UK HOTEL MARKET RECOVERY

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HOTEL DASHBOARD – MARCH 2022

UK Hotel Sector Outlook & Recovery

The strong recovery anticipated for 2022 has been made more difficult, with the Chancellor's Spring Statement bringing disappointment and added stress for the UK Hotel sector. The lack of ongoing support, made clear by what was missing from the statement, reinforced the message that the government's purse strings have now firmly closed, combined with the continuing tapering off of existing government support.

Despite the package of measures on offer throughout the pandemic keeping many businesses afloat, the lack of further support during this latest challenge - the cost of living crisis and rising inflation - risks prolonging the route to a full recovery. A return to 20% VAT, the energy price cap rising by 54%, the forthcoming increase in the National Living Wage and 1.25% rise in national insurance contributions will all now go ahead as planned. Recovering some of the losses incurred throughout the pandemic, is deemed unlikely, instead the industry braces itself for a further battle, one that will test the UK Hotel sector's resilience even further.

Yet, despite living standards now forecast to fall further this year than at any time since records began, the sentiment for travel post Covid-19 remains strong and the UK Staycation market is expected to bounce back from the spring. Many UK holiday destinations are experiencing high levels of forward bookings for peak holiday periods, as holiday makers do not want to miss out or be faced with higher prices from booking last minute. For those owners and operators who through the course of the pandemic learnt to drive the business forward, by simplifying and streamlining operations to reduce costs, invest in technology and their people, and had the belief and conviction in their management teams, these businesses are likely to emerge more strongly, embracing and surviving the challenges which lie ahead.

For some however, whilst cash flows are not fully recovered, the removal of the lower rate of VAT, combined with increasing interest rates, unprecedented rises in energy, food and other costs, and the reduced relief in business rates, will most likely lead to owners prioritising investment plans and reviewing their level of indebtedness. This in turn is expected to lead to an increase in funding-led sales, but there is always the potential for greater distress for those less capitalised owners.

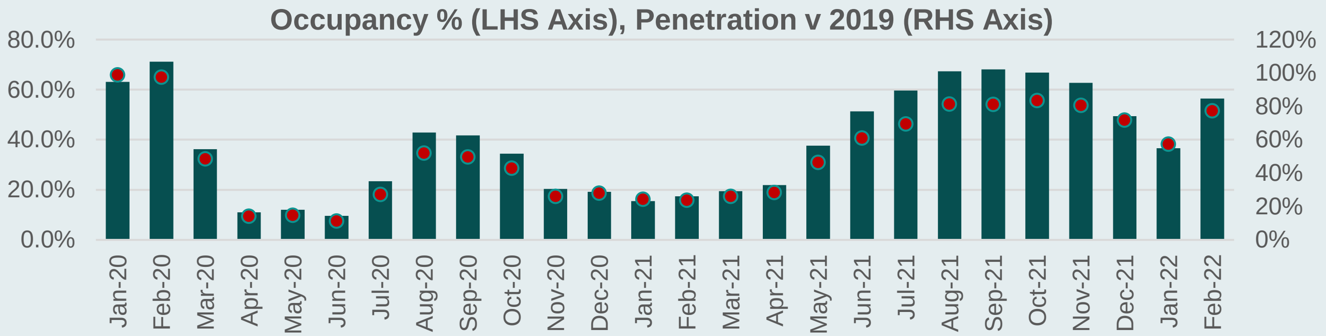
Prior to Russia's invasion of Ukraine, the Global Business Travel Association were forecasting a surge of 38% in global business travel in 2022, with a full recovery by 2024, and the return of more international and group travel. In 2021, North America led the recovery, with business travel rebounding by 27%. This forecast, however, is now likely to be revised downwards following the heightened geo-political risk, the surge in energy costs and China imposing new lockdown restrictions to curb rising Covid levels. Yet optimism remains for a meaningful recovery, as companies and travellers across the globe appreciate the much-needed return to travel.

