Covid-19 UK Hotel Market Recovery

Hotel Dashboard , January 2021

UK HOTEL SECTOR OUTLOOK

Whilst the UK's vaccination programme is accelerating, so too is government cautiousness over the easing of lockdown restrictions – only when it is safe and right to do so. Reopening of the hospitality sector is likely to be shifted further towards the end of Q2-2021.

The current focus for the sector continues to be one of survival, with cash conservation and liquidity of immediate concern.

Lessons learnt from the first lockdown are likely to have evolved and adapted. Short-term objectives, which are adaptable, dynamic, yet reflective of the ongoing uncertainty, will certainly facilitate communication with stakeholders and support measurement of goals.

Ongoing communication with all stakeholders is critical. In particular, lenders' and landlords' willingness to negotiate, will largely be dependent upon the action of the hotel owner/tenant and the trading performance to date, throughout the pandemic.

A detailed understanding of a hotel's "monthly burn rate" (the expenditure of the available monthly cashflow), is essential during this period of forced closure.

With very limited visibility, in terms of when restrictions will ease, lenders are expecting clients to plan for the worst. An increase in uptake of CLBILS is anticipated to support cashflow, whilst for those landlords willing to accept a temporary, fixed rent reduction, a regearing, in the form of a lease extension, or removal of a break clause can be expected.

An influential campaign led UKHospitality, calls for a bold package of financial support to spearhead the economic revival and recovery of the hospitality sector. The funding needs to continue to support viable businesses and be in parallel with the imposed restrictions. Pressure is mounting for the Chancellor to announce these measures ahead of the Budget on the 3rd March 2021.

Covid-19 mutations from overseas have the potential to derail the recovery of the UK hotel sector. Concerns over whether the vaccines will continue to work have already led to the suspension of all travel corridors and banning travel from 30 countries where there is a risk of known variants.

With increased pressure to tighten border controls, both UK residents and inbound arrivals who cannot be refused entry to the UK, when travelling from 'red listed' countries where travel bans are already in place, will now be required to undergo a managed isolation process in hotel accommodation, commissioned specifically for use as 10-day quarantine centres.

Optimism for a strengthening second half of 2021 remains, with strong pent up leisure demand. With increasing uncertainty around international leisure travel and quarantine rules, the UK hotel market is set to benefit from strong demand for staycation, with the trend towards a longer average length of stay.

UK leisure and coach travel operators have witnessed increased forward bookings from older customers who have received an early vaccine. With knowledge that a second dose of the vaccine will offer strong protection from springtime onwards, there is growing confidence to make travel plans within the UK.

News of the G7 Summit taking place in Cornwall in June and Glasgow hosting the 2021 Climate Change Conference in November, brings further hope for restoring confidence to travel.

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REGIONAL UK HOTEL TRADING PERFORMANCE

HOTSTATS

The emergence of a highly transmissible variant of the virus during Q4-2020, has resulted in continuing anguish for the UK hotel sector. The impact of the tightened localised restrictions and subsequent lockdowns have been harsh and unyielding on UK hotel trading performance.

REVPAR/TRevPAR: The November lockdown resulted in month-on-month occupancy across regional UK declining by over twelve percentage points and ADR by over 14%, contributing to a 46% decline in RevPAR. In December, with the lockdown continuing in all but name, the severely restrictive trading conditions resulted in a further 6% decline in RevPAR. Full year RevPAR for regional UK averaged £22.70, with little or no variance between select service/midscale and full-service upper and upper-upscale datasets.

For the last two months of 2020, regional UK select service and midscale hotel datasets were proven to be more resilient, achieving a stronger RevPAR than full-service upscale and upper-upscale hotels, leveraging 15 percentage point higher occupancy, between select service hotels and full-service upper upscale hotels.

Regional UK Golf and Spa Hotels have also shown strong resilience, outperforming the Regional UK market in 2020 on an annual basis, in terms of topline performance. Achieving a 25% uplift in its RevPAR and TRevPAR of £73.90, more than double the marketwide performance.

