

# COVID-19 UK HOTEL MARKET RECOVERY

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HOTEL DASHBOARD – May 2021  
Spotlight – Regional UK Hotel Market

## UK HOTEL SECTOR OUTLOOK

Easing of lockdown restrictions across the UK, have allowed hotels in Scotland and Wales to reopen to all guests, with reports of healthy occupancies and a mix of corporate and leisure guests. Whilst in Wales all F&B consumed is confined to outdoors or room service, indoor hospitality in Scotland has resumed, but it comes with strict limitations - an 8pm curfew and no alcohol being served indoors.

In England, a number of luxury rural hotels have brought forward their re-opening date, by offering high-class, self-contained, secluded treehouses, cottages and apartments - all located within spacious hotel grounds, with guests benefitting from breakfast hampers, room service, alfresco dining and limited spa facilities.

With certain medical experts claiming that the UK has moved from a pandemic to an endemic situation, for the vast majority of hotels located in England, the scheduled reopening to allow the return of all guests on 17<sup>th</sup> May cannot come soon enough. A lack of clarity in terms of overseas travel is fuelling a strong summer ahead for UK Staycation.

The latest trading performance indicates a widening gulf between limited and select service hotels and full-service upscale and upper upscale hotels. Adapting to an ongoing challenging operating environment will be critical coming out of an extended period of lockdown.

The elation amongst hoteliers of the planned reopening, will be tempered with the prospect that from the autumn government support will be tapering off. Of crucial importance will be to maximise working capital during the early months of recovery. As such addressing the following issues will become critical:

- HMRC debt – VAT liabilities which will be required to be settled in full, can be deferred further so long as a repayment plan has been entered into by 21<sup>st</sup> June 2021. Furthermore, following new legislation passed, from 1 December 2020, HMRC will receive preferential status ahead of secured lenders on taxes such as VAT, PAYE, and employee National Insurance contributions.
- The temporary prohibition on landlords forfeiting leases has been extended until 30<sup>th</sup> June 2021, but the issue of repayment of rent arrears, puts significant pressure on tenants. Following the second High-Court ruling in favour of landlords, this confirms that the contractual rent is payable even in these exceptional circumstances and the ruling serves as a viable recovery mechanism to landlords and investors backing these investments. Dealing with the ramifications of the build-up of rent arrears is troublesome for all parties, but having transparent, open and productive dialogues early on is critical to preserving the life of the operational leased entity. The government's call for evidence to review measures on commercial lease evictions may yet provide some welcome relief to tenants.

- Whilst UK lenders have shown unprecedented levels of support to their clients which were trading profitably prior to the pandemic, early structured CBILS and CLBILS will soon see an end to the 12-month interest free capital repayment holiday. Whilst lenders' attitudes are likely to continue to be supportive, ongoing debt repayment holidays or deferrals are at the discretion of the lender and will vary by lender. With the government backing 80% of the default risk, potential exists for continued favourable terms at least for the next 12-months.
- Initiating or revisiting an insurance claim for business interruption loss of profit, which is often included in a comprehensive policy, will further serve to support cashflow. Following a landmark ruling in the Supreme Court in January 2021 which clarified key issues of contractual uncertainty, the UK insurance industry is now liable to cover losses relating to COVID-19. Each policy will need to be reviewed independently, but the ruling covers both partial and full closure of businesses. HotStats data reveals an increase in the number of successful claims, with the funds received recorded as miscellaneous income on the P&L statements.

## REGIONAL UK, HOTEL TRADING PERFORMANCE

### Top Line Performance

Given the restrictive trading conditions endured during Q1-2021, the Regional UK hotel market has seen small but encouraging positive steps, with improving month-on-month performance. For the month of March, for Regional UK hotels which remained open, an uplift in RevPAR of 11.2% and growth of 21.8% in terms of TRevPAR were recorded.

In terms of RevPAR performance for the month of March, Full-Service hotels witnessed stronger growth than Select-Service and Upper Midscale hotels, but off a very low base and are still playing catch-up. This is most stark when comparing monthly RevPAR of Select Service hotels (£16.20) versus Full-Service Upscale Hotels (£9.40), a premium of 72%.