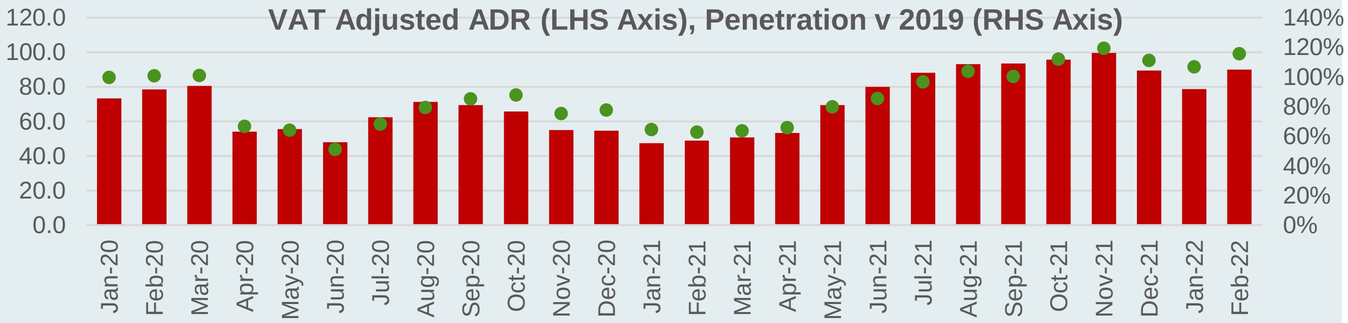
In order to continue to drive shareholder value, whilst seeking out competitive advantage to grow market share, looking for ways to increase productivity and understanding how best to leverage technology is becoming more important than ever. Whilst late pick-up in demand is a continuing trend, there is improving visibility on future bookings as the travel industry rebounds. Optimising revenue performance through analysis of forward-looking metrics and indicators will be key to capitalising on these booking patterns, ensuring operators maximise both RevPAR and ancillary spend.

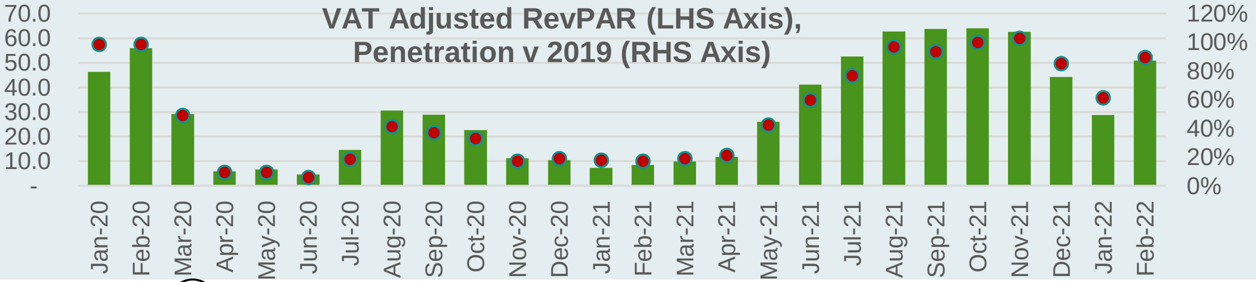
Hotels Market Dashboard – March 2022

Regional UK Hotel Market Trading Summary

- Following a slow start to the year, February witnessed a strong recovery in performance across regional UK, with month-on-month occupancy growth of twenty percentage points to 56.5%. February YTD occupancy of 45.3% equals the full-year occupancy achieved in 2021, but with an improving landscape for the months ahead, operators will seek to close the gap in YTD occupancy variance versus 2019, which currently stands at a 23 percentage point deficit.
- Along with increased demand for room nights, a 14% growth in ADR was achieved in February, recouping in full the previous month's loss, to reach an ADR of £96. After adjustment for the temporary reduction in VAT, ADR is some 16% ahead of ADR as at February 2019, a clear indication that room rates are rising in order to counterbalance the rising costs.
- Despite a month-on-month uplift in RevPAR of 76.5% in February to £54.20, RevPAR remains some 19% below that achieved in November, prior to the onset of Omicron. After adjustment for the reduction in VAT, both RevPAR and TRevPAR are currently at 90% of their level recorded in February 2019.
- Utility costs have increased by 100% PAR since September 2021, equating to £8.60 PAR, or 9.8% of total revenue (compared to 3.8% of total revenue last September). Despite a recovery in revenues, rising costs have impacted on GOPPAR, with February recording GOPPAR of £17.50, equivalent of 20% of total revenue.







