Hotel Performance Review

Issue 1 – October 2021

Fáilte Ireland

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WELCOME TO THE HOTEL PERFORMANCE REVIEW

Welcome to our first edition of the Hotel Performance Review. We are delighted to present an overview of sector performance after the last very challenging eighteen months.

As part of the Sector Development Directorate, the Accommodation Development Division is providing the accommodation sector with a timely analysis of past performance and forward outlook, to help businesses make informed strategic and tactical operational decisions.

As we exit from the pandemic and start on the road to recovery, we will build on insights and data emerging from post COVID-19 industry performance.

In future editions, we will also focus on the wider accommodation sector and emerging hospitality trends. We welcome your feedback and suggestions for future editions.

Jenny De Saulles
Director of
Sector Development

Fáilte Ireland

KEY INSIGHTS IN A POST-COVID LANDSCAPE

Tourism and hospitality are gradually emerging from a period of unprecedented restrictions having been one of the sectors most severely affected by COVID-19. Confidence has been in short supply over the last 18 months, and while the effects of the pandemic are well documented, the industry can look ahead with optimism and reassurance.

Global insights

The news that the U.S. will start easing travel restrictions in November for international visitors who are vaccinated against Covid-19 was universally welcomed on both sides of the Atlantic. Cornell University[1] experts cite how international visitors are critical to the survival of the U.S. hospitality, travel and tourism industry, with international visitors typically spending more and staying longer than domestic travellers. The sentiment is similar in Europe where US visitors have largely been absent since early 2020.

Labour shortages are resulting in service difficulties in the U.S., where hospitality operators point to about three million fewer people in the U.S. workforce now than before the pandemic. In Europe and the U.S. similar factors are preventing employees from returning to work including difficulty accessing childcare and inadequate investment in skills. Other important global insights to note are:

Consumer Travel Levels

- It is expected that there will be a surge in travel in and between countries with manageable and moderate COVID-19 caseloads and vaccine access[2].
- Within Europe the EU Digital COVID Certificate is helping to facilitate the recovery of safe travel.

Booking patterns

- Shorter lead times, booking hesitancy and flexibility of booking conditions are all hangovers from the pandemic that now appear to be the new normal for many sectors including the hotel sector.
- Booking flexibility is now viewed as a requirement for successful trading for hotels and this will force a change in how hotels manage capacity, overbooking and pricing.

Investment in digital

- Investing and gaining competency in digital analytics will allow hotels to better understand consumer preferences and enable them to differentiate their product and service offerings and enhance the guest experience.
- This will enable connection and communication with hotel guests in a completely new way by building comprehensive guest profiles, unifying data and personalising each touchpoint along the way.

Continued staff shortages for the foreseeable future

- Staff shortages are not unique to the hotel sector, but as a service industry the impact on hospitality is significant.
- Reimagining how we interact with guests and identifying those key guest touchpoints that need to be protected versus those process touchpoints that can be eliminated will be vital to mitigate the skills shortage.

