Fitzpatrick Associates

Fáilte Ireland
National Tourism Development Authority

Analysis of Visitor Accommodation in Dublin 2015-20

Final Report

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Fitzpatrick Associates
ECONOMIC CONSULTANTS

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Executive Summary

Over recent years there has been increasing evidence of an emerging shortfall of visitor accommodation in Dublin that could limit the potential for tourism growth longer term, and also threaten the competitiveness and attractiveness of the city as a tourist destination short term. Over the last five years tourist arrivals to Dublin grew by 33%, yet the stock of available accommodation fell by 6%.

It was against this background that Fáilte Ireland commissioned Fitzpatrick Associates Economic Consultants to:

- clarify the amount of additional accommodation stock required to meet anticipated levels of demand in Dublin between now and 2020; and
- identify solutions to address the challenge arising from a shortfall in accommodation stock.

On the supply side, the findings are that after almost ten years of inactivity, a strong pipeline of new accommodation stock is set to come on stream as the cost of providing new accommodation stock comes into line with its earnings potential. As of late March 2016, 80 prospective projects to develop additional hotel capacity in the city are identified, of which 65 are considered likely to open for business by 2020. This could generate an estimated 5,550 additional bedrooms, split between new hotels (3,800 or 68%) and existing hotel extensions (1,750 or 32%). However, most of the new stock will not come on stream until 2018 or later.

On the demand side, several scenarios are examined, with the annual growth in overseas arrivals ranging from 2.2% to 6.8%. When the pipeline of accommodation supply is compared with prospective demand, the resulting estimates of the scale of the supply shortfall are shown. In all cases, the analysis points to an ongoing stock shortage between 2016 and 2018, but moving into surplus in most demand scenarios thereafter.

In the short-term, corrective initiatives should focus on:

- ongoing monitoring of market trends, particularly the supply pipeline. It is *essential* that the anticipated new stock fully materialises, and also that it does so as quickly as possible;
- liaison with the city's planning officials to help bring about greater efficiency and certainty for those seeking to put new visitor accommodation stock in place, e.g.:
    - streamlining or fast-tracking the planning process;
    - adopting a strategic development zone approach for hotels and related developments;
    - supporting case-making for such developments and their planning approval;
- formal initiatives to help better spread demand across the season and across the city and county.

Other actions should focus on changes to allow for more site intensification. These could include:

- updating existing statutory accommodation regulations, particularly those of hotels, so that they reflect contemporary consumer preferences. This should include, at minimum, bringing bedroom size in line with international norms, less generous spatial requirements, and more flexible services and facilities; and
- reviewing maximum allowable heights. Increasing the number of storeys on building helps to generate more revenue from the same footprint, and would hence encourage new supply.

1. Introduction

1.1 Introduction

A new strategy for tourism development in Dublin – "Destination Dublin – A Collective Strategy for Growth to 2020", was launched in January 2014. This sets out a range of tourism growth scenarios and targets for the city to the end of the decade, as well as strategic actions to enable their achievement. In a context of a continued strengthening of tourism demand in the city, in August 2015 Fáilte Ireland commissioned Fitzpatrick Associates Economic Consultants to examine the future supply of visitor accommodation in Dublin, and to assess any potential shortfall in supply in the context of growing tourist and visitor numbers and anticipated further growth up to 2020. This report sets out the findings from the research.

1.2 Purpose and Terms of Reference

The overall aims of the research have been to:

- identify the scale (if any) of the additional tourist accommodation stock required to meet anticipated levels of demand in Dublin between now and 2020;
- in the event of identifying the need for additional tourist accommodation, develop policy and related solutions to address the challenge.

The specific objectives of the research were as follows:

1. Based on data provided by Fáilte Ireland and from other sources, quantify the scale and nature of available tourist stock in Dublin city and county both by (a) location and (b) accommodation type.
2. Quantify, to the fullest possible extent, the paid accommodation stock (by location and type) likely to come on-stream in Dublin city and county over the next five years, e.g. planning permissions granted, existing builds, projects in planning and sites zoned, etc.
3. Based on up to four growth scenarios, identify the scale (if any) of the additional tourist accommodation stock required to meet projected levels of demand between 2015 and 2020.
4. Provide an assessment of the key non-tourism specific macroeconomic factors that are likely to influence the growth in future overseas tourist arrivals into Dublin, e.g., exchange rates, economic growth, etc.
5. In the event of identifying the need for additional tourist accommodation:
    a. provide an informed commentary on the possible reasons why the issue has arisen, e.g., profitability, availability of funding, relative rates of return on alternative property usages, planning considerations, etc.
    b. develop policy and other solutions to address the issue.

1.3 Method

1.3.1 Overall Method

The methodology has comprised:

- a review of relevant documents and literature;
- a desk-based review and analysis of secondary data sources;
- collation and examination of planning data on new visitor accommodation capacity from Dublin local authorities; and
- a programme of consultations with key stakeholders and informants.

A list of parties consulted is set out at Annex 1.

1.3.2 Scope and Definitions

In relation to the scope and definitions used in the analysis, it should be noted that:

- the report and analysis deals with visitor accommodation approved by Fáilte Ireland, which includes hotels, guest houses, youth and holiday hostels, Irish Home B&Bs, self-catering, and caravan and camping. In Dublin and internationally there is growth in informal paid visitor accommodation, particularly through web-based tools enabling listing, sharing, renting and letting of lodging for short or longer-term durations. Some hosts that utilise such websites may be approved accommodation providers but many are not, however there are no reliable estimates. While the core analysis therefore deals only with approved accommodation, Chapter 4 includes information provided by Airbnb, the well-known accommodation booking web platform;
- "Dublin" is taken to mean the city and wider county, together comprising the areas of Dublin City Council as well as Fingal, South Dublin and Dun Laoghaire Rathdown County Councils;
- while tourism is a central driver of accommodation demand, so are non-tourist visits. The report uses the terms tourist and visitor interchangeably;
- the analysis focuses on "paid" bednights and bed capacity, and non-paid capacity (e.g. home swapping or staying with friends/relatives) is not considered.

1.4 Report Structure

The report is structured as follows:

- Section 2 describes the background context, including the macro-economy, recent tourism trends and performance, and the strategic and policy context for national tourism and tourism in Dublin;
- Section 3 describes the existing market for visitor accommodation, sets out a number of future demand scenarios, and considers key macro-economic determinants for future demand growth;
- Section 4 describes existing accommodation supply, sets out our findings regarding future anticipated growth in supply, and considers factors affecting that supply growth outlook;

- Section 5 presents overall conclusions, and sets out a range of potential public policy responses for the consideration of Fáilte Ireland.

2. Industry Context

2.1 Introduction

This Section describes the background context to the study. Section 2.2 briefly describes the economic context, touching on macro-economic factors that have influenced recent tourism growth. Section 2.3 considers the tourism context, and describes recent industry trends both nationally and specifically in Dublin. Section 2.4 briefly touches on the policy and strategic context for tourism nationally and in Dublin.

2.2 Economic Context and Trends

2.2.1 Irish Context

The demand for Irish tourism services was buoyant in 2014 and 2015 aided by a benign economic environment. This was a welcome change following a protracted period of much harsher economic conditions that negatively impacted on Irish tourism. Thus, the tourism sector in Ireland has returned to positive growth, and a number of key factors have contributed to this. These include the recent return to overall economic growth in Ireland, and in key overseas tourism markets, as well as trends in exchange rate movements and inflation that have enhanced price competitiveness.

In particular, following a dramatic decline in economic output, owing to both the local and global economic and financial crisis of recent years, Ireland has now returned to a strong output growth path. In 2008 and 2009 gross domestic product (GDP) in Ireland fell by 2% and 6% respectively in real terms, while gross national product (GNP) fell by 2% and 8% in the same years. By 2013 and 2014, however, GDP growth had returned at 2% and 5% respectively in real terms, while GNP growth stood at 5% and 7% for the same years. In 2015 GDP growth reached 7.8%, while GNP growth came in at 5.7%. In addition, the return to growth in the Irish economy has been skewed towards Dublin. The most recent CSO data indicate that the trend in personal disposable incomes in Dublin has been amongst the most positive across all counties over the period 2010-14.

TABLE 2.1: TRENDS IN GDP AND GNP GROWTH IN IRELAND 2008-14

	2008	2009	2010	2011	2012	2013	2014	2015
GDP (€mn)	181,751	171,503	172,187	176,643	176,910	179,448	188,778	203,524
Growth (%)	-2.2%	-5.6%	0.4%	2.6%	0.2%	1.4%	5.2%	7.8%
GNP (€mn)	153,233	141,031	144,169	142,976	145,318	152,042	162,537	171,866
Growth (%)	-1.8%	-8.0%	2.2%	-0.8%	1.6%	4.6%	6.9%	5.7%

Note: Figures refer to growth in constant prices.

SOURCE: CENTRAL STATISTICS OFFICE

2.2.2 Overseas Visitor Markets

Furthermore, economic growth also returned to many of Ireland's key tourism source markets, contributing to increased overseas tourism demand. In the UK and US GDP growth in real terms averaged 2.4% and 2.2% per annum between 2013 and 2015 respectively. Growth in the Euro Area, on the other hand was more muted averaging 0.8% per annum 2010 to 2015 and 0.7% in 2013-15.

TABLE 2.2: TRENDS IN GDP GROWTH IN KEY OVERSEAS TOURISM MARKETS 2010-15 (%)

	2010	2011	2012	2013	2014	2015 (e)
UK	1.9%	1.6%	0.7%	1.7%	3.0%	2.5%
US	2.5%	1.6%	2.2%	1.5%	2.4%	2.6%
Euro Area	2.0%	1.6%	-0.8%	-0.3%	0.9%	1.5%
France	2.0%	2.1%	0.2%	0.7%	0.2%	1.2%
Germany	3.9%	3.7%	0.6%	0.4%	1.6%	1.5%

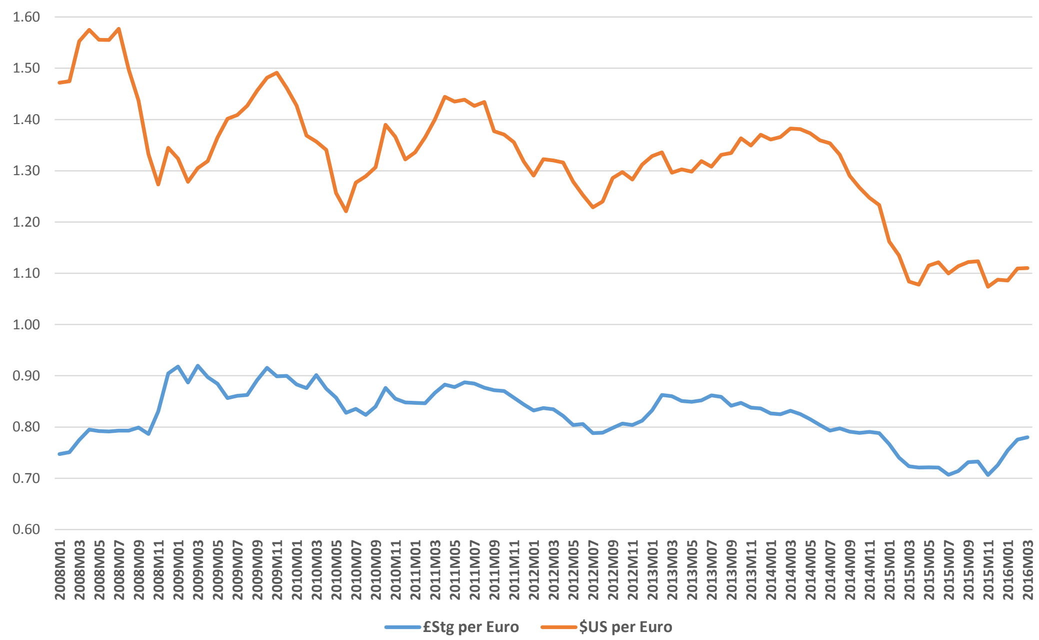
Note: Figures refer to growth in constant prices.

SOURCE: INTERNATIONAL MONETARY FUND – WORLD ECONOMIC OUTLOOK OCTOBER 2015

2.2.3 Exchange Rates and Inflation

Movements in currency exchange rates in 2014 and 2015 impacted very favourably on Irish tourism, particularly vis-à-vis Sterling and the US Dollar. In 2015 the value of the Euro was as low as £0.70 and $1.10, compared to highs of nearly £0.95 and $1.60, respectively, during 2008 and 2009. Thus, the relative cost of visiting Ireland fell for both UK and US visitors to Ireland, by as much as 30% in exchange rate terms, as their home currencies appreciated against the Euro.

FIGURE 2.1: EURO EXCHANGE RATES, 2008-2016



SOURCE: EUROSTAT

Favourable inflation trends complemented the positive exchange rate movements with overall price growth in Ireland generally lagging comparable movements in key source markets. In Ireland inflation averaged less than 1% per annum in recent years and has also been low (although less so), and declining, in our key tourism source markets.

Falling fuel costs have also made international travel cheaper - total passenger numbers rose by 4.5% within the EU in the first half of 2015. Passenger movements in Dublin airport rose well over three times as fast increasing to a record 11.5 mn for January – June 2015. This trend continued over the remainder of the year with a 15% increase to 25 mn (3.3 mn additional passengers) for the full year.

