Hotel, Tourism & Leisure Market Update

November 2023

Introduction

Welcome to Crowe's latest Hotel, Tourism and Leisure (HTL) market update, where we take a look at the wider tourism sector and provide hotel commentary, sectoral updates and noteworthy news.

In this edition, we examine how the market is performing, some of the challenges facing the industry, pipeline and supply, transactions, and hospitality news.

We are also pleased to announce the appointment of Weldon Mather as Director of Hotel, Tourism & Leisure.

From left to right: Aiden Murphy (Partner, Corporate Finance), Weldon Mather (Director, Hotel Tourism Leisure) and Naoise Cosgrove (Managing Partner, Corporate Finance).

Weldon joins Crowe from Fáilte Ireland where he held the position of Head of Accommodation Development and was responsible for accommodation development, capacity growth and national quality and standards.

Tourism performance

In 2023, the Irish tourism industry continued to experience recovery, marked by a positive trajectory in visitor numbers and economic impact.

Current challenges facing tourism include ongoing geopolitical tensions, cost of living and interest rate pressures and a potential cap on passenger traffic through Dublin Airport.

While the CSO's new methodology of collecting airport and port data means that direct comparisons with 2019 are difficult to make, ITIC notes there is enough evidence to point to the fact that tourism's recovery to pre-pandemic levels has some way to go.

According to the Fáilte Ireland Tourism Barometer (September 2023), visitor levels are up in some sectors with 52% of businesses having more visitors to date in 2023 compared to 2022, but 27% having fewer.

Profitability and rising costs are resulting in many operators struggling, with 68% citing rising energy costs as a concern and 69% citing rising operating costs excluding energy.

There is a shortage of available and affordable tourist accommodation, as many rooms are being used for emergency accommodation. While the humanitarian effort obviously takes priority, the reduced supply is impacting downstream businesses, with some inbound tour operators saying that overseas clients are reconsidering including Ireland in their programmes for 2024.

The concessionary VAT rate of 9% on hospitality services ended on 31 August, reverting to 13.5%. However, this was well flagged by the Government.

Hotel supply

Dublin is still undersupplied in terms of hotel bedrooms, with around 25,000 in the city.

There are about 11,500 bedrooms in the pipeline, however only around a quarter of these are likely to be developed, yielding between 2,500-3,000 bedrooms. This is due to a variety of factors, not least lack of development finance and construction cost inflation.

Concerns have been raised among industry stakeholders regarding the negative impact on future supply of a recent 1km concentration test policy, which was implemented as part of the Dublin City Development Plan 2022-28.

Some positive planning developments include granting of planning permission for a 245-bedroom hotel adjacent to Arnotts department store and for a large Premier Inn with 229 bedrooms to the rear of Clerys on O'Connell Street, both in Dublin 1. Premier Inn also bought a site on Usher's Quay for another 100-bed scheme.

In February, The Morrison Dublin, Curio Collection by Hilton, was accredited as a 5-star hotel by Fáilte Ireland and was granted planning permission for an additional 16 bedrooms.

In April, Dalata applied for planning approval to add 117 bedrooms to the Clayton Hotel Cardiff Lane.

In June, Tifco Hotel Group officially opened Ireland's first Travelodge PLUS hotel with 393 bedrooms, the largest budget hotel in the country.

In October the Motel One Hotel opened with 310 bedrooms, while across the street, Clink i Lár, a 628-bed hostel, opened on Abbey Street.

Two Premier Inns opened in 2023: Gloucester Street (113 rooms) in March and Newmarket Yards – The Liberties (151 rooms) in September.

2024 is set to be a another positive year for new hotel openings, with properties including Premier Inn Cork (187), The Leinster by Press Up (52 rooms), REZz Dublin (78 rooms in Rathmines), Premier Inn Castleforbes Dublin (262), NYX Portobello (175) and The Chancery Ship Street (152).