Gross Operating Income (GOI) :
Between May to December 2020, select service hotels have witnessed a 33% decline in ADR, but only a 3% decline in operating payroll PAR. With select service hotels typically operating a lean business model, the ability to reduce payroll and other costs is more limited. This decline in ADR is significant and combined with falling occupancies, the rooms profit margin equated to 30.5% in December (61.7% in Dec. 2019), this compares to other regional hotel datasets averaging between 49%-54% rooms profit margin (excluding Golf & Spa hotel dataset).

Despite Select Service Hotels achieving the highest Total GOI of all regional hotel datasets, recording a GOI of 51% of total revenue for the FY 2020 (versus 62% in 2019), importantly this margin has declined month-on-month, falling by 15% since September – with an average GOI of 39% in Q4 2020. By contrast, regional UK midscale hotels have witnessed greater resilience in TRevPAR performance, achieving an average GOI of 44% during Q4-2020.

GOPPAR: With the national guidance to "Stay at Home", the severely restrictive trading conditions have resulted in the UK hotel market to become loss making during November and December 2020, for all hotel datasets analysed, with the exception of the Serviced Apartment dataset.

For the month of December, the dataset for select service hotels recorded a 50% reduction in total costs compared to the same period in 2019. Meanwhile, midscale hotels recorded a 62% reduction and full-service upscale & upper upscale datasets stripped out over 70% of their cost base. Some of these reduced costs are a direct result of certain hotels being closed and most hotel owners benefitting from the Coronavirus Job Retention Scheme.

For the FY 2020, both select service and midscale hotels achieved a positive GOPPAR of £5.40 and £2.40 respectively. Both full-service upscale and upper upscale hotel datasets achieved a loss for the full year 2020. Meanwhile, the UK-Extended Stay dataset outperformed by a significant margin, achieving GOPPAR of £21,70, equivalent to 44% GOP as a percentage of total revenue. This level of profitability, confirms that the flexibility and resilience of the serviced apartment model, under strong management, has a proven advantage at a time of crisis.

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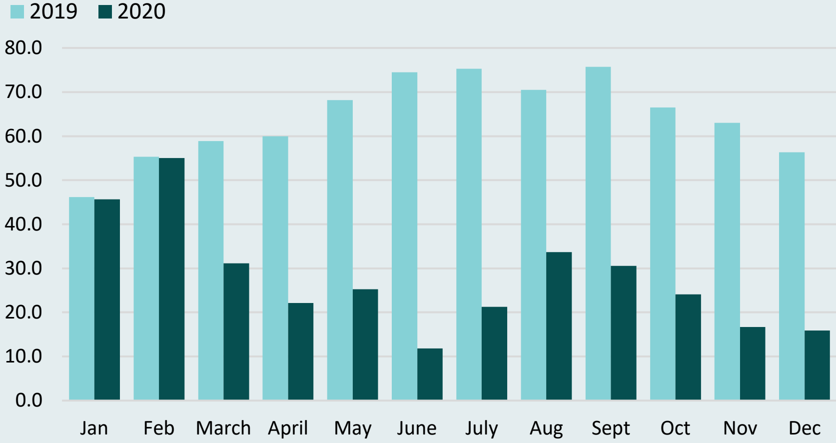
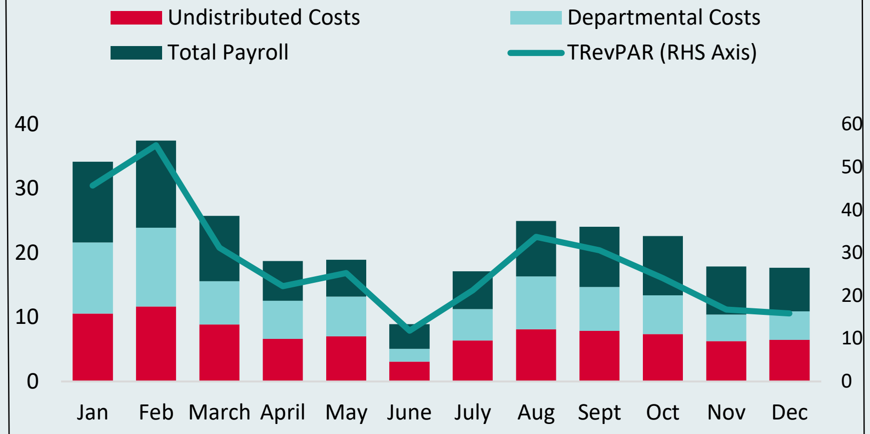
REGIONAL UK, SELECT SERVICE HOTELS

