

# COVID-19 UK HOTEL MARKET RECOVERY

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HOTEL DASHBOARD – October 2021

## UK Hotel Sector Outlook & Recovery

Restoring freedoms without restrictions imposed by COVID-19, and celebrating the return of hospitality, have seen hotel fundamentals continuing to improve during the summer months and early autumn. Hotel trading has been driven by strong domestic leisure demand, with many hotels witnessing exceptional levels of revenue generation, reaching heights beyond that achieved in summer 2019. Albeit any short-term gains cannot replace the 18-months of devastation and hardship.

With news that the UK government will only introduce a new COVID-19 lockdown as a last resort, it brings hope of renewed energy and optimism for Q4-2021, continuing the positive momentum in hotel trading performance of the summer months. The return of students to UK universities has also generated strong room night demand from both UK residents and international students. Simplifying the traffic light system and having a unified four-nation approach to international travel can only be a positive and will be a certain boost going forward to the UK's hotel industry.

How the pandemic plays out this winter will be fundamental to the short-term prosperity of the UK hotel sector. With flexible room rates and free cancellation now widely available, any change in government messaging can rapidly impact upon forward bookings. Keeping a keen eye on hospitalisation and death rates is becoming a necessity to assess the short term outlook of the sector.

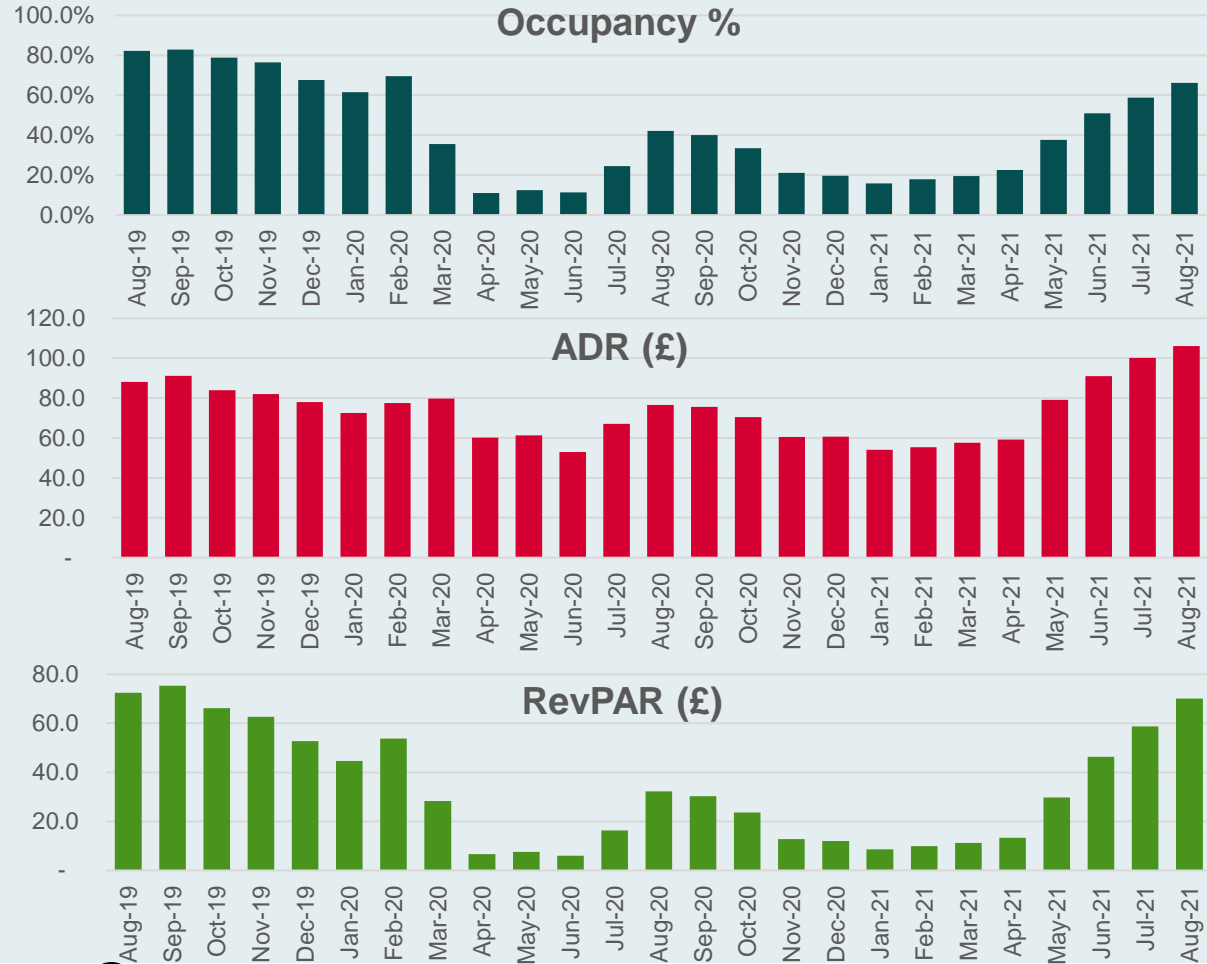
Critical to the ongoing recovery will be the transition from predominantly leisure based demand, to a broader and more balanced segmentation mix in order to resume the year-round high levels of occupancy and ADR performance enjoyed pre-pandemic. With an ongoing shortfall in international demand and large-scale meetings and conferences, the focus will be to continue to drive localised business and to seek out new emerging corporate demand. **Accor** for example are promoting their **Commute & Stay campaign**, following growing evidence of workers who relocated away from city life during the pandemic, now returning to the office on a flexible work basis.