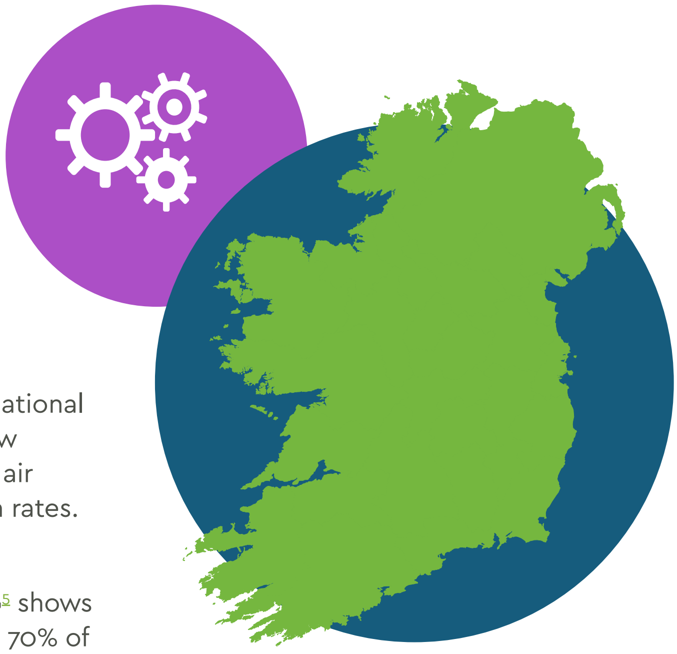
Lack of corporate activity

- The slower recovery of business activity, such as conferences, exhibitions and incentive travel means that operators are right to remain cautious as they budget for 2022[3].
- City hotels will need to retain a focus on leisure segments.

1 Foreign visitors 'critical to survival' of US hospitality industry | Cornell Chronicle
2 McKinsey | A travel boom is looming. But is the industry ready?
3 Colliers | What is the outlook for European hotels in 2022?

Domestic insights

On the positive side, international travel is resuming and there has been much investment in Ireland's hotels, making them poised to take advantage of the recovery, which will undoubtedly come in due course. Insights from the Irish context to note are as follows:



Recovery

- The pace of recovery will be determined by the shape of the recovery, which could be either a sharp V-shape or a struggling L-shape, according to the International Hospitality Investment Forum (Hotel Analyst, 2021).[4] How quickly a region or destination will recover, depends on air access, corporate demand in cities and high vaccination rates.

Access

- As an island, access is central to recovery. Data from OAG[5] shows a steady reduction, with global capacity down to around 70% of 2019 levels. Even within that lower capacity, almost all markets are reporting load factors of 10–15% below normal levels, with the net effect of being down 30%-40% on 2019.
- Access from North America to Ireland in September was down from 25 routes pre COVID-19 to 15 routes, resulting in significantly reduced capacity and frequency.
- Ryanair flew a total of 10.6 million passengers in September 2021 compared to 5.2 million passengers the same month last year and its load factor – the number of seats it fills on each flight – rose to 81% from 71%.
- Over 1.2 million passengers travelled through Dublin Airport in August 2021, a 144% increase on the same period last year, but down 63% on August 2019. Cork Airport had 74,000 passengers, an increase of 85% on 2020 but down 75% on August 2019. Shannon Airport recorded passenger numbers of 54,000 in August 2021, an increase of 116% on August 2020.

Employment

- Unemployment is trending downwards with the number of hospitality employees still availing of the Pandemic Unemployment Payment (PUP) reducing as industry reopens. This should help alleviate staff shortages.

Inflation

- The predicted modest inflation increases need not be a negative for the hospitality sector given its ability to adjust prices far more quickly than other sectors (Hotel Analyst, 2021).

Liquidity

- Some businesses face the prospect of running out of cash if (and when) the current suite of Government supports (EWSS, CRSS, Tax and Rates Warehousing) taper off. The real challenge will be to balance the price increases needed to compensate for rising costs (labour, food, energy, construction) while growing and maintaining demand in the face of stiff competition and new entrants (especially in Dublin).

Having considered both global and domestic insights, next, we present performance to date and likely future demand, along with insights and key takeaways for hoteliers as you plan for the coming months and move into 2022.

4 V for victory or going to L (Hotel Analyst, 2021)
5 Official Airline Guide: Resources and Insights

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PERFORMANCE

Global performance

"No previous event has had such a deep and long-lasting negative impact on hotels and there is no quick fix". That's according to PwC UK[6], commenting on the lowest levels of hotel occupancy and overall revenue ever recorded on a global scale.

Back in 2019, hotel performance worldwide was robust, the worldwide market was dynamic and there were multiple opportunities for sustaining growth and generating new levels of customer loyalty.

As we emerge from the pandemic, the macro environment is against a backdrop of skills shortages, rising costs and a limited ability to predict trading.

