



# EDINBURGH VISITOR ACCOMMODATION SECTOR

## Commercial Needs Study

24<sup>th</sup> January 2019

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Date: 24<sup>th</sup> January 2019

For and on behalf of GVA Grimley Limited

## EXECUTIVE SUMMARY

This report has examined the future commercial need for visitor accommodation in Edinburgh in order to inform the latest local development plan; City Plan 2030, which covers the period of 2021 to 2031.

Supply growth in Edinburgh over the last 10-15 years has been primarily driven by the hotel sector (although we have highlighted a number of new serviced apartments which have opened in the last three years), with a 3.3% annual average growth in hotel bedroom supply (net, including closures). In particular, there has been significant growth in budget hotel stock in the city which has made up 78% of all new hotel bedrooms opened between 2012 and 2018.

Despite the increase in supply, the Edinburgh hotel market has performed exceptionally well, with growth in occupancy and rates since 2013 (other areas of the visitor accommodation sector have also witnessed occupancy growth over the last three years), driven by a combination of the city's high economic and tourism profile, as well as increasing passenger numbers through Edinburgh Airport and the performance of the Edinburgh International Conference Centre.

Hotel stock is expected to continue to increase with 61 hotels and extensions (totalling 6,338 bedrooms) identified in the planning pipeline although in our experience it is highly unlikely that all of these proposals will go ahead as many were submitted several years ago and have not progressed due to funding and other issues. We note no significant proposed increases in supply for the other areas of the visitor accommodation sector.

Future demand prospects for the visitor accommodation sector to 2030 appear positive due to a number of key factors, including several large regeneration projects (e.g. Edinburgh St James), the forecast growth of passenger numbers at Edinburgh Airport (projected to double by 2030) and the continuing strength of the city's business, conference and tourism sectors.

This is matched by strong demand from brands, operators and developers in the visitor accommodation sector for new and / or additional supply in Edinburgh. Our survey with some of the leaders in the sector has highlighted overwhelming interest in such opportunities (largely restricted to hotel developments).

Our market model projections (based on historic annual average demand growth) forecasts that there is capacity for 7,890 new hotel bedrooms in Edinburgh by 2030, including 2,750 under construction or confirmed.

However, our stakeholder interviews and surveys with brands, operators and developers have identified a number of issues that may act as barriers to further visitor accommodation development. In order not to impede the continuing growth of the sector, the key market priorities for City Plan 2030 are:

1. Identify new locations for visitor accommodation development in the city. Our research has highlighted a lack of available sites in the city centre for future developments and difficulties in achieving required returns on investment, which has been at least in part due to high land values. Therefore, what is now required as part of City Plan 2030 is to identify new 'zones' for development that will drive visitor accommodation demand; these can be for sole use, or a mixture of commercial, industrial or leisure uses, served by public transport interchanges. They should not be located in largely residential areas due to potential conflicts between residents and tourists. Areas that may fit this profile could include the International Business Gateway, Leith (The Shore) or south of the city centre (University of Edinburgh campus / The Meadows, where there is an emerging tech corridor). It should be noted that hotels in these locations are more likely to be viable when they are not developed in isolation; they must only be developed when a critical mass of demand drivers are established;
2. Ensure a flexible and transparent planning process. Concerns have been raised by brands, operators and developers about the challenges of the planning process and the perception of Edinburgh as a 'difficult' place to achieve development. Where visitor accommodation developments are in locations permitted for use, and meet necessary planning requirements, then Edinburgh Council should aim to ensure quick turnaround of decisions and flexibility where reasonable (i.e. when all planning criteria have been met). It is important that Edinburgh promotes itself as a city 'open for business'.

Although it is outwith the 'control' of City Plan 2030, consideration needs to be given to encouraging visits on shoulder months to help combat seasonality and spread demand throughout the year. This should in turn help combat the perceived lack of value for money issue that is prevalent in peak summer months.

Finally, our stakeholder consultations highlighted a conflict between a) the reported imbalance of supply due to budget developments and b) value for money being a perceived threat. Due to hotel development funding and deliverability remaining challenging, as highlighted by the developer survey, it is likely that commercially, budget hotels will continue to be delivered. However, upscale four and five-star hotels are considered important to attract high paying visitors (including conference delegates) and maintain a good balance of accommodation types.

# 1. Introduction

## Background and Purpose

- 1.1 City of Edinburgh Council ('Edinburgh Council') has instructed a land and property commercial needs study to inform the preparation of the next Edinburgh Local Development Plan (LDP), named City Plan 2030, which is currently programmed for adoption in January 2021. This will replace the existing LDP which was adopted in 2016. City Plan 2030 will cover the calendar years of 2021-2031 inclusive.
- 1.2 The commercial needs study is delivered by the Council's framework commercial property consultants, led by Ryden and supported by sub-consultants GVA, Cushman & Wakefield and JLL. It covers four key sectors of the city's economy; office, industrial, retail and visitor accommodation.
- 1.3 This report, undertaken by GVA's Hotel Consultancy team, provides a detailed assessment of the city's visitor accommodation sector in order to provide a robust evidence base to inform the City Plan 2030. The report looks at Edinburgh's current supply of visitor accommodation, how it has performed over the last five to ten years, how it is expected to grow (in terms of proposed developments in the planning pipeline), as well as identifying some of the macro and micro-environment trends and issues that will influence growth over the period of City Plan 2030.
- 1.4 Whilst the report covers all types of visitor accommodation, there is a focus on hotels and serviced apartments, as these are the two principal areas providing supply growth (in the form of new developments) in the sector.

## Current Policy

- 1.5 The current LDP makes no reference to any areas of the visitor accommodation sector other than to hotels.
- 1.6 Current policy relating to hotel development in Edinburgh states;

*"Hotel development will be permitted:*

- a) In the City Centre where developments may be required to form part of mixed use schemes, if necessary to maintain city centre diversity and vitality, especially retail vitality on important shopping frontages;*
- b) Within the boundaries of Edinburgh Airport, the Royal Highland Centre and the International Business Gateway and*




c) *In locations within the urban area with good public transport access to the city centre.*"

## Methodology

1.7 In order to prepare an evidence base of current and emerging trends in the visitor accommodation sector, we have undertaken the following (research undertaken between September and December 2018):

- An overview of current levels of supply, covering visitor accommodation as a whole, but providing more detail on hotels and serviced apartments;
- An analysis of the future supply of visitor accommodation, again with a focus on hotels and serviced apartments;
- An overview of where supply is located, in the context of both key demand drivers and key transport routes;
- A review of Edinburgh's tourism, economic and hotel market performance trends over the last ten years;
- An overview of UK-wide hotel and serviced accommodation trends and issues;
- Consultations with a number of key stakeholders within Edinburgh's visitor accommodation sector in order to discuss the key trends and issues in the market;
- A review of planning policy, strategy documents and other relevant material pertinent to the visitor accommodation sector;
- A survey with leading brands, developers and operators to establish appetite for and nature of future developments in Edinburgh;
- A market model in order to inform future need for additional visitor accommodation in Edinburgh;
- Identification of the key visitor accommodation sector priorities for City Plan 2030.

# Quality Control

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11.12.2018	12.12.2018	14.12.2018
		

## 2. VISITOR ACCOMMODATION MARKET SUPPLY

### Introduction

2.1 In this section we present an overview of current levels of visitor accommodation supply and pipeline in Edinburgh (within the city boundaries). Although this covers visitor accommodation as a whole, we provide more detail on hotel and serviced apartments, as these are the areas of the sector that are driving new development. We have provided an overview of hostels, guest houses / B&Bs, student halls (let out-with term time) and AirBNB to provide context to the wider visitor accommodation sector.

### Current Supply - Hotels

2.2 We have identified 167 hotels within Edinburgh providing 13,180 bedrooms. The structure of the market is shown in Table 2.1 below and we provide a full list in Appendix A.

Table 2.1: Structure of the Edinburgh Hotel Market

Grade*	No. of Hotels	No. of Rooms	% of Room Supply
5-star	12	1,078	8.2%
4-star	43	4,114	31.2%
3-star	52	3,019	22.9%
2-star	20	436	3.3%
Budget	40	4,533	34.4%
<b>Total Supply</b>	<b>167</b>	<b>13,180</b>	<b>100%</b>

Source: AM:PM / Visit Scotland

\* See Appendix B for grading definitions

2.3 The highest percentage of room supply is provided by budget hotels (34%); the recent growth in this sector is shown overleaf.

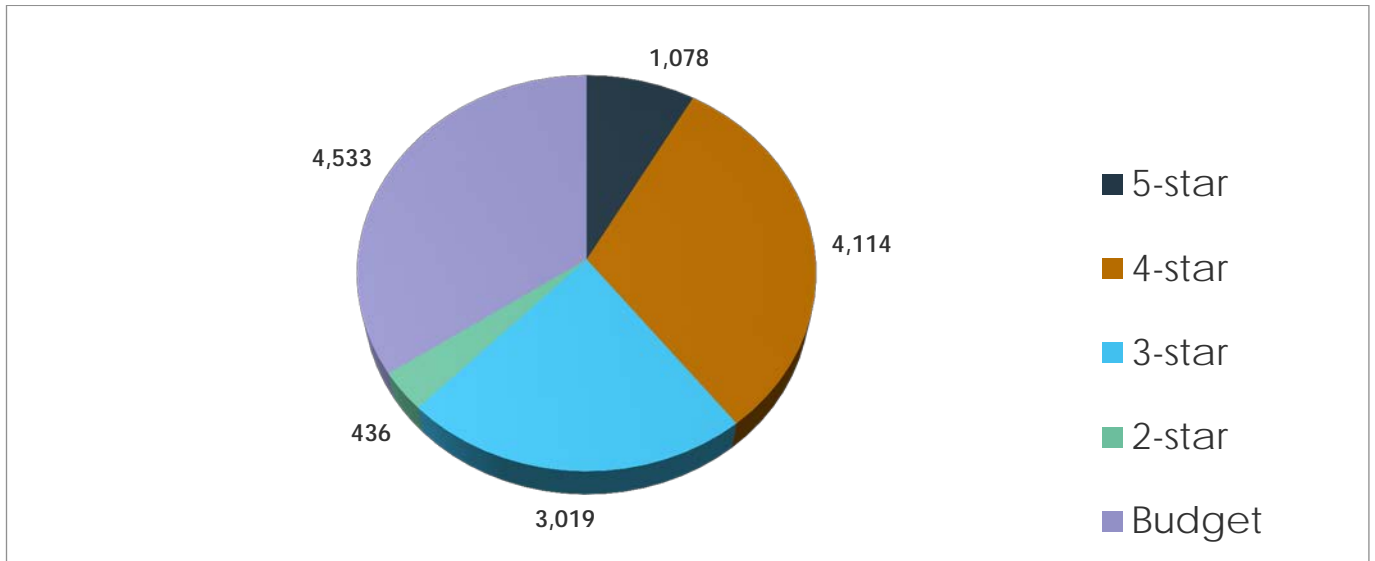
2.4 53% of hotels are independent, while the remainder are nationally or internationally branded. This varies by grade with the majority of budget hotels being branded and a large number of independents in the two/three-star space.

2.5 We illustrate the geographical distribution of the hotel market in Map 2.1.

2.6 There have been ten hotel closures since 2012. With the exception of the Thistle King James Edinburgh (demolished to make way for the Edinburgh St James scheme) the remainder of closures are of smaller hotels (less than 50 bedrooms), the vast majority of which have been converted to residences.



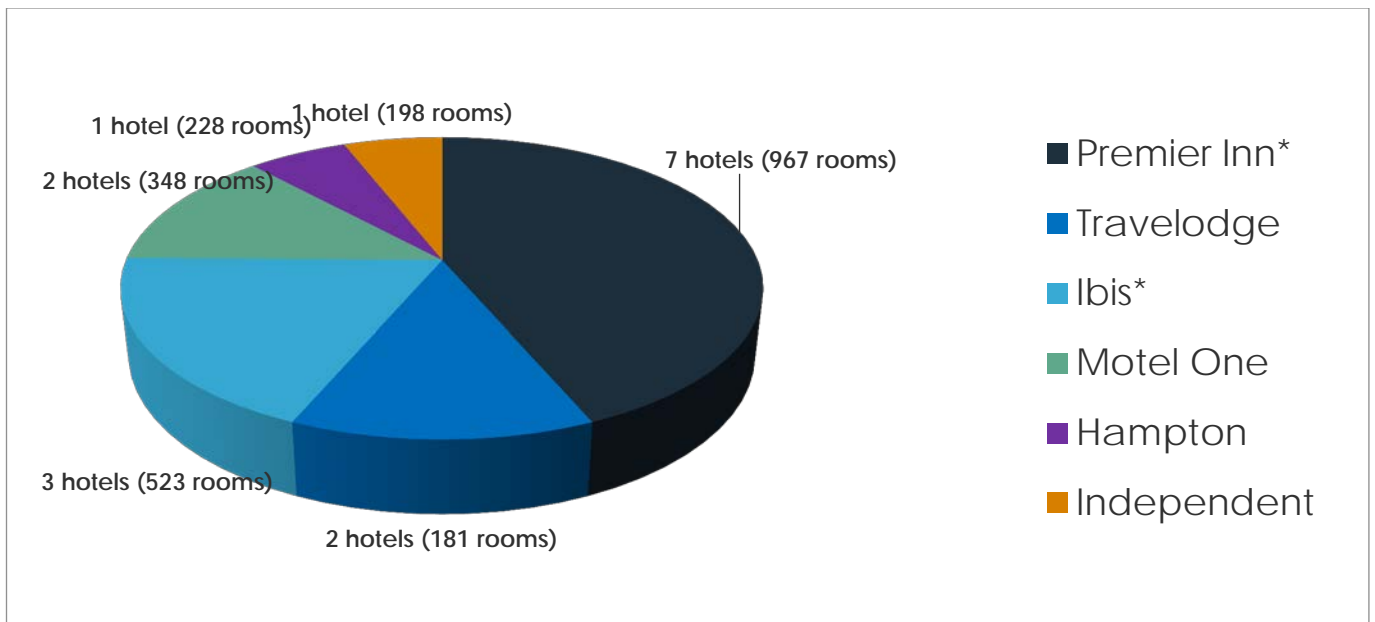
Graph 2.1: Structure of the Edinburgh Hotel Market – bedrooms by grade



Source: GVA / AM:PM Hotels Database / VisitScotland

- 2.7 Since 2012, 24 hotels have opened in Edinburgh, adding 3,139 bedrooms to the market; a 23.8% increase in supply;
- 2.8 Of these openings 16 have been budget hotels, adding 2,442 bedrooms. As a result, 78% of all new hotel bedrooms opened in Edinburgh since 2012 have been in budget hotels. As shown below, the majority (57%) have been in either Premier Inn or Travelodge branded hotels.

Graph 2.2: Budget Hotel Openings in Edinburgh since 2012



Source: GVA / AM:PM Hotels Database / VisitScotland

\* 'Premier Inn' includes Premier Inn and Hub by Premier Inn and 'Ibis' includes Ibis, Ibis Budget and Ibis Styles

## Current Supply – Serviced Apartments

2.9 Serviced apartments (which includes apart-hotels) are defined as properties offering a hotel-like room but typically with larger than average or multiple bedrooms, including additional working and kitchen amenities (AM:PM Hotels Database). We have identified 40 serviced apartments within Edinburgh providing 1,488 units. The structure of the market is detailed in Table 2.2 below and we provide a full list in Appendix A.

Table 2.2: Structure of the Edinburgh Serviced Apartment Market

Grade*	No. of Serviced Apartments	No. of Units	% of Room Supply
Luxury Class	8	327	22.0%
Upper Upscale Class	15	417	28.0%
Upscale Class	3	334	22.4%
Upper Midscale Class	14	410	27.6%
<b>Total Supply</b>	<b>40</b>	<b>1,488</b>	<b>100%</b>

Source: AM:PM / VisitScotland

\* STR / AM:PM grading system used in place of VisitScotland as not all serviced apartments are enrolled in VisitScotland's Quality Assurance Scheme. Grade is based on each serviced apartment's average daily rate performance within the overall market.

2.10 Serviced apartment supply in Edinburgh is fairly evenly weighted across the four categories; we note that there are no economy (i.e. budget) serviced apartment properties; this is not unusual as serviced apartments tend to be midscale, upscale or luxury offerings, providing a level of quality similar to a four or five-star hotel.

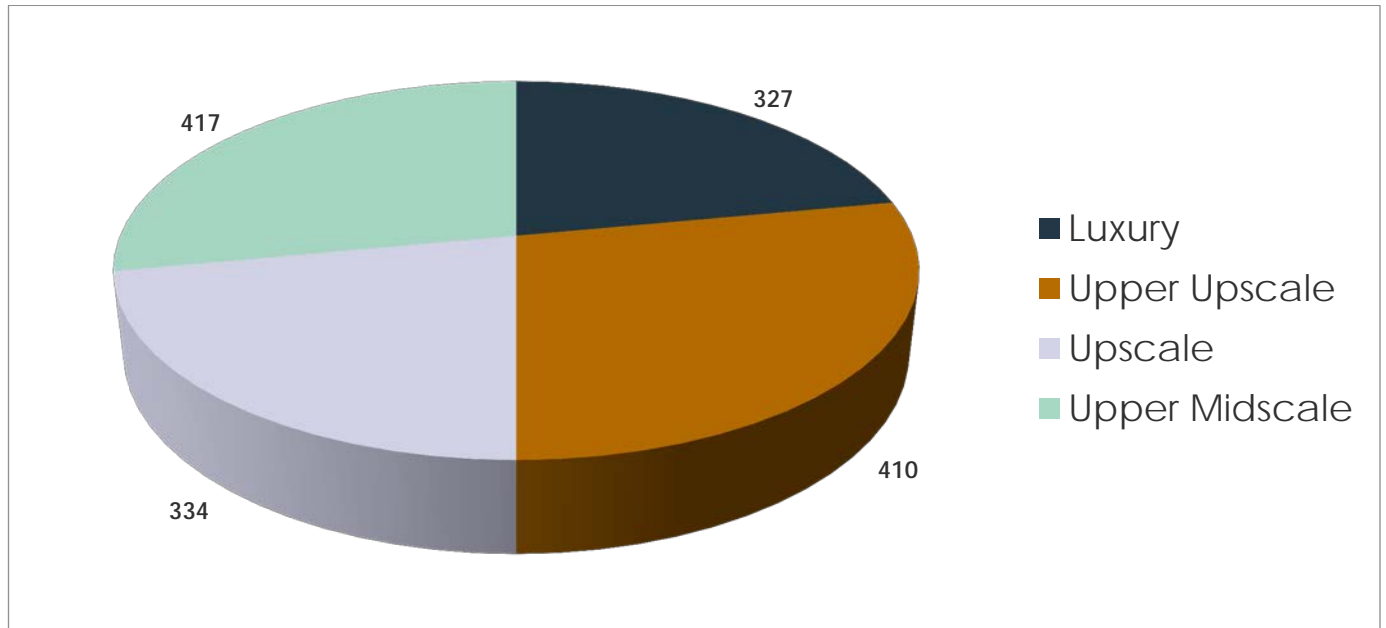
2.11 There have been a number of recent serviced apartment openings in the last two years, including:

- The Edinburgh Grand (2018, 50 keys);
- Mode Apart-hotel (2018, 82 keys);
- Eden Locke (2017, 72 keys);
- Apart-hotel Adagio Edinburgh Royal Mile (2016, 146 keys).

