PROPOSED UPSCALE HOTEL DEVELOPMENT, SHAFTESBURY AVENUE, LONDON WC2

Feasibility Study

On Behalf of CapitalStart Ltd

December 2017

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Haim Danous of
Capitalstart Ltd   18 December 2017
25 Northumberland Avenue
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Dear Haim

PROPOSED UPSCALE HOTEL DEVELOPMENT, SHAFTESBURY AVENUE, LONDON WC2

We are pleased to present our report on the Proposed Upscale Hotel Development at 129-135 Shaftesbury Avenue, London WC2H 8AH. The scope of our work is detailed in our proposal of October 2017.

The report includes a site appraisal and analysis of the market in which the proposed hotel will compete and provides comments and recommendations on the identified development opportunity, as well as projections of estimated revenue, costs and operating profit for the first five years of operation. The research process adopted for this study is presented in Section 1 of the report, as well as a list of those organisations and persons contacted during the course of our research. d

We do not guarantee the fulfilment of any estimates contained within this letter report, although they have been conscientiously prepared by us on the basis of our research and information made available to us at the time of our study. No allowance has been made for the effects of possible dislocation consequent upon subsequent changes in political or economic policies in the United Kingdom or elsewhere.

As is customary with market studies, our findings should be regarded as valid for a limited period of time and should be subject to examination at regular intervals.

This report has been prepared for the information of Mr Haim Danous of Capitalstart Ltd and for presentation to relevant third parties. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent, which will not be unreasonably withheld.

We have welcomed the opportunity of preparing this report on your behalf and would be pleased to discuss it with you if so required, or to answer any queries which may arise.

Yours sincerely

Roddy Watt
CEO

Nick Howat
Strategy & Investment

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Executive Summary

EXECUTIVE SUMMARY

■ Based on our research we consider there to be a clear market opportunity for the development of an upscale hotel at the identified site on Shaftesbury Avenue, London, WC2.

■ The site benefits from an excellent strategic location in central London in the Borough of Camden, with excellent connectivity to major generators of commercial and leisure demand of local and national significance.

■ Whilst the immediate surround of the site suffers from congestion and there is a homelessness issue to rear of the building, these issues will be carefully managed so as not to detract from the project overall and the area is likely to be subject to regeneration in the medium to long-term in line with the realisation of the Borough of Camden Public Realm Masterplan.

■ We envisage the growth in headline performance at hotels in the local market is set to continue as key redevelopment projects in the Borough of Camden, Westminster and City of London drive accommodation demand, supported by a strong economic outlook for London.

■ Based on the information and assumptions detailed in this report, the following table summarises our profit and loss projections for the proposed hotel development on Shaftesbury Avenue, London WC2 in actual year values (assuming an opening date in 2022). The projections assume a 94-bedroom branded upscale hotel.

Proposed Hotel Development, Shaftesbury Avenue
Summary of Estimated Profit and Loss (2017 Values)

OPERATING PERIOD (Ending 31 December)		YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Rooms Available		94	94	94	94	94
Average Annual Room Occupancy	%	75.5	80.6	83.5	83.5	83.5
Average Room Rate	£	231.81	236.85	238.53	238.53	238.53
Total Revenue	£000s	6,584.7	7,259.7	7,646.9	7,646.9	7,646.9
Gross Operating Profit	£000s	3,172.7	3,620.2	3,898.0	3,898.0	3,898.0
Gross Operating Profit as a Percentage of Total Revenue	%	48.2	49.9	51.0	51.0	51.0
EBITDA (post FF&E)	£000s	2,586.1	2,894.7	2,976.7	2,976.7	2,976.7
EBITDA (post FF&E) as a Percentage of Total Revenue	%	38.3	38.9	38.9	38.9	38.9

■ Based on our research, we project the Gross Operating Profit per Room for the Proposed Upscale Hotel Development in the third and stabilised year of operation to be approximately £41,500. We project the EBITDA per available room to be approximately £31,670 by the third and stabilised year of operation.

■ The full profit and loss statement for the first five years of operation is presented as Exhibit 1 (at 2017 values).

Background and Research

1 BACKGROUND AND RESEARCH

1.1 Background

Iceni Projects are planning and development consultants retained by Mr Haim Danous of Capitalstart Ltd, which have been commissioned to manage the planning process, producing the planning statement, heritage statements and other planning documents.

Capitalstart Ltd are a firm engaged in the development of building projects. Capitalstart Ltd has a history of successfully developing and operating hospitality operations in London, including the Indigo (IHG) Hotel at Tower Hill and the Thai Square Restaurant chain.

Capitalstart Ltd are the owners of the Odeon Cinema building on 129-135 Shaftesbury Avenue, London WC2H 8AH and wish to submit a planning application to convert the site into a boutique hotel of 94-bedrooms, with ancillary related facilities, including cinema, food, beverage and spa. Capitalstart Ltd wishes to assess the financial viability of such a project in this location.

- Capitalstart Ltd intends to franchise the M Gallery by Sofitel brand or equivalent, under which to operate the proposed upscale hotel, using their own management company, as an owner-operator;

- The hotel will be set above a restaurant, bar, lobby and reception at ground floor, with cinema and spa in the basement floors. Hotel bedrooms will be developed on six upper floors and will be developed to an upscale standard in order to maximise average daily rate (limited by size from being 5-star standard; fewer, but larger bedrooms could conceivably be built to meet 5-star standards, however the smaller bedroom count would negatively impact the hotel's ability to attract an international franchise brand).

- The cinema will be individually branded, but operated on the principals of "The Light" Cinema Experience (by Cinema Next) – a premium, mainstream cinema, exciting and inclusive, with reclining seats, higher quality descriptor branded food and alcoholic beverages. It is typically a second screening venue, offering better value tickets for the showing of movies that are not quite the latest releases, all set in comfortable surroundings.

The Hotel Management Company has been commissioned by Iceni Projects and Capitalstart Ltd to provide a feasibility study for a proposed upscale hotel development at their site on 129-135 Shaftesbury Avenue in London.

1.2 Research

In December 2017, we visited the proposed site and undertake research into the existing supply of and demand for hotel accommodation in the market. We assessed its accessibility as well as its suitability and relationship to other hotels, transport routes, commercial and tourist areas and other main facilities in London.

Background and Research

We analysed the existing, historic and future environment in which the proposed hotel will operate. During our field research, we:

- obtained current and historic market and operational data on the hotel, leisure and other relevant commercial sectors;

- determined the existing and future characteristics of markets, which we consider to be of relevance to this project;

- determined the present supply of hotel accommodation serving those markets and obtained available data from sources considered authoritative on other relevant planned developments;

- obtained other pertinent information relating to the economy, communications infrastructure and general economic development of the Borough of Camden and the City of Westminster; and

- assessed the economics of and general climate for the operation of the proposed hotel development.

In light of our primary and secondary research, we have assessed the current commercial and economic position of the area, its hotel and tourism industries and the likely future market environment. This market research has been used to help formulate our conclusions and financial projections for the proposed hotel development.

Statements of estimated profit and loss have been prepared and are presented as Exhibits at the end of this report. These estimates are prepared in accordance with the accepted Uniform System of Accounts for Hotels.

We have commented on the proposed hotel development on Shaftesbury Avenue, London in terms of the standard and scale of facilities and provided projections of utilisation and revenue which have been used to underpin profit projections.

Site and Location Characteristics

2   SITE AND LOCATION CHARACTERISTICS

2.1   Introduction

We present in the following section our analysis and comments regarding the site for the proposed hotel development, the communications infrastructure in and around London WC2 and the wider London area, as well as the general location characteristics.

2.2   Site and Location Appraisal

The following maps highlight the micro and macro location of the proposed site on Shaftesbury Avenue, London, as well as the location in proximity to major transport links, including primary thoroughfares (A40 New Oxford Street and the A400 Charing Cross Road) in London, and several underground stations.
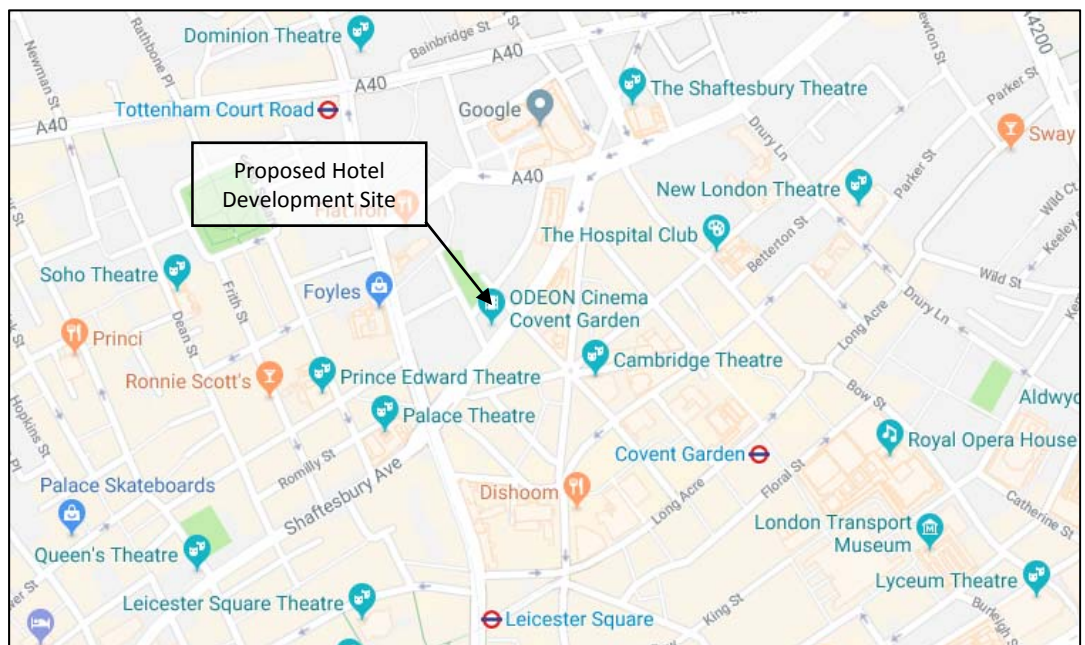
The proposed hotel will sit in the south-western corner of the Borough of Camden, which borders the City of Westminster (Marylebone, Soho and Covent Garden) along the Charing Cross Road and West Street to the west and Shelton Street to the south.

The site is almost directly opposite Mercer Street, to the south of Shaftesbury Avenue which is the northern most edge of the vibrant and historically significant Seven Dials sub-district. Camden then extends north to incorporate Camden Town, Chalk Farm, the Finchley Road and Hampstead Heath, while east it extends to meet The City of London, Clerkenwell, Barnsbury, Tufnell Park and Archway.

Site and Location Characteristics
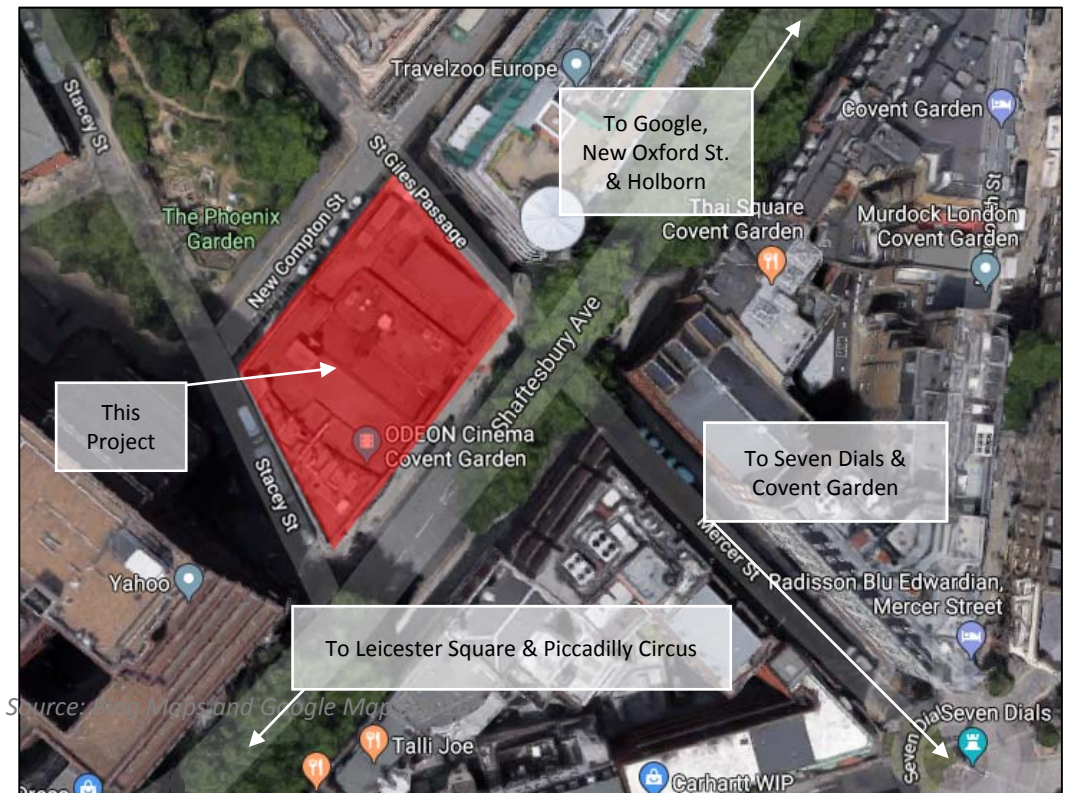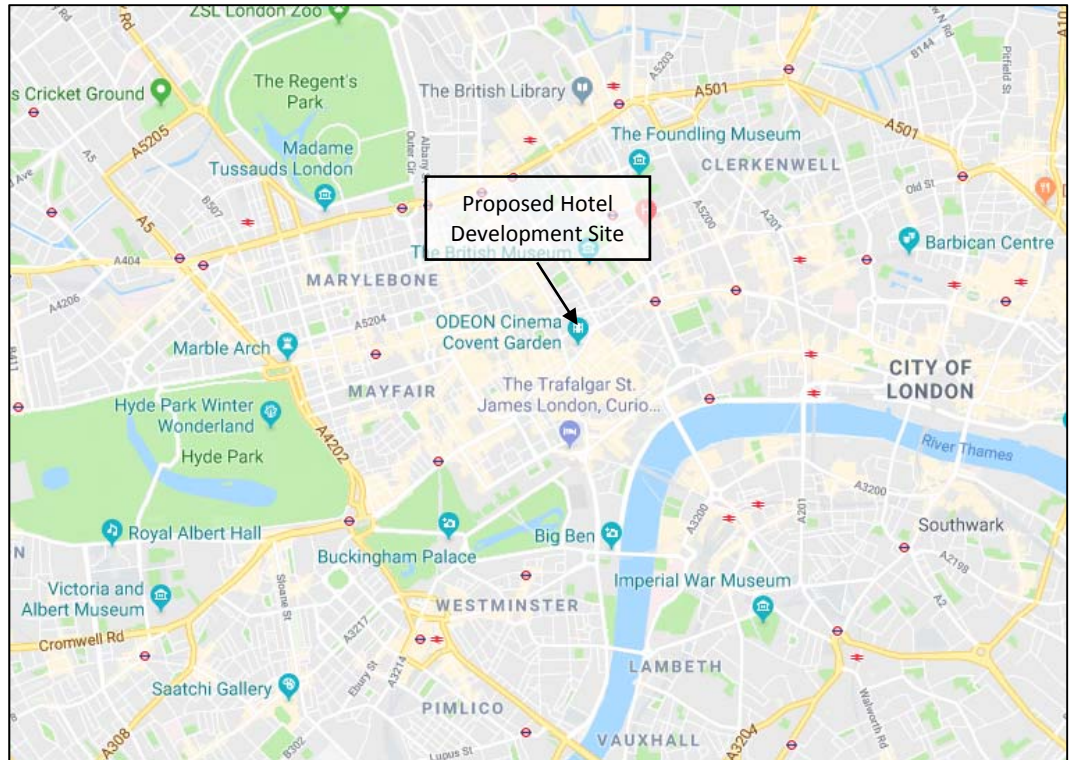
Source: Bing Maps and Google Maps

Site and Location Characteristics

Comment

■ The immediate surrounding area of the proposed hotel development is primarily comprised of ground floor retail units, offices, food and beverage outlets, generally with offices above on Shaftesbury Avenue. In addition, numerous hotels and other commercial premises and further retail outlets are all within a short walk, including those of Covent Garden and Soho.

