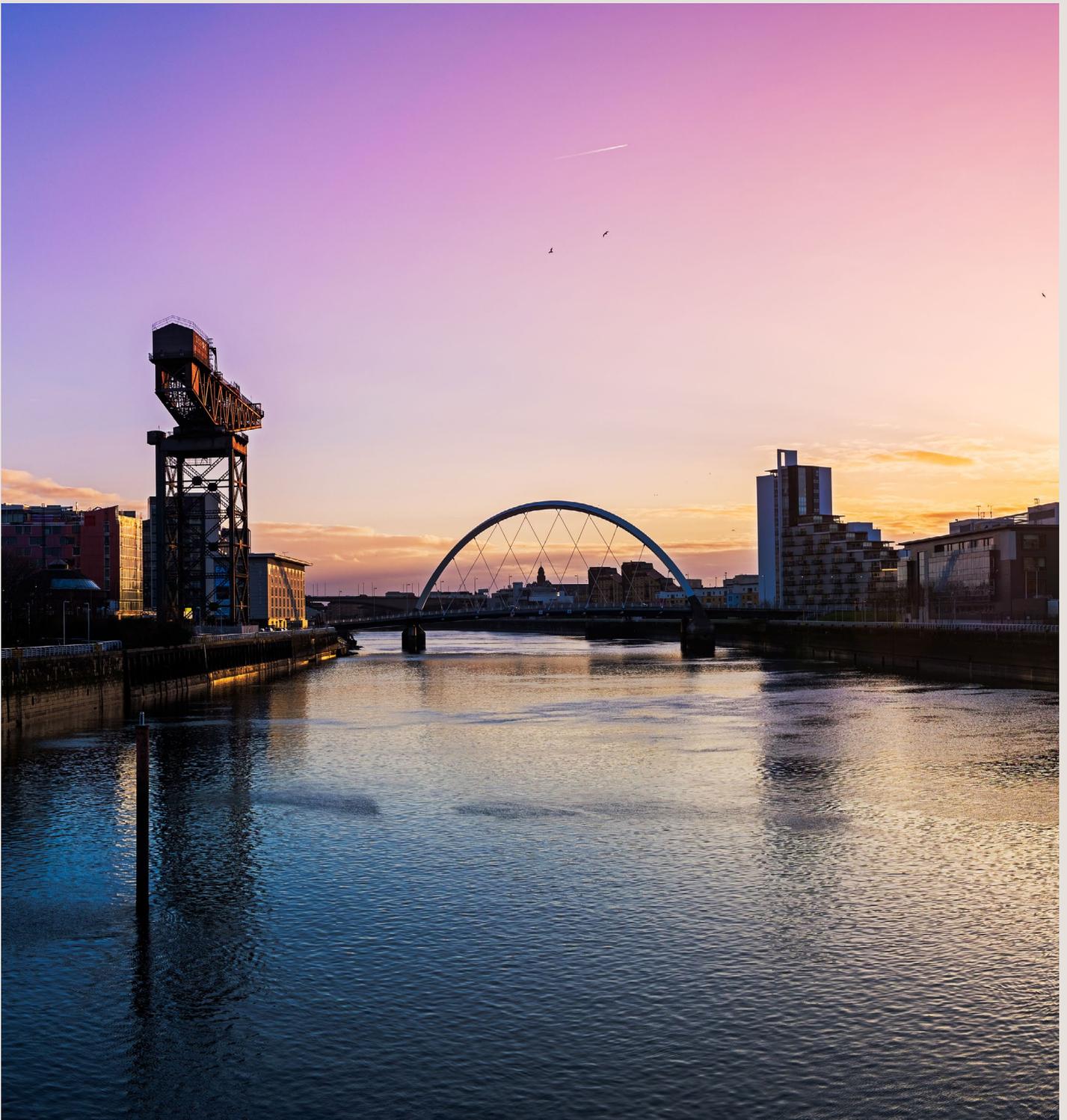


Hotels driving real estate development in Glasgow

February 2020



Background

Glasgow is undergoing a significant transformation that is raising the profile of the city and resulting in strong economic growth. The current evolution of the hotel sector reflects that of the wider Glasgow economy as it establishes itself as a modern, forward thinking city.

Glasgow is leading the way on the environment with ambitions and work underway to become the UK's first carbon neutral city. Investment in infrastructure and public realm is enhancing the city centre as a place to live and work, whilst university-led innovation districts, emerging tech and creative sectors are driving local skills and employment, and economic growth.

To an extent, Glasgow has been playing catch-up in recent years with Edinburgh and Manchester in being a truly global destination, but the current pace of change and growth are making that happen. Hotels have become a core part of the real estate sector; they are important economically and as part of the evolving city place-making.

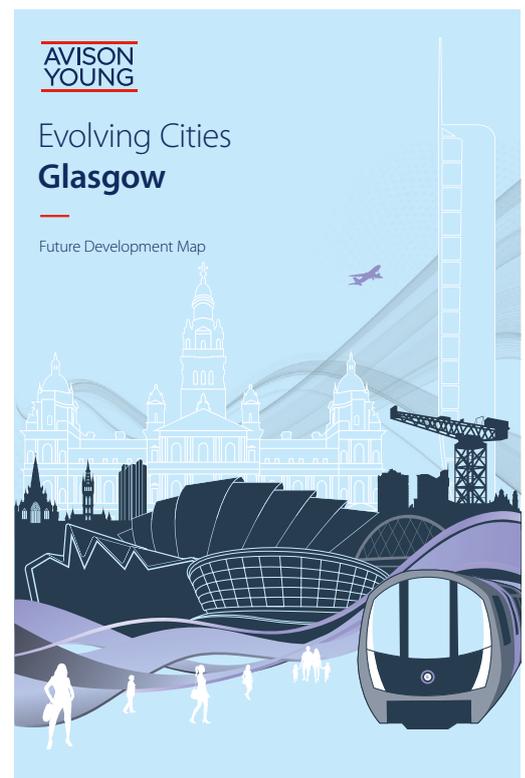
As a result, the hotel and tourism sector is buoyant; following a number of years of growth and improving market performance, the city has become a hotspot for hotel developers, operators and investors. Once difficult to fund "alternative" assets, hotels are now a core element of the city's evolution.