2.12 These properties reflect the growth in the apart-hotel concept, appealing to shorter stay visits (see Section 4).

2.13 We note four serviced apartment closures since 2012. All of these appear to have been converted to residential use.

Graph 2.2: Structure of the Edinburgh Serviced Apartment Market (Number of Keys per Grade)



Source: GVA / AM:PM Hotels Database / VisitScotland

## Current Supply – Hostels

- 2.14 We have identified 15 hostels within Edinburgh providing 457 bedrooms (2,327 bed spaces). We list them in Appendix A.
- 2.15 Only two hostels have opened in last ten years; Bobby's Bunkhouse (2015) and CODE Hostel (2014).
- 2.16 The majority are independent, with only three branded hostels; Safestay, St Christopher's and Scottish Youth Hostel Association.
- 2.17 We note three closures since 2012. According to AM:PM, two of these properties, Brodies Hostel and the Boutique Backpackers Hostel, plan to reopen as hotels.

## Current Supply – AirBNB

- 2.18 Due to the nature of AirBNB (hosts can at short notice list or de-list properties), it is difficult to provide an accurate picture of the exact number of properties in Edinburgh. In September 2017 (latest available data) Inside AirBNB identified 9,638 properties in Edinburgh that are registered with AirBNB.
- 2.19 There has been significant growth in AirBNB properties in recent years. According to Inside AirBNB, the number of listed properties in Edinburgh increased by around 50% between July 2016 and September 2017.

2.20 We also note that several of the guest houses identified are also listed on AirBNB, highlighting an element of cross-over amongst the various accommodation sub-sectors.

2.21 We detail the impact of the growth of AirBNB in Edinburgh in Section 4.

## **Current Supply – Other Accommodation**

2.22 We have identified 200 guest houses / B&Bs in Edinburgh, providing around 1,300 bedrooms. We note 28 guest house closures in the last three years (with a further nine currently listed for sale), the vast majority of which have been converted to residential use.

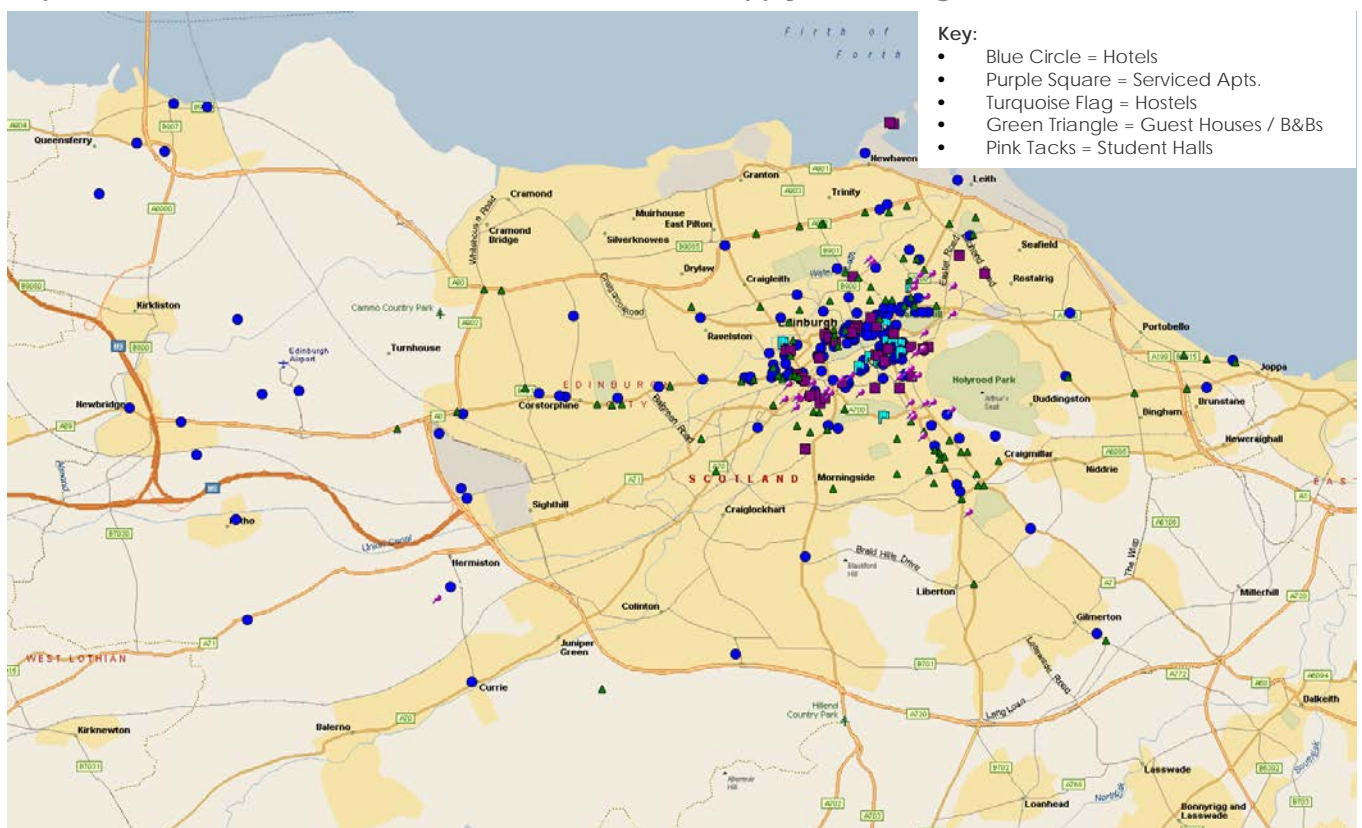
2.23 We have identified 37 student halls in Edinburgh, of which we are able to confirm 35 are available to rent during summer (nine are exclusively let during the festivals in August).

2.24 VisitScotland lists over 394 self-catering properties (although there is some cross-over with serviced apartments) and four holiday / touring parks.

## Distribution of Supply

- 2.25 The following map shows the distribution of supply across Edinburgh (excluding self-catering accommodation, touring parks and AirBNB).
- 2.26 With the exception of guest houses (which are more dispersed) supply is primarily concentrated in the core city centre, broadly defined as stretching from Haymarket in the west, to Holyrood in the east, and from the New Town in the north, to the Meadows in the south.
- 2.27 There are also clusters along key transport routes such as the A8 and A701, as well as at Edinburgh Airport and South Queensferry.

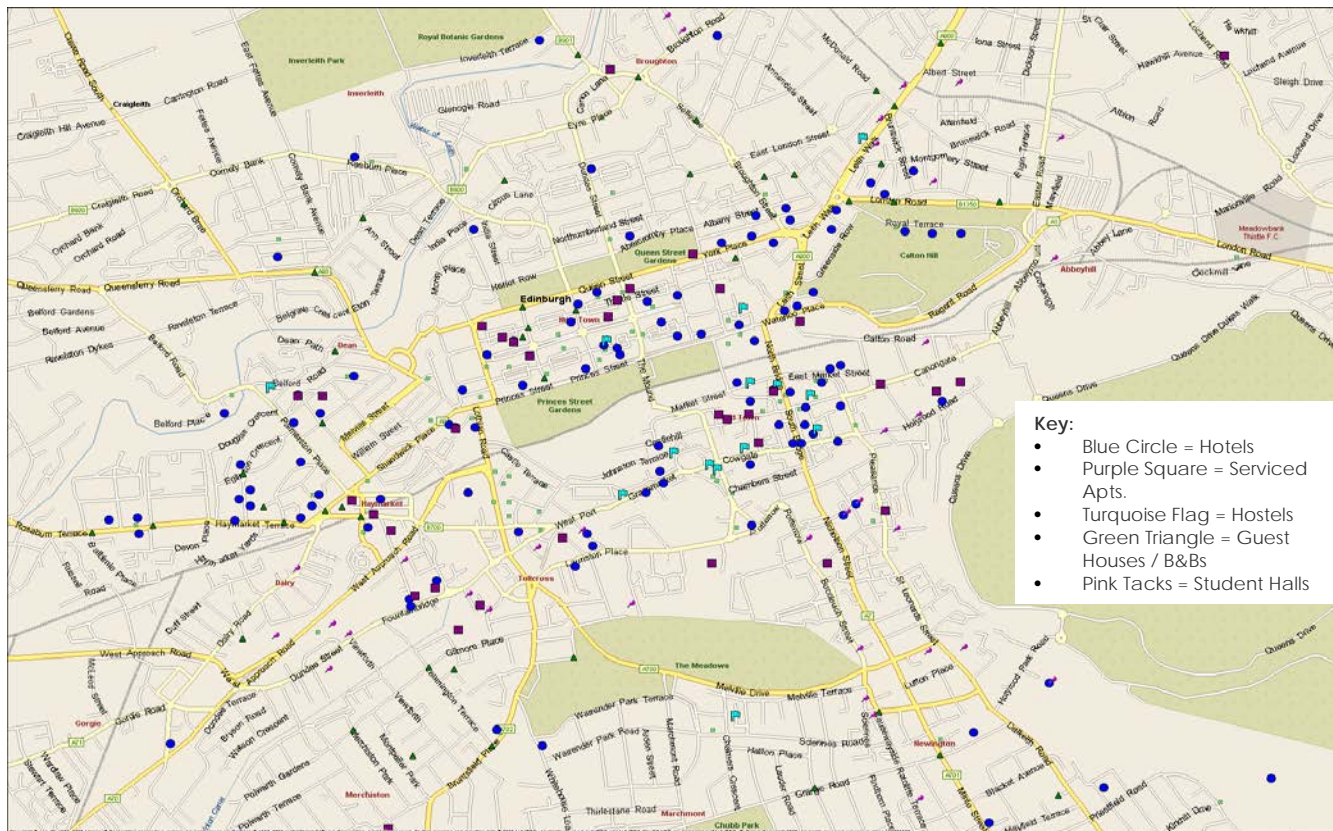
Map 2.1: Distribution of Current Visitor Accommodation Supply in Edinburgh



Source: GVA / Microsoft MapPoint

- 2.28 We show the city centre supply in the map overleaf. It highlights a heavy concentration of accommodation (particularly hotels) within the Old Town and the “Golden Rectangle” of the New Town.

Map 2.2: Distribution of Current Visitor Accommodation Supply in Edinburgh City Centre



Source: GVA / Microsoft MapPoint

2.29 We summarise the current supply of all accommodation types (excluding AirBNB and student halls) in the following table.

Table 2.3: Structure of the Edinburgh Visitor Accommodation Market – Current Supply

Type	No. of Properties	No. of Bedrooms / Units
Hotels	167	13,180
Serviced Apartments	40	1,488
Hostels	15	457 (2,327)
Guest Houses	200	1,300
<b>Total</b>	<b>422</b>	<b>15,968</b>

Source: AM:PM / VisitScotland

## Visitor Accommodation Pipeline - Hotels

2.30 We have examined the potential future hotel supply increases in Edinburgh. Data sources include AM:PM and Estates Gazette Interactive (EGi); identified schemes have been cross-checked with the planning department at Edinburgh Council.

- 2.31 We have identified 61 schemes in the planning pipeline (including extensions to existing hotels); representing a potential increase of 6,338 bedrooms. We detail the structure of the future hotel supply in Table 2.4. We provide a full list in Appendix A.
- 2.32 It is highly unlikely that all of these proposals will come to fruition, particularly as a number received planning permission several years ago, but have not progressed.

**Table 2.4: Hotel Pipeline Schemes - Edinburgh**

Grade	Schemes	Bedrooms	% Schemes	% Bedrooms
5-star	5	649	8%	10%
4-star	12	1,023	20%	16%
3-star	28	2,917	46%	46%
2-star	3	83	5%	1%
Budget	13	1,666	21%	26%
<b>Total Supply</b>	<b>61</b>	<b>6,338</b>	<b>100%</b>	<b>100%</b>

Source: AM:PM / EGi / City of Edinburgh Council

- 2.33 Almost half of the schemes identified are for three-star hotels (although these may evolve as brands are confirmed for the schemes).
- 2.34 26% of new bedrooms proposed are for budget hotels. After a recent wave of openings, it would appear that there are fewer such proposals due to open in Edinburgh in the near future.
- 2.35 Ten hotels are under construction with a further 12 (including extensions) having brand or opening date confirmed (and therefore are likely to proceed), representing 43% of the total pipeline (2,750 bedrooms). We summarise the status of all applications in Table 2.4 and list those under construction and confirmed in Table 2.5.

**Table 2.5: Status of Edinburgh Future Hotel Supply**

Status*	Schemes	Bedrooms	% Schemes	% Bedrooms
Awaiting Determination	28	2,884	46%	46%
Planning Approved	13	1,274	21%	20%
Deferred	7	261	11%	4%
In Construction	10	1,558	16%	25%
Unconfirmed	3	361	5%	6%
<b>Total</b>	<b>61</b>	<b>6,338</b>	<b>100%</b>	<b>100%</b>

Source: AM:PM / EGi / City of Edinburgh Council

\* See Glossary in Appendix B for status definitions

Table 2.6: Hotel Schemes in Edinburgh under Construction or Likely to Proceed

Hotel Name	Opening	Grade	Bedrooms
Malmaison (St Andrews Square)	2019	4	72
Yotel Edinburgh (Queen Street)	2019	Budget	280
Fingal (The Shore)	2019	4	23
Premier Inn Princes Street (former BHS Store)	2019	Budget	133
Moxy Edinburgh Airport (Fairview Road)	2019	Budget	230
Westgate Inn (South Gyle Broadway)	2019	3	79
Carlton Edinburgh (Market Street)	2019	4	98
Hampton by Hilton Edinburgh Airport (Almond Avenue)	2019	Budget	240
VOCO by IHG (Torphichen Street)	2020	4	150
W Hotel Edinburgh (Edinburgh St James)	2021	5	253
Point A Hotel Edinburgh (Morrison Street)	TBC	Budget	149
Moxy Edinburgh (Fountainbridge)	TBC	Budget	263
Premier Inn Edinburgh East (Willowbrae Road, extension)	TBC	Budget	21
Premier Inn Edinburgh South Queensferry (Buillyeon Road, extension)	TBC	Budget	20
The Scotsman Hotel (North Bridge, extension)	TBC	5	11
Premier Inn Edinburgh Haymarket (Morrison Street)	TBC	Budget	180
Virgin Hotel Edinburgh (Victoria Street)	TBC	5	225
Holiday Inn Express Edinburgh Waterfront (Ocean Drive, extension)	TBC	Budget	24
Hyatt Regency Edinburgh Marina (West Harbour Road)	TBC	4	123
Holiday Inn Express Edinburgh City Centre (extension)	TBC	Budget	25
Jurys Inn Edinburgh (Jeffrey Street, extension)	TBC	3	101
Premier Inn Edinburgh City Centre Princes Street (extension)	TBC	Budget	50

Source: AM:PM / EGi / City of Edinburgh Council



## Visitor Accommodation Pipeline – Serviced Apartments

2.36 Using the same data sources as for hotels, we have identified seven serviced apartment schemes in Edinburgh, representing an increase of 520 keys. The status of these applications is shown in Table 2.7 below and we provide a full list in Appendix A.

Table 2.7: Status of Future Serviced Apartment Supply - Edinburgh

Status	Schemes	Bedrooms	% Schemes	% Bedrooms
Awaiting Determination	1	14	14%	3%
Planning Approved	4	305	57%	59%
In Construction	2	201	29%	39%
<b>Total</b>	<b>7</b>	<b>520</b>	<b>100%</b>	<b>100%</b>

Source: AM:PM / EGi / City of Edinburgh Council

2.37 The two schemes under construction are Wilde by Staycity Aparthotels at King's Stables Road (128 keys, due 2019) and Roomzzz Edinburgh St James (73 keys, due 2021).

## Visitor Accommodation Pipeline – Hostels

2.38 Using the same data sources as for hotels, we have identified three hostel schemes (36 bedrooms), none of which are under construction. The status of these applications is shown in Table 2.8 below and we provide a full list in Appendix A.

