Bank of Ireland Sectors Team Hotels 2021 H1 Insights

July 2021

Bank of Ireland

Classification: Green

Insights

Accommodation providers across the country have been reopening their doors after a prolonged period of closure. The much debated pent up demand has so far delivered a strong flow of customers eager to reconnect with friends and family; demand has further been fuelled by the accelerated rollout of the vaccine. However some concerns remain about the potential for further disruption from the COVID-19 Delta variant. Similar to last year, regional locations are reporting strong demand whilst trade in the capital remains soft at present, leading to the delayed reopening of a number of premises around Dublin city centre.

Hotel sector key activity and trends H1 2021

- **Trade resumes:** Restrictions on non-essential trade lifted on June 2nd, and soon after hotels around the country started to reopen their doors. Vast majority of properties outside Dublin are now trading under more relaxed restrictions but are still precluded from hosting large indoor events or making full use of leisure centre facilities.
- **Staffing:** Despite the figures from the CSO showing an 18.3% adjusted unemployment figure for June 2021, recruitment continues to be a pain point for the sector and is likely to leave a permanent impact in cost of wages.
- **Strong demand:** The 'captive' domestic market has delivered strong occupancy across a number of key holiday destinations. Targeted marketing efforts have helped a number of hotels deliver very strong room rates for June and July. Furthermore the direct approach should also deliver lower commission costs. Lack of meaningful corporate and event based demand continues to negatively impact Dublin hotels.
- **Investment:** The extended lockdown gave hotel operators an opportunity to address refurbishment/investment projects without disturbing customers. Hotels like Dromhall in Killarney, Wineport Lodge in Athlone and Lyrath in Kilkenny carried out sizeable projects that are sure to impress their customers as they return.

Hotel sector key performance metrics H1 2021

Available year to date hotel benchmarking information needs to be taken in context of prevailing restrictions between January and May which meant a number of properties were simply not trading. The reopening timeframe of a hotel and the implementation of adequate pricing and marketing strategies will play a key role in the recovery path of hotel KPIs. As 'normal' trade resumes it will be crucial for hotels to compare their trends against their particular cohort of direct/comparable competitors, and get a steer on whether their figures are 'in line' or 'ahead'.

- Heightened **average** room rates reported by some properties do not represent actual hikes in pricing, they are the by-product of the lack of discounted, so called base business (book early discounts, tours/groups, etc..) which generally dilute summer rates. It is worth noting that the lead in time for bookings has shortened dramatically.
- Lack of corporate bookings impacting average room rates and occupancy for hotels in Dublin and Limerick as well as Cork to a lesser extent.

Table 1. Accommodation sales statistics Dublin, Galway, Cork, Limerick, Kilkenny and Regional (2019-2021).

Accomodation KPIs 2019 - 2021 (June only)	June								
	Occ %			AHR €			RevPAR €		
Location	2019	2020	2021	2019	2020	2021	2019	2020	2021
Dublin All (STR)	91.5	13.6	33.2	168.4	80.1	106.6	154.1	10.9	35.4
Dublin city centre (STR)	92.3	8.6	26.5	201.3	85.4	124.6	185.8	7.4	33.0
Galway (Trending)	86.7	22.7	61.7	123.7	22.2	132.1	107.2	5.0	81.5
Cork (Trending)	90.1	27.5	53.4	118.5	70.5	135.8	106.7	19.4	72.5
Cork (STR)	89.5	22.9	52.8	129.5	83.0	134.3	115.9	19.0	70.9
Limerick (Trending)	83.7	24.9	38.4	91.5	46.6	94.8	76.6	11.6	36.4
Regional (Trending)	87.6	38.6	53.1	110.7	61.1	122.0	97.0	23.6	64.8
Regional (Trending)	87.6	38.6	53.1	110.7	61.1	122.0	97.0	23.6	64.8

Source: STR and BPO.

Government supports 2021

Sector stakeholders are lobbying for the extension of government supports which continue to play a vital role in the recovery/ short term viability of some businesses as lockdown restrictions are slowly phased out. The revised qualifying criteria for the Employment Wage Subsidy Scheme (EWSS) was widely welcomed by industry bodies as it may allow some pubs and restaurants to claim wage supports for a few months after trade resumes even if summer trade is relatively strong.

