

From The Times

April 19, 2009

Can the Savoy handle a downturn?

The timing looks bad for lavish refurbishments of London's five-star properties

Mark Frary

The Savoy in London will reopen this autumn after an 18-month restoration that has cost its owners, Canada's Fairmont hotel group, about £100 million - thought to be the most expensive refurbishment of a London hotel.

When, in May 2007, the hotel announced it was to close, most people had not yet heard the term "credit crunch". Company travel budgets were still healthy and the prospects for upmarket hotels looked good. How things have changed.

The Savoy was to have reopened this spring but the date has now been pushed back to the autumn. The complexity of the refurbishment may have been the cause of the delay but the owners will be hoping for some signs of economic recovery by then. If not, there may be a shortage of takers for rooms that will start at £350 a night - the sort of prices needed to recoup such an investment.

The Savoy is not alone in its unfortunate timing. Marriott has also spent an eye-watering amount on [turning Grosvenor House, on Park Lane, in London, into one of its flagship JW Marriott properties.](#)

The problem for all hotel owners is that new openings and major refurbishments take a long time. Choosing the point in the economic cycle where you should carry out those works is a dark art.

HRG, the travel management company, this week announced that the average hotel rate being paid by its corporate clients in London is down 5 per cent on last year to £146.48. This comes after several years of inexorably rising hotel rates, pushed up by demand from business travellers.

The owners of The Savoy and Grosvenor House will be pleased to know that the experts do not believe we will see a return to the conditions at the end of 2001, when hotel rates went into freefall in the aftermath of 9/11.

Margaret Bowler, HRG's director of global hotel relations, says: "Hotels have learnt from 2001. This time they are behaving differently and have not thrown the rates away."

"One of the fundamental differences is that hotel occupancy has not fallen by as much as in 2001. However, it is continuing to fall."

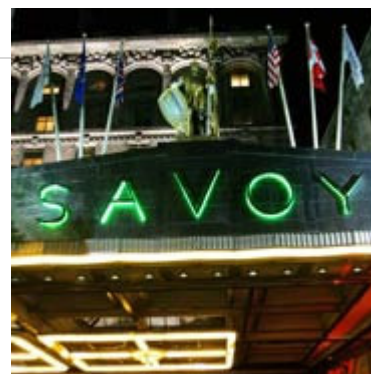
Meanwhile, there is evidence that some upmarket hotels are selling their rooms at considerably lower rates to leisure travellers. They are though using last-minute discounters rather than their own websites in order not to alienate their key business traveller market. Laterooms.com, for example, says that bookings for five-star accommodation have almost doubled in a year.

Daryl Pinnington, managing director of the hotel booking agency NYS Corporate, adds: "Every company which has an opening this year is being proactive and flexible on rate."

As well as falling rates, there is an increasing trend of businesses downgrading the class of hotel their employees can stay in.

Tim Sander, author of the annual BDRC British Hotel Business Guest Survey, says there has been a sharp increase in the number of business travellers staying in budget hotels.

So is it a good time to be reopening a swanky hotel in London? Sander says: "Once a chain has completed a major refurbishment, there is a temporary benefit to the brand's performance. However,



that is not necessarily something that is sustained in the long term. After another 12 months, that refurbishment is not in the mind of the consumer.”

Bowler believes the timing is not so good. “The company is bringing back additional rooms to a city that already has plenty. It is having to offer lower rates than it would like but it is a long-term game. Although it is not ideal, the company has to open and maintain levels of service, and play a little more with the price.

“At the top end of the hotel market, hoteliers can’t sell at three-star prices because when they look at their costs and margins, it doesn’t make sense. But it isn’t all doom and gloom for the city’s five-star properties - London does still have busy days.”

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