

Knight Frank View – UK Hotel Sector, Forecast and Outlook

- Whilst an opinion on how and when the UK hotel sector will recover remains highly subjective, what is perhaps more certain is how the pandemic has become the impetus behind driving change, with a greater focus on sustainability and experience-led hospitality. In the absence of a global vaccine and whilst travel corridors remain closed, the focus in the short-term remains one of survival. Learning to constantly adapt to the changing landscape is critical. Re-engaging with local markets, changes to the product and service offering, reviewing relationships with OTA's and continued transparency and improved communication with all stakeholders are just some of the practices that responsible hotel owners and operators have put in place.
- The UK Staycation market is set to remain robust in 2021, as continued restrictions, confidence to travel and forward planning remains dependent upon the control of the ongoing Covid-19 pandemic. Improved trading during the summer months of 2020 is proof that demand for travel exists, when it is safe to do so.
- Despite the extreme challenges presented by the pandemic, certain sub-sectors have proven their resilience. The versatility and flexibility of the serviced apartment sector, continuing to trade throughout the pandemic, is one such sub-sector. The self-contained, spacious, independent living / work space; the ability to adapt and re-strategize and the lean business model are all elements which will continue to serve the sector well. Despite margins having been substantially reduced, investors are encouraged to look beyond the core and appreciate that certain pockets of the UK hotel market continue to offer a robust and resilient performance.
- To combat the second wave of the virus, the winter months are set to become an increasingly challenging time for the hospitality sector, as the number of localities entering into the high risk Tier 2 and Tier 3 categories intensifies. During these restrictive operating conditions, any real recovery of the sector will be further delayed and with hotels continuing to trade, access to government support may be restricted.
- UK short-stay, leisure demand is expected to lead the recovery of the UK hotel market, with improving demand likely during the winter period for UK towns and cities as leisure destinations, where restrictions permit. The price point and value proposition of the budget and select service hotels is expected to drive recovery in occupancy, whilst the resilience and out-performance of the serviced apartment sector is set to continue.
- We anticipate some structural changes in demand during the recovery period. Whilst large scale meeting and conference events are unlikely to return to pre-pandemic levels until nearer the end of the recovery period, changes in the office sector are already starting to generate additional demand for hotel meeting space, with further growth likely as companies downsize their office space over the coming years. With remote working set to continue post the pandemic, larger cities are expected to benefit from a rise in short-stay corporate and meeting demand, as people who have relocated, return for face-to-face meetings.

Important Notice

Hotel Trading Performance Review – Regional UK

- **TRevPAR:** As at September YTD, Regional UK select and midscale hotels witnessed a decline in TRevPAR of approximately 55%, compared to a decline of 66% for full-service, upscale & upper-upscale hotels in regional UK. The reopening of hotels in July allowed UK Regional hotels to capture the pent up demand from staycations leading to robust growth in August. Full-service Upscale hotels have outperformed both midscale and full-service upper upscale hotel during September, with monthly TRevPAR growth of 68% compared to the previous month. Other regional UK datasets achieved a TRevPAR performance in line with or slightly below that achieved in August, suffering from reduced corporate and MICE demand.
- **GOP %:** The dataset for UK-Extended Stay/Aparthotel sector has outperformed the sector, achieving GOP % (as a percentage of Total Revenue) of 34.0% as at September YTD. Regional UK Select-Service properties have also proven their resilience, with GOP % of 22.6% for the same period. For both subsectors these are respectable performances given the deeply challenging operating environment, despite being severely reduced profit margins compared to historical performance. Importantly, though these hotel datasets have secured a profit, albeit at a substantially reduced level.
- **GOPPAR:** HotStats datasets reveal that in the full-service hotel sectors, where a significant proportion of these hotels closed during the lockdown, these hotels have typically fared less well. For example, Regional UK golf/spa hotels and Regional Upper-Upscale hotel datasets have both recorded a loss in terms of GOPPAR, for the 9-month period to September YTD. However, the staycation boom during the month of August resulted in positive GOPPAR for the first time since the start of the lockdown across all Regional UK datasets, with Regional UK golf/spa hotels and Upscale hotels rebounding the strongest. The momentum of positive GOPPAR continued in regional UK during September, but at significantly lower level than in August, with profits impacted by employers having to pay 10% of the payroll of all furloughed employees.
- **Payroll:** Faced with widespread temporary closures, sweeping payroll cuts have been made throughout all hotel cost centres, but with the benefit of the furlough scheme it is too early to fully appreciate any long-term structural cost savings relating to payroll. However, greater payroll efficiencies from undistributed operating expenses is apparent, with HotStats datasets revealing that as a percentage of total payroll, Regional UK Select Service, Midscale and Full-Service Upscale hotels have all witnessed a decline in the payroll costs from non-operational departments. For example, the dataset for Regional UK Select Service hotels has seen undistributed payroll costs decline to 12% of total payroll costs in September, compared to 18% in September 2019.

