



JULY 2011 | PRICE £75

# MARKET SNAPSHOT EDINBURGH, UK

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*This market snapshot is part of a series of articles that HVS is producing every month on key hotel sectors. In writing these articles we combine the expertise of HVS with STR Global data for each market. Our analysis is based on data for a sample of 62 mainly branded properties as provided by STR Global.*

## Highlights

- Edinburgh is the UK's most important tourist destination after London, attracting more than 3.5 million visitors per annum. Tourism in the city is dominated by domestic demand, which accounts for more than 60% of arrivals, but there is still an appreciable number of international visitors;
- Edinburgh airport has shown significant growth in passenger numbers over the past ten years in terms of both international and domestic arrivals. The airport handled just over 8.6 million passengers in 2010 and this is set to increase as plans for expansion progress;
- The city benefits from a mix of leisure and business tourism, thus hotel performance remains strong all year round. As a result, the impact of the economic downturn was less severe in Edinburgh, and the city has emerged largely unscathed with occupancy, average rate and RevPAR growing year-on-year in 2010 and 2011. Occupancy has continued to peak in August owing to the famous Edinburgh Festival;
- Full year 2009 and 2010 occupancy in Edinburgh was the second highest in Europe, beaten only by London;
- The corporate sector was largely impacted by the economic crisis, however, rolling-12-months-to-April 2011 figures show signs of recovery, with increases in occupancy and average rate leading to a 6.1% increase in RevPAR;
- Investors and developers continue to have confidence in Edinburgh; five hotels have changed hands since January 2010 and an estimated 1,386 rooms could enter the market by 2013;
- As per our annual Hotel Valuation Index (HVI), Edinburgh ended 2010 with values of around €213,000 or £183,000 per room for a four-star, city centre property;

## Hotel Demand Patterns

Edinburgh Airport is the busiest airport in Scotland and the sixth busiest airport in the UK, handling just over 8.6 million passengers in 2010. The airport has shown steady growth over the past 20 years, with a compound annual growth rate of 6.7%. This is set to continue as the airport saw a 16% increase for year-to-May 2011 passengers compared with the previous year. This growth may be attributed to the weakness of the sterling against the euro, which has helped increase domestic tourism across the UK and attracted international tourists who took advantage of the favourable exchange rates. Historically, domestic arrivals have dominated demand; nonetheless, international arrivals increased significantly over the five-year period to 2009 at a compound annual growth rate of 11.7%. There are plans to expand the airport and add an additional runway, with passenger numbers expected to reach 12.3 million by 2020 and 20 million by 2040.

On the whole, tourism in Edinburgh remains largely intact following the global economic crisis. As the second most popular tourism destination in the UK, the city generates demand from both leisure (approximately 75%, including those visiting friends and relatives) and business (approximately 25%) visitors.

The corporate sector was strongly impacted by the economic crisis in 2009 and 2010; this had a negative effect on business demand as Edinburgh relies heavily on commercial business from financial and banking institutions. However, business demand is set to revive in the medium-term. The outlook remains positive as leisure demand remains strong owing to the increasing ‘staycation’ trend and the cultural importance of the city. In addition, Visit Scotland ran a promotion, ‘Homecoming 2009’, which involved a year of celebrations and festivals to mark the 250<sup>th</sup> anniversary of the birth of Robert Burns. The event, which was marketed heavily in the UK and internationally, was a great success and reports suggest 95,000 additional tourists visited Scotland in 2009. Plans are now under way for ‘Homecoming 2014’, which will take place in the year that Scotland hosts the Commonwealth Games and the Ryder Cup and marks the 700<sup>th</sup> anniversary of the Battle of Bannockburn.