HOTSTATS

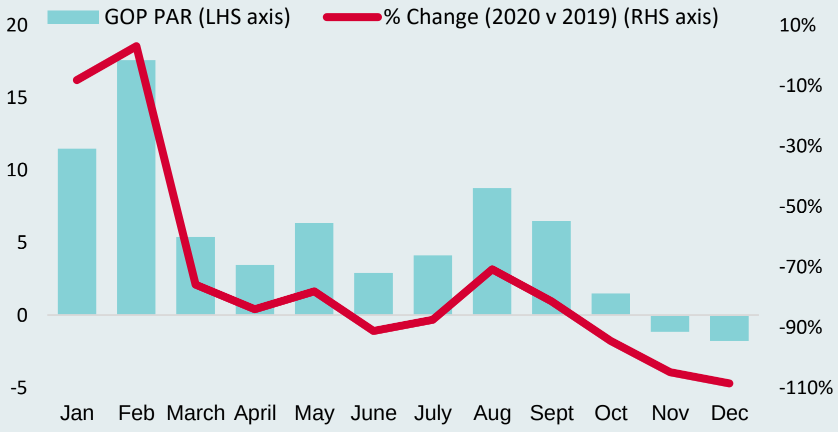
TRevPAR (£)



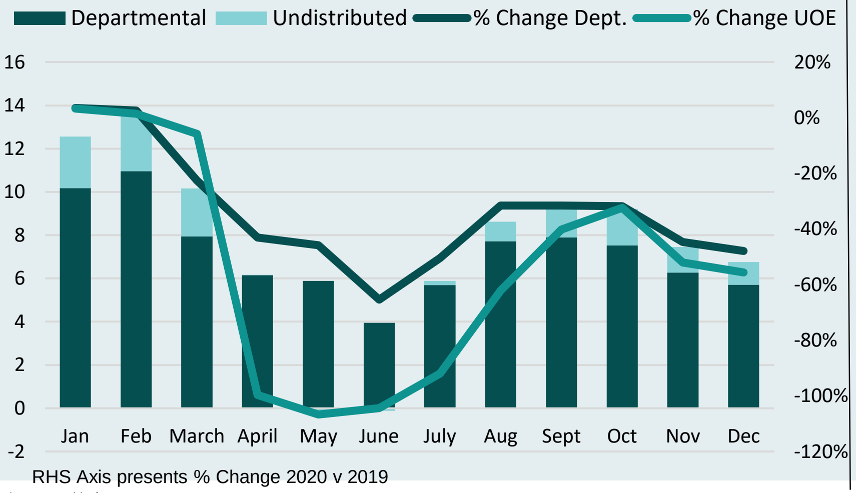
Total Costs v TRevPAR (£)



GOP PAR (£)

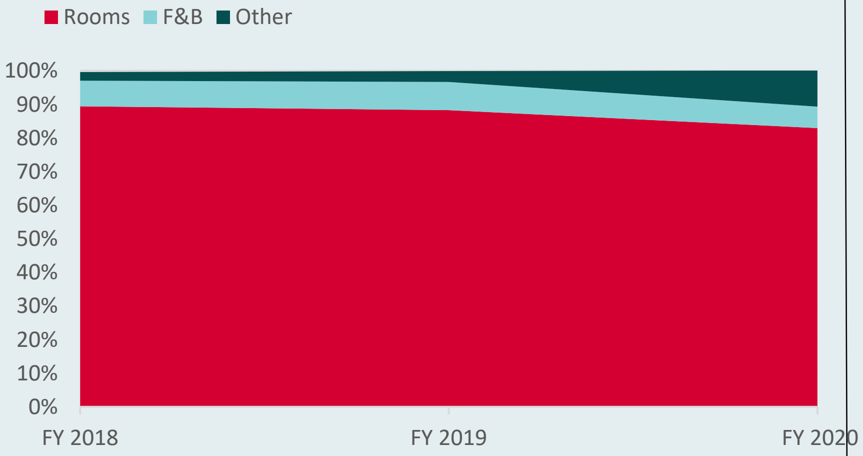


Total Payroll PAR (£)