TABLE 2.3: TRENDS IN INFLATION GROWTH IN IRELAND AND KEY OVERSEAS TOURISM MARKETS 2010-15 (%)

	2010	2011	2012	2013	2014	2015 (e)
Ireland	-1.6%	1.2%	1.9%	0.5%	0.3%	0.2%
UK	3.3%	4.5%	2.8%	2.6%	1.5%	0.1%
US	1.6%	3.1%	2.1%	1.5%	1.6%	0.1%
Euro Area	1.6%	2.7%	2.5%	1.3%	0.4%	0.2%
France	1.7%	2.3%	2.2%	1.0%	0.6%	0.1%
Germany	1.2%	2.5%	2.1%	1.6%	0.8%	0.2%

SOURCE: INTERNATIONAL MONETARY FUND – WORLD ECONOMIC OUTLOOK OCTOBER 2015

2.3 Irish and Dublin Tourism Context

2.3.1 Tourism Trends and Projections - National

Tourism growth as a whole has been very strong in Ireland between 2010 and 2015, but especially since 2013. It is estimated that the number of overseas visitors to Ireland will have grown by over 35% from 5.9 mn to a projected 8.0 mn between 2010 and 2015 (and 28% between 2012 and 2015). The 8.0 mn projection is the highest ever – the previous high was 7.5 mn in 2007. Visitor numbers from Mainland Europe, in particular, have grown strongly, at 16% between 2014 and 2015, while North American and British visits have increased by about 13% and 12% respectively. Domestic trips within Ireland slumped in 2010-12 but recovered over the last three years from 7.3 mn in 2010 to 7.5 mn in 2015.

TABLE 2.4: TRENDS IN OVERSEAS AND DOMESTIC VISITORS TO IRELAND 2010-15 (000s)

	2010	2011	2012	2013	2014	2015 (e)
Overseas visitors	5,945	6,240	6,286	6,686	7,105	8,045
% growth	*-9.6%*	*5.0%*	*0.7%*	*6.4%*	*6.3%*	*13.2%*
Domestic visitors	7,300	7,169	7,031	7,111	7,354	7,529
% growth	*-12.5%*	*-1.8%*	*-1.9%*	*1.1%*	*3.4%*	*2.0%*

SOURCE: FÁILTE IRELAND

Revenue growth from overseas tourism mirrored the rise in visitor numbers, increasing from €3.0 bn in 2010 to an estimated €4.3 bn in 2015 (43% increase), but with all of this attributable to the period between 2012 and 2015. Revenue earned from domestic tourism was €1.5 bn in 2015 – after declines in 2011 and 2012 but recovery between 2013 and 2015.

TABLE 2.5: TRENDS IN OVERSEAS AND DOMESTIC REVENUE IN IRELAND 2010-15 (€mn)

	2010	2011	2012	2013	2014	2015 (e)
Overseas revenue	2,999	2,919	2,956	3,316	3,596	4,275
% growth	*-12.3%*	*-2.7%*	*1.3%*	*12.2%*	*8.4%*	*18.9%*
Domestic revenue	1,561	1,416	1,345	1,373	1,464	1,530
% growth	*12.3%*	*-9.3%*	*-5.0%*	*2.1%*	*6.6%*	*5.9%*

SOURCE: FÁILTE IRELAND

Fáilte Ireland projections envisage continued strong growth in tourism numbers over the next few years. Based on an annual average increase in visitor numbers of 4% per annum they estimate a total of 9.9 mn overseas visitors to Ireland in 2020. Rather slower growth is expected for domestic volumes (Table 2.6) reaching about 8.7 mn trips by 2020.

TABLE 2.6: PROJECTED OVERSEAS AND DOMESTIC VISITORS TO IRELAND 2016-20 (000s)

	2016	2017	2018	2019	2020
Overseas visitors	8,400	8,800	9,100	9,500	9,900
Domestic visitors	7,700	8,000	8,200	8,400	8,700

SOURCE: FÁILTE IRELAND

Nominal spending per visitor is expected to rise faster than numbers. Expenditure by overseas visitors is expected to reach €5.8 bn by 2020, an average growth of 6% per annum. Revenue earned from domestic tourists is expected to reach €1.8 bn by 2020, an average growth of 3% per annum.

TABLE 2.7: PROJECTED OVERSEAS AND DOMESTIC REVENUE IN IRELAND 2016-20 (€mn)

	2016	2017	2018	2019	2020
Overseas revenue	4,600	4,900	5,200	5,500	5,800
Domestic revenue	1,600	1,700	1,700	1,800	1,800

SOURCE: FÁILTE IRELAND

2.3.2 Tourism Trends and Projections - Dublin

Overseas visitor numbers to Dublin also increased sharply in recent years, following the decline that coincided with the global financial crisis and subsequent severe economic recession. Overseas visitor numbers to Dublin plummeted by nearly a quarter from more than 4.4 mn in 2007 down to just 3.4 mn in 2010. In line with the national trend, numbers grew strongly between 2010 and 2015 when visitor numbers increased by around one third from 3.4 mn to a projected 4.7 mn, with numbers in 2015 well above the pre-crisis levels of 2007.

TABLE 2.8: TRENDS IN OVERSEAS AND DOMESTIC VISITORS TO DUBLIN 2010-15 (000s)

	2010	2011	2012	2013	2014	2015 (e)
Overseas visitors	3,413	3,739	3,641	3,998	4,119	4,660
% growth	*-11.9%*	*9.6%*	*-2.6%*	*9.8%*	*3.0%*	*13.2%*
Domestic visitors	1,116	1,279	1,392	1,344	1,357	1,380
% growth	-	*14.6%*	*8.8%*	*-3.4%*	*1.0%*	*1.7%*

SOURCE: FÁILTE IRELAND

Domestic visits to Dublin are estimated to have grown by 25% between 2010 and 2015, from 1.1 mn to a projected 1.4 mn. Growth in domestic visits rebounded strongly in 2011 and 2012, in particular, but fell in 2013, with more moderate growth experienced in the last two years.

Fáilte Ireland is projecting growth in overseas visitor numbers to Dublin over the five years to 2020 to be slightly faster than for Ireland as a whole – an average annual rate of 5% (compared to 4% for Ireland), with growth in domestic visitors more moderate (3% per annum on average).

TABLE 2.9: PROJECTED OVERSEAS AND DOMESTIC VISITORS TO DUBLIN 2016-20 (000s)

	2016	2017	2018	2019	2020
Overseas visitors	4,940	5,190	5,450	5,740	6,040
Domestic visitors	1,420	1,470	1,510	1,560	1,600

SOURCE: FÁILTE IRELAND

2.4 Policy Context

2.4.1 National Policy

The new national tourism policy, “People, Place and Policy – Growing Tourism to 2025”, was launched by Government in March 2015. It set the following overall goals for the sector:

- by 2025, revenue from overseas visitors, excluding carrier receipts, will increase to €5.0 bn in real terms (from a baseline of approximately €3.3 bn in 2013);
- employment in the tourism sector will be 250,000 by 2025, compared with around 200,000 at present;
- there will be 10 mn visits to Ireland annually by 2025 (in 2013, there were 6.7 mn overseas visitors).

The confluence of favourable factors over the last few years have raised expectations, however, and as discussed above it is now expected that 2025 revenue targets will be surpassed before the end of this decade and overseas visitor numbers (9.9 mn) will be close to the 10 mn target level.

The policy statement has five commitments at its core – i.e. that Government affirms, and has agreed that:

1. “It will place tourism as a key element of its economic strategy, with development in the tourism sector reflecting the highest standards of environmental and economic sustainability, and the role of tourism

in promoting peace and political co-operation on the island of Ireland will continue to be recognised and encouraged."

2. "Our people and our place remain our biggest assets in terms of our ability to attract an even greater number of overseas visitors in the future. At the same time, these assets must be mobilised within a robust and effective policy framework if Ireland is to reap the economic and social benefits of tourism."
3. "To ensure that Ireland is successfully promoted overseas and our visitors' expectations are met, the marketing of Ireland as a visitor destination will aim to generate a balance of visitors from both mature and developing markets; our heritage assets will be protected, and any public investment in tourism will be based on evidenced need."
4. "Ireland's tourism industry will have the capacity and capability to meet the changing needs of visitors, underpinned by a clear and coherent framework for the development of human capital in the industry."
5. "There will be a clear understanding of the responsibilities and expectations of Government, State agencies, Local Authorities, the tourism industry and other stakeholders in the development of our tourism industry; with an enhanced role for Local Authorities and recognition of the contribution of communities to tourism."

In addition, the statement makes 51 policy proposals, under the following headings:

- marketing Ireland as a visitor destination;
- protecting key tourism assets;
- supporting investment in the visitor experience;
- the contribution of events to the quality of the visitor experience;
- a changing approach to human resources and training in tourism;
- competitiveness, research and innovation in the Irish tourism sector;
- the regulatory structure for visitor accommodation;
- local authorities supporting communities in tourism;
- fiscal and enterprise policies and actions;
- access to and within Ireland;
- tourism risk management;
- Ireland's international activity to support tourism;
- the role of the Department of Transport, Tourism and Sport and the tourism agencies;
- tourism's contribution to cross-border co-operation.

2.4.2 Dublin Policy

Directly relevant to this report, the Grow Dublin Taskforce (GDTF) was established by Fáilte Ireland in late 2012 with the aim of driving growth to Dublin in the period to 2020. To do this, the GDTF brought together senior stakeholders from industry, State agencies and local authorities with international destination experts to develop a seven-year strategy to achieve the shared goal of restoring growth from major markets, a process that incorporated both extensive research in overseas markets (to find out what prospective visitors look for when choosing a destination) and consultations with Dublin stakeholders (to assess Dublin's potential for meeting visitors' requirements).

This strategy set out a clear roadmap for growing Dublin's tourism in the years ahead, driven by an ambition to catch up with and exceed the growth levels of its competitors, and based on the proposition of Dublin as a

"... vibrant capital city bursting with a variety of surprising experiences – where city living thrives side by side with the natural outdoors". In this regard, the GDTF identified five "promotable" sectors and/or segments that offer potential for significant growth and the best return on investment. These are:

- "social energisers" – couples and adult groups looking for excitement, new experiences, and fun, social getaways to novel destinations;
- "culturally curious" – couples or solo travellers with time (and money) to spend;
- conference and incentive visitors, whose expenditure is amongst the highest of all visitors and who are more prone to visit in times when cash flow for Dublin businesses is critical – in the shoulder and off-seasons;
- cruise visitors, who come to Dublin as part of a European cruise;
- event visitors, coming to Dublin specifically to attend an event or festival, whether sporting, cultural, business or any other type of event.

Focusing on these sectors/segments represents a strategic decision to concentrate limited investment cost-effectively in attracting Dublin's best prospects, where the greatest return on investment is likely to be generated. It is also anticipated, in turn, that success in other leisure segments will follow success in the key sectors, which are typically early adopters of trends.

Under its most ambitious scenario, which assumes full implementation of its proposed strategy, the GDTF also anticipated overseas visitors to Dublin could grow by as much as 6.8% per annum up to 2020. "Implementation" in this regard envisages widespread collaboration, with public funding maintained plus significant new private sector funding, with the funding model sustained throughout the target period, and with overseas marketing of Dublin repurposed to project the new Dublin destination brand in key markets. To activate implementation the GDTF proposed an alliance of all stakeholders, taking a sectoral approach, to take its work forward. The intention was that the strategy document would serve as the template for the work of what has since become the Grow Dublin Tourism Alliance (GDTA).

Outside of conference and incentive tourism, general corporate travel accounts for a substantial proportion of visitors to Dublin. In this respect, the general policy to grow Dublin as a location for mobile foreign investment will be a major contributor to visitor numbers over the next five years. IDA Ireland's July 2014 *Policy Statement on FDI in Ireland* focused strongly on attracting new foreign investment into Dublin highlighting that the role of cities is increasingly important in FDI flows. Its policy to 2020 aims to create "globally connected city regions as attractors of investment and position Dublin as the leading European hotbed for start-ups, fast growing firms and talent".

3. Visitor Accommodation – Demand Scenarios

3.1 Introduction

This Section addresses demand for visitor accommodation in Dublin. It begins by profiling existing demand, using indicators that include paid bednights, occupancy and average daily rates in Dublin hotels. The hotel sector accounts for around 9 in 10 visitors staying in paid accommodation in the city and is the focus of most of Section 3.2.

Section 3.3 first considers key macro-economic factors likely to influence the achievement of these medium-term demand forecasts and targets and then looks briefly at more specific drivers of visitor numbers to Dublin. Finally, section 3.4 describes a range of future demand scenarios, quantified in terms of visitors and paid bednights in Dublin up to 2020.

3.2 Existing Market for Visitor Accommodation in Dublin

3.2.1 Bednights, Occupancy and Average Daily Rates in Dublin Hotels

Trends in visitor (paid) bednights in approved accommodation, both for overseas and domestic visitors, are available for 2013 through to 2015 (projected out-turn). Bednights in approved accommodation in Dublin amounted to some 9.6 mn in 2015 (Table 3.1).

