



## **The Stellar Martineau Place LP ("the Fund")**

### **Review for the six-months ending 30 September 2023**

Despite the considerable challenges the hotel and wider hospitality sector have faced in recent years, there has been positive recovery in the local and wider market since the pandemic.

Since the outset of the COVID-19 pandemic, the hotel's city centre location and reliance on corporate, long-stay business has resulted in a slower than expected recovery. Despite this performance YTD September 2023 remains ahead of pre-COVID-19 benchmarks at both gross revenue and EBITDA levels.

Year to date the Fund has exhibited strong performance, despite falling short of its budget EBITDA. It should however, be noted that trading performance has been impacted in recent months following weakened corporate demand and less transient demand over the summer months.

### **Market Commentary**

PwC highlighted how, despite strong growth and a heightening of demand in 2022, recovery in the UK hotel market has stalled in the face of continued volatility of trading conditions and rising operational costs. A disparity between London and the regions remains evident with YTD revenue per available room eclipsing pre-pandemic levels in London (100-105%). However, the same is not true in the regions (85-98%).

The hospitality sector has been able to partially offset inflation by passing costs onto consumers via increases in rates, without suffering a significant loss in occupancy rates. This however, has become increasingly difficult since the turn of the year as the effects of the cost-of-living crisis continue particularly outside London.

Challenges still remain in the UK hotel market with shorter booking windows, reduced corporate and international travel, costs of inflation and staffing shortages all persistent within the market. In their report Savills highlighted the reduced staycation figures, with households now prioritising holiday expenditure from excess savings as being partially responsible for the stagnation of the staycation industry in recent months.

Knight Frank reported the £3 billion of UK hotel investment in 2022 was 31% below the five-year average and 22% below the previous twelve months' investment levels. However, there are signs that the UK hotel investment market has already become more settled with transactions set to eclipse 2022 figures for the full year 2023.

### **Executive Summary**

#### **Six-months to September 2023**

<b>Executive Summary</b>	<b>YTD Sep</b>	<b>Budget</b>	<b>BudVar</b>	<b>LastYear</b>	<b>PYVar</b>
Occupancy	73.6%	80.2%	(6.6%)	86.1%	(12.5%)
ADR	£93.58	£93.57	£0.01	£100.09	(£6.510)
RevPAR	£68.87	£75.00	(£6.127)	£86.13	(£17.258)
<b>Total Revenue</b>	<b>£2,296,781</b>	<b>£2,485,655</b>	<b>(£188,874)</b>	<b>£2,861,058</b>	<b>(£564,277)</b>
GOP	£906,463	£983,014	(£76,551)	£1,476,256	(£569,793)
<b>EBITDA</b>	<b>£737,107</b>	<b>£783,788</b>	<b>(£46,681)</b>	<b>£1,281,840</b>	<b>(£544,733)</b>



Performance YTD has been strong despite falling marginally short of budget. The exceptional performance in 2022 was largely driven by the Commonwealth Games culminated in the hotel's year end EBITDA exceeding budget by 30.6%.

Historically, performance at this hotel has exhibited a strong correlation with the percentage of long-stay business. However, since the COVID-19 pandemic this business has been slow to return to the city. Despite this the hotel has a good pipeline of long stay business which we expect to underpin positive performance in the second half of the trading year.

### Hotel Revenues

Six-months to September 2023

Hotel Revenues	Actual	Budget	BudVar	% Var	LastYear	PYVar
Room Revenue	£2,256,042	£2,456,752	(£200,710)	(8.2%)	£2,821,357	(£565,315)
F&B Revenue	£15,259	£15,603	(£345)	(2.2%)	£14,180	£1,079
Other	£25,481	£13,300	£12,181	91.6%	£25,522	(£41)
<b>Total Revenue</b>	<b>£2,296,781</b>	<b>£2,485,655</b>	<b>(£188,874)</b>	<b>(7.6%)</b>	<b>£2,861,058</b>	<b>(£564,277)</b>

A strategy geared towards driving long-stay business has been active since Q2 2021. Securing such business is key to the continued performance of the hotel however, several departures from the marketing and sales team in recent months have subdued performance.

