

COVID-19 UK HOTEL MARKET RECOVERY

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HOTEL DASHBOARD – March 2021
Spotlight – The London Hotel Market

UK HOTEL SECTOR OUTLOOK

A whole year has passed since the start of the pandemic, yet the UK Hotel sector remains in limbo. The extended period of forced closure or at best operating under severe restrictions continues to devastate the sector, with cash conservation, liquidity and survival all of critical concern.

Despite the Coronavirus Act being extended for a further six months to October, the continued easing of lockdown restrictions, allowing for the UK Hotel sector's reopening from 17th May, remains on target. However, a gradual, staggered re-opening is likely to prevail, with ongoing social distancing measures beyond 21st June, now considered highly possible.

Meanwhile, UK Hospitality is calling for hotels with self-contained rooms, such as serviced apartments, to be allowed to reopen to leisure guests alongside other self-contained accommodation from 12th April 2021.

However, a reduction in vaccine supply throughout April and potentially beyond, resulting in a significant curtailment of first doses, combined with the ongoing threat by the EU to impose an export ban on vaccines to the UK, both have potential to disrupt the government's roadmap.

With the EU vaccine programme in turmoil and Europe fighting a third wave of the pandemic, access to popular summer vacations overseas is by no means guaranteed.

Whilst this brings ongoing challenges for UK hoteliers reliant on overseas visitors, unprecedented levels of demand for UK staycation is certain once the lockdown restrictions are eased. Operators are reporting strong growth in advanced bookings in coastal and country locations, in particular from June onwards.

The government's Global Travel Taskforce is set to feedback its recommendations on the 5th April and will likely determine the pathway for the return of international travel from the 17th May. It is understood that a traffic light system is being proposed to navigate the level of risk by country, with countries which have strong vaccination rollouts and low infection rates, likely to be favoured for green-light travel corridors. Any red-listed countries are likely to remain on the UK's quarantine list.

Achieving an ongoing successful vaccination programme is critical for the government as it seeks to establish how the UK can increase both inbound and outbound travel, without importing new cases of the virus or more virulent variants. Vaccine certification combined with ramping up airport testing, is considered fundamental to facilitating the return of inbound visitors and UK residents returning from abroad, yet the implementation of either scheme is not imminent. However, the UK's attractiveness for inbound travel is set to be extremely strong, from permitted destinations, off the back of a successful vaccination programme.

Whilst vaccine certification is widely considered the way forward for the re-opening of international travel and for the staging of large-scale events, the wider hospitality sector has been quick to voice its concern over imposing such a scheme in pubs and bars, claiming the scheme would be unworkable.

Any extended delay to the lifting of social distancing measures and travel restrictions, is likely to have an impact on the viability of a hospitality asset. Moreover, the business rates relief cap outlined in the Budget 2021, will result in many businesses paying full rates from July onwards. There is growing concern in the UK hospitality sector that without a further extension to business rates relief, potentially for a full six months following reopening, many jobs and businesses remain at risk.

Further compounding the issue, is the government's latest announcement that it will legislate to "rule out" business rates appeals related to the COVID-19 pandemic. Whilst a £1.5 billion rates relief package will be available to support businesses most affected, the legislation will prevent adjustments to business valuations, potentially undermining a business's viability.

LONDON HOTEL TRADING PERFORMANCE

Overview

Whilst acknowledging the human tragedy of the pandemic, the devastating economic impact of COVID-19 is especially stark when reviewing trading data for the London Hotel Market. With the mass city exodus, combined with the complete halt to international travel, there have been no winners. Whilst a recovery is expected to begin during the second half of 2021, in both corporate and leisure demand, there will be a lag in the ADR performance until such time that international visitors return. Nevertheless, investor sentiment, remains strong, with London's long-term market positioning anticipated to be unaffected and expected to recover strongly.