(Note: HotStats collates data from all reporting hotels, including hotels which are temporarily closed or repurposed under government contracts)

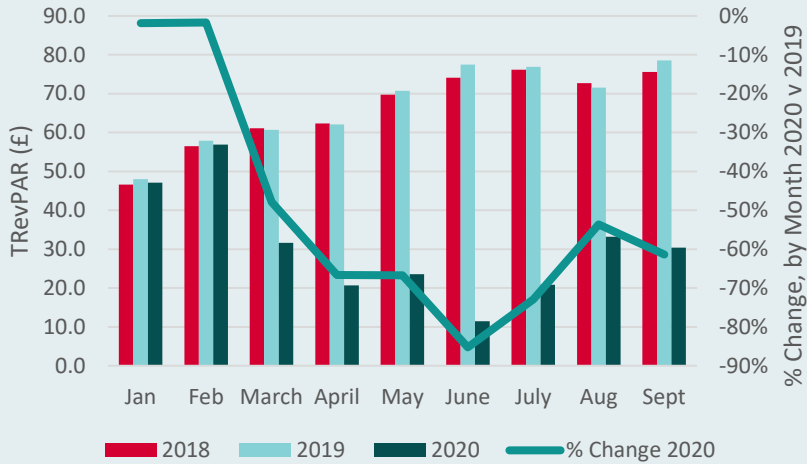
Hotel Dashboard - Covid-19 UK Hotel Market Recovery

