COVID-19 UK HOTEL MARKET RECOVERY

HOTEL DASHBOARD – November 2021

Knight Frank

UK Hotel Sector Outlook & Recovery

The month of September yielded stronger results than expected, with hoteliers recording the highest level of profitability since the start of the pandemic. As the sector continues its recovery, there are early indications that October numbers, once released, will also show strong levels of demand, following substantial pent-up desire for travel. The underlying drivers of the increase in demand include high vaccination rates, strengthened by the availability of the booster; increased economic activity with more businesses reopening their offices, resulting in increased demand for face-to-face meetings and internal travel restrictions easing; continued strong domestic leisure demand (with a growing segment for higher paying guests in strong leisure destinations and the willingness to pay more for a quality and reputable hotel stay); increased participation at sporting, cultural and other events, and ongoing flexible working arrangements leading to the extension of the weekend leisure market.

The predicted decrease in leisure demand in September was replaced with an uplift in midweek domestic corporate demand, transient business-related travel and an increase in demand for conference-led room nights. This marks a new phase of the UK hotel sector's recovery, with clear signs of increased demand for room nights in both London and across regional UK towns and cities. With early signs that inbound international travel is starting to return, this bodes well for further recovery in the larger cities more dependent on sizeable events taking place and on hotel demand from international visitors. Robust and strong performing assets pre-pandemic are set to emerge more efficient and on a strong footing, with the visibility and outlook of the UK hotel market, now on much steadier ground.

Yet the recovery to date continues to take place in the most challenging operating environments ever endured. Market-wide supply issues, a hike in utility bills, increasing cost of sales and wage costs, as well as much tighter labour supply, continues to impact upon the speed of the sector's revival. The retention of core teams has been critical to businesses re-opening and will remain so for the duration of recovery and growth. Operations, management and leadership need to be constantly smart, adaptable and forward thinking to counteract these challenges. With the ONS reporting a vacancy ratio of 5.9 per 100 employee jobs for the accommodation and food services sector (the highest vacancy rate of all industries, versus an average of 3.7), investing in people through training, health and wellbeing and ensuring an attractive environment for people wanting a long-term, valued career at any level of an organisation, has never been more critical.

The Chancellor's budget at the end of October was underwhelming for the UK hotel sector, failing to provide the level of ongoing support many had hoped for. With no announcement made to extend the temporary rate of VAT payable of 12.5% beyond the 31st March 2022, the industry will need to lobby hard if is going to prove itself successful. Whilst one-year temporary business rates relief in England was up for grabs for eligible retail, hospitality and leisure properties, providing 50% relief on business rates bills in 2022-23, this is capped at £110,000 per business rather than per property. And finally, the UK hospitality sector will now brace itself for a further steep rise in the National Living Wage (NLW), with the minimum wage set to increase from April 2022, to £9.50 per hour for all workers aged over 23. The rise in the NLW effectively raises the expectation even further for appropriate pay and working conditions, with the UK hotel sector having to dig deep and improve its image in order to successfully compete for staff and prevent the leakage of personnel to other sectors of the UK economy.