We are pleased with the performance of the hotel considering the local market conditions and staffing challenges faced during the sale process.

### Hotel Profitability

Six-months to September 2023

Hotel Profitability	Actual	Budget	BudVar	% Var	LastYear	PYVar
GOI	£2,296,781	£ 2,485,655	(£188,874)	(7.6%)	£2,861,058	(£564,277)
GOP	£906,463	£ 983,014	(£76,551)	(7.8%)	£1,476,256	(£569,793)
NOP	£823,500	£ 874,936	(£51,436)	(5.9%)	£1,406,527	(£583,027)
<b>EBITDA</b>	<b>£737,107</b>	<b>£ 783,788</b>	<b>(£46,681)</b>	<b>(6.0%)</b>	<b>£1,281,840</b>	<b>(£544,733)</b>

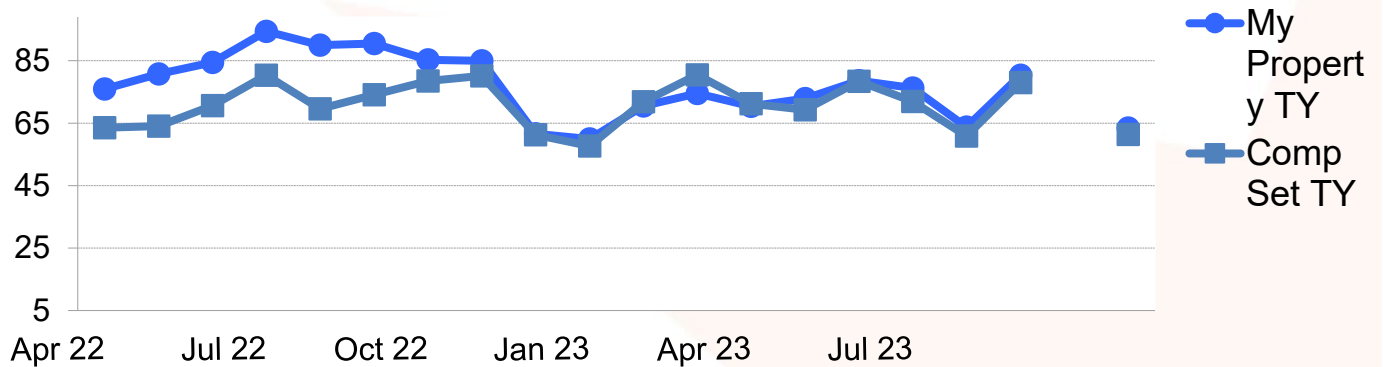
As is evident in the table above, it is pleasing to see that the hotel remains profitable YTD albeit marginally behind expectation.

