



GERALDEVE

Mr Simon Elmer
The Bedford Estate
29a Montague Street
London
WC1B 5BZ

72 Welbeck Street London W1G 0AY
Tel. 020 7493 3338
www.geraldeve.com

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Our ref: RM/WK

Dear Sir

The Ruskin Hotel, 23-24 Montague Street, London, WC1B 5BH
Re: Desktop Hotel Market Review

In the relation to the above, and further to our Pre-application Enquiry dated 19 August 2016 (ref. 2016/4697/PRE), we provide below a summary of the existing use of the property together with background information on the local hotel market.

The property was inspected by Gerald Eve LLP on 28 June 2016 with access provided to all the internal areas.

The Property

The property currently trades as 'The Ruskin Hotel', operating on a bed and breakfast basis. The business is advertised on third party intermediary booking sites such as Booking.com, however it does not appear to have its own dedicated website.

According to information supplied, the business trades with 34 bedrooms of which eight rooms include en-suite facilities. We understand that there are approximately 60 bed spaces, indicating that the majority of the bedroom inventory is 'double' in categorisation. In terms of shared bathroom facilities, there are five showers and six WC's. Ancillary guest facilities include a breakfast room and lounge, both of which are located at basement level. Back-of-house facilities include a small kitchen, serving the breakfast room, and various stores.

In general terms, the internal specification of the property is poor in comparison to competitive bed and breakfast operations in the local market. The fact that only 24% of the bedroom stock includes en-suite facilities also places the hotel at a disadvantage in terms of competitiveness. The property has one guest lift which is dated (reportedly installed in 1976) and in need of refurbishment.

Availability searches on Booking.com report full occupation for the next three months indicating that the operator is no longer selling rooms via this site. However, according to information supplied we understand that the business is charging tariffs of between £75 - £95 per night for a double bedroom. In terms of average occupancy levels, the operator has indicated guest volume in the region of 90%. The latter key performance indicator (KPI) seems high in the context of local market benchmarks, with market intelligence suggesting average occupancy levels typically in the range of 85% - 87%. An achievement of occupancy at approximately 90% is likely to be countered by a relatively low average daily rate (ADR), with hotel operators typically pursuing a yield management strategy of chasing one KPI at the expense of the other.

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Location

The property is located midway along Montague Street, which links Great Russell Street and Russell Square. The nearest underground stations are Holborn (Central and Piccadilly lines) and Russell Square (Piccadilly), both within short walking distance.

Montague Street is an established location for midmarket and upscale hotels which include Montague on the Gardens (4-star) and two 4-star Grange Hotels (White Hall and Blooms). Accordingly, demand for hotel accommodation in this location is fairly robust given its proximity to key leisure demand drivers such as The British Museum and Covent Garden. Further details are provided below within the 'Hotel Market' section of this letter.

Property Description

A mid-terraced former townhouse constructed over basement, ground and three upper levels. The construction is brick with stucco plaster to basement and ground floors at the front elevation. The property is Grade II Listed and situated within the Bloomsbury Conservation Area.

Condition

Following our visual inspection of the property, we would comment that the internal areas of the building are notably dated with fixtures, fittings and equipment (FF&E) basic in appearance and general decoration/appearance being poor in the context of market standards. The existing use of the property is a budget bed and breakfast hotel operation (approximate 2-star standard), whilst the majority of existing supply within the immediate vicinity are 3 or 4-star in categorisation. The lack of comprehensive en-suite bathroom facilities compounds the quality differential further, however remedial options in providing said facilities are limited given the restrictive configuration of the building, small room sizes and lack of ancillary space. The growth of the budget hotel market has enhanced the competitive environment further, particularly amongst limited-service hotels such as the subject property. This segment of the market has effectively provided more price-sensitive guests with a modern hotel product in central locations. The specification of the property in comparison to the majority of current supply is poor and remedial works would be required in order to conform to market standards.

In order to bring the guest accommodation in line with market norms for a limited-service 3-star hotel, we would expect a full replacement of the FF&E and en-suite bathrooms and re-carpet/re-paint of all bedrooms and common areas. Market benchmarks for full FF&E replacement of both bedrooms and en-suite bathrooms would typically range between £15,000 to £20,000 per key (£510,000 - £680,000 in total). Furthermore, the vast majority of competitive hotels in the local market include full inventories of en-suite bedrooms. It is therefore difficult for the subject property to be directly competitive given the fact that only 8 out of 34 bedrooms (24%) include en-suite facilities. Accordingly, we would assume that a reasonably efficient market operator may look to reduce the room count in order to create bathroom facilities within each bedroom, thereby maintaining competitiveness and supporting future revenue growth. Should the property undergo reconfiguration rather than light refurbishment, additional development costs would be incurred such as finance costs (typically 6.5% - 7.5% on cost), contingency (c. 10% - 15% on cost) and professional fees (variable, but can typically be as high as 15% on cost).

Photographs of the bedrooms accommodation, taken at inspection, are included below for reference.



