

# Hotel Sector Review

## Spring 2022



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## WELCOME TO THE HOTEL SECTOR REVIEW

Spring 2022 is a time of renewal and new beginnings for the Irish hotel sector coming as it does at the end of two years of rolling restrictions due to the Covid 19 pandemic. The financial supports provided by Government throughout the pandemic have enabled many businesses to reach this point of preparedness to restart fully for trading season 2022. The competitive landscape the industry faces now is quite different to the one that was left behind in 2019 and the hotel sector continues to face widespread and unforeseen challenges. Positively, improving air access and forward demand bookings reflect strong intent to travel.

The Hotel Sector Spring Review will outline the interconnecting challenges facing the hotel sector for the season ahead. This triple challenge of – recruiting and retaining labour supply, controlling increased input costs, and managing customer expectations by providing high standards of service – must be tackled together if the sector is to make a viable recovery in the coming months. Hoteliers will need to continue to adjust to emerging patterns of business, different segment mixes and changed consumer expectations. Throughout the following pages, we will outline what these challenges mean for you as a hotelier and what actions you can take to address them within your business.



The current travel environment is heavily impacted by the Russian invasion of Ukraine which has triggered the largest military conflict in Europe since World War II and as a result it is important to emphasise that at the time of writing, this information is highly susceptible to change. The war in Ukraine is, first and foremost, a humanitarian crisis which has forced more than 10 million people to flee their homes.

## CHALLENGES FOR THE HOTEL SECTOR

### Recruitment & Retention

The challenge as demand returns in 2022 will be to recruit and retain sufficient trained staff to meet the operational needs of the business<sup>1</sup> and absorb higher wage costs in certain areas, due to increased expectations around pay and conditions<sup>2</sup>.

Recent research conducted by Fáilte Ireland highlighted the staffing issues facing the sector. Four in ten hospitality workers did not return from PUP to their pre-pandemic employers, with 15% switching to a different employer in the sector and 27% joining a new employer in a new sector. This has resulted in an estimated 40,000 vacancies.

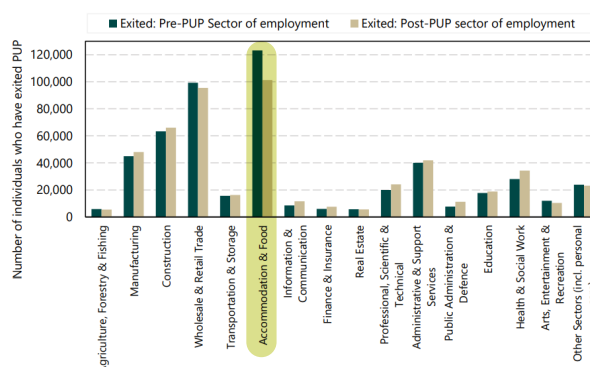


Figure 1 – Number of individuals that have exited PUP by pre and post-PUP sector of Employment

The hotel sector supports for payroll in the form of the EWSS provided significant assistance to hoteliers trading through the difficult environment that existed in 2021 and since the beginning of the pandemic total supports for the Accommodation and Food Sector have come to €1.85bln or 28% of total payroll supports.

### WHAT DOES THIS MEAN FOR HOTELIERS?

- **Be prepared to embrace flexibility** in ways of working for your teams. For example, some hotels across Ireland are offering roles that are flexible and part time, promising working hours that allow parents to take children to school<sup>3 4 5</sup>. Flexibility can also take the form of cross training employees which has the benefit of enabling employees to expand their knowledge and gain insight into how the business works.
- **Shine a light on career paths.** It will be important to demonstrate that there are opportunities to progress through training and career development, studies show that opportunities for progression are especially valued by millennials<sup>6</sup>. Offering employees on the job training and access to certified courses can empower them to develop both professionally and personally within your business, and highlights career progression opportunities.
- **Invest in your workforce.** In an increasingly competitive job market hotels are differentiating themselves and making themselves attractive for their employees, as well as their guests. Some hotels have 'wowed' their employees by offering a paid days leave for their birthday, assisting with staff accommodation, and providing other perks and benefits.
- **Businesses are the central drivers of change** but Fáilte Ireland will support hotels to make the changes through recruitment and retention initiatives. See [failteireland.ie](https://failteireland.ie) and [tourismcareers.ie](https://tourismcareers.ie) for more information.