October 2020

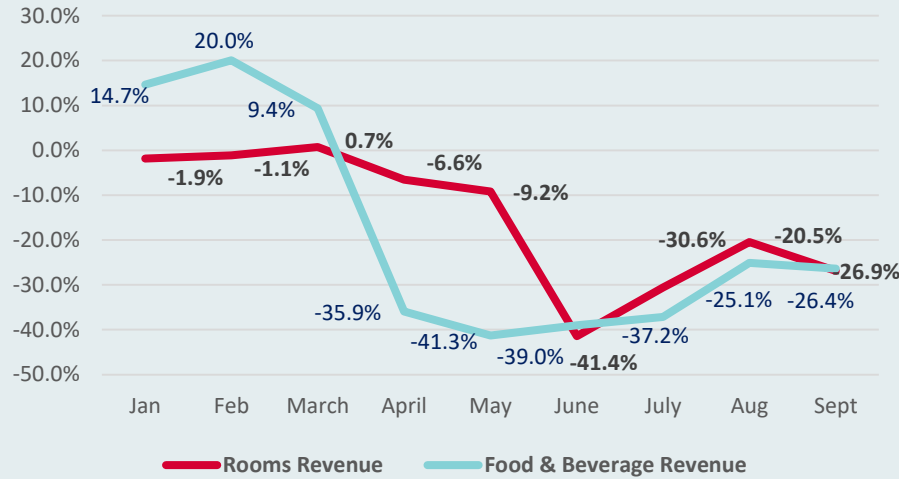


Regional UK – Select Service Hotels

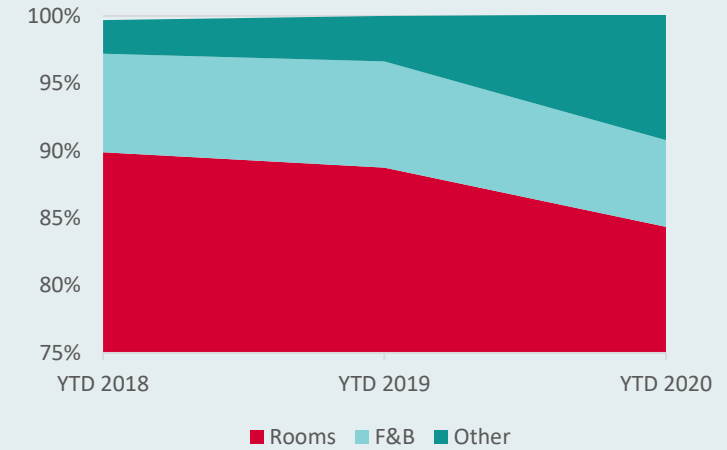
TRevPAR by Month & % Change (2020 v 2019)



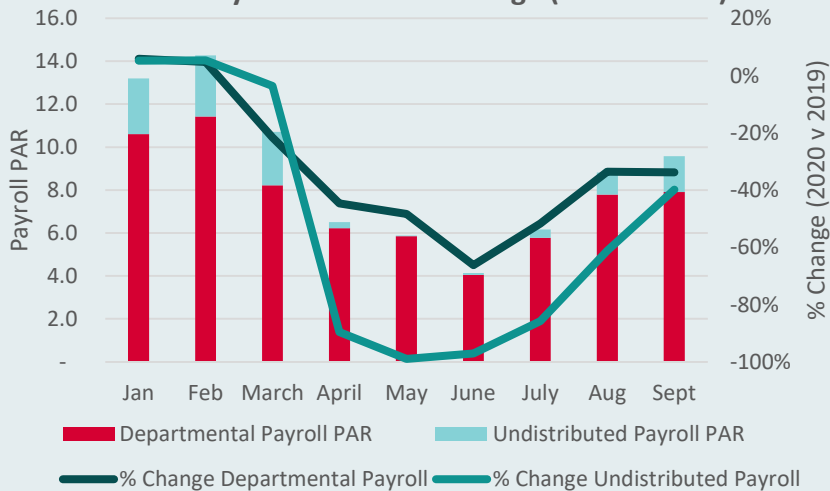
Revenue POR - % Change by Month (2020 v 2019)



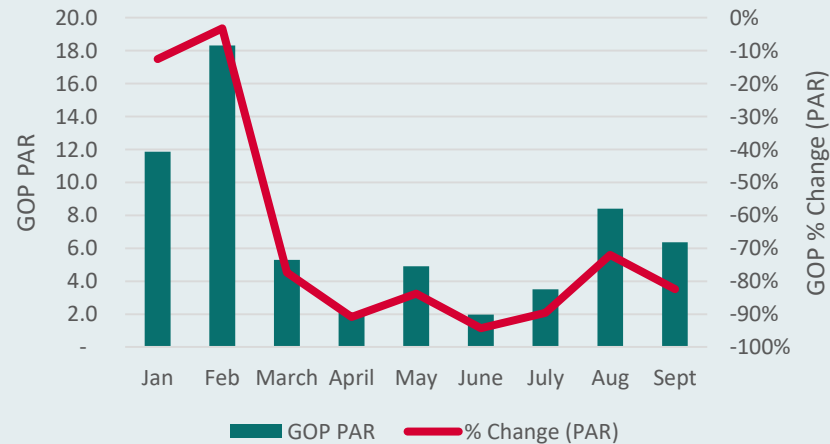
Department Income contribution PAR (Jan-Sept YTD)



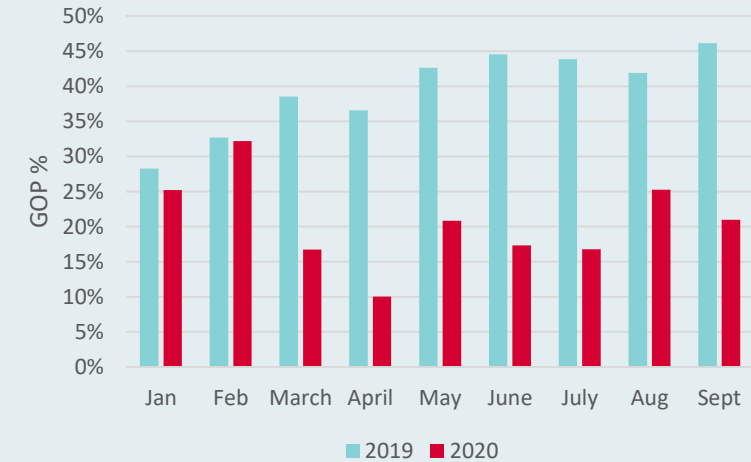
Total Payroll PAR and % Change (2020 v 2019)



