



# HOTELQUARTERS

Q3 - 2018

A QUARTERLY REVIEW OF THE UK HOTEL INDUSTRY

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## Q3 HIGHLIGHTS

# UK HOTELS DELIVER POSITIVE GROWTH IN Q3

Welcome to this edition of BDO's HotelQuarters 2018 - Q3, a quarterly review of the UK hotel sector.

UK hotels continued to benefit from the record-breaking inbound visitor numbers, attracted by favourable exchange rates this summer. Alongside international visits, the number of staycations continued to increase as trips abroad become more expensive for British holidaymakers.

In the third quarter of 2018, the overall daily rooms yield for UK hotels increased by 1.1% to £57.82. Occupancy (up by 1.5% to 79.2%) continued to be the main driver of growth for hotel performance but the healthy results were offset by declines in AARR (average room rates), down by 0.6% to £72.02. London hotels outperformed the regional market posting positive performance across all segments.

The good results experienced during July and August by regional, and in particular, London hotels were partly offset by negative results in September, which resulted in a lower than expected overall quarterly rooms yield growth.

In September, both London and regional hotels experienced negative performance due to widespread declines in AARR. Overall, UK hotels posted a decline of 2.5% in rooms yield, due to a decline in AARR of 3.4% which could not be overturned by a weak 0.7% increase in occupancy. London hotels posted an overall rooms yield decline of 3.4% as a consequence of the sharp decrease in AARR (down by 5.0% to £124.58) while regional hotels saw a more moderate decline in rooms yield (-1.8%) despite the flat results witnessed in occupancy (+0.3%).

Overall, London rooms yield for quarter three was up by 2.3%, thanks to the strong performance in July and August. The capital's hotel market experienced a significant growth in demand, boosted by the continuous rise in staycations, with RevPAR levels at its highest for August since 2012, when the city hosted the Olympics. Overall, regional rooms yield were up by 0.3% to £45.43 due to the mixed results in occupancy and a weak AARR performance.

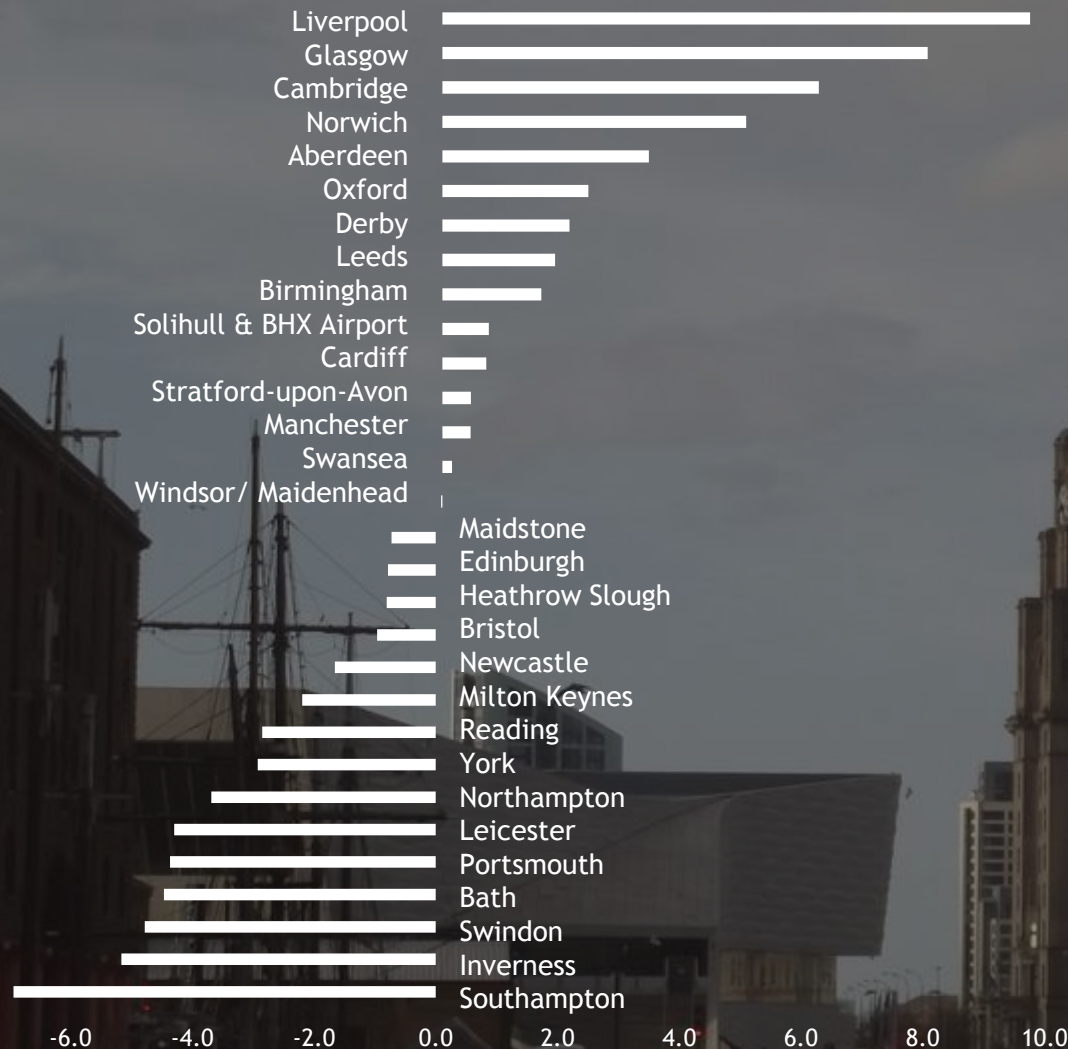
LOCATION	Q3 OCCUPANCY (%)			Q3 AARR (£)			Q3 ROOMS YIELD (£)		
	2018	2017	% Ch.	2018	2017	% Ch.	2018	2017	% Ch.
LONDON	84.9	82.3	3.2	105.44	106.37	-0.9	89.52	87.54	2.3
REGIONAL UK	77.0	76.4	0.8	58.96	59.22	-0.4	45.43	45.28	0.3
ENGLAND	76.9	76.0	1.2	58.57	59.00	-0.7	45.04	44.84	0.4
SCOTLAND	77.9	79.6	-2.1	64.64	63.53	1.7	50.35	50.57	-0.4
WALES	77.6	77.7	-0.1	52.35	52.50	-0.3	40.62	40.79	-0.4
TOTAL UK	79.2	78.1	1.5	72.02	72.47	-0.6	57.82	57.16	1.1



