Hotels

2019 H1 Review

Hotel sector performance for the first half of 2019 remained very similar to the same time last year with a marginal decline in occupancy and rate slightly impacting the performance. The 4.5% increase in VAT was largely to blame for the somewhat “subdued” average room rate trends as a number of hotels had to make allowances for it. Overseas visitor numbers are still ahead of last year although a slight dip of less than 1% was reported for July 2019 against July 2018. Hotel owners/operators remain largely positive about business prospects and this is evident in the number of refurbishment and extension projects which continue to make headlines.

Hotel Sector 2019 H1 Review

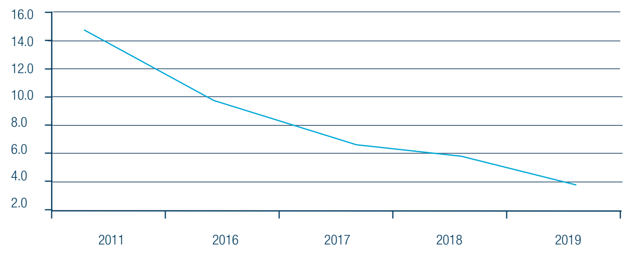
- Overseas visitor numbers to Ireland continued to grow for the first half of 2019 with an additional 176k visitors reported by the CSO to the end of June (3.61% increase) against the same time last year. North American visitors had the single biggest leap up 93k (9%); European visitors up 52k (3%) and Rest of the world up 23k (8%). GB visitor numbers remain virtually unchanged on same period last year.

Table 1. Overseas visitors to Ireland (Jan to June)

Visitors in 000's	GB	Other EU	USA	Rest	Total
Jan – Dec '16	1,865	1,528	759	232	4,384
Jan – Dec '17	1,745	1,618	922	280	4,566
Variance 18 to 17	*-6%*	*6%*	*22%*	*21%*	*4%*
Jan – Dec '18	1,786	1,783	1,021	283	4,873
Variance 18 to 17	*2%*	*10%*	*11%*	*1%*	*7%*
Jan – Dec '19	1,794	1,835	1,113	306	5,049
Variance 19 to 18	*0%*	*3%*	*9.07%*	*8%*	*3.61%*
Variance 16 to 19	*-4%*	*20%*	*47%*	*32%*	*15%*

- Domestic demand continues to benefit from the on-going decline in unemployment levels which have helped to boost the performance of the domestic leisure market. Domestic corporate demand anecdotally very strong for Dublin and Cork city in particular.

Table 2. Unemployment register CSO (Period end June)



- Transaction activity is so far comparable to last year with the sale of a number of prominent/iconic hotel assets already completed. Assets still on the market include: Marker, guiding €125m; Temple Bar Inn guiding €45m. Michael Smurfit’s hotel (The K Club), which went on the market on June 2018 guiding €80m has been re-listed at a lower asking price of €60m.

Key Performance Metrics- Rooms

- H1 2019 RevPAR figures for key locations across Ireland show a marginal decline against the same comparable period in 2018.
  - Dublin area RevPAR is down 1.4% and 2.3% for the city centre although slightly up for Dublin airport (2.1%) and Dublin surroundings (0.9%).
  - RevPAR for Galway hotels is down 6% (4% down in occupancy and 2% down in rate).
  - Cork city occupancy fell 5.8% for the period, only partially offset by an increase in average rate. RevPAR down 4.4%
  - RevPAR remains constant for Limerick city after a 3% decline in occupancy compensated by a 3% increase in average rate.
  - Kilkenny city reported growth in both occupancy and rate delivering a 5.3% increase in RevPAR for the period.

Table 3. RevPAR trend for major urban centres in Ireland (€)

	Jan to Dec					H1	
RevPAR €	**2014**	**2015**	**2016**	**2017**	**2018**	**2018**	**2019**
Dublin (STR)	75	92	107	113	122	115	114
Dublin city centre (STR)	89	109	127	138	147	139	135
Galway (Trending)	59	68	75	82	88	78	73
Cork (Trending)	55	61	66	78	86	83	80
Limerick (Trending)	33	42	49	55	57	58	58
Kilkenny	0	0	0	80	82	73	77
All Ireland (Trending)	51	58	64	72	77	71	68

- Declining RevPAR has been more pronounced on the 4 star hotel class perhaps due to increased competition from the number of hotels that have been reclassified from 3 to 4 star over the last couple of years.