■ The site is located next door to the offices of Yahoo (UK and Ireland), to the south-west, across Stacey Street on the northern side of Shaftesbury Avenue. Approximately 80 metres further south-west is the junction with the Charing Cross Road (A400), at Cambridge Circus. The Charing Cross Road, which runs broadly north-south, is a major artery linking Leicester Square, Trafalgar Square, Westminster Palace and the Embankment to the south and Tottenham Court Road, Euston Road and Camden to the north. Further south west from the site, on Shaftesbury Avenue, is southern Soho, China Town and Piccadilly Circus.

■ The proposed hotel is around 350 metres from the 160,000 sqft Google Headquarters at St. Giles Circus. It is at this point that Shaftesbury Avenue also meets the A40 High Holborn (and New Oxford Street), around the corner from Tottenham Court Road and St. Giles Circus. High Holborn is one of the main east-west thoroughfares, connecting Mid-Town with the City of London to the east and Oxford Circus, the West End and Marble Arch in the opposite direction (albeit that much of the westbound route is accessible by public transport vehicles only).

■ The proposed hotel will sit in an area that is colloquially known as Theatreland and there are more than 20 theatres and 20 cinemas within a radius of 1,500 metres, as well as the Royal Academy of Dramatic Arts (RADA).

■ The various colleges of the University of London (UCL, LSE, and SOAS), as well as the Universities of Westminster, University of the Arts London and NYU London, all also add vibrancy to the local environment.

■ In addition to the London Underground stations of Covent Garden, Leicester Square and Tottenham Court Road that are all within 300 metres, the railway stations of Charing Cross and Euston are within 0.4 of a mile (south-south-east) and a mile (north-north-west) respectively. Covent Garden and Leicester Square are both on the Piccadilly Line (which connects directly with Green Park, Knightsbridge, Kensington, and Heathrow to the west, as well as King's Cross Station to the north). Leicester Square Station is also on the Northern Line, which links to Charing Cross, Embankment and Waterloo (to the south), while Tottenham Court Road station is on the Central Line, which links to Oxford Circus, Notting Hill Gate (to the west) and Bank, Liverpool Street and Stratford to the east.

■ Tottenham Court Road Station will also be on both Crossrail 1 (Elizabeth Line) and Crossrail 2, which will provide even greater access around the capital, Greater London, the South-East and internationally. The station is currently undergoing a £1 billion redevelopment at and below ground, while above, developer Almacantar is conducting a full refurbishment of the iconic Centre Point tower (converting it to residential use).

Site and Location Characteristics

- As indicated, the proposed hotel is well located within walking distance of key commercial demand generators, but is also highly accessible from the major commercial hubs of Covent Garden (and Covent Garden Piazza), Soho, Holborn, Fitzrovia, and The City, as well as the seat of government in Westminster.

- The hotel site is also located in proximity to some of London's leading tourist attractions including the British Museum (#1 top visitor attraction, 6.42 million visitors 2016), the Barbican Centre, the National Gallery (#2 top visitor attraction, 6.26 million visitors 2016), Somerset House (#6 top visitor attraction, 3.44 million visitors 2016), and the National Portrait Gallery (#11 top visitor attraction, 1.95 million visitors 2016).

- The site is adjacent to one of the most significant public-sector regeneration projects to take place in Camden at Seven Dials that is home to over 200 shops, restaurants and bars, as well as five theatres and two hotels. The works are focused on improvement of the public realm on a 4.8-hectare site immediately south of Shaftesbury Avenue, bounded by Endell Street to the east, Tower Street to the west and Shelton Street to the south.

2.3 Communications

Road

Due to its proximity to the A40 and High Holborn and the A400 Charing Cross Road, the site benefits from excellent road communications links to the north on to the A501 Euston Road, and from there the M40 and M25 and subsequent UK motorway network. In the following table we provide approximate distances and travel times (by road) from the proposed hotel to key locations within London and the UK. We note that due to periods of congestion in Greater London, the stated drive times are for indicative purposes only.

Site and Location Characteristics

The table below presents approximate drive times to the proposed development site from major cities within the UK.

Approximate Drive Times

From Key Locations to the Proposed Hotel Development

KEY LOCATIONS	DISTANCE BY ROAD	APPROXIMATE DRIVE TIME
LONDON LOCATIONS		
Covent Garden	0.6 miles	<10 minutes
Oxford Circus	1.0 miles	10 minutes
Kings Cross/St Pancras	1.9 miles	15 minutes
Hyde Park Corner	2.4 miles	20 minutes
Liverpool Street	2.6 miles	25 minutes
Paddington	2.9 miles	25 minutes
LONDON AIRPORTS		
City	9.2 miles	40 minutes
Heathrow	17.8 miles	1 hour
Gatwick	28.3 miles	1 hour 25 minutes
Stansted	40.2 miles	1 hour 15 minutes
UK LOCATIONS		
Birmingham	126 miles	2 hours 30 minutes
Manchester	208 miles	4 hours

Source: Google Maps, 2017

Rail and London Underground

The proposed hotel development site is located within walking distance of a number of London Underground and Overground stations, as illustrated in the following table.

Approximate Walking Distance

From the Proposed Hotel to London Underground & Overground Stations

STATION	APPROXIMATE DISTANCE	APPROXIMATE WALKING TIME
UNDERGROUND		
Covent Garden	0.2 miles	5 minutes
Leicester Square	0.2 miles	5 minutes
Tottenham Court Road	0.3 miles	6 minutes
Holborn	0.5 miles	9 minutes
Piccadilly Circus	0.5 miles	11 minutes
MAINLINE RAILWAY		
Charing Cross	0.5 miles	11 minutes
Waterloo	1.1 miles	25 minutes
Euston	1.2 miles	25 minutes
Farringdon	1.2 miles	25 minutes
Kings Cross St Pancras Eurostar	1.7 miles	37 minutes
Victoria	1.9 miles	40 minutes

Source: Google Maps, 2017

Site and Location Characteristics

In the following table we provide approximate travel times from London Underground stations located within walking distance of the proposed hotel development site to key locations within London and the UK by London Underground and National Rail. The following table illustrates the excellent connectivity of the proposed hotel to key locations throughout London.

Approximate Travel Times by London Underground & Overground

From Key Locations to the Proposed Hotel Development

KEY LOCATIONS	APPROXIMATE TRAVEL TIME	DEPARTURE STATION
LONDON LOCATIONS VIA LONDON UNDERGROUND		
Oxford Circus	7 minutes	Tottenham Court Road
Hyde Park Corner	11 minutes	Leicester Square
Waterloo	11 minutes	Leicester Square
Kings Cross/St Pancras	13 minutes	Covent Garden
Victoria	13 minutes	Leicester Square
Liverpool Street	19 minutes	Tottenham Court Road
Paddington	24 minutes	Tottenham Court Road
LONDON AIRPORTS VIA LONDON UNDERGROUND & OVERGROUND		
City	40 minutes	Tottenham Court Road
Heathrow	50 minutes	Piccadilly Circus
	1 hour	Leicester Square
Gatwick	55 minutes	Leicester Square
Stansted	1 hour 10 minutes	Tottenham Court Road
UK LOCATIONS VIA LONDON UNDERGROUND & OVERGROUND		
Birmingham	1 hour 40 minutes	Leicester Square
Manchester	2 hours 25 minutes	Leicester Square

Source: Google Maps, 2017

Crossrail

- The Crossrail project is a key railway link, currently under construction, which will provide a direct connection from West London to East London. Crossrail will significantly boost the rail network into and across London and reduce journey times, congestion and overcrowding on the existing rail networks to meet the substantial growth in demand for travel over the coming decades. Trains are expected to run at a schedule comparable to the underground and tickets will be integrated into the overall London transport system.

- While only one Crossrail station built within the Borough of Camden, which is the focus of the redevelopment at Tottenham Court Road, it will mean that the proposed hotel is only a matter of a few minutes' walk from the new line, which will be operational from late 2019/early 2020 and will offer up to 12 trains per hour in each direction

- As presented in the following table, the development of Crossrail at Tottenham Court Road will significantly reduce journey times to the City and Heathrow and will undoubtedly have a significant impact on the wider area, increasing its attractiveness as a business and shopping destination.

Site and Location Characteristics

Crossrail Approximate Journey Times
From Tottenham Court Road

TO	CURRENT	CROSSRAIL
Liverpool Street	13 minutes	5 minutes
Paddington	17 minutes	5 minutes
Canary Wharf	21 minutes	12 minutes
Heathrow Terminals 2&3	40 minutes	30 minutes

Source: Crossrail, 2017

Tottenham Court Road will also be the junction station between Crossrail 1 (the Elizabeth Line) and Crossrail 2, which will link Victoria, Clapham Junction and the south-west of Greater London to Euston St. Pancras and the north-east of the capital.

Air

■ **London City Airport** is located approximately nine miles east of the proposed hotel development and approximately 40 minutes journey time. City Airport is easily accessible by road and public transport, directly connected with the Docklands Light Railway. The airport is the closest private jet centre to The City and mainly serves the financial district of London.

At present, London City Airport serves 48 destinations in the UK and Europe, with transatlantic flights direct to New York (an exclusive business-class only flight operated by British Airways) currently operating two flights per day. The airport reported a year-on-year increase of approximately five per cent in passenger numbers in 2016 to a total of 4.5 million terminal passengers, after investing approximately £7 million into the terminal in recent years.

■ **London Heathrow Airport** is located approximately 18 miles west of the proposed hotel and approximately one hours' drive-time. The airport can also be reached within 50 minutes via London Underground (from Piccadilly Circus, via the Bakerloo line and Heathrow Express).

Heathrow is London's foremost airport with 75.7 million passengers handled in 2016. The airport is a European and worldwide hub for many national carriers and alliances and is the main entry point for the majority of long haul traffic into the UK.

The continued development and expansion at Heathrow, including a potential third runway, will inevitably have widespread ramifications on the economic growth and prosperity of the areas surrounding the airport and London in general.

■ **London Gatwick Airport** is located approximately 28 miles south of the proposed hotel and can be reached within approximately 55 minutes via the Piccadilly and Victoria Lines and the Gatwick Express.

Site and Location Characteristics

London Gatwick is the second busiest airport in the UK, handling over 43.1 million passengers in 2016. Gatwick has recently established a record of becoming the world's busiest single-use runway, with an aircraft taking off or landing every 63 seconds.

After the sale of the airport in 2009 to GIP, a vast improvement plan of £1.2 billion was announced and was completed at the end of 2014. An additional £1 billion investment from 2014 to 2019 was agreed in February 2013.

■ **Stansted Airport** is located approximately 40 miles north of the proposed hotel and can be reached via the Central Line to Liverpool Street Station.

London Stansted airport is owned and operated by Manchester Airports Group and currently serves over 170 destinations across Europe, North Africa, Central and North America. It was the fourth busiest airport in the UK and handled a total of 24.3 million passengers in 2016.

Market Environment

3   MARKET ENVIRONMENT

3.1 Introduction

This section examines the demographic and economic characteristics of the Borough of Camden, as well as the City of Westminster, and the wider London market, profiling current employment rates, employment structure and significant regeneration projects in the surrounding area. We also examine the local tourism industry, detailing seasonality and sources of demand.

3.2 Economic Profile

The proposed hotel development on Shaftesbury Avenue, is located at the southwestern corner of the Borough of Camden and is within 100 metres of the border with the City of Westminster Borough. Cumulatively, the population of the two boroughs has increased by around 37.5 per cent since 1995, to approximately 493,800 people (from 365,700). The population increase is well ahead of the growth in London over the same period, which was approximately 25 per cent.

The following table illustrates the demographic profile for Camden and City of Westminster Boroughs, detailing the Boroughs' population, education and pay levels.

Resident Population, Gross Pay and Qualification Statistics

		Camden	City of Westminster	LONDON
Population (2017)	000s	179.4	157.7	8,787.9
Gross Weekly Pay by Residence (2017)	£	746.10	809.80	654.60
Unemployment (12 months to June 2017)	%	5.2	5.8	5.5
Non-Qualified Population (2016)	%	7.0	4.8	6.6
Population Qualified to Degree Level or Higher (2015)	%	58.7	61.3	51.9

Source: NOMIS, 2017

Comment

■ Camden is an affluent borough, with an average gross weekly pay of £746.10, which is compared to an average of £654.60 for London and £552.70 for the UK. The City of Westminster is also an affluent borough, with an even higher average weekly pay by place of residence of £809.80.

■ A high proportion of residents of the Borough of Camden (14 per cent) and Westminster (15.4 per cent) Boroughs occupy positions as 'Managers, Directors and Senior Officials' (Soc 2010 Major Group 1), compared to London (12.2 per cent).

■ Those people who are employed in 'Professional Occupations' and 'Associate Professional and Technical' positions in Camden (61.1 per cent) and Westminster (56.7 per cent) of jobs, is also significantly above the Greater London average at 43.0 per cent.

Market Environment

- Whilst the proportion of the population who were unemployed in Camden (5.2 per cent) in the 12 months to June 2017 is below London (5.5 per cent), the proportion of the population educated to degree level or higher in Camden (58.7 per cent) is well above London at 51.9 per cent. Westminster by comparison has unemployment at 5.8 per cent (higher than the London average) and an even higher proportion of people educated to degree level or above (61.3 per cent).

3.3 Employment Profile

The table below illustrates the employment structure in Camden and Westminster by industry compared to London averages for 2016 (latest available data).

Surrounding Area Employment Profile (2016)

	CAMDEN (000S)	CAMDEN (%)	WESTMINSTER (%)	LONDON (%)
GENERAL				
Total jobs (000s)	358,000	-	-	-
Full-time	275,000	76.8	78.5	73.8
Part-time	83,000	23.2	21.6	26.2
BY INDUSTRY SECTOR				
Mining and Quarrying	225	0.1	0.2	0.1
Manufacturing	3,500	1.0	0.6	2.2
Electricity, Gas, Steam & A/C Supply	1,250	0.3	0.2	0.2
Water Supply, Sewerage, Waste Mgmt	50	0.0	0.0	0.3
Construction	8,000	2.2	2.3	3.6
Wholesale and Retail Trade	25,000	7.0	9.9	11.4
Transportation and Storage	10,000	2.8	1.8	4.6
Accommodation and Food Services	29,000	8.1	12.6	8.0
Information and Communication	38,000	10.6	10.5	8.0
Financial and Insurance	11,000	3.1	6.8	7.5
Real Estate Activities	7,000	2.0	4.1	2.3
Professional, Scientific and Technical	86,000	24.0	19.2	14.8
Administrative and Support	31,000	8.7	7.8	10.5
Public Administration & Defence	12,000	3.4	8.2	4.2
Education	33,000	9.2	4.7	7.3
Human Health & Social Work	41,000	11.5	4.2	9.8
Arts, Entertainment & Recreation	11,000	3.1	3.5	2.6
Other Service Activities	11,000	3.1	3.5	2.6

Source: NOMIS, 2017

Market Environment

Comment

- The number of employee jobs in Camden has increased by approximately five per cent in the last year, to 358,000 in 2016 from 341,000 in 2015. Westminster has also seen an increase, albeit one of only one per cent, from 699,000 in 2015 to 707,000 in 2016.

- One of the biggest growth sectors has been 'Professional, Scientific and Technical Activities' which increased by 12.8 per cent to 86,000 employee jobs in 2016 and is now the largest segment in the borough, representing 24.0 per cent of all jobs (legal and accounting activities; activities of head offices; management consultancy activities). Significant professional organisations include: The Architectural Association, Lincoln's Inn and the Wellcome Trust.

- 11.5 per cent of workers are employed within the 'Human Health and Social Work Activities' segment, which is unsurprising with around 20 hospitals in the Borough, including University College, Great Ormond Street, National Hospital for Neurology and Neurosurgery and the Royal National Ear, Nose and Throat Hospital, as well as several of the Royal Medical and Veterinary Colleges.