Facilitate Optimal Performance  
with Effective Onboarding



Get Expert Advice for  
Hiring Great staff



Watch industry stories to hear what key activities they are doing to support their employees

The Department of Social Protection are asking all employers who wish to support Ukrainians into employment to register on [JobsIreland.ie](https://jobsireland.ie). This will enable them to match the skills of those seeking employment with available work opportunities.

<sup>1</sup> Hotel Operators Share Current State of Staffing

<sup>2</sup> Wage Pressures, Operational Costs Undercut French Hotel Industry

<sup>3</sup> The people problem

<sup>4</sup> The great office break-up (The Irish Times)

<sup>5</sup> Hoteliers fret over slow pace of summer bookings – The Irish Times

<sup>6</sup> Millennials at work – Reshaping the workplace – PWC

## Input Cost Increases

Cost increases put pressure on hotel margins and while some may be short term in nature there are costs that require intervention due to longer term trends. At the recent Irish Hotels Federation Conference (IHF), it was reported that three in four hotels are significantly impacted by escalating operational costs. IHF members reported year-on-year increases of 88% in energy, 22% in water and 18% in food and beverage, as well as significant insurance increases.

The latest PMI survey data from AIB<sup>7</sup> revealed that average input prices have been rising consistently for the past 21 months, with the rate of inflation at a new record high in almost 24 years. These input costs feed into the Consumer Price Index which the ESRI expect to peak at 8.5% or possibly higher in June or July of this year<sup>8</sup> (The last time it was higher than 8.5% was in 1984), and to average 6.7% for the year as a whole<sup>9</sup>.

Utility costs for Irish hotels have more than doubled on a per occupied room basis between 2019 and 2021 and this pattern can be seen for all markets in Northern Europe. This was before the increased pressure on prices as a result of the conflict in Ukraine. There are both short term efficiency measures and long-term capital investment that can be undertaken to try and reduce the impact of these. Cornell research outlines the key areas to target for energy efficiency are Green Energy, carbon footprint of property, low carbon mindset and guest offerings and carbon offsets<sup>10</sup>.

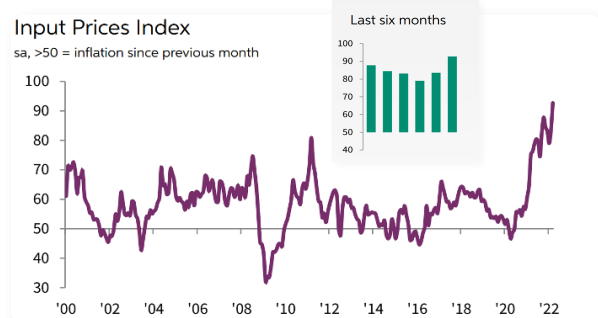


Figure 2: Input Price Index, March 2022 – AIB



## WHAT DOES THIS MEAN FOR HOTELIERS?

- **Review your cost inputs across all lines of the business** including not just the item cost but also operational efficiencies e.g. look at replacing vegetable oil in food preparation due to spike in price.
- **Operational challenges that arise from increased costs need to be balanced with customer expectations.** For example, faced with increased laundry costs hotels should review ways to reduce volume without impacting guest experience.
- **The pressure on prices in turn reduces consumer willingness to spend** so, where possible, review your input costs to try and re-engineer the service offering to mitigate against price increases.
- **Fáilte Ireland offer a number of supports** with the aim of improving operational efficiencies and controlling costs specifically in relation to food and beverage operations.



View our latest operating efficiencies and innovation tools



<sup>7</sup> Inflationary pressures hit survey record high in March while Ukraine war dampens confidence (AIB)

<sup>8</sup> Major cost-of-living shock expected in months with inflation forecast to hit 8.5%

<sup>9</sup> Quarterly Economic Commentary Spring 2022 – ESRI

<sup>10</sup> eCornell, A Green Slate Building Smarter, Sustainable Hotels

## Customer Service

Both capacity and service delivery are impacted by the labour and cost challenges outlined above, however hoteliers need to be mindful to support the price and the product position with operational excellence. For 2022 and beyond, customer service is the guiding principle, and it will be critical to maintaining the domestic market which hotels relied on so much during the pandemic.

