

# COVID-19 UK HOTEL MARKET RECOVERY

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HOTEL DASHBOARD – December 2021

## UK Hotel Sector Outlook & Recovery

October's trading figures were a turning point for London's hotel market. A story of continued growth and recovery and for the first time since the start of the pandemic, London achieved more encouraging results than by hotels across regional UK. Despite the step up in VAT, London continued to deliver its highest level of profitability since the start of the pandemic, with hotel demand boosted by an uplift in overseas visitors.

Whilst November trading continued to look promising, the sudden announcement of Omicron and the 'tidal wave' threat of cases this new variant has potential to cause, has thrown off course the strong end to the year the sector was desperately seeking. Whilst November figures (not yet published) and December reporting are expected to yield vastly improved trading than compared to 2020, the pace of recovery is expected to slow. The new level of restrictions has allowed hospitality businesses to continue to operate, yet the ability to sow fear across the nation, has resulted in the cancellations of Christmas festivities and limited pick-up in late bookings. Whilst the race is on to provide booster vaccines, the threat of a lockdown at the start of the New Year, has added a growing level of uncertainty and along with the expectation to once again work from home, these challenges threaten and expose the fragility of the recovery of the UK hotel sector, in the short-term. Following positive growth in recent months, new testing requirements now compulsory for entering the UK, along with new restrictions imposed overseas to counter the spread of Omicron, it remains uncertain just how extensive the fallout in the number of international visitor numbers to the UK will be.

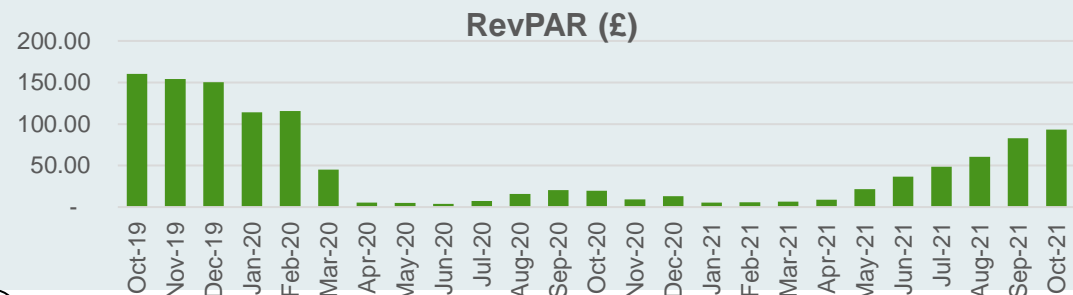
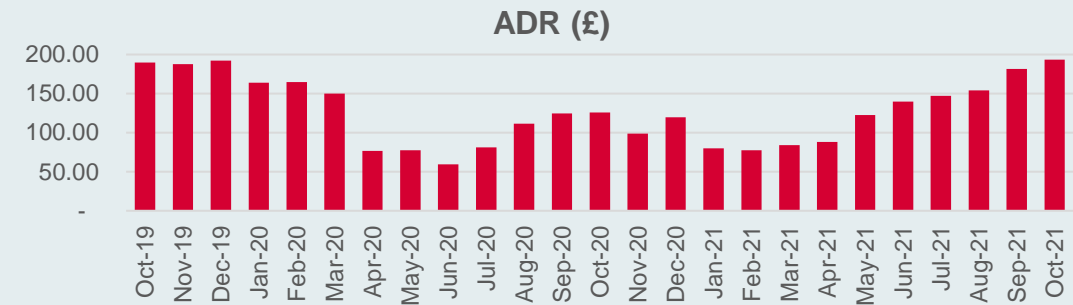
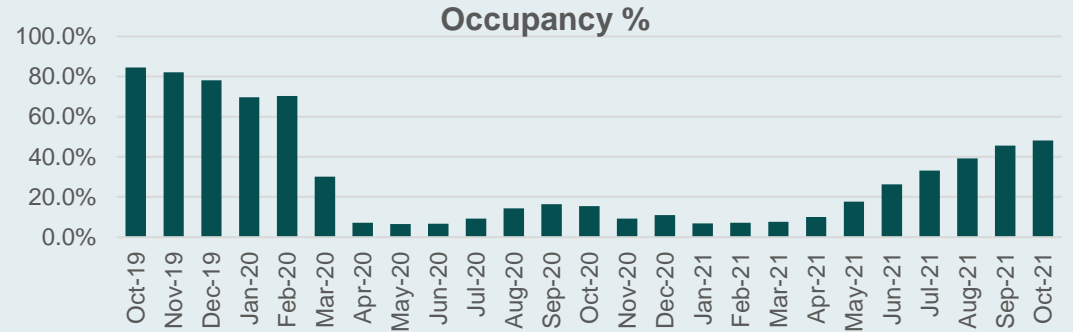
Whilst Omicron may reduce the number of inbound and outbound visitors to / from the UK, opportunity exists for hotels in strong leisure destinations to seize upon renewed demand for short-stay, staycations over the festive period, so long as no new restrictions to domestic travel are imposed. Whilst traditional festive party nights have been cancelled or shelved for a second consecutive year, the potential to fill room nights and replace lost revenues from high spending leisure guests, willing to pay more for a quality and reputable hotel stay, is substantial.

