THE IRISH HOTEL MARKET
INTRODUCTION
This article presents an overview of the hotel performance for the Irish hotel market looking at the recovery following the depths of a severe economic crisis, to a period of buoyant hotel trading since 2014 and which has continued strongly in the first half of 2016. However, with Great Britain and Northern Ireland representing 40% of tourist arrivals to Ireland in 2015, we review the potential impact on Ireland’s inbound tourism and hotel market, following the UK’s decision to withdraw from the EU. This article undertakes an analysis of the hotel sector, determining the key operators and reviews the growth of domestic brands as well as the large indigenous hotel groups, expanding through acquisitions and development, as brand association in Ireland begins to become more prevalent. Finally we take a look at how the strong hotel trading performance in recent years has resulted in a surge of hotel transactional activity by both domestic and overseas investors, targeting both Dublin and the regional cities. From these various perspectives, the resilience of the Irish hotel market and its future prospects will be assessed, at a time where the Irish economy is presented with a sudden and very real threat of instability that has ensued following the UK’s vote to end ties with the European Union.

ECONOMIC OVERVIEW
Following a protracted period of harsh economic conditions between 2008 and 2012, the tourism sector in Ireland has witnessed positive growth and a strong recovery. The return to overall economic growth in Ireland, improved economic conditions to many of Ireland’s key overseas source markets, trends in exchange rate movements and inflation have all contributed to a buoyant tourism sector since 2014. In 2015 Ireland achieved GDP growth of 7.8%, the fastest growing EU economy recorded. Dublin is globally recognised as a leading location for a range of internationally traded financial, pharmaceutical and ICT companies.

Dublin is host to a number of strategically important European Headquarters, such as Google and Facebook. Ireland’s economic outlook remains strong but vulnerable to economic shocks. The UK’s vote to leave the EU poses a serious threat to the Irish economy in light of the strong trade and financial linkages with the British economy. Nevertheless, upside also exists for Ireland, as it is possible that a number of businesses and European headquarters may choose to relocate to Dublin in order to retain a presence in the EU. Following the uncertainty in the aftermath of the EU Referendum, according to the Central Bank of Ireland, the outlook for the Irish economy continues to remain favorable, with unemployment forecast to continue to decline and GDP growth in 2016 expected to achieve steady growth of 4.9% and 3.6% growth in 2017. In the medium term Ireland’s GDP outlook is set to stabilise at around 3%, albeit the economic performance is dependent on the severity of a slowdown to the UK economy and to the rest of Europe. Underpinning stability and reducing uncertainty are key economic themes going forward, with the ongoing risks following the UK’s vote to exit the EU likely to have a material impact on the Irish economy.

“The first half of 2016 has been a very rewarding period for Dalata Hotel Group, with trading ahead of our expectations. Prospects remain very strong for the Dublin hotel market and regional cities in Ireland. Despite the outcome of Brexit, to date we have not seen any impact on trading, but we remain highly attentive and alert to ensure we react quickly.”

PAT MCCANN
Dalata Hotel Group PLC, Chief Executive Officer
Demand

Between 2010 and 2015 tourism growth in Ireland has been very strong, with record overseas visitor arrivals achieved in 2015. The proportion of overseas visitors to Ireland has increased from 45% of total visitors in 2010 to 56% in 2015. Overseas arrivals to Ireland have grown by approximately 35% from 5.9 million visitors in 2013 to over 8 million visitors in 2015 and to over 9.5 million visitors when including visitors from Northern Ireland. Particularly strong growth in overseas visitor arrivals has been recorded since 2013, representing an annual average growth rate of 9.6% and double digit year-on-year growth from mainland Europe and North America of 10.6% and 11.8% respectively.

Economic growth in many of Ireland’s key tourism source markets have contributed to increased demand from overseas tourism, in the UK and the US, GDP growth in real terms averaged 2.4% and 2.2% per annum between 2013 and 2015 respectively. Other factors positively impacting on overseas visitor arrivals include improved exchange rates in favour of overseas tourists, and the perception of Ireland as a safe destination.

Domestic trips have also recovered following the economic recession, growing on average 3% each year since 2013, with the domestic market benefitting from increased disposable income brought about through a combination of reduced personal taxes and increased employment opportunities as a result of the improved domestic economy. According to Failte Ireland tourism barometer (April 2016), repeat visits, increased marketing campaigns from local and national tourist boards and private marketing campaigns have all sought to encourage Irish nationals to take holidays in Ireland, with the South-West, South-East and West of Ireland benefitting from 69% of all overnight stays by domestic holidaymakers.