Hoteliers should consider the very real relationship between reputation, employee satisfaction, profitability, and the long-term sustainability of their business. What has been termed the "Service Profit Chain" introduces the concept that a clear focus on the areas of employee satisfaction, retention, along with customer satisfaction and loyalty, ultimately drives profitability and revenue growth<sup>11 12</sup>.

For the season ahead, guests will have an increasing expectation of pre-pandemic levels of service. The offering and level of service need to be consistent with the price to meet guest value expectations, ensure repeat business and improve reputation. Faced with labour and cost challenges, this might mean reengineering the product offering or the way it is delivered.

### Operating Strategy and Service Delivery System

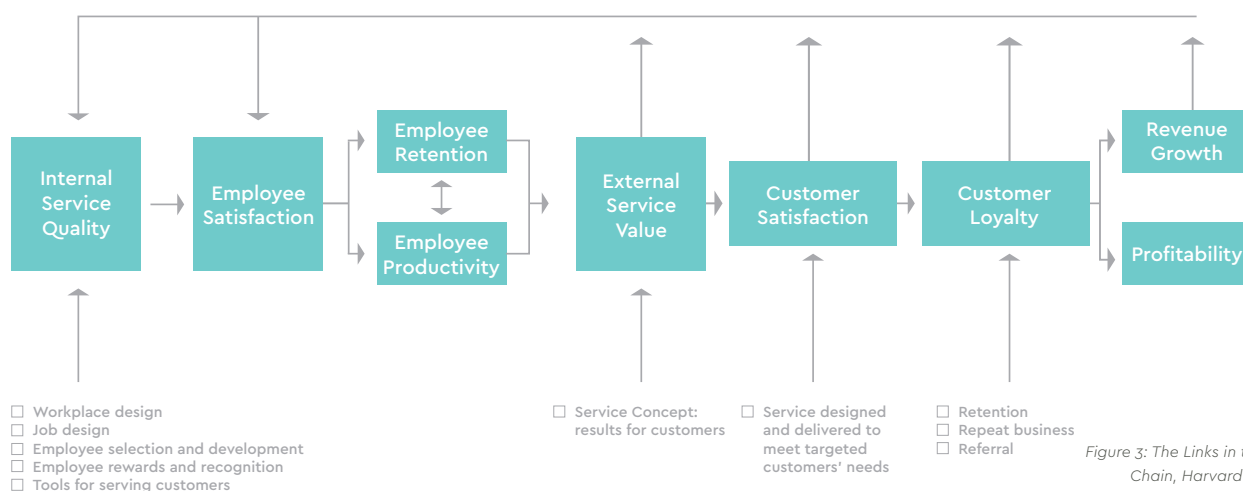


Figure 3: The Links in the Service-Profit Chain, Harvard Business Review

## WHAT DOES THIS MEAN FOR HOTELIERS?

- **Assess your current offering against guest experience and expectations.** Are your guests happy with their experience, are they receiving value for money, and are they receiving a high standard of customer service? Will your offering meet or exceed their expectations? If not, it is time to reassess and adjust your offering to meet changing customer expectations.
- **Providing excellent service for your guests requires a cross-functional mindset and a guest-centric culture within your hotel.** Remember that it is not only guest facing employees who impact the guest experience. Review the guest journey to identify ways in which each employee can positively improve the guest experience. For example, accommodation staff writing personalised welcome notes or chefs creating seasonal and locally influenced menus<sup>13</sup>.
- **Evaluate your pricing approach for 2022** as the process will be crucial for hoteliers to understand what is working best for their business.
- **Is your pricing policy agile** enough to deal with changing consumer behaviour, rising costs and other external factors? For example, are you offering services and packages to guests that rely on a high volume of trained staff when your staffing levels are low?



View our Introduction to Customer Service Programme

<sup>11</sup> Heskett, James (1997) The Service Profit Chain Simon & Schuster

<sup>12</sup> Putting the Service-Profit Chain to Work – Harvard Business Review

<sup>13</sup> Six customer experience pitfalls to avoid – McKinsey & Company

## OVERALL PERFORMANCE – 2021

The 2021 trading year was as uncertain and volatile an environment as the sector has ever seen due to:

- Travel restrictions for inbound and outbound travel.
- Resultant high levels of domestic leisure demand which contributed to higher ADR and assisted Food & Beverage (F&B) spend.
- The absence of tour operator and corporate rated business.
- High constraints on capacity across the hospitality sector due to staffing challenges.
- High level of savings accumulated during the pandemic year estimated at €15bln<sup>14</sup>

Given the level of closure throughout 2021, the performance metrics generated across the sector in this year do not reflect a standard operating environment with which to gauge future performance. Instead, trading year 2019 is the recommended baseline for recovery.



