

## UK Chain Hotels Market Review - June 2008

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### Rising costs eat into provincial profitability

The UK's provincial chain hotels reported a fall in profit during June as rising costs took their toll, according to the latest HotStats survey from TRI Hospitality Consulting. Average daily income before fixed charges (IBFC) - also known as gross operating profit - decreased by 6.9 per cent to £39.69 per available room.

Slowing demand also affected profitability, with average occupancy falling by 2.1 percentage points to 74.6 per cent. Combined with weak rate growth, this resulted in a one per cent drop in revpar to £56.54.

Looking at the half year figures the impact of rising costs is striking. Although total provincial revenue increased by 2.3 per cent, IBFC went in the opposite direction, down by 3.1 per cent.

'Ordinarily, we would expect most revenue gains to convert into profit. This is currently not happening. Given an increasingly competitive environment, rising costs cannot be passed onto the guest so are directly hitting the bottom line,' said Jonathan Langston, managing director, TRI Hospitality Consulting.

Significant rises in the cost of fresh foods and transport contributed to the Consumer Prices Index of annual inflation rising from 3.3 per cent in May to 3.8 per cent in June, according to Government statistics.

### **London room rate growth beats inflation**

The 109 London properties in the total sample of 512 hotels reported a relatively positive month. Although year-on-year occupancy dipped by 1.5 percentage points, corporate and leisure demand remained buoyant in June. Average occupancy of 85.5 per cent enabled a 5.7 per cent increase in achieved average room rate, leading to revenue and profit growth.

'Achieved average room rate in London increased well above inflation this June, enabling hoteliers to maintain the same two per cent level of profit growth over two consecutive months,' said Langston.

Still, the London data also highlights the recent impact of rising costs. In the six months to June, total revenue increased by 6.1 per cent against IBFC up by 5.3 per cent, indicating that most new revenue converted to profit.

Looking at the month of June alone, the difference between total revenue and IBFC growth in London was wider, showing how a greater proportion -one third -of new revenue was consumed by rising costs.

'Although there are signs that global food prices have reached a peak and should at least now start to stabilise, hoteliers, particularly in some provincial markets, face an uphill struggle to restore profitability while dealing with challenging economic conditions outside their control,' said Jonathan Langston, managing director, TRI Hospitality Consulting.

### **Overseas spend increases despite visitor number dip**

In the three months to May 2008, the latest available data from the International Passenger Survey, overseas visits to the UK were down year-on-year by one per cent to 8.3m. Still, despite the fall in numbers, the amount spent by inbound visitors to the UK increased by two per cent to £3.8m.

Visitor numbers from North America dropped by four per cent to 1.04 million, and from Europe by one per cent to 6.3m. The number of visitors from the rest of the world increased by two per cent to 930,000.

BAA, the operator of seven UK airports including Heathrow and Gatwick, reported handling a total of 70.4 million passengers during the six months to June, a 0.6 per cent decrease on the same period a year earlier.

Looking at the month of June alone, passenger numbers fell 1.8 per cent year-on-year. The number of domestic passengers dropped by 4.2 per cent, European Scheduled decreased by one per cent, and European Charter by 4.7 per cent. North Atlantic passenger numbers were 1.1 per cent fewer than the same month a year earlier, and other long haul passengers dropped one per cent.

# HotStats Briefing Data

UK Chain Hotels - performance report

## The Six Months to June 2008

<b>UK TOTAL HOTELS</b>		<b>2008</b>	2007	Movement
Occupancy	%	73.2	73.4	-0.2 points
Room rate	£	89.55	86.45	3.6%
Room Revpar	£	65.54	63.42	3.3%
Total Revpar	£	20,232	19,475	3.9%
IBFC PAR	£	41.44	41.05	0.9%
Payroll	%	29.4	29.2	0.2 points

<b>LONDON HOTELS</b>		<b>2008</b>	2007	Movement
Occupancy	%	80.5	79.9	0.6 points
Room rate	£	116.36	110.40	5.4%
Room Revpar	£	93.61	88.21	6.1%
Total Revpar	£	24,716	23,303	6.1%
IBFC PAR	£	61.89	58.79	5.3%
Payroll	%	25.3	25.3	0 points

<b>UK PROVINCIAL HOTELS</b>		<b>2008</b>	2007	Movement
Occupancy	%	69.4	69.9	-0.5 points
Room rate	£	73.34	72.14	1.7%
Room Revpar	£	50.90	50.45	0.9%
Total Revpar	£	17,887	17,489	2.3%
IBFC PAR	£	30.79	31.77	-3.1%
Payroll	%	32.3	31.8	0.5 points

For more information contact:

Jonathan Langston, managing director 020 7486 5191

jonathan.langston@trihc.com

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