- Other major employers located within Camden include Birkbeck, SOAS, UCL and London universities, as well as Goodenough College, the Royal Academy for Dramatic Arts, Central School for Speech and Drama, the Francis Crick Institute, the National Union of Students, Slade School of Fine Art and the Trades Union Congress. Other significant employers are the mainline railway stations (and related facilities) of Kings Cross St Pancras and Euston. Santander and Atlantic Books also have their headquarters in the borough, along with Yahoo (that employ around 700 across the UK and is next door to the development site) and Google, that employs around 2,000 people at their 15,000 sqm offices, three minutes away from this project, at St. Giles High St. In 2008, Yahoo was reportedly considering a plan to relocate to Geneva, however the Financial Times suggests that this has been limited to around 50 members of staff. Google is to develop a "Groundscraper" to accommodate some 5,000 employees at Kings Cross, however, it is reported that it is their intention to maintain their offices at St. Giles. Furthermore, Facebook has recently opened its 23,000 sqm UK headquarters less than half a mile away at Rathbone Place. Facebook employs 2,300 staff in London alone, is also building its incubator hub for start-ups (LDN_LAB) in this location.

Market Environment

3.4 Tourism Profile – London

Tourism is a key part of the London economy, valued at approximately £15 billion per annum, supported by 31.5 million visitors to the capital in 2016 (latest available data). In line with other global cities, London experienced a recessionary downturn between 2008 and 2012. Since then the market has recovered strongly, with the added impetus of hosting the Olympic Games in 2012.

Overseas Visitors to London by Purpose of Visit
2009 to 2016
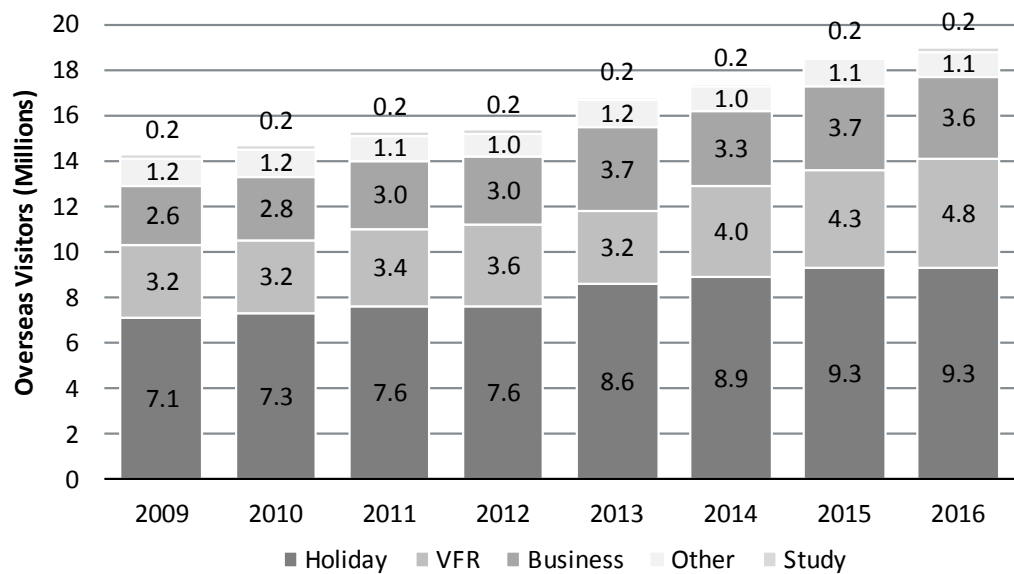
Source: Visit Britain, 2017

Comment

■ According to Forbes, London was the second most visited city in the world in 2016, behind only Bangkok.

■ The value of London's overseas visitor economy (measured in receipts) has increased by almost £4 billion in the period between 2008 and 2015, from £8.1 billion to £11.9 billion, equating to approximately a 47 per cent increase.

■ The number of nights spent in London by overseas visitors rose to 111 million in 2016, a year-on-year increase of 2.5 per cent, with the average length of stay remaining stable at approximately 5.8 nights.

■ The growth has continued into 2017 and been spurred by the low value of the Pound, which VisitBritain suggests has had a favourable impact on intent to travel to the UK from a range of countries.

Market Environment

- The number of visits from North America in Q1 2017 grew by 30 per cent on the same period last year to 569,000, with visitors spending £464 million (up 25 per cent). Strong growth was also seen from countries other than the US and Europe, with 813,000 visits, up 28 per cent on the first quarter of last year and spend up 32 per cent to £942 million.

- VisitBritain has been cautious in its forecast for 2017, estimating an increase in visitor numbers of +4.0 per cent to 38.7 million and an increase of eight per cent in visitor spending to £24.1 billion.

- While business visitors make up a lower proportion of London arrivals than either holiday visitors or those visiting friends and relatives (VFR), they are the second most valuable segment after overseas holidaymakers, with an average spend per visit almost double that of a leisure visitor. VFR visitors tend to have a lower spend because they are usually not paying for hotel accommodation.

- Europe accounts for around two-thirds of international visitors but less than 50 per cent of total visitor spend. On its own, the US is the most important source market, although France and Germany coming in second and third places have seen stronger growth rates over the past five years.

- Outside Europe, growth has come from South America (especially Brazil and Argentina), Hong Kong and China which have become increasingly important source markets. Simplification of visa requirements for Chinese visitors to the UK is expected to support further growth in the coming years. London & Partners estimates growth in visitors by a further 18 per cent over the next two years from Asia Pacific countries and by up to 34 per cent from Latin America.

3.5 Tourism Profile – Borough of Camden, City of Westminster and City of London

Using three-year averages, the Borough of Camden saw a total of 13.41 million day-visitors, who spent a total of £569 million. This compares to the boroughs of the City of Westminster (CoW) and the City of London (CoL), who saw 24.03 million visitors (spending £1.185 billion) and 43.13 million visitors (spending £2.912 billion). The total number of visitors for all three boroughs was 80.58 million, spending £4.666 billion.

Camden had 600,000 overnight visitors, who spent £152 million over 1.335 million nights, compared to CoW 1.31 million overnight visitors (spending £468 million over 2.32 million nights) and CoL 3.49 million overnight visitors (spending £1.15 billion over 7.29 million nights). The average spend per night for Camden was therefore £113.89, compared to £201.58 for CoW and £144.77 for CoL.

Market Environment

Overnight visitor numbers, nights and average spends by purpose of visit
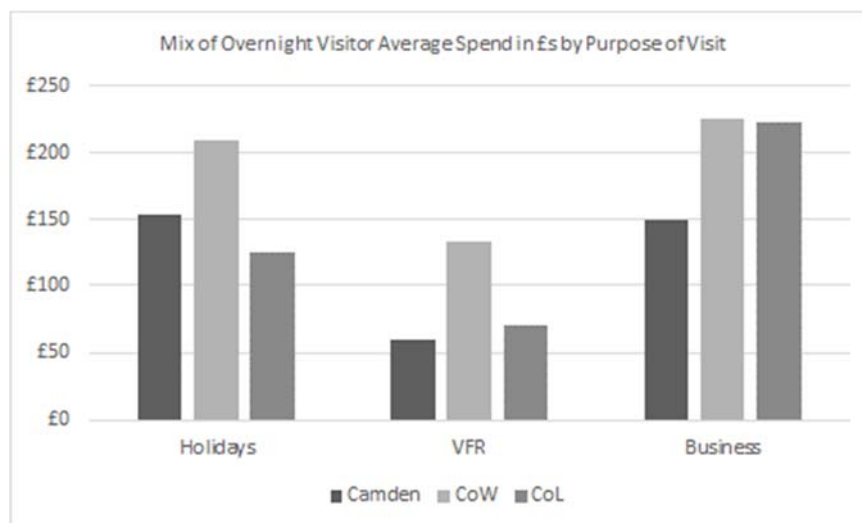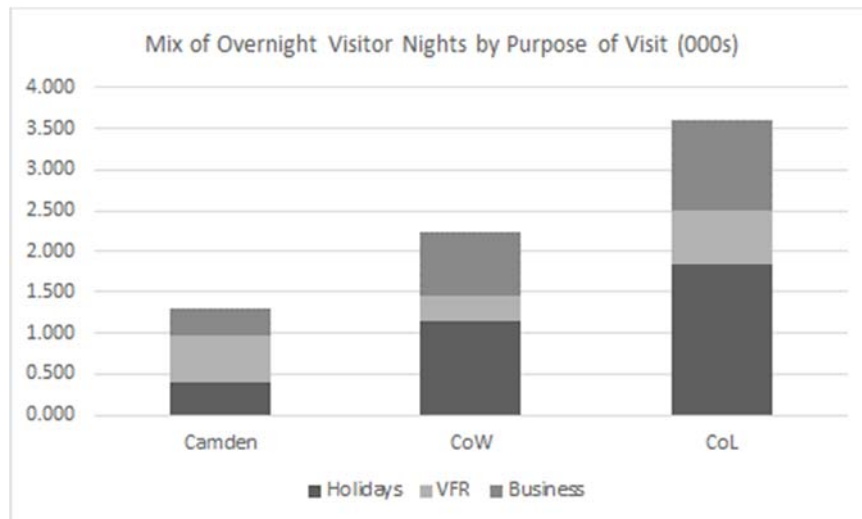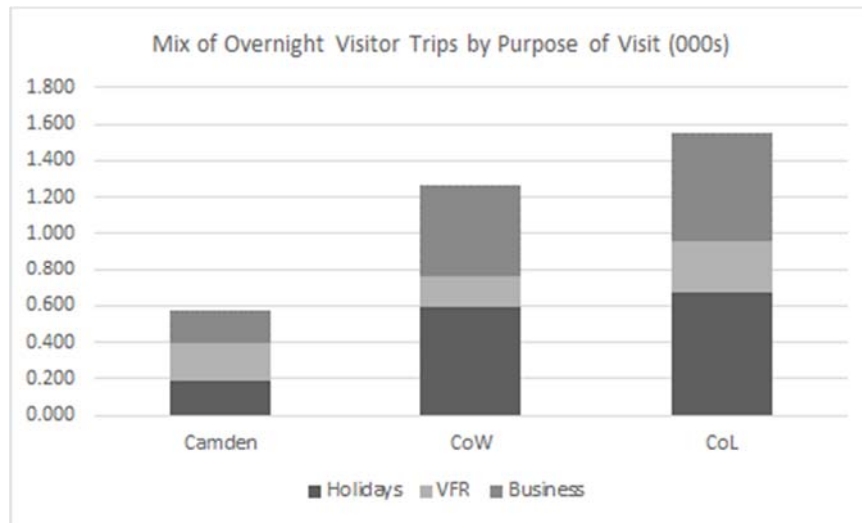
Source: VisitBritain 2017

Market Environment

Tourism has historically been an important component for hotels located in the surrounding area. The proximity to a number of the most visited museums in London, as well as connectivity to key centrally-located attractions in the capital, renowned retail hubs and event venues, generates significant tourist demand. The following points illustrate the strength of the local offering to leisure visitors.

In the following table we present the approximate travel time to key London visitor attractions.

Top Visitor Attractions in London by membership of the Association of Large Visitor Attractions (ALVA) and Proximity to Proposed Hotel

Visits made in 2016 to visitor attractions					
Rank	Site	Total visits	Charge/free	% +/-	Walking Time from Proposed Hotel
1	British Museum	6,420,395	F	-5.90%	9 mins
2	National Gallery	6,262,839	F	6%	7 mins
3	Tate Modern	5,839,197	F	23.91%	32 mins
4	Natural History Museum (South Kensington)	4,624,113	F/C	-12%	51 mins
5	Southbank Centre	3,909,376	F/C	-23%	21 mins
6	Somerset House	3,443,220	F/C	6.40%	13 mins
7	Science Museum	3,245,750	F	-3.20%	52 mins
8	Victoria and Albert Museum (South Kensington)	3,022,086	F/C	-12%	48 mins
9	Tower of London	2,741,126	C	-2%	54 mins
10	Royal Museums Greenwich	2,451,023	F/C	-0.20%	130 mins
11	National Portrait Gallery	1,949,330	F/C	-9.00%	8 mins

Source: ALVA 2017, Google 2017 & THMC Research, 2017

Hotel Market Analysis

4   HOTEL MARKET ANALYSIS

In this section we examine the markets of relevance to the proposed hotel on Shaftesbury Avenue, London WC2 in terms of current supply of, and demand for, accommodation as well as incoming supply additions. We also examine the performance of hotels considered to be of relevance, detailing seasonality of demand and historic trends in the local and wider London hotel market, supported by data from AM:PM Hotels and STR Global.

4.1   London Hotel Supply Evolution

The following graphs illustrate the growth in hotel supply in Greater London in the period from 2000 to year-to-date 2017.
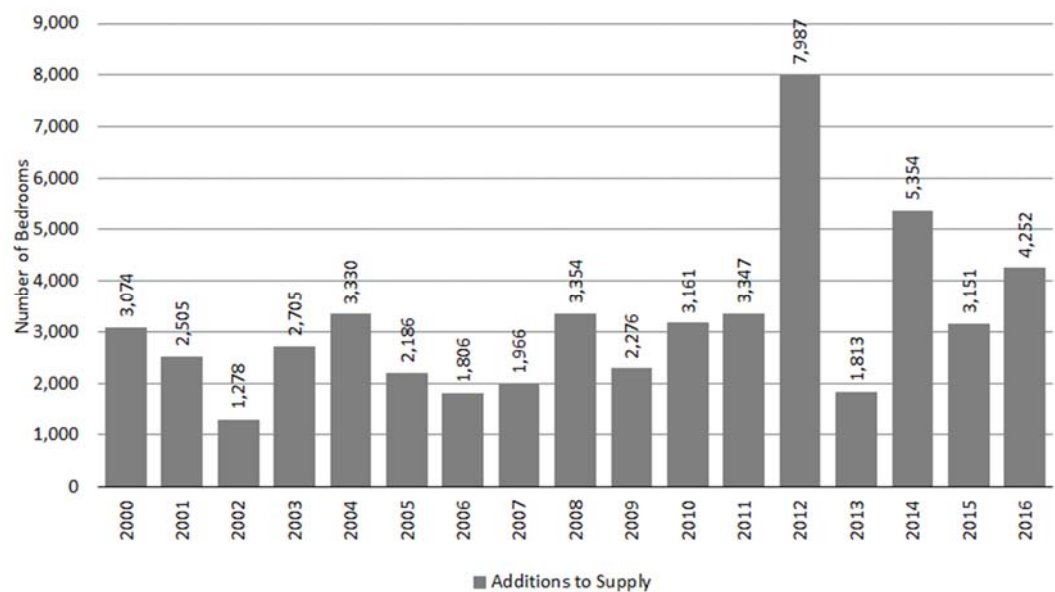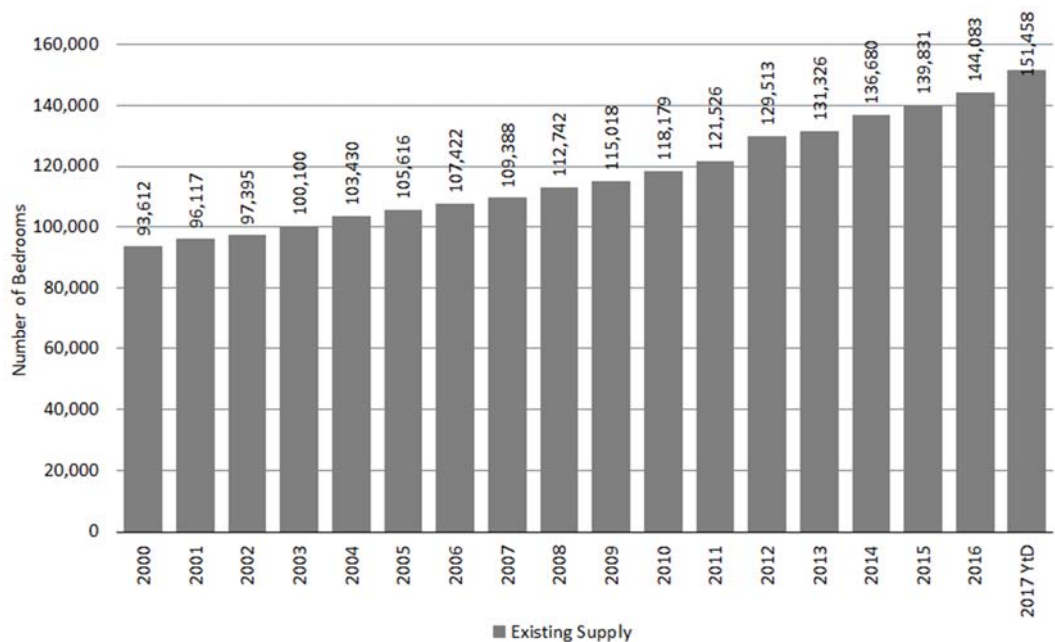
Source: AM:PM Hotels, 2017

Hotel Market Analysis

Comment

- In total, London's bedroom supply has grown from 93,612 bedrooms in 2000 to 151,458 bedrooms year-to-date 2017, equivalent to an increase of approximately 66.2 per cent. This is equivalent to a Compound Annual Growth Rate (CAGR) of 3.1 per cent per annum.

