

# COVID-19 UK HOTEL MARKET RECOVERY

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HOTEL DASHBOARD – July 2021  
Spotlight – Regional UK Hotel Market

## UK HOTEL SECTOR OUTLOOK

The positive impact of restrictions for hotels easing, was unequivocal, with a significant boost in occupancy performance during weekdays and higher peaks at weekends following the reopening of hotels to all guests. With freedom to travel for leisure purposes, the school half-term holiday provided a welcome boost in trading.

Covid-19 passports are set to be introduced and expected to be integrated into the EU's planned green pass system, providing the traveller with proof that they are fully vaccinated. Any delay to the scheme's launch and restarting of transatlantic travel would inevitably prolong the recovery of hotels dependent on overseas travel.

Historically, the peak period in RevPAR performance for regional UK occurs between June to September, whilst for London, strong demand from overseas corporate travel and MICE business leads to a far stronger performance in Q3 & Q4. The full lifting of social distancing restrictions, including the return to the office, is welcome news to the whole of the hospitality industry. Yet, with cases of the pandemic still rising, some uncertainty remains that further restrictions could be imposed at a future date.

Yet, the ability to trade during the summer months without legal restrictions being imposed, will have significant positive gains in terms of driving revenue. This is critical at a time when government support is winding down and an end to repayment holidays in terms of debt finance, are increasingly at the forefront of many operators minds.

For prime UK leisure hotspots, the summer of 2021 has the potential to be one of the strongest on record, with a surge in forward bookings and trading expected to outperform 2019 performance. With the domestic market the driving force behind the majority of all bookings, the growth in direct bookings is accelerating. It is no surprise that the global brands are busy engaging in their loyalty schemes, whilst smaller brands, groups and independents are focused on their online booking engines to help drive volume and to create a largely commission-free booking source.

Yet, HotelREZ Hotels & Resorts, a leading provider of distribution for independent hotels and groups, are reminding hoteliers to proactively manage their GDS availability, so not to exclude the corporate customer. Post lockdown, they have witnessed strong growth in corporate business, with demand generated in particular from the Consortia and Travel Management Companies (TMCs). Pre-Covid, these corporate booking agents were already major players in the travel industry, but post-pandemic these organisations are particularly well placed to support their corporate clients, with their in-depth understanding of COVID policies including: hotel safety and cleanliness, border closures and restrictions, quarantine requirements and rebooking and cancellation policies.

Whilst hotels are not expected to see a return to the staffing levels pre-pandemic, the double toxic tonic of Brexit and the pandemic has seen a mass exodus of the sector's key asset – it's people. Certain hotels are unable to fully reopen due to a lack of staff.

UK Hospitality is now calling for an Australian style, short-term visa scheme to enable workers to come to the UK, who do not meet the threshold demanded by the new points-based immigration system. Under current rules, where annual remuneration falls below £30,000, there is no entitlement to sponsorship - a pre-requisite of the current scheme. This alternative system is deemed essential to encourage young people to join or indeed return to hospitality.

With strong recovery in the wider UK economy and recruiters from all industries seeking to recruit, the balance of power is shifting. Following redundancies and the uncertainty of furlough, the retention of staff and skillsets within the industry is now a cause of great concern. The transferable skills offered by hospitality have made employees attractive to other sectors less disrupted by the pandemic, which typically offer more sociable working conditions. The Reed Hospitality and Leisure Salary Guide 2021 found that despite the impact of the pandemic, salary levels throughout the hospitality sector grew significantly in 2020. With this increasing shortage of personnel, wage inflation is set to continue.

Meanwhile, the cost to keep staff on furlough is set to rise, with the government contribution reducing by 10% from 1st July and the level of grant reduced further from 1st August, to 60% up to a cap of £2,500 per month, with the scheme set to run until 30<sup>th</sup> September.

## UK HOTEL TRADING PERFORMANCE MONTHLY ANALYSIS

### Top Line Performance

The final two weeks of May witnessed the welcome return of all guests to the UK hotel market, with the sector opening with renewed vigour. Month-on-month TRevPAR growth more than doubled in Regional UK to £46.30, whilst trading hotels in London saw TRevPAR rise to £41.70, the highest its been since the start of the pandemic.

Finally the hotel sector and its stakeholders can take some positivity from these results, with growth across all hotel classes. Regional UK Golf & Spa hotels produced a standout performance far greater than its peers, with almost a three-fold increase in its monthly TRevPAR performance, rising to £118 - fast returning towards the level of trading achieved last summer.

How exactly did this dataset achieve this performance? The 28 percentage point growth in occupancy was crucial, but with rooms revenue equating to only 40% of total revenue, the incremental spend that occupancy drives in Golf & Spa hotels defines this segment. Yet, whilst this performance is encouraging, indexed against 2019 performance, TRevPAR still remains 42% below its prior level.