According to **Trident Hospitality** - experts in supporting independent hotels and venues to gain their market share in the meetings and events business - since restrictions have progressively eased, there is an air of cautious optimism. Trident Hospitality reports that whilst meetings and events for Q4-2021 are predominantly for smaller numbers and often with short lead times, demand for social events are strengthening and Christmas bookings are looking strong. Meanwhile, there is growing evidence that larger events are returning for 2022. Going forward, hybrid events are expected to continue to feature heavily with future bookings, both from a cost perspective and a sustainability point of view, thereby helping to reduce the carbon impact of individual events.

Despite unprecedented government support throughout the pandemic, relying on such support is not sustainable. Yet winding down of these initiatives comes at a time of severe challenges, including surging wholesale gas prices, supply issues and a severe shortage of labour. Whilst the government appear opposed to any change in their post-Brexit immigration policy, increased lobbying to allow short-term visas and to extend the temporary VAT rate (increasing to 12.5% from 1st October 2021) beyond the 31st October 2022 is now deemed to be a priority for the sector.

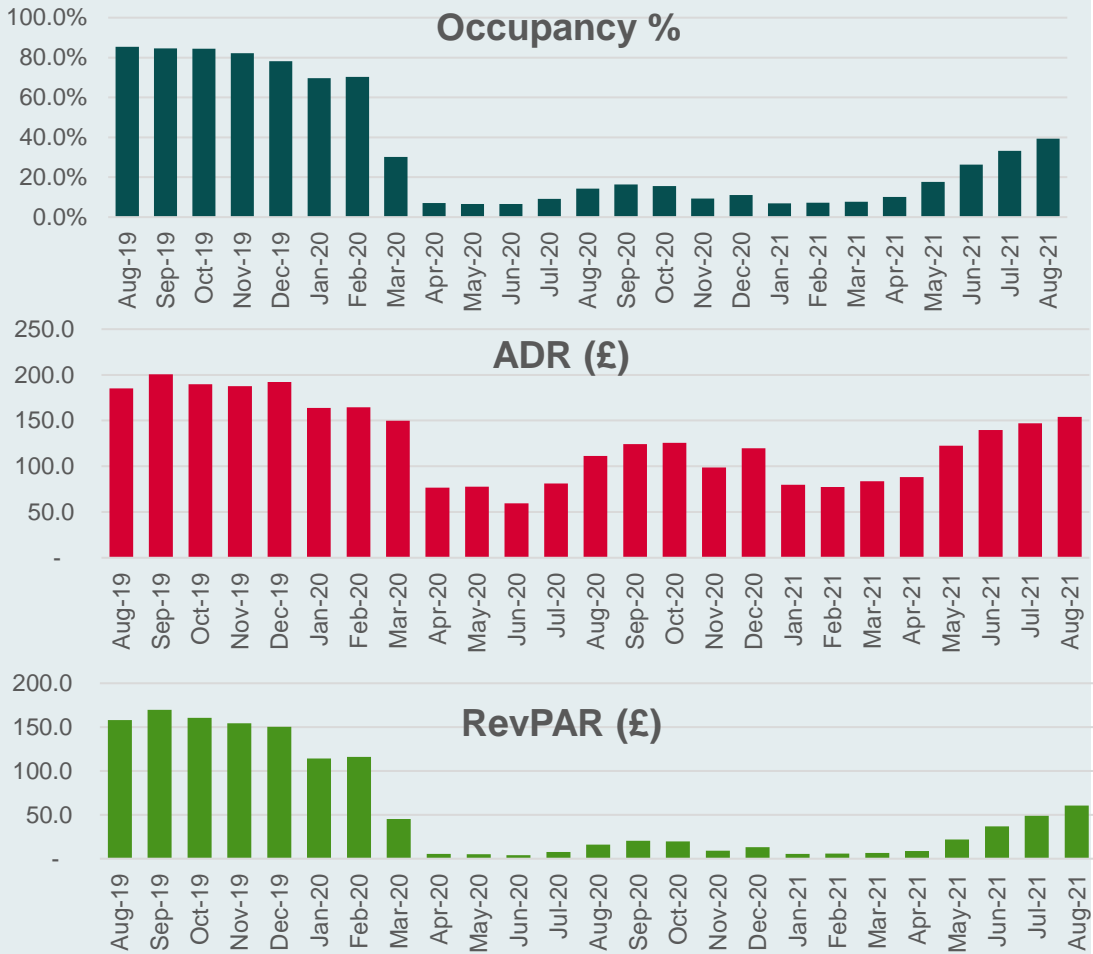
## Regional UK Hotel Market Trading Summary