- The biggest growth in supply over the last 17 years has been in the budget segment, which has increased to 32,262 bedrooms in 2017 YTD from 7,262 bedrooms in 2000. This is equivalent to an increase of approximately 444 per cent.

- Supply in the serviced apartment sector has increased to 10,717 apartments from just 5,633 in 2000. This is equivalent to an increase of approximately 90 per cent, or a CAGR of 4.1 per cent per annum since 2000, and reflective of the growing appetite for the serviced apartment product in London over the last 17 years.

- The peak in supply growth over the last 17 years was unsurprisingly in 2012, in line with London hosting the Olympic Games, with a 6.6 per cent year-on-year increase in supply recorded across the capital, equivalent to an addition of 7,987 bedrooms.

- Despite significant growth in supply over the last 17 years, the lowest year-on-year increase was recorded in 2002 at +1.3 per cent, equivalent to an addition of 1,228 bedrooms, which was due to the appetite for development stalling as a result of a downturn in headline performance at London hotels further to the 11 September 2001 attacks in New York, which significantly impacted US travel patterns, a major source of demand for hotels in the capital.

- Low year-on-year growth was also recorded in 2013 at +1.4 per cent, equivalent to an addition of 1,517 bedrooms, which was to be expected after the significant additions to supply in 2012.

- Of the 58,635 additional bedrooms, the greatest number of branded bedrooms added to the London market over the last 17 years have included Premier Inn and hub by Premier Inn (+10,107 bedrooms), Travelodge (+6,706 bedrooms), Park Plaza (+3,040 bedrooms), Holiday Inn Express (+2,090 bedrooms), Novotel (+1,931 bedrooms), DoubleTree by Hilton (+1,971 bedrooms), Grange Hotels (+1,338 bedrooms) and Hilton (+1,374 bedrooms).

- It is noteworthy that 9,169 bedrooms have exited the London hotel market over the last 17 years, some 179 hotels. Approximately 18 per cent of these properties were apartments, with the most notable exit being in 2016 when the 11-strong portfolio of City Marque Apartments entered administration.

Hotel Market Analysis

4.2 Supply Profile in Greater London

The following graphs provide an overview of key characteristics of hotel supply in Greater London.   There are currently 1,603 hotels equivalent to 149,195 bedrooms in Greater London.

Hotel and Bedroom Supply by Category in Greater London (2017)
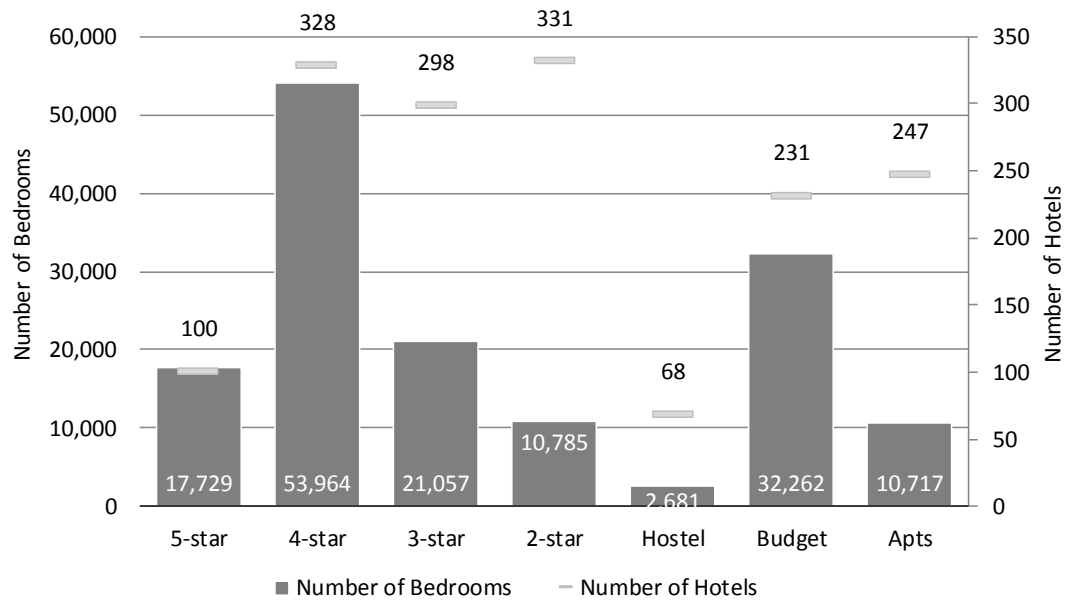
Source: AM:PM Hotels, 2017

The pie charts below provide an overview of the distribution of hotel/bedroom supply within Greater London.

Bedroom Supply by Brand and Hotel Supply by Number of Rooms (2017) *AM:PM definitions are presented in the appendix*
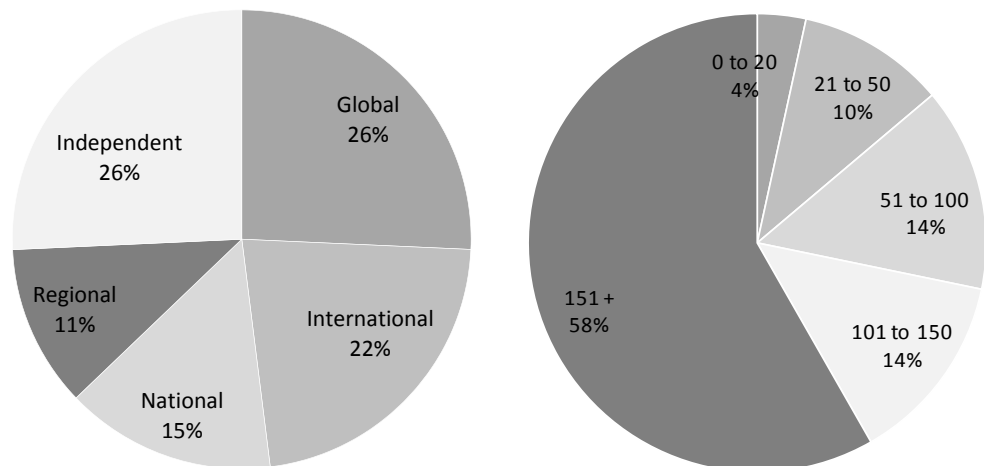
Source: AM:PM Hotels, 2017

Hotel Market Analysis

Comment

■ The Greater London hotel market is dominated by four-star hotel supply, which comprises 36.2 per cent of all hotel bedroom supply.

■ Despite the significant number of closures in recent years, the proportion of bedroom supply operating in the two and three-star segments remains high at 21.3 per cent of the total. Furthermore, the number of bedrooms operating independent of a brand remains high at 25 per cent.

■ As a result of the significant growth over the last 17 years, budget bedrooms now comprise 21.6 per cent of all supply in Greater London with serviced apartments comprising 7.2 per cent.

■ Whilst the average hotel size in Greater London is 93 bedrooms, approximately 58 per cent of all bedrooms are within hotels of 150 bedrooms or more.

4.3   Local Hotel Market Supply

As part of our analysis, we have examined the current hotel accommodation supply in the local competitive market. We have defined the market of relevance as properties located within a half a mile radius of the proposed hotel on Shaftesbury Avenue, WC2.

4.4   Supply Evolution in the Local Competitive Hotel Market

The following graph illustrates the growth in hotel supply in the local market of competitive relevance in the period from 2000 to year-to-date 2017.
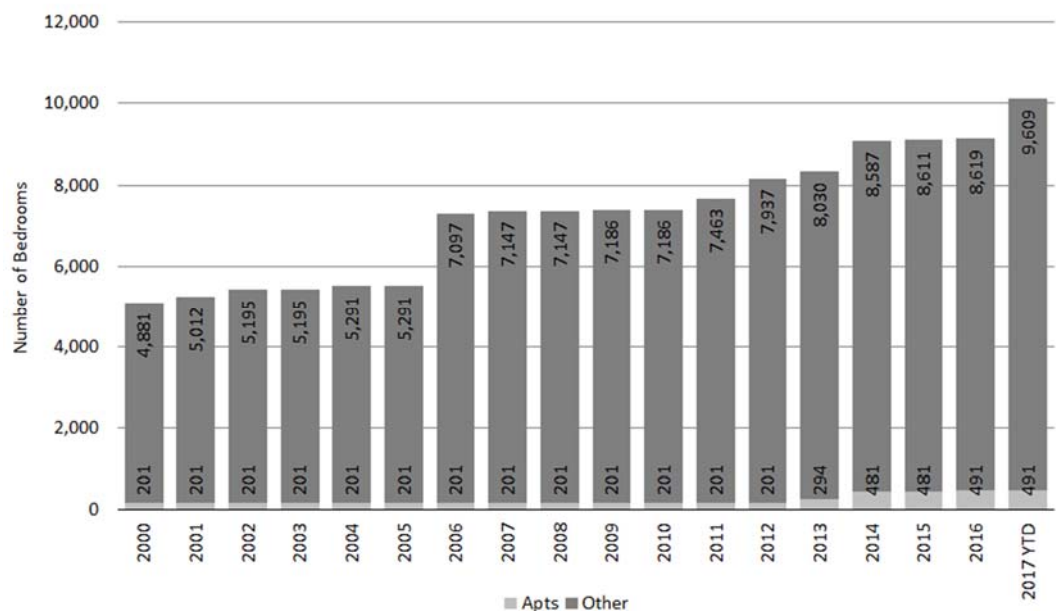
Source: AM:PM Hotels, 2017

Hotel Market Analysis

Comment

- Growth in hotel supply in the local market has been significant over the past 17 years, recording a CAGR increase of 5.5 per cent per annum, with supply increasing by 4,615 bedrooms to 9,609 bedrooms in 2017 from 4,994 bedrooms in 2000.

- As a result of the additions to supply over the last 17 years, bedroom stock in the local hotel market has increased by approximately 93 per cent since 2000.

- There have been significant peaks in additions to supply, most notably in 2006 just a year before the beginnings of the credit crunch.

- Notable recent additions (or re-additions) to supply have included the 306-key Rosewood, 183-key Sofitel St. James's, 192-key W Hotel, 157-key ME and 157-key Club Quarters, 160-key Café Royal, 163-key hub by Premier Inn, 174-key Hoxton Hotel, the 187-key Citadines Trafalgar Square, and the 86-key Victory House M Gallery by Sofitel.

4.5   Supply Profile in the Local Competitive Hotel Market

The following graphs provide an overview of key characteristics of supply. There are currently 84 hotels equivalent to 9,609 bedrooms within a half-mile radius of the proposed hotel at Shaftesbury Avenue, WC2.

Competitive Hotel and Bedroom Supply of Relevance by Category (2017)
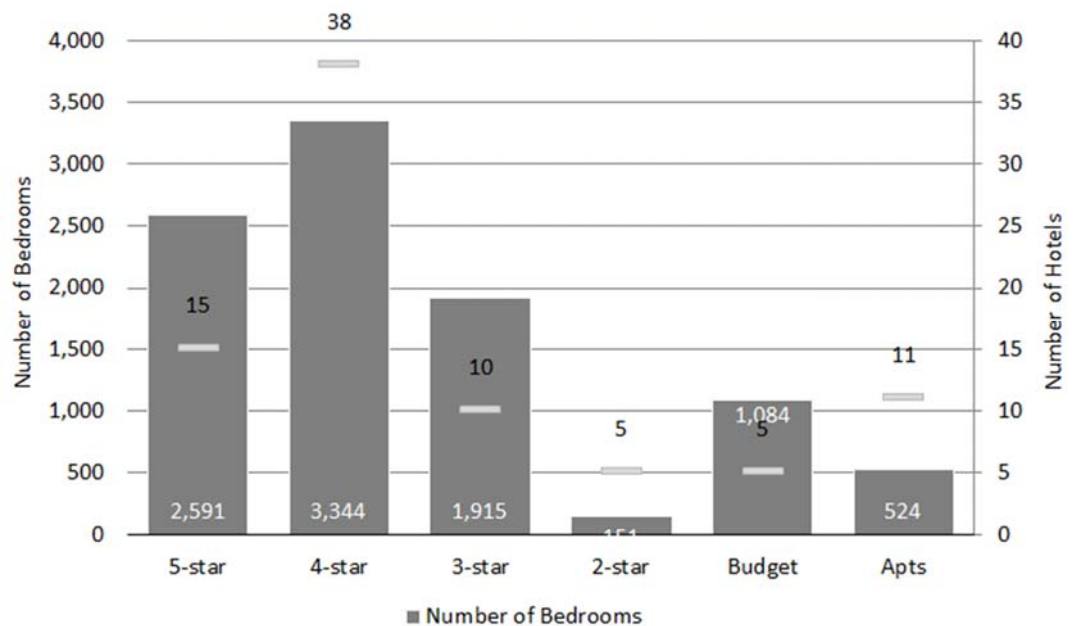
Source: AM:PM Hotels, 2017

Hotel Market Analysis

The pie charts below provide an overview of the distribution of hotel/bedroom supply located within the market of competitive relevance to the proposed hotel development.

Bedroom Supply by Brand and Hotel Supply by Number of Rooms (2017)
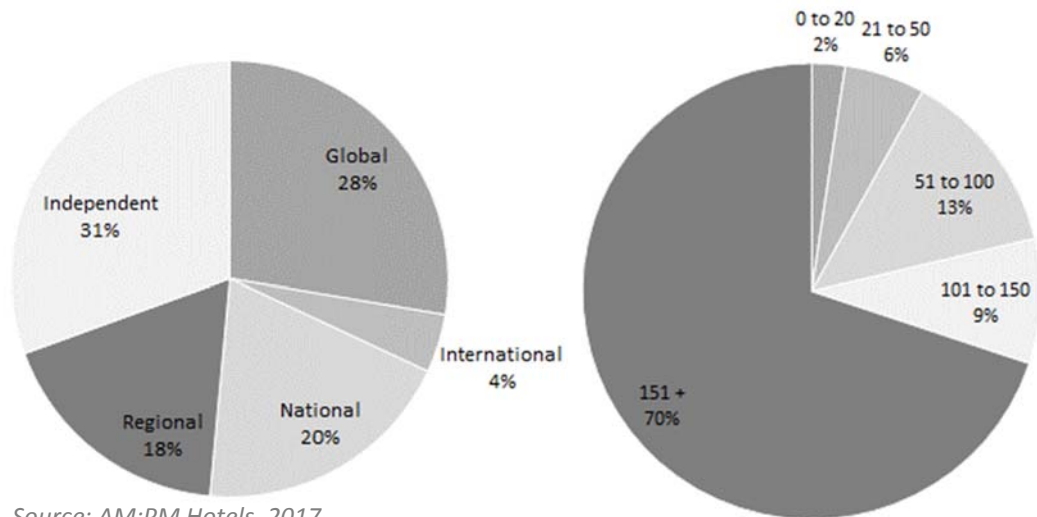
Source: AM:PM Hotels, 2017

Comment

- In line with Greater London, four-star hotel supply has a significant presence in the local hotel market, comprising 34.8 per cent of all hotel bedroom supply.

- In addition, following significant growth in recent years, budget hotel supply now comprises 11.3 per cent of bedroom supply, equivalent to five hotels comprising 1,084 bedrooms.

- The local hotel market is dominated by branded supply, which accounts for 69 per cent of all stock, with Grange Hotels the best represented offering 456 bedrooms across its eight properties. Global and international brands comprise 32 per cent of all supply in the local market, with Radisson Edwardian Hotels the best represented offering 624 bedrooms across its four properties.

- Independent hotel supply comprises 33 hotels offering 2,939 bedrooms, the most relevant being the 785-bedroom Strand Palace Hotel, located on the Strand.

- The average hotel size in the local market of relevance is 114 bedrooms; however, the average size for branded stock is slightly higher at 131 bedrooms.

- A significant proportion (70 per cent) of the hotels in the identified market of relevance offer 151 bedrooms or more. These hotels are primarily comprised of branded properties.

