Bank of Ireland Sectors Team Hospitality 2020 Insights / Outlook 2021

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Bank of Ireland

Classification: Green

Insights

The hospitality sector in Ireland had strong expectations for 2020 attributable to record numbers of overseas visitors achieved for the last five years, supported by an ever increasing air capacity as well historically low unemployment levels fuelling domestic demand. However, the first Irish case of COVID-19 reported on the 29th February turned things upside down. Businesses across the hospitality and wider tourism industry have been among the worst hit by the COVID-19 pandemic as the close social interactions essential for good service delivery are considered high risk and have been heavily restricted. Hotel trade is currently limited to the provision of service for essential workers, whilst bars and restaurants are only allowed to operate take-away and delivery services. Restrictions (Level 5), are in place to March 5th 2021 at which stage they may be revised downwards.

Over the last 10 months the government has launched and reviewed a number of business supports that have been welcomed by the sector, including the Employment Wage Subsidy Scheme (EWSS), the Covid Restrictions Support Scheme (CRSS),a moratorium in property rates, the temporary reduction of the hospitality VAT, VAT warehousing at 0% by Revenue as well as a number of grants. Despite the various supports many businesses remain under severed cash-flow pressure. Fáilte Ireland estimates tourism revenue decreased by €6bn in 2020.

Key Trends

- Around 17% of the population in Ireland is expected to be vaccinated by the end of March; however this figure is far smaller than what might be needed to allow bars and restaurants to resume trade. Many operators believe normal trade might not resume until closer to the summer. *John Brennan recently commented to the Irish Times that he does not expect he'll be able to open the Park Hotel in Kenmare before the 1st of June.*
- Strong focus on domestic demand which supported trade during 2020. Fáilte Ireland expects that part of the almost €8bn spent by Irish residents on overseas travel during 2019 could be spent on domestic trips while international travel remains disrupted. Air and sea arrival numbers into Ireland for 2020 were 77% down on last year **(Table 1)** at the end of November 2020 according to CSO data.

Table 1 – Air and Sea Travel Statistics Ireland Nov 2020

Direction	January-November			
	2019	2020	Change	
Arrivals (m)	18.77	4.30	-14	-77.1%
Departures (m)	18.82	4.27	-15	-77.3%

Source: CSO, Air and Sea Travel Statistics Ireland Nov 2020

- The various measures implemented to control the pandemic during the year negatively impacted on unemployment during 2020, seasonally adjusted unemployment increased by 3.5% last year. The slight drop could erode the strength of the domestic tourism market as it will likely impact discretionary spend.
- The hotel and restaurant sectors have been most likely to avail of the Temporary Wage Subsidy Scheme (TWSS) and Tax Warehousing facilities as reported by the Department of Finance SME Credit Demand Survey. The report also stated that just under one in ten (9%) of hotels and restaurant businesses also availed of Strategic Banking Corporation of Ireland (SBCI) products as businesses do not want the burden of additional debt at this point in time.
- A substantial drop in hotel occupancy associated with the various stages of restricted trade was reported from March 2020 to December 2020 across the world and ROI was no exception; the sustained decline also impacted on room rates particularly in Dublin. Average RevPAR for ROI was around 60% down on 2019 totals. **(Table 2)**
- Regional/suburban recovery for the sector has generally outpaced that of major city centres including Dublin where footfall has dropped dramatically. Businesses in larger urban centres have a higher dependency on corporate business and international visitors, both of which underperformed last year.

Table 2

Accomodation KPIs 2019 vs 2020	Dec YTD						Var 19 - 20 %
	Occ %		AHR €		RevPAR €		
Location	2019	2020	2019	2020	2019	2020	
Dublin All (STR)	82.2	30.5	142.1	102.9	116.8	31.4	-73%
Dublin city centre (STR)	83.5	25.8	167.2	127.1	139.6	32.8	-77%
Galway (Trending)	76.7	42.4	111.1	97.3	85.3	41.3	-52%
Cork (Trending)	79.8	35.3	112.6	97.1	89.8	34.2	-62%
Cork (STR)	78.7	40.7	113.8	103.5	89.6	42.2	-53%
Limerick (Trending)	74.7	36.6	112.6	97.1	84.1	35.5	-58%
Kilkenny (STR)	74.3	37.7	116.1	120.2	86.3	45.3	-48%
Regional (Trending)	77.6	40.6	99.9	82.8	77.5	33.6	-57%

