

# London faces sharp spike in luxury hotel supply

LONDON, UK: According to analysis by PwC, there could be a 27% increase in luxury rooms in London by 2012, with around 2400 rooms in 18 hotels reported under construction or planned in London.



If hoteliers have a good business case for refurbishing, building or operating in London they should consider showcasing their hotel to the world during the Olympic and Paralympic Games.

In the quest for higher profits, it's also interesting to note that a higher suite to room ratio is emerging in some properties. The Four Seasons on Park Lane has recently re-opened with fewer bedrooms and more suites - with a suite to room ratio around 31% (around 192 bedrooms including 45 suites).

London is one of the most popular gateway destinations in the world with a wide range of demand streams. Investors are currently eager to enter the luxury sector in London, where the barriers to entry are high, trading has been strong and high quality assets are relatively scarce. London is a key gateway city and a 'must be-in' destination for many operators. Some have yet to get a foothold, others are keen to open a second or third hotel; for example Four Seasons has recently announced its Heron Plaza plans. Investors are attracted by the potential returns to be had as well as by the prestige of owning some trophy assets.

## Hotels outside of central tourist core may face challenges

Liz Hall, head of hotel research at PwC, added: "While absorbing the new rooms may not be too much of an issue in central London post Olympics, it may be more difficult for sites further out of the central tourist core and business districts. Luxury hotels are often the most volatile and cyclical of all hotel segments and the first to take a dive when times are bad due to a high cost base and high service levels. It's difficult to reduce the cost base without devaluing the brand and status. On the other hand, they are susceptible to a very rapid recovery when times are good, as we have seen in the past and are starting to see now in London."

Could this new supply in London also have a halo effect or pose a threat to existing operators?

Hall added: "Many of the hotel operators we have spoken to did not expect to see a significant negative impact on revenue as a result of the new supply opening, although some admitted a 27% increase will impact trading. However, some believe that the re-opening of iconic hotels such as the Savoy and the Four Seasons along with new (for London) names on the scene such as the Shangri-La, Bulgari, the Corinthia, the Renaissance and W, are expected to provide a positive halo effect, ensuring London continues to compete with the other major cities in the world with top end hotels. Demand should strengthen as the Olympics near but hotels will have to be pro-active with their marketing."

Liz Hall, head of hotel research at PwC, said: "In terms of revenue for hotels, room rate is king and this is particularly true for luxury hotels."

"London's luxury room rates averaged at £254 (about R2965) in 2010, compared to £228 (about R2660) in the same period in 2009, which compared to an average of £127 (about R1482) for all London hotels.\* However some hotels including those in the very elite 'super-luxury league' will have enjoyed much higher rates."

## What is a luxury hotel?

Of course it is all about definitions and luxury remains a moving target with its definition and perception blurring due to it constantly evolving. There is no precise definition and there are varying degrees of luxury even at the high end. Needs may vary according to the purpose of the trip, origin of the guest and the location of the hotel. The market for luxury is splintered. For some it is about unique, customised experiences and for others its trophy consumption that remains more important.

"Many luxury hotels are seeing a steady strengthening of demand so far this year, although short lead times still remain a key feature for individual travellers and groups and trading can be volatile. The question is - where will demand come from this year? Hoteliers believe business travel will continue to strengthen and they will chase weekend business from UK and Western Europe with a hoped-for continued growth in demand from groups as well as wealthy individuals from America, Russia and the Middle East," says Hall.

## Supply trends as new generation emerges

Supply trends in the luxury sector are emerging, with more super-luxury experiences in travel and hotels. Younger guests driving a more informal contemporary luxury product with some crossover to lifestyle and boutique hotels. The traditional 'grand dames' are fighting back and refurbishing and renovating for these new battles, as they have to compete and have intention of becoming museums!

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\*Source - STR Global

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