ADDLESHAW GODDARD

CHECK-IN with AG

AG's bi-annual hospitality bulletin

CHECK-IN with AG

Welcome to the first edition of our hotels sector bulletin. CHECK-IN with AG will be delivered directly to your inbox twice a year and will be bursting with recent developments, industry insights and practical tips about legal and commercial issues relating to the hotels sector.

In our first edition, we will cover:

(i) Poll results taken at AG's annual hotels seminar

(ii) 'Hot' topics and trends emerging from attending seminars and from our discussions with clients and contacts at the 2017 IHIF, including the explosive growth of hostels, hybrid hotels, 'bleisure' and alternative concept hotels

(iii) An introduction to the legal issues stemming from the explosive growth of online home sharing platforms, the first of a series of articles on the topic

(iv) Tax commentary on some of the consequences on the sector from this year's Spring Budget on the industry, focusing on business rates and amendments to rules relating to the restriction of corporate interest deductions

(v) Thoughts from our Scottish friends at HBJ Gateley (soon to be our colleagues on completion of the merger with AG on 1 June 2017) about the unique issues which Scotland faces in light of the political and economic uncertainty around Indyref2, the perceptions this has for certain investors and how these perceptions have in some respects been trumped

(vi) High level issues to consider on hotel investment anywhere in the world

(vii) Details of some key industry networking events and seminars over the next year

The AG team hopes that you enjoy reading our sector bulletin. If you have any comments or queries on any of the articles, please get in touch with anyone from our team, whose details are on the last page.

Best wishes

Lucy Sturrock

Head of Hotels & Leisure at Addleshaw Goddard LLP

What is the Hotel Sector Outlook for 2017?

Introduction

In February earlier this year we were joined by around 100 hotel industry experts for our annual hotel sector seminar. The topic of conversation was the “Hotel Sector Outlook for 2017”, so against the current global backdrop there was much to discuss.

The discussions were led by a panel of industry specialists, comprising Philip Lassman from InterContinental Hotels Group, Asli Kutlucan from Cycas Hospitality, Giles Furze from Savills UK, Jon Colley from International Hotel Properties and Tim Helliwell from Barclays Bank. Patrick Whyte, the UK Editor of Skift, chaired the panel.

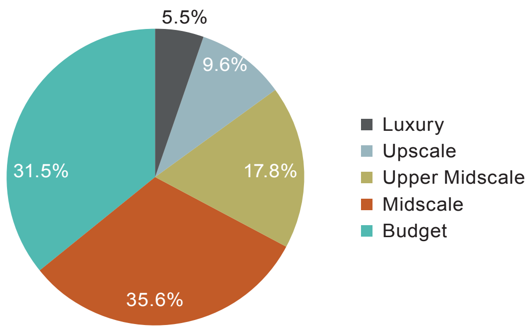
The guests enjoyed drinks and canapés as well as a bespoke “Fawlty Towers” themed cake to take home crafted by AG’s in-house catering staff. Look out for details of our next annual seminar on our website.

The seminar was interspersed with a series of questions on which our guests were asked to vote. Some of our key findings are illustrated by the accompanying graphics [below and overleaf]. These findings are based on a poll of 70 (on average) senior industry leaders who voted.

“Which sector will perform best in the UK in 2017?”

Most people thought the Budget sector would perform best, closely followed by the Midscale sector.

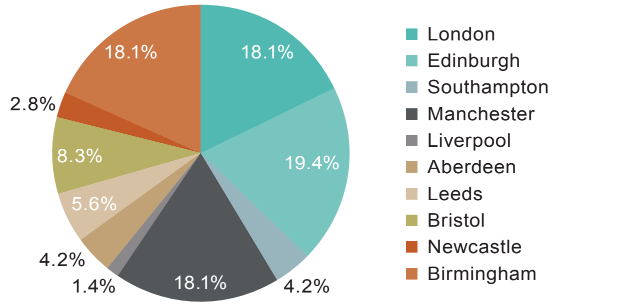
This rings true when we think about the high proportion of the new room openings in London (and some UK cities such as Edinburgh, Glasgow, Belfast and Manchester) that are budget branded rooms and largely aimed at the domestic market.



“Which UK market will perform best in terms of RevPAR growth in 2017?”

Most people thought would perform best, closely followed by London, Manchester and Birmingham.

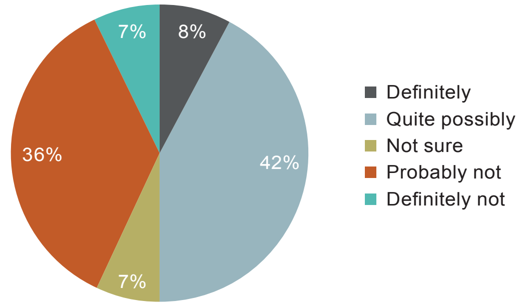
Particularly for London, the vote revealed some interesting findings illustrated in figures 2, 4 and 6 [above and below/overleaf]. Despite the obvious concerns that London has to contend with this year, including the full pipeline of rooms due to come to market, the continuing security concerns and of course the impact of Brexit, we can see some positive trends on the horizon.