Source: STR ©Costar Realty Information & Trending.ie

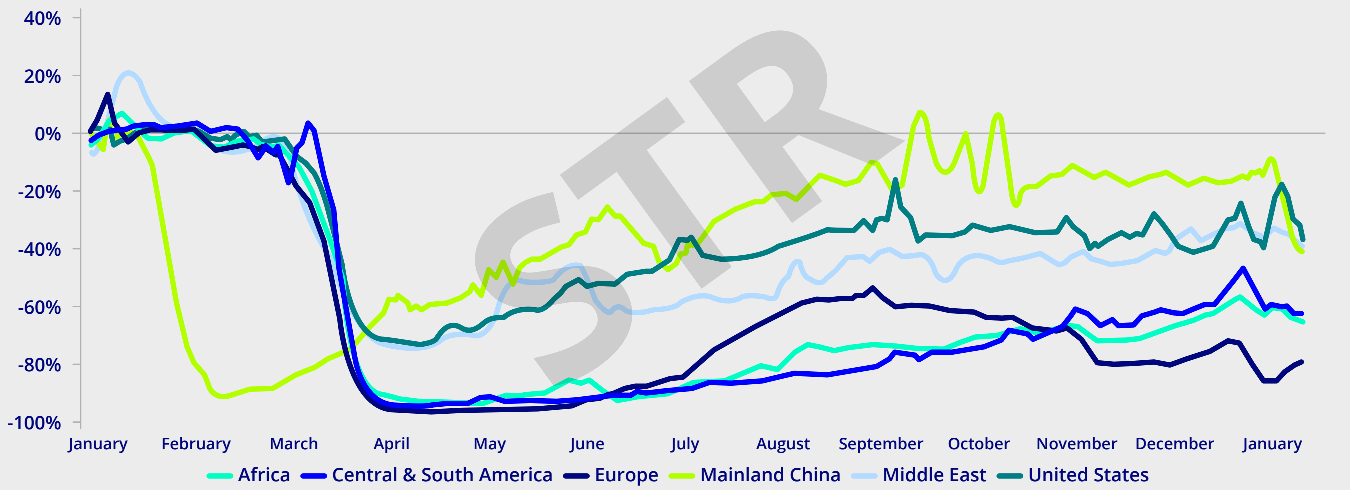
- Internationally, hotels located in countries with high levels of domestic demand like China and the US have recovered faster. Average Chinese hotel occupancy on a Total Room Inventory basis (accounting for closed hotels) is reported as 10% down on last year for the first week of 2021. **(Table 3)**

Table 5 – Alcohol consumption Ireland, period of January to September, 2019 vs 2020

Product	Variance
Beer	-15%
Spirits	-1%
Wine	13%
Cider	-10%

Source: Revenue.ie, Quarterly alcohol breakdown Q3 (29/10/20)

Table 3 - Rolling 7 days Total Room Inventory Occupancy Change January 1st 2020 to January 10th 2021



Source: STR, 2021©Costar Realty Information

- Restrictions on large gatherings severely impacted on wedding and event venues which are currently only allowed to host a max of 6 people for weddings down from 25 last December. Catering for such small events is not economically feasible for most venues due to fixed overhead costs.
- The provision of food services contracted by an estimated 47% on average during 2020 as per Bord Bia's 2020 Irish Foodservice consumer insights report. Full Service Restaurants and Hotels (56% decline on 2019) and Pubs (64% down on 2019) were among the worst affected whilst fast food/limited services reported a softer decline (33%). **(Table 4)**. Many foodservice providers had to rationalise their menus last year as they sought to protect their profit margins.

Table 4 – Ireland's Foodservice Market trend

Ireland's Foodservice Market	2016	2017	2018	2019	2020	2020 vs 2019
Limited Service Restaurant	2624	2715	2856	2995	2005	-33%
Hotels and Accommodation	1344	1353	1386	1531	675	-56%
Pubs	1274	1343	1445	1415	510	-64%
Full Service Restaurants	913	943	994	1039	458	-56%
Coffee Shops and Cafés	397	424	456	482	323	-33%
Other Commercial	276	291	311	330	101	-69%
Institutional	712	717	738	763	441	-42%
Total	**€7.5bn**	**€7.8bn**	**€8.2bn**	**€8.55bn**	**€4.5bn**	**-47%**

Source: Bord Bia, 2020 Irish Foodservice consumer insights report

- Decline in alcohol consumption. The reported consumption of beer, spirits and cider products showed a sizeable decline to the end of September 2020; however wine sales bucked the trend reporting a 10% increase on 2019. **(Table 5).** On its 2021 Outlook Lisney/Morrissey recently reported overall pub sales for 2020 were 75% down for the year; it is worth noting that wet pubs in Dublin have been unable to trade since 15/03/20.

- Sizeable investment in premises across the sector as operators adopted enhanced health and safety guidelines and reacted to changing consumer trends.

Technology:

- Restaurants/Bars: investment to facilitate ordering and collection and strengthening of online capabilities and customer loyalty programs.
- Hotels: Room access technology, enhanced online guest experience (check in/out), loyalty programs.

Premises:

- New seating area/public area layouts, sanitation stations, new food displays, Plexiglas barriers and outside seating areas.
- Significant investment was also made by businesses on staff training and PPE in line with Fáilte Ireland's Safety Charter.