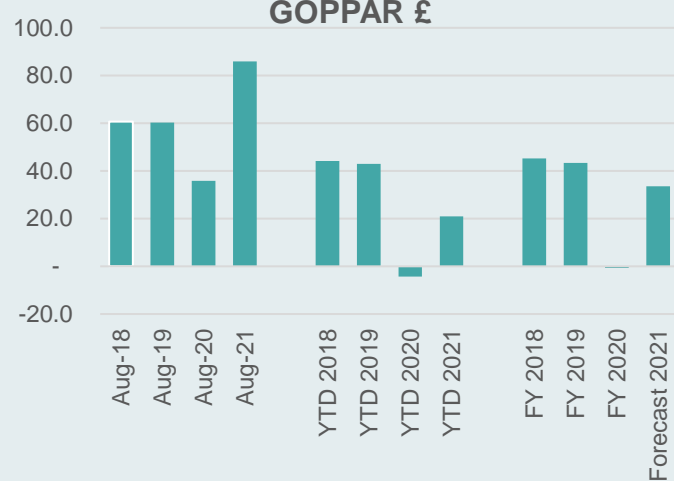
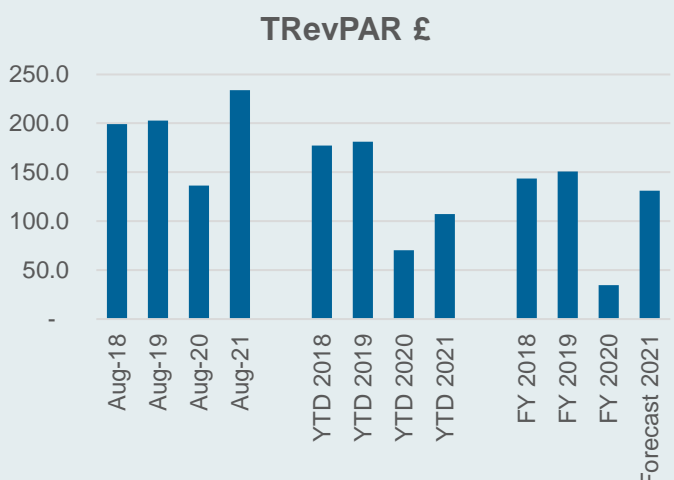
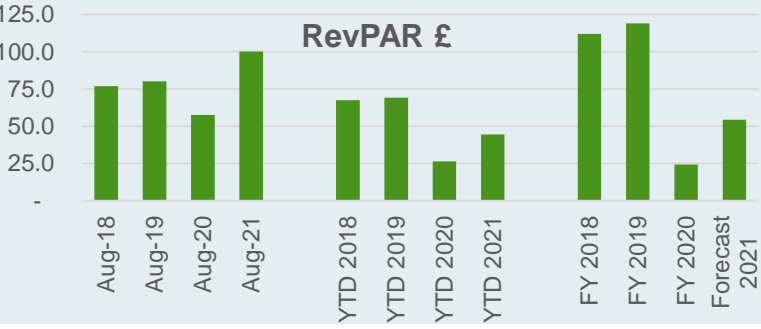
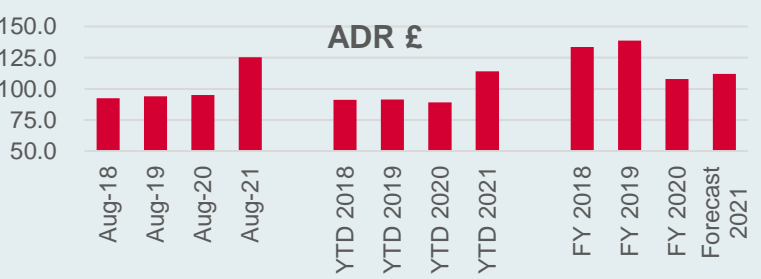
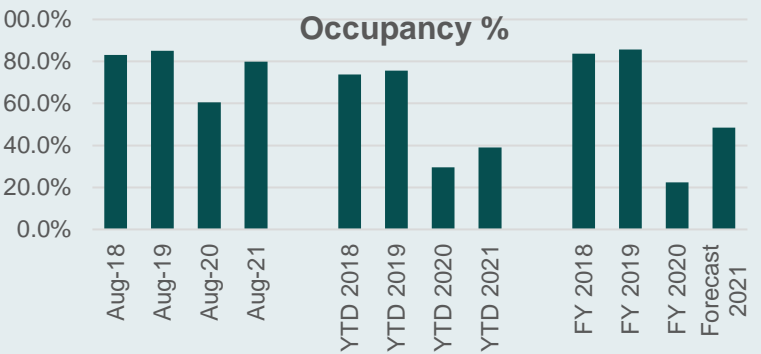
- Strong staycation demand led to Regional UK hotels achieving occupancy of 66.2% in August, a monthly rise of 7.5 percentage points, but some 16 percentage points below August 2019. Following the extended lockdown at the start of the year, YTD occupancy has now outperformed 2020, with occupancy of 35.9%, reflective of improving performance across all regional UK hotel datasets.
- With hotels across the UK allowed to reopen to all guests from the spring, strong domestic leisure demand during the summer months (and with limited opportunities to travel overseas), has led to a 79% rise in the ADR since the beginning of May 2021 to £106, equivalent of a 20% uplift on August 2019. ADR performance has most certainly been boosted by the temporary reduction of VAT, as such we anticipate a decline in ADR from October as hotels adjust to the new VAT rate of 12.5%.
- August RevPAR was at its highest level since September 2019 at £70.10, with strong growth in occupancy and ADR both contributing towards the 19.4% uplift in RevPAR. YTD RevPAR is up on 2020 performance by 68%, but remains 36% below 2019 YTD performance.
- GOPPAR grew by 23% in August to £41.40, the highest level of profitability since September 2019 and 11% higher than GOPPAR achieved in August 2019. The summer months have seen strong profit conversion, with a GOP% of 37.0% and 39.7% achieved respectively.
- Payroll costs margins have improved for the month of August compared to 2019, on both a PAR basis and as a percentage of turnover, with total payroll costs accounting for 25.2% of total revenue or £26.30 PAR.



