



www.lsh.co.uk

Proposed Hotel Indigo, Barbican, London

Market and Viability Study

London City Shopping Centre Ltd & Lamb's Passage Real Estate Ltd

June 2016



PROPOSED HOTEL INDIGO, BARBICAN, LONDON

Executive Summary

We are pleased to present our report on the proposed Hotel Indigo development, Barbican detailing our assessment of the viability of the scheme which is to comprise a 61 bedroom hotel, plus food and beverage concept. Key areas that we have considered include:

1. Overview of the London and the London Borough of Islington hotel markets – including supply and demand.
2. An assessment of the suitability of the site for hotel use.
3. Consideration as to whether the proposed scheme will create an over-concentration of hotels of similar uses (such as other visitor accommodation, hostels and student accommodation) in the surrounding area (generally within a 500 m radius of the site).
4. The proposed hotel's market position and offer in the context of the immediate area and existing supply
5. The background to the viability of the proposed mixed use scheme.

We carried out a site visit and background research to assess the proposed hotel site's suitability for hotel use, its accessibility and location in relation to potential demand generators, both corporate and leisure. We also undertook primary market research into The City of London and the London Borough of Islington and carried out desktop research into potential demand generating sources for the proposed Hotel Indigo.

In addition, we have conducted research into the potential future hotel supply in the area of relevance as well as local hotel market performance utilising AM:PM full-service market data.

Based on this research we have reviewed the expected average annual room occupancy levels, average room rates, total revenue and gross operating profit for the first five years of operation for the proposed Hotel Indigo, Barbican against the immediate competition.

Key Findings and Conclusions

- The hotel site characteristics at Barbican present as a clear opportunity for a Hotel Indigo. The proposed Hotel Indigo will benefit from prominent positioning to key demand generators in the immediate vicinity and excellent accessibility to/from The City, central London and surrounding areas.
- London remains one of the world's most popular tourism destinations, welcoming c.18.8 million international visitors in 2015, being ahead by c.4.4% on the previous year, contributing more than £36 billion to the capital's economy. Due to strong market fundamentals, London remains one of Europe's best performing hotel markets with the highest occupancy in Europe in 2015. The hotel sector remains a vital part of London's tourism economy, supporting significant jobs.
- Hotels in the local hotel market of relevance accommodate high-yielding transient corporate demand during weekdays and price-sensitive leisure demand at weekends. Whilst midweek demand appears robust, the area surrounding the Barbican market remains a secondary leisure location relative to central London, reflected in the lower rates commanded during the weekend period.
- The potential for hotel developments earmarked to enter the local Barbican area market will remain due to the strong hotel market fundamentals, demonstrating the strength of market interest and the opportunity for additional hotel accommodation. However, more than half of the 18,000 rooms entering the London market since 2012 have been in the budget sector.
- The proposed location of the development as well as an increasing overall appeal of East London combined with the evident success of the Hotel Indigo brand elsewhere in London will enable the proposed development to successfully compete within the wider hotel market and achieve a strong market position in the local area.
- As a full service Boutique hotel brand, Hotel Indigo represents a distinctive four star product that reflects a strong design lead hotel offer, with the emphasis on each Indigo hotel being individual, the design incorporating a "neighbourhood" theme reflecting the heritage of its location. Allied to the hotel, the Indigo brand has developed around a strong food & beverage offer and restaurant, with a focus on locally sourced and seasonal ingredients. The utilisation of the vaults will provide a unique dining experience that will help to create a dining destination.

- We envisage that under the development scenario the proposed Hotel Indigo will occupy a strong and sustainable market position by the third and stabilised year of operation (2020/21). The following table summarises the projections for key performance indicators for the proposed Hotel Indigo.

Operating Period (Year commencing 1 September)		2018/19	2019/20	2020/21	2021/22	2022/23
Rooms available		61	61	61	61	61
Average Annual Room Occupancy	%	85.4	89.4	93.4	93.4	93.4
Average Room rate	£	141.17	149.03	155.34	155.34	155.34

- We see the proposed hotel as an important element of this proposed mixed use scheme, by virtue of the fact that it increases the vitality of the scheme and facilitates the place making of the rest of the development.

1 Background

Background

London City Shopping Centre Ltd and Lamb's Passage Real Estate Ltd plans to develop a 61-bedroom hotel on Lamb's Passage in London's Barbican area. Lambert Smith Hampton Hotels has been commissioned by Sanguine Hospitality Limited to undertake a market review and viability study for the proposed development of a full-service hotel on Lamb's Passage, branded under Intercontinental Hotel Group's (IHG) Hotel Indigo brand.

In May 2016, we visited Lamb's Passage and Barbican as well as the surrounding area, undertaking research into the existing supply of and demand for hotel accommodation. We examined the site identified for the proposed Hotel Indigo, assessing its accessibility as well as its suitability and relationship to other hotels, transport routes and termini, commercial and tourist areas and other main facilities in the area. During our field research we:

- obtained current and historic market and operational data on the hotel, leisure and other relevant commercial sectors;
- determined the existing and future characteristics of markets, which we consider to be of relevance to this project;
- determined the present supply of hotel accommodation serving those markets and obtained the available data from sources considered authoritative on other relevant planned developments;
- obtained other pertinent information relating to the economy, communications infrastructure and general economic development of the area; and
- assessed the economics of and general climate for the operation of the proposed Hotel Indigo at Lamb's Passage.

In light of our primary research, we assessed the current commercial and economic environment of the local area relevant to the proposed development within London, its hotel and tourism industries, the likely future market environment in which the proposed Hotel Indigo will operate, the impact that the opening of the proposed development will have on existing local and wider regional markets and the hotel's recommended market position within the current and future hotel market of competitive relevance.

We have commented on the proposed development at Lamb's Passage in terms of the standard and scale of facilities and projected average room occupancy, average room rate, revenues, costs and profit levels for the project.

2 Site and Location Analysis

Site and Location Analysis

Introduction

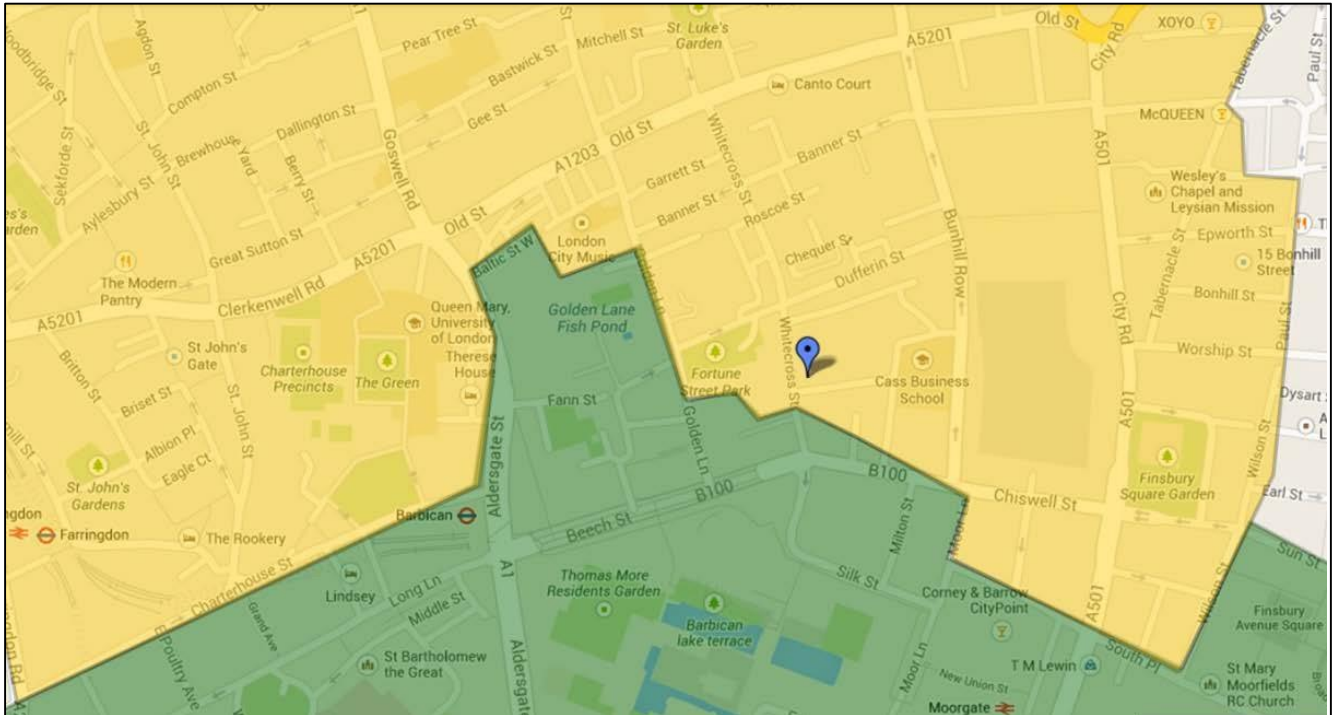
In this section, we present our analysis and comments regarding the site for the Hotel Indigo, the communications infrastructure in and around Barbican, the location characteristics of the site and the potential benefits and opportunities that a hotel operation on the site represents.

Site Appraisal

The following maps represent the site locations of the proposed hotel development on Lamb's Passage (highlighted by the blue marker) within Islington and on the border of The City of London (highlighted by the yellow and green shaded areas respectively) in relation to the wider London area.