Glasgow is fortunate in that it has ample room to expand; to the east in Merchant City and beyond, and to the west along both the north and south sides of the River Clyde. There are a number of emerging development and innovation zones across the city, highlighted in Avison Young's Glasgow Development Map. These new mixed use developments will drive further accommodation demand and requirements for new hotels.

In 2018 alone, 954 hotel and apart-hotel rooms opened in the city centre and at the Scottish Event Campus (SEC).

With a further 2,200 plus bedrooms set to open by 2022, we look at how hotels will continue to influence real estate evolution in Glasgow and consider the future growth potential beyond 2022.

Please get in touch if you would like to receive a copy of the Glasgow Development Map



Diverse Demand

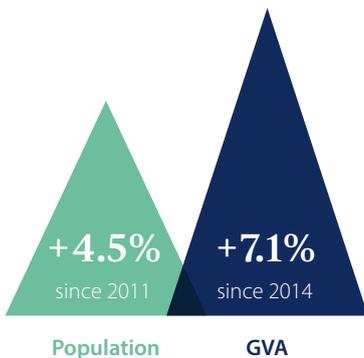
Glasgow is a modern and diverse city - socially, culturally and economically. That includes a large commercial office sector (with strength in financial and professional services), university-led research and innovation activities, and creative sector. There is a large and well-established conference and events sector and leisure demand is driven by a range of retail, entertainment and sporting facilities.

All these sectors have grown over the last 10 years as the city has evolved from its post-industrial legacy, with further strong growth anticipated across all sectors.

THE ECONOMY AND POPULATION

According to Experian, the population of Glasgow city has increased 4.5% since 2014 to 626,900. It is projected to increase by a further 1.8% to 638,300 by 2025.

Experian data shows that economic output for the city has seen healthy growth; gross value added (GVA) increased by 7.1% from 2014 to 2019 to £19.6bn. Glasgow's GVA growth is projected to accelerate to 9.1% to 2025.



Source: Avison Young Research | Experian

TOURISM

Overnight tourism (leisure and business) data from Visit Scotland shows growth to Glasgow city of 5.4% in overnight stays from 2014 to 2018 (2014 was already a very strong year due to the major events of that year). Of particular note is that **overnight stays from domestic and international visitors increased by an impressive 9.1% in the two years to 2018** (having declined in 2016). This stellar growth is reflective of wider Scotland and UK trends of significant growth in inbound tourism in 2017 and 2018.

Even more impressive is the **increase in passengers using Glasgow Airport; despite fluctuations the overall growth from 2014 to 2018 was 26%** according to the Civil Aviation Authority.

COMMERCIAL

Occupational demand for Grade A offices is buoyant and is likely to remain so for at least the next three years. This has been driven by the “regionalisation” of operations across a number of sectors due to both rents and high cost of living in London. Glasgow is increasingly being viewed as a solid base due to connectivity, relatively low cost of living, vibrant economy and a large and well-educated city region population.

The recently published European Cities and Regions of the Future 2020/21 report by fDi Intelligence ranks Glasgow as the top large city in Europe for foreign direct investment.

Whilst there are a number of new developments underway;

77%

of Grade A space under construction is pre-let and there is a significant requirement for additional space moving forward (Glasgow has the lowest grade A vacancy rate of the major regional cities).

This coupled with the type of occupier demand (financial and professional services as well as tech and creative sectors), is very positive for future hotel demand. Ten year average take-up of Grade A space is about 950,000 sq.ft, fourth in the UK behind London, Manchester and Birmingham.

Pre-let office developments under construction include:

- JP Morgan Chase, 272,800 sq.ft, Argyle Street (this is the fourth largest deal across the “Big Nine” regional UK cities in the last ten years);
- 177 Bothwell Street, 305,000 sq.ft (Glasgow's largest office building and the first in Scotland with a rooftop running track), 90,000 sq.ft pre-let to Clydesdale at a market record rent;
- Atlantic Square, 187,000 sq.ft pre-let to HMRC;
- Buchanan Wharf (mixed use development including the first significant Grade A offices on the south side of the Clyde), 470,000 sq.ft pre-let to Barclays.



CREATIVE SECTOR

Pacific Quay is the heart of the city's Creative Clyde project on the Clyde Waterfront. It is home to Scotland's major media broadcasting companies; BBC Scotland, STV and Capital Scotland.

Channel 4 opened The Garment Factory to create a new base for their programming facilities. This 'Creative Hub' is the home for creative decision makers supporting the production sector in Scotland and Northern Ireland; it will create 300 jobs. Additionally, Channel 4 aims to launch a new academy in 2020 to support the Creative Hub by attracting new talent.

INNOVATION DISTRICTS

The city's three universities are leading the way with research and development across new and emerging sectors, resulting in high numbers of start-up businesses.



