ANNUAL SURVEY OF COUNTRY HOUSE HOTELS – 2004-05

May 2005

CONTENTS

Photographs:
Front Cover: Matfen Hall near Newcastle upon Tyne
Page 11: Pennyhill Park Surrey

Please address any queries on this report to:

William Barney - Director
BMR Hospitality International
19 Deanhill Road
London SW14 7DQ
Tel: 0208 487 8574
E-mail - william@bmrhi.com

1 PERFORMANCE BENCHMARKING

1.1 Introduction

Our survey covered the following quantitative areas:

- Room occupancy – last year 2004 and forecast for next year 2005;
- Average room rate (net of VAT and breakfast) – last year and forecast for next year;
- Split of business by market segments;
- Split of business by geographical origin;
- Split of business by rooms, food & beverage, leisure and other.

In this, the survey's first year, we do not have trend information against which to analyse the performance of the hotels, we have, however, compared the average of the respondents with the 3-4 star hotel information available from the PKF survey of UK Hotels. In future years, we will be able to comment on relative annual movements.

1.2 "Typical" Hotel

As a way of showing the nature of the hotels in our survey and also indicate their performance here are the room occupancy, average room rate and revenue figures for the "typical" hotel – based on averaging the results for all of the respondents.

Figure 1: "Typical" Hotel statistics

	2004	2005 est.
Average number of rooms per hotel	45	45
Room Occupancy	0.65	0.68
Average Room Rate	£119.00	£126.00
Estimated rooms revenue	£1,270,474	£1,407,294
% from Rooms	38	40
Estimated total revenue	£3,343,352	£3,518,235
Per room	£74,297	£78,183

1.3 Room Occupancy and Average Room Rate Performance

Whilst the average of all the respondents was a fairly reasonable 65% occupancy this masked a range of performance from 52% to 78%. These room occupancy performances were nevertheless creditable given the high average room rates achieved: **an average of £119 with a range from £59 to £210.** These compare with the overall provincial average for 3-4 Star hotels of 71% room occupancy and average room rate of £64 per the PKF study for 2004.

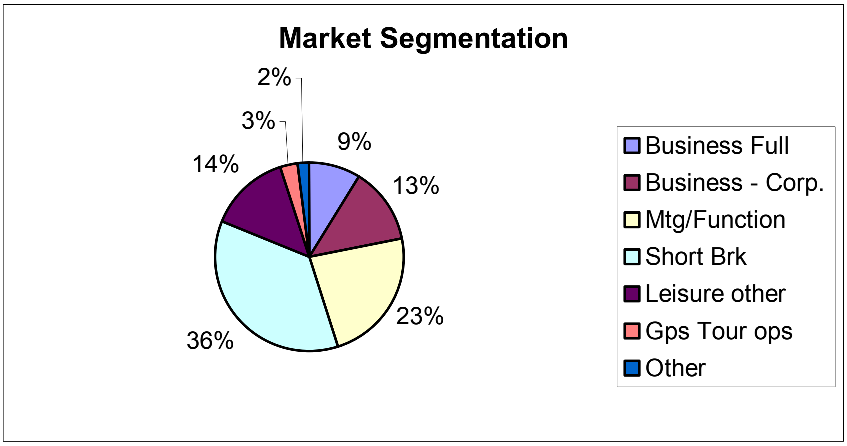
1.4 Segmentation of Guests

Segmentation by Rate

As Figure 2 below shows, nearly 50% of guests were either on business or on meetings, which shows the increasing attractiveness of country house style product and the efforts these hotels have made in recent years to make themselves appeal to business as well as leisure markets – through leisure investments, tighter service standards and better marketing.

On the leisure side – short break volumes predominate with a very low percentage of group/tour operator traffic. Again this illustrates the quality of the respondents to the survey.

