



Birmingham Hotel Market Update

September 2022

A young, growing economic hub

Birmingham, the UK's second largest city, has constantly evolved as its population has grown. Bolstered by a substantial student population, the city is one of the 'youngest' cities in Europe with some 46% of residents being under 30, supporting a vibrant and diverse entertainment sector.

The city's hotels are heavily dependent on domestic demand (almost 70%) with business travel accounting for close to half of room occupancy – a much higher proportion than in other major UK cities.

In recent years Birmingham has developed its reputation as a major event destination with a broad range of convention spaces, concert sports venues attracting both business and leisure travellers.

Substantial Midmarket and Economy Supply Growth

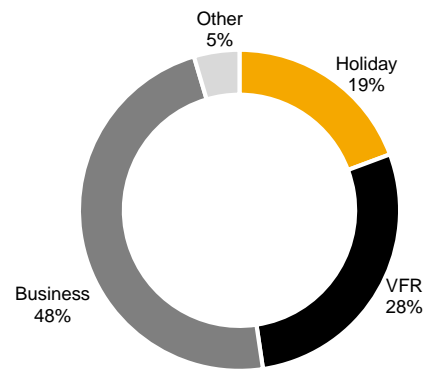
Hotel supply has grown significantly over the past decade, particularly in the Upper Midscale and Economy sectors as domestic groups, most prominently Premier Inn (Whitbread) and Travelodge, aggressively expanded.

While around one third of existing hotels are operated under management agreements, franchises are increasingly favoured as major brand groups expand their "asset light" portfolios. For example Marriott's aloft (Birmingham Eastside) and Moxy (Birmingham NEC) brands opened in 2021 and 2020 respectively as franchises. We see this trend continuing.

Given that one third of hotel rooms are operated independently, there would appear to be further potential for major brands to expand through franchises and conversions as the market continues to develop and mature.

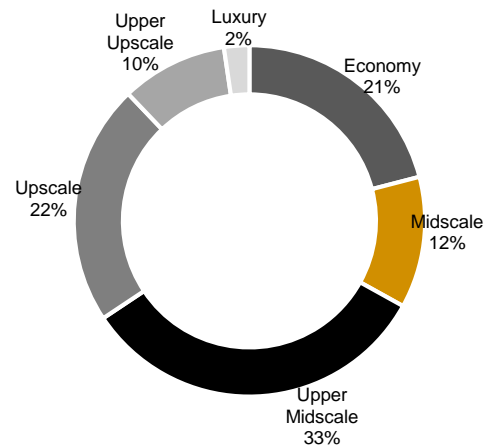
There is very limited supply in the city's Luxury Segment potentially presenting development and conversion opportunities for investors in the coming years.

Visitor Profile (2019)



Source: Visit Britain – International & Domestic combined

Current Hotel Supply (2022)



Estimated Quality Room Supply in Greater Birmingham

	Management	Franchise	Independent	Total
Economy	4,740	486	44	5,270
Midscale	531	832	1,080	2,443
Upper Midscale	1,698	3,071	1,229	5,998
Upscale	819	1,791	1,098	3,708
Upper Upscale	1,531	211	87	1,829
Luxury	0	0	687	687
Total	9,319	6,391	4,225	19,935

Source: CoStar, Horwath HTL research

Recovery well on the way for the city

Despite a rapidly expanding supply, Birmingham's hotels were able to deliver consistent year-on-year RevPAR growth up to 2019 and, given their strong domestic guest mix, rebounded from the pandemic faster than more hotels in more internationally focused destinations such as London.

The city's recovery has been significantly enhanced its hosting of the Commonwealth Games leading analysts at STR and Tourism Economics to forecast that 2022 RevPAR will meet or exceed the 2019 level.

Birmingham's hotel investment subdued..

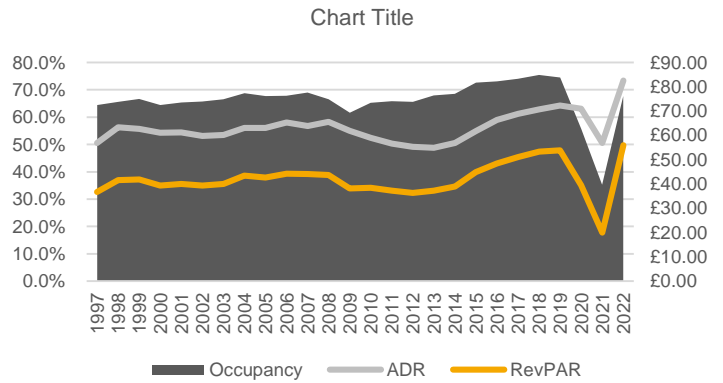
Although a limited number of Birmingham hotels have been offered for sale since 2019, there is clearly strong demand from institutional investors which recognise the long-term potential of the market.

According to CoStar, in the 12 months to July 2022 hotel assets worth a total of £184 million were bought by institutional buyers including Cedar Capital, Goldman Sachs and L&R Properties.

Despite relatively strong recent average top-line trading performance many hotels will struggle to break-even given rapidly rising operating and debt-servicing costs, and a highly volatile economic environment.

As such, we expect to see an increasing number of opportunities for investors to acquire and reposition underperforming assets in the market over the coming months.

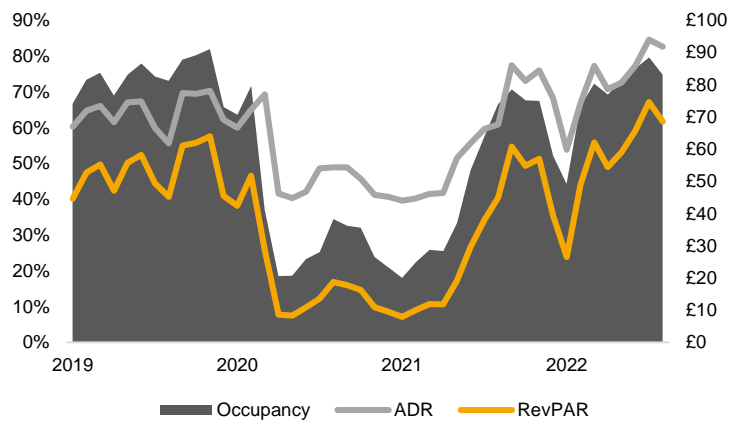
Historic Annual Performance of Greater Birmingham (YTD 08-2022)



Source: Costar

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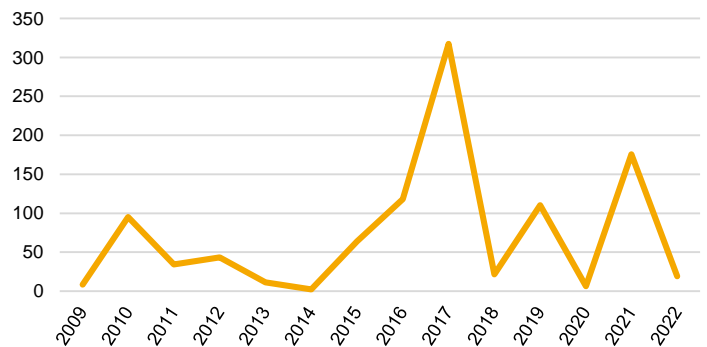
Monthly Performance of Greater Birmingham (YTD 08-2022)



Source: Costar

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Sales Volume in Millions (YTD 08-2022)



Source: Costar

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