



Horwath HTL

Hotel, Tourism and Leisure

MARKET REPORT

***Ireland: Hotel Market
Trends & Analysis***

JUNE 2021



Introduction

Ireland's hotel sector has been extremely challenged over the last 18 months because of the COVID-19 pandemic. However, as restrictions begin to lift from June 2021, there is hope for a strong recovery to pre-pandemic performance levels.

2019 was the last full year of performance results for the sector. The following table highlights the performance in 2019 compared to 2018. ADR in 2019 was affected by a VAT increase of 4.5 percentage points which impacted revenues.

Ireland - All Hotels	2019	2018
Room Occupancy	73.8%	75.1%
Average Room Rate	€114.31	€118.27
RevPAR	€84.40	€88.79
Total Revenue PAR	€70,749	€74,856
Department Profit PAR	€35,840	€37,496
Gross Operating Profit PAR	€18,630	€21,331
Gross Operating Profit %	26.3%	28.5%
EBITDAR Profit PAR	€14,780	€17,519
EBITDAR Profit %	20.9%	23.4%

Source: Crowe Ireland Hotel Industry Survey

Despite the slight decrease in financial performance in 2019, the hotel market in Ireland was in a strong financial position pre-COVID-19. Dublin in particular continued to be a sought-after location for hotel development, with occupancy levels over 80% for the fifth year in a row. 2019 saw 1,144 new bedrooms open, and while development slowed during 2020 and early 2021, an additional 2,500 new bedrooms are expected to open across 2021 and 2022.

Given the reliance on international visitors, it is uncertain when the country will recover to 2019 levels. However, the quality of the tourism product and the strength of the Irish hotel sector pre-COVID-19 bodes well for a positive uplift in international tourism to the country.

Demand Overseas Visitors

Ireland witnessed 10 years of consecutive growth in overseas visitor numbers to 2019, reaching a record high of 10.8m trips in that year, an increase of 1.8% on 2018. Trips from North America, Mainland Europe and Great Britain all saw increases in 2019. Growth from Great Britain was relatively modest at 0.8%, due to the impact of Brexit and the euro exchange rate.

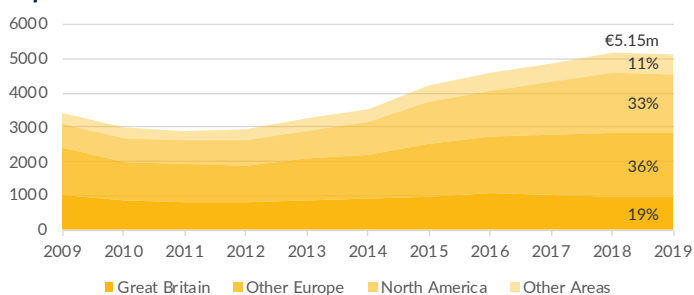
The International Air Transport Association (IATA) predicted in 2019 that the global airline industry would increase passenger capacity by 4% in 2020 on the back of stronger global economic growth. However, air connectivity globally has been devastated by COVID-19 and their latest forecast for 2021 is for capacity to be less the half what it was in 2019.

Global traffic for 2021 will amount to 43% of pre-crisis levels based on passenger numbers and distance flown. IATA also predicts industry losses of \$47.7bn in 2021. While this represents an improvement on last year's \$126.4bn shortfall, airlines will need continued financial support from government.

IATA predicts Europe will only see one-third of pre-COVID-19 air traffic this year. A 23% growth is expected on industry revenues from last year's \$231bn. The latest industry outlook sheds light on the multi-speed recovery underway, with large domestic markets led by the US and China surging ahead.

Expenditure by international tourists to Ireland grew by 71% during the period 2010 to 2019. Expenditure peaked at €5.15bn in 2018. The European market is the largest in expenditure terms, accounting for 36% of all expenditure in 2019, followed by North America at 33%. Long-haul markets in total accounted for 45%. This illustrates the importance to the Irish tourism sector of a recovery in long-haul travel.

Expenditure 2009 to 2019



Source: Central Statistics Office

Dublin Airport, which is the main entry point into the country, continued to show growth pre-pandemic. 2019 marked the 10th consecutive year of growth, with 32.6m passengers. Following the pandemic restrictions, 2020 saw a huge decline in airport traffic, down by 78% to almost 7.4m.

At this point in time, it is difficult to predict how long and in what form travel restrictions will remain in place across the globe, and the pace and extent of the recovery.

