



HotelBeat

FINANCIAL FAIR PLAY: HOTELS – THE NEW SUPER SUB?

December 2014

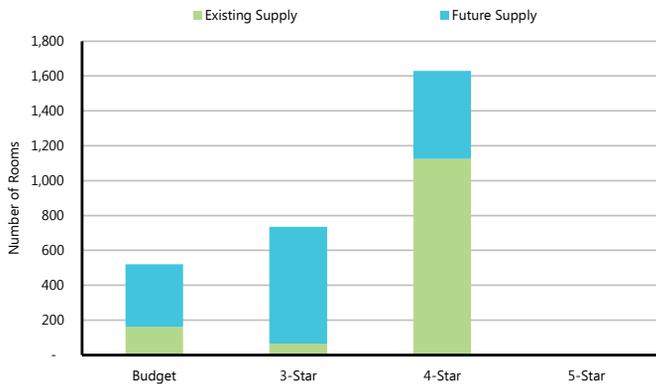


OVERVIEW

Over the past 18 months we have witnessed an increase in enquiries from professional football clubs considering the inclusion of hotels as part of their non-core business operations. A key driver of this growing trend has been the adoption of the Financial Fair Play (FFP) rules designed to curb the losses that most football clubs experience as a result of high wage to revenue ratios. The FFP rules vary depending upon the league of competition, but essentially they are imposed to ensure clubs remain sustainable by setting limits on the level of financial loss in a season, and specifically in the Football League, setting caps on the players wage expenditure as a proportion of turnover. With tighter expenditure controls in place but no sign of player's salaries falling, Clubs are seeking alternative means of boosting commercial revenues. This is where hotels, if carefully planned and efficiently operated, can provide a vital additional source of income to help Clubs meet their objectives on the pitch. We review the state of the market in the UK and give some helpful pointers from our recent experience of working with UK football clubs.

HOTEL SUPPLY AT FOOTBALL CLUBS

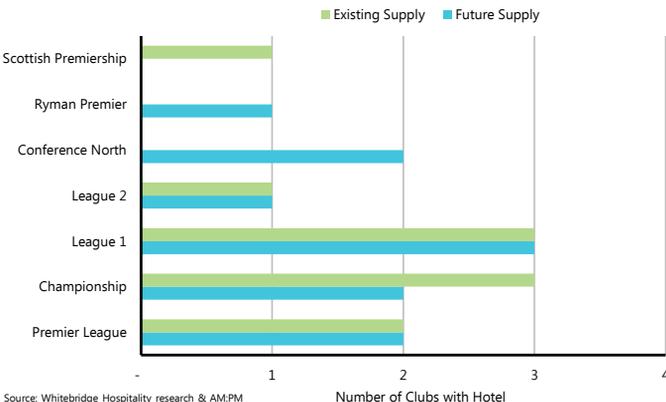
At present there are just 12 hotels operating at 11 football clubs in the UK, with Chelsea Football Club being the only stadium to have two hotels on-site. The total room stock across these hotels is just over 1,350, with individual hotels ranging from 50 keys at Kilmarnock F.C. in Scotland, up to 230 keys at the DoubleTree at M.K. Dons in Milton Keynes. The majority of supply (83%) is positioned at the four-star level and is developed, in most cases, to match the quality of the on-site conference & banqueting operations in the stadium. No hotels exist at the five-star level.



Source: Whitebridge Hospitality research & AM:PM

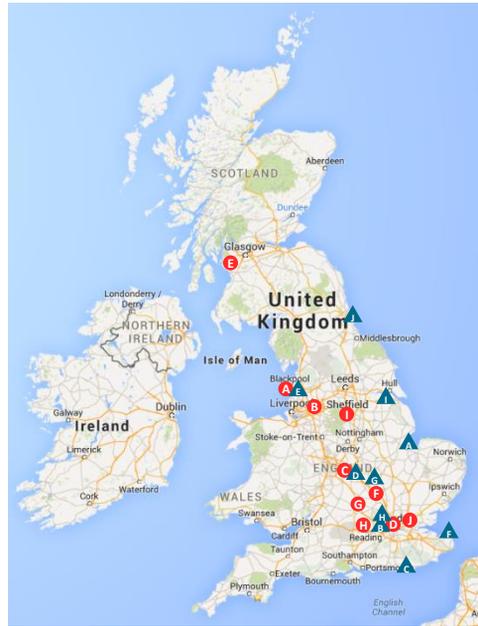
Club's preferences are for either a franchise (36%), or operating directly (36%), although there is a noticeable shift with new projects looking to engage directly with the brands for management or through an intermediary management company. Seven of the 11 existing hotels are branded.

Data provided by AM:PM suggests a pipeline of a further 11 hotels that will more than double the existing room supply (up by 1,536 keys). Most of the new stock is anticipated to be three-star although levels will not surpass the four-star category. Clubs in League 1 appear to be most active in planning for new hotel development, closely followed by their counterparts in the Championship and the Premier League.



Source: Whitebridge Hospitality research & AM:PM

MAP OF CURRENT & FUTURE SUPPLY



Existing Football Club Hotels

- A – Blackpool F.C.
- B – Bolton Wanderers F.C.
- C – Coventry City F.C.*
- D – Chelsea F.C. x2
- E – Kilmarnock F.C.
- F – Milton Keynes Dons F.C.
- G – Oxford United F.C.
- H – Reading F.C.
- I – Sheffield United F.C.
- J – West Ham United F.C.

Proposed Football Club Hotels

- A – Boston United F.C.
- B – Brentford F.C.
- C – Brighton & Hove Albion F.C.
- D – Coventry City F.C. x2*
- E – A.F.C. Fylde
- F – Margate F.C.
- G – Northampton Town F.C.
- H – Queens Park Rangers F.C.
- I – Scunthorpe United F.C.
- J – Sunderland A.F.C.

* Tenant at stadium

Source: AM:PM, Whitebridge Hospitality research, © 2014 Google Maps

DEVELOPING NEW HOTELS AT FOOTBALL CLUBS

Given the land-locked city/town centre location of most football clubs, developing a hotel on-site is not always an option. However, where redevelopment plans are able to be considered, our experience of assisting Brentford F.C and Brighton & Hove Albion F.C with their hotel schemes has highlighted the following important lessons:

- Identify the market opportunity for the hotel through a demand & supply assessment – *football demand alone is unlikely to sustain a hotel.*
- Evaluate ownership/development options – *is it essential that the club owns the hotel outright? Can the club afford to develop? Can the opportunity be sold off either pre or post development?*
- Should the hotel adjoin the stadium or be located adjacent - *what are the implications of this decision on financial performance and cost?*
- Use the hotel to maximise conference/banqueting revenue at the club – *the hotel should be capable of driving mid-week MICE demand.*
- Carefully consider the right brand of hotel – *market positioning is key as is the fit of the brand. Five-star may be too high, and budget may be too low.*
- Consider the management options to maximise return and fit with the club's objectives – *direct management by a hotel chain, franchise or lease?*
- Plan accordingly for any disruption at the stadium that may be caused by development during the playing season. – *Can modular construction be used to fast-track the process?*

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