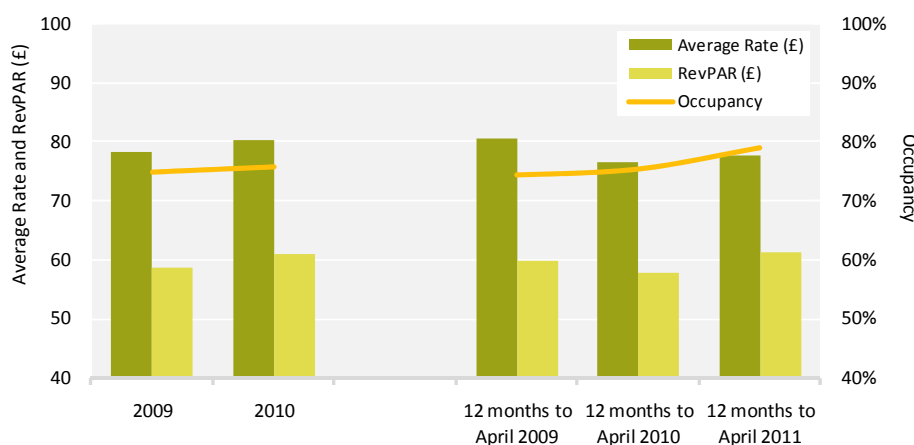
Edinburgh’s tourism market is underpinned by domestic demand, meaning the market is less vulnerable to international events, such as the volcanic ash cloud which brought tourism in Europe to a standstill in April 2010. Tourists can easily reach Edinburgh using alternative methods of transport, with journeys from London to Edinburgh taking just over four hours by train. This helps domestic travellers to remain dominant, accounting for more than 60% of arrivals and generating 2.2 million arrivals and 5.6 million bednights. International arrivals in the city have fluctuated over recent years; however, the steady growth in domestic tourism has enabled overall tourist arrivals to grow to more than 3.5 million a year.

The main international source markets for Edinburgh are Germany, the USA and France. Historically, the USA has been Edinburgh’s main international source market, accounting for 15% of total international arrivals. However, the economic crisis has taken its toll and arrivals from the USA dropped by an estimated 24% in 2010. Travel from Germany remained remarkably strong and provisional figures show arrivals increased by 20% in 2010 compared with the previous year.

Tourism in Edinburgh is expected to remain strong as a result of the London 2012 Olympic and Paralympic Games. They will provide a once-in-a-lifetime tourism boost to the UK and, as the second most important city in the UK following London, it is likely that international tourists will visit Edinburgh while attending – or avoiding – the games.

## Hotel Performance

CHART 1: HOTEL PERFORMANCE IN EDINBURGH 2009-11



Source: STR Global

resulting in a 4% increase in RevPAR. Business demand in Edinburgh has struggled as it relies heavily on the domestic financial and banking sector.

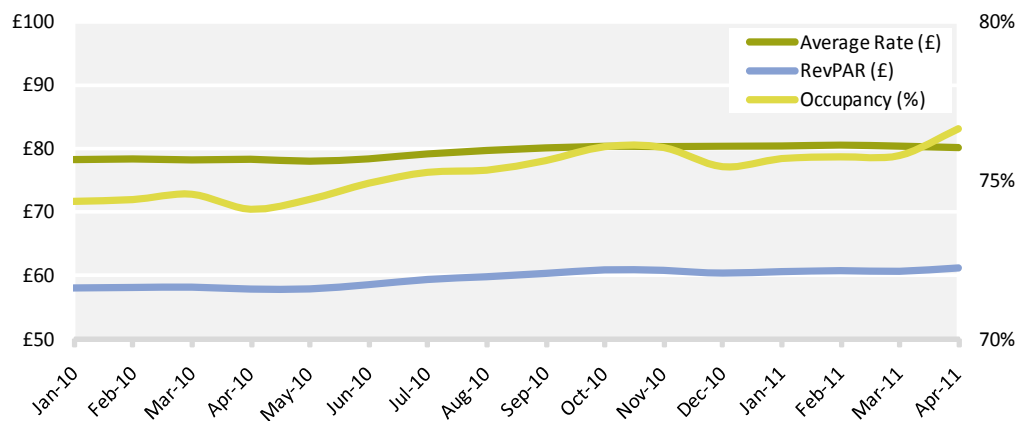
The analysis in this market snapshot is based on a sample of 62 hotels in Edinburgh. Charts 1 and 2 present the hotel market’s performance indicators (occupancy, average rate and RevPAR).

