



WETHERELL MAYFAIR

MARKET REPORT

SUMMER 2014

SLEEPING IN LONDON

THE LATEST TRENDS IN LONDON'S LUXURY ACCOMMODATION MARKET

A SNAP-SHOT OF THE MARKET

- Mayfair five-star hotel rates are the highest in the London luxury market – with a 4% premium over Knightsbridge and 60% over St James and The Strand.
- There are 16 luxury hotels in Mayfair, plus four of the 10 most expensive hotel suites across the capital.
- 24% of Mayfair five-star hotel rooms are now suites.
- 12% - the premium for the average weekly rental value of a five-star London hotel room over the average weekly rental value of a 2+ bedroom furnished apartment in Mayfair (2013). In 2009, hotel prices were 29% higher.
- £1687 - average weekly rental value of a five-star London hotel room (2013).
- £1738 - average weekly rental value of a 2+ bedroom furnished apartment in Mayfair (2014).



BRINGING RESIDENTIAL LIFE BACK TO MAYFAIR



FLATS OR HOTELS?

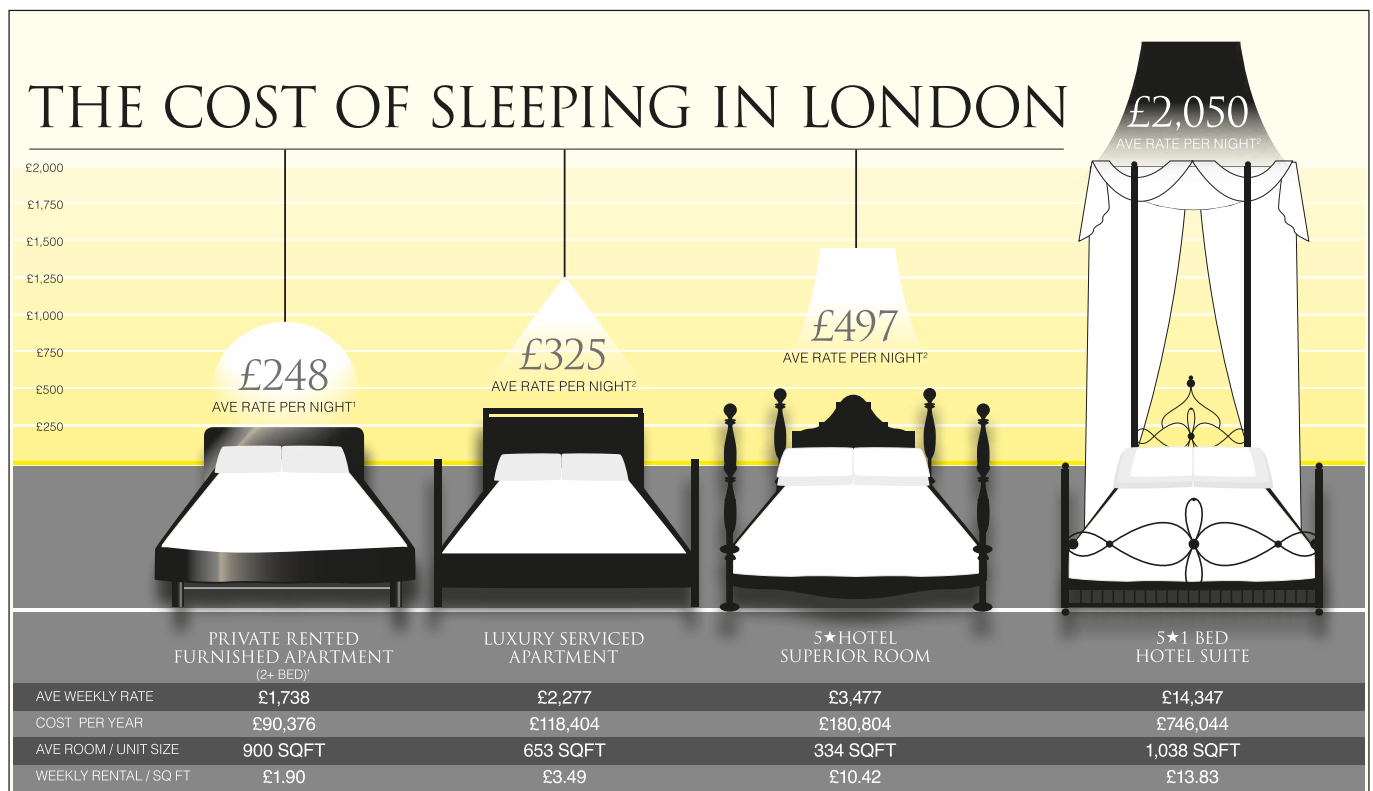
THE LATEST TRENDS IN LONDON'S LUXURY ACCOMMODATION MARKET

With its world class attractions, entertainment, shopping and business environment, Mayfair continues to attract high spending leisure and business visitors, generating demand for both short and long stay luxury accommodation. Traditionally, the price of hotel rooms has been related to rental values in the private sector. (See Figure 1). However, with the range of options for visitors having increased, with hotel suites, serviced apartments and branded hotel residences all on the market, this report will explore whether the inter-play between the two sectors has changed.



The Apartment, The Connaught Hotel

FIGURE 1



SOURCE: WETHERELL
(DataLoft, in association with Lonres)

¹ LONRES (2014).

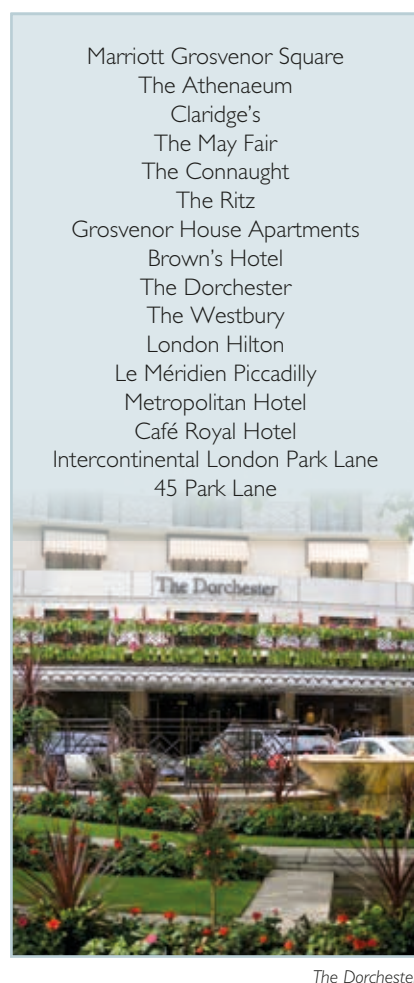
² BASED ON ONE WEEK IN SEPTEMBER 2014, SINGLE OCCUPANCY, INCLUSIVE OF TAXES AND EXCLUDING BREAKFAST.

THE 5 STAR HOTEL SECTOR IN LONDON