Table 2.8: Future Hostel Supply - Edinburgh

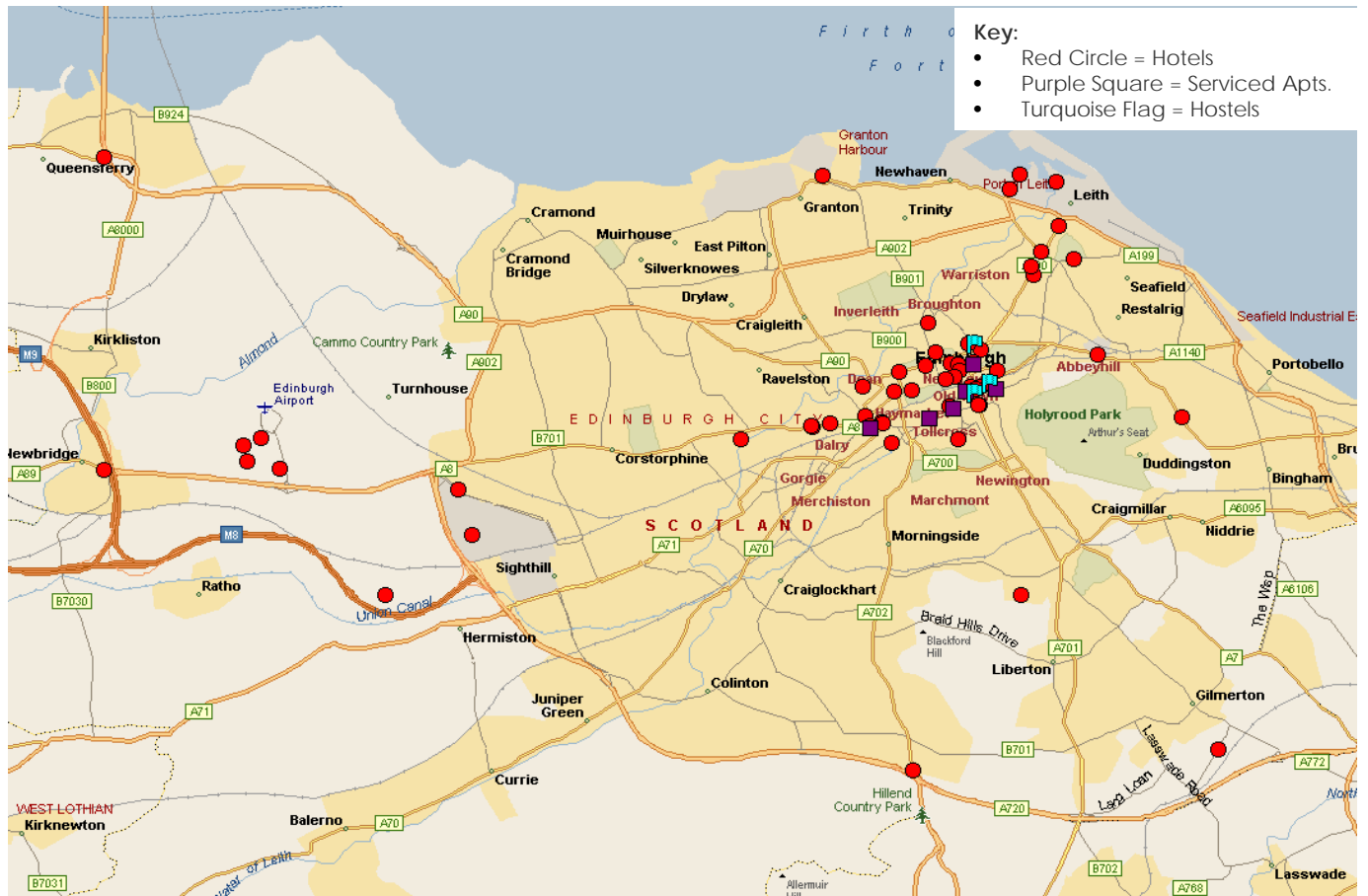
Status	Schemes	Bedrooms	% Schemes	% Bedrooms
Awaiting Determination	1	6	33%	17%
Planning Approved	2	30	67%	83%
<b>Total</b>	<b>3</b>	<b>36</b>	<b>100%</b>	<b>100%</b>

Source: AM:PM / EGi / City of Edinburgh Council

## Distribution of Future Visitor Accommodation Supply

2.39 As shown in Map 2.3 below the locations of the planned hotel, serviced apartment and hostel developments are primarily within the city centre and mirror that of the existing supply. However, we note emerging clusters around Edinburgh Airport and Leith Walk / The Shore. It is likely that due to the lack of available sites in the city centre (discussed further in Section 4 and 5), developers and operators are willing to consider well-connected areas further out.

Map 2.3: Distribution of Future Visitor Accommodation Supply in Edinburgh



Source: GVA / Microsoft MapPoint

## Visitor Accommodation Pipeline – Others

2.40 We are also aware of 14 applications pertaining to guest houses in Edinburgh (although this comprises a mix of change of use to and from guest houses (four proposals are for conversion to residential use) as well as extensions). We provide a list of these applications in Appendix A.

2.41 We summarise the potential pipeline of all accommodation types (excluding AirBNB and guest houses) in the table overleaf.

Table 2.9: Structure of the Edinburgh Visitor Accommodation Market – Potential Pipeline

Type	No. of Properties	No. of Bedrooms / Units
Hotels	61	6,338
Serviced Apartments	7	250
Hostels	3	36
<b>Total</b>	<b>71</b>	<b>6,624</b>

Source: AM:PM / VisitScotland

## Summary

- 2.42 It is clear from the analysis that the key sub-sector of recent growth has been the hotel market, followed by serviced apartments. In contrast we note a contraction in the number of guest houses / B&Bs (28 closures), the majority of which have been converted to residential use.
- 2.43 Within the hotel sector, the biggest growth has been in the budget sector. A third of all new hotels opened since 2012 (78% of total additional room stock) have been in budget properties, although we note a slowdown in the quantum of budget hotel applications in the planning pipeline.
- 2.44 The hotel sector is expected to expand further, with 61 hotels (or extensions to existing hotels) identified in the planning pipeline, of which ten are under construction (1,558 additional bedrooms). It is highly unlikely that all 61 proposals will come to fruition, particularly as a number received planning permission several years ago and have not progressed.

### 3. MARKET PERFORMANCE

#### Introduction

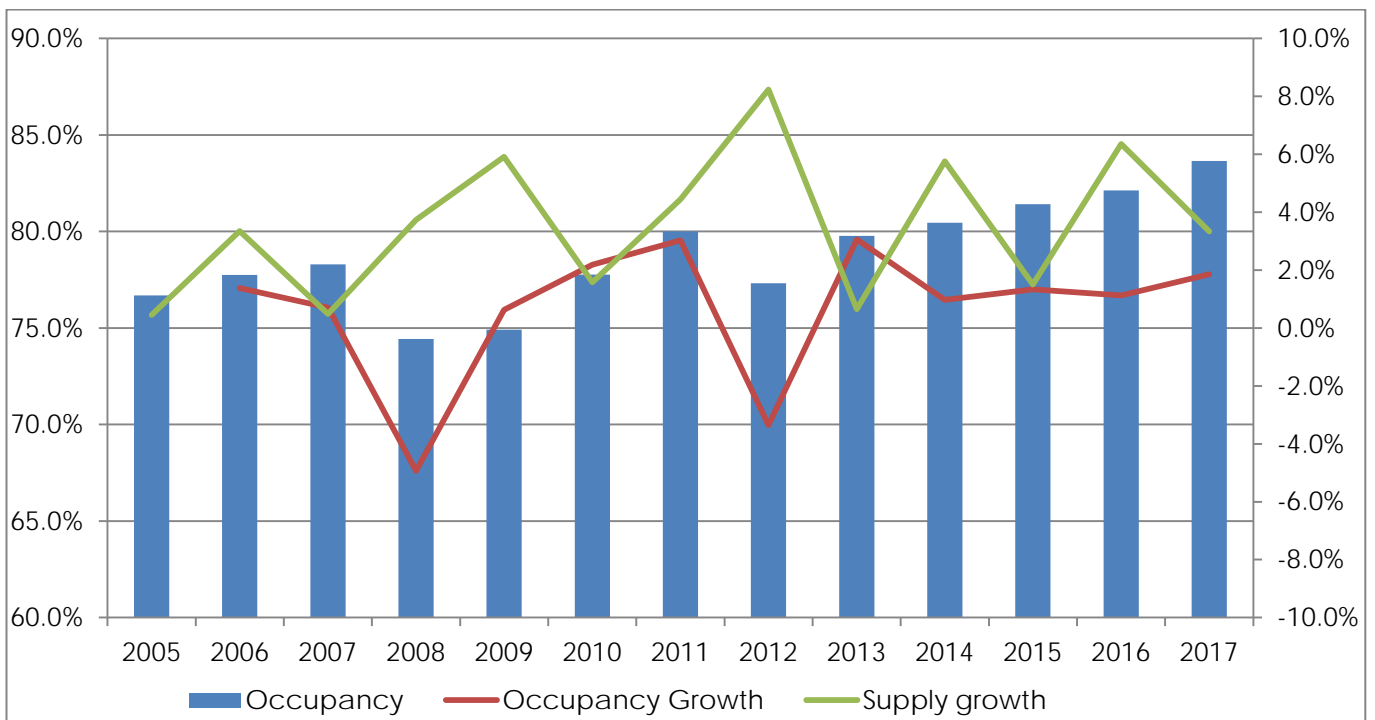
3.1 In this section, we examine the recent performance of Edinburgh's visitor accommodation sector and look at the demand drivers that have created growth. We conclude by looking at a number of new development and regeneration schemes that will influence growth to 2030.

#### Hotels and Serviced Apartments

3.2 The following graph details the average annual occupancy (left axis) of hotels in Edinburgh between 2005 and 2017. The data is provided by STR Global, the market leader in hotel performance benchmarking. Although the majority of participants are hotels, it includes a number of leading serviced apartments in the Edinburgh market. Participation numbers have fluctuated over the period 2005-17, however as of December 2017, there were 112 participating hotels and serviced apartments in Edinburgh (54% of our identified hotel and serviced apartment market supply).

3.3 Within the graph we also detail the annual percentage change (right axis) in supply and occupancy over the period (see Appendix B for definition on the metrics used in this section).

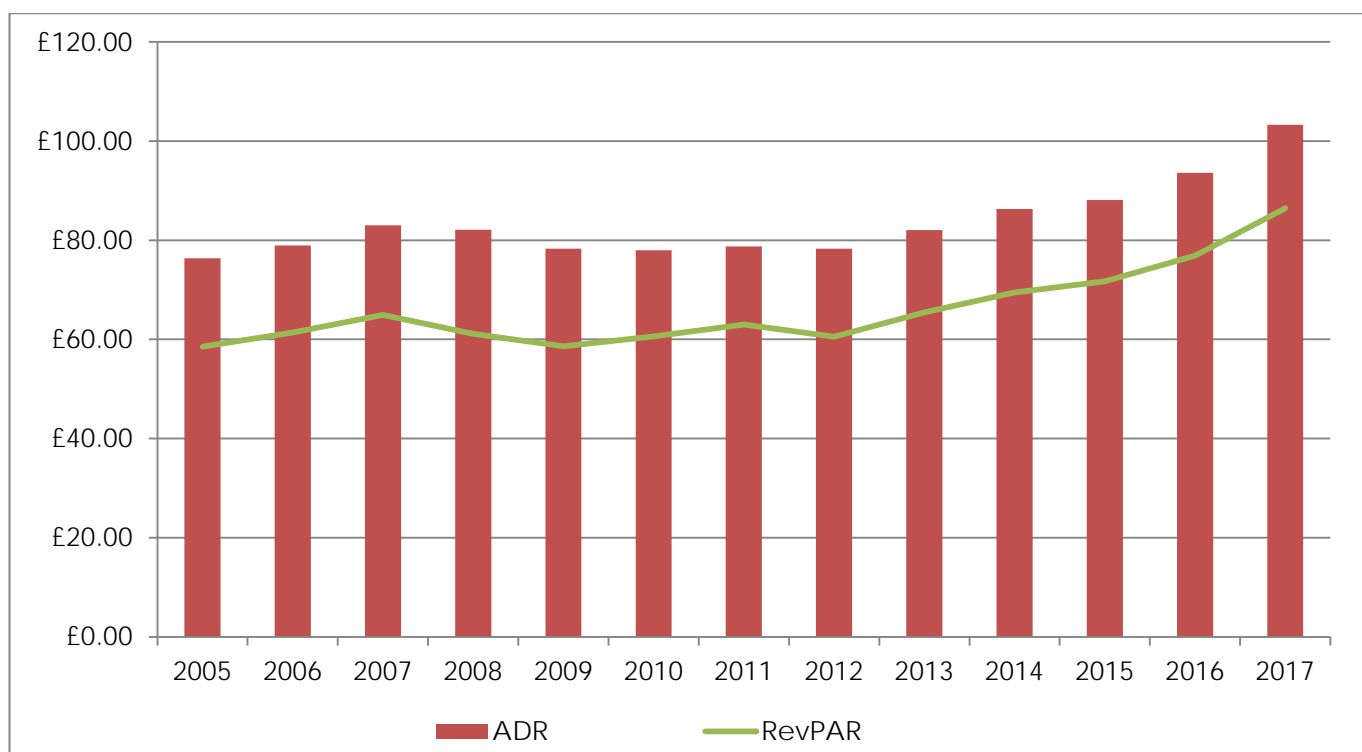
Graph 3.1: Edinburgh Hotel Occupancy – 2005 to 2017



Source: STR Global 2018

- 3.4 Edinburgh experienced an initial three years of occupancy growth before the impact of the economic recession was felt in 2008 and 2009. Occupancy then recovered well in the next two years reaching 80.0% for the first time over the period.
- 3.5 2012 witnessed a drop in occupancy to 77.3% which can largely be attributed to the sharp increase in supply (8.2% over 2011), as well as other factors such as poor summer weather and the London Olympics which diverted tourism away from other major cities in the UK such as Edinburgh.
- 3.6 Since 2013 Edinburgh has witnessed year on year occupancy growth, reaching a peak level of 83.7%. This is despite continuous supply growth over the period.
- 3.7 2017 occupancy of 83.7% is the highest across the studied period and well in excess of the Regional UK average (76.1%).
- 3.8 However, in October 2018 year to date (YTD) there was a 1.4% drop in occupancy compared with the same period in 2017. This is largely due to the increase in rooms sold (+4.1%) failing to keep pace with the growth in new supply (+5.6%); suggesting a general slowing of demand growth in 2018.
- 3.9 The following graph details Edinburgh average daily rate (ADR) and revenue per available room (RevPAR, see Appendix B for details for the definition of terms) performance between 2005 and 2017.

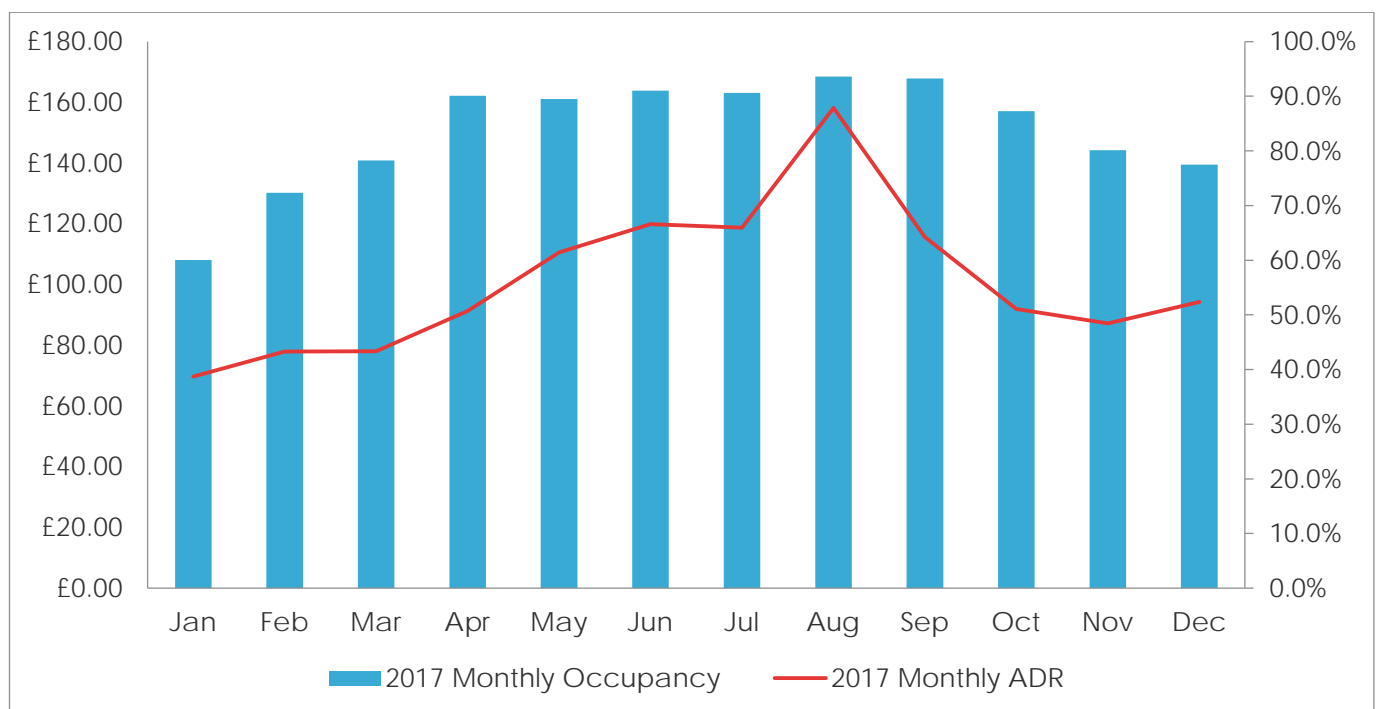
Graph 3.2: Edinburgh Hotel ADR and RevPAR – 2005 to 2017



Source: STR Global 2018

- 3.10 Edinburgh ADR has followed a similar pattern to occupancy, with initial growth before the impact of the economic recession drove rates down. ADR stagnated for a number of years and took longer to recover than occupancy as hoteliers found it difficult to increase rates in the wake of the recession.
- 3.11 However, since 2013 ADR has increased at a higher rate of growth than occupancy. ADR in 2017 reached £103.29; the highest level over the period and 10.4% higher than in 2016.
- 3.12 Throughout the period Edinburgh ADR has tracked significantly above the Regional UK average and was 43.7% higher in 2017.
- 3.13 The RevPAR trend mirrors that of occupancy and ADR, with a dip around the recession and 2012, followed by continuous growth since 2013; peaking in 2017 at £86.41. The growth in RevPAR between 2012 and 2017 was 42.7%, higher than the Regional UK average (32.2%).
- 3.14 Data for October 2018 YTD highlights marginal growth in ADR (+0.8%) on the same period in 2017; probably a market “correction” following exponential growth in 2017, but also due to the growth in market supply and slowing demand growth limiting hoteliers’ ability to increase rates. Due to the drop in occupancy and fractional ADR growth, RevPAR in October 2018 YTD decreased by 0.6%.
- 3.15 Despite the strong growth in recent years, Edinburgh remains a seasonal hotel market, as demonstrated in the following graph.

