# Bank of Ireland Sectors Team Hotels 2021 H2 Insights

**January 2022**

Bank of Ireland

Classification: Green

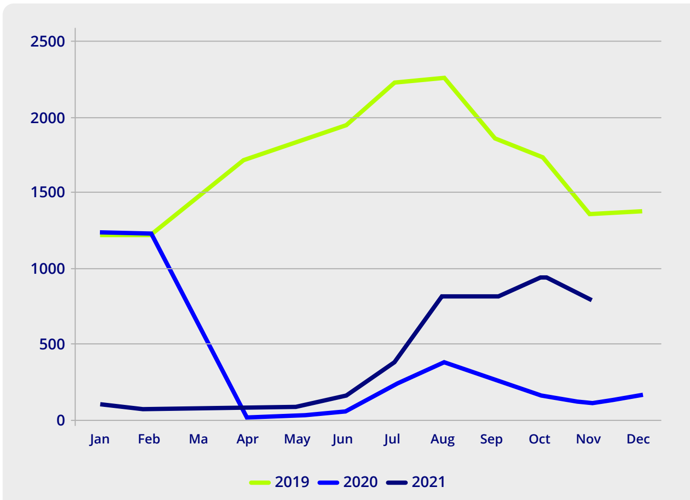
**2021 H2 Insights**

Irish accommodation providers outside Dublin reported a strong bounce back in demand for the second half of 2021. Healthy occupancy levels and robust room rates were reported by regional operators until mid-November when the government implemented tighter regulations to curb the alarming rise in the number of new COVID-19 cases; the RevPAR recovery was also encouraging in Dublin although limited by softer average room rate trends. Despite the relative success of the vaccination strategy further restrictions were introduced on Dec 20th which further dampened business sentiment in the tourism and hospitality sector. Whilst many properties are provisionally reporting record Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) levels for 2021, some others, including a number of wedding venues and some Dublin hotels are less enthusiastic about last year's outcome.

## Hotel sector key activity and trends H2 2021

- **Staffing:** Workforce shortages are currently the sector's biggest challenge with operators across the country actively seeking to recruit positions across housekeeping, kitchen, reception and administration. The shortage has forced many hoteliers to review pay scales and look for talent abroad as they prepare for the 2022 season.
- **Inflation:** Rising prices of food, drink, utilities and other expenses continue to escalate putting additional pressure on margins. The CSO reported that prices on average, 'as measured by the CPI', were 5.5% higher in December 2021 compared with December 2020. Food and Non-alcoholic beverages were among the largest contributors to the index. The sector works on tight margins and the combination of increased wages and cost of goods sold could ultimately make some smaller businesses unviable.
- **Overseas travel showed encouraging recovery** although there is still a long way to go to reach the 2019 levels. November 2021 visitor numbers to Ireland were over 40% lower than November 2019 . *(Table 1)*
- **Strong average room rate:** Shortened lead in time for bookings, a low volume of discounted business (tours, groups) and a drop in hospitality VAT all contributed to record breaking average room rates for regional hotels. However lower average occupancy associated with restrictions and uncertainty diluted the benefits for RevPAR recovery. *(Table 2)*
- **Strong cash balances:** The combination of strong domestic market performance, government supports and subsidies, warehousing of VAT as well as payment breaks negotiated by some properties with their finance partners supported a sizeable increase in credit and deposit balances for the sector that has been fuelling refurbishment projects across multiple locations.
- **Hotel openings:** CBRE estimates that 1,128 new bedrooms entered the accommodation market in Dublin during 2021 with a further 3.4k expected to open during 2022. Regionally only Cork city reported 'material' growth with the opening of two new properties: The Dean Cork and Cork's first micro-sleeper the REZz Cork, providing a combined 186 additional bedrooms to the city.
- Further **growth of 4 star hotel segment** in Ireland with an additional 7 hotels properties added to the 2021 register bringing the total to 359 hotels which account for 43% of registered hotels and 60% of hotel bedrooms on offer. Meanwhile the number of properties registered under Fáilte Ireland's 'Welcome standard' also continues to grow and now boasts 555 registrations offering 11,837 rooms which include properties like the newly opened 'Wren' in Dublin city.

### Table 1: Overseas visitor numbers 2019 to 2021 trend




*Source: SCO Stats*

### Table 2: Accommodation sales KPIS

| Accomodation KPIs Year end December | Occ % | | | AHR € | | | RevPAR € | | | RevPAR Var. 2021 vs | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Location** | **2019** | **2020** | **2021** | **2019** | **2020** | **2021** | **2019** | **2020** | **2021** | **2019** | **2020** |
| Dublin All (STR) | 82 | 31 | 38 | 142 | 103 | 113 | 117 | 31 | 42 | -64% | 35% |
| Dublin city centre (STR) | 83 | 26 | 32 | 167 | 125 | 134 | 140 | 33 | 43 | -69% | 32% |
| Galway (Trending) | 77 | 48 | 58 | 111 | 100 | 129 | 85 | 48 | 75 | -12% | 55% |
| Cork (Trending) | 80 | 46 | 50 | 113 | 100 | 128 | 90 | 46 | 65 | -28% | 42% |
| Cork (STR) | 78 | 39 | 48 | 113 | 102 | 126 | 88 | 40 | 60 | -32% | 50% |
| Limerick (Trending) | 75 | 40 | 40 | 88 | 73 | 91 | 65 | 29 | 37 | -44% | 27% |
| Kilkenny (STR) | | 38 | 44 | | 120 | 158 | | 45 | 69 | | 51% |
| Regional (Trending) | 78 | 46 | 52 | 100 | 87 | 110 | 77 | 40 | 57 | -26% | 43% |