This growth in overseas visitors, together with a stable domestic market is feeding through to an increased demand for hotel services, impacting positively on overnight stays and revenue spend.

Source Markets

The proportion of visitor arrivals to Ireland has remained relatively unchanged over the past few years. Visitor numbers for all major source markets have grown strongly between 2014 and 2015. Factors such as advantageous currency trends, positive economic conditions in the source markets and international marketing campaigns such as “The Wild Atlantic Way” and “The Gathering” have all helped strengthen Ireland’s growth in overseas visitor numbers. Great Britain is the main source market, representing 30% of total international visitation, followed by Continental Europe at 30%, Northern Ireland at 16% and North America 14%. In 2015 the volume of visitors from both Continental Europe and North America increased and in doing so increased their share of overall visitor arrivals by 3%. In 2015, Northern Ireland witnessed a decline in visitor arrivals following strong growth the previous two years.

However in the wake of the UK’s vote to leave the EU, tourism is likely to be largely affected by the impact of Brexit, as a result of the fall in the value of sterling, making holidays to Ireland significantly more expensive for UK visitors. In addition, economic uncertainty as a result of Brexit is likely to result in a more cautious approach to discretionary spending and will impact upon visitor numbers, both domestic and from overseas.

Economic ties on the Irish border between Ireland and Northern Ireland will also become a critical issue. As such whilst the implications on tourism to Ireland in the long-term are dependent on the terms of engagement negotiated post-Brexit and the importance of common travel between Ireland and the UK of critical importance to the Irish economy, in the short-term Ireland must be seen to retain its competitiveness and ensure any negative consequences of Brexit are minimised. Positive initiatives by the Irish government, such as its commitment to the Tourism sector and various financial initiatives including 0% Airport travel tax; retention of inexcise duty on alcohol as well as the positive promotion of Ireland targeted at key source markets, will all be key drivers of demand in the uncertain aftermath that has followed the Brexit vote. Furthermore, investment plans such as the €100m fund for the Wild Atlantic Way and plans to commence development of a second runway at Dublin Airport by 2020 are all important initiatives for Ireland in a post-Brexit era.

Figure 1: Overseas & Domestic Tourist Arrivals to Ireland (2010-2015)

![Figure 1: Overseas & Domestic Tourist Arrivals to Ireland (2010-2015)](image)

Domestic Arrivals CAGR 2010-2015 0.6%

Overseas Visitor Arrivals CAGR 2010-2015 9.9%

Combined Arrivals CAGR 2010-2015 5.3%

Figure 2: Compound Annual Growth Rates to Ireland by Source Country

![Figure 2: Compound Annual Growth Rates to Ireland by Source Country](image)

Overseas Visitor Arrivals CAGR 2013-2015 2.9%

Combined Arrivals CAGR 2013-2015 5.2%

Other Intercontinental 10.9% 9.4% 11.7%

Mainland Europe 8.6% 10.6% 15.7%

North America 11.2% 11.6% 12.9%

North Ireland 4.7% -2.6% -12.6%

Great Britain 7.1% 8.0% 11.3%

Figure 4: Main Source Countries 2015

Overseas Visitor Arrivals: Great Britain 7.9%, Other Intercontinental 10.9%, Mainland Europe 8.6%

Domestic Visitors: Great Britain 8.1%, Other Intercontinental 10.9%, Mainland Europe 8.6%

Source: Failte Ireland
The Irish hotel industry accounts for over 65,000 rooms distributed across 1,156 hotels and hostels, with over 80% of bedroom stock operating within the 3-star and 4-star market. The Irish hotel market remains relatively fragmented with 79% of hotels independently owned and operated, collectively, this represents almost 60% of total room supply.

Of the branded hotel bedroom stock (including hotels operating under a consortium), 36% of rooms are operated under a global or international brand, 42% are operated under an Irish national brand and 22% of the bedroom supply operates as part of a consortium.

We highlight the top hotel brands and top hotel operators in Ireland, ascertained by the number of hotel bedrooms. The Dalata Hotel Group, operates both the Maldron Hotel and Clayton Hotel brands and manage a portfolio of partner hotels, making them the largest hotel operator in Ireland, with some 30 hotels and approximately 4,900 rooms in Ireland. Following the Group’s IPO listing in March 2014, the asset base of the Dalata Group has transformed from a pure hotel operator, with a managed and leased portfolio, to that of a hotel owner operator.