Occupancy levels increased slightly from 75% in 2009 to 76% in 2010. Average rate also benefited from a growth of 2%, largely fuelled by an increase in leisure bookings,

The rolling-12-months-to-April figures show the impact of the credit crunch; despite a small growth in occupancy, Edinburgh’s average rate and RevPAR declined by 4.8% and 3.4% in 2009/10, respectively, compared with the previous period. However, the following year’s figures show signs of recovery, with an increase in occupancy and average rate leading to a significant increase in RevPAR. Occupancy grew by almost 5% and average rate followed suit reaching £78, an increase of 1.4%; combined, they led the way for RevPAR to reach £61, a 6.1% increase on the previous period. Despite these positive signs, it is important to note that hotel performance levels have not yet returned to the levels achieved before the economic crisis.

Chart 2 shows the monthly moving annual average of hotel occupancy, average rate and RevPAR (in pounds sterling) in Edinburgh from January 2010 to April 2011.

**CHART 2 MONTHLY MOVING ANNUAL AVERAGE – OCCUPANCY, AVERAGE RATE AND REVPAR  
JANUARY 2010 TO APRIL 2011**



Source: STR Global

Chart 2 shows a relatively flat average rate performance for the period under review. Following fluctuations, it is interesting to see occupancy peak at 77% in April 2011; an encouraging sign of recovery. As long as this trend continues, Edinburgh will continue to see positive RevPAR growth.

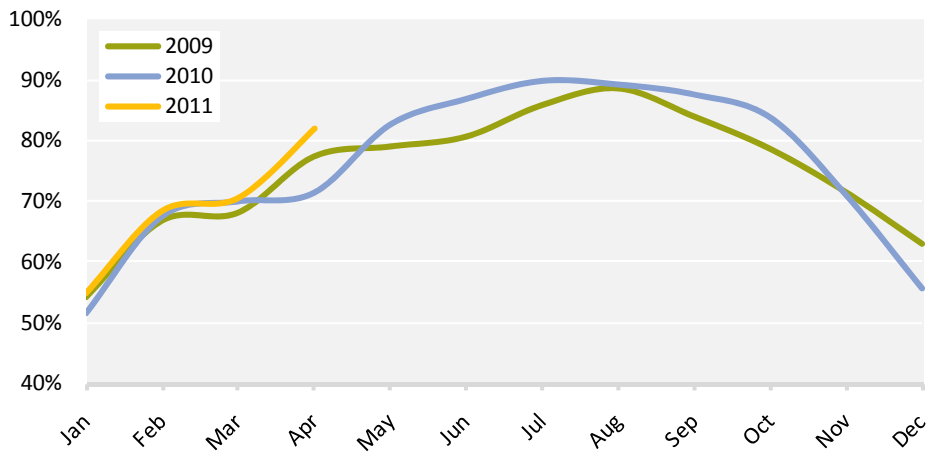
## Seasonality

Edinburgh is both a business and leisure destination; it benefits from an established foundation of commercial business from financial and banking institutions during the week, and leisure travellers during the weekend. As the economic crisis materialised, the city was able to keep occupancy competitive owing to an established domestic market and the increase in the ‘staycation’ trend, particularly short city breaks.

Chart 3 shows the seasonality for the hotel market in Edinburgh for 2009, 2010 and year-to-April 2011. It is clear that the hotel market is recovering; 2010 occupancy levels exceeded those of 2009, and the positive trend has continued into 2011.

Chart 3 indicates the strong months for hotel accommodation are May through to October, with occupancy remaining above 80% for these months.

CHART 3 SEASONALITY – EDINBURGH MONTHLY OCCUPANCY 2009, 2010 AND YEAR-TO-APRIL 2011



Source: STR Global

The summer months are indicative of the high level of leisure demand, particularly domestic tourism. Additionally, the UK summer months and school holidays coincide with those of the USA and Europe, Edinburgh’s major international source markets. The number of festivals and events held in Edinburgh over the summer also contribute to the high occupancy levels. Main events include the Edinburgh International Festival, the Edinburgh Festival Fringe and the Edinburgh Military Tattoo.