“Are we about to enter a two tier market with key foreign tourist destinations (London, Edinburgh, Bath) benefitting from a weak pound but hotels that rely on the domestic market suffering from constrained consumer spending?”

Most people thought we are **“quite possibly”** about to enter a two tier. market.

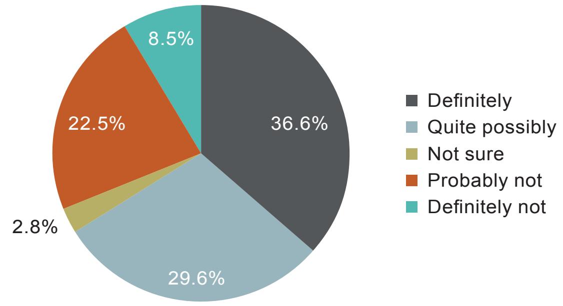
The weak pound does seem to be encouraging more inbound travel, but in contrast, the economic effect of Brexit has not (to date) been as bad as some expected. Perhaps this explains why our guests answered this question with less certainty.



“Would London be more resilient to a terrorist attack than Paris and Brussels have been?”

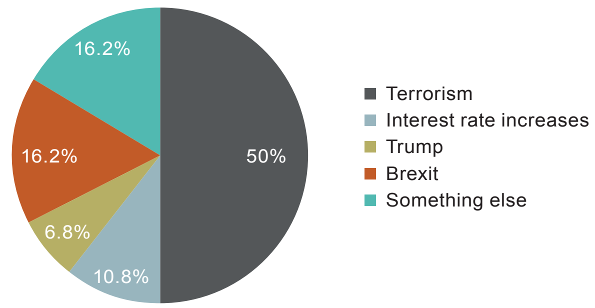
Most of those polled thought that London would **definitely** be more resilient.

Terrorism is clearly still a big factor for the sector and sits at the very top of the agenda when it comes to businesses analysing possible “threats” for the year ahead. Over a third of our guests thought that London would definitely be more resilient to a terrorist attack when compared to Paris and Brussels, so it will be interesting to see how this view is affected by the results of the Brexit negotiations, particularly as regards security issues.



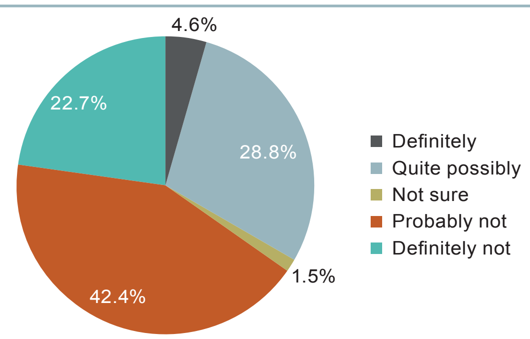
“What is the biggest threat to the European hotel marked this year?”

50% of those polled though **terrorism** was the biggest threat rather than Brexit, Trump, interest rates or something else.



“Has hotel development in London reached saturation point?”

Most people thought that it **probably** had **not**.



International Hotel Investment Forum 2016 (IHIF)

The 20th annual IHIF, Europe's largest hotel industry conference, was held in Berlin in March. In addition to meeting up with new and existing clients and contacts, we also hosted our annual dinner with over 40 attendees representing all sections of the hotel industry.

From attending various seminars and breakout sessions and from discussions we had with our clients and contacts, there were a number of trends we saw which are clearly high on everyone's agenda.

1 RevPaR

Europe's two biggest hotel markets Paris and London registered RevPaR declines for 2016. The main contributing factors include (i) terrorism and (ii) supply growth. Barcelona, Dublin and Porto have outperformed with year on year increases of 16.1%, 10.7% and 17% respectively, according to figures presented by PwC and STR. Reassuringly, both the London and Paris markets are expected to achieve single digit recovery this year as fears of terrorism subside.

2 Trending #millennials

STR has begun to track the hostel sector's performance as it does for hotels due to the recent explosive growth of this sector. STR's analysis shows slow but steady growth for 12 branded hostel groups in London over the last 5 years.

A good example is London-based Generator hostels which was recently bought by Queensgate Investments from private equity firm Patron Capital for €450 million. Generator Hostels which currently has 14 properties across Europe, is said to be "at the forefront" of a new wave of design-lead budget accommodation. Its revenues increased 23.5% in 2016, compared with 2015.

Meininger – a prime example of the 'hybrid' hotel has also seen explosive growth recently. It targets central locations and is already in several key cities around Europe (such as Amsterdam, Berlin, London, Vienna, Cologne and Salzburg. It has proved popular with families and travels alike.

3 Friends... not foe!

There was once a time when hotel brands could dictate terms to their new and renewal owners and the bargaining power lay firmly with the brands. From speaking with a number of brands, many of which are household names, it seems that there is a change in attitude and a genuine desire to collaborate with their owners.