The culmination of these factors created a 'hard to replicate' trading environment of unconstrained demand and limited rate resistance.

Dublin performance was weak overall as the active segments of domestic leisure predominantly travelled to the regions. Dublin also was impacted due to limited business travel, few overseas tourists and the lack of events. Regional rate performance may be hard to sustain as the constrained nature of the market dissipates.

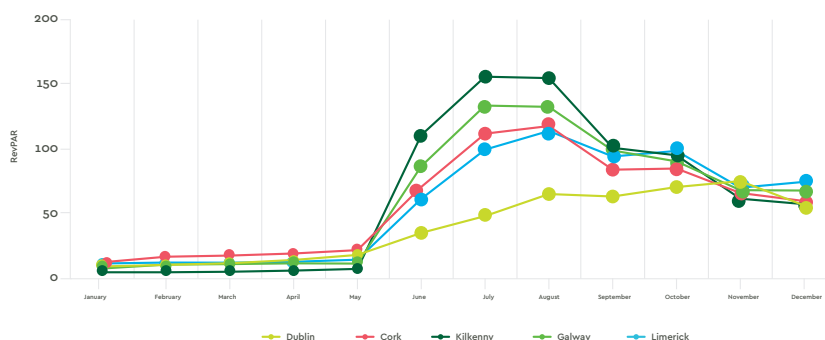


Figure 4: 2021 – Average Monthly RevPAR for Dublin, Cork, Galway and Limerick (Source: STR)

## Opportunity for Hoteliers

Hoteliers have an opportunity to grow revenues outside of rooms in 2022. Ancillary spending in hotels across the footprint of food, beverage, spa and golf held up well in 2021 while not quite reaching the levels of 2020. F&B revenues were less affected than room revenues compared to 2018/19 levels despite hugely reduced occupancy<sup>15</sup>. Undoubtedly pent-up consumer demand contributed to this, coupled with the strong spending habits of the domestic market<sup>16</sup>. The high volume in these areas combined with the safety restrictions resulted in hoteliers having to adapt ground floor product and processes as well as continually innovating. The experience gained through this, as well as the new customer base, presents an opportunity for all hoteliers in 2022. This will be essential to close the gap on Total RevPAR<sup>17</sup> that will be brought about by the changes in customer mix.

TOTAL REVENUE = ROOMS REVENUE + FOOD REVENUE + BEVERAGE REVENUE + OTHER F&B REVENUE + OTHER OPERATED DEPARTMENTS REVENUE + MISCELLANEOUS INCOME



TRevPAR = TOTAL REVENUE / TOTAL AVAILABLE ROOM NIGHTS



<sup>14</sup> The Pandemic: One Year On. Speech by Minister for Finance Mr. Paschal Donohoe TD, gov.ie

<sup>15</sup> HotStats

<sup>16</sup> AIB Spend Trend, July 2021

<sup>17</sup> STR, What is TRevPAR and why is it important?

## DEMAND

The improving air access to Ireland from Great Britain, Europe and North America is positive. Tourism Economics' Global Travel Service (GTS) forecasts that Europe will remain the strongest performing region in 2022. Europe is expected to recover earlier than other regions and arrivals for 2022 are forecast to be 20% below 2019 levels<sup>18</sup>. The European Travel Commission report that 77% of Europeans are eager to travel between April and September 2022.

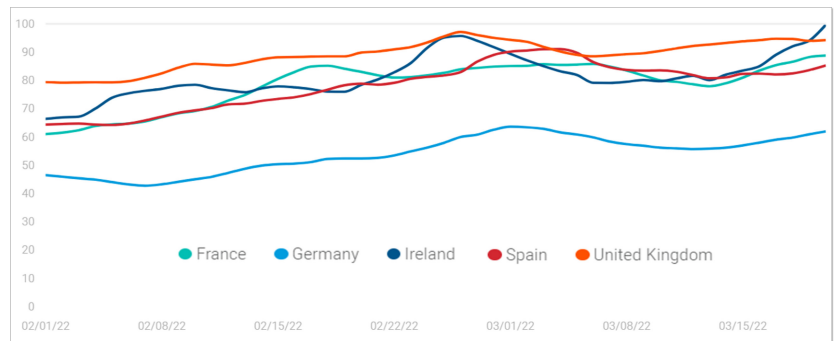


Figure 5: Western European Markets - Running 7-day occupancy (standard), 1 Feb 2021-20 Mar 2022, indexed to 2019 (Source: STR)

Respondents from Italy, Spain, Poland, the UK, and Germany demonstrate the strongest optimism about taking a trip (>80%)<sup>19</sup>.