Meanwhile, the road to recovery for the wider UK hotel market is considerably more profound, with TRevPAR across London averaging just 19% of its historical performance and regional UK averaging 38%, versus the same period in 2019.

### Payroll

Acknowledging that the level of efficiencies made at the height of the pandemic are not sustainable as the recovery progresses, payroll costs on a PAR basis are expected to increase. In London, operating departmental payroll PAR is currently averaging 31% of the payroll cost for the same period in 2019. By contrast, operating payroll costs PAR of select service hotels in regional UK are now at 66% of where they were pre-pandemic. As occupancy levels increase, we expect to see select service hotels operate with greater economies of scale. Currently operating payroll costs for select service hotels sit at 50% of full-service hotels, whereas pre-pandemic the normal ratio would be around 30%. Non-departmental payroll costs have seen varying levels of increase across the datasets, with the biggest increases coming from Golf & Spa hotels and London's Luxury hotels.

When analysing operating departmental payroll costs on a POR basis, the rising occupancy levels across all hotel datasets for both London and regional UK hotels, have seen costs POR reduce considerably in May. Equally, with strong growth in rooms and ancillary revenues, payroll costs as a percentage of total revenue have declined, albeit still well above historical levels. For example, payroll for Golf & Spa hotels equated to 40.8% of total revenue in May 2021 v 35.9% in May 2019.

### Departmental Gross Operating Income (GOI)

For the first time since March 2020, all hotel classes, throughout the UK have achieved double-digit total departmental GOI. However, for full-service hotels, the absence of traditional market segments and the impact this change is having on food & beverage revenue streams is evident. As such, the importance of converting Rooms income or generating new revenue sources is critical to the bottom line.

Regional UK Golf & Spa Hotels achieved the highest GOI PAR of £53.90, of which 56% was generated from the Rooms department and a further 21% of GOI derived from Golf, which has almost equalled historical levels on a PAR basis. For select service hotels, whilst RevPAR remains significantly lower than historical norms, the GOI is currently under performing in terms of its Rooms contribution.

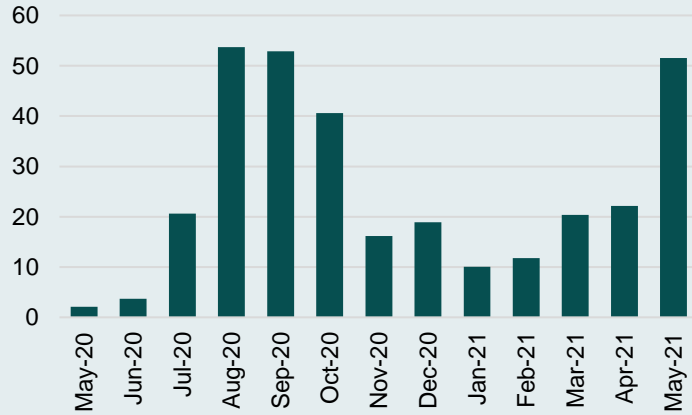
### Gross Operating Profit

Regional UK Golf & Spa Hotels trumped the Extended Stay dataset in May, achieving a GOPPAR of £22.20, rebounding strongly from a significant loss in April. It is clear that the easing of restrictions has had an immediate positive impact on GOPPAR across all datasets, including London - losses incurred have reduced significantly. London's Luxury Hotels, with their high fixed cost base, was the only exception.

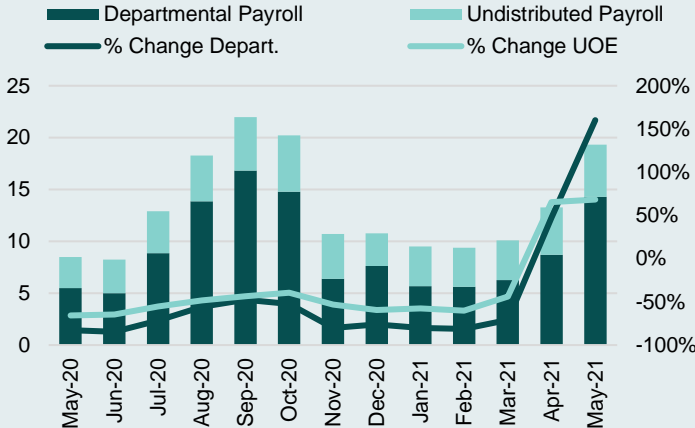
# Regional UK – Full Service, Upper Upscale Hotels