Choice Hotels International, one of the largest and most successful lodging companies in the world, who franchise more than 6,300 hotels in more than 40 countries, are sincerely engaging with their long term partners. We caught up with Adrian Ruch (Manager, International Investments & Portfolio Management) and Peter Till (Managing Director, UK) during the conference who explained how they are now investing not only money with their owners but are also proactively seeking out what their owners want to achieve in the short, medium and long term, then finding solutions to achieve their mutual objectives.

4 Work/Play Hotel Concepts

Ever been on holiday but not put down your work phone and found it difficult to find the right facilities to do any work? A relatively new and innovative concept is seeing massive expansion. Amsterdam bank Zoku (launched by Citizen-M co-founder Hans Meyer) offers hybrid home/office apartments, spaces for travellers to socialise in such as communal kitchens, work areas, games rooms, living spaces, roof top gardens and in some instances, a greenhouse! It markets itself as the "end of the hotel room as we know it" and has identified a trend known as "bleisure" – being the merger of business and leisure, which is one of the fastest growing business opportunities of late.

5 Alternative Concepts Leading the Way

During the panel "Independent and Alternative Hospitality Brands: Delivering Innovative Experiences in a changing market", the panel discussed how alternative concept hotels are delivering innovative, fresh, new and engaging experiences. One of the panel speakers was Jean-Pierre Bandeira, the founder and CEO of Light Human Hotel.

We caught up with Jean-Pierre before the panel where he explained that their company moto "The Shape of Things to Come" is indicative of how well positioned the brand is to compete with independent hotels and lifestyle chain brands. Each hotel has a unique design inspired by the area and caters to both leisure and business guests. The core competency is to create new concepts and change the face of hotels thanks to strategic alliances and a win-win system with every stakeholder. Thanks to this strategic choice of not operating hotels, Light Human Hotel "comes to the market as a potential partner, not a competitor".

It has hotels under development in the following locations; NYC, two in Miami, LA, Rio, Sao Paulo, Corsica, Paris, London and Dallas with plenty more in the pipeline.

The talk of Berlin seemed to focus on the future of hotel designs and new, innovative design concepts (as opposed to luxury) and how crucial that recognition of a partnership between the brands and its owners has become. The hotel industry has always been a fascinating and dynamic industry – we look forward to seeing what happens between now and the next conference in 2018.

The AG team thoroughly enjoyed the IHIF this year. Representing AG were Luke Baines (Construction), James Salford, Dave Wilson and Laura Robertson-Dunn (Banking), James Davison (Corporate/BRS) and Nadia Milligan and Lucy Sturrock (Real Estate).

The Home Sharing Economy:
Not sharing their burden of regulation…

The sharing economy has been predicted to become as big a force as the internet, promising to change not just how we earn money but how we live our lives. Ordinary consumers can earn money by sharing their assets with other consumers. There are a vast array of platforms now available, from dog-walking to meal-cooking services and from a community marketplace for storage to social delivery services. The brands at the forefront of this revolution have become household names and include Uber, which allows drivers to offer up their time and car as a taxi service and Airbnb, which transforms homes into an impromptu bed and breakfast.

Whilst this article will discuss the many benefits which home sharing platforms (HSPs) bring, they also come with their pitfalls and we will consider those too. Many of those providing services either seem unaware of the need to comply with regulation by not obtaining planning permission, registering with the Food Standards Authority, meeting gas and fire safety standards or are willing to exploit the current lack of monitoring of homes which are advertised on HSPs.

The Benefits HSPs Bring

Sajid Javid, Secretary of State for Business, said: “The government wants the UK to be one of the best places in the world to run new, innovative business”. In 2016, the Chancellor unveiled a series of measures to ensure that Britain is the global capital for the sharing economy, including increasing the amount of tax free income hosts can earn by sharing space in their home.

It is evident that online platforms are revolutionising whole swathes of our economy by giving everyday entrepreneurs and ordinary working families the chance to use their homes as economic assets. 85% of HSPs guests choose Airbnb to ‘live like a local’ in communities benefitting tourist activity beyond tourist hotspots. The sharing economy also provides more competition and choice, great news for consumers. The burden of compliance lies with the transacting parties and not the HSPs.

Explosive Growth of an Unregulated Sector

Airbnb does not own a single piece of real estate, yet it is valued at an estimated $30 billion, making it more valuable than Hilton Worldwide. Uber, which does not own a single car, is worth over $60 billion. The real boom, however, stems from the companies that have sprung up in this new sector. Simplistically, HSPs have two types of host: amateurs who rent out a room in their home or their entire property for a few weeks a year — an innovative and worthwhile offering; and HSPs that allow professional landlords to let out multiple properties on short-lets on a permanent basis.

Many professional landlords on HSPs operate as pseudo hotels – such as a West London based company which has a letting agent-style shopfront, complete with a luggage rack and maps of the city, where guests can collect their keys. It currently manages around 250 properties in London and is planning to expand across the city, as well as into Paris. Another company launched in London in July 2014 and currently manages around 500 properties marketed on HSPs. In the last six months it has raised £1.3m in venture capital funding and has branched out into Rome, Barcelona and Paris. A San Francisco-based HSP management company manages over 4,000 properties in the US and Europe. Another example is a company which launched in Edinburgh in 2016 which manages around 250 homes who plans to expand into other cities.