**Graph 3.3: Edinburgh Occupancy and ADR by Month – 2017**



Source: STR Global 2018

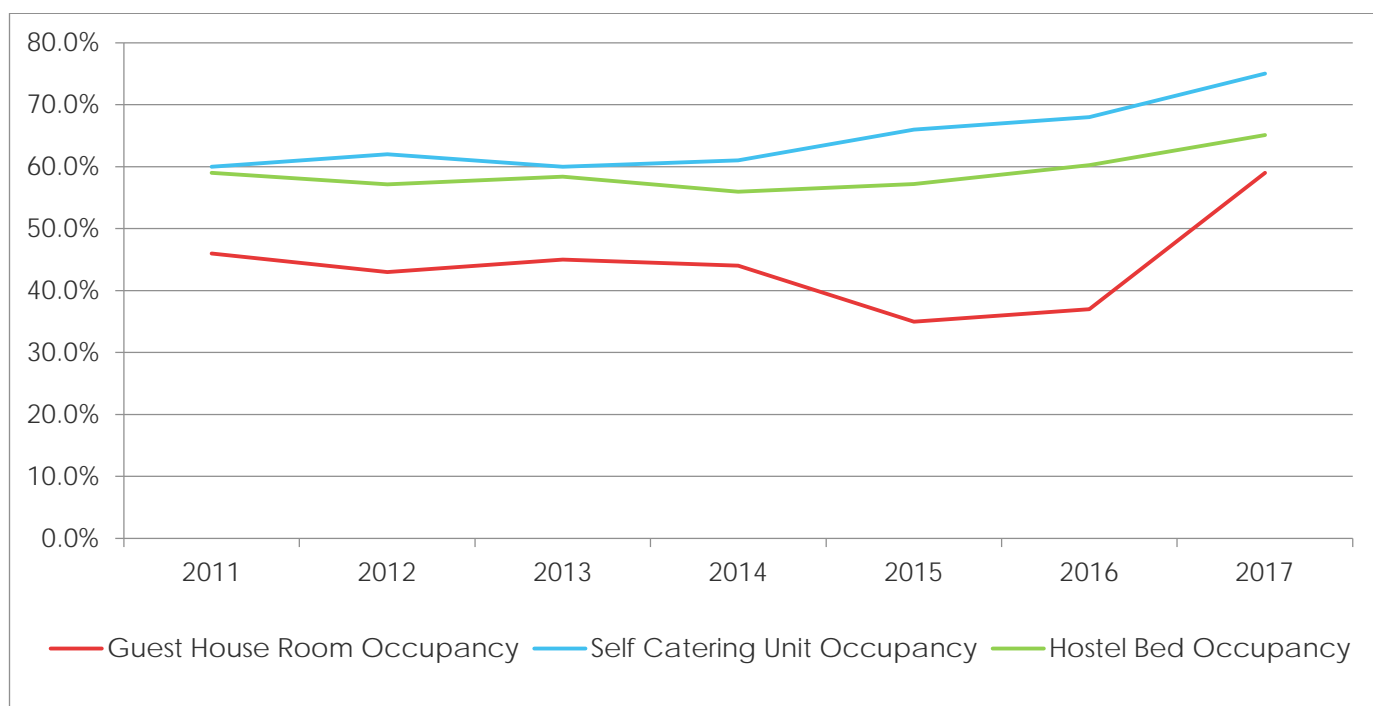
3.16 Occupancy remains around the 90% mark between April and September, peaking in August during the summer festivals. Occupancy then dips in winter months, reaching its lowest point of 60.0% in January.

3.17 ADR follows a similar pattern and remains above £110.00 between May and September, peaking at £158.15 during the summer festivals in August. As with occupancy January is the weakest performing month with ADR dropping to less than £70.00.

## Hostel, Self-Catering and Guest Houses / B&Bs

3.18 There is no source of published average rate performance data for hostels, self-catering properties and guest houses / B&Bs, however VisitScotland produces annual occupancy statistics for these markets which we illustrate in the following graph.

Graph 3.4: Edinburgh Hostel, Self-Catering and Guest House / B&B Occupancy – 2011 - 2017



Source: VisitScotland

3.19 The graph shows there is limited correlation between the three types of accommodation. However, all have experienced positive growth in the last three years to reach peak levels in 2017, in line with the hotel sector. There is no 2018 YTD data available.

3.20 While growth is strong, occupancy levels remain below that of the hotel sector. These accommodation sectors experience more pronounced seasonality than hotels as their main market is leisure tourism (hotels benefit from corporate demand in the tourism low season that offsets the drop in visitors to an extent).

## Demand Drivers - Introduction

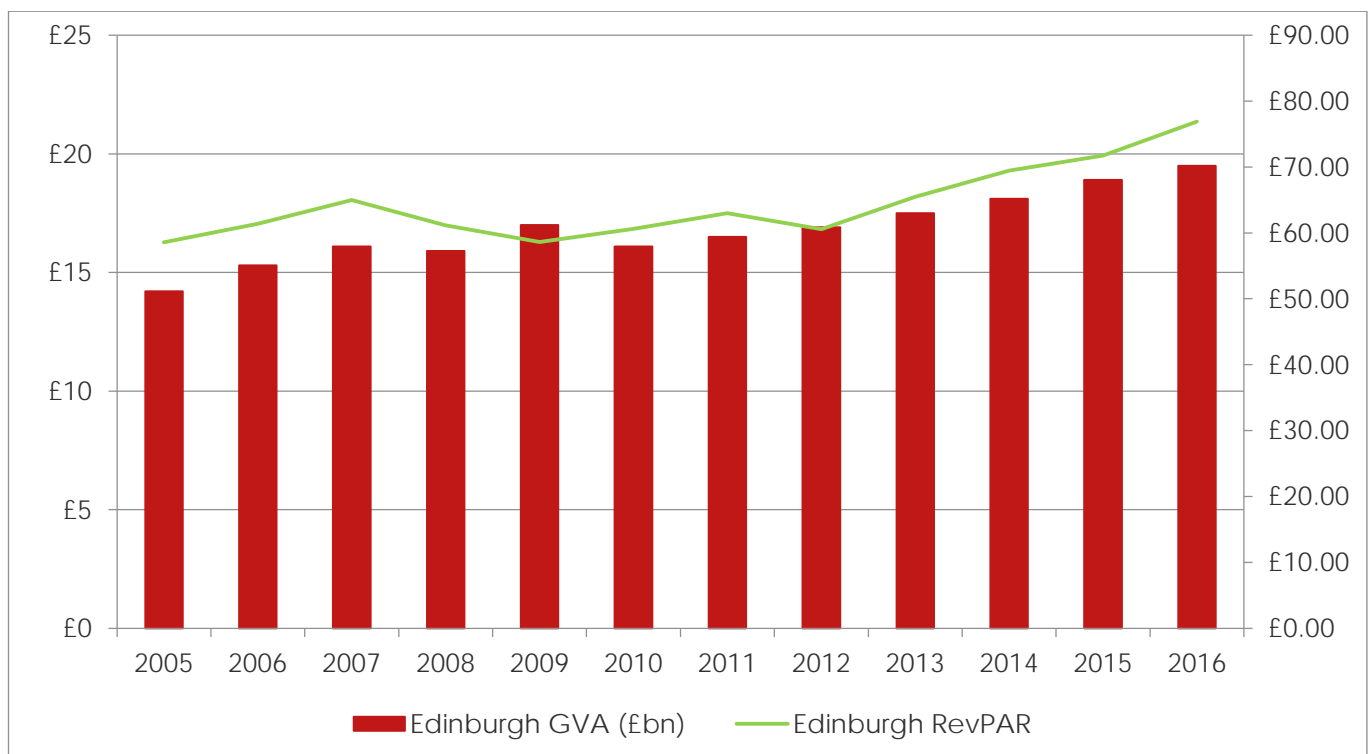
3.21 In this section, we briefly look at the reason for growing demand in the Edinburgh visitor accommodation sector in recent years.

## Demand Drivers – Economy

3.22 Edinburgh has one of the largest economies in the UK and is considered one of the fastest growing regions in Europe, due in part to a large financial services sector. It is home to a large number of international firms and is the headquarters of major firms such as Royal Bank of Scotland, Standard Life Aberdeen, and Scottish Widows. This in turn drives year-round hotel demand.

3.23 The following graph highlights Edinburgh’s total gross value-added (GVA) plotted against the RevPAR trend from Graph 3.2. It highlights a broad correlation between the GVA growth (left axis) and the increase in hotel RevPAR performance (right axis) in Edinburgh, particularly during the last five years. This would demonstrate that the growing strength of Edinburgh’s economy has played a large part in increasing hotel performance as a result of high levels of corporate demand.

Graph 3.5: Edinburgh Total GVA and Hotel RevPAR – 2005-2016



Source: Office for National Statistics / STR Global 2018

3.24 In addition to the corporate sector, Edinburgh is one of Europe’s leading conference and events destinations. It is the number one International Congress and Convention Association (ICCA)



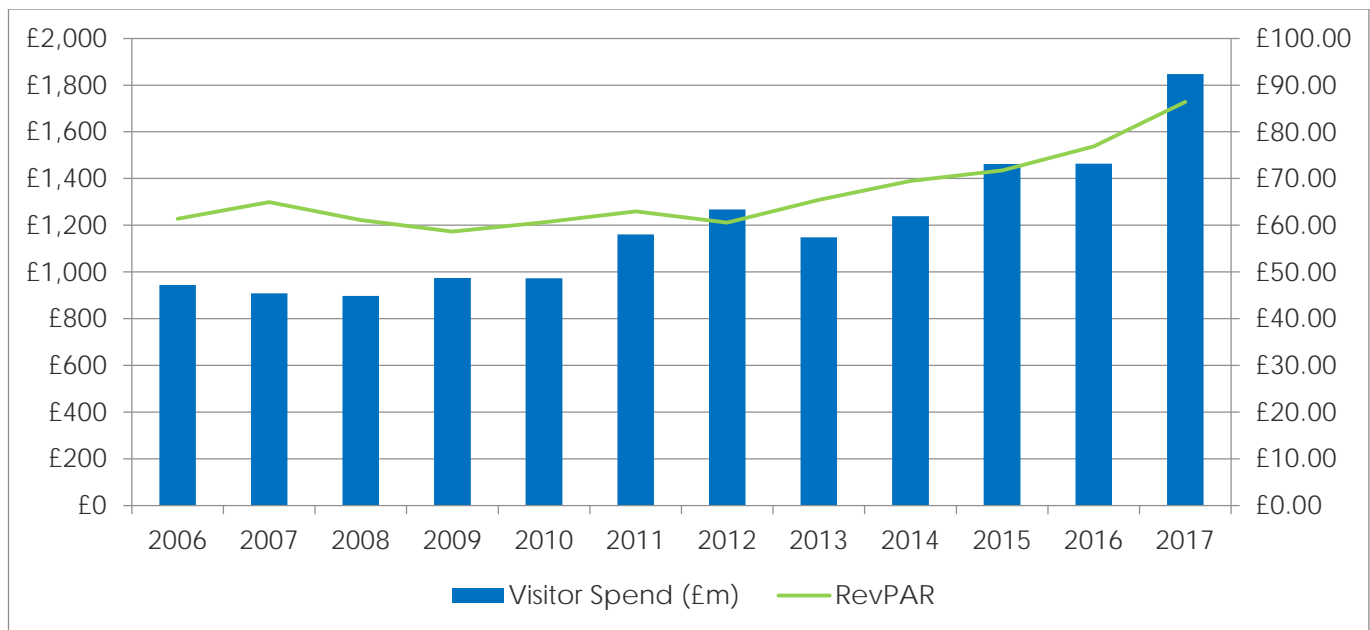
conference destination in the UK outside London and rated 32nd in the top worldwide city rankings. (20th in Europe, ICCA 2017). The annual economic value of Edinburgh's business tourism is estimated to be in excess of £300m (Convention Edinburgh).

- 3.25 The Edinburgh International Conference Centre (EICC) is the principle conference centre for the city and hosts over 200,000 delegates each year. Peak months include May, June, July, September and November with a split of around 60% association business and 40% corporate.
- 3.26 According to research undertaken by the EICC, since opening in 1995 it has welcomed 1.3 million delegates from more than 120 countries generating £600m of economic impact for the city region. It is likely that the extension to the EICC, completed in 2013 and doubling its capacity, has played a large part in the continuing strong performance growth by hotels in the city in the last five years.
- 3.27 From previous discussions from the EICC, we are aware that there is often a shortage of accommodation in the city when there is a major event at the venue and local hotels are often unable to provide enough rooms for block bookings. We have consulted with EICC as part of this Study and include some of our collated findings in Section 4.
- 3.28 Commercial growth in recent years has also been driven by burgeoning technology and software sectors in the city, which is home to major firms such as Rockstar and Skyscanner. According to Tech Nation's 2018 Report, digital jobs in Edinburgh increased over three times faster than the UK average between 2014 and 2017.
- 3.29 In addition to conference and corporate demand, Edinburgh's three universities (and further education colleges) provide a population of over 140,000 students. This creates visitor accommodation demand in relation to visiting lecturers, students and families, conferences and events and during graduation ceremonies.

## **Demand Drivers – Tourism**

- 3.30 Edinburgh has a strong leisure tourism profile and maintains its status as the most popular tourist destination in the UK after London. It is home to some of the UK's leading visitor attractions, such as the National Museum of Scotland, Edinburgh Castle and Scottish National Gallery.
- 3.31 Graph 3.6 overleaf charts total tourism visitor spend (left axis) over the period of 2006 to 2017 (including business tourism). Again, we measure this against hotel RevPAR performance (right axis). Over the last five years in particular, there is a strong correlation between the growth of visitor expenditure and hotel RevPAR.

Graph 3.6: Edinburgh Visitor Expenditure and Hotel RevPAR – 2006-2017



Source: Visit Britain / STR Global 2018

3.32 The following table details the purpose of trips by domestic and overseas visitors to Edinburgh in 2011 and 2016 (latest available data). It highlights that although the reason for international visits remains broadly unchanged, there has been a strong growth in domestic holiday and business visits at the expense of visiting friends and relatives (VFR). VFR visits are more likely to involve a home stay, rather than within visitor accommodation, compared with holiday and business visits. Therefore, more visitors to Edinburgh are staying within the city’s visitor accommodation stock, rather than with friends or relatives. This further supports that the growth in leisure and business visits to the city have contributed to the increasing occupancy of its visitor accommodation sector.

Table 3.1: Main Purpose of Trip to Edinburgh and the Lothians (2011 and 2016)

Reason	2011		2016	
	Domestic	International	Domestic	International
Holiday	65%	67%	74%	68%
Business	12%	19%	18%	22%
Visiting Friends/Relatives	16%	12%	7%	10%
Other	6%	3%	2%	0%
<b>Total Visits</b>	<b>2.48m</b>	<b>1.26m</b>	<b>2.22m</b>	<b>1.70m</b>

Source: Visit Scotland

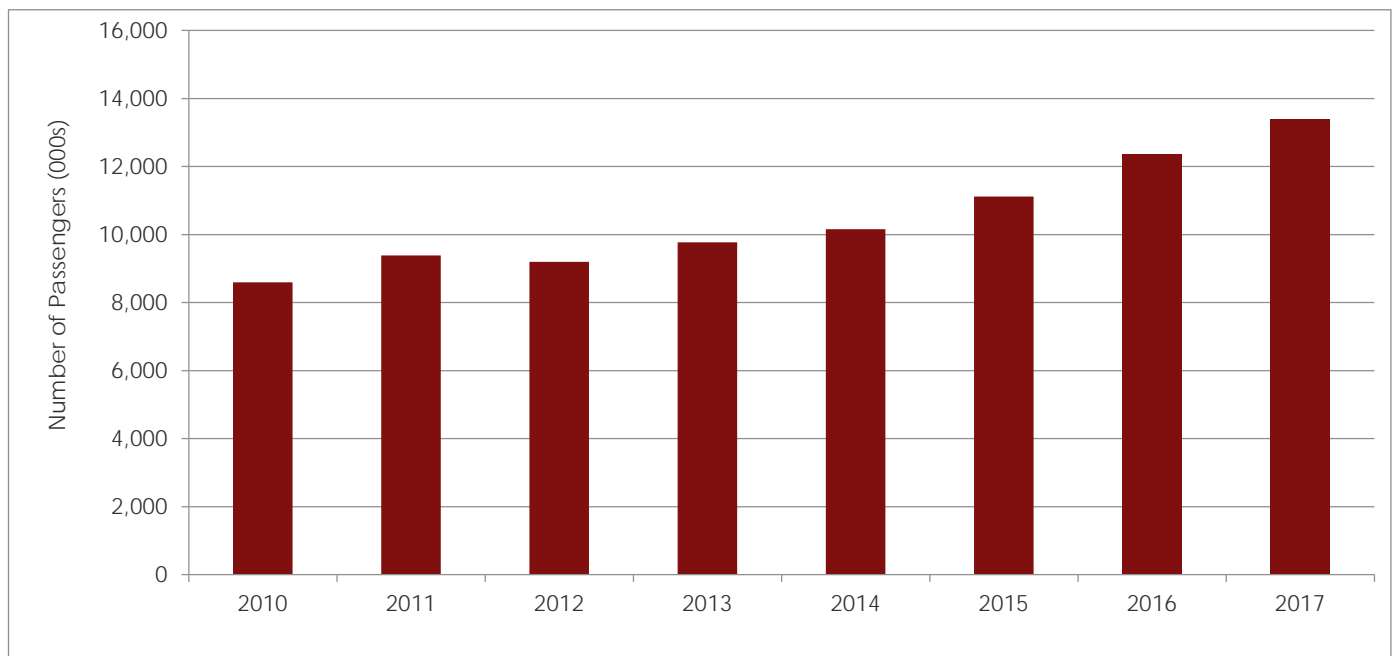
3.33 Other key factors relating to leisure tourism that contribute to strong visitor demand in the city include:

- Edinburgh’s 12 international festivals, which attract over 4.5 million people annually. Edinburgh Festival Fringe achieved a record 2.9m ticket sales in 2018. The city’s visitor accommodation regularly sell-out and charge premium room prices during the Festival in August (an issue highlighted during our stakeholder consultations, see Section 4);
- The Royal Highland Showground welcomes over one million visitors annually. The venue hosts a wide programme of events throughout the year, the largest of which is the Royal Highland Show, attracting over 200,000 visitors each June;
- Murrayfield hosts international rugby union matches in February, March and November. The stadium has also historically hosted American football, rugby league and football matches as well as music concerts which drive accommodation demand.