Throughout the pandemic, the Other Revenue Department has been used to reflect one-off income receipts, such as successful insurance claims. This was apparent for Full-Service Upper Upscale hotels, with the dataset for March reflecting a 68% monthly increase in TRevPAR to £25. Without this income, TRevPAR of £18.50 would have been achieved, which at this level would have seen TRevPAR at 20% lower than the dataset for Select Service hotels.

Meanwhile, Golf & Spa Hotels achieved a 32% uplift in TRevPAR, due to strong growth in golf revenue.

### Payroll

As hotels increase their occupancy during the early stages of recovery, one challenge will be to keep operational payroll costs under control. With monthly growth in occupancy of two percentage points in March for both Select Service and Upper Midscale hotels, departmental payroll costs on a PAR basis held steady, whilst the payroll cost POR reduced by between 5% and 7%. For Upscale and Upper Upscale hotels, the departmental payroll cost increased on a PAR basis, but the growth in room nights compensated for this rise, with payroll costs POR declining by as much as 17% for Upscale hotels and 10% for Upper Upscale hotels.

Select Service hotels achieved a 29% decline in non-departmental payroll costs, which contributed almost exclusively to the 6.4% monthly saving in total payroll costs, of £7 PAR. Payroll costs as a percentage of total revenue, improved from 38% in February to 31% in March, this compares to a margin of 26% in February 2020, prior to the onset of the pandemic.

Golf & Spa hotels witnessed a 21% monthly increase in departmental payroll costs, but with limited revenue growth, payroll percentage of total revenue equated to 82%. By contrast, during the summer 2020, this KPI reduced to 33% of total revenue, a measure likely to be mirrored during the summer months of 2021.

### F&B Contribution to Gross Operating Income

The Food & Beverage (F&B) provision by Select Service properties are currently making up 16% of Total Revenue and is contributing 10% of the total Gross Operating Income (GOI). By contrast, the F&B contribution at full-service hotels is threadbare, despite making up over 20% of their total revenues. Meanwhile, the F&B provision for Golf & Spa hotels contributed over 32% of total revenue in March, generating 36% of total GOI. Adapting the service provision in order to generate a profit, is therefore critical at a time where profit margins are already slim.

### GOP

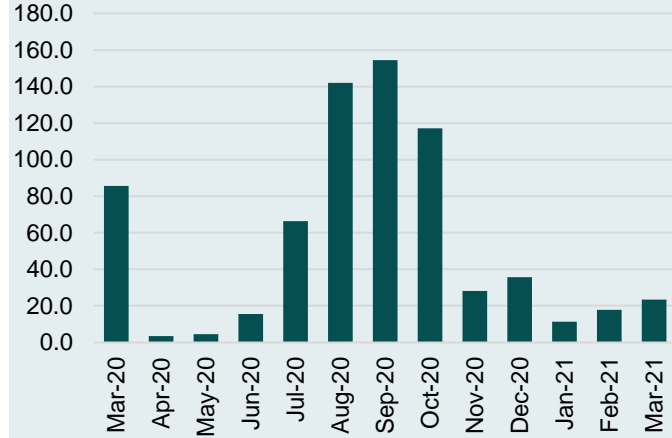
Select Service hotels were the top performing dataset during the month of March, in terms of profitability - achieving a slim GOPPAR of £4.40. The Extended Stay dataset achieved a GOPPAR of less than £1, whilst all other datasets continued to be loss making.

Despite the Extended Stay dataset achieving the greatest gross operating income, of £16 PAR, equal to 72% of its total revenue, its non-departmental expenses are more aligned to full-service, upper upscale hotels. As such its GOP only just achieved breakeven for the month of March.