Hotel performance

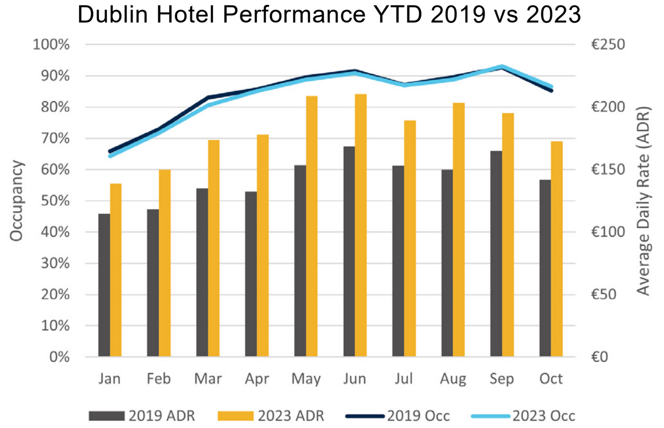
The Irish hotel sector continues to recover post COVID-19 due to a combination of pent-up demand and a reduction in tourist rooms within the market.

According to the latest data from STR, all Ireland demand year to date (Oct) is 5% ahead, Occupancy is 1% ahead and ADR is 29% ahead (+€33) of the same period in 2019, however this is not adjusted for inflation.

Up to 20% of Irish tourist accommodation stock remains out of tourist use, being used instead as emergency accommodation. 13% of all tourism bed stock in Fáilte Ireland-registered premises is currently contracted to the State, with these rooms unlikely to come back to the market for some time.

Dublin's ADR continued to break the €200 level in May (€209), June (€210) and August (€203), although July (€190) was below expectations, with operators reporting high levels of pre-booked lower-rated business in this month.

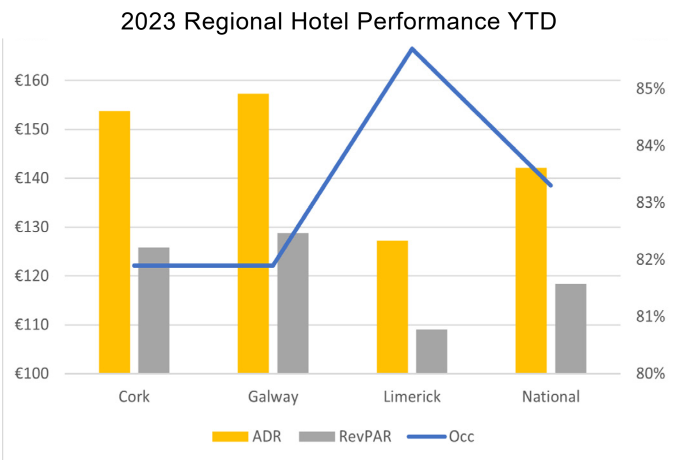
According to industry stakeholders, these higher rates are here to stay, as the market has adjusted to inflation, constrained capacity and increased costs.



(Source: STR)

Regionally, the performance YTD shows Galway leading the way in ADR with Cork close behind.

- National statistics show YTD October RevPAR growth from 2019 to 2023 of 49%.
- National Occupancy (including state contracts) is 83.3%, resulting in growth of 5% versus the same period in 2019.
- National ADR is €142, which represents growth of 42% versus 2019.
- The latest trending forecast for 2023 predicts RevPAR growth of 20% compared with 2022. (Q1 2022 is not a like-for-like comparison as it was still impacted by COVID-19 restrictions.)
- STR also reports that while Dublin ADR YTD at €184 is 27% ahead of 2019, it is still 21%, 45% and 84% less expensive than London, New York or Paris, respectively.



(Source: Trending)

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Hotel transactions

In the first half of 2023 there were over €135 million of hotel transactions. The buyer profile is a mix of private investors, family offices and hotel groups.