## Demand Drivers – Edinburgh Airport

3.34 Edinburgh Airport has witnessed exceptional growth in recent years with a 56% increase in passenger numbers between 2010 and 2017. This is in part due to new direct long haul routes to North America, the Middle East, and since 2017, to China, as well as improved infrastructure at the airport. The growth in Edinburgh’s passenger numbers since 2010 is shown in the following table. Later in this section we detail the forecast passenger growth for Edinburgh to 2030 and beyond.

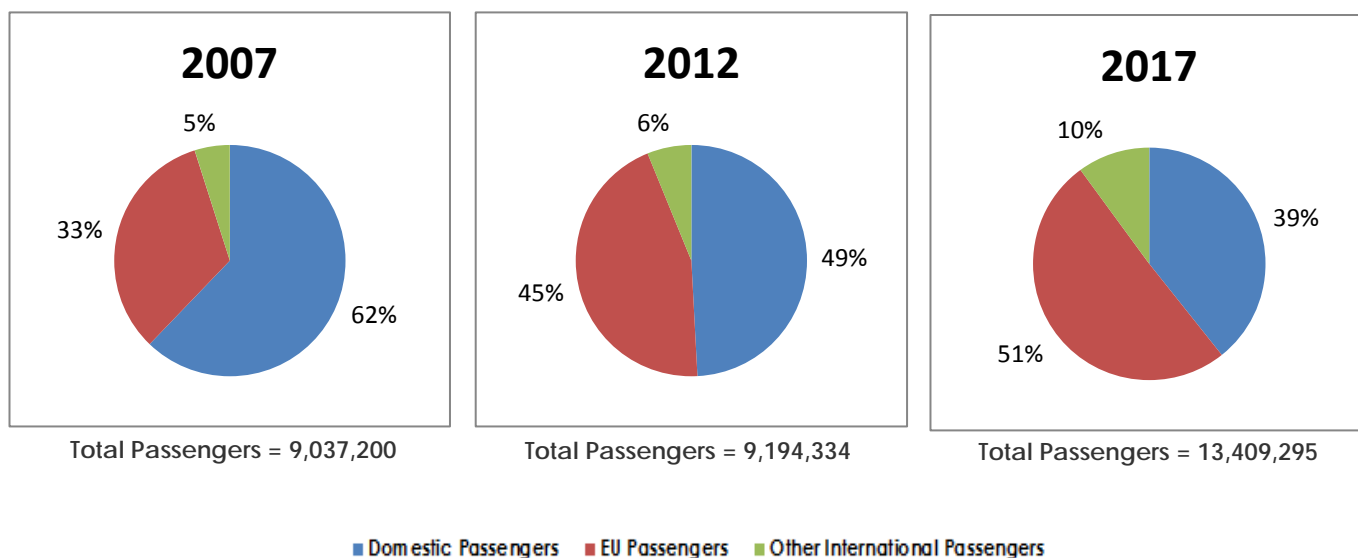
Graph 3.7: Edinburgh Airport Passenger Growth – 2010 to 2017



Source: Edinburgh Airport

3.35 The growth in long haul routes from Edinburgh Airport has changed the composition of passenger origin. As shown in the following graph, the majority of passengers to Edinburgh Airport are now international who are more likely to use visitor accommodation and stay in the city for longer periods (according to VisitScotland, in 2016 the average length of stay in Edinburgh and the Lothians by domestic visitors was 2.8 nights against an average length of stay of 5.0 by overseas visitors).

Graph 3.8: Change in Passenger Origin to Edinburgh Airport – 2007 to 2017



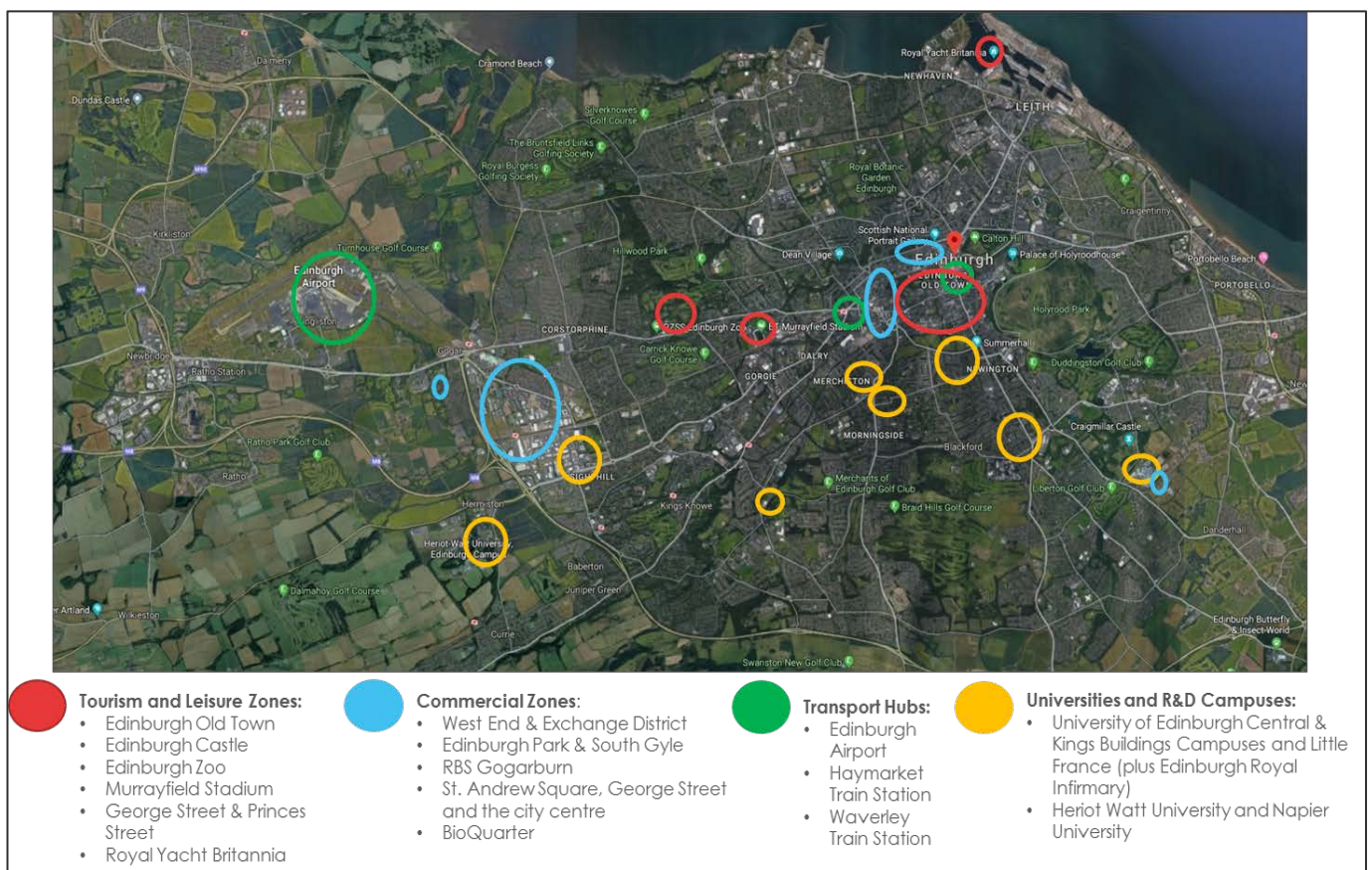
Source: UK Civil Aviation Authority

## Demand Driver Locations

3.36 Map 3.1 below illustrates the main accommodation demand driver locations in Edinburgh. It highlights that the majority are within the city centre (comprising the majority of office stock, Edinburgh's Old Town, major visitor attractions and retail core), with smaller 'zones' to the west and south of the city. There are limited demand drivers to the north and east of the city, which are primarily residential areas.

3.37 There is a clear correlation between these areas and the location of existing visitor accommodation (see Map 2.1). This is unsurprising as the majority of visitors to Edinburgh prefer to be located close to drivers of demand; i.e. business guests want to be in commercial zones, leisure guests wish to be in tourism and leisure zones, while either may wish to be near, or have easy connections to transport hubs.

Map 3.1: Demand Driver Locations in n Edinburgh



Source: GVA / Google Earth

## Future Demand Drivers

3.38 The following table lists the key development and regeneration schemes in Edinburgh (either proposed or underway) which we expect to increase visitor accommodation demand from business and leisure tourism.

Table 3.2 Major Development and Regeneration Activity in Edinburgh

Scheme	Comments
<p><b>Edinburgh St James</b></p> 	<ul style="list-style-type: none"> <li>Plans include a 253 bedroom five-star W Hotel as well as a Roomzzz apart-hotel (73 keys);</li> <li>However, given the scale of development we would expect Edinburgh St James to create strong levels of additional leisure visitor accommodation demand once complete in 2021 that will not be sufficiently captured by just these two properties.</li> </ul>
<p><b>The Haymarket</b></p> 	<ul style="list-style-type: none"> <li>Plans include a 172 unit Stay City apart-hotel and 190 bedroom Premier Inn;</li> <li>Again, due to the scale of the wider development we would expect this to create additional accommodation demand that will not be sufficiently captured by these two properties. The proposed office developments (350,000sqft) will create strong commercial demand;</li> <li>There is currently no timeframe for completion of the Haymarket, but we expect that it will not be fully completed until 2021 at the earliest.</li> </ul>
<p><b>International Business Gateway (IBG)</b></p> 	<ul style="list-style-type: none"> <li>IBG covers 2.3m sqft of development land for a mix of residential, retail, office and hotel uses. It is estimated that when complete (by 2050) there will be 16,000 employees and a significant number of residents onsite;</li> <li>The Edinburgh Tram link passes through the site (a stop will be included in the development), providing excellent transport connection to the city centre and Airport;</li> <li>Given the scale of potential development, there is a strong opportunity for IBG to become a new visitor accommodation 'zone'.</li> </ul>
<p><b>Edinburgh Airport – New Routes</b></p> 	<ul style="list-style-type: none"> <li>Edinburgh Airport projects passenger numbers to increase to 19m by 2030, delivered by continuing to improve the infrastructure of the Airport;</li> <li>We are also aware Edinburgh Airport is in discussions to introduce further long haul routes that will significantly contribute to the future demand growth for Edinburgh visitor accommodation.</li> </ul>

## City Region Deal



- The £1.3bn Edinburgh City Region Deal has a large focus on technology and innovation and will create five new innovation hubs in universities across the south-east of Scotland;
- The aim is to establish Edinburgh as the “data capital of Europe”;
- We would expect this to create strong visitor accommodation demand over the next 11 years, particularly around the city’s universities.

Source: GVA

3.39 The Edinburgh Economic Strategy (published June 2018) sets out a new ambition for the city’s economy to achieve “good growth” by continuing to be the most productive major city in the UK while extending the benefits to all citizens.

3.40 The Strategy makes reference to the hotel sector and notes that there is “strong demand for hotel developments within the city centre where there are perceived constraints on the availability of space. At the same time, this focus on the city centre has delayed new developments in other areas of the city”. This was identified as an issue during our stakeholder consultations which we analyse further in Section 4. However, no reference is made as to suggested strategies for resolving these constraints.

3.41 The Centres for Cities Outlook 2018 analyses the performance of and prospects for 62 UK cities. The forecast period is to 2030 (in alignment with City Plan 2030). Edinburgh has one of the lowest proportions of jobs in occupations likely to contract (57th of 62 cities) and conversely one of the highest shares (4th of 62 cities) of the types of jobs likely to increase.

3.42 The Edinburgh 2030 tourism strategy is under development and will be published in 2020. The existing tourism strategy, EDINBURGH 2020, is spearheaded by three aspirational and ambitious growth targets that are to:

- Increase the number of visitors by one third to 2020, from 3.27m (the 2010 starting base level) to 4.39m visitors per annum, generating an additional 4.15m visitor nights;
- Increase the average amount spent in the city by 10%, from £310.40 in 2010 to £341.44 per visitor trip in 2020;
- Receive 50% more visits during the months of October to March and thus reduce the current 40:60 seasonality split in visitors to 43:57 between October to March and April to September.

3.43 The Edinburgh 2020 tourism strategy mid-term review (October 2016) highlighted the following progress (as of end 2015):

- Increase the number of visitors by one third - up 18% to date (ahead of target);
- Increase total expenditure by 3% a year - up 21% (broadly on target);
- Increase the average spending of visitors to the city by 10% - up 3% (below target);
- Reduce seasonality across the sector - proportion of trips October to March down from 40% to 38% (below target).

## Summary

3.44 Edinburgh's visitor accommodation sector has experienced strong levels of growth in recent years, with occupancy levels reaching peak levels in 2017.

3.45 The city's business, conference and leisure tourism markets have all grown in recent years, contributing to the increasing visitor accommodation performance. This has been aided by the exceptional growth in, and profile of, passengers at Edinburgh Airport, increasing the number of international visitors to the city, typically staying longer than domestic visitors.

3.46 Future demand growth prospects are also positive, with further Airport growth expected and a number of commercial and leisure developments proposed that will create additional visitor accommodation demand to 2030.



## 4. MARKET TRENDS AND ISSUES

### Introduction

4.1 In this section we firstly highlight some of the macro-environment trends and issues within the UK visitor accommodation sector before examining those specific to Edinburgh in more detail.

### Visitor Accommodation Macro-Environment Trends and Issues

4.2 The following table lists some of the key issues and trends impacting the UK visitor accommodation sector.

Table 4.1: Visitor Accommodation Sector Macro-Environment Trends and Issues

Trend / Issue	Description
<b>Skills Shortage</b>	<ul style="list-style-type: none"> <li>Payroll costs are increasing for hotels resulting in operators making savings elsewhere and a lack of consistency in the product;</li> <li>The uncertainty of Brexit and its impact on the migrant labour pool (which accounts for a large proportion of the hospitality labour market) is causing anxiety amongst visitor accommodation operators. There are skills shortages reported within the sector, specifically around chefs; reports suggest that chefs are turning to agency work with higher pay. Concerns have been voiced that young chefs do not have the skill set required to progress as they don't stay in one role and learn the basic skills.</li> </ul>
<b>Rising Costs</b>	<ul style="list-style-type: none"> <li>Business Rates have seen significant increases following the 2017 revaluation. The total rateable value increase for hotels in Edinburgh and the Lothians was 39.1% (caps were applied to hotel increases in 2017 and 2018 to mitigate the impact);</li> <li>National Living Wage was introduced in April 2016 for all employees over 25, this is expected to reach £9.00 per hour by 2020;</li> <li>The Workplace Pension ensures that employers auto enrol eligible employees with ongoing contribution increases until 2019 (to a minimum employer contribution of 3%);</li> <li>The Apprentice Levy came into effect in April 2017 impacting those businesses with payroll over £3million;</li> <li>The uncertainty of Brexit also gives worry to further increases in costs (such as imports). Following the Brexit vote there has been inflation in operating costs due to the devaluation of Sterling. Cost inflation has also impacted hotel development which we note later in this table.</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>Self check-in terminals are becoming increasingly popular with several brands implementing this technology and reducing front desk staff. Whilst this offsets some of the increasing staff costs it removes the personal touch and the possibility to encourage guests to book direct rather than using online travel agents (OTAs);</li> <li>Mobile room cards are increasing in use with guests able to check in online and use their mobile phone to access their bedroom. Smart TVs are becoming the norm with guests expecting to be able to connect to their hotel TVs. Older hotels may need significant investment to keep up with this trend;</li> <li>"Connected Technology" brands (e.g. Hub by Premier Inn) are increasingly popular with "Millennials"</li> </ul>

<b>Emerging Types of Accommodation</b>	<ul style="list-style-type: none"> <li>• Volume of AirBNB (and other disruptors) and apart-hotels are increasing; primary cities are seeing the most significant increases in supply of these products;</li> <li>• Apart-hotels are becoming increasingly popular as they offer the space and facilities of a traditional, larger serviced apartment, with the service levels of a hotel. They appeal to both long and short-stay guests, both corporate and leisure sectors;</li> <li>• Edinburgh is one of the top UK locations for such products due to the demand profile (i.e. strong corporate and leisure tourism demand drivers).</li> </ul>
<b>Online Travel Agents</b>	<ul style="list-style-type: none"> <li>• Growing Online Travel Agent (OTA) share – the OTAs invest heavily in technology and marketing compared with hotel companies and are increasingly dominant; the impact is higher operating costs (through high booking commissions).</li> </ul>
<b>Development Funding</b>	<ul style="list-style-type: none"> <li>• Although improved since the economic recession, obtaining hotel development funding can often remain challenging; both in terms of the appetite for lenders to be involved and the levels of debt servicing they require meaning that securing required levels of debt funding can be difficult;</li> <li>• This is further impacted by the growing costs associated with hotel construction which often makes it difficult to justify the development case for a quality hotel. This has seen a growth in the rise of Premier Inn and Travelodge hotels which can be easier to fund and deliver on an operating lease due to their “institutional grade” covenants. Although some hotel groups are becoming more open to lease agreements (such as Rezidor and IHG), Premier Inn and Travelodge continue to dominate the market.</li> </ul>
<b>Local Authority Hotel Intervention</b>	<ul style="list-style-type: none"> <li>• There is a growing trend towards local authorities in the UK intervening to help the delivery of hotel projects; this can be as the authority acting as the developer / owner, as a lender, or providing a lease to enable forward funding;</li> <li>• There are two main reasons for this intervention. Firstly to help in “place-making” and the role a hotel can play in regenerating an area (as well as providing economic and employment benefits). Secondly, as central government funding declines, hotels can provide authorities with a new revenue stream;</li> <li>• Both pension funds and real estate funds are engaging with local authorities on such developments;</li> <li>• Aberdeen City Council (through an income strip lease) and Dundee City Council (developing and owning two hotels) lead the way in hotel intervention in Scotland;</li> </ul>
<b>New Hotel Brands</b>	<ul style="list-style-type: none"> <li>• There is an increasingly diverse product offering from the major hotel groups. There is a question of whether they devalue the existing brands or pull market share from competitors.</li> </ul>
<b>Terrorism</b>	<ul style="list-style-type: none"> <li>• The attacks in 2015 and 2016 on Paris and Brussels had a long-term negative effect on hotel performance in both cities. However, the 2017 attacks in London and Manchester had a much more short-term impact.</li> </ul>