But there's good news too. While occupancy continues to gain strength slowly, especially in the European market, strong rate growth is evidenced in STR figures year-to-date 2021 across all global markets. This rate growth is directly linked to:

- A high level of pent-up demand in all markets.
- Consumers intending to reward themselves post-pandemic restrictions.
- High levels of household savings and disposable income.
- Relaxation of travel restrictions and opening up of international travel.

In November, the U.S. is set to start easing travel restrictions for international visitors who are vaccinated against COVID-19. As Ireland's most important tourism revenue market opens up, it's time to reactivate sales programmes with your US trade and consumer customers.

National performance

- Overall performance in 2021 was much improved compared to 2020, with hotels reopening from June 2nd and outdoor hospitality from June 7th.
- Although performance is encouraging, it is not uniform. Self-contained accommodation reported stronger occupancy than hotels during the summer due to increased domestic demand and the self-contained nature of the product. Hotel performance was strongly influenced by location and business mix (leisure, corporate, group).
- The earlier relaxing of indoor dining restrictions in hotels than in restaurants generated additional occupancy for some operators.
- The September Irish Hotels Federation (IHF) occupancy survey reported average national room occupancy of 22% year to date. The IHF forecast for 2021 was projected average occupancy at 32% for the full year 2021 compared to 73% in 2019. The all-time historic low of 30% was reached in 2020.

Regional performance

- July and August 2021 saw strong RevPAR (revenue per available room) performance in most regional hotels.
- This is unlikely to be sustained in Q4 however, and it will not be sufficient to offset losses sustained during restrictions when hotels were unable to operate.
- Regional Irish hotels achieved an overall occupancy of 78.6% in August 2021 (71.2% in 2020) and an ARR (average room rate) of €129.00 (€104.80 in 2020). Source: Trending.ie.
- Forward bookings data from STR to 13th December 2021 show a strengthening Dublin performance. However, weekend performance is strong in all locations.

6 PwC | UK Hotels Forecast 2020 — 2021 From endurance to recovery

Trending.ie reports that in August 2021:

- Galway recorded the highest national occupancy at 85.1% (below its historical August average of 94.3%). Galway's record ARR of €166.59 (previously €150.22 in 2018) cushioned RevPAR at €141.72, just above the record in August 2016 of €141.09.
- Cork occupancy was strong at 78.95% (pre COVID four-year August average 91%). ARR in Cork was €155.62 (a new record versus €119.79 in 2018) with RevPAR of €122.86 (versus €110 in 2017).
- Limerick achieved occupancy of 65.68%, (previous August average 87.74%). ARR was €110.79 (a new record versus €93.48 in 2019). Overall RevPAR was €72.77, not far below the average €78 for Limerick in August but below the 2019 figure of €83.15.

Dublin performance

- Dublin was the strongest hotel market in the country before COVID-19, with a significant pipeline of hotel bedrooms.
- In 2019, Dublin ARR at €142.36 was the highest in the country and seasonality did not affect the Dublin hotel market to the same extent as the rest of the country.

The rates achieved by regional hotels in summer 2021 are unlikely to be sustainable as travel patterns normalise. 2022 will see the return of contracted rate negotiated business which will depress average rate performance. Driving domestic demand will be an important action. Check out the Fáilte Ireland guide on using your database to drive bookings.

- Over the period 6th June to 19th September 2021, Dublin RevPAR, which in 2019 was €117.16, collapsed to just €65.00.
- As Figure 1 shows, this was much lower than RevPAR in regional hotels for the same period. Since the onset of COVID-19, a dearth of international tourism, corporate travel, meetings and events has added disproportionate pressure on Dublin compared to regional areas.
- In 2019, Dublin performance had already slipped from 2018 in terms of average room rate (€145.35 in 2018) and occupancy had also slipped (82.3% in 2019 Vs 83.6% in 2018). The combined effect of these saw RevPAR drop from €145.35 in 2018 (€142.36 in 2019), and while a -€2.99 RevPAR change can seem low in absolute terms, it did have an effect on profitability.