Hotels Market Dashboard – November 2021

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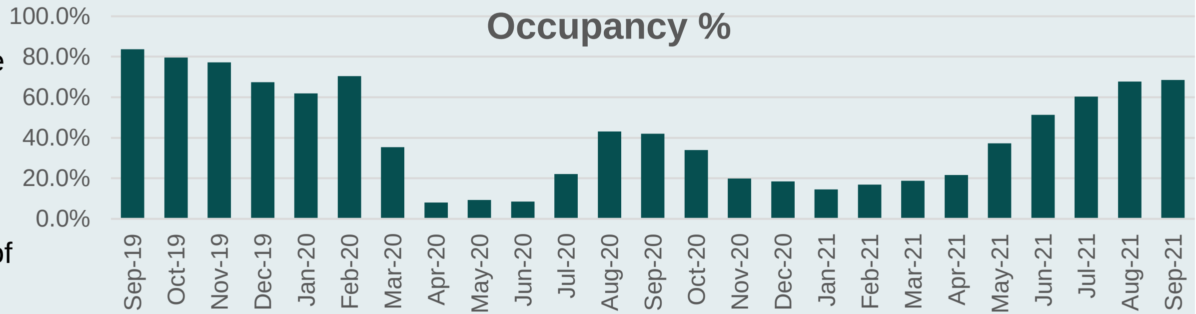
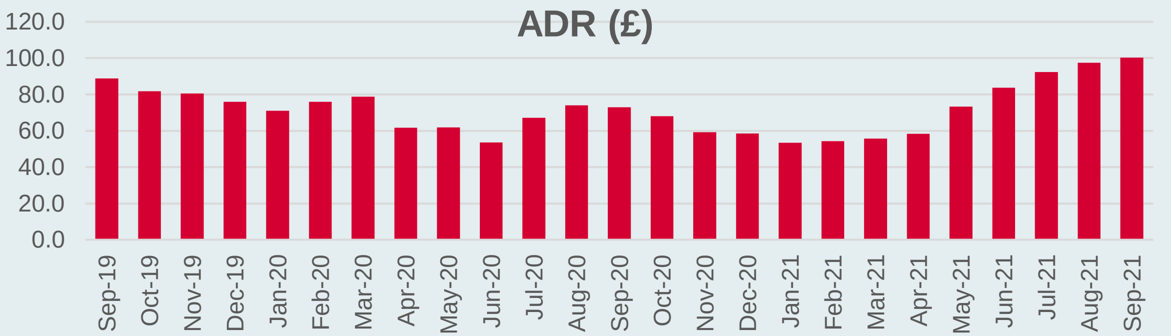
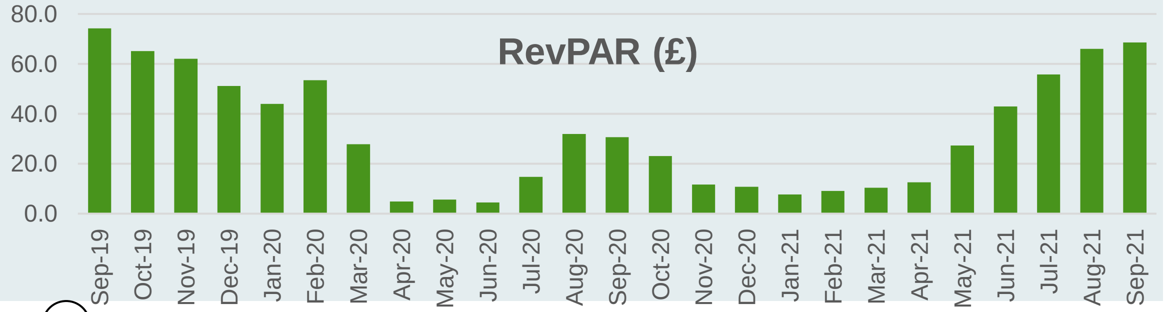
Regional UK Hotel Market Trading Summary

- Regional UK hotels recorded market-wide occupancy of 67.9% for the month of September, an increase of 1.7 percentage points, with full-service upscale and upper-upscale hotels driving the growth in occupancy.
- Whilst hotel occupancies continued to be underpinned by staycations, the predicted decrease in leisure demand in September was replaced with an uplift in domestic meeting and conference demand and transient business-related travel. September YTD occupancy equates to 39.4%, an increase of 5.3 percentage points compared to the same period in 2020.
- September witnessed only modest monthly ADR and RevPAR growth, with ADR rising by 1% to £106.90 and RevPAR growth of 3.5% to £72.60. Unable to maintain the strong pent-up leisure demand enjoyed during the summer months, Golf & Spa hotels experienced a 6% decline in both their monthly ADR and RevPAR performance.
- There is no doubt that the ADR has been positively impacted by the temporary reduction of VAT. Stripping out the adjusted VAT rate, this realises 3% growth in ADR, with an adjusted RevPAR performance of £63.50, 16% below the level achieved for September 2019.
- GOPPAR grew by 6% in September to £43.80, the highest level of profitability since September 2019, with a GOP% of 39.1%, slightly down compared to the previous month.
- Payroll costs have increased by 8.5% for the month of September, with total payroll costs accounting for 25.5% of total revenue or £28.60 PAR. YTD payroll percentage equates to 32% of turnover, with this metric continuing to improve each month post the end of lockdown.







