



Horwath HTL

Hotel, Tourism and Leisure

MARKET REPORT

Ireland

APRIL 2019



In 2018, Ireland's hotel sector enjoyed another record year of RevPAR growth with occupancy levels at all-time highs. Dublin in particular has been in the top two of the occupancy league table for European cities for the last 4 years.¹



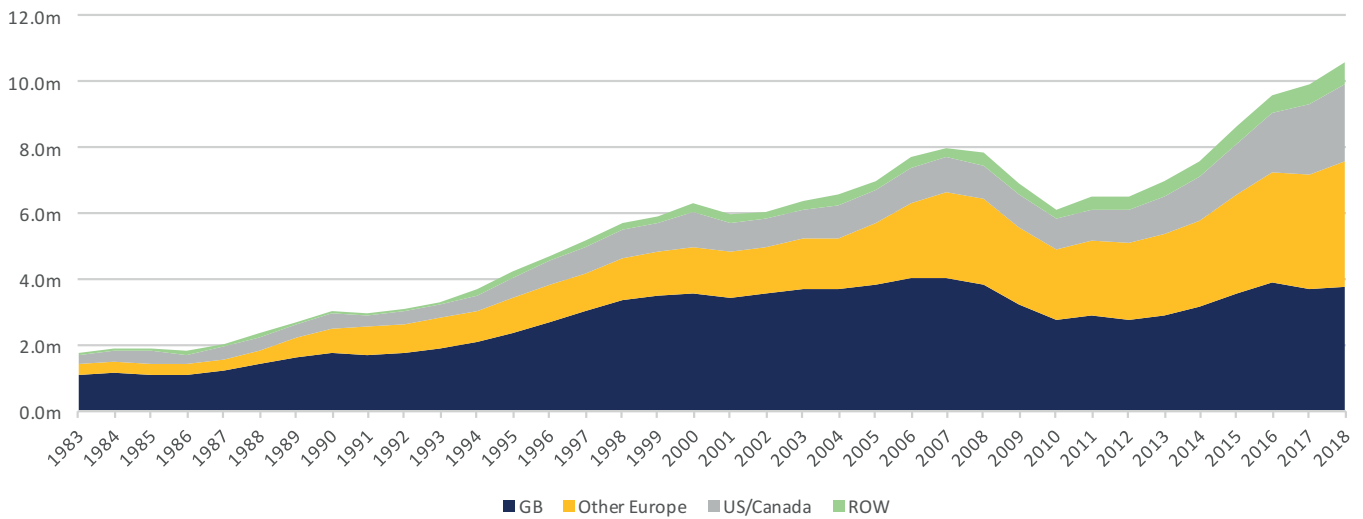
The strength of the sector is on the back of continued growth in inbound tourism, the strength of the domestic economy and a shortage of new supply into the market. Ireland remains a focus for international investment with new brands entering and new hotels being developed.

The first Aloft by Marriott opened in early 2019 and new brands such as Marlin, Hampton Inn by Hilton and Moxy by Marriott are all scheduled to open later this year.

While Ireland, alongside other European countries, still faces potential risks from Brexit, the threat of global trade wars and rising costs, the outlook remains optimistic with positive domestic indicators.

Source: 1: STR

Annual Visitor Trends



Demand: Overseas Visitors

Overseas visitor numbers reached a record high of 10.6m trips in 2018 – the eighth consecutive year of growth and above the previous high of 8m in 2007. In 2018, the UK remains the largest single country market at 35%, however Ireland's reliance on this market has decreased as visitors from other countries have increased their market share.

Visitors from the North American market, for example, have increased from 0.9m in 2010 to 2.4m in 2018. Mainland Europe as a market is very strong for Ireland accounting for 36% of overall visitors.² Increased air capacity and new routes make Ireland a more accessible and affordable destination.

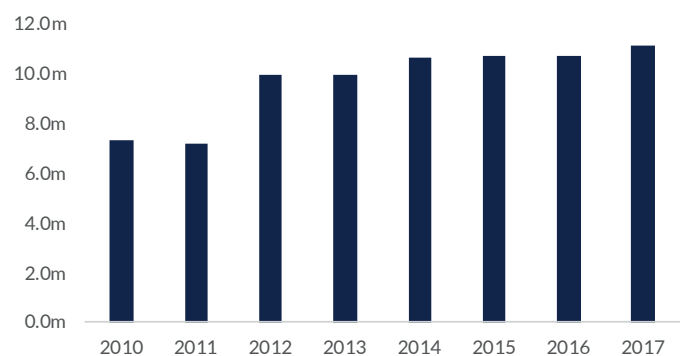
Dublin Airport, as the main entry point for most visitors to the island, saw record passenger numbers of 31.5m in 2018, a 6% increase year-on-year. Last year marked the eighth consecutive year of passenger growth at the airport. Capacity is being added at the airport with a runway scheduled to open by 2021, which should enable the airport to achieve their growth projections.