Currently just 12% of hotel rooms in London (14,900 of 129,000 rooms) provide luxury five star accommodation (HVS, June 2014). These rooms and suites can primarily be found in Mayfair, home to 16 luxury hotels, as well as in Knightsbridge and pockets of the West End. Average occupancy rates here are robust (at 78-80%), clearly indicating demand across the market and rank on a par with other international cities such as Dubai, Paris, Munich, Barcelona and Rome.

In Mayfair, these hotels include a number of long established and prestigious properties, including those originating in the 1800's such as Browns Hotel (Rocco Forte), Claridge's and The Connaught, in addition to The Ritz, The May Fair and The Dorchester from the early 1900's. More recent additions since 2011 are the renovated Four Seasons Park Lane and 45 Park Lane (sister to The Dorchester). The Café Royal opened in December 2012 on Regent's Street. (See Figure 2).

FIGURE 2: MAYFAIR'S LUXURY HOTELS



Claridge's

Mayfair also boasts the most expensive hotel suite in the capital. Visitors would pay over £11,700 per night for a stay in the opulent Royal Suite in the Intercontinental Hotel.

Total hotel investment volume in London between 2007 and 2013 was the second highest globally after New York, at \$10.4 billion (Source: HVS 2014) or £6.12 billion.

Recent acquisitions indicate that investment within the luxury hotel sector in Mayfair is still significant. As the buoyant residential market has caused an increase in land values (average £psf prices of 2+ bed apartments across Mayfair have risen by 77.9% since 2009) so it is luxury hotels and residences, that remain viable options on available sites. Acquisitions include the Marriot Grosvenor Square in April 2014 by Joint Treasure International Ltd and the purchase of a 50% stake, alongside freehold Grosvenor by Hong Kong and Shanghai Hotels to redevelop 1-5 Grosvenor Place. Developments in the pipeline include the 75-bed Beaumont Hotel in Mayfair (scheduled to open Autumn 2014), and in Westminster Galliard Group's 235-bed 5 star hotel conversion of the former Scotland Yard headquarters at 3-5 Great Scotland Yard scheduled to open in 2016 as well as Admiralty Arch which is planned to become the 100-bed Armani London Hotel, opening in 2016.