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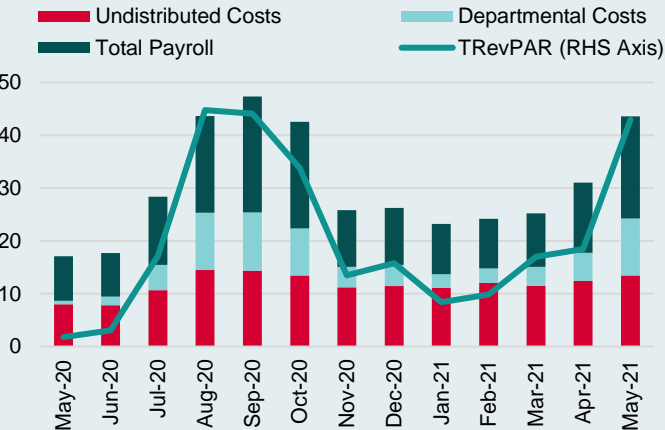
## TRevPAR (£)



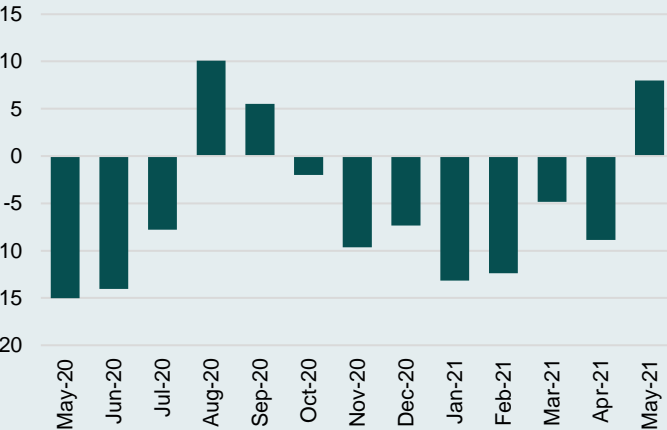
## Total Payroll PAR (£)



## Total Costs v TRevPAR (£)



## GOP PAR (£)



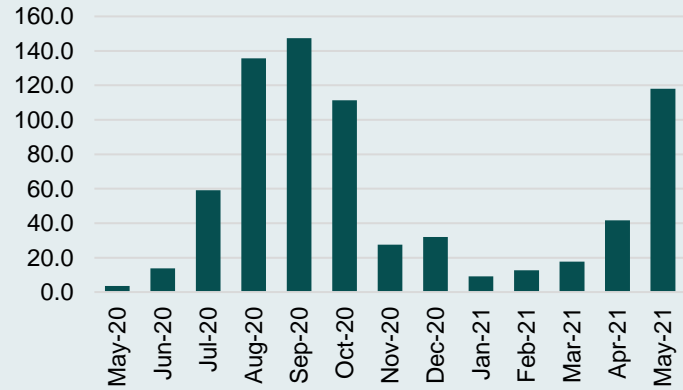
KEY PERFORMANCE INDICATORS	MONTH MAY 2021	YTD MAY 2021	Rolling 12 Months June-May 2020/21
<b>Occ %</b>	<b>33.8%</b>	<b>17.1%</b>	<b>19.4%</b>
Occ % Points Change p.a	32.1%	-16.7%	-41.9%
<b>ADR (£)</b>	<b>96.0</b>	<b>81.2</b>	<b>85.8</b>
ADR % Change p.a	42.3%	-9.7%	-13.7%
<b>RevPAR (£)</b>	<b>32.5</b>	<b>13.9</b>	<b>16.6</b>
RevPAR (12 months prior)	1.1	30.4	61.0
<b>TRevPAR (£)</b>	<b>51.5</b>	<b>23.4</b>	<b>27.0</b>
TRevPAR (12 months prior)	2.1	51.9	100.41
<b>GOPPAR (£)</b>	<b>7.97</b>	<b>-6.10</b>	<b>-4.61</b>
GOP PAR (12 months prior)	-15.01	-0.36	25.71
<b>GOP % of Turnover</b>	<b>15.5%</b>	<b>-26.0%</b>	<b>-17.1%</b>
GOP % of Turnover (y-o-y)	-715.9%	-0.7%	25.6%
<b>Payroll % of Turnover</b>	<b>37.5%</b>	<b>52.8%</b>	<b>50.9%</b>
Payroll % of Turnover (y-o-y)	404.5%	47.5%	33.8%



