Market Size Of Hotel Trends

The service industry has continued to expand over the years. Various developments in the economy have highlighted the need for the employees in the service industry to develop their social and interpersonal skills extensively. Hotel managements ensure that customer needs are met through the exceptional customer service being rendered by its staff. An exceptional customer service has proven to gain returning customers, thus, a competitive advantage in the industry is gained.

This paper shall determine the hotel trends in London specifically the market size, the demands for the specific type of hotel and other relevant demographic data. The characteristics of the market and the profiles of the potential consumers' profiles will also be valuated. The data that will be collected should be analyzed based on the appropriate technique necessary.

Hotel Trends in London

In a study conducted by Thornton (2006) regarding the hotel demands in London, it was concluded that there will be a requirement of 2,000 extra net rooms in London per year until the year 2026.

The Visit London estimated that there were at least 93, 248 serviced rooms in London in the year 2002. The hotel rooms comprised of around 75% of total room stock with establishments that are bed and breakfast while other types of accommodations comprise the remaining 25%. During the years 2003 and 2004, completions of hotels were made with over 3,100 new rooms added. Regarding data for lost rooms, it is estimated that there are around 440 hotel room losses each year for the past years. One thirds of these losses are from the borough of Westminster.

The trends of the hotel stock with regards to the geographical location, it was accounted that 76% of the hotel bedrooms in 1996 were located in the in the sub-region of Central London. However, there was a 65% decline of this supply in the year 2005. Over the 2000- 2005 period, there have been 5,000 new rooms developed in the central sub-region, despite suggested pressures on site and land availability in the central boroughs. This compares to around 3,600 and 2,700 new rooms in the Eastern and Western sub-region respectively over the same period. While more rooms are being built in the central sub-region, the share is declining as the 5,000 new rooms built in the central sub-region account for only 41% of the total built over the 2000-2005 period.

This trend is expected to continue with the share of total hotel room stock in central London reducing to around 67% by 2008. New hotel stock development in the central region over the 2006-2010 periods is expected to be around 5,500 rooms, some 51% of

the total 10,900 new rooms predicted by the Visit London Hotel Development Monitor. Given that this central sub-region was responsible for around 77% of the capital s bed stock in 1996, this change is significant. With the continued development in Docklands, increasing hotel bedrooms in the west and eastern boroughs is a trend that is likely to continue.

The eastern region comprised 6% of the hotel stock in 1996 and this share is expected to grow to 12% by 2008 with strong recent activity expected to continue. In the west of London, the stock of hotels made up 12% of the capital's hotels and this share is anticipated to rise to 15% by 2008.

Characteristics of the Hotel Market

Hotels that are main branded comprise the 12% of the total stock of the service accommodation and 38% of the number of bedrooms. In terms of the trends of the hotel supply, there has been tremendous growth in the budget sector that includes the branded budget hotels which has increased consumer choice.

Terror events have had only short-lived impacts on hotel occupancy in London with occupancy and yields in London rebounding strongly following a modest initial downturn in the aftermath of the 7 July bombings. Nevertheless, average room rates have fallen since their peak in 2000.

Room rate trends and average room yields have the same pattern in spite adjustment for seasonal variation and inflation. However, in the periods before the year 2000, it was seen that there has been a widespread absence of discounts.

The Tourist Market of London

London is the most visited city in the world in terms of international tourists. 1.75% of international arrivals visit London. Nights stayed in London by international visitors have risen on average by 3.1% each year since 1993 (compared to 1.6% each year for the UK as a whole). Similarly visitor nights spent by UK residents in London has increased from 19.1 million in 1990 to 29.7 million in 2004, an average increase of 3.2% per annum.

Domestic visitors also go to London. Over the longer term, the total number of domestic visitor nights spent in London has increased, 19m in 1990 to 31m in 2004. The average number of nights per visit has also increased; rising from 0.8 nights in 1990 to 1.24 in 2004 Information on visitor attractions visits paints a broadly positive picture for the past few years with the overall trend being positive.

