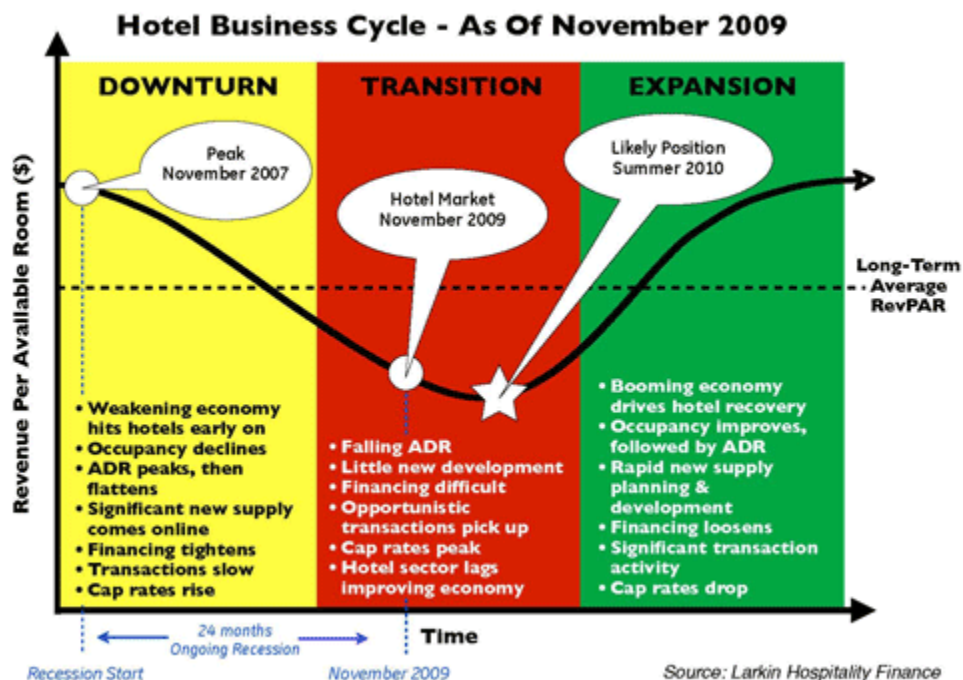




Will your loans be covenant compliant in 2010?
The answer could represent the survival or demise of a client's business.

We want to share a thought provoking view on the Hospitality & Leisure Industry that considers the last 24 months from late 2007 until today, coupled with **early indications of what might happen to Hotel RevPAR through 2010 and 2011.**



Please note that this table is primarily based on the hospitality industry in the US. However if we consider the bullet points listed under “**Downturn**” and indeed those for the current period of “**Transition**”, one realises the strong correlation between the marketplaces on both sides of the Atlantic.

Taylor Global Advisors (TGA) believe the direction of the arrow during the “**Expansion**” period may be too optimistic for the UK and Europe and any improving RevPAR is more likely to follow a more modest gradient.

We believe an **important consideration for the industry here in the UK and Europe is the forecasted direction of the RevPAR arrow from now until summer 2010.** The arrow continues to move **downwards**, quite possibly until the latter part of Q3 and only then starts to rise.

If we accept this premise then hoteliers should be budgeting for RevPAR and almost certainly EBITDA falls through to the early autumn of 2010. We might also keep in mind that Mark Lomanno, President of Smith Travel Research (STR) which is the largest world-wide hotel performance benchmarking company recently

said “an uptick for the hotel industry won’t come back soon – as in the next six to eight months”. But if RevPAR did subsequently improve by Q3 or more likely Q4 2010, what will trigger a rise?

History suggests that Occupancy will improve first and as hoteliers become confident that the marketplace is more robust, so Room Rates (ARR) will follow on. Occupancy is of course driven by a diverse number of client sub sectors including corporate, leisure and group business; whereas ARR is a pure result of demand. If room rates are to rise, this will require a rapidly growing number of **regular business travellers**. We all probably have thoughts about when corporate business might increase but it would be a brave forecaster who suggested this could be anticipated before the mid to latter part of next year. Particularly where there remains a strong indication that the UK economy continues to be in an extremely weak condition, not helped by the political lethargy resulting from the general election due in 6 months time.

It should also be recalled that as recently as late-September, PWC in their **UK Hotels Forecast for 2010** was anticipating that the UK could see a year-on-year RevPAR fall between 2009 and 2010 of 2.40% with this following on from a much more severe 12.10% reduction between 2008 and 2009. However this disguised a marked difference between the respective performance of London and the Provinces.

PWC forecast a 3.80% RevPAR fall for London but only a 1.00% reduction for the Provincial marketplace. If we tie together the suggestions embodied in the above table coupled with the thoughts of Mark Lomanno and also agree that what’s anticipated to happen in the US could also occur here, then one might argue that **UK RevPAR falls in Q1-Q3 2010 might be deeper than some commentators are expecting**.

So what should lenders and borrowers be doing?

TGA recommends:

- **Prepare 2010 Hotel Budgets with consideration for two or even three quarters of reducing RevPAR followed by a “marking time” during Q4.**
 - Any business worth its salt will be fighting tooth and nail to buck this trend but Finance Directors and **Lenders would be well advised to sensitise trading projections and consider forward looking covenants on this more conservative basis.**
- **All stakeholders agree to a reasonable “downside case” for 2010 and satisfy themselves that they can accommodate the results.**
 - If stakeholders know what future covenants might look like, then everyone, operator, owner, investor and lender can concentrate on seeking additional income streams via new markets or up-selling to existing clients coupled with dealing with the recurring thorny issue of finding ways to reduce overheads at a time when pressures on wages are increasing, energy costs are rising, and VAT returns to 17.5% on January 1st 2010.

Taylor Global Advisors (www.taylorglobaladvisors.com) was established specifically to be a “conduit” between lenders and borrowers in the Hospitality & Leisure sector. Our aim remains to assist all parties to agree where is the common ground, what should be the agreed goals, to seek a “solution to a problem” acceptable to all parties and ensure stakeholder benefit as a result.

TGA would be pleased to discuss our thoughts with you by telephone, e-mail or a face to face meeting.

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