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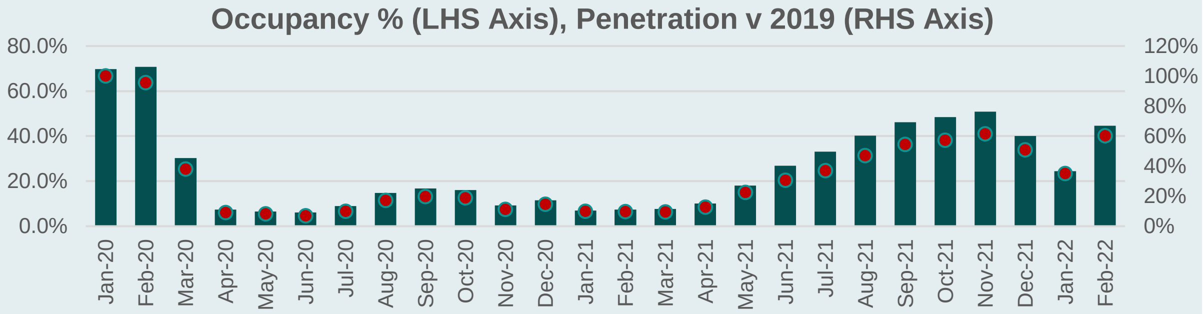
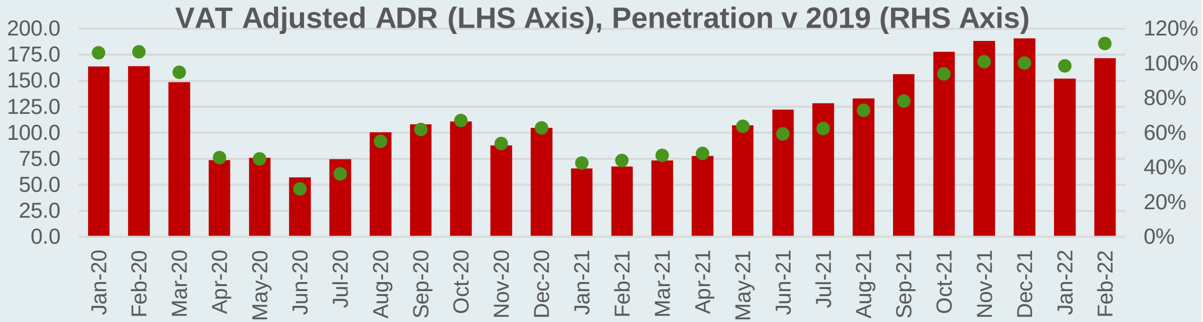
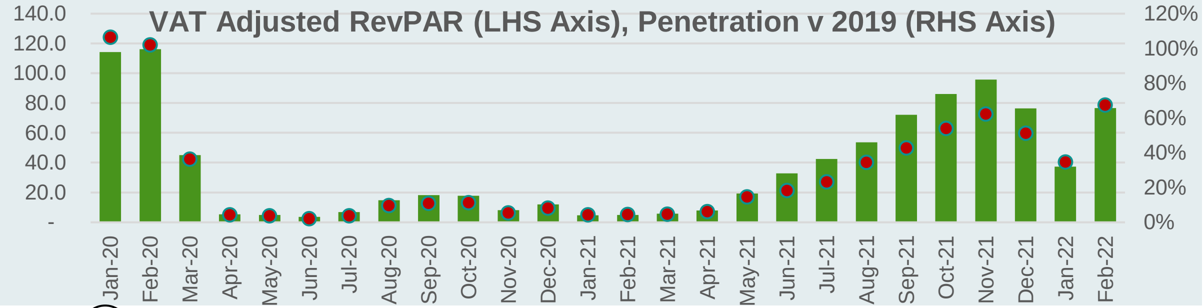
Hotels Market Dashboard – March 2022

