off processes. They've got to take their trustees on a journey to how risky is it buying something where the income stream moves up and down every day.

But I think to get to those first acquisition decisions involves an enormous amount of benchmarking and historical data evaluation but once some of the funds we work with have made their first acquisitions and they are working out just fine that will lead to more acquisitions. This is more so because there will be only one particular fund in the fund manager's pot and the other funds will inevitably look at how well these things are doing and probably decide they want some of that as well.

**Shona Pushpaharan, Clydesdale:** I think as well, picking up on the funding, I mean we've got Coutts here and Clydesdale who were some of, Coutts probably earlier than Clydesdale, some of the first to do development finance. We've been undertaking it for four years now at Clydesdale and there is a lot more competition even in the financing to fund developments.

There are actually a lot more players - it's not just the high street banks. It is debt funds, all sorts; there is money coming in from ground rents during development. There are a lot of different financing options now that weren't available even 12 months ago. We are seeing a lot more people interested in the development aspect rather than just taking an investment yield.

**AP:** On developments, banks will typically look at loan to cost and that's around 65% with equity approx. 30% before you look at any other mechanism of plugging the gap. I think what is interesting in developments, let's say for London, where ideally we'd like to do more developments but there's huge refinancing risk because of the LTV that is achieved, once you get to a stabilised position which is probably sub 40%. So we don't really do a great deal in London, but would like to. But the ones that we have done have benefitted by squeezing as many rooms in as possible and then that starts to work better for all.

I know we will talk about ground rents later which will be a big debate. We have a good number of developments though I do think that to a degree we're getting a bit saturated in developments where they take a year and a half to get to opening. Also the fact that there's a lot of work involved in going through that process. But I do think once you have got a branded product you've got best in class so that will hopefully help to compensate if there is a downturn in the market.

**GD:** People talk about the delay in the institutional and non-traditional investors entering the hotel investment market citing the lack of transparency that you might see with the IPD databank in the commercial property world but the hotel world is one of the most transparent industries there is. If you look at hotels, there is not a lot you can't find out about how hotels are doing generally in the market, how brands are doing with STR and Hot Stats benchmarking so there are plenty of sources of information around how hotels trade. When you're juggling the conundrum of fixed income versus operational income I think there's a lot more out there than people think.

**PN - Why are hotels attractive? Could we have an overview of how the hotel market performs compared to the wider property market with reference to yield compression and value growth. How do hotels perform in comparison to student, healthcare or PRS?**

**DT:** Well, I think the first shopping mall has fallen; what are the alternatives? Retail has been crucified by online shopping, with the players not paying taxes by the way - another massive political issue. Shopping and retail is dead in terms of relative risk and sustainability. Offices - for those students of Northern Rock - will know that taking long-term liabilities and trying to service them with short-term income, they will know that the 'WeWorks' of this world are the modern solutions that could also end in tears - whether that is now or in weeks or months. I don't think anyone knows what will happen to offices in the longer term.

So, what are you really left with? It is really the only two things left on the Monopoly board from years ago and that is residential and hotels. And who knew that the inventor of that in Atlantic City would 100 years later be so prescient in that you can say that people still want to live in places and I think you can say that the WTM shows this year in terms of traffic that people are travelling more for business and for leisure? There was a guy at a conference 20 years ago who said why would you want to go into hotels and I said because people will keep travelling and global travel is taking off. For all the macro reasons, some of which are negative, basically where else can you put your money? I hope Hotels and Residential are what pension funds are focused on rather than buying shopping malls in East Kilbride.

**SR:** Why this sector is so attractive in comparison to others is that I think other sectors have their challenges at the moment undeniably, you did miss out industrial?

**DT:** I think there is going to be a big push back when a lot of people in this room who pay a lot of taxes won't tolerate the fact and there will be a tectonic shift when the majority of taxpayers will not tolerate other people getting away with it. I'm not quite sure how long. But I think it's a massive issue so the online last mile - whatever they call it these days - I can see it becoming saturated quite quickly as we are becoming a nation of parcel deliverers. Would you be talking about pure online distribution back bone support that has some mileage to go? We have not looked at the big society issue about what we are going to do.

**Karen Callahan, Knight Frank:** I think also, many office users are looking at reducing the number of desks, so I was actually talking to one of the banks in Manchester last week and they were commenting that they're moving to a model where it's 1:4 people to a desk. So I know obviously populations are increasing etc but overall office sizes or office needs will decrease as technology and other issues allow people to work remotely. Therefore they need less office space because people are looking at this as a massive cost that they can control to reduce their business costs.