Glasgow City Innovation District (GCID) was the pioneer, led by University of Strathclyde (UoS) and its ground breaking Technology & Innovation Centre (TIC) promoting collaboration between academia and the private sector in fintech, health tech, space and 5G amongst others enabling technologies and research. GCID will increase development of new technologies to help a wide range of sectors. Both TIC and neighbouring Inovo building are operating at almost full capacity and UoS is now exploring options for two further offices, commercial and collaborative developments (totalling over 320,000 sq.ft) to support the innovation district.

AMIDS (Advanced Manufacturing Innovation District) will be a new manufacturing district in Renfrewshire next to Glasgow Airport. The 52 hectare district aims to house companies harnessing the latest technologies and conducting cutting edge research. This innovation hub aims to boost Scotland's manufacturing sector by £535 million in GVA a year, creating 6,000 new jobs across the City Region.

The first phase is scheduled for completion in early 2021 with confirmed occupiers including National Manufacturing Institute Scotland and the Medicines Manufacturing Innovation Centre.

GRID (Glasgow Riverside Innovation District) is a collaborative hub for innovation and entrepreneurship – clinical and research infrastructure. The District is a partnership between the University of Glasgow, Scottish Enterprise and Glasgow City Council. It is strategically located in Glasgow City Centre close to the University of Glasgow, overlooking the Clyde.

Glasgow leads the way in many emerging sectors; more satellites are manufactured in Glasgow than anywhere else outside Silicon Valley. The city's innovation culture is also leading the way in the fight against climate change; Scottish Power are due to report in early 2020 on the likely skills requirement and job creation from the city's objective to be the first UK city to become carbon neutral. Scottish Power have partnered with Glasgow City Council to transform Glasgow to a carbon neutral city by 2030.

Glasgow has established itself as the first Low Emission Zone outside of London. Whitelee, on the outskirts of the city and owned by Scottish power is one of the UK's largest onshore wind farms. Glasgow's collaboration with Scottish Power aims to decarbonise core outputs such as transport and heating.

University of Glasgow



CONFERENCES AND EVENTS

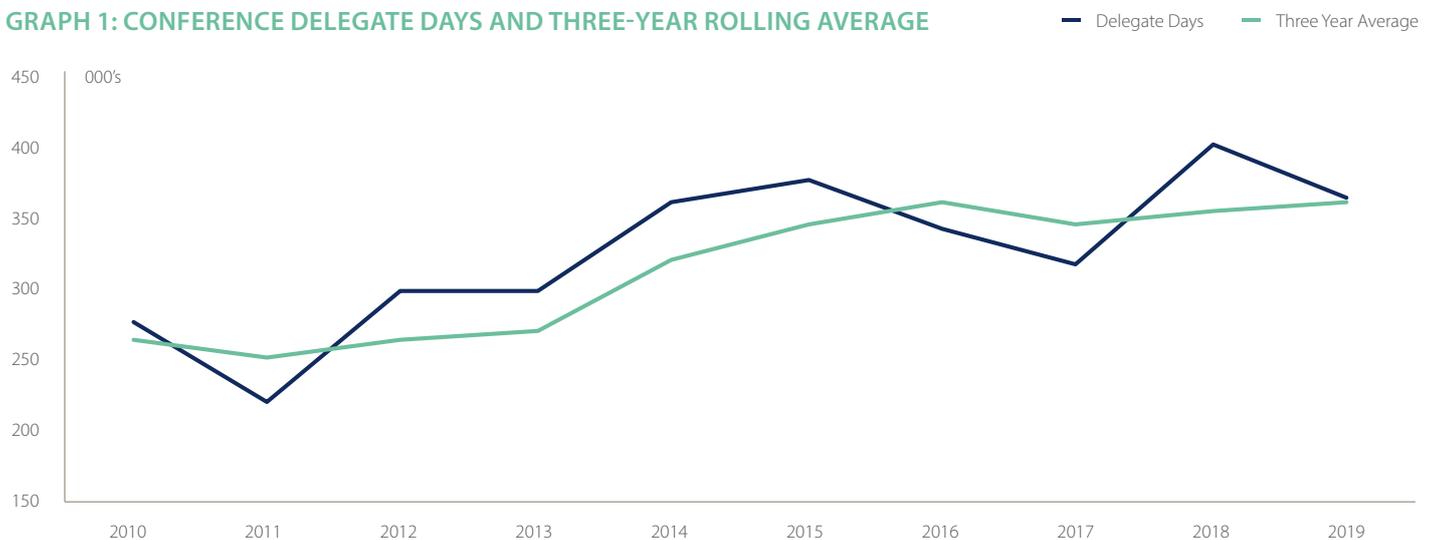
Glasgow is internationally regarded as one of the world's premier convention and events destinations. In November 2019 World Travel Awards named Glasgow as the world's leading festivals and events destination (following on from the European award in June 2019).

Building on many years' success, and with world-class venues at their disposal, the Glasgow Convention Bureau (GCB) has been voted UK's best convention bureau at the M&IT Awards for the last 13 years.

Graph 1 shows the delegate days tracked by GCB and the three year rolling averages over the last ten years (2010 – 2019).



GRAPH 1: CONFERENCE DELEGATE DAYS AND THREE-YEAR ROLLING AVERAGE



Source: Glasgow Convention Bureau

Whilst the overall trajectory has been positive, the international conference market is cyclical, resulting in peaks and troughs of conference demand. In recent years 2015 was a record year for delegate days, as was 2018; we have been informed by GCB that 2020 will set a new record. November's UN Climate Change Conference (COP26) alone is expected to attract 170 world leaders and up to 30,000 participants and media from 200 countries. This will be the largest event ever hosted in Glasgow and according to Glasgow City Council the impact on the city's hospitality sector alone is expected to be £70m.