Within the last five years a number of luxury hotels have also undergone refurbishment programmes to all or part of their hotels, including the Lanesborough in Knightsbridge (scheduled to reopen Autumn 2014),



3-5 Great Scotland Yard

and the £2.5 million refurbishment of the opulent Royal Suite at the Savoy.

As prices have risen across Mayfair and PCL, so to there has been a change in who is investing within the luxury hotel market in the area. Increasingly there has been a greater variety and flexibility in investment, hotel-construction and ownership. Developers such as the Galliard Group, previously residential focused, have expanded into hotel development across the capital with pipeline hotels in Canary Wharf and Greenwich and completed hotels such as the 68 bed St James Club and Hotel and the 5*398 bed Park Plaza Hotel and Country Club to the south of the river which offers both studio apartments including kitchen facilities as well as a host of 1-3 bedroom suites. Global investors including the Abu Dhabi Investment Authority and KSL Capital Partners have also invested within the luxury hotel sector, with significant interest from overseas investors in projects such as 3-5 Great Scotland Yard and 1-5 Grosvenor Place.



PRIVATE RENTING IN MAYFAIR

Overall average weekly rental values for apartments in Mayfair have risen by 24% since the beginning of 2009 and now stand at £1366 per week. However, larger apartments (those let with over 2000 square foot of space) have recorded average rental prices of £3378 per week over the last five years, 61% higher than those with 1500 to 2000 square foot.

Increasingly, apartments across Mayfair are being rented fully furnished. This suggests that landlords are taking inspiration from the hotel sector, with those wishing to rent for short periods seeking properties with all amenities already provided. Only 56% of all apartments rented across Mayfair in 2009 were furnished but this figure has risen steadily over the last five years and by the end of 2013 stood at 74%. So far in 2014, 79% of apartments rented have been furnished. Furnished apartments with two or more bedrooms have rented for an average of £1738 per week, over double those with one bedroom (£753) per week.



Duke Street

THE INTER-PLAY BETWEEN HOTELS AND THE PRIVATE RENTED SECTOR

At the height of the economic downturn, global recessionary conditions clearly impacted on both Mayfair apartment rental values as well as on London luxury hotel rates. As demand cooled, both were driven down. (See Figure 3).

In 2009, the average London five-star hotel room was 29% more expensive than a private rented two+ bedroom apartment in Mayfair. While London hotel rental values fell by 14% between 2007 and 2009, private rented two+ bedroom furnished apartments dropped more steeply at 20%. In 2010, the traditional gap between private

rented apartment prices and hotel room rates narrowed, prompting prospective long-stay guests to more closely weigh up the merits of where to stay.

However, since 2009 rental values have witnessed stronger growth, increasing by 33% since 2009, compared to a 25% increase for hotel rates. At the end of 2013, the average weekly rental value of a five-star London hotel room was £1687, compared to a weekly rental value for a two+ bedroom furnished flat in Mayfair of £1491, the difference between the two being only 12%.

FIGURE 3: THE RELATIONSHIP BETWEEN LUXURY LONDON HOTEL RATES AND RENTAL VALUES IN MAYFAIR



SOURCE: WETHERELL
(Dataloft, in association with Lonres, Statista)

As market conditions continue to influence apartment rental values and hotel rates, so the ebb and flow in prices is causing guests to weigh up the differences in "value" in their accommodation choice. These values are not solely based on the cost implications of their stay, but also on the perceived benefits of the amenities and services on offer.

THE OPTIONS FOR LUXURY ACCOMMODATION HAVE NEVER BEEN SO VARIED

Over the last decade, the choice and type of luxury accommodation available has increased significantly, with a number of options now available.