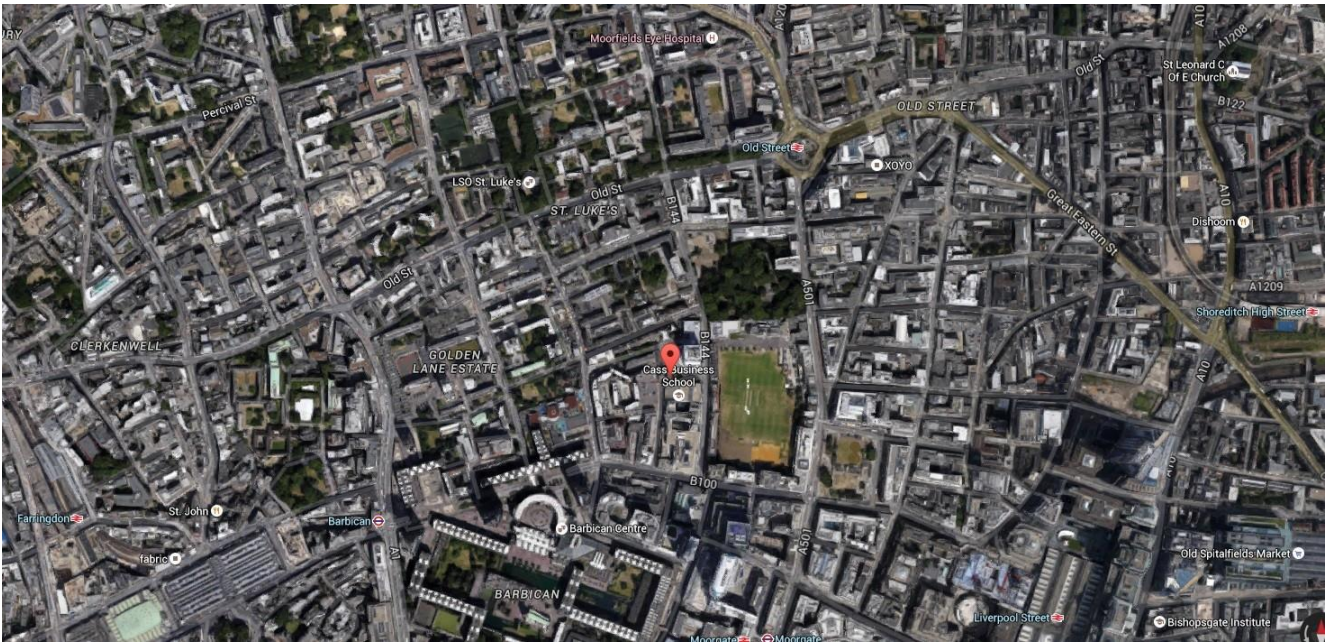


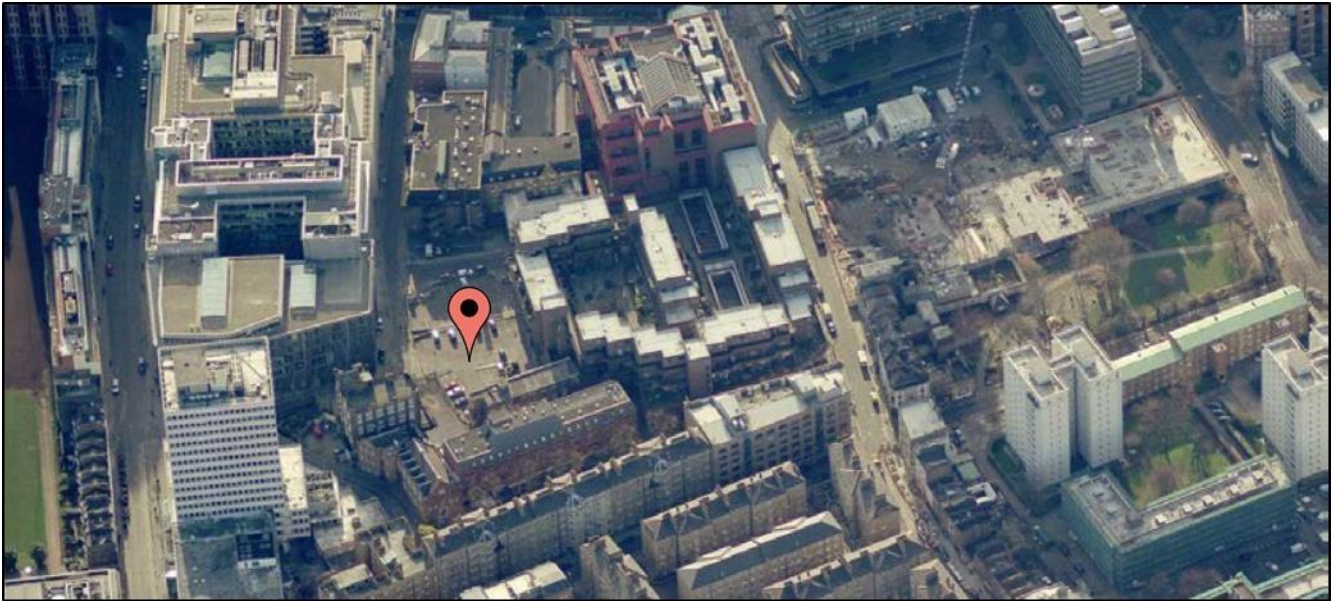
Source: Google Maps, 2013



Source: Google Maps, 2013

The following aerial photographs show the location of the site for the proposed Hotel Indigo within the Barbican area.





Source: Google Maps, 2013

Comment

- The site for the proposed Hotel Indigo benefits from a strong location north of the Square Mile, London's financial hub. The proposed site on Lamb's Passage is perpendicular to Chiswell Street (B100), which in turn connects with City Road to the east and Aldersgate Street (A1) to the west, and borders with Islington and The City of London boroughs. The site also benefits from proximity to several London Underground and National Rail stations including Old Street, Liverpool Street, Moorgate and Barbican.
- The proposed site is opposite the Barbican Centre, Europe's largest multi-arts and conference venue. The 35-acre Barbican Estate is home to schools, a museum, a YMCA, over 2,000 high-end residential apartments, the Barbican Arts Centre and the London Symphony Orchestra. Furthermore, the proposed site is in proximity to the Brewery Exhibition Centre.
- Put in a wider context, 75 per cent of the Fortune Global 500 companies have an office in London and one third of the companies choose the capital for their European Headquarters. London is the financial and business capital of Europe and with approximately 450 international banks. The City is the single largest concentration of contributing companies, creating robust midweek accommodation demand for hotels in the local area.

Communication

Road

With the A40, A10 and A3 less than five minutes' drive from the proposed Hotel Indigo, the site benefits from excellent communication links to the M25 and M40 motorways. Lamb's Passage is located off Chiswell Street in proximity to the A1 (Aldersgate Street), which in turn connects to the north circular and the M1. The A501 (City Road), provides access to the west of London and Kings Cross, St Pancras, Euston, Marylebone and Paddington stations, ultimately connecting with the A40 and the M4. The road connectivity of Chiswell Street is excellent.

In the following table we provide approximate distances and travel times (by road) from the proposed hotel site to key locations within London and the UK. It should be noted that the stated drive times are for indicative purposes only.

Approximate Drive Times

Lamb's Passage to/from Major London Locations and UK Cities

Key Locations	Drive Distance - Miles	Approx. Drive Time - Minutes
London Locations		
Liverpool Street	0.9	7
St Pauls	1.2	9
Covent Garden	2.2	18
Kings Cross/St Pancras	2.7	19
Victoria	3.8	33
Oxford Circus	3.9	30
Hyde Park Corner	4.7	35
Canary Wharf	4.2	25
Paddington	4.6	32
ExCel	6.7	28
Greenwich Peninsula	7.1	38
Wembley	12.8	55
London Airports		
London City Airport	7.6	31
London Heathrow Airport	18.5	67
Stansted Airport	33	52
London Luton Airport	34.5	70
Gatwick Airport	51	77

Source: Google Maps, 2016

Barbican is well serviced by London’s bus system, with numerous services into central, north and east London.

Rail

Lamb’s Passage is situated in proximity to various underground and railway stations. The following table details rail links available to/from Barbican.

Rail Services to/from the Barbican Area

Station	Distance	Rail Link	Type	Destinations
Barbican	0.3 miles	Circle Line	London Underground	West, Central and East London
		Hammersmith & City Line	London Underground	West, Central and East London
		Metropolitan Line	London Underground	North-west, Central and East London
Moorgate	0.5 miles	Circle Line	London Underground	West, Central and East London
		Hammersmith & City Line	London Underground	North-west, Central and East London
		Metropolitan Line	London Underground	Welwyn Garden City, Hertford North
Old Street	0.7 miles	Southeastern Line	London Underground	Gordon Hill, Stevenage
		Northern Line	London Underground	North, Central and South London
		First Capital Connect	National Rail Service	Central and North London
St Paul’s	0.7 miles	Central Line	London Underground	West, central and East London
Liverpool Street	0.7 miles	Central Line	London Underground	West, central and East London
		Metropolitan Line	London Underground	North-West, central and East London
		Circle Line	London Underground	West, Central and East London
Bank	0.9 miles	Hammersmith & City Line	London Underground	West, Central and East London
		Stansted Express	National Rail Service	London Stansted Airport
		Greater Anglia	National Rail Service	Cambridge, East Anglia
City Thameslink	1.0 mile	Northern Line	London Underground	North, Central and South London
		Central Line	London Underground	West, central and East London
		Waterloo & City Line	London Underground	Waterloo, Bank
London Blackfriars	1.1 miles	First Capital Connect	National Rail Service	Bedford, Central London, Brighton
		Circle Line	London Underground	West, Central and East London
		Hammersmith & City Line	London Underground	West, Central and East London
		First Capital Connect	National Rail Service	Luton, central and South-East London
		Southeastern	National Rail Service	Bedford, Brighton, Sevenoaks, St Albans, Sutton

Source: Transport for London, Google Maps

Comment

- Within a one-mile radius, the proposed site is connected to various railway and underground stations, serviced by the Northern, Central, Circle, Hammersmith & City, Metropolitan, Waterloo & City lines as well as national rail services.
- The proposed site is easily accessible from St Pancras International station, which is London’s primary Eurostar terminal and offers high-speed rail services to destinations in continental Europe including Paris, Lille, Brussels and onwards.
- The £6.5 billion Government sponsored Thameslink programme is to improve journeys running from the north to south of London, and will form part of the £14.8 billion Crossrail scheme, which, when completed by the end of 2018, will improve journeys from east to west London including direct links to Gatwick, Heathrow and Luton airports with Stansted and London City Airport an interchange away. The closest Crossrail links to the proposed site, set equidistant, are Farringdon station and Liverpool Street station.
- Crossrail will link the combined financial and business districts of the West End, City of London and Isle of Dogs to Heathrow Airport in the west and the Thames Gateway in the east.