Bedroom



Corridor

Local Hotel Market

Bloomsbury is an established and popular hotel sub-market given the strength of accessibility and proximity to key demand drivers. The neighbourhood is within walking distance to a number of London Underground stations (Holborn, Russell Square, Euston and Kings Cross St Pancras) and mainline railway stations (Euston and Kings Cross St Pancras) which is of considerable appeal to hotel guests. Leisure demand is robust given the vast number of tourist attractions which can be reached by foot – examples include The British Museum, Regents Park, The British Library and Covent Garden. Corporate demand is also buoyant given the proximity of the locale to the traditional office core of the West End, as well as the emerging office market of Kings Cross which is currently undergoing significant regeneration. Since November 2007, Kings Cross St Pancras Railway Station has acted as the terminus for Eurostar services to France and Belgium. Recent development projects include King's Cross Central, which is a major 65 acre mixed-use scheme which has resulted in range of high-end occupiers moving to the area or agreeing to pre-lets (the most notable of which being Google). The neighbourhood is also home to number of university campus's which generate a degree of demand for hotel accommodation. Said institutions include UCL, SOAS, Birkbeck and University of the Arts. Approximately 1 mile (1.6 km) to the south-west of the property is Oxford Circus, London's premier shopping area.

Supply

There is a large concentration of both budget and midscale hotel supply in and around the location of the subject property. According to the AM:PM Hotel data, supply of hotels within a 1 mile radius of the property (as at 1 November 2016) stands at 208 properties with a total number of rooms at 25,305. **Of this total supply, 128 hotels (15,668 keys) are classified as being located in Camden.** The majority of said supply is incorporated within the midmarket 4-star segment (comprising 29% of total rooms) followed by the 2-star/budget segment which comprises 24% of total rooms. Given the large volume of existing budget hotel supply, the potential loss of 34 rooms via the subject property would not have a material impact on supply of visitor accommodation in the local market.

We tabulate below a summary of existing hotel supply within a 1 mile radius of the subject property.

Category	No. of Hotels	Keys	Proportion (Keys)
2* +			
Budget	63	6,094	24%
3*	25	5,377	21%
4*	56	7,311	29%
5*	22	4,546	18%
Apts	29	1,172	5%
Hostel	13	805	3%
	208	25,305	

Pipeline

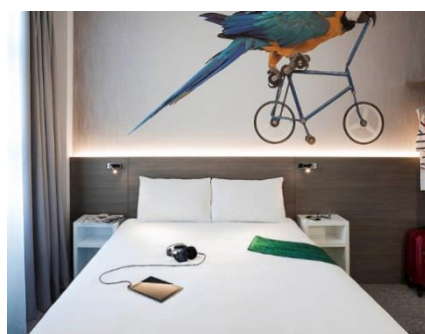
In terms of pipeline development, there are a further 66 hotels (5,932 rooms) planned within a one mile radius of the subject property. **Of this pipeline, approximately one third or 22 hotels (973 keys) are classified as being located in Camden.** This represents a sizeable uplift in future supply, equating to approximately 23% of existing room supply which will effectively increase competitiveness in the local hotel market further. **In terms of the pipeline development related specifically to Camden, the most significant schemes in terms of size are summarised below:**

- **LDN Hotel (166 keys) / Budget / Speculative**
- **Hub London Goodge Street (179 keys) / Budget / Due 2017**
- **Standard Hotel (270 keys) / 4-star / Due 2018**

Almost half of the total pipeline development is categorised as 2-star or budget which will provide direct competition to the operation of the subject property. The largest of the budget hotel schemes is the Ibis Styles Piccadilly Circus which will provide an additional 583 keys into the market. This scheme is located out with the London Borough of Camden and is significantly larger in size. For reference purposes, we include below a photograph of the Ibis Styles Kensington which, as with the subject property, is accommodated within a refurbished period Georgian building.



Reception



Bedroom

We tabulate below a summary of pipeline development within a 1 mile radius of the subject property.

Category	No. of Hotels	Keys	Proportion (Keys)
2* +			
Budget	20	2,643	45%
3*	4	207	3%
4*	23	1,808	30%
5*	14	1,001	17%
Apts	5	273	5%
Hostel	0	0	0%
	66	5,932	

Summary

In conclusion, the ongoing development of the budget hotel segment is effectively providing direct competition to existing bed and breakfast operations such as the subject property. Said properties offer guests a modern hotel product, with en-suite bedrooms, at a similar price point. The marked level of growth in the sector is clearly illustrated in the volume of supply with the presence of 6,094 2-star/budget hotel rooms within a 1 mile radius of the property (as at 1 November 2016). Compounding the competitive factor further is the number of pipeline developments due to enter the market in the future, estimated at 2,643 rooms (across 20 budget hotels). As aforementioned, this represents 23% of the existing supply and will provide a considerable degree of additional competition to existing hotel businesses. The absence of en-suite bedrooms within the subject property is a key issue in enabling the business to compete directly with the large volume of existing and new budget supply entering the market. The poor internal specification within the subject property, together with its lack of product uniformity, is another factor in this issue. As such, a degree of capital expenditure would arguably be required in the short to medium term in order to support future trading levels. As discussed on page 2 of this document, refurbishment works to the existing rooms inventory could equate to between £510,000 to £680,000 excluding additional costs in relation to the common areas. This cost would likely increase further should a more comprehensive reconfiguration of the accommodation be deemed necessary.

We trust this brief overview provides the information required but please do not hesitate to contact me if you require clarification or further information.

Yours faithfully



Reza Mokarram MRICS
Senior Associate

rmokarram@geraldeve.com
Direct tel. 020 7333 6217
Mobile 07780 481578