FIGURE 4: CONCEPT OVERVIEW

	What Are They?	Target Market
Mayfair five-star hotel suite	A flexible space, usually with a separate living room and bedroom. Fitted out to a high specification, the largest suites can also offer dining, entertainment or outside space and basic kitchen facilities. Typically three times the size of a 'superior' room. Signature suites offer the most opulent surroundings and interior design. All suites include access to the stunning leisure and dining facilities within the hotel.	High net worth individuals, families, parties, corporate events.
Mayfair luxury serviced apartments	Serviced apartments offer guests the convenience of an apartment with a living area and kitchen facilities, but also the option of house-keeping services and access to communal facilities – very similar to a hotel. Minimum three or seven night stays may apply. There is a mix of branded and independent operators in the marketplace.	Typically the corporate market. However, in the West End there is increasing demand among leisure visitors, boosting weekend occupancy.
Branded residences	Typically apartments, townhouses or villas which are built adjacent to or near a hotel, usually with a separate entrance. Usually sold as freehold real estate, but owners (or their tenants) have the option to draw upon the services and amenities provided by the hotel at a cost.	With branded residence sales generating a substantial price premium, purchasers are usually global high net worth individuals. When not using their property themselves, they can choose to let it privately (usually on a long lease) or in some cases let it through the hotel (at a cost).

In response to demand for greater privacy and space, luxury operators are increasingly raising their stock of suites. In Mayfair, the average suite ratio (the proportion of room inventory that comprises suites) is now more than 24%. However, this stands at 61% at 45 Park Lane. The majority of hotels offer 'signature suites', typically the most opulent units in their range, with the best views of London's skyline or attractions. They are often interior-designed by renowned designers with bespoke fittings. Works of art were specially commissioned for 'The Apartment' (3,068 sq ft) suite at 'The Connaught', while the Claridge's Royal Suite boasts a grand piano and original Edwardian furniture.

The serviced apartment sector has grown considerably in recent years and has become an increasing source of competition for the hotel industry. This is particularly the

case in the corporate market, with average occupancy rates of 85% (Jones Lang LaSalle – JLL), higher than those of hotels (81%). In London, the majority of supply is located in Westminster, followed by Kensington and Chelsea (increasingly popular among leisure guests) and then Canary Wharf. Average weekly serviced apartment rates are currently £1,157 in London (source: ASAP), up more than 25% since 2008 and increasing by 5% between 2012 and 2013. While the majority of supply is concentrated on the mid-market, the West End is the focus for luxury products.

In Mayfair, Jumeirah Living's Grosvenor House consists of 130 apartments ranging in size from studios to a five bedroom penthouse. They all have kitchen facilities and benefit from optional services such as an in-residence spa, daily maid service and 24 hour concierge.

Most recently, branded residences have begun to penetrate the market. (See Figure 4). These are stunning properties attached to some of the most high-profile redevelopments across London over the past two years and offer the ultimate in synergy – ultra luxury hotels with an additional wing/section of private sale or serviced apartments. They are yet to make their debut in the Mayfair luxury market and at present only a dozen exist across PCL. The current cream of the crop are to be found at: One Hyde Park (Mandarin Oriental) and the Bulgari Residences in Knightsbridge, The Shard (Shangri-La) at London Bridge, Marconi House (ME Hotels) on The Strand and The Residences at W London (Starwood Hotels) on Leicester Square. Currently branded residences are linked to 5* hotel sector as their stunning locations demand.

CAN YOU COMPARE THE HOTEL, SERVICED AND RENTAL MARKETS?

A comparison of the different options available is not entirely straightforward as each accommodation choice has a slightly different offering to the purchaser and it is worth noting that hotels may well discount their room rates for lengthier stays.

At a simple level, hotel suites across Mayfair and two+ bedroom private rented apartments offer the greatest space available. However, despite being only 15% larger, average weekly rentals (assuming no discount in the hotel sector) are 700% more expensive for a hotel suite compared to an apartment. Private rented apartments on a weekly basis offer the best rental values per square foot. (See Figure 7). However, in most cases these would have

to be rented for six months and thus over the longer term may prove more on par with their counterparts.

Examining the size of accommodation in more detail reveals that private rented apartments across Mayfair offer a larger square footage than many typical five-star superior and deluxe rooms. They compare well with current serviced apartments on offer throughout the district, offering slightly less space for a two bedroom apartment, yet slightly more for a three bedroom. At the top end of the market, suites in Mayfair offer the greatest amount of space, although it will be interesting to see whether this changes if more branded residences create a niche in the market.

Costs, nonetheless, are relative to what guests get for their money. For those staying in a Mayfair hotel suite (the most expensive on a per square foot basis, at eight times the value of a private rented flat – see Figure 5), the level of services and facilities they gain access to is unrivalled.