AM:PM Hotels' definitions of hotel brand characteristics are provided as Appendix 2.

4.6   Current Market of Relevance

The table and map on the following pages identify 14 hotels, equivalent to 2,274 bedrooms, which we consider to be of prime competitive relevance to the proposed hotel on Shaftesbury Avenue, WC2 based on location, market positioning, branding, scale and facility mix.

Hotel Market Analysis

HOTELS	GRADE	NUMBER OF BEDROOMS	BEST AVAILABLE RATE ONLINE[1]		NUMBER OF CONFERENCE ROOMS	CAPACITY OF LARGEST ROOM (THEATRE-STYLE)	NUMBER OF RESTAURANTS	NUMBER OF BARS	LEISURE FACILITIES	PARKING FACILITIES	TRIPADVISOR.COM RATING (%)[2]
			Weekday Average (£)	Weekend Average (£)							
HOTELS OF COMPETITIVE RELEVANCE											
Firmdale Ham Yard	5-star	98	366	446	1	163	1	2	Yes	No	96
Firmdale The Soho Hotel	5-star	96	513	378	3	163	1	1	Yes	No	96
Hilton The Waldorf London	5-star	298	274	182	5	490	1	1	Yes	Yes	73
Le Meridien Piccadilly	5-star	283	310	230	7	291	1	2	Yes	Yes	63
One Aldwych Hotel	5-star	105	409	322	5	27	1	1	Yes	No	94
Radisson Blu Edwardian Bloomsbury	4-star	174	200	160	9	22	1	1	Yes	No	84
Radisson Blu Edwardian Hampshire	5-star	127	262	203	6	56	1	1	Yes	No	86
Radisson Blu Edwardian Kenilworth	4-star	186	367	155	8	6	1	1	Yes	No	73
Radisson Blu Edwardian Mercer St	4-star	137	301	199	6	10	1	1	No	Yes	91
Sanderson Hotel	5-star	150	403	225	1	157	2	3	Yes	No	90
Sofitel London St James	5-star	183	457	288	9	100	1	1	No	No	95
The London Edition	5-star	173	500	284	3	27	1	2	Yes	No	92
The Nadler Soho	5-star	78	256	229	-	-	-	-	Yes	No	96
The Trafalgar Curio by Hilton	4-star	131	280	248	2	13	1	2	Yes	No	93
W Hotel London Leicester Square	5-star	192	306	267	3	84	1	1	No	No	72
Victory House, M Gallery by Sofitel	4-star	86	258	180	-	-	1	1	No	No	62
ME London (Sol Melia)	5-star	157	331	226	7	417	3	2	No	Yes	91
Total		2,654									

[1] All rates are quoted online room only rates (inclusive of VAT) and do not reflect corporate discounts or any other offers. Hotels prices were polled in December 2017 for bookings in February and March 2018.
[2] TripAdvisor rating is calculated by adding the 'Excellent' and 'Very Good' reviews and dividing as a proportion of all reviews

Source: THMC Ltd, 2017

Hotel Market Analysis

Hotels of Competitive Relevance

<u>Legend</u>

🏠 Proposed Hotel

Hotels of Competitive Relevance

1	Firmdale Ham Yard
2	Firmdale The Soho Hotel
3	Hilton The Waldorf London
4	Le Meridien Piccadilly
5	One Aldwych Hotel
6	Radisson Blu Edwardian Bloomsbury
7	Radisson Blu Edwardian Hampshire
8	Radisson Blu Edwardian Kenilworth
9	Radisson Blu Edwardian Mercer Street
10	Sanderson Hotel
11	Sofitel London St James
12	The London Edition
13	The Nadler Soho
14	The Trafalgar Curio by Hilton
15	W Hotel London Leicester Square
16	Victory House M Gallery by Sofitel
17	ME London

Source: Google Maps, 2017
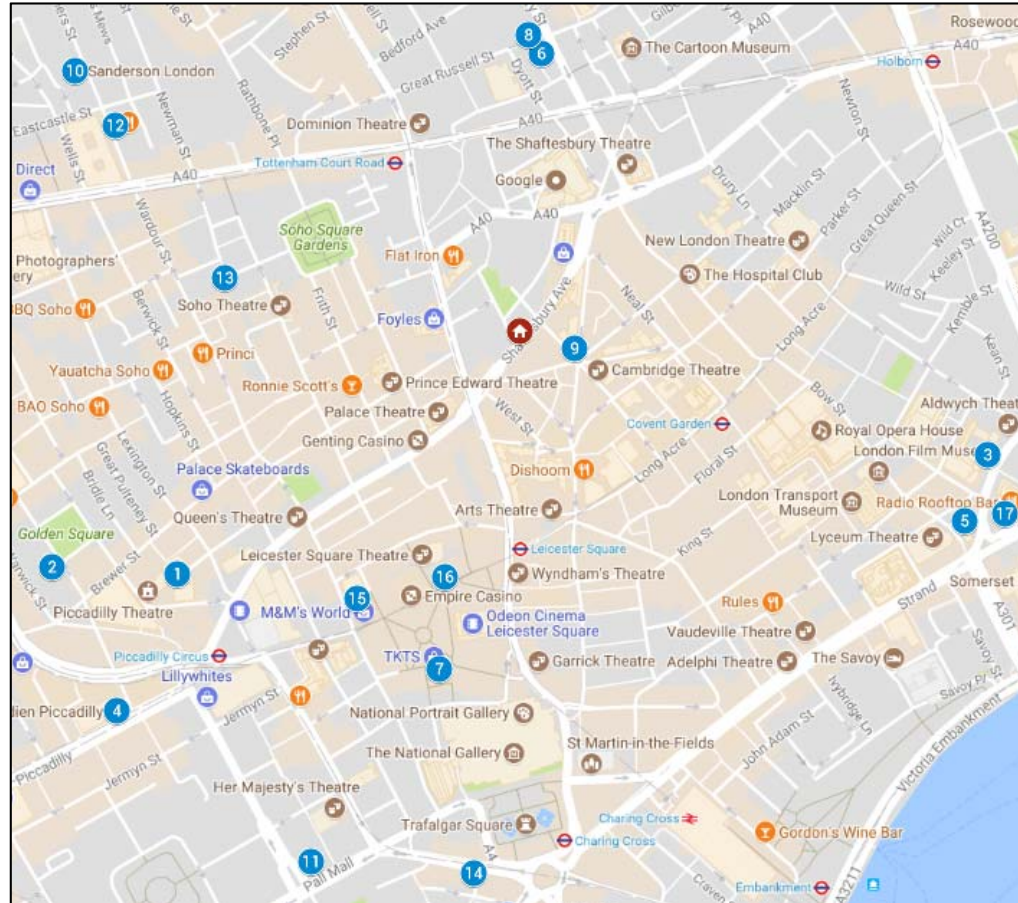
Hotel Market Analysis

4.7 Market Performance Analysis

4.7.1 Introduction

In this section, we examine the current and historic trading dynamics of the local hotel market of relevance to the proposed hotel on Shaftesbury Avenue, WC2. In order to illustrate the operating characteristics of the competitive market, we have procured STR Global hotel performance benchmark samples for the localised market.

4.7.2 Local Upscale and Luxury Hotel Market

To illustrate the performance of the local hotel market, the following table presents room occupancy, average room rate and RevPAR for the 48 months to October 2017.

The STR Global performance benchmark sample includes the following properties:

- Firmdale Ham Yard	98 rooms
- Firmdale The Soho Hotel	96 rooms
- Hilton The Waldorf London	298 rooms
- Le Meridien Piccadilly	283 rooms
- One Aldwych Hotel	105 rooms
- Radisson Blu Edwardian Bloomsbury	174 rooms
- Radisson Blu Edwardian Hampshire	127 rooms
- Radisson Blu Edwardian Kenilworth	186 rooms
- Sanderson Hotel	150 rooms
- Sofitel London St James	183 rooms
- The London Edition	173 rooms
- The Nadler Soho	78 rooms
- The Trafalgar Curio by Hilton	131 rooms
- W Hotel London Leicester Square	192 rooms

The list above varies from the "Hotels of Competitive Relevance" table due to a lack of complete data for all properties over the period.

Hotel Market Operating Performance
Local Hotel Market (48 months to October 2017)

12 MONTHS TO OCTOBER		2014	2015	2016	2017	VARIANCE 2016/2017
KEY PERFORMANCE INDICATORS						
Occupancy	%	84.3	86.0	85.5	84.6	-1.0
Average Room Rate	£	225.07	237.48	237.25	256.40	8.1
RevPAR	£	189.74	204.12	202.79	217.03	7.0
OTHER PERFORMANCE INDICATORS						
Annual Room Supply	000s	673	689	691	691	0.1
Annual Rooms Sold	000s	568	592	590	585	-0.9
Actual Rooms Revenue	£000s	127,743	140,705	140,031	149,963	7.1

Source: STR Global, 2017

Hotel Market Analysis

Comment

- In line with the trend in the Greater London hotel market, the local hotel market has recorded a slight drop in room occupancy to 84.6 per cent in the 12 months to October 2017 from 85.5 per cent. However, this has been more than compensated for with an increase of 8.1 per cent in achieved average room rate, to £256.40 during the same period.

- As a result of the movement in room occupancy and achieved average room rate, RevPAR at hotels in the local market has increased by seven per cent in the 12 months to August 2017, to £217.03.

- Despite recent additions to hotel stock, performance in the local market has remained strong.

- In addition to recording an average room occupancy of 85 per cent over the past seven years, local hotels have achieved a £31.30 increase in average room rate over the last four years, fuelling a £27.30 increase in RevPAR.

- Furthermore, taking into consideration additions to stock of 2.6 per cent in the last four years, hotels in the local market have recorded a three per cent increase in accommodated roomnights, which has driven a 17.4 per cent increase in Rooms Revenue, to £150 million.

4.7.3 Seasonality Profile

The following graph illustrates the seasonality patterns of occupancy and average room rate performance achieved by hotels in the local hotel market for the 12 months to December 2015, 2016 and year-to-date October 2017.

Hotel Market Analysis

Hotel Market Seasonality

Local Hotel Market (12 Months to December 2015 & 2016 and YTD 2017)
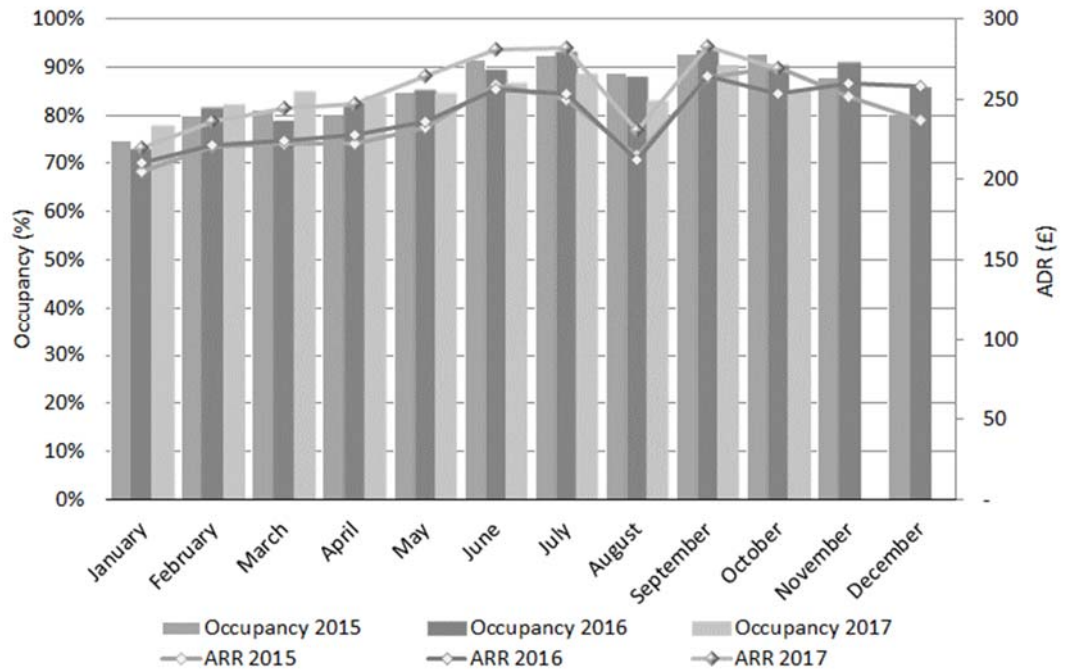
Source: STR Global, 2017

Comment

- In line with the Greater London market, hotels in the local market of relevance tend to achieve robust room occupancy levels throughout the year.

- Overall, there has been a broadening of the months during which hotels in the local market achieve premium room occupancy levels. The broadening of seasonality has supported the robust room occupancy levels in the 12 months to October 2017.

- The highest occupancy peaked in July 2016 at 92.9 per cent. The lowest level of occupancy at these hotels over the last five years and ten months was 71.8 per cent achieved in January 2014.

- The peak months of rate performance at local hotels over the last three years have been achieved in September of this year when the average room rate was £282.44, which is due to the strength of both commercial and leisure demand in the local area.

- Generally, the data demonstrates that with a good balance of corporate and leisure demand in the local area there has been limited monthly seasonality.

Hotel Market Analysis

4.7.4 Daily Market Trends

In addition to the performance data above, we have used data from STR Global to analyse daily performance trends in the local hotel market. In the following graphs we present the spread of average daily room occupancy and average daily room rate performance, illustrating the highest, lowest and average levels in the 12 months to October 2017.

Spread of Occupancy Per Day
Local Hotel Market (12 Months to October 2017)
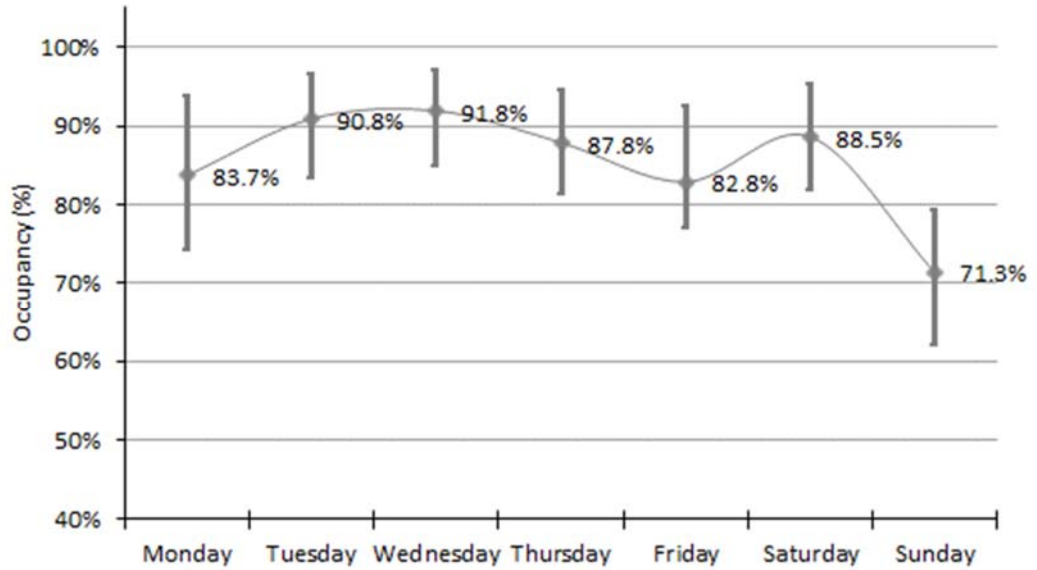
Spread of Average Rate Per Day
Local Hotel Market (12 Months to October 2017)
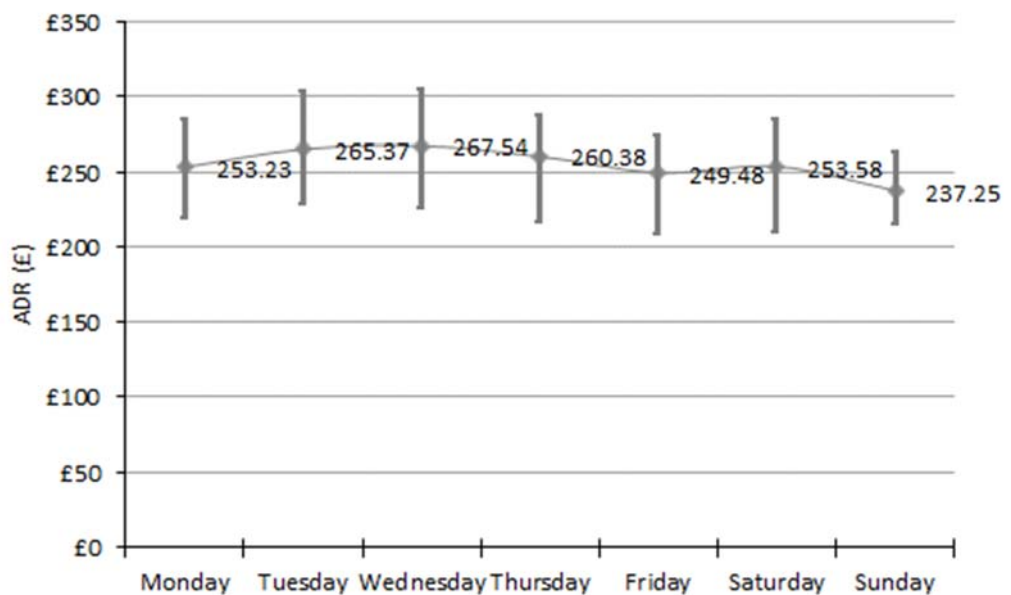
Source: STR Global, 2017

Hotel Market Analysis

Comment

- The local hotel market exhibits strong room occupancy levels throughout the week but peaked on Tuesday (96.8 per cent), Wednesday (97.4 per cent) and Saturday (95.6 per cent) nights in the 12 months to October 2017. Sunday was the only night on which room occupancy fell to below approximately 75 per cent, suggesting the local market benefits from robust demand.