Table 4. Jan-Jun RevPAR 3 Star vs 4 Star.

RevPAR €	H1 2018	H1 2019	Variance
Galway 3 star	54.41	53.19	-2%
Galway 4 star	85.80	79.05	-8%
Cork 3 star	73.34	72.12	-2%
Cork 4 star	84.72	80.25	-5%
Limerick 3 star	44.91	44.91	0%
Limerick 4 star	70.44	69.12	-2%
Regional 3 star	61.91	59.69	-4%
Regional 4 star	78.03	72.63	-7%

Business sentiment

- Brexit uncertainty continues to impact on business sentiment as prospect of “No Deal Brexit” continues to rise with the Oct 31st deadline getting closer and closer.

Regulatory

- New regulations on short-term lettings which affect platforms such as Airbnb came into effect on July 1st. This measure could ease pressure on the rental market as well as potentially increase demand for licensed accommodation.
- Public Health (Alcohol Act) – Initial regulations (RE: Alcohol advertising restrictions) will be coming into effect on November 12th.
- An Bord Pleanála approved the development of the country’s first windowless hotel bedrooms earlier this year after the project developer appealed a decision from Dublin City Council.

Hotel Groups Activity

- Neville hotel group acquired the Druids Glen hotel and resort for a reported €45m in H1 this year. The group now owns/operates 4 hotels in Dun Laoghaire, Kilkenny, Waterford and Wicklow.
- Harvey’s point hotel was sold by Deirdre McGlone and Marc Gysling after trading it for three decades. The hotel was acquired by Thomas Roeggla for an unreported amount.
- Deutsche Finance and Dublin BCP Capital acquired the Central Hotel in Dublin which had gone to the market last year with agents Cushman Wakefield (€40m price tag).
- Dalata Hotel Group opened its third hotel in London with three more UK hotel openings planned for 2020 (two in Glasgow and one in Bristol) and a further 3 in 2021.
- PREM Group sold off its procurement business, Trinity Purchasing, to a subsidiary of Aramark earlier this year.
- iNua Hospitality completed the acquisition of the Tullamore Court Hotel in January this year. The group now owns/operates a total of 8 hotels.
- Sale of Dublin’s Conrad Hotel to Archer Hotel Capital BV for an estimated €118 million should be completed in the coming months.
- MHL completed the acquisition of its 12th hotel in Ireland, the Powerscourt hotel was acquired for a reported €50m from Tetrarch Capital and Midwest Holding.
- Hayfield family Collection are reported to have lodged plans to develop a 195-bedroom luxury hotel in Donnybrook after acquiring St. Mary’s College in Bloomfield Avenue last year.

Bank of Ireland

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Hotels

2019 H2 Outlook

Majority of hotel operators across the country remain optimistic about the second half of 2019; already the month of June clawed back some of the shortfall in occupancy against last year. The threat of a “No deal Brexit” is more imminent and could lead to a further decline in GB visitors to Ireland. North American and European visitor numbers could grow further as allowed by additional air and sea access routes. Further hotel development applications for Dublin city in particular are likely to be lodged with An Bord Pleanála in the coming months.

Hotel Sector 2019 H2 Outlook

- Sustained growth in the number of overseas visitors and declining unemployment levels provide hoteliers with some level of comfort for the second half of the year. The marginal YOY RevPAR gap reported by most destinations could be reduced or fully breached during the summer season.
- Anticipated improvement in the performance for the second half of the year and the inherent/potential rise in business sentiment could trigger the launch of a number of hotel development projects in Dublin city.
- Average “Profit per Room” is likely to improve only marginally for 2019 after a number of years of material growth reported by Crowe on their Ireland Annual Hotel Industry Survey. Rising cost of wages, utility costs and the 4.5% increase VAT are likely to impact the accelerated growth path.