None of these companies are legally responsible for the properties they manage having the proper planning permission, fire safety compliance and other customer safety requirements.

Planning Concerns – What’s the Issue?

The Town and Country Planning (Use Classes) Order 1987 puts uses of land and buildings into various categories known as ‘Use Classes’. Hotels, boarding houses and guesthouses have their own ‘Use Class’ category and thus require planning permission to convert to another category such as residential or offices into a hotel. The planning regime ensures sufficient property stock can be retained for residential use so that residential neighbourhoods do not turn into default tourist hotspots and the price of residential property (whether rental or sale prices) are not under undue pressure.

The Deregulation Act 2015 (Act) restricts short-term letting of residential premises so that “the number of nights of use...in the same calendar year, does not exceed ninety nights”. The Act does not explain how Councils will be able to determine whether a property has exceeded the 90 nights per year, nor the obligations of HSPs that might be best placed to facilitate (and be aware of) such behaviour.

Tenants of assured shorthold tenancies in ‘hot spots’ such as Islington, Camden and Westminster in London have been asked to leave their properties so that their landlords can rent the properties through HSPs on a short term basis, which result in a much higher yield than those let on long term agreements. Neighbourhoods have also complained about their streets being turned into pseudo tourist destinations as swathes of “rowdy” tourists come and go in areas which were once quiet residential neighbourhoods.

We attended a round-table discussion in March organised by the British Hospitality Association (BHA) to discuss the lack of regulation of HSPs. Senior members of key players in the hospitality industry attended, as well as a Council enforcement officer from a London borough who spoke of the difficulties the Council faced in the near impossible enforcement of the Act – the Council is powerless to enforce the 90 nights maximum limit unless it has solid evidence of contravention of the Act. As a result, the Council has investigated at least 1,200 properties alleged to be let in excess of the 90-night limit, but, enforcement notices have, so far, only been issued against two. Separately, in the press, Camden Council has commented that the 90-day rule solution cannot be properly enforced and that tougher measures are required to help stabilise the issue.

Liability for Staff Employment and Tax

Support services (such as cleaners) are likely to be cash-in hand jobs, taking work away from hotel-cleaners who pay income tax. If a host employs cleaners through an agency, the agency assumes liability for tax. The main area of concern is large operations where staff may be employed almost full time for a multi-listing host who is, in effect, running a business without declaring tax or complying with employment legislation. Employment taxes (income tax and NICs) are a very significant source of revenue for the government. The issue as to whether people should be treated as employees or self-employed is a hot topic for HMRC at the moment.

Fire Safety Order 2005

Everyone taking in paying guests must comply with the 2005 Fire Safety Order which makes the host responsible for taking steps to protect the people using their premises from the risk of fire, the main part of which is that they must carry out a fire risk assessment. This regulation equally applies to properties let out through HSPs as it does to any bed and breakfast, however, it is not enforced or checked in the case of HSP properties, including those multi listings which operate like hotels, giving rise to serious safety concerns.

Food Safety

Some properties advertising on HSPs operate as bed and breakfasts, and thus the food safety requirements would be the same as for any bed and breakfast, yet the evidence shows that they are not following the same stringent food safety requirements, with many not even registered as businesses.

Under the food hygiene legislation (Regulation (EC) No 852/2004) and the Food Safety and Hygiene (England) Regulations 2013, properties serving food must register themselves as a Food Business Operator and have written food safety management procedures, which are monitored and a record of the checks maintained. They must also meet all the respective food preparation, equipment and hygiene standards. This is an area of complex regulation and of potentially huge public safety risk.

Insurance

Most home insurance policies do not cover short-term lets. Although Airbnb’s Host Insurance provides primary liability coverage for up to $1 million for third party damages and for damages of host property up to £600,000, by short-term letting many hosts would breach their mortgage terms and invalidate their own building insurance policies.

Tax

Evidence suggests that people who let out their homes through HSPs, have no idea that tax must be paid on their earnings. Tax is due on such earnings in the same way that income tax is due on salaries. New legislation has been introduced this month (April 2017) allowing online marketplace sellers to earn £1,000 before declaring income to HMRC.

HMRC has spent years and over £100 million on a computer system designed to identify anyone who pays too little tax. It draws on information from government sources (such as the Land Registry, the DVLA and HMRC’s own records) to create a profile of an individual’s total income and where this varies from information provided by the individual, the individual could be subject to investigation.

The public’s reaction to this has been very negative. Although this seems to threaten the public who have used HSPs to make ends meet, HMRC has advised that it will only come after people who it thinks are operating like a business. However, there is uncertainty for tax payers as HMRC has discretion whether or not to pursue any individuals.

Next Steps – HSPs Sharing the Burden of Regulation?