Annual trips to London by domestic and international visitors peaked at 31.6 million in 2000 (as mentioned above, trips were buoyed by the millennium celebrations in that year). In 2004, trips fell to 26.1 million, representing a fall of around 20% on the 2000

peak. Similarly, total annual visitor nights have fallen over the period, albeit with a more moderate decline of 4% recorded (due to an increase in the average length of trip).

The hotel industry should also fit their services based on the purpose of the visitors in visiting London. Longer-term trends for international visitors show a decline in the propensity to use a hotel, which is linked to an increase in international tourists visiting London to visit family and friends. Between 1995 and 2004 the proportion of international visitors staying in a hotel declined from 39.8% in 1995 to 30.6% in 2004.

Market Characteristics and Potential Customer Profile

The international visitors market has been in a steady growth for the past 25 years. The overseas visitors have grown from 12.4 million in the 1980's to 30 million in 2005. The leading market for the overseas visitors is from the USA, France, and Germany.

Aside from the overseas visits, there are also domestic visitors in London. In the year 2004, the majority of domestic visits, were from the South East which is 14%, followed by those from the South West which is comprise 12% of the total market share, 11% is from both the North West and West Midlands and then followed by East of England and East Midlands with 10% and 8% respectively (Thornton 2006).

The potential customer profile for London visits vary from visits to a family or friend, for holidays, for business and other matters. The conference and incentive travel industry has evolved over the past few decades into a mature business sector. It is increasingly clear that businesses and associations cannot function effectively without face-to-face meetings. Over the ten years to 2004, there was a 50% increase in all business trips (with 27% of overseas visitors travelling on businesses to the UK in 2004) exceeding the overall tourism growth rate24. On a global scale, 16% of International tourist arrivals worldwide were for the purpose of business in 2004.

Description of the Hotel Concept

Business visitors to the UK are most likely to use a hotel or other serviced accommodation (with over 50% of business visitors staying in serviced accommodation). International visitors to the UK for the purposes of studying or visiting family and friends are least likely to use a hotel for their trip with less than 5% of all visitors for these purposes using hotels.

Conversely, UK domestic visitors to London are increasingly likely to stay in a hotel. Over the period 2001 to 2004 the portion of trips spent in a hotel or B&B increased from 34% to 42%. This coincides with a reduction in trips to London to visit family and friends and an increase in UK residents visiting London for a holiday.

The location of the hotel should be in the Central area since majority of the hotels are there and is frequently visited by international tourists. Particularly, Westminster leads

the supply of serviced accommodation with its share of London's stock estimated at 38.7% in 2005. Camden and Kensington and Chelsea are next with 13.9% and 12.0% of the stock respectively. Overall the central sub-region (ie Camden, Islington, Kensington & Chelsea, Lambeth, Southwark, Wandsworth and Westminster) is estimated to hold 69% of London's hotel stock in 2005.

Looking forward, Lambeth is expected to lead increases in stock with almost 1,800 new rooms planned over the 2006-10 period. This will raise Lambeth's share of the total London stock from 1.3% in 2005 to 2.7% by 2010. Substantial increases are also expected for Southwark and Wandsworth suggesting a dispersal of accommodation within the sub-region, as well as across Greater London.

Critical Analysis and Evaluation

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Based on the presented data from sources, the following are the analysis and conclusions made:

The hotel rooms comprised of around 75% of total room stock with establishments that are bed and breakfast while other types of accommodations comprise the remaining 25%. During the years 2003 and 2004, completions of hotels were made with over 3,100 new rooms added. Regarding data for lost rooms, it is estimated that there are around 440 hotel room losses each year for the past years. One thirds of these losses are from the borough of Westminster.

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Finally, there will be a requirement of 2,000 extra net rooms in London per year until the year 2026.