REGIONAL DESTINATIONS ROOMS YIELD % CHANGE Q3 2017/18



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## ECONOMIC OVERVIEW

# UK'S ECONOMY GROWTH RATE HITS TWO YEAR HIGH IN THIRD QUARTER

The UK economy grew by 0.6% in the third quarter of 2018, accelerating by two tenths from growth registered in the second quarter of the year, and achieving a two year high growth rate for a third quarter.

Optimism fuelled by England's performance in the World Cup and the hot weather pushed up retail sales and a recovery in construction in July, resulting in a surge in the economy in the first month of the quarter. August and September however were both flat, ratifying concerns that the impulse has been fading since.

Household spending was up by 0.5% in the third quarter, however, business investment decreased by 1.2%, despite the forecast of 0.2% growth, confirming uncertainty among businesses over the ability of the UK's government to agree with the EU on a deal ahead of Brexit.

### UK employment rate at record-high but concerns of workers shortage increases as EU workers leave

The UK unemployment rate increased to 4.1% in the third quarter, up from a 43 year record low of 4.0% during the second quarter, but remained lower than a year earlier (4.3%). Estimates from the Labour Force Survey show that both the number of people in work and the number of unemployed people increased in the three months to September 2018. The employment rate was at a record-high of 75.5%, up from 75.0% during the first quarter.

Latest figures published by the ONS showed a record number of vacancies as EU workers leave. According to the ONS, 2.25m people from the EU were in work in the three months to September - 132,000 fewer than for a year earlier. This decline represented the sharpest fall since records began in 1997, and it is attributed to the decrease

in the number of workers mainly coming from the so called "A8" eastern European countries such as Poland and the Czech Republic.

According to the ONS, workers' total earnings, including bonuses, increased by 3.0% in the three months to September, compared with a year earlier. Latest estimates show that average weekly earnings in real terms, adjusted for price inflation, increased by 0.8%.