Even though the short-term outlook for the sector remains opaque, there still remains hope for a strong recovery in 2022. Yet the current challenging operating environment is unlikely to subside anytime soon, with macroeconomic conditions in the UK an increasing concern. The upward pressure on global food prices, fuelled by a perfect storm of unpredictable weather, rising consumer inflation, and an energy and labour crisis indicate that no relief is coming soon. Trading data reveals that utility costs for the regional UK hotel market increased by 19.5% for the month of October and by 8.6% in London. Making use of technology to help achieve efficiencies and reduce utility costs will become essential if energy costs remain at this level or rise further in 2022.

Staff shortages and supply chain issues continue to test the sector. Those owners and operators which are prepared to invest, hold a strong market positioning and have the benefit of a platform, are likely to be best placed to respond to the ongoing challenges. Meanwhile, the supply chain is being further tested with respect to food supplies following Natasha's Law which came into force on the 1<sup>st</sup> October, requiring close collaboration with suppliers to ensure compliance. Building strong relationships with reputable suppliers will only become more critical as significant changes to how goods are imported into the UK comes into effect from January 2022.

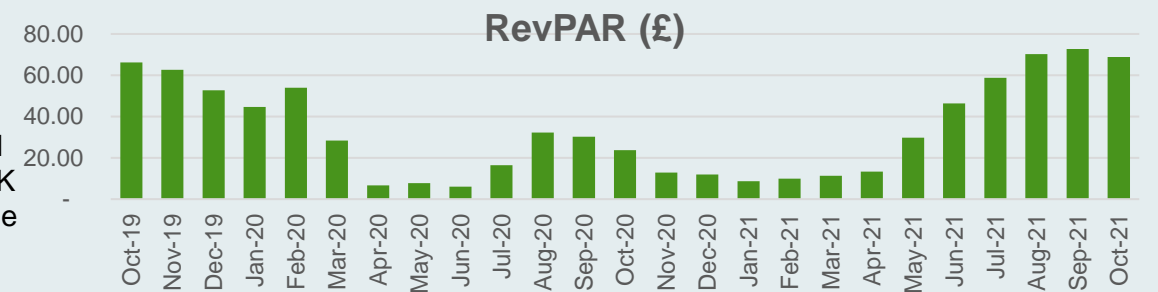
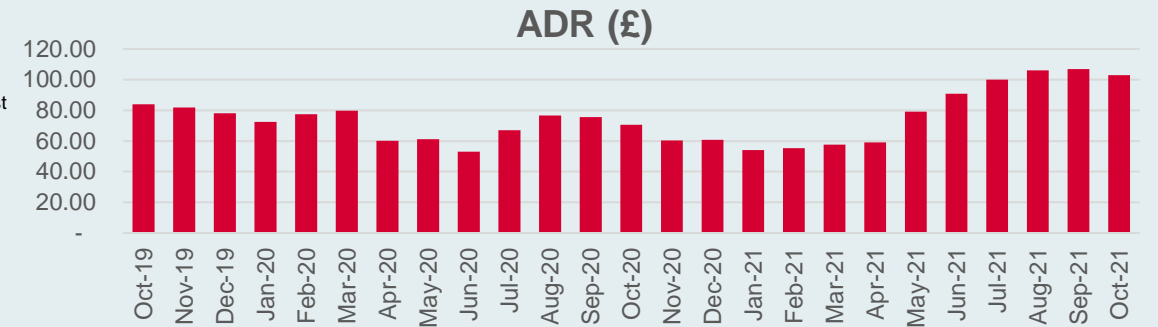
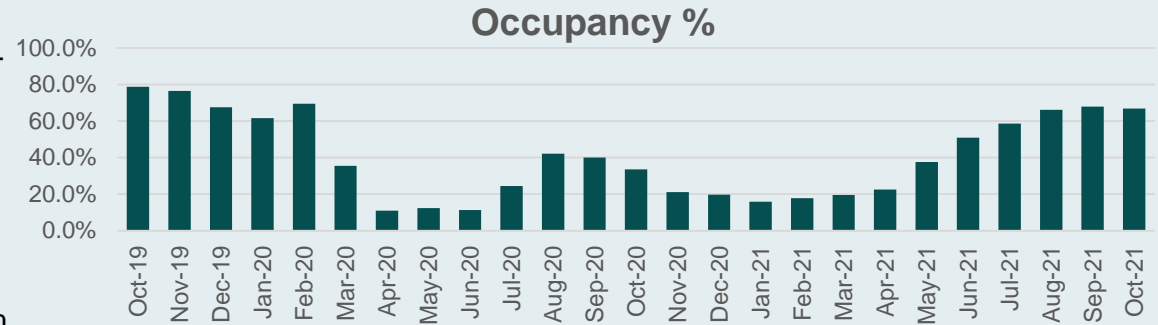
## London Hotel Market Trading Summary

- London’s recovery continued throughout October albeit the pace of occupancy growth slowed compared to previous months, rising by just 2.6 percentage points of occupancy, to 48.2%.