Dublin RevPAR versus competitors

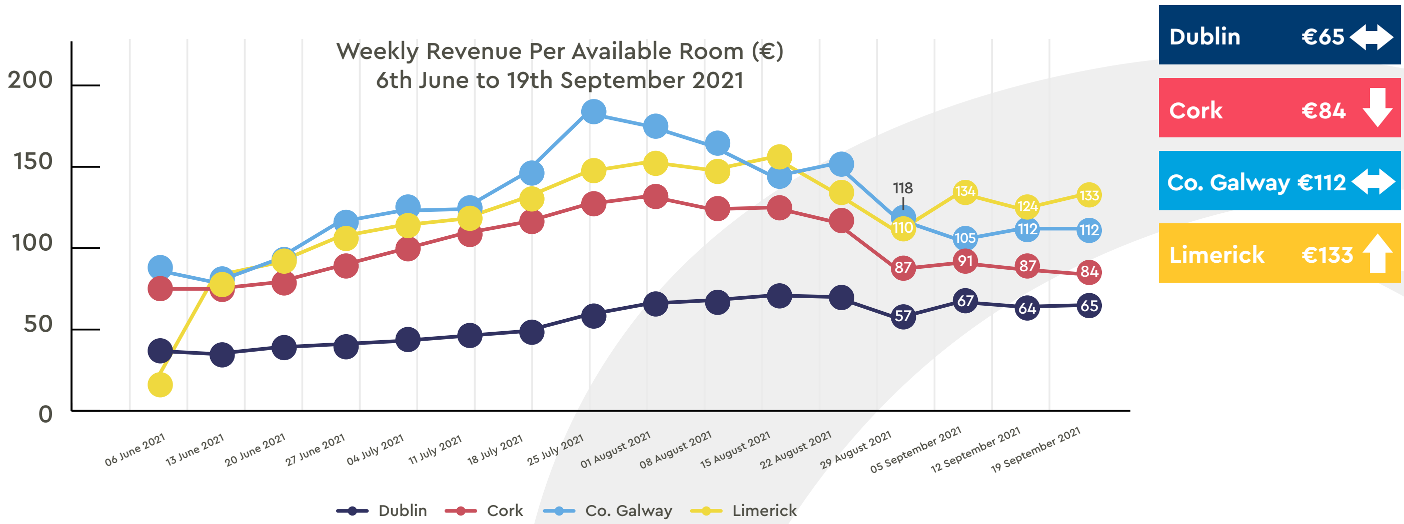

Figure 1 Weekly revenue per available room (€), STR Global Data, 2021

Room performance is benchmarked against peer cities in Dublin's European competitive set.

- Dublin's RevPAR was the seventh highest in Europe in 2019, ahead of peers including Copenhagen and Edinburgh. In the same year, it had the second highest occupancy of European cities at 82.3%.
- In August 2021, Dublin performed better than some of its European competitors despite international travel restrictions having only been lifted in Ireland on July 19th. It is worth noting that Belfast benefited from demand from south of the border for the first 18 days of July as the city opened up earlier than Dublin.
- RevPAR in Dublin in August 2021 at €65.40 was relatively strong compared with other European peer cities.

