

The Cambridge Hotel Market

For thirty years or more I have advised investors about all aspects of buying, selling and operating hotels and what they may be worth. It is a sector of the property industry which has long been largely ignored by the RICS and yet forms an obvious aspirational goal for anyone versed in the rudiments of Monopoly. Why buy the little green houses when you can have the big red shiny hotels?

As a Land Economy graduate attracted by anything big, red, shiny and sadly unaffordable I decided to advise others on what hotels to buy and where should they be bought.

Cambridge provides an interesting case study with various opportunities passing across the desk. This article summarises some of the key aspects which an investor has to balance when deciding whether to make a bid for a big red shiny hotel.

Rudiments of Buying a Hotel

Unlike many other forms of real estate, hotels are bought, sold and valued principally on the basis of their earnings as opposed to more fundamental property characteristics. However, as so often in life, emotion can outweigh logic when it comes to hotels. As you would expect most clients from all

parts of the world initially want to buy in London where their investment will be seen as secure even if the yield achieved for every pound, dollar, euro, riyal or renminbi invested is relatively low. However buying hotels in London can be difficult with fierce competition for prime assets and buyers aggressively competing to secure them. As a result, in recent years, buyers start to enquire what other assets are available in other leading cities in the UK.

In such circumstances Cambridge is often high on the list along with cities such as Edinburgh, Bath, York and, dare I say it, Oxford. These cities share strong leisure and business drivers, historical heritage, universities and international recognition. They are also cities where new development has often been curtailed in the historic core and as a result there is a relatively constrained existing hotel supply and as a result, high room occupancies and achieved room rates both during the week and at weekends. Indeed in many cases prime hotels' weekend achieved room rates are materially higher than in mid-week.

Why Cambridge?

Let us take a more detailed look at the Cambridge market in the eyes of the hotel investor. First of all Cambridge is growing rapidly with population for the county due to increase by 25% in the next twenty years. The population of the city is also well educated, economically active and relatively prosperous.

It is also on the world's commercial stage thanks to prominent skills in sciences, research and



Sir James Devitt Bt MA MRICS
Managing Director, Herald Hotels
Corpus Christi, 1974 - 1978



technology demonstrated at Cambridge Science Park and St John's Innovation Park. Leading employers include AstraZeneca and ARM Holdings both of which are expanding rapidly in Cambridge. Other major existing developments around Cambridge include Cambridge Research Park, Chesterford Research Park and Granta Park. Future developments are planned including Cambridge East, The Southern Fringe and Trumpington Village. Addenbrookes 2020 Vision is intended to make the Cambridge Biomedical Campus one of the largest such centres in Europe and CB1 Station Road provides much needed 'A' grade office space including Microsoft's new research headquarters.

Infrastructure improvements will follow with the A14 upgrade between Cambridge and Huntingdon already in progress and a new railway station recently opened to the north of the city.

Tourism has long been integral to the local economy. Cambridge welcomes about 6.75million day visitors per annum and another 1.25million who stay the night. With international visitor levels to the UK rising and Brexit factors increasing the numbers of UK residents wishing to take short breaks in the UK, it is anticipated that the leisure market will remain strong. The leading tourist attractions in Cambridge include The Fitzwilliam Museum, The Imperial War Museum at Duxford, The Cambridge University Colleges and the numerous festivals hosted in the city.

Cambridge Existing Hotel Supply

So what is the current supply of hotels like in Cambridge? How does it accommodate customers from the medical and science parks and from the hospital and government offices? Where do all the parents, aunts and uncles,

brothers and sisters of all those students stay? Where does an international tourist sleep in Cambridge on a hot summer night?

Cambridge currently has about 33 hotels with 2,277 keys (Letting rooms) within three miles of the city centre. Budget hotels now dominate the market with 45% of the keys and 8 large Ibis, Travelodge and Premier Inn hotels in the city averaging 138 keys/hotel. These have all opened in the last decade and reflect the wider sea change in the UK hotel market in the last ten years. Budget brands such as Premier Inn and Travelodge are now the UK's biggest hoteliers and Ibis and Holiday Inn Express also have extensive portfolios across the country including in Cambridge. They offer simple, clean and value orientated product appreciated by both business and leisure travellers. They also generate high profit margins sought by many hotel investors.