It should be noted that according to GCB, seven large European conferences have decided not to commit to Glasgow due to Brexit, albeit it has been suggested that the city can bid again for these events in the future.

“

Glasgow hosts more international delegates than any other UK city outside London and is an established and award winning conference city. With conferences confirmed to 2024 and prospects out to 2029 there is continuous interest in Glasgow as a conference host city. In 2020 the world's focus will be on Glasgow as it prepares to host COP26, the largest and most prestigious meeting of world leaders

Aileen Crawford, Head of Conventions at GCB

SCOTTISH EVENT CAMPUS



The city's impressive list of world-class venues is headed by the Scottish Event Campus (SEC) comprising the Scottish Exhibition Centre, SEC Armadillo and SSE Hydro Arena. The Hydro opened in 2013 and quickly established itself as one of the world's busiest indoor entertainment venues (at least the fourth busiest each year since 2014) with annual ticket sales of around 1.2m. It has been a game changer for the city's tourism sector, with 25% of visitors to the Hydro staying in hotels according to SEC.

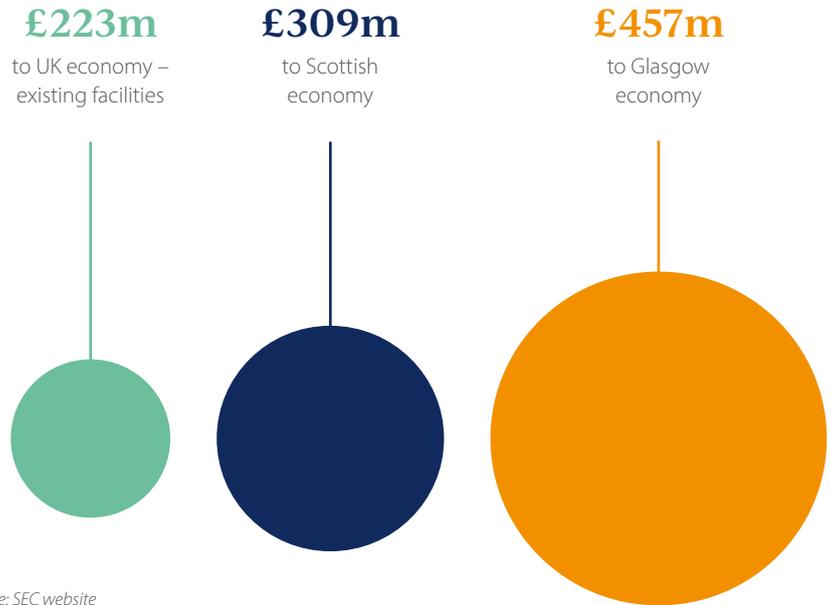
The opening of the Hydro has allowed the SEC to sell other spaces for more large conferences. This growth is expected to continue, and SEC has lodged plans for a further expansion of facilities to create a global event campus on par with the world's top conference and exhibition spaces.

The £150-£200m project includes additional multi-purpose meeting and circulation spaces with views of the city and River Clyde.

“ In a city that thrives on its event economy, additional hotels are always welcome

Kathleen Warden, Director of Conference Sales at SEC

The estimated economic impact of the SEC to Glasgow was £457m in 2018/19. Net additional expenditure in Scotland and the UK are shown below.



Source: SEC website

SEC has estimated that in a stable year, the new facilities would generate an additional £123m for Glasgow, £106m to Scotland and £71m to the UK.

SPORTS

Blessed with a range of world class facilities and extensive heritage, Glasgow has become one of the premier global sporting destinations. Following on from the highly successful 2014 Commonwealth Games, the city has gone on to host a number of other high profile international events including the 2015 World Gymnastics Championships and the inaugural European Championships multi-sport event in 2018. Future confirmed events include UEFA EURO 2020 matches and the 2023 UCI World Cycling Championships.

ACES Europe is a non-profit federation based in Brussels; the federation has granted Awards of European Capital, City, Community and Town of Sport annually since 2001. Glasgow has been awarded European Capital of Sport for 2023 due to its facilities and its contribution to society whilst helping to improve the quality of life of the Glaswegian community. It is the first European city to win the award twice.

Glasgow won the 'Best Small City' award in 2018 from the SportBusiness Ultimate Sports City Awards. SportBusiness are global intelligence services who provide bespoke news, analysis, data and event information to executives within the sporting business. Glasgow was chosen after being shortlisted for the best small city by population.

SEC and Pacific Quay



Hotel Supply and Performance



72 hotels
and apart-hotels larger than



20 bedrooms
in



Glasgow city centre
(including SEC and Pacific Quay)
supplying 8,654 bedrooms

Source: AM:PM Hotels Database 2020

Graph 3 shows the supply evolution as new hotels have been developed; whilst supply growth has been steady since 2011, there was a noticeable jump in 2018, albeit with limited openings in 2016/17 and none in 2019, the long-term trend is broadly the same.