Airbnb has announced that it will block London hosts from renting out whole homes for more than 90 days from Spring 2017 (which had already been technically illegal but was not enforced), unless they have a permit from their local council. This stands in contrast to the approach taken by its rivals such as HomeAway and Booking.com, which do not enforce the 90-day limit on the grounds that it is solely the hosts’ responsibility. The BHA has suggested that all HSPs should share (such as HMRC and local Councils) named host level data with government bodies to show, for instance: who is letting over 90 nights in London? How many people are letting out a secondary residence? How much tax is due on the income? How are staff employed by hosts paid and what terms of employment are they employed on? The BHA also recommends that all HSPs should directly restrict hosts from letting out their properties for more than 90 days per year through their platform.

Other platforms already enforce stricter regulatory checks. Uber, for instance, interview each of their 25,000 drivers in-person and check all of the relevant documentation. Airbnb and other HSPs make no such effort to ensure quality and compliance and should be required to implement much stricter safety and security checks.

In June 2016, the European Commission warned member states against banning ‘sharing economy’ services, especially if only to protect existing businesses from competition. Although there is currently an uneven playing field, with the traditional and established hotel industry on the one hand, being subject to compliance with stringent regulation and individuals on the other who may be using HSPs to make ends meet who are currently not under such regulation, or whether it’s the middle-man facilitating the use of homes on HSPs who currently have no legal responsibility…

Our next article on HSPs in our forthcoming, second edition of CHECK-IN with AG, will discuss competition law issues with HSPs and will also delve into specific consumer protection legislation which is currently not subject to the same stringent enforcement levels as the hotel industry. It is crucial to bear in mind the drive behind the regulation – whether of the goliath hotel industry, the middle man or the individual trying to make ends meet – which is consumer protection.

Tax Update – Enemy at the Rates

Aside from changes to National Insurance contribution rates for the self-employed (which proved controversial and have since been dropped), there wasn't much to report from the Spring Budget when it was delivered on 8th March. Short of any eye-catching announcements, one of the major topics under scrutiny (and heavily trialed beforehand) was the rise in business rates. The rises themselves aren't as a result of a new Budget announcement but a change in the rateable value of premises on which the rates are calculated. Given the rises, the Budget focused on reducing the impact for businesses in a number of areas.

Business rates have long been a contentious issue and the groundswell of complaints has only increased as the change in rateable value in 2017 has edged closer, with many businesses expecting rate rises as a result of the revaluations. In contrast, the government has highlighted that many businesses (around 600,000) will, in fact, have no rate rises. Furthermore, a £3.6bn transitional relief fund was announced in November 2016 and the Chancellor went further yet by announcing £435m of additional support for businesses facing the most significant increases. Regardless of these measures, a number of business sectors have been outspoken about the adverse effects of the rate rises, with the hospitality sector being more vocal than most. Only time will tell exactly what impact the rises will have on the sector.

The Chancellor's Budget announcements focussed on the impact of business rates in England (Northern Ireland and Scotland are handled separately on a devolved basis). However, the problems stemming from rate changes apply across the UK, and much has been made of the expected impact on the Scottish hospitality industry. Indeed, in February the Scottish Finance Minister, Derek Mackay, had announced a 12.5% cap on rate increases for restaurants, pubs, cafes and hotels across Scotland. Absent of the cap, the hospitality industry north of the border was facing an estimated average business rate increase of 37%, set against an average of 15-17% for other sectors. In spite of the cap, representations continue to be made to Scottish parliament by sector groups, not least because the cap itself falls away after a year, and also given the fact that the Scottish hospitality industry is seen as particularly exposed to the increases. Again, the real impact will only be obvious once the rates have been in effect for a period of time, by which point it may be too late for at least some of the smaller hospitality businesses.

An additional glimmer of light for pubs was also announced during the Budget, with 90% qualifying for a £1,000 business rate discount. Again, this was as a result of pressure from interest groups such as the British Beer & Pub Association and the Association for Licenced Multiple Retailers, with the latter issuing a statement that "Sector-specific relief will help those businesses hardest hit by the revaluation… this much-needed Government support will save the sector more than £24m and will help safeguard investments and jobs…". Whilst the £1,000 discount has been warmly received, the interest groups continue to push for a long term root-and-branch reform for pubs and bars.

'Capital Appreciation' – The Resurgence of Allowances

One significant development in the UK tax landscape doesn't come as a result of the Spring Budget, but as a result of amendments to rules relating to the restriction of corporate interest deductions.

Traditionally, it has been possible to leverage businesses in the UK with high levels of debt, on the basis that interest costs for the debt have generally been deductible against profits of the business. As a result of the OECD's work on the "Base Erosion and Profit Shifting" initiative, the UK is introducing rules limiting the amount of interest which can be deducted going forward. The rules are extensive and labyrinthine, but the net result of the changes will be that many larger corporate groups will get lower tax deductions for interest costs, and therefore have higher profits subject to UK tax.