Air

The proposed site is well located with respect to the major London international airports. The nearest major airports to the site are London City (2015 annual passenger volume - 4,319,749) and London Heathrow Airport (2015 annual passenger volume - 74,985,748).

The table below summarises the journey time from the proposed site to all London airports by road and public transport.

Travel Time to and From London Airports

Airport	Journey Time By Car	Journey Time by Public Transport	Distance
London City Airport	31 minutes	42 minutes	7.6 miles
London Heathrow Airport	67 minutes	53 minutes	18.5 miles
London Stansted Airport	52 minutes	73 minutes	33 miles
London Luton Airport	70 minutes	57 minutes	34.5 miles
London Gatwick Airport	77 minutes	64 minutes	51 miles

Comment

- London City Airport (LCY) is located approximately 7.5 miles east of the proposed site. City Airport is easily accessible by road and public transport directly connected with the Docklands Light Railway. The airport is the closest private jet centre to The City and mainly serves the financial district of London. At present, London City Airport serves 50 destinations in the UK and Europe, with transatlantic flights direct to New York (including an exclusive business-class only flight operated by British Airways) currently operating two flights per day (Monday to Friday). 2015 was a record year in terms of passenger numbers at 4.2 million which was an 18% increase on 2014 making the airport the thirteenth busiest in the UK. Approximately £7 million was invested into the terminal in 2011. The London City Airport masterplan forecasts handling eight million passengers and creating an additional 2,500 jobs by 2030, with no plans to modify the existing rigid operating hours (London City Airport is closed at night and for 24 hours at the weekend) or to develop an additional runway.
- London Heathrow Airport (LHR) is located approximately 18 miles west of Barbican and is not connected directly with The City. The fastest link is the non-stop Heathrow Express train to London Paddington station (journey time of approximately 15 minutes). The average journey time to Barbican from Heathrow Airport is approximately 1 hour and ten minutes. Future rail extension schemes (i.e. Crossrail) will connect Liverpool Street and Farringdon to London Heathrow Airport, reducing travel time to approximately 40 minutes.
- In 2014, the airport handled a record 73.4 million passengers. Terminal 5 is Heathrow's busiest terminal, handling 31.6 million passengers and approximately 207,000 flights in 2014. The busiest day every recorded for passenger numbers was in August 2014 with 241,412. 93% of passengers were international in 2014. The newly redeveloped terminal 2 opened in June 2014 marking the completion of 11 billion investment programme which began in 2003. The project was completed in November 2013 with the new terminal 2 being renamed as The Queens Terminal undergoing operational trials and extensive testing before being opened to the public. The Queens Terminal houses 26 airlines and is expected to have been utilised by approximately 10 million passengers in 2015 and growing to 17 million by 2019.
- London Stansted Airport (STN) is approximately 34 miles north east of Lamb's Passage. The Stansted Express train service departs from Liverpool Street station and takes approximately 35 minutes. The average journey time by train from Stansted airport to Lamb's Passage is approximately one hour.
- London Stansted Airport is the fourth busiest airport in the UK after Heathrow, Gatwick and Manchester in terms of passenger numbers (22.5 million in 2015) this was a 12.8% increase on 2014.
- In the 12 months ending April 2016 the total number of passengers using Stansted grew to over 23.2 million which was an increase of 10.1% over the previous year and the high annual total since July 2008.
- London Luton Airport (LTN) is situated approximately 34 miles north west of Lamb's Passage. East Midlands Trains operate services to and from City Thameslink with an average journey time of 40

minutes. In 2015, the airport handled 12.3 million passengers providing scheduled and charter flights to major UK and European destinations such as Glasgow, Edinburgh, Amsterdam and Paris.

- London Gatwick Airport (LGW) is located approximately 29 miles south of the proposed site. The most efficient transport link to Gatwick Airport from Lamb's Passage is the First Capital train service to Blackfriars rail station, which runs four trains per hour with a journey time of approximately 45 minutes. London Gatwick is the second busiest airport in the UK, handling over 40 million passengers in 2015.

Site and Location Analysis – Key Insights

The following bullet points summarise the key insights of the site and location appraisal for the proposed Hotel Indigo development on Lamb's Passage.

- The site occupies a strong strategic location in proximity to a number of key communication links which will be further strengthened by the opening of Crossrail.
- Portrayed as an up-and-coming location, the proposed Hotel Indigo will be in proximity to a number of diverse midweek demand generators for accommodation, such as the Barbican Centre and a plethora of technology and professional service firms located in The City of London.
- The location of the development in proximity to a number of communication links and corporate demand generators should enable the proposed Hotel Indigo to attract significant levels of higher yielding corporate demand. Whilst not an established destination for leisure demand, the branding of the hotel and strategic location will be key to creating an attractive proposition to comparatively lower yielding weekend/leisure demand.

3 Islington and The City of London – General Background

Islington and The City Of London – General Background

Introduction

This section examines the economic characteristics of the Islington and The City of London borough areas profiling current employment structure and significant development projects in the surrounding area relevant to the proposed Hotel Indigo. We also examine London's tourism economy.

Islington and The City of London

Although the site for the proposed Hotel Indigo is located in the London Borough of Islington, it is situated on the fringe of The City of London based on our research. The City of London is considered to become the key business demand generating area for the proposed Hotel Indigo and therefore is analysed alongside Islington.

Islington

Islington has become one of the most desirable places to live in London, reflected by property prices considerably higher than those achieved in comparable west London districts such as Chelsea and Notting Hill.

Islington is home to many renovated Victorian and Georgian townhouses as well as luxury developments, popular with City professionals. Old Street, located approximately half a mile from the proposed Hotel Indigo, runs west to east from Clerkenwell, in the London Borough of Islington to Shoreditch in the London Borough of Hackney.

Old Street is developing into a major European technological hub and is set to continue its expansion, further highlighting its reputation as the 'Silicon Valley of Europe'. It is envisaged that Old Street, along with the Government's Tech City initiative, will help create the next generation of British technologies and attract research and development companies to the area, helping to keep the UK at the forefront of innovation. Since the Tech City initiative launched in 2010, the number of tech firms in proximity to the Old Street roundabout area more than quintupled, from 200 to 1,300. Wired Magazine updated this figure in 2012 and suggested that some 5,000 tech companies were located in the wider area centred on the Old Street Roundabout.

In December 2012, Prime Minister David Cameron committed £50 million to regenerate the Old Street roundabout area into Europe's largest indoor "civic space", equipped with state-of-the-art 3D printing technology. Microsoft has announced that it will establish a technology centre in east London and Amazon has opened a development centre 0.3 miles from the proposed Hotel Indigo.

The City of London

London's Square Mile in the City of London is the world's leading international financial and business centre and a key component of the national economy. The Square Mile is 'a global powerhouse' at the heart of the UK's financial services industry, which is focused around Bishopsgate, Liverpool Street and Tower Hill. With a population of circa 7,400 (2011, Office for National Statistics), over 300,000 commute each day into the 'Square Mile' to work in The City of London.

An estimated additional population of 250,000 is employed in The City fringes extending from Holborn to St Katherine's Dock. Over 500 banks have offices in the City and financial services accounted for approximately ten per cent of the UK's GDP in 2010, according to The City of London Corporation.

Economic Structure

The latest figures (2014) suggest that The City of London's unemployment (based on Job Seekers Allowance Claimants) stands at 0.8 per cent, whilst the London average stands at 1.7 per cent.

The following table details the structure of the labour market by industry sector in The City and London (2014 latest available figures).

Industry Sector	City of London (Employee Jobs)	City of London (%)	London (%)	Great Britain (%)
Primary Services	400	0.1	0.1	0.4
Energy and Water	800	0.2	0.5	1.1
Manufacturing	1,000	0.3	2.4	8.5
Construction	5,400	1.3	3.1	4.5
Wholesale and Retail, Including Motor Trades	10,800	2.7	12.6	15.9
Transport Storage	4,400	1.1	4.8	4.5
Accommodation and Food Services	19,200	4.8	7.6	7.1
Information and Communication	34,400	8.6	7.9	4.1
Financial and Other Business Services	303,500	75.6	33.0	22.2
Public Admin, Education and Health	12,000	3.0	23.0	27.4
Other Services	9,500	2.4	5.1	4.4

Source NOMIS

Comment

- Unsurprisingly, the employment structure in the local area of relevance is dominated by the service sector, in particular, the finance/IT/other business activities sector which accounts for the majority of employment (81.1 and 43.2 per cent respectively).
- The health of The City's economy relies heavily on financial services. Financial services employment in The City has been falling steadily since 2000, as companies have relocated to Canary Wharf due to lower rents and easier availability of space. Most notably, JP Morgan Chase has begun to move to 25 Bank in Canary Wharf, vacating its 753,000 square feet occupation in The City. Additionally, the economic recession and subsequent uncertainty has resulted in significant job losses in The City. Despite the current pressure on the banking sector, The City is expected to remain a global hub for the financial services sector in the long term with several large developments announced.
- The Old Street roundabout has quickly become the silicon-valley of Europe and continues to be one of the fastest growing areas for IT and Technology based firms to establish their central offices.

The following table presents a sample of the largest occupiers within proximity to Lamb's Passage and thus illustrates the significant corporate-related accommodation demand in the immediate area for the proposed Hotel Indigo.