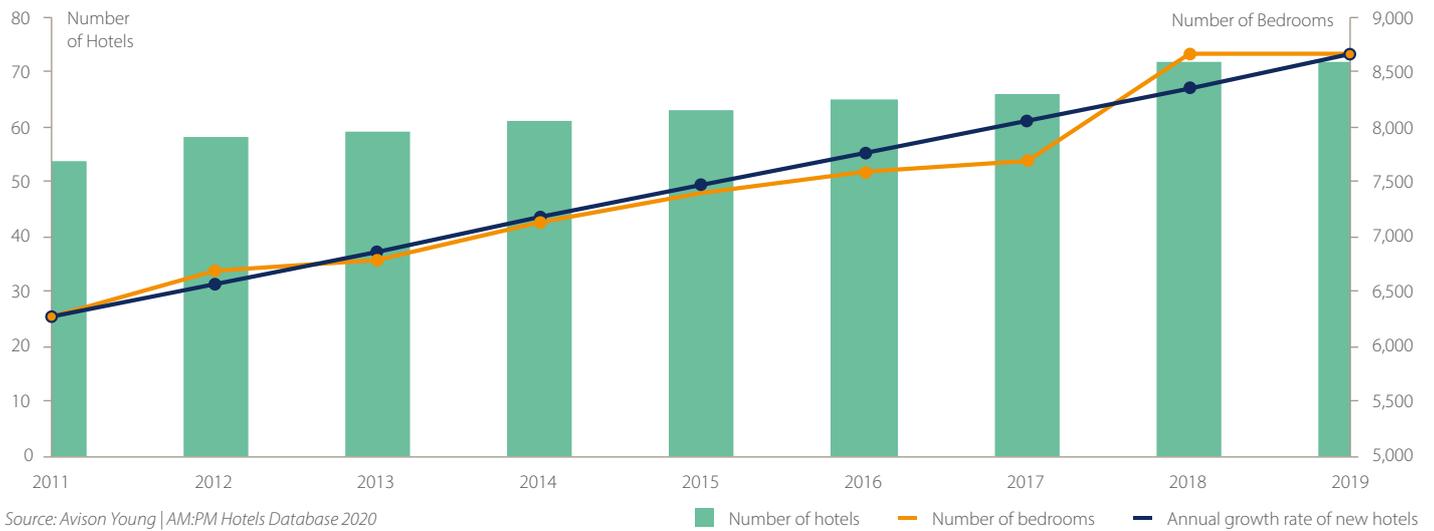
Table 2 shows the composition of city centre hotel supply by category. The largest proportion of room supply is in the four-star and limited service categories. The city is noticeably lacking in mid-market hotels - there are gaps for new and emerging brands in this space, particularly those with a "lifestyle" or design-led positioning in line with Glasgow's modern image and creative flair. Compared with other large UK cities, Glasgow has a very low supply of apartments and currently no branded apart-hotels. We expect this imbalance to be addressed in coming years due to the type of demand being attracted to the city and the evolving customer base.

TABLE 2: GLASGOW CITY CENTRE HOTEL SUPPLY BY CATEGORY

Rating	No. of Hotels	No. of Rooms	% of Room Supply
Five-star	1	113	1%
Four-star	20	3,479	40%
Three-star	14	852	10%
Two-star	8	449	5%
Budget	22	3,432	40%
Apartments	7	329	4%
Total	72	8,654	100%

Source: AM:PM Hotels Database 2020

GRAPH 3: CITY CENTRE HOTEL MARKET EVOLUTION 2011 - 2019




5.5%
Compound annual growth rate of new hotels
since 2011, as shown by the blue line in Graph 3

FUTURE SUPPLY

There is a large pipeline of proposed new hotels in Glasgow; in fact this has been the case for a number of years, but the difference now is that it has become easier to fund hotel developments in the city due to improving market dynamics and UK-wide growth in investment in the sector.

According to AM:PM Hotels there are 40 hotels and apart-hotels with more than 20 bedrooms proposed in the city, potentially 6,436 more bedrooms. Nine of these schemes (2,216 bedrooms) are under construction and due in the next two years, as shown in Table 4.

There are a further five schemes (699 bedrooms) in the pipeline with brands confirmed, that might progress in the next few years. In our experience, hotel schemes that do not have brands confirmed are less likely to progress in the short to medium term.

TABLE 4: GLASGOW HOTELS UNDER CONSTRUCTION

Location	Brand	No of Bedrooms	Opening Date
St Enoch Square	Premier Inn 	209	Feb 2020
SEC	COURTYARD BY MARRIOTT 	216	Feb 2020
Central Station	YOTEL 	257	Apr 2020
Clyde Street	CLAYTON HOTELS 	294	Sep 2020
Clyde Street	TRIBE 	290	Sep 2020
SEC	MOXY HOTELS 	243	Sep 2020
Renfrew Street	maldron HOTEL 	300	May 2021
George Square	AC HOTELS MARRIOTT 	245	Nov 2021
St Enoch Square	adagio APARTHOTEL 	162	Dec 2021