Branded hotels in Ireland are located predominantly in Dublin or regional city locations, with approximately 54% of hotel room supply in Dublin belonging to a global, regional, national or international brand. Meanwhile in rural locations 81% of the Irish Hotel Market is dominated by unbranded, independently operated hotels or unbranded hotels operating as part of a consortia.

Over 80% of Irish bedroom supply operates within the 3-star and 4-star market, and whilst the 2-star and Hostel market represent 30% of total hotel supply, they are significantly smaller in size, comprising less than 10% of bedroom stock. Hotels operating under a global or international flag are also significantly larger in size, averaging over 150 bedrooms. National Irish hotel brands average around 115 rooms in size, whilst independent hotels average less than 50 rooms in size.
The vote by the UK to leave the EU has swept hotel trading performance following graph, is shown through an analysis of hotel room occupancy for the Dublin hotel market, buoyed further by the dearth of new hotel developments until recently. This enhanced trading environment has meant that Dublin has moved beyond a period of recovery to a period of stabilised growth and prior to the EU Referendum for the UK’s vote to leave the EU, confidence for continued growth remained high.

In 2015 Hotels in Dublin city centre achieved occupancy levels of 84%, growing by four percentage points since 2013. This high level of occupancy performance is evidence of Dublin having a diversified market. Dublin attracts strong corporate demand primarily during weekdays and has a thriving leisure market, with short city breaks at weekends. Corporate demand is weaker during the summer months, but compensated by significantly increased leisure visitors. Dublin also benefits from a large number of sporting and event-based trips as well as conference events, many of which are spread evenly throughout the year.

The seasonality of demand, depicted in the following graph, is shown through an analysis of hotel room occupancy for the Dublin hotel market. The graph shows a very similar pattern in seasonality trends between 2013 and 2015.

Achieving high occupancy levels and with limited new supply entering the market, has allowed Dublin city centre hotels to drive forward their average daily room rate (ADR) and revenue per available room (RevPAR). In 2015 Dublin city centre hotels achieved an 18.6% growth in ADR and for the first half of 2016, prior to the EU Referendum, performance had been equally strong, achieving 14% ADR growth for the period up to May 2016. (Source: STR Global). In a European context, Dublin outperformed other European cities in 2015, with the highest growth in RevPAR after Milan which benefitted from hosting Expo 2015, driven largely from growth in the ADR. When compared to other European cities, Dublin is ranked well below other European cities, this implies that Dublin currently represents a cheaper destination for international visitors.

Dublin airport.

We highlight the performance of the regional Irish hotels compared to the Dublin hotel market. The graph shows a very similar pattern in seasonality trends between 2013 and 2015.

Dublin v Regional Performance

Dublin v European Cities

Going forward, in the era of Brexit negotiation, we envisage that Dublin’s hotel trading performance will continue to perform strongly, albeit with somewhat weakened growth compared to the past few years. Dublin is likely to benefit from an increase in business travel from international companies relocating or expanding their presence as a result of the UK’s planned exit from the EU. The limited supply growth in the short-term, together with the favourable 9% VAT rate for the tourism sector and Dublin’s growing trend as a tourist destination, despite the fall in Sterling, will continue to have a positive impact on the city’s hotel performance.

Outside of the capital city, regional hotels whilst not experiencing the superior strong levels of growth in trading performance, have benefited from an uplift in the domestic economy in recent years, resulting in greater demand for hotel accommodation. According to STR data, regional Irish hotels achieved occupancy of 66% in 2015, measuring a 6.8% compound annual average growth (CAAG) between 2013 and 2015. With equally impressive average room rate growth, achieving €101 in 2015, RevPAR performance has increased 10% year-on-year between 2013 to 2015, to €67. Hotel trading leading up to the EU Referendum has remained strong in 2016, with year-to-date RevPAR growth in double digits, up 11% on the previous year to €61. This regional performance marks a period of continued recovery, albeit with the regional trading data still below pre-recession 2007 levels. Hotels located nearest the Irish border are likely to be the hardest hit, with travel and demand for overnight hotel accommodation likely to be impacted.