- The uplift in volume of international passengers arriving in the UK continued throughout October, increasing by 18% compared to September, including particularly strong growth from the Middle East, with visitor arrivals rising by 43%.
- Growing demand for overnight accommodation from overseas visitors helped London hotels withstand the 7.5% increase in VAT, with ADR for the London-wide market recording 6.6% growth in October – rising to £193. Had VAT remained unchanged at 5%, ADR growth of 14.2% would have been achieved. Stripping out the temporary reduced VAT rate, London’s ADR performance remains 4% below the ADR achieved in October 2019.
- This month’s resilient top-line performance translated into 12.6% growth in RevPAR to £93.1, compared to 20.6% growth assuming VAT had remained at 5%. London’s Luxury hotels outperformed the market, recording RevPAR growth of 22.7%, driven almost exclusively from a strong uplift in Rack-rated business. This would have translated into 31% growth had the rate of VAT remained unchanged.
- The London hotel market secured a RevPAR premium of 35% over the regional UK hotel market, a significant uplift compared to the 14% positive variance achieved in September.
- Despite reduced GOPPAR growth in October compared to the previous month, the 13% growth achieved was in complete contrast to the 11% decline in GOPPAR across Regional UK. London’s GOPPAR increased to £54.10, with GOP as a percentage of turnover, rising to 39.1%. London’s Luxury hotels consolidated their impressive revenue performance with equally strong GOPPAR growth of 23%.