In January, the 93-bedroom 4-star Tulfarris Hotel & Golf Resort was sold for around €15.5 million, or €167k per key. The 30-bedroom Kilkenny Inn Hotel was put on the market for €4.8m and subsequently sold with planning permission for 66 additional rooms.

In March, the 113-bedroom Maldron Hotel, Oranmore was sold for €13 million, or €115k per key (currently let to Dalata).

In April, iNUA extended its footprint through its acquisition of the 58-bedroom Springfield Hotel in Leixlip, Co. Kildare, in a sale reported to be €7 million or €121k per key. The hotel will be operated by Cliste Hospitality.

In May, the largest single-asset deal saw The MHL Collection purchase the 98-bedroom Brooks Hotel on Drury Street, Dublin for a reported €50 million or €510k per key.

In June, the Louis Fitzgerald Group acquired the 125-bedroom 4-star Imperial Hotel in Cork City from the Flynn Hotel Group for a reported €25 million, or €200k per key. Also in June, the 23-bedroom Killeen House Hotel in Killarney was sold by the Rosney family to Killarney businessman Patrick Eviston, who owns and operates the Eviston House Hotel and Brook Lodge Hotel in Killarney town centre.

In July, East Coast Catering bought its second Dundalk hotel, the 129-bedroom Crowne Plaza Hotel, from Tifco Hotel Group for about €11 million or €85k per key. Also in July, Pandox purchased the 202-room Hilton Belfast hotel for £40 million or just under £200k per key.

In late October, The Dean Hotel Group sold a majority stake to US- and UK-based investment funds by the investment vehicle managed and led by Lifestyle Hospitality Capital (LHC) Group and backed by funds advised by Elliott Investment Management LP. It was reported that the deal valued the group at €350 million with the deal due to complete in the coming weeks.

In November, the 46-bedroom Park Hotel in Kenmare was reportedly sold below the €17 million asking price to Irish businessman Bryan Meehan. The Lansdowne, also in Kenmare, was not part of the deal and is still guiding €3.5 million.

Finally, iNUA has acquired the 120-bedroom Radisson Blu Hotel in Belfast which will be managed by Cliste Hospitality. The 4-star hotel in the Gasworks estate will undergo a £3 million renovation and will be rebranded as a Voco Hotel, under the InterContinental Hotels Group (IHG) brand.

While many deals are completing off-market, Tifco, the holding company that owns or manages 25 hotel properties including 11 Travelodges, is currently on the market and will attract much interest. Tifco is owned by Apollo Global Management, one of the world's biggest private equity firms.

Hospitality news

At the Irish Tourist Industry Confederation conference in Athlone in September, ITIC projected tourism earnings in 2030 could rise to €15 billion, employing up to 350,000 people and yielding up to €3.5 billion annually to the Exchequer. It also estimated that increased capacity would require 14,000 additional tourist accommodation rooms and up to seven million additional seats on air and sea transport.

iNUA Hospitality reportedly completed a refinancing deal on part of its portfolio ahead of a €2 million investment in refurbishing its assets. Cliste Hospitality also brought together 400 hoteliers, investors, banks and other tourism industry stakeholders at its second annual conference at Dublin Royal Convention Centre and explored themes including AI, sustainability and future technologies.

Ruth Andrews was confirmed as the new chairperson of the National Tourism Development Authority (Fáilte Ireland), while Tourism Ireland is also calling for applications to its board.

The Michelin Guide is to recommend hotels and add a new award scheme called the Michelin Key. Previously confined to restaurants, the Michelin Guide will now cover 5,000 selected hotels in 120 countries.

Impending legislative changes including minimum wage increase to €12.70, enhanced statutory sick pay and pension auto-enrolment could add approximately 25% to the payroll cost of tourism and hospitality businesses over the next three years.

The interest-free period on warehoused tax obligation balances with Revenue finished at the end of April 2023. Outstanding balances are now liable to a 3% interest charge and businesses have until May 2024 to agree a repayment schedule with Revenue.

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