Table 5. ROI EBITDAR profit ratio % and profit per room trends

	2011	2012	2013	2014	2015	2016	2017	2018
*EBITDAR Profit Radio %	12.9	13.8	14.9	17.1	19.1	21.9	22.9	23.9
Profit per room €k	5.4	6.5	7.3	9.2	12.0	14.6	16.4	17.4
PPR Increase %		21%	13%	25%	30%	21%	12%	7%

*Earnings before Interest, taxes, depreciation amortisation and restructuring of rent costs

Trends

- Focus on green/sustainable business practices from larger hotel groups as well as independent operators. Dublin's Sandymount Hotel has won Europe's Leading Green Hotel at the World Travel Awards for the last three years (95pc of its waste is now recycled).

Actions increasingly implemented by hotels include:

- Phasing out single use plastics
- Review of amenities and consumables.
- Internal awareness programmes.
- Oyo, a six-year-old hotel startup which now dominates the budget hospitality scene in India and China is rapidly expanding in the US and the UK. The self-called “World’s fastest growing hotel chain” is likely to scout for other European locations in the near future.
- Food and beverage sales in hotels are coming under increased competition from pubs and restaurants which have in recent years focused on improving their offer as they try to capitalize on changing market trends.

Hotel Development

- **Dublin** - Extensive development pipeline with over 5,500 additional rooms expected to hit the market by 2020 concentrated in Dublin 1,2,7,8 and the airport. Hotel development planning permissions continue to be lodged and granted for Dublin city although a number of these are likely to be speculative.
- **Cork** - Strong pipeline that could deliver over 700 rooms over the next couple of years.
- **Galway** – Extensions and new developments are limited compared to Cork and unlikely to materially impact on demand.
- Hotel developments outside major cities remain subdued as the building costs would far exceed the value of the finished product. Developments include: Central Parks in Longford (466 self-catering cottages) and the Fairview Hotel outside Dundalk (4 star 113 bedrooms).

Fáilte Ireland

- Fáilte Ireland launched its Capital Grant Scheme for Large Tourism Projects at the end of May, pledging €150million into the development of a number of new visitor attractions across the country.
- Fáilte Ireland revealed details of the programme for Púca, “Ireland’s new three-day Halloween festival” taking place in three locations across Meath and Louth from 31 October – 2 November 2019.

Brexit

- The UK is Ireland’s single largest source of overseas visitors, accounting for 34% of in-bound travel. Although numbers are somewhat stable three years after the Brexit vote, average spend per visitor continues to decline driven weak/volatile sterling.
- “Crowe estimates that around €45m worth of accommodation income will be lost in the event of a crash-out Brexit at the end of October, and that a further €7m will be lost from food and drink sales”.
- In its latest quarterly bulletin, the Central Bank has forecasted that in the event of a no deal Brexit, Ireland can expect up to 34k less jobs by the end of 2020 and a further 110k fewer over the next 10 years.

Potential Headwinds

- On average, hotel Insurance costs continue to rise putting additional pressure on the bottom line despite a number of initiatives by a number of industry bodies. Dublin’s Oktoberfest was cancelled in July with organisers blaming rising insurance costs for the decision to pull the festival.
- Sustained decline in unemployment levels (seasonally adjusted unemployment register down to 110k for June 2019) is having an impact in the recruitment of entry level roles which are essential for the sector.

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.

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Gerardo joined the Bank in 2012 after more than 15 years working in a number of roles in the hospitality sector. His wealth of experience includes hotels and restaurants in Mexico, USA, Switzerland and Ireland where he spent 7 years with the Rezidor Hospitality Group (Radisson Hotels). He also spent 4 years with Dalata reviewing the financial performance of a number of hotels in Dublin and regionally. Gerardo holds an Associate Degree in Restaurant Management from CESSA, Mexico, a BBA Hospitality from Les Roches International Hotel Management.

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Sources: CSO, STR, Irish Times, Trending.ie, Fáilte Ireland, Independent.ie, Businesspost.ie, Sunday Independent, Breakingnews.ie, Ireland Hotel Industry, uktimes.co.uk