Major Occupiers in Proximity to Lamb's Passage, EC1Y Area – Top 15

Occupier	Postcode	Number of Employees on Site	Office Type	Business Type
Cass Business School	EC1Y 8TZ	600	Single Site	Universities & Medical Schools
Sage Publications	EC1Y 1SP	350	Head Office	Music Publishers
Yougov plc	EC1Y 8RT	125	Single Site	Market Research
Waitrose	EC1Y 8NX	120	Branch	Supermarkets
Admill Investments Ltd	EC1Y 0UJ	109	Undetermined	Unconfirmed
Czarnikow	EC1Y 4SG	105	Head Office	Commodity Brokers
Metalweb Ltd	EC1Y 4AG	101	Undetermined	Unconfirmed
Character Options Ltd	EC1Y 4UO	100	Undetermined	Unconfirmed Business & Management Consultants
Rule Financial Ltd	EC1Y 8YZ	100	Head Office	Leisure & Recreation Centres
Virgin Active	EC1Y 8LP	100	Branch	Marketing Consultants & Services
Digital Marketing Agency	EC1Y 2BP	100	Head Office	Newspaper & Magazine Publishers
Henley Media Group	EC1Y 2BP	80	Branch	

Excelian The Human Fertilisation & Embryology Authority	EC1Y 8RN EC1Y 8HF	80 70	Single Site Single Site	Computer Consultants Trade Association & Regulatory Bodies
Egencia	EC1Y 4TY	70	Head Office	Accountants

The City of London – Top 15

Occupier	Postcode	Number of Employees on Site	Office Type	Business Type
Newton Investment Management	EC4V 4LA	500	Single Site	Investment Companies
Taylor & Francis	EC4A 1AG	350	Branch	Book Publishers
Hodder & Stoughton	EC4Y 0DZ	305	Single Site	Book Publishers
T Rowe Price International	EC4N 4TZ	300	Single Site	Investment Companies
C Hoare & Company	EC4P 4DO	300	Head Office	Banks & Financial Institutions
Unilever	EC4Y 0DY	300	Head Office	Food Products - Manufacturers
Friends Ivory & Sime Managed Pension Funds Ltd	EC4M 9AF	300	Head Office	Underwriters
Arthur J Gallagher Insurance Brokers Limited	EC4N 8AW	300	Head Office	Insurance – Other Insurance – Car & Motor
Xchanging	EC4N 8AQ	300	Single Site	Schools – Independent & Preparatory
City of London School	EX4V 3AL	250	Single Site Head Office	Barristers
David Reid	EC4Y 7EU	250	Head Office	Investment Consultants
Towry	EC4A 3BF	200	Branch	Telecommunication s Services
Tata Communications	EC4M 7AN	200	Branch	Radio & Television Stations
CNBCEMEA	EC4M 7QS	200	Head Office	
Wall Street Journal	EC4M 7RB	200	Single Site	Journalists

Source: Estates Gazette, 2016

Development Projects

Other major commercial developments relevant to the proposed Hotel Indigo that have recently been completed and are currently planned and/or under construction and expected to generate significant room night demand once completed are presented below.

- Formerly known as Walbrook Square, The Bloomberg Place Project comprises the development of two buildings connected by glazed bridges across a retail arcade that bisects the 3 acre site which is bounded by Canon, Queen Victoria, Walbrook and Bucklersbury Street. The scheme will provide a combined total of 110,000 sq. m. of commercial office space, with the projected completion date scheduled for Summer 2017.
- Located 1.7 miles from the proposed site, the 38-storey Walkie-Talkie building (20 Fenchurch Street) has been developed by Land Securities and Canary Wharf Group Plc providing 690,000 square feet of commercial space. Construction completed in Spring 2014.
- In July 2014 British Land opened The Leadenhall Building (also known as The Cheese Grater), a 48-storey office development comprising 620,000 square feet of office space. The development is 1.4 miles from the proposed Hotel Indigo. The development has succeeded in attracting tenants such as insurance brokers Aon Corporation, Amlin and Rogers, Shirk, Harbour and Partners.
- 22 Bishopsgate (previously known as The Pinnacle and The Helter-Skelter) is a 62-storey office development. It is estimated the tower will provide approximately 120,000 square metres (1,291,700 sq ft) of office space and 4,000 square metres (43,100 sq ft) for restaurants, retail outlets and viewing galleries. Construction began in 2008, but was suspended in 2012 due to funding issues. In 2015, the site was sold by Arab Investments to a consortium led by AXA Real Estate. Construction of the new building commenced in January 2016 with completion scheduled for 2019.
- 100 Bishopsgate is a mixed-use development currently under construction, situated on the eastern edge of the City of London financial district and located 1.3 miles from the proposed site. The development comprises two buildings of 40 and 7 storeys respectively.
- Goldman Sachs, one of the largest office space occupiers in The City, has been granted approval to develop a £1 billion head quarters building of approximately one million square feet at Fleet Street.
- Located less than 0.5 miles from the proposed site, the development of Moorgate Exchange completed in June 2014. The property provides 218,000 sq ft Grade A office space over 12 storeys. Brookfield Property Partners reportedly acquired the site in December 2014 for £211m.

Tourism Profile

Overview

Tourism is a key part of the London economy, valued at over £36 billion per annum. A record 31.5 million people visited the capital during 2015, which is an increase of 20% when compared to 5 years ago. Figures realised by The Office of National Statistics show 18.6 million International visitors in 2015, together with 12.9 million visits from GB residents.

As a leading global hub and one of the world’s most popular international city destinations as well as its gateway status, the capital continues to out-perform the rest of the UK. London receives over 50 per cent of all overseas visits to the UK and plays a key role as a gateway to the rest of the nation.

The 2012 Olympic Games enhanced the profile of London even further on the global scale and continues to have positive effects on tourism levels to the capital. Indeed, London is the first modern city to have hosted the Games on 3 separate occasions which is an incredible achievement.

Heritage and Leisure

In addition to The City of London’s business and finance reputation, within the ‘Square Mile’ are a range of galleries, theatres, historic churches, The Tower of London, St Paul’s Cathedral, museums and concert halls. Furthermore, there is the famous Barbican Arts Centre situated only minutes from the proposed Hotel Indigo.

Visitor Attractions

The following table presents the 10 most visited tourist attractions in London in 2014 and their distance from Lamb’s Passage.

Attraction	Distance from Lamb’s Passage	Visitors (000s)
St Paul’s Cathedral	1.0 mile	1,782
Tower of London	1.6 miles	3,081
Tower Bridge Exhibition	1.6 miles	646
Houses of Parliament and Big Ben	2.6 miles	1,253
Westminster Abbey	2.6 miles	1,786
Churchill Museum and Cabinet War Rooms	2.6 miles	472
ZSL London Zoo	3.7 miles	1,318
Royal Observatory Greenwich	6.1 miles	785
Royal Botanic Gardens, Kew Gardens	10.0 miles	1,367
Hampton Court Place	14.4 miles	566

Source: Visit England

Relevant Event Venues

The City is home to a number of major conference and event venues such as the Brewery and the Barbican Centre, which do not provide on-site accommodation and consequently generate significant demand for local hotels during event days. The following section profiles the venues of most significance to the proposed Hotel Indigo, namely the Brewery and Barbican Centre.

The Brewery

Situated within the former Whitbread Brewery, and within immediate proximity to the proposed hotel site, the Brewery is a well-known, high-end events venue, specialising in award nights and other large-scale bespoke events. The venue was established in 1976 and offers 2,300 square metres of events space, hosting more than 700 events per annum.

The Brewery is primarily driven by private events, including large-scale weddings of up to 400 people, Christmas parties and private dinners. During the summer months the permanent facilities are complemented by a marquee in the central courtyard, with the majority of events using private catering services. The venue also attracts a number of large exhibitions, conferences and other corporate events. The vast majority of clients at the Brewery are based locally in the City.

With its central location, easy accessibility and unique facilities, the Brewery benefits from a strong penetration of the London business and private event party market and generates significant overnight accommodation demand for the local hotel market.

The Barbican Centre

Located opposite the proposed Hotel Indigo, the Barbican Centre is one of the largest dedicated multi-arts and conference venues in London and is also home to the London Symphony Orchestra. The venue comprises a full range of meeting and event/function rooms and the conservatory is a popular venue for receptions, dinners, graduation ceremonies as well as corporate hospitality events and weddings.

The year 2014/15 was a record one for audiences at the Barbican Centre. A total of 1.2 million people attended a Barbican event during the year, a rise of 27% on 2013/14 and even surpassing audience numbers during the record 2012 Olympic year.

The following table illustrates the facilities available at the Barbican Centre:

The Barbican Centre - Conference and Event Facilities

Facility	Capacity
Barbican Hall	1,950 seats theatre
Barbican Theatre	1,160 seats theatre
Milton Court	600 seats theatre
Cinema 1	280 seats theatre
Frobisher Auditoriums	250/160 seats theatre 10 - 170 seats theatre
Frobisher Rooms	30 – 100 seats cabaret
Frobisher Boardroom	20 seats theatre 80 seated dinner
Conservatory	150 standing 168 seated dinner
Conservatory Terrace	200 standing 280 seated dinner
Garden Room	300 standing

Source: *The Barbican Website*

Hamlet

Sonia Friedman Productions' *Hamlet*, starring Benedict Cumberbatch, saw phenomenal demand for tickets and was one of the UK's fastest selling theatre shows ever. Demand for the show was truly global. Bookings were received from 74 different countries and the play was broadcast via NT Live to 25 nations and 87% of UK cinemas, making it the highest grossing 'event cinema' opening of the year. The production also attracted a significant new audience to the Centre, with 56% of tickets being booked by customers who had never bought tickets to a Barbican event before.

A Creative Destination

The Barbican is playing a leading role in the development of the cultural hub in the north west of the Square Mile. Working alongside the unrivalled collection of arts, cultural and learning organisations, together with the City of London Corporation, they aim to transform the area around the Centre into an internationally renowned, distinctive, vibrant and welcoming destination for the arts, heritage, learning and entertainment.