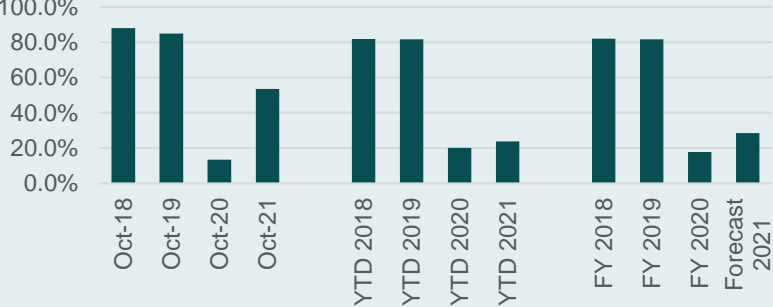


## Regional UK Hotel Market Trading Summary

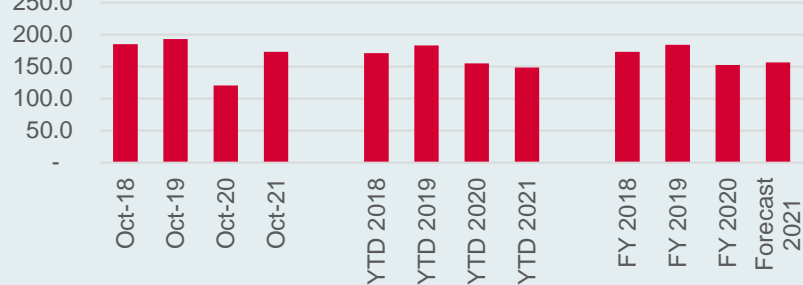
- Regional UK hotels recorded market-wide occupancy of 66.9% for the month of October, a decline of 1.0 percentage points compared to September. Year-to-date occupancy for Regional UK equates to 42.1%, an increase of 8.1 percentage points compared to the same period in 2020.
- Golf & Spa hotels witnessed the steepest monthly decline of 6.5 percentage points of occupancy, with fewer conference generated room nights and a decline in demand for Rack/Market room nights. Select Service Hotels witnessed a 2.8 percentage point fall in occupancy, driven by a decline in leisure demand, but also a marked shift away from negotiated corporate room nights towards market rates at a substantially lower price point.
- With many hoteliers benefiting from the temporary reduced VAT rate, a decline in the ADR was to be expected following VAT rising to 12.5% as at 1<sup>st</sup> October. As such, regional UK hotels suffered a 3.8% decline in the ADR for October, reversing growth of 3.1% if the VAT rate had remained unchanged. Stripping out the temporary reduced VAT, Regional UK's ADR is currently 15% ahead of the ADR achieved in October 2019.
- RevPAR of £68.80 was achieved in October, a month-on-month decline of 5.2%, as a result of weaker demand and lower room rates impacted by the VAT increase and a change in segmentation. Yet Upper Upscale hotels and Serviced Apartments proved more resilient, recording smaller monthly declines in RevPAR, of 2.6% and 1.3% respectively.
- Declining revenues, combined with payroll costs remaining flat and increased utility costs, have negatively impacted October's profitability, with Regional UK averaging an 11% decline in GOPPAR. But wide variation occurred across the sectors, with Select Service hotels enduring a 25% decline, whilst Upper Upscale hotels limited the decline to only 5% decline.