While a five-star Mayfair hotel suite can cost over £14,300 for a seven night stay, guests can enjoy the maximum available room space. As shown in Figure 6, five-star hotel suites are similarly sized to the other type of luxury hotel-style homes - branded residences. Both concepts offer one bedroom units at over 1,000 square foot on average.

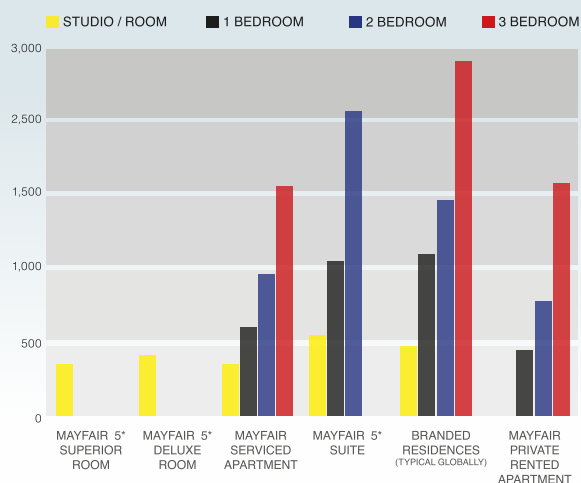
FIGURE 5: COMPARISON OF RATES AND UNIT SIZES

	Mayfair five-star superior hotel room	Mayfair five-star hotel suite (1 bed)	Mayfair luxury serviced apartments (1 bed)	Mayfair private rented furnished apartment (2+ beds) ²
Average room size (sq ft)	334	1,038	653	900
Average rate per night (£) ¹	£497	£2,050	£325	£248
Average weekly rate (£)	£3,477	£14,347	£2,277	£1,738
Weekly rental /sq ft (£)	£10.42	£13.83	£3.49	£1.90
Total Cost per year	£180,804	£746,004	£118,404	£90,376

¹ Based on one week in September 2014, single occupancy, inclusive of taxes and excluding breakfast.

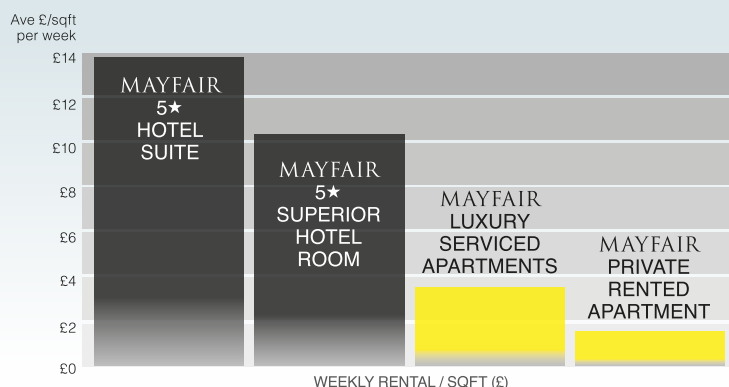
² – Lonres (2014).

FIGURE 6: COMPARISON OF ACCOMMODATION SIZES (SQ FT)



SOURCE: WETHERELL (DataLoft, in association with Lonres) (RENTAL VALUES 2014)

FIGURE 7: AVERAGE PRICE PER SQUARE FOOT FOR ONE WEEK'S STAY IN A FIVE-STAR MAYFAIR HOTEL COMPARED TO A SERVICED APARTMENT AND A PRIVATE RENTED APARTMENT



SOURCE: WETHERELL (DataLoft, in association with Lonres) (RENTAL DATA BASED ON 2+ BEDROOM FURNISHED APARTMENT)

OPPORTUNITIES IN THE PRIVATE RENTAL MARKET

Whilst hotel accommodation can be booked per night, the average rental let is six months, although some landlords do provide options for shorter three lets where leasehold rules allow. However, as highlighted, since 2009 rental values for 2+bedroom apartments in Mayfair have increased by 33% compared to only a 25% increase for hotel rates. For landlords this increase in rental value, alongside the rise in asset values, has made the rental market a potentially highly lucrative sector in which to invest, yields for a 2 bedroom apartment in Mayfair in 2013 stood at 2.8%, on par with the Central London average of 3.0% .