St. Patrick's Festival combined with the Six Nations have helped restart the 2022 tourism season with occupancy approaching 2019 levels over the week beginning 14th of March. According to Tourism Ireland the sector is well on its way to recovery with strong interest from our main overseas markets.

Since restrictions have lifted there has been a significant increase in search interest across all markets, both domestic and international. The surge in domestic search interest due to pent up demand for Spring 2022 is well illustrated in Figure 6 based on data from Google Hotel Insights<sup>20</sup>. The domestic market accounts for 74% of overall search demand interest in Ireland since reopening.

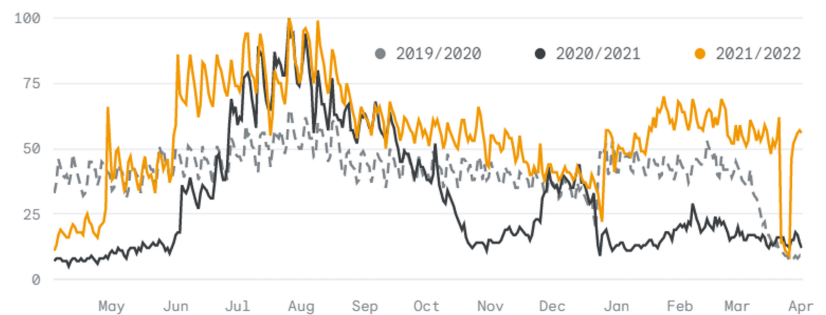


Figure 6: Domestic search interest in Ireland over past 12 months - Google Hotel Insights

Data from Google Destination Insights<sup>21</sup> shows that international travel demand was back at 2019 levels for Spring 2022, led by significant increases in UK and US markets year on year. UK accounts for 53% of international search demand for Ireland, and USA 20%. Overall inbound travel is estimated to reach 60-70% of 2019 levels in 2022<sup>22</sup>.

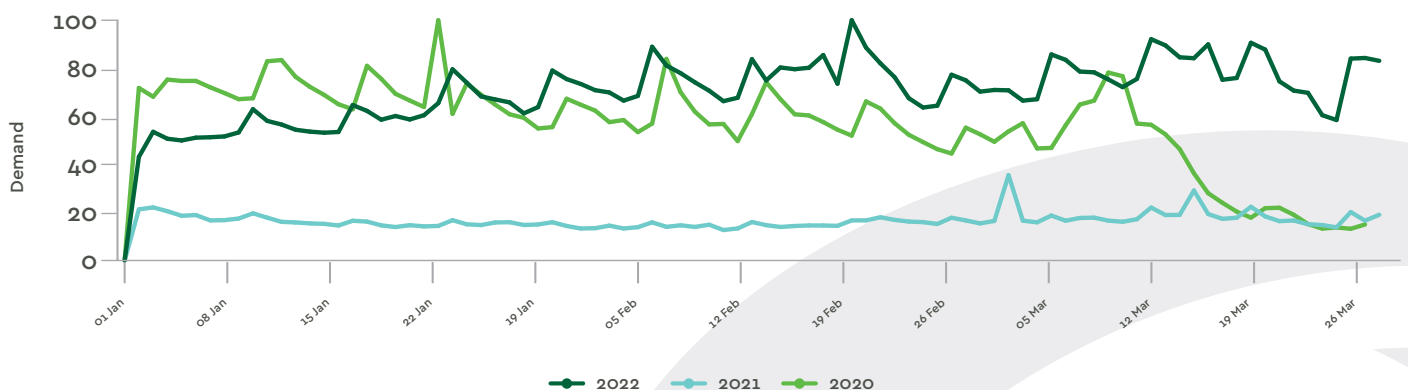


Figure 7: International Travel Demand (Air and Accommodation) from January to March (2020/2021/2022), Google Destination Insights