Source: GVA

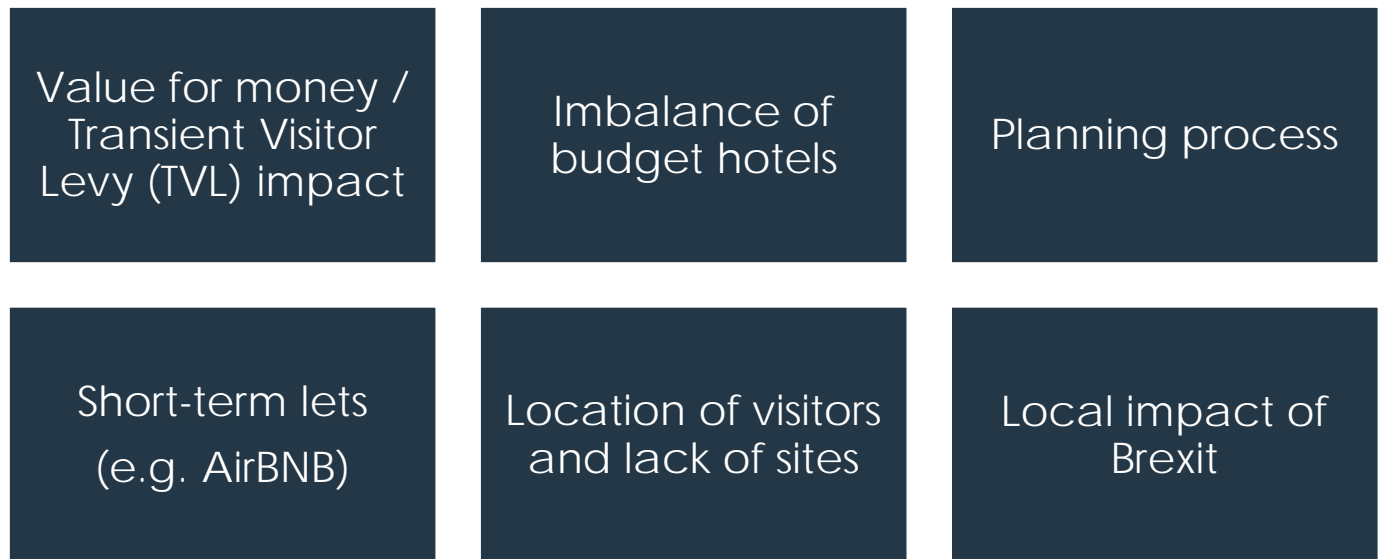
## Edinburgh Visitor Accommodation Stakeholder Trends and Issues

4.3 In order to understand the key development trends and main issues in the Edinburgh visitor accommodation sector we have held consultations with the following stakeholders:

- Scottish Development International;
- Edinburgh Tourism Action Group;
- Marketing Edinburgh;
- Edinburgh Airport;
- Edinburgh Hoteliers Association;
- Edinburgh Chamber of Commerce;

- The Edinburgh Fringe Society;
- Youth Travel Edinburgh;
- VisitScotland;
- Edinburgh International Conference Centre.

4.4 From these discussions the key trends and issues in the Edinburgh visitor accommodation sector can be grouped into six areas as follows.



4.5 We now outline each of these trends and issues in turn.

### **Value for Money / Transient Visitor Levy (TVL) Impact**

4.6 The cost of accommodation in August is the key issue for the Fringe Society; it is felt that prices across all accommodation types have risen to a point where it is becoming unaffordable for participants (i.e. performers, producers, companies, venues and Arts Industry professionals). Given the economic benefit of the Fringe (over £170m per annum), they argue that participants should be offered preferential rates by accommodation providers.

4.7 In regards to the high prices in July and August one respondent commented "*we are a 365 day a year destination and there needs to be recognition that currently only 33% of visitors had been to Edinburgh before and were keen to return. Are we missing the opportunity of a higher level of repeat business because we are overpricing?*"

4.8 The high cost of hotels in July and August (and at Hogmanay) was highlighted as a concern by a number of stakeholders. However, there is an understanding that this is market driven and is not deterring visitor numbers.

- 4.9 The lack of value for money during peak periods was highlighted as an issue; one respondent noted that even hostels are able to charge up to £90.00 per bed per night at Hogmanay, highlighting that value for money is an issue even with budget properties;
- 4.10 There are varying views on the impact of the TVL (charges levied on short term paid accommodation) on the sector. It is generally opposed by operators, but other stakeholders view it as having a minimal or beneficial impact. The implementation of TVL is largely viewed as inevitable.
- 4.11 There is a view from operators that TVL, in line with the cost of VAT in the UK (one of the highest in Europe) will further drive down the perceived value for money by visitors. They add that the TVL is a 'hotel tax' as it doesn't impact restaurants and other businesses that benefit from tourism. Furthermore, tax is not paid for by day visitors. This is countered by the belief that it is the hotels that gain the greatest benefits from tourism spend in the city.

## **Imbalance of Budget Hotels**

- 4.12 There is an across-the-board acceptance that Edinburgh is well supplied for budget accommodation and is now lacking hotels of a four and five-star grading (our future supply research has highlighted that fewer budget hotels are now proposed in the city). VisitScotland noted that there is a growing demand for four and five-star hotels from emerging markets. No other supply gaps were noted across all accommodation types.
- 4.13 Our research of current supply has identified the large growth in budget hotels in recent years (see Section 2). A concern was raised that the quantum of budget properties will attract 'cheap' visitors to the city, rather than more desirable higher spending visitors.
- 4.14 The quantum of new supply in the planning pipeline was not viewed as a major concern to trading performance of existing properties due to the belief that demand will continue to increase. However, it was mentioned by several stakeholders that the city needs to work on creating year round demand (e.g. through marketing campaigns, increased business tourism, calendar of year round events and Airport expansion) to provide for the additional supply.

## **Planning Process**

- 4.15 Several comments were made in regards to concern over both the slow speed of the planning process for new hotel developments, as well as the ultimate decisions that have been made.
- 4.16 There is apprehension that the difficulties that both the W Hotel and Rosewood (Royal High School) proposals have experienced presents an image of Edinburgh as being a 'difficult' place to achieve development.

- 4.17 A comment was made that for developers with interests in both Edinburgh and Glasgow, the latter is considered an easier destination to achieve planning approval.
- 4.18 Our brand / operator and developer surveys (Section 5) identified the planning process as being an issue in achieving visitor accommodation development in the city.

## **Short-term lets**

- 4.19 Short-term lets (primarily AirBNB, but including other platforms) are generally viewed as a positive addition to Edinburgh; it makes it easier for people (particularly families) to visit and opens up new markets. Edinburgh maintains high hotel occupancy levels, while occupancy of other accommodation types reached peak levels in 2017, which demonstrate that the growth in AirBNB has not impacted negatively on existing businesses.
- 4.20 Aside from the impact on residents (outwith the scope of this assignment), concerns from the visitor accommodation sector are largely limited to ensuring fairness and a 'level playing field'. A comment was also that they should contribute to the TVL.
- 4.21 It was expressed that AirBNB 'hosts' should be certified, regulated and taxed; we understand the City of Edinburgh Council has asked the Scottish Government for additional powers to licence and regulate short-term lets.

## **Location and Lack of Available Sites**

- 4.22 There is a consensus opinion that the majority of business and leisure visitors will continue to want to be located in the city centre; therefore it was argued that this should be the location for future accommodation developments in Edinburgh.
- 4.23 There is a shared acceptance that the city centre lacks available development locations. Furthermore, when sites do become available, they are sold for well beyond their asking price which limits who can afford to develop in the city. This issue has previously been identified in the Edinburgh Economic Strategy (see Section 3).
- 4.24 Outlying areas of the city (out-with the 'zones' illustrated earlier) may only become appealing with significant demand drivers and strong transport links e.g. International Business Gateway or Leith.
- 4.25 It was agreed by all stakeholders that the phrase 'over-tourism' is detrimental to the sector and should be avoided. However better destination management is needed to try and move visitors around the city centre during peak periods, or look at spreading out the festival programme throughout the year.

## Brexit

- 4.26 While the impact of Brexit is not specific to Edinburgh there are a number of useful points raised during consultations.
- 4.27 The Edinburgh Hoteliers Association regards skills shortages in the sector as the number one concern moving forward and this is exacerbated by the unknown situation regarding the migrant labour pool available following Brexit.
- 4.28 The Chamber of Commerce highlighted that many businesses in the city are unwilling to make decisions on their future plans until Brexit is better understood.
- 4.29 More positively, it is generally felt that Brexit will not have an adverse impact on leisure visitors to the city. A key reason for this was the growth of air routes into Edinburgh Airport. In particular, more long-haul routes to destinations in Asia and the Middle East will open up new markets.

## Summary

- 4.30 This section has provided an overview of both the macro and micro-environment trends and issues in the visitor accommodation sector that impact on Edinburgh.
- 4.31 While future demand prospects are positive, as summarised in Section 4, the six issues identified by stakeholders threaten to become impediments to growth if not managed properly. Several of these are outwith the context of City Plan 2030 (i.e. they are controlled by market forces, rather than planning policy), but the lack of available sites and planning process are areas that can and should be considered;
- 4.32 While the macro-environment issues cannot easily be rectified, it is important that those specific to Edinburgh (and which can be to an extent be controlled) need serious consideration as part of the implementation of City Plan 2030.

## 5. VISITOR ACCOMMODATION DEVELOPMENT SURVEY

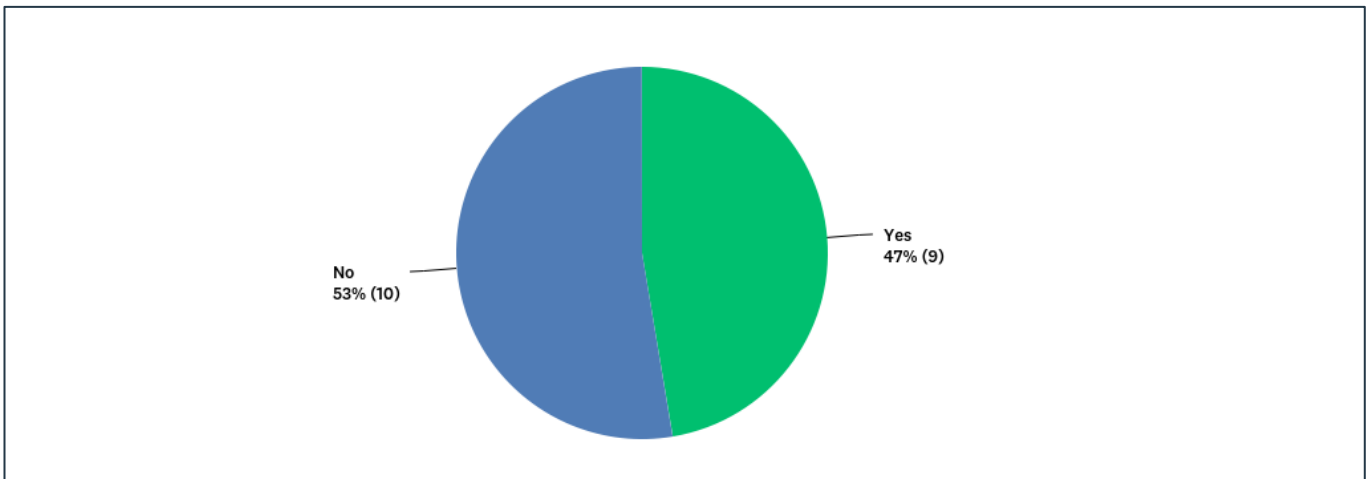
### Introduction

- 5.1 GVA has undertaken online surveys with key representatives involved in visitor accommodation development in the UK. The purpose of these were to understand their experiences to date in branding, operating and developing visitor accommodation in Edinburgh, to understand their aspirations to brand, operate or develop in Edinburgh in the future, as well as any perceived barriers that may impact on their ability to do so.
- 5.2 In total, 86 representatives of visitor accommodation brands / operators and developers were asked to complete an online survey and the findings are reported in this section. 33 responses have been received to date (at 5<sup>th</sup> December 2018). This equates to a response rate of 38%, which we believe to be a positive rate of return.

### Brands and Operators

- 5.3 Surveys were sent to a number of visitor accommodation brands and operators, including those already present in the UK and new entrants. In total, 19 responses have been received from a range of brands and operators, including many well-known international hotel companies.
- 5.4 53% of respondents indicated that they do not currently brand or operate visitor accommodation in Edinburgh. A number of comments were received as to why this was, with all of them relating to the lack of appropriate opportunities. One respondent noted "we have been actively looking in Edinburgh for almost three years, with no success to date". No brand or operator noted that this was due to the conditions of the market.

Figure 5.1: Do you currently brand or operate visitor accommodation in Edinburgh?

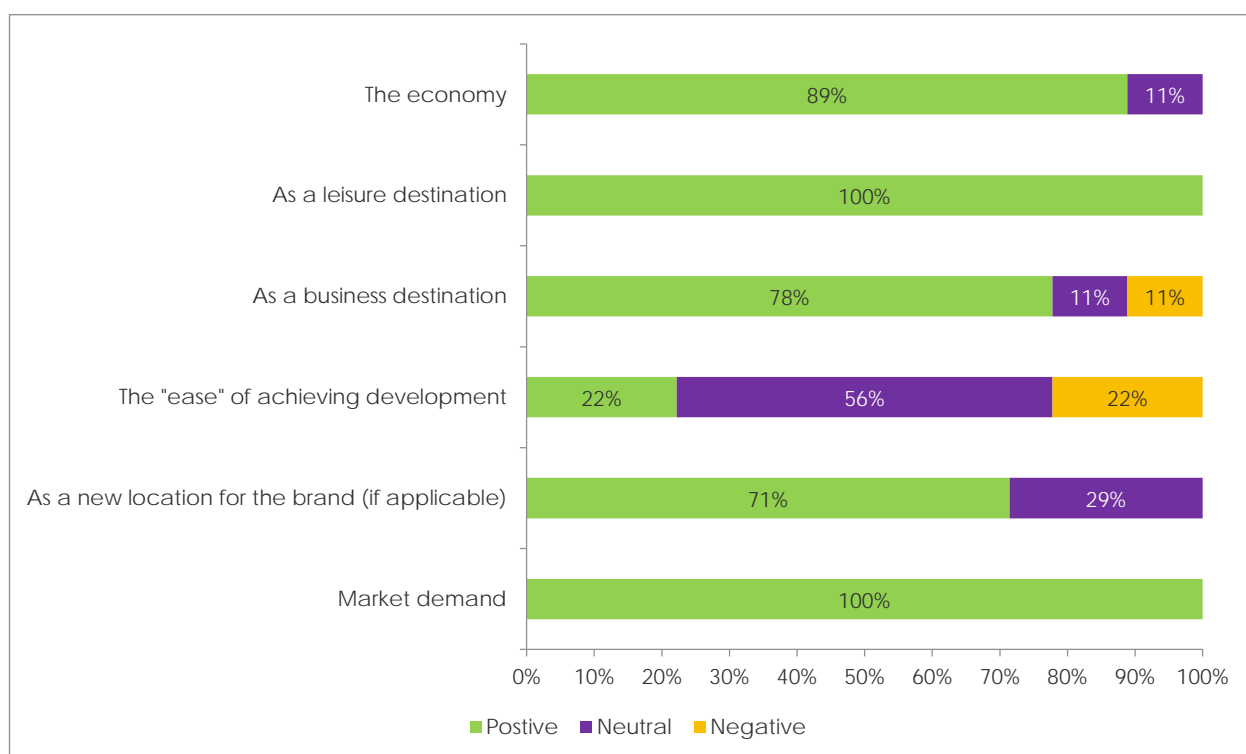


Source: GVA/Survey Monkey

5.5 Respondents who have branded and operated in Edinburgh were asked how positive their experience of Edinburgh has been in terms of six criteria: market demand, as a new location for the brand (if applicable), the “ease” of achieving development, as a business destination, as a leisure destination and the economy.

5.6 The figure below highlights a very positive experience in terms of market demand, as well as the city’s economic, business and leisure profile, however, very few were positive towards the ease of achieving development.