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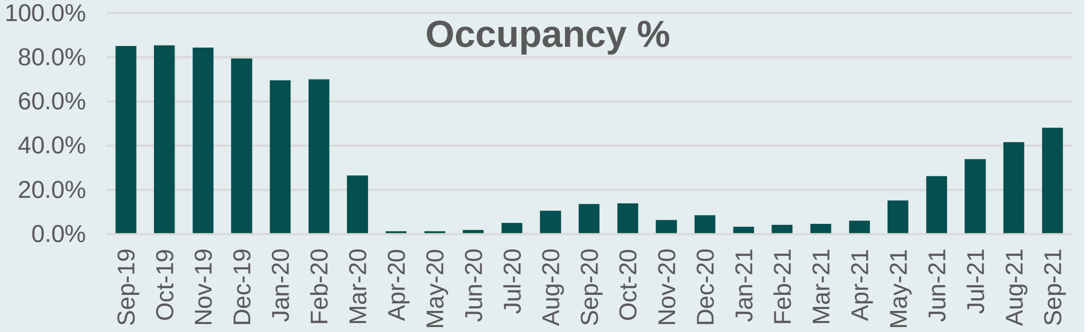
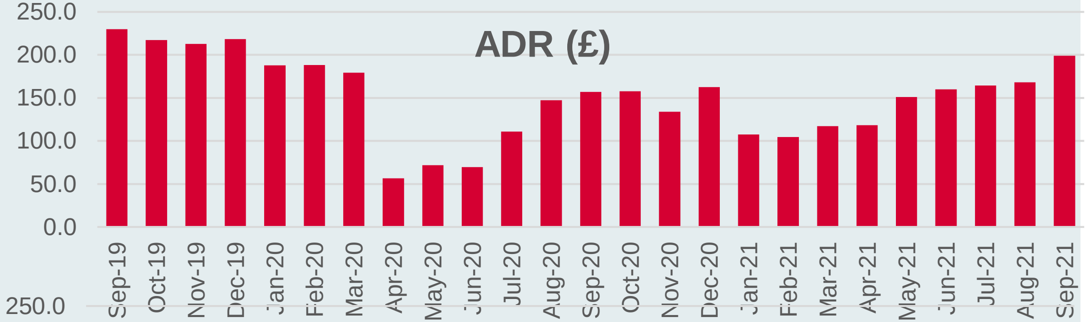
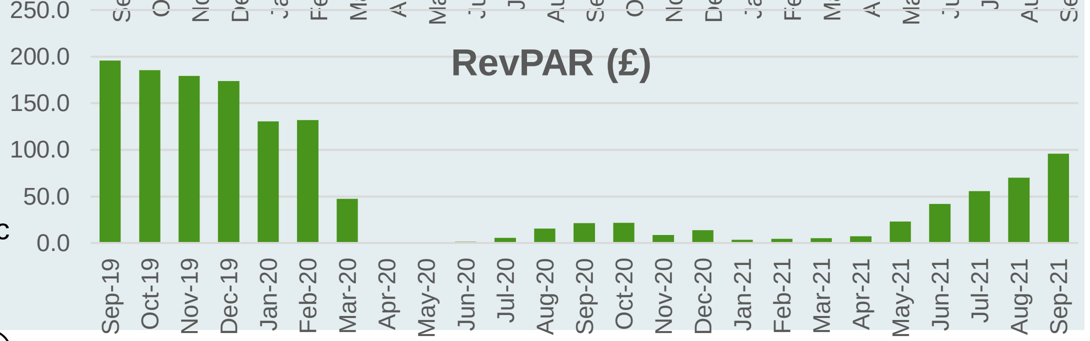
Hotels Market Dashboard – November 2021