In a report by Oxford Economics, *Review of Future Capacity Needs at Ireland's State Airports*, commissioned by the Dublin Airport Authority (DAA), they predict that passenger demand is set to increase by an average of 2% per annum, reaching 54m passengers by 2050.

Source: 2. CSO

Demand: Domestic Visitors

In the latest figures available, Irish residents took more than 9.6m domestic trips in 2017, an increase of 2.9% when compared with 2016. These domestic trips accounted for a total expenditure of €1.9bn.



Source: Central Statistics Office Ireland

With an average duration per trip of 2.7 nights, this resulted in demand for over 25m bed nights from domestic visitors. Visitors from more than 3.9m of these domestic trips stayed in hotel accommodation, making the domestic market an important one for the hotel sector. With international demand in recent years so strong and a lack of new hotel supply in Dublin, capacity in the capital remains a challenge. During peak times throughout the year the domestic market has been displaced due to lack of supply from the capital. Irish tourists continue to be important for off-peak travel times and during the low season in Ireland.



An Industry Strategy for Growth to 2025

A strategy document published in April 2018 by the Irish Tourism Industry Confederation (ITIC), entitled 'An Industry Strategy for Growth to 2025', set ambitious goals and objectives to be achieved for inbound tourism by 2025. If these growth targets were to be met, it would be good news for the economy with higher revenues, more jobs and greater exchequer receipts.

Strategy for Growth	2017	2025	Growth
International Visitors to Ireland	8.9m	13.7m	+54%
Value of Sector	€4.9bn	€8.1bn	+65%
Employment	230,000	310,000	+35%
Exchequer Receipts	€1.13bn	€1.86bn	+65%
Hotel Bedrooms	58,425	69,425	+11,000

One of the main goals of this strategy is to grow international visitors to Ireland to 13.7m by 2025. This would necessitate the construction of 11,000 bedrooms nationwide. The report recognised that a continued lack of hotel bedrooms, particularly in Dublin, would represent a threat to growth whilst also negatively impacting Ireland's competitive profile internationally.

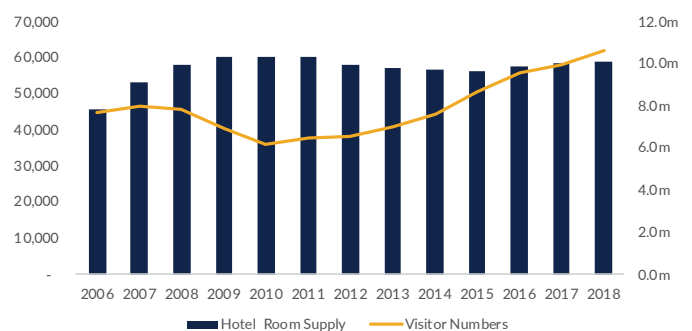
This is now being addressed with new supply under construction in the Dublin market.

Supply

There are 820 registered hotels (58,757 rooms) in Ireland, with 33% of rooms located in Dublin. The Dublin hotel market saw an increase of over 1,100 new bedrooms, a 5.7% increase in room capacity, during 2018. This marked the largest annual increase in supply in Dublin in over 10 years. This growth trend is continuing and we estimate that approximately 1,600 hotel bedrooms will be added in 2019.

Other regional cities such as Cork and Galway also have a number of hotel projects due to open in 2019, on the back of strong demand in key regional locations.

Supply v Demand Trends



Source: Fáilte Ireland

Performance

In recent years, Irish hotels have seen an improvement in performance in line with the strength of the domestic economy, the increase in overseas visitors to Ireland and the lack of new supply in the market.

Strong demand has enabled hotels to yield higher rates during peak periods and increase average room rates year-on-year. This is particularly evident in the Dublin market.

The 2018 Crowe *Irish Hotel Industry Survey* reports that total revenues per available room were €71k in 2017, an increase of 7% over the previous year. The expectation is that the 2019 survey (currently being produced) will show another year of growth for hotel revenues and profitability. The survey also reported average occupancy up 1.4 percentage points to 75.4% for Ireland hotels in 2017.

Naturally, Brexit (or any other major global economic shock) will have an impact on performance within the Irish hotel sector. However, the continued focus on other source markets in conjunction with a more solid debt/equity position by many Irish hoteliers should help the sector trade through any such challenges.

Dublin Market

The Dublin hotel market has remained one of the strongest markets in the country over the last number of years. In 2018, average room rates were up 6.5% year-on-year, reflecting growth throughout the entire calendar year rather than just concentrated around specific times of high-profile events in the capital.