Top Line Performance

For hotels which are open, single digit monthly occupancy performance has been the norm during periods of lockdown, whilst the ADR has declined by between 50%-60% compared to the same period 12-months prior. Since the start of November, London's open hotels have achieved a RevPAR of just £11.00, 16% lower than the RevPAR recorded for Regional UK over the same time period. At the start of 2021, trading has slowed even further with reduced demand from key workers. ADR and RevPAR have declined by 37% and 57% respectively, compared to the month of December, albeit February achieved a stronger trading performance than compared to January, with a 39% uplift in TRevPAR.

Remaining open versus staying closed?

Our analysis shows, that even with London's jaded top-line trading statistics, capturing even low levels of demand has a much greater positive impact on a hotel's bottom line than if the property remained closed.

Total Undistributed Operating Expenses (UOE) have consistently averaged £20.00 PAR for a trading hotel versus, £18.10 PAR for a closed hotel. This equates to an 11.0% variance in total UOE PAR, with Open hotels witnessing a 25% increase in utility costs and a 29% increase in Sales & Marketing Fees. Operating at such low occupancy levels reinforces the fact that the greatest proportion of variance in profitability stems from a hotel's departmental operating income.

Since the start of October 2020, our sample of hotels that remained open, generated a gross operating income (GOI) of £11.00 PAR from the Rooms and Other Revenue departments, compared to a GOI of only £3.00 PAR for closed hotels. Since the start of 2021, our sample of closed hotels has been loss making at departmental operating level, making a loss of £2.90 PAR, whereas hotels which have continued to trade throughout the lockdown have achieved a departmental profit of £5.20 PAR.

Lockdown F&B Provision

For London hotels which have remained open throughout lockdown, the provision of F&B has eaten away at the slim profit margin achieved from other revenue generating departments. Since the start of October, London hotels have seen a loss in F&B GOI of approximately £2.60 PAR, compared to a loss of £1.55 PAR for hotels which remained closed.

London hotel operators would be wise to minimise their F&B model in order to preserve profits. The leaner business model of the extended stay sector, by contrast, has largely succeeded at breaking even in its F&B offering during this same period.

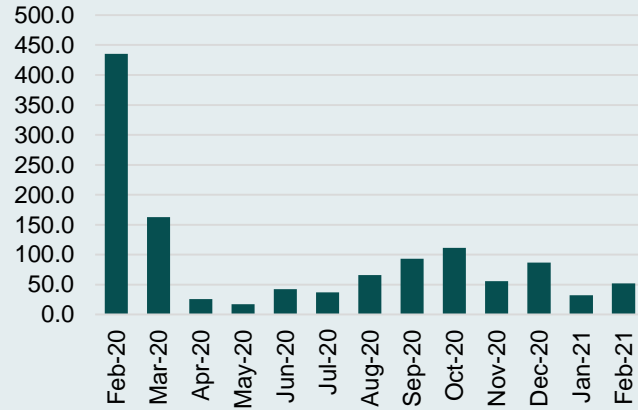
GOP

As outlined, the severely restrictive trading conditions have been devastating. Both London's Luxury and Upper Upscale hotels have been loss making since the start of the pandemic, generating a loss to date of approximately £35 PAR and £9.00 PAR respectively. Meanwhile, London's Upper Midscale & Upscale Hotels have been loss making since the start of November, generating a loss of £5.50 PAR to date.