UK inflation rate remained steady at 2.4% in October, despite expectations of a rise to 2.5%. However, it remained well above the Bank of England's 2% target. Prices continued to rise at a steady rate, particularly for utility bills and petrol, as crude prices recover, however, a fall in food and clothing offset the latter.

The pause in the downward trend of consumer prices reflects the difficulties of the sterling as Brexit negotiations develop and cost of imports goods remain high. The Bank of England now expects CPI inflation to remain on a downward trend over the coming months, reaching 2.0% at some point during the first quarter of 2019, but it will depend on how the market sees the development of a Brexit deal as a positive agreement would deliver a higher pound and lower inflation.

### Brexit worries drag on consumer confidence

British consumer confidence decreased to a three month low in October, dragged down by worries about the economic outlook as we approach Brexit.



GfK's UK Consumer Confidence Index scored -10 in October, as a result of the decrease in other several measurements such as general economic situation, Major Purchase Index and Savings Index.

Despite government claims of an end of austerity in the recently published budget, which according to experts should suffice to boost consumer confidence coupled with accelerating wages growth, the prospects of a no deal scenario have continued to weigh heavily on UK's consumers confidence, in the run up to crucial Black Friday and Christmas selling periods.

## EXPERT ADVICE

### SERVICE CHARGES IN THE UK HOSPITALITY INDUSTRY

*“If hospitality businesses manage to effectively put in place and operate tronc schemes, these can deliver significant financial savings for both businesses and their employees”*

*Andy Hamman, Tax Director*

UK hospitality businesses are in a unique situation among service businesses. There are over 150,000 hotels, pubs and restaurants in the UK, employing about two million people. An innovative, labour-intensive, high profile and thriving sector, it is constantly challenged to meet the expectations and perceptions of the employees, customers, investors and authorities. More specifically, practices around the distribution of tips, gratuities and service charges are regularly called into the spotlight.

In October, the PM announced new “tough” legislation on tips and service charges distribution as part of government’s plans to end exploitative employment practices. Service charges and tips paid with a credit or debit cards can lawfully be retained by the business, unlike those paid by cash. Most businesses currently distribute some or all of the discretionary revenues they receive from customers to their employees or use them as part of their pay structures.

Under this new future legislation, hospitality businesses would be legally barred from keeping tips from staff. The government’s recent announcement follows a series of claims from both the government and the opposition, as well as other professional bodies, to regulate on this subject.

Many hospitality businesses across the UK use “tronc” schemes to distribute those non-cash tips and discretionary charges, which fall under the legal ownership of the businesses. Troncs have grown in popularity in line with the use of payment cards over cash as the preferred payment method among customers. If hospitality businesses manage to effectively put in place and operate tronc schemes, these can deliver significant financial savings for both businesses and

their employees and they also constitute a more transparent system to deal with gratuities and distribute them among staff members.

With key expert input from BDO and other professionals in the industry, HOSPA has produced a practical guide to Tips, Gratuities, Service Charges and Troncs for the UK Hospitality Industry. This guide is available as a free download via [www.HOSPA.org](http://www.HOSPA.org). It covers explanations of the terminology and details of the range of regulations, practices, options and consequences that affect UK hospitality businesses.

**BDO is recognised as one of the leading advisors in the leisure and hospitality sector, offering advice and guidance to businesses on the subject of tips, service charges and tronc schemes.**

Should you wish to discuss the above or any other aspects of your tronc arrangements, please contact Andy Hamman ([Andy.hamman@bdo.co.uk](mailto:Andy.hamman@bdo.co.uk)) or your usual BDO contact.