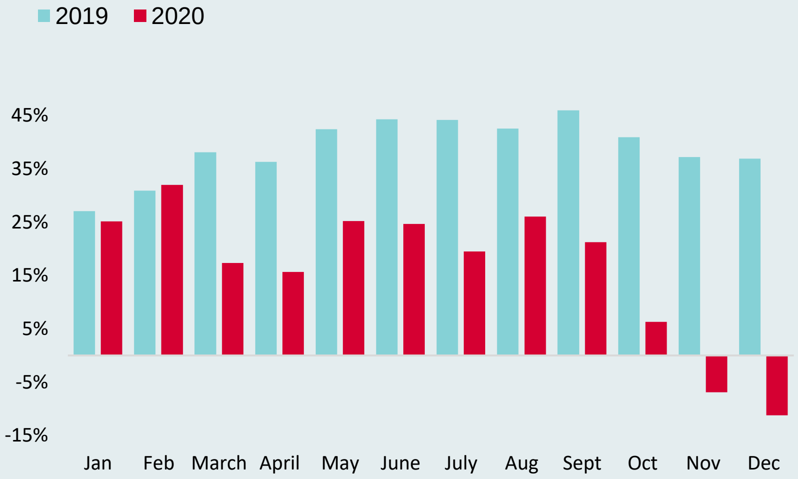


RHS Axis presents % Change 2020 v 2019

Department Income contribution PAR (FY 2018-2020)



GOP %



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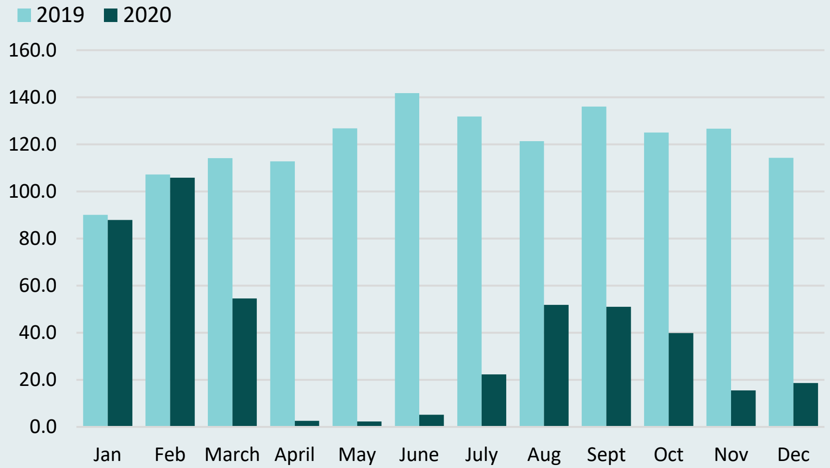
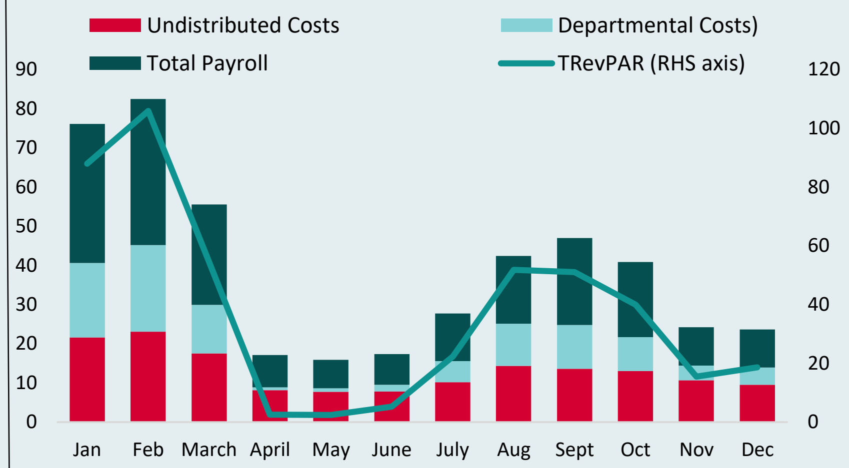
REGIONAL UK, FULL-SERVICE, UPSCALE HOTELS