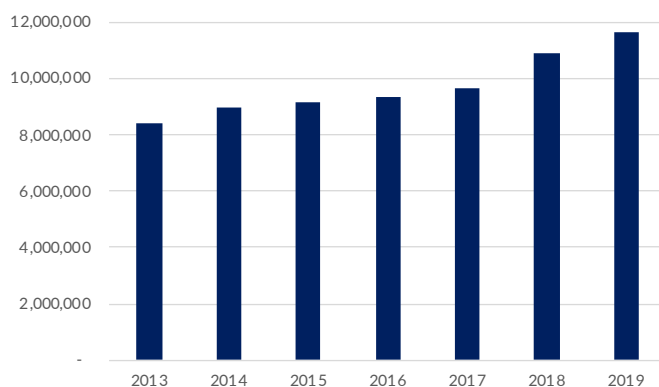
Dublin Airport is expanding, with an additional runway scheduled for completion in Q4 2021. The runway will play a critical role in developing and growing connectivity, which will be more important than ever as the country looks to rebuild tourism, trade and foreign direct investment after the COVID-19 pandemic.

Domestic Tourism

Irish residents took more than 11.6m domestic trips in 2019, an increase of 6.4% when compared with 2018. These domestic trips accounted for total expenditure of €2.1bn and demand for over 29m bed nights.

The Irish visitor is an important market for regional Ireland. In 2020, when international tourism was restricted, Irish residents took more than 5.3m trips during the third and fourth quarters when accommodation providers were permitted to open, resulting in c. 18m bed nights.

Total Domestic Trips 2013 to 2019



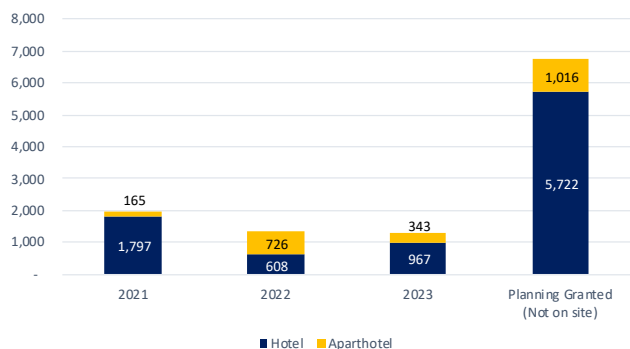
Source: Central Statistics Office

Supply

In 2020, Ireland had an estimated 847 hotels (62,950 rooms), with 35% of rooms located in Dublin.

The COVID-19 pandemic caused significant disruption to new supply activity in the Dublin market in 2020. Prior to the pandemic, we estimated that over 2,000 new bedrooms were to open in Dublin in 2020 (a 9% increase on the previous year). This would have marked the largest annual increase in supply in the Dublin market over the last 10 years. Because of COVID-19, just 420 new rooms were delivered, with the remainder being pushed out to 2021, 2022 and beyond.

Dublin Bedroom Pipeline



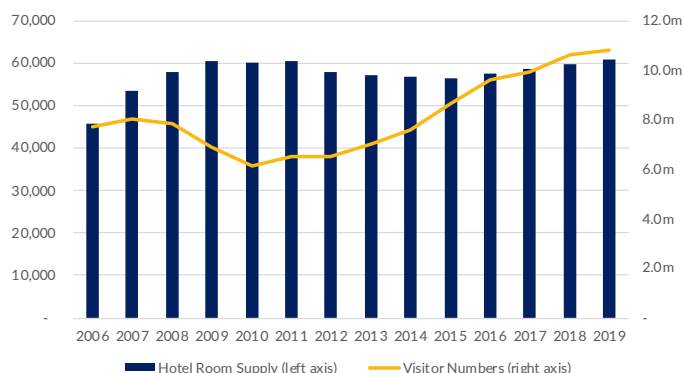
Source: Horwath HTL Research

While the pandemic slowed hotel construction activity within the sector in 2020, there are approximately 4,600 rooms expected to open between 2021 and 2023. Hotels currently under construction include the 421-bedroom Holiday Inn Dublin Airport, the 393-bedroom Travel Lodge Townsend Street, and StayCity Aparthotels at Little Mary Street (343 rooms), Tivoli (242 rooms) and Mark Street (142 rooms). The first Locke aparthotel also just opened in Dublin, the Zanzibar Locke on Ormond Quay with 160 rooms.

Regional Ireland has seen a limited number of rooms being added to the market in 2019 and 2020. The Dean opened its first 114-bedroom hotel in Cork and The Fairways Hotel Dundalk reopened in 2019 after a €12m investment. Other room additions in regional Ireland consist of extensions to existing properties.