TABLE 3.1: TRENDS IN OVERSEAS AND DOMESTIC PAID BEDNIGHTS IN DUBLIN 2013-15 (000s)

	2013	2014	2015 (e)
Total bednights	8,059	8,959	9,585

Note: Estimates refer to paid bednights in approved accommodation only. 2015 full year estimates are 2014 data adjusted upwards, based on latest available overseas and domestic performance.

SOURCE: FÁILTE IRELAND

Fáilte Ireland data on occupancy rates in approved accommodation also show a rise across most accommodation types, over the 2010-15 period. Bed occupancy in hotels has grown from 44% up to 61% in the period, while room occupancy has grown from 62% to 77% (Table 3.2). Moreover, all other accommodation types have similarly increased occupancy rates in the period, although the occupancy increase in guest houses, Irish Home B&Bs and self-catering are partly attributable to the significant decline in bedspaces available in these accommodation types over the period.

TABLE 3.2: TRENDS IN OCCUPANCY RATES FOR APPROVED ACCOMMODATION SUPPLY IN DUBLIN 2010-15 (%)

	2010	2011	2012	2013	2014	2015
Fáilte Ireland						
Hotels (rooms)	62.0%	64.0%	69.0%	69.0%	71.0%	77%
Hotels (beds)	44.0%	46.0%	48.0%	48.0%	50.0%	61%
Guest houses (beds)	52.0%	56.0%	61.0%	61.0%	62.0%	69%
Irish Home B&Bs (beds)	27.0%	35.0%	37.0%	39.0%	43.0%	42%
Self-catering Group (units)	67.0%	76.0%	68.0%	78.0%	78.0%	n/a
Youth and Holiday Hostels (beds)	60.0%	60.0%	66.0%	67.0%	75.0%	77%
STR Global						
Hotels (rooms)	67.2%	71.4%	74.6%	76.7%	78.4%	82.1%

SOURCE: FÁILTE IRELAND, STR GLOBAL/PWC

Other data on hotel occupancy trends show comparable patterns to those evident in the Fáilte Ireland dataset. Estimates from Smith Travel Research (STR) Global, provided to the consultants by Fáilte Ireland, report a growth in room occupancy from 67% up to 82% between 2010 and 2015. While the growth in room occupancies estimated by Fáilte Ireland and by STR are similar, there is a noticeable difference in the level, reflecting the concentration of STR's sample within busier hotels in prime city centre locations while the Fáilte Ireland sample endeavours to be representative of all grades of hotel across the whole region with the data weighted accordingly.

Average daily rates (ADR) being achieved in Dublin hotels have also increased. STR estimates, provided by Fáilte Ireland, indicate ADR in Dublin hotels increased from about €80 in 2011 to €96 in 2014, a growth of nearly 20% in three years (Table 3.3). Growth was even sharper in 2015 – up 15.9% to €111.1.

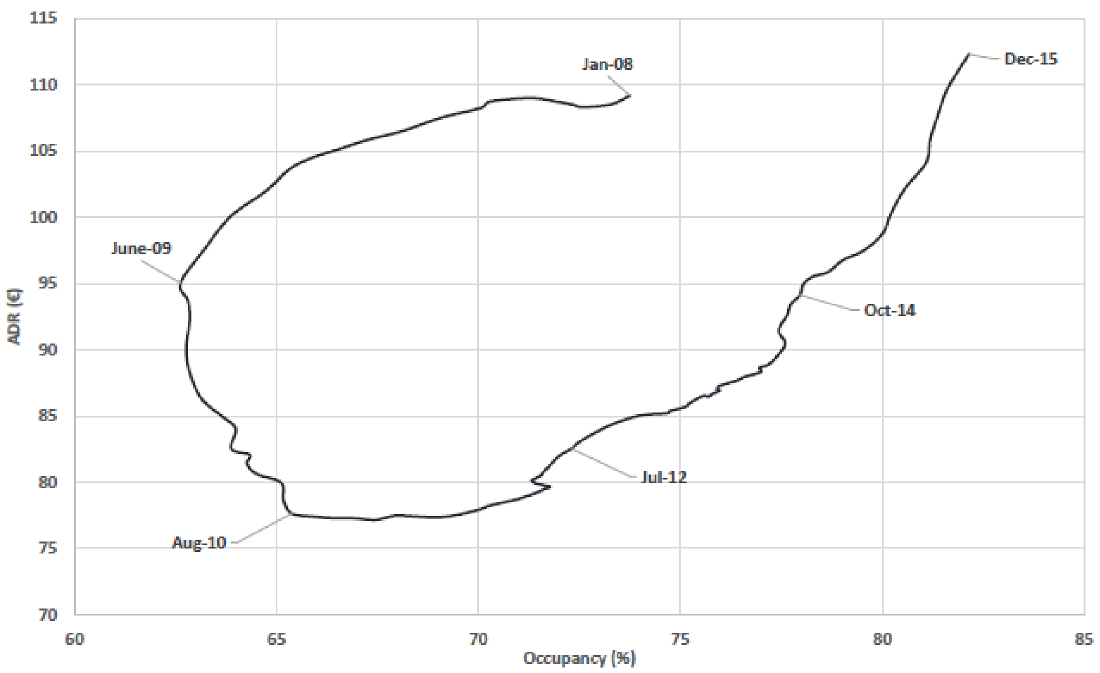
TABLE 3.3: TRENDS IN AVERAGE DAILY RATES FOR HOTELS IN DUBLIN 2011-15 (€)

	2011	2012	2013	2014	2015
STR Global	79.93	85.17	88.09	95.86	111.10
% growth	-	*6.6%*	*3.4%*	*8.8%*	*15.9%*

SOURCE: STR GLOBAL

The remarkable growth in both occupancy rates and ADR in Dublin over recent years owes some of its sharp trajectory to the depths to which these rates had sunk by 2010. The most severe economic recession in recent times saw first ADR and then occupancy sink sharply over the two years to 2010. The graphical illustration on the evolution in room revenues shows that for full service hotels in Dublin the rolling 12 month ADR didn't reach mid-2008 levels until mid-2015 following this year's sharp increase in room prices. The graphic also illustrates, however, that RevPar (revenue per available room) has risen on the back of considerable growth in occupancy rates – these have steadily increased since early 2010.

FIGURE 3.1: EVOLUTION OF ADR AND OCCUPANCY IN DUBLIN HOTELS, 2008-2015[1]



SOURCE: STR GLOBAL

3.2.2 Dublin Hotels in a European Context

STR data (quoted by PWC) indicates the rapid growth experience in Dublin over the 2010-15 period is among the highest in Europe and exceeds each of Dublin's main "competitor destinations". Room occupancy in Dublin hotels, based on STR data, grew by almost 15 percentage points in the period with only Prague (increasing by 14 percentage points and from a lower base) experiencing a similar scale of growth. Among other competitor cities, the next highest growth in occupancy was recorded in Barcelona and Berlin (both at 8 percentage points) with other cities recording growth of 5 percentage points or lower. In addition, Dublin had the highest level of room occupancy (82%) among competitor cities in 2015, with only Edinburgh breaking the 80% barrier.

TABLE 3.4: TRENDS IN HOTEL OCCUPANCY RATES IN SELECTED EUROPEAN CITIES 2010-15 (%)

	2010	2011	2012	2013	2014	2015
Dublin	67.2%	71.4%	74.6%	76.7%	78.4%	82.1%
Prague	61.5%	66.5%	68.3%	69.0%	70.0%	75.0%
Barcelona	67.6%	70.5%	71.3%	72.0%	73.0%	75.3%
Berlin	68.5%	69.1%	72.5%	72.0%	74.0%	76.4%
Amsterdam	73.1%	74.0%	73.9%	76.0%	77.0%	78.1%
Brussels	66.9%	67.2%	66.8%	67.0%	69.0%	69.8%
Madrid	64.0%	66.3%	64.0%	62.0%	66.0%	69.3%
Edinburgh	77.7%	80.0%	77.2%	80.0%	80.0%	81.4%
Vienna	72.2%	71.6%	71.6%	71.0%	72.0%	72.6%

Note: Cities listed are based on the "Tier 2" competitor cities listed in *Destination Dublin: A Collective Strategy for Growth to 2020.*

SOURCE: PWC EUROPEAN CITIES HOTELS FORECASTS (VARIOUS YEARS)

[1] 12 Month Moving Average

Compared to its competitor set in Europe, Dublin also recorded the highest growth in ADR between 2010 and 2015. Indeed, its rate of growth (44%) is well above Edinburgh, which is the next highest growing city (at 31% in euro terms, or 13% in UK pound sterling terms), with other competitor cities growing by 14% or less in the period.

TABLE 3.5: TRENDS IN HOTEL AVERAGE DAILY RATES IN SELECTED EUROPEAN CITIES 2010-15 (€)

	2010	2011	2012	2013	2014	2015	Growth (%)
Dublin	76.90	79.93	85.17	88.09	95.86	111.1	44.5%
Edinburgh	89.06	88.95	94.71	94.44	104.20	116.6	30.9%
Vienna	89.10	93.70	96.90	93.00	96.00	99.6	11.8%
Barcelona	110.30	112.60	113.50	117.00	118.00	125.1	13.4%
Amsterdam	115.90	120.40	118.40	119.00	122.00	131.2	13.2%
Brussels	105.60	109.40	108.40	110.00	111.00	108.8	3.0%
Prague	68.50	69.85	71.94	70.78	71.98	78.2	14.2%
Berlin	86.30	84.60	87.70	87.00	89.00	93.3	8.1%
Madrid	88.30	87.90	85.60	82.00	85.00	93.0	5.3%
Edinburgh (£)	*76.40*	*77.20*	*76.80*	*80.20*	*84.00*	*86.00*	*12.6%*
Prague (CZK)	*1,732.00*	*1,717.60*	*1,809.20*	*1,838.80*	*1,982.00*	*2,113.00*	*22.0%*

Note: Cities listed are based on the "Tier 2" competitor cities listed in *Destination Dublin: A Collective Strategy for Growth to 2020*. Edinburgh's and Prague's growth in average daily rate partly reflects the currency change from UK pound and Czech koruna to euro – in UK pound terms, growth in average daily rate for Edinburgh in the period was 10%, while in Czech koruna terms, growth in average daily rate for Prague in the period was 10%.

SOURCE: PWC EUROPEAN CITIES HOTELS FORECASTS (VARIOUS YEARS)

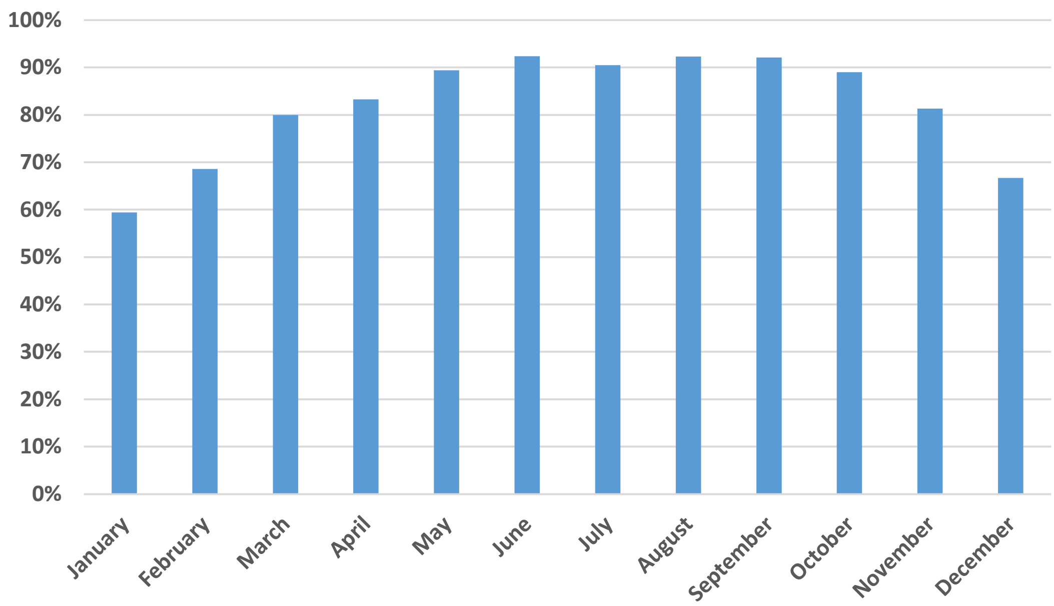
As discussed, the surge in Dublin's ADR also reflects recovery from the low of 2010 and in 2015 the city's average hotel rates still remained below those of many competitors (e.g. Amsterdam, Barcelona and Edinburgh in Table 3.5). In the overall ranking of Dublin's key city break destinations, Dublin remains very much in the middle of the table with ADR in cities such as Geneva, Zurich, Paris, London and Rome all well above Dublin at the top of the rankings.

3.2.3 Characteristics of the Demand for Dublin Hotel Accommodation

The Dublin hotel market differs in a number of fundamental ways from that of the rest of Ireland in much the same way as the demand profile for major cities differs from that of tourism elsewhere. In particular, major cities have more diversified markets such as corporate travel, event-based trips and short city breaks, contributing to higher ADR's, shorter stays, more demand for single occupancy driving a higher wedge between bed and room occupancy rates and a much flatter seasonality profile. With much higher costs of capital for city hotels the higher levels of business and more intensive use of their asset base is a requisite to make the business model work.