- In line with the weekly room occupancy pattern, peak average room rate levels are achieved on Tuesday (£265.48) and Wednesday (£267.84) nights in the local market.

- However, achieved average room rate on Saturday nights (£255.09) was below the midweek peaks, suggesting that demand in the local market is dominated by the commercial segment, with commercial demand sourced from local companies and the transient corporate segment.

- Despite being below the midweek peaks, the average rate range (lowest to highest) on a Saturday night for hotels in the local market is £74.96, above the range for Tuesday (£74.08), but below that for Wednesday (£78.79) nights, suggesting hotels are effectively yielding demand to drive revenue throughout the week.

- Shoulder nights, such as Fridays and Sundays being slightly more challenging operationally, with average RevPAR on a Sunday night recorded down at £169.24 in the 12 months to October 2017, 31 per cent of £76.44 lower than the average Wednesday high.

Hotel Market Analysis

4.7.5 Future Hotel Supply

In the following table we provide an overview of anticipated and potential future additions to accommodation supply in the local area, which we consider to be of relevance to the proposed hotel.

Future Hotel Supply

Local Hotel Market of Competitive Relevance

HOTEL NAME	GRADE	BEDROOMS	LOCATION	PLANNING STATUS
UNDER CONSTRUCTION – DUE 2018				
Doubletree London West End	4	39	92 Southampton Row	2015/7269/P
Hotel Indigo London - 1 Leicester Square	4	95	1 Leicester Square	15/11645/FULL
Kettner's Townhouse Hotel	4	33	29 Romilly Street	15/04634/FULL
L'Oscar Hotel	5	40	2-6 Southampton Row	2014/5970/L
Princes House	Apts	48	37-39 Kingsway	16/12195/FULL
Wilde by Staycity Aparthotels The Strand	Apts	106	11 Adam Street	14/04180/FULL
Bow Street Magistrates Court	5	99	28 Bow Street	14/06785/FULL
Nadler Covent Garden	Apts	56	418-422 Strand	16/09925/FULL
SUBTOTAL		**516**		
WITH PLANNING OR FINAL PLANNING – DUE 2019 OR LATER				
Amba Hotel Charing Cross	4	11	The Strand	14/12165/FULL
Carlisle House	4	120	8-10 Southampton Row	2017/2914/P
Club Quarters London Lincoln's Inn Fields	4	10	61 Lincoln's Inn Fields	2015/2655/P
DoubleTree by Hilton Hotel London - West-End (extension 2)	4	4	92 Southampton Row	2017/0992/P
Hoxton Holborn	4	46	199-206 High Holborn	2017/0200/P
One Aldwych London	5	22	1 Aldwych	15/06948/FULL
Poland Street	4	118	47-48 & 50 Poland Street	17/10057/FULL
Radisson Blu Edwardian LSQ	4	360	Leicester Square	16/07684/FULL
St Martin's Place	4	136	7-8 St Martin's Place	16/07659/FULL
Strand Palace Hotel		785	372 Strand	
Waldorf Astoria London Admiralty Arch	5	96	The Mall	14/05315/FULL
SUBTOTAL		**1,791**		
ON HOLD OR DEFERRED				
Kingsway Hall Hotel (extension 1)	4	20	66 Great Queen Street	2014/2792/P
Kingsway Hall Hotel (extension 2)	4	19	66 Great Queen Street	2015/0670/P
SUBTOTAL		**39**		
TOTAL		**2,346**		

Source: AM:PM Hotels, 2017

Hotel Market Analysis

Comment

- There are eight projects comprising 516 bedrooms (approximately 8.6 per cent of the total number of 4-5-star hotels in the area) have been identified by AM:PM Hotels within the local area of the proposed hotel on Shaftesbury Avenue, WC2 that are under construction and expected to open in 2018. The volume of potential supply additions is reflective of the significance of the appeal of London to hotel operators and developers, due to the strength of demand for hotels and to some extent in expectation of the regeneration associated with the forthcoming opening of Crossrail.

- Whilst there are a couple of projects that have been deferred, there are another 1,791 bedrooms with full or provisional planning consent (equivalent to 30 per cent of the existing total supply in the 4-5-star market). As new entrants come into the market it remains to be seen whether all of these consented schemes will be built and if so what impact their arrival will have. The opening of Crossrail could have a distinct effect on overnight visitor numbers, as could Brexit.

- There are several significant openings that could, because of their proximity to this project and style of offering, potentially impact the proposed hotel. These include the Indigo Leicester Square and the Radisson Blu Edwardian LSQ, which together will add 455 bedrooms at around the same quality level, same size or larger and with international branding. The Waldorf Astoria Admiralty Arch (96 bedrooms) will also potential be of a competitive nature to this hotel development.

SWOT Analysis

5 SWOT ANALYSIS

The following SWOT analysis highlights the strengths and weaknesses of, opportunities for and threats to the proposed hotel on Shaftesbury Avenue, WC2.

STRENGTHS	WEAKNESSES
■ Excellent visibility on Shaftesbury Avenue with significant footfall and in proximity to an excellent provision of urban lifestyle amenities, including retail, food and beverage, and entertainment.	■ Currently, the immediate surroundings of the site are congested with traffic to the south and are somewhat dilapidated to the north with a homeless population sleeping rough on the side streets. This will undoubtedly improve as the area is regenerated, and the congestion is being address both on Shaftesbury Avenue and south into the Seven Dials area to make it more appealing for visitors arriving on foot.
■ A highly developed commercial market in the local area with several corporate HQs in the immediate vicinity.	
■ The proposed hotel is in proximity to a number of London Underground and mainline railway stations, including the new Crossrail station at Tottenham Court Road. These stations provide very good access to key business districts and leisure attractions in and across London, as well as airports and the national railway network.	■ The listed façade of the building does not necessarily lend itself to hotel development, with large blank walls that require lightwells to allow natural light into certain areas.
■ Excellent road connectivity throughout London as well as to the UK motorway network and to key international hubs (i.e. St Pancras International and Heathrow Airport).	■ The proposed bedroom sizes are adequate for an upscale offering, but are small for a more luxury standard offering. Developing fewer, but larger rooms could address this, however this would also reduce the room count and make it less appealing to international franchise brands – but it is going to be owner operated?
■ The local hotel market has enjoyed robust levels of room occupancy and average room rates in recent years, clearly illustrating the strength of the local accommodation market.	
■ Proximity to key corporate demand generators in the Borough of Camden, City of Westminster and the City of London.	
■ Proximity to a range of leisure demand generators, including primary tourist attractions in London (e.g. the British Museum, National Gallery, etc.) and Covent Garden, Seven Dials and Soho.	
■ Proximity to a large number of theatres and entertainment attractions.	
■ The project will benefit from its new build product in an interesting building, as well as having the cinema on site.	
■ International branding, a quality offering, and professional management.	

SWOT Analysis

OPPORTUNITIES	THREATS
■ To capture demand away from local competitors, in a strong market.	■ Whilst the local hotel market achieves consistently strong headline performance, additions to supply are likely to dilute existing demand levels.
■ To capture frustrated demand displaced from competitive hotels due to consistently high demand levels.	■ Investment in, and potential repositioning of hotels of direct competitive relevance.
■ The realisation of the Crossrail scheme at Tottenham Court Road Station, as well as the longer-term opening of Crossrail 2 which will also pass through Tottenham Court Road Station.	■ Increasing appeal of other London boroughs for leisure-related demand due to development of new room stock and effective price positioning (i.e. City of London, Newham, Tower Hamlets).
■ A "good" Brexit deal that means there are continued healthy trading relations with the EU and the UK's other trading partners.	■ A "bad" Brexit deal that impacts negatively on demand in London.
■ A continuing weaker pound that makes London more attractive and more affordable.	■ An increase in the strength of sterling that makes London seem more expensive to overseas visitors and that makes overseas destinations seem more affordable to domestic travellers.
■ Continued growth of the digital, tech and media industries in the immediate local area of Soho, as well as across London and the south-east.	■ A significant or prolonged series of terrorist attacks.

Comment

■ The site benefits from an excellent location in the very centre of London where the Boroughs of Camden, Westminster and the City meet, with an excellent locality and connectivity to major generators of commercial and leisure demand in the boroughs and across central London.

■ Whilst some elements of the immediate surroundings of the site could be seen as somewhat less desirable and uninviting due to the prevalence of traffic and run down back streets, this should not detract from the project overall as the area will be subject to regeneration in line with the realisation of the Borough of Camden's Masterplan for improvement of the public realm.

■ Furthermore, hotels in the local market achieve robust top line performance and have done so now for several years, and the volume of demand is likely to remain strong going forward.

Assessment of Development Proposal

6 ASSESSMENT OF DEVELOPMENT PROPOSAL

6.1 Introduction

In the following section we provide our assessment of the proposed hotel development on Shaftesbury Avenue, as well as an overview of the envisaged demand (by market sector) that the proposed hotel is likely to attract.

6.2 Proposed Hotel Development

The following table summarises the assumed facilities at the proposed hotel, based on drawings produced by Jestico + Whiles. We have based our opinion on the scale, range and type of facilities for the proposed hotel on information provided to us, as well as our assessment of demand for hotel facilities in the local area.

PROPOSED HOTEL FACILITIES	
Market Product	■ Upscale, Upper upscale or Luxury hotel
Bedrooms (on all floors)	■ 94 bedrooms
	■ Standard room at c.24 sqm to 34-38 sqm for suites
	■ 16 bedrooms per floor 1-4 + BoH (approx. 10 sqm)
	■ 15 bedrooms per floor 5 & 6 + BoH (approx. 10 sqm)
Ground Floor	■ Large Entrance Lobby & pop-up food and beverage offer (319 sqm)
	■ Restaurant (174 sqm)
	■ Kitchen (39 sqm)
	■ Area for dedicated check-in
	■ Lightwell
	■ Back of House (9 sqm)
Lower Ground Floor/ Basement	■ Cinema (4 screens for a total of up to 240 pax) (305 sqm)
	■ Cinema Lobby and food and drink sales (123 sqm)
	■ Cinema toilets (30 sqm)
	■ Back of house (50 sqm)
	■ Plant (35 sqm)
Sub-Basement	■ Limited Spa (tbc sqm)
	■ Mechanical and Electrical, and other plant (tbc sqm)
Other Facilities	■ Large rooftop bar (276 sqm)
	■ Two guest lifts

In the following paragraphs we assess each of the proposed components.

Assessment of Development Proposal

6.3 Number and Size of Letting Units

Whilst we understand that the proposed hotel is to be operated under the M Gallery by Sofitel brand (or equivalent), the bedroom count is in line with the brand standards of a number of potential operators and the proposed count enables reasonable economies of scale to be achieved across the operation. However, the location suggests a higher bedroom count could be absorbed into the market.

The standard rooms at the proposed hotel are appropriately sized for an upper upscale brand, but are somewhat small for a luxury offering.

Although we understand these are indicative drawings of the scheme and primarily for reference purposes only, the development of a greater number of larger rooms within the proposed hotel should be considered, subject to planning restrictions, in order to increase the standard of the offering, as well as the proposed room count.

We do not envisage the development of hotel bedrooms on the basement and sub-basement floors would be viable or acceptable for guests of the hotel at this quality level. Whilst a number of budget brands offer window-less rooms, including Yotel and easyHotel, we do not believe they are appropriate for a higher quality offering, even with the benefit of natural daylight from the development of light wells.

6.4 Ancillary Facilities

The proposed ancillary facilities are in part in line with our expectations of a new build hotel operating at an upscale market positioning within a central London location. However, the cinema offering is unusual, although we understand that this will have a trendy, boutique feel that will make it more in keeping with the rest of the hotel. The flow of residential guests, cinema goers and people drinking or dining at the hotel will have to be planned and managed carefully, as will security arrangements to ensure the safety of all guests, but particularly those staying overnight.

A roof top bar could be a very interesting second offering for residents and passing trade alike, providing respite from the street level bustle of the location. The ground floor food and beverage offerings should also benefit from high levels of passing trade from theatre goers to people working in local offices.

A spa has become a necessity for many better-quality brands, who use it as one of the attributes promoted in marketing materials, and we concur with its inclusion in the development.

The cinema, whilst primarily for non-residents, should also provide an attractive additional benefit to potential residential guests, as well as providing an additional revenue stream.

Whilst the proposed back of house space is limited, we believe it is just sufficient for a property of the scale and market positioning proposed.

Assessment of Development Proposal

6.5   Opening Date

We have assumed that the proposed hotel development will commence trading in 2022.

6.6   Marketing and Management

In order for the proposed hotel to successfully position itself in the competitive local hotel market and achieve a sustainable market position, a comprehensive marketing programme will be required to successfully penetrate all potential sources of demand.

Cognisant of the scale and location of the proposed hotel, we consider it essential that a skilled and professional management team capable of running the hotel to a high standard are engaged to effectively market and manage the property.

Regardless of whether the hotel is operated under a brand or independently, the knowledge, enthusiasm and experience of the management team will be critical to the development's success. The success of the proposed hotel will largely depend on the strength of the management team in aligning the product offering, concept, service and guest experience.

6.7   Envisaged Demand Profile

6.7.1   Introduction

Our assessment of demand for the proposed hotel is based upon our research comprising interviews with a cross-section of individuals and organisations connected with the hotel, commercial and tourism industries in the competitive market.

We have also drawn on data from STR Global and HotStats hotel performance databases which track the performance of branded hotels across the UK and Europe and have taken account of the current and anticipated future profile of demand for hotel accommodation and ancillary facilities in the wider area.

In the following sections, we discuss the main market sectors which we envisage will generate demand for the proposed hotel development.

6.7.2   Envisaged Midweek Demand

For the proposed hotel development on Shaftesbury Avenue, midweek demand (Monday to Thursday) will primarily be comprised of commercial demand which is predominantly driven by businesses located in the local area, but will also constitute transient demand from visiting corporate employees and those conducting business in the area. We envisage a proportion of midweek demand will be derived from the leisure sector during the summer and holiday months.

According to our research, midweek accommodation demand at hotels of competitive relevance typically accounts for approximately 55 per cent of the business mix.

Based on our knowledge of the sector, the key characteristics of corporate demand in the area are summarised below.

■   Business and corporate demand exhibits a traditional seasonality pattern, peaking during midweek (Monday to Thursday) periods, with severely reduced levels of

Assessment of Development Proposal

demand at weekends, mainly Fridays and Saturdays, and during the traditional holiday periods of August, Christmas, New Year, Easter and bank holidays.

■ At present corporate-related demand for hotels located in the borough is a combination of construction-related demand, transient/displaced corporate demand and local corporate demand.

6.7.3 Envisaged Weekend Demand

Weekend demand (Friday to Sunday night) is an important market segment for hotels in London. The sector is predominantly comprised of leisure travellers utilising hotels as a base from which to visit local attractions and destinations, visiting friends and relatives and attending local events. The average room occupancy of almost 90 per cent on Saturday nights in the 12 months to October 2017 is an illustration of the strength of leisure demand to the local area.