Asset-Liability Management

The main objective of asset liability management is managing properly the changes that are related in the interest rates, to properly mix the assets and liabilities in the balance sheet, foreign currency holding and derivatives usage. Management of such risks should be done through a manner of contributing accurately to the earnings and risk limits of the institution's financial margin and equity.

Properly managing of asset and liability risk should be done through a policy approved by the board. This should set limits on the mix of asset and liabilities. Guidelines for the pricing, term and maturity should also be included in the policies. Policies should also govern the use of derivative, if any. It should state that among any other things, the derivatives should only be used in limiting the interest rate mixes and should never be used for the purposes of speculation and investments.

Credit unions offering fixed rate loans should mitigate in the interest rate risk. It should ensure that measuring risks are properly managed. The balance sheet gap is the standard measure of this risk.

Credit unions should meet standards for a harmonious business process. They should ensure that policies that were developed for asset and liability management are well observed depending on the complexity and size of the said institution. In this way, risks can be avoided and a successful institution is expected.

Bessis (2002) defines interest rate risk as the risk of the decline in earnings due to the movements of interest rates. On the other hand, Casu, Giradone and Molyneux, (2006) explained that it is the risk arising from the mismatching of the maturity and the volume of banks' assets and liabilities as part of their asset transformation function. It is the union's impact on the earnings of the institution and its capital brought about by the changers in the rates in interest. The main cause for this is the mismatches in the deposits and loans of a credit institution. The risk if interest rate risk should be periodically measured. It should also be controlled by means of correct management and the balancing of the institution's assets and liabilities.

There are various techniques in the risk management of interest rates. Some of these are gap analysis which includes basic gap analysis, maturity bucket gap, and maturity gap. Other techniques are duration analysis and simulation approaches that include static simulations and dynamic simulations like the dynamic gap analysis.

Gap analysis explains that if RSA>RSL, the interest margin rises if interest rates rise and fall if interest rates fall as well. On the other hand, if RSA<RSL, interest margin will move in he opposite direction to the interest rate's change. Maturity gap is the weighted

average of maturity of rate-sensitive assets less than the weighted average maturity of rate-sensitive liabilities.

There are no limited terms for gap schedules. Balance sheets with proper gap schedule should measure its entire life. It is accomplished by having a five-year financial bucket.

However there criticisms that are presented when using the Gap approach. First is being naive which is the oversimplification of the complexities of the bank's ALM. Second is over-aggregation wherein intra-buckets are ignored. Further, gap approaches fail to account for changes in the timing of payments due to changes in the interest rate environment such as pre-payment risks which are risks that loans will be repaid early when interest rate arises. Lastly, the gap approaches ignores differences in spreads between interest rates that could arise as market interest rates increase.

The concept of duration is the average life of an asset or liability cash flows. On the other hand, the duration gap measures the mismatch in the duration between assets and liabilities. It is also capable of calculating the impact of the change of inertest rates on the value of bank' equity. However, there are listed problems with the measurement of duration. These are convexity, data requirements, and that it focuses on one type of risk in the interest rate.

The objectives of Value at Risk (VaR) is estimating the capital loss on a portfolio of assets over a given period which is typically 24 hours, that will be exceeded at a given frequency.

The requirement for Basel international models is the market risk capital charge is being based on the larger of the bank's previous day's forecast of portfolio bar in 10 days, and the average of its previous VaR estimates over the prior 60 business days.

Historical simulations represent the simplest way of estimating the Value at Risk for many portfolios. In this approach, the VaR for a portfolio is estimated by creating a hypothetical time series of returns on that portfolio, obtained by running the portfolio through actual historical data and computing the changes that would have occurred in each period.

Since Value at Risk measures the probability that the value of an asset or portfolio will drop below a specified value in a particular time period, it should be relatively simple to compute if we can derive a probability distribution of potential values. That is basically what is done the variance-covariance method, an approach that has the benefit of simplicity but is limited by the difficulties associated with deriving probability distributions.