<sup>18</sup> Fáilte Ireland, Overview of Air Access & Outlook for 2022 (Economic & Industry Analysis)

<sup>19</sup> Strong Appetite for Travel in Europe as over 3 in 4 Europeans Plan to Travel this Spring and Summer - ETC

<sup>20</sup> Google Hotel Insights

<sup>21</sup> Google Destination Insights

<sup>22</sup> Ireland: Inbound Tourist Numbers in February Still Below Pre-Pandemic Levels



## Macro Forward Demand Patterns

Overall booking demand is improving for hotels for 2022 and is being driven by the following factors:

- Continued strong domestic leisure segment as a result of pent-up demand and a social need for connectedness and celebration post-pandemic with postponed group leisure such as weddings etc. confirming travel for 2022. Provisional data for 2021 shows there were just 4,823 weddings in the first six months of that year, compared with an average of 10,340 in the first six months of 2019. There is potential demand for 35,000 weddings this year based on the number of ceremonies postponed over the past two years<sup>23</sup>.
- Business Travel demand is strengthening and we are seeing green shoots in the Domestic Group segment as well as strong demand in International MICE markets. Foreign Direct Investment in Ireland has continued to grow over 2020 and 2021 and prior to the pandemic this sector was a significant contributor to inbound corporate travel. Even with a projected reduction in rates of travel by individual companies the increases in inward investment should go some of the way to offset this vis a vis 2019 demand levels<sup>24</sup>.

Looking ahead, forward booking patterns remain consistent around Western and Southern Europe. The lower pace of forward bookings for hotels compared to 2019 reflects the changed market mix and the emerging demand patterns in this transitional phase. This late booking pattern is a legacy of the pandemic and has been exacerbated by the war in Ukraine, and we can expect this will continue into 2022.

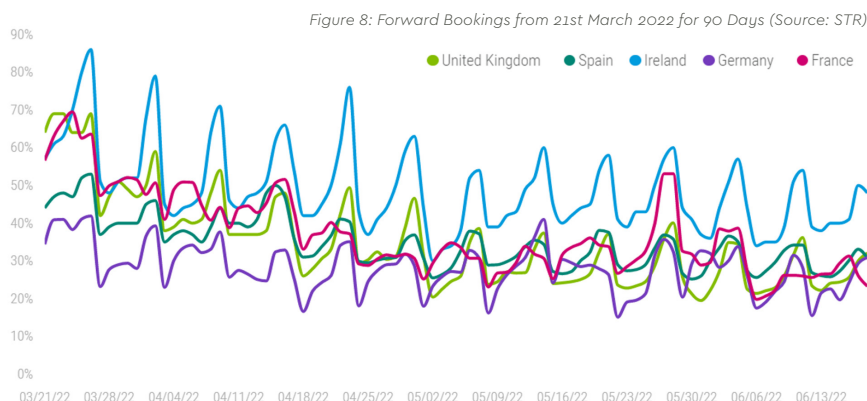


Figure 8 depicts Ireland reporting the highest forward booking levels compared to other European countries, with weekend spikes above 70% in April. Consistent with the shorter bookings window which has been evident throughout the COVID-19 pandemic, levels gradually become lower in May and June<sup>25</sup>.

Predictions are that growth will continue in accommodation at a similar rate to pre-COVID-19. Current STR forecasts for Dublin are that room nights (by volume) will recover to 2019 levels by 2023 and overall room nights will have increased by 20% by 2026 (STR, 2022).

The improving air access to Ireland from Great Britain, Europe and North America is helping to drive search demand for airline and hotel bookings<sup>26</sup>. This airline access has a geographic spread with Dublin, Cork, Shannon, and Kerry airports all expected to reach 85% of 2019 capacity. This balanced access infrastructure is helpful to the hotel sector as in the immediate term the expectation is that short haul travel will lead the recovery.