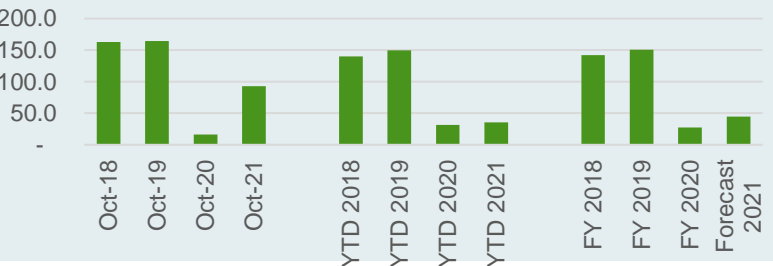
### Occupancy %



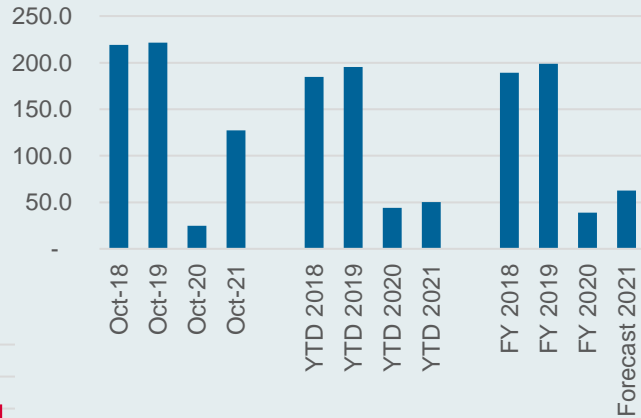
### ADR £



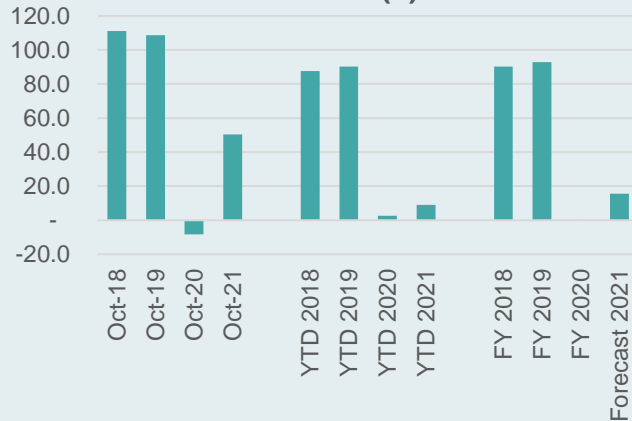
### RevPAR £



### TRevPAR (£)



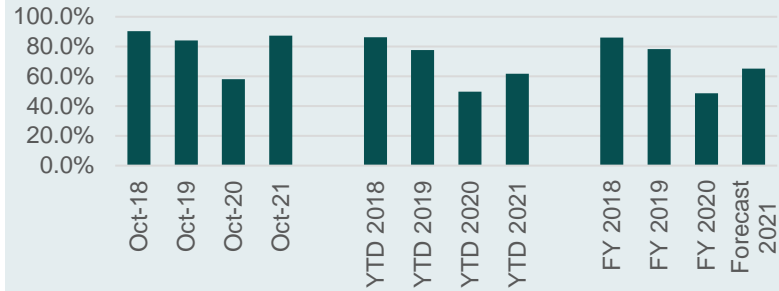
### GOPPAR (£)