London Hotel Market Trading Summary

- London witnessed a strong recovery in occupancy performance similar to regional UK, with month-on-month growth of twenty percentage points to 44.6% occupancy in February. YTD occupancy of 33.1% is ahead of the full-year occupancy achieved in 2021 of 28%. With London having witnessed a much sharper and prolonged decline in occupancy compared to regional UK, the negative variance in YTD occupancy versus 2019, currently stands at 38.5 percentage points.
- The London market achieved impressive ADR growth during the second half of 2021, with full year ADR of £165 recorded, just 9% below the level achieved in 2019. February YTD ADR of £174 is weaker than that achieved prior to the setback of Omicron, but with an uplift in international passenger arrivals anticipated, robust ADR growth is forecast. ADR is currently some 11% ahead of ADR as at February 2019 and we expect this spread to widen as prices increase in an inflationary environment.
- This month's strong top-line performance translated into 106% growth in RevPAR to £81.70, recovering in full the previous month's loss, but remains some 20% below the RevPAR achieved last November. A full recovery to pre-pandemic levels will take time and is highly dependent upon strong growth in inbound visitor arrivals. RevPAR adjusted for the reduction in VAT is currently 67% below the level recorded in February 2019.
- Following a disappointing start to 2022, London hotels returned to profitability, converting a healthy profit in February, achieving GOPPAR of £30.80. But the headwinds of rising costs are clear, with a 20% rise in undistributed operating expenses since December, largely driven by a 16% rise in utility costs.







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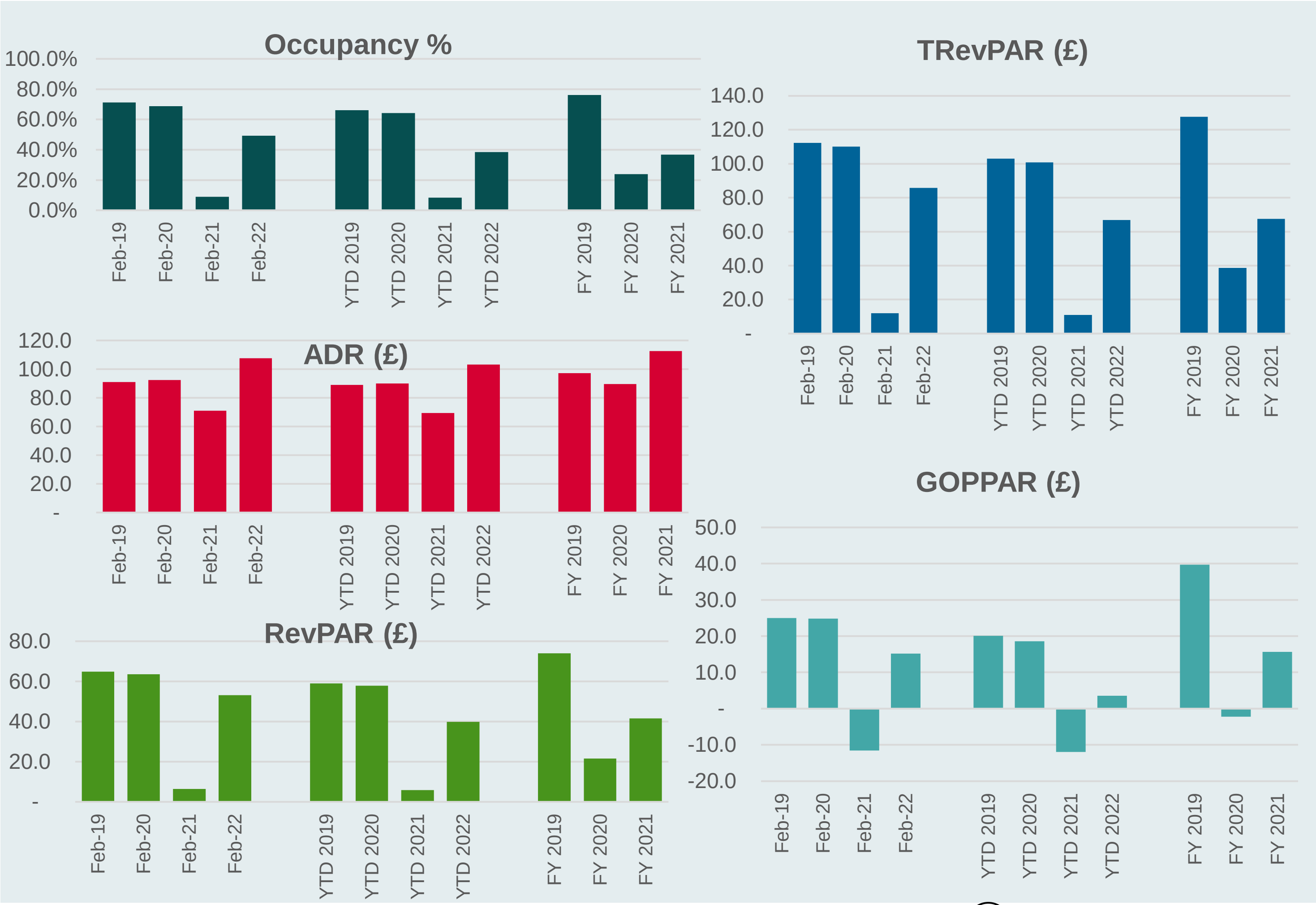
Regional UK – Full Service, Upper Upscale Hotels