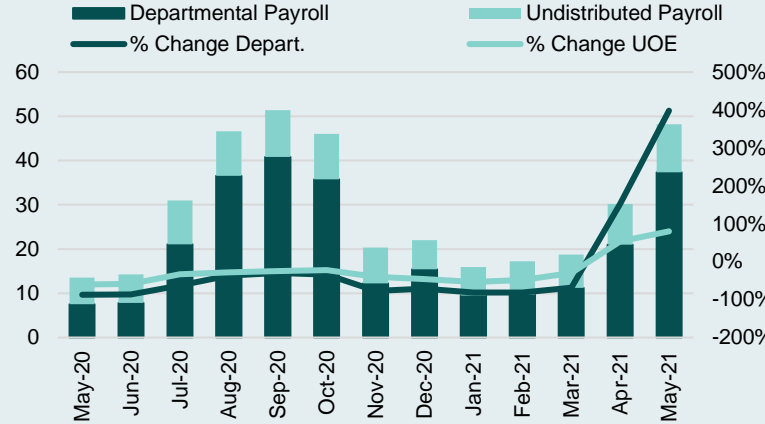
# Regional UK – Full Service, Golf & Spa Hotels

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## TRevPAR (£)

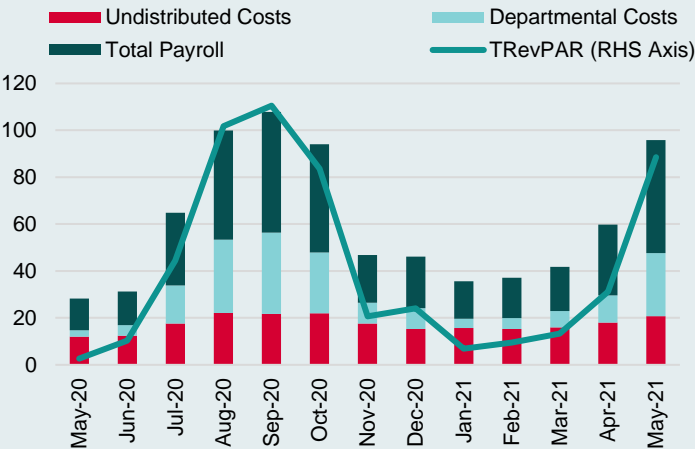


## Total Payroll PAR (£)

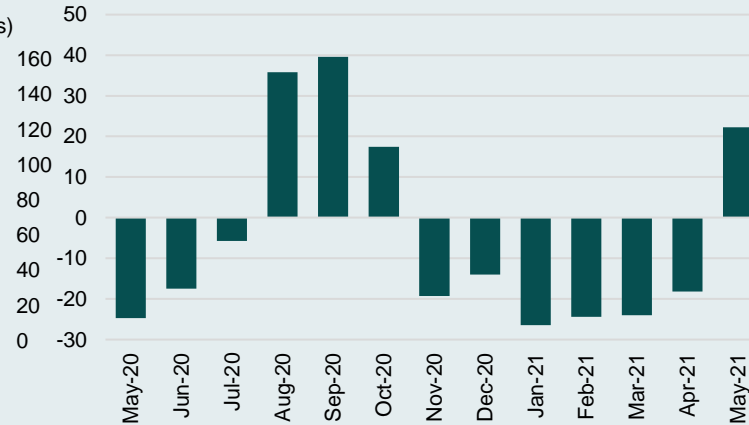


KEY PERFORMANCE INDICATORS	MONTH MAY 2021	YTD MAY 2021	Rolling 12 Months June-May 2020/21
<b>Occ %</b>	<b>44.5%</b>	<b>17.7%</b>	<b>25.0%</b>
Occ % Points Change p.a	44.5%	-12.7%	-33.5%
<b>ADR (£)</b>	<b>105.7</b>	<b>92.4</b>	<b>94.0</b>
ADR % Change p.a	-107.2%	7.9%	2.0%
<b>RevPAR (£)</b>	<b>47.0</b>	<b>16.3</b>	<b>23.5</b>
RevPAR % Change p.a	N/A	-37.1%	-56.4%
<b>TRevPAR (£)</b>	<b>118.0</b>	<b>40.4</b>	<b>60.9</b>
TRevPAR (£) (2020)	3.57	69.25	141.60
<b>GOPPAR (£)</b>	<b>22.24</b>	<b>-13.92</b>	<b>-2.68</b>
GOPPAR (£) (2020)	-24.73	-10.45	27.18
<b>GOP % of Turnover</b>	<b>18.8%</b>	<b>-34.5%</b>	<b>-4.4%</b>
GOP % of Turnover (y-o-y)	N/A	-15.1%	19.2%
<b>Payroll % of Turnover</b>	<b>40.8%</b>	<b>64.9%</b>	<b>49.7%</b>
Payroll % of Turnover (y-o-y)	378.9%	58.7%	40.8%

## Total Costs v TRevPAR (£)



## GOP PAR (£)



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