There may be other ways to shelter profits from tax – one key example being the use of capital allowances. Effectively a tax equivalent of depreciation, capital allowances can allow a taxpayer to reduce its profits subject to UK tax. This could be a deduction of up to 100% of the capital expenditure (in relation to enhanced allowances for energy efficient capital outlay), but more likely either 8% or 18% for 'standard' fixtures.

It may therefore be the case that, as the tax benefits of debt leveraging reduce for larger hotel and leisure companies, the benefit of capital allowances increases proportionately. In fact, the hospitality sector is one of the prime areas where capital allowances will be of increased importance, due to the fact that properties such as hotels will usually consist of a higher proportion of qualifying capital expenditure (potentially covering costs for such things as acoustic insulation, ambient lighting, and possibly even artwork and decorative assets). Whilst it will obviously differ on a site-by-site basis, some capital allowances experts have estimated that the cost of hotel developments can consist of up to 65% qualifying expenditure – compare this to a student accommodation development, where the estimated qualifying expenditure is up to around 15% and it is clear to see that allowances may play a bigger part in project modelling for the sector going forward.

Scottish Hotels Trump Political Uncertainty

1. WHAT'S NEXT FOR SCOTLAND?

Wouldn't it be wonderful if we could tell you? Unfortunately therein lies the problem – the uncertainty. Scotland enjoyed a brief respite from political turmoil after the result of the 2014 Independence Referendum confirmed that the majority of Scots wanted to stay part of the UK. So in the end there was no need for investors in Scotland to trigger the termination clauses in contracts and break rights in leases which real estate lawyers were asked to draft if Scotland voted to leave the UK. The fear factor played large in commercial real estate transactions in the run up to the 2014 Referendum and there was a general perception of a slowdown in investment activity in Scotland. Once the dust settled there was a real sense in the air of getting back to business. No more funny clauses in legal documents and a renewed sense of rigour in selling Scotland as a good place to do business. The Referendum was hailed a "once in a generation opportunity" and that was the end of that (for a while) we thought.

However that was back when Scottish Independence seemed to be the only area causing uncertainty in the UK, when few anticipated that the UK would vote to leave the EU in 2016. Brexit gave the Scottish Government the opportunity to claim that there had been a "material change of circumstances" and call (under the terms of their 2015 Scottish Parliamentary Manifesto) for second Independence Referendum (which is commonly now referred to as IndyRef2).

The timing on IndyRef2 is still the subject of much debate, which will only be amplified in the run up to the UK General Election being held on 8 June. It is generally acknowledged that it is no longer a question of if there will be a second Independence Referendum but rather when in the next few years it will be held.

2. WHERE DOES THIS LEAVE HOTEL INVESTORS?

As mentioned above, there was a general perception that there was a slowdown in investment into Scotland during the run up to the 2014 Referendum. Conversely there is actually evidence that investment into Scotland increased before the 2014 Referendum (albeit that it increased UK wide and Scotland may have benefited from this by simply being part of the UK). It is notable that the Scottish Real Estate market also performed well throughout 2016 despite worries over Brexit.

That said, it is clear that the sort of political and economic uncertainty created by the possibility of independence does deter certain types of investors, particularly now as it only adds to the existing unknowns around Brexit. Many will adopt a prudent "wait and see" attitude and effectively put a freeze on investing in Scotland until the political (and therefore economical situation e.g. what currency would an Independent Scotland use) position is decided. However there are always going to be the types of investors who see opportunities in these types of situations and will recognise this as a good time to spend their money, particular overseas investors who can capitalise on the weakened sterling. Then there are also certain sectors of the economy which do not tend to falter in the wake of political uncertainty in the way others do. The Hotels Sector is one of those where one of the key target markets, tourists, will not necessarily be put off from making a visit due to this type of political uncertainty. If that uncertainty where to say create a potential for terrorism then yes that would likely impact but this is not likely to play out in Scotland.

3. WHY SCOTLAND?

Scotland's performance in the hotels market is exceptionally strong with recent figures showing that Scotland (as a whole) out performs 11 of the 12 European hotel markets including Paris, Madrid and Berlin – only London was stronger. Edinburgh plays a huge part in this – it is a world famous capital city and world heritage site. It has over 4 million visitors each year which makes it one of the UK's and Europe's leading hotel markets and is the UK's most popular tourist destination after London.

Marriott are currently planning 7 new Scottish hotels over the next 4 years, of which 4 are going to be located in Edinburgh. Their W Hotel brand is going into the new Edinburgh St James, a highly anticipated new City Centre Development which is due for completion in 2020 and will also house an aparthotel and a boutique hotel. Marriott opened a new Courtyard Hotel at Baxter's Place (which is three minutes from Princes Street) in Edinburgh last year. The ground lease of this hotel has recently been acquired by M&G Real Estate, following a trend of seeing the UK funds coming back to invest north of the border.

The new development known as The Haymarket in the West End of Edinburgh is anticipated to be completed by the end of 2018 and will include a new Premier Inn and a Staycity Aparthotel. Recently Erskine House on Queen Street was sold by Oaktree with planning permission for a 187 bed aparthotel. The clamour to secure that property was a very encouraging sign that there is no dampening of enthusiasm for hotel investment in the capital.