We understand that approximately 45 per cent of demand is leisure-related. The growth in the number of visitors to London continues, The West End and Mid-Town remain the preferred location for tourists to central London, due to the proximity to top visitor attractions, such as Trafalgar Square, National Gallery, British Museum and Southbank Centre, as well as renowned retail hubs (e.g. Oxford Street, Tottenham Court Road, etc) and the bars, theatres and restaurants of Soho and Covent Garden.

Whilst the immediate surround of the site could be seen as somewhat dilapidated in parts and uninviting due to traffic congestion, the realisation of the Borough of Camden's Public realm improvement masterplan will increase the appeal of the area to leisure tourists.

Financial Projections

7   FINANCIAL PROJECTIONS

7.1   Financial Projections

This section presents our financial projections for the proposed upscale hotel development at Shaftesbury Avenue, London WC2.

Our projections are based on an assumed opening date in 2022. Given the current dynamics of the market and performance of hotels of competitive relevance, we consider that the proposed hotel should be able to maximise and stabilise trading patterns by the third year of operation.

The bases are presented in 2017 values (i.e. without future cost or revenue inflation).

In order to benchmark our financial projections for the proposed hotel against the current performance of identified hotels of competitive relevance, we have utilised our STR Global sample of hotels in the local area and Greater London.

The terms and classification of hotel-related revenues and expenses are based upon the Uniform System of Accounts for Hotels. All our revenue summaries and average spends are, unless otherwise stated, shown exclusive of VAT (assumed at 20 per cent).

7.2   An Explanation of the Fair Share Model

The projections for the proposed hotel are based on a fair share analysis. This is an industry-specific model which has the following inputs:

■   The existing supply of hotels (number of rooms) which cater for those markets which the subject property will seek to penetrate is quantified.

■   The demand which those hotels accommodate, and the market mix of that demand is also quantified, to which is added any demand displaced from those hotels (i.e. that demand which cannot be accommodated there due to capacity constraints or for other reasons).

■   The hotels likely to enter the market, which are deemed to be potential competitors, are identified, and their opening dates established.

■   Future demand is quantified, based on current levels of demand and assumed growth rates.

From those inputs the average market occupancy (fair share) is derived. Thereafter, the occupancy for the subject property is calculated, based on various factors which determine the market advantages or disadvantages which it will experience.

On an equitable basis, each hotel in the market of relevance, including the subject property, would achieve a share of roomnight demand in proportion to the number of bedrooms available, and therefore all hotels would achieve the same occupancy.

Financial Projections

For example, in a "perfect" market with demand for 150 rooms per night, and a supply of 300 rooms, split between Hotel A with 200 rooms (two thirds of the supply) and Hotel B with 100 rooms (one third of the supply), Hotel A would sell 100 rooms (two thirds of the demand) and Hotel B would sell 50 rooms (one third of the demand) and both hotels would achieve an occupancy of 50 per cent.

However, due to a variety of factors including management and marketing, differences in concept, location, facilities, price, brand loyalty and the differing quality, age and style of hotels, a fair share situation is rarely if ever achieved. It is therefore necessary to assess the level at which a proposed new hotel will compete with other existing and upcoming hotels in the market of relevance and the envisaged penetration of that market (e.g. above or below fair share) resulting from an assessment of the above factors.

7.3 Average Annual Room Occupancy

We have adopted a fair share approach in our financial projections of accommodation demand for the proposed upscale hotel development, taking into account demand trends of the market, historic and current market-mix information, price positioning and relative attributes of competitive hotels.

Proposed Hotel Development, Shaftesbury Avenue

Average Room Occupancy

(Year)	AVERAGE ANNUAL ROOM OCCUPANCY (%)
Year 1	75.5
Year 2	80.6
Year 3 and Ongoing	83.5

Comment

■ In the first year of operation, we envisage the proposed hotel will achieve an average annual room occupancy of 75.5 per cent, which by the third and stabilised year of operation, will increase to 83.5 per cent.

■ We envisage the growth of eight percentage points between Year 1 and Year 3 to be achievable as we envisage the demand for upscale hotel accommodation will remain strong in the local area going forward. According to STR Global, occupancy in the local hotel market has averaged 84.9 per cent in the period from 2011 to 2016.

■ Our projection of average annual room occupancy by the third and stabilised year of operation positions the proposed hotel development slightly below our STR Global current sample of local hotels at 83.5 per cent. This is because of the inclusion of the new hotels currently in planning or under construction, such as the Indigo Hotel Leicester Square, the Radisson Blu Edwardian LSQ and the Waldorf Astoria Admiralty Arch, which are likely to dilute the wider market and make the environment that much more competitive. However, we consider that the impact on the proposed hotel on Shaftesbury Avenue will be less than the wider market, with the hotel marginally outperforming its competitive set on occupancy, due to its branding, professional management, location, its proximity to demand generators, the range of facilities proposed and price competition.

Financial Projections

■ Our projections take into account the existing and future characteristics of the local competitive hotel markets and the future growth potential of each identified market sector and anticipate that market occupancy levels will remain broadly in line with current levels by the year of stabilisation.

The following graph details the monthly seasonality of the local competitive hotel market over the operating period for YTD 2017 (source: STR Global).

Proposed Hotel Development, Shaftesbury Avenue
Monthly Room Occupancy and Local STR Sample Comparison
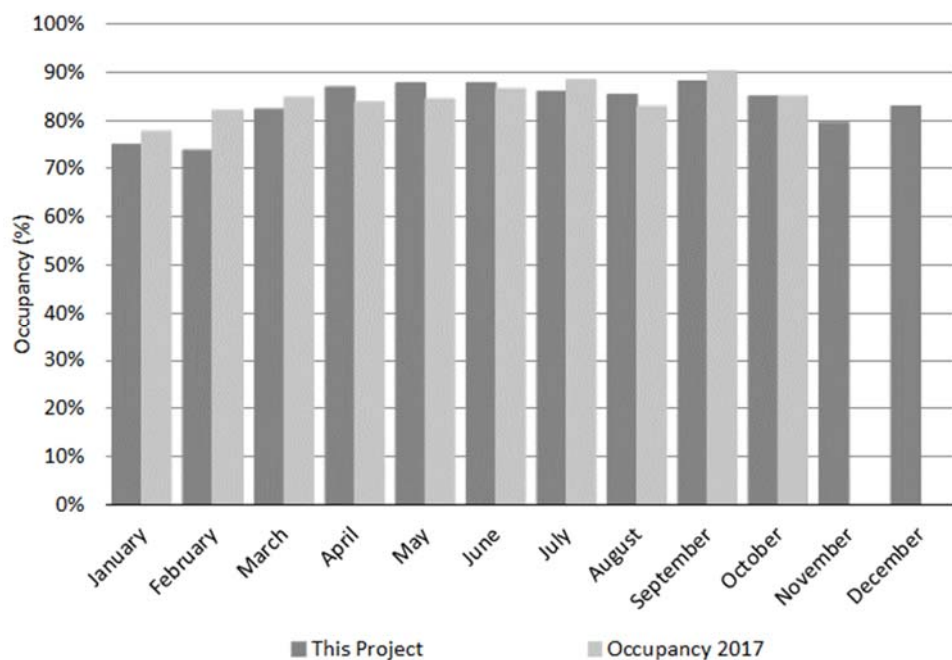
Comment

■ As can be seen, with occupancies at consistently high levels, seasonality has become less of an issue in the local market, although we do anticipate that there will be some minor seasonality variations, as leisure guests tend to visit during the traditional holiday periods while corporate guests tend to stay during the non-holiday periods.

■ Based on our research, we would not assume any major future fluctuations in seasonality in the local hotel market. Therefore, the seasonality pattern of the proposed hotel at Shaftesbury Avenue, Covent Garden has been projected to follow the historic trending of the local hotel market.

■ The projected monthly room occupancy levels are based on seasonality patterns evident in the local hotel market derived from STR Global as well as information gathered during the course of our research. The monthly room occupancy levels provide an illustration of the potential stabilised seasonality patterns the proposed hotel could achieve.

Financial Projections

The following graph details our room occupancy projections by day of the week by the third and stabilised year of operation.

Proposed Hotel Development, Shaftesbury Avenue

Daily Room Occupancy Projections
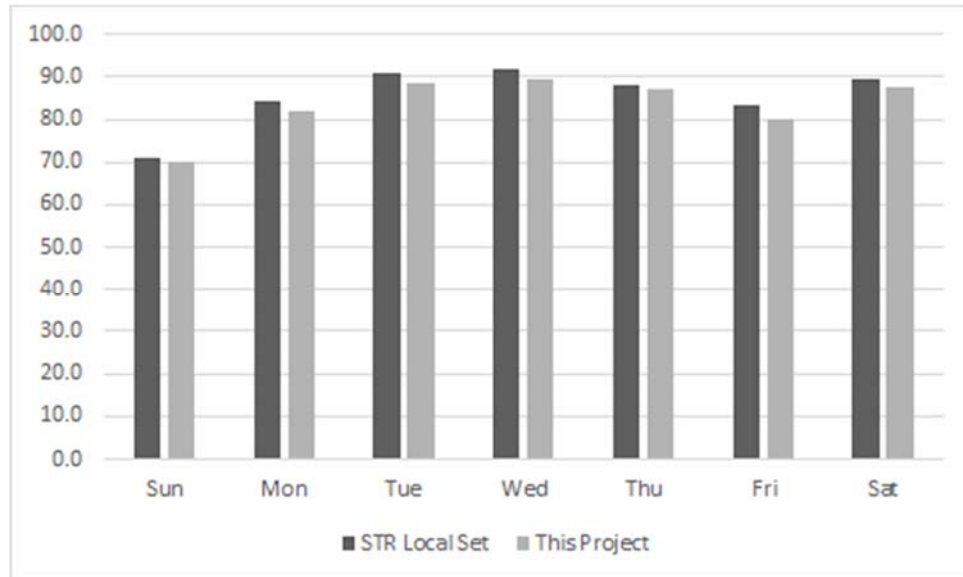
Comment

- Due to the envisaged market mix at the proposed hotel development and its strong location in proximity to a number of key commercial hubs, we envisage room occupancy levels will be very strong on characteristic 'corporate nights' including Tuesdays and Wednesdays.

- Due to the strength of the visitor profile in London and excellent location of the proposed hotel development in proximity to key visitor attractions, as well as retail hubs in the capital, we envisage room occupancy will be at its highest on Saturday nights.

- The scale of the proposed hotel, at just 94 bedrooms, will ensure that strong room occupancies are achieved for most of the week, with a decline to approximately 70 per cent on Sundays, which is in line with market performance.

Financial Projections

7.4   Market Mix and Double Occupancy

The following table details our projections of accommodation demand for the potential hotel at Shaftesbury Avenue, WC2, including projected roomnight demand, market mix and double occupancy factors.

Proposed Hotel Development, Shaftesbury Avenue

Projected Roomnight Demand by Market Sector

MARKET SECTOR	Year 1 (000s)	Year 2 (000s)	Year 3 and Ongoing (000s)	Year 3 and Ongoing (%)
Business	8,908	9,386	9,639	33.7
Individual Tourists	8,092	8,719	9,069	31.7
Group Tourists	2,158	2,325	2,418	8.4
VFR (visiting friends and relatives)	5,289	5,699	5,927	20.7
Study	245	259	266	0.9
MICE *	1,213	1,278	1,313	4.6
Total Demand	25,905	27,666	28,632	-
Room Occupancy	**75.5**	**80.6**	**83.5**	**100.0**

* meetings incentives conferences and events

Proposed Hotel Development, Shaftesbury Avenue

Double Occupancy

MARKET SECTOR (Year 3 and Ongoing)	DOUBLE OCCUPANCY FACTOR
Business	1.1
Individual Tourists	1.8
Group Tourists	1.5
VFR (visiting friends and relatives)	1.8
Study	1.5
MICE (meetings incentives conferences and events)	1.0
Overall Double Occupancy	**1.5**

Comment

■ We project that by the third and stabilised year of operation, the majority of demand at the proposed hotel will comprise midweek demand (57.7 per cent of total demand). This is in line with the proportion of midweek demand attracted to branded hotels of competitive relevance.

■ In a branded scenario, with the proposed product and location, we envisage an opportunity will exist to develop relationships to secure contracted roomnights throughout the year. We envisage a proportion of midweek demand will be derived from the leisure sector during the summer months.

■ We envisage that weekend demand will account for 42.3 per cent of overall occupancy by the third and stabilised year of operation. Weekend demand will primarily be comprised of demand from the leisure sector.

Financial Projections

7.5 Achieved Average Room Rate

The following achieved average room rate projections are made in light of performance benchmark information gathered by us on the competitive hotel market of relevance from STR Global, as well as in light of the assumed market positioning of the proposed hotel.

In assessing an appropriate average sector rate structure for the proposed hotel, we have taken into account the assumed standard of services and facilities of the hotel, the envisaged demand markets, and the location of the project.

We anticipate that the hotel will achieve the following average annual room rates in 2017 values.

Proposed Hotel Development, Shaftesbury Avenue
Rate Projections (exclusive of VAT) (2017 Values)

MARKET SECTOR (Year commencing 1 January)	YEAR 1 (£)	YEAR 2 (£)	YEAR 3 (£)
Overall Average Room Rate	**231.81**	**236.85**	**238.53**

The following graph details our projected achieved average room rates by day of the week for the proposed hotel (2017 values).

Proposed Hotel Development, Shaftesbury Avenue
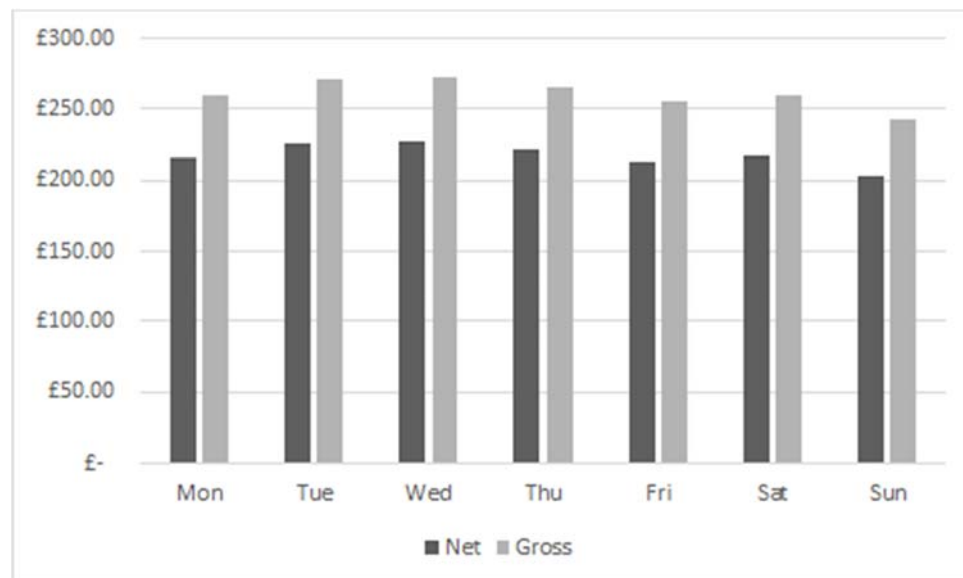
Comment

■ In the build-up to our stabilised average sector room rate projections, we have assumed that greater levels of discounting will be applied to all market sectors in the first two years of operation as the hotel penetrates relevant markets in order to establish its position in the local hotel market.

■ We project that by the third and stabilised year of operation, the proposed hotel development will achieve an average room rate of £238.53 (at 2017 values), which is below the hotels in our STR Global sample of local hotels (£256.80) in the 12 months

Financial Projections

to October 2017, primarily due to the considerable anticipated additions to supply envisaged and the subsequent likely price competition.

7.6 Rooms Revenue

The table below summarises the illustrative projected rooms revenue for the proposed hotel at 2017 values, for the first three and subsequent years of operation.

Proposed Hotel Development, Shaftesbury Avenue

Projected Rooms Revenue (2017 values)

YEAR	ROOMS REVENUE (£000S)
Year 1	6,005.1
Year 2	6,552.7
Year 3 and Ongoing	6,829.6

Comment

- Based on our assumptions relating to projected sector rates, seasonality as well as benchmarked performance of other hotels in the competitive market, we project that by the third and stabilised year of operation, the proposed hotel development will generate total rooms revenue of approximately £6.8 million (2017 values), equivalent to £199.17 per available room.