## London Hotel Market Trading Summary

- Having fallen to single digit occupancy during Q1-2021, London's hotel occupancy is slowly improving, but still has much further to climb, rising to 39.2% in August.
- With only limited demand for overnight stays in the capital during the summer months, London's YTD occupancy of 18.6% continues to fall short of performance for YTD-2020 (26.2%). Yet the simplified system for international travel to the UK from the 4<sup>th</sup> October, combined with increased demand for corporate meetings and events, is expected to help boost occupancy during Q4. But with Visit Britain forecasting only 7.4 million inbound visitors to the UK for 2021, London will now look to 2022 before a more robust recovery in occupancy is secured.
- London's ADR has grown by 75% since the end of April 2021 to £154.10 for the month of August, currently 17% below the ADR achieved in 2019 and after adjustment for VAT, the decline is even greater. With London traditionally yielding a higher ADR during the second half of the year, much will depend upon the return of higher-rated overseas business and the larger group MICE business during Q4.
- Whilst London's RevPAR has rebounded strongly since the dismal lows of Q1, the continued depressed occupancy levels in the city are holding back RevPAR. At £60.50 for the month of August, RevPAR is currently 62% below the 2019 achieved performance and 13% below the monthly RevPAR recorded for the regional UK hotel market.
- Yet small gains in hotel occupancy levels whilst maintaining the ADR (aided by the temporary reduction in VAT) are having a profound positive impact on GOPPAR, with month-on-month profitability improving by 37% and a GOP conversion of 28.1% for August. Meanwhile, total payroll costs averaged £29 PAR, 41% lower than August 2019. Encouragingly, this is the highest level of profitability London has achieved since the start of the pandemic.



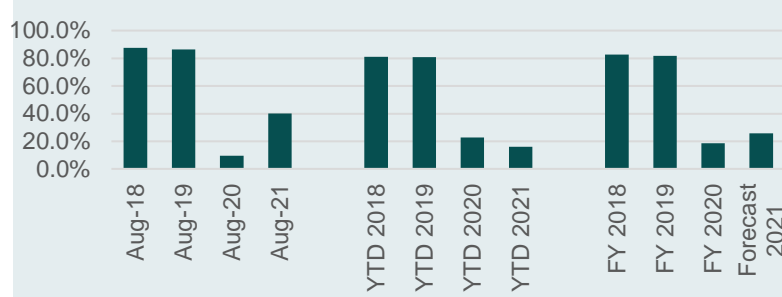


## Key Observations

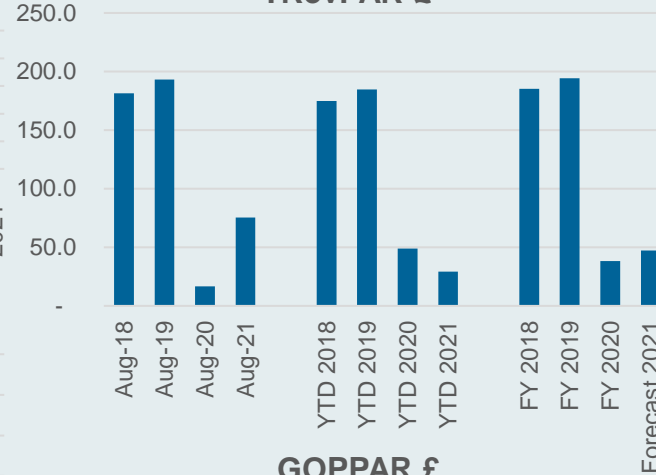
- Following strong growth in the months immediately after lockdown, Golf & Spa hotels consolidated their lead performance with a RevPAR index penetration of 143% versus the wider regional UK hotel market, with record breaking RevPAR of £100 and TRevPAR of £234 for the month of August.
- Whilst August occupancy was five percentage points below Aug-2019, when combined with a 33% uplift in ADR, the Rooms departmental gross operating income (GOI) was propelled to new heights of 71.2%, contributing over 56% of the total GOI. Total GOI equated to over 54% (of total revenue) in both July and August, with the profit conversion higher than at any point during 2019.
- Total payroll costs for the month of August equated to 30% of Total Revenue, compared to 35% in Aug-2019, but this comparison is again skewed by the difference in VAT, which once adjusted, the margin is probably about the same.
- August achieved a record GOPPAR performance at £85.90, a 42% increase over Aug-2019. Whilst the GOP% (of total revenue) of 36.8% was at its highest since Sep-2017.