We highlight the performance of the regional Irish hotels compared to the Dublin hotel market in the charts below. As can be seen Dublin city centre hotels and Dublin Airport hotels achieve a significant RevPAR premium over regional Ireland.
Following a strong recovery from a period of harsh economic conditions and a period of oversupply of hotel accommodation, there is now concern and increasing evidence of a shortfall of visitor accommodation in Dublin. A shortage in quality hotel accommodation can thereby limit the potential for tourism growth in the future, due to the limited capacity to cater for a further lift in visitor numbers to Ireland.

Statistics published by Fáilte Ireland show that available bed spaces in Dublin in approved accommodation have declined by approximately 7% between 2010 and 2015 to around 81,800 bed spaces. Meanwhile, research undertaken by The Irish Tourism Industry Confederation, estimates that Dublin requires 30 new hotels or 5,000 bedrooms by 2020 to accommodate the expected growth in visitor numbers.

Based on our research for prospective hotel developments and extensions, we have reviewed future hotel supply in Ireland by star rating and by region. There are approximately 12,000 bedrooms planned, of which over 70% of projects are destined for Dublin. Of this total, 27% of projects are reportedly on-hold, whilst a further 6% remain speculative. Only approximately 1,800 rooms are anticipated to open by 2016. Projects are deemed to be speculative often due to a lack of information or due to the time taken in formulating development plans and funding. What many of these speculative projects are likely to proceed, especially in Dublin, any significant slowdown in visitor arrivals as a result of Brexit, is likely to cause a number of these speculative projects being put on hold until such a time where the Irish hotel sector once again shows signs of stability and sustainable growth.

As shown in Figure 17, the vast majority of proposed hotels are planned in the mid-market segment, with over 70% of proposed hotel rooms planned as three-star and four-star hotels. There is also strong growth in the serviced apartment sector as a result of new hotels opening, hotels reopening following restoration or major refurbishment as well as extensions to existing hotels. The greater Dublin area received 25% of this new supply or 5,000 bedrooms by 2020 to accommodate the expected growth in visitor numbers.

In the short term the supply constraint will benefit hotel trading performance, particularly given the uncertainty following the vote for Brexit; however, in the medium term adding capacity will be important for the hotel industry, in particular Dublin as the capital city, to maintain its attractiveness as a business and tourist destination. Two major Irish hotel owners, Dalata Hotel Group and Amaris Hospitality remain upbeat and positive about the need for new hotel developments or significant extensions planned to existing properties. The Dalata Hotel Group have over 500 hotel rooms in the pipeline for Dublin, including the 367-room extension at the Clayton Hotel Dublin Airport and a proposed 180-room Clayton Hotel at Charlemont Street, both developments are expected to be completed by mid-2018.
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<tr>
<th>Hotel Name</th>
<th>Location</th>
<th>Type</th>
<th>New Rooms</th>
<th>Star Rating</th>
<th>Owner</th>
<th>Phase</th>
<th>Opening</th>
<th>Operator</th>
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<td>Maldron Hotel Group</td>
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<td>181</td>
<td>4-Star</td>
<td>Dalata Hotel Group</td>
<td>Full Planning</td>
<td>Due 2018</td>
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<td>263</td>
<td>4-Star</td>
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<td>Hodson Bay Group</td>
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<td>Pre-Planning</td>
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<td>Budget</td>
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<td>Clayton Hotel Group</td>
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<td>4-Star</td>
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<td>Radisson Blu Hotel</td>
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Table 2: Hotel Developments Planned, Dublin & Regional

Source: AX:PM Hotel Data Intelligence
During the first half of 2016 hotel investment activity in Ireland has remained strong, with some 26 single asset hotel transactions recorded, with a total transaction value of approximately €175 million, largely driven by activity outside of Dublin. These hotels include, the 110-room Stagley Serviced Apartments Dublin for €25m; the 162-room Clarion Hotel Sligo for €13.1m and the 158-room Clarion Hotel Limerick for €18m. Meanwhile, the second half of 2016 has already witnessed the €32 million sale of the iconic 323-room,boutique, Gresham Hotel to the Spanish hotel firm RIU Hotels & Resorts, outlining Irish hotel group TIGCO and generating a profit of almost €60 million from the National Asset Management Agency, which purchased the asset from the former Anglo Irish Bank for €35 million.