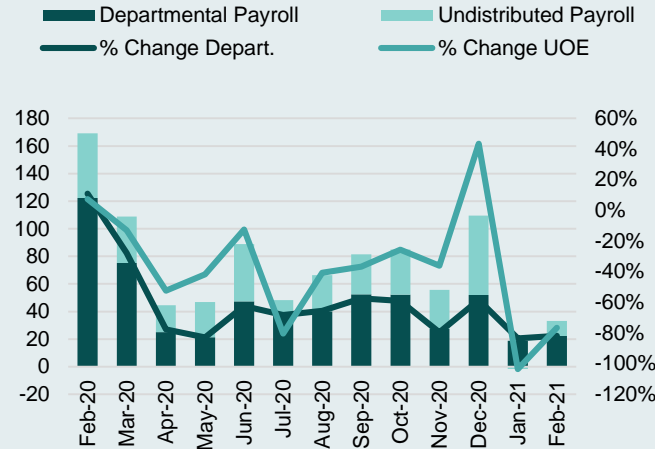
London – Luxury Hotels

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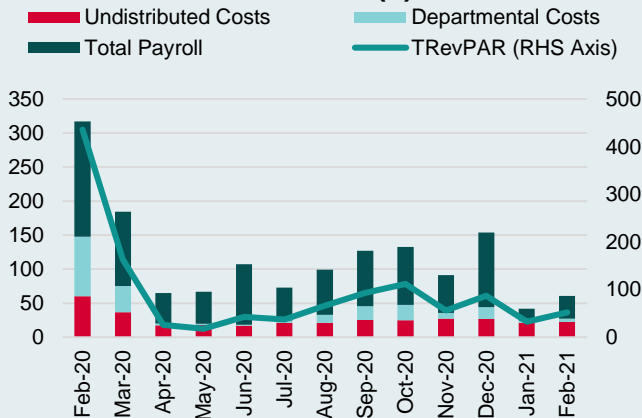
TRevPAR (£)



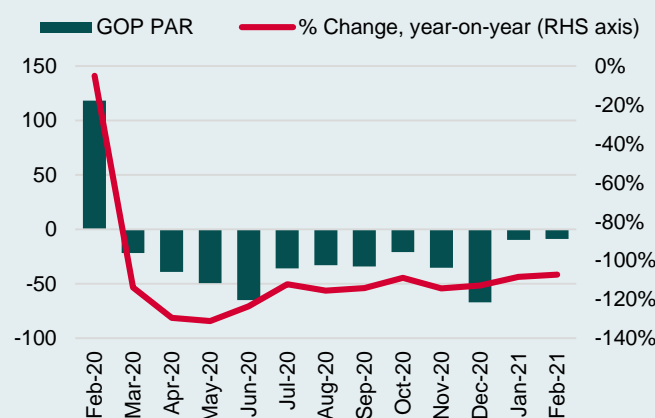
Total Payroll PAR (£)



Total Costs v TRevPAR (£)



GOPPAR (£)



KEY PERFORMANCE INDICATORS	MONTH FEBRUARY 2021	YTD FEBRUARY 2021	Rolling 12 Months Mar-Feb 2020/21
Occ %	2.8%	2.4%	5.6%
Occ % Points Change p.a	-61.5%	-62.7%	-72.4%
ADR (£)	407.7	418.7	453.9
ADR % Change p.a	6.5%	9.1%	9.6%
RevPAR (£)	11.3	10.3	25.6
RevPAR % Change p.a	-95.4%	-95.9%	-92.1%
TRevPAR (£)	51.8	41.5	65.7
TRevPAR % Change p.a.	-88.1%	-90.3%	-88.2%
GOPPAR (£)	-8.66	-9.09	-35.12
GOPPAR % Change	-107.3%	-107.9%	-115.4%
GOP % of Turnover	-16.7%	-21.9%	-53.5%
GOP % of Turnover (y-o-y)	27.2%	27.0%	41.1%
Payroll % of Turnover	64.0%	59.8%	100.4%
Payroll % of Turnover (y-o-y)	38.8%	38.5%	29.7%

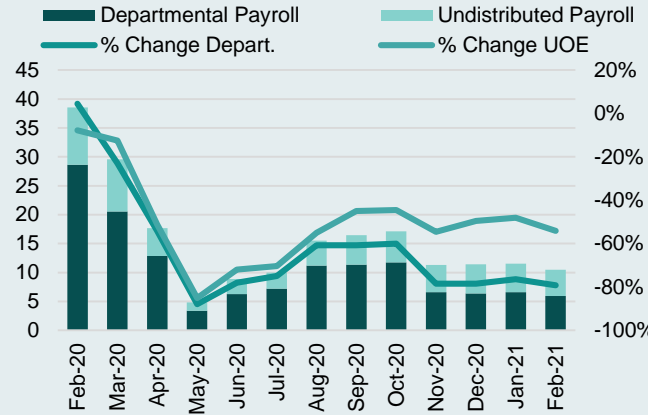
London – Upper Midscale & Upscale Hotels