London Hotel Market Trading Summary

- London's occupancy has been steadily improving, with month-on-month growth of over six percentage points of occupancy, to 45.6% occupancy in September.
- With a monthly uplift in September of 15% in international passenger arrivals to London Heathrow Airport - with arrivals increasing by 12% from North America and by 27% from the Middle East - London's hotel market cemented its ADR recovery with 17.6% growth in September to £181. London's ADR has now grown by 48% since the end of May 2021, 10% below the ADR achieved in September 2019, but boosted by the reduction in VAT.
- This month's strong top-line performance translated into 37% growth in RevPAR to £82.70, with the uplift in TRevPAR even stronger, rising by 40% to £141.70. From a recovery perspective it gives investors growing confidence that the London market will bounce back strongly. Whilst caution remains for hotels that are very much business and conference led, optimism regarding London's outlook for leisure demand is strengthening, fuelled from both international and domestic visitors.
- Whilst RevPAR is currently 51% below the 2019 achieved performance, it is the direction of travel that is significant - with London's monthly RevPAR now 14% above that recorded for the regional UK hotel market and with this trend now set to continue.
- The impact of improved top-line performance, combined with ongoing cost savings, has had a dramatic impact on GOPPAR, with a month-on-month increase of 91%, rising to £48 PAR.
- A further milestone achieved in September was the cost of payroll as a percentage of total revenue, recording 27.1%. For the first time since December 2019 this metric fell below 30 percent, whilst YTD payroll percentage equates to 41% of turnover.







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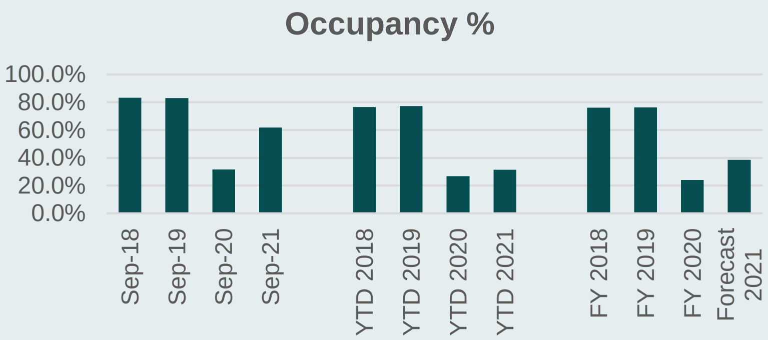
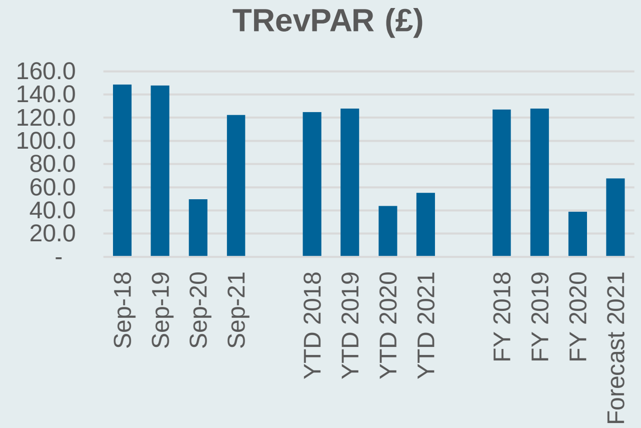
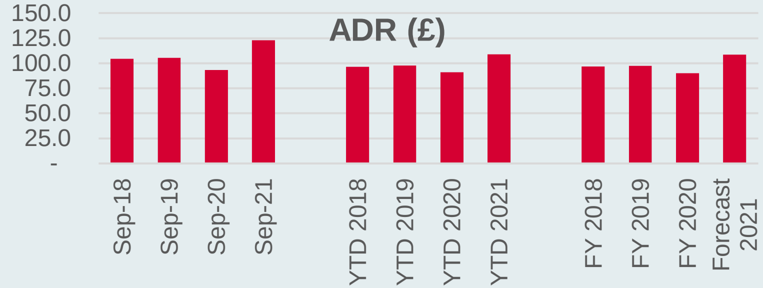
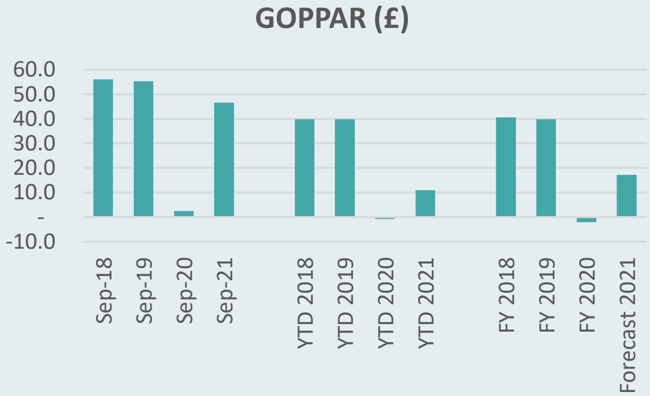
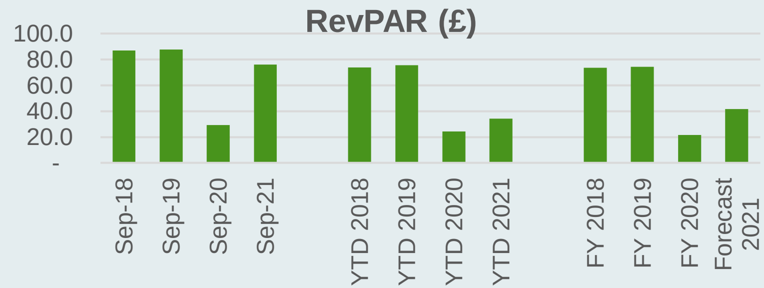
Regional UK – Full Service, Upper Upscale Hotels