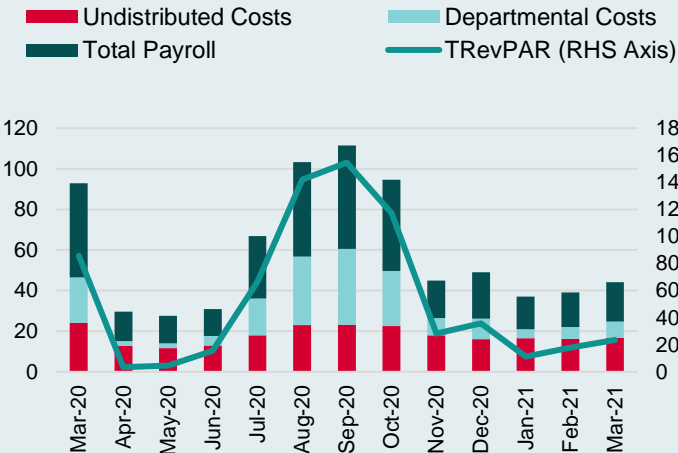
# Regional UK – Golf & Spa Hotels

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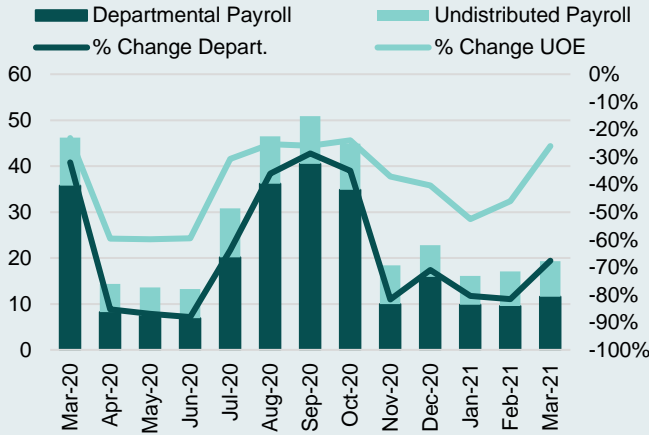
## TRevPAR (£)



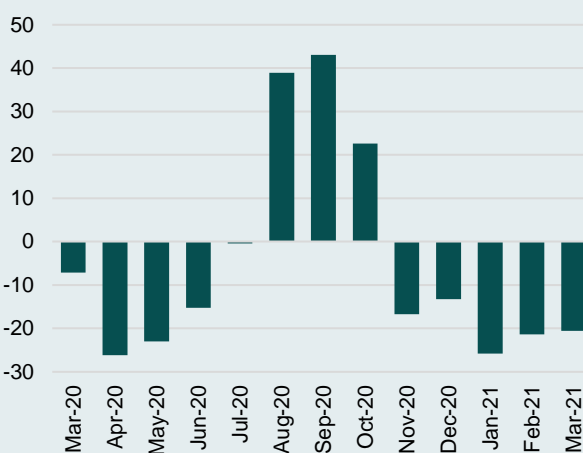
## Total Costs v TRevPAR (£)



## Total Payroll PAR (£)



## GOP PAR (£)

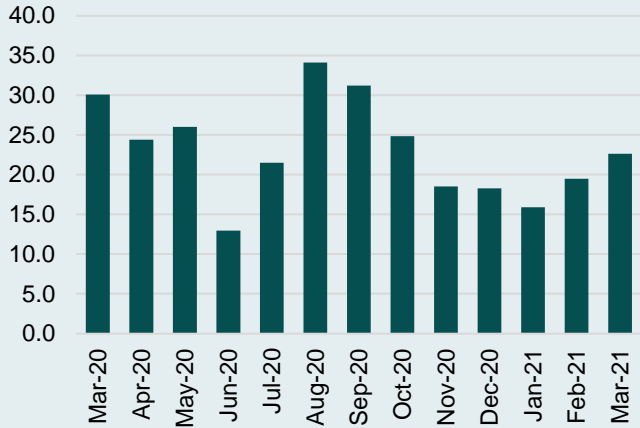


KEY PERFORMANCE INDICATORS	MONTH MARCH 2021	YTD MARCH 2021	Rolling 12 Months April-March 2020/21
Occ %	15.9%	12.5%	22.4%
Occ % Points Change p.a	-16.5%	-40.1%	-49.8%
ADR (£)	81.6	78.8	89.0
ADR % Change p.a	-7.8%	-6.6%	1.1%
RevPAR (£)	13.0	9.8	20.0
RevPAR % Change p.a	-54.7%	-77.8%	-68.6%
TRevPAR (£)	23.5	17.5	52.0
TRevPAR (£) (2020)	-72.6%	-85.6%	-70.5%
GOPPAR (£)	-20.6	-22.6	-4.7
GOPPAR (£) (2020)	-£7.17	5.7	41.6
GOP % of Turnover	-87.7%	-129.5%	-9.1%
GOP % of Turnover (y-o-y)	-8.4%	4.7%	23.6%
Payroll % of Turnover	82.3%	100.2%	49.6%
Payroll % of Turnover (y-o-y)	54.0%	48.1%	38.1%