The implicit assumptions of the historical simulation approach are visible in this simple example. The first is that the approach is agnostic when it comes to distributional assumptions, and the VaR is determined by the actual price movements. In other

words, there are no underlying assumptions of normality driving the conclusion. The second is that each day in the time series carries an equal weight when it comes to measuring the VaR, a potential problem if there is a trend in the variability – lower in the earlier periods and higher in the later periods, for instance. The third is that the approach is based on the assumption of history repeating itself, with the period used providing a full and complete snapshot of the risks that the oil market is exposed to in other periods.

Firms that use VaR as a risk disclosure or risk management tool are facing growing pressure from internal and external parties such as senior management, regulators, auditors, investors, creditors, and credit rating agencies to provide estimates of the accuracy of the risk models being used.

Users of VaR realized early that they must carry out a cost-benefit analysis with respect to the VaR implementation. A wide range of simplifying assumptions is usually used in VaR models (distributions of returns, historical data window defining the range of possible outcomes, etc.), and as the number of assumptions grows, the accuracy of the VaR estimates tends to decrease.

As the use of VaR extends from pure risk measurement to risk control in areas such as VaR-based Stress Testing and capital allocation, it is essential that the risk numbers provide accurate information, and that someone in the organization is accountable for producing the best possible risk estimates. In order to ensure the accuracy of the forecasted risk numbers, risk managers should regularly backtest the risk models being used, and evaluate alternative models if the results are not entirely satisfactory.

VaR models provide a framework to measure risk, and if a particular model does not perform its intended task properly, it should be refined or replaced, and the risk measurement process should continue. The traditional excuse given by many risk manages that "VaR models only measure risk in normal market conditions" or "VaR models make too many wrong assumptions about market or portfolio behavior" or "VaR models are useless" should no longer be taken seriously, and risk managers should be accountable to implement the best possible framework to measure risk, even if it involves introducing subjective judgment into the risk calculations. It is always better to be approximately right than exactly wrong.

In risk management, it is usually important that the model forecasts the tail of the distribution correctly and not its interior, which characterizes small return disturbances. However, the approach described above can easily be generalized to testing only the tails of the distribution see Berkowitz (2000).

Credit derivatives are contracts in finance which involves a possible exchange in payment. The least one in the cash flow has a link in the performance of an asset that is credit sensitive. So credit derivatives are financial contracts that enable participants to trade in credit as an asset, as they isolate and transfer credit risk. There are credit

events such as bankruptcy, failure to pay, acceleration of obligation, default of obligation, moratorium of debt, and restructuring/modified restructuring.

Credit default swap has its benefits. First, it transfers credit risks and reduces credit exposure. Secondly, it protects relationships such as reference credit is unaware. Also, it transfers the risk on liquid assets. Own portfolios are diversifies by means of protection seller obtains access to credit risk of reference assets.

Proper management of asset/liability risk is facilitated through board approved policy, which sets limits on asset and liability mix, as well as the level of interest rate risk and foreign currency risk to which the credit union is willing to expose itself. Policy should also set out guidelines for the pricing, term and maturity of loans and deposits. The use of derivatives, if any, should also be controlled by policy, which should state among other things that derivatives must only be used to limit interest rate risk and must never be used for speculative or investment purposes.

Credit unions which offer either fixed rate loans or deposits will mitigate interest rate risk by ensuring that management is properly measuring risk. The standard measure of this risk is balance sheet gap, and it is essential that management measure this regularly.

Asset securitization is the process wherein financial assets such as loans, receivables, and other are pooled together along with their respective cash flow and other economic values in which it is redirected in supporting the payments of related securities. The benefit of this are the removal of poorly performing assets from the balance sheet which enhances profitability; providing of capital; credit risk OBS is transferred; relationships are protected; illiquid assets are transferred; and buyer of ABS obtains access to new asset classes.