Nearly one million additional visitors a year are expected in the area from 2018 as Crossrail opens stations at Farringdon and Moorgate, and the North-South Thameslink line is upgraded. Coinciding with these major developments there are plans to contribute to the wider regeneration of the area through improving links between venues, upgrading infrastructure, enhancing the public realm and environment, and enlivening spaces.

There will be an increasingly coordinated and collaborative offer, animating the area seven days a week and creating a place where people want to spend the day. It will deliver the highest quality arts, culture, education, outreach and learning experiences alongside an integrated offer for families.

As part of this, The Barbican Centre is increasingly working to produce programmes jointly with neighbouring venues and organisations. This includes collaborating with the Museum of London and the London Metropolitan Archives to create the schools day City Stories (piloted with City of London Academy Southwark), and creating a Schools Visit Fund to enable students from across London to visit the City's venues.

Creative Use of The Barbican's Spaces

With unique architecture and design, the centre remains a source of inspiration for many, with an increasing number of filmmakers and photographers using the Centre for location shoots. These have included recent shoots for German *Vogue* and BBC One's *The Apprentice*. In 2015 two free foyer exhibitions were presented exploring the history and architecture of the Barbican, as well as popular architecture tours of the Barbican Centre and estate.

The Barbican remains an outstanding venue as well as a welcoming space for visitors and audiences. In 2015 new catering contracts with restaurant, bar and event specialist Searcys, alongside high street brand Benugo were announced. These new relationships place an emphasis on locally sourced produce and sustainable catering, and offer visitors to the Centre a range of new eating spaces and dining options.

Business events

The Barbican's reputation as one of London's leading event venues continues to grow. The Business Events team exhibited at over twenty local and international trade events in 2015, with increased visibility resulting in a significant growth in business. Highlights include winning £1 million worth of event contracts in a single week, largely through international bookings and receiving industry recognition as Coolest Exhibition and Conference Centre at the Cool Awards 2015.

The Barbican Centre does not provide accommodation on-site and reports in excess of 12,000 room nights per annum being accommodated at local hotels (mainly four-star) at an average room rate of approximately £290 (inclusive of VAT) for visiting orchestras and performers. Management at the Barbican Centre also stated there continues to be additional external demand created through events, however they were unable to supply exact figures as this is not tracked.

Given the excellent location of the proposed Hotel Indigo in direct proximity to the venue, market positioning and product offering, there is clearly an opportunity for the proposed Hotel Indigo to attract significant demand from the Barbican Centre.

4 Hotel Market Analysis

Hotel Market Analysis

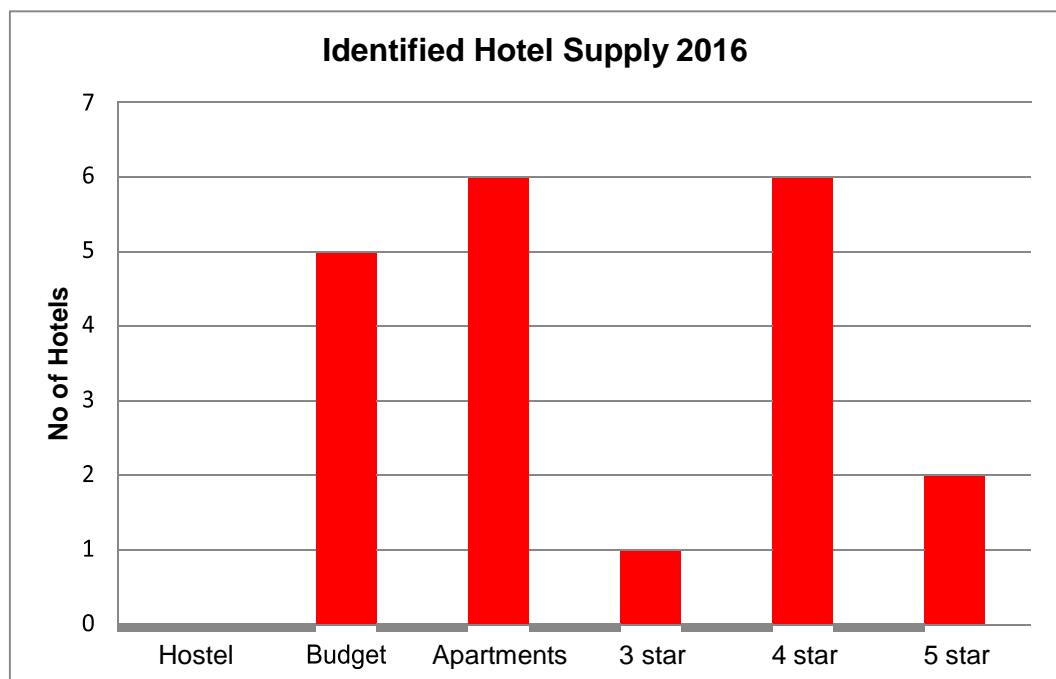
In considering the market opportunity for the proposed Hotel Indigo, we examined the current and future supply of, and demand for, hotel accommodation in the Barbican and surrounding area in order to understand historic, current and anticipated future demand and supply trends.

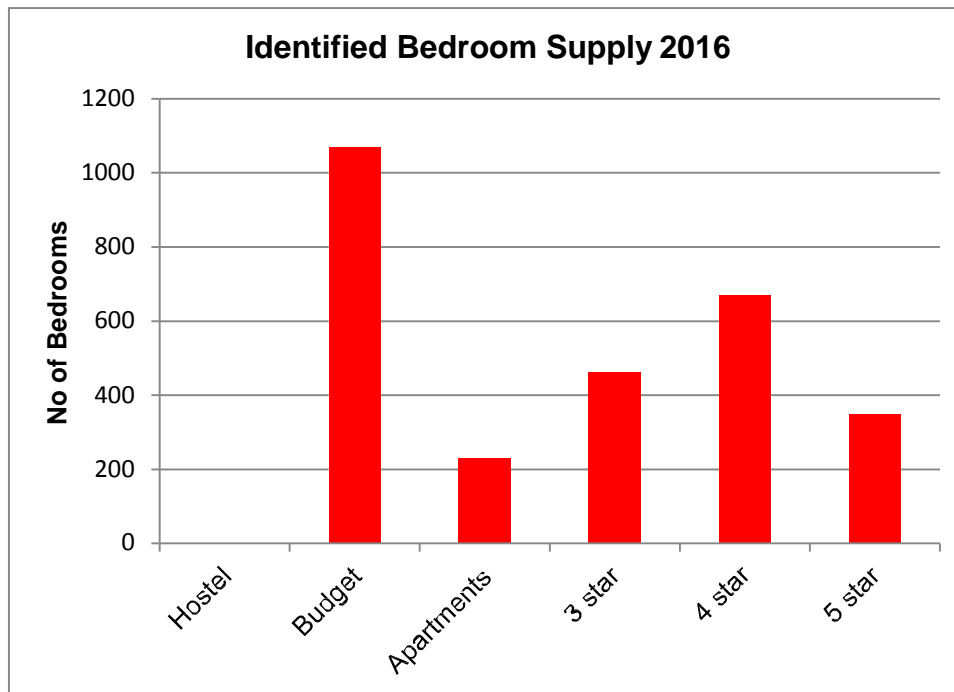
This section summarises our research profiling individual hotels of competitive relevance, market performance benchmark information and anticipated future hotel supply relevant to this project. We also present our qualitative and quantitative research into the current hotel supply of relevance to the proposed hotel and our assessment of the strengths and opportunities for the proposed Hotel Indigo through a detailed analysis.

Current Hotel Supply

As part of our analysis we examined the presence of all hotels within a ½ mile radius of the site for the proposed Hotel Indigo, highlighting the general market characteristics in terms of star rating, size and type of brand. The following graphs provide an overview of the structure of hotel supply in the area local to the proposed Hotel Indigo.

The YMCA Hostel located on Errol Street is set to close for 2 years from July 31st 2016 for major refurbishment, thus we have chosen to omit this property from the table.





Comment

Currently there are 20 hotels and serviced apartments trading within a ½ mile radius of the proposed Hotel Indigo, equivalent to approximately 2,780 bedrooms, with an average size of 139 bedrooms.

- Of the 20 identified properties within a ½ mile radius, 6 hotels, equivalent to 30 per cent of bedrooms, operate within the four-star sector, whilst there are 6 serviced apartment properties, also equivalent to approximately 30 per cent of total bedroom supply.
- The budget/limited-service sector accounts for approximately 38 per cent of total bedroom supply, whilst the five-star sector accounts for approximately 12 per cent of total bedroom supply, equivalent to two hotels.
- 30 per cent of hotel bedroom supply of relevance has an association with a global or international brand, whilst 35 per cent of bedroom supply in the market of relevance has an association with a national or regional brand. The remaining 35 per cent, equivalent to 7 hotels, are independent and have no affiliation to any brand or association.
- Hotel properties offering 100 bedrooms or fewer account for 55 per cent of hotel supply within the vicinity of Lamb's Passage. That said hotel properties offering more than 200 bedrooms also represent a significant proportion of hotel supply, accounting for 35 per cent of total hotel supply.

The hotel market benefits from strong high-yielding corporate demand levels during the midweek period.

Many hotels typically achieve “fill nights” on Tuesday, Wednesday and Thursday nights throughout the year.

- The market also enjoys significant leisure demand on Saturday nights with average room occupancy levels in excess of 85 per cent. On Sunday nights however, room occupancies drop to approximately 65 per cent on average and comprise mainly price-sensitive leisure-related demand.
- As a result of the significant corporate demand in the local hotel market of relevance, leisure-related demand is limited in comparison and is driven by more extensive discounting of published room rates. That said it is clear from the market sample that leisure-related demand is being attracted to the area. This is evidenced by the average occupancy on Saturday evenings being 89.2 per cent over the past three years, being the third highest average daily occupancy.