Preferred "timings" of these markets are largely complementary. Corporate demand is primarily during weekdays with city breaks at weekends. Saturdays generally tend to be the peak night with Sunday the slackest but overall demand by night is still reasonably flat. Similarly, corporate demand slackens off considerably during July and August – the peak months for tourist travel – while many major events particularly sporting events (rugby and soccer internationals, for example) are spread over what would be regarded as off-season or shoulder based on traditional tourism classifications. Conference Centre Dublin events and major concerts also tend to be relatively well spread out throughout the season and where these events occur in the traditional high-season there is generally little scope, or even need, to switch them to other times of the year. As indicated in Figure 3.2, occupancy rates in the peak summer months are matched by those in both shoulder periods, and only significantly lower between late October and April.

FIGURE 3.2: MONTHLY DUBLIN HOTEL OCCUPANCY (%)



SOURCE: STR

3.2.4 Demand for Other Accommodation in Dublin

Our analysis of the demand for other types of accommodation in Dublin is largely based on discussions with key operators in the marketplace and with sectoral representative associations. The caravan and camping market is largely an outlier with just two operators, although some outside the area also service Dublin. Both are located well away from the city centre and have a very different demand profile to the other Dublin accommodation providers. The market is almost completely overseas tourists, is very seasonal, peaking during the summer when occupancy can often hit 100% but doing very little off-season business. The market grew in the 1990s but has been fairly stagnant since. With prices at their current level there is very little prospect of growth in supply and for the purposes of this study further analysis of this sector is not very relevant.

The hostel sector has become increasingly amorphous in recent years with some budget hotels marketing themselves on hostel websites. The representative association Independent Holiday Hostels has just seven members in Dublin and their recent experience has similarities to that described above for the hotel sector with increasing occupancy in recent years. With little in the way of corporate demand, however, their demand is more seasonal, averaging just over 70% for 2015 but peaking around 85% to 90% during the high season.

Occupancy in approved guest houses, Irish Home B&Bs and self-catering accommodation have all grown in recent years. However there is no hard statistical information specifically available on the performance of Dublin short-stay apartments, but it is likely to have mirrored that of the hotel sector.

3.3 Drivers of Future Demand for Accommodation

3.3.1 Macro-economic drivers of future demand growth

Below we briefly assess the main macro-economic factors likely to affect demand prospects up to 2020.

Economic Growth in Source Markets

Future prospects for GDP growth in the key tourism source markets is likely to impact on outbound travel from these markets, which will in turn impact on inbound travel to Ireland. Forecasts for GDP growth to 2019, sourced from the International Monetary Fund (IMF), suggest that growth in both the UK and US will be between 2% and 3% per annum over 2016-19, while growth in the Euro Area will be close to 2% per annum in the same period. Such economic prospects in key source markets remain relatively positive for Ireland.

In Ireland itself, IMF forecasts suggest growth of between 2% and 4% per annum between 2016 and 2019. This may result in continued positive growth in domestic tourism in Ireland, though it will also increase demand for outbound overseas travel by Irish residents.

TABLE 3.6: PROJECTED GDP GROWTH IN IRELAND AND KEY OVERSEAS TOURISM MARKETS 2016-19 (%)

	2016	2017	2018	2019
Ireland	3.8%	3.2%	3.0%	2.7%
UK	2.2%	2.2%	2.2%	2.2%
US	2.8%	2.8%	2.7%	2.2%
Euro Area	1.6%	1.7%	1.6%	1.6%
France	1.5%	1.6%	1.7%	1.9%
Germany	1.6%	1.5%	1.3%	1.3%

Note: Figures refer to growth in constant prices.

SOURCE: INTERNATIONAL MONETARY FUND – WORLD ECONOMIC OUTLOOK OCTOBER 2015

Exchange Rates, Interest Rates and Inflation

As noted earlier, movements in exchange rates have helped to improve Ireland's competitiveness as a tourism destination in recent years. Forecasts from the Organisation for Economic Co-operation and Development (OECD) and the Central Bank of Ireland suggest that Euro:Dollar exchange rates will continue to remain broadly similar during 2016 and 2017 as they were in 2015, while Euro:Sterling rates will plateau following the modest recent strengthening of the euro. At the same time, there can be no guarantees that exchange rates will continue to trade at such favourable levels for Ireland indefinitely.

Interest rates have been very low in recent years, both in Ireland and in its key tourism source markets, due to the impact of the global financial and economic crisis and the need to stimulate growth. Low interest rates have a positive impact on consumer spending, all other things being equal, and therefore help to boost spending on both overseas and domestic tourism. However, given that rates have been at such historically low levels in recent years, it would appear likely that rates will grow again as economic growth recovers, particularly in the UK and US, which might affect consumer spending (including tourism). The OECD forecasts that short-term interest rates in the UK will grow from 0.6% in 2015 up to 2% in 2017, while short-term rates in the US are predicted to grow from 0.4% up to 1.7% in the same period.

Inflation forecasts up to 2019, provided by the IMF, are outlined in Table 3.7 below. In general, it shows that inflation growth in Ireland is likely to be on a par with or slightly below the growth in both the UK and US up to 2019, while being slightly above growth in the Euro Area generally. This would suggest that broadly-defined inflation trends are unlikely to impact unduly negatively on Ireland's price competitiveness vis-à-vis key source markets, though sectoral inflation trends may obviously vary.

TABLE 3.7: PROJECTED INFLATION GROWTH IN IRELAND AND KEY OVERSEAS TOURISM MARKETS 2016-19 (%)

	2016	2017	2018	2019
Ireland	1.5%	1.6%	1.7%	1.9%
UK	1.5%	2.0%	2.0%	2.0%
US	1.1%	1.8%	2.2%	2.3%
Euro Area	1.0%	1.3%	1.4%	1.6%
France	1.0%	1.1%	1.3%	1.5%
Germany	1.2%	1.5%	1.6%	1.8%

SOURCE: INTERNATIONAL MONETARY FUND – WORLD ECONOMIC OUTLOOK APRIL 2015

EU and Euro Area Stability

The Euro Area in general has been subject to considerable instability in recent years, which has in turn had negative consequences for economic growth. While growth within EU and eurozone economies has now resumed in many cases, it is certainly the case that potential for further instability exists. In its Autumn 2015 Quarterly Economic Commentary, the Economic and Social Research Institute (ESRI), notes that the ongoing situation in Greece continues to present downside risks for the Euro Area and wider EU. In this regard, Greece and its international lenders reached an €85 billion bailout agreement in early August 2015, which gives Greece some respite after a turbulent year marked by the imposition of capital controls and a three-week shutdown of its banks. This period saw Greece falling back into a recession, and Greek commercial banks still continue to operate under very strict capital controls. Furthermore, despite the recent agreement, the ESRI suggests that it will be difficult to see how Greece will succeed in generating and sustaining a sufficient surplus from 2018 onwards or how massive debts, set to peak at close to 200 per cent of GDP in the next two years, will be reduced. Based on this outlook alone, therefore, the potential for further Euro Area instability remains.

Even closer to home the prospect of the UK exiting (Brexit) the European Union presents another threat to general EU stability with particular consequences for Ireland given the close economic and social ties between the two countries. There is some uncertainty about the extent to which Brexit would affect Ireland but the general view is that it would be negative, and its tourism effects would be, at best, uncertain.

External Shocks

Finally, the general economic environment and demand for overseas tourism is always at risk from other economic or even tourism specific "shocks", which can weigh down on overseas tourism demand. A recent example was the impact of the volcanic ash cloud from Iceland, which impacted on overseas tourism demand to Ireland over 2010 and 2011, due to restrictions imposed on air transport. In a more general economic context, recent falls in oil prices probably help to promote tourism demand, however any reversal of price trends would have negative effects.

The Icelandic ash cloud is an example of a shock that can have a very temporary but immediate and deep impact on visitor numbers. Incidents such as the recent terrorist outrages in Paris and Brussels can have a similar but specific short-term effect. There is a danger, however, that a series of such events or the particular characteristics (or social perceptions) can lead to much more lasting impacts e.g. the hijacking of the Achille Laura cruise ship in 1985 and the video of a disabled US passenger thrown overboard (alongside a weakening dollar) led to a collapse of the US visitor arrivals in Europe in 1986. Increased security measures as a result of terrorist activities can also be a barrier to international travel.

The cost of international travel, however, looks unlikely to rise in the foreseeable future. The December 2015 OPEC meeting in Vienna ended without any decisions to curb production despite prices falling to their lowest level in seven years. The prospect of the return of Iranian oil to international markets and increasing efficiency of shale producers in the US also point to continued low fuel costs for the travel industry.

Also, in recent months, uncertainty regarding growth in China has been the cause of much concern for the global economy, with evidence of a slowdown in Chinese economic growth, depreciation in the Chinese currency (with knock-on effects for its trading partners) and stock market falls. Events that have a significant negative impact at the global economy level, therefore, will continue to have the potential to impact negatively on overseas tourism demand too.

3.3.2 Other drivers of demand growth for Dublin accommodation

The number of accommodation providers in Dublin, their marketing and promotional activities and wider brand marketing campaigns carried out will have an important impact on the level of tourism business attracted to Dublin over the next five years and beyond. As such the work of the GDTA, among others, of positioning and promoting the city will be a key factor in the level, and spend, of visitors to the city. There are, however, a number of other very important drivers from transport facilities to foreign investment that are also of specific importance to the future of Dublin that are briefly discussed below.

Growth in passenger numbers at Dublin airport mirrors the increase in accommodation sales in Dublin with sharp increases in recent years. The future of tourism in Dublin is closely linked with developments at the airport (and vice-versa). By end-November 2015, Dublin Airport had already surpassed the record number of passenger arrivals established in the twelve months of 2008. Some 25 million passengers travelled through the airport during the full year. The number of airlines servicing Dublin and the number of routes increased considerably over the last two years and will continue to expand in 2016. In particular, the takeover of Aer Lingus by International Consolidated Airlines Group (IAG) will see their services expand considerably in 2016 amid talk of the development of Dublin as an IAG hub airport. Dublin Airport Authority (DAA) already have planning permission for a second runway. The DAA also have planning permission for a 400-bed hotel at Terminal 2 and, as discussed in the following Chapter, other hotels in the immediate airport catchment area also have permissions for major expansions in their accommodation stock, suggesting optimism about both the future of the airport and tourist numbers into Dublin.

Improved transport between the city centre and the airport has been on the agenda for quite a number of years. The recent coalition government resurrected the Metro North link but assuming it goes ahead it is not scheduled for completion until 2026. Transport links around the city are a key driver of demand for Dublin because an easy to understand and efficient system attracts (and helps retain) visitors. It is additionally important because improved links open up new areas of the city for development of business, in particular the location of visitor accommodation. The planned extension of the Luas, looping up and around O'Connell Street, alongside the development of Conference Centre Dublin (CCD) has made that area of the city much more attractive for visitors stays and hence for hotels to locate. These developments and the location of supplementary attractions (Croke Park Skywalk, James Joyce Museum and plans for the GPO) have made the area one of the hotspots for planned hotel development. Hence, in the next Chapter (on accommodation supply) this area has been designated separately as "Dublin 1 Prime".

Major conferences and events are also major drivers of demand for accommodation in Dublin - evidence of the singular impact of the cancellation of the Garth Brookes' concerts in July 2014 on occupancy and ADRs is very evident from a cursory examination of the relevant statistics. The increasing importance of the CCD as a generator of major events is also an important driver of growth and having only opened in September 2010 its contribution to Dublin tourism is still growing and the outlook for CCD events in 2016 is ahead of what was a relatively strong 2015. Like the airport, the immediate vicinity of the CCD is also a hotspot for planned additional accommodation including permission for a new hotel at the CCD itself.

In Chapter 2, the contribution of increasing foreign direct investment (FDI) flows into Dublin and IDA Ireland's placing of Dublin close to the centre of its strategy for increasing future investment flows into Ireland was highlighted. The Authority does have a remit for regional development but the reality of the international FDI market is that major companies, particularly in the service sector, prefer city locations. IDA Ireland annual reports show the number of investments in Dublin and Cork ranged between 77% and 63% of the total in the years 2011 to 2014. A recently published paper by the ESRI and Jones Lang LaSalle (JLL) indicated that 70% of take-up of new office space in Dublin in the first half of 2015 was by FDI enterprises. It also reported the trend for these companies to expand their requirements considerably shortly after initial establishment – multiples of 12 times initial requirements were indicated for Facebook and Salesforce, 7 for Amazon and a massive 141 times (to 63,000 m^2 over 9 buildings) for Google. The report warned of a potential shortage of suitable modern office space militating against the growth of FDI over the next few years.

After a number of fallow years with no construction of new offices, since 2013 the market has been racing to cater for growing demand for space. Rental rates have doubled over the last three years and vacancy rates have fallen sharply. The ESRI/JLL study suggests that between new build and refurbishments there was close to 200,000 m^2 of space (about 5% of total office accommodation in Dublin) under construction in 2015. In contrast to the ESRI/JLL report's concern about emerging shortages, considerable planned expansion over the next few years of close to 500,000 m^2 have led to predictions in some quarters (e.g. Green REIT) that by 2018 there may be an over-supply of office space. However, for the Dublin accommodation sector, growth in the supply of office space and subsequent take-up, particularly by FDI-companies, will continue to generate strong growth in corporate travel and overnight visitors. Indeed, all of the above Dublin-specific drivers suggest further growth in accommodation demand in 2016 and beyond. However, another consequence of the growth in construction of new offices is the competitive impact on available sites for new accommodation development. This is explored in the next Chapter.