GOP PAR by Month and % Change (2020 v 2019)



GOP % by Month (2020 v 2019)



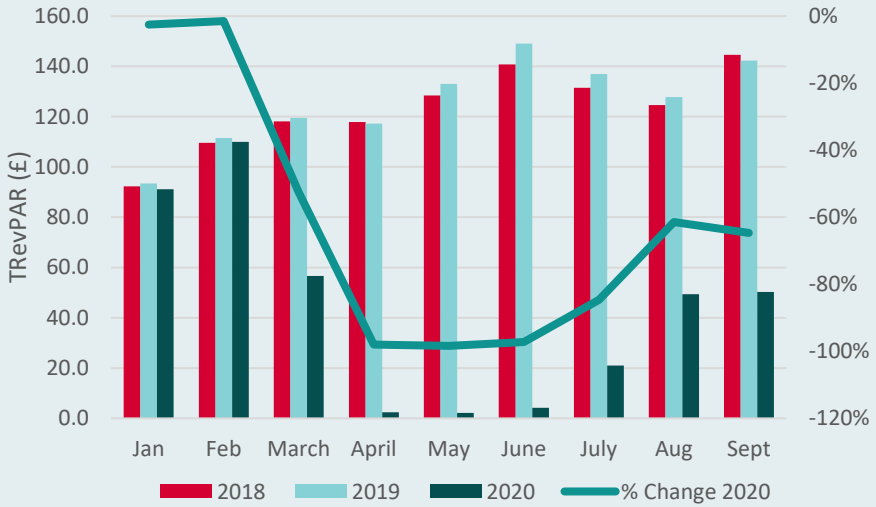
Hotel Dashboard - Covid-19 UK Hotel Market Recovery