**AP:** Everybody understands a hotel, it is a fairly simplistic model of people coming in staying for one/two days, eating or dining or not, and then vacating. Where we are at the moment with exchange rates and tourism etc. and even staycations, it is a buoyant sector. Now, putting my healthcare hat on, margins can be greater when some of the homes are charging £2,000 - £3,000 a week.

But there is a huge amount of legislation around that sector and that is the problem with looking at the healthcare sector as an investment, you have to get it right day in and day out as you grow the portfolio, your ability to control the personnel within is really quite challenging. Your ability to control that one potential bad egg.

**SR:** If you mess something up in a hotel, it has less ramifications.

**AP:** I think there is a whole PR issue around it. If you are on *Panorama* with your care home then all of your care homes are affected.

**GD:** I get your point. For us, we need to make the distinction between lodging and hospitality and I think the two are different. I do think renting a room or using a sharing platform is one thing, but going to a hotel, whether you're paying £50 for a room or £1,000 for a room, you expect hospitality.

**KC:** I think also one of the differences with the hotel sector is if you do have a downturn, you might have that volatility of revenue but you will always have something coming through the door. It might be that your occupancy drops from 80% to 65% or high 60s when you still have something coming in to keep you going. Whereas in contrast in the Retail sector or the

Office sector, you could end up with an empty building with no revenue at all coming in. You've already got a base line of income coming through which I think also differentiates you from the other two sectors as well.

**JL:** I think that's certainly true. On the funding deals I am working on, one of the first questions I am asked by many of the institutions funding our developments is 'what's your EBITDA cover'? We are proud to have been increasing our EBITDA margins consistently every year over the last eight or nine years which reflects our culture of continual improvement and a sharp focus on returns. As a business we are wedded to no less than two times rent cover and we know if it's teetering anything below that then the bank will invariably walk away from it. This is something that sets us apart from the competition.

**SP:** In my role I have visibility over Student and PRS which falls under the real estate bucket although we think that Student is a lot more like Hotels. I see what's happening across PRS, Student and Hotels – not Healthcare so much, but we do have a specialist Healthcare team. I do think with Student we have seen a lot of investment and it's one of the alternatives. Student, Hotels, PRS have all benefited with what has happened in the retail space which we have already discussed. I think Student is quite easy for investors to get their head around. It is more simplistic than Hotels as you have much greater visibility on income.

If you have a student in your property, you pretty much have an AST for 51 weeks, or 48 weeks of the year. So that gives people confidence although there are some very mature markets where there is some saturation not dissimilar to some hotel markets where we are over bedded. PRS I think is also interesting and something we're keen on funding.

I think that's got a way to go certainly from a financing perspective. That is something else where you need scale and it is not quite the proven concept, I don't think yet; people are struggling to get sites and scale. While there will be a weight of investment in that sector I think it has a lot more growth to go and it is still new so I think we see hotels and student as fairly well aligned in terms of the availability of funding and people wanting to invest. At the end of the day, it's beds and occupancy.

**SR:** There is a big yield difference between direct let student accommodation and direct let management contract hotels. Does one then give you more comfort than the other? Do you feel that students is a more universal sector as in institutions, overseas investors, whereas hotels is a little less institutional as yet?

**SP:** No, I don't think so. We have been doing it for a number of years and we are comfortable with those we deal with - a lot of high net worth, a lot of owner/operators, who you know are fundamentally very experienced in operating their hotels and we are very comfortable in that space. Students is newer for us, and it's a bit like hotels we'll only fund in certain locations. We've got quite a specific appetite but we are just as comfortable, plus with the added benefit that there is more institutional capital.

**GD:** We have investors who invest in both sectors so we have a glimpse of what drives their decision-making and occasionally we compete for sites. Hotels to me is a more international business, appealing to a huge cross section of the global population and it has been around a lot longer. For both sectors, I think success lies in getting the key factors right – location, strong management and for hotels, a strong brand platform providing access to customers. Given the scale of growth in the student housing sector, there will inevitably be some fall out and I suspect some weaker student housing schemes might eventually end up in the residential sector.

**SP:** I think though with student, a lot of people feel like that is a property asset, and a lot of people are comfortable in property; they feel the trading aspect of a hotel, is more risky although, I have two children, 7 and 4, will they even go to university? In ten years' time, will people even be going to university because of technology and that kind of thing?