3.4 Demand Scenarios for Visitor Accommodation in Dublin

Table 3.8 below outlines four scenarios for growth in overseas, domestic and total visitors and bednights in Dublin by the year 2020, using the Fáilte Ireland estimates for 2015 as a baseline. The projections are based on likely demand in approved visitor accommodation in Dublin by 2020. As a basis for deriving scenarios based on approved accommodation seems reasonable, given the trend of rising occupancy and average daily rates cited in Section 3.1 above. In turn, this suggests that any shortfall in approved accommodation in Dublin is not being substituted by unapproved supply.

In each scenario, the same growth rate for domestic visitors and bednights is assumed between 2016 and 2020 – 3% per annum – which is line with Fáilte Ireland projections for domestic visitor growth over the 2016-20 period. Growth rates for overseas visitors and bednights for the same period vary across the four scenarios, as follows:

- under Scenario 1, the lowest of the four scenarios presented, growth over the 2016-20 period is projected at 2.2% per annum. This projection, while low in comparison to recent years, is in line with World Tourism Organisation (UNWTO) forecasts for visitor growth in Northern Europe and Western Europe over the 2010-20 period, and it is consistent with the "do nothing" scenario (re-based to 2015) outlined in *Destination Dublin: A Collective Strategy for Growth to 2020*, the report of the GDTF;
- under Scenario 2, growth over the 2016-20 period is projected at 2.5% per annum. This scenario is effectively the annual average growth rate implicit in People, Policy & Place: Growing Tourism to 2025;
- under Scenario 3, growth over the 2016-20 period is projected at 4.7% per annum. This scenario is based on the "mid" growth scenario (re-based to 2015) outlined in *Destination Dublin: A Collective Strategy for Growth to 2020*;

- finally, under Scenario 4, growth over the 2016-20 period is projected at 6.8% per annum. This scenario is based on the "high" growth scenario (re-based to 2015) outlined in *Destination Dublin: A Collective Strategy for Growth to 2020*.

Under the four scenarios, total bednights to Dublin are projected to grow to over 10.5 mn under Scenario 1, over 10.6 mn under Scenario 2, 11.2 mn under Scenario 3 and over 11.8 mn under Scenario 4.

TABLE 3.8: DEMAND SCENARIOS FOR DUBLIN ACCOMMODATION BY 2020

	Scenario 1 – Overseas Growth @ 2.2% per Annum 2016-20 (UNWTO Scenario)	Scenario 2 – Overseas Growth @ 2.5% per Annum 2016-20 (People, Policy & Place Scenario)	Scenario 3 – Overseas Growth @ 4.7% per Annum 2016-20 (Destination Dublin Mid-Growth Scenario)	Scenario 4 – Overseas Growth @ 6.8% per Annum 2016-20 (Destination Dublin High-Growth Scenario)
Overseas				
Visitors (mn)	5.20	5.28	5.87	6.47
Paid bednights (mn)	5.46	5.54	6.16	6.80
Domestic				
Visitors (mn)	1.60	1.60	1.60	1.60
Paid bednights (mn)	5.05	5.05	5.05	5.05
TOTAL				
Visitors (mn)	6.80	6.88	7.47	8.08
Paid bednights (mn)	10.51	10.59	11.21	11.86

Note. Figures may not add due to rounding

SOURCE: FITZPATRICK ASSOCIATES ESTIMATES

4. Visitor Accommodation – Supply Trends and Prospects

4.1 Introduction

This Section addresses accommodation supply. Section 4.2 begins by describing the current stock of paid accommodation, and recent trends therein. Section 4.3 addresses future prospects in approved accommodation supply, and presents our findings in relation to anticipated additions to the supply stock up to 2020. Section 4.4 describes factors most affecting new supply in the current Dublin context.

4.2 Current Supply of Visitor Accommodation in Dublin

4.2.1 Approved Accommodation

A total of 148 hotels were registered with Fáilte Ireland at the end of 2015. Table 4.1 shows their breakdown in respect of classification and broad location in Dublin. In terms of hotel classification, Dublin is dominated by 4 Star (almost 46% of bedspaces), and 3 Star (41% of bedspaces), while in terms of location, Dublin 2 and 4 account for some 35% of bedspaces with quite an even spread across other parts of the city centre, the airport vicinity and other suburban locations.

There were some 29 registered guest houses in 2015, and the register indicates:

- approximately one third are classified as 4 Star, another third 3 Star, and the final third either 1 or 2 Star;
- 4 Star properties are in the main located in Dublin 2 or 4, while 3 Star properties extend into other areas of the city centre and suburbs, and 2 and 1 Star properties are concentrated mainly in Dublin 1.

There were 68 Irish Home B&B establishments approved in 2015. Of these:

- approximately 13% were classified 4 Star, 71% 3 Star, and 16% “approved”;
- relatively few are located in the city centre. Dun Laoghaire, Malahide, Skerries, Howth, Portmarnock, Swords, Rathcoole, and some locations closer to the city (e.g. Dublin 3, 5, 6 and 9) dominate among their locations around Dublin.

There were 13 listed self-catering properties and just 4 group self-catering properties approved in Dublin in 2015, together accounting for a negligible proportion of bedspace capacity in the city. Predominantly 3 or 4 Star in classification, their locations cover many parts of the city and suburbs.

There were 17 approved youth and holiday hostels with Dublin 1, 2 and 7 the dominant locations. There were just two approved caravan and camping outlets in 2015 – at Lusk and the Naas Road.

TABLE 4.1 BREAKDOWN OF 2015 HOTEL STOCK BY CLASSIFICATION AND LOCATION

Classification	Location	Number	Bedspaces	% of Hotels	% of Bedspaces
5 Star	Total	11	3,485	7.4%	8.3%
	..of which				
	Dublin 2 and 4	10	3,155	6.8%	7.5%
	Other	1	330	0.7%	0.8%
4 Star	Total	47	19,378	31.8%	46.3%
	..of which				
	Dublin 2 and 4	16	6,037	10.8%	14.4%
	Dublin 1	5	2,128	3.4%	5.1%
	Dublin 8	3	1,108	2.0%	2.6%
	Dublin 9 and 17, Airport, Swords	6	2,812	4.1%	6.7%
	Other	17	7,293	11.5%	17.4%
3 Star	Total	66	17,245	44.6%	41.2%
	..of which				
	Dublin 2 and 4	25	5,068	16.9%	12.1%
	Dublin 1	11	3,631	7.4%	8.7%
	Dublin 8	2	360	1.4%	0.9%
	Dublin 9 and 17, Airport, Swords	11	3,559	7.4%	8.5%
	Other	17	4,627	11.5%	11.1%
2 Star	Total	20	1,549	13.5%	3.7%
	..of which				
	Dublin 2 and 4	7	425	4.7%	1.0%
	Dublin 1	7	609	4.7%	1.5%
	Dublin 8	-	-	0.0%	0.0%
	Dublin 9 and 17, Airport, Swords	2	58	1.4%	0.1%
	Other	4	457	2.7%	1.1%
1 Star	Total	4	159	2.7%	0.4%
	..of which				
	Dublin 2 and 4	-	-	0.0%	0.0%
	Dublin 1	3	142	2.0%	0.3%
	Dublin 8	-	-	0.0%	0.0%
	Dublin 9 and 17, Airport, Swords	-	-	0.0%	0.0%
	Other	1	17	0.7%	0.0%
Total		148	41,816	100.0%	100.0%

SOURCE: FÁILTE IRELAND

The general trend since 2010 is of very moderate and intermittent decline up to 2014 followed by a very moderate increase in 2015. Bedspaces available in approved hotel accommodation account for by far the largest share of spaces, being equivalent to 87% of all approved accommodation in 2015, and hotels have consistently maintained this share of accommodation supply throughout the 2010-15 period.

TABLE 4.2: TRENDS IN REGISTERED ACCOMMODATION SUPPLY – BEDSPACES – IN DUBLIN 2010-15 (000s)

	2010	2011	2012	2013	2014	2015
Hotels	44,929	43,845	43,207	43,004	41,065	41,816
Guest houses	1,459	1,376	1,410	1,316	1,235	1,262
Irish Home B&Bs	1,117	1,010	902	770	700	614
Listed self-catering*	207	165	151	112	110	99
Group self-catering*	252	252	252	252	200	193
Youth and Holiday Hostels	2,776	2,402	2,527	3,055	3,241	3,039
Caravan and camping*	500	730	730	730	1,150	1,150
TOTAL	51,240	49,779	49,179	49,239	47,701	48,173

* Bedspaces estimated up to 2014

SOURCE: FÁILTE IRELAND

The observable trends over the period for different accommodation types have been quite varied:

- hotel bedspaces have declined over the full period, but showed very moderate growth in 2015;
- bedspaces in guest houses have generally been in decline, although not in every year;
- bedspaces in Irish Home B&Bs have shown consistent decline, and quite significantly so, with 2015 capacity just 55% of its 2010 level;
- capacity in both listed and group self-catering have also shown general decline, quite dramatically in the case of the former;
- hostel bedspace capacity has increased as well as decreased in different years over the period, but was 10% higher in 2015 than in 2010.

In addition to the above categories of approved accommodation, Fáilte Ireland has recently introduced the Fáilte Ireland Welcome Standard, which provides scope for official recognition of forms of accommodation that do not conform to the standard types within the established quality assurance framework. While this standard was only launched in June 2015, the sector is growing and is expected to expand and consolidate in the short to medium term.

4.2.2 Informal/Other Visitor Accommodation

Unapproved accommodation includes accommodation in categories for which there is no formal regulations, registration requirements or quality standards governing, such as informal hosting, student accommodation that may be provided for tourists on occasion, or short-stay apartments. It also arises where new forms of conventional categories (e.g. hostels) are not approved for a variety of reasons. In both cases reliable estimates of the supply these provide additional to approved supply are not possible to make, due to both a lack of aggregated data as well as uncertainty about the extent of overlap with approved supply. However here we describe findings regarding Airbnb and student accommodation.

In consultations for this study, Airbnb has provided indicative information about its activities in Dublin over recent years in a number of respects:

- its number of active hosts:

- the number of bedrooms offered by active hosts;
- the extent of availability of this accommodation;
- the general type of accommodation offered by hosts in Dublin; and
- occupancy levels, in terms of days host accommodation is typically booked per year.

Table 4.3 provides data on indicative levels of active hosts and the bedrooms they provide in aggregate for Dublin in recent years.

TABLE 4.3: AIRBNB – ACTIVE HOSTS AND BEDROOMS IN DUBLIN 2013-2015

	2013	2014	2015 (Jan-Oct)
No. of Active Hosts in Dublin (Range)	250-500	500-1,300	1,300-2,200
No. of Bedrooms (Range)	500-830	830-2,300	2,300-4,000

Note: Range is from the minimum to the maximum number on any given day throughout the period

SOURCE: AIRBNB

Beyond these statistics, Airbnb has also indicated that:

- in terms of availability, at any time between 35% and 65% of this accommodation is available for booking, and that this range has been quite consistent over time;
- approximately 55% of the accommodation is provided as private rooms in shared dwellings, while 45% is provided as entire homes; and
- in 2015, host accommodation in Dublin has been booked for between 30 and 50 days per year (thus far).

To put this level of provision into context, it can be very simply compared to hotel "capacity" as follows:

- in 2014 there were estimated to be between 830 and 2,300 bedrooms offered by active Airbnb hosts. The mid-point of this range is 1,565 bedrooms;
- at any time between 35% and 65% of these were available. Again, taking a mid-point, for illustration this can be simplified to suggest that the capacity was available approximately 50% of the time throughout the year;
- in terms of basic bedroom nights, this is equivalent to 782.5 bedrooms being fully available throughout the year;
- in sheer capacity terms (i.e. bedroom nights) the Airbnb "capacity" therefore available in 2014 was equivalent to a 782 bedroom hotel open throughout the year, or just under four 200 room (i.e. mid-size) hotels[2].

[2] It is worth noting that seasonal variation will affect this average – as Airbnb accommodation is predominantly aimed at pure tourists rather than corporate visitors it is likely to be much stronger during peak periods than in the traditional off-season months.

Student accommodation is generally not considered when analysing tourism accommodation and Fáilte Ireland does not have data on bedspaces. By definition for most of the year it is used by students rather than tourists. Traditionally, much of it is controlled by third level institutions and is targeted during the summer period at academic conferences and visitors on study-related visits. Even the private sector providers of student accommodation blocks that sell space during the summer holidays do so to education-related clients such as visiting language students. Despite this, in the context of this report, which is looking at the capacity of the Dublin accommodation sector to cope with growing demand for beds over a number of years when supply may be unable to keep pace, the rapid growth in availability of tailored student accommodation is worth mentioning. However its potential contribution may be limited by virtue of its non-suitability for quality assurance, as well as its very seasonal and short period of availability in a context where Dublin's tourism and visitor demand is open to only limited seasonal influence relative to elsewhere in the country.