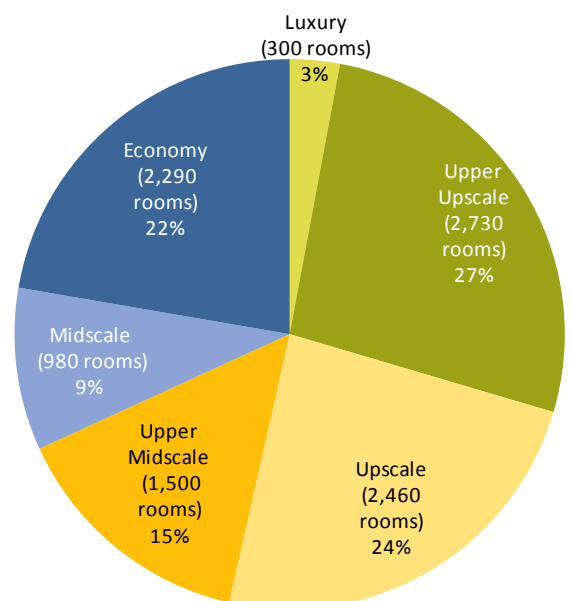
Occupancy in the city remains above 70% for the majority of the year, underlying the combination of leisure and business demand for the city. The dip in occupancy is typically from December to February, owing to Christmas and the winter season; in this period occupancy can drop to as low as 52%. However, Hogmanay (New Year) celebrations attract many people to the city and have a positive impact on trading performance.

## Supply

Hotel supply in Edinburgh consists of approximately 153 economy to luxury hotels, accounting for more than 10,200 rooms. The city’s hotel room supply covers all categories, although it is interesting to note that major international brands account for a mere 27% of total room supply in the city. Chart 4 shows the structure of the current supply in Edinburgh.

Currently, the city’s hotel room supply is dominated by the upscale (Novotel, Principal Hayley and so forth) and upper upscale (Hilton, Marriott) categories which together account for more than half of total supply. Luxury hotels (the Balmoral Hotel, the Edinburgh Residence) account for just 3% of the market while upper midscale (Holiday Inn, Jurys Inn), midscale (Ibis, Best Western) and economy (Premier Inn,

CHART 4 HOTEL SUPPLY IN EDINBURGH (ROOMS)



Source: STR Global

Travelodge) hotels make up the rest of the market. Travelodge is the dominant hotel operator with 11 hotels and 1,050 rooms in the economy sector. This sector is well positioned to capture the growing demand as leisure and business tourists continue to monitor spending.

## New Supply

Edinburgh has seen a handful of hotels enter the market over the past few years, with two noteworthy hotels opening at opposite ends of the spectrum.

At the luxury boutique end, June 2009 saw the opening of the first Hotel Missoni. Since opening, the hotel has expanded, launching the first Spa Missoni and subsequently winning 'Europe's Leading New Hotel of the Year 2010'. In the economy sector, Travelodge opened a 'metro' style hotel in Edinburgh. The 43-room hotel, which opened in March 2010, has acted as a prototype and the company now plans to roll out the concept across the UK.

Hotel development in Edinburgh remains strong with luxury brands such as Jumeirah, Hyatt and the InterContinental Hotels Group rumoured to be looking for sites. Chart 5 illustrates the branded hotel supply which is expected to enter the market over the next few years.

CHART 5 NEW SUPPLY – EDINBURGH, UK

Future Openings	Category	Number of Rooms	Opening Date	Location
Premier Inn Princes Street	Economy	97	Mid-2011	Princes Street
Marriott Residence Inn	Midscale	107	Oct 2011	Quatermile Development
Hotel Indigo	Upscale	60	Autumn 2011	Haymarket
Travelodge Morrison Street	Economy	246	July 2012	Morrison Street
Travelodge Princes Street	Economy	96	Summer 2012	Princes Street
Motel One	Economy	208	Summer 2012	Castlehill
Staybridge Suites	Midscale	121	Winter 2012	Leith Walk
Premier Inn Edinburgh Park	Economy	120	2012	Edinburgh Park
Park Inn by Radisson Edinburgh Airport	Midscale	160	2013	Edinburgh Airport
Park Inn by Radisson Edinburgh City Centre	Midscale	171	2013	Haddington Place
<b>Total</b>		<b>1,386</b>		

Source: HVS Research

We make the following comments on the new supply.