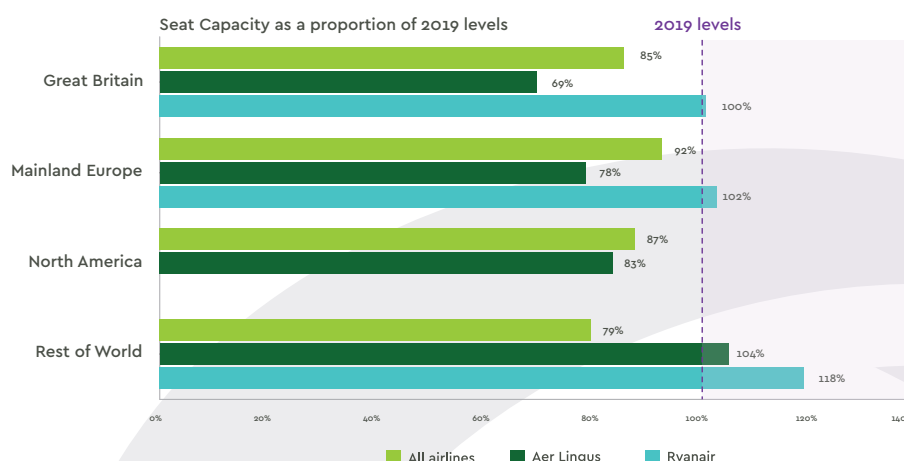


Figure 9 – Seat capacity as a proportion of 2019 levels, Overview of Air Access & Outlook for 2022, Fáilte Ireland (Economic & Industry Analysis)

<sup>23</sup> Marriage backlog forcing couples to defer or relocate weddings, The Irish Times

<sup>24</sup> Highest increase in FDI employment in a single year – IDA Ireland

<sup>25</sup> Europe hotel occupancy remains stable amid war in Ukraine, STR

<sup>26</sup> Fáilte Ireland, Overview of Air Access & Outlook for 2022 (Economic & Industry Analysis)



## International City Demand

Internationally city demand continues to lag behind regional demand for country and coastal hotels<sup>27</sup>. This is due to the slow return of overall business travel including corporate and MICE business<sup>28</sup> though the leisure weekend segment continues to deliver high rates and volumes. Though COVID-19 remains a concern, the re-opening of offices is helping to drive ground floor trading in city centre properties<sup>29</sup>.

However, the change in work life balance brought about by the pandemic will impact on cities as offices will no longer be occupied 9–5 Monday to Friday by all staff. This will mean less footfall than 2019 and also less inbound travel for meetings. The accommodation market for international business travel is likely to become even more condensed into Tuesday to Thursday resulting in high compression rates midweek.

### COMPRESSION NIGHTS:

So-called "compression nights", or peak or high-demand nights, take place when occupancy levels in a particular market are at 95% or more (Source: STR).

The change in patterns of work and associated travel will however create some opportunities for hotels especially with regard to domestic office workers travelling to city offices from remote locations. There will also be opportunities for ground floor diversification due to off-site meetings and hoteliers will need to ensure their product is adaptable to meet these customer requirements.

## Dublin Demand

STR's March report on the Dublin market, shows an occupancy of 73.1 % with an average rate achievement of €141.76<sup>30</sup>. This reflects accelerated growth in the past 6 weeks alongside a growing demand momentum for Dublin hotels. The current STR forecast for Dublin for 2022 is an occupancy of 61.9% (80.3% in 2019) and an ADR of €139 (€142 in 2019). Ireland's return to the office has been one of the slowest in the world according to **The Economist** however attendance at sporting events is one of the highest. This is reflected in strong weekend demand and slower midweek pickup. The CSO transport bulletin shows that Luas journeys are recovering but remain below 2019 levels.

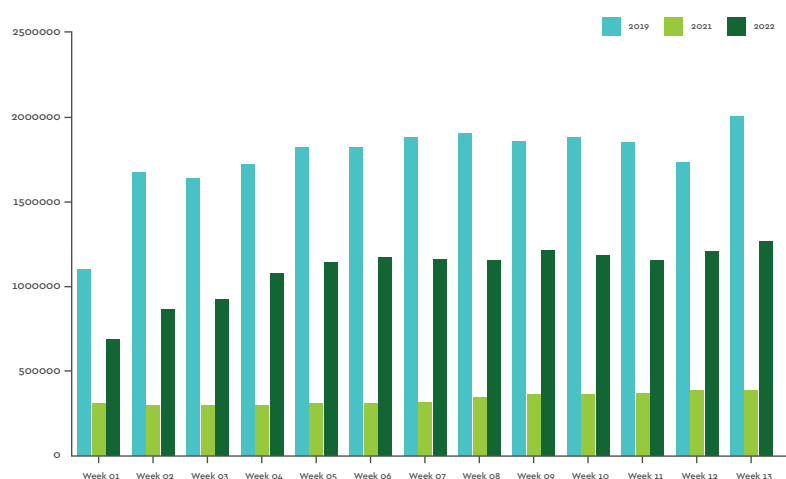


Figure 10: Number of journeys by Luas per week, 2019 – 2022 (CSO)

## Regional City Demand

Throughout the months of February and March, we saw strong evidence of business travel returning led in general by the SME sector to our regional cities of Limerick, Cork and Galway. The emerging pattern of travel appears to be for a longer length of stay with Expedia reporting an increase to 2.3 nights from 1.2–1.5 nights<sup>31</sup>.