4.3 Future Prospects in Approved Accommodation Supply

4.3.1 Hotels

Through researching planning lists, public, corporate and press announcements, and our consultations with hoteliers, banks, and professional advisors, we have compiled what we consider a comprehensive dataset of prospective hotel developments and extensions that in aggregate number some 80 individual projects in prospect in Dublin city and county. For each project we have considered its planning status and history, and gathered market perspectives and insights regarding likelihood of proceeding, likely timing, and the addition to room capacity generated if completed.

Any analysis of the dataset discussed below needs to be clear that this is a snapshot taken of the prospective pipeline as of late March 2016. The overall picture is very fluid with projections changing from week to week, mostly in an upward direction over recent months when a number of new potential projects were added as investors took note of the ongoing growth, and brighter prospects for, the Dublin hotel sector[3]. Since the list was first compiled in September 2015 there have also been reductions as some investors switch to other possible uses and some projects are knocked back, usually with reduced room numbers, by planning decisions.

Of the 80 hotel projects identified, 15 are considered unlikely to be completed, at least within the timeframe of this study (up to 2020). The reasons are mixed, and include their speculative nature, planning challenges, withdrawn applications etc.

The remaining 65 are considered likely to be completed within the timeframe under review.

[3] In addition, hotels mooted at the Guinness Storehouse and at the Digital Hub may be added to this mix over the next few months as plans for them take shape but they are not included at all in the current dataset nor has any assumptions been made about the future of the existing Tara Hotel.

Overall, including those we expect not to go ahead, or to arrive after the 2020 deadline, there are an estimated 8,714 rooms. Across the projects considered likely to be completed and operational by end-2020, there is a combined capacity of some 5,545 hotel bedrooms, made up of 3,796 (68%) in new hotels, and 1,749 (32%) in extensions to existing hotels.

Among the most significant new hotels in the planning pipeline are:

- a facility at Dublin Airport (Terminal 2) with up to 400 bedrooms;
- a hotel at the Convention Centre with approximately 300 bedrooms;
- a hotel at the Coombe with c.260 bedrooms; and
- projects of a scale close to 200 bedrooms at Bow Lane, Charlemont St, O'Connell St, Mill St, and Spencer Dock.

Among the more significant hotel extensions in prospect are:

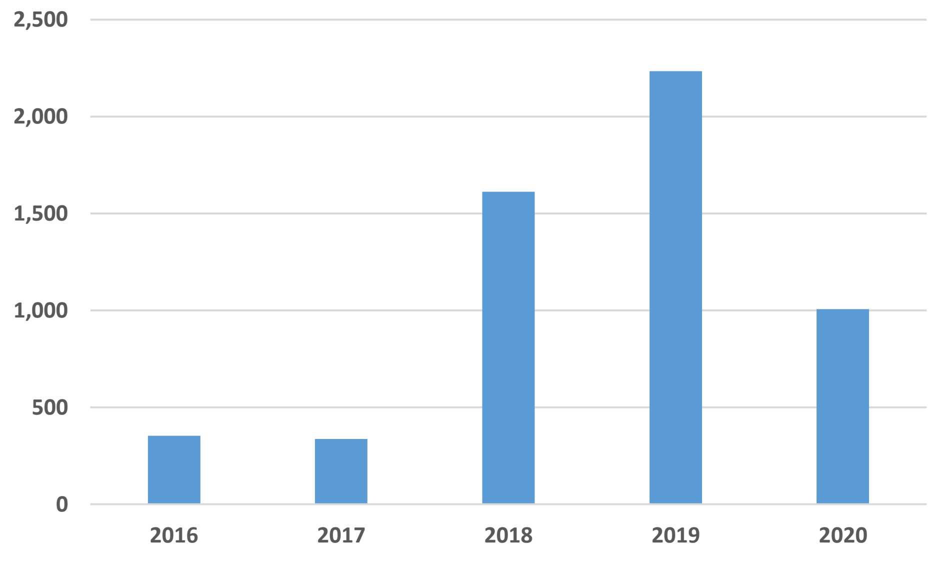
- 200 new bedrooms at the Clayton Hotel at Dublin Airport;
- 142 new bedrooms at the Gresham Hotel on O'Connell St;
- 146 new bedrooms at the Radisson Blu at Dublin Airport;
- 140 new bedrooms at the Red Cow Hotel;
- 112 new bedrooms at the Hilton Charlemont;
- 85 new bedrooms at Jury's Custom House;
- 80 new bedrooms at the North Star Hotel on Amiens St;
- 75 new bedrooms at the Camden Court Hotel on Camden Street.

Of the total new hotel bedroom capacity in prospect by 2020, the classification mix is projected as follows:

- 66 rooms will be in 5 Star hotels;
- 3,163 rooms in 4 Star hotels; and
- 2,316 rooms in 3 Star hotels.

The likely timing of this new capacity becoming operational is shown in Figure 4.1. It can be seen that the bulk of the new capacity is not expected until the years 2018-2020, with much more modest new capacity expected to operationalise in 2016 or 2017.

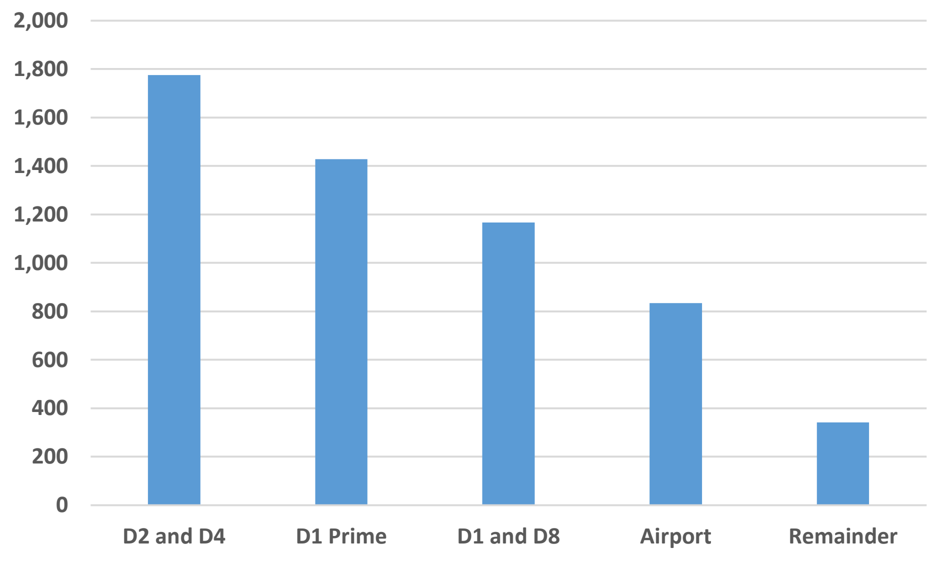
FIGURE 4.1 EXPECTED NEW HOTEL BEDROOM CAPACITY



SOURCE: FITZPATRICK ASSOCIATES ESTIMATES

Figure 4.2 indicates the location mix of the new hotel capacity anticipated (as between Dublin 2 and 4, Dublin 1 "Prime" (meaning the Docklands and around the immediate retail and business area around or proximate to O'Connell Street), other parts of Dublin 1 or Dublin 8, the general airport vicinity, or other locations).

FIGURE 4.2 LOCATION OF NEW HOTEL BEDROOM CAPACITY



SOURCE: FITZPATRICK ASSOCIATES ESTIMATES

Finally, there is the prospect of some existing hotel capacity reduction in the city. The redevelopment of the site of the Ballsbridge and Clyde Court Hotels in Ballsbridge is the single significant example currently known, where there is the prospect of a net reduction of approximately 430 rooms, based on the proposal to have a 152-room hotel developed under the wider scheme.

4.3.2 Other Approved Accommodation

As of March 2016, there were two planning permissions for new hostels and six for new short-stay apartment complexes lodged with Dublin local authorities. As such, the hostel sector is likely to make very little contribution to the overall growth of Dublin accommodation stock over the next five years. Of the total of 160 hostel bedspaces we expect 131 (all within Dublin 2 and 4) to come on stream over the 2016-2020 period[4].

The number of units in short-stay apartments recorded across the six planning permissions is 765 but we do not expect two of the larger applications – for 200 and for 127 apartments – to go ahead. They were refused planning, have not yet been re-lodged and we have taken the view they will not be completed within the time frame. Thus, we estimate an additional 438 short-stay apartment units to come on-stream by 2020 with 264 of these in 2019, 95 in 2018 and the remaining 79 in 2017. Of these 130 are planned for Dublin 1 and 8, 264 for Dublin 2 and 4, and 44 elsewhere in south Dublin.

Research suggests there is a pipeline of new student accommodation in the order of 5,500 bedrooms in planning or design for Dublin over the period to 2020, most of which is earmarked for the city centre, although largely outside the prime central business district. Timing wise, the Ziggurat will be available in 2016, but the remainder will not be on-stream until the middle to end of the 2016-2020 timeframe. The view among parties consulted is that a proportion of this new accommodation would not only be suitable for non-student commercial use by tourists and other visitors during the summer months (outside college terms), but will be developed and promoted specifically so as be used as such.

For example, international providers such as Ziggurat and THSC will offer their accommodation to general tourists during the summer months (this is the case in Edinburgh, for example). They can transfer from standard student residential units for about ten weeks during the summer holidays with two weeks allocated for cleaning and changeover, leaving 40 weeks as normal student residences. While this alternative type of accommodation is not directly suitable for much of the current demand for accommodation in Dublin, it can provide an overflow valve for certain visitors during the summer months. On the assumption that the operators try to maximise use of their resources they are likely to also market themselves to attract additional visitors to Dublin.

[4] A number of key informants in the Dublin hostel sector suspected a 500 bed hostel is planned in Dublin 2 but our research found no confirmation of this.

4.4 Factors Affecting Supply

Core determinants of supply in the paid visitor accommodation market in Dublin mirror supply determinants in other markets, and typically revolve around a combination of prospective profitability, costs, other input availability, market access, finance, risks and entrepreneurial enthusiasm. From our research and consultations a number of key issues are affecting supply of visitor accommodation in the current context in Dublin, some of which relate to these more general considerations and some being quite context-specific.

Property Market Issues

A universally-held view amongst consultees and commentators is that in the current Dublin property market, investment returns from hotel development in prime city centre sites cannot currently compete with those achievable from other forms of development, primarily offices, residential and increasingly student accommodation. Over the very recent past the general commercial and investment property market in the city has been characterised by record levels of investment transactions, strongly appreciating asset values, and a widening base of national and international investors and funding sources, following substantial de-leveraging of commercial real estate by NAMA and Irish and non-Irish banks. Office development has been to the forefront in this market buoyancy, where very robust demand for modern office space, particularly in the central business district, occurred against a backdrop of very little new supply since the recession took hold over six years ago. Rental growth and lease prospects and terms now make office development the most attractive option for owners of lands zoned for commercial development. While residential development competes less directly due to its zoning distinction, student accommodation is now an attractive development opportunity given the sharp imbalance between demand and supply, and numerous projects are in the pipeline.

The result for prospective hotel developers is that sites owned promise a greater and more certain return from alternative forms, which can then attract greater levels of external funding on more cost efficient and flexible terms. Alternatively where sites are acquired their value for other purposes and hence acquisition cost for prospective hoteliers, renders hotel development significantly less feasible than otherwise. While a number of major international hotel brands have moved into Dublin since the turn of the century, the city's hotel sector has a relatively low proportion of such hotels. The dearth of available sites has been one obstacle stymying recent attempts to enter the market.

These factors can be seen in the location breakdown of new hotel capacity in planning, where much is being pushed outside the prime central business district into areas such as Dublin 1 and Dublin 8, even though the former is preferential for hoteliers and visitors alike. Similarly, from the point of view of hotel investors, the existing costs of building hotels in central locations are extremely high when site costs are included, and this makes the prospect of acquiring existing hotels significantly more economic than developing new ones, and there are numerous examples where it is evidently the preferred option for such investors.

High site costs are also influencing the types of new hotels being built. New builds are more likely to be 3 Star budget-type hotels with limited services as the new enterprises try to maximise room numbers on their sites. Regulations on room sizes which are generally quite generous by European standards put a limit on the extent to which prospective hoteliers can intensify the use of the available footprints, as do the height restrictions which apply to most of central Dublin. Compared to many major European capitals, Dublin has quite a low number of hotels relative to its population and its GDP and a fairly small average size of hotel.

Investment Finance

While there is widespread evidence and recognition of improvements in the markets for development finance for hotels in the city (both debt and equity) since their retreat in this and wider commercial funding markets following the economic crash, there are widely held views that:

- the almost complete lack of lending by Irish financial institutions between 2010 and 2012 stymied all construction in Dublin in those years;
- from the lender's perspective, funding for city centre commercial real estate is much more attractive and low-risk for office than hotel development;
- over the last few years the banking sector has begun to lend to the hotel sector again but this has often been on terms that would still make new development difficult to finance with challenging conditions (particularly for new buildings) whether in lending margins, loan-to-value and loan-to-cost ratios, debt/equity requirements, or project-related criteria. With low LTVs from the traditional banks, many prospective developers of new hotels are left with a funding gap to be filled by high margin international specialist funds, by seeking funds from the market (e.g. Dalata), or the postponement/abandonment of their plans.