**Figure 5.2: What has been your experience to date in terms of branding or operating visitor accommodation in Edinburgh?**

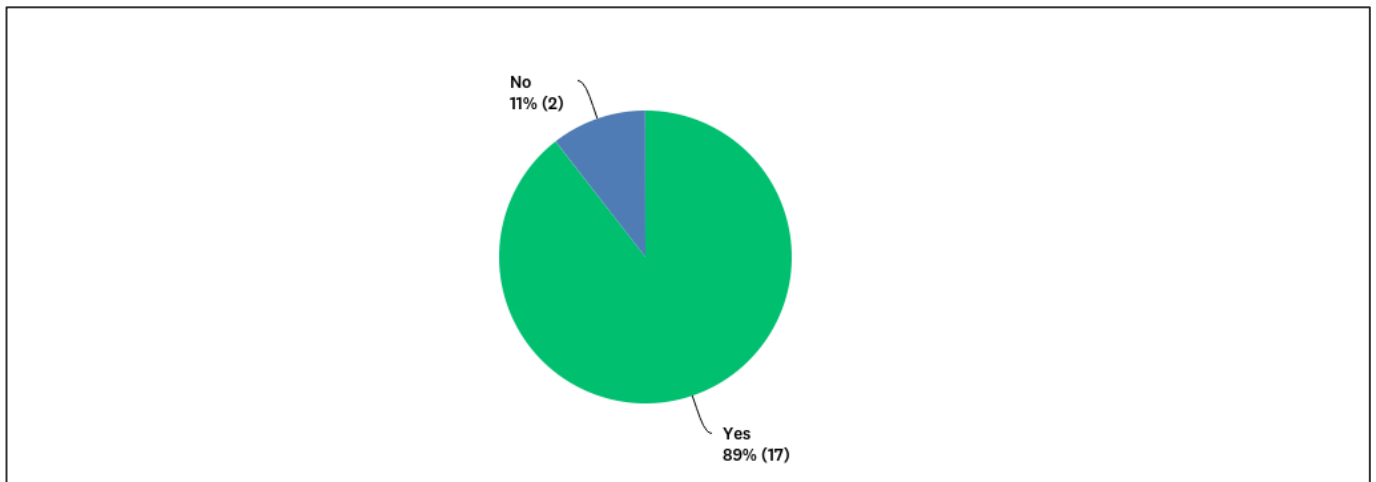


Source: GVA/Survey Monkey

5.7 Figure 5.3 highlights that 89% of respondents (all but two) would consider branding or operating visitor accommodation in Edinburgh moving forward; this is a very positive level of response in our experience. One of the respondents who selected ‘no’ indicated that is due to “market saturation” and “AirBNB eroding [the] market”. The other respondents also noted the growth of AirBNB, as well as that there is “an over-supply in the summer months of student accommodation. This has limited the ability to grow room rate whilst costs increase at a rapid rate...In addition property rates are some of the highest in the UK and now the threat of a tourist tax make this city less and less attractive to hotel investors”.



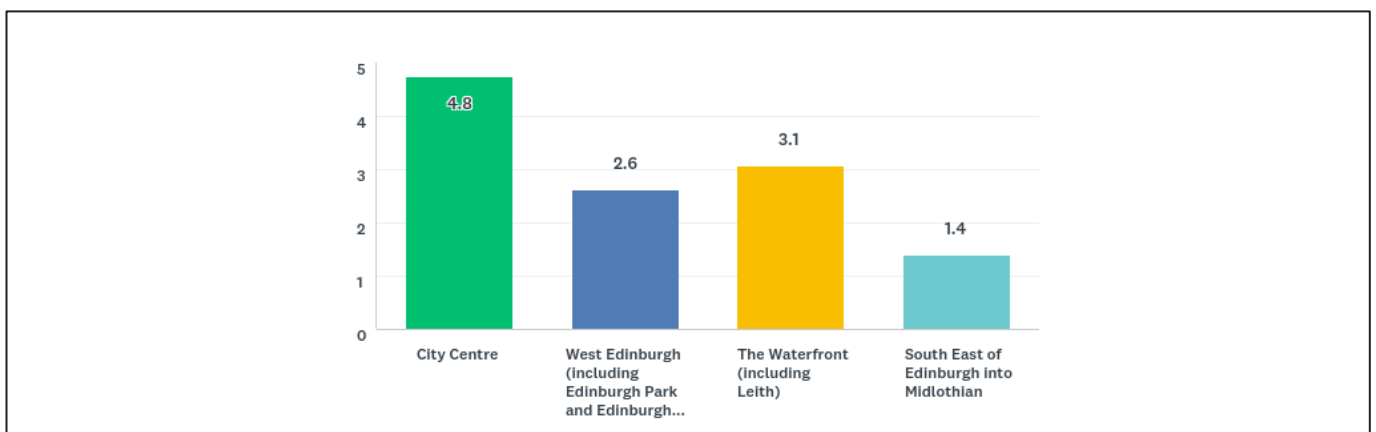
Figure 5.3: Would you consider branding / operating visitor accommodation / further visitor accommodation in Edinburgh?



Source: GVA/Survey Monkey

- 5.8 93% of respondents that would contemplate development would consider hotel development, 53% would consider serviced apartments and one would consider hostel, highlighting that the former two are the focus for brand and operator expansion in Edinburgh moving forward.
- 5.9 Respondents were asked in regards to the minimum and maximum room numbers they would consider for a hotel / serviced apartments. The lowest minimum was 50 (with an average of 100 bedrooms) and the highest maximum is 500 (with an average of 272).
- 5.10 Respondents were asked which of four potential locations would be preferred for future development; city centre, west Edinburgh (including Edinburgh Park and Edinburgh Airport), the waterfront (including Leith) and South East Edinburgh into Midlothian.

Figure 5.4: How attractive would you consider the following locations for visitor accommodation development



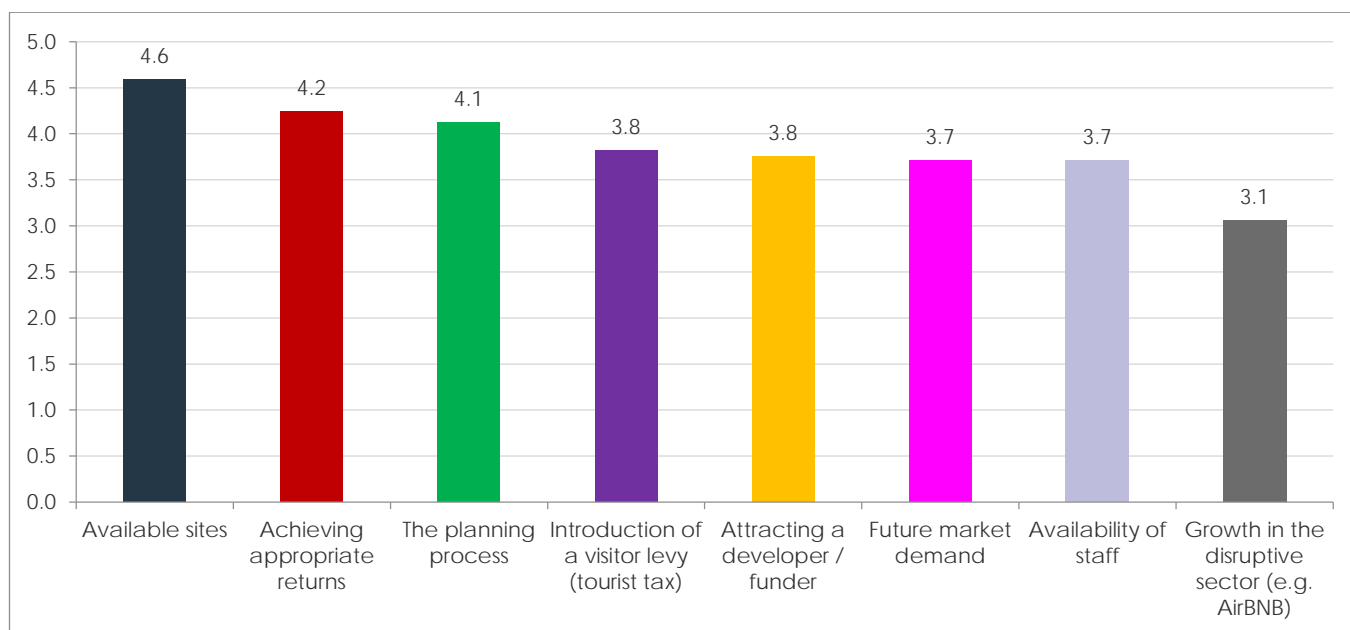
Source: GVA/Survey Monkey

5.11 A city centre location was by far the most preferred, receiving a weighted average score of 4.7 (with 5.0 being very attractive), with more limited appeal for the other areas (although this may be partly due to a lack of knowledge of these locations).

5.12 Finally, all respondents were asked how significant they consider certain factors are in acting as barriers to development of future visitor accommodation in Edinburgh. The factors (in order in Figure 5.5 below) are:

- Future market demand;
- Achieving appropriate returns;
- Attracting a developer / funder;
- Available sites;
- The planning process;
- Growth in the disruptive sector (e.g. AirBNB);
- Availability of staff;
- Introduction of a visitor levy.

Figure 5.5: How significant do you consider the following as barriers to development of future visitor accommodation in Edinburgh?



Source: GVA/Survey Monkey

5.13 The most significant factor was the lack of available sites with an average weighting of 4.6 (one being highly insignificant and five being highly significant), followed by achieving appropriate returns (4.2) and the planning process (4.1). Of all the factors listed, growth in the disruptive sector was considered the least significant with an average weighting of 3.1.

5.14 Respondents were asked if they had any further comments they wished to make which are shown below.

*Student accommodation that do not pay their fair share of property rates or 20% VAT, bit like AirBNB. If we could drop our retail prices by 20% and not pay OTA's [online travel agents] 15% I'm sure we'd look more competitive. I might add these types of accommodation do not support jobs or EC budget*

*We are very keen to establish a business in Edinburgh*

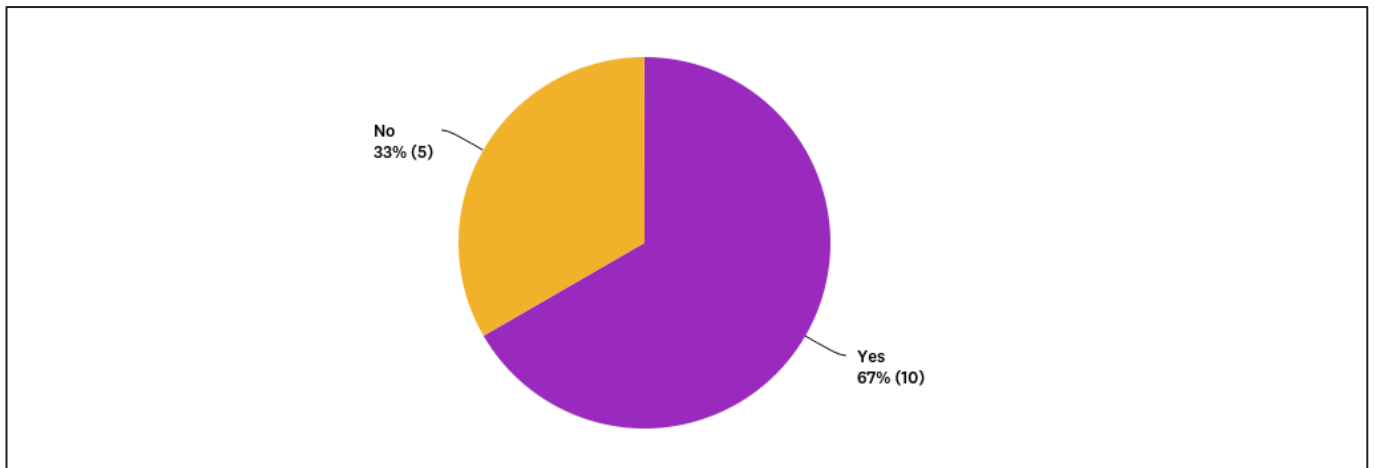
*Very interested in new development in Edinburgh*

*When the hotel sector starts looking for business/ property rate reductions on the back of revenue declining maybe EC will waken up and do something about the lack of tax on other accommodation and try to support one of the highest taxed sectors in the UK?*

## Developers

- 5.15 Survey questionnaires were sent to a range of hotel developers (Scotland and UK based). In total, 15 surveys have been completed and returned to date.
- 5.16 67% of respondents indicated that they have developed or contracted visitor accommodation in Edinburgh. As with the brands and operators, all comments received by those that selected 'no' indicated that it was due to the lack of appropriate opportunities.

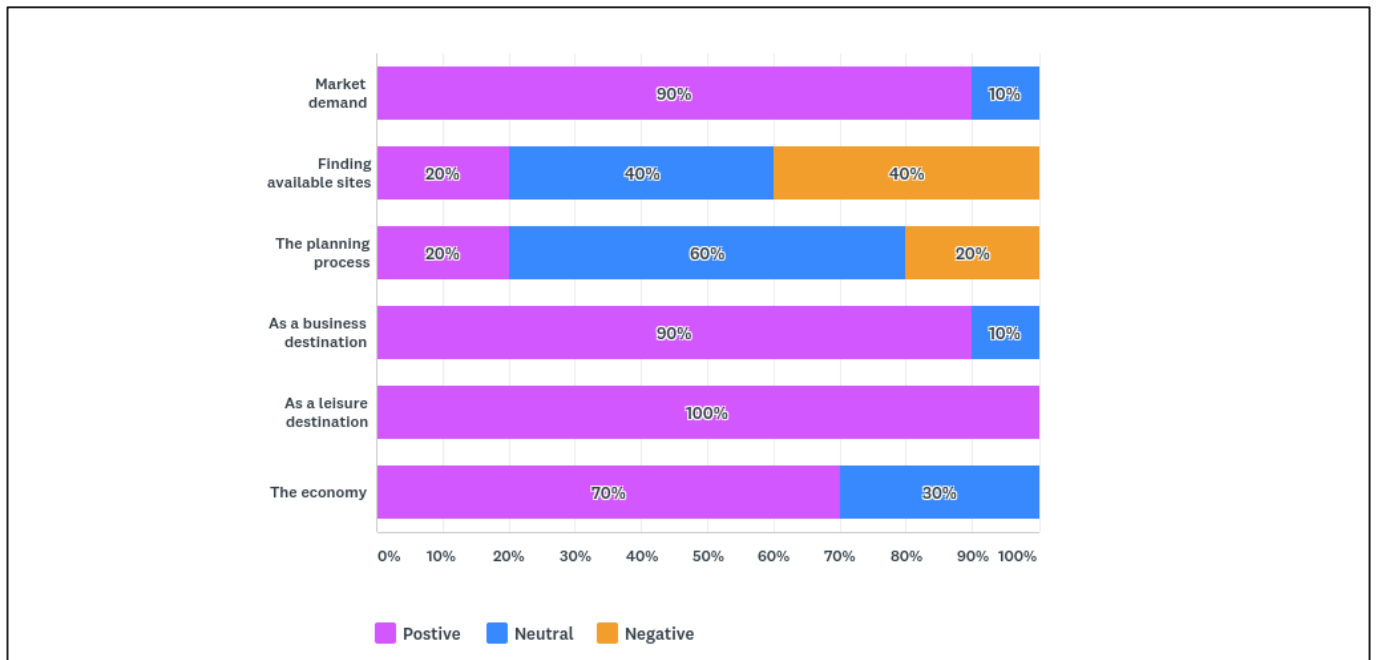
Figure 5.6: Have you developed or contracted any visitor accommodation in Edinburgh?



Source: GVA/Survey Monkey

- 5.17 Respondents who have contracted or developed visitor accommodation in Edinburgh were asked how positive their experience of Edinburgh has been in terms of six criteria: market demand, finding available sites, the planning process, as a business destination, as a leisure destination and the economy.
- 5.18 The figure below highlights a very positive experience in terms of market demand, as well as the city's economic, business and leisure profile, however very few were positive towards finding available sites and the planning process.

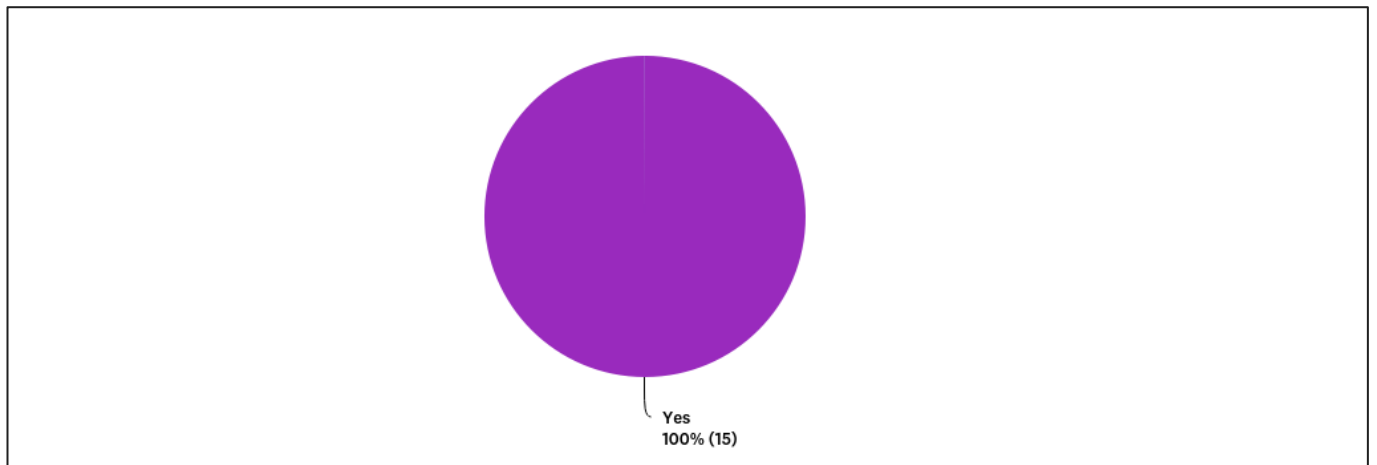
Figure 5.7: What has been your experience to date in terms of developing visitor accommodation in Edinburgh?



Source: GVA/Survey Monkey

5.19 Figure 5.8 highlights that all 15 respondents would consider future visitor accommodation developments in Edinburgh, highlighting strong developer interest in the sector moving forward.