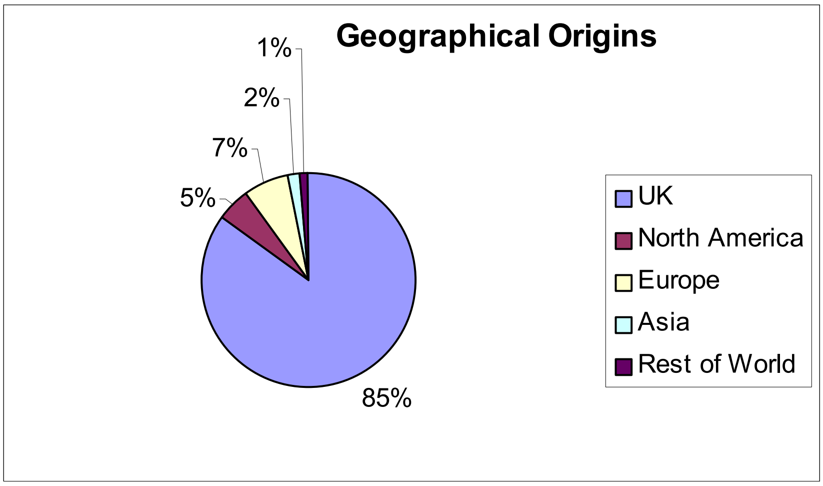
Figure 2: Market Segmentation



Segmentation by Guest Origin

Over 80% of guests were from the UK with Europe (7%) and North America (5%) providing a small proportion of guests. Interestingly in the days of the strong US dollar one respondent hotels had 40% North American guests - now security fears and the weak dollar have severely dented the North American market.

Figure 3: Geographical Origin



1.5 Business Split

In line with expectation for hotels of this type, where the food is a large part of their attraction, food and beverage exceeds rooms revenue with leisure and meeting room hire equal at 6%. A few of the hotels in the North-East, which had major membership club facilities (golf, spa etc), had a low room income at below 25% of the total.

Figure 4: Split of revenues

	%
Rooms	38
Food & Beverage	50
Leisure	6
Room hire	6

2 FACILITIES

2.1 General
The average size of hotel was 45 bedrooms with a range from 10 to 123 rooms. In all but one hotel the rooms were all en-suite (two of its 18 rooms were not en-suite).

2.2 Leisure
82% of the respondent hotels had some leisure facilities with the main facilities being:

Figure 5: Leisure facilities provided

Ref.	Facility	% hotels
1	Gym	50
2	Indoor swimming pool	41
3	Outdoor tennis courts	37
4	Spa	36
5	Outdoor swimming pool	24
6	Golf	24
7	Equestrian centre	4

Gyms and swimming pools are the most provided facilities. Interestingly nearly 30% of hotels had definite plans to add spa facilities, which would bring the total up to about two-thirds. These facilities have a dual attraction of being seen as healthy but also providing the right kind of "pampering" which is increasingly perceived as an important element of a stay at an upmarket hotel.

2.3 Development
As mentioned above many of the respondents are adding spas. Only 5 of the hotels did not have specific plans for any development of their facilities. This backs up the confidence we found from the hotels in relation to the future market – see Section 3 below. It is also in line with a recent survey from TRI that showed a strong presumption by hoteliers themselves that full service hotels needed a spa. Apart from spas, developments focused on bedrooms and meeting rooms with a few hotels adding a significant number of new rooms – typically a 25% capacity increase.

3 BUSINESS CONFIDENCE

3.1 Future Trading

We asked respondents about their expectations for next year's volumes in the different market segments and also whether they were going to raise their rates overall. The results show increasing confidence that the recovery in the hotel market is here to stay.

Figure 6: Expectations of future demand from different market segments

	Increase strongly - over 10%	Increase slightly - 0-10%	Stay about the same	Decrease Slightly – 0-10%
Business	17%	44%	39%	nil
Leisure	15%	53%	32%	nil
Conference	22%	50%	23%	5%
Other	11%	11%	67%	11%

This table shows that around half of the market feels that there will be single digit growth in the main business, conference and leisure segments. However recent announcements by some of the major hotel groups have mentioned a slow down in the leisure market so perhaps our respondents are being too optimistic in this segment.

3.2 Raising Prices

When it came to raising rates almost all of the survey were looking at increases at or above the inflation level of 2.5%. The most common increase will be 5%. One respondent was not going to raise rates and one in the South-West was raising them by 30% because of major investment in a new spa complex at the hotel.

Overall the survey shows a considerable confidence in both volumes matching the past year or exceeding them and the ability of the market to absorb above inflation price increases even in locations where new supply is coming on board.

4 MAJOR ISSUES AND CONCERNS

4.1 Legislation

The survey explored a number of particular topics, which have been, or are soon to be, the subject of legislation in recent years:

- Energy saving and the EU Energy Performance of Buildings Directive;
- Disability Discrimination Act;
- Wedding Licences.

Energy saving and the EU Energy Performance of Buildings Directive

60% of our respondents had a very high degree of awareness of the opportunities for saving energy and had invested to save money in this area. Investments included:

- New boilers;
- Card operated electricity control in room;
- Water saving reviews.

However this means that 2 out of every 5 hotels had not done this and we are surprised at the level of inaction in this regard. Many of the actions, which will minimise energy consumption, cost little or nothing. Some major items, such as energy efficient lighting, can be introduced progressively, others can be accomplished when capital items are replaced.

The EU Energy Performance of Buildings Directive was published in January 2003. The Directive has far-reaching implications for the owners, operators and developers of all buildings in Europe and aims to promote further improvements in energy-efficiency. Key provisions are:

- Minimum requirements for energy-efficiency of all new buildings and existing large buildings under major renovation;
- Energy certification of all buildings;
- Regular mandatory inspection of boilers and air-conditioning systems.