With hotels reeling from the recession at the end of the 2000s and the difficulties finding suitable finance in the first half of the 2010s the Dublin hotel sector has effectively seen no investment over the last eight years and with so little in the pipeline for 2016 and 2017, the sector will effectively have experienced a decade with little net addition to its room stock. This dearth of additions to the supply base is at the core of the current concern over the lack of hotel rooms to cater for the recent resurgence in demand.

For existing operators seeking to expand their premises, finance was very difficult to source in the 2012 to 2013 period. For some there was, and still remain, legacy debts arising from investments during the 2000s. Additionally, years of relatively low to non-existent operational profits made it difficult to provide robust projections of EBITA[5] growth to satisfy prospective financiers and relatively low hotel valuations constrained the use of their existing assets as leverage. More recently, however, hotel values have appreciated and profits have increased making it easier to access funds for refurbishment and extensions. Thus, quite a lot of existing hotels are now in expansionary mode and finance is less of a problem than it is for new operators. On the other hand, some major investments in new facilities are being delayed or postponed because the disruption caused by construction activity, and possible temporary loss of rooms, has to be balanced against loss of business at a time when RevPar is at an historical high.

[5] Earnings before interest, tax and amortisation

Profitability

While RevPar and other income streams are critical determinants of hotel and other accommodation profitability, they are only one side of the rate of return calculation. There are very significant supply-side determinants of future profitability that also need to be taken into account:

- development cost, including site cost, construction cost (driven largely by design specification, which in turn is closely linked to grading and quality assurance obligations), development contributions, taxes on construction, etc.;
- operational costs, particularly labour costs in a traditionally labour-intensive sector, but also debt servicing, utilities, marketing, insurance, supplies, management or franchise fees, property taxes/commercial rates, and indirect taxes, etc. Movements in these costs have been benign to neutral in recent years with one glaring exception, namely commission costs. These rates have risen very sharply as hoteliers increasingly rely on online travel agencies (e.g. Expedia) and the global distribution system for their bookings – in a recent presentation in Dublin, CBRE's UK Hotel Division estimated that commission costs had risen from 1% of revenues in 2000 to 8% by 2015 and this cost is likely to grow even higher for smaller independent (and new) operators heavily reliant on third-party booking sites.

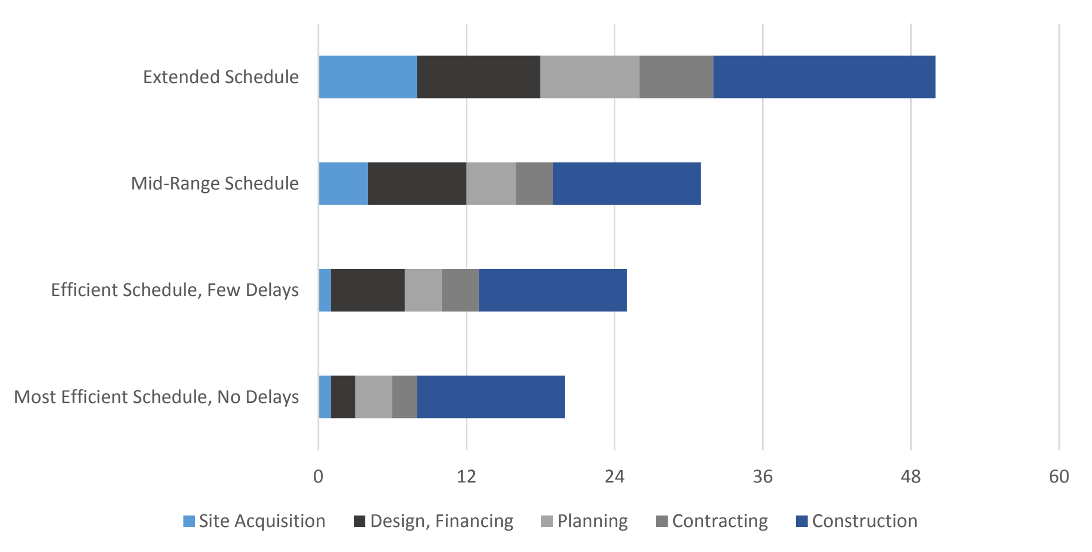
With profitability recovering steadily in recent years among Dublin hotels, and accelerating in 2015 on the back of the increase in RevPar, new hotel development and capacity will depend on investors' expectations about all of these supply costs and their speed of appreciation. Site cost growth and potential construction cost inflation in Dublin will also affect profitability forecasts. With the expected increase in construction activity in Dublin in the coming years, building costs are likely to rise even higher over the 2016-20 timeframe.

Lead Times

The time typically required for a new hotel to come to the market is widely considered a supply constraint in Dublin, given its effect on both cost and risk. Industry consultations suggest from conception to completion can range from no less than 1.5 years to more than four (and perhaps 5 or more), with "typical" projects closer to the latter than the former. Figure 4.3 illustrates typical elapsed periods that can apply, however the conditions that would allow the speediest of developments (e.g. site ownership, simple, standardised design, planning efficiency and lack of objection/appeal, development and operational contractual certainty, and a lack of unforeseen delays at all other stages) are generally felt to be so rare as to be irrelevant.

Long lead times are a general feature of development in Dublin city centre however and not one particularly unique to hotel development. While some phases may be somewhat shorter (e.g. funding and design) for office development, the overall period is not likely to be appreciably shorter on average. Furthermore there is no implication that lead times in Dublin are unduly lengthy relative to international norms – rather that lead times as they are necessarily increase uncertainty, risk and cost.

FIGURE 4.3 ESTIMATED LEAD TIMES FOR NEW HOTEL DEVELOPMENT IN DUBLIN (FROM CONCEPTION IN ELAPSED MONTHS)



SOURCE: FITZPATRICK ASSOCIATES ESTIMATES

Risks/Uncertainty

Finally, the degree of risk and uncertainty attaching to all of the above supply-side factors is itself a critical determinant of development appetite and activity. Where any of the major phases or processes have great uncertainty surrounding them (e.g. financing, site acquisition, planning, construction, management contracting, etc.), whether in relation to their likely success, speed or cost, the prospects for development proposals are weakened.

4.5 Factors Affecting Development Amongst Projects with Planning Approval

In addition to the general supply side considerations outlined above, there are a few specific reasons why some visitor accommodation projects with full planning permission have yet to proceed to construction stage. These reasons include:

- revisions to the Dublin Development Plan: Following publication of the *Draft Dublin City Development Plan 2016-2022*, some project promoters are reviewing their plans to see if anticipated changes in the maximum allowable height will enable them to add to the number of storeys and use their site more intensively, thereby generating more revenue from the same footprint;
- revisions to Visitor Accommodation Regulations: One of the actions in *The Tourism Action Plan 2015-2018* called for a review of the regulations governing visitor accommodation to address changing market needs. Any expected changes in regulations which could allow for more site

intensification is likely to cause project promoters to delay project activation as they wait to see if more revenue could be generated from the same site footprint;

- multiple planning applications: In some cases project promoters submit more than one planning application for a given site so as to allow them to keep their options open;
- some existing hotels are delaying the construction of additional rooms to avoid disrupting their existing business at a time when RevPAR is hitting unprecedented heights, and hotels that would temporarily need to reduce room availability to extend their premises are particularly reluctant; and
- finally, as also highlighted above, some new builds are finding it difficult to secure sufficient finance to fund construction (e.g. because of lower than anticipated LTVs (loan-to-values) ratios.

5. Conclusions and Policy Responses

5.1 Overall Conclusions

The Current Stock of Visitor Accommodation

The stock of visitor accommodation in Dublin is described in Section 4.2. It comprises accommodation approved with Fáilte Ireland (hotels, guest houses, Irish Home B&Bs, self-catering, youth and holiday hostels, caravan and camping and other forms approved under the Fáilte Ireland "Welcome" standard), as well as other types of unapproved accommodation sold or made available to paying visitors (short-stay apartments, private hosts using sites such as Airbnb, providers of student accommodation selling rooms out of the academic term, etc.).

Approved accommodation in Dublin is dominated by hotels, of which there were 148 in 2015, providing some 41,816 bedspaces (in 18,531 bedrooms). The hotel stock is predominantly in the 3-Star and 4-Star classification (together they account for 87% of bedspaces), while most of the remainder are in the 5-Star category.

Most non-hotel approved accommodation is provided by Youth and Holiday hostels (6% of approved bedspaces in the city), followed by Guest houses, and caravan and camping sites. Approved Irish Home B&Bs and self-catering providers supply less than 1% each of the total approved bedspace supply in the city.

Reliable data on the non-approved stock is not available. Data from Airbnb suggest its capacity contribution in 2014 was equivalent to approximately 780 hotel bedrooms available year-round, however stock provided via its online platform is more variable and complex to measure, while it is impossible to estimate the extent of overlap with approved accommodation. Short-stay and serviced apartments are also present and probably increasing in number, but their current stock is not known precisely. Similarly, some student accommodation is made available to non-student visitors in periods out of student academic terms, and this is likely to increase, however its extent and the resulting visitor accommodation stock it represents is not possible to estimate currently.

The Pipeline of Additional Visitor Accommodation

Through researching planning lists, public, corporate and press announcements, and our consultations with hoteliers, banks, and professional advisors, we estimate that there is a combined capacity of some 5,545 additional hotel bedrooms in the pipeline for Dublin likely to come on-stream between 2016 and 2020, 3,796 in new hotels and 1,749 in extensions to existing hotels (see Section 4.3). It should be noted however that this is a snapshot taken of the prospective pipeline as of late March 2016, and that the overall picture is very fluid with projections changing from week to week, with new projects added, existing ones becoming unlikely or clearly abandoned, or the likely scale of projects changing, due to planning decisions or other factors.

There is also the prospect of some existing hotel capacity being removed, most notably in Ballsbridge, where the proposed redevelopment of the Ballsbridge and Clyde Court (closed since January 2016) hotel sites (under "Project Trinity"), is likely to result in a net reduction of some 430 hotel bedrooms on the overall site.

Our research does not indicate any significant increase in the accommodation stock from other approved sectors (guest houses, youth and holiday hostels, etc.). However we expect some 438 additional bedrooms in short-stay apartments to come on stream between now and 2020. The prospect of some 5,500 bedrooms in student accommodation is also likely but of limited contribution due to its primary function.

Options to develop non-traditional hotel style accommodation could be considered by developing buildings or using existing buildings with different size and style of rooms. This could potentially be Fáilte Ireland approved but not under the current hotel sector registration.

Scale of Additional Accommodation Required to meet Demand

Section 3.4 presents four scenarios for demand for visitor accommodation in Dublin up to 2020. The evolution of accommodation demand , along with the expected evolution of accommodation supply that the existing stock and estimated pipeline would together provide (hotel and short-stay apartment additional capacity net of expected capacity reductions), are shown below, along with the resulting number of paid bednights per available bedspace (a measure of the demand/supply ratio resulting each year).

TABLE 5.1 DUBLIN VISITOR ACCOMMODATION SUPPLY AND DEMAND TRENDS AND OUTLOOK

	2015	2016	2017	2018	2019	2020
Demand Scenarios (Bednights, mn)						
Scenario 1	9.59	9.89	10.02	10.18	10.34	10.51
Scenario 2	9.59	9.90	10.05	10.23	10.41	10.59
Scenario 3	9.59	10.01	10.28	10.58	10.89	11.21
Scenario 4	9.59	10.12	10.51	10.94	11.38	11.86
Supply Forecast (Bedspaces)	48,173	48,554	49,493	52,463	58,102	60,372
Paid Bednights per Available Bedspace						
Scenario 1	199.0	203.6	202.5	194.1	178.0	174.1
Scenario 2	199.0	203.9	203.1	195.0	179.1	175.5
Scenario 3	199.0	206.2	207.8	201.7	187.5	185.7
Scenario 4	199.0	208.4	212.3	208.4	195.9	196.4

SOURCE: FITZPATRICK ASSOCIATES

From a tourism policy perspective, the optimum growth in accommodation supply depends on the bednight per bedspace ratio deemed optimal for any given level of demand (i.e. the supply/demand ratio). In Section 3.2.1 it was shown that the dramatic growth in both occupancy rates and ADR in Dublin over recent years owes some of its strength to the depths to which these rates had sunk by 2010, and that average daily rates have only recently recovered to 2008 levels, and done so at higher levels of occupancy than were achieved then. Similarly, growth in daily rates has brought Dublin to a mid-table position among competitor city break destinations in Europe, behind destinations such as Amsterdam, Barcelona, and Edinburgh. These observations suggest that in recent times much of the trends in the Dublin accommodation sector have been about market recovery rather than profligacy, although concerns about very recent trends in hotel supply, rates and their direction are clearly with strong foundation from the point of view of policy, reputation and future competitiveness.

Arriving at a judgement on the optimum supply/demand balance requires consideration of the effects any balance gives rise to. Table 5.2 observes key indicators of the supply/demand balance, prices and occupancy in the Dublin hotel market in 2013-2015.