The remainder of the Cambridge hotel market is predominantly classified as 3 or 4 star with 15 hotels averaging 80 keys/hotel. There are presently no 5 star hotels in the city and only one very small hostel and one small aparthotel. There are also 8 smaller 2 star hotels with an average of about 15 keys/hotel many of which remain privately owned and operated.

Examples in Cambridge of hotels which remain privately owned and operated include The Gonville Hotel, The Varsity Hotel, The Lensfield Hotel and Spa and Hotel Felix.

£50/night in the Hotel du Vin, Cambridge?

Although part of a small national chain, the Hotel du Vin has only 41 keys and was recently acquired with the Malmaison chain by Frasers Hospitality of Singapore. I am told that the Cambridge Hotel du Vin performs in the top 10% of the portfolio and I gather that you will have to pay £100+ to secure a room



on a Saturday night but spend £75 in the bistro on a Sunday and you can secure a room on that night for £50 now that must sound interesting to CULS members!

The International Hotel Brands in Cambridge

Larger internationally branded hotels are relatively few and far between in Cambridge. The Hilton Cambridge City Centre with 198 keys is located in Red Lion Yard retail centre and opened in 1991. It traded for many years as a Crowne Plaza Hotel and sold in 2016 to CDL Hospitality Trust, a Singaporean investor, who refurbished it and reopened as a Hilton. This was somewhat unexpected as the former Garden House Hotel with 122 keys had been bought by The Ability Group in 2007 and has traded as a Doubletree by Hilton since that time. As a result Cambridge currently has two city centre Hilton branded hotels, a former Posthouse on the A14, now operating as a Holiday Inn and no other internationally branded city centre stock.

Hotel Pipeline in Cambridge

As a result there is increasing pressure for the larger international operators and brands to find suitable hotel development sites. With Cambridge expanding and multiple urban

developments in progress options are starting to emerge. Within 5 miles of the city centre there are currently 17 sites where planning potential for hotel development has been identified. These have a total of 1,289 keys but six of these are smaller hotel extensions to existing supply.

Significant new developments include North West Cambridge owned by Cambridge University where a 130 key 4 star hotel is planned. At Addenbrookes a 198 key Crowne Plaza hotel has long been discussed and at CB4 Chesterton near the new railway station 222 keys are proposed and a 112 key hotel is also planned at Cambridge Research Park.

Recent hotel development activity has also provided two major developments in the historic heart of Cambridge. The long awaited 155 key Tamburlaine Hotel opened earlier in 2017 at the station. It has been developed to a good international four star standards and is owned and operated by the Irish hotelier O'Callaghan Hotels. It is squarely aimed at the luxury end of the Cambridge market.

It will be joined in the autumn by the remodelled and redeveloped former De Vere University Arms. This rather prosaic and unattractive city centre hotel has been transformed by an £80million

investment by Melford Capital. It will have 192 keys and will operate under the Marriott Autograph brand with a restaurant operated by a local chef Tristan Welch under the name 'Parkers Tavern'. Architects John Simpson and interior designer Martin Brudinizki have combined to bring Cambridge its potential first world class hotel. Time will tell whether it hits this prospective mark. You can be sure both international operators and investors will be running their slide rules over these two new hotels as the year unfolds.

Where have all the animals gone?

Finally it is interesting to note that 10 hotels with 313 keys have closed in Cambridge in spite of the strength of the hotel market. There seems to be a distinct animal theme to the closures with The Bull Hotel with 50 keys closing in 1941, the Lion Hotel with 70 keys closing in 1965 and the Blue Boar with 48 keys closing in 1986. With the extinction of all the animals in the Cambridge hotel herd maybe this simply reflects changes in our society over the intervening years.

Next year, if invited, I could take a more jaundiced look at the Oxford market where the Cock and Camel and Roebuck have also long gone but where The Old Black Horse plods on.