A surge of investment activity for Dublin is expected for the second half of 2016, with a number of high profile hotels under negotiation and due to complete before the year end. Such high-profile deals include the 501-room Doubletree by Hilton Hotel, Dublin (the former Burlington Hotel), with the German asset manager DelaBanc emerging as the preferred bidder for the hotel, with the private Equity firm Blackstone seeking offers over €180m (€359,000 per room), thereby more than doubling its investment in 2015 with the German asset manager DekaBank emerging as the preferred bidder for the hotel, with the Spanish hotel group NH酒店 and the 158-room Clarion Hotel Limerick for €18 million. Meanwhile, the surge of hotel transactions in Dublin is expected to be further bolstered with the sale of the Flippen’s Lifestyle Hotel Group portfolio, comprising these hotels (The Spancer, The Morgan and The Beacon), thought to be seeking offers over €130 million.
CONCLUSION AND OUTLOOK

In 2015 the Irish hotel market moved into a period of stabilised growth, with strong GDP growth in Ireland’s main tourist markets. Favourable exchange rate movement, targeted marketing campaigns, the reduced rate of VAT on tourism and the perception of Ireland being a safe destination for travel, have all contributed to increased numbers of foreign visitors. Hotel supply in Dublin has been stable and hotels have enjoyed strong trading performance, underpinned by the continued economic recovery in Ireland and to the country’s main source markets.

The impact of the UK’s vote to leave the EU, however, has the potential to significantly disrupt the Irish economy due to the considerable amount of Anglo-Irish trade. Following the EU Referendum, the euro has appreciated significantly versus sterling and this is a major concern due to the heavy reliance on visitor arrivals which currently emanate from the UK.

Nevertheless, the fundamentals of the Irish hotel market remain positive despite the significant challenges and uncertainty ahead following the EU Referendum. Indeed, investor appetite from both Irish and overseas investors continues to surge ahead in 2016 and favourable exchange rate conditions for economies pegged to the US Dollar is likely to fuel further appetites from US, Middle Eastern and Asian investors.

ABOUT THE AUTHOR

Philippa Goldstein holds a BSc Honours Degree in Hotel & Catering Management from Oxford Brookes University. Following ten years operational experience in the hospitality industry in the UK and Europe and experienced in Hotel Valuations and Feasibility Studies, Philippa recently joined Knight Frank’s Hotels team in March 2016 as the dedicated Research & Hotel and Market Analyst.

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CONCLUSIONS

Our agency and valuation team, based in London, cover the full range of hotel genres from branded corporate hotels to privately owned boutique city and regional country house hotels. We have longstanding relationships with our clients and a strong reputation as trusted advisors in the sector.

Our transactional and advisory services, whilst based in central London, has the support of our extensive regional network of commercial and residential offices. Our international capabilities extend throughout Europe’s key city centres. Worldwide, we co-ordinate with colleagues in the majority of the capital cities throughout the EMEA, Africa, North America, India, South East Asia and Australia.

ABOUT KNIGHT FRANK HOTELS

Established in 1902, Knight Frank’s dedicated hotel division is one of the largest in the country. Our goal is to match investors to the very best hotel investment opportunities in the UK, Ireland and overseas.

The hotels team is well established and we are dedicated to providing valuations, agency and investment advice in the lucrative hotel sector. We are market leaders with unique access to established national and international investors.

We offer our clients comprehensive development advice and industry research, reporting on market activity and performance trends.

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ABOUT KNIGHT FRANK HOTELS

Established in 1902, Knight Frank’s dedicated hotel division is one of the largest in the country. Our goal is to match investors to the very best hotel investment opportunities in the UK, Ireland and overseas.

The hotels team is well established and we are dedicated to providing valuations, agency and investment advice in the lucrative hotel sector. We are market leaders with unique access to established national and international investors.

We offer our clients comprehensive development advice and industry research, reporting on market activity and performance trends.

Our agency and valuation team, based in London, cover the full range of hotel genres from branded corporate hotels to privately owned boutique city and regional country house hotels. We have longstanding relationships with our clients and a strong reputation as trusted advisors in the sector.

Our transactional and advisory services, whilst based in central London, has the support of our extensive regional network of commercial and residential offices. Our international capabilities extend throughout Europe’s key city centres. Worldwide, we co-ordinate with colleagues in the majority of the capital cities throughout the EMEA, Africa, North America, India, South East Asia and Australia.

ABOUT THE AUTHOR

Philippa Goldstein holds a BSc Honours Degree in Hotel & Catering Management from Oxford Brookes University. Following ten years operational experience in the hospitality industry in the UK and Europe and experienced in Hotel Valuations and Feasibility Studies, Philippa recently joined Knight Frank’s Hotels team in March 2016 as the dedicated Research & Hotel and Market Analyst.

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