However, in student I think that it's the visibility of income that people latch onto because you can be very sure and the trade-up period is very different in student to hotels. A standard occupancy that a valuer will use is likely between 92% – 98%, so there's that visibility, so if you time it right for your occupancy and you can show students a finished or near finished room by August time, you might be 50%-70% let by August potentially for 51 weeks and that is before A'-Level results are published for UK student numbers.

We've got a hotel in Edinburgh which is doing very well and a similar quick trade up to the student profile I have just mentioned. But that's not replicated is it, it's replicated for a limited service but probably not for something for full service, full stop.

**NS:** But the interesting thing in terms of the student sector and something we've looked at is the oversupply position. If you haven't filled your rooms at the start of the year then you've got problems. With a hotel you can do something about it.

**DT:** With hotels where you don't know who controls your revenue, others such as booking.com, Expedia, AMEX, it's not a business that hotels necessarily own and control that with, I think there is a riskier connection with the customer. Therefore, the costs of acquisition of the customer are smaller. I think it's about control of the customer visibility and access to the customer. And who would have thought that ten years ago that when we'd finally gotten rid of all the travel agents and commissions that were decimating the industry we now have a more inveigled fact of life - the attrition of costs are the most uncontrollable feature and greatest risk to sustainability.

**PN: Ground rent investments – cheap debt for an operator or good investment? Would you lend on this type of deal?**

**SR:** Ground rents have been around for a long time, I think it's a slight misnomer to call all products on the market as true ground rents anymore because it's not just a very nominal rent for a piece of ground as it was originally termed to be. They have been restructured to create a form of financial engineering that is still termed a ground rent. Is it still a good idea? It works very well for some investors, it works well for some operators and we're seeing more and more people prepared to do it and I think part of that is yes the value behind the ground, the yields achieved this year have been pretty extraordinary.

Equally there is now more evidence of post ground rented investments being sold and I think that is going to give people the comfort and confidence because one of the biggest questions has always been how tradable is that residual interest and the more that we see of those interests trading the more interest there will be generated in doing them. That doesn't make it right for all types of investors or occupiers to do ground rents but I feel they do definitely still have their place for the hotelier. And they definitely have their place in the capital markets arena where institutions view them as a very effective liability matching tool where they are essentially there to match very long-term liabilities for institutions. They work incredibly well from that perspective. They just need to be carefully thought through at the point of inception/creation to ensure that all parties get what they want – an unstressful long term relationship.

**SP:** I think it is fair to say we are not a fan of ground rents, and we actively avoid them.

**AP:** It is a closed door now. The main reason is we're at the back end of security so realistically we have no security if the rent doesn't get paid then the keys go back to the freeholder.

**SP:** In a distress scenario, the thought of having to put your hand in your pocket and pay the rent to retain the asset is a very difficult concept.

**AP:** One of the key things with ground rents is people try to use financial engineering where they haven't got enough skin in the game, they haven't got enough money, as they haven't plugged in their 30% equity and they're trying to do it backwards by way of selling the freehold and achieving the same. I think that's where it is wrong, because ultimately they can walk away having taken some of the profit from the sale of the freehold and leave bank isolated.

**AP:** One thing that is interesting when talking about ground rent is that we are seeing a lot of local authority interest in assets on regeneration areas with a hotel as a priority. Typically the local authority will put a long lease on the land with a material rent because that's their clawback realistically. We have just done one fairly recently which has a £264k rent, so material, but the differential between that and the ground rents is that this is fixed so it has a fixed rental reviewed every say 15 years or something of that nature, whereas ground rents are going up by RPI on an annual basis and that's the major difference. You buy into the fact that local authorities are in it for the long game, the cost isn't going to continue to go up so you'd hope that is a more palatable structure and those we are open to.

**PN: Tell me more about local authority interest in hotels?**

**SR:** We have certainly seen more of council interests in hotels which sounds a little bit of a misnomer. They have been big buyers in the commercial real estate arena and big buyers of Offices and Sheds for the past two to three years and we're even seeing them buying out of borough for all sorts of different reasons. We sold a Travelodge in Brent to Scarborough Council and as you're well aware by now they're all getting their funding cut so they're trying to go out and buy commercial assets to top up their income pot so is that the right thing to do with tax payer's money? I'm sure you'll all have an opinion on that but…

**GD:** We've probably completed more hotel projects with local authority participation, than any of our UK competitors and we have a dozen or so ongoing conversations. Their support for a scheme ranges from help securing land, to provision of gap funding, assisting with the sourcing of LEP grants, 100% funding of third party investors, all the way through to them choosing to directly invest and retain the trading asset to secure vital cash flow.