7.7 Other Revenue

We have not projected any Food and Beverage Revenues for the Proposed Hotel Development at Shaftesbury Avenue. All Food and Beverage projections have been prepared by specialist Ford Consultancy Group Ltd. We have reviewed the projections from a hotel consultancy perspective and consider them to be reasonable.

We have used a ratio-driven approach to project other revenues for the proposed hotel, based on our rooms revenue projections, our extensive experience of working on hotels of a similar market positioning in the UK and HotStats data for hotels operating in London.

The following table summarises our revenue projections by the third and stabilised year of operation at 2017 values.

Proposed Hotel Development, Shaftesbury Avenue

Projected Other Revenue Summary – Year 3 and Ongoing (2017 Values)

REVENUE	(£000S)	%
Rooms Revenue	6,829.6	89.3
Minor Operated Departments incl. Spa	559.8	7.3
Rental & Other Income	257.5	3.4
Total Revenue	**7,646.9**	**100.0**

Comment

- The proposed hotel development will be driven by a mix of income, although the weighting will come from rooms.

Financial Projections

- Minor Operated Departments includes the revenue derived from the spa, sale of in-house movies, internet, telephone, newspapers, etc and is projected at approximately £560,000 by the third and stabilised year of operation.

- Rental and Other Income includes the revenue derived from commissions, concessions and room hire at approximately £258,000 by the third and stabilised year of operation.

- We project that the proposed hotel at Shaftesbury Avenue, will generate a total revenue of approximately £7.65 million by the third and stabilised year of operation, at 2017 values.

7.8   Cost of Sales and Departmental Expenses

We have based the cost of sales and departmental expenses projections for the third and stabilised year of operation on research conducted by us into the hotel market of competitive relevance. The following table summarises our cost of sales and departmental expenses projections.

Proposed Hotel Development, Shaftesbury Avenue

Assumed Cost of Sales and Departmental Expenses (Year 3 and Ongoing)

COST OF SALES	PERCENTAGE OF DEPARTMENTAL REVENUE
Minor Operated Departments	4.3
DEPARTMENTAL EXPENSES	**PERCENTAGE OF DEPARTMENTAL REVENUE**
Rooms	11.0
Minor Operated Departments	35.0
NON-OPERATED DEPARTMENTAL EXPENSES	**PERCENTAGE OF TOTAL REVENUE**
Administrative and General	4.6
Marketing	5.8
Energy	2.5
Property Operations	2.2

Comment

- We project a total of 2.5 per cent of total revenue for **local** sales and marketing expenses, equivalent to approximately £191,000 by the third and stabilised year of operation.

- In addition, separate central marketing expenses of 1.5 per cent would also be paid to the brand and, equivalent to approximately £115,000 by the third and stabilised year of operation. The remaining £137,600 is assumed to cover the remaining participation and related franchise fees detail in section 7.10 of this report.

Financial Projections

7.9 Payroll and Related Expenses

The following table details our payroll and related expenses assumptions by the third and stabilised year of operation (Year 3 and ongoing). The payroll percentage for operated departments has been based on departmental revenue (i.e. rooms, food and beverage), whereas the remaining payroll expenses are based on total revenue.

Proposed Hotel Development, Shaftesbury Avenue
Departmental Payroll (Year 3 and Ongoing) (2017 Values)

DEPARTMENT	DEPARTMENTAL PAYROLL (£000s)	PERCENTAGE OF REVENUE (%)
Rooms	867.4	12.7
Minor Operated Departments	98.0	17.5
Total Operated Departments	**965.3**	**12.6**
Administrative and General	367.1	4.8
Marketing	183.5	2.4
Property Operations	107.1	1.4
Total Other Departments	**657.6**	**8.6**
Total	**1,623.0**	**21.2**

Comment

- By the third and stabilised year, payroll and related expenses are projected at approximately 21.2 per cent of total revenue, which we consider to be appropriate for the Rooms, Minor Operated Departments and Undistributed Payroll positions of a hotel of this scale, type and market positioning.

7.10 Fixed Costs

The following bullet points detail the assumed deductions from Gross Operating Profit to determine the net operating income available for debt service (EBITDA).

- **Management Base Fee** – We have assumed a base management fee of two per cent of total revenue, payable to a white label management company or the sponsors management company.

- **Management Incentive Fee** – We have assumed a management incentive fee of five per cent of adjusted GOP, payable to a white label management company or the sponsors management company.

- **Franchise Fee & Other Brand Fees** – As per the heads of terms agreement, we have assumed a franchise/program fee of 3.0 per cent in year 1, 4.0 per cent and 5.0 per cent in year 3 of rooms revenue for sales and marketing and system costs. 0.2 per cent of rooms revenue for Accortel fees, in addition to 1.5 per cent of total revenue for central marketing, as well as 3.1 per cent of revenue generated for Accor's own OTA system, 2.0 per cent + €5 for GDS/IDS (global distribution), 2.0 per cent + €6 for call centres, and 12.5 per cent of revenue generated for paid meta search. These fees are shown within the total amount for sales and marketing expenses.

Financial Projections

■ **Property Taxes** – Based on our knowledge and experience of the UK hotel industry, we have assumed Property Taxes at two per cent of Total Revenue per annum.

■ **Building Insurance** – Based on industry benchmarks, we have projected building insurance costs of 1.5 per cent of Total Revenue per annum.

■ **Replacement Reserve for Fixtures, Fittings and Equipment** – we have assumed a replacement reserve for FF&E of two per cent of total revenue in year one and increasing every year thereafter by one per cent and stabilising at four per cent in year three.

7.11 Summary Statements of Estimated Profit and Loss

Based on the information and assumptions detailed in the previous sections, the following tables summarise our profit and loss projections for the Proposed Hotel Development on Shaftesbury Avenue. The full profit and loss statement for the first five years is presented as Exhibit 1 (at 2017 values).

Proposed Hotel Development, Shaftesbury Avenue

Summary of Estimated Profit and Loss (2017 Values)

OPERATING PERIOD (Ending 31 December)		YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Rooms Available		94	94	94	94	94
Average Annual Room Occupancy	%	75.5	80.6	83.5	83.5	83.5
Average Room Rate	£	231.81	236.85	238.53	238.53	238.53
Total Revenue	£000s	6,584.7	7,259.7	7,646.9	7,646.9	7,646.9
Gross Operating Profit	£000s	3,172.7	3,620.2	3,898.0	3,898.0	3,898.0
Gross Operating Profit as a Percentage of Total Revenue	%	48.2	49.9	51.0	51.0	51.0
EBITDA (post FF&E)	£000s	2,586.1	2,894.7	2,976.7	2,976.7	2,976.7
EBITDA (post FF&E) as a Percentage of Total Revenue	%	38.3	38.9	38.9	38.9	38.9

■ Based on our research, we project the Gross Operating Profit per Room for the Proposed Upscale Hotel Development in the third and stabilised year of operation to be approximately £41,500. We project the EBITDA per available room to be approximately £31,670 by the third and stabilised year of operation.

EXHIBIT

Exhibit 1

Proposed Hotel Development - ODEON, Shaftesbury Avenue
Statement of Estimated Profit and Loss

2017 Values   **94 Letting Units**

	2020		2021		2022		2023		2024	
Average Room Occupancy %	75.5		80.6		83.5		83.5		83.5	
Average Room Rate £	231.81		236.85		238.53		238.53		238.53	
	£000s	%	£000s	%	£000s	%	£000s	%	£000s	%
REVENUES										
Rooms	6,005.1	91.2	6,552.7	90.3	6,829.6	89.3	6,829.6	89.3	6,829.6	89.3
Minor Op Depts	427.6	6.5	495.9	6.8	559.8	7.3	559.8	7.3	559.8	7.3
Rental & Other Income	152.0	2.3	211.0	2.9	257.5	3.4	257.5	3.4	257.5	3.4
Total	6,584.7	100.0	7,259.7	100.0	7,646.9	100.0	7,646.9	100.0	7,646.9	100.0
COST OF SALES										
Minor Op Depts	21.4	5.0	22.3	4.5	24.1	4.3	24.1	4.3	24.1	4.3
Total	21.4	0.3	22.3	0.3	24.1	0.3	24.1	0.3	24.1	0.3
DIRECT PAYROLL										
Rooms	798.7	13.3	851.9	13.0	867.4	12.7	867.4	12.7	867.4	12.7
Minor Op Depts	78.2	18.3	88.8	17.9	98.0	17.5	98.0	17.5	98.0	17.5
Total	876.9	13.3	940.6	13.0	965.3	12.6	965.3	12.6	965.3	12.6
OTHER EXPENSES										
Rooms	672.6	11.2	727.3	11.1	751.3	11.0	751.3	11.0	751.3	11.0
Minor Op Depts	149.7	35.0	173.6	35.0	195.9	35.0	195.9	35.0	195.9	35.0
Total	822.2	12.5	900.9	12.4	947.2	12.4	947.2	12.4	947.2	12.4
DEPARTMENTAL OPERATING PROFITS										
Rooms	4,533.9	75.5	4,973.5	75.9	5,211.0	76.3	5,211.0	76.3	5,211.0	76.3
Minor Op Depts	178.3	41.7	211.3	42.6	241.8	43.2	241.8	43.2	241.8	43.2
Rental & Other Income	152.0	100.0	211.0	100.0	257.5	100.0	257.5	100.0	257.5	100.0
Total	4,864.2	73.9	5,395.8	74.3	5,710.3	74.7	5,710.3	74.7	5,710.3	74.7
UNDISTRIBUTED OPERATING EXPENSES										
Payroll & Related										
Admin & General	367.1	5.6	367.1	5.1	367.1	4.8	367.1	4.8	367.1	4.8
Marketing	183.5	2.8	183.5	2.5	183.5	2.4	183.5	2.4	183.5	2.4
Property Ops.	107.1	1.6	107.1	1.5	107.1	1.4	107.1	1.4	107.1	1.4
Sub Total	657.6	10.0	657.6	9.1	657.6	8.6	657.6	8.6	657.6	8.6
Other Expenses										
Admin & General	329.2	5.0	348.5	4.8	351.8	4.6	351.8	4.6	351.8	4.6
Marketing	408.3	6.2	435.6	6.0	443.5	5.8	443.5	5.8	443.5	5.8
Energy Costs	164.6	2.5	181.5	2.5	191.2	2.5	191.2	2.5	191.2	2.5
Property Ops.	131.7	2.0	152.5	2.1	168.2	2.2	168.2	2.2	168.2	2.2
Sub Total	1,033.8	15.7	1,118.0	15.4	1,154.7	15.1	1,154.7	15.1	1,154.7	15.1
Total	1,691.4	25.7	1,775.6	24.5	1,812.3	23.7	1,812.3	23.7	1,812.3	23.7
GROSS OPERATING PROFIT	3,172.7	48.2	3,620.2	49.9	3,898.0	51.0	3,898.0	51.0	3,898.0	51.0
Management Fee	131.7	2.0	145.2	2.0	152.9	2.0	152.9	2.0	152.9	2.0
Replacement of FF&E	131.7	2.0	217.8	3.0	305.9	4.0	305.9	4.0	305.9	4.0
Mgmnt Incentive Fee	158.6	2.4	181.0	2.5	194.9	2.5	194.9	2.5	194.9	2.5
Buildings Insurance	98.8	1.5	108.9	1.5	114.7	1.5	114.7	1.5	114.7	1.5
Property Taxes	131.7	2.0	145.2	2.0	152.9	2.0	152.9	2.0	152.9	2.0
Sub Total	652.5	9.9	798.1	11.0	921.4	12.0	921.4	12.0	921.4	12.0
SURPLUS (DEFICIT) BEFORE DEBT SERVICE AND TAXATION	2,520.3	38.3	2,822.1	38.9	2,976.7	38.9	2,976.7	38.9	2,976.7	38.9

NOTE: The comments and assumptions contained in the foregoing report form an integral part of this projected statement.

APPENDICES

APPENDIX 1: Glossary

ARR – Average Room Rate
Defined as the average room rate charged per paid room occupied and is calculated by dividing total rooms revenues by the number of rooms sold.

Bednights
Quantifies the number of guests resident in the hotel.

Cost of Sales
Expenses directly related to the sale of goods or services such as raw materials but excluding indirect expenses.

Demand Build-Up
Demand build-up is a methodology used to project roomnight demand, and includes an assessment of seasonality, source of demand, and future trading potential of any given hotel.

Direct Expenses
Direct expenses relates to direct variable costs incurred in the operation of each department and varies from property to property. Examples include satellite television subscription, laundry and dry cleaning, guest and cleaning supplies costs.

DOP – Departmental Operating Profit
Total departmental revenue less cost of sales, payroll costs and direct operating expenses.

Double Occupancy
Double occupancy describes a double or twin room that is occupied by two people as opposed to single occupancy in which case one person occupies a double or twin room.

Double Occupancy Factor
A measurement to denote the incidence of two people occupying double or twin room. A double occupancy factor of 1.2 denotes that 20 per cent of the time, two people share the room, while a double occupancy factor of 2.0 denotes that two people share the room all of the time.

Fair Share
Based on a quantification of current accommodation demand and supply in any given hotel market and includes an assessment of demand growth in the market, the impacts of future competitive supply and displaced and created demand in the market. The term 'fair share' relates to each hotel achieving an equal proportion of demand in the quantified market.

GOP – Gross Operating Profit
Gross Operating Profit is defined as total revenue less all departmental and undistributed operating expenses, also referred to as IBFC (Income before Fixed Costs).

Management Fees
Management Fees are fees charged by an organisation managing a property for management services and supervision of the property.

MOD – Minor Operated Departments
Minor Operated Departments include equipment rental, telephone and business centre revenues.

Rack Rate
The standard price of a hotel room before any discounting has taken place and is often a statement of position in the market.

Room Yield
Calculated by dividing total room revenues by the number of rooms available for sale in the same period.

Room Occupancy
Calculated by dividing the number of roomnights sold during a period by the total number of rooms available in the same period.

Roomnights
Describes the number of rooms that are occupied in a hotel, regardless of the number of people staying in the room.

Sales per Employee
Calculated by dividing total sales by the total number of full-time employees (i.e. part-time employee's count as fewer than one).

UOE – Undistributed Operating Expenses
This classification is used for administrative and general expenses, marketing expenses, energy costs, and property operation and maintenance expenses.

APPENDIX 2: AM:PM Definitions

Regional Brands

Examples of Regional Brands include Firmdale Hotels, Grange Hotels, Apex Hotels and ABode, where representation is not geographically confined to one area, yet their profile is not that of a national brand. There may be regional groups of reasonable scale, however inconsistent branding and marketing across the chain leads to an Independent Hotel category.

National Brands

A national brand is typically recognised where the number of hotels and geographic coverage is not confined to one or a small number of regions. This would include brands such as Britannia, De Vere, Macdonald and Jurys Inn. Assessing their brand maps of the UK would illustrate a noticeably wider spread and denser penetration than that of a Regional brand.

Additionally, brands such as Premier Inn and Travelodge are regarded as National, despite their limited presence outside the UK. In relation to a portfolio of approximately 600 or more hotels, having 5-10 outside the UK doesn't translate into International or Global brand recognition in those countries where the brand rollout is in its infancy.

International Brands

An International brand would be distinguished from others where it has representation in a significant number of countries that would not be seen as National yet does not have truly global coverage. Examples include Andaz, Barcelo, Campanille, Copthorne, Danubius and Kempinski. This also includes brands such as easyHotel, which are far smaller than Premier Inn or Travelodge in the limited service category, but country coverage is wider and also in proportional terms to its overall size (ie no one single country dominates supply across the brand). Further examples include Hotel Indigo or Staybridge Suites, where they are part of a globally recognised brand, but individually have not reached global recognition or awareness.

Global Brands

Global brands are all controlled by a relatively small number of large groups, such as Accor, Blackstone, Carlson/Rezidor, Choice, IHG, and Wyndham. The distinction between International and Global depends on scale of individual country coverage and penetration within these countries. For example, having 30 hotels in 30 different countries would not represent Global branding, although 1,500 hotels in 80 countries would. Global brands include Hilton, Holiday Inn, Radisson, Ramada, Comfort Inn, Ibis and Novotel.