TABLE 5.2: KEY DUBLIN HOTEL INDICATORS, 2013-2015

	2013	2014	2015
Paid Bednight per Available Bedspace	163.7	187.8	199.0
Occupancy Level Increase (percentage point)	2.8	2.2	4.2
Occupancy Level for Year (%)	76.7	78.4	82.1
ADR Growth y-o-y (%)	3.4	8.8	15.9
ADR Level (€)	88.09	95.86	111.10

SOURCE: FÁILTE IRELAND, STR

Occupancy can be seen to have increased by levels of below 3 percentage points in both 2013 and 2014, before jumping by a further 4.2 points in 2015. ADR growth has accelerated throughout the period, from 3.4% in 2013, to 8.8% in 2014, and then to 15.9% in 2015. Over the three years therefore it can be observed that continued occupancy growth has been accompanied by ADR growth, but with the latter's growth both higher and accelerating.

The bednight-bedspace ratio reached in 2013 therefore was consistent with modest occupancy and ADR growth, with both at similar levels. By 2015 they had diverged substantially and ADR growth had reached 15.9% per annum, a level of annual price growth few would consider sustainable or benign. On this basis the 2014 bednight-bedspace ratio is considered a reasonable benchmark ratio from which to calculate the future accommodation supply needed to meet demand expectations.

The accommodation "shortfall" this assumption leads to is calculated as a function of the demand levels and anticipated supply levels shown in Table 5.1, and the 2014 bednight-bedspace ratio held constant over the period 2016-2020. That is, it results from a view of how much accommodation is required to keep utilisation to 2014 levels, and how this compares to the anticipated actual level of accommodation stock and pipeline will generate. Table 5.3 shows the calculations.

TABLE 5.3 CALCULATION OF ACCOMMODATION SUPPLY SHORTFALL/SURPLUS

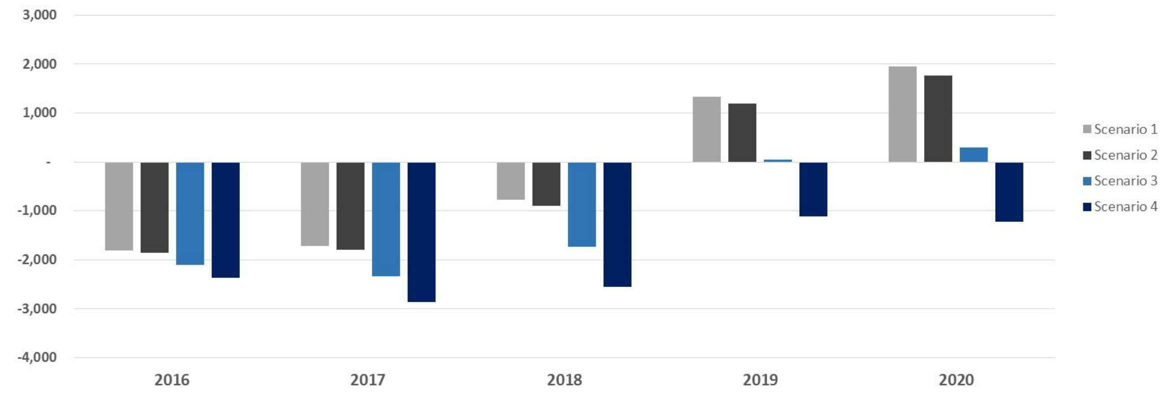
	2016	2017	2018	2019	2020
Demand Scenario 1 (Bednights, mn)	9.89	10.02	10.18	10.34	10.51
Demand Scenario 2 (Bednights, mn)	9.90	10.05	10.23	10.41	10.59
Demand Scenario 3 (Bednights, mn)	10.01	10.28	10.58	10.89	11.21
Demand Scenario 4 (Bednights, mn)	10.12	10.51	10.94	11.38	11.86
2014 Bednight-Bedspace Ratio	187.8	187.8	187.8	187.8	187.8
Supply Forecast (Bedspaces)	48,554	49,493	52,463	58,102	60,372
Supply Needed to Maintain 2014 Bednight-Bedspace Ratio (Bedspaces)					
Demand Scenario 1	52,644	53,364	54,223	55,082	55,977
Demand Scenario 2	52,726	53,529	54,473	55,421	56,406
Demand Scenario 3	53,321	54,751	56,355	57,997	59,710
Demand Scenario 4	53,889	55,942	58,227	60,611	63,134
Supply Shortfall/Surplus (Bedspaces)					
Demand Scenario 1	-4,090	-3,871	-1,760	3,019	4,395
Demand Scenario 2	-4,171	-4,036	-2,011	2,681	3,966
Demand Scenario 3	-4,767	-5,258	-3,893	105	661
Demand Scenario 4	-5,335	-6,449	-5,764	-2,509	-2,762
Supply Shortfall/Surplus (Bedrooms)					
Demand Scenario 1	-1,813	-1,715	-780	1,338	1,948
Demand Scenario 2	-1,848	-1,788	-891	1,188	1,757
Demand Scenario 3	-2,112	-2,330	-1,725	47	293
Demand Scenario 4	-2,364	-2,858	-2,555	-1,112	-1,224
Supply Shortfall/Surplus (Bedrooms) (Rounded to Nearest 50)					
Demand Scenario 1	-1,800	-1,700	-800	1,350	1,950
Demand Scenario 2	-1,850	-1,800	-900	1,200	1,750
Demand Scenario 3	-2,100	-2,350	-1,750	50	300
Demand Scenario 4	-2,350	-2,850	-2,550	-1,100	-1,200

* Bedspaces per bedroom calculated on the basis of the actual 2015 ratio within approved hotel accommodation stock

SOURCE: FITZPATRICK ASSOCIATES

The resulting accommodation "shortfalls" when this 2014 bednight-bedspace ratio is taken as the benchmark for future years, are shown in Figure 5.1.

FIGURE 5.1 ESTIMATED ACCOMMODATION SHORTFALL/SURPLUS UNDER ALTERNATIVE DEMAND SCENARIOS (BEDROOMS)



SOURCE: FITZPATRICK ASSOCIATES ESTIMATES

Taking the 2014 bednight-bedspace ratio as an annual target, the known accommodation stock and anticipated pipeline as of March 2016 will fwresult in an annual supply shortfall ranging between approximately 1,700 and 2,800 bedrooms in 2016 and 2017, with the shortfall generally declining thereafter and moving into oversupply/surplus in 2019 and 2020 in all but the highest demand scenario.

The Reasons an Imbalance has Arisen

Sharp declines in incoming tourist numbers and tourism revenue in Ireland characterised the years immediately after the global economic and financial crisis of 2007/08. The period also saw domestic construction activity rapidly slow down and development of all types, including in hotels, leisure and recreation in the capital and elsewhere, dramatically decelerate. A period ensued therefore where neither demand for nor supply of visitor accommodation in Dublin were increasing, and pricing became very competitive due in part to the moribund demand conditions, in part due to the increases in recent supply that occurred over previous years, and in part due to the pricing strategies deployed by significant portions of the hotel operators in situ at that time.

Demand conditions began to improve in 2011 when international tourist numbers to Ireland began growing again, followed thereafter by recovery in domestic tourism activity, and both visitor numbers and tourist revenue in Ireland and Dublin have accelerated in the meantime. A range of factors have supported this tourism demand recovery, including economic growth in source markets, favourable exchange rates, improved and affordable accessibility, and increased destination attractiveness and improved event infrastructure.

In contrast to the demand trend which was one of steep decline followed by recovery that has considerably strengthened with time, the accommodation supply trend has been largely flat since the financial crisis hit in 2007/8, and while the reasons are numerous they predominantly relate to:

- the collapse in investment confidence and appetite across this and many other sectors and industries caused by the economic and financial crisis;

- sharp falls in hotel occupancy and profitability in the wake of steep demand falls, and perceptions of over supply due to irrational expansion over previous years accompanied by little prospect of proportionate supply decreases as hotels were kept operational even though non-viable in their immediate operating environment;
- a strong retreat from speculative or development lending by the main financial institutions in Dublin commercial property and a significantly altered risk appetite among lenders that has remained in the period since;
- strong non-hotel competition for attractive hotel sites (or a severe lack of them), in prime city locations;
- long lead-times and uncertainty and risk associated with many phases in the development cycle (site acquisition, planning, design, funding, contracting, etc.); and
- asset deleveraging among investors faced with legacy debts.

Macro Factors Affecting Future Demand

A number of macro-economic factors are fundamentally important determinants of the demand for visitor accommodation in Dublin, over the period to 2020 and beyond:

- economic growth in Ireland is important given its strong relationship with domestically-generated hotel demand in Dublin, its relationship to business travel to Dublin, as well as its effect on tourism product investment and tourism marketing. Currently the outlook for the Irish economy is positive and the recovery is clearly strengthening, although there are uncertainties associated with future projections as always;
- economic growth in core source markets will impact on inbound visits to Ireland and Dublin. As in Ireland's case current economic expectations over the short and medium term are relatively positive in the case of the US and UK, although somewhat less strong for the Eurozone, and also similarly to Ireland, each carry downside risks and are vulnerable to unforeseen shocks;
- exchange rates, particularly Euro:US Dollar and Euro:Sterling, have been supportive macro factors for inbound tourism to Ireland and Dublin in recent years, and any reversal of their trend would reverse that effect;
- the economic stability of the euro area remains an uncertainty and any set of events that brought its survival into question would create substantial economic uncertainty and diminish business, consumer and tourist confidence;
- a range of other shocks each have the proven capacity to dramatically affect tourism demand internationally and in Ireland, including terrorism, natural disasters and geopolitical developments;
- cost factors, most notably oil price trends, affect tourism demand by altering the relative costs of travel, particularly international air travel. While current expectations are of benign price trends, any shift to a period of oil price growth would negatively impact visitor numbers to Dublin quite directly.

5.2 Possible Policy Responses

The accommodation shortfalls estimated vary somewhat depending on the demand projections adopted, however all estimates project the most significant shortfalls in the period 2016-2018. They then decline significantly in the years 2019 and 2020, the period in which the currently-projected pipeline of new stock is likely to materialise most substantially (and in a number of scenarios become a surplus).

Regardless of any possible policy response, the following considerations are worth keeping in mind:

- the scale and range of projected "shortfalls" decline sharply as 2020 approaches;
- while occupancy is likely to be very high in 2016 and 2017 in prime hotels and locations, there is very little that can address that by way of new supply initiatives that could affect those years;
- the pipeline of new development in prospect or planning in the market is changing frequently, is reacting to demand growth, and may have fully reacted to demand expectations by the latter years of the period. In effect, after a period of imbalance the market appears to be working and seems likely to eliminate the need for a public policy response by the time one could have an effect;
- while the market has shown strong growth in occupancy and average daily rates in recent years, both had much upward scope, they were very much in a "recovery" mode, and were coming from a low base following the economic crisis;
- demand uncertainty increases the further into the future forecasts are made, and while demand conditions and expectations are currently strong, there is no certainty they will remain as strong over the full period.

While not recommending an immediate intervention in the market designed to generate accommodation additional to that anticipated from the current private sector pipeline, there is a range of policy initiatives and actions that

(a) should be undertaken as a means of monitoring market trends and the supply/demand relationship more closely, frequently and objectively;
(b) should be considered as a means of addressing rigidities in the accommodation supply market and ensuring a greater degree of responsiveness over the medium and long term;
(c) should be considered (individually or in combination) in the event that expectations about the sufficiency of supply in the medium term (i.e. the next five years) were to worsen rather than improve; and
(d) should be considered to help manage the effects of the next two to three years of supply shortage during periods of peak demand that currently seem in prospect.

These are listed in Figure 5.2.

FIGURE 5.2 POTENTIAL POLICY RESPONSES

Market Monitoring

- Objectively measure and monitor the demand/supply balance and outlook regularly and with reasonable precision, and begin regular reviews with the trends, expectations and policy implications reported and published.

Site Intensification

- Update existing statutory accommodation regulations, particularly those of hotels, so that they reflect contemporary consumer preferences and facilitate competition with new types of offerings in the accommodation market internationally. This should include, at minimum, bedroom size in line with international norms, greater web access and connectivity, less generous spatial requirements, and more flexible services and facilities.

Planning

- Review the efficiency of the planning system for visitor accommodation in Dublin, and consider ways of streamlining or fast-tracking the process, for example through adoption of strategic development zone approaches that specify where hotels should be developed, facilitate their increased height, and reduce uncertainty regarding planning objections and appeals.
- Take initiatives to support the case for planning approval of accommodation projects on the grounds of sustainable tourism development in the city.

Short Term Initiatives

- Research and Identify formal initiatives that could help manage peak demand for accommodation in the city over the period to 2018 (e.g. through improving transport links to visitor accommodation outside the city centre and suburbs).

Annexes

Annex 1 List of Consultees

- Airbnb
- Allied Irish Bank
- An Óige
- Bank of Ireland
- CBRE
- Choice Hotels Group
- Dalata
- Dublin City Council
- Dublinia
- Fingal County Council
- Independent Holiday Hostels of Ireland
- Irish Caravan and Camping Council
- Irish Hotels Federation
- Irish Self Catering Federation
- Irish Tour Operators' Association
- Irish Tourist Industry Confederation
- Jones Lang Lasalle
- National Asset Management Agency
- PREM Group