Hotel Market of Relevance

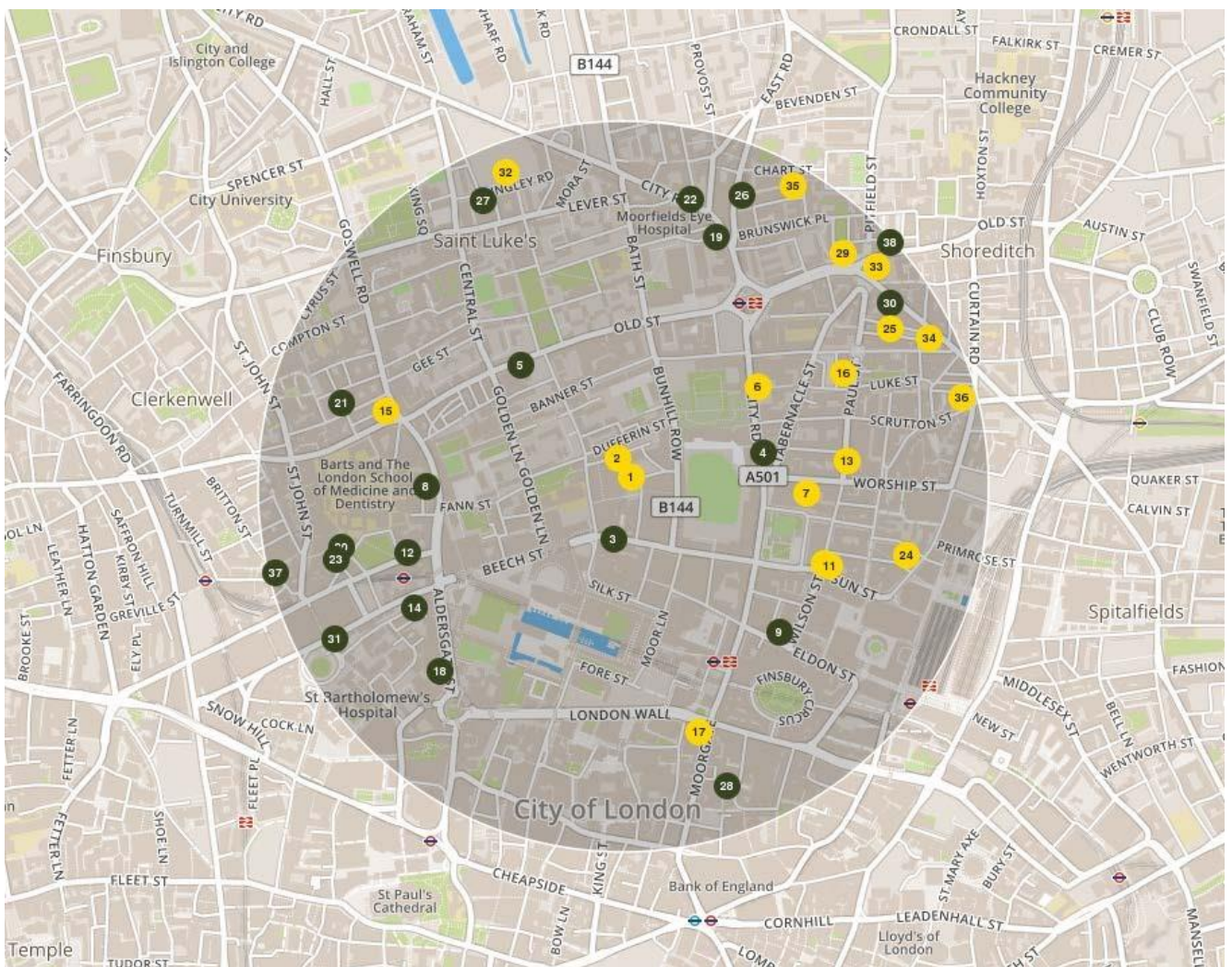
The table and the map on the following pages identify 16 hotels, equivalent to 3,722 bedrooms, which we consider to be of primary and secondary competitive relevance to the proposed hotel developments in Barbican.

Hotel	Star Rating	No. Bedrooms	Best Available Rate Online		No. Conference Rooms	Capacity	No. Of Restaurants	No. of Bars	Leisure facilities	Parking
			Standard Room Midweek	Standard Room Weekend						
Hotels of Primary Competitive Relevance										
Thistle City Barbican	3	463	152	169	13	170	1	2	Y	10
Malmaison Hotel (Barbican)	4	97	299	219	2	30	1	1	-	-
The Zetter Hotel and Townhouse	4	72	290	290	3	50	1	1	-	-
Apex London Wall Hotel	4	89	296	152	1	10	1	1	Y	-
Crowne Plaza London Shoreditch	4	264	259	151	7	110	1	1	Y	29
Hoxton	4	210	269	169	6	30	1	1	-	-
Novotel Tower of London	4	203	274	209	7	90	1	1	Y	-
Doubletree by Hilton London – Tower of London	4	583	319	169	13	220	3	1	Y	Y
Apex City of London	4	179	323	134	3	80	1	1	Y	-
Crowne Plaza London The City	4	203	260	151	4	160	2	3	Y	-
Grange St Paul's	4	434	202	178	14	600	2	4	Y	-
Montcalm London City at Brewery	4	235	210	164	5	100	1	1	Y	-
Subtotal		3,032								

Hotels of Secondary Competitive Relevance

South Place Hotel	5	80	411	185	5	100	2	3	Y	Y
Autograph Collection Threadneedles	5	74	475	161	3	35	1	1	-	-
Andaz Liverpool Street	5	267	399	229	13	250	5	3	-	-
M by Montcalm Shoreditch London Tech	5	269	182	112						
Subtotal		690								
TOTAL		3,722								

The map below details the current hotel supply (marked in green) as well as the current pipeline (marked in yellow) as taken from AM:PM.



Key

Marker	Pipeline/Supply	Hotel
1	Pipeline	Hotel Indigo London - Barbican
2	Pipeline	Errol St YMCA
3	Supply	Montcalm at The Brewery
4	Supply	Travelodge London Central
5	Supply	EasyHotel London Old Street
6	Pipeline	SACO Aparthotel
7	Pipeline	Square London City
8	Supply	Citadines Barbican
9	Supply	South Place Hotel
10	Pipeline	Flying Horse
11	Pipeline	One Crown Place Boutique
12	Supply	Carthusian House Apts
13	Pipeline	Tune Hotel Shoreditch
14	Supply	Cloth House Apts
15	Pipeline	Mercure London Clerkenwell
16	Pipeline	Pocket
17	Pipeline	67-71 Moorgate Apts
18	Supply	London House
19	Supply	Z Shoreditch
20	Supply	Malmaison London
21	Supply	City Marque Apts
22	Supply	M by Montcalm
23	Supply	Fox and Anchor
24	Pipeline	Club Quarters
25	Pipeline	Nobu Hotel Shoreditch
26	Supply	Premier Inn
27	Supply	Thistle City
28	Supply	Apex London Wall
29	Pipeline	Tech-City Hostel
30	Supply	Hoxton Shoreditch
31	Supply	Hills Chambers
32	Pipeline	Nhow London
33	Pipeline	Art'otel London Hoxton
34	Pipeline	Park Regis Shoreditch

35	Pipeline	Blakes Shoreditch
36	Pipeline	Curtain Hotel
37	Supply	Rookery Hotel
38	Supply	Holiday Inn Express

Future Hotel Supply

In the following table we provide an overview of anticipated and potential future additions to supply within ½ mile which we consider to be of relevance to the proposed Hotel Indigo, Barbican.

Project	No. Bedrooms	Grade
Under Construction – Due in 2016		
Curtain Hotel & Private Members’ Club	120	4
Nobu Hotel Shoreditch London	156	4
Tune Hotel Shoreditch	181	Budget
Square London City	256	5
Under Construction – Due in 2017		
Park Regis Shoreditch	125	4
Under Construction – Due in 2018		
Nhow London	190	4
Probable – Hotels with detailed planning permission		
Tech-City Hostel (on hold)	12	Hostel
Club Quarters London Liverpool Street	392	4
67-71 Moorgate	25	Apts
Pocket (on hold)	213	Budget
Mercure London Clekenwell (on hold)	150	4
One Crown Place Boutique	32	4
Flying Horse	8	3
Errol St YMCA	146	Hostel
Probable – Hotels without detailed planning permission		
Blakes Shoreditch	87	5
Art’otel London Hoxton	346	4

Source: AM:PM

Whilst there are a number of potential new hotels proposed, we consider the proposed Hotel Indigo at Lamb’s Passage to be well-positioned within the market. This is due to its strong location within proximity to key transportation links and commercial developments taking place, boutique product offer, market positioning and affiliation to the IHG reservation and marketing networks and system.

We would refer to the commentary within the Hotels in Islington report prepared by Ramidus Consulting Limited on behalf of LB Islington regarding supply. It generally concurs with our findings and states that the majority of new openings have been larger budget hotels, or at the luxury end of the market. Further, in terms of pipeline it states that “relatively little of the new supply (proposed) is to be in Islington”.

Further, the report also points out that “ the likely growth in the number of hotel rooms in Islington is less than many other areas in London”.

Evidently, the proposed scheme is neither a budget brand or a large hotel and therefore will provide additional rooms to a market segment that is arguably undersupplied.

Whilst the number of potential or extant hotel schemes may appear significant, hotel use will always compete against other potentially more lucrative uses. Therefore the viability of schemes and the returns that developers are seeking will inevitably influence the number of hotel projects that actually commence.

Analysis

The following analysis highlights the strengths and opportunities for the proposed Hotel Indigo on Lamb’s Passage.