HOTSTATS

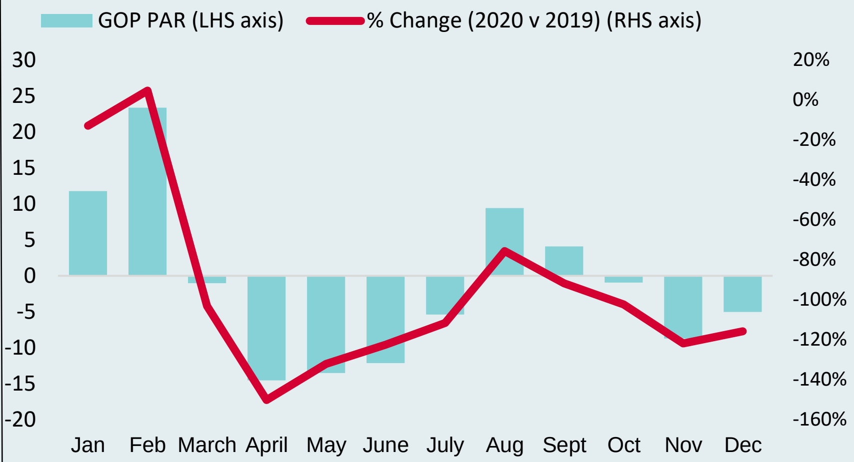
TRevPAR (£)



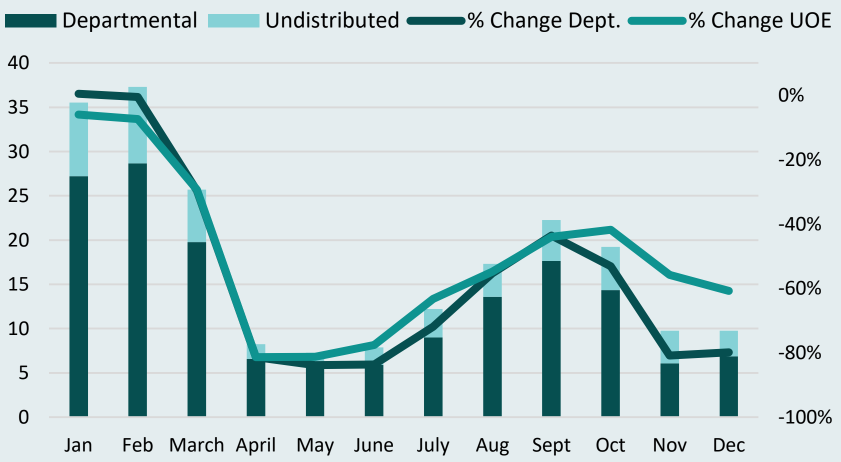
Total Costs v TRevPAR (£)



GOP PAR (£)



Total Payroll PAR (£)



RHS Axis presents % Change 2020 v 2019

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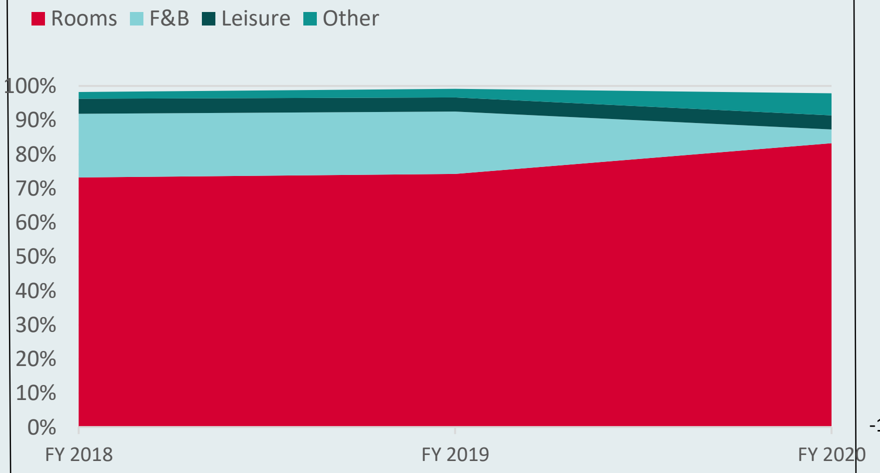

GOP %