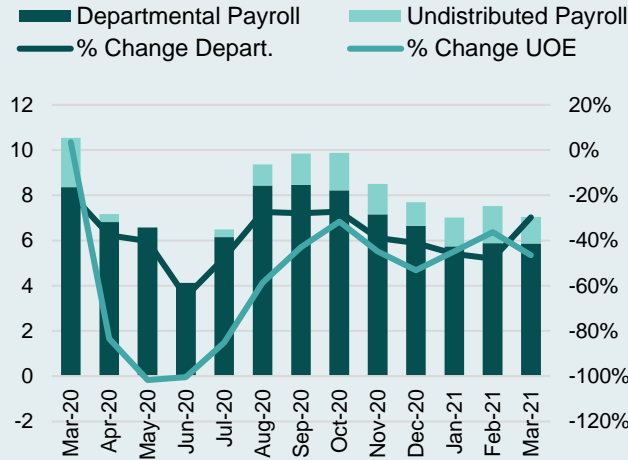
# Regional UK – Select Service Hotels

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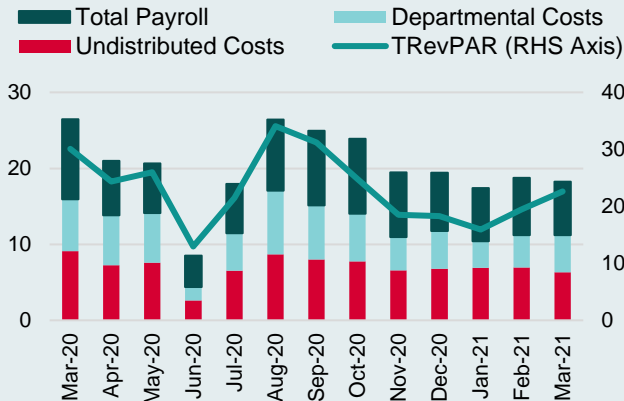
## TRevPAR (£)



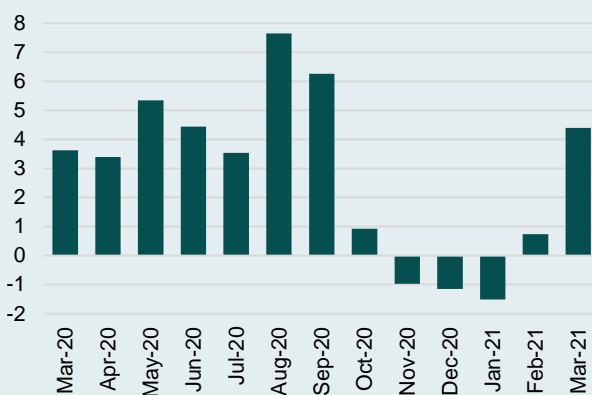
## Total Payroll PAR (£)



## Total Costs v TRevPAR (£)



## GOP PAR (£)



KEY PERFORMANCE INDICATORS	MONTH MARCH 2021	YTD MARCH 2021	Rolling 12 Months April-March 2020/21
<b>Occ %</b>	<b>34.4%</b>	<b>31.9%</b>	<b>35.2%</b>
Occ % Points Change p.a	-4.1%	-25.9%	-38.9%
<b>ADR (£)</b>	<b>47.1</b>	<b>45.8</b>	<b>51.2</b>
ADR % Change p.a	-22.6%	-21.6%	-21.8%
<b>RevPAR (£)</b>	<b>16.2</b>	<b>14.6</b>	<b>18.0</b>
RevPAR % Change p.a	-30.8%	-56.7%	-62.8%
<b>TRevPAR (£)</b>	<b>22.6</b>	<b>19.3</b>	<b>22.5</b>
TRevPAR % Change p.a.	-24.8%	-55.1%	-62.6%
<b>GOPPAR (£)</b>	<b>4.39</b>	<b>1.23</b>	<b>2.7</b>
GOPPAR % Change	21.2%	-87.6%	-87.5%
<b>GOP % of Turnover</b>	<b>19.4%</b>	<b>6.4%</b>	<b>12.2%</b>
GOP % of Turnover (y-o-y)	12.0%	23.1%	36.6%
<b>Payroll % of Turnover</b>	<b>31.1%</b>	<b>37.1%</b>	<b>33.8%</b>
Payroll % of Turnover (y-o-y)	35.0%	28.8%	22.4%

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