Consolidation in hotel sector likely as operators face challenging year ahead

14 December 2017, London**:** The New Year is likely to be a challenging one for the UK's hotel operators with flat occupancy levels and increasing overheads, despite positive global and EU economic growth. UK hotels' average room rates should see modest growth, however.

Looking ahead to 2018 leading hotel consultant Russell Kett, chairman of HVS London, warns that the combination of wages going up, staff shortages, increasing food and utility costs, and the impact of higher property taxes and business rates as well as a strong pipeline of new hotels will put pressure on UK hotels' operating margins over the next 12 months.

However, despite little or no occupancy growth, yields are likely to increase slightly with average daily rate [ADR] and rooms revenue per available room [RevPAR] rising by an anticipated 5% in London and 3% in the regions.

European hotels are also likely to see RevPAR increases next year and conceivably beyond, while those in Paris and Brussels will continue to recover more strongly from the impact of recent terrorism atrocities.

Kett believes that leisure travel for the year ahead will remain strong in the UK, particularly while the pound is relatively weak, although corporate business looks set to be squeezed as companies seek to contain costs. Likewise domestic consumer spending could remain somewhat dampened as confidence is still shaken by the UK's impending from the EU. The threat of security concerns in key cities also remains in the background, but has yet to have a material effect on hotel demand.

While there is a deceleration in UK GDP growth, there will still be growth and the overall outlook for travel into the UK remains positive. Hoteliers must focus on service, quality, outperforming their competition and encouraging direct bookings rather than becoming a slave to costly online travel agents.

?Next year will truly sift the good from the average, particularly in cities with an increasing supply of hotels, such as London. Operators need to maximize revenue from every bit of space and keep a tight control on overheads,? said Kett. ?The message to tourists must be that the UK is still very much open for business.?

Across Europe the ongoing tourism backlash currently being experienced in cities such as Amsterdam, Barcelona, Venice and San Sebastian will require more to be done by local tourism and government officials as well as the hospitality sector to demonstrate the economic benefits of tourism.

Kett also predicts that 2018 will bring further consolidation across Europe's hotel sector, as hotels become an increasingly attractive trading asset amongst institutional investors.

?Recent takeovers by Marriott and Accor have intensified the appetites of global investors to see the macro financial benefits of such consolidations ? potentially bringing together the likes of IHG or Hyatt with other hotel groups,? he said. ?Both could be the target of others ? or they could be the acquirers,? he concluded.

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About HVS
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