

LIVERPOOL HOTEL FUTURES 2011

Executive Summary

Prepared for:
The Mersey Partnership
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EXECUTIVE SUMMARY

The Mersey Partnership, Liverpool City Council and Liverpool City Vision have been actively monitoring hotel sector performance, hotel market growth prospects and drivers, and hotel developer interest and activity in Liverpool since 2001 through a series of Hotel Futures Studies undertaken by Hotel Solutions. During this time Liverpool has seen a massive expansion in its hotel sector, with the opening of 28 new hotels and over 3,000 new hotel bedrooms. The development of the city's Visitor Economy remains a key plank of Liverpool's future strategy for growth and development over the next 10 years. The hotel sector will clearly have a key role to play in this and in delivering the targets that have been set for the Visitor Economy. In order to provide a clearer understanding of the role that the hotel sector will play in delivering growth and of the potential for hotel development in Liverpool through to 2020, TMP has thus commissioned a further Hotel Futures Study from Hotel Solutions.

At an overall level there has been growth in the Liverpool hotel market, with the number of hotel bedrooms sold increasing by 14% in 2010, with a further 4% increase forecast in 2011. The city also now finds itself with a broader, more modern and competitive hotel supply, with the addition of global brands such as Hilton and Novotel now represented in Liverpool together with leading edge and emerging brands such as Hampton by Hilton and Base2Stay, and new and innovative offers such as Indigo and Layla also adding a contemporary twist and increased provision at the top end of the market.

However, these are challenging times for the hotel sector: a drop back in the market linked to the current recessionary climate has impacted on occupancies, achieved room rates and revpar across the UK, with only London showing a glimmer of improving performance. Liverpool was somewhat 'cushioned' from the initial impacts of this market downturn by the Capital of Culture 'bounce', but significant numbers of new rooms coming on stream since 2008 (a 28% increase 2009-11 - 1255 rooms) has meant the city has been hard hit by a combination of new supply settling into the city's hotel market and the market downturn. This has resulted in the average annual room occupancy for city centre hotels dropping to 69% in 2010, the average annual achieved room rate reducing to £62, and annual revpar down to £43. Whilst weekends continue to be strong, mid-week performance remains a challenge.

What Liverpool now needs is a period of consolidation whilst the market recovers and 'catches up' with this increased supply, providing the climate for performance to improve across the city's hotel sector, and an opportunity to strengthen the viability of existing hotel operations. The downward pressure on occupancies and rates has limited investment taking place in the existing supply, as hotel managers have been unable to make the commercial case to their owners in terms of improving returns. A period of consolidation and recovery should help demand and supply get back into balance, and restore confidence in the market place and amongst investors.

Liverpool has ambitious plans for its future. It has already made significant progress in its ambition to be a World class city, climbing the ranks to become the 6th most popular city for overseas visitors to the UK. The Visitor Economy Strategy sets a target for Liverpool to be a top 20 destination amongst European cities, and a top 50 ICCA conference city.

Boosted by the exposure given through Capital of Culture, these ambitions are being taken forward via a wider internationalisation agenda and the Liverpool Plan, targeting activities that can have a transformational impact on the city as a place to visit, invest, study, live and work, and focusing on China, USA, Germany and India as key international markets. In addition, 4 growth sectors have been identified to expand and rebalance Liverpool's economy, reducing the reliance on public sector employment and creating an expanding private sector economy. These 4 growth sectors – the Visitor Economy, the Knowledge Economy, the Low Carbon Economy, and Liverpool Superport – between them are forecast to deliver 128,000 new jobs across the City-Region in the next 10 years. The combination of the internationalisation of Liverpool and the major employment growth forecast will create transformational change in Liverpool, and bring with it additional hotel demand from both business and leisure tourism segments.

The 2011 Hotel Futures study forecasts that following the opening of the hotels currently under construction and a period of consolidation and improvement in hotel performance, there will be renewed market potential for further hotel development in Liverpool city centre beyond 2014 at boutique, upper tier 4 star and mid-market levels. Further budget hotel development is unlikely to be needed before 2020 however. There remain significantly more firm proposals for hotels in Liverpool than the forecast market growth is likely to support, with the potential to deliver twice the number of rooms required. Beyond the city centre, there is also potential for new hotel development in outer Liverpool, where some of the major drivers of economic and employment growth are located, including Speke-Garston, Liverpool John Lennon Airport, Edge Lane and North Liverpool.

In terms of fit with the broader strategy for Liverpool, the priority for new hotel development should be to target global brands and innovative offers that can add diversity to the destination and have the ability to expand the market through their individual appeal. The proposed hotel at the ACCL should be prioritised because of its integral role in helping secure major national and international conferences and exhibitions that will benefit the city and its hotel sector as a whole.

The hotel sector clearly has a role to play in Liverpool achieving its wider strategic aims as well as specific sector targets. The Visitor Economy Strategy has set a number of targets for the city's hotel sector, including the achievement of an average occupancy of 76% by 2020, alongside growth in room yield, and an increase to 1,472,000 staying visitor nights. To achieve these targets, 500 additional hotel bedrooms will be needed. The forecasts run as part of the 2011 Hotel Futures study indicate a market potential for between 350 and 720 new hotel rooms (medium and high growth rates) in the city centre to 2020.

Critical to delivering these levels of performance and strengthening the sector across the board is boosting the mid-week market, and this should be the key priority over the next 10 years. The focus should be on building a volume of good value business from which hotels can yield their rates. The development of the proposed exhibition centre at ACCL, increased marketing of Liverpool as both a conference destination and a destination for mid-week breaks, targeting of group tour operators, increased marketing and exposure to overseas markets and the internationalisation agenda, developing events that will deliver mid-week business, and securing major corporate investment in the city are all key planks to developing the mid-week market for hotels.

Despite the current 'blip' in performance – which is being felt across the UK and evidenced amongst Liverpool's competitor cities – the development of Liverpool's hotel sector has been a real success story that has played an important part in delivering an emergent world class city. Liverpool continues to look forwards, and whilst recognising the need to currently pause for breath, it is important that the city remains open for business. TMP and its partners have an important role to play in continuing to work with hotel developers and investors to disseminate intelligence about performance and potential, and to secure the delivery of best fit hotel offers in line with both market growth and the wider destination vision.