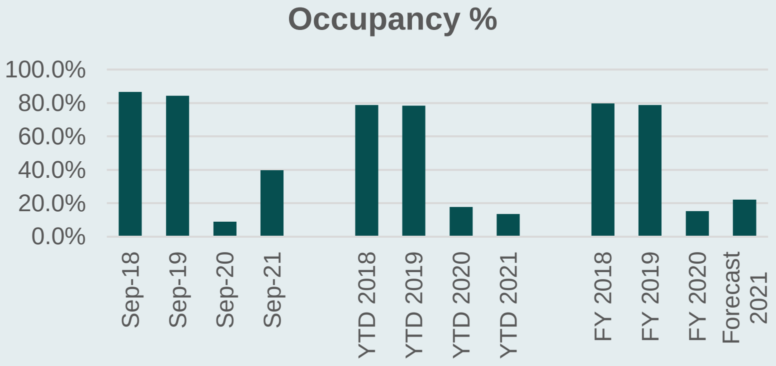


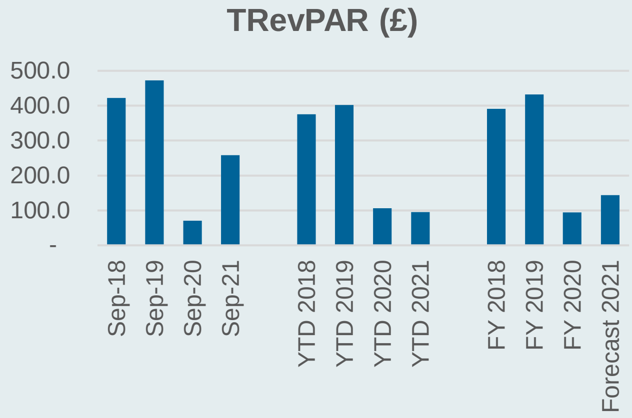
Key Observations

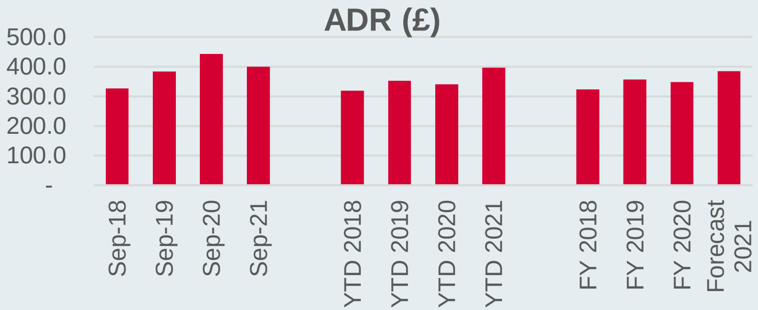
- Whilst the Upper-Upscale hotel sector continues to under penetrate the market in terms of occupancy, the monthly uplift for September (of 3.4 percentage points) was far stronger than the 1.7 percentage points growth achieved for the regional UK hotel market.
- The volume of leisure room nights fell from 45% in August to 35% in September, but the strong uplift in conference room nights more than compensated for this decrease, contributing 17 percentage points of occupancy or 28% of the total room nights. By contrast, the corporate market remains much weaker accounting for 9% of the room nights.
- Stronger conference demand led to a 12% increase in the ADR for that segment for the month to £107.50, but this is at a significant discount to the achieved ADR for the leisure segment at £134 and stripping out the impact of VAT remains 11% below the equivalent ADR in 2019. A strong 10% monthly growth in the ADR of the leisure sector, combined with increasing conference demand helped secure a 7.7% rise in RevPAR and 13% uplift in TRevPAR for the month.
- Whilst demand remains slow for the corporate market, a key challenge going forward will be how to grow this segment's ADR, which remains 25% below 2019 levels (after the impact of VAT) and with no price differential between the upscale or midscale sectors.