Transaction activity and development

- Hotel market transaction activity took a tumble in 2020 with only ten transactions completed in Ireland in 2020 according to CBRE. Key transactions for the year included the Investment sale of the Clayton Charlemont for €65m and the K Club for €60m. Although there is little market evidence, valuation agencies agree hotel values on average declined by around 10% to 30% during 2020. From a total of 18.3k rooms under planning in Ireland and 5.8k under construction only 500 rooms entered the market in 2020 as a large number of projects have been delayed/deferred to the coming year. The anticipated drop in asset prices could potentially impact the short term feasibility of some developments.

- Licensed trade market transaction activity in Ireland also slowed down during 2020, although average prices increased from €3.25m to €3.8m driven by development potential according to John Ryan of Bagnall Doyle MacMahon. Key transactions included The Storehouse in Dublin 2 for a reported €16m and the Magic Carpet in Dublin 18 for an estimated €9m. Supply may potentially shrink in the coming months according to industry bodies due to the prolonged inability to trade experienced by some of their members.

Outlook

The hospitality industry has always been cyclical with a number of factors disrupting performance over time, whether a worldwide economic recession as we had in 2008, terrorist attacks which disrupted trade for some locations in 2019, or the pandemic that has wreaked havoc over the last 10 months. Over the last ten years we had seen overseas visitor numbers grow and the market mix evolve leading to widespread hotel refurbishments and upgrades across the country, during that time 4 star registration numbers had increased by nearly 100 properties. The changing tourism and wider hospitality environment leads businesses to look for new customers, new markets or new distribution channels that might help them to increase turnover, improve margins or at times replace business that might have been lost or is no longer available. The sector has adjusted before and will continue to adapt into the future as soon as operators can ascertain what changes in consumer behaviour are here to stay and which ones will fade away with the pandemic.

Headwinds

- Hotels, Bars and Restaurants have expressed concerns about retention of key staff as the sector has become less attractive to those looking for secure jobs.
- Overseas and corporate demand are unlikely to resume to meaningful levels until the vaccine rollout is deemed successful.
- Restrictions on large gatherings which might remain in place until Q4 this year could seriously impact the profitable meetings and events market as well as sporting and entertainment events which are vital source of business for the hospitality sector.
- Quarantines, requirement of negative test results before travel, temporary travel bans (like GB travel ban that was in place from December 20th to January 6th) as well as reduced air capacity are likely to impact appetite for inbound overseas travel in the medium term.
- Uncertainty associated with the threat of further/extended restrictions makes forecasting for the year ahead a very difficult exercise. Whilst trade forecasting remains ambiguous, it is crucial for businesses to scrutinise "essential" outflows during the winter months to ensure adequate capital resources are available that would allow them to resume trade when restrictions are lifted; weak cash flow balances could slow down the recovery of some properties.

Looking ahead

- Regional markets are expected to continue to outperform capital cities. The higher dependency on overseas tourism and corporate travel could slow down recovery in Dublin city.
- Tourism Ireland has stated that some key markets including Great Britain and mainland Europe could recover sooner while long-haul markets might not come back until 2022. The Tourism Recovery Taskforce (ROI), Aviation Recovery Taskforce (ROI) and Tourism Recovery Steer group (NI) have all delivered comprehensive plans with recommendations that could help to speed up the recovery process. Recovery plans will focus on sustainable development of a profitable long-term industry.
- Industry bodies and the Tourism recovery taskforce have requested government supports (EWSS and CRSS) to be extended past the original March deadline if trade restrictions are maintained.
- The drop in hospitality VAT from 13.5% to 9% in the Oct 2020 budget should support the recovery once restrictions are eased.
- Changing consumer trends are likely to present new opportunities and challenges to well-established businesses and may open the door to new entrants and disruptors.
- Cancellation policies, voucher expiry dates and some terms and conditions are some of the things that could worry customers and might have to be reviewed by businesses in order to regain customer's trust.
- Strong pent up demand and customer's willingness to travel were evidenced by strong voucher sales reported by a number of hotels last December as well Fáilte Ireland's latest consumer sentiment and behaviour report released Nov 2020. **(Table 6).** The so called "Revenge travel" could ultimately accelerate the recovery process.

Table 6

Irish consumers willingness to travel	Sep	Nov
Intend to take a short break in Ireland **in the next 12 months**	72%	67%
Intend to take a short break in Ireland **in the next 6 months**	58%	51%
Intend to take a short break in Ireland **in the next 3 months**	42%	32%

Source: Fáilte Ireland consumer sentiment and behaviour report Nov 12th 2020

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- At Bank of Ireland we have been dealing with the ups and downs of the Irish economy for over 235 years providing a wide range of financial supports. We are now working to support customers throughout the extended lockdown and into the normalisation of trade in the near future.

Sources:
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