Current government schemes/initiatives that are aimed at supporting the sector on its path to recovery, include:

- EWSS extended to 31st December 2021. https://www.gov.ie/en/service/ead8c-employment-wage-subsidy-scheme-ewss/
- The lower tourism VAT rate of 9% has been extended until 1st September 2022 which will support food margins.
- COVID-19 Restrictions Support Scheme (CRSS) extended until the end of 2021. https://www.revenue.ie/en/self-assessment-and-self-employment/crss/index.aspx

- Commercial rates waiver extension to the end of September 2021. https://www.gov.ie/en/press-release/da3e9-government-announces-further-extension-of-commercial-rates-waiver-for-quarter-three-2021/
- Tax debt warehousing scheme extended to the 31/12/21; interest free period during 2022, balances to be paid from 01/01/23 https://www.gov.ie/ga/preasraitis/63fc8-minister-donohoe-announces-further-economic-supports-for-businesses-as-they-re-open/
- Outdoor dining enhancement scheme by Fáilte Ireland. Grant of up to €4k (for up to 75% of the ex-VAT cost of equipment) https://www.failteireland.ie/Identify-Available-Funding/local-authority-schemes/Outdoor-Dining-Enhancement-Scheme/Outdoor-seating-accessories.aspx

The Environmental, Social, and Governance (ESG) agenda

The green agenda had been gathering strength in the hospitality sector in Ireland since the early 2000's with a number of certs that have evolved over the years. The Sandymount Hotel had already been the recipient of Europe's leading Green Hotel award on three occasions before COVID-19 hit. The issue has become more and more prominent in recent times and businesses must now consider more robust initiatives to tackle climate change which take key stakeholders into account;

- **Customers:** Already a number of businesses and individuals are demanding green credentials from their hospitality suppliers.
- **Government:** Irish government has set a target for the country to become Carbon Neutral by 2050.
- **Business:** Considerable savings can be delivered, early adoption can also generate recognition.
- **Investors:** A number of bonds and funds have been launched to support green initiatives. Bank of Ireland raised €750m for sustainable projects through its inaugural green bond issuance last March.

One of the enduring consequences of Covid-19 in the hospitality sector could be the acceleration of the trend towards sustainability and ESG compliance.

Bank of Ireland lending activity

Investor sentiment remains strong as evidenced by the number of transactions completed in H1 2021. During the first half of 2021 Bank of Ireland supported a number of customers with working capital (overdrafts) and short-term loans to address cash flow issues. Bank of Ireland supported the refurbishment of Droomhall Hotel in Killarney and an extension/refurb of the Wineport Lodge in Athlone, as well as the acquisition of the Moxy Hotel in Dublin by MHL collection and the acquisition of the Morrison hotel by Zetland capital.

2021 H2 Outlook

Pivoting on the vaccine rollout and associated ease down of restrictions, the majority of operators are optimistic about the second half of the year, particularly as the strong levels of summer bookings provide extra comfort to the end of September. The rollout of the EU Digital COVID Certificate (DCC) and the return of non-essential overseas travel has added confidence to the sector after a gruelling 16 months of disruption and uncertainty. However, the easing of restrictions will eventually bring government supports to an end, and stakeholders in the sector have been strongly advocating for supports (at some level) to be extended, potentially to the end of next year.

Trends

- Over the coming months hotels will not only be coming off government supports but many will also resume payments to revenue, banks and other financial institutions. Frequent cash flow reviews and forecasting should be a key priority as businesses enter into the unchartered waters of the post pandemic economy.
- Full EBITDA recovery (to the 2019 level) for the average hotel is not expected until 2024 or 2025. However some hotels are forecasting to reach this point as early as next year due to a combination of staffing restructures/ redevelopment, property investment/upgrades and strong customer focus.
- Prevailing macro-economic conditions including low/negative interest rates and overseas funds activity could fuel the property transaction in the coming months. Some investor groups believe the post pandemic environment could allow for the opportunistic expansion of well-established hotel groups.
- Hotel operators will/should look to capitalise on future opportunities presented by the current heightened levels of domestic demand. Fáilte Ireland's Keep Discovering campaign has a long term focus of driving the interest of Irish residents in exploring different destinations across the Island of Ireland.

Hotel development

The hotel bedroom development pipeline continues to rise albeit at a slower rate than it did before the pandemic. Current hotel development pipeline in Dublin stands at over 19k rooms including, including 6k over the next 3 years and 13k+speculative.