Source: Avison Young / AM:PM Hotels

Glasgow City Chambers in George Square



MARKET PERFORMANCE

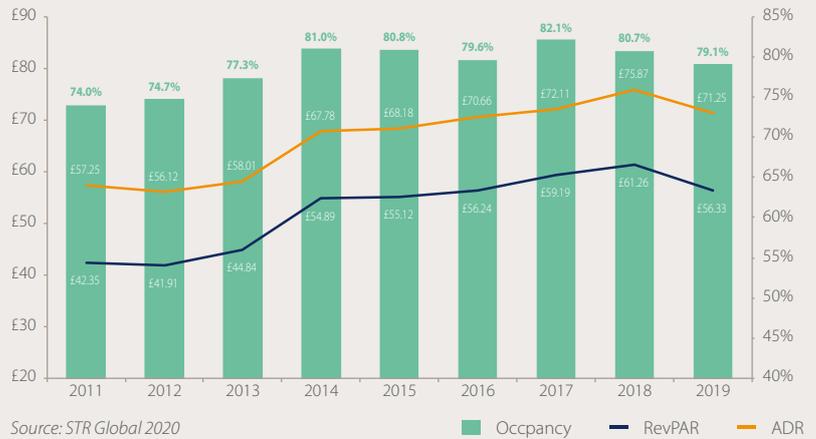
Performance of hotels in the city has improved considerably in recent years, notably following the 2013 opening of the SSE Hydro Arena and the major events year of 2014 (Commonwealth Games and Ryder Cup) really putting the city on the map. City-wide occupancy has been around 80% since 2014, with 2017 a peak occupancy year of 82.1% with average daily rate (ADR) of £72.11.

Graph 5 shows market performance from 2011 to 2019, including revenue per available room (RevPAR), the combined metric of occupancy and ADR and the industry standard measure of revenue performance.

Occupancy increased significantly to 2014, and has since performed consistently at about 80%, with 2017 representing a peak over the studied period. The large number of hotel openings in 2018 has impacted occupancy performance, particularly in 2019, a trough year in the international conference cycle.

ADR and RevPAR have also increased, notably in the major events year of 2014, also the first full year of the SSE Hydro Arena. ADR in 2018 was 33% higher than in 2011. Whilst ADR increased in 2018 despite falling occupancy, there was an impact in 2019 due to the nature of the new supply (in particular the 376 bedrooms Motel One) diluting market rates, as well as fewer high rate international conferences.

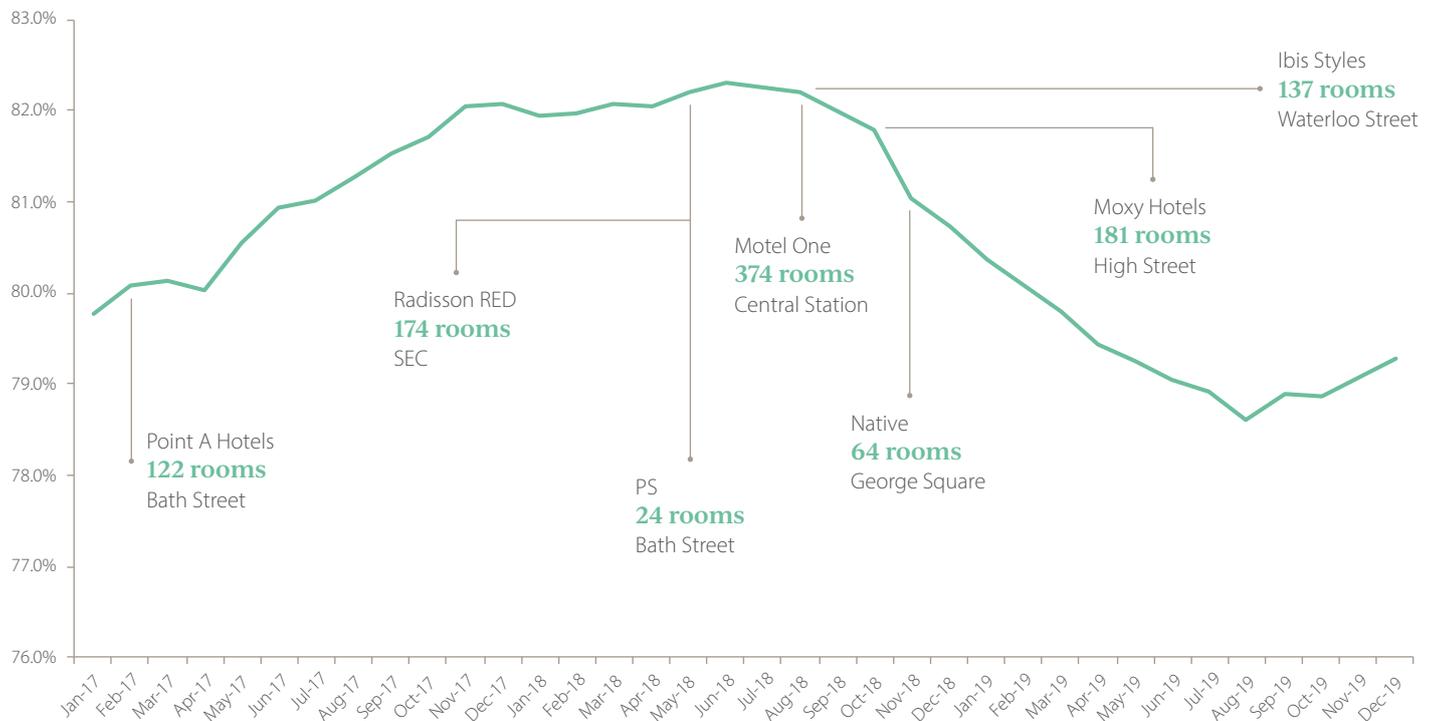
GRAPH 5: GLASGOW HOTEL PERFORMANCE 2011 TO 2019



In terms of Glasgow's performance against key competitor cities, occupancy in 2019 was above that of both Manchester and Birmingham, but below Edinburgh. Glasgow's RevPAR was well below Edinburgh, slightly below Manchester (as a result of Glasgow's ADR decline in 2019), but above Birmingham. Manchester was the only one of the four cities to record RevPAR growth in 2019.