Key Observations

- The uplift in top-line performance for February was remarkably consistent across all full-service hotel datasets. Upper Upscale regional UK hotels recorded 87.6% monthly RevPAR growth, but its performance remains some 14% below the level achieved in November 2021.
- The volume of leisure room nights increased to 39% of total room nights, with Rack-rated business accounting for a further 25% of the segmentation mix, conference room nights equating to 23% of room nights and corporate demand generating a further 10% of the room nights sold.
- The Corporate segment recorded a strong uplift in its ADR, rising by 26%, whilst Rack ADR increased by 15% and Leisure ADR by 10%. After adjustment for the reduction in VAT, both the Leisure and Corporate segment ADRs are some 20% ahead of the ADR achieved in February 2019, at £107 and £92 respectively.
- The Conference segment with an ADR of £83 (after adjustment for VAT) is currently 10% below its level achieved in 2019 and is at a 23% discount compared to the ADR achieved in the leisure market. Furthermore, conference demand remains weak, representing 11 percentage points of occupancy, compared to an annual average of 23 points of occupancy in 2019.

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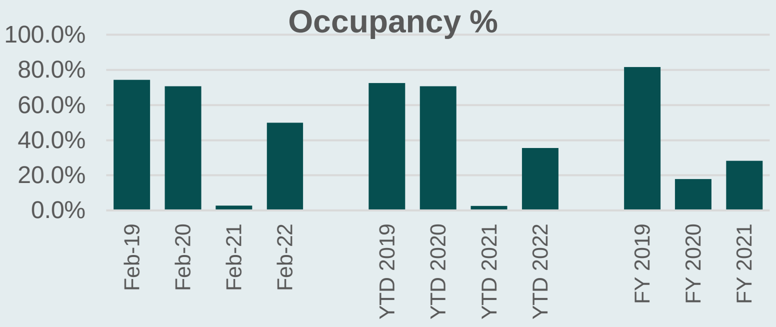
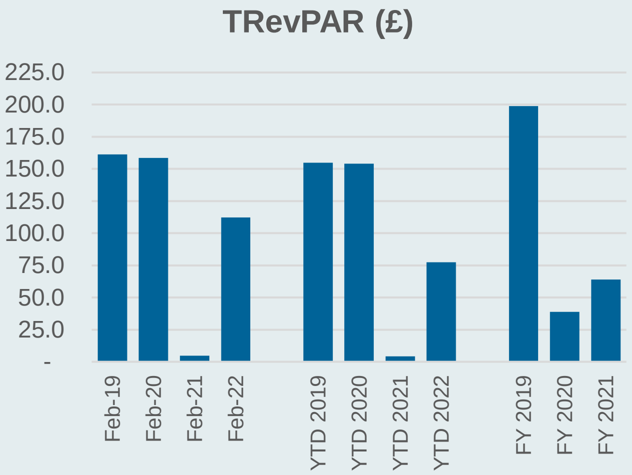
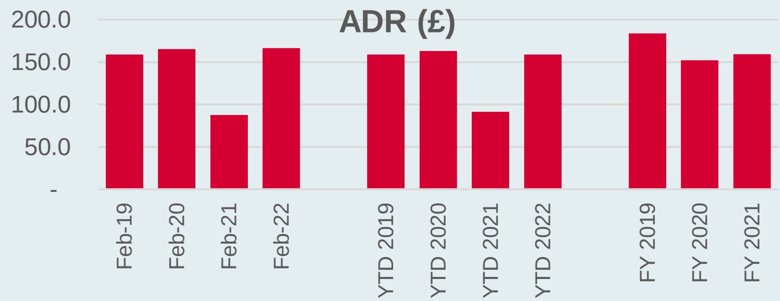
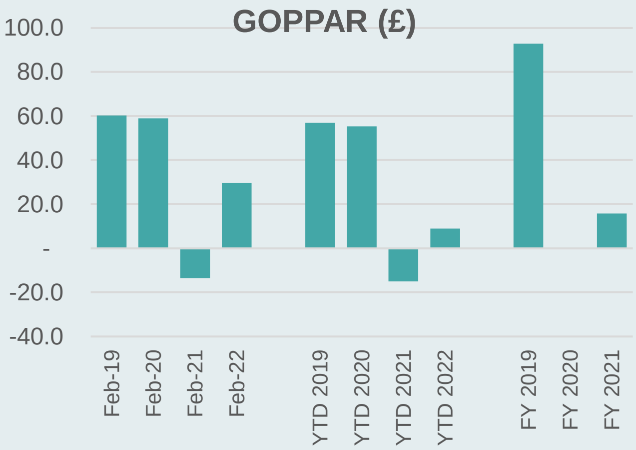
London - Full Service, Upper Upscale Hotels

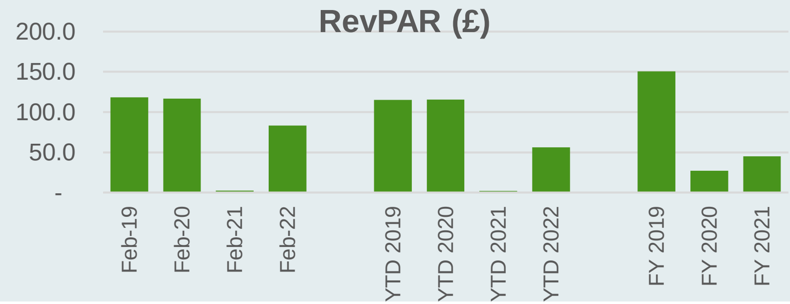
Knight Frank











Key Observations