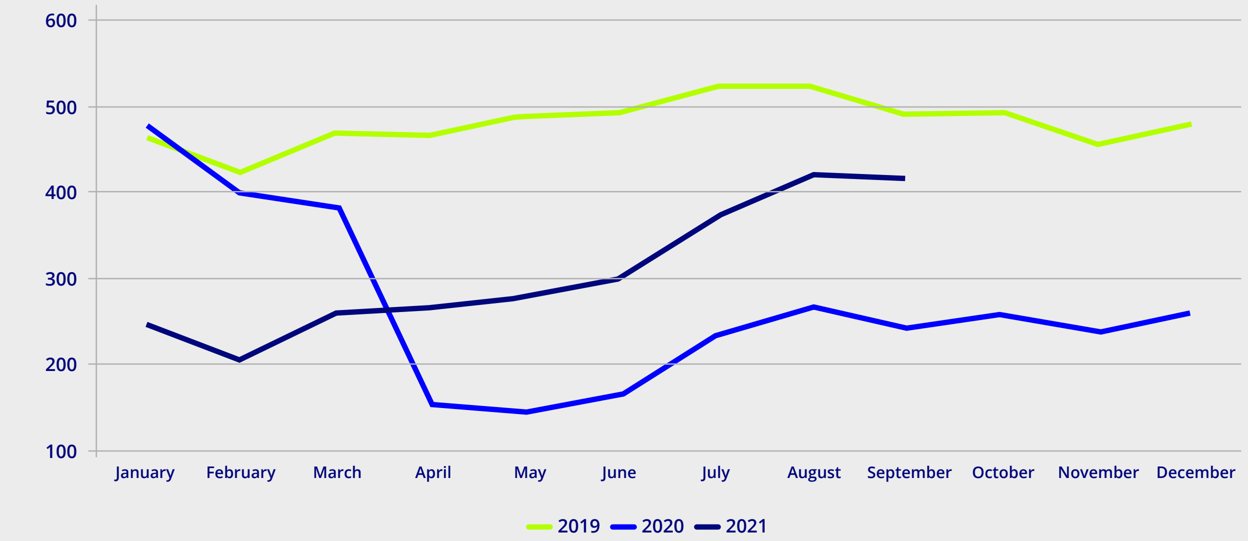
The combination of higher property development costs and uncertainty about the recovery of occupancy and rates in the capital could delay or reduce the delivery of additional hotel accommodation in Dublin city and regionally.

- A combination of supply chain delays and the price increase in commodities critical to commercial real estate construction could erode the feasibility of some projects. Cushman & Wakefield recently reported the following commodity price increases: Diesel fuel: +151%, Lumber: +62%, Copper: +59%, and Steel: +15%.

Air capacity

Global airline seat capacity continues to recover; data released by OAG at the end of June showed a record number of seats on offer since the pandemic was declared back in March 2020. However there is still a 35% drop in capacity against 2019 levels. The bounce back over the last couple of months is an encouraging indicator of the confidence levels that airlines have in the recovery. Further increases are expected in the coming months as more and more countries update their stance on overseas travel.

Table 2. Scheduled Air capacity Jan 2019 to September 2021



Source: OAG

Headwinds

- The widespread adoption of remote working and associated virtual meeting/collaboration platforms could permanently and negatively impact on demand from the highly profitable corporate market.
- Rising cases of the Delta variant and the possible emergence of further strains could delay the sector's recovery.
- New legislation regarding paid sick leave will introduce mandatory sick pay leave for 3 sick days in 2022 moving to 5 days in 2023, 7 days in 2024 and 10 days in 2025. Although not immediately a game changer this could erode what are already tight margins.
- Inflation fears – Increase in commodities and transportation costs are likely to impact the cost of goods and services and potentially impact on margins.

Bank of Ireland

Bank of Ireland is a keen supporter of the Irish Hotel Industry as a pillar of the economy. Our proven appetite, combined with our comprehensive sectoral expertise provides us with a strong platform to meet the funding requirements of both hotel operators and Investors.

Sources: CBRE- Bi monntly Research report July 2021, Irish Times, Wexford People, Rte.ie, Fallshotel.ie, GreenhospitalityIreland.ie, 'Commodity volatility impacts on CRE construction' (Cushman & Wakefield June 2021), OAG, gov.ie, BPO/Trending.ie, STR CoStar.

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