**SR:** They will do wrapped leases. We've done one where, it was another budget hotel and long term lease event wrapped by a Midlands Council and in Borough and that was their way of saying "listen we want to help stimulate and regenerate our city centre, we can't give you cash to do this but you can take advantage of our covenant to essentially maximise the yield on that then sell that to a pension fund at 3.5% yield instead of a 6% yield and that's their way of helping to regenerate. I think that is a really astute approach from councils.

**GD:** You have to be selective. We've seen some local authorities investing out of county on some short-term office income and that is something I just genuinely don't understand. With Hilton's projects, for them it is all about driving the regeneration agenda and providing a catalyst for the private sector to follow, it's about raising the bar, and it's about direct and indirect employment, supply chain, creating business rates and an over-arching halo effect. They know they have to compete for inward investment, the creation of quality jobs and be an attractive place to live and work otherwise, they will get left behind.

**SR:** Two different strands of it are investing to generate an income and helping spur on local developments.

**SP:** It's difficult from a funding perspective, we've actually looked at one with a brand already involved and in this case the council were just giving the land and it was a JV between some developers and the council. The problem we had is the developers who were driving it had no hard equity invested so, you have the council who were giving the land and the bank in for 100% of the development cost which broke back to about 60%-65% loan to cost but we felt despite the council being there that there was nothing to stop the developers walking away.

**GD:** It goes back to the ground rent picture. We've seen deals like that and we're always very concerned about what impact the rent has, on the profitability of the hotel. We don't lack for equity and we don't lack for debt. It is really about finding the right site at the right price and making sure that the key elements of the appraisal (project cost, cashflow and valuation) are aligned. Sometimes, outside of London this can break back too little or no land value and sometimes that is what is required to get something built, open and trading.

**SR:** Hilton wouldn't shy away from taking on ground rented hotels?

**GD:** Remember, it wouldn't be Hilton per se, as manager or franchisor which is taking the investment decision. It would be the individual investor who would undertake their own diligence and take independent advice. Clearly, we want to set up our investors for success so we will have an opinion and will voice it, if we can help in any way.

**SP:**It's about how much of the EBITDA that you sell and probably from a funder's perspective between 10% and 15% of the EBITDA is the max, or should be, we wouldn't be interested in anything higher than that. We've seen as much as 30% which is just astronomically high, it just doesn't work that EBITDA and rent will cross and the ones we've done we have done an awful lot of analysis on a worst case RPI uplift and plotted out over 50 years to see where EBITDA is. It's just an added complication and you know that rent has to be paid if you are to retain your asset. Why do we want an operational cost like that, a rising cost like that ahead of the bank? It doesn't work for us.

**PN: As a bank, what trends are you seeing in the provision of debt financing? How do you compete as a traditional lender?**

**AP:** I guess traditionally banks are relationship driven and that's the biggest differential between that and the alternatives. There is always going to be someone offering cheaper money, less covenant restrictions but I think most banks will gather their business through word of mouth, reputation and through networking. Fortunately, there is enough business out there so we're not seeing a huge impact from the alternatives and the impact we see are the deals we don't want to do which is what we have talked about.

If you have a ground rent scenario we will stay away from that and an alternative will come in, take a greater risk and price with a higher margin. I think there is some talk around the London market. The main banks typically struggle because of covenant restrictions on the London market where value is around 20/22 times YP and I think there is probably an adjustment that banks generally need to make in their policies for the London Market to bridge the gap between how the alternatives consider the London market. I think the relationship is important and if, and when, we see a downturn in the hotel market the ability to talk to a bank and work through those difficulties will probably come into its own.

**SP:** I think it's important that we remember senior funders like Andy and I we are not LTV lenders. We view these hotels as living breathing cash flow led assets. They are not just a lump of real estate and we treat them and finance them in that way where it's leverage first and value is important but secondary. I think one of the things I see as changing and it is as the market heats up and the competition is increasing there is a massive weight of capital that the debt funds and institutions have to deploy which is putting pressure on people to spend money and to buy assets, to build assets and alongside that are the funds and some lenders looking at things on purely LTV basis rather than a cash flow basis and that concerns me, particularly when we think about a cyclical hotel market.

