

London sees property boom with hotel sector set to grow further, says HVS

London is in the midst of a property boom and looks set to become one of the world's leading hotel markets, as strong growth in leisure demand turns the capital city into an increasingly popular tourist destination.

This was the conclusion of an HVS London Update breakfast seminar held last week at the Charlotte Street Hotel, attended by over 70 hotel operators, analysts and investors. The event was part of a series of market briefings organised globally by HVS.

Charles Human managing director of property specialist HVS Hodges Ward Elliott presented a positive outlook for the capital, prompted by a population increase that is currently higher than that of either New York or Paris.

Tourism in the capital will be further boosted from increased Chinese demand as an improved visa procedure is implemented for Chinese visitors.

‘London has a shortage of hotel stock on the market, which pushes both demand and prices higher and means that development costs are lower than acquisition costs. The capital also has a high proportion of poor quality hotels which needs replacing – either as hotels, or residential units,’ said Human.

‘London has enjoyed a strong return since the financial crisis and, with the exception of Paris, is the only European gateway city outperforming its peak pre-crisis RevPAR (revenue per available rooms) levels. In 2013 London was the most invested city in the world in terms of commercial real estate.’

The audience heard how lending for hotel development had become easier to access with more competition amongst established lenders. However, most of the key deals in London hotels had been secured on an all-cash basis with the intention of future refinancing when the time is right.

As London itself spreads – with expansion towards the East and the South, hotel development is shifting towards new areas, particularly those with high corporate and residential growth such as the East and North.

In a discussion chaired by HVS chairman Russell Kett involving senior executives from Starwood Capital, Precis Holdings, citizenM and London & Regional Properties, the panel debated how it is leisure rather than corporate demand that is currently of more interest to hoteliers, as corporate rates have been relatively static over recent years.

This, the audience heard, was an advantage to the sector as leisure demand is easier to yield than corporate rates, which have little flexibility due to last-room availability and fixed contracts.

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Editor's notes

HVS Hodges Ward Elliott is a joint venture between the leading international hotel consultancy firm HVS and the leading US hotel real estate brokerage and investment banking firm Hodges Ward Elliott. HVS Hodges Ward Elliott acts as broker and investment advisor in European hotel real estate markets, and focuses on disposition advisory services.

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