

Hotel Sector

2020 H1 Insights

The impact of Covid-19 on the hospitality Industry has been far greater than anyone initially anticipated; close social interactions which are essential to the sector are presently considered high risk for both employees and customers. Government regulations imposed to control the spread of the disease led to the closure of the vast majority of hotels, bars and restaurants and allowed for very limited trading for those that remained open. Irish Hotels reported strong trading for January and February before the first case of Covid-19 was reported in Ireland. The evolution of the pandemic forced the government to review the approach to reopening a couple of times, after 15 weeks of closure hotels were allowed to reopen on June 29th. Although the majority of hotels chose to open on the first day of "phase 3" or a week after, some chose to remain closed for a little longer and others will remain closed until next year. Business on the books remains relatively low for the majority of hotels, particularly those in Dublin which have a higher dependency on international visitors and corporate travel.

Hotel Sector 2020 H1 Review

- Domestic demand collapsed towards the third week of March when the government first asked Irish residents to stay at home in an effort to reduce the speed of the spread of what was then referred to as the "Corona Virus".
- Overseas visitor numbers took a nosedive at the same time as governments around the world issued advice on "non-essential" travel. Travel restrictions were later introduced by a number of countries trying to contain the spread; some have already confirmed they will not be lifted until Q4. Ireland's mandatory quarantine is still in place at the time of writing of this article which negates the appeal of Ireland as a tourism destination.
 - Dublin airport recorded 2,319 flights, a 89.4% decrease on May 2019; (Source: thejournal.ie)
 - Cork airport traffic saw 260 movements, down 95.3%; (Source: thejournal.ie)
- The CSO ceased the reporting of international visitors last March (last update released by the CSO for Feb 2019) and although passenger numbers are available the same level of detail is not; as visitors are not able to travel or engage in any tourism activity the records are not relevant.
- Over 90% of hotels closed last March, leaving the majority of the tourism industry's 260,000 employees either laid off temporarily or on short time. The reopening of hotels was brought forward by the government to June 29th however at the time of this report a

large number of properties remain closed and some have already announced they will only resume trade in 2021. (Source IHF)

- The positive trend in the labour market over the last few years had supported a sustained increase in discretionary spend essential for the sector. The pandemic has disrupted the positive employment trend leading to a rise in unemployment which stands at 5.3% for the end of June compared to 4.8% four months prior at the end of February. (Source CSO)
- Transaction activity has been very limited with only two hotel sale transactions completed in Q1: K Club sold by Michael Smurfit for a reported €58m and Clonmel Park for a reported €7.5m and one in Q2: The Clayton in Charlemont, a sale/leaseback by Dalata reported at a total of €65m. (Source: Cushman & Wakefield)

Hotel sector sentiment (Crowe Hotel sentiment survey June 2020)

- 90% of the hotels needed to approach their bank for changes to their loan repayment terms or to seek working capital.
- 42% of hotels believe that Covid-19 will continue to have a negative impact on their business in 2022 and so the demand from domestic source markets is seen as critical to underpin hotel performance.
- Over 85% of hoteliers ranked the 'extension of temporary wage support scheme' within their top three Government supports requested.
- Performance expectations:
 - Dublin occupancy forecast 53% behind 2019.
 - Regional occupancy forecast 38% behind 2019.

Key Performance Metrics

- As demand buckled in the second half of March so did the associated hotel occupancy before hotels eventually ceased trade. Average room rates showed a slight decline before flat lining in line with closures.
- The closure of c90% of the hotels has left a material gap in the amount of hotels capable of reporting accommodation statistics on a monthly basis. Stats available from STR and Trending.ie can only take open hotels into account.

Government supports

- The Department of Employment Affairs and Social Protection launched a total of 3 programs to support employers and employees: The Pandemic Unemployment Plan (PUP), the Wage Subsidy Scheme (WSS) and the Covid-19 enhanced Illness benefit payment. (Source Gov.ie)
- The Department of Business Enterprise and Innovation launched a €10k "restart grant" for micro and small businesses based on a rates waiver/rebate from 2019.



- The Minister of Finance announced a €2bn Pandemic Stabilisation and Recovery Fund to be made available via Ireland Strategic Investment Fund (ISIF) to support medium and large enterprises in Ireland affected by Covid-19.
- The Department of Business Enterprise and Innovation announced a €2bn COVID-19 Credit Guarantee Scheme to support lending to SMEs for terms ranging from 3 months to 6 years, which will be below market interest rates.
- Commercial rates have been waived by County Councils for a 3 month period beginning on 27 March 2020 for businesses that have been forced to close due to public health requirements.
- Warehousing of tax liabilities for up to twelve months after commencement of trading during which time there will be no debt enforcement action taken by Revenue.

Hotel Groups Activity

- Dalata completed a sale and leaseback of the Clayton Charlemont to real estate investment group Deka Immobilien. (Source Irish Times)
- The HSE is expected to pay Tetrarch over €20m for the rental of the City West Hotel and Conference centre after signing a contract earlier this year that runs out at the end of October 2020. (Source RTE & The Sunday Times)
- iNua directors Paul Fitzgerald and Sean O'Driscoll took over ownership of iNua Partnership from Noel Creedon. Paul is now chief executive of iNua Partnership and Sean is the new CEO of iNua Hospitality plc, which is a separate legal entity that owns the hotel properties.
- Accor signed a deal to manage Carton House in Co Kildare; the property is to be rebranded as the Fairmont Carton House. The group already has a presence Ireland with the Ibis Hotel on the Naas Road.