RevPAR for 2018 was €122 compared with €114 in 2017 representing a growth of 7%.³ Dublin's RevPAR now ranks seventh-highest in Europe, ahead of major competing cities such as Copenhagen, Barcelona and Edinburgh. In 2018, Dublin's ADR reached €145, an increase of €9 (+6.4%) over the previous year. Ireland's occupancy increased to 79%, up 1 percentage point from 2017 and last year Dublin ranked number one across all European cities reaching occupancy of 84% (+0.7%).⁴

The strength of the Dublin market is driven by both international and domestic visitors. Dublin hotels reached in excess of 90% occupancy for 145 nights of the year. This is in part due to large events such as the Six Nations and

other domestic sporting events, the Saint Patrick's Festival and conferences and concerts held in the Convention Centre, the RDS and 3Arena – three of the capital's key venues.

In recent years there has been a notable increase in foreign investment into the hotel sector, especially within Dublin. As the market remains strong, it has attracted new leading hotel groups to invest and open hotels in the capital.

Red Carnation are set to make a substantial investment in Dublin city by opening a five-star boutique hotel. Swedish hotel group Pandox and Israeli group Fattal Hotels have recently acquired a hotel portfolio from US private equity group Lone Star for £800m. The portfolio of 37 hotels includes the Hilton Garden Inn in Dublin City Centre and the Jurys Inn group. With expectations for the Irish market to maintain profitability and growth over the coming year, we expect continued interest from foreign investors.

Brexit

There continues to be a nervous anticipation of what Brexit will bring to the Irish hotel sector. There is no doubt that certain parts of the Irish hotel market have already been affected by the UK's decision to leave the EU. The weakness of Pound Sterling has impacted tourism with a reduction in visitors from Northern Ireland and the UK. Since 2016, there has been a 4% decline in UK visitors to Ireland.⁵ For the last thirty years UK visitors were the largest market for Ireland, accounting for over 40% of inbound visitors, however in 2018 the Other Europe's visitor market surpassed the UK market as the impact of Brexit takes hold.

With the continued weakness of Sterling, high value destinations such as golf resorts are more competitively priced in the UK which puts greater competitive pressure on Ireland.

Locations in Ireland that rely more heavily on the UK/NI visitor have already felt the impact and any further fall in Sterling, along with the potential of new border controls, may continue to impact visitor numbers.

Source: 3: STR; 4: STR; 5: CSO



Outlook

2018 was a strong and promising year for the Irish hotel sector and the Irish tourism industry in general. Ireland is viewed positively by international markets. Tourism Ireland (the national marketing agency for the island of Ireland) is investing heavily in promoting the island as a holiday and business tourism destination. In December 2018, a global campaign entitled, 'Fill your Heart with Ireland' was launched and rolled out across the United States, Britain, France and Germany, Canada, Australia, Spain, Italy, the Netherlands and Scandinavia. Tourism Ireland are confident that the new campaign will help deliver another record year for tourism in 2019 helping to meet the target to grow overseas tourism revenue to €6.5bn in 2019 for the island of Ireland.

In March this year, over 300 landmarks, stadiums, statues, museums and towers turned green to celebrate Tourism Ireland's Global Greening initiative for St Patrick's Day. The campaign marked its ten-year anniversary in 2019 and every year the number of sites grow as this unique campaign taps into the deep connection that people all over the world feel for Ireland. More than 70m people across the world claim links to the island of Ireland and St Patrick's Day is a truly unique opportunity to reconnect them with their heritage.

Galway, located along the Wild Atlantic Way in the West of Ireland, has been named the European Capital of Culture in 2020. Being a European Capital of Culture will allow Ireland to bring fresh life to the West of Ireland while boosting the cultural, social and economic development of the region. Four million extra visitors are expected to visit the West of Ireland and Galway over the next 10 years due to the designation.

Dublin continues to be the centre of activity and the star performer within the Irish market. Current indications are that 2019 could be another record breaking year for international tourism growth. Overall occupancy and rate levels are expected to be maintained in 2019 and there is continued interest in hotel investment both in Dublin and regional Ireland.

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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.

He has extensive experience in mergers and acquisitions and joint ventures, providing a range of services including due diligence, commercial arrangements, finance negotiation, and transaction structuring.

His experience covers a variety of sectors including banking, property development, construction, hospitality, tourism, healthcare, and government.

His hotel team are market leaders in Ireland. They have produced the Ireland Hotel Industry Survey, a benchmark for the sector, for over twenty years.

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.

We are Horwath HTL, the global leader in hotel, tourism and leisure consulting.

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- Expert Witness & Litigation



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