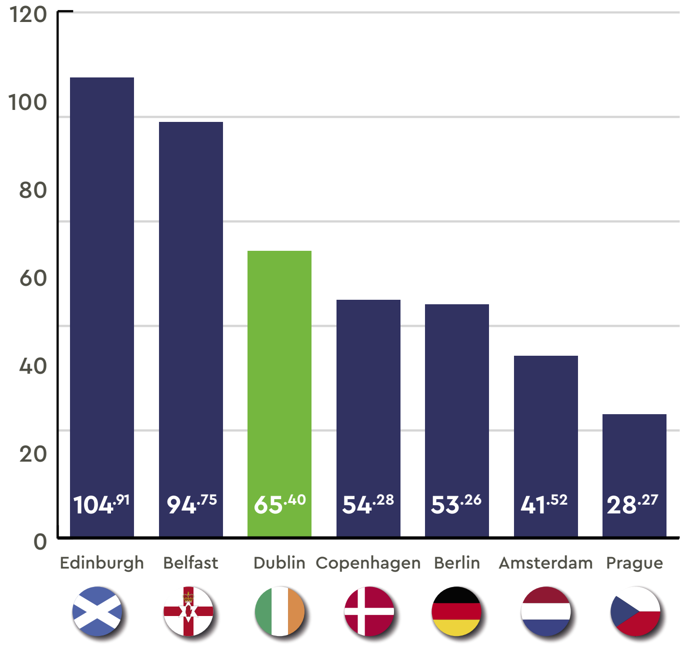

Figure 2. RevPAR € August 2021 Dublin V competitors (STR Global Data, 2021) str

What does this mean for hoteliers?

- While trading in summer 2021 performed ahead of 2020, there remains a level of uncertainty around 2022 performance. This is tempered with uncertainty around air access capacity and frequency for 2022 especially from lucrative long-haul markets. The high ARR achieved in 2021 is far from certain in 2022, and it is envisaged that hotels will need to switch to a RevPAR strategy in an attempt to maintain and/or grow occupancy.
- A continued focus on 360 degree revenue generation across the entire footprint of your hotel will be necessary to diversify the dependence on room sales for 2022 and support cashflow.
- As the market recovers hoteliers are advised to continue to keep a detailed overview of both the international and domestic markets and the demand patterns emerging. A clear sales and revenue strategy is necessary to support stronger trading as we go through this transition phase of recovery. To achieve success, continuation of the agile approach hoteliers demonstrated throughout the pandemic will be essential.
- A rebalancing of performance towards Dublin is anticipated from the end of quarter 1 2022 as international, business and event travel recover.

KEY TAKEAWAYS

- Continue to be agile, proactive and innovative in your approach. Recovery to the trading metrics we last saw in 2019 will be transitional and subject to many last-minute changes. It will be important to monitor air access changes and to track feeder markets as they return.
- Progressing innovation as displayed by hotels throughout the pandemic in terms of new product development, outdoor dining and retail development will be crucial for continued trading success. Combine this approach with continuous review and refinement of your value offering and your consumer value proposition.
- Make the end-to-end customer journey with your hotel easier. There have been many learnings from the pandemic and some great innovations, so investing in digital innovation is essential.

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FUTURE DEMAND

Global demand

Reviewing US hotel performance year to date 2021 we see that they enjoyed a strong summer especially in coastal and resort areas with the largest year on year growth occurring in leisure markets . Overall US hotel occupancy continues to hover at circa 60%, and although it rose to 63% in September there is no significant increase expected between now and year end 2021.

McKinsey[1] reveals travelling to be the second-most-desired activity (after dining out), with air travel, hotel reservations and rental-car bookings surging.

1 McKinsey | A travel boom is looming. But is the industry ready?

The UK continues to lead the way in occupancy recovery in Europe[7] which, for the week ending September 5th, sat at 77% of the comparable 2019 level[8]. Recovery was largely driven by the UK domestic market which holidayed at home due to their complex traffic light system of restrictions. This in turn impacted recovery for the southern European hotel market (Spain, Portugal, Italy).

The emerging Irish hotel recovery is similar to what we see in US and UK hotels, while bearing in mind that reopening in both these markets was some months ahead of Ireland's reopening in June 2021.

Ireland had a strong summer spike, but is now experiencing lower demand and consequently a challenging rate environment and decreased average daily rates (ADR). This is to be expected as the market recalibrates post summer and the transitional recovery continues.

Regional demand

Figure 3 below shows forward bookings for Dublin, Cork and Galway (county) to mid-December.

Forward bookings have strengthened over the past two months but remain well below comparative 2019 levels. Shorter lead times across all segments means that forecasting in any great detail outside of a 30-day window is challenging.

The return of the traditional conference and corporate segments will be slow, although on a positive note, regional hotels have seen increased levels of domestic corporate travel. Room reservations linked to local construction or development works are also emerging as a strengthening segment.

