

Melvin Gold Consulting

Specialist Consultant to the Hotel Industry

BPS Chartered Surveyors
215a High Street
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1 April 2025

Dear Sirs

Re: Proposed Hotel Development in Shaftesbury Avenue, London WC2

Many thanks for forwarding Montagu Evans' Response to BPS "Independent Viability Review" dated 27 March 2025. As requested I have considered the comments that they have made in respect of the hotel aspect. As I have noted where appropriate, some of the issues, related to the valuation, are within your remit rather than mine.

The main issue that Montagu Evans have highlighted is that the estimated profit conversion in their FVA is higher than in my estimates. I have provided a line by line approach as compared to their summary approach. Although they claim that CitizenM achieve higher levels they have provided no evidence of this and there is actually no assistance provided to this process by CitizenM. They have not acknowledged that some of the difference in value emanates from the build up to optimum trading in the early years which is normal in new hotels. They also suggest that the Average Daily Rate in their calculations is only applicable after inflation (Compound Annual Growth of 3%) and would therefore not be applicable in present values. Our approach facilitates a current value (2025) reflection of earnings and consequently, we assume, so does your valuation.

On the subsequent pages I have provided comments adjacent to the comments in Montagu Evans's response as I feel this is the most appropriate way to address the points raised in a transparent way.

Overall, there is no new information provided – particularly anything specific from CitizenM – and I believe that my original report remains valid as background to the hotel component of this proposal and as input to your valuation.

Yours faithfully



Signature

Melvin Gold
Hotel Industry Consultant

Montagu Evans Comment	Melvin Gold Consulting response
The main driver of the difference of opinion between us on the deliverability of the proposed scheme is hotel revenues. You have sought specialist hotel advice from Melvin Gold. Your adopted hotel revenues for the proposed scheme are £112.17m which is a circa 25% discount to our adopted £147.70m.	There seems to be a difference of terminology here. The figures quotes are not hotel revenues but we believe are hotel values and do not come from our report. They may be a function of our specialist hotel input but are BPS Chartered Surveyor outputs. We confine our comments to the output of our report.
Mr Gold:	
Seeks further detail of the hotel element of the proposals, particularly in respect of the CitizenM brand and competitive positioning.	We have provided various comments on the CitizenM brand in section 4 of our report, mainly from their website. This includes recognition of the uniqueness of the brand. The 'further detail' that we would require can only be provided by CitizenM in our opinion and would reflect their competitive positioning and performance.
Considers our adopted 50% NOI to be overstated and seeks evidence that this is a level that CitizenM are achieving or believe they would achieve.	
Considers our 5.00% yield to be bullish and more appropriate for budget brands.	We refer readers to our full comments on pages 27 to 29 of our report which contain more nuance and detail than this summation. We also draw attention, once again, to the fact that we are not valuers but have reviewed the information and evidence provided. The valuation output is from BPS Chartered Surveyors who may take account of our comments, or disregard them if they have a different view.
We respond to each of Mr Gold's concerns in turn below.	
CitizenM Brand & Competitive Positioning	
CitizenM is a relatively new entrant into the hotel market (2008). They offer luxury fittings and technology in a compact room. This enables them to achieve premium rates far in excess of the equivalent hotels with similar sized room.	Noted and agreed. See section 4 of our report for more detail

They combine this with stylish communal spaces designed to appeal to a younger demographic combined with strong branding and social media that drives extremely high loyalty and return bookings.	Noted and agreed. See section 4 of our report for more detail
They have also invested in a highly efficient centralised service offering lowering on-site fixed costs and back of house staffing ensuring industry leading revenue conversion percentages.	Please provide more detail and especially on the way that this impacts their operations and financial performance. This is exactly the type of information and evidence that we expected that CitizenM would have provided.
These factors combine to drive high relative ADRs, lower than average cost of customer acquisition, high conversion of revenue to NOP all within the most efficient footprint in the industry.	Please provide more detail and especially on the way that this impacts their operations and financial performance. This is exactly the type of information and evidence that we expected that CitizenM would have provided.
This model has proved hard to replicate by the large brands resulting in Marriott's recent bid to acquire the business and its technology and IP.	We are aware that some CitizenM's investors explored the market for sale of their shareholding previously but this did not reach a transaction. We are unaware of Marriott's interest in the company and internet searches do not reveal such a transaction or potential transaction. Please provide more information including the agreed pricing and other information as it does not appear to be in the public domain.
Evidence that 50% NOI is Achievable	
The Applicant has a long-established relationship with CitizenM (CM), with this being the second hotel that is being developed to be owned and held for operational income under a hotel management agreement.	This was not revealed previously although our research indicated that some or all of the investors in this scheme are involved in the Olympia scheme. Please provide more information.
1. Occupancy: Full year forecast for the entire London portfolio of CM is between 82%-87% occupancy. Our projection of 85% sits within this range, despite our location in the West End Theatre District benefitting from 7-day activity (while other CM locations are geared more towards business travellers).	We note these comments but we have already adopted the 85% Occupancy level when the property achieves stabilised trading. It is normal for hotels to require a build-up before achieving optimum performance. Montagu Evans approach does not reflect such build up and only considers stabilised performance.
2. ADR: CM forecast London portfolio average ADR at exit is between £202-£216 based on £164-£176 YTD and a 3% compound annual growth rate. We anticipate being at the top end of this existing range, with an ADR of £215 due to the superior location on Shaftesbury Avenue.	Again, we have used the £215 ADR figure at stabilisation. Please note the above comments on build up. The Montagu Evans comment is confusing as it suggests that a 3% CAG rate is required to achieve that and it is not based on present values. We have used the figure of £215 ADR in present values. If that is not the case in Montagu Evans presentation then additional de-inflation would be required to represent present values, in addition to the build-up to optimum performance.

<p>3. EBITDA Margin: 50% EBITDA margin is inclusive of HMA fees. CM have reported EBITDA margins of greater than 50% across various locations and in multiple years.</p>	<p>Although we have adopted the same level of revenue for the hotel as Montagu Evans, at stabilisation, we have a different view of profitability at the Ebitda level. We have illustrated our profit estimate on a line by line basis using industry norms and our relevant knowledge and experience.</p> <p>Montagu Evans have not shown any line by line cost basis in their own presentation and neither has any information been provided by CitizenM. Montagu Evans now state that “CM have reported EBITDA margins of greater than 50% across various locations and in multiple years.” Where is this reported? We would require such information direct from CitizenM, for some or all of its London hotels, in order to provide an evidence base to support Montagu Evans estimates. We would be prepared to receive such information on a direct and confidential basis in order to support the profitability.</p>
<p>Appropriateness of 5.00% Yield</p>	
<p>The Applicant believes that the CM product is uniquely positioned in the market to generate higher margins than its competitor set and further believe that the attractive location and unique partnership with Cirque du Soleil will add a premium to the expected exit yield. Indeed, they have had a number of unsolicited approaches from hotel investors on the basis of the economics presented.</p>	<p>We note this comment and as stated above and within or report, we are not the valuers in this assignment. We have provided commentary on pages 27 to 29 of our report both to assist BPS Chartered Surveyors and also other readers of this report.</p>