*Source: STR & Trending.ie*

## Hotel sector key performance metrics H1 2021

- **Galway city** lead the recovery table with an average 55% increase in RevPAR reported to year end Dec 2021. A strong average room rate of €129 was reported for the period as well as 58% occupancy (7.4% ahead of Cork). The RevPAR for year end Dec 2021 was only 12% down on 2019.
- **Kilkenny** hotels reported an average room rate ahead of any other Irish city at €157.50 which was 18% ahead of Dublin city centre figures, albeit at a slightly lower occupancy than Cork or Galway. Year end Dec 2021 RevPAR was only second to Galway.
- **Cork city** showed a similar bounce in rate to Galway city, reporting €128 average rate for year end Dec 2021 although just a 50% occupancy. Note that occupancy growth for the city would have been impacted by the opening of the 'Dean Cork' and 'The Rezz' which increased the city's bedroom stock by 186 rooms (8%).
- **Dublin** reported an average rate of €113 for year end Dec 2021 which was 29% down on 2019 with an occupancy of 38% which represents a 7% climb on 2020 figures.

## Government supports 2021

- Generous government supports and subsidies rolled out from the onset of the pandemic supported hotel cash flows during the lockdown. The sustained availability of these supports after the lifting of restrictions allowed hotel sector deposit balances to rise significantly during 2021.
- The easing of restrictions corresponds with the phase-out of government supports which should see deposit balances unwind in the near future:

- Warehousing of revenue obligations will cease on April 2022 (12 months C&I moratorium up until April 2023 on warehoused liabilities)
- Businesses availing of EWSS that were directly impacted by public health regulations implemented on December 2021 can benefit from enhanced supports to the end of February 2022 and continue to claim this to the end of May 2022.
- The 2022 budget included a number of measures that were welcomed by the hospitality sector, however the hospitality VAT rate is expected to return to 13.5% by August 2022.

## The Environmental, Social, and Governance (ESG) agenda

The green agenda continues it's upwards trajectory on the list of strategic business priorities across all industries including tourism and hospitality. Operators are increasingly aware of their carbon footprint and the role this may play in the customer's decision making process in the coming years.

Over the course of last year hotel owners and operators have been progressively investing or considering investment in solar panels, heat pumps, electric vehicle charging stations and energy audits. However larger/more expensive projects like retrofits are less common as some businesses are waiting for the rollout of more robust government supports and subsidies.

## Transaction & Hotel Group activity

- The volume of hotel properties transacting during 2021 was softer than investors anticipated as there was relatively little distress in the market thanks to government supports. Tom Barret from Savills indicated a total of 18 hotels transacted in Ireland during 2021 for an estimated €414m; the top 6 accounted for 80%-90% of the total value.
- The much anticipated end of the pandemic could encourage a higher volume of transactions in 2022; a number of hotel owners, operators and investors are actively seeking opportunities for expansion in Dublin and regionally.
- Fortress Investment Group LLC acquired a majority stake of Prem Group last December. The Irish group which currently operates 38 hotels and apartments has indicated that it is currently looking to expand the size and geographical reach of their portfolio.

**2022 Outlook**

Hotel operators are mostly optimistic about 2022, not only has the WHO forecasted that the pandemic will end this year but many countries including Ireland have already lifted most restrictions or are in the process of doing so. Staff recruitment and retention will be a key issue faced by hotel managers in the coming months at the risk of being unable to cater for their clientele as demand slowly builds up to pre-pandemic levels. Bord Bia estimates a 75% bounce back in the Hotel and Accommodation foodservice sales during 2022 year bringing the total to about 86% of 2019 levels *(Table 3)*. Positive trends in air capacity, visitor numbers, and corporate demand are expected as COVID-19 fades away, and should support improved business sentiment and renewed investor interest in the sector