The latest forecasts from the Department of Finance[2] significantly revised economic growth with domestic demand projected to grow by 5.25% in 2021 and GDP by over 15%. The Department also notes that consumer spending is leading the way, with households beginning to 'normalise' their savings behaviour.

2 Department of Public Expenditure and Reform

The phased lifting of COVID-19 restrictions will see the return of live theatre, events and concerts which will have a positive effect on regional and Dublin demand. There is an expectation that the domestic market will perform strongly, and we will see multi-generational family bookings for hotels.

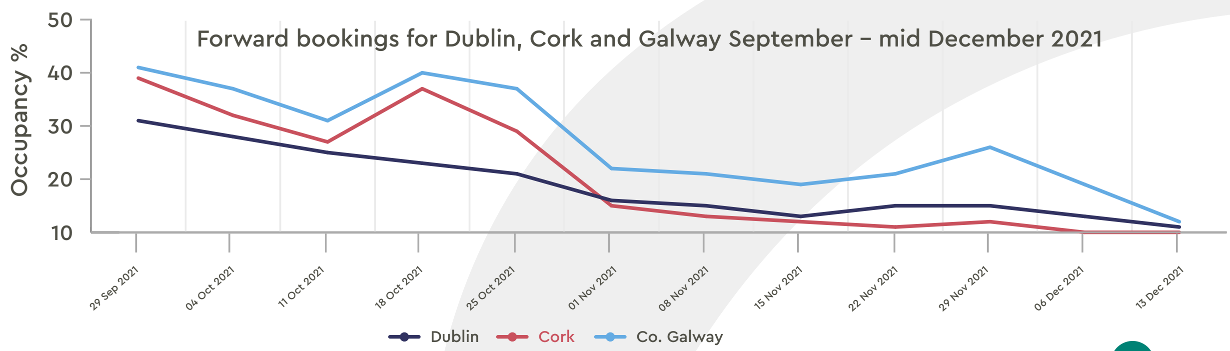

Figure 3 Forward bookings for Dublin, Cork and Co. Galway September to mid December 2021 (STR Global Data, 2021)

7 Kalibri Labs – September update
8 https://str.com/data-insights-blog/did-europe-lose-another-summer

Dublin demand

Looking ahead, forward bookings in Dublin to mid-December are low, and an annualised occupancy rate of under 30% is forecast for 2021 (STR Global Data, 2021).

In the absence of any meaningful return of corporate travel, this is a concern, but the situation remains fluid with an improving picture around domestic bookings for midterm and Christmas. In the short term, Dublin's recovery will be heavily reliant on the return of international travellers and the resumption of sporting and social events.

A positive point to note comes from a 2021 CBRE[9] report on the drivers of future demand for the Dublin hotel market. It suggests that while individual corporate travellers might fly less frequently, the increasingly international nature of the city's corporate occupiers will sustain corporate demand for Dublin's city centre hotels into the medium term.

What does this mean for hoteliers?

- The forecast is for continuing reduced occupancy at least to the end of 2021 and into Q1 2022 (Irish Hotels Federation, 2021).
- It is expected that the domestic leisure consumer will continue to take short staycation breaks throughout the autumn and winter months. COVID-19 has had the inadvertent benefit of inspiring more Irish residents to travel within Ireland. Penetration, i.e., the percentage of consumers who took a break, long and / or short, in Ireland this year, was at 41% in September 2021 (Fáilte Ireland, 2021).
- On the supply side, Dublin bedroom numbers will grow as the pipeline of up to 4,000 hotel bedrooms reach completion in the medium term. This will likely see tension between occupancy percentage and ARR, where new entrants will chase market share (occupancy %) at the expense of ARR, resulting in subdued RevPAR.
- There will be instances where staff shortages impact a hotel's ability to cater for demand, with some properties not operating all rooms or closing certain floors due to a lack of staff.