We should also mention Glasgow here too, as Scotland's largest city, which also has a very strong hotel market as a key foreign tourist destination. Glasgow is an incredibly vibrant city with visitor numbers in the last few years boosted by it hosting the top music venue in Scotland. the SEE Hydro (voted one of the world's top 3 arena event venues). Glasgow is also seeing the funds return and has been the city of choice for a number of key hotel operators over the last few years. Travelodge (who are currently looking at up to 21 more hotel sites in Scotland, which would represent a 50% increase in their current estate) are now looking to double their hotel portfolio in Glasgow.

4. CONCLUSION

Although Scotland appears to be once again at a political crossroads, given the challenges and uncertainties that will have to be worked through during the Brexit process, this is now not entirely at odds from the rest of the UK. In the old world order political uncertainty certainly was a reason not to invest in fledgling economies but in this post Brexit/Trump/Populist world we now find ourselves living in, political uncertainty seems in some ways normalised. IndyRef2 will be the third referendum in Scotland in recent years and although disruptive, they are not a reason to call a halt to investment. Businesses and money markets are having to recognise that life goes on throughout this new world order of political turmoil and so investors are having to look at other fundamentals when assessing new opportunities, e.g. resilient, mature markets with real potential for growth, all of which Scotland offers in abundance.

Key issues to consider on hotel investment

1	**Owner Self-Analysis**	▶ What are your financial objectives for this investment in terms of specific quantitative measures (e.g. cash flow from operations, capital earnings per share) and your view of the project as a short, intermediate or long term investment? ▶ What is your view on non-quantitative objectives (e.g. diversification, image-enhancement, and support for related products or services, employment of family members?)
2	**Type of Operation**	▶ A hotel management contract, or franchise contract are only 2 of several major forms of operating agreements and depending on the circumstances, may not be the most favourable form. Do you fully appreciate the consequences of the different forms of operating? ▶ Have you gone through the pros and cons of the different operating forms? Which is best suited to your resources, experience and objectives (both financial and logistical)?
3	**Due Diligence on the Operator**	▶ How does the proposed project fit into the operator's strategic objectives and corporate resources? ▶ What impact will participation in this project have on the operator's reputation and market position? ▶ How will the operator integrate this hotel into its group and commit management time?
4	**Structuring the Acquisition**	▶ Is acquisition of the shares in the property owning company or the acquisition of the hotel asset more appropriate, considering tax consequences and logistics? ▶ What is the best way to structure the deal on its acquisition to ensure an easy exit and attractive proposition for a potential buyer?
5	**Funding**	▶ What requirements do the lender(s)/operator have and are these achievable? ▶ How will you fund the acquisition, development, opening and stabilisation phases and have you considered options if the hotel fails to generate sufficient cash-flows to service debt repayments and the hotel's working capital?
6	**Construction**	▶ Have you considered the different ways in which the works can be procured and ensured that as much risk as is commercially feasible is passed to the contractor and professional team? ▶ Have you considered appropriate measures to put in place to mitigate the effect of any contractor default or insolvency? ▶ Are appropriate rights available in relation to any existing works if you are acquiring a site/hotel?
7	**IT (Hardware & Support)**	▶ What IT systems are required to support the day to day operation of the hotel? ▶ To what extent has future proofing of the IT systems been taken into account?
8	**Maintenance and Service Contracts**	▶ If making an acquisition, have you established what agreements are in place to ensure continuity of services following the acquisition and subsequently, which need to be terminated and novated to ensure rationalisation of services? ▶ Will you implement a tendering process for key maintenance and service contracts?
9	**Employment Issues**	▶ Identification of a suitably qualified general manager and senior team is crucial to the success of a hotel's operations – where will you source these key employees from? ▶ Employment contracts and labour policies will usually be dealt with by the operator if applicable. Are you content to leave this in the hands of a third party?
10	**Concerns During the Term of the Contract**	▶ If the financial goals of the parties are being achieved, owners and operators generally do not express financial, operational or legal concerns. ▶ In a management agreement scenario, are you comfortable that the operator will require the sole and exclusive right to manage without any interference from the owner? ▶ In a franchised scenario, are you comfortable that the franchisor will seek to retain absolute control over how the owner utilises the franchisor's brand and operates in the franchisor's system?