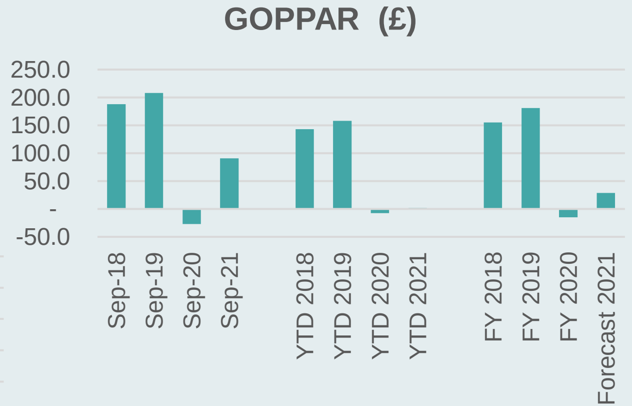
Note: 2021 FY Forecast - September YTD actual data (HotStats) + Knight Frank Forecasts

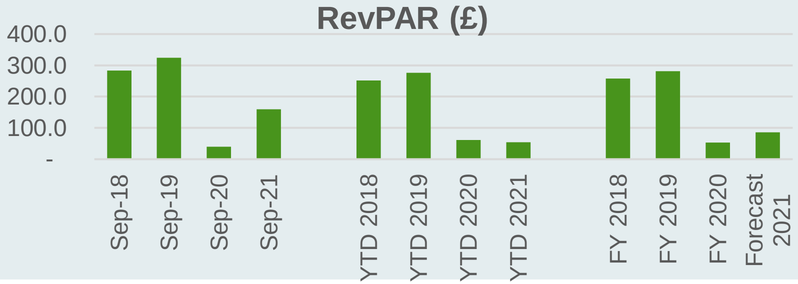
London - Luxury Hotels











Key Observations

- With international arrivals to London's Heathrow airport rising above 2.5 million for the month of September, the corresponding uplift in trading for London's Luxury Hotels brings significant optimism for the year-end, with an 11.8 percentage point monthly rise in occupancy.
- Occupancy has climbed 37 percentage points since the end of April to its current high of 40%. Meanwhile, ADR growth has been more moderate, with a 6% rise for the same period to £400. Positively impacted by the temporary reduced rate of VAT, ADR is broadly at the same level achieved as at September 2019.
- This strong uplift in trading resulted in an impressive boost in September's RevPAR, rising by over 50% to £159.10, with a corresponding rise in TRevPAR of 56% to £258.30.
- Along with strong revenue growth, ongoing efficiencies have led to improving margins. Enhanced payroll efficiencies on a POR basis and total departmental costs (excluding payroll) some 42% lower than compared to September 2019, facilitated a 74% increase in Gross Operating Income (GOI) in September. As a result GOI increased to £152 PAR, or 59% as a percentage of Total Revenue. A further 34% decrease in undistributed operating costs on a PAR basis (versus September 2019) have further supported improved profitability.
- GOPPAR for the month of September increased by 175% to £91, an impressive and resilient recovery following the 16-months of negative profit which lasted until the end of June.

Note: 2021 FY Forecast - September YTD actual data (HotStats) + Knight Frank Forecasts

HOW WE CAN HELP

The Knight Frank Hotels team is well established and we are dedicated to providing agency, valuations and investment advice in the hotel property sector.

With over 50 years of experience within the sector, we understand the fundamentals behind effective hotel management and efficient operators.

We cover the full range of hotel genres, from branded corporate hotels to privately owned boutique hotels, located in city centres, coast and country locations.

Through Knight Frank's thorough research into the UK and global hotel sector, we pride ourselves on providing current, relevant and transparent advice.

We have longstanding relationships with our clients and a strong reputation as trusted advisors and partners in this specialist asset class.

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