KEY TAKEAWAYS

- Take account of the expected decrease in occupancy when forecasting and budgeting for winter 2021/ early 2022. Develop a rate sensitivity analysis for your hotel to assess the effect on P&L of a decrease in average rate achievement and/or occupancy.
- Most business is being booked at a very short lead time. Operational and payroll costs will need to be very agile to take account of changing demand patterns at short notice.
- Recalibrate your capacity both in line with demand and in line with labour supply, which can constrain capacity, for example in food and beverage areas.
- Focus on building occupancy from all segments that will allow you to generate cashflow, especially over the first quarter period of 2022.

9 The Future of Demand for the Dublin Hotel Market (CBRE, 2021)

Important future demand considerations

Amongst the factors impacting future demand considerations are the nature of the recovery, the question of value for money and booking patterns.

Recovery

Throughout the pandemic economists advised that recovery would be transitional, especially in hospitality. Essentially what it means is that there will be highs and lows in the journey to full recovery, which could be 2025 or could be earlier in certain markets (versus reference year 2019).

As winter approaches, the theme of transitional recovery will be central to your approach. The market continues to be very dynamic. Remaining agile in this environment will be key for successful trading.

The traditional view of market capacity, market share and how business is built has changed. What was forecast and what has evolved to be very real is that recovery will be based on leisure and individual corporate business recovering faster than conference, incentive and group business.

Value for money

Reflecting the guest's perspective, a value proposition describes the value a hotel or resort offers to its guests.

Consumer sentiment research continues to reflect that there is an ongoing focus on value for money across all elements of the Irish tourism product. The perception of Ireland being expensive has been reported in the media and anecdotally and certainly has potential to disaffect future business for Irish hotels.

In preparation for 2022, now is the time to review and define your unique value proposition. In doing so it is important to identify clearly who your target segments are.

Aligning your value proposition and your target segments is key to positioning your hotel correctly in the market. Your price is then clearly linked to and reflective of the value of the experience you are offering your guests.

Booking patterns

International interest in Ireland

International interest in Ireland is encouraging, according to the latest Google statistics. Growth is emerging from international markets with demand increasing every week since the beginning of June.

- On average over the last 12 weeks, 19% of search demand was from international markets, the other 81% of search demand being domestic. See figure 4. (Core Optimisation, 2021).

Key markets search volume

Summer demand by volume reflected the strength of the domestic market. It's also noteworthy that the UK market continues to generate over 13% of total current searches. This is encouraging as it shows intent to travel from this market (albeit some of it is likely VFR (Visiting Friends & Relatives) generated).

- International interest is primarily coming from the UK. However, the US continues its recovery with hyper growth Vs very low demand last year. See figure 5. (Core Optimisation, 2021).

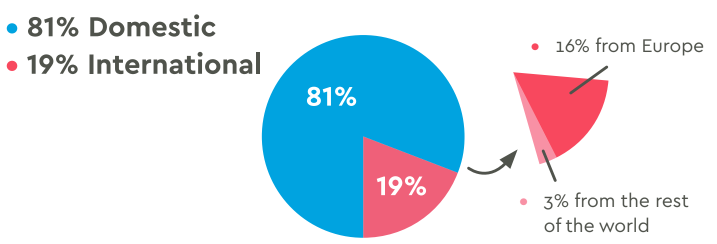

Figure 4 International market demand – Google.com

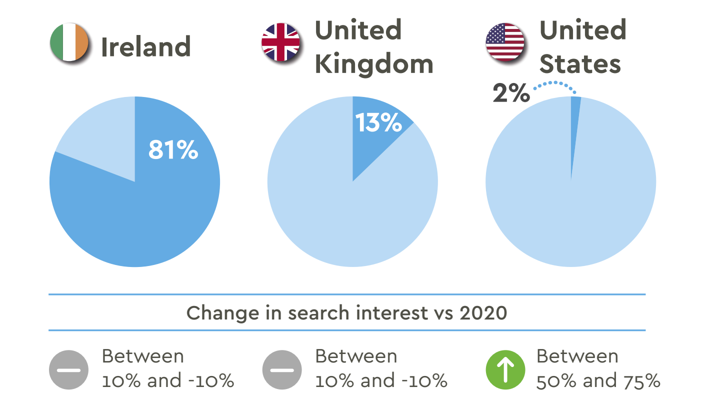

Figure 5 Demand by Volume from Key Markets for Irish Hotels - Google.com

Lead-in time

Demand patterns continue to evolve, and there is strong evidence of new booking lead time patterns emerging on all channels year-to-date 2021. There is growing evidence of international bookings in Q1 2022.