### Exit

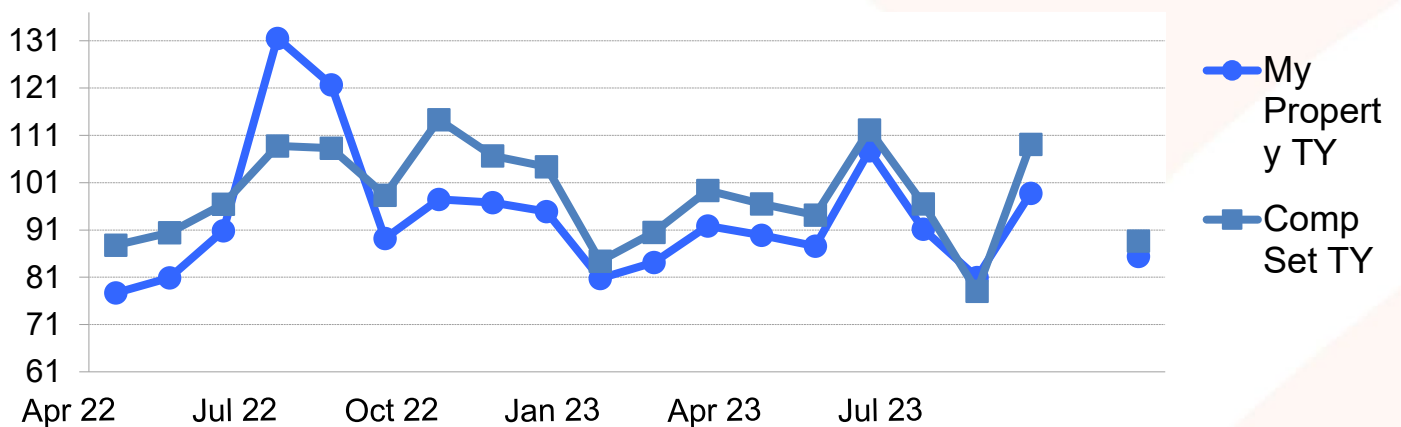
Since we last reported in Q1 2023 we have continued dialogue with the buyer who is nearing completion of their due diligence process. It is anticipated that completion on the sale will occur in Q4 2023.

## Performance vs Competitor Set

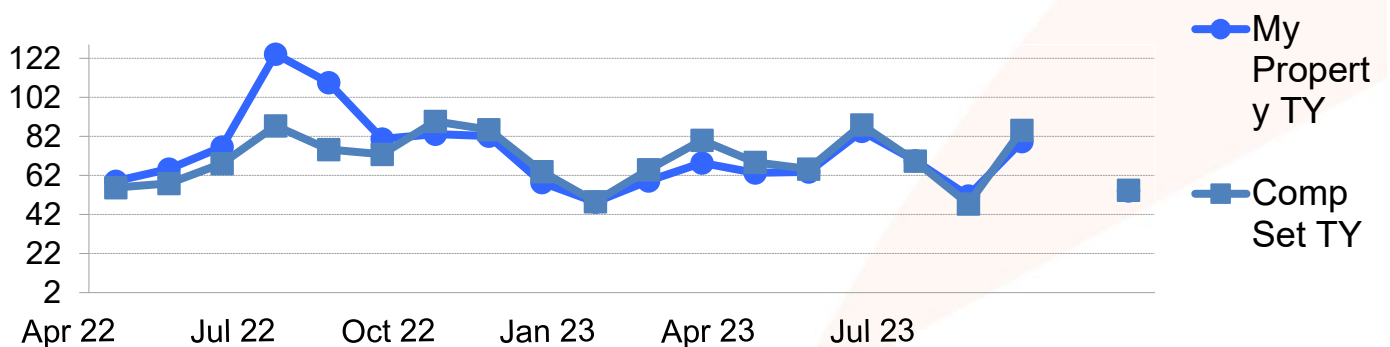
### Monthly Occupancy (%) - Apr 2022 to Sept 2023



### Monthly ADR – Apr 2022 to Sept 2023



### Monthly RevPAR – Apr 2022 to Sep 2023





## Frequently Asked Questions (FAQs)

To assist investors and their advisers, we have collated the most frequently asked questions that our client service team receive and have included our answers below.

Should you have any queries relating to the Fund or your investment, our client services team are readily available to assist and can be contacted on 020 3195 3500 or via email at [enquiries@stellar-am.com](mailto:enquiries@stellar-am.com).

### How often are performance updates provided to investors?

Performance updates are issued on a half yearly basis by email. Once published, they can also be accessed at any point via our online portal: <https://www.stellar-am.com/portal/>.

### What is the latest market valuation of my investment?

For an update on the current value of your investment, please contact our client services team on 020 3195 3500 or via email [enquiries@stellar-am.com](mailto:enquiries@stellar-am.com).