About half of the hotels were not aware of the implications for them of this impending EU legislation. The other half had carried out surveys and in some cases had had particular issues, such as asbestos or poor electrical wiring, fixed.

At this stage there are no mandatory requirements for action before January 2006 when member countries will have had to have passed legislation. However hotels will be well advised to keep abreast of developments and we recommend having a look at www.diag.org.uk.

The government, through the Carbon Trust, is offering a free service to assist hotels to improve their performance. It is called 'Hospitable Climates' and is administered by the HCIMA. Properties, which have taken advantage of this scheme, have saved up to 40% of their energy bills, with the average being 15%. We recommend that all hotels, even those with current programmes, explore www.hospitableclimates.org.uk.

Disability Discrimination Act

Over 95% of the hotels surveyed claimed to be fully aware of the implications of the 1995 Disability Discrimination Act, which came fully into force in Autumn 2004. Some had made some physical changes to their hotels, such as:

- Disabled lavatories - in 15% of hotels;
- New disabled room in one hotel.

In line with the legislation most hotels have been taking steps to improve their service for disabled people rather than just addressing physical changes, which could be complex and expensive in many country house properties. For those requiring more details, please refer to www.disability.gov.uk.

Wedding Licences

We asked hotels if they had a Civil Wedding Licence and what proportion of their post-wedding reception business was following a church service rather than a civil ceremony. The results here are interesting – only one hotel had not got a Civil Wedding licence. In addition, the trend towards non-church services was marked: with 80% of hotels having more civil ceremony wedding receptions than post-church ceremony ones.

Whereas in the 1980's and 1990's most country house hotels experienced large peaks and troughs with low annual occupancy, our survey shows that with increases in the wedding market due to the new Licences and the additional spa facilities coming on line, shoulder periods, especially the first quarter, are becoming easier to fill.

4.2 Major Issues

We asked respondents to list their top three business concerns and the results shown in Figure 7 are extremely illuminating.

Figure 7 : Major Issues

Ref.	Issue	Mentions
1	**Business Rates**	**38%**
2	**Poor Staff Retention**	**34%**
3	Insurance costs	19%
4	Regulations generally	19%
5	Maternity Leave costs	10%
6	Wages/Min. wage level	10%
7	Fire and Environmental Regulations	5%
8	Personnel Legislation	5%
9	Competition	4%
10	Work Permit controls/immigration	4%
11	Utilities costs	4%

The top two issues are discussed below.

Business Rates

Given the projection that there is going to be a 17% increase overall in the level of rates due to the revaluations it is not surprising that this features amongst hotelier's top concern. However, we understand that some properties will see a reduced burden and transitional relief will be available to soften the blow – consult **www.businessrates.com** or your local surveyor. This is nevertheless another area like insurance where the hotel industry is being hit by increased costs.

Poor Staff Retention

It used to be the case that London hotels were the ones that worried most about this problem – in the case of London hotels non-managerial staff stay for an average of under six months. Now it appears from our study that this is a provincial country house hotel problem as well. However, some of our respondents have found the answer to this – indeed one hotel has reduced its staff turnover from 100% to just over 20% in two years. The key areas addressed were:

- having part-time professional human resource help;
- forming and using a consultative committee so that staff can be heard and to provide regular updates about the hotel's objectives and performance against these;
- giving staff an incentive to stay – in some cases this is an incentivised pay structure so that they gain when the hotel is successful.

This kind of approach fits in with two major social trends which impact employers:

- the plethora of employee legislation and the risks of falling foul of this; and
- the increasingly participatory nature of modern British society where young people, want a significant "say" in how things are run.

APPENDIX – TECHNICAL DETAILS

Ownership

The respondents were predominantly independently owned with 19% group hotels to 81% independently owned.

Location

Although we sent questionnaires out to a number of hotels in Wales and Scotland as well as England – only hotels in England responded as per the regional split in Figure 8 below.

Figure 8: Respondents regions

Location of respondents	%
South	32%
South West	18%
South East	18%
Midlands incl. East Anglia	9%
North West	5%
North East	18%
Total	100%

Stars

The hotels were a very even mix of 3 and 4 star hotels with some five star – many have a high % rating from the AA, all were more than 70% and had at least one rosette.

Consortia membership

Three out of four hotels were members of a marketing consortium:

40% Grand Heritage/Distinguished hotels
10% Relais et Chateaux
14% Pride of Britain
9% Small Luxury Hotels

Size

The average size of responding hotel was 45 rooms – the largest had 123 bedrooms and the smallest 10 bedrooms.