Short lead-in time developed during COVID-19 for the following reasons:

- Booking hesitancy in light of travel uncertainty.
- Working from home offers the consumer greater flexibility around travel arrangements.

Cancellation levels

The level of cancellations (significantly north of 30%) experienced by Irish hotels in 2021 reflects global trends. This is due mainly to the maintenance of flexible booking policies put in place at the start of the pandemic to mitigate against everchanging COVID-19 restrictions and consumer hesitancy. The issue was exacerbated in 2021 as international travel reopened.

Some points to note:

- Group cancellation policies are up to 24 hours before arrival, without penalty – but only for fully flexible reservations and higher pricing.
- Online marketing specialist Avvio noted some hotels were seeing cancellation rates of 50% especially in city centre hotels (Hotel Analyst, 2021)[10].
- OTAs introduced "free cancellation" as an option for customers.
- Booking.com will fund incentives for guests to rebook the same partner property.

What does this mean for hoteliers?

- Flexible booking policies as outlined above will continue to put pressure on capacity decisions, pricing and, in turn, profitability. Your future revenue and sales strategies will need to take account of these factors. Understanding the impact of such policies on capacity and pricing strategy will be a key learning for all hoteliers in 2022. Consideration to introduce a booking retention strategy may be worthwhile as cancellation rates continue to grow. Read Halting the Cancel Culture (Hotel Analyst, 2021) here for more insights.
- The expectation is that the Irish hospitality market will be very competitive in 2022. A key focus will be to drive and maintain occupancy so the business approach will need to be more RevPAR focused as domestic demand will ease. After the summer spike of 2021 (in average rate growth) this will be a significant change in approach and will require in depth planning and concentrated sales activities.

KEY TAKEAWAYS

- Consider budgeting on a rolling three-month or six-month basis as it is difficult now to predict what next autumn will look like for hotels. This approach will allow for more realistic targets and, importantly, the utilisation of more relevant and newer data.
- Detailed and consistent monitoring of booking patterns, feeder markets and green-shoot segments will be required to understand new booking patterns. Significant shifts in business and booking patterns are expected over the next 12–18 months.
- Track data by market and by segment, because when and how the market will return will differ very much by region and by customer segment.
- Managing consumer messaging and pricing in 2022 for new and repeat business will be critical.

10 Halting the cancel culture (Hotel Analyst, 2021)

Fáilte Ireland

LOOKING AHEAD

The resumption of international travel, the phased lifting of restrictions and the appearance of green shoots as the economy reopens are all welcome.

In the months ahead, hotels that are agile and innovative in their approach to operations and customer care will be best positioned to take advantage of the recovery and set themselves up for success.

However, one of the key challenges facing the industry is labour supply, retention and skills development.

All in all, the key balance to be struck will be between consolidating capacity, delivering good customer service and maintaining profitability business.

Fáilte Ireland continues to provide a suite of comprehensive business supports.
Click here to access the Business Supports Hub.

THANK YOU

Thank you for reading the first Issue of the Hotel Performance Review. The next issue will be published before year end. We would welcome your feedback and suggestions to **accommodationdevelopment@failteireland.ie**

Abbreviations

ADR	Average Daily Rate	**ARR**	Average Room Rate
IHF	Irish Hotels Federation	**PUP**	Pandemic Unemployment Payment
RevPAR	Revenue Per Available Room	**VFR**	Visiting Friends and Relatives

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