- **Premier Inn** will be introducing two new properties to the market. The 97-room Premier Inn Princes Street is scheduled to open mid-2011 and the 120-room Premier Inn Edinburgh Park is scheduled to open in 2012. Premier Inn currently has six hotels in the market comprising approximately 620 rooms;
- Marriott Hotel Group's 107-room **Marriott Residence Inn** is scheduled to enter the market in October 2011. The hotel, which is Marriott's first Residence Inn in the UK, will be part of the new Quatermile mixed-use development, which includes the hotel, 900 luxury apartments, and retail and office space. Residence Inn is Marriott's extended stay brand;
- InterContinental Hotels Group will be introducing two properties to the market with the entrance of the **Hotel Indigo** (60 rooms) and **Staybridge Suites** (121 rooms). The Indigo brand was launched in 2004, making it InterContinental's youngest brand. The Hotel Indigo Edinburgh will open in autumn 2011. The Staybridge Suites Edinburgh will be on Leith Walk



in the city centre. The hotel is slated to open in 2012 and BDL Management will manage the property. Staybridge Suites is InterContinental's extended stay brand;

- **Travelodge** will expand its current portfolio with the addition of two hotels. The Arcadia Group will fund the construction of a 96-room Travelodge above its Topshop store on Princes Street. Travelodge has agreed a 35-year lease with Arcadia Group, representing a £10 million investment; the hotel is expected to open in summer 2012. Travelodge will also open a 246-room property on Morrison Street in July 2012. These additions will increase Travelodge's room supply to 1,392 rooms and 13 hotels in Edinburgh;
- It was recently announced that **Motel One** will be opening its first UK property in Edinburgh next summer. The German hotel group has agreed terms with developers the Chris Stewart Group to develop the £25 million, 208-room Motel One as part of the mixed-use development in the Castlehill area. Motel One currently has properties in Germany and Austria;
- Rezidor Hotel Group will add two **Park Inn by Radisson** hotels. The 171-room Park Inn by Radisson Edinburgh City Centre will be located close to Holyrood Park, a short distance from the city centre. Facilities include a restaurant, meeting rooms and a fitness centre. The 160-room Park Inn by Radisson Edinburgh Airport will be located a stone's throw from Edinburgh airport, and just 13 km from the city centre. The hotel will have a 100-cover restaurant, five meeting rooms (or 313 m<sup>2</sup> of conference space) and 153 parking spaces. Both hotels are scheduled to open in early 2013.

Along with these new entries into the market, the owners of the 254-room Caledonian Hilton plan to rebrand it as a **Waldorf Astoria** hotel. The property will reopen in summer 2012 following a total investment of £24 million. Hilton is opening Waldorf Astoria hotels in markets that it determines will show significant growth in the luxury sector.

In addition, budget boutique operator **Citizen M**, apart-hotel brand **Base2stay** and Dutch hotel operator **Qbic**, which offers futuristic cube-shaped rooms, are rumoured to be looking for sites in Edinburgh.

## Hotel Investment and Values

Edinburgh's hotel investment market has been relatively active in the past few years with a number of hotels changing hands, including the Caledonian Hilton, the Hilton Edinburgh Airport, the Radisson SAS, Apex International Hotel and the Point Hotel. Since 2007, however, as the global economic climate affected hotel investment at a worldwide level, the level of transaction volume in Edinburgh has slowed. Since January 2010, five hotels have changed hands: the Tigerlily, the Novotel Edinburgh Park, the Point Hotel and the Number Ten. Another property (the Glasshouse hotel) was part of a portfolio transaction recorded in 2010.