Please do not hesitate to contact us if you would like to discuss these points or any other issues if you are considering investment into the hotels secto

Key Sector Events

Date	Event	Venue	Entry Arrangements
25-27 April 2017	Arabian Hotel Investment Conference	Madinat Jumeirah, Dubai	*Delegate pass needed*
6 June 2017	The British Hospitality Association & Tourism Summit 2017	The Grand Connaught Rooms, London	*Delegate pass needed*
28 September 2017	Colliers End of Summer BBQ	50 George Street, London W1U 7GA	*Invitation only*
11-12 October 2017	Annual Hotel Conference, Manchester	Hilton Manchester Deansgate, Manchester	*Delegate pass needed*
18-20 October 2017	Hotel Investment Conference Asia Pacific	InterContinental, Hong Kong	*Delegate pass needed*
31 October 2017	Addleshaw Goddard Hotels Seminar	Capital Club, DIFC, Dubai	*Invitation only*
7-8 November 2017	Deloitte Hotel Conference	7 November at The Four Seasons, Park Lane, London 8 November at The Dorchester, Park Lane, London	*Invitation only*
Late November	Mediterranean Resort & Hotel Real Estate Forum	Barcelona, Spain (details yet to be announced)	*Delegate pass needed*
9 January 2018	Whitebridge Hotel Investment Summit	250 Bishopsgate, London	*Invitation only*
25 January 2018	Addleshaw Goddard Hotel Conference	Milton Gate, 60 Chiswell Street, London, EC1Y 4AG	*Invitation only*
Early February 2018	Alix Partners Hotel Bulletin Breakfast	Alix Partners, 6 New Street Square, EC4A 3BF	*Invitation only*
5-8 March 2018	International Hotel Investment Forum, Berlin	Hotel InterContinental, Berlin	*Delegate pass needed*

Meet the team...

JAMES SALFORD
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James specialises in advising banks and borrowers on all aspects of real estate finance. He has significant experience of structured finance, hotel financing, sale and lease back transactions, principal financing, Islamic finance, mezzanine and equity financing, as well as insolvency and restructuring work.

Favourite holiday destination: South Africa

LUCY STURROCK
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Lucy is a partner with experience in a broad spectrum of commercial property but with a specialism in the hospitality sector. Her clients include investors in hotels, hotel operating companies and pub and restaurant owners. Paul Harvey, the Managing Director at Travelodge has commented that "Lucy is great, we value her expertise and she goes above and beyond. She has consistently performed well for us."

Favourite holiday destination: My sister's house in Umbria

NADIA MILLIGAN
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Nadia joined us in January 2017 after spending 6 years in-house at Hilton Worldwide working on retention of their pipeline and trading managed and franchised hotels throughout E&A. Prior to that she worked for Clifford Chance's Dubai office representing owners against international operators and franchisors such as Starwood, Marriot, IHG and an international budget hotel brand throughout EMEA and Asia Pacific. Nadia is an expert in advising international and national financiers, hotel owners, operators, franchisors and lenders on hotel management and franchise agreements, referral systems and joint ventures.

Favourite holiday destination: Koh Lipe, Thailand

JAMES DAVISON
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James' clients describe him as being "user friendly, tenacious, pragmatic and commercial". Acting for hotel owners including Amaris Hospitality and The Hotel Collection as well as private equity investors and lenders to the sector, James' recent engagements include the Project Solstice portfolio and the sale of Marlow Crowne Plaza. He has further significant transactions in the pipeline for 2017 and expects this to be an exciting year.

Favourite holiday destination: Rome, Italy

LUKE BAINES
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Luke is a partner in our construction, engineering and environment team. He specialises in non-contentious construction and engineering matters. He has a wide range of expertise in domestic and international construction projects, advising on procurement strategies generally as well as the preparation and negotiation of construction documents. Luke has acted on the development of numerous hotels including, most recently, for That Group, Village Urban Resorts and Travelodge.

Favourite holiday destination: Puerto Pollensa, Majorca

LAURA ROBERTSON-DUNN
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Laura is a managing associate in the banking team where she primarily advises on real estate finance transactions with a particular focus on financing in the hotel sector. She works with a variety of lenders, including clearing banks and insurance companies, and also with a variety of borrower clients including self-storage companies, hotel owners and student accommodation developers. Laura has spent 9 months on secondment to the global banking real estate team at a large banking and financial services organisation.

Favourite holiday destination: Wolgan Valley, Australia

CHRIS CONNORS
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Chris is an associate in the tax team and advises on a range of corporate tax issues, with a focus on direct and indirect real estate, retail and hospitality. He has undertaken a variety of hotel and pub transactions, both with and domestic and international focus, and advises in relation to both transactional work and standalone advisory and structuring. He is recognised in the Thomson Reuters' lawyer rating publication Super Lawyers, and is a member of the Stamp Taxes Practitioners Group. He is also a qualified Chartered Tax Adviser with the Chartered Institute of Taxation.

Favourite holiday destination: Las Vegas, USA

KIRSTY NICHOLSON
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Kirsty is qualified in both English and Scots law and is based in the Edinburgh Office of HBJ Gateley (which will become part of AG with effect from 1 June 2017). Kirsty is experienced in working on all sides of hotel and hospitality deals including selling high end central London hotels for private investors, acting for funders on hotel development projects and advising operators on acquiring existing and new build aparthotels.

Favourite holiday destination: Any Greek Island addleshawgoddard.com

Doha, Dubai, Hong Kong, Leeds, London, Manchester, Muscat, Singapore and Tokyo*

* a formal alliance with Hashidate Law Office

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