Figure 5.8: Would you consider future visitor accommodation developments in Edinburgh?\*



Source: GVA/Survey Monkey

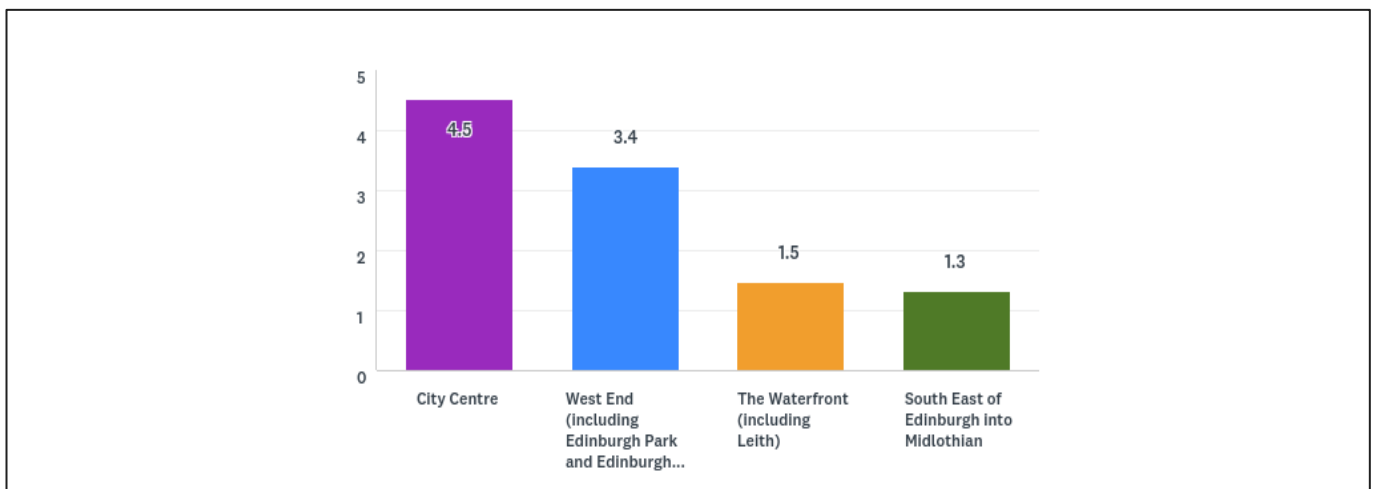
\* There is an element of 'self-selecting' as in completing the survey, all developers are likely to have an interest in Edinburgh as a development destination

5.20 93% of respondents would consider hotel development, 73% would consider serviced apartments and 33% would consider hostel, highlighting that the former two are the main focus for developer activity in Edinburgh moving forward.

5.21 Respondents were asked in regards to the minimum and maximum room numbers they would consider for a hotel / serviced apartments. The lowest minimum was 25 (with an average of 100 bedrooms) and the highest maximum is 450 (with an average of 274).

5.22 As per the brand and operator survey, respondents were asked which of the four potential locations would be preferred for future development. Again, the city centre was the most popular choice with an average weighted score of 4.5, however developers appear more willing to develop in West Edinburgh which received a weighted score of 3.4. Both the waterfront and South East Edinburgh appear to have little appeal to developers.

Figure 5.9: How attractive would you consider the following locations for visitor accommodation development

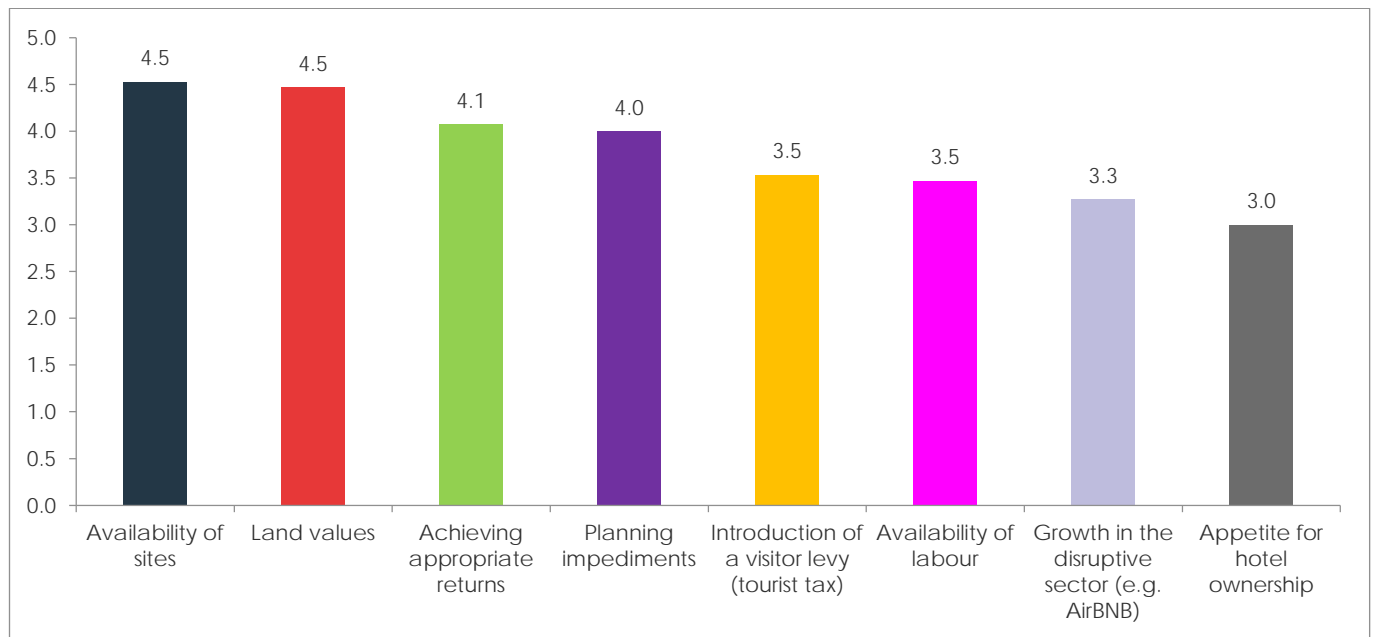


Source: GVA/Survey Monkey

5.23 Finally, all respondents were asked how significant they consider certain factors are in acting as barriers to development of future visitor accommodation in Edinburgh? The factors (in order in Figure 5.10 below) are:

- Land values;
- Achieving appropriate returns;
- Appetite for hotel ownership;
- Availability of sites;
- Planning impediments;
- Growth in the disruptive sector (e.g. AirBNB);
- Availability of labour;
- Introduction of a visitor levy;

Figure 5.10: How significant do you consider the following as barriers to development of future visitor accommodation in Edinburgh?



Source: GVA/Survey Monkey

5.24 As with brands and operators, the most significant factors were the lack of available sites and land values each with an average weighting of 4.5 (one being highly insignificant and five being highly significant), followed by achieving appropriate returns (4.1) and planning impediments (4.0).

5.25 Respondents were asked if they had any further comments they wished to make which are shown below.

*Critical that a coordinated approach is taken by public sector agencies (including heritage bodies) towards a clear strategy and understanding of the economic benefits that flow directly/indirectly from hotel development - current negatively towards hotels vs offices/residential needs to be addressed - Edinburgh is not full-up - we should welcome all economic benefits from an expanding business and tourism sector - a coordinated vision implemented by a management strategy which has input from hotel owners/operators is urgently required to avoid Barcelona/Venice syndrome*

*It will be critical to create hotels, apart-hotels close to main travel stations /stops in the city centre.*

*As an industry which is a major economy earner for Edinburgh, the process of being able to take forward a site with regard to both the planning and building warrant process should be a lot more streamlined as the benefits are significant to include employment. Edinburgh Council really needs to take a more proactive approach in keeping up with the demand from the leisure sector and embrace them with open arms. In fairness, this is perhaps an issue for all development sectors to include housing...*

## Summary

- 5.1 The results of the surveys highlight strong demand from brand / operators and developers for future visitor accommodation in Edinburgh.
- 5.2 By far the most popular area for such developments remains the city centre, although developers appear more willing than brands and operators to consider West Edinburgh.
- 5.3 In terms of impediments to future development, both groups identified the lack of available sites as the key issue, although achieving appropriate returns also ranked highly, revealing that making developments 'stack up' remains a problem for the sector.



## 6. MARKET PROJECTIONS

- 6.1 In this section we present the findings of our room performance model based on assumptions of how the need for hotel accommodation will develop between 2019 and 2030 (we have focused on hotels as this is by far the largest growth area of the visitor accommodation sector).
- 6.2 The average annual GVA growth for Edinburgh between 2005 and 2016 was about 3.0%; Graph 3.5 demonstrates a broad correlation between GVA growth and hotel performance growth. We have assumed this as a realistic annual average level of demand growth to 2030, based on future levels of potential growth identified in Section 3. The growth will be subject to annual peaks and troughs relating to macro-economic factors that are not possible to predict for the purposes of this model.
- 6.3 We have reviewed pipeline supply and accounted for all projects under construction or with confirmed brand or opening date (Table 2.5), equating to 2,750 bedrooms over the period shown. We have included "Other Additions" in our model on the assumption that a proportion of the remaining pipeline progresses and that other schemes will be introduced into planning.
- 6.4 The model demonstrates that at an annual average of 4.0% supply increase (higher than the previous ten year average of 3.29%), market occupancy remains above 80%. This equates to a total supply increase of 7,890 bedrooms, the projected capacity for additional hotel rooms up to 2030.
- 6.5 We have estimated that the market area is subject to frustrated demand of 9.6% (reflecting 35 days peak demand per year when demand exceeds available rooms in the market (peak summer period and Hogmanay)) where the market will achieve 100% occupancy resulting in bedroom demand being displaced out with the area.
- 6.6 "Market Rooms Sold" shows the average number of bedrooms sold in the market per day, based on current supply and occupancy performance, with annual demand growth and frustrated demand added.

Table 6.1: Rooms Performance for Edinburgh Hotel Market (3.0% Growth)

	Rooms Available	Rooms Sold	Frustrated Demand	Total Rooms Sold	Market Occ %
<b>2019</b>	13,180	11,225	1,076		
<b>Confirmed Additions</b>	2,750				
<b>Other Additions</b>	5,140				
<b>Total Additions</b>	7,890				
<b>2030</b>	21,070	15,496	1,486	16,982	<b>80.6%</b>

Source: GVA

6.7 In Table 6.2 we demonstrate the impact on market occupancy with demand growth rates at 2.5% and 3.5%, assuming the same increase in supply, 7,890 net increase in hotel bedrooms to 2030.

Table 6.2: Rooms Performance for Edinburgh Hotel Market, 2.5% and 3.5% Demand Growth

Demand Growth	Market Rooms Sold	Rooms Available	Market Occ %
<b>2.5%</b>	16,069	21,070	<b>76.3%</b>
<b>3.5%</b>	18,054	21,070	<b>85.7%</b>

Source: GVA

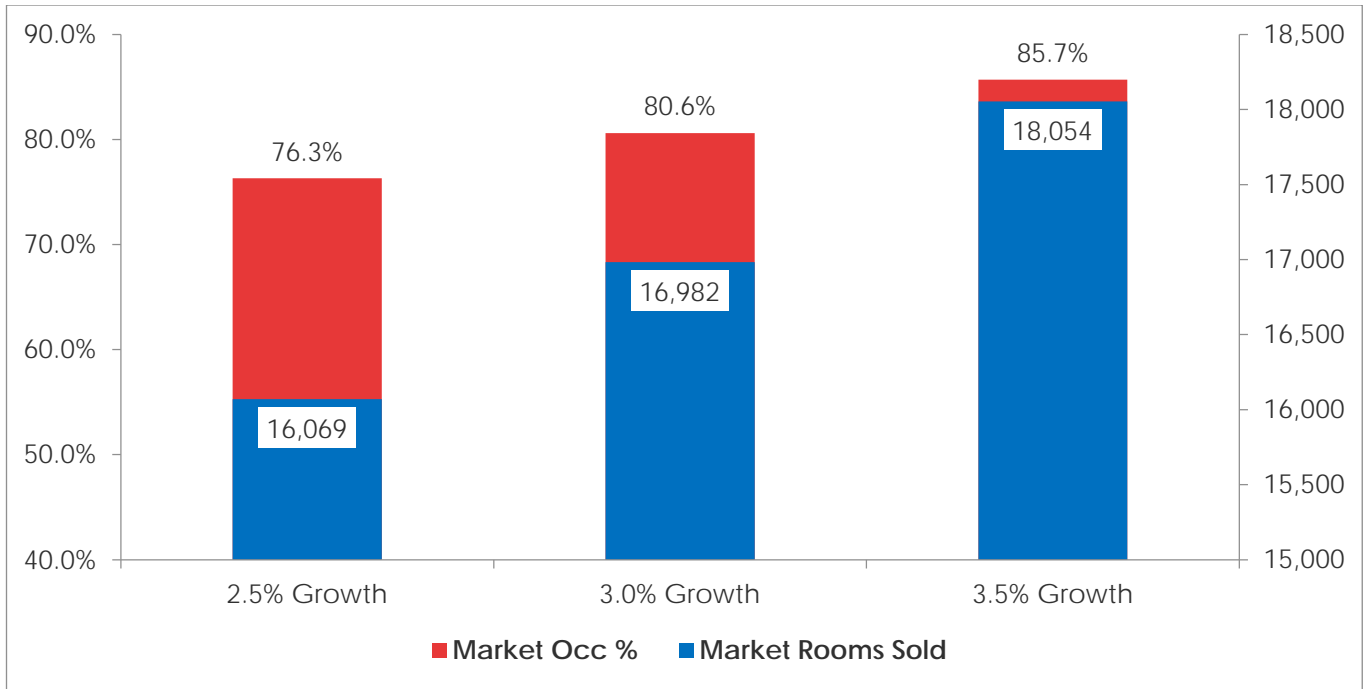
6.8 At 2.5% annual demand growth and 4.0% increase in supply, market occupancy in 2030 is 76.3%, above the Regional UK average in 2017;

6.9 At 3.5% annual demand growth and 4.0% increase in supply, market occupancy in 2030 is 85.7%, albeit with current seasonality constraints it is unlikely to be higher than about 83%, and therefore frustrated demand will still exist, along with a greater capacity for further development;

6.10 It should be noted that these assume consistent annual growth over the period; an economic recession for example would have an adverse impact on growth levels.

6.11 Graph 6.1 overleaf illustrates the three growth scenarios in terms of market rooms sold and market occupancy.

Graph 6.1: Demand Growth Scenarios



Source: GVA

## Summary

- 6.12 We estimate that if demand growth to 2030 follows the historic trend of 3.0% on average (subject to annual peaks and troughs), there is capacity for 7,890 new hotel bedrooms in the city, including 2,750 under construction or confirmed.
- 6.13 If demand growth falls to an average of 2.5% per annum to 2030, the same supply increase would result in lower market occupancy, but remaining above the Regional UK average.
- 6.14 There are certain priorities that need to be put in place to allow the increase in supply to happen, as we detail in the following section.

## 7. MARKET PRORITIES

- 7.1 Based on our findings, we believe that the key visitor accommodation sector priorities for City Plan 2030 are as follows:
- 7.1.1 The key priority is to identify new locations for visitor accommodation development in the city. Our research has highlighted a lack of available sites in the city centre for future developments and difficulties in achieving required returns on investment, which has been at least in part due to high land values. Most visitors will wish to continue to be located centrally, however much of the demand will be adequately met by existing sites within the planning pipeline (which we have modelled in Section 6). Therefore, what is now required as part of the process of preparing the City Plan 2030 is to consider the scope for identifying new 'zones' for development; these can be for sole use, or a mixture of commercial, industrial or leisure uses, served by public transport interchanges. They should not be located in largely residential areas due to potential conflicts between residents and tourists. Areas that may fit this profile could include the International Business Gateway, Leith (The Shore) or south of the city centre (University of Edinburgh campus / The Meadows, where there is an emerging tech corridor). It should be noted that hotels in these locations cannot be developed in isolation; they must only be developed when a critical mass of demand drivers are established;
- 7.1.2 Concerns have been raised by brands, operators and developers about the ease of the planning process and the perception of Edinburgh as a 'difficult' place to achieve development. Where visitor accommodation developments are in locations permitted for use, and meet necessary planning requirements, then City of Edinburgh Council should aim to ensure quick turnaround of decisions and flexibility where reasonable (i.e. when all planning criteria have been met). It is important that Edinburgh promotes itself as a city 'open for business' whilst acknowledging the fabric and status of the city as a heritage destination;
- 7.2 Although not for inclusion in the City Plan 2030, consideration needs to be given to encouraging visits on shoulder months to help combat seasonality and spread demand throughout the year. This should in turn help combat the perceived lack of value for money issue that is prevalent in peak summer months.

# Appendix A

## Visitor Accommodation Supply Lists

Attached separately.

# Appendix B

## Glossary of Terms

Table B.1: Hotel Grading Definitions

Term	Definition
Five-Star	Luxurious accommodation and public areas, with a range of extra facilities and a multilingual service available. Guests are greeted at the hotel entrance. High quality menu and wine list.
Four-Star	Professional, uniformed staff respond to your needs or requests, and there usually are well-appointed public areas. The restaurant or dining room is open to residents and non-residents, and lunch is available in a designated eating area
Three-Star	Staff are smartly and professionally presented. The restaurant or dining room is open to residents and non-residents
Two-Star	Offers a restaurant or dining room serves breakfast daily and dinner most evenings (the AA).
Budget	Offering clean and comfortable en suite facilities, 24-hour reservations and a consistent level of facilities

Source: VisitScotland / the AA

Table B.2: Hotel Future Supply Status Definitions

Term	Definition
Awaiting Determination:	A planning decision is pending
Planning Approved:	Under contract projects where construction is due to begin in 12 months (as defined by STR Global).
In Construction:	Vertical construction on the physical building has begun (as defined by STR Global).
Unconfirmed:	Potential projects that remain unconfirmed at this time. Unable to verify the status of these projects
Deferred:	Activity on the project has stopped but may resume within the next 12 months (as defined by STR Global).

Source: GVA / STR Global 2018 (where noted)

Table B.3: Hotel Performance Metrics

Term	Definition
Occupancy Rate	The percentage of all rooms occupied or sold in a given period to total available rooms in that period.
Average Daily Rate (ADR).	Hotel rooms revenue divided by the number of rooms sold. Also referred to as Average Room Rate or Achieved Room Rate (ARR)
RevPAR	Revenue per available room. Calculated by multiplying the occupancy rate by the average daily room rate. Also known as Yield.

Source: GVA

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