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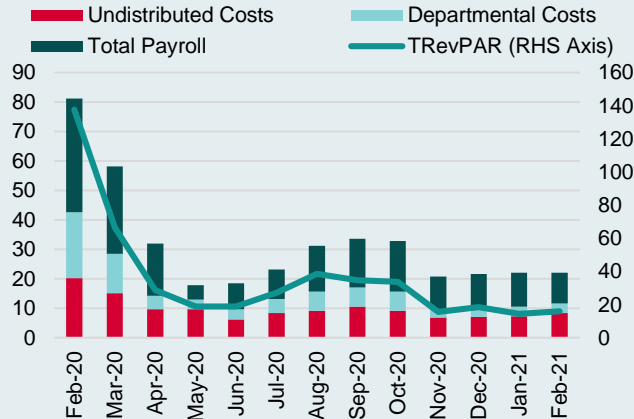
TRevPAR (£)



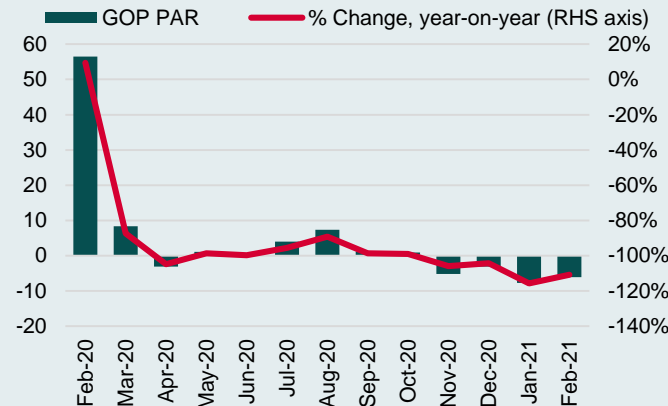
Total Payroll PAR (£)



Total Costs v TRevPAR (£)



GOPPAR (£)



KEY PERFORMANCE INDICATORS	MONTH FEBRUARY 2021	YTD FEBRUARY 2021	Rolling 12 Months Mar-Feb 2020/21
Occ %	14.2%	13.3%	19.7%
Occ % Points Change p.a	-61.9%	-61.3%	-65.6%
ADR (£)	71.3	71.2	93.1
ADR % Change p.a	-44.7%	-43.4%	-34.1%
RevPAR (£)	10.2	9.5	18.3
RevPAR % Change p.a	-89.7%	-89.9%	-84.8%
TRevPAR (£)	16.0	15.1	27.8
TRevPAR % Change p.a.	-88.4%	-88.5%	-82.6%
GOPPAR (£)	-6.13	-6.97	0.1
GOPPAR % Change	-110.9%	-113.2%	-100.2%
GOP % of Turnover	-38.4%	-46.0%	-0.4%
GOP % of Turnover (y-o-y)	41.0%	40.0%	47.8%
Payroll % of Turnover	65.7%	72.8%	49.6%
Payroll % of Turnover (y-o-y)	28.0%	28.9%	24.0%

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.

Philippa Goldstein

Senior Analyst – Head of Hotel Research

+44 (0) 7970 230 801

philippa.goldstein@knightfrank.com

Karen Callahan MRICS

Partner – Head of Hotel Valuation

+44 (0) 20 7861 1086

karen.callahan@knightfrank.com

Henry Jackson MRICS

Partner – Head of Hotel Agency

+44 (0) 20 7861 1085

henry.jackson@knightfrank.com

Shaun Roy MRICS

Partner – Head of Hotels & Specialist Property Investment

+44 (0) 20 7861 1222

shaun.roy@knightfrank.com

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