Strengths

- The proposed hotel site occupies a prime location offering excellent accessibility to a wide range of corporate demand generators, which will underpin demand and drive premium average room rates during peak midweek periods.
- The proposed hotel is located adjacent to some of London’s most renowned event venues, The Brewery and Barbican Centre, which attract a large number of events throughout the year and are a source of significant accommodation demand for local hotels.
- The site is excellently positioned to a number of main roads and public transport links ensuring quick access to key business districts and leisure attractions across London and beyond.
- The London hotel market has enjoyed robust levels of room occupancy and average room rates in recent years in the fullservice sectors, clearly illustrating the strength of the local accommodation market.
- Due to high levels of corporate accommodation demand, competitive City hotels achieve premium average room rates during peak midweek periods and demand at weekends continues to increase as the profile of The City continues to evolve.
- Major regeneration and development projects, recent, planned and underway in proximity to the proposed hotel site, including Aldgate Tower and numerous residential developments, are improving its attractiveness as a commercial and leisure destination.
- The proposed Hotel Indigo will benefit from a leading international brand, delivery and distribution system.

- Differentiated food and beverage offer with the Marco's New York/Italian concept will generate significant chance trade.

Opportunities

- Our analysis of the existing and potential future hotels facilities in the area demonstrates that there is need for more 3 and 4 star hotels particularly in the boutique arena.
- Market evidence suggests that location and proximity to work are the key determining features in corporate accommodation demand decision-making, affording the proposed hotel a competitive advantage over other hotels located further away from The City and Old Street Roundabout.
- The growing reputation of East Central London as an alternative leisure destination.
- The continued effort of The City of London Corporation to increase the awareness of The City to attract leisure demand through marketing campaigns, encouraging extended opening hours for retail outlets as well as improved transport links to The City will assist in attracting weekend trade to the proposed hotel.
- Despite growing demand for quality accommodation (as opposed to budget accommodation), particularly during the midweek period, the Barbican area remains relatively under-supplied, presenting a clear opportunity for the proposed hotel to establish itself successfully in the Barbican hotel market.
- The ongoing development of iconic buildings will add to the attractiveness of the local area in proximity to Lamb's Passage.
- IHG's brand strength would allow the proposed hotel to benefit from the sales and marketing network of a leading international hotel group and its reservation system

Comment

- The hotel site characteristics present as a clear opportunity for a Hotel Indigo. The proposed Hotel Indigo will benefit from the excellent accessibility to/from The City, Old Street, Central London and surrounding areas.
- Hotels in the market of relevance accommodate high-yielding transient corporate demand during weekdays and relatively price-sensitive leisure demand at weekends. Whilst midweek demand appears robust, The City hotel market remains a secondary leisure location relative to central London, reflected in the lower rates commanded during the weekend period.

- The strengths and opportunities of the proposed Hotel Indigo development site in our view, underline the market opportunity for this project in Barbican. The proposed location of the development as well as an increasing overall appeal of East London combined with the evident success of the Hotel Indigo brand elsewhere in London, will enable the proposed development to successfully compete within the wider hotel market and achieve a strong market position in the Barbican area.

The Proposed Hotel Indigo Development, Barbican

Development Recommendations

In the following paragraphs we provide our comments and assumptions regarding the proposed Hotel Indigo development at Lamb's Passage, based upon information provided to us by London City Shopping Centre Ltd and Lamb's Passage Real Estate Ltd.

In assessing the opportunity for the hotel and its associated facilities we have also taken into account:

- the location of the proposed Hotel Indigo, and the strengths and opportunities of the site;
- the proposed market positioning (i.e. Hotel Indigo), in terms of standard of product, service and branding for a new Hotel Indigo in this location;
- the current and future hotel environment in the Barbican area, and the market positioning and specific target markets appropriate to the proposed Hotel Indigo;
- the comprehensive branded food and beverage offer;
- the benefit of the proposed hotel being conveniently located for leisure and corporate demand generators; and
- provision of facilities capable of appealing to and serving the envisaged demand at the hotel.

We have based the scale, range and type of facilities for the proposed Hotel Indigo on information provided to us by Sanguine Hospitality Limited and our knowledge of the development brand standards of Hotel Indigo as well as on the leisure, conference and dining facilities of competitive hotels in the surrounding area and our assessment of demand for the proposed hotel facilities.

The following table summarises the facilities at the proposed Hotel Indigo development.

Component	Characteristics
Operator Agreement	Franchise Agreement
Bedrooms	61 bedrooms
Food and Beverage	Proposed Marco Pierre White's New York/Italian Restaurant Bar
Other	Business Services
Rating	Upper 3 star/ 4 star boutique

Source: Sanguine Hospitality Limited

We envisage the hotel will be in a position to operate both effectively and successfully within the local hotel market, particularly those with less recognisable branding.

Based upon the existing provision of hotel accommodation in Barbican, the surrounding area and the demand characteristics of the local hotel market, we consider that the development of a Hotel Indigo in this location will represent a complementary source of accommodation to the existing hotel supply in East London and the Barbican area in particular.

We consider the proposed Hotel Indigo, with the assumed facilities as outlined and locational characteristics, will be able to establish a sustainable trading position within the local market place within a three-year timeframe.

In the following paragraphs we discuss each of the proposed hotel components in more detail.

Hotel Bedrooms

The hotel will provide 61 bedrooms with the following facilities included in the standard en-suite bedrooms:

- en-suite bathroom with power shower;
- direct-dial telephone;
- complimentary high speed Wi-Fi;
- air conditioning;
- work space offering connectivity to in-room technology for guests' own portable technology devices such as notebooks, tablets and smartphones;
- flat-screen TV with on-demand movies and internet;
- laptop-size safe;
- tea and coffee-making facilities;
- iron and ironing board;

- hair dryer.

Food and Beverage

According to the development plans provided by Sanguine Hospitality Limited the proposed Hotel Indigo, Barbican, will offer the following food and beverage facilities:

- The development of a branded restaurant associated with Marco Pierre White offering a higher quality and wide food offer for breakfast, lunch and dinner.

The restaurant and bar are to be situated within a basement vault with a separate entrance/exit from the hotel. The use of this space as a restaurant in our opinion is wholly appropriate given the intrinsic character of these historic parts and is complementary to the hotel, yet provides a business use that may not otherwise be attracted to the location.

Based on information provided by Sanguine Hospitality Limited, the restaurant for the proposed Hotel Indigo will be branded under Marco Pierre White's new restaurant brand, Marco's New York/Italian. The menu comprises American and Italian dishes including salads, pizzas, pastas and hamburgers, made using local produce. Particular attention has been given to the interior design which replicates New York Italian eateries, as illustrated in the picture below.



Proposed Marco Pierre White Restaurant

Based on information provided by Sanguine Hospitality Limited, we understand that Marco Pierre White branded restaurants in other locations (Birmingham, Stratford and Newcastle) and also situated within Hotel Indigo properties, not only achieve a high sleeper/diner ratio, but are effectively operating as a stand-alone product within the local food and beverage market. A key strength for the proposed food and beverage facilities is the proposed Hotel Indigo's location in proximity to major corporate demand generators, as well as several key tourist attractions.

As a result of the proximity to these key demand generators, we believe the concept will be well positioned to capture a high midweek chance trade from local businesses and will benefit from a strong uptake of the restaurant facility during the weekend, as well as residential demand from the hotel.

Meeting Facilities

Despite the majority of local companies benefiting from in-house meeting facilities, our research indicates that demand exists for hotel-based meeting/conference space during the midweek period, with a particular preference for small meetings.

Whilst the current plans do not include any provision for meeting space, we have assumed that sections of the restaurant or bar can be utilised for small meeting requirements.

Other Facilities

The following hotel-specific facilities will be included, supporting and complementing the proposed hotel development:

- business services (operated by reception), providing services such as fax, photocopying, etc; and
- Wi-fi throughout the hotel.

We believe these facilities will result in the provision of a self-contained, fully-integrated and profitable hotel development. The mix of facilities will enable the proposed hotel to target existing markets, as well as attract and create new demand.

Marketing and Management

With cognisance of the size, scale and location of the proposed Hotel Indigo, the hotel is to be operated by a skilled and professional management team capable of running the hotel to a high standard and effectively marketing the property. The knowledge, enthusiasm and experience of the General Manager will also be critical to the development's success, in addition to the benefits afforded to the hotel through the IHG global platform and network, including the reservations system, resources and infrastructure.

Based on our desk and field-based research, we fully endorse the operation of the hotel under the Hotel Indigo brand, providing the hotel with access to a range of services and target markets, capable of having a positive impact on demand levels at the hotel.

The operation of the hotel under a franchise agreement and the IHG's Hotel Indigo brand will confer the following benefits:

- the advantage of being part of IHG with the established global sales and reservation networks, providing 24/7 booking solution for bedrooms as well as delivering a competitive advantage through strong relationships with travel agents, combined with the global IHG sales force;
- the benefit of being part of the 'IHG Rewards Club' guest reward programme, with over 71 million active members, over 4,500 IHG Family hotels and 400 airline partners worldwide;

- connection to the IHG reservations system which is supported by web, call centres and GDS (travel agent booking system). In 2015 over 69 per cent of rooms revenue was booked through IHG's channels and loyalty programmes;
- the competitive advantage of global marketing support including advertising, public relations, marketing programmes and materials;
- head office support in specialist overhead departments such as financial control and personnel; and;
- the benefits of referral business and cross-selling across IHG's international hotel portfolios – the largest in the world by number of rooms.
- Provide a strong draw to the location and provide additional profile for the proposed restaurant.

As a brand, Hotel Indigo is currently established both in the London and Provincial hotel markets. There are currently three Indigo hotels operating in London. We have obtained confidential trading data from IHG, which demonstrates exceptionally strong occupancy throughout these three hotels. The hotels have successfully achieved high occupancy levels, averaging 88.9%, with a combined average room rate (ARR) of £139.00 in 2015.

Generally, we would regard 61 bedrooms as being a relatively small hotel. Operationally we would consider that the market would perceive this to be the minimum number of bedrooms that would be necessary to achieve a viable level of return.