You know one of the lessons we've had to learn from the past is don't over leverage your asset because in a downturn that is what will cause you problems. Some of this more LTV lending that is becoming more prevalent in is a cause for concern and we're seeing it in London. Look we'll take a bit of an LTV view in London and we'll do up to 11 times in London for a zone one asset that is stabilised but it will only take you to 55% LTV so it is not massively ground-breaking and I think the people who are doing 60%-65% in London are probably a bit more insulated. But we're are still seeing some stuff in the regions as well that are LTV led, 65%-70% lending that is, that would be very difficult for us to get comfortable with. This is one aspect of the changing market.

**PN - What are the right areas of the market to be investing/developing in both geographically and sectors.**

**AP** – Serviced apartments will continue to grow. That is an area where we will see further development and growth whereas airbnb is an offering for some but not for all. There are concerns that some locations have too many beds so saturation could be a concern. I think coastal locations are interesting as it offers good value for money. To compensate for the seasonality an operator needs to work on the corporate and F&B aspect of the business.

**KC** – We see from our feasibility studies and debt financing an increasing body of serviced apartments coming through - it is something like 10% to 15% of our work while three or four years ago we would perhaps get a handful during the course of the year. Airbnb is making people aware of the fact that there are options to stay in places that perhaps give you more space and people not comfortable with Airbnb are turning to serviced apartments, particularly families and corporate guests.

**JL** – We still see a structural growth opportunity in the budget branded sector. The mix of quality and value in Whitbread's hotel brands enables market share gains, supported by ongoing investment in our product. The UK and Germany remain the focus of our expansion drive using a network plan focussed on optimising sales and returns.

**JL** – The rise of Airbnb is a very interesting phenomenon. I have used it and enjoyed it but I have had a higher frequency of dodgy experiences than good ones! There is certainly a market for it and we have adjusted our network plan to reflect it but we are seeing, more than anything, that that customers value consistency of the product in terms of the finish of the bedroom, the speed of the wifi, the quality of the shower, and a comfortable bed that we can offer. There is a big skew towards leisure too with Airbnb – about 80%, whereas we are broadly 50:50 business and leisure. We are not complacent about it but we offer different products in the market and I think it is an area where we feel quite prepared to deal with it.

**PN – So what are your predictions for the sector this year?**

**SP** – We remain cautiously optimistic about the market. We will continue to fund in the development space in key locations. The hotel market is resilient and will continue to be and it is those assets with good brands in good locations that will continue to perform well.

**KC** – I think as we look forward this year the expectation is that average rate growth and revpar growth is not going to be as strong as it has been historically and therefore with capital value returns not likely to be as strong as they have been it might push investors to look at more secondary markets where they are buying in at a higher yield rather than going into the more traditional locations and getting a lower yield but perhaps not getting that capital growth going forward with new supply coming in and lower rate growth.

**NS** – A half point yield shift for well-branded limited service hotels in good regional centres.

**GD** – We are seeing a deeper dive into the regions. We have for many years, been very prevalent in the big cities, major airports and around strong sporting franchises. Following on from this, our investors see strong returns in smaller towns and cities that may not have been on their radar four or five years ago.

Again providing we can see the reason to make an investment we will be appearing in some towns that may surprise people. The strength of the Hilton engine does enable us to drive additional business into a location but also allows us to take significant market share from our competitors. A brand new, great-looking and efficient to operate hotel, that is very compelling for both investors and hotel guests.

**AP** – Despite Brexit or no Brexit, the sector is in a very good position. Money is cheap and with the positives of the exchange rates and tourism, the sector is in a good place. We will continue to see growth this year. Regional assets will increase, local authorities will continue to regenerate locations, and the major cities will look at limited service hotels and serviced apartments where profit margins are greater.

**JL** –Against the backdrop of a widening number of operators in our budget branded sector, we have to keep innovating to stay ahead and to deliver the right product in the right locations for our customers. We are well on our way to achieving more than 85,000 rooms and are opening a new hotel roughly every 2 weeks at the moment, most of which are maturing ahead of expectation, giving us the confidence to keep growing

**SR** – We will see continued robust demand for fixed income investments but I can't envisage significant yield shift either way. Turbulent times tend to increase demand. I certainly foresee the rise and rise of council buyers and I think we will see a tidal wave of institutional investment into management contracted space. It's hovering currently but I feel it will launch in 2019.

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