**Table 3: Irish Food service market size and trend**

| | | | | | | | Variance YOY Growth / Decline % | | | | Index of Recovery |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Ireland's Foodservice Market** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2019** | **2020** | **2021** | **2022** | **2019 = 100** |
| Limited Service Restaurants | 2624 | 2715 | 2856 | 2995 | 2002 | 2330 | 5.0% | -33.2% | 16.4% | 29.4% | 100.5 |
| Hotels and Accommodation | 1344 | 1353 | 1386 | 1531 | 654 | 746 | 5.8% | -32.0% | 14.0% | 75.7% | 85.5 |
| Pubs | 1274 | 1343 | 1455 | 1415 | 501 | 517 | 2.0% | -64.6% | 3.1% | 119.8% | 80.2 |
| Full Service Restaurants | 913 | 943 | 994 | 1039 | 458 | 564 | 4.7% | -56.0% | 23.3% | 68.3% | 91.4 |
| Coffee Shops and Cafes | 397 | 424 | 456 | 482 | 328 | 397 | 6.1% | -57.3% | 20.9% | 24.2% | 102.2 |
| Other Commercial | 276 | 291 | 311 | 330 | 101 | 143 | 6.3% | -69.3% | 41.3% | 111.9% | 91.9 |
| Institutional | 712 | 717 | 738 | 763 | 445 | 448 | 3.5% | -41.7% | 0.6% | 47.0% | 86.2 |
| **Total** | **€7.5bn** | **€7.8bn** | **€8.2bn** | **€8.55bn** | **€4.5bn** | **€5.1bn** | **4.6%** | **-47.6%** | **14.6%** | **52.9%** | **91.9** |

*Source: Bord Bia*

## Bank of Ireland lending activity

Demand for credit facilities from banks and other institutions was down during 2021 mainly due to a decline in business sentiment derived from the uncertainty associated with trade restrictions. Strong credit balances also played a part, as they allowed many businesses to complete projects out of cash flow rather than availing of working capital supports.

Increased lending activity is anticipated for 2022 associated with the recovery of international travel and the return of more meaningful corporate and event driven demand.

## Trends

- The lifting of almost all COVID-19 related restrictions announced by the government on Jan 21st was a crucially important step in the route to recovery for all economic sectors. Businesses across the hospitality sector can now plan ahead for unfettered trade.
- The strong bounce back in average room rate reported for year end Dec 2021 took centre stage in the 2022 budgeting process for hotels across the country. Mangers, owners and operators are keen to maintain the ground gained in terms of average room rate, particularly because some of the gains were associated with product improvement. It is worth noting that pressure from inflation and escalating wage costs will also impact this trend.
- The phased removal of government supports (currently expected to be fully phased out by the end of May) will require close attention to be paid to cash flows and deposit balances as normal cash cycles will eventually resume. Over the course of next year it is anticipated that cash balances will also begin to unwind.
- The sector was dealing with a chronic shortage of staff before the pandemic. The various lockdowns led to a sizeable amount of hospitality professionals to consider alternative employment, not only in Ireland but across the globe so we can expect overseas recruitment programmes to be slightly less productive that they were before the pandemic. Already last year a number of hotels had to restrict trading hours/capacity and reduce services, these issues may continue to have a negative impact in the medium to short term.
- Full EBITDA recovery (to the 2019 level) for the average hotel is not expected until 2024 or 2025. However the strong performance reported by some hotels in 2021, healthy levels of business on the books and robust voucher sales in December combined with staffing restructures/ redevelopment, property investment/ upgrades has prompted many hotels to budget a very positive outlook for 2022.
- Wedding and event venues are reporting record levels of business on the books for 2022 and 2023 driven by postponed/delayed weddings and social events/gatherings. Capacity issues on well-established venues should provide additional opportunities for venues not traditionally focused on this lucrative market.

- Aparthotels and hotels geared for long stay customers maintained slightly stronger demand during the lockdowns, so an increase in 'hybrid' models offering short and long stay accommodation options is expected.
- Significant increase is anticipated in transaction activity. In its 2022 Market update CBRE indicated it has "visibility on over €500 million of hotel trades that are expected to transact in 2022."

## Hotel development

A sizeable amount of hotel refurbishments as well as the development of additional facilities (primarily leisure), are currently underway in hotels across the country as operators look to 'wow' their returning customers and appeal to new ones who are yet to experience their venues. The pandemic has been a catalyst for many hotels to reposition themselves and go after different markets.

## Corporate demand

Much has been speculated about the long term impact of COVID-19 on corporate demand following the wide-spread adoption of remote working, virtual meeting tools like Zoom and MS teams and the escalating emphasis of the carbon footprint associated with air travel. However a significant portion of commercial/corporate demand is relatively impervious to these changes including project/construction work, hospital staff and travelling salespeople among others; it is only demand from large corporates for accommodation and large conferences that has remained relatively muted for the last two years.

As companies look to recruit and maintain staff following the 'great resignation' experts agree that this demand will eventually resume and travellers may further embrace 'working holidays' blurring the line between remote working and work nomads.

## 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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*Sources: CBRE Market Outlook 2022, Central Statisctics Office (Unemployment, Consumer Price Index, Air and Sea Travel Stats), Fáilte Ireland Q4 2021 Statutory & Non-Statutory Accommodation Listings, Tom Barret – Savills, Servicedapartmentnews.com, Independent.ie BPO/Trending.ie, STR CoStar.*