

# HOPES, HURDLES & EXPECTATIONS 2021

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THE UK HOTEL MARKET

Known for its robust recovery from past downturns, resilience will once more become an industry trademark, as the sector responds to changing customer demand, enjoying a strong rebound once the virus becomes endemic.

The desire to travel remains unabated, with increasing value placed on wellness and experiences. Strong pent up demand for UK staycation will be enjoyed once the freedom of travel is restored, leading to improved visibility in terms of trading outlook and investor confidence.

Hotels in coastal & country locations to benefit from strong demand once restrictions ease. Monthly trading is expected to be stronger than pre-Covid era for many hotels. Improving demand for city break destinations expected.

The government's promise to protect jobs must continue to deliver for the hospitality industry, to endure the ongoing challenges brought by the pandemic and for the sector's recovery. Further growth in the National Living Wage (NLW), must be restricted until such increases are viable.

With government support in place, the tolerance of lenders and landlords is expected to continue – at least for the duration of lockdown and early stages of the recovery. At this critical time, the relationship and history with a lender arguably plays a larger role than brand affiliation. Lenders through non-enforcement and well capitalised investors, to share the financial pain and fund the shortfall in EBITDA is vital in the short-term.

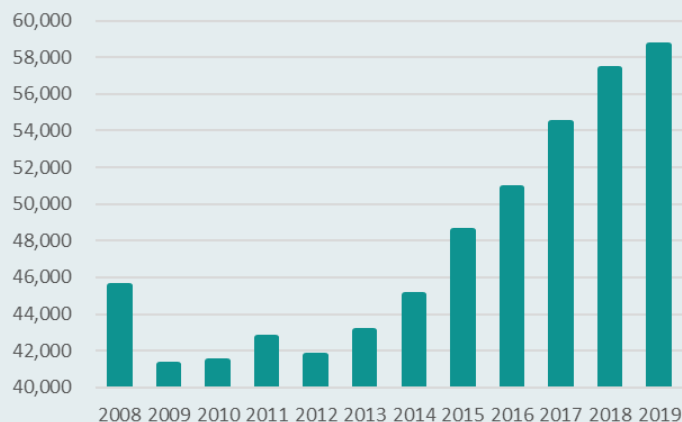
The UK, and London in particular, will continue to attract strong demand for hotel investment, once international borders and airways reopen. Post pandemic, a more collaborative, transparent and flexible approach will evolve, addressing and rebalancing an owner's level of risk and reward with various stakeholders.



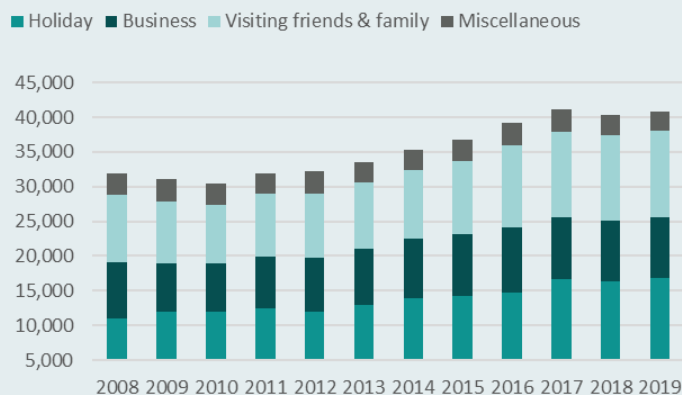
The Spa at South Lodge, Exclusive Collection

KNIGHT FRANK HOTELS

**Holiday Visits Abroad by GB Residents ('000s)**



**Inbound Visitor Arrivals to the UK ('000s)**



Source: International Passenger Survey

The impact of the pandemic continues to weigh heavily and disproportionately on the hospitality sector and its ability to reopen. The Government's cautious roadmap out of lockdown, with moveable target dates, provides little clarity, with potential for trading to be restricted until infection rates stabilise at a low level and full vaccination of the vulnerable and over 50's is achieved.

Increased risk of mutations derailing the vaccination programme and spreading to more vulnerable groups, brings with it the threat of future closures and ongoing uncertainty for the hospitality sector.

Divergence in the approach between Westminster and the devolved administrations, is set to intensify. The Scottish government is likely to take a more cautious approach, with only gradual easing of lockdown restrictions and with it, growing anxiety over extended restrictions in place for the domestic leisure market and ongoing border controls.

Hospitality relies in large part on inbound tourism and the success of a global vaccination programme will be critical to the long-term recovery of the UK hotel sector. Meanwhile, any further delay in procurement and distribution of the vaccine in Europe, will almost certainly result in continued travel restrictions, both inbound and outbound for the European short-haul market.

A shortage of low skilled workers will become a significant hurdle for the sector. The pandemic has led to many overseas workers returning home. Many may choose not to return to the UK, whilst others find they are no longer eligible to apply for the EU Settlement Scheme. New foreign workers now require sponsorship, at significant cost to an employer and combined with the planned increase in the NLW from April 2021 (payable from Age 23+), these are huge challenges ahead for the hospitality sector.

Global hotel brands will be challenged to deliver in a market dependant on driving domestic demand. Local, soft brands and established independent players have opportunity to grow their market share. Familiarity of a product, flexible booking, spacious, tech-enabled, high quality, clean and a Covid-secure experience, will all become critical factors to securing ongoing customer loyalty.

# EXPECTATIONS & OPPORTUNITIES

## KNIGHT FRANK HOTELS

A lasting legacy of the pandemic will be embracing common causes such as sustainability, more flexible working patterns and a higher regard for well being. Embracing and adapting to these changes will be key to the sector's resilience, re-invention and innovation, unlocking further opportunities.

Whilst air travel is a vital part of modern life, the pandemic has accelerated change and questions the reasons why people travel. With ongoing worldwide travel restrictions expected to remain in place throughout 2021 and together with a more acute focus on sustainability and post pandemic financial cost cutting, a decline in long-haul travel will ensue, resulting in fewer international routes, reduced connections and increased prices. Budget airlines, meanwhile are likely to benefit from increased landing slots, fuelling future growth in short-haul destinations, with increased demand for leisure travel.

As governments and businesses prioritise their commitment to reach net zero emissions, non-essential business travel will be scrutinized, resulting in fewer, but potentially longer length long-haul trips, visiting several destinations and extending a business trip to include leisure. In the longer term, hotels which future proof their assets, by thinking sustainably, offer an extended-stay product and which are located in key gateway cities, are likely to yield premium corporate rates and enhanced revenues once confidence for business travel returns.

As the UK Hotel sector emerges from the aftermath of the pandemic, reinventing the use of under-utilised space will become critical. Business demand will return as vaccination programmes take effect, but more significant changes are expected to take place in the MICE market. With demand for more spacious, safe, sustainable and smart office spaces, significant opportunity exists for reimagining urban hotel space, taking advantage of occupiers reducing their footprints in favour of more flexible, hybrid workstyles. Remodelling hotels to enter the co-working environment, delivering on service and bringing people and local communities together to drive collaboration and innovation, will almost certainly add value and help deliver secure income streams in parallel with the rooms product.



Bermonds Locke, London

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