Graph 6 shows Glasgow's 12-month rolling average occupancy (thereby smoothing out peaks and troughs across the year) from 2017 to the end of 2019; the impact of new openings is clear to see, as is the return to growth in the second half of 2019 as the new supply has bedded-in.

GRAPH 6: 12-MONTH ROLLING AVERAGE OCCUPANCY AND NEW HOTEL OPENINGS

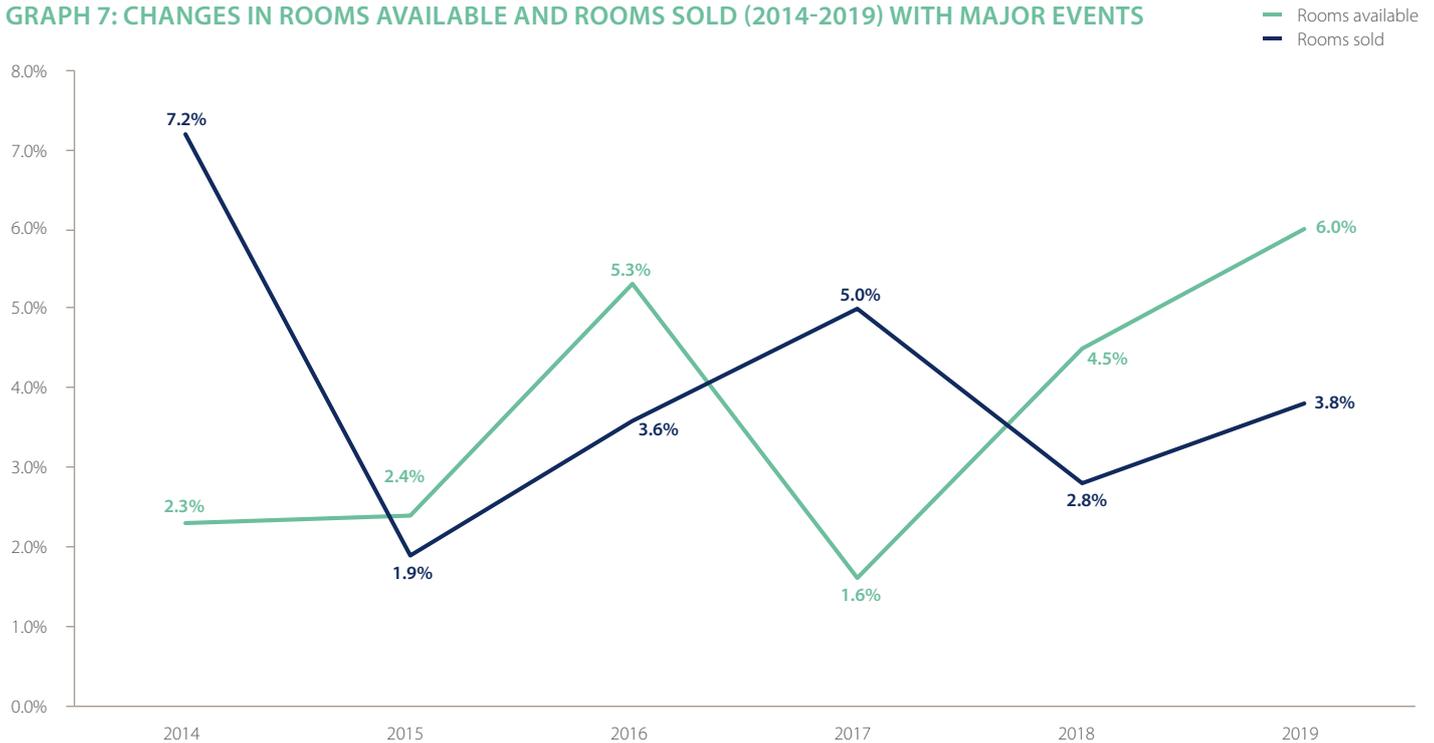


Source: Avison Young | STR Global 2020

Graph 7 shows the relationship between percentage change in rooms sold and rooms available across the city (as reported by STR Global) against the major events in those years.

It is noticeable that even following the peak event years (2014, 2015 and 2018) demand for hotel accommodation (rooms sold) has continued to grow. In fact there is little correlation as two of the strongest years for demand growth (2017 and 2019) were trough years in the international conference cycle. **Whilst major events and the overall upwards trend are very important to the city's hotel sector, there is a much broader base of demand from different sources.**

GRAPH 7: CHANGES IN ROOMS AVAILABLE AND ROOMS SOLD (2014-2019) WITH MAJOR EVENTS



2014

- Commonwealth Games
- Ryder Cup
- SSE Hydro Arena – first full year of operation
- Scottish Independence Referendum

2015

- World Gymnastics Championships
- MOBO Awards

2016

- IBSA Scottish Annual Conference
- Brexit Referendum

2017

- All-Energy Exhibition Conference
- Increase in inbound Scottish tourism

2018

- International Convention of Jehovah's Witnesses
- European Championships

2019

- European Indoor Athletics Championships

Demand Growth and Future Hotel Capacity

DEMAND GROWTH

It seems likely that demand for hotel accommodation in Glasgow will continue to grow strongly and for the time being operator and investor interest in the city remains very robust:

- With demand out-stripping supply in the office sector and investment markets robust, further Grade A developments are likely. Barclays move to Buchanan Wharf on the south-side of the Clyde should act as a catalyst for further development in this under-developed part of the city centre. Unlike other large cities, Glasgow has plenty of space to expand with a number of large brownfield sites west along the Clyde on both north and south sides;
- Scottish Government has announced plans to focus investment and development along the Clyde;
- Occupier demand and rents for large floor plates are likely to increase, inevitably leading to more pre-let and speculative office developments coming forward. Pre-let demand anticipated to come forward in 2020/21 is expected to be around 1m sq.ft;
- Glasgow is leading the way in research and development across a number of emerging sectors, with significant expansion in innovation districts planned;
- A consultation is underway to develop a city region Metro system; funding for the first phase of this, from Glasgow Airport to Paisley Gilmour Street is already available through the City Region Deal;
- The profile of the city will be enhanced enormously by hosting the UN Climate Change conference in 2020, a year which is set to break records for conference delegates. This will benefit a number of sectors including the innovation districts and leisure tourism;
- The continued expansion of facilities at SEC will enable further growth in conference and events markets.

FUTURE HOTEL CAPACITY

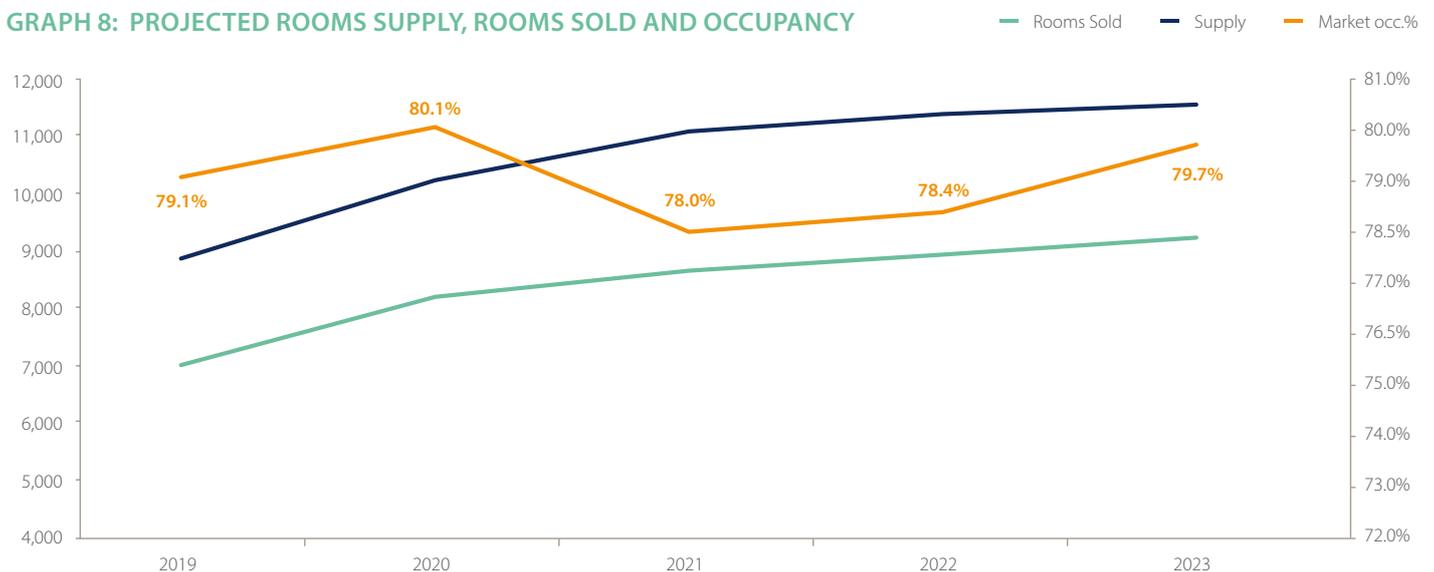
Graph 8 shows our projected growth in supply and demand, and resulting market occupancy to 2023. We have considered demand growth by sector (leisure, business and events) given core regeneration initiatives, balancing performance of hotels with this and supply growth.

2020 is likely to be a strong year for Glasgow hotels due to current demand growth, the strength of the conference sector and the UEFA EURO 2020 matches. About 70% of the new bedrooms under construction are scheduled to open in time to benefit from COP26.

2021 and 2022 are likely to be more difficult with market occupancy falling below 80%; however with no new hotels confirmed yet for 2022, we believe occupancy should return to about 80% in 2023.

Even at 78%, occupancy would be higher than the 2019 Regional UK average of 76%.

GRAPH 8: PROJECTED ROOMS SUPPLY, ROOMS SOLD AND OCCUPANCY



Source: Avison Young

Gallery of Modern Art in Royal Exchange Square



By extending the horizon on the forecasting model, to maintain a stable occupancy around 80%, we believe there is capacity for about 350-400 new rooms on average each year from 2022 to 2029.

This means two to three new hotels on average each year, and more than 5,000 rooms over the next ten years, almost double the growth over the last ten years.

Our model forecasts demand CAGR of 4.6% from 2020 to 2029 driven by the strong commercial sector, growing innovation and tech sectors, increasing profile as a global conference, event and leisure destination. Future developments will reflect this new modern Glasgow, introducing diverse, sustainable, tech-driven, "lifestyle" and design-led hotel and apart-hotel products and brands.

It is worth noting that more central and better quality hotels tend to perform better than the market average (occupancy up to 83%-85%) and we would expect this trend to continue.

Whilst international conferences will remain cyclical, the broad base of other commercial and leisure drivers will ensure an overall demand growth trajectory over the next ten years. New hotels will continue to be an important part of this evolving city.

Should you wish to discuss any details within this update please get in touch

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