There are also rooms leaving the market. The Irish Health Service Executive (HSE) acquired the Blarney Hotel Cork for €3m and have plans to convert the hotel into a residential care facility. The US embassy has bought the 400-bedroom Ballsbridge Hotel site in Dublin to be redeveloped as its new headquarters in the next few years. The 88-bedroom Beacon Hotel (Dublin) has been acquired by the adjacent Beacon Hospital and will be redeveloped as part of a €75m investment in the expansion of the private hospital.

Ireland Supply v Demand Trends



Source: Central Statistics Office, Fáilte Ireland



Source: K Club (Kildare)



Source: Clayton Charlemont (Dublin)

Transactional Activity

Hotel market transaction activity decreased with only 10 transactions completed in Ireland in 2020, which was expected given the impact of COVID-19 on the sector.

The main transactions for the year included the sale and leaseback of the Clayton Charlemont (Dublin) for €65m and the sale of the K Club (Kildare) for €60m. Q1 2021 has seen five transactions, totalling a combined €13.5m, down from approximately €60m in Q1 2020 and €107m in Q1 2019. Due to the uncertainty and unpredictability of COVID-19, a number of sales have been postponed.

Performance

Crowe Ireland's 2020 *Ireland Annual Hotel Industry Survey* reports that total revenues per available room were €71k in 2019, a decrease of 5.5% over the previous year. This impact on total revenue was in part caused by a 4.5 percentage point increase in VAT on room and food sales.

EBITDAR profit margin fell 2.5 percentage points to 20.9%, the first time in eight years that profitability margins have fallen.

The survey also reported average occupancy down 1.3 percentage points to 73.8% for Irish hotels in 2019, along with ADR down €3.96. Naturally, Brexit has had an impact on performance within the Irish hotel sector, resulting in 57% of hotels experiencing a fall in overall business levels compared to the prior year.

Dublin Market

Pre-COVID-19, Dublin remained the strongest hotel market in the country, evident in the planned pipeline, demand and profitability figures. In 2019, Dublin ADR (€142) was the highest of all regions in the country, reflecting growth through the whole calendar year rather than just concentrated around specific times of high-profile events in the capital.

Dublin was also impacted by the increase in the VAT rate, with RevPAR for 2019 at €118 compared with €122 in 2018, representing a decline of 3.7%¹. In 2019 Dublin's RevPAR ranked seventh-highest in Europe, ahead of major competing cities such as Rome, Copenhagen, Barcelona, Lisbon and Edinburgh. Occupancy continued to be strong with the city, ranking second across all European cities at 82.1%¹.

The Dublin market was more adversely affected by COVID-19 than regional Ireland. Dublin City is heavily dependent on business tourism, international tourism, conference and events, and concert attendees, the majority of which were cancelled due to the government's COVID-19 restrictions.

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Outlook

As restrictions begin to lift in June 2021, there is hope for the start of a recovery and a look towards regaining pre-pandemic performance levels. Before the pandemic, the hotel market in Dublin and Ireland was in a strong financial position. The market has an established tourism product and is viewed positively internationally as a welcoming and safe destination. When international travel resumes, Ireland is well-placed to benefit from the upswing.

Authors



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Naoise is a Partner in our advisory department and is Managing Partner for the firm. He has a wealth of commercial experience both within Ireland and internationally.

Naoise also leads the firm's corporate finance and hotel, tourism and leisure team. In recent years he has specialised in corporate restructuring, providing advice to financial institutions and business owners on independent business reviews, business planning, business restructuring and debt work-out strategies.



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Mairea is a director in the Hotel, Tourism and Leisure (HTL) advisory department. She has over 15 years of management consulting experience, which has included working for hospitality consultancy firms in the US and Ireland. Mairea's consulting and advisory experience includes feasibility studies; business planning and financial advisory; asset management; independent business reviews and strategic advisory.

Mairea has significant hotel, tourism and leisure experience, having worked in industry and on projects in the US, Ireland, Eastern Europe and South Africa. Mairea is an industry expert providing mentoring, training and advisory workshops to HTL clients and has worked closely with the National Tourism Development Authority of Ireland, Fáilte Ireland in this area.

Horwath HTL

At Horwath HTL, our focus is one hundred percent on hotel, tourism and leisure consulting. Our services cover every aspect of hotel real estate, tourism and leisure development.

Our clients choose us because we have earned a reputation for impartial advice that will often mean the difference between failure and success. Each project we help is different, so we need all of the experience we have gained over our 100-year history.

We are a global Brand with 45 offices, who have successfully carried out over 20,000 assignments for private and public clients. We are part of Crowe Global, a top 10 accounting and financial services network. We are the number one choice for companies and financial institutions looking to invest and develop in the industry.

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