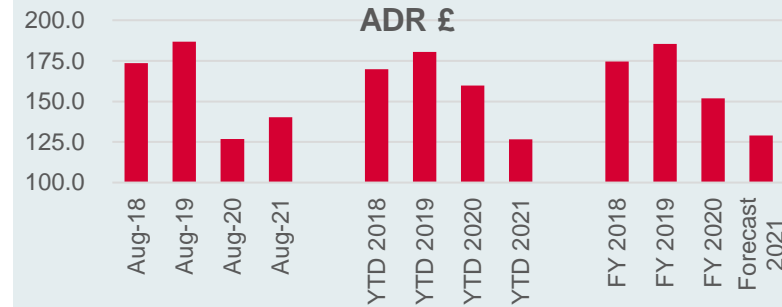
### Occupancy %



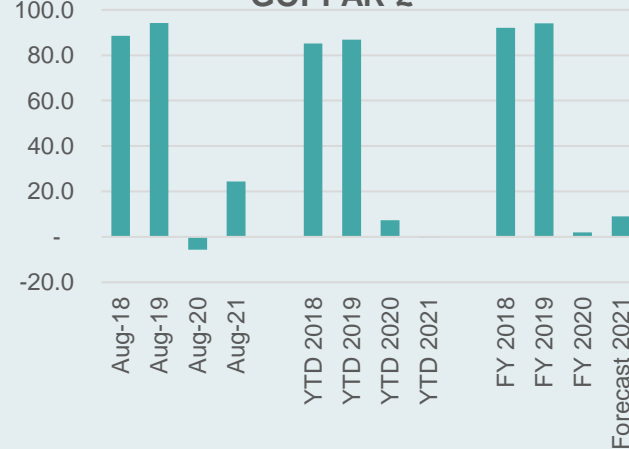
### TRevPAR £



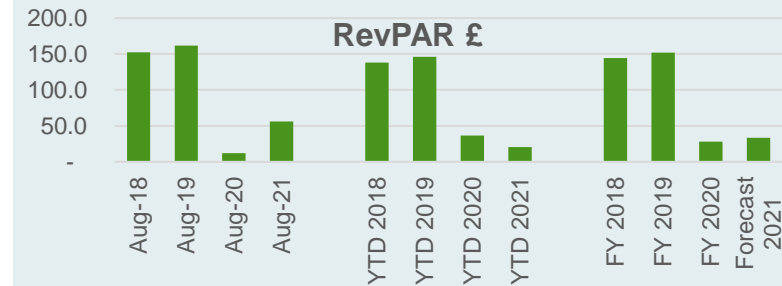
### ADR £



### GOPPAR £



### RevPAR £



## Key Observations

- From single digit occupancy for almost every month since the start of the pandemic, occupancy has climbed 33 percentage points since the end of April to its current high of 40%. ADR has increased by 51% for the same period to £140, some 25% below Aug-2019 levels.
- These are positive steps, but with the recovery still far away from the historical stabilised trading norms, August RevPAR and TRevPAR remain at 65% and 61% below pre-pandemic levels and 29% below TRevPAR achieved by Upper-Upscale hotels in regional UK.
- Total payroll costs in August of £21.20 PAR are approximately half of the total payroll cost in Aug-2019, with operating payroll 27% lower and non-departmental payroll 43% lower on a PAR basis.
- Whilst Total Gross Operating Income (GOI) is 65% below 2019 levels on a PAR basis, as a percentage of Total Revenue, margins are improving, rising to 62% in August, up from 46% in April.
- August achieved a GOPPAR of £24.40, a 70% increase compared to July but remains 74% below 2019 profits. GOP as a percentage of Total Revenue equalled 32.3%, improving each month from a loss making position in May.

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