Hotel Sector

2020 H2 Outlook

The reopening of hotels at the end of H1 2020 is expected to be the first step in the road leading to the recovery of the sector. Operators looking to resume trade had to consider a number of extraordinary expenses including investment in health and safety equipment and training whilst also reviewing procedures for the provision of service to their customers. While a degree of uncertainty prevails about consumer sentiment and associated changes in consumer behaviour, hotel operators are focusing their marketing efforts on the domestic market which is expected to be crucial to the sector recovery particularly in the short to medium term. Current levels of business on the books remain very low for the majority of Irish hotels. STR Europe has forecasted demand could take up to 4 years to recover particularly for cities with a strong supply pipeline.

Hotel Sector 2020 H2 Outlook

- Limited numbers of overseas visitors expected for the rest of the year due to prevailing travel disruption and restrictions limiting people's appetite for international travel. Hotels in Dublin and regionally continue to deal with on-going cancellations for July, Aug and September from the US and other key markets.
- International seat capacity has taken a big hit. Data firm OAG stated "it could take until 2022 or 2023 before the volume of fliers returns to the levels that had been expected for 2020". (reuters.com)
- Corporate demand at an individual and group level unlikely to return to any meaningful levels in 2020; a number of multinationals have already indicated staff are not expected back to their offices until 2021.
- The lack of scheduled entertainment, sporting and conference events in Dublin will impact performance for hotels in the city during the second half of the year.
- Strong expectations for the domestic market in particular the domestic leisure market which is anticipated to replace some of the international demand for the rest of the year.
- Hotel development/construction in Dublin has resumed although there are likely to be delays in the delivery of the additional c3,000 rooms originally expected to enter the market this year.
- The pronounced and potentially lengthy drop in demand could ultimately have an impact in average room rate as operators will have limited opportunities for the upwards yielding of rate; the prospective rate erosion could further extend the recovery period by a couple of years.

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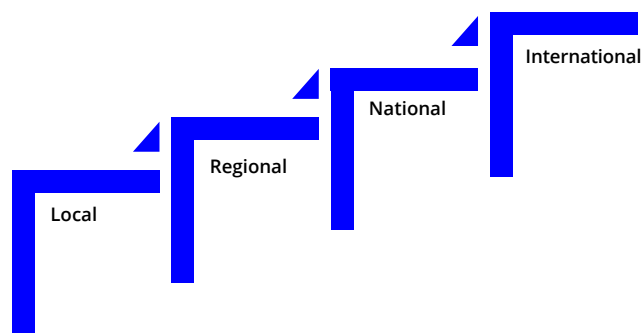
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- Social distancing guidelines currently at 1m for food/drink service as well as the prevailing limit of 105 minutes will negatively impact hotel's bar and restaurant sales until they are eventually phased out.
- The current limit of 50 people for indoor events has led to the rescheduling of a large number of events which are now set to take place in the coming year, giving some operators a strong start for 2021.

Forecasted Occupancy recovery trend for Europe

- STR currently anticipates demand for European Hotels could take up to 4 years to return to 2019 levels (nearly 1 year longer than the Global Financial Crisis "GFC").

Stepped up demand recovery



Trends

- Stronger demand anticipated for regional hotels as customers are likely to seek out more remote destinations to avoid the risk of Covid-19 associated with larger urban areas.
- Hotels across Ireland made the best out of adversity by focusing on improving their assets during the lockdown. The lack of customers encouraged many hoteliers to complete projects that had been delegated as they were too intrusive to carry out while hotels were open.
- Covid-19 proofing: Perspex screens, sanitation stations and software upgrades to allow customers to complete check in and check out from their phones are among some of the most common items hotel managers invested in as they prepared to resume trade. Also common has been the elimination of breakfast buffets which have now been replaced with a la carte menus.

Regulatory

- Mandated closure of hospitality establishments at the end of Q1 2020.
- Reopening guidelines issued by Fáilte Ireland for all subsectors in the Hospitality Industry in early June after the government announced the revised plan for the lifting of lockdown restrictions. (Source Fáilte Ireland)
- On 29 May 2020, the Government decided to extend the suspension of redundancy provisions relating to temporary lay-off and short-time work which arose as a result of Covid-19 until August 10th (July stimulus could push this to 2021).

Potential Tailwinds

- The Government's July stimulus could prove crucial for the sector as it is expected to include provisions to the wage subsidy scheme as well as an extended waiver on commercial rates among other measures to support the sector.

Bank of Ireland

Bank of Ireland understands the challenges faced by the hospitality sector as a consequence of the Covid-19 outbreak. We are a strong supporter of the sector and will continue to work closely with our customers and communities to enable them to thrive in the coming year as they adapt to the "New Normal".

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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, 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 is a Qualified Financial Advisor and holds an Associate Degree in Restaurant Management from CESSA, Mexico and a BBA Hospitality from Les Roches International Hotel Management.

Sources: thejournal.ie, Irish Hotels Federation (IHF), Central Statistics Office (CSO), Cushman Wakefield, Crowe Hotel sentiment survey June 2020, STR Europe, Govt.ie, Fáilte Ireland, Irish Times, Sunday Times, RTE news, Reuters.com