Meeting and Event enquiries coupled with domestic group bookings increased significantly across many Irish resorts and regional meeting facilities which has been led by senior executive and C-suite management teams reconnecting. This also creates opportunities for the "bleisure segment", usually defined as follow on leisure stays post business events, that is forecast to perform strongly post pandemic<sup>32</sup>.

<sup>27</sup> Kalibri Labs Industry Health Dashboard Guest Paid RevPAR by Market Type Feb. 2022 vs. Feb. 2019 – Total U.S.

<sup>28</sup> Skift Megatrends Defining Travel in 2022

<sup>29</sup> Here's When (and How) the World's Largest Tech Companies Plan To Return to the Office

<sup>30</sup> Weekly Destination Report – Dublin March 13th (STR)

<sup>31</sup> Expedia, Booking Data for January-March 2022

<sup>32</sup> Siteminder – The Changing Traveller Report November 2021

## Demand Booking Patterns Spring / Summer 2022

While the initial shock of the war in Ukraine did have an impact on bookings, initially resulting in a slow down of demand, especially from the North American market, demand patterns appear to have stabilised in recent weeks. Insights from STR show that amid the conflict in Ukraine, hotel performance has remained stable in most of Europe. Steady improvement has remained constant over the past month, with the highest occupancy levels in Ireland and the UK.

- All channels confirm that demand continues to be divided into two types:
  - A short booking window for midweek and shoulder season leisure business falling within a 6–8-week period.
  - A much longer booking window for high season / high demand periods for regional hotels and for Dublin and Cork hotels for events such as concerts.
- Average Booking Value is growing based on increased length of stay.
- Connected or multi-room bookings are strong confirming the trend towards multi-generational travel.
- Cancellation levels continue to stabilise at circa 25–30% for Irish hotels<sup>33</sup>.
- Flexibility of booking conditions is a legacy of the pandemic and is now an expectation.
- A pattern of same date, multiple / overlapping bookings on OTA channels is emerging.

### SEGMENT FOCUS – MEITHEAL

Meitheal is a Fáilte Ireland & Tourism Ireland global trade event enabling Irish tourism businesses to sell the best of Ireland to top international tourism buyers.

- On 31st March 2022, Meitheal returned as an in-person event for the first time since 2019.
- 424 Irish tourism businesses pitched to 204 international buyers and tour operators from 20 countries. There were 38 new buyers this year.
- International buyers predict a revival of 60–70% of pre-pandemic business to Ireland.
- Concern that US border entry rules may impact the recovery of the industry in 2022.
- Hard fight required to regain loss of business tourism activity for 2023.



Vist Fáilte Ireland's updated supports to help win business



Vist Fáilte Ireland's Business Tourism Sentiment Tracker for Association Conferences, Corporate Meetings & Events, and Incentives

### LOOKING AHEAD

The uncertainty that the pandemic wrought on the sector over the past two years has meant that hotels have had to show their adaptability and rely heavily on their teams. This agility will help hotels deal with the difficulties associated with a changed landscape, including the impact of the conflict in Ukraine due to the increased flexibility that has been built into operational models.

The desire to return to life as it was pre-Covid will never be stronger than it is at present and that creates opportunities for the sector, especially in the leisure market. Understanding that customer segment profiles have changed will be important in delivering profitable growth. Managing the "triple challenge" of labour, cost and service for the upcoming season is critically important as a building block to long-term recovery.

<sup>33</sup> [Siteminder – The Changing Traveller Report November 2021](#)

## MEET THE ACCOMMODATION DEVELOPMENT TEAM



Weldon Mather,  
Head of Accommodation  
Development



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Manager Accommodation  
Development



Tara Kerry,  
Manager and Registrar,  
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