### What is the taxation treatment of the Fund?

#### Income of the Partnership

Income arising to the Partnership will be treated for UK tax purposes as income arising directly to each Limited Partner in the proportion in which income is shared by the Limited Partners in accordance with the provisions of the Partnership Agreement. It is anticipated that rental income received by the Partnership will be fully used to pay the interest on the Loan Facilities and the balance of the rental income to amortise the Loan Facility balance. This will mean that there will be no distribution of profits to the Limited Partners. Interest payable on the Loan Facilities by the Partnership can be offset against the rental income of the Partnership for income tax purposes. Limited Partners should be aware that even though they will receive no distribution of net profits that they will still be liable to pay their share of the income tax due on those net profits at their marginal rate of tax direct to HMRC.

#### Capital Gains Tax

Each Limited Partner will be treated for the purpose of UK tax on chargeable gains as having a direct share in the Partnership Assets. The share of each Limited Partner will be equivalent to their interest in the Partnership Assets determined in accordance with the provisions of the Partnership Agreement. Upon the Partnership disposing of an asset to a third party, each Limited Partner will be treated as disposing of their share in the underlying asset. To the extent that any gain or loss arising on a disposal is treated for UK tax purposes as a capital gain or loss, each Limited Partner's share of any proceeds realised on disposal will be determined in accordance with the provisions of the Partnership Agreement. Any such capital gain will be based on the difference between the sale proceeds allocated to a Limited Partner's share in the Partnership Assets and the cost of the Limited Partner's Capital Contribution made to the Partnership before BPRA is taken into account.



**What is the process for surrender and how long should it take to receive the proceeds?**

At the time of investment, it was stated that the transferability of an interest in the Partnership would be restricted. We are currently unaware of any potential buyers for interests in Martineau Place so unfortunately would not be able to facilitate a sale at this time.

**When will my tax certificate be available for tax year end April 2023?**

Your tax certificate will be available in Q4 2023. These will be made available via our portal and can be emailed to you on request. Please contact [enquiries@stellar-am.com](mailto:enquiries@stellar-am.com).

**Please can you offer an update in relation to HMRC and the Upper Tier tax tribunal?**

As reported in our communication on 8 September 2023, Downing LLP (Downing) has been advised that the Supreme Court has unfortunately decided to refuse permission to appeal.

By way of a reminder, Downing sought to appeal the Court of Appeal's decision on three grounds:

1. Ground 1: the Court of Appeal erred in deciding the appeal by reference to the developer's expenditure and not the expenditure incurred by the LLP;
2. Ground 2: the Court of Appeal erred in deciding that the words "in connection with" should be construed narrowly and, in particular, required a strong and close nexus the physical works;
3. Ground 3: the Court of Appeal erred in remitting the treatment of the residual amount to First Tier Tribunal (predicated on the success of Grounds 1 and/or 2).

The Supreme Court has decided that:

1. Ground 1 is not arguable. No mention is made of Grounds 2 and 3 although permission on these is refused because point 2 below.
2. None of the grounds raise a point of law of general public importance.

There is no further route of appeal or option to ask the Supreme Court to reconsider its decision.

This means that the allowable costs are limited to 63% of those incurred, which is marginally better than the original closure notice.

We await direct correspondence from HMRC as to the next steps and will write again once the position has been determined. However please note we are not tax advisers, and you should take independent advice as to the potential impact on your tax affairs.

**Is there any news on the CBILS (Coronavirus Business Interruption Loan) loan from NatWest for £1,000,000?**

This was drawn down in May 2021 and is repayable over 6 years after this date.



**Are there any exit fees?**

There are no set fees stated in the agreement, fees would be agreed at the time of a potential exit on an individual basis.

**What is the exit date for the partnership and when am I likely to see a return on my investment?**

The BPRA (Business Premises Renovation Allowance) holding period expired in December 2020.

As noted in the 'Exit' section of our report we are engaged with a buyer who is currently performing due diligence on the hotel.