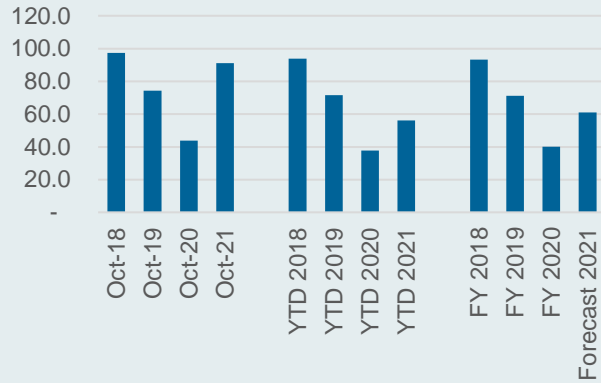
## Key Observations

- London's Upper-Upscale hotels performed strongly throughout October, with occupancy increasing by 5.1 percentage points to 53.5%. Whilst the proportion of Leisure room nights fell from 55% to 52.5% of the total segmentation mix, occupancy from leisure room nights increased to 28.1%. Rack room nights accounted for a further 20% of the business mix or 11% of the monthly occupancy, whilst corporate and conference demand contributed 12% to the total monthly occupancy.
- Strong gains in Rack and Leisure demand helped drive upwards the monthly ADR, cushioning the impact of the increase in VAT, with growth of 2.4%. Stripping out the impact of VAT, 10% growth in ADR would have been achieved. October's ADR at £174, is currently 10% below October 2019 prices.
- RevPAR increased by 13% in October to £93 and for the first time since the start of the pandemic the sector has achieved a strong 36% premium over the RevPAR of London's Mid & Upscale hotels.
- Despite total payroll costs rising by 11.5% in October to £32.10 PAR, payroll costs continue to decline month-on-month as a percentage of total revenue, falling to 25.1%. Pre-pandemic this marker was around 20%.
- GOPPAR in October increased by 10%, rising to £50.30 PAR, only London's Luxury hotels achieved stronger growth, recording an uplift of 23% to £112 PAR.

### Occupancy %



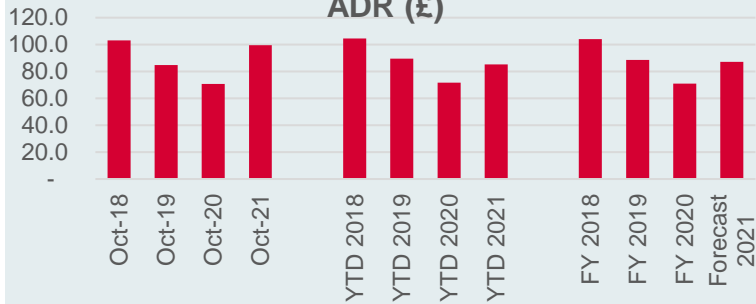
### TRevPAR (£)



## Key Observations

- Only through a detailed review of financial data, does one truly appreciate the remarkable performance and resilience of this sector throughout the pandemic.
- As at October YTD 2021, branded serviced apartments in regional UK have achieved Occupancy of 61.7%. This was achieved off-the-back of five-months of restricted trading, where monthly occupancy averaged 43%. Occupancy for the past three months has averaged 88%, some 21 percentage points of occupancy higher than the wider Regional UK hotel market.
- Resilience has stemmed from each operator’s ability to pivot the business model. Post lockdown, stripping out the temporary reduced VAT rate, ADR performance has averaged 17% above the same six-month period in 2019. With the benefit of the reduced VAT rate, ADR is 34% ahead of 2019 levels.
- October YTD RevPAR equates to £52.60, some 48% ahead of RevPAR for the same period in 2020 and a premium of 36.5% over the regional UK hotel market. Some 94% of the total revenues are derived from Apartment Revenue.
- Increasing the volume of long-stay guests facilitates operating efficiencies and reduces administration costs. Off an already lean model, payroll costs PAR as at October YTD are some 21% lower than the same period in 2019, equating to £12.70 PAR and 23% as a percentage of total revenue (compared to payroll costs of 31% of total revenue for Regional UK hotels).
- The sector has remained profitable throughout the pandemic, achieving GOPPAR of £24.10 as at October YTD 2021, equating to a 49% premium versus the regional UK hotel market.

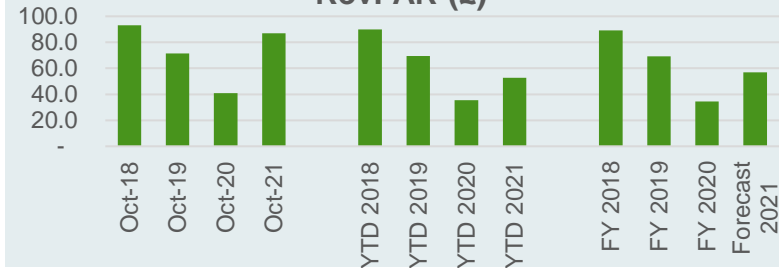
### ADR (£)



### GOPPAR (£)



### RevPAR (£)



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