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## SUMMARY OF REGIONAL DESTINATIONS PERFORMANCE



LOCATION	Q3 OCCUPANCY (%)			Q3 AARR (£)			Q3 ROOMS YIELD (£)		
	2018	2017	% ch.*	2018	2017	% ch.*	2018	2017	% ch.*
ABERDEEN	68.4	61.6	11.0	48.04	51.63	-7.0	32.86	31.80	3.3
BATH	78.9	78.7	0.3	79.30	83.22	-4.7	62.57	65.49	-4.5
BIRMINGHAM	72.3	72.1	0.3	61.98	61.18	1.3	44.81	44.11	1.6
BRISTOL	80.4	80.7	-0.4	72.20	72.63	-0.6	58.05	58.61	-1.0
CAMBRIDGE	80.6	77.3	4.3	75.09	73.83	1.7	60.52	57.07	6.0
CARDIFF	81.2	82.5	-1.6	66.75	65.24	2.3	54.20	53.82	0.7
DERBY	76.7	76.9	-0.3	60.77	59.40	2.3	46.61	45.68	2.0
EDINBURGH	81.3	84.2	-3.4	81.35	79.17	2.8	66.14	66.66	-0.8
GLASGOW	82.3	82.4	-0.1	69.00	63.93	7.9	56.79	52.68	7.8
HEATHROW SLOUGH	84.2	83.3	1.1	58.32	59.43	-1.9	49.11	49.51	-0.8
INVERNESS	79.6	84.8	-6.1	76.49	75.71	1.0	60.89	64.20	-5.2
LEEDS	78.7	76.7	2.6	62.75	63.24	-0.8	49.38	48.51	1.8
LEICESTER	71.7	72.2	-0.7	62.90	65.27	-3.6	45.10	47.12	-4.3
LIVERPOOL	82.4	77.3	6.6	71.88	70.01	2.7	59.23	54.12	9.4

## SUMMARY OF REGIONAL DESTINATIONS PERFORMANCE

LOCATION	Q3 OCCUPANCY (%)			Q3 AARR (£)			Q3 ROOMS YIELD (£)		
	2018	2017	% ch.*	2018	2017	% ch.*	2018	2017	% ch.*
MAIDSTONE	72.6	73.4	-1.1	68.63	68.38	0.4	49.83	50.19	-0.7
MANCHESTER	78.2	76.6	2.1	66.25	67.33	-1.6	51.81	51.57	0.5
MILTON KEYNES	78.9	77.3	2.1	70.61	73.69	-4.2	55.71	56.96	-2.2
NEWCASTLE	74.8	76.8	-2.6	63.53	62.92	1.0	47.52	48.32	-1.7
NORTHAMPTON	74.3	75.9	-2.1	67.58	68.69	-1.6	50.21	52.14	-3.7
NORWICH	84.1	79.3	6.1	57.34	57.98	-1.1	48.22	45.98	4.9
OXFORD	80.4	79.7	0.9	73.94	72.88	1.5	59.45	58.09	2.3
PORTSMOUTH	80.3	82.6	-2.8	78.59	79.89	-1.6	63.11	65.99	-4.4
READING	72.6	74.0	-1.9	83.80	84.63	-1.0	60.84	62.63	-2.9
SOLIHULL & BHX AIRPORT	73.7	75.9	-2.9	80.45	77.54	3.8	59.29	58.85	0.7
SOUTHAMPTON	80.0	81.2	-1.5	69.06	73.11	-5.5	55.25	59.37	-6.9
STRATFORD-UPON-AVON	78.8	79.2	-0.5	71.90	71.21	1.0	56.66	56.40	0.5
SWANSEA	73.5	75.5	-2.6	66.43	64.57	2.9	48.83	48.75	0.2
SWINDON	70.5	73.9	-4.6	68.88	69.01	-0.2	48.56	51.00	-4.8
WINDSOR/ MAIDENHEAD	75.6	77.2	-2.1	79.92	78.28	2.1	60.42	60.43	0.0
YORK	76.0	76.7	-0.9	76.59	78.18	-2.0	58.21	59.96	-2.9

Based on the Average Achieved Room Rate (AARR) in 2016 and 2017. Rooms equals the available rooms/day relates to 2017 figures only and is rounded to the nearest 50.

AARR and Rooms Yield values are Net of VAT. \* Differences may be due to rounding.



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We provide assurance, tax and advisory services to our clients who range from small owner-managed businesses to large corporations in both the private and public sectors, many of whom are market leaders.

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This expertise covers the entire spectrum of investment and operating activities and our involvement brings credibility, competence and independence to any project. Our team of dedicated professionals have experience gained from a range of industry disciplines. This means that we have a wider perspective and can use their practical knowledge to achieve the best possible outcome for our clients.

There is no other sector consultancy in Europe with a research and performance database that stretches back as far as ours, or contains the volume of information that we possess. Our research and publications team, and our archive facility, ensures that our clients and consultants have immediate access to the latest authoritative data.

In short, if you are active in the hotel industry then you should be talking to BDO.

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- Financial investigations
- Systems reviews
- Turnaround and distressed situations
- Need analysis.

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