Over 92% of all sales across Mayfair at the sub £5 million level since 2009 have been of apartments, 89% so far in 2014. Two bedroom apartments have accounted for a half of all yearly apartment sales over the last 5 years, and have witnessed a growth in £psft values of 15% and overall sales price of 20% over the last 2 years. The average sales price of a 2 bedroom apartment in Mayfair in the last 12 months was £2.44 million, offering 1,070 sq ft. (See Figure 8). One bedroom apartments account for around a quarter of all apartment sales. Due to the small number of properties sold, the figures need to be treated with caution but it is clear that average sizes of apartments are increasing and sales values are rising.

For those looking to invest in Mayfair, acquiring a one or two bedroom apartment

in need of refurbishment, modernising the specification and creating stunning interior design with exceptional furnishings enables the possibility of renting out such a property and effectively "entering the luxury hotel business" a short", especially if a landlord considers a short term tenancy (generally considered to be 1-6 months) if rules allow. Short term tenancies offer a price premium over longer term let, yet since the start of 2009 have only accounted for 3% of all apartment lets in Mayfair. For 2 bedroom apartments rented in Mayfair since the start of 2009, the average weekly rent for a short term let was £1572 compared to £1119 on a long term let, a 40% premium.

At the top-end of the market, a number of super-prime quality rental apartments have been released onto the luxury rental market over the last 2.5 years. These include One Hyde Park and Wellington Court in Knightsbridge, with rental values of over £15,000 per week (i.e. comparable with the weekly cost of a 5* 1 bed hotel suite). These apartments, of which a number are signature penthouse apartments, offer on average, four stunning bedrooms, and apartment sizes of 3739 sq ft. Of those bought to the market, nearly 69% were offered furnished and only 38% were let (all with long tenancies) whilst the rest were withdrawn from the market.



Avenfield House

FIGURE 8: SUB £5 MILLION 2 BEDROOM APARTMENT SALES MAYFAIR 2012/13 AND 2013/14

	1 bedroom			2 bedroom		
	2013/14	2012/13	% change	2013/14	2012/13	% change
Average Sales Price	£1.44 mill	£981,755	47%	£2.44 mill	£2.03 mill	20%
Average £psft	£2,043	£1,458	40%	£2,106	£1,829	15%
Average size (sq ft)	707	668	6%	1,147	1,070	7%
Number of transactions	22	20		42	42	
% of all apartments sold	27%	24%		51%	49%	

Source: Lonres and Dataloft, June 2013 – May 2014 and June 2012 – May 2013.



Espelette Restaurant, The Connaught Hotel

A GROWING AND PROSPERING MARKET

The luxury accommodation sector in Mayfair and around London is thriving and ever-changing. The choice of accommodation is growing and there is something to suit everyone, regardless of how decadent a taste may be. Private rented apartments offer more value per square foot for longer stays in the capital. (See Figure 7). However, hotel suites and serviced apartments offer a wider choice of luxury extras that will appeal to certain markets.

Catering for the individual needs of high net worth individuals that frequent this market is key. The options available across Mayfair and the relationships that exist between each of the markets ensures that, above all, you are certain of the best attention and service whatever the requirements.



WETHERELL
MAYFAIR'S FINEST PROPERTIES

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METHODOLOGY

To deliver 'Sleeping in London', Wetherell commissioned DataLoft in association with Lonres, to undertake a detailed analysis of 5 star hotel room/suite; serviced apartment and rented flat rates across Mayfair. Comparisons were then drawn between this Mayfair market and other districts such as Knightsbridge, St James and Whitehall/Strand using findings from other research material. The report has also made observations about hotel and branded residences development across PCL. The report has drawn on data from Lonres, HVS Report: In Focus – London Luxury Hotels 2014, Statista and other hospitality/property industry information. Statistics with regard to Mayfair Hotels within the report were based on the following 5* Mayfair hotels where quality sqft and price data was obtainable. Note this does not include all 5* Mayfair Hotels: The Mayfair, The Connaught, Claridges, Café Royal, The Dorchester and The Ritz. For Serviced Apartments: information in the report was based on the following serviced apartment buildings. Note: This is not an exhaustive list of all those in Mayfair but again, those where information was available: 13 Half Moon Street, 47 Park Street, Arlington House Apartments, The Ascott, The Artheneum Apartments, Carlton Court, Claridges, Grosvenor House by Jumeriah, Hyde Park Residence, Metropolitan Hotel and Apartments, Mayfair House and Maddox Street. Finally, Wetherell local market intelligence was used to provide additional comment for the report.

NO-ONE KNOWS MAYFAIR BETTER THAN WETHERELL