- Whilst international arrivals to London's Heathrow airport rebounded to over 2.6 million in February, this represented an 8% decline on the number of passengers arriving in December and some 48% below the number of arrivals for the same month in 2019. Still, a forecast of 40 million overseas visitors arriving at London Heathrow for 2022, represents a 130% increase compared to 2021, which bodes well for the London hotel market.
- London's Upper Upscale hotels recorded RevPAR growth of 123% in February, with a 25 percentage point increase in occupancy contributing significantly to the improved performance. Still, RevPAR remains 21% below the level achieved in Nov-2021 and positively impacted by the temporary reduced rate of VAT, ADR is at 98% of the rate achieved in February 2019. With the return to 20% VAT, we expect to see gross room rates increase in an effort to maintain parity and combat rising costs.
- The month of February recorded significant gains in both the corporate and conference segments, in terms of both the volume of room nights and with ADR rising by 24% and by 22% respectively. Albeit this was at the expense of the leisure segment which reduced it's market share to account for 50% of the total room nights.
- Following a deficit in GOPPAR in January, the market recovered strongly, with Upper Upscale hotels achieving a GOPPAR of £29.60, equivalent of a 26.4% profit margin. Profits, however, were restricted by rising costs, with a month-on-month increase in utility costs PAR of 20%.

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HOW WE CAN HELP

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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.

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