- In February 2010, the Lothbury Property Trust acquired Tigerlily from Alliance Trust Real Estate Partners. The 35,000 ft<sup>2</sup> property comprises the 'Tigerlily' bar and restaurant, an award-winning 33-room boutique hotel and the 'Lulu' nightclub. Tigerlily was purchased for £9.6 million and reflected a net initial yield of around 5.4%;
- In August 2010, Benson Elliot Capital Management and French hotel private equity investor Algonquin entered a joint venture to acquire the Novotel Edinburgh Park from administrators KPMG. The 170-room hotel has a restaurant, bar, swimming pool and five meeting rooms. The hotel, which opened in 2008, is Benson Elliot's second hotel deal in the UK and Algonquin's 23<sup>rd</sup> hotel in its portfolio, but its first investment in the UK. Accor will continue to manage the hotel under its Novotel brand; the sale price was not disclosed;

- The Point Hotel is reported to have sold in October 2010 (with a guide price of more than £15.75 million). The 139-room hotel was sold by KPMG, the administrators of Applegrove Trading Limited. The hotel, which boasts a restaurant, bar and six meeting rooms, also transacted in 2008 when it was rebranded to the Mercure Point Hotel and sold for £20 million (£143,900 per room).
- In December 2010, Westmont Hospitality bought the Eton Group out of administration for approximately £55 million. The 271-room portfolio included the 65-room, luxury, boutique Glasshouse hotel in Edinburgh. The portfolio was sold by administrators KPMG. The other properties in the portfolio are located in London and Leeds;
- Finally, Indian hotel company Shanti Hospitality Group has acquired the 30-room boutique Number Ten hotel for approximately £5 million. The vendor for the transaction was high-net-worth-individual Louise Koch Leonard, who acquired the hotel in 1997 when it was known as the Christopher North House Hotel. The Number Ten is the only significant hotel reported to have transacted in 2011.

CHART 6 EVOLUTION OF HOTEL VALUES PER ROOM – EDINBURGH 2005-10



Source: HVS – London Office

From our valuation experience and based on our knowledge of the market, we estimate that hotel values in Edinburgh have evolved as shown in Chart 6. Following sustained growth value per room peaked just shy of £211,000 in 2007, before declining sharply by 15% in 2008; an obvious impact of the economic crisis. Value per room has struggled since, growing by 3.6% in 2009 and declining slightly in 2010.

As per our annual HVI, Edinburgh is placed 14<sup>th</sup> in terms of value per room (euro terms). Edinburgh ended 2010 with values of around €213,000 or £183,000 per room

for a four-star, city centre property. This is slightly below the average value per room for all 33 cities covered by the HVI which was approximately €215,000.

By 2015, HVS forecasts that the value per room will rise to €260,000 or £235,000 at current exchange rates, marking an increase of around 22% and 28% in euro and pound terms respectively.

## Conclusion

The Edinburgh hotel market has demonstrated strong resilience in the past 18 months. Following a dip in 2009, occupancy and average rate have shown positive growth in 2010 and into 2011 at a more rapid pace than many other European cities. In both 2009 and 2010 Edinburgh achieved the second highest occupancy of any European city (London was number one), highlighting the constancy of demand for this destination. The impact of the worldwide economic downturn was short and not as pronounced as in other provincial UK cities thanks to the high proportion of domestic, especially leisure-driven demand as Edinburgh is the second most visited city in the UK after London. We anticipate that going forward and with the upcoming London 2012 Olympic Games as well as plans for the airport expansion, Edinburgh will continue to grow as an international tourist destination.



Looking forward, the new supply pipeline for Edinburgh shows a 13% increase in room supply (1,386 rooms could be added by 2013). The new supply spans the market in terms of category, but it is interesting to note two international hotel chains are entering the market with their extended stay brands, anticipating the expected revival of the corporate sector. Furthermore, international brands with hotels already in the city are adding to their portfolio; this confirms that brands see the potential for future growth in the Edinburgh hotel market both for tourism and business demand. We envisage that hotel values will show steady growth in the coming years.

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## About HVS

**HVS** is the world's leading consulting and services organisation focused on the hotel, restaurant, shared ownership, gaming and leisure industries. Established in 1980, the company performs more than 2,000 assignments a year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 300 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit [www.hvs.com](http://www.hvs.com).

## About STR Global



STR Global provides clients—including hotel operators, developers, financiers, analysts and suppliers to the hotel industry — access to hotel research with regular and custom reports covering Europe, the Middle East, Africa, Asia Pacific and South America. STR Global provides a single source of global hotel data covering daily and monthly performance data, forecasts, annual profitability, pipeline and census information. STR Global is part of the STR family of companies and is proudly associated with STR, RRC Associates, STR Analytics, and HotelNewsNow.com.

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