October 2020

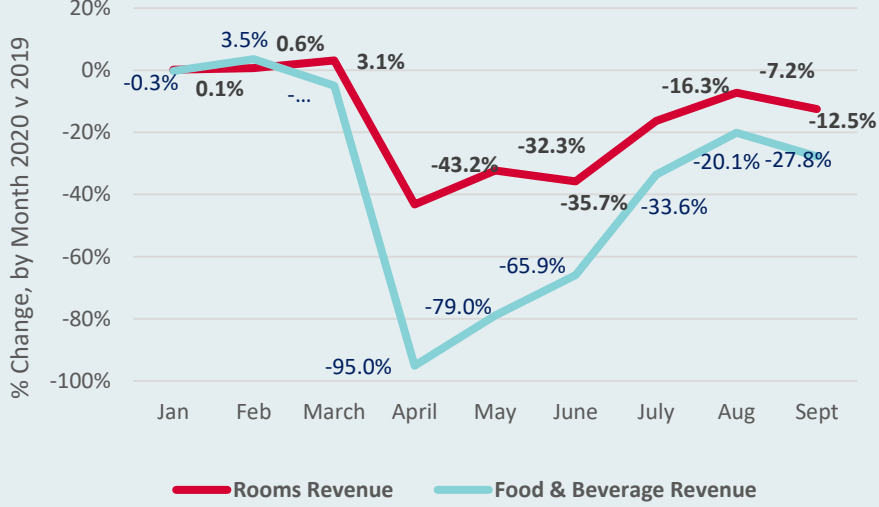


Regional UK – Full Service, Upper Upscale Hotels

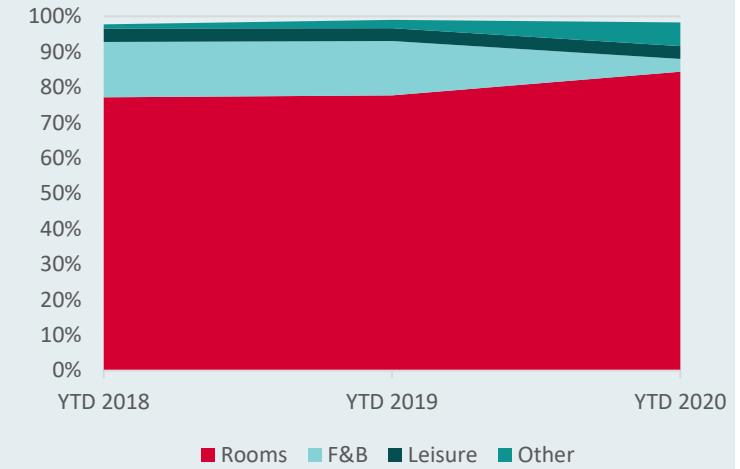
TRevPAR by Month and % Change (2020 v 2019)



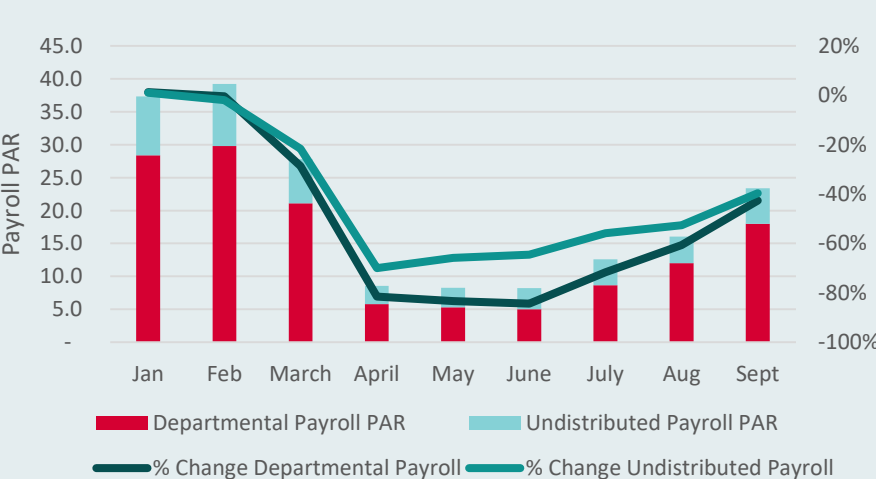
Revenue POR - % Change by Month (2020 v 2019)



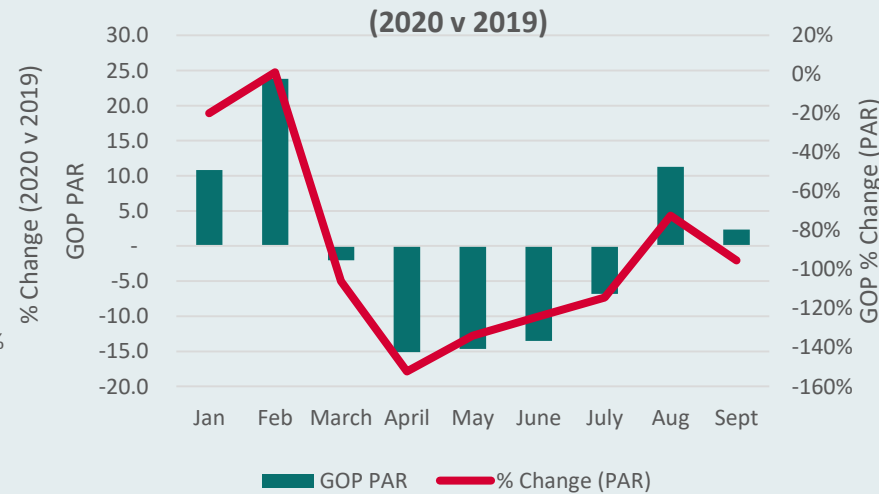
Department Income contribution PAR (Jan-Sept YTD)



Total Payroll PAR and % Change (2020 v 2019)



GOP PAR by Month and % Change (2020 v 2019)



GOP % by Month (2020 v 2019)