As an operational business there will be key base fixed and variable costs associated, that will not necessarily vary with an increase or decrease in the number of rooms. Therefore hotel brands tend to recognise a "minimum" room number, reflecting not only the cost of development but also the levels of returns that a business can achieve, which also underpins value.

In the case of IHG and the Indigo brand, the guidance from the development team suggests a minimum of 60 bedrooms, with c.80-100 bedrooms being preferable in terms of operational efficiency.

We would expect the proposed Indigo with only 61 bedrooms to achieve a relatively high occupancy in line with existing Indigo hotels. Combined with the operating experience of the management group (i.e. Sanguine Hospitality/Interstate hotels) we would expect the proposed Hotel Indigo to be operated optimally. An appropriately resourced sales and marketing programme will be a key part of the success of the proposed Hotel Indigo in penetrating the envisaged target markets.

Envisaged Corporate Demand

The corporate sector represents by far the largest (and most lucrative) generator of demand at hotels in our identified market of relevance. Demand in this sector is generated by the plethora of banks, insurance companies and other financial organisations that comprise the majority of commercial enterprises in The City, a number of which are in immediate or close proximity to Barbican. Furthermore, the creative industries (ie media, advertising and technology) are also significant users of accommodation in the market of relevance.

Business and corporate demand exhibits a traditional seasonality pattern, peaking during midweek (Monday to Thursday) periods, with severely reduced levels of demand at weekends, mainly Fridays and Sundays, and during the traditional holiday periods (ie August, Christmas, New Year, Easter and bank holidays).

We outline in the following points those issues consistently reported during our research:

- Typically, corporate demand is characterised by average length of stays of one to two nights.
- The majority of accommodation booked is for single occupancy.
- Local companies in the City (ie Linklaters, Deutsche Bank, Lloyds TSB) and around the Old Street roundabout (ie Last.fm and 7digital) book employees into properties, which are located in proximity to their respective offices, within approximately 10 to 15 minutes walking distance of their respective base. This, together with price as the principal determining factor when choosing hotel accommodation in the City. Directors, executives and international clients are preferably booked into upmarket hotels, such as the Andaz, Montcalm, Threadneedles, Apex and Grange hotels.
- The proposed site on Lamb's Passage is recognised as an ideal location to attract demand from companies in the immediate surroundings of the proposed site.
- Booking agents control the majority of corporate demand in the City market and typically negotiate corporate rates with several hotels. The extent of the impact of this on local hotels varies significantly depending on location and market positioning of the hotel as well as volume of demand.
- The Barbican Centre does not provide accommodation on-site and reports that circa 12,000+ roomnights per annum are currently being accommodated at local hotels (mainly four-star) at an average room rate of approximately £120+ (inclusive of VAT) for visiting orchestras and performers. Management at the Barbican Centre also stated there is to be additional external demand created through events, however cannot provide exact figures as this is not tracked.
- Invariably, the dominant factor in the choice of hotel is its location (in The City as opposed to elsewhere in London). Ideally, corporates prefer to be within walking distance of their office.
- The City is no longer considered a peripheral location even for long-stay demand markets (ie

business people staying for a week or longer preferring to stay in The City to be close to work and travelling to the West End for entertainment).

- Other factors that help determine the choice of hotel in order of importance include the quality and standard of facilities, price and standard of service.
- Significant levels of midweek demand consistently support high average room rates. Often competitive hotels will achieve the highest achieved average occupancy on Tuesday to Thursday nights, particularly during peak business months (September to November).
- Major events such as London Fashion Week, World Travel Market, Farnborough Air Show (biennial) and Wimbledon drive accommodation demand for hotels throughout London and create the greatest opportunity for high quality hotels to enhance rate.
- Corporate market demand typically books standard rooms, with room rates varying from approximately £150 to £250 (inclusive of VAT), depending on the size and source of demand.

Envisaged Individual Leisure and Group/Tour Demand

In light of the dominant business/corporate accommodation demand sector, leisure-related demand in and around the Barbican area is comparatively limited to weekend use. That said, it is clear that leisure-related demand is increasingly being attracted to hotels in the local area and the immediate surrounding areas, albeit at a discounted average sector rate.

The following points summarise the dynamics of leisure-related demand in local hotel market of relevance:

- Leisure demand in the local market of relevance is driven by extensive discounting of published room rates. Hoteliers in the market of relevance consider it necessary to offer significant discounts in order to compete with West End-located hotels. Weekend packages are also increasingly popular, particularly those which include meals at the hotel and other elements such as entertainment packages.
- Product perception and a value-for-money proposition are crucial factors for leisure travellers, particularly when booking outside of the West End. The key driver of leisure demand in the competitive hotel market is the availability of high-quality accommodation at a lower price-point than comparable hotels in the West End.
- Competitive hoteliers, as well as The City of London Corporation, actively promote the attractions of the wider City area to the leisure market, emphasising the local restaurant scene, bars and clubs in the surroundings, in order to fill hotels during traditionally lower occupancy periods, primarily weekends. The strategy includes extensive marketing, encouragement of weekend opening hours for nearby retail outlets, an increase in hotel supply and improved communication links.
- The growing profile of The City as a leisure destination together with the trendy and fashionable image of Shoreditch, Angel, Hoxton, Spitalfields, Brick Lane and Clerkenwell has resulted in a steady improvement in the profile of the area as a leisure destination.

- Research from high quality hotels of competitive relevance indicates that the leisure market accounts for approximately 30 per cent of total demand. Accommodation demand is mainly generated by international travellers, tourists visiting friends and family in London seeking high-quality accommodation with excellent transportation links.
- Leisure demand peaks during the months of June, July and August when the combination of high profile events and increased visitor levels create significant demand which enables hotels to command high room rates.

The proposed Hotel Indigo will follow similar seasonality demand patterns to the competitive hotel market, with leisure-related demand concentrated at weekends and traditional holiday periods (eg August, December, Bank holidays, etc).

We consider that individual and group/tour demand will be generated by different subsectors, namely:

- Individuals – Visiting friends and relatives, using London as a base for sightseeing and/or shopping. In addition to the retail offer in London’s West End, The City’s retail offer has improved significantly over the past decade with developments such as One New Change and other trendy locations in Shoreditch and Spitalfields.
- Short-breaks – Typically couples and families visiting London on a short two to three days’ visit and usually at weekends. Within proximity to Barbican there are several major London tourist attractions. These include The Barbican Centre, Tower of London, Tower Bridge, St Paul’s Cathedral, the O2, Tate Modern, Shoreditch, Brick Lane, London Dungeon, HMS Belfast, Vinopolis and Shakespeare’s Globe Theatre.
- Groups/tours – East London and The City has become an increasingly popular group/tours destination in recent years, largely attributed to the improved transport links between the East End and Central London, the increasing awareness of East London in its own right, and the availability of cheaper accommodation relative to West End hotels. We expect this market to be relatively limited for the proposed Hotel Indigo due to the hotel’s market position and with the Hotel Indigo brand being synonymous as a boutique and lifestyle offer.

The popularity of year-round short-break and special interest holidays (including weekend breaks) throughout the United Kingdom has resulted in these sectors being significant sources of demand that hoteliers target to increase levels of occupancy over the quieter weekend periods and during the holiday months.

Conclusions

We would summarise the key characteristics and factors that support the proposed mixed use scheme and proposed Hotel Indigo as follows:

- Excellent access to airports, public transport facilities and road network; access to the commercial market/conferencing locations; access to the leisure/tourism destinations.
- A high level of demand from business related tourism during the working week (Monday to Friday).
- A good level of demand from the leisure and tourism industry during the weekend period (Saturday and Sunday).
- Recent reports confirm that more than half of London's new hotel rooms are within the budget sector, demonstrating there is a lack of supply for 3, 4 and 5 star hotels in the city. Indigo is a design lead Boutique hotel brand, but one which benefits from the considerable strength of IHG's global brand recognition, loyalty programme and system delivery.
- Indicators are that hotel demand from business and tourism/leisure industries in the immediate area will continue to grow.
- With 61 bedrooms, we are of the opinion that the scheme and the brand positioning as a boutique hotel will provide sufficient differentiation to the existing hotel supply to attract good levels of demand.
- We are of the view that any reduction in the number of bedrooms proposed would significantly impact upon the viability of the scheme and the ongoing business.
- It is our opinion that the proposed scheme provides the necessary provision of complementary uses that will be critical to the success of each of the respective elements. The strength of IHG's brand and system delivery, together with the branded restaurant outlet, office hub space and residential apartments should create sufficient demand and draw to the location.
- In isolation, the development of a restaurant without the hotel would in our view prove to be much more challenging effecting viability.
- The intrinsic challenges to the utilisation of the historic vaults, with limited natural light limits the potential for alternate uses. In our opinion, without the hotel aspect to the scheme it is unlikely that the location would fully support a stand alone restaurant operation. The hotel provides significant synergies and operational cost savings, through creating demand and by operating both aspects on a combined basis.

- Although there is a cross section of existing hotel supply in the immediate area, this is heavily skewed toward the budget and aparthotel sectors of the market. Further, there is not a concentration of existing or pipeline supply in the immediate vicinity of the site.
- London has recorded year-on-year growth in revenue per available room (RevPAR) for six consecutive years since 2010. Whilst expectations are that there may be a softening in the market, (particularly as in recent years the City has hosted a number of high profile major events) trading performance in the London hotel market will in our opinion still continue to remain strong. Given available market and bench mark data, this would tend to contradict any suggestion of market oversupply currently.

DISCLAIMER

We do not guarantee the fulfilment of any estimates of trading performance contained within this report, although our advice has been conscientiously prepared on the basis of our research and the information made available to us at the time of our study. No allowance has been made for the effects of possible dislocation consequent upon subsequent changes in political or economic policies in the United Kingdom or elsewhere.

As is customary with market studies of this